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 shipme
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.

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 greater 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. The buyer is responsible for making arrangements with their forwarder 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 origin. Though frequently used to describe inland movement of cargo, FOB specifically refers to ocean or inland waterway transportation of goods. "Delivery" is accomplished when the shipper/seller releases the goods to the buyer's forwarder. The buyer's responsibility for insurance and transportation begins at the same moment.

FCA (Free Carrier)

In this type of transaction, the seller is responsible for arranging transportation, but he is acting at the risk and the expense of the buyer. Where in FOB the freight forwarder or carrier is the choice of the buyer, in FCA the seller chooses and works with the freight forwarder or the carrier. "Delivery" is accomplished at a predetermined port or destination point and the buyer is responsible for Insurance.

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 goods are turned over to the Buyers Forwarder for insurance and transportation.

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 the port of origin or port of shipment to buyer's door. Given that the shipper is responsible for transportation, the shipper also chooses the forwarder.

CIF (Cost, Insurance and Freight)
This arrangement similar to CFR, but instead of the buyer insuring the goods for the maritime phase of the voyage, the shipper/seller will insure the merchandise. In this arrangement, the seller usually chooses the forwarder. "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 CIF, with the addition that the seller has to buy cargo insurance, naming the buyer as the insured while the goods are in transit.

CIP (Carriage and Insurance Paid To)
This term is primarily used for multimodal transport. Because it relies on the carrier's insurance, the shipper/seller is only required to purchase minimum coverage. When this particular agreement is in force, Freight Forwarders often act in effect, as carriers. The buyer's insurance is effective when the goods are turned over to the Forwarder.

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)*

In this arrangement, the buyer/consignee is responsible for duties and charges and the seller is responsible for delivering the goods to the quay, wharf or port of destination. In a reversal of previous practice, the buyer must also arrange for customs clearance.

DDP (Delivered Duty Paid)

DDP terms tend to be used in intermodal or courier-type shipments. Whereby, 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 including 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 buyer is responsible for the duty, fees and taxes.