The Relationships of Bill of Lading, Charterparty and Other Transport Documents

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Authors’ contributions

This work was carried out in collaboration between both authors. Author EP wrote the commercial aspects ensued from the relationship between the bill of lading and the charter party. Author YV analysed the legal aspects of the above mentioned documents. Both authors read and approved the final manuscript.

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ABSTRACT

The bill of lading plays a vital role in international trade. In addition, the charterparty is a legal contract of employing a vessel between the shipowner and the charterer. In shipping matters, charterparty and bill of lading are highly important documents since they allocate risks, obligations, rights, earnings, costs and profits between the contracted parties, namely the shipowner (or carrier) and the charterer (or shipper). Therefore, this paper constitutes an overview of the commercial and legal aspects ensued from the relationship between the bill of lading, the charterparty and other documents such as booking note, cargo manifest, mate’s receipt, delivery order etc. Furthermore, this paper examines the life cycle of bill of lading and charterparty in the bulk and liner markets and how this will be affected by the digitalisation in shipping. The analysis is based on the shipping practices followed in accordance with the legal regime of bill of lading and charterparty.

Keywords: Bill of lading; charterparty; mate’s receipt; booking note; cargo manifest; delivery order; sea waybills.

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1. INTRODUCTION

The most important documents governing the commercial and legal relationships between the parties in international sea transport are bills of lading and charterparties. However, there are also documents, such as booking notes, delivery orders, mate’s receipts, cargo manifests, sea waybills etc. which play a very important role in sea trade.

The bill of lading is the best-known ocean transport document still in use. It has a very long heritage dating back to the “Roman times”. The need for the bill of lading arose when merchants first decided that they would no longer accompany their goods during maritime transport but, instead, placed them in the custody of the master for transportation to overseas destinations and then sent the bill of lading by another ship in order for it to reach the buyer so that he would be able to present it and receive the goods. This sea journey became unnecessary with the development of ever faster mail and courier services.

While the charterparty is that document which embodies the written form of the vessel’s charter agreement, containing the terms and conditions which govern the relationship between the shipowner and the charterer, the bill of lading is that transport document which relates to the cargo carriage between the shipper and the carrier and it is issued either upon the goods being received for shipment (received for shipment bill of lading) or traditionally, upon their shipment on board the ship (shipped bill of lading) [1].

2. CONTRACTS OF CARRIAGE IN BULK AND LINER MARKETS

In liner shipping the conclusive evidence of the contract of carriage between the carrier and the non-chartering shipper is the bill of lading. Therefore, the terms of the bill of lading play a significant role in determining the rights and liabilities of the contracting parties. On the other hand, in bulk shipping, the contract of carriage between the shipowner and the charterer is the charterparty, and in the hands of the non-chartering shipper the bill of lading has no contractual capacity at all: Rodonconachi v Milburn (1886) 18 QBD 67, CA; President of India v Metcalf Shipping [1970] 1 QBD 289. Only the terms of the charterparty determine the rights and liabilities of the contracting parties. However, as in liner shipping, bills of lading are issued upon receipt or upon shipment of the goods. The bill of lading cannot vary or add to the terms of that charterparty, unless the charterparty contains an express provision to that effect. The bill of lading however contains the terms and conditions of carriage if that bill is endorsed and transferred to a subsequent consignee [2].

Once the bill of lading is endorsed (transferred) to a third party (consignee or endorsee or transferee), it is the conclusive evidence of the contract of carriage. Any oral or written agreement which the shipper and the shipowner (carrier) have and which is not expressed in the bill of lading will not affect the third party. The reason for this is that the third party does not have notice of any of the terms that the shipper and the carrier may have agreed to orally and that have not been expressed in the contract of carriage.

3. LIFE CYCLE OF BILL OF LADING AND CHARTERPARTY

In liner shipping the shipowner (carrier, operator) runs a regular service between more or less fixed ports and on a fixed time schedule. The liner operator acts as a common carrier, accepting the general cargoes shipped between the ports covered by his service. A shipper, who wants to use only a part of the vessel, contacts the agent of a particular line, who then confirms the booking of cargo space onboard the ship by issuing the so-called “booking note”. Unlike the charterparty, this initial contract is not definitive of the contractual terms. These will be fleshed out by the terms of the carrier’s usual bill of lading. This may happen expressly, as in Armour & Co Ltd v Walford [1921] 3 KB 473, or impliedly, as in Pyrene Co Ltd v Sindia Navigation Co Ltd [1954] 2 QB 402 [3]. So, when the goods have been received for shipment or shipped on board the vessel, a bill of lading will be issued on behalf of the carrier. The bill of lading is the contract of cargo carriage between the carrier and the shipper (or the endorsee). Furthermore, a large number of bills of lading clauses will govern the carrier’s relationship with the shipper. The bill of lading, often filled in by the shipper or by a forwarding agent, is issued and signed by a representative of the carrier / shipowner, for instance the master of the vessel or more often by the shipowner’s agent as per the standing authority.
In bulk (tramp) shipping the basic document is the charterparty of which all terms and conditions are negotiated individually. In this case, the shipowner is plying between different ports depending on where he finds suitable cargoes. A charterer directly or through a broker enters the market with an order (called a cargo order). The cargo order presents the interest of the charterer for a specific type of charter, a specific type of trade and a specific type of vessel. In addition, a shipowner directly or through a broker enters the market with a position list. The position list presents the interest of the shipowner for a specific type of charter and includes the particulars of the vessel as well as her geographical position. If an order is firm, the shipowner may choose to make a firm offer right away. The stage of chartering negotiation procedure starts when the first firm offer is structured. Then offers and counter-offers from each side will follow until everything has been agreed. When both parties have agreed on every detail, a recap of the deal follows. A recap will set out in full all the details of the fixture and the wording of the various clauses agreed. As a matter of principle, oral agreements are generally binding, but due to the necessity of evidence the parties-based on the fixture draw up a charter party. The charterparty is almost always made out on standard forms. There are frequent deletions in the printed text and additional clauses are added. As in liner shipping, bills of lading are issued upon receipt or upon shipment of the goods. The bill of lading is typically issued in three originals and a number of non negotiable copies. The carrier or the shipper will, through agents, have the originals as well as a number of copies filled in. Under charterparty terms the master will sign the bill of lading when he has ascertained that all cargo has been loaded onboard, and the shipowners have collected the freight under the normal freight prepaid conditions. The charterparty may sometimes stipulate that the charterer’s agent will sign the bill of lading.

The charterer or shipper (or their agents) may take only two original bills of lading and leave one original bill of lading on board with the master for on - carriage to the discharge port and with the instruction to hand it to the end consignee on arrival, to avoid the possibility of there being no original bill of lading for presentation at the discharge port. The consignee then presents the original bill of lading back to the master and claims delivery of the subject goods. In *the Mobil Courage* [1987] 2 Lloyd’s Rep 655, it was recognized that such a practice was common in the oil trade. Although the court didn’t thoroughly analyze the issue, it appears that where it has been contractually agreed between the parties, the courts may oblige the carrier to deliver the subject cargo against a bill of lading carried onboard, which the master hands over to the receiver who then hands it back for delivery of the cargo [4].

For avoiding any possible conflict between the bill of lading provisions and the charterparty provisions, the carrier usually tries to make the terms and conditions of the charterparty applicable to the bill of lading by stamping on the bill of lading a clause of the type: “This bill of lading shall be subject to the terms and conditions of charterparty between…and… dated….”.

The charterparty and the bill of lading remain two distinct contracts. This is equally true when the terms of a charterparty are expressly incorporated into the bill of lading.

4. RELATIONSHIP OF BILL OF LADING, CHARTERPARTY AND OTHER TRANSPORT DOCUMENTS

From the shipowner’s point of view, it is important that the bill of lading shall be in conformity with the mate’s receipt and the cargo manifest.

A mate’s receipt is issued by the mate of the vessel, after the cargo has been tallied into the ship by tally clerks, and signed by him (or the ship’s agent on his behalf), for the goods received on board. In some ports it will be sensible for the ship to employ tally clerks independent of any employed by the shipper or receiver to ensure that the ship has figures to defend any shortage claim. Even this may not be sufficient in some jurisdictions and the Master should consult his P&I Club to ensure that the best course of action is followed in a particular port. Tally records should be retained on board for defence in the event of a claim against the ship.

In a charterparty a clause will require the master to sign bills of lading in accordance with mate’s receipts. For example, the *NYPE 2015* form, clause 8(a) “performance of voyages” states that “…Charterers shall perform all cargo handling, including but not limited to loading, stowing, trimming, lashing, securing, dunnaging,
unlashing, discharging, and tallying, at their risk and expense, under the supervision of the Master”, while further it complements in clause 31 (a) “bills of lading” that “…the Master shall sign bills of lading or waybills for cargo as presented in conformity with mates’ receipts”. A copy of the mate’s receipt will be given to the shipowner, and the bill of lading will be given to the shipper. The bill of lading acknowledges that the goods have been “shipped in apparent good order and condition” if the mate’s receipt is clean. Otherwise, comments are transferred to the bill of lading. It is necessary that the mate’s receipt reflects the accurate condition of the cargo, to prevent claims against the ship arising at the discharge port, as comments on the mate’s receipt appear on the relevant bill of lading. The “receipt” function of this document is similar to the bill of lading function of receipt for cargo on board the ship. This has the effect of confirming that the carrier is responsible for the goods and is the first evidence of the condition and quantity of the goods when they were received. The Nippon Yusen Kaisha v Ramjiban Serowgee [1938] A.C. 429 case distinguishes function of mate’s receipt from that of bill of lading, in particular that mate’s receipt is not a document of title to the goods shipped and therefore it does not give the holder the same rights as does a bill of lading. A mate’s receipt is not negotiable, although in some countries (e.g. Malaysia) it may acquire the status of a document of title by virtue of custom. In England no such custom is found [5].

The complete list of cargo loaded, as compiled from the bill of lading forms the cargo manifest of the ship issued by the port agent. Customs regulations at most ports require at least one copy of the manifest. Copies of the cargo manifest are also required for stevedores at discharging ports. A bill of lading serves as a legal instrument focusing on issues such as ownership, whereas a cargo manifest is often more concerned with physical aspects of the cargo, such as weight and size.

The bill of lading is sent to the shipper usually after the goods have been loaded on board the vessel. The shipper after examining the content of the bill of lading forwards the original bill of lading to the cargo owner. An original bill of lading properly endorsed is a negotiable instrument carrying the right to demand and have possession of the goods described in it. Provided they have no notice of any other claim to the goods, the agent of the vessel is justified in delivering the goods to the first person who presents the original bill of lading to him.

The cargo owner or his forwarding agent shall, as holder of the bill of lading, present himself to the shipping agent and receive the necessary information regarding the quay and the time where the goods will be discharged. Upon arrival of the goods and after payment of the reception costs and eventually of the freight, the cargo receiver presents the delivery order whereupon he collects the goods (Comptoir d'Achat et de Vente Boerenbond Belge SAN Luis Ridder Limitada (the Julia) [1949] 1 All ER 269) [6].

A delivery order is a release document issued by the authorised agent on behalf of the shipowner (carrier) releasing the cargo to the consignee mentioned in the bill of lading. It is issued by the carrier in exchange for:

- The duly endorsed original bill(s) of lading
- A copy of a sea waybill issued.

Only with this delivery order the consignee can clear his cargo with customs and take delivery of the cargo from the port or terminal or depot or wherever it is stored. Once the delivery order has been issued, the bill of lading maybe considered as duly discharged and accomplished. In liner trading, where numerous bills of lading are issued, the traditional signature has been increasingly replaced by electronic means. However, the traditional bill of lading is still the most used shipping document in bulk and liner markets, basically serving three main functions:

- It is a receipt for goods shipped onboard the vessel;
- It is (prima facie or conclusive) evidence of the contract of carriage between the shipper and the carrier

It is a negotiable document of title enabling the seller, who has shipped the goods for delivery to the buyer, to transfer the right to obtain delivery of the goods to the buyer or the holder of the document.

It is obvious that all three main functions aim to link crucial information and rights deriving from
the contract of carriage, allowing the consignee to be in a position to collect the cargo at the place of destination.

Transport documents need certain legal qualities in order to meet all the above-mentioned requirements. Such documents which meet all three requirements provide the holder with the right to take delivery of the goods and entitle the holder of the documents to dispose of the goods while in transit. They are often considered to be “documents of title” as they are “negotiable documents”. This means that such documents represent the cargo and may be traded. This is the case with the traditional bill of lading. However, to an ever-growing extent, the traditional bill of lading in modern cargo transportation has been replaced by a “sea waybill” or by other documents which do not have the same legal qualities as the bill of lading (e.g. consignment notes, waybills).

The bill of lading may be made out “to a named person”, “to a named person or order”, “to the holder” or “to a named person not to order”. In the first three cases the bills of lading are regarded as “negotiable” or “quasi-negotiable” documents of title. On the other hand, consignment notes and waybills set out the name of the party entitled to receive the goods mentioned in the document and also identify the type and quantity of the goods, but they are not negotiable documents and thus they are not documents of title.

A consignment note is a transport document containing particulars of goods for shipment (consignor, carrier, consignee, weight, condition of goods etc.), prepared by a consignor and countersigned by the carrier as a proof of receipt of consignment for delivery at the destination. This document must stay with the consignment until it reaches final destination. It is an important piece of evidence in case of loss or damage of goods. It is an alternative to bill of lading (especially in inland transport), without being either a contract of carriage or a document of title, therefore it is not a negotiable instrument.

The waybill is the carrier’s version of the consignment note. A waybill is a transport document that travels with a shipment, identifies its consignor, consignee, origin and destination, describes the goods and shows their weight and freight. It is prepared by the shipowner (carrier) for its internal record and control, without being either a contract of carriage or a document of title, therefore it is not a negotiable instrument.

A sea waybill is a transport document that serves as evidence of the contract of carriage and as a receipt of cargo taken “on board” a vessel. Unlike a bill of lading, the sea waybill is a non-negotiable form of bill of lading (thus not a document of title) where delivery is to be made to the named consignee. The named person, not the holder of the document, is here entitled to claim delivery of the goods. In practice this is typically the case when electronic documentation is being used [7]. Furthermore, the sea waybill is used in many trades (such as the container trade) where it is not expected that the goods will be resold while afloat.

The use of the traditional bill of lading can cause problems if the goods reach the port of discharge before the bill of lading comes into the hands of the buyer. The latter will only be able to persuade the shipowner to deliver if he provides a suitable guarantee to indemnify the shipowner against any misdelivery claims. Apart from the inconvenience caused by arranging such guarantees, there will also be some cost involved for the buyer if the shipowner insists on a bank providing the guarantee. The above-mentioned problems can be avoided by using a sea waybill.

One of the essential differences between letter of indemnity (LOI) and a contract of guarantee is that the LOI gives rise to a primary obligation [8]. There are only two parties at the LOI. The indemnity is a promise to indemnify a debtor, it is owned to a debtor only and not because his has failed to perform his obligation but rather because he has performed it (Guild & Co. v. Conrad [1894] 2 Q. B. 885).

Rotterdam Rules (article 1.14) introduce the new general term “transport document” as follows [9]:

“Transport document means a document issued under a contract of carriage by the carrier that:

(a) Evidences the carrier’s or a performing party’s receipt of goods under a contract of carriage; and

(b) Evidences or contains a contract of carriage.”

According to this definition, modern transport documents (whether bills of lading or sea waybills) should share only two out of three basic functions of a traditional negotiable bill of lading.
The third function of a “negotiable document of title” is connected only with the traditional bill of lading which is generally “a negotiable instrument, entailing the right to demand the goods described therein and to take possession of them”. If a so-called bill of lading is declared to be “non-negotiable”, then it should be treated as a sea waybill. Therefore, assuming the Rotterdam Rules come into force, it remains to be seen how trading practice will be transformed in the future.

5. DIGITALISATION AND TRANSPORT DOCUMENTS

Digitalisation, in business, refers to the ongoing improvement and transformation of business operations, functions, models and processes, leading to a more-efficient exchange of information within and among companies adopting this transformation [10]. Nowadays most industries, as well as the companies within them, have begun to adopt the changes and implement them into their work. In contrast, the maritime industry is one of the few left using complex paper-based systems, which is no longer a contemporary approach for success in the 21st century.

Digital advances like Blockchain, IoT, Big Data, Machine Learning and Artificial Intelligence arrived in shipping industry and enhance the global trade. The digital transformation of the shipping industry does not necessarily mean a sea change for every company in every part of the industry at the same time. Different business models will be affected in different ways, although all players in all ship segments are expected to be impacted by digitalisation at some point. The digitalisation of the shipping industry is about to separate access to data from ownership of the vessels [11]. Blockchain will play a significant role to this transformation. Blockchain may be considered as the next level of EDI (Electronic Data Interchange) [12]. It is a technology where the data and systems are not centralized on a server. Information is shared among multiple computers which compile a secure network requiring each to be individually hacked in order to gain access to the whole system.

This technological possibility has led to Maersk’s collaboration with IBM to create a global blockchain trade platform, going by the name Trade Lens, which went live with the early adopter program on 9th of August 2018. This platform aims to enable participants to digitalize and exchange trade documentation, anything from packing lists, shipping instructions to bill of landings and certificates of origin, all made available to the whole shipping industry [13].

This can create a vast shared network of security and transparency in which the shipping industry can safely alter into the modern digital age, with a minimum of risk for its assets. The digital transformation entails technological change, enhanced IT systems, reorganization of value chains, efficiency of transactions, reduction of costs, increase of services within transport chain and faster documents’ life cycle [14].

In the near future and with the involvement of the Blockchain technology, the Electronic bills of lading will substitute the traditional bills of lading. Nowadays there is the issue of safety, security and acceptability relating to the transmission and receipt of electronic paperless bill of lading.

The International Group of P&I Clubs (comprising of thirteen P&I Clubs) started covering liabilities arising in respect of the carriage of cargo under electronic paperless trading systems from the 20th of February 2010, have approved four electronic paperless systems as below [15]:

1. Bolero by Bolero International Ltd – Rulebook/Operating Procedures September 1999;
2. CargoDocs by Electronic Shipping Solutions;
3. E-titleTM by E-Title Authority Pte Ltd;
4. EdoxOnline by Global Share S.A.

As a consequence, if any liabilities occur on goods shipped under other electronic paperless trading systems (not approved by the Group), the members will NOT be covered for this.

At present, English law does not recognise an electronic bill of lading as a negotiable document of title. As a consequence of this, the holders of electronic bill of lading issued under COGSA 1992 will not be able to pursue claims against the issuing carrier unless there is an express contractual agreement covering this aspect.

BIMCO has created an exclusive electronic bill of lading clause in 2014. This eB/L clause needs to be incorporated into charter parties when the contracting parties (shipowner and charterer) know that an electronic bill of lading will be
issued. More specifically, the BIMCO Electronic Bill of Lading Clause is the following:

(a) At the Charterers’ option, bills of lading, waybills and delivery orders referred to in this Charter Party shall be issued, signed and transmitted in electronic form with the same effect as their paper equivalent.
(b) For the purpose of Sub-clause (a) the Owners shall subscribe to and use Electronic (Paperless) Trading Systems as directed by the Charterers, provided such systems are approved by the International Group of P&I Clubs. Any fees incurred in subscribing to or for using such systems shall be for the Charterers’ account.
(c) The Charterers agree to hold the Owners harmless in respect of any additional liability arising from the use of the systems referred to in Sub-clause (b), to the extent that such liability does not arise from Owners’ negligence.

Under sub-clause (a) of the BIMCO clause, owners and charterers agree that the eBL issued will have the same effect as a paper BL.

6. CONCLUSIONS

This is a synopsis about the role and life cycle of charterparty and bill of lading in bulk and liner markets. Furthermore, the relationship of the above-mentioned contracts with other transport documents is examined from a commercial and legal perspective.

It is important that the terms and conditions of the bill of lading and the charterparty are synchronised as far as possible. Otherwise the result may be that the carrier may become liable for damage to cargo under the bill of lading without being able to invoke agreed exemptions under the charterparty or to seek redress from the charterer. Correspondingly, imbalances may appear if laws of different countries apply to the different agreements. Furthermore, harmonisation between the terms of the charterparty, bill of lading and other transport documents is considered necessary for the smooth carriage of goods by sea and the proper delivery of cargo to the consignee.

Digitalisation in shipping will improve the above-mentioned life cycle of charterparty and bill of lading as well as their relationships with other transport documents. At present there is the issue of safety, security and acceptability relating to the transmission and receipt of electronic contracts of carriage. It is hoped that once the UNCITRAL model law has been adopted, the present difficulties arisen from the use of electronic bills of lading will be overcome [16].

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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