

Apology Accepted

By John D. Goodrich

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Dear John;

Remember when you told us about the differences between FOB and FCA in class? You were doing a dance in front of the room describing an ocean terminal operation. You drew imaginary lines on the floor and talked about the hand-off of the container to the terminal operator, the staging of the container and the various handling operations at the port before the container was actually loaded onto the vessel. Remember that?

You also warned us that if we used FOB, forwarders and terminal operators would likely charge the shipper the origin charges up to and including the loading of the vessel even if those charges were already included in the rates we pay our carriers here in the U.S.

Well, I have to admit something. I sat in the back row and snickered at you as you backed your imaginary container onto the terminal. (And might I add, for a man of your age, you still have a very attractive chassis!) To be honest, I didn't believe you. I mean, it seemed pretty far-fetched and even a little shady. My forwarder wouldn't do that to us. They are good people. So I had a good chuckle at your expense and mentally filed the story away.

Well guess what? I owe you an apology. You were right! The last time I was in Asia I talked to my supplier and they confirmed that they were paying \$180 per container in origin handling charges because we had an FOB contract with them. They were, of course, pricing that fee into the price for my goods. When I looked at my freight bills from my forwarder, I was paying the exact same \$180. In effect, I was paying the same fee twice! That might not seem like a lot of money per container but, for my product, it represents about \$1.50 per unit not to mention the additional duty added to our orders. Over 560 containers per year we estimate our supply chain has overpaid by a cool \$100K.

We are now quickly adjusting our orders to FCA. We are also coordinating our efforts with our vendors and with our forwarders to ensure this does not happen again. And, of course, we are attempting to obtain refunds for the overpaid fees.

Thank you for the insight into this issue. I am still curious. Why is this allowed to go on? It feels as if we have been robbed.

Best Regards

Roberta

Dear Robbed Roberta;

Apology accepted. Thanks for the news and the (blush) compliment. There is nothing like experience to teach the realities of the world. I am just sorry it was such an expensive lesson. Thank you for sharing your experience so that others might learn from it.

You ask a good question. How is this allowed to go on? I can understand why it may feel like your carrier has taken advantage of you. I think, however, you recognize that your company is partially responsible for creating a confusing situation by insisting on an FOB contract in the first place and then agreeing to a transportation service agreement that was inconsistent with that INCOTERM® rule.

Carriers and other service providers are not bound by your buy/sell contract with your vendor. They will, however, make every effort to support it. If your vendor informs the carrier that the terms are FOB, well the vendor will be charged the appropriate origin fees. It is a lot to expect from your vendor that they will know the terms and conditions of the transportation rate agreement you have with your freight forwarder. Your vendor assumes you know what you are doing. After all, your company is sophisticated enough to be involved with international sourcing and negotiating international freight rates.

That still doesn't answer the question why the carriers get away with what I refer to as double dipping. Usually it is a case of the right hand not knowing what the left is doing. The origin forwarding office may be an agent of the U.S. branch. The forwarders are also dealing through the steamship lines who are dealing with independent terminal operators. Various functions along the way such as trucking may also be independent. With so many players in the mix, it is no wonder that there is billing confusion.

And yes, it can feel as if you were fleeced along the way. I am not going to comment on the intent of the service providers. There does, however, seem to be a convenient ignoring of the additional revenue generated by this process. Goodness knows, if shippers underpaid their bills carriers' accountants would be quick to collect the shortfall.

You seem to have identified the solution. Your buy/sell contract should reflect the real business relationship between you and your vendor as well as the standard business practices in the industry. FCA origin would have served you better in this case. You also need to communicate with your vendors and your logistics providers. Finally you need to monitor the bills.

Thanks again for sharing your experience. Now pardon me as I load another container on my aged chassis.