Certified International Logistics Professional

Sample Material

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1. INTRODUCTION

1.1 Concept of Logistics

According to the Council of Logistics Management, logistics contains the integrated planning, control, realization, and monitoring of all internal and network-wide material-, part- and product flow including the necessary information flow in industrial and trading companies along the complete value-added chain (and product life cycle) for the purpose of conforming to customer requirements.

The Objectives of Logistics are summarized as under.

- ✓ **Rapid response:** Rapid response is concerned with a firm's ability to satisfy customer's requirement in a timely manner. Logistics should ensure that the supplier is able to respond to the change in the demand very fast. Entire production should change from traditional push system to pull system to facilitate rapid response.

  Technology plays an important role here as an enabler. IT helps management in producing and delivering goods when the consumer needs them. This results into reducing of inventory and exposes all operational deficiencies for management to resolve these deficiencies and slashes down costs.
- ✓ **Minimum variance:** Variance is any unexpected event that disrupts system. Logistical operations are disrupted by events like delays in order receipt, disruption in manufacturing, goods damaged at customer's location and delivery to an in correct location etc.
  Traditional solution to deal with variance was to keep safety stock or use high cost transportation. Such practices were expensive and risky and thus have been replaced by information technology to achieve positive logistics control.
- ✓ **Minimum inventory:** This is a component of cost objective of a company. Inventory is associated with a huge baggage of costs. It is termed as a necessary evil. Objective of minimum inventory is measured as Inventory Turns or Inventory Turnover Ratio.
  Logistics management reduces these turns without sacrificing customer satisfaction. Lower turns ensure effective utilization of assets devoted to stock. Logistical management should keep the overall well being of a company in view and fix a minimum inventory level without trying to minimize the inventory level as an isolated objective.
- ✓ **Movement consolidation:** Transportation is the biggest contributor to logistics cost. Transportation cost depends on product type, size, weight, distance to be transported etc.

For transporting small shipments just in time [reduction in inventory costs] expensive transport modes are used which again tend to hike the costs. Movement consolidation is planning several such small shipments together [of different types of shipments] by integrating interests of several players' in the supply chain.

Generally, large shipment size and long distances reduce transportation cost per unit. Movement consolidation shall result into reduction in transportation costs.

- ✓ **Quality:** If the quality of product fails logistics will have to ship the product out of customers' premises and repeat the logistics operation again. This adds to costs and customer dissatisfaction.

  Hence logistics should contribute to TQM initiative of management. In fact, commitment to TQM has made the management world over wake up to the significance of logistics function. Logistics can play a significant role in total quality improvement by improving the quality of logistics performance continuously and continually.
- ✓ **Life cycle support:** Life cycle support is also called cradle-to-cradle logistical support. It means going beyond reverse logistics and recycling to include the possibility of after sales services, product recalls and product disposal. This means that firms must consider how to make a product and its package (cradle) and then how to remake and reuse them (to cradle).

1.2 Objectives of Logistics Management

1.2.1 From Manufacturer's Point of View

Manufacturers are a major player in business operations as they bear the maximum risk in the whole chain. Consequently the key objectives in logistics management from the manufacturers perspective is considered as primary and these are as follows.

- ✓ Reduction in transportation cost for in-bound raw materials and components
- ✓ Reduction in inventory leading to lower operational costs
- ✓ Optimising the route for transporting the products to the customers
- ✓ Efficient and faster transportation system
- ✓ Minimised waiting time for inventory at plants and warehouses
- ✓ Reduction in material handling costs
- ✓ Smooth flow of materials through production systems

1.2.2 From Logistician's Point of View

Logisticians are the intermediaries who carry out various activities between the manufacturer, seller and the buyer for reaching the materials to their destination. A list of such logisticians is as follows.

- ✓ Clearing and forwarding agents.
- ✓ Customs house agents
- ✓ Shipping agents
- ✓ Freight brokers
- ✓ Freight forwarders
- ✓ Stevedores

The key objectives in logistics management from the logisticians' perspective are summarised as under.

- ✓ Improved scheduling
- ✓ Lower transportation cost
- ✓ Improved services to customers
- ✓ Improved efficiency in transportation

1.2.3 From Customer's Point of View

The Customer is the focal point of the entire logistics system. The key objectives in logistics management from the Customer's perspective are summarised as under.

- ✓ Timely delivery
- ✓ Optimum inventory
- ✓ Lower distribution cost

In short the Customers fundamentally expect a reliable service of a high degree and minimum cost of transportation which would help them in structuring a competitive pricing in the market.

1.3 General Structure and Elements of Logistics

Logistics management consists of eight elements called wings of logistics. These are discussed in a nutshell below.

1.3.1 Customer Order Processing

Flow of Actions

- ✓ Filling up the order form

- ✓ Deciding the specifications of the product
- ✓ Deciding the quality check list of the product
- ✓ Deciding the delivery schedule
- ✓ Deciding the location of delivery

Important Factors

- ✓ Cost of order processing
- ✓ whether the company is capable of producing a component
- ✓ Detailed list of specifications

Techniques

- ✓ Electronic data Interchange (EDI)
- ✓ E-ERP or CPFR
- ✓ Web portal

1.3.2 Location Analysis

Flow of Actions

- ✓ Cost of transportation of raw materials and finished goods
  - ✓ Proximity to suppliers
  - ✓ Proximity to customers
- ✓ Availability and type of land
- ✓ Availability of secondary resources
- ✓ Availability of desired manpower at affordable cost
- ✓ Communal harmony
- ✓ Governmental regulation and taxation

Important Factors

- ✓ Cost of operations as a percentage of sales
- ✓ Shelf life of product

1.3.3 Inventory Control

Flow of Actions

- ✓ On hand inventory analysis
- ✓ Communicating the quantity, quality and timing of material with the supply points.
- ✓ Getting the material of right quality, quantity and at right time

Important Factors

- ✓ Inventory control at planning stage
- ✓ Lead time
- ✓ Cost vs. importance of raw material

Techniques

- ✓ DRP and replenishment order control
- ✓ Fixed order interval system
- ✓ Economic order quantity with ROP system
- ✓ Selective inventory control (ABC, VED, FSN analysis etc.)
- ✓ Order forecasting using statistical tools

1.3.4 Material Handling

Flow of Actions

- ✓ Type of material (Business significance like raw material, finished goods etc.)
- ✓ Material handling requirements of the material (Fragile, inflammable)
- ✓ Cost ratio of material handling to material cost.
- ✓ Material default location, identification and traceability

Important Factors

- ✓ Material breakage
- ✓ Pilferage
- ✓ Cost of material handling
- ✓ Number of handlings

Techniques

- ✓ Operational research
- ✓ Material flow analysis
- ✓ Computerized material retrieval system
- ✓ ASRS (Advanced Storage & Retrieval System)

1.3.5 Packaging

Flow of Actions

- ✓ Packaging requirement for the material (Refrigeration, Fragile etc.)
- ✓ Primary packaging
- ✓ Secondary packaging

- ✓ Cost of packaging
- ✓ Transportation requirement for packaging (Vibration proof, water or moisture tight)

Important Factors

- ✓ Protection to product
- ✓ Holding the product
- ✓ Communicating the message to customers
- ✓ Customer requirement for packaging
- ✓ Reverse logistics for packaging
- ✓ Recycling of packaging material
- ✓ Cost of packaging

Techniques

- ✓ Standardized box packaging
- ✓ Containerization of packaging
- ✓ Direct part marking
- ✓ ISO 14001
- ✓ Recycling of packaging materials
- ✓ Reusable packaging materials
- ✓ Eco-friendly packaging materials
- ✓ Bar coding
- ✓ Bumpy bar coding
- ✓ GPS tracking system
- ✓ RFID

1.3.6 Transportation

Flow of Actions

- ✓ Mode of transportation
- ✓ Cost of product
- ✓ Speed of transportation
- ✓ Ambience requirement of material (Refrigeration, Vacuum)
- ✓ Cost of transportation
- ✓ Urgency of the product to customers

Important Factors

- ✓ Urgency of the product

- ✓ Cost of product
- ✓ Cost of transportation

Techniques

- ✓ Containerized transportation
- ✓ Cool Chain Transport (Refrigerated Vans/Containers)
- ✓ Multi-modal Logistics
- ✓ Milk Run Distribution systems
- ✓ Cross Docking
- ✓ Direct Shipment

1.3.7 Warehousing

Flow of Actions

- ✓ Location of the warehouse
- ✓ Inventory level at the warehouse
- ✓ Storage requirement of the product
- ✓ Packaging and repackaging requirement of the product
- ✓ Shelf life of the product

Important Factors

- ✓ Availability of space
- ✓ Availability of proper material handling systems
- ✓ Strategic location
- ✓ Packing and Re-packing facilities
- ✓ Information and allied services

Techniques

- ✓ Third Party Logistics
- ✓ Third party Warehousing

1.3.7 Customer Service

Flow of Actions

- ✓ Contractual services offered to client
- ✓ Type of customer service required for the product
- ✓ Location of the service centre
- ✓ Service level at the service centre
- ✓ Cost of service vs. replacement

Important Factors

- ✓ Contractual requirement of customer service
- ✓ Service quality
- ✓ Reverse logistics

Techniques

- ✓ AMC (Annual Maintenance Contracts) and free replacements
- ✓ Limited (free) trial period
- ✓ Guarantee & warranty
- ✓ User clubs
- ✓ Help lines, toll free number, call centers
- ✓ CRM

1.4 Forms of Logistics Management

The various forms of logistics are described as follows.

- ✓ **Return Logistics (Reverse Logistics):** In order to increase the sales as well as the market share, many companies advertise that their goods will perform well over a period of time. The customer is, therefore, led to believe that in case he buys the product of that company, he is assured of satisfactory performance of the product.

  But at the same time, it is very much obvious that the company cannot assure the satisfactory performance of each and every of its product which is sold in the market. Few of the products sold may not perform as claimed over the specific period of time. Such products need to be brought back by the company to confirm good customer service. Product recall is a critical competency resulting from increasingly rigid quality standards product expiration dating responsibility for hazardous consequences.

  The company has, therefore, to take into account the defective goods that would be returned while framing the total logistical system network and calculating the total cost of such a system of network.

  Incorporating the goods returned in the total logistical systems network and cost is called as Return Logistics. Return Logistics requirement' also result from the increasing number of laws prohibiting random scrapping and disposal on one hand, while encouraging recycling of waste such as beverage containers, packaging materials, etc.

The most significant aspect of return logistical operation is the need for maximum control when a potential health liability exists such as a contaminated drug in the market is extremely dangerous and the company has to recall all the stock of contaminated drug.

- ✓ **Military Logistics:** Military logistics is the art and science of planning and carrying out the movement and maintenance of military forces. In its most comprehensive sense, it is those aspects or military operations that deal with.
  - ✓ Design, development, acquisition, storage, distribution, maintenance, evacuation, and disposition of material,
  - ✓ evacuation, and hospitalization of personnel,
  - ✓ Acquisition or construction, maintenance, operation, and disposition of facilities.
- ✓ **Third Party Logistics (3PL):** 3PL or Third Party Logistics describes businesses that provide one or many of a variety of logistics related services. Types of services would include public warehousing, contract warehousing, transportation management, distribution management, freight consolidation.

  A 3PL provider may take over all receiving, storage, value added, shipping, and transportation responsibilities for a client and conduct them in the 3PL's warehouse using the 3PLs equipment and employees or may manage one or all of these functions in the clients facility using the clients equipment, or anything combination of the above.

  3PL can be defined as the "Business of proposing physical distribution reforms to a client and undertaking comprehensive physical distribution services."

  The growing demand for 3PL can be attributed to both demand & supply side factors.
  - ✓ faced with deregulation & growing competition, transport companies are seeking new business opportunities, &
  - ✓ Clients are seeking to outsource their logistics operations cut costs & focus management resources on core businesses.
- ✓ **Fourth Party Logistics:** Traditionally, suppliers and big corporations have been meeting the demands by increased inventory, speedier transportation solutions posting on-site service engineers and many times employing a third party service provider.

  Today they need to meet increased levels of services due to e-procurement, complete supply visibility, virtual inventory management and requisite integrating technology. Now corporations are outsourcing their entire set of supply chain process from a single design, make and run integrated comprehensive supply chain solutions.

This evolution in supply chain outsourcing is called Fourth Party Logistics – the aim being to provide maximum overall benefit.

Thus a fourth party logistics provider is a supply chain integrator that assembles and manages the resources, capabilities and technology of its own organization with those of complementary service provider to deliver a comprehensive supply chain solution.

It leverages the competencies of third party logistics providers and business process managers to deliver a supply chain solution through a centralized point of contact.
As the fourth party logistics provider caters to multiple clients, the investment is spread across clients-thus taking the advantage of economies of scale.

Cost Effectiveness of Fourth Party Logistics

Revenue growth by enhanced product quality, product availability, and improved customer service -all facilitated by the application of leading technology. Operating cost reduction can be achieved through operational efficiencies, process enhancements and procurements. Savings will be achieved by complete outsourcing of supply chain functions and not just selected components.
Fixed capital reductions will result from capital asset transfer and enhanced asset utilization. The fourth party logistics organization will own physical assets through freeing up the client organization to invest in core competencies.

Emergence of fourth party logistics is a new concept in supply chain outsourcing. With the rapid advancements of technologies, it will be easier to reap the benefits of fourth party logistics concept. Thus fourth party logistics is the future of supply chain management.

- ✓ **Inbound Logistics:** Creation of value in a conversion process heavily depends on availability of inputs on time. Making available these inputs on time at point of use at minimum cost is the essence of Inbound Logistics. All the activities of a procurement performance cycle come under the scope of Inbound Logistics. Scope of Inbound Logistics covers transportation during procurement operation, storage, handling if any and overall management of inventory of inputs.

  Several activities or tasks are required to facilitate an orderly flow of materials, parts or finished inventory into a Manufacturing complex as - sourcing, order placement and expediting, transportation, receiving and storage. Overall, procurement operations are called inbound logistics. Inbound logistics have potential avenues for reducing systems costs. Delivery time, size of shipment, method of transport & value of products involved are different from those of physical distribution cycles. Normally delivery is large as a low cost transportation mode is chosen.

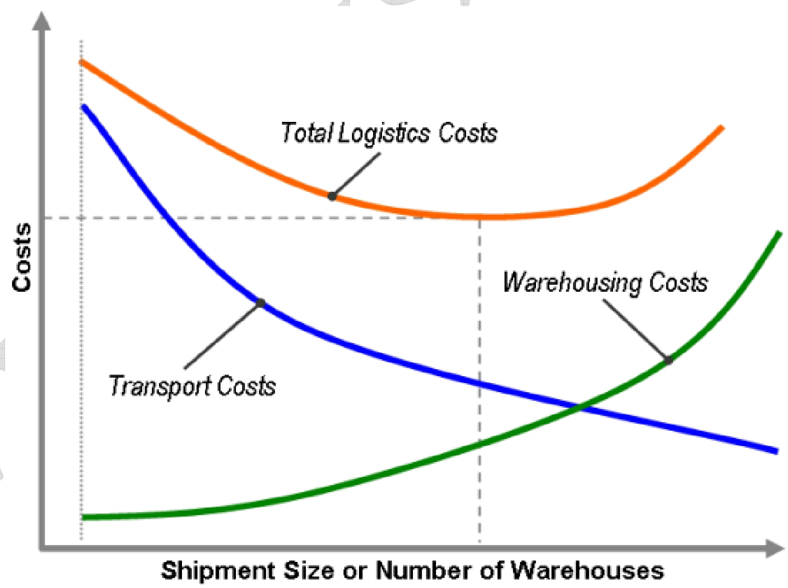
- ✓ **Outbound Logistics:** Value added goods are to be made available in the market for customers to perceive value. Finished goods are to be distributed through the network of warehouses and supply lines to reach the consumer through retailers' shops in the market.

  During conversion value is added to the raw materials and as a result value of the inventory in this case is very high unlike inputs. The size of shipment, modes, of transport and delivery time is different as compared to inputs. Activities of shipment, distribution performance cycle come under the scope of Outbound Logistics as- order management, transportation, warehousing, packaging, handling etc.

1.5 Costs in Logistics

1.5.1 Total Cost Perspective

Total logistics costs consider the whole range of costs associated with logistics, which includes transport and warehousing costs, but also inventory carrying, administration and order processing costs.



The above graph portrays a simple relationship between total logistics costs and two important components; transport and warehousing.

Based upon the growth in the shipment size (economies of scale) or the number of warehouses (lower distances) a balancing act takes place between transport costs and warehousing (inventory carrying) costs. This function differs according to the nature of freight distribution.

There is a cutting point representing the lowest total logistics costs, implying an optimal shipment size or number of warehouses for a specific freight distribution system. Finding such a balance is a common goal in logistical operations.

1.5.2 Trade-offs

Generally the cost trade-offs within the logistics system are assessed in two ways.

- ✓ From the point of view of their impact on total costs and
- ✓ Their impact on sales revenue.

For example it may be possible to trade-ff costs in such a way that total costs increase, yet because of the better service now being offered, sales revenue also increases. If the difference between revenue and costs is greater than before, the trade-off may be regarded as leading to an improvement in cost effectiveness.

1.5.3 Zero Sub-optimization

Zero Sub-optimization is a term applied to the situation in which one distribution function is optimized resulting in the impairment of another distribution function.

For example, until recently, logistics activities had one primary focus—to minimize unit transportation costs for shipments to downstream customers. To achieve a company would decide to sit on inventory in order to build a optimum transportation load and thereby obtain a lower freight rate.

This approach is okay if the accounting for the cost of inventory is not taken into consideration. But if the cost of having inventory to sit on the warehouse floor for a few more days is evaluated, the real cost of the decision will emerge.

Again trying to minimize inventory costs by maintaining significantly low inventory levels can lead to stock-outs, loss of sales, increased transportation and loss of customers. This kind of sub-optimization is a by-product of a functional orientation.

1.5.4 Systems Perspective (Supply Chain Management)

The systems approach is a critical concept in logistics. Logistics is, in itself, a system; it is a network of related activities with the purpose of managing the orderly flow of material and personnel within the logistics channel.

The systems approach is a simplistic yet powerful paradigm for understanding interrelationships. The systems approach simply states that all functions or activities need to be understood in terms of how they affect, and are affected by, other elements and activities with which they interact. The idea is that if one looks at actions in isolation, he or she will not understand the big picture or how such actions affect or are affected by, other activities. In essence, the sum of outcome of a series of activities is greater than its individual parts.

The systems approach is key to understanding the role of logistics in the economy, its role in the organization, including its interface with marketing, the total cost concept, and logistics strategy.

1.6 Understanding Development of International Logistics

The globalization of markets is generally understood as a recent phenomenon, triggered by the economic development explosion since the World War II; however while international trade has certainly increased dramatically in the second half of the last century, nations have engaged in international trade for years.

Before the advent of the twentieth century and the advent of modern transportation, trade between nations had always relied on courageous traders who ventured to far away places in the hope of earning a living. They were responsible for determining what goods they should take along as payment for the goods they hoped to bring back, negotiating with foreigners with whom they did not share a language, and arranging for the transportation and safekeeping of the goods while in transit. They were exposed to the risks of international travel, of market preferences and of political instability. They were mostly adventurers and pioneers.

The first international traders were involved in logistics as they calculated how much their ships, or beasts, could carry, how much food and water to bring along and how best to package the goods while in transit, decisions which parallel exactly what a modern logistics manager does. They had to decide which payment method was appropriate just as modern exporter must determine the best way of ensuring security of payment.

While many aspects of international logistics have changed, the main concerns of people involved in this field remain similar; they have to ensure that goods manufactured in part of the world arrive safely at their destination.

The Council of Logistics Management has defined International logistics as "the process of planning, implementing and controlling the flow and storage of goods, services and related information from a point of origin to a point of consumption located in a different country".

1.7 Chain of International Trade Logistics

There are only a few activities that are exclusively specific in the chain of international trade logistics; however the, the traditional logistical activities are managed differently in an international environment than they are in a domestic environment.

The environment in international logistics is quite important. While there is obviously the issue of language and culture, the physical environment of international logistics is quite distinct.
The decisions regarding international transportation are eminently more complicated – different modes of transportation, different carriers, different transportation documents and much longer transit times.

The number of intermediaries involved is greater. Banks, insurance companies, freight forwarders, governments of the exporting and importing countries all have different paperwork requirements.

Inherent risks and hazards are much more significant. In order to protect the goods while they are in transit, adequate packaging has to be provided.

International insurance is much more complex. The contracts often vary in meaning depending on the country in which the insurance company is located. International means of payment are a key area. The risks of non-payment and currency fluctuations call for specific strategies that are never used in domestic transactions.

1.8 Functions of International Logistics (Inbound and Outbound Functions)

Logistics is a total systems approach in exports or imports management and applies to the timely movement or flow of materials/products from the sources of supply to the point of manufacture, assembly, or distribution.

It involves two categories of operations.

- ✓ Materials management :The primary area of operation is inbound flows of materials or products. It encompasses acquisition of products, transportation, inventory management, storage and the handling of materials.

- ✓ Physical distribution: The key area of operation is outbound flows of materials or products. It includes outbound transportation, inventory management and proper packaging to reduce damage during transit and storage.

1.9 Logistics Trade Requirement

1.9.1 Door-to-Door Services

The term door-to-door in international logistics is commonly understood to mean the movement of a cargo from its point of origin to its destination. This service is different from other common transport movements as port-to port, factory-warehouse or movements during which the cargo changes ownership. Door-to-door service may involve a sequence of movements on different modes of transportation, or even temporary storage of the cargo en route. The key feature is that it involves the intact movement of a particular cargo and is often associated with a single transaction in which a logistics service provider assumes responsibility for the cargo for the whole journey.

Most large logistics service companies today offer one-stop, door-to-door shipping capabilities—they transport goods for one price, then determine the best intermodal transportation and warehousing arrangements to meet customer requirements as cheaply as possible.

1.9.2 Preference for Arranging Inland Transport

In an international business, the inland transportation is the critical component in taking the product and service from port to the location and vice-versa. This service is provided either by own transport or Third Party Logistics service provider. The key factors for selecting a inland transportation are summarized below.

- ✓ Provides better control over service,
- ✓ Preference to use own forwarder/customs broker,
- ✓ Lower cost,
- ✓ Better services by inland carrier can be rewarded
- ✓ Preference for own representative at port,
- ✓ Possibility of prioritizing inland movements,
- ✓ Possibility of diversion to other inland destinations
- ✓ Ease of dealing with inland carrier instead of vehicle operators

1.9.3 Expectations about Transport Services Provider

Transport Service Provider performs a vital role in physically moving the goods from the manufacturer's location to the trade centre and customers. The expectations from a Transport Service Provider are summarized as under.

- ✓ Capacity to organize and manage international transport operations and to accept carrier responsibility from start to finish.
- ✓ Management of warehouses for distribution and use relevant modern technology for transshipment and storage.
- ✓ Real time communication linkage between the shipper, transport operator and the consignee.
- ✓ Comprehensive solutions to the material supply to the production facilities as well as to the physical distribution of finished products to final consumers.
- ✓ Quality and reliability in all distribution operations

1.9.4 Transport Service Provider's Expectation of Shippers

The following are generally the Transport Services Provider's expectations of shippers.

- ✓ Long-term contract facilitating investments in customized transshipment warehouses and distribution platforms.
- ✓ Comprehensive and clear information on the goods to be transported particularly in terms of handling, storage and transportation.
- ✓ Flexibility on designing transport chains.
- ✓ Connectivity with shipper's information system.
- ✓ Fair remuneration and dealings on the transactions.

1.10 P's and R's of Logistics Management

In the quest to provide quality service and satisfy customers, world-class companies along the supply chain are guided by the Seven Rights of Fulfillment.

- ✓ The Right Product
- ✓ To the Right Customer
- ✓ At the Right Time
- ✓ At the Right Place
- ✓ In the Right Condition
- ✓ In the Right Quantity
- ✓ At the Right Cost

Logistics provide a link between two primarily functions in a manufacturing organization – Marketing & Operations and the following 5P structure helps in deciding on the fundamentals for a sustainable efficiency in the system.

- **Product:** The product is the physical product or service offered to the consumer. In the case of physical products, it also refers to any services or conveniences that are part of the offering. Product decisions include aspects such as function, appearance, packaging, service, warranty, etc.
- **Price:** Pricing decisions should take into account profit margins and the probable pricing response of competitors. Pricing includes not only the list price, but also discounts, financing, and other options such as leasing.
- **Promotion:** Promotion decisions are those related to communicating and selling to potential consumers. Since these costs can be large in proportion to the product price, a break-even analysis should be performed when making promotion decisions. It is useful to know the value of a customer in order to determine whether additional customers are worth the cost of acquiring them. Promotion decisions involve advertising, public relations, media types, etc.
- **People:** People decisions are those related to customer service. The function of people to present an appearance, an attitude, etc
- **Place:** Place (or placement) decisions are those associated with channels of distribution that serve as the means for getting the product to the target customers. The distribution system performs transactional, logistical, and facilitating functions. Distribution decisions include market coverage, channel member selection, logistics, and levels of service.

1.11 Logistics Management in Export Business

One major contribution of logistics management to international trade is in the area of efficient allocation of resources. International logistics allows countries to export products in which they have a competitive advantage and import products in which that are either unavailable at home or produced at a lower cost overseas, thus allowing for efficient allocation of resources.

Such advantages from international trade cannot be realized without a well-managed logistics system. To the extent that logistics facilitates international trade, it contributes to expansion of economic growth and employment.

As major import forms expand their ability to procure needed raw materials or components for their customers, international logistics management becomes a critical source of competitive advantage for both the firms and the customers. Such procurement and sourcing decisions include the number and location of warehouses, levels of inventory to maintain, as well as selection of the appropriate transportation mode and carrier.

The development of advanced logistics systems and capabilities has also increased the efficient production, transportation and distribution of products. The use of various transportation modes facilitates rapid and consistent delivery service to consumers, which in turn reduces the need for safety stock inventory.

Transportation cost is also reduced through shipment consolidation and special contracts with carriers for large shipments without adversely affecting delivery time. A well-managed international logistics system can result in optimal inventory levels and optimal production capacity, thereby maximizing the use of working capital which lead to strengthening of the competitive position of domestic companies in global trade.

1.12 International Commercial Terms

1.12.1 Use of Incoterms

Incoterms are a set of simple three letter codes which represent the different ways international shipments may be organized. They allow sellers and buyers from different cultures and legal systems to decide at what point the ownership and the obligation to pay for freight, insurance and customs costs transfer from one to the other.

Incoterms were introduced in 1936 and they have been updated six times to reflect the developments in international trade. The latest revisions are sometimes referred to as Incoterms 2000. The Incoterms informs the buyer what is included in the purchase price since the costs of transportation, insurance and customs are split between the buying and the selling parties. The Incoterms determine the mutual responsibilities between the buyer and the seller in the contract and does not indicate the distribution of responsibilities among the consignor, the carrier and the consignee.

Incoterms are invaluable and a cost-saving tool. The exporter and the importer need not undergo a lengthy negotiation about the conditions of each transaction. Once they have agreed on a commercial term as CIF, they can sell and buy the goods without discussing who will be responsible for the freight, cargo insurance and other costs and risks.

1.12.2 Representation of Incoterms

There are thirteen Incoterms that are used by businesses and are used in four different areas.

Group E: used where the seller does not want to arrange transport.

EXW – Ex Works

EXW means Ex Works and is followed by a named place, for example EXW Dallas. EXW means the seller's responsibility is to make the goods available at the seller's premises. The seller is not responsible for loading the goods on the vehicle provided by the buyer, who then bears the full cost involved in bringing the goods from there to the desired destination.

Group F: used where the seller can arrange some transport within his/her own country.

FCA – Free Carrier

FCA means Free Carrier and is followed by a named place, for example FCA Brownsville. FCA means the seller fulfils its obligation to deliver when it has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into its charge.

FAS – Free Alongside Ship

FAS means Free alongside Ship and is followed by a named port of shipment, for example FAS New York. FAS means the seller is responsible for the cost of transporting and delivering goods alongside a vessel in a port in his country. As the buyer has responsibility for export clearance, it is not a practical incoterm for U.S. exports. FAS should be used only for ocean shipments since risk and responsibility shift from seller to buyer when the goods are placed within the reach of the ship's crane.

FOB – Free On Board

FOB means Free on Board and is followed by the named port of shipment, for example FOB Baltimore. With FOB the goods are placed on board the ship by the seller at a port of shipment named in the sales agreement. The risk of loss of or damage to the goods is transferred to the buyer when the goods pass the ship's rail, i.e. off the dock and placed on the ship. The seller pays the cost of loading the goods.

Group C: used where the seller can arrange and pay for most of the freight charges up to the foreign country.

CFR - Cost And Freight

CFR means Cost and Freight and is followed by a named port of destination, for example CFR Sydney. CFR requires the seller to pay the costs and freight necessary to bring the goods to the named destination, but the risk of loss or damage to the goods, as well as any cost increases, are transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. Insurance is the buyer's responsibility.

CIF - Cost, Insurance And Freight

CIF means Cost, Insurance and Freight and is followed by a named port of destination, for example CIF Miami. CIF is similar to CFR with the additional requirement that the seller purchases insurance against the risk of loss or damage to goods. The seller must pay the premium. Insurance is important in international shipping, more than domestic US shipping, because U.S. laws generally hold a common carrier to be liable for lost or damaged goods.

CPT – Carriage Paid To

CPT means Carried Paid To and is followed by a named place of destination, for example CPT Kansas City. CPT means that the seller must pay the freight for the carriage of the goods to the named destination. The risk of loss or damage to the goods and any cost increases transfers from the seller to the buyer when the goods have been delivered to the custody of the first carrier, and not at the ship's rail.

CIP - Carriage And Insurance Paid To

CIP means Carriage and Insurance Paid To and is followed by a named place of destination, for example CIP Boston. CIP has the same incoterm meaning as CPT, but in addition the seller pays for the insurance against loss of damage.

Arrival (Group D): used where the seller can pay for most of the delivery charges to the destination country

DAF – Delivered At Frontier

DAF means Delivered At Frontier and is followed by a named place, for example DAF El Paso. DAF means that the seller’s responsibility is complete when the goods have arrived at the frontier but before the customs border of the country named in the sales contract. This buyer is responsible for the cost of the goods to clear customs.

DES - Delivered Ex Ship

DES means Delivered Ex Ship and is followed by a named port of destination, for example DES Vancouver. DES means the seller shall make the goods available to the buyer on board the ship at the place named in the sales contract. The cost of unloading the goods and associated customs duties are paid by the buyer.

DEQ - Delivered Ex Quay

DEQ means Delivered Ex Quay and is followed by a named port of destination, for example DEQ Los Angeles. DEQ means the seller has agreed to make the goods available to the buyer on the quay at the place named in the sales contract.

DDU – Delivered Duty Unpaid

DDU means Delivered Duty Unpaid and is followed by a named place of destination, for example DDU Topeka. The seller has to bear the costs involved in shipping the goods as well as the costs and risks of carrying out customs formalities. The buyer pays the duty and has to pay any additional costs caused by its failure to clear the goods for import in time.

DDP - Delivered Duty Paid

DDP means Delivered Duty Paid and is followed by a named place of destination, for example DDP Bakersfield. The seller has to pay the costs involved in shipping the goods as well as the costs and risks of carrying out customs formalities. The seller pays the duty and the buyer has to pay any additional costs caused by its failure to clear the goods for import in time. DDP should not be used if the seller is unable to obtain an import license.

1.12.3 Transfer of Property

INCOTERMS provide a useful tool for buyers and sellers in international trade to specify their respective rights and responsibilities in widely understood and accepted shorthand.

It should be noted that incoterms do not deal with transfer of property rights but rather a transfer of responsibility. As laws on property conveyance differ among countries, a contract may conveniently include indication in this regard but only after determining what is permissible by law. Usually sellers hold their domain and the property until the price of the purchased goods is settled in full.

1.13 Documentation for Export

1.13.1 Procedure of Documentation

The following discussions are in the context of the documents required for exporting from India.

Special documents may be required depending on the type of product or destination.
Certain export products may require a quality control inspection certificate from the Export Inspection Agency. Some food and pharmaceutical product may require a health or sanitary certificate for export.

- ✓ Shipping Bill/ Bill of Export is the main document required by the Customs Authority for allowing shipment. Usually the Shipping Bill is of four types and the major distinction lies with regard to the goods being subject to certain conditions which are mentioned below.
  - ✓ Export duty/ cess
  - ✓ Free of duty/ cess
  - ✓ Entitlement of duty drawback
  - ✓ Entitlement of credit of duty under DEPB Scheme
  - ✓ Re-export of imported goods

The following are the export documents required for the processing of the Shipping Bill.

- ✓ GR forms (in duplicate) for shipment to all the countries.
- ✓ 4 copies of the packing list mentioning the contents, quantity, gross and net weight of each package.
- ✓ 4 copies of invoices which contains all relevant particulars like number of packages, quantity, unit rate, total f.o.b./ c.i.f. value, correct & full description of goods etc.
- ✓ Contract, L/ C, Purchase Order of the overseas buyer.
- ✓ AR4 (both original and duplicate) and invoice.
- ✓ Inspection/ Examination Certificate.

The formats presented for the Shipping Bill are as given below.

- ✓ White Shipping Bill in triplicate for export of duty free of goods.
- ✓ Green Shipping Bill in quadruplicate for the export of goods which are under claim for duty drawback.
- ✓ Yellow Shipping Bill in triplicate for the export of dutiable goods.
- ✓ Blue Shipping Bill in 7 copies for exports under the DEPB scheme.

For the goods which are cleared by Land Customs, Bill of Export (also of 4 types - white, green, yellow & pink) is required instead of Shipping Bill.

- ✓ Documents Required for Post Parcel Customs Clearance

  In case of Post Parcel, no Shipping Bill is required. The relevant documents are mentioned below.

  - ✓ Customs Declaration Form: It is prescribed by the Universal Postal Union (UPU) and international apex body coordinating activities of national postal administration. It is known by the code number CP2/ CP3 and to be prepared in quadruplicate, signed by the sender.
  - ✓ Dispatch Note, also known as CP2. It is filled by the sender to specify the action to be taken by the postal department at the destination in case the address is non-traceable or the parcel is refused to be accepted.
  - ✓ Prescriptions regarding the minimum and maximum sizes of the parcel with its maximum weight :
  - ✓ Minimum size: Total surface area not less than 140 mm X 90 mm.
  - ✓ Maximum size: Lengthwise not over 1.05 m. Measurement of any other side of circumference 0.9 m. / 2.00 m.
  - ✓ Maximum weight: 10 kg usually, 20 kg for some destinations.
- ✓ Commercial invoice: Issued by the seller for the full realisable amount of goods as per trade term.
- ✓ Consular Invoice: Mainly needed for the countries like Kenya, Uganda, Tanzania, Mauritius, New Zealand, Burma, Iraq, Australia, Fiji, Cyprus, Nigeria, Ghana, Zanzibar etc. It is prepared in the prescribed format and is signed/ certified by the counsel of the importing country located in the country of export.
- ✓ Customs Invoice: Mainly needed for the countries like USA, Canada, etc. It is prepared on a special form being presented by the Customs authorities of the importing country. It facilitates entry of goods in the importing country at preferential tariff rate.
- ✓ Legalised/Visaed Invoice: This shows the seller's genuineness before the appropriate consulate/ chamber of commerce/ embassy. It do not have any prescribed form.
- ✓ Certified Invoice: It is required when the exporter needs to certify on the invoice that the goods are of a particular origin or manufactured/ packed at a particular place and in accordance with specific contract. Sight Draft and Usance Draft are available for this. Sight

Draft is required when the exporter expects immediate payment and Usance Draft is required for credit delivery.

- ✓ Packing List: It shows the details of goods contained in each parcel/ shipment.
- ✓ Certificate of Inspection - It shows that goods have been inspected before shipment.
- ✓ Black List Certificate: It is required for countries which have strained political relation. It certifies that the ship or the aircraft carrying the goods has not touched those country(s).
- ✓ Weight Note: Required to confirm the packets or bales or other form are of a stipulated weight.
- ✓ Manufacturers/ Supplier's Quality/ Inspection Certificate.
- ✓ Manufacturer's Certificate: It is required in addition to the Certificate of Origin for few countries to show that the goods shipped have actually been manufactured and are available.
- ✓ Certificate of Chemical Analysis: It is required to ensure the quality and grade of certain items such as metallic ores, pigments, etc.
- ✓ Certificate of Shipment: It signifies that a certain lot of goods have been shipped.
- ✓ Health/ Veterinary/ Sanitary Certification: Required for export of foodstuffs, marine products, hides, livestock etc.
- ✓ Certificate of Conditioning: It is issued by the competent office to certify compliance of humidity factor, dry weight, etc.
- ✓ Antiquity Measurement: Issued by Archaeological Survey of India in case of antiques.
- ✓ Transshipment Bill: It is used for goods imported into a customs port/ airport intended for transshipment.
- ✓ Shipping Order: Issued by the Shipping (Conference) Line which intimates the exporter about the reservation of space of shipment of cargo through the specific vessel from a specified port and on a specified date.
- ✓ Cart/ Lorry Ticket: It is prepared for admittance of the cargo through the port gate and includes the shipper's name, cart/ lorry No., marks on packages, quantity, etc.
- ✓ Shut Out Advice: It is a statement of packages which are shut out by a ship and is prepared by the concerned shed and is sent to the exporter.
- ✓ Short Shipment Form: It is an application to the customs authorities at port which advises short shipment of goods and required for claiming the return.
- ✓ Shipping Advice: It is prepared in aligned document to be used to inform the overseas customer about the shipment of goods.

1.13.2 Types of Documents

In exports, it is quite common for cargos to require a variety of certificates before they are permitted to be imported into the country of destination. The purpose of a certificate is to provide pre-shipment confirmation of the status of a particular aspect (health, value, condition, origin, etc.) of a specific cargo.

Without these certificates, the cargo will not be permitted to be imported and so certificates play a very important role in the export process and one need to ensure that.

- ✓ required certificates have been obtained,
- ✓ That these certificates are correct and acceptable to the importing authorities (i.e. that you cargo complies with the requirements of the importing authority).

It is pointless in having a certificate, which confirms that the cargo does not comply with the import requirements; such cargo will simply not be permitted to be imported.

The types of certificates that one may be required to obtain, include.

- ✓ **Consular Invoice:** Required in some countries, a consular invoice describes the shipment of goods and shows information such as the consignor, consignee, and value of the shipment. If required, copies are available from the destination country's embassy or consulate in the U.S. The cost for this documentation can be significant and should be discussed with the buyer.
- ✓ **Commercial Invoice:** A commercial invoice is a bill for the goods from the seller to the buyer. These invoices are often used by governments to determine the true value of goods when assessing customs duties. Governments that use the commercial invoice to control imports will often specify its form, content, and number of copies, language to be used, and other characteristics.
- ✓ **Certificates of Value:** A Certificate of Value is intended to confirm the value of a cargo to assist in quick clearing of the goods in the country of destination. Often the Certificate of value is combined with a Certificate of Origin and is referred to as a Certificate of Value and Origin (CVO). A CVO outlines details about the labour and packing costs, royalties or commissions (if applicable), freight charges and any overseas insurance costs. The CVO also provides an exporter's declaration and statement, in the form of clauses, about the value and origin of the goods.
- ✓ **Bill of Lading:** A bill of lading is a contract between the owner of the goods and the carrier (as with domestic shipments). For vessels, there are two types: a straight bill of lading, which

is non-negotiable, and a negotiable or shipper's order bill of lading. The latter can be bought, sold, or traded while the goods are in transit. The customer usually needs an original as proof of ownership to take possession of the goods.

- ✓ **Export Packing List or Cargo Manifest:** Considerably more detailed and informative than a standard domestic packing list, an export packing list lists seller, buyer, shipper, invoice number, date of shipment, mode of transport, carrier, and itemizes quantity, description, the type of package, such as a box, crate, drum, or carton, the quantity of packages, total net and gross weight (in kilograms), package marks, and dimensions, if appropriate. Both commercial stationers and freight forwarders carry packing list forms. A packing list may serve as conforming document. It is not a substitute for a commercial invoice. In addition, U.S. and foreign customs officials may use the export packing list to check the cargo.
- ✓ **Health Certificate:** For shipment of live animals and animal products (processed foodstuffs, poultry, meat, fish, seafood, dairy products, and eggs and egg products). Some countries require that health certificates be notarized or certified by a chamber and legalized by a consulate.
- ✓ **Export Declaration Form:** It is a Customs form completed and submitted by an exporter at the port of export, it is meant to serve two major purposes: (1) to provide information on amount, nature, and value of exports to the statistical office for compilation of foreign trade data, and (2) to serves as and export control document.

1.13.3 Cargo Insurance

The term cargo insurance, popularly known as marine insurance, applies to all modes of transportation. The need for export (or import) cargo insurance often differs from exporter to exporter (or importer to importer) and from consignment to consignment.

Cargo insurance provides coverage against physical damage or loss of goods during shipping, whether by land, sea or air. Because of the many dangers inherent in shipping, most individuals and businesses choose to insure their goods while they are in transit even when the insurance is not mandatory in trade term.

Depending on the international commercial terms, either the seller (the exporter) or the buyer (the importer) is responsible for insuring the cargo. The seller is obligated to insure the cargo in the CIF and CIP terms. The seller may opt not to insure the cargo at his/her own risks in the DDU and DDP terms.

The trade terms DDU and DDP are often used in the turnkey projects where the amount at stake is large. In practice, the seller usually insures the cargo in the DDU and DDP terms.

Important aspects of Insurance are as follows.

- ✓ **Insurance Policy and Cover Note:** The insurance policy or policy is a document of the proof of insurance coverage. The format of insurance policy forms varies from insurer to insurer, but all essentially has the Institute Clauses and the same information as contained in the Insurance Application-Instructions (IAI).

  The policy has to be issued and signed by an insurance company or its agent. If more than one original is issued and is so indicated in the policy, all the originals must be presented to the bank, unless otherwise authorized in the letter of credit (L/C).

  The sample letter of credit requires "insurance policy in duplicate ...” as such the presentation of one original and one copy (both signed) will satisfy the requirement.
  Unless authorized in the letter of credit (L/C), the cover note issued by broker, which is a temporary insurance coverage pending the later issuance of an insurance policy, is not acceptable.
- ✓ **Insurance Policy and Insurance Certificate:** The insurance policy, either a specific policy or an open policy, is issued once by the insurer. In the case of the exporter holding an open policy, he/she cannot send that sole policy to all the buyers and for all the shipments made over a period of time. Therefore, in lieu thereof an insurance certificate---certificate of insurance---is issued by the exporter to each shipment. The blank insurance certificates are supplied by the insurer pre-signed and bearing the open policy number of the exporter.

  Unless otherwise stipulated in the letter of credit (L/C), the insurance certificate issued under the open policy is acceptable. If the L/C specifically calls for an insurance certificate, the insurance policy is accepted in lieu thereof. In practice, the insurance policy is often used. In the sample letter of credit the insurance policy is required; hence the bank will not accept the insurance certificate.
- ✓ **Open Policy and Specific Policy**
  - ✓ Open Policy : The open policy---blanket policy or floating policy---is issued once by the insurer under contract to cover all shipments made by the exporter over a period of time (one year usually) subject to renewal, rather than to one shipment only. It is more often used by the large exporter.

In an open policy the exporter is required to periodically (monthly usually) declare every shipment made to any location, covering any type of goods, and using any means of conveyance, including multimodal transport and transhipment, in order that the insurer may calculate the insurance premiums and invoice them accordingly. The exporter completes the insurance declaration form supplied by the insurer and/or supplies the copy of the insurance certificates to the insurer. An insurance declaration form typically contains the information in an Insurance Application-Instructions (IAI).

- ✓ Specific Policy: The specific policy---voyage policy---is issued by the insurer to cover a particular shipment or one shipment only. The specific policy is often used in many countries. The exporter may use the Insurance Application-Instructions (IAI) or similar form to apply for a specific policy.

Advantages of an Open Policy over a Specific Policy,

- ✓ **Time Saving and Convenience:** In certain countries the insurance agent (broker) may hand-deliver the insurance policy to the exporter within 4-5 hours after the receipt of the Insurance Application-Instructions (IAI) or similar form. However, in some countries it is not uncommon that the policy is mailed to the exporter 2-3 days after the receipt of the Insurance Application-Instructions (IAI) or similar form. Considering that the uncertain time frame to reach the addressee, the deadline to meet the L/C latest negotiation date may not be met.

In an open policy the exporter may have the documentary proof of insurance coverage in a matter of minutes by simply completing and signing the blank insurance certificates supplied by the insurer.

- ✓ **Shipments Insured Automatically:** Under the open policy the insurer most often does not know the shipments made by the exporter before the receipt of the insurance declaration form and/or copy of the insurance certificates, but such shipments are insured.
- ✓ **Principles of Cargo (Marine) Insurance:** The cargo (marine) insurance works on the principles of insurable interest, utmost good faith, and indemnity.
- ✓ **Insurable Interest:** When the goods are lost or damaged and the owner of the goods (i.e., the title holder in the goods) suffers a loss, fails to realize an expected profit, or incurs liability from the loss or damage, the owner (the title holder) is deemed to have an insurable interest in the goods.

When the exporter delivers the goods, the insurable interest in such goods transfers at the point and time where the risk shifts from the exporter to the importer, as determined by the international commercial terms used.

The time the insurable interest transfers from the exporter to the importer is, technically, the time the exporter endorses the specific policy or the insurance certificate to the importer, as the case may be.

The insurance certificate bears the open policy number of the exporter and, like in a specific policy, the claim agent at port of destination and that claim payable at destination is also indicated.

The importer relies on the specific policy or the insurance certificate and the supporting claims documents as proof that the goods have been insured and that he/she has the insurable interest in the goods when filing for insurance claims against loss or damage.

In the trade terms DDU and DDP, the exporter is responsible for the risks up to the delivery of goods to the final point at destination (the project site or importer's premises usually), as such the insurable interest in the goods does not transfer from the exporter to the importer in the shipment.

Some countries may require that the import and/or export shipments be insured with their national insurance companies.

- ✓ **Utmost Good Faith:** The principle of utmost good faith is indispensable in any insurance contract. Under the open policy the insurer usually knows only of the shipments made by the exporter after the receipt of the insurance declaration form and/or the copy of the insurance certificates. Under such circumstances, a consignment may have reached the importer in.
  - ✓ Good condition, that is, without sustaining any loss or damage, before the insurer knows of such consignment.

    If the exporter knows that the consignment has safely reached the importer and deliberately does not declare such consignment in the insurance declaration form in order to avoid paying the insurance premium, such action is a breach of good faith. Consequently, the insurer may cancel the insurance policy issued to the exporter when the exporter's bad faith is known.
  - ✓ Bad condition, that is, sustaining loss or damage, before the insurer knows of such consignment. Whether or not the exporter knows that the consignment has not safely

reached the importer and fails to declare such consignment in the insurance declaration form, the insurer is liable to pay for the loss or damage out of good faith.

- ✓ **Indemnity:** Cargo insurance is a contract of indemnity, that is, to compensate for the loss or damage in terms of the value of the insured goods. The amount insured as agreed between the insurer and the assured forms the basis of indemnity.
- ✓ **Institute Clauses:** The Institute Clauses of the Institute of London Underwriters, often referred to as the London Clauses or English Clauses, form the basis of the cargo insurance contract in many countries.

  In U.S.A. and some other areas, the Institute Clauses of the American Institute of Marine Underwriters, often referred to as the American Institute Clauses or American Clauses, are used. The American Clauses and the London Clauses can be different from one another.

  The most common Institute Clauses include the Institute Cargo Clauses, Institute War Clauses, Institute Strike Clauses, and Institute Air Cargo Clauses.

  - ✓ **Institute Cargo Clauses:** The Institute Cargo Clauses specifically excludes the risks of war (in the F.C. & S. Clause---Free of Capture and Seizure Clause) and the risks of strikes, riots and civil commotions (in the F.S.R. &C.C. Clause---Free of Strikes, Riots and Civil Commotions Clause). The risks of delay in delivery and inherent vice are not included in the Clauses.
  - ✓ **Institute War Clauses (Cargo):** The Institute War Clauses (Cargo) specifically exclude the loss, damage or expense arising from any hostile use of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter. The Clauses cover.
    - ✓ The risks excluded in the Institute Cargo Clauses by the F.C.&S. Clause;
    - ✓ The loss of or damage to the interest insured caused by: hostilities, warlike operations, civil war, revolution, rebellion, insurrection or civil strife arising there from; mines, torpedoes, bombs or other engines of war;
    - ✓ The general average and salvage charges incurred for the purpose of avoiding or in connection with the avoidance of, loss by a peril insured against by these clauses.

    Under the War Clauses, the insurance takes effect only as the interest insured are loaded on an overseas vessel and terminates either as the interest are discharged from the overseas vessel at final port or place of discharge, or on expiry of 15 days counting from midnight of the day of arrival of the vessel at the final port or place of discharge, whichever shall first occur. In other words the goods are covered only while they are on a vessel.

In the case of transhipment, the overseas vessel arrives at an intermediate port or place to discharge the interest for on-carriage by another overseas vessel, the insurance terminates on expiry of 15 days counting from midnight of the day of arrival of the vessel at the intermediate port or place, but reattaches as the interest are loaded on the on-carrying overseas vessel. During the period of 15 days such insurance remains in force after discharge at such intermediate port or place of discharge.

- ✓ **Institute Strike Clauses (Cargo):** The Institute Strikes, Riots and Civil Commotions Clauses is commonly referred to as the Institute Strike Clauses.

  The insurance covers the loss of or damage to the property insured caused by strikers, locked-out workmen, or persons taking part in labour disturbances, riots or civil commotions, and persons acting maliciously. However, it does not cover the loss or damage proximately caused by delay, inherent vice or nature of the property insured and the loss or damage caused by hostilities, warlike operations, civil war, revolution, rebel-lion, insurrection or civil strife arising there from.
- ✓ **Institute Air Cargo Clauses (All Risks):** The Institute Air Cargo Clauses (All Risks) are used specifically in air freight. The terms and conditions of cover closely follow the Institute Cargo Clauses (All Risks) revised to suit air shipments. The Clauses exclude sending by Post (i.e., postal shipments not covered).

1.13.4 Hull Insurance

Hull insurance covers more than the hull. Sails, motors and masts may also be included.
Hull insurance is boat insurance that covers damage to a boat, its machinery and its equipment. It is the closest maritime equivalent to comprehensive and collision automobile insurance. Like other products in the insurance market, coverage and deductibles vary by company. Hull insurance is a term sometimes used for aircrafts as well.

Hull policies in most instances will cover all damage not specifically excluded by a policy. In rare cases, insurance carriers will sell policies that cover damage from incidents that are named. If a policy is "all risk" the boat owner or agent should read the list of exclusions to determine what is not covered. Common exclusions include damage from normal wear and tear, insects, zebra mussels and marine life. Some policies may exclude damage to machinery, such as engines.

Brown Water vs. Blue Water

There may be significant differences for blue water insurance policies. Hull policies often are distinguished by whether they cover incidents in brown water or blue water. Brown water policies refers "to hull and liability coverage for tugboats, barges and other types of commercial vessels and businesses that operate primarily on or near inland and coastal waterways," according to Marine Insurance House. Blue-water denotes ocean-going ships and larger vessels used in international shipping or trade. In addition to blue water and brown water policies, some marine policies will have navigation clauses which stipulate where a boat owner can take the insured vessel.

Hull and Cargo

Cargo is not usually covered by hull insurance. Hull insurance typically does not apply to cargo. Coverage for cargo, where applicable, is typically sold as a separate policy.

Deductibles

Deductibles vary between insurance policies and the value of the boat that is insured. Some firms use flat deductibles, such as $1,000 per incident. Others' base deductibles as a percentage of a boat's value. There may be separate deductibles to cover damage to a trailer or a boat's electronics. If a ship is damaged in a named storm, such as a hurricane, the deductible may rise to a higher percentage of a ship's value when compared to the standard deductible.

1.13.5 Air Cargo Insurance

Air Cargo Insurance is a type of insurance policy that protects a buyer or seller of goods being transported through the air. Air cargo insurance is designed to protect the insured against items damaged, destroyed or lost. Cargo insurance is offered through insurance companies, some freight forwarders and trade service intermediaries. The amount of coverage and deductible required with this insurance varies, with each insurance provider.

A premium for the cargo is often calculated based on the value of the item, whether the item is hazardous, where it is being transported and the route that will be taken to reach its destination.

1.13.6 Insurance Claim Settlement

Claims are submitted for different types of insurance policies depending on what the insurance policy is designed to cover. Once a claim has been filed, an insurer may need to investigate the circumstances before a payment is made on the claim. An insurer has certain procedures in place to determine the validity of each submitted claim.

Generally the following steps are involved.

- ✓ File a claim

  Intimate the insurer about the incident within the time-frame mentioned in the policy.

  Usually the following documents should be submitted:

  - ✓ Survey Report
  - ✓ Insurance policy or insurance certificate (original duly endorsed)
  - ✓ Bill of Lading (in airfreight: Airwaybill)
  - ✓ Loading reports
  - ✓ Shipping instructions
  - ✓ Copy of the claim letter to the carrier's agent
  - ✓ Original reply to claim letter
  - ✓ Copies of letters in which you hold the carrier responsible
  - ✓ Commercial invoice (the insurance does not pay more than the actual damage)
  - ✓ Packing list (incl. list of weights)
  - ✓ Carrier's short delivery certificate or letter
  - ✓ Any other document in respect of the loss and/or damage which may facilitate the adjustment of the claim.

- ✓ Verification of Information and ascertainment of loss

  Whenever a claim is filed for a loss due to an accident, an insurer will investigate to get all of the facts based on which insurance adjuster will ascertain the loss and settle the claim accordingly.