

INCOTERMS

RULES FOR TRADE LOGISTICS

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Export America

Thirteen international commercial terms (“Incoterms”) describe the responsibilities of buyers and sellers in international trade. Incoterms are definitions and guidelines for sales contracts. They address fundamental issues of cost and risk allocation.

The International Chamber of Commerce (ICC) has published its Incoterms since 1936, and reference should be made to the latest edition. As terms of sale, Incoterms facilitate commerce by promoting understanding of the specific, respective tasks of trading parties. They define the roles of buyers and sellers in the arrangement of transportation; they also outline when transfer of ownership of merchandise takes place. Incoterms therefore greatly influence the actions of exporters, importers, freight forwarders, and others involved in international trade.

WORLDWIDE USE

Incoterms reduce disputes as well as provide common criteria for arbitration. Customs authorities and courts around the world recognize the 13 Incoterms as the standard set of rules for global commerce.

Each Incoterm has a three-letter abbreviation and usage with one or more modes of transportation. Incoterms range from the seller’s minimal obligations (EXW—ex works, named place) to the seller’s maximal obligations

(DDP—delivered duty paid, named place of destination). Other common terms include FOB (free on board, named port of shipment), CIF (cost, insurance and freight, named port of destination), CPT (carriage paid to named place of destination), and DDU (delivered duty unpaid, named place of destination).

Incoterms delineate in a transaction who incurs which charges and fees, extending from product cost and international freight to import duty and inland freight at the destination. Incoterms also set guidelines regarding documentary responsibilities of the buyer and seller, from product documentation and bills of lading to commercial invoices and export-import licenses.

COMPLETE INFORMATION

The information contained in this article and its sidebars is intended only as a general guide and should not be used as legal reference for sales contracts or other international trade documentation. For more information, obtain *Incoterms 2000* (ICC Publication 560) at www.iccwbo.org.

WHAT TO NOTE

The latest Incoterms include several changes from the previous edition (1990). Incoterms now specify the loading and unloading requirements of both buyer and seller. They also reflect international traders’ increased use of intermodal transportation. This has led to simplified delivery obligations under the term FCA. Meanwhile, FAS now requires the seller to clear the goods for export. Under DEQ, the buyer now must clear the goods for import as well as pay all duties, taxes, and other charges upon import.

WHAT TO DO

A prudent exporter will use terms of sale that fit his needs, the buyer’s wishes, and export-import requirements. Freight forwarders, U.S. Export Assistance Centers, banks’ international departments, and other parties can provide expert advice in this regard. At the outset of sales development and export planning, pay particular attention to the mode of transportation as well as the location of the transfer of ownership. Beware of unsuitable or inappropriate Incoterms, such as “FOB factory” and “FOB plant.” Take a look at the handy guide, think about the meanings of port and place, and check the transportation mode picture.

INCOTERM ABBREVIATIONS

EXW: ex works (named place)

The seller makes the goods available to the buyer at the seller's premises.



“F” Terms

The seller is obliged to deliver the goods to the buyer's appointed carrier.

FCA: free carrier (named place)



FAS: free alongside ship
(named port of shipment)



FOB: free on board
(named port of shipment)



“C” Terms

The seller has to contract for carriage. The seller does so without assuming the risk of loss of or damage to the goods, and also without assuming additional costs arising from events occurring after shipment or dispatch.

CFR: cost and freight
(named port of destination)



CIF: cost, insurance and freight
(named port of destination)



CPT: carriage paid to
(named place of destination)



CIP: carriage and insurance paid to
(named place of destination)



“D” Terms

The seller bears the costs and risks of transporting the goods to the destination.

DAF: delivered at frontier (named place)



DES: delivered ex ship
(named port of destination)



DEQ: delivered ex quay
(named port of destination)



DDU: delivered duty unpaid
(named place of destination)



DDP: delivered duty paid
(named place of destination)

