

## Background Paper on Multimodal Transport

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### A) DEFINITIONS

#### A.1) What is a Multimodal Transport Operator ?

According to the bylaws of the Singapore Registry of Accredited Multimodal Transport Operators (MTO), an MTO is:

"Any person who concludes a multimodal transport contract and assumes responsibility for the performance thereof as a carrier."

#### A.2) What is A Multimodal Transport Contract?

According to the bylaws of the Singapore Registry of Accredited MTO, an MTO transport contract is:

"A single contract for the carriage of goods by at least two different modes of transport."

In other words:

An MTO is any one who undertakes to arrange for a transport of goods using more than one mode of transport and who issues one transport document for the entire cargo journey. Often this refers to door to door transport.

### B) DEVELOPMENT OF INTERNATIONAL TRANSPORT

In the past, goods were received by the shipping line in the port of loading, and delivered to the port of destination. The shipper would normally deliver the cargo to the port of loading. The shipping line had nothing to do with the cargo before it was loaded on board the ship, or after it had been discharged from it.

According to the INCOTERMS, the point where responsibility is transferred ('critical point') was the ships rail. The shipping line covered only the movement of goods from port to port, or hook to hook.

With the advent of containerisation, shipping lines took responsibility of the goods at an earlier stage whereby the transfer of responsibility moved ashore. The shipper no longer delivers the goods 'under the hook', but to the carriers container freight station (cfs) for consolidation and stuffing into the container, or the shipper stuffs his goods into a container at his own premises.

The International Chamber of Commerce developed new INCOTERMS which recognise this development. The 'critical point' has been removed from the ships rail and instead placed at the point where the goods are taken in charge by the shipping line. The UCP were also revised in order to take containerisation developments into consideration.

Intermodal transport aims to reduce transit time and costs. In order to facilitate fast international intermodal transport, various Customs formalities have been standardised and international conventions have been signed.

The Singapore Freight Forwarders Association recognises this development by creating the 'Singapore Registry of Accredited Multimodal Transport Operators'.

## **C) MTO AND LIABILITY**

Unimodal transport is governed by respective international conventions: for ocean - the Hague / Hague Visby / Hamburg Rules, for air - the Warsaw Convention, for road - The CMR, for rail - The CIM etc. These transport conventions may apply to individual segments of multimodal transport of goods.

Damage to the goods can either be localised (it is possible to determine on which mode of transport the damage occurred) or concealed (it is impossible to determine where the damage occurred).

Based on the definition of MTO, an MTO assumes responsibility (is liable) for the performance as a carrier for more than one mode of transport. As such the MTO is bearing the liability for the entire transport according to the contract with the merchant.

The advantages to the merchants are obvious:

The merchant is much better protected.

In case of segmented transport (non multimodal transport) the merchant must often claim against sub-carriers whom he does not know, rather than against the carrier with whom he has made the transport contract.

In many events, it is not possible to pinpoint where the damage took place, since loss or damage are normally not discovered before the goods arrive at their destination. At that stage, there will be practical difficulties to localise loss or damage to a responsible party. This is particularly true with respect to cargo handling in the intermediary stages between pre-carriage, main carriage and on-carriage. Hence, it might be impossible for the merchant to obtain compensation for the damage or loss occurred.

With a multimodal transport document, the MTO takes over the full responsibility. The merchant no longer needs to seek redress from the individual actual carrier. He simply claims against the MTO who in turn must claim against the liable sub-contracting carrier.

Also, prior to arranging the transport, neither the owner, nor his insurer can know in advance how the risk of any loss or damage to them will be allocated. Without engaging a multimodal transport operator, the merchant has to deal directly with various actual carriers. These actual carriers adopt different conventions and liability systems which may be extremely confusing to the merchants.

By using an MTO, the merchant is in many cases much better protected and can claim against the carrier with whom he has made the transport contract. The MTO is responsible independently of the rules which apply to the actual carrier. In most cases, this does not only greatly reduce the administrative cost of shippers in handling cargo claim, but is also protecting him much better.

The fact that the MTO is fully liable to the shipper, but on the other hand might find it impossible to recover from a subcontractor because the mode of transport where the damage took place cannot be identified, represents a great risk to the MTO. In order to cover this liability, it is essential that the MTO arranges adequate 'liability insurance' cover for its operation.

One important criterion of being a member of the Singapore Registry of Accredited Multimodal Transport Operators is that the applicant must be insured for carriers liability insurance for at least US\$500,000 per any one claim.

## **D) THE FREIGHT FORWARDER AND MULTIMODAL TRANSPORT**

The development of international transport as indicated above has changed the scope of services of the traditional freight forwarder. In the past, the freight forwarder was basically acting as an agent. In recent years, a lot of freight forwarders abandoned their traditional role as 'paper pushing agents' and took the opportunity to advance to the status of acting as carrier (NVOCC and NV-MTO). By doing so, the freight

forwarder is facing greater responsibility.

This change of status to become a carrier required changes of the freight forwarders establishment. The most important asset for an MTO is the highly qualified staff which must be well-versed in international transport procedures. As an MTO, the freight forwarder is not anymore acting as agent only, but as a carrier.

An international reliable network of own offices, representatives and agents is another essential requirement for the MTO. Since the MTO is liable for the entire (multimodal) transport, he is liable for his sub-contractors which are very often located overseas. As such it is important for an MTO to choose his agents carefully. If they do not have the same commitment to service as the MTO himself - the MTO will be adversely affected.

Communication is an important factor too. Within the international network of the MTO, its members are producing, checking, transferring, receiving, processing and filing a huge amount of information relating to the goods, their transport and their payment. The MTO has to be able to track and control the cargo flow. As such it is important for an MTO to set up a high quality communication system. Substantial investments in 'EDI' and related software / hardware are necessary.

Last but not least, the MTO should have adequate financial capability to perform the mentioned services.

## **E) THE NON-VESSEL OPERATING MTO**

Companies acting as non-vessel operating MTO are often freight forwarders who either sub-contract the ocean voyage or even sub-contract the whole transport.

As already mentioned, the NV-MTO takes full responsibility and might even be liable to a higher extent compared with any subcontractors involved, including the shipping line.

By avoiding investment in various types of transport means, an NV-MTO can at any time choose the type of transport or combination of different modes of transport which is cost-effective and efficient and thus meets the needs of the customer. That means an NV-MTO can truly concentrate on the needs of his customer and is not favouring his own investments and commitments.

For the shipper, the involvement of the NV-MTO has no disadvantages in comparison with the VO-MTO. On contrary, in many cases, the shipper will even have advantages by involving the NV-MTO.

By acting as NV-MTO, the freight forwarder can truly fulfill his task of being 'The Architect of Transport'.

## **F) REGULATION OF MTO IN SINGAPORE**

As mentioned above, the MTO acts as principal, thus he is liable for the entire transport. The responsibility of an MTO is substantial. In order to pay credit to the responsibility of the MTO as well as to the extended risk involved, it is essential that MTOs are being regulated.

In close cooperation with the Trade Development Board, the Singapore Freight Forwarders Association has taken on the formidable task to regulate MTOs by establishing the 'Registry of Accredited Multimodal Transport Operators'.

### **F.1) The objectives of The Registry are:**

i) to promote the interests of the freight forwarding industry in Singapore as guided by the UNCTAD / ICC Rules for Multimodal Transport Documents and the FIATA Multimodal Transport Bill of Lading to be administered by SFFA;

- ii) to advance the freight forwarding industry by the establishment of a sound Multimodal Transport operation system;
- iii) to regulate and promote sound business ethics and professional conduct among registered Multimodal Transport Operators in keeping with the aims and objectives of the Registry;
- iv) to foster relations and strengthen the co-operation amongst agents, principals, shippers, freight forwarders, multimodal transport operators, the relevant government agencies and other national and international trade organisations;
- v) to promote the systematic and orderly training of a corps of professionally qualified personnel and to maintain and upgrade such skills at all times for the well-being of the freight forwarding industry in general and multimodal transportation in particular;
- vi) to do all things and/or such other acts which the Management Committee may consider desirable and necessary in the interests of the registered Members.

## **F.2) The Criteria for Membership of The Registry are:**

i) The applicant must be an Ordinary or Associate member of the SFFA.

This criterion ensures that the MTO is actively engaged as bona fide freight forwarder, has a minimum paid up capital of S\$100,000, its chief executive officer has not less than 3 years management experience and holds a valid forwarders' liability insurance policy.

Only companies with adequate financial capability for performing multimodal transport are being admitted as members and are actively engaged as bona fide freight forwarders.

ii) The applicant must issue the FIATA Multimodal Transport Bill of Lading and satisfy all criteria for its issue. The FIATA Multimodal Transport Bill of Lading implements the UNCTAD / ICC Rules for multimodal transport documents. These rules are internationally recognised.

The main criteria for issuing the FIATA Multimodal Transport Bill of Lading are:

- license agreement with SFFA
- liability insurance with a limited liability of not less than US\$500,000 per any one claim.

The importance of an adequate liability insurance for an MTO is a consequence of the liability and risk involved for the MTO.

By linking the issuance of the FIATA Multimodal Transport Bill of Lading with the stringent criterion of being a member of The Registry, the SFFA is committing itself to a very well established document which is based on internationally accepted and recognised terms and conditions.

iii) The applicant must be licensed under this Registry and conform to its rules, regulations and bylaws.

## **G) ADVANTAGES OF USING ACCREDITED NV-MTO IN INTERNATIONAL TRANSPORT**

By engaging an NV-MTO which is a member of the Singapore Registry of Accredited Multimodal Transport Operators, the merchant in Singapore has the following advantages:

### **G.1) Responsibility**

The registered NV-MTO acts as a principal for the entire transport. He is required to have a minimum paid up capital of S\$100,000.

### **G.2) Liability**

The registered NV-MTO is liable for the entire transport. The shipper is dealing with only one contracting party, and does not need to seek redress from individual actual carriers. The liability of the NV-MTO is in many cases higher compared to the individual actual carrier involved.

The registry ensures that registered members have a valid liability insurance which covers the stipulated liability, thus making sure the merchant can be compensated in cases of legitimate claim or claims.

### **G.3) FIATA Multimodal Transport Bill of Lading**

The registered NV-MTO must be able to issue the FIATA Multimodal Transport Bill of Lading.

The FIATA Multimodal Transport Bill of Lading is based on internationally accepted ICC / UNCTAD rules and regulations for multimodal transport.

FIATA promotes a high reputation of FIATA Multimodal Transport Bill of Lading. The issuance of the FIATA Multimodal Transport Bill of Lading is restricted to members of national associations. Not even foreign corresponding agent of an authorised forwarder can issue this document. For forwarders who are issuing the FIATA Multimodal Transport Bill of Lading, it is a public demonstration of responsibility which gives confidence in their services.

### **G.4) Recognition by the Trading Community in Singapore**

Even at this stage, The Registry is recognised by the Singapore Trade Development Board, banks and trade bodies. We shall continue to ensure a high recognition of The Registry and its members.

By using a member of The Registry, the shipper's interest is protected. We urge all shippers to engage the services of members registered with The Registry for their international transport requirements. Shippers should be aware of the fact that non registered members may not be able to protect them nor their consignees in cases of claims. Members of The Registry are committed to uphold the high standards set for multimodal transport with a view to protect the interest of shippers and the trading community.

### **JENS ROEMER Chairman (1992-1999) International Freight Forwarding Committee**

Singapore Freight Forwarders Association  
(now known as Singapore Logistics Association)

### **Central Asia Regional Economic Corporation (CAREC)**

CAREC is a partnership of eight countries and six multilateral institutions promoting development through regional economic cooperation.

**The eight CAREC countries:      Six multilateral institutions :**

1. Afghanistan (joined CAREC in 2005)

2. Azerbaijan (2002)

3. People's Republic of China (1997)

4. Kazakhstan (1997)

5. Kyrgyz Republic (1997)

6. Mongolia (2002)

7. Tajikistan (1998)

8. Uzbekistan (1997)

1. Asian Development Bank (ADB)

2. European Bank for Reconstruction and Development (EBRD)

3. International Monetary Fund (IMF)

4. Islamic Development Bank (IsDB)

5. United Nations Development Programme (UNDP)

6. World Bank

## CAREC's Role in Multimodal Transportation

CAREC invests in key transport corridors connecting Central Asia's major economic centers, and linking the region to large and dynamic markets across the Eurasian supercontinent. The CAREC Program is improving six regional transport corridors that will link CAREC countries to each other and to other Eurasian subregions, creating opportunities for more efficient trade. Official website of CAREC:

[www.carecinstitute.org](http://www.carecinstitute.org)