

INCO TERMS

Reduce Your Risk

What is INCO Terms?

“Incoterms” is a registered trademark of the International Chamber of Commerce (ICC). Incoterms are a set of rules which define the responsibilities of sellers and buyers for the delivery of goods under sales contracts. They are published by the ICC and are widely used in commercial transactions. Globally recognized, Incoterms prevent confusion in foreign trade contracts by clarifying the obligations of buyers and sellers. Incoterms inform sales contracts defining respective obligations, costs, and risks involved in the delivery of goods from the seller to the buyer, but they do not themselves conclude a contract, determine the price payable, currency or credit terms, govern contract law or define where title to goods transfers. See the INCO Terms show in Figure 1.1.

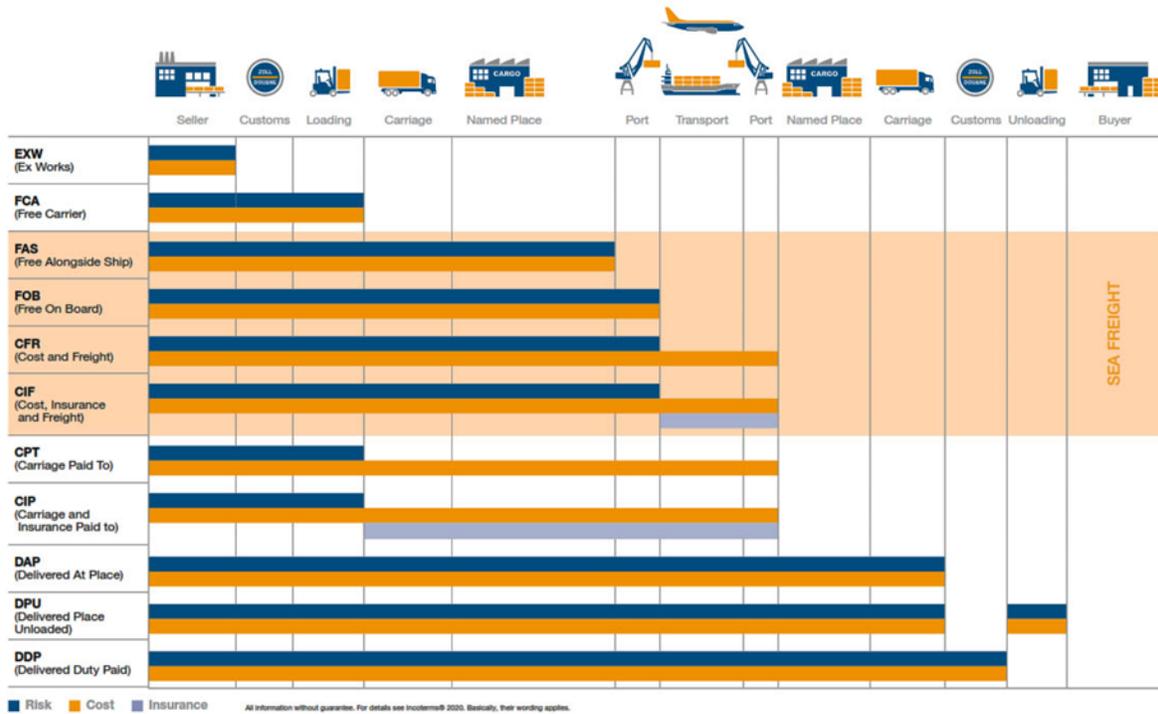


Figure 1.1. INCO Terms

Why INCO Terms?

The use of Incoterms eliminates inconsistencies in language by giving all parties the same definition of specific terms within a trade agreement. As a result, the risk of problems during shipment is reduced since all parties clearly understand their responsibilities in performing trade under the given contract. The Incoterms rules are an internationally acknowledged standard and are used all over the world when it comes to international and national contracts for the sale of goods.

Advantages of Incoterms

- One of the primary benefits is the simplification of contractual terms. When Incoterms exist, they are often used in commercial contracts, ensuring a single form of interpretation of the terms, saving time and money that was previously often wasted by misinterpretations of the contractual terms. In this way, the Incoterms have been an important tool for the development of international trade.
- The use of the commercial terms helps to eliminate any kind of inconsistency and ambiguity related to shipping contracts and sales which are country-specific.
- The buyers and sellers can easily manage and identify the liabilities and risks of transporting cargo from the source to the delivery destinations.
- The Inco terms allow buyers and carriers to understand who owns the goods at each stage of the shipment, as well as who pays the shipping costs.
- The ownership transfer point (the point from which you no longer own the goods),
- The company responsible for the choice of the carrier, or transporter.

Types of Incoterms

EXW: EXW stands for Ex-Work. "Ex works" means that the seller fulfils his obligation to deliver when he has made the goods available at his premises (i.e. works, factory, warehouse, etc) to the buyer. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination.

Ex works (EXW) is a shipping arrangement in which a seller makes a product available at a specific location, but the buyer has to pay the transport costs.

Rules of EXW Incoterms: EXW rule places minimum responsibility on the seller, who merely has to make the goods available, suitably packaged, at the specified place, usually the seller's factory or depot.

The buyer is responsible for loading the goods onto a vehicle (even though the seller may be better placed to do this); for all export procedures; for onward transport and for all costs arising after collection of the goods.

The seller is not required to load the goods onto a collecting vehicle and, if they do, it is at the buyer's expense. EXW is the only Incoterm where the goods are not required to be cleared for export, although the seller has the duty to assist the buyer (at the buyer's expense) with any needed documentation and export approvals.

FCA: FCA stands for "Free Carrier" .It means that the seller fulfils his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named

by the buyer at the named place or point. FCA term may be used for any mode of transport, including multimodal transport.

Rules for FCA incoterms: The seller may procure a freight contract at the buyer's request or, if the buyer fails to procure one by the date of a scheduled delivery, the seller may procure one on their own initiative. The costs and risks of this freight contract fall on the buyer. The buyer must be informed of delivery arrangements by the seller in time for the buyer to arrange insurance.

Free carrier requires the seller to deliver the goods to the buyer or its carrier either at the seller's premises loaded onto the collecting vehicle or delivered to another premises (typically a forwarder's warehouse, airport or container terminal) not unloaded from the seller's vehicle.

FAS: FAS stands for "Free alongside Ship". It means that the seller fulfils his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. The FAS term requires the buyer to clear the goods for export. It should not be used when the buyer cannot carry out directly or indirectly the export formalities

Rules for FAS incoterms: The seller clears goods for export and places them alongside the vessel at the named port of departure. The named port of departure location can be a loading dock or a barge, but not a container terminal.

The seller may procure a freight contract at the buyer's request or, if the buyer fails to procure one by the date of a scheduled delivery, the seller may procure one on their own initiative. The buyer is responsible for the cost and risk associated with the freight contract.

In an EXW shipment, the buyer is under no obligation to provide such proof to the seller, or indeed to even export the goods.

FOB: FOB stands for "Free on board". FOB means that the seller delivers the goods, suitably packaged and cleared for export, once they are safely loaded on the ship at the agreed upon shipping port. At this point, responsibility for the goods transfers to the buyer. The seller may procure a freight contract at the buyer's request or, if the buyer has failed to procure one by the date of a scheduled delivery, the seller may procure one on their own initiative. The buyer is responsible for the cost and risk of this freight contract.

The term FOB is also used in modern domestic shipping within the United States to describe the point at which a seller is no longer responsible for shipping cost.

Rules for FOB incoterms: The seller must inform the buyer of delivery arrangements in good time to sort out insurance for the shipment.

FOB is a frequently misused term. If a supplier insists FOB needs to be used for containerized goods, the buyer should make certain that the selected insurance covers the goods 'warehouse to warehouse'.

Use of FOB rule is restricted to goods transported by sea or inland waterway.

CFR: CFR stands for Cost and Freight .CFR is a commonly used International Commercial Term. CFR means that the seller delivers when the suitably packaged goods, cleared for export, are safely loaded on the ship at the agreed upon shipping port.

Cost and freight are a legal term in international trade. In a contract specifying that a sale is CFR, the seller is required to arrange for the carriage of goods by sea to a port of destination and provide the buyer with the documents necessary to obtain them from the carrier. Under CFR, the seller does not have to procure marine insurance against the risk of loss or damage to the cargo during transit.

Rules of CFR Incoterms: The seller is responsible for pre-paying the freight contract. Once the goods are safely stowed on board, responsibility for them transfers to the buyer, despite the seller paying for the freight contract to the selected destination port. The buyer must be informed of the delivery arrangements with enough time to organize insurance.

The seller pays for the carriage of the goods up to the named port of destination. Risk transfers to buyer when the goods have been loaded on board the ship in the country of Export. The Shipper is responsible for origin costs including export clearance and freight costs for carriage to named port.

CIF: CIF stands for Cost, Insurance, and Freight. CIF means that the seller delivers when the suitably packaged goods, cleared for export, are safely stowed on board the ship at the selected port of shipment. The seller must prepay the freight contract and insurance. The seller is only obliged to procure the minimum level of insurance coverage. This minimum level of coverage is not usually adequate for manufactured goods. In this event, the buyer and seller are at liberty to negotiate a higher level of coverage.

Rules of CIF Incoterms: The seller must deliver the goods aboard the ship within the agreed-upon time frame. They must also give the buyer sufficient notice of delivery and provide proof of delivery and loading.

The exact details of the sales contract will determine when the liability for the goods transfers from seller to buyer. In most cases, the seller's obligation ends once cargo loading is complete. However, a buyer may stipulate that the seller be responsible until the goods reach a port of import or even their final destination.

CIF applies to ocean or inland waterway transport only. It is commonly used for bulk cargo, oversized or overweight shipments.

CPT: CPT stands for carriage paid to. CPT stands for when the seller delivers the goods to a carrier, or a person nominated by the seller, at a destination jointly agreed upon by the seller and buyer. The seller is responsible for paying the freight charges to transport the goods to the named location. Responsibility for the goods being transported transfers from the seller to the buyer the moment the goods are delivered to the carrier.

Rules of CPT Incoterms: If multiple carriers are used, risk passes as soon as the goods are delivered to the first carrier. The seller's only responsibility is to arrange freight to the destination. They are not responsible for insuring the goods shipment as it is being transported.

CIP: CIP stands for carriage and insurance paid to. CIP means that the seller delivers the goods to a carrier or another approved person (selected by the seller) at an agreed location. The seller is responsible for paying the freight and insurance charges, which are required to transport the goods to the selected destination.

Rules of CIP Incoterms: Under CIP, the seller is obligated to insure goods in transit for 110% of the contract value. If the buyer desires additional insurance, such extra coverage must be arranged by the buyer.

Carriage and Insurance Paid To (CIP) is when a seller pays freight and insurance to deliver goods to a seller-appointed party at an agreed-upon location. If the buyer desires additional insurance, such extra coverage must be arranged by the buyer.

DAP: DAP means that the seller delivers the goods when they arrive at the pre-agreed destination, ready for unloading. It is the buyer's responsibility to affect any customs clearance and pay any import duties or taxes. Additionally, while there is no requirement for insurance, the delivery is not complete until the goods are unloaded at the agreed destination. Therefore, the seller should be wary of the risks of not securing insurance.

Rules of DAP Incoterms: Under the Delivered at Place (DAP) Incoterms rules, the seller is responsible for delivery of the goods, ready for unloading, at the named place of destination.

The seller assumes all risks involved up to unloading. Unloading is at the buyer's risk and cost. DAP can apply to any—and more than one—mode of transport.

DAP rules require the seller to clear goods for export, where applicable, without any obligation to clear the goods for import, pay import duty or carry out import customs formalities.

DAT: DAT stands for Delivered at Terminal. DAT is a term indicating that the seller delivers when the goods are unloaded at the destination terminal. 'Terminal' can refer to a container yard, quayside, warehouse or another part of the cargo terminal. The terminal should be agreed upon accurately in advance to ensure no confusion over the location.

While there is no requirement for insurance, the delivery is not complete until the goods are unloaded at the agreed destination. Therefore, the seller should be wary of the risks that not securing insurance could pose.

Rules of DAT Incoterms: Seller is responsible for the costs and risks to bring the goods to the point specified in the contract.

Seller should ensure that their forwarding contract mirrors the contract of sale.

Seller is responsible for the export clearance procedures.

Importer is responsible to clear the goods for import, arrange import customs formalities, and pay import duty.

If the parties intend the seller to bear the risks and costs of taking the goods from the terminal to another place then the DAP term may apply.

DDP: DDP stands for Delivery Duty Paid. DDP states that the seller must make the goods available to the buyer at a prearranged location (buyer's factory, warehouse etc.) and cover all associated expenses including unloading the goods from the carrier and any customs procedure costs and tariffs that may apply.

Rules of DDP Incoterms: Under the DDP Incoterm, the seller bears full responsibility for all costs and risks until the goods have been unloaded at the agreed-upon location.

The seller should be wary of the risks that not securing insurance could pose.

DDP holds the maximum obligation for the seller. While there is no requirement for insurance, the delivery is not complete until the goods have been unloaded at the destination.