How International Shipping/Trade works

Step #1: Importer requests quotes and orders goods

The first step in the shipping process is when an importer (also known as the **consignee**) orders goods from a supplier (also known as the **consignor**).

In a usual import, buyers will generally ask suppliers for a quote when looking at goods to purchase. The quote can often be accompanied by, or be in the form of, a ***proforma invoice***. A proforma invoice is effectively an invoice that is used to provide an estimate and can be subject to change. This differs from a **commercial invoice** which is a final and official invoice used for customs clearance declarations.

Once the quote has been approved, the consignee will often create a **purchase order**. A purchase order is simply a contract outlining the details of the order and the cost of the goods. Depending on the business, a comprehensive purchase order will also contain a projected shipping date, origin and destination addresses as well as the freight dimensions.

Agreeing on shipping incoterms

When a buyer issues a purchase order to a supplier, the contract should be governed by one of the many **incoterms**. Prior to reading on, you should **familiarize yourself with incoterms**.

Incoterms are essentially the terms that allocate the costs and the risks between the buyer and seller when shipping. Essentially, they determine who is responsible for what whilst the goods are moving from Point A to Point B.

It is critical to select the set of Incoterms that are most appropriate for the transaction. Failure to allocate the correct incoterm could cost a buyer much more money than originally anticipated.

The incoterms will also determine which party needs to engage a freight forwarder for the individual stages of the shipping process. For the purpose of this process overview, we assume our importer has purchased the goods on EXW terms and will be responsible for all stages of the shipping journey.

Engaging a freight forwarder

Once the purchase has been agreed and the incoterms selected (in this case EXW), the importer can then arrange for a freight forwarder to manage the transportation of the goods from Point A to Point B.

Obtaining a Letter of Credit

When an order is made, a common way to pay the supplier is to obtain a **letter of credit**. Many buyers use this because it’s one of the most secure payment methods in international shipping. It’s essentially a binding legal agreement issued by a financial institution (such as a bank) guaranteeing payment for the goods.

A buyer will typically apply for a letter of credit with a bank, outlining everything in their order. When the bank finalizes the letter, they will submit it to the supplier’s bank, who will then check it off to ensure the supplier agrees with the terms and conditions before the manufacturing of the goods commences.

Issuing of Commercial Invoice

Following this, the supplier will provide the importer with an order confirmation and a **commercial invoice**. This invoice is a key document, detailing the price and quantity of the sold goods. It will also contain the incoterm used.

It is vital for an importer to keep the commercial invoice in a safe place, as it provides evidence of proof of sale and is required for customs clearance purposes.

Step #2: Freight forwarder arranges export

If you are working with an independent forwarder, the agent you have been dealing with will then contact their overseas partner to arrange the collection of the goods.

The overseas representative will in turn contact the relevant supplier and arrange for the export of the buyer's goods. This will involve the preparation of several key documents used in the international shipping process which are required for customs purposes.

Documents that need to be prepared by the supplier

- A **Packing List:** a supplier will prepare a packing list which will be used by a freight forwarder to highlight all the information regarding the freight being transported. It will include information such as the contact details of the exporter and the buyer and how the goods are packed.
- A **Certificate of Origin**: a supplier will also prepare this certificate if they are exporting to a free-trade country. This will be used to certify the location in which the goods were produced so that the buyer may benefit from local **free trade agreements** and avoid duty payments.
- A **Shipper's Letter of Instruction (SLI):** a supplier may be required to prepare an SLI, to provide the local shipping agent with a written record of the shipping information.
- An **Australian Packing Declaration** (if shipping to Australia): this is only required for freight shipped by sea and will be prepared by a supplier and sent to the buyer. It will be used by customs to identify the packing material of the goods. Packing declarations can either be one-off (for one shipment) or annual, lasting for 12 months. If a buyer imports regularly to Australia from the same supplier, obtaining an **Annual Packing Declaration** will mean less paperwork throughout the year.
- A **Manufacturer's Declaration:** This is typically a declaration created by a manufacturer for customs purposes. It declares information such as whether or not the goods are toxic or hazardous and also declares what materials the goods contain; and
- **Dangerous Goods Forms:** If a supplier is shipping dangerous goods as classified by the International Air Transport Association (IATA) or the International Maritime Organisation (IMO), they will be required to fill out and include relevant dangerous goods forms. **Goods must be accompanied by an MSDS Document**

Documents that need to be prepared by the buyer

Each country has different requirements for export customs clearance. However, in order to prepare a shipment for export from Canada, generally, the following documents are required:

- An **Export Declaration:** When exporting from Canada, a supplier will typically be required to make an export declaration if the goods exported are over CAD$2,000 in value or if an export permit is required. Some goods are exempt from this requirement such as pets, mail, domestic cargo, military goods and personal effects; and
- **A permit to export/import prohibited goods:** If a supplier or a buyer is importing or exporting **prohibited goods**, they may require a special type of license depending on what goods they decide to import or export.

The buyer in Canada may also be required to obtain certain declarations and permits, such as:

- An **Import Declaration:** Importers may be required to fill out an import declaration. There are few types of declarations that can be requested depending on the circumstances, including:
- A **Self-Assessed Clearance (SAC) Declaration**: If a buyer's goods arrive by sea or air and have a value of equal to or less than CAD $1,000, they'll be required to fill out a SAC declaration. There are several types of SAC declarations, and which one a buyer needs to fill out depends on the circumstances (such if the goods they are importing require an import permit);
- An **Import Permit/Permission:** Importers may also be required to obtain an import permit depending on the type of goods they are importing into Canada..

Step #3: Booking of freight

Once the required documentation is in order, the supplier must make a booking for the export shipment.

It is critical for freight to be booked early to avoid disappointment, especially if the goods are going to be transported in **peak shipping season.**

Step #4: Goods to travel to international depot/port

Once the goods are packed and ready, they will be transported to a depot or port for export. Depending on the shipping incoterms, this will either be arranged by the supplier or by the consignee through their freight forwarder. Export clearance can then commence.

The Bill of Lading

When a carrier arrives to pick up the goods, a **bill of lading** is issued. A bill of lading confirms that the goods were received by the carrier in an acceptable condition.

This is an extremely valuable document, as it acts as proof of legal title over goods.

Several bills of lading may be involved in a shipment. For instance, a supplier may require an 'inland' bill of lading if goods are being moved from a warehouse to a seaport (for the goods to travel via international transit). A separate bill of lading may then be issued by an ocean carrier to a supplier if the next leg of the journey is by sea.

The supplier will then need to provide the bill of lading to the consignee (i.e. the buyer). The buyer will be required to present the bill of lading in order to secure the release of the shipment and claim ownership over the goods. Again, this can all be coordinated through a freight forwarding company.

Step #5: Goods processed through export customs clearance and placed in transit

Prior to departure, the goods will be processed through export customs clearance. This is where all documentation is reviewed and checked by government agencies.

As mentioned above, suppliers will typically be required to complete an **Export Declaration.**

If the export is cleared, those goods will then be placed in international transit (where, as mentioned, a separate bill of lading may be issued).

There are several modes of transport a buyer can select to transport their freight when shipping by sea, including:

- **Full Container Load (FCL)**: this is where the shipment of one buyer takes up a full container;
- **Lesser Container Load (LCL)**: where a buyer's goods don't take up the whole container (instead, the goods take up less of the container) and are stored with other buyers' goods;
- **Reefer**: A reefer is essentially a large fridge used to refrigerate goods while in transit – reefers are normally used to transport goods like fruits, meat, vegetables, dairy and fish;
- **Out of Gauge (OOG):** also known as **break bulk,** these are loads that are basically too big to fit into a container (and usually come with an extra surcharge);
- **Flat Racks:** As opposed to using standard shipping containers, buyers can instead choose flat racks – these are great for goods that do not fit in normal shipping containers (like break and OOG loads).

Step #6: Goods arrive in buyer's country for import clearance

Once a buyer's goods arrive in the country of destination, the goods undergo an import clearance.

In Canada, all imported goods must be cleared through the border by the CBSA. There are **several regulations you must follow depending on the goods you are importing**, whether they are motor vehicles, animals, human remains or even intellectual property.

Imported goods may be subject to certain taxes, tariffs and/or charges.

Depending on the commodity the goods may also be subject to quarantine inspection on arrival. For example, if you are importing plants, animals, certain minerals or human products such as human remains, the Ministry of Agriculture will inspect and/or treat your goods for diseases and/or pests.

Step #7: Goods are transported from the port to the buyer

Once the goods pass through customs and are good to go, they will then be delivered to the buyer or agreed delivery point. Once, again, the incoterms on the shipment will determine who arranges this.

Depending on the shipment type (air or sea freight, FCL or LCL) a range of transport options will be available. This can include delivering loose on a truck, delivering a container with a sideloader and dropping the goods on the ground, or delivering to a roller door for live unload.

The receiver should discuss with the transport company or forwarder beforehand how they would like to receive the cargo for ease of delivery.

In A Nutshell – Your Shipping Timeline

Understanding your shipping timeline and key factors that influence arrival and departure times will help you manage your shipping effectively.

Always be mindful of things that can affect the delivery of your cargo, such as cut off times at the wharf, quarantine, border inspections.