

PRACTICAL GUIDE

BILLS OF LADING

Freight prepaid bills of lading

Executive summary

- A freight prepaid bill is used when the bill of lading freight has been paid before the bill of lading is issued.
- Freight prepaid bills of lading must not be issued if the Master knows that the freight has not been paid.
- A common annotation to show that the bill is a freight prepaid bill is '*freight prepaid*' written on the front of the bill.

A. Who is this guide intended for?

This guide is written with the member, Master, carrier or local agent in mind, or whoever else comes across freight prepaid bills of lading.

For further explanation of the legal aspects of freight prepaid bills, we refer the reader to the Club's article '*In Focus: Freight prepaid bills of lading*'.

B. What is a freight prepaid bill of lading?

A freight prepaid bill of lading is a bill of lading which is annotated, usually at the front, with wording such as '*freight prepaid*'. This is to evidence that the freight has been paid.

C. When is a freight prepaid bill of lading used?

A freight prepaid bill of lading is used where the shipper has paid the bill of lading freight to the carrier before the bill of lading has been issued. This ordinarily means that the bill of lading freight has been paid by the time the ship has completed loading.

D. Why is a freight prepaid bill of lading used?

Freight prepaid bills of lading are regularly used when the seller of the cargo is responsible for payment of freight (e.g. CIF terms). Sale contracts may require that the cargo is shipped under a freight prepaid bill of lading and that the seller pays the freight to the carrier before the cargo is loaded on board. This ensures that the buyer does not have an obligation to pay the carrier freight for transporting the cargo.

E. When is a Master obliged to issue a freight prepaid bill of lading?

(i) Time charterparty

If the Master is under the 'orders and directions' of Charterers as regards employment of the vessel (e.g. clause 8 of NYPE 1946), the Master is obliged to issue freight prepaid bills of lading if the Charterer orders that freight prepaid bills are issued.

The exception is if the Master knows that freight has not been paid. See paragraph F below.

(ii) Voyage charterparty

If the voyage charterparty wording requires that the Master signs bills of lading as instructed by Charterers, the Master is obliged to sign bills of lading, including freight prepaid bills of lading (unless he knows that freight has not been paid. See paragraph F below).

(i) Time and voyage charterparties

If there is a clause in a time or voyage charterparty that expressly prohibits the Master from issuing freight prepaid bills of lading, the Master must refuse to issue a freight prepaid bill of lading. This is so even if the shipper insists that freight prepaid bills of lading are issued.

F. When must the Master refuse to issue a freight prepaid bill of lading?

The Master is under an obligation to ensure that the details in the bill of lading are accurate. A consequence of this obligation is that, if the Master knows that the freight has not been paid, the Master must refuse to issue a freight prepaid bill of lading.

There may also be conditional wording in the charterparty bills conditional on receipt of some form of written confirmation that freight has in fact been paid. An example can be seen at clause 18 of the SYNACOMEX form which requires telex confirmation from Charterers that freight has been irrevocably transferred before freight prepaid bills are released.