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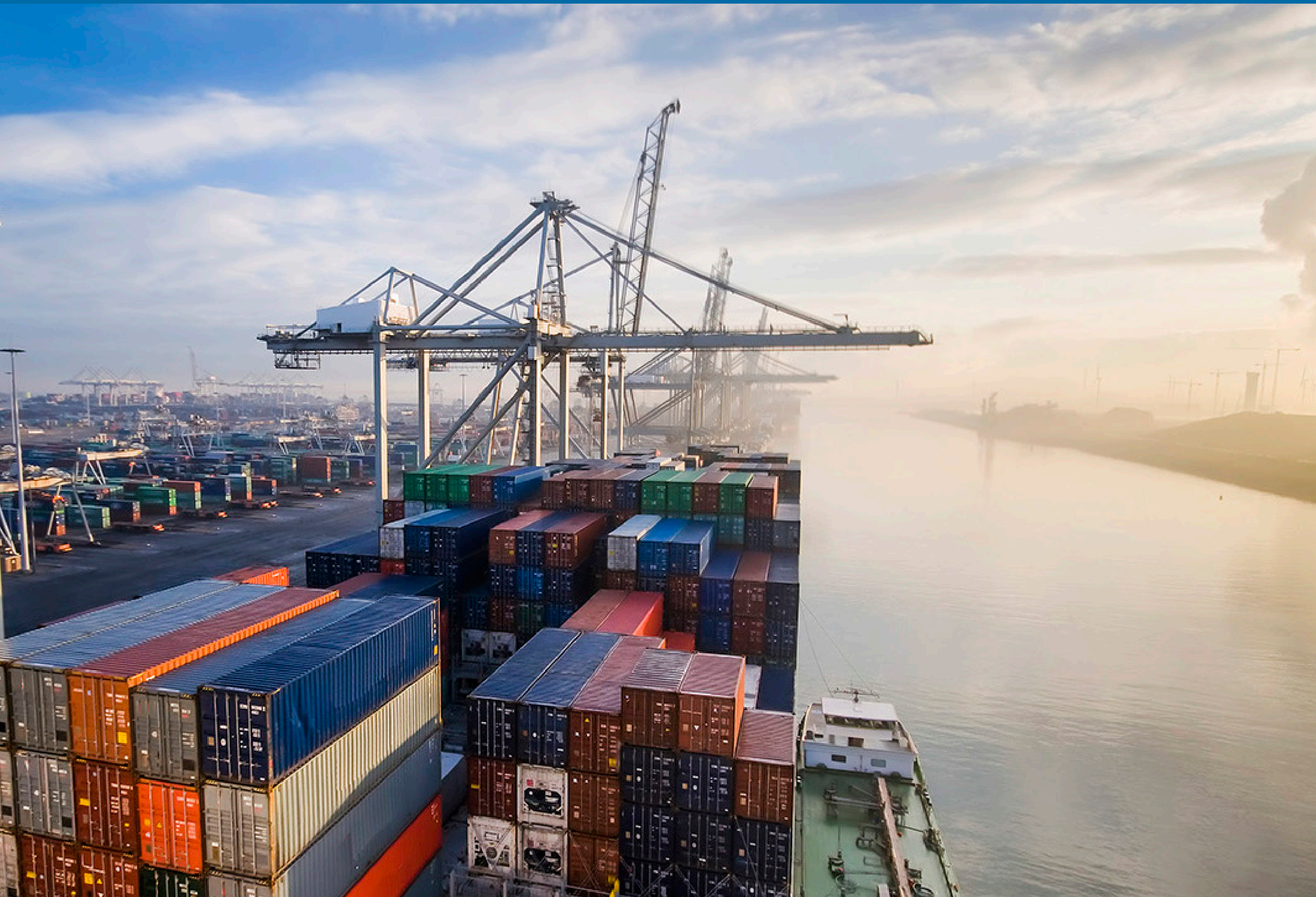
GLOBAL LOGISTICS

Ocean Freight Shipments: FAQ + Essential Terms

Common Questions and Essential Terms about importing freight via ocean.

As experienced international freight forwarders, we get many questions from importers who are interested in bringing in their goods by ocean freight. In Ocean Freight FAQ + Essential Terms, we address 11 of the most common questions we hear about ocean freight and share explanations of shipping terms every logistics professional should know.



FAQ: Importing Goods Via Ocean

1. How long does it take to receive my cargo?

Many factors can influence shipping times: for example, the origin and destination of the shipment, or if you are shipping a less than container load (LCL), etc. However, if you are importing goods from one of the main ports in China to Los Angeles or Long Beach, you are looking at approximately two weeks on the water.

However, don't expect your goods to be in your hands within 14 days. Once your goods arrive at the port, they must be unloaded from the vessel, become available for pickup and then delivered to your door (that is assuming they already cleared customs).

Shipping LCL adds additional time to the overall transit. Your provider needs this time for the extra steps of consolidating your shipment with cargo from other shippers at the origin port and then deconsolidation at the destination. These steps occur at a specialized warehouse called a container freight station (CFS).

2. Why do rates change?

There are a few reasons the shipping rates of a freight forwarder can change:

GRI: This stands for General Rate Increase, which, simply put, is when ocean carriers raise rates in a particular trade lane. While GRIs can take place throughout the year, you can typically count on one happening on May 1st which marks the beginning of a new 12-month "contract season" between shippers and carriers. Depending on market conditions, these increases may be temporary.

Supply/Demand: Ocean shipping rates increase during certain times of the year, especially when demand for space is high. One of these times is called the "peak season." The traditional peak season roughly spans July through October and coincides with the rush of cargo ahead of the holiday shopping season. Since retailers are looking to have products on shelves for Black Friday, shipping rates will tend to increase in the preceding months.

The Lunar New Year (Chinese New Year) holiday is another period that is impacted by supply and demand. Many countries in Asia shutter factories for two weeks or longer to celebrate. As a result, the weeks before the shutdown see a surge in cargo and rates. The Lunar New Year start date varies each year but occurs between late January and February.

The Cost of Oil: Just like the cost of gas for our cars, a shipper's rate may increase or decrease due to the cost oil. Bunker fuel is the fuel oil used in ocean freight vessels. The bunker adjustment factor (BAF) is the fee that reflects the changes.

The best way to stay on top of rate fluctuations is to work with a reliable **international freight forwarder**, who can keep you informed on market conditions.

3. Do I need insurance?

Short answer: Always!

Long answer: While you do not need marine cargo insurance and aren't required to buy it, having it is usually a good investment. Just as with home or car insurance, you are protecting yourself from potential damages or losses that may occur. Specifically, marine cargo insurance can cover damage, loss, theft, nondelivery, etc., while your goods are in transit.

One thing that makes marine insurance different than your home or car insurance is a concept called "General Average." A general average scenario occurs when some cargo is sacrificed to save the voyage. This sacrifice might involve jettisoning some containers to stabilize the ship in a severe storm. General Average states that all cargo owners are responsible and will share in the loss (even if your cargo was not lost). Marine insurance can protect you against a general average situation and avoid the additional expenses with retrieving your cargo.

4. Is it easier to have my supplier to handle the shipment?

Yes and no. While it may be "easier" by giving your supplier the responsibility, there are many disadvantages. One issue is compliance. For example, who will be filing your Importer Security Filing (ISF)? Ultimately, the ISF importer will be responsible for any mistakes or liquidated damage penalties for noncompliance.

Another issue is "control." If your supplier is handling their shipments, that means they are working with their freight forwarder to handle the transit process. That freight forwarder may not provide you with the ability to track your shipments, or even give you updates on your cargo. Communication problems with overseas forwarders can make scheduling deliveries to your warehouse difficult to coordinate and lead to unnecessary demurrage charges.

What if you have more than one supplier? Keeping track of each different shipment can be a logistical nightmare in that case too. At first, letting the supplier handle your shipment may sound appealing. However, as your business grows, it starts to become more of a burden than an asset. That is why experts recommend that you control the shipping process by designating the international freight forwarder yourself. They can help uncover more efficient ways of shipping such as building consolidations from multiple suppliers and offer tools to track every step of the shipping process.

5. Should I ship via air or ocean?

A better question would be: How soon do you need your cargo? If you need it as soon as possible, air freight is a far faster shipping option than ocean freight. However, that speed comes at a cost — shipping rates for air freight are significantly higher. In most all cases, ocean freight will be the most cost-effective mode.

There are exceptions, of course: If your cargo is less than 100 pounds, shipping via air is often more cost-effective. Also, if your goods are perishable or sensitive (e.g., flowers or medicine), air freight is often the best option. Additionally, high-value merchandise may be better suited for air freight because of concerns over damage, theft, or the time value of money. Environmental impact may be another factor to consider. The carbon footprint of shipping via air freight is massive compared to shipping via ocean.

6. How many pallets fit in a container?

Depending on the pallet size, there are roughly 9 to 11 pallet spaces in a 20′ container and roughly 21 to 25 pallet spaces in a 40′ container.

7. Is there a weight limit?

Yes. There are different weight limits depending on how you are shipping. For example, ocean freight usually has fewer weight restrictions than domestic freight. That's because trucks can only carry so much weight; not to mention, state and federal laws govern how much a truck can carry on U.S. roads. The weight restrictions for trucks can range from 38,000 pounds to 44,000 pounds, depending on container size and other state restrictions. Heavier loads require Tri-axle chassis.

8. Why do I need to fill out a power of attorney (POA)?

There are two main reasons a POA for import shipments is required. If you hire a customs broker, they need to have the authority to conduct Customs business on your behalf. Also, you will need a POA if your customs broker or international freight forwarder submits your Importer Security Filing (ISF) to U.S. Customs. The ISF must be submitted 24 hours before being loaded onto a U.S.-bound vessel, which gives time for customs to screen your cargo for any safety and security concerns. If the ISF does not get to customs on time and accurately, you can face fees and penalties.

9. What is a customs bond and do I need one?

Put simply: A customs bond is an insurance policy that ensures payment of your duties and taxes to the United States government. In the industry, they are often simply referred to as a "bond." To riff on a popular saying, the only things certain in importing are duties and taxes. In this case, by requiring you to have a bond, the government is guaranteed payment of your duties and taxes, even in the extreme event, your company cannot pay for them (bankruptcy for example). Bonds are required to cover shipments traveling both by ocean and by air, and without proper coverage, you can face fines and severe delays.

10. When should I ship FCL vs LCL?

The larger your shipment is, the more likely you will want to ship full container load (FCL) to help reduce landed cost, potential handling damage, and receive your cargo faster. If your shipment is less than 15 cubic meters (CBM), it will be the most cost effective to move it as less than container load (LCL) cargo. Your international freight forwarder can help analyze market rates for your shipment to determine the breakeven point for shipping less than container load (LCL) or FCL.

11. Why are the commercial invoice and packing list important?

U.S. Customs requires them. Breaking it down, however, these two items are important for different reasons:

Commercial invoice: Like other types of invoices, the commercial invoice describes the transaction happening between the exporter (your supplier) and importer (you). It lists your goods and the price you paid your supplier. Details on the commercial invoice will be used to determine the duties and taxes applicable to your shipment.

Packing list: At first glance, the packing list may look similar to the commercial invoice. However, where the commercial invoice focuses on item prices, the packing list focuses on the physical count and breakdown of the related shipment. For example, a packing list would include the size, weight, and count of individual boxes/cartons matching a corresponding commercial invoice. Therefore, the packing list can be used in insurance claims to identify losses or by Customs when inspecting cargo or by your warehouse to reconcile quantities expected vs. what was received.

In most all cases, ocean freight will be the most cost-effective mode.

Essential Global Logistics Terms

In the world of importing goods, there are a lot of industry terms and jargon that relate to compliance or are essential to ensuring a smooth shipment. Here is a quick reference of **11 essential global logistics terms** and definitions every logistics professional must know.

1. Landed Cost

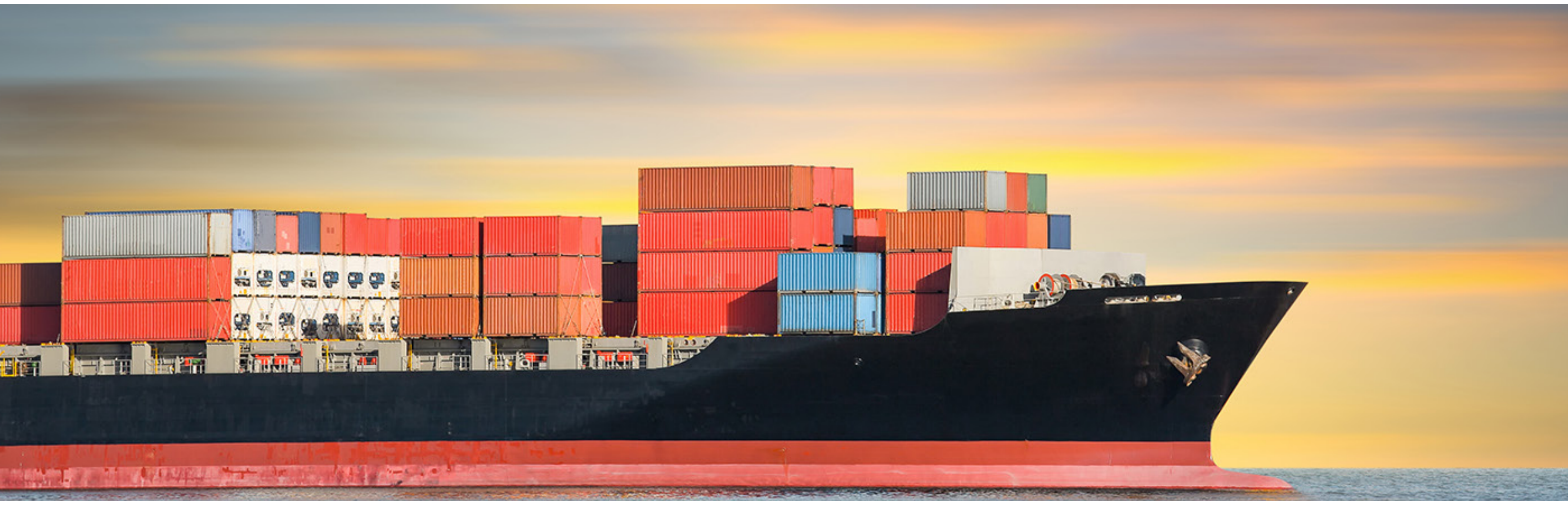
Landed cost is the total cost of a product to the point it is ready to be delivered to your customer. That includes not only the base cost to purchase your products from your supplier overseas, but also costs associated with transportation, duties and taxes, insurance, handling fees, etc. Knowing the landed cost helps you price your product correctly to cover your costs adequately and better understand profitability.

2. Consignee

A consignee is an entity that the shipper is sending the goods too. That is typically you, the importer, but there are exceptions. (A consignee could be someone that acts in your name, for example.) Typically, you will see consignee along with the word consignor and consignment. The "consignor" is the shipper of your goods; the "consignment" is the goods shipped.

3. Bill of Lading

Two common bills of lading types are the house and master. The house bill of lading (HBL) is a receipt or contract between you and your NVOCC/freight forwarder. Learn more about a house bill of lading. The master bill of lading (MBL) is a contract between your NVOCC/freight forwarder and the actual carrier. Learn more about a master bill of lading.



4. LCL

LCL stands for less than container load. If you ship LCL, your shipment shares the container with cargo from other importers. Transit time is longer for LCL due to the consolidation and deconsolidation before and after ocean transit but is more economical for smaller shipments.

5. FCL

FCL (full container load) means only your cargo occupies the container (rather than sharing space as is the case in LCL). It is usually cheaper (from a landed cost perspective) and faster to ship via FCL, and decreases the risk of damages or loss more likely in LCL shipments.

6. Drayage

Drayage is a truck service that moves containers to and from a port.

7. Incoterms

The term "Incoterms" is short for International Commercial Terms. Specifically, they are trade terms published by the International Chamber of Commerce (ICC) and are internationally recognized by the shipping industry. As an importer, Incoterms are what you and your supplier use to define responsibilities and risks in a transaction. Two common Incoterms used by your importers and exporters are Free on Board (FOB) and Cost, Insurance and Freight (CIF).

8. Steamship Line/Carrier

These two terms are often used interchangeably in ocean freight and refer to the operator of the vessel itself. When you see an ocean container that says Maersk, Evergreen, OOCL, etc. - those are names of steamship lines (or ocean carriers). Large volume importers typically sign contracts directly with steamship lines to take advantage of their buying power. Smaller and mid-sized shippers typically are best served by freight forwarders to provide the best mix of competitive rates, value added services, and flexibility.

9. NVOCC

NVOCC stands for non-vessel operating common carrier and is a type of Ocean Transportation Intermediary (OTI). Although the term NVOCC is often used synonymously with the term freight forwarder, there are some technical distinctions. NVOCCs act as "virtual" carrier and issues their bill of lading. Per Federal Maritime Commission (FMC) requirements, an NVOCC must also publish and maintain a regulated tariff.

10. Marine Insurance

Marine insurance is insurance for ocean freight. As mentioned in the FAQ above, it can cover damage or loss to your cargo while in transit. For most commodities, marine insurance is relatively cost effective and helps mitigate the risk of common losses or even a general average situation.

11. 3PL

3PL stands for "third-party logistics." A 3PL service provider offers outsourced solutions for a company's fulfillment and distribution needs. The term 3PL is relatively broad but often involves other related transportation, warehousing, IT, and supply chain services.

Have more questions about global logistics? Dedola is happy to help you navigate the world of ocean and air freight logistics. Contact us today to find out how our business can serve yours.

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