

Shipment Consignment: Is It Risky Business?

The Basics of Shipment Logistics

A transport document is required to get products moved logistically from place of origin to destination in the most direct route possible. A documentary letter of credit (LC) will require a transport document as proof that the exporter has sent the required goods in the manner agreed upon between the buyer and seller. The opening bank will stipulate the consignment instructions of the transport document and distribution of the 'original' document. These instructions reflect the risk the bank is willing to take and the standard import procedures at destination. Banks will also consider the time required to present negotiable documents to the advising and opening banks and the transportation cycle of the goods.

Documents Prepared for Consignment

There are two types of transport documents, namely negotiable and non-negotiable. Non-negotiable documents frequently used are: the airway bill, forwarders' cargo receipt, and truck bill of lading. The ocean bill of lading is the most common negotiable document, but is only negotiable when the consignment area of the bill of lading is preceded with the words "To order." Express bills of lading consigned directly to the buyer or other party, are not negotiable documents

The difference between a non-negotiable document and a negotiable document is that a negotiable document actually transfers title of the goods once one 'original' of the document is endorsed and surrendered to the buyer. Though the original bills of lading traditionally come in a set of three originals, the endorsement of only one of the originals is sufficient to pass title. This is evidenced by the statement on the bill of lading: "Bill of lading issued in three (3) originals, one being accomplished the others to stand void."

Ocean Bills of Lading

When shipping overseas, most letters of credit will require a full set of ocean bills of lading (OBL) to be prepared in negotiable form for presentation to the bank. This is strictly a condition decided by the open bank based on credit worthiness of the buyer and common customs practices at destination. The process of securing a clean 'on board' ocean bill of lading can take from days to weeks depending on the complexity of the shipment and the logistics. The bill of lading generally will go through several proofing processes before it is released to assure the accuracy of compliance with not only the piece count, weights and measures, but for LC language and statement compliance. Once the OBL is secured, more time will be required for preparation of documents and courier delivery to the negotiating bank. It is clear that this process can be very lengthy and may take a better part of the default negotiation period of 21 days.

On the other hand, some destinations and trade routes can be a very short time span, requiring about a week, more or less, for the cargo to reach its intended destination. The cargo is in port and needs to be claimed by the buyer but the opening bank has not yet notified the buyer of the arrival of documents. It is easy to see how this could lead to a series of frantic communications between the buyer and seller as to the fate of the impending shipment. The buyer may face demurrage or storage charges if the document situation is not resolved quickly.



Shipment Consignment: Is It Risky Business? (continued)

Ocean Bills of Lading (continued)

This potential dilemma can be avoided. Copies of documents in advance of the arrival of the shipment will allow the buyer to put the clearance process of securing the goods in motion. In this type of situation, the bank may elect to have one (1) original bill of lading sent directly to the buyer in advance of the bank documents for clearance purposes. Another possible solution is to straight consign the bill of lading making it non-negotiable. All of these options are a possibility but the risk and the design of this 'fix' is exclusively in the hands of the opening bank. The bank will decide what risks, if any are appropriate based on the buyers' history. This type of scenario can be addressed with the bank in advance of the shipment allowing a smooth transition and harmonized coordination of the goods and the documents.

A shipment not under a LC is the decision of the seller. If a seller wishes to transfer title, they need only state "to order," in the consignee field. A shipment that has been paid in advance or under open account arrangements can be treated as a non-negotiable transport document

Airway Bills

CPT (carriage paid to place/point), CIP (carriage, insurance paid to place/point), DAT (delivered at terminal), DAP (delivered at place) and DDP (delivered duty paid) Incoterms® rules for air shipments will most often require an air waybill. The scenario of goods arriving before documents is not quite as dire as ocean cargo and definitely more common. In fact, it is the nature of air cargo for this situation to occur. The consignment of air waybills however can play an important role in securing the goods and processing their release through customs at the destination airport. The banks are not as concerned with the air consignment instructions in an LC since it is a non-negotiable document, after all.

Copies of documents can be sent in advance to the buyer to start the customs clearance process in motion just in the case of ocean shipments. The buyer can even have the goods released and delivered against copies of documents long before the bank's documents arrive. So why is this situation so different and what about the payment to the seller? Is the exporter flirting with a potential risk hazard of non-payment?

The answer is no. There are procedures for air cargo shipments that have been in place for many years. The commercial invoice becomes the negotiable document in an air transaction. When it comes to the consignment of an air waybill, it is best NOT to consign the goods to a bank. Before going into hyperventilation, relax and consider the operations of an airline import desk and the destination customs desk that are nearby.

Goods arrive consigned directly to an importer or buyer. Document pouches generally consisting of an air waybill, invoice and packing list, are sent to the import desk for notification to the potential importers of the arrival of their shipment. Frequent importers will likely have an appointed bin for the customs broker, importer, and 'other.' The last of these bins is best avoided. The customs broker may be the consignee or notify party. Envision each party being notified as instructed on the air waybill. We come to a bank to be notified. Is an airline employee going to even attempt to get in touch with a bank that may or may not have a telephone number shown? Ok, in our example, the phone number is shown and the LC department on the other end of the line gives a less than enthused 'ok' and hangs up. What was accomplished by putting the bank on the air waybill as the consignee or notify party? It isn't likely the bank will be sending a truck over to pick up the goods.



Shipment Consignment: Is It Risky Business? *(continued)*

Airway Bills (continued)

In the case of the commercial invoice becoming the negotiable document it is important to remember that only copies of documents should move with goods having payment restrictions. The bank will hold the original and will exchange it for money from the buyer. There is a 'free time' allowed for the exchange of money and documents to take place beyond the clearance process. Generally the default of 21 days negotiation time is more than sufficient. The importer is aware of the procedures and the consequences of non-compliance.

The same principle will apply to shipments under open account. The consignee has no relevance in controlling payment or title.

In summary, the exporter or seller need not lose any sleep over the consignment instructions of a transport document. Do not state the consignment instructions on the sales offer or confirmation. The bank is in control and understands the implications and risks that may be involved. So relax, 'the check is in the mail,' or should I say 'in the swift exchange,' as long as there are no discrepancies in the documents.

About Trade Technologies:

Founded in 1999, Trade Technologies (www.tradetechnologies.com) is the largest global provider of outsourced trade document services and software. From its offices in Asia, Europe and North America, Trade Technologies provides leading exporters, freight forwarders and international trade banks with trade document solutions, training and consulting.

The company's web-based Global Trade Management platform and outsourced services enable customers to streamline their operations, save money, accelerate payments and eliminate discrepancies traditionally involved in international letter of credit, documentary collections and open account transactions. More than 1,200 exporters, global trade banks and freight forwarders depend on Trade Technologies' services to process over \$9 billion in international trade transactions each year. Trade Technologies was recently voted the "Best Trade Tech Solutions Company" in 2012 by readers of Trade Finance Magazine. In 2011, the company was awarded a patent on the Trade Technologies software platform and process, and won the Presidential "E" Award for Exporters by the U.S. Department of Commerce, the highest recognition any U.S. entity may receive for supporting export growth.

Contact Trade Technologies:

Corporate Headquarters: 3939 Bee Cave Road, Suite B22, Austin, Texas 78746

Sales: sales@tradetechnologies.com | www.tradetechnologies.com

Asia: +852.3102.8038

Canada: 604.354.5303

Europe: +44.1784.240150

Eurasia: +90212.946.02.02

Singapore: +65.6834.3106

United States & South America: 512.327.9996

