

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

GPR/W/71
28 June 1985

Special Distribution

Committee on Government Procurement

Original: English

ARTICLE IX:6(b) NEGOTIATIONS
STUDY OF CERTAIN TYPES OF SERVICE CONTRACTS
FREIGHT FORWARDING SERVICES

At its meeting on 13 February 1985 the Committee agreed that Parties who so wished might carry out a study on freight forwarding for the benefit of the whole Committee (GPR/M/15, paragraph 81).

The present working document compiles a contribution from the United States. Further contributions will be issued as addenda to this document.

I. Commercial implications for code coverage of the service

A. Definition of the Service Sector

The acceptance for compensation of responsibility as an agent of the shipper to oversee the movement of goods and merchandise to specified destinations including, but not limited to, providing or arranging for receiving, packaging, insuring, storing, document preparation and transmittal, customs clearance, and transportation and delivery of such goods and merchandise by the most appropriate and efficient mode or modes of transport, including selection of the carrier or carriers.

B. Current number and value of procurement contracts by signatory government of the service and import and export figures

The three principal agencies in the United States Government that use or arrange for the use of freight forwarders for the transportation of goods and merchandise are the General Services Administration (GSA), the Department of Defense (DOD) and the Agency for International Development (AID).

GSA does not segregate the freight costs it pays to freight forwarders, consolidators, shippers associations, and actual carriers. During the first seven months of the fiscal year ending 31 October 1985, GSA and other civilian agencies using the system for transportation of government commodities have paid US\$77.6 million for freight services. GSA anticipates its freight bill for fiscal year 1985 will be about US\$125 million.

DOD uses freight forwarders for the shipment internationally of household goods, personal property and some unaccompanied packages. Its

total expenditures for these shipments in the fiscal year ending 31 October 1984, including packaging and transportation cost, were US\$460 million. For domestic transportation about US\$150 million was paid to freight forwarders for transportation services.

AID spent US\$161 million for freight cost in 1984. Much of this transportation, however, was arranged for by AID staff. AID has advertised for a contractor to provide services for agricultural cargo to be moved under Public Law (PL) 480. In the last two calendar years, the Government-to-Government programme under the proposed AID contract has effected shipments of:

	<u>Liner</u>		<u>Non-liner</u>	
	<u>Shipments</u>	<u>Total Tonnage (MT) *</u>	<u>Charters</u>	<u>Total Tonnage (MT)</u>
1983	314	253,627	29	500,036
1984	224	319,659	26	428,007

* Measurement tons

It is anticipated that tonnage lifted in calendar year 1985 will exceed previous years with an anticipated freight expenditure of approximately US\$32 million. The term of the contract is to be for one year with an option provided to AID to extend the contract for two successive twelve-month periods.

II. Questions regarding the procurement of this service by government entities

A. What are the procedures used to procure the service, including the criteria for evaluating the bid e.g. reliability, quality, price, etc.?

There are two widely varying procedures used by the three principal contracting agencies. AID seeks a single contractor to arrange the transportation element of the programme that provides emergency food shipments in the form of bulk grains and processed, bagged agricultural commodities to various countries. DOD and GSA have hundreds of qualified freight forwarders that provide forwarding services on request for discrete movements plus GSA has a single freight forwarder under contract for one year for international shipments.

GSA provides four filing windows per year and tenders offers to provide services are for six months. The filing dates vary from region to region in each of GSA's eleven regions. GSA orientation is toward direct

carriers rather than freight forwarders. If a freight forwarder files to transport cargo, the freight forwarder must name his underlying carriers and these carriers must be acceptable to GSA. The standards for carrier selection are found in the Federal Property Management Regulations (Title 41 CFR 101.40).

Internationally, GSA has an ocean freight forwarder under contract for shipments abroad through all major American ports. The agency shipping the cargo (GSA or other civilian agency) contacts the freight forwarder who arranges for the shipment and prepares the documentation.

The standards are:

1. Service requirements including:

- (a) availability and suitability of carrier or contractor equipment;
- (b) shipping and receiving facilities at origin and destination;
- (c) pickup and/or delivery service, if required;
- (d) availability of required accessorial and special services;
- (e) estimated time in transit; and
- (f) record of past performance of the carrier or contractor; and

2. Cost considerations

In addition, for domestic transportation:

1. most fuel efficient carrier/mode; and
2. equitable distribution of traffic among carriers.

DOD for the shipment of household goods and unaccompanied baggage provides two filing opportunities a year for shipments during six-month periods beginning 1 April and 1 October. The filing requirements are contained in "Standing ITGBL (International Through Government Bill of Lading) Rate Filing Instructions and Procedures", "Household Goods Domestic Rate Solicitation-Describing Specifications and Services for Shipments of Department of Defense (DOD) Sponsored Household Goods Moving Between Points Within the United States", and other publications available from DOD's Directorate of Personal Property. Traffic requirements of DOD will be fulfilled by low-rate responsible carriers and forwarders whose tenders are

determined to be responsible and most advantageous to the United States Government. A responsible carrier is one who:

1. is listed on the DOD list of approved carriers and forwarders;
2. has appropriate operating authority and licences;
3. has adequate financial resources;
4. has the ability to comply with required delivery and performance schedules; and
5. has a satisfactory record of performance and integrity and is otherwise qualified under applicable laws and regulations.

The criteria being used by AID in the evaluation of prospective contractors to provide freight forwarding services for the shipment of PL 480 agricultural commodities include:

1. Program management - The demonstrated ability to manage the delivery of the required commodity through booking/chartering and forwarding services.
 2. Equipment capability - The demonstrated ability to provide the required statistical data and word processing and domestic and international telex communication equipment.
 3. Personnel qualifications - The number and qualifications of the personnel that the contractor will commit to the programme. The contractor's staff must be experienced in the delivery of ocean commodities through forwarding, booking, and chartering.
 4. Business management - Demonstrated experience in ocean transportation booking, chartering, and freight forwarding services, especially service for the United States Government or as agents for foreign nations receiving PL 480 cargo.
 5. Business affiliations - Membership in professional organizations and trade groups which can improve the services the contractor can offer AID.
- B. In the procurement of this service by governments, are there problems in defining origin?

Since freight forwarding services do not involve physical products, the rules of origin applied for goods under the Government Procurement Agreement do not apply. Place of registration could be used as a rule of origin.

C. Does the procurement of this service typically involve subcontracting?

Procurement of freight forwarding services involves sub-contractors. The freight forwarder contracts with the actual carrier for the transportation of the goods. The freight forwarder may also contract for other services which he agrees to provide.

D. 1. Is the procurement of the service in some cases not the purchase of a discrete service, but rather a contract for ongoing, possibly open-ended work?

The acceptance of a freight forwarder by the Government as a contractor is usually for a specified period of time, frequently for a period of six to twelve months. In effect, this provides an ongoing, possibly open-ended contract as regards the amount of freight that may be shipped through the freight forwarder. However, the freight forwarder must requalify with and be designated by the contracting agency periodically.

2. Is the procurement of services done in some cases through multi-year contracts?

No. Freight forwarders, however, can, and frequently do, requalify in subsequent contracting periods to continue to provide the same type of services.

3. Is there ambiguity as to what would be considered the value of the service procurement contract?

There is ambiguity as to the value of qualifying as a contractor since the number and value of requests for services during the period qualified for is not known. There is little doubt as to the value of performing a specific service, i.e. arranging the transportation of specific goods between two points under a discrete contract.

E. 1. What is the range of Government contracts in this area? Do the bulk of purchases typically exceed a certain value?

A qualified freight forwarder has an ongoing, possibly open-ended contract as to the number of shipments it may carry, however, the value of each contract is discrete. For DOD, no individual contract in 1984 exceeded US\$18,000 in value, however, many freight forwarders handled multiple individual carriage contracts. GSA domestic contracts are also to qualified freight forwarders for individual shipments. The GSA international shipments contract pays 2 cents per shipment. As is customary industry practice, the freight forwarder receives a commission from the carrier.

AID on the other hand has advertised a contract for all freight forwarding and ship-chartering under Public Law (PL) 480, Title II food donation programmes with the exception of the International Emergency Food Resource (IEFR) programme which is administered by World Food Program (WFP) based in Rome, Italy. Under the contract, the required services are to be performed by the contractor without monetary compensation by AID. The contractor will receive his commission directly from the steamship carriers. Total commissions earned as a result of this contract may not exceed 2.5 per cent of the freight. Anticipated freight expenditures for FY 1985 are approximately US\$32 million which could yield commissions of up to US\$800,000.

2. What is the typical time necessary in the procurement process of this service between invitation to tender and bid deadline?

Bids to qualify as an approved carrier by DOD and GSA are at regular intervals. A freight forwarder may obtain information on the dates for submission of applications to qualify as a freight forwarder from DOD or GSA and begin planning, and preparation of his paperwork, well in advance of even the formal bid announcement.

- F. Are there other factors that affect foreign access to Government contracts in this service area?

Factors that would affect a firm's capability to bid competitively would be: geographic location, including the location of agents or correspondent freight forwarders; the extent of the firm's network of agents; and licensing requirements, administered by the Federal Maritime Commission (FMC), for all ocean freight forwarders operating in the United States and by the Interstate Commerce Commission (ICC), for foreign freight forwarders using land transportation and inland waterways in the United States and for such transport into adjacent countries. Under the recent deregulation of transportation industries in the United States these licences are relatively easy for a firm with experience in the business to obtain. Authority for foreign firms to serve as air-freight forwarders in the United States is granted by the Department of Transportation (DOT). Before such authority may be granted DOT must ascertain that reciprocal privileges are granted to United States air-freight forwarders by the government of the freight forwarder seeking authority to operate in the United States.