UNIT 11 LINER FREIGHTING PRACTICES

Structures

11.0 OBJECTIVES

After studying this unit you should be able to :

- explain the nature of liner shipping services
- describe the conference system and the freight rate tariff
- explain the various types of freight rates and the cost components in liner shipping
- describe the principles usually followed for pricing of services in liner shipping
- describe the various types of surcharges levied on the basic freight rates
- explain the concept of general rate increase and the modus operandi followed for effecting the same.

11.1 INTRODUCTION

In Unit 7 you have learnt that shipping services are divided into liners and tramps. You know that liners are ships plying on a fixed route or routes which offer cargo and/or passenger space at a fixed rate. Such ships usually carry general cargo i.e., an accumulation of small loads belonging to various shippers. At times, they have to sail out from ports without a full load. This makes liner shipping very demanding and subject to heavy losses. Hence, proper determination of freight rates is very important for them. In this unit you will learn about the nature of liner services and their freighting practices including the conference system, tariff, pricing principles and surcharges.

11.2 NATURE OF LINER SHIPPING SERVICES

As stated earlier, liners are the ships plying a fixed route or routes, sailing according to a pre-determined schedule which offer cargo and/or passenger space at fixed rates to the users of such service. The sailing schedules in liner shipping are published in advance giving the name of the ship, arrival and departure dates, port coverage, frequency etc., and the freight rates are made known to shippers for facilitating business deals in terms of delivery schedules and quotation of price on CIF basis.

Liner ships are carriers of break-bulk cargo for general cargo comprising of manufacturing and semi-manufactured, processed and semi-processed goods and materials moving as packed cargo in different types of packings, eg., bales, cases, cartons, drums, rolls, packets, crates, bundles etc. Now-a-days, apart from the traditional packings as mentioned above, movement of break-bulk cargo in unitised form, such as sling load, pallets and container is becoming more common in case of liner operations.

11.3 SHIPPERS' POINT OF VIEW

Traders of general merchandise require shipping services of a more sophisticated nature because of a large variety of products being offered by them for transportation. Such products being susceptible to fluctuations in demand due to change in fashion, design, season, technology, substitutes etc. are not amenable to carriage and storage in large quantities and at the same time, there is need to keep the transportation cost to the minimum so as to enable the trade to remain competitive. The requirement of shipping service for transportation of such products has to be of the type that can make available these products at destination markets at regular intervals, so as to minimise the inventory and warehousing costs. This calls for speedy shipping services to different markets at stable rates of freight for different products and on a regular basis according to a schedule.

11.4 SHIPOWNERS' POINT OF VIEW

The operators of liner shipping services are committed to regular schedule of services at stable freight rate on pre-fixed route irrespective of the availability of cargo at a given point of time. Such operators are also known as 'common carriers', and they are not supposed to discriminate among the big or small and regular and casual users of their services. In other words, as common carriers, they are obliged to accept cargo from all types of shippers. All these inevitably impose a heavy responsibility on a liner shipowner if he were to operate on an individual basis. He would not have the resources to commit for the frequency of the service at a stable rate. It has, therefore, been found practical by liner ship's operators to shoulder these responsibilities on collective basis by forming route specific association of shipping companies known as shipping conferences with a constitution, rules and regulations for members, and a common tariff or a loose conferences with freight agreement only.

11.5 THE CONFERENCE SYSTEM

Liner shipping and the conference system have developed in hand and glove with each other. The origin of the conference system took place at the end of 19th century when the first conference was formed in 1875 in UK-Calcutta trade. Ever since the steamers started replacement of the sailing ships in the sphere of ocean transport, rate wars and competition had set in because the former increased the carrying capacity of the world fleet quite rapidly and were faster in speed as compared to the latter. Thus the increase in supply was not matched with the demand leading to creation of excessive capacity of shipping services. The shipping companies, therefore, with a view to avoiding the wasteful and cut throat competition in freight rates, found an answer in the formation of conferences or rate agreements.

There were, at one time, about 350 conferences or rate agreements in existence throughout the world. Though no precise figure is available for the total number of conferences, it is estimated that around 250-260 conferences or rate agreements are in operation in the world liner trade.

A conference is an association of two or more liner shipping companies operating in a well defined trade, plying a fixed route or routes within certain geographical limits, who agree to abide by its regulations to their mutual benefit and quote the same rates of freight and other agreed conditions.

The main purpose of the conference is to eliminate price competition (not service competition) between member liners. This is achieved by maintaining a common tariff and rules. Besides, with a view to reducing and, if possible, eliminating competition from other liner operators who are not members of the conference, the conference enters into loyalty agreement with the shippers to seek their patronage by offering them some inducement in the form of loyalty contract and/or a deferred rebate system. The latter has, however, been abandoned by some of the governments.

The conferences can be divided into two broad categories, namely, 'closed' and 'open' systems. In the closed systems, the existing members virtually control the entry of new applicants, but in the open system, any liner who wishes to join must be accepted provided it can demonstrate its 'ability' to place suitable tonnage and give necessary berth coverage.

The conferences invariably follow a self-policing system to ensure discipline among the members and for rationalisation of services "pooling arrangements" like cargo sharing, berth pools, freight pools etc. are introduced. The net effect of "pooling arrangements" is to ensure adequate shares either in terms of cargo or revenue.

Check Your Progress A

1 Why do you consider stable freight rates important in case of liner shipping?

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2 What has been the main purpose of forming a shipping conference?

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3 Why are liner ships called common carriers?

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4 State whether the following statements are True or False ?

i) The parting schedules of liner shipping are published well in advance.

ii) Liner ships are carriers of bulk cargo.

iii) As common carriers the liner ships are obliged to accept cargo from all types of shippers.

iv) The first shipping conference was formed in 1875.

v) The net effect of pooling arrangement is to ensure stability in freight rates.

11.6 THE TARIFF

The formation of association of conference by liner shipowners resulted in bringing out a common tariff among the otherwise competing shipping companies since everyone had realised the ill-effects of cut-throat competition through rate wars in the past. Thus, the majority of the freight carried by conference. These are published in rate books referred to as "Tariffs".

The tariff specifies all the rules and regulations concerning the applicable freight rates for various commodities. It often contains a classification of the ports included in the conference range into 'base ports' to which 'base rates' apply and 'outputs' to which surcharges apply. The base for quoting freight rates of individual commodities is not standardised. The rates of individual commodities are expressed in different ways, namely, per weight ton (W), per measurement ton (M), and per weight ton or measurement ton (W/M), whichever gives the higher revenue. Yet another type is ad valorem rates according to which all or part of the freight rate is paid in proportion to the value of goods.

The unit of measurement of different bases can vary. For example, a weight ton is usually defined as either a metric ton (100 kg) or a long ton (1,016 kg) and a measurement ton in some trades, is defined as 40 cu. feet, while in others 50 cu. feet, or else, as is usually the case today, as 1 cu. meter i.e., 35.5 cu. feet. According to normal practice, a commodity that is being charged on a weight basis will pay according to its weight irrespective of the volume it occupies and a commodity that is charged according to volume will do so irrespective of its weight.

11.7 APPLICATION OF RATE IN LINER SHIPPING

Rate is the compensation for sale of space in a ship or it is the payment for the transportation of commodities from the port of uploading to the port of discharge. The rate usually depends upon the trade route involving the mileage to be covered which is counted from the end of ship's tackle at the loading pier to the end of ship's tackle at the port of destination. It should be clearly understood that ship's tackle is the position by the side of ship from where the cargo is to be picked up and lifted by the gear or tackle of it. The rate, however, does not include the labour charges that are involved in taking the commodities to and from the tackle of ship, both at the port of origin and the port of destination. Besides this, at a large number of ports, various terminal or accessorial charges are to be paid by the owner of cargo. These charges include wharfage, loading and unloading of freight car, heavy lift, lighterage etc. In addition, there are miscellaneous charges known as cargo taxes, landing charges, stamp charges, port dues etc.

11.8 TYPES OF RATES

The freight rates are described in various ways.These can be summarised as follows.

Commodity Rates : A commodity rate is meant for a specific commodity. It depends upon the route to be covered, value of cargo, storage, competition etc. These rates are usually quoted for those commodities which move regularly, and, in case of a commodity there has not been moving regularly the rate may be settled between the shipper and the individual carrier or the conference line.

General Cargo Rates : These are overall rates which cover all those commodities for which specific commodity rates have not been fixed. These rates are mentioned in the shipping documents as N.O.S. or N.O.E. which means 'not otherwise specified' or 'not otherwise enumerated'. As the number of such general cargo is very large and their nature differ widely, the rates are usually high so as to help the carriers.

Class rates : For class rates, a general classification of goods is adopted according to which all commodities are grouped or classified into 6 to 10 classes. For this, the transportation characteristics of commodities are taken into consideration more closely than in case of general cargo rates. Most valuable commodities are placed in class I which can bear high charges. As against this, all those commodities whose density is heavy and the intrinsic value is low, are placed in the last class and the rate for such commodities is the lowest.

Deck Cargo Rates : Dangerous commodities like acids, explosives, timber etc. are invariably carried on the deck of the ship. As such, these are placed in the category of deck cargo and are charged special rates.

Open Rates : These rates do not conform to the published or settled rates and apply to particular commodities only. Normally, these are competitive rates. An ocean carrier would quote these low rates when it has to compete with ships belonging either to a conference line or tramps, This type of competition is very harmful for all carriers and hence open rates are rarely quoted.

Ad Valorem Rates : "Ad valorem" means according to value. Such rates are charged on the declared value of commodities which are light in weight, compact in bulk and high in value. If the value of a commodity is very high, the carrier may charge a higher rate by adding the ad valorem rate to the general rate.

Minimum Rates : These rates are too low and no carrier would normally charge such rates. However, these rates are flexible and the carriers usually charge a rate which is above the minimum.

Arbitrary Rates : Sometimes, commodities are unloaded at a port where water is shallow or, due to other reasons, navigation is impossible. Under such conditions, commodities have to be carried from the place where the ship has anchored (say about a mile away from the port) to the main port on barges or small carriers. Additional charges for this extra service are called arbitrary rates which are generally included in the main rate.

Refrigerated Cargo Rates : Some commodities, being perishable in nature, require the facility of refrigeration. Rates on such commodities are usually higher than the ordinary rates.

Parcel Rates : These are the rates charged for transporting small packages which are not carried in the holds of the ship but are kept separately and are carried under the special care of the personnel of the ship.

11.9 LEVEL OF FREIGHT RATES

As stated earlier, freight rates in liner shipping are usually fixed by the conference and are published in their tariff. The general level of rates is held unchanged for a reasonable time so that there is some resemblance of stability in freight rates. The liner freight rates are 'administered rates' and the market forces do not have much influence over these rates at least in the short period. However, the rates for the carriage of individual commodities are worked out on the basis of some principles or norms which are supposed to take care of interest of carriers as well as the trade. In determining the level of freight rates, the conferences normally take care of the competition from tramps and other non-conference as well as commodity competition offered by rival sources of supply.

11.10 COST STRUCTURE

Before going into the principles that govern the freight rates, it is necessary to examine the cost structure of liner services. The costs can be divided in the following three categories :

a) Organisational Overhead Costs like depreciation on ships, interest charges on borrowed capital and administrative expenses for maintaining and running of offices and agencies,

b) Voyage or Operational Costs such as fuel consumption, crew cost, insurance charges and other dues, and port charges, canal and other dues,

c) Voyage Variable Costs for storage and handling of cargo.

The organisational overhead costs constitute about 35 per cent of the total cost and the voyage and operational costs around 50 per cent of the total cost of maintaining liner services. The remaining 15 per cent of the total costs relate to the voyage variables or the out-of-pocket expenses. However, the proportion of cost components may vary according to the size, design, manning and technology of individual ships in operation. It may be noted that the operational costs of a liner ship, being fixed in nature, have great implications for determination of liner freight rates.

Check Your Progress B

1 What do you mean by Tariff?

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2 Enumerate the accessorial charges payable by the shippers.

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3 Why do we term liner freight rates as administered rates?

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4 State whether the following statements are True or False.

i) Organisational overhead cost constitutes about 60 per cent of total cost.

ii) The base for quoting freight rates of individual commodities is not standardised.

iii) Deck cargo rates are applicable to all commodities.

iv) Cargo handling cost is about 15 per cent to the total cost.

v) The freight rate has no relationship with the route to be covered.

11.11 PRICING PRINCIPLES

The liner shipping, by and large, follows the similar pattern of pricing policy as is followed by railroads or road carriers operating as common carrier. The principles followed for pricing of services in liner shipping are as follows :

The Cost of Services Principle : The cost of service principle sets the lower limit for rates on the basis of an aggregate cost incurred by the carrier in providing a service plus, if possible, a reasonable margin of profit.

In any case, the receipts from the carriage of cargo should not fall below the level of the total cost of operation in order to ensure the continuity of service. The liner ship operator would, therefore, make sure that the levels of freight rates charged for most of the commodities do not fall below the average cost of providing the services and, in any case not below the direct costs. This is an important principle from the point of view of supplier of liner service.

The Value of Service Principle : The value of service principle represents the demand side and sets an upper limit to rates on the basis of value added by the carrier through transportation of a commodity from one country to another. In other words, the shipper's ability and willingness to pay for the service is the most relevant factor according to this principle. The rates will depend upon the difference between the price of the goods at the port of shipment and the price of the goods that can be obtained in the destination market. But, the freight rate to be charged on a commodity should not be fixed so high as to exceed the value of service, represented by this difference, because then there will be no incentive for the exporter to export his goods. Thus, the value of service principles sets the maximum limit or a ceiling to the level of freight rates that could be charged. As against this, the cost of service sets the lowest or the floor limit to the level of freight rates. It is evident that both the principles cannot be used in isolation because the same would affect the cargo availability to the carrier. These principles, therefore, would act only as guidelines in setting lower and upper limits to rates within which appropriate rates have to be worked out for actual application.

The Principle of "Charge What the Traffic Can Bear" : Under this principle, the rates for different commodities are determined on the basis of the capacity of an individual commodity to bear the burden of freight. In other words, a commodity should be charged a freight rate on the basis of its ability to bear the incidence of the charge made by the liner ship operator. With a view to facilitating the application of this principle, liner operators or their conference divide all items forming the traffic-mix into three major categories in terms of their value, namely, (i) high, (ii) medium, and (iii) low. The commodities with a high value can be charged rates that are high enough to leave some surplus, the commodities with medium value may be charged in such a manner that they cover the direct and fixed costs associated with their carriage ; and those with low value may be charged in a manner as to cover at least the out-of-pocket or cargo handling expenses. Thus a policy of differential freighting is introduced under which a set of commodities subsidise the freight for others. This helps to maintain a common dependable service for the benefit of all the shippers.

While fixing the rates or basic rate on the basis of above principle, consideration is also given to factors like total volume of cargo, its share in the total traffic, the nature of cargo, susceptibility to damage or pilferage, the regularity with which the item is offered for carriage, special stowage factors, use of heavy lift, extra length, packing, extent of competition, port conditions, stevedoring charges etc. The commodities which have not been included in the tariff because their movement is occasional, are subject to a general cargo rate which is fixed at a fairly high level. The reason for keeping the general cargo rate at a higher level is mainly due to the inconvenience caused by the occasional movement of the cargo which exerts unexpected pressure on space normally provided for regular items of trade and the possibility of foregoing high freighted items.

It may be noted that cross subsidisation is the characteristic feature of the liner freight tariff, according to which losses incurred in the carriage of a group of items are mitigated through profits on the traffic as a whole. This means that liner rates are 'administered rates' in which the totality of revenue is of paramount importance.

11.12 SURCHARGES

Over and above the basic freight rates, the operator of the liner ship or the conference would levy a few surcharges on a flat basis. These are usually in the form of a percentage on tariff rates of individual commodities, and are of the following types :

a) Heavy lifts and long lengths surcharge;
b) Port congestion surcharge;
c) Bunker surcharge; (Bunker Adjustment Factor) (BAF); and
d) Surcharge on account of Currency Adjustment Factor (CAF).

Heavy lifts and long lengths surcharge : Some articles are heavy as well as lengthy which cannot be handled by the gear of the ship. They require the help of floating derricks for which extra charges are made. Similarly, charges for extra lengths are added to the freight rate.

Port congestion surcharge : This surcharge is levied when the liner carriers suffer abnormal delays at certain ports for loading and unloading operations. Usually only those commodities which have to be discharged at these ports would be subjected to such a surcharge. The time lost by the carrier at a port on account of congestion would be totally unproductive and it has to bear certain fixed items of cost, known as standing charges. The concerned shippers, therefore, have to compensate the carrier at least for the standing charges incurred during the period of detention.

The bunkers surcharges or Bunker Adjustment Factor : This surcharge has come in the wake of hike in oil prices by the oil producing and exporting countries. Oil consumption constitutes a major item of operational cost for the liner ships. Initially, due to the unexpected nature of the cost increase, most conferences levied a surcharge for compensating the carriers. But as the oil prices have been increased periodically by the OPEC, the rate of bunker surcharge has also been steadily going up. In fact, some conferences have even merged this surcharge with the tariff rates of the commodities.

Currency surcharge or the Currency Adjustment Factor : This surcharge has arisen on account of the wide fluctuations in international currencies with the institution of floating exchange rates instead of the fixed exchange rates prevalent earlier. The conferences have their own tariff currency, US dollars or Pound Sterling, in which usually the freight revenue is collected and accounted for. But the carriers of the member lines have to disburse their expenses at various ports of call in the currencies of concerned countries. Frequent fluctuations in the currency values would, therefore, entail some loss or gain for the carrier engaged in international operations.

Based on the actual experience of the member lines, a conference would arrive at the amount of overall loss or gain and accordingly the currency surcharge is levied on the shippers, which could be negative or positive. In other words, the loss is recovered from the shippers while the gain would be refunded. When the tariff currency suffers a devaluation, the revenue collection of the carriers would be adversely affected. A special devaluation surcharge would be levied on the shippers for compensating the carriers.

11.13 GENERAL RATE INCREASE

Liner freight rates are usually kept stable. But, on account of the world wide inflation, the cost of ships and borrowings by the shipping companies and also the cost of operation have been steadily going up. Consequently, the conference, for compensating the member lines for the increases in various costs, effect general rate increases periodically and, as a result, all commodity rates in the tariff would go up uniformly by a specific percentage. Generally an advance notice, varying between 3 to 6 months, is given to the shippers about such freight increases. During the intervening period, most conferences would hold consultations with the shippers' representative organisations, such as Shippers Associations or Councils or Chambers of Commerce or Trade Associations in the countries affected by the increase. Representations are also made, individually or collectively, by the shippers who are likely to be adversely affected. This helps the concerned conference to judge the impact of the general freight increase on the trade as a whole as well as on the individual commodities. The governments of the concerned countries also analyse the overall impact on trade and their economy and express their own concern directly or indirectly, so much so that in some countries prior approval of the government is required by the conference while effecting the general rate increase in the tariff.

Check Your Progress C

1 Name the categories in which all traffic is divided in accordance with the 'charge what the traffic can bear' principle.

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2 Explain briefly why do the conferences effect "general rate in increase" in tariff?

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3 What are the reasons for levying the surcharges?

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4 Fill in the blanks.

i) The cost of service principle sets the .... for rates on the basis of an aggregate cost of providing the service.

ii) The value of service principles sets an upper limit for rates on the basis of .... by the carriers through transportation.

iii) The bunkers surcharge is levied for compensating the carriers for ....

iv) Port congestion surcharge is levied when the liner carrier suffers .... at certain ports.

v) Most conferences would hold consultations with..............................

representatives, organisations before effecting a general rate increase.

11.14 REGULATIONS CONCERNING THE SHIPPING CONFERENCES

In **USA**, the Government plays an important role in regulating the activities of both the US and the foreign shipping lines in the country's import/export trade through the Federal Maritime Commission, established under the Shipping Act. The Commission guards against unauthorised monopoly in the water borne commerce of the United States to protect the interests of exporters and importers by maintaining surveillance over conferences and common carriers by water with respect to their rates, practices, services, etc.

The law requires every carrier/conference to maintain and keep open for public inspection all tariffs it has published or to which it is a party. Rebating Agreements are unlawful.The law also requires the filing, with the approval by the Federal Maritime Commission, of all agreements including conferences agreements. The shippers can also approach the Commission under its informal/formal complaints procedures for redressal of their grievances in regard to freight rates of any conference/carrier practices considered discriminatory or unfair.

In ***Australia***, the Government seeks to achieve the same purpose, in a less direct manner, through legislative measures aimed at strengthening the shipper/shipowner consultations. The commonwealth of Australia Trade Practices Act, 1996 (No. 39 of 1996) Part XA, Overseas Cargo Shipping requires the shipping conferences/shipowner in Australia's outward trades to hold consultations with designated shippers' bodies – the Australian Shippers' Council or any other shippers' association affiliated with the Council. These have been vested with statutory authority to negotiate with conferences/carriers in matters relating to fixation of freight rates, conditions of carriage, etc. The Act empowers the government to participate in such consultations and requires the conferences/carriers to give due regard to the points made by its representatives at such consultations.

The law requires the shipping conferences to file their agreements with the 'Clerk' of the Shipping Arrangements : It empowers the Government to refer any agreement for investigation by the Trade Practices Tribunal and to disapprove it for failure on the part of the conference in complying with the provisions of the law, or where they have not given due regard to the need for service by way of overseas cargo shipping to be efficient.

The UN Convention of The Code of Conduct For Liner Shipping Conferences was adopted on April 7, 1974 and it came into force 6 months after 24 states with 25% of world shipping tonnage of general cargo and container ships as per Llyod 's Register of Shipping 1973 became contracting parties. The sailent features are as follows :

1 Positive role of Government to regulate shipping conferences

2 40:40:20 principle in the carriage of overseas trade

3 A major say for the shipping lines of trading partners in conferences decisions

4 Stability of Freight Rates for 15 months

5 One hundred fifty days' notice by conference for any general rate increase

6 Consulation based on cost data justifying the rate increase

7 Promotional freight rates for non-traditional items

8 Re-orientation of Loyalty Agreements

9 Mandatory conciliation to resolve disputes

10 Review 'Conference' after every 5 years

India has ratified the Convention in January, 1978.

11.15 EFFECT OF CONTAINERISATION

The introduction of containerisation from mid-1960s has brought in a revolution in liner shipping. Presently, over 90 per cent of the world's recognised liner trading routes have been containerised. This has also influenced the liner tariff rates, as the container tariff rates are separately applicable for cargoes loaded in containers and are divided into commodity box rates (CBR), FAK (Freight All Kinds), FCL (Full Container Load) and LCL (Less Than Container Load) rates and contain per box rate, demurrage, detention, stuffing and de-stuffing charges.

11.16 LET US SUM UP

Liner ships are the carriers of break-bulk cargo and sail according to a pre-fixed route or routes. The freight rates are also pre-fixed and published in the rate book called 'Tariff'. The shippers of general cargo need a regular and efficient shipping service at an economical rate. The operators of such service, on the other hand, are required to provide a regular service without any discrimination among the big or small exporters. So, to avoid any unhealthy competition amongst themselves, the liner shipping companies form route specific conferences or rate agreements and follow a common set of rules and regulations and a common tariff.

The liner ship operators or their conference follow certain pricing principles for determining the freight rates for various commodities. While the 'Cost of Services Principle' sets lower limit for freight rates the 'Value of Service Principle' sets the upper limit or ceiling to rates. Then, there is also a third principle of 'Charge What the Traffic can Bear' according to which the conference divides the total traffic mix into three broad categories, namely, high, medium and low in terms of their value to bear different levels of rates and, in the process, high value cargo subsidises the carriage of low value cargo.

The tariff publishes the basic or base freight rates. In addition, the liner ship operators or their conference may levy a few surcharges which may be in the form of (a) heavy lifts and long lengths surcharge, (b) port congestion surcharge, (c) bunker surcharge and (d) currency surcharge.

Liner freight rates are kept usually stable. But, on account of inflation and increase in cost of operation, the conferences do effect general rate increases periodically. This is usually done after due consultation with shippers representative organisations and the concerned governments, if necessary.

Recent developments by way of introduction of container technology have also influenced the freighting practices and the commodity rates have been replaced by commodity box rates (CBR) or in some cases by FAK (freight all kinds) or FCL (full container load) and LCL (less than container load).

11.17 KEY WORDS

Accessorial Charges : Terminal charges such as wharfage, loading and unloading of freight car, lighterage etc.

Arbitrary Charge : Assessed by carriers in addition to the freight rate to off-set extraordinary cost for serving off-line ports.

Base Ports : The ports to which base rates fixed by the conference apply.

Bunker Adjustment Factor/(BAF) : Assessed by a carrier, usually as a percentage of ocean freight, to compensate for unanticipated fluctuations in fuel prices.

Commodity Box Rate : It is a lumpsum amount payable for the carriage of a container stuffed with a particular commodity.

Conference : Association of liner shipping companies operating in a specific trade route, formed with the main purpose of eliminating price competition between member lines.

Cross Subsidisation : A situation in which one component is subsidising the other component, e.g., in liner shipping the freight charge on high value cargoes subsidise the carriage of low value cargoes.

Currency Adjustment Factor (CAF) : Assessed by or carrier, usually as a percentage of ocean freight to compensate for exchange rate differntial between US dollars and foreign currencies.

Demurrage : A charge assessed for cargo held in carriers possession after expiration of lay time.

Dunnage : A charge for packing material used to secure and stablise goods in transport.

FCL (Full Container Load) : A container service where the responsibility of stuffing and stripping rests with the merchant.

FCL/LCL : A container service where the merchant is responsible for stuffing and the MTO/carrier is responsible for stripping.

Free All Kind (FAK) : A uniform rate for all commodities moving on the same voyage irrespective of their values.

LCL (Less than Container Load) : A container service where the MTO/carrier is responsible for both stuffing and stripping.

LCL/FCL : A container service where the MTO/carrier is responsible for stuffing and the merchant is responsible for stripping.

Liner Rates : Agreed freight rates inclusive of stevedoring charges.

Outports : The ports to which surcharges apply.

Stevedoring Charges : Charges like loading, trimming, spouting, and discharging expenses.

Stowage Factor : It is the volume which a certain amount of weight of cargo occupies. It is normally measured in cubic meters or metric tons.

Wharfage : A charge for converying cargo over the piers as assessed by the carriers.

11.18 ANSWERS TO CHECK YOUR PROGRESS

A 4	(i)	True	(ii)	False	(iii)	True	(iv)	True	(v)	False
B 4	(i)	True	(ii)	True	(iii)	False	(iv)	True	(v)	False
C 4	(i)	lower limit	(ii)	Value added	(iii)	Increase in oil prices				
	(iv)	abnormal delays	(v)	shippers'.						

11.19 TERMINAL QUESTIONS

1 Discuss the major concerns of the shippers and the shipowners in case of liner shipping.

2 What do you understand by the conference system in liner shipping operations. Explain its utility and the concept of pooling arrangements.

3 Discuss the basis principles and factors that govern the liner freight rates. Also specify the different elements added to basic freight rates to work out the final charges to be paid in case of break-bulk cargo.

4 Distinguish between

a) General Cargo Rates and Specific Cargo Rates

b) Open Rates and Advalorem Rates

c) Weight Ton and Measurement Ton

5 Discuss the various types of surcharges that are usually levied on the basic freight rates.