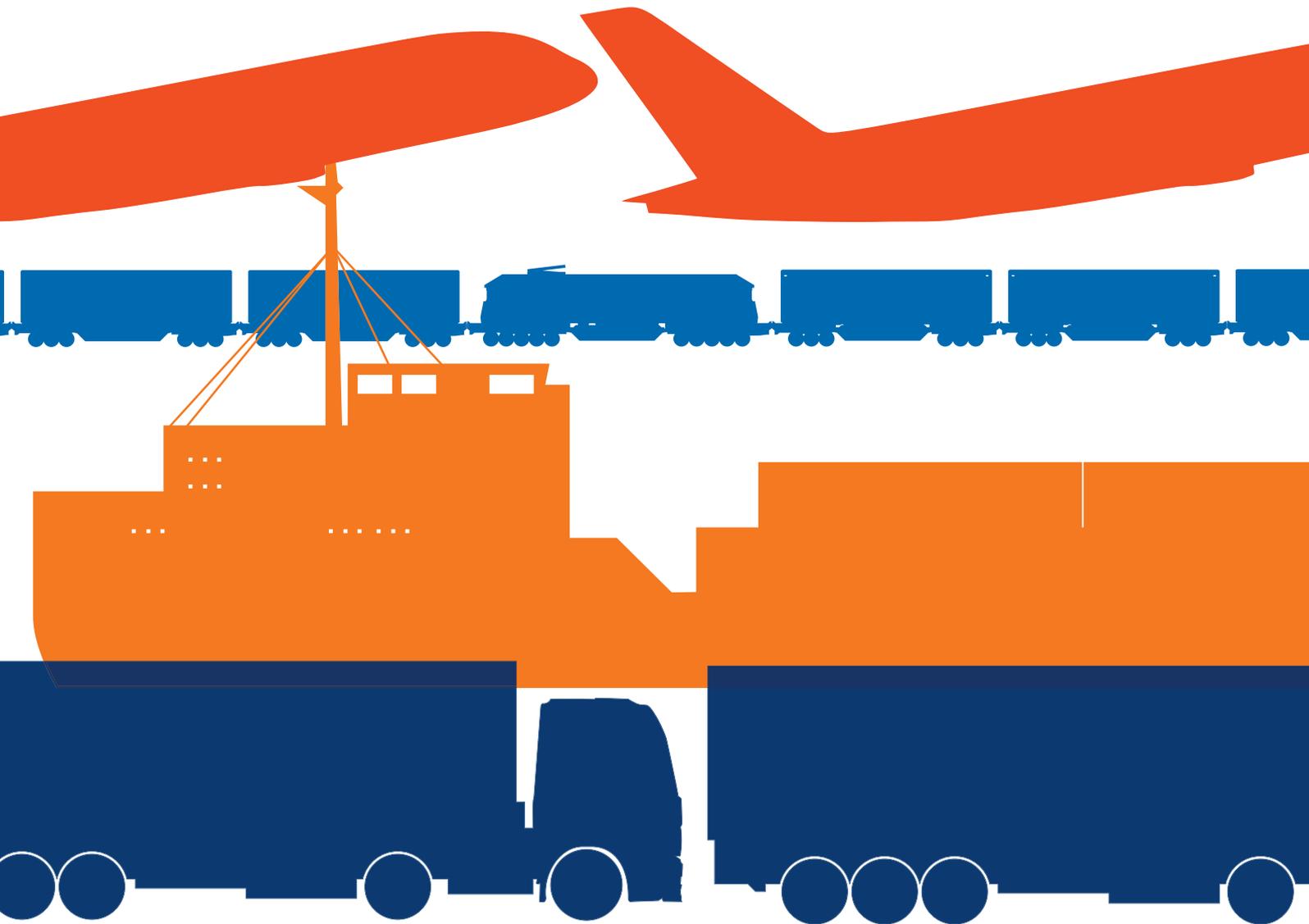


# A Brief Introduction to Logistics



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The international freight market has a wealth and variety of transport providers to meet the needs of international trading companies which transact business on a worldwide basis.

The terminology used to identify those companies that move freight around the world can be confusing. Most commonly known as freight forwarders, this name hardly describes the depth and range of services provided by the sector. Multimodal transport operator, global logistics manager, Non Vessel Owning Common Carrier (NVOCC), integrator, supply chain manager and information broker are some of the more recent terms used to highlight the scope of services.

Freight forwarders have become more sophisticated and aware of their customers' needs. They have recognised that international transport solutions are achieved not in isolation but in partnership with the customer. Against a background of global trade and electronic communications, the forwarding industry operates at all levels in the transport chain, providing a valuable service to companies large and small.



## Who is BIFA?

The British International Freight Association (BIFA) is the leading body representing the UK international freight services industry. It has in excess of 1,500 Members. Services to traders include specialist advice to those new to importing and exporting, introductory training programmes, and various publications

## Who are Freight Forwarders?

The different types of freight forwarding companies can be broadly divided into three categories:

**Local companies** - These are generally small single office companies which tend to deal with customers in the local area, or operate at a seaport or airport concentrating on particular types of traffic.

**National companies** - Many forwarders have offices in the major ports and airports throughout the country as well as in the largest industrial towns. They may also have warehousing or handling depots from where they operate their own services. Such companies will often have agents or correspondents overseas in the markets with which they operate.

**International companies** - The truly international company will have its own offices overseas and offer a wide range of worldwide services.

You should note that these divisions are identified for ease of understanding.



There are no hard and fast rules about the way in which a particular company is organised and there will be considerable overlap between types. It is certain that size should not be considered as a criterion for measuring the standard of service. The industry is made up of many specialisations and those interested in using a freight forwarder or working in the forwarding profession will find that there is an enormous range of companies to choose from. The business of choosing a freight forwarder is covered on page 5.

There is no such thing as a typical freight forwarding company. Each company provides services in accordance with the requirements of its customers and, as with any business, these services change with the demands of the market.

### **What Services does the Freight Forwarder offer?**

The freight forwarder's basic service is the organisation of the movement of goods internationally by all modes of transport. A forwarder would typically be appointed by an importer or an exporter to act on their behalf to move goods into, or out of, the country, and all that this entails.

Freight forwarders provide one or more of the following services:

- Air freight consolidation and forwarding
- Maritime intermodal
- European road and rail distribution
- Trade facilitation and Customs brokerage
- Logistics and supply chain management.

### **Air Freight Consolidation and Forwarding**

The use of scheduled airlines for the movement of freight increased considerably following the introduction of wide-bodied aircraft. Concentrated around the major international airports in the UK, air freight forwarders provide a high quality range of services worldwide for urgent and high value freight, and just-in-time stock systems. They also provide airport handling and distribution services, and act as general sales agents for airlines.

### **Maritime Intermodal**

The widespread introduction of sea containers in the 1970s provided freight forwarders with the opportunity to develop door-to-door and warehouse-to-warehouse services worldwide, for Full Container Load (FCL) cargo and Less than Container Load (LCL) shipments. Freight forwarders today provide such services to virtually every port and major industrial centre worldwide.

### **European Road and Rail Distribution**

A principal activity of forwarders, European distribution includes the door-to-door movement of full trailer loads of freight, and the consolidation of small consignments into full loads for warehouse-to-warehouse trucking and thence final delivery to the consignee.

Within mainland Europe, freight is commonly moved by rail. However, currently there are no full rail services between the UK and mainland Europe although greater attention is being given to this mode of transport due to environmental concerns.

### **Trade Facilitation and Customs Brokerage**

Many countries in Europe and elsewhere still maintain complex Customs procedures. The Customs clearance of import freight and delivery to final destination is an important aspect of the work of freight forwarders. They hold up-to-date information on local requirements in many countries around the world enabling fast and reliable delivery of goods to final destination. Most imports into the UK are cleared by freight forwarders, sometimes called Customs brokers, using electronic communication systems developed in conjunction with HM Revenue and Customs (HMRC).

### **Logistics and Supply Chain Management**

With the increasing reliance placed upon freight specialists by the international trading community, freight forwarders have been quick to develop a wide range of value-added services for their customers. These can include warehousing, sorting, order picking, packaging and the final assembly of goods. Freight forwarders, in particular, have embraced modern electronic developments to offer a range of e-commerce and e-business solutions for their customers.

# Moving the Goods

Whether the forwarder is acting for an importer or an exporter, the main service provided is the movement of goods. The forwarder's experience will enable the provision of advice on the best routing (cheapest, quickest, safest), the best mode of transport (air, sea, road, rail), Customs requirements, packing, insurance, security issues, and the myriad of regulations that apply in both the country of origin and the country of destination.

## Transportation

Freight forwarders are the link between the seller and the buyer. They may be contracted to work for either party, and their key function will be to arrange for the movement of the goods between the two. They will book space on the ship, aircraft or other transport mode, call forward the goods at the appropriate time and collect them. They will liaise with their agent/office overseas to co-ordinate delivery to the buyer. These actions may be influenced by the method of transportation chosen.

## Documentation

In all international trade there are documents to be prepared. A freight forwarder is involved in either preparing most of these, or giving advice to the exporter/importer on those documents which they must prepare. The current trend is, however, to reduce the number of documents required. In particular, with the development of a 'frontier free' Europe, trade within the EU States has become much easier with the abolition of Customs borders. In addition, the growth of e-commerce and internet technology further reduces the need for paper documents.

## Customs

Importers and exporters have a legal responsibility to declare and record all goods which enter and depart the European Union. The preparation of import and export declarations represents an important part of the forwarder's service. Since 1993 Customs clearance has not been required for goods moving within the EU, although

there are procedures which may require the forwarder's involvement: for example, the collection, preparation and submission of statistical information (Intrastat) or security declarations. Goods exported to third countries (all countries outside the EU) are still subject to customs control, although systems are constantly being simplified.

## Payment of Charges

When a normal trading relationship has been established between the forwarder and the customer, the forwarder will accept and pay all related charges on behalf of the customer. Thus a trader requiring the services of airlines, shipping lines and numerous other transportation and handling organisations will only receive one invoice from the forwarder. The forwarder can sometimes arrange to collect the amount of the seller's invoice, collecting cash on delivery through overseas agents, or the carrier.

## Packing and Warehousing

The packing of the goods for export is a complex task to ensure goods are protected against the risks involved in their handling and the modes of transportation being used. Consideration needs to be given to the climates and terrain of the countries through which the consignments will be travelling. Too much heavy packing could prove costly for goods travelling by air, for example. On the other hand, too little packing might prove a false economy. Many forwarders provide a packing service for their customers, and the forwarder's expertise

can save a customer a great deal of money. Warehousing and allied functions, such as inventory control, can often be of value to the trader who may have limited space of their own. Whether temporary or longer-term storage, the forwarder will normally be able to arrange this facility for his customer.

## Insurance

Insurance plays an important part in international trade. Goods in transit are exposed to many risks and hazards. The prudent trader will always make sure that consignments are insured against these risks. Professional risk takers, known as underwriters, accept possible financial losses involved on payment of a premium, subject to terms and conditions. Freight forwarders, not being the owner of the goods, do not have an insurable risk in the cargo and therefore cannot cover the risks to cargo themselves. Exporters and importers should check with their freight forwarder at the time of booking the cargo for shipment about insurance cover. Freight forwarders who offer insurance can provide cover for their customer's goods providing the customer formally instructs the forwarder to do so in writing.



## Security

With ever-increasing levels of security being introduced to protect goods from criminal activity and acts of terrorism, it is imperative that freight forwarders keep themselves up-to-date with all the latest regulatory security requirements so that any cargo they handle is transported to its end destination without any possibility of interference.

Forwarders work together with transport providers and other key operators to ensure that everyone conforms to the strict cargo handling and processing procedures which are in place at the time. These vary, depending on the mode of transport being used. For example road trucks must be properly secured, and cargo containers, for goods moving by sea, must be locked and sealed, whilst in the air sector, goods are screened before being uplifted. These days many forwarders invest in expensive scanning equipment to have cargo checked before it is dispatched, thus avoiding any unnecessary delays while the cargo is en route.

## Consolidation, Groupage and Special Services

One of the main advantages in using freight forwarders lies in their ability to group together consignments from several exporters and present them to a shipping company or airline as a single large consignment. In this way the forwarder can obtain a much cheaper rate than an individual company, and is able to offer the customer a competitive tariff for a small consignment. The principle of consolidation also enables the forwarder to offer added value to the customer. For example, a forwarder consolidating cargo in one country will dispatch the full load to an agent in the destination country. The destination agent will de-consolidate, Customs clear and deliver the goods to the final consignee.

In addition to providing a complete door-to-door service, the forwarder may be able to hold consignments at destination

prior to delivery to await payment from the importer. This gives an element of security to the exporter, whilst minimising delay in delivery. Consolidation is a term normally applied to air and sea freight, whilst for road and rail freight the practice is known as groupage. The forwarder could be acting on behalf of an importer or exporter. In the former case, the buyer at the destination may use the forwarder to collect goods from many different suppliers in the country of export, thus avoiding the need to employ a purchasing agency for this purpose.



# Freight Forwarders: working with Industry

For those new to importing and exporting there is no substitute for planning a strategy and obtaining advice. Most companies who begin to trade internationally will wish to use the services of a third party, such as a freight forwarder, to advise on the movement of goods.



## Choosing a Freight Forwarder

There are thousands of companies who promote themselves as international freight service providers, and it is very important to select the right one. Information on BIFA Members and what their specialisations are can be obtained from the Member directory on the BIFA website at [bifa.org](http://bifa.org) or by contacting the BIFA Secretariat. Members of BIFA must adopt the industry-recognised Standard Trading Conditions and have in force a freight forwarder liability insurance policy. Companies cannot be admitted to BIFA membership until they have been audited and have met the relevant entry criteria.

BIFA has in excess of 1,500 Member companies so it is important to identify the criteria to use in selecting a Member. These may relate to their location, the type of service they offer or simply the way in which they handle your enquiry. This last point is very important and BIFA recommends that there should be, wherever possible, a level of personal contact to enable a proper assessment to be made.

## Procedures

The procedures within a company to deal with import/export matters are important. These will include the invoicing of orders, the preparation of documentation and communications, along the supply chain, such as banks, insurance companies and, of course, the customer.

## Avoiding Mistakes

Mistakes must be avoided at all costs as these can prove expensive. Failure to follow correct procedures and adopt good practice in international trade can cause

problems. Mistakes do not only happen to those new to importing and exporting. Many experienced traders would also benefit from a review of operational procedures to ensure that they are, as far as possible, eliminating unnecessary risks.

## Communication

Always give instructions in writing. Failure to do this may lead to errors and misunderstandings. Instructions, whether via e-mail or Electronic Data Interchange, should include information on the following as a minimum:

1. Name and address of shipper and consignee
2. Collection and delivery address if different from 1 above
3. Consignment specifications including weight, dimensions, contents and value
4. Insurance declaration\*
5. Dangerous goods declaration\*
6. Terms of shipment (latest edition of Incoterms - who pays what)
7. Special instructions eg. letters of credit, payment terms

\*A statement should be made, eg. 'Insurance required' / 'Insurance not required', or 'Goods hazardous' / 'Goods not hazardous'.

## Terms of Sale

When goods are imported or exported they are normally subject to a contract between a seller and a buyer. Part of that contract will determine what the price covers in relation to the goods and the costs involved in transporting them between the parties to the contract.

## Incoterms®

The purpose of Incoterms is to provide a set of international rules for the most commonly-used terms in foreign trade. Thus, the uncertainties of various interpretations of such terms in different countries may be avoided or reduced.

Frequently parties to a contract are unaware of the different trading practices in their respective countries. This can give rise to misunderstandings, dispute and possible legal action, with all the waste of time and money that this entails. In order to remedy these problems the International Chamber of Commerce (ICC) first published in 1936 a set of international rules for the interpretation of trade terms. These rules were known as Incoterms 1936. Amendments and additions were later made, leading to Incoterms® 2010 being the rules in line with current international trade practices.

# Documentation used in International transport



Freight forwarders are well known for their knowledge of documentation. International transport documents can be divided into three sectors:

1. Transport Documents
2. Official Documents
3. Commercial Documents

Incoterms are divided into two categories as follows:

## Terms for any Mode or Modes of Transport

CIP	Carriage and Insurance Paid
CPT	Carriage Paid To
DAP	Delivered At Place
DAT	Delivered At Terminal
DDP	Delivered Duty Paid
EXW	Ex Works
FCA	Free Carrier

## Terms for Sea and Inland Waterway Transport

CFR	Cost and Freight
CIF	Cost, Insurance and Freight
FAS	Free Alongside Ship
FOB	Free On Board

A full explanation of Incoterms® and their application can be found in the latest edition of Incoterms® produced by the ICC, and sold by BIFA, both in book and wall chart format. This is recommended reading both for traders and freight forwarders.

## Transport Documents

### Bill of Lading

The bill of lading takes many forms but, first and foremost, it is the key transport document for the carriage of goods by sea freight. In legal terms it is a receipt for goods shipped, a document of title and evidence of the contract of carriage. Possession of a negotiable bill of lading which is properly completed constitutes effective control of the goods.

### Air Waybill

The primary document for the carriage of goods by air is the air waybill. It is the contract between the shipper and the air carrier for the carriage of goods, but it also serves as a receipt of goods for shipment, a form of invoicing, and a document for the import, export and transit requirements of Customs.

### Road Consignment Note

The international carriage of goods by road is covered by the CMR Convention, which is a set of legal articles forming the contract between the carrier and the shipper. The CMR Convention prescribes the issue of a consignment note as evidence of the contract of carriage, the conditions of the contract and the receipt of the goods by the carrier.

## Official Documents

In addition to the basic document of carriage, international freight transport requires regulatory documents such as those required by law, or for the declaration of goods at import and export to Customs and other regulatory authorities. Examples of official documents include Dangerous Goods Notes, Certificates of Origin, or licences.

## Commercial Documents

The commercial documents in a transaction are many and varied, and will depend on the nature of the consignment, methods of payment, etc. Examples of commercial documents will include invoices, insurance certificates, letters of credit, and shipping instructions. This is not an exhaustive list.

# Conclusions

Freight forwarders and their customers should be in partnership together in the supply chain. Effective management of the chain is the key to successful trading. All parties in the chain have a responsibility to keep each other informed at all times about developments which affect the safe and timely delivery of goods.

Good communication eliminates doubt, transfers knowledge, informs, and above all, reduces risk. Business involves risk, and every effort is needed to ensure risk is minimised. Business creates wealth; efficiency increases profits. Good practice pays.

For more information and advice  
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