

INCOTERMS

When negotiating an international sales contract, both parties need to pay as much attention to the terms of sale as to the sales price. To make it as clear as possible, an international set of trade terms (INCOTERMS) has been adopted by most countries that defines exactly the responsibilities and risks of both the buyer and seller including while the merchandise is in transit.

Origin Terms

EXW - Ex-Works, named place where shipment is available to the buyer, not loaded. The seller will not contract for any transportation. Buyer is responsible for everything from the factory.

International Carriage NOT Paid by Seller

FCA - Free Carrier, unloaded at the seller's dock OR a named place where shipment is available to the international carrier or agent, not loaded. This term can be used for any mode of transport.

FAS - Free Alongside Ship, named ocean port of shipment. Ocean shipments that are NOT containerized.

FOB - Free On Board vessel, named ocean port of shipment. This term is used for ocean shipments only where it is important that the goods pass the ship's rail.

International Carriage Paid by the Seller

CFR - Cost and Freight, Named ocean port of destination. This term is used for ocean shipments that are not containerized.

CIF - Cost, Insurance and Freight, named ocean port of destination. This term is used for ocean shipments that are not containerized.

CPT - Carriage Paid To, named place or port of destination. This term is used for air or ocean containerized and roll-on roll-off shipments.

CIP - Carriage and Insurance Paid To, named place or port of destination. This term is used for air or ocean containerized and roll-on roll-off shipments.

Arrival At Stated Destination

DAF - Delivered At Frontier, named place of destination, by land, not unloaded.
This term is used for any mode of transportation but must be delivered by land.

DES - Delivered Ex-Ship, named port of destination, not unloaded.
This term is used for ocean shipments only.

DEQ - Delivered Ex-Quay, named port of destination, unloaded, not cleared.
This term is used for ocean shipments only.

DDU - Delivered Duty Unpaid, named place of destination, not unloaded, not cleared.
This term is used for any mode of transportation.

DDP - Delivered Duty Paid, named place of destination, not unloaded, cleared.
This term is used for any mode of transportation.

Impact

The buyer particularly should be cognizant of the following generalized formula and the underlying costs. It is not uncommon for producers (sellers) to make a significant portion if not the entire profit for a given product off of the transportation 'service' and not from the product itself. Naturally, this is for any Incoterm except EXW.

Product price + Warehouse Storage + Warehouse Labor + Export Packing + Loading Charges + Inland Freight + Terminal Charges + Forwarder's Fees + Export Duty, Taxes & Customs Clearance + Loading On Vessel + Ocean/Air Freight + Transport Insurance + Charges On Arrival At Destination + Import Duty, Taxes & Customs Clearance + Delivery To Destination = Total product cost

Many negotiations and discussions hinge upon finding a suitable product price for both parties, naturally. What is often taken as an aside or after thought are the final terms of sale. A buyer would be well positioned if they received 2 (or more) product prices such as
product price – FCA (or EXW)
Product price – CIP (or DDP)

As well as understanding the transport costs in the market currently available. The transport markup in the product price could then be discerned and this information could be used in negotiating more favorable terms.