## Shipping in the New Millennium: A Change in the Regs, But Not in the Basics

*By Heidi Reichert*

For the many U.S. exporters who reason that a "level playing field" can make all the difference in the competitive global markets, May 1, 1999 appeared to be a date to celebrate.

On that date, the Ocean Shipping Reform Act of 1998 (OSRA) went into effect. It is intended to help equalize competition among carriers and bring new flexibility for shippers in dealing with carriers.

OSRA also provides more confidentiality and flexibility in negotiating service contracts than did the previous shipping act.

This new law provides opportunities as well as challenges for exporters involved in ocean shipping.

Under OSRA, shippers can continue to take advantage of the many services offered by freight forwarders and non-vessel operating common carriers (they are now included in a category known as Ocean Transportation Intermediaries (OTIs–see box) . Opportunities for cooperative shipping also continue to be available through shippers' associations.

These services have long been the competitive salvation of many small exporters. While large firms are also able to use these services, many prefer to handle transportation logistics in-house, with a staff of specialists who work fulltime on export traffic. For the smaller exporter who can't afford to keep full-time employees for traffic management and rate negotiation, OTIs and shippers' associations offer the same services on an affordable basis.

And cost is the name of the game. Whether or not OSRA affects the price of shipping, an exporter must be aware, right from the start of any sale, what the costs of transportation logistics are likely to be.

Currently, for some agricultural exports, transportation costs can reach 50 percent, if not more, of the CIF (cost, insurance and freight) value of the shipment–even with today's comparatively low ocean freight rates.

So before quoting a price to the buyer, an exporter should know in advance which transportation services and forms of shipping will be used, to assure that the product is shipped overseas in the best condition, in the quickest time, and at the lowest possible cost.

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## Your "Best Friends" When Your Product Goes Traveling

**Freight Forwarder:** *Person or company who arranges the carriage of goods and the associated formalities on behalf of a shipper. Duties include: booking space on a ship or airplane, providing all the necessary documentation and arranging customs clearance; licensed by the Federal Maritime Commission and accredited by IATA.*

Like a travel agent for products, the freight forwarder is familiar with foreign countries' import requirements, export documentation, various shipping methods and ways to find the lowest rates for an export shipment.

Sometimes called "transport architects," freight forwarders assist those who ship perishables by determining proper packaging methods and temperature needs. Freight forwarders coordinate storage arrangements and inland transport requirements. Having made the arrangements, they are able to assemble necessary documents, book space and obtain insurance.

Because they offer such a variety of services, freight forwarders are an indispensable part of the export process, despite today's new shipping regulations. Even though shippers may choose to negotiate rates directly with shipping lines, freight forwarders will continue to be in demand to handle the myriad other aspects of a successful export shipment.

**Non-Vessel Operating Common Carrier–or Non-Vessel Owning Common Carrier (NVOCCs):** *Person or company, often a forwarding agent, who does not own or operate the carrying ship but who contracts with a shipping line for the carriage of the goods of third parties to whom he normally issues a house bill of lading.*

NVOCCs are most useful to exporters in that they book large allocations of space with ocean carriers at a discount, then pass these savings on to their customers.

It's an option that's particularly attractive to small exporters who cannot achieve economies of scale by dealing directly with the ocean carrier. And it's an option that's readily available; many freight forwarders offer NVOCC services.

Cargo consolidation has always offered small-scale shippers excellent opportunities to achieve economies of scale. Under OSRA, these opportunities are better than ever for competitive rate negotiation.

Some NVOCCs offer services in niche trade lanes and commodities, as well as scheduled sailing options at competitive rates when space is secured by service contract.

Many NVOCCs have joined shippers' associations or have combined efforts to offer even better services and rates to shippers. However, NVOCCs are still not permitted to offer service contracts to their customers.

Other changes under the new regulations: NVOCCs are now required to be licensed as well as bonded, and they are now referred to as ocean transportation intermediaries (OTIs), a classification they share with freight forwarders.

**Shippers' Associations (also called shipping cooperatives):** *Nonprofit membership cooperative that makes arrangements for the movement of members' cargo; a means by which small- and medium-sized shippers can pool cargo to obtain economies of scale and thus enjoy the benefits of volume discounts.*

Shippers' associations have been around since the railroad made its way across the United States, but since the introduction of OSRA, many more have been formed.

In the market-oriented shipping environment that OSRA has engendered, volume-based service contracts place the smaller exporter at something of a disadvantage. Thus, rate-negotiating shippers' associations have become more popular than ever.

Since the association is not for profit, it is not considered an OTI; it serves only its members and not the general public. A shippers' association is legally regarded as a "shipper"–granted the same rights as shippers; they cannot be discriminated against by ocean carriers.

Some of these associations accept only members who ship specific cargo or from a specific region, but most do not limit membership. Exporters can expect to be charged membership fees to support administrative costs, but any extra revenues are returned to the members.

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## Find Out More About OTIs and Shippers' Associations

* A directory of freight forwarders serving agricultural shippers is available at the website http://www.ams.usda.g As a subcategory, the directory lists NVOCC services available by freight forwarders.

* A list of shippers' associations that accept agricultural shippers as members and related information can be found at http://www.ams.usda.gov/tmd/shipping.

* The Ocean Freight Rate Bulletin tracks ocean freight rates for a variety of containerized agricultural exports such as fruits, meat and poultry and nuts. It offers side-by-side comparison of rates and services offered by shipping lines, trade route and commodity; the bulletin is at http://www.ams.usda.gov/tmd/ocean.

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