INCOTERMS

Language is one of the most complex and important tools of International Trade. As in any complex and sophisticated business, small changes in wording can have a major impact on all aspects of a business agreement.

Word definitions often differ from industry to industry. This is especially true of global trade. Where such fundamental phrases as "delivery" can have a far different meaning in the business than in the rest of the world.

For business terminology to be effective, phrases must mean the same thing throughout the industry. That is why the International Chamber of Commerce created "INCOTERMS" in 1936. INCOTERMS are designed to create a bridge between different members of the industry by acting as a uniform language they can use.

Each INCOTERM refers to a type of agreement for the purchase and shipping of goods internationally. There are 13 different terms, each of which helps users deal with different situations involving the movement of goods. For example, the term **FCA** is often used with shipments involving Ro/Ro or container transport; **DDU** assists with situations found in intermodal or courier service-based shipments.

INCOTERMS also deal with the documentation required for global trade, specifying which parties are responsible for which documents. Determining the paperwork required to move a shipment is an important job, since requirements vary so much between countries. Two items, however, are standard: the commercial invoice and the packing list.

INCOTERMS were created primarily for people inside the world of global trade. Outsiders frequently find them difficult to understand. Seemingly common words such as "responsibility" and "delivery" have different meanings in global trade than they do in other situations.

In global trade, "delivery" refers to the seller fulfilling the obligation of the terms of sale or to completing a contractual obligation. "Delivery" can occur while the merchandise is on a vessel on the high seas and the parties involved are thousands of miles from the goods. In the end, however, the terms wind up boiling down to a few basic specifics:

Costs: who is responsible for the expenses involved in a shipment at a given point in the shipment's journey?
Control: who owns the goods at a given point in the journey?
Liability: who is responsible for paying damage to goods at a given point in a shipment's transit?

It is essential for shippers to know the exact status of their shipments in terms of ownership and responsibility. It is also vital for sellers & buyers to arrange insurance on their goods while the goods are in their "legal" possession. Lack of insurance can result in wasted time, lawsuits, and broken relationships. **United Shipping** members will gladly assist shippers and consignees (Buyers and Sellers) in dealing with insurance for the global trade environment.

INCOTERMS can thus have a direct financial impact on a company's business. What is important is not the acronyms, but the business results. Often companies like to be in control of their freight. That being the case, sellers of goods might choose to sell CIF, which gives them a good grasp of shipments moving out of their country, and buyers may prefer to purchase FOB, which gives them a tighter hold on goods moving into their country.

In this glossary, we'll tell you what terms such as **CIF** and **FOB** mean and their impact on the trade process. In addition, since we realize that most international buyers and sellers do not handle goods themselves, but work through customs brokers and freight forwarders, we'll discuss how both fit into the terms under discussion.

INCOTERMS are most frequently listed by category. Terms beginning with **F** refer to shipments where the primary cost of shipping is not paid for by the seller. Terms beginning with **C** deal with shipments where the seller pays for shipping. **E**-terms occur when a seller's responsibilities are fulfilled when goods are ready to depart from their facilities. **D** terms cover shipments where the shipper/seller's responsibility ends when the goods arrive at some specific point. Because shipments are moving into a country, **D** terms usually involve the services of a customs broker and a freight forwarder. In addition, **D** terms also deal with the pier or docking charges found at virtually all ports and determining who is responsible for each charge.

Recently the ICC changed basic aspects of the definitions of a number of INCOTERMS, buyers and sellers should be aware of this. Terms that have changed have a star alongside them.

EX-Works
One of the simplest and most basic shipment arrangements places the minimum responsibility on the seller with greatest responsibility on the buyer. In an **EX-Works** transaction, goods are basically made available for pickup at the shipper/seller's factory or warehouse and "delivery" is accomplished when the merchandise is released to the consignee's freight forwarder or other transportation intermediary. The buyer is responsible for making arrangements with their forwarder (or Customs Broker) for insurance, export clearance and handling all other paperwork.

FOB (Free On Board)
One of the most commonly used—and misused—terms, **FOB** means that the shipper/seller uses his freight forwarder to move the merchandise to the port or designated point of export from the country in which the shipment originates. "Delivery" is accomplished when the goods have passed over the ship's rail at the named port or have been placed on the aircraft or other coveyence. The buyer's responsibility for insurance and transportation begins at the same moment.

FCA (Free Carrier)
In this type of transaction, the seller fulfils his obligation to deliver when he has handed over the goods, cleared for export, to the freight forwarder or carrier named by the buyer, at the named place or point.

FAS (Free Alongside Ship)
In these transactions, the buyer bears all the transportation costs and the risk of loss of goods. **FAS** requires the shipper/seller to clear goods for export, which is a reversal from past practices. Companies selling on these terms will ordinarily use their freight forwarder to clear the goods for export. "Delivery" is accomplished when the seller places the goods alongside the vessel at the named port of shipment.

CFR (Cost and Freight)
This term formerly known as **CNF (C&F)** defines two distinct and separate responsibilities—one is dealing with the actual cost of merchandise **"C"** and the other **"F"** refers to the freight charges to a predetermined destination point. It is the shipper/seller's responsibility to get goods from their door to the port of destination. "Delivery" is accomplished at this time. It is the buyer's responsibility to cover insurance from origin to buyer's door. Given that the shipper is responsible for transportation, the shipper also chooses the forwarder and/or carriers.

CIF (Cost, Insurance and Freight)
This arrangement similar to **CFR**, but instead of the buyer insuring the goods, the shipper/seller will insure the merchandise. In this arrangement, the seller usually chooses the forwarder, carrier and insurance coverage. "Delivery" as above, is accomplished at the port of destination.

CPT (Carriage Paid To)
In **CPT** transactions the shipper/seller has the same obligations found with **CFR**, with the addition that the risk of loss or damage to the goods, and cost related thereto, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier.

DAF (Delivered At Frontier)
Here the seller's responsibility is to hire a forwarder to take goods to a named frontier, which usually a border crossing point, and clear them for export. "Delivery" occurs at this time. The buyer's responsibility is to arrange with their forwarder for the pick up of the goods after they are cleared for export, carry them across the border, clear them for importation and effect delivery. In most cases, the buyer's forwarder handles the task of accepting the goods at the border across the foreign soil.

DES (Delivered Ex Ship)
In this type of transaction, it is the seller's responsibility to get the goods to the port of destination or to engage the forwarder to the move cargo to the port of destination uncleared. "Delivery" occurs at this time. Any destination charges that occur after the ship is docked are the buyer's responsibility.

DEQ (Delivered Ex Quay) See DDP and DDU.
DDP (Delivered Duty Paid)
DDP means the shipper/seller is responsible for dealing with all the tasks involved in moving goods from the manufacturing plant to the buyer/consignee's door. It is the shipper/seller's responsibility to insure the goods and absorb all costs and risks <u>including</u> the payment of duty and fees.

DDU (Delivered Duty Unpaid)
This arrangement is basically the same as with DDP, except for the fact that the <u>buyer</u> is responsible for the duties, fees and taxes.