



THE INTERNATIONAL EXPORT TRADE TERMS (INCOTERMS) - BASIS FOR A SUCCESSFUL EXPORT CONTRACT

PRESENTED BY GROUP 2

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INTRODUCTION

Definition: What are INCOTERMS?

-INCOTERMS - International Commercial Terms

-Published by the International Chamber Of Commerce

- ▶ INCOTERMS are a ICC set of rules and guidelines that help facilitate international and domestic trade. They spell out the liability, responsibility of parties to a contract as related to cost, risk and tariffs in the movement of goods.
- ▶ They define the different delivery points (11 INCOTERMS Rules) where the cost and risk is transferred from seller to buyer.

CATEGORIZATION OF INCOTERMS

- ▶ Based on contractual obligations, INCOTERMS can be divided into four categories E, F, C and D
- ▶ Category E - Departure, which contain EXW (Ex Works)
- ▶ Category F - Main Carriage Unpaid
 - ▶ FCA - (free Carrier)
 - ▶ FAS - (Free Alongside Ship)
 - ▶ FOB - (Free on Board)

CATEGORIZATION OF INCOTERMS : Contd.

- ▶ Category C - Main Carriage Paid
 - ▶ CPT (free Carrier)
 - ▶ CIP (Cost And Insurance Paid To)
 - ▶ CFR (Cost and Freight)
 - ▶ CIF (Cost Insurance and Freight)
- ▶ Category D - Arrivals
 - ▶ DAP (Delivered at Place)
 - ▶ DDP (Delivered Duty Paid)
 - ▶ DPU (Delivered at Place Unloaded)

CATEGORIZATION BY MODE OF TRANSPORTATION

Any mode of transport

- ▶ EXW - EX WORKS
- ▶ FCA - FREE CARRIER
- ▶ CPT - CARRIAGE PAID TO
- ▶ CIP - CARRIAGE AND INSURANCE PAID
- ▶ DPU - DELIVERED AT PLACE UNLOADED
- ▶ DAP - DELIVERED PLACE
- ▶ DDP - DELIVERED DUTY PAID

Sea and inland water way transport

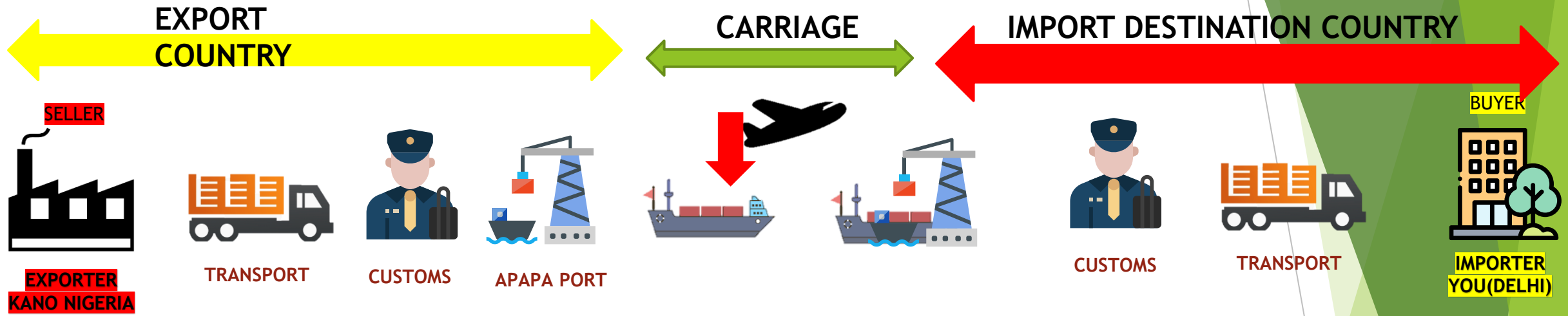
- ▶ FAS - FREE ALONGSIDE SHIP
- ▶ FOB - FREE ON BOARD
- ▶ CFR - COST AND FREIGHT
- ▶ CIF - COST INSURANCE AND FREIGHT

COMMONLY USED INCOTERMS

However, for most international freights, the commonly used terms of contract include the following;

- ▶ EXW - EX Works
- ▶ FOB - Free on Board
- ▶ CFR - Cost and Freight
- ▶ CIF - Cost Insurance & Freight

FOB - Free on Board



seller	Buyer
seller	Buyer
seller	Buyer

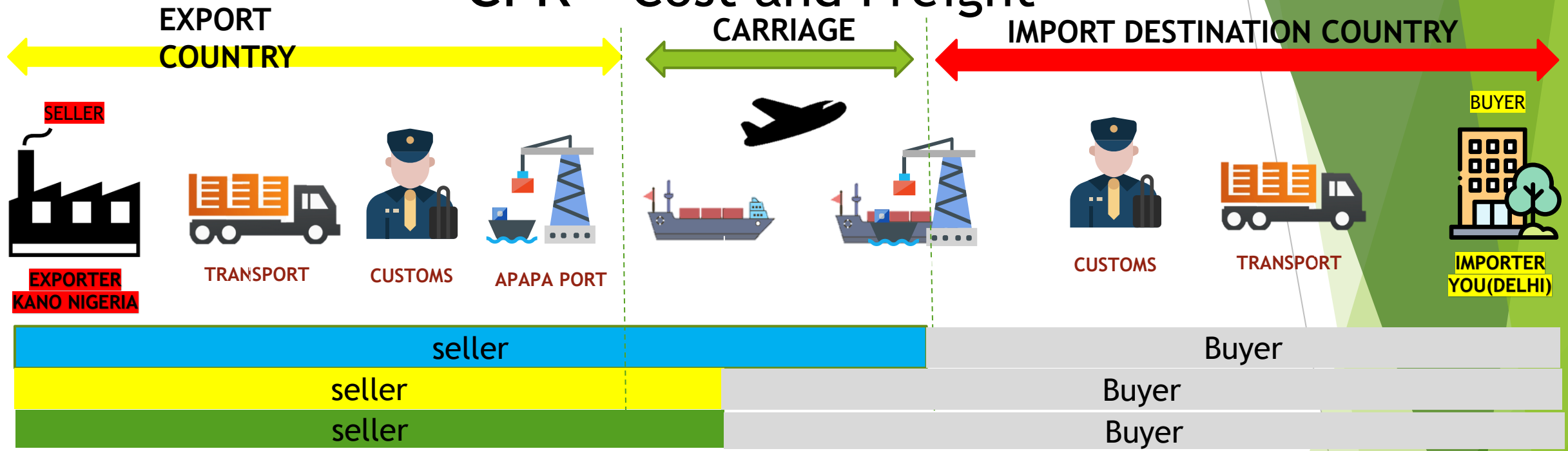
Under the FOB INCOTERMS, the goods are deemed to be delivered by the seller to the buyer when they are delivered on board the vessel nominated by the buyer at the named Port of shipment.

- The risks are shifted to the buyer once the goods are placed on board the ship.
- The seller clears the goods for export, not import.

Legend for the table above:

- Cost
- Risk
- Insurance

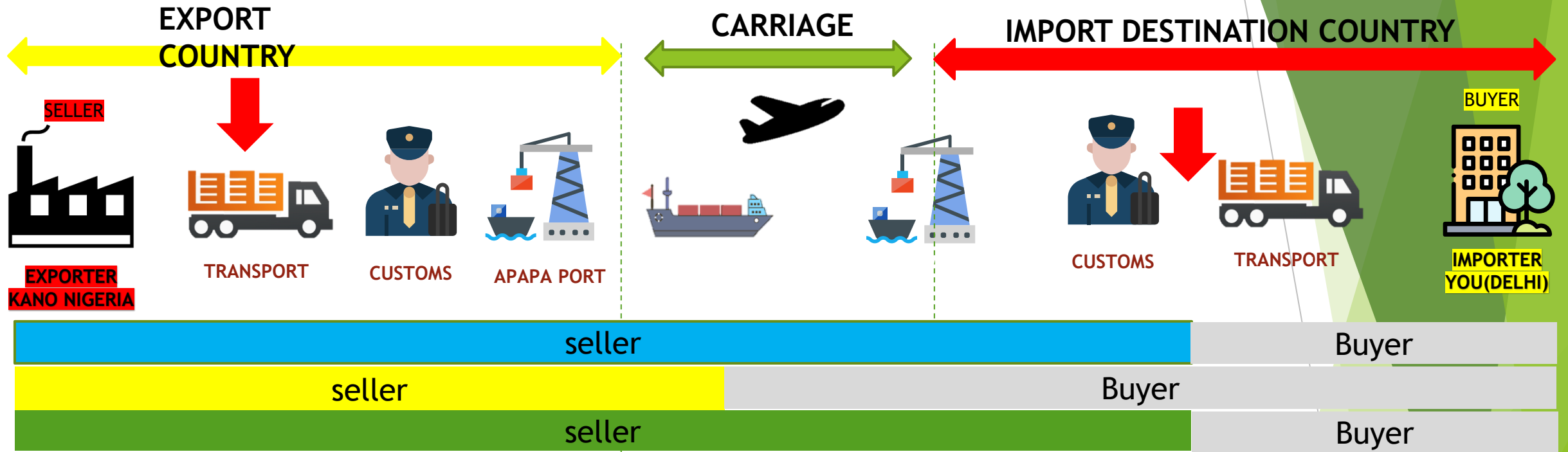
CFR - Cost and Freight



For CFR INCOTERMS, the seller has the obligations to deliver the goods to the buyer by placing them on board the vessel and procuring them to be delivered at the Port of destination.

- The risk of loss/damage is shifted to the buyer once the goods are placed on board the vessel.

CIF - COST INSURANCE & FREIGHT



This is an agreement to sell goods at a price inclusive of the cost of goods, insurance coverage and freight.

- The seller covers the cost of insurance and freight to a named Port of destination
- Risk is transferred when the goods have been loaded on the vessel
- CIF requires the seller to purchase Seller is required to obtain min. insurance cover complying with institute cargo clauses © in the buyers name.



HOW TO CHOOSE THE RIGHT INCOTERMS

- ▶ 1. The regulations of the buyer's country.
- ▶ 2. Standard practice
- ▶ 3. The agreed mode of transportation
- ▶ 4. Customer Service: one should use a competitive term which is suitable for buyer and seller and not only important for one party to get, maybe an advantage from that.

Purpose of INCOTERMS

INCOTERMS are primarily established for the purpose of

- ▶ CARRIAGE
- ▶ COST
- ▶ RISK

Purpose of INCOTERMS Contd.

Carriage

- ▶ Carriage refers to the means of transportation that both parties have agreed upon to move the shipment from point A to B.
- ▶ However, an international shipment can have several legs to its journey, and the Incoterm will determine exactly how far the seller will get the shipment before the buyer assumes responsibility.

Purpose of INCOTERMS Contd.

Cost

- ▶ Cost of international shipment vary significantly depending on the mode of transportation. The Incoterm on a shipment will not only determine who arranges the transportation but also who is responsible for payment and how it is reflected in the overall transaction.

Risk

- ▶ Some shipment pass through more than one Port before arriving at their final destination, with many legs to a journey come many points of risk. If a shipment is lost or damaged along the route, it is critical to understand which party bears the risk. The agreed-upon Incoterm will do just that, making the process to a resolution much more streamlined.

The Usefulness of INCOTERMS for a Successful Export Contract

- ▶ It eliminates ambiguities
- ▶ Reduces number of litigations arising from breach of contract
- ▶ Reduces risk

The Usefulness of INCOTERMS for a Successful Export Contract

1. Elimination of ambiguities; this is by far the most important use of INCOTERMS in international trade, as it;
 - ▶ Eliminates ambiguities or inconsistencies in export trade and brings about clarity to what will be the delivery point for the seller and from where the responsibility of the buyer start.
 - ▶ It assist the exporter/importer avoid mistakes and misunderstanding by clarifying task, cost and risk involved in the delivery of goods. This is done by defining the role of seller/buyer.
 - ▶ The use of **Incoterms** eliminates inconsistencies in language by giving all parties the same definition of specific terms within a trade agreement.

The Usefulness of INCOTERMS for a Successful Export Contract

2. Helps mitigate legal litigation

Using the correct Incoterms in an international transaction helps the parties involved identify the risks for which they're responsible, at the same time, they can take pre-emptive steps to mitigate those risks and not wait until something goes wrong.”

- ▶ INCOTERMS have flexible rules and parties can decide which one works best for them. Therefore, depending on the nature of the contract, the Incoterms can be useful in helping the parties to identify the obligations, costs and risks involved in performing the contract.
- ▶ E.g. which party cover Loading charges at place, Delivery at Port or Place, Export duty, taxes and custom clearance, Point of origin - terminal charges, Loading on carriage, Freight charges, Insurance, Destination terminal charges, Delivery at destination, Unloading at destination, Import duty, taxes and custom clearance.

The Usefulness of INCOTERMS for a Successful Export Contract

Reduction in Risk

- ▶ They can help you avoid disagreements over who carries the risk at various points in the logistics process. This helps you get the right insurance for the period during which you carry the risk.
- ▶ They can help you avoid disputes over alleged late delivery and lower your risk of late-delivery penalties.
- ▶ They provide a stable risk environment by imposing certainty on a sales contract. For example, using the appropriate Incoterms rules can help ensure that you get paid for a shipment.

CONCLUSION

Incoterms are very relevant to cross-border trade as they provide harmonized interpretation rules for eleven common trade terms. These rules which are updated every 10 years give credibility to its application. The world would be a jungle of commercial litigation without INCOTERMS.



THANK YOU