

THORNLEY & PITT, INC

INCO TERMS 2000

The best beginning of any business transaction is to have a clear understanding between the parties involved as to who is paying for what. To that end INCO terms have been established and they are internationally agreed upon.

Even though these guidelines have been established for many years – and brought up to speed with changes in modes in transportation etc. there still are room for interpretation. Thus it is extremely important to use any term as a basis of understanding and then further clarify until both parties are satisfied with the agreement and level of clarity of who pays for each of the steps involved in the supply chain and at what point risk transfers.

We typically advise our clients to negotiate terms as follows.

Import – Purchase FOB foreign port or airport – this leaves it up to your vendor to get the goods to the departure point at their expense and within the agreed timeline. Yet it leaves you in control of your transportation cost and choice of provider, this becomes crucial when transit time, mode of transportation and the need of you and your clients needs to be considered. We have seen too many cases where vendors choose a carrier solely based on price which led to subsequent delays and costly order cancellations. Likewise negotiating on FOB terms you are designating your local forwarder and thereby obtain the benefit of having someone in the country of origin working on your behalf to ensure that your order is followed up on and expedited the way you want it done!

Export – Sell CIF foreign port or airport of entry – there are multiple reasons for this; 1) You extend your customer service reach and marketing to your clients border – they do not have to hassel with it and gain a competitive edge. 2) By using the transportation provider of your choice you maintain control of your goods to the destination. 3) you also know who you are dealing with and that your forwarder who will process the export transaction in accordance with your instructions and ensuring that your obligations and responsibilities under the Export Administration Regulations are met.

Below you will find a chart and graph of the various INCO terms – please <u>call us</u> for further information should you have any questions or need for clarification – better safe than sorry!

SUMMARY OF TERMS

For a given term, "Yes" indicates that the seller has the responsibility to provide the service included in the price. "No" indicates it is the buyer's responsibility. If insurance is not included in the term (for example, CFR) then insurance for transport is the responsibility of the buyer or the seller depending on who owns the cargo at time of transport. In the case of CFR terms, it would be the buyer while in the case of DDU or DDP terms, it would be the seller.

	Load to truck	Export- duty payment	Transport to exporter's port	truck at	ot	Transport to import's port	Landing charges at importer's port	Unload onto trucks from the importers' port	Transport to destination	Insurance	Entry - Customs clearance	Entry - Duties and Taxes
EXW	No	No	No	No	No	No	No	No	No	No	No	No
FCA*	Yes	Yes	Yes	No	No	No	No	No	No	No	No	No
FAS	Yes	Yes	Yes	Yes	No	No	No	No	No	No	No	No

FOB	Yes	Yes	Yes	Yes	Yes	No						
CFR	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No
CIF	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No
СРТ	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No
CIP	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No
DAF	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No	No
DES	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No
DEQ	Yes	No	No	Yes	No	No						
DDU	Yes	No	No									
DDP	Yes											

^{*}Named point could be seller's warehouse

Group E – Departure

EXW – Ex Works (named place)

the seller makes the goods available at his premises.

the buyer is responsible for all charges

Group F - Main carriage unpaid

FCA – Free Carrier (named place)

the seller hands over the goods, cleared for export, into the custody of the first carrier (named by the buyer) at the named place. This term is suitable for all modes of transport, including carriage by air, rail, road, and containerised / multi-modal transport.

FAS – Free Alongside Ship (named loading port)

the seller must place the goods alongside the ship at the named port. The seller must clear the goods for export; this changed in the 2000 version of the Incoterms. Suitable for maritime transport only.

FOB - Free On Board (named loading port)

the classic maritime trade term, Free On Board: seller must load the goods on board the ship nominated by the buyer, cost and risk being divided at ship's rail. The seller must clear the goods for export. Maritime transport only.

Group C - Main carriage paid

CFR – Cost and Freight (named destination port)

seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods have crossed the ship's rail. Maritime transport only.

CIF - Cost, Insurance and Freight (named destination port)

exactly the same as CFR except that the seller must in addition procure and pay for insurance for the buyer. Maritime

transport only.

CPT – Carriage Paid To (named place of destination)

the general/containerised/multimodal equivalent of CFR. The seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.

CIP – Carriage and Insurance Paid to (named place of destination)

the containerised transport/multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.

Group D - Arrival

DAF – Delivered At Frontier (named place)

It can be used when the goods are transported by rail and road. The seller pays for transportation to the named place of delivery at the frontier. The buyer arranges for customs clearance and pays for transportation from the frontier to his factory. The passing of risk occurs at the frontier.

DES - Delivered Ex Ship (named port)

Where goods are delivered ex ship, the passing of risk does not occur until the ship has arrived at the named port of destination and the goods made available for unloading to the buyer. The seller pays the same freight and insurance costs as he would under a CIF arrangement. Unlike CFR and CIF terms, the seller has agreed to bear not just cost, but also Risk and Title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties, taxes, etc... are for the Buyer. A commonly used term in shipping bulk commodities, such as coal, grain, dry chemicals - - - and where the seller either owns or has chartered, their own vessel.

DEQ - Delivered Ex Quay (named port)

It means the same as DES, but the passing of risk does not occur until the goods have been unloaded at the port of destination.

DDU - Delivered Duty Unpaid (named destination place)

It means that the seller delivers the goods to the buyer to the named place of destination in the contract of sale. The goods are not cleared for import or unloaded from any form of transport at the place of destination. The buyer is responsible for the costs and risks for the unloading, duty and any subsequent delivery beyond the place of destination. However, if the buyer wishes the seller to bear cost and risks associated with the import clearance, duty, unloading and subsequent delivery beyond the place of destination, then this all needs to be explicitly agreed upon in the contract of sale.

DDP – Delivered Duty Paid (named destination place)

It means that the seller pays for all transportation costs and bears all risk until the goods have been delivered and pays the duty. Also used interchangeably with the term "Free Domicile"

Summary of terms

For a given term, "Yes" indicates that the seller has the responsibility to provide the service included in the price. "No" indicates it is the buyer's responsibility. If insurance is not included in the term (for example, CFR) then insurance for transport is the responsibility of the buyer or the seller depending on who owns the cargo at time of transport. In the case of CFR terms, it would be the buyer while in the case of DDU or DDP terms, it would be the seller.

Incoterms 2000: Transfer of risk from the seller to the buyer

