

Shipping your Product

Carolyn Turner

Alabama International Trade Center



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Trade Center
THE UNIVERSITY OF ALABAMA



International Shipping

When shipping your product overseas you must be aware of:

- ◆ Packaging
- ◆ Labeling
- ◆ Documentation
- ◆ Insurance Requirements and Regulations
- ◆ Pricing, Quotations, and Terms

The Role of the Freight Forwarder

An international freight forwarder acts as an agent of your company and ships your cargo to an overseas destination. You are not required to use forwarders, but they can be very helpful.

The cost for their services should be a factor that should be included in the price charged to the customer.

The Role of the Freight Forwarder

◆ Price Quotations

Advising on freight costs, port charges, consular fees, costs of special documentation, insurance costs, and handling fees.

◆ Booking Cargo w/ Carrier

◆ Preparing Documents/Inland Routing

◆ Insurance

Expanded Role of a Freight Forwarder

- ◆ Consolidator of Freight
- ◆ Indirect Carrier (NVOCC)
- ◆ Inventory Control
- ◆ EDI Interfacing
- ◆ Logistics Management

Criteria for Making a Rate Request

- ◆ What is the type service required?
- ◆ What is the commodity?
- ◆ What is the origin/destination?
- ◆ What are the dims, weight, and # of pcs?
- ◆ What are the transit time requirements?
- ◆ How soon do you need a response?

Gathering Cost Data

- ◆ Analyzing the costs in relation to the terms of sale (from where to where)
- ◆ Type of equipment required and its effect on cost
- ◆ Are inland factors 'included in the ocean or air rates?
- ◆ Projecting future costs

Packaging

- ◆ Cargo must be packaged for international shipment — protect the shipment while in transit
- ◆ Ocean cargo: FCL, LCL, Break Bulk
- ◆ Air cargo
- ◆ Wood Packaging Requirements: International Plant Protection Convention (IPPC) - International Standards For Phytosanitary Measures No. 15 (ISPM 15)

FCL Ocean Cargo



Pallets that are well constructed allow the goods to be protected during handling.

LCL Ocean Cargo



A well-designed LCL box.

Wood Treatment



The **International Plant Protection Convention (IPPC)** mandates that wood used for packing or dunnage be treated with chemicals to prevent insect infestations.

HT: heat-treated
DB: debarked
MB: methyl bromide

Air Transport

Air cargo containers are much different from ocean cargo containers.





Export Documents

- ◆ Basic documents – CI and PL
- ◆ Transport documents
- ◆ Collection or payment documents
- ◆ Documents for gov't requirements
- ◆ Documents required by the buyer
- ◆ Templates:
 - <http://export.gov/logistics>

Transportation Documents



- ◆ Shippers Letter of Instruction
- ◆ Dock Receipt
- ◆ Ocean Bill of Lading
- ◆ Air Waybill
- ◆ Export Declaration or EEI from ACE
- ◆ Insurance Certificate
- ◆ Destination Control Statement



Payment Documents

- ◆ Letter of Credit
- ◆ Drafts (sight or time)
- ◆ Commercial Invoice
- ◆ Bill of Lading

Bill of Lading

Serves three purposes:

- (1) Receipt for the merchandise
- (2) Contract for shipment
- (3) Title Document

The Bill of Lading addresses the point of delivery of the goods and the charges included to that point.

Government Documents



- ◆ Consular Invoice
- ◆ Certificate of Origin
- ◆ Phytosanitary Certificate
- ◆ Export License
- ◆ Hazardous Materials Forms



Documents Required by Buyer

- ◆ Certificate of Inspection
- ◆ Certificate of Free Sale

Export Credit Insurance

Insurance reduces or eliminates the risk of an actual loss of cash income from the export sale.

Some benefits accrue to exporters who insure themselves against nonpayment:

- ◆ Private and governmental export credit agencies, like the Export-Import Bank of the United States (Ex-Im Bank), assume 90-100 percent of the risk concerning commercial and certain political risks.
- ◆ Export credit insurance allows exporters to provide qualifying international buyers with advantageous terms of credit.
- ◆ The company's working capital cash flow improves when a lender's line of credit is insured.
- ◆ New markets open to exporters where agencies offer coverage.



Your Ex-Im Bank Representative

Jennifer M. Simpson

Regional Director, Eastern Region

Export-Import Bank of the United States

Mobile: 305.586.2022

jennifer.simpson@exim.gov

Cargo Insurance

Most carriers have very limited liability.

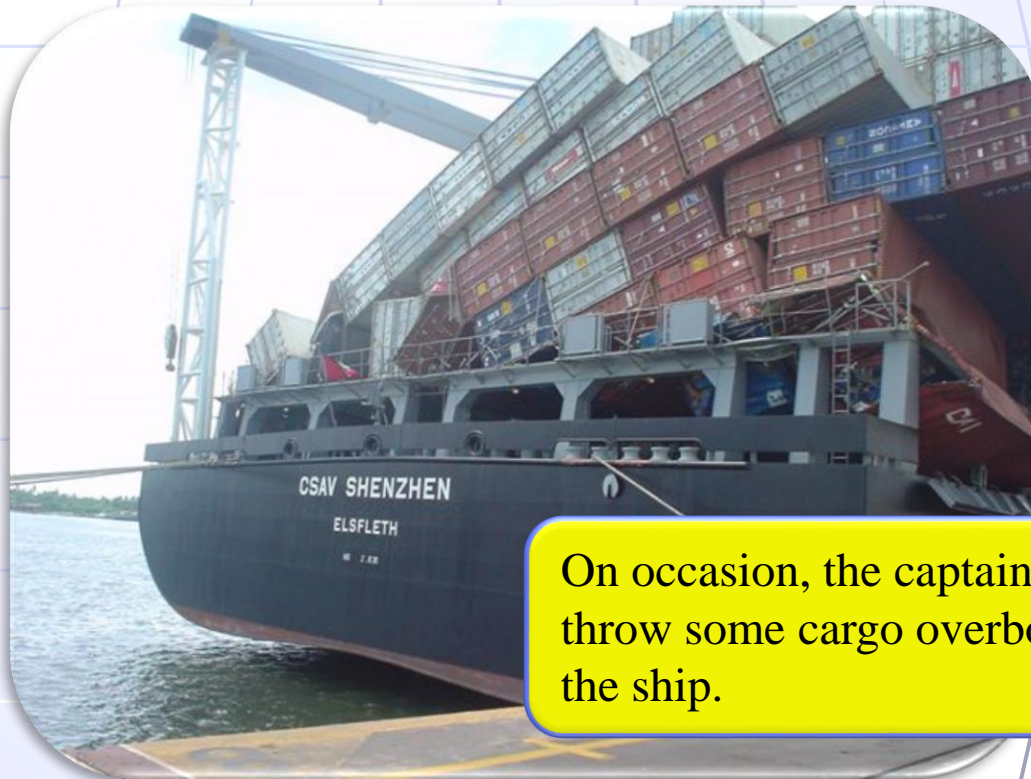
- ◆ Perils of Sea: Cargo Movements, Water Damage, Overboard Losses, Jettison, Fire, Sinking, Stranding, Theft, Piracy, General Average
- ◆ Perils of Air: Cargo Movement, Theft, Exposure to Weather
- ◆ Ocean and Air Freight Insurance
 - Ocean: All Risk, General Average, Free of Particular Average; Coverage A, B, or C
 - Air: Typically All Risk Policy
- ◆ Insurance Certificate

Water Damage



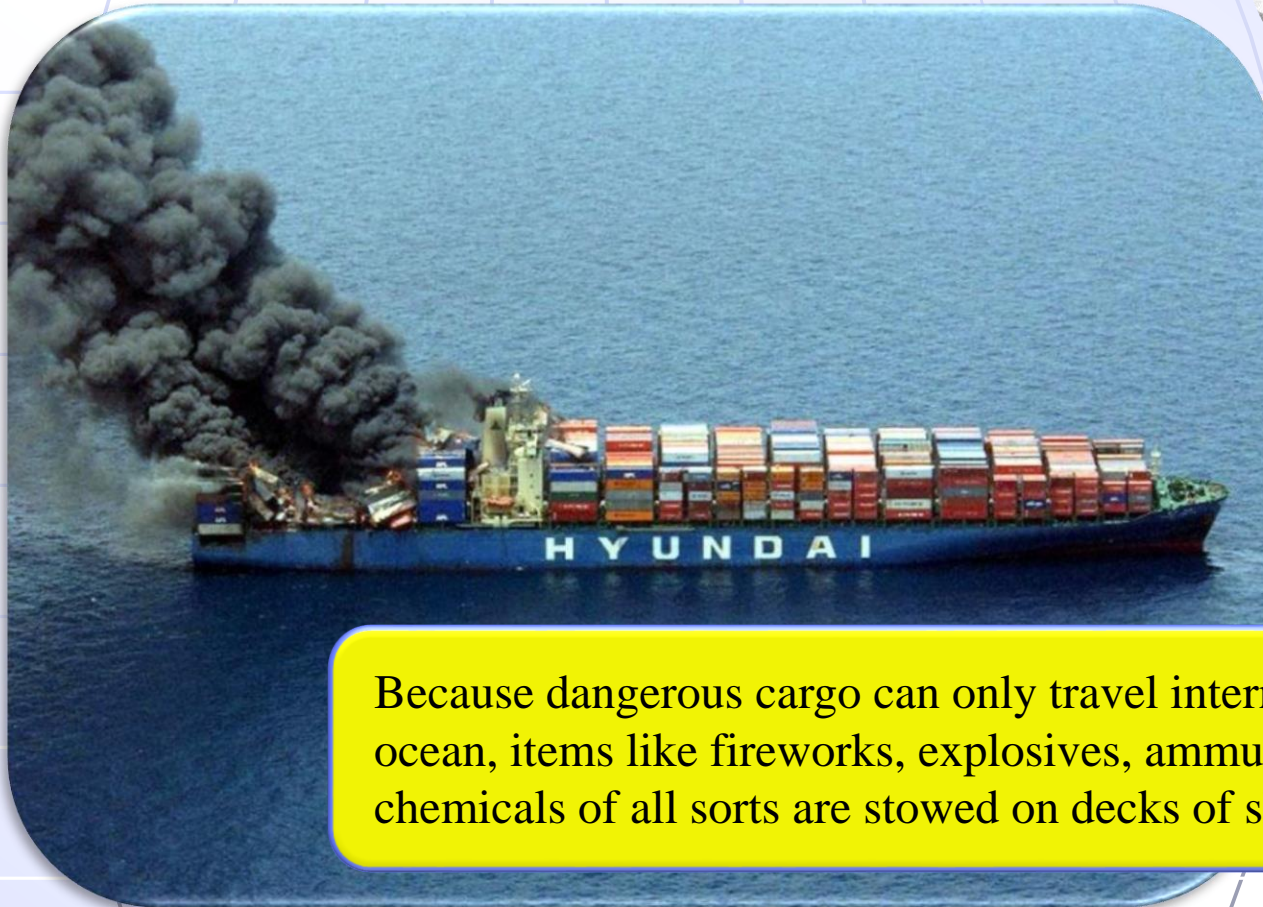
As ships encounter stormy seas, waves wash overboard.

Jettison



On occasion, the captain of a ship has to throw some cargo overboard in order to save the ship.

Fire



Because dangerous cargo can only travel internationally by ocean, items like fireworks, explosives, ammunition, and chemicals of all sorts are stowed on decks of ships.

Pricing, Quotations, and Terms

There are four critical elements in selling a product or service overseas:

- ◆ pricing your product/service properly;
- ◆ giving complete & accurate quotations;
 - ◆ choosing terms of the sale; and
 - ◆ selecting the payment method.

Pricing Considerations

Consider these to determine the best price in international markets:

- ◆ What type of market positioning (i.e., customer perception) does your company want to convey from its pricing structure?
- ◆ Is the price competitive?
- ◆ Is the foreign government going to view your prices as reasonable or exploitative?
- ◆ Do the foreign country's antidumping laws pose a problem?

(complete list on page 147)

Pricing Considerations

When setting international prices, don't forget to factor in tariffs, customs fees, currency fluctuation, transaction costs and shipping, and value-added taxes.

These costs can add substantially to the final price paid by the importers. U.S. products often compete better on quality, reputation, and service than they do on price – but buyers consider the whole package.

Quotations and Pro Forma Invoices

A pro forma invoice – a quotation prepared in the format of an invoice – may include many more details than you're used to writing into your quotations, but all that extra detail can save time and prevent errors later on.

Quotations

If possible, quote the price in U.S. dollars to eliminate risk of exchange rate fluctuations and problems with currency conversion.

If you need assistance figuring prices, an international freight forwarder can help.

Terms of Sale

Terms of sale define the obligations, risks, and costs of both the buyer and seller involving the delivery of goods that make up the export transaction.

The terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meaning.

Terms of Sale

The exporter must know and understand the terms before preparing a quotation or a pro forma invoice.

The most commonly applied terms of sale in the global marketplace are the international commercial terms, or Incoterms.

Incoterms 2010 Chart

| Any Mode Terms | Control of Costs | Main Carriage Cost | Risk of Costs |
|---|------------------|--------------------|---------------|
| Departure, Freight Collect | | | |
| EXW (Ex-Works) | Buyer | Buyer | Buyer |
| Main Carriage Freight Collect | | | |
| FCA (Free Carrier) | Buyer | Buyer | Buyer |
| Main Carriage Freight Prepaid | | | |
| CIP (Carriage & Insurance Paid To) | Seller | Seller | Buyer |
| CPT (Carriage Paid To) | Seller | Seller | Buyer |
| Arrival, Freight Prepaid | | | |
| DAT (Delivered at Terminal) | Seller | Seller | Seller |
| DAP (Delivered at Place) | Seller | Seller | Seller |
| DDP (Delivered Duty Paid) | Seller | Seller | Seller |

Incoterms 2010 Chart

| Sea, Inland Waterway Transport Terms | Control of Costs | Main Carriage Cost | Risk of Costs |
|---|---------------------|-----------------------|------------------|
| Main Carriage Freight Collect | | | |
| FAS (Free Alongside Ship) | Buyer | Buyer | Buyer |
| FOB (Free on Board) | Buyer | Buyer | Buyer |
| Main Carriage Freight Prepaid | | | |
| CFR (Cost and Freight) | Seller | Seller | Buyer |
| CIF (Cost, Insurance, and Freight) | Seller | Seller | Buyer |

Commonly Used Terms

- ◆ **Cost, Insurance and Freight (CIF)**
 - Cost, insurance, and freight to a named overseas port. The seller quotes a price for the goods (including insurance), all transportation, and miscellaneous charges to the point of debarkation from the vessel. (Only used for ocean shipments)
- ◆ **Cost and Freight (CFR)**
 - Cost and freight to a named overseas port. The seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation from the vessel. The buyer covers the cost of insurance. (Only used for ocean shipments)
- ◆ **Carriage Paid To (CPT)/Carriage and Insurance Paid To (CIP)**
 - CPT and CIP apply to a named destination. These terms are used in place of CFR and CIF, respectively, for all modes of transportation, including intermodal.

Commonly Used Terms

◆ **Ex Works (EXW)**

- Meaning “from a named point of origin”, common variations include ex factory, ex mill, or ex warehouse. States that the price quoted applies only at the point of origin (i.e., the seller’s premises). The seller agrees to place the goods at the buyers disposal at the specified place within a fixed time period. All other obligations, risks, and costs beyond the named point of origin are the buyer’s.

◆ **Free Alongside Ship (FAS)**

- Refers to the seller’s price quote for the goods, including the charge for delivery of the goods alongside a vessel at the named port of export. The seller handles the cost of wharfage, while the buyer is accountable for the costs of loading, ocean transportation, and insurance. It is the seller’s responsibility to clear the goods for export. As the term implies, FAS is used only for waterborne shipments.
 - ◆ FAS not appropriate for containerized cargo

Commonly Used Terms

◆ Free Carrier (FCA)

- Refers to the named place within the country of origin of the shipment. This term defines the seller's responsibility for handing over the goods to a named carrier at the named shipping point. According to Incoterms 2010, the named shipping point may be the seller's premises. In that case, it is the seller's responsibility to clear the goods for export from the United States. The term may be used for any mode of transportation.

◆ Free on Board (FOB)

- Refers to a named port of export in the country of origin of the shipment. The seller quotes the buyer a price that covers all costs up to and including the loading of goods aboard a vessel. (FOB is used only for ocean shipments). As with other "F" terms, it is the seller's responsibility to clear the goods for export.
 - ◆ FOB not appropriate for containerized cargo



Tariffs

Because tariffs, port handling fees, and taxes can be high, it is very important for you to consider their effects on your product's final costs.

Typically, the importer pays the tariffs. Nevertheless, these costs will influence how much the buyer is willing to pay for your product.

Impact of Tariffs and In-Country Taxes



| | |
|----------------------------------|--------------|
| ◆ Price EXW, U.S. Plant | \$ 90,000 |
| ◆ Inland freight & port handling | 1,000 |
| ◆ FOB Charleston | 91,000 |
| ◆ Ocean freight and insurance | <u>2,500</u> |
| ◆ CIF, Shanghai, China | \$ 93,500 |
| (BEFORE goods enter China) | |

Impact of Tariffs and In-Country Taxes



| | |
|--|-----------|
| ◆ CIF, Shanghai China | \$ 93,500 |
| ◆ Import tariff@ 6 % CIF value | 5,610 |
| ◆ Total BEFORE goods enter distribution system | \$ 99,110 |



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THE UNIVERSITY OF ALABAMA



THANKS

Carolyn Turner

Alabama International Trade Center

205-348-7621

cturner@aitc.ua.edu / aitc.ua.edu

Bill Kraus

Page & Jones, Inc.

251-287-8700

bkraus@pagejones.com