INCOTERMS

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PROCUREMENT

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Explanation

- **Incoterms**, short for **International Commercial Terms**, are a set of standardised trade terms published by the International Chamber of Commerce (ICC). They define the responsibilities of buyers and sellers in international trade transactions, clarifying who is responsible for various tasks, costs, and risks associated with the delivery of goods.
- Each term clarifies aspects such as transportation, insurance, and customs duties, ensuring that both parties have a clear understanding of their obligations, thus facilitating smoother international transactions.

The Terms

Abbreviation	Description	Outline
EXW	Ex Works	The seller makes the goods available at their premises. The buyer covers all costs and risks.
FCA	Free Carrier	The seller delivers the goods to a carrier chosen by the buyer at the seller’s premises or another named place.
CPT	Carriage Paid To	The seller pays for the carriage of the goods to the named destination. Risk transfers to the buyer upon delivery to the carrier.
CIP	Carriage and Insurance Paid To	Similar to CPT, but the seller also pays for insurance against the buyer’s risk of loss or damage to the goods during transit.
DAT	Delivered At Terminal	The seller pays for carriage to the terminal, except for import duties. Risk transfers when goods are unloaded at the terminal.
DAP	Delivered At Place	The seller pays for carriage to the named place, except for import duties. Risk transfers when the goods are ready for unloading.
DDP	Delivered Duty Paid	The seller is responsible for delivering the goods to the named place and covers all costs, including import duties and taxes.
FAS	Free Alongside Ship	The seller places the goods alongside the ship at the named port. The buyer covers the loading and shipping costs.
FOB	Free On Board	The seller delivers the goods on board the vessel. Risk transfers to the buyer once the goods are on board.
CFR	Cost and Freight	The seller pays for the cost and freight to bring the goods to the port of destination. Risk transfers when the goods are on board the vessel.
CIF	Cost, Insurance and Freight	Similar to CFR, but the seller also pays for insurance. Risk transfers when the goods are on board the vessel.

The Most Commonly Used

- **FOB (Free On Board)**: Widely used in maritime transport. The seller delivers the goods on board the vessel, and the buyer assumes risk once the goods are on board.
- **CIF (Cost, Insurance, and Freight)**: Also common in maritime transport. The seller covers cost, insurance, and freight to the destination port, with risk transferring to the buyer once goods are on board the vessel.
- **EXW (Ex Works)**: Used across all modes of transport. The seller makes the goods available at their premises, and the buyer assumes all risks and costs from that point onward.
- **FCA (Free Carrier)**: Applies to any mode of transport. The seller delivers the goods to the carrier chosen by the buyer at the seller's premises or another named place.
- **DAP (Delivered At Place)**: Applicable to all modes of transport. The seller is responsible for delivering the goods to the named place, excluding import duties. The risk transfers when goods are ready for unloading.

Benefits

Benefit	Description
Clarity in Responsibilities	Clearly defines the roles and obligations of buyers and sellers, reducing misunderstandings and disputes.
Standardised Terms	Provides a universal set of terms recognised internationally, facilitating smoother cross-border transactions.
Risk Management	Helps identify when and where the risks transfer from the seller to the buyer, aiding in effective risk management.
Cost Allocation	Clearly outlines who is responsible for transportation, insurance, and other costs, which helps in budgeting and financial planning.
Efficiency	Streamlines the logistics and shipping process by providing clear guidelines, improving overall efficiency.
Legal Support	Widely recognised by legal authorities, providing a legal framework that can be relied upon in case of disputes.
Flexibility	Offers various terms that can be tailored to suit the specific needs of different transactions and transportation modes.
Trust Building	Enhances trust and cooperation between international trading partners by setting clear expectations and responsibilities.
Customisation	Allows businesses to select terms that best fit their logistical capabilities and strategic objectives.
Training and Familiarity	Simplifies training for new employees and partners as the terms are standardised and well-documented.

Example

- **Background**: A UK-based electronics company, "Tech Innovators Ltd," needs to import a large shipment of electronic components from a supplier in Shenzhen, China. The two parties agree to use the Incoterm **FOB (Free On Board)**.
- **Responsibilities**:

1. **Seller (Shenzhen Supplier)**:
   1. **Tasks**: The supplier in Shenzhen is responsible for packing the electronic components and ensuring they are delivered to the port of Shenzhen. They must also handle export customs clearance and load the goods onto the vessel designated by Tech Innovators Ltd.
   2. **Costs**: The supplier covers the costs up to the point where the goods are loaded onto the vessel.
   3. **Risk**: The risk remains with the supplier until the goods are loaded onto the ship.
2. **Buyer (Tech Innovators Ltd)**:
   1. **Tasks**: Tech Innovators Ltd is responsible for arranging and paying for the sea freight from the port of Shenzhen to the port of London, as well as handling import customs clearance and transporting the goods to their warehouse in the UK.
   2. **Costs**: The company covers all costs from the moment the goods are loaded onto the vessel, including transportation, insurance, and import duties.
   3. **Risk**: The risk transfers to Tech Innovators Ltd once the goods are on board the vessel in Shenzhen.

Example

- **Process**:

1. The supplier prepares the electronic components and arranges for their transport to the port of Shenzhen.
2. The supplier completes all necessary export customs documentation.
3. The goods are loaded onto the vessel named by Tech Innovators Ltd, marking the point of transfer of risk and responsibility.
4. Tech Innovators Ltd handles the sea freight, insurance, and any import customs clearance required upon arrival in the UK.
5. Finally, Tech Innovators Ltd arranges for the transport of the goods from the port of London to their warehouse.

What if It Goes Wrong...

- **What Went Wrong**: While the goods were on board the vessel in Shenzhen and before they departed, a severe storm hit the port. The storm caused significant damage to the vessel, including to the loaded goods. Because the risk transfers to Tech Innovators Ltd once the goods are on board the vessel, they are responsible for the loss.
- **Consequences**:

1. **Financial Loss**: Tech Innovators Ltd now faces the financial burden of the damaged goods, including the costs of the lost components and the potential delays in their supply chain.
2. **Insurance Claim**: The company must navigate through the process of claiming insurance for the damages incurred. If they had arranged for adequate marine insurance, it could cover the losses.
3. **Operational Impact**: The delay in receiving the necessary components affects their production schedule, potentially impacting their ability to meet customer demands and deadlines.

Remembering them

- **FIRE CFD**
  - **F**OB (Free On Board)
  - **I**NCOTERMS
  - **R**EALLY
  - **E**SSENTIAL
  - **C**IF (Cost, Insurance, and Freight)
  - **F**CA (Free Carrier)
  - **D**AP (Delivered At Place)

FOB, CIF, and EXW, Help us move our goods away.
FCA and CPT, Guide our journey overseas