

E216 Distribution and Transportation

Problem 08

Shipment Terms

- **INCOTERMS**
 - INCOTERMS 2000
 - INCOTERMS 2010
- **Negotiation Strategies in Delivery**
 - Short, Mid & Long Term

SCHOOL OF
ENGINEERING

INCOTERMS



- Stands for “**International Commercial Terms**”
- Published by ICC (International Chamber of Commerce, www.iccwbo.org) in 1936
 - ✓ Since 1936, ICC has updated INCOTERMS several times, most recently in 2010
- Contractual code / acronyms
- Standardized common international language for buyers & sellers
 - ✓ Not legal binding but exporters & importers around the world accept them as ***contracts of carriage***
- Prevent misunderstandings when conducting business deals globally
- Also known as **sales term**, **delivery term** or **shipment term**
- Note: Incoterms are **NOT Payment Terms** (E.g. Advance Payment, Letter of Credits)

Purposes of Incoterms



- Eliminate barriers caused by distance, language and local business practices
- Eliminate uncertainties and different interpretation of trade terms on a worldwide scale
- Reduce risks & time wasted caused by disputes & litigation
- As universal language with banks
- Clarify some contractual obligations of buyers and sellers
- Needed for export clearance and to declare the correct customs value
 - Prevent penalties & delays
 - Protect valuable trade privileges

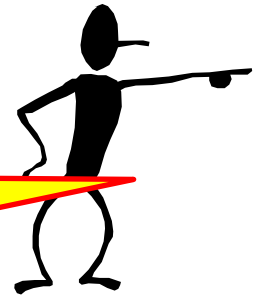
What is in INCOTERMS?



It spells out **who is responsible** for:

- Risk of Loss
- Delivery
- Export License and Custom Clearance
- Contract of insurance
- Loading of goods on vehicles

Note: Incoterms do not provide regulations on the transfer of ownership



Identify the Delivery Point where Risk of Loss is Transferred

- **Risk of Loss**: The party that bears the physical risk of loss or damage to the goods during transit.

Note: ROL does not cover other types of risk, such as delay or non-fulfillment of the contract.

- If goods are damaged or destroyed:
 - **ROL on buyer**: Buyer pays full price of goods.
 - **ROL on seller**: Damages awarded based on local laws or contract terms.



Who is Responsible for Paying What ?



- Incoterms set forth the **division of costs between the seller and buyer** for transporting goods to their destination.
- **Costs include:**
 - ✓ Costs of dispatch, carriage and delivery;
 - ✓ Export and import clearance
 - ✓ Services provided by one party to another to assist in carrying out an obligation;



Incoterms 2000 – 13 Incoterms



Group E— Departure

- EXW — EX WORKS ...named place

Group F— Main Carriage Unpaid

- FCA — Free Carrier... named place
- FAS — Free Alongside Ship... named port of shipment
- FOB — Free on Board... named port of shipment

Group C — Main Carriage Paid

- CFR — Costs & Freight ... named port of destination
- CIF — Costs, Insurance & Freight ... named port of destination
- CPT — Costs Paid To ... named destination
- CIP— Carriage, Insurance Paid... named destination

Group D — Arrival

- DAF — Delivered At Frontier...named place
- DES — Delivered Ex-Ship ... named port of destination
- DDU — Delivered Duty Unpaid ... named place of destination
- DEQ — Delivered Ex-Quay ... named port of destination
- DDP — Delivered Duty Paid ... named place of destination

} Replace by two
new terms DAT
and DAP in
Incoterms 2010

Incoterms 2010 – 11 Incoterms



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Group D – Arrival

- DAT – Delivered At Terminal...named terminal of delivery
- DAP – Delivered At Place ... named place of delivery
- DDP – Delivered Duty Paid ... named place of destination

Also known as
**Shipment
Contracts**

As seller's risk
ends at point of
shipment

Also known as **Arrival
Contracts**

As seller's risk ends when
goods arrive at buyer's
appointed destination
point

Rules for Incoterms 2010



Any Mode of Transport

- EXW
- FCA
- CPT
- CIP
- DAT
- DAP
- DDP

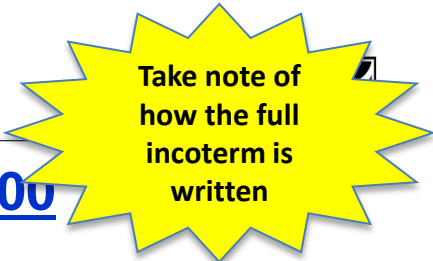
For truck, train, plane and sea shipment when ship's rail are not used as delivery point E.g. RORO ship & container ship

For Sea & Inland Waterway Transport

- FAS
- FOB
- CFR
- CIF

Relevant for sea shipment when the ship's rail are used as legal delivery point

INCOTERMS 2000: Key Terms



Take note of how the full incoterm is written

EXW – Ex Works (.. Named place) (E.g. US\$1,000 ExW, Jurong Factory, S'pore, Incoterms 2010)

- The seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (e.g. warehouse). Not cleared for Export and not loaded on any vehicles.

Group E

- The buyer assumes all risks and pays all costs from point of delivery including export charges & import duties/charges.

Group F

FCA – Free Carrier (.. Named place) (E.g. FCA Changi Airport, S'pore Incoterms 2000)

- The seller delivers the goods, cleared for export, to the carrier chosen by buyer at the named place.

- The seller assumes all risks & pay all costs to the named place of delivery including export charges. The buyer assumes all risks and pays all costs from the named place to destination.

INCOTERMS 2000: Key Terms



FAS – Free Alongside Ship (.. named port of shipment) (E.g. FAS, Jurong Port, S'pore, Incoterms 2010)

- The seller delivers when the goods are placed alongside the vessel at the named port of shipment . Seller clears for Export and not loaded on any vehicles.
- The seller assumes all risks and pays all costs from point of delivery to the named port of shipment including export charges.

Group F

Group F

FOB – Free On Board (.. named port of shipment) (E.g. FOB Jurong Port, S'pore, Incoterms 2000)

- The seller delivers when the goods pass the ship's rail at the named port of shipment , cleared for export. This term can **only used for sea shipment**.
- The seller assumes all risks & pay all costs till the goods pass the ship's rail including export charges.

INCOTERMS 2000: Key Terms



CFR – Cost and Freight (.. named port of destination) (E.g. CFR New York, USA, Incoterms 2000)

- The seller delivers when the goods pass the ship's rail at the port of destination **For Sea shipment only.**

Group C

- The seller assumes all risks till ship's rail and pays all costs from point of delivery to the named port of destination including export charges.

- The buyer assumes all risk (after goods pass the ship's rail) and all cost from port to destination including any import duties and charges.

CIF – Cost, Insurance and freight (.. named port of destination) (E.g. CIF New York, USA, Incoterms 2010)

- The seller delivers when the goods pass the ship's rail at the named port of destination , cleared for export. The seller is also required to provide insurance for the goods. This term can **only used for sea shipment.**

- Same as CFR for the seller + paying for insurance.

Group C

INCOTERMS 2000: Key Terms



Group C

CPT – Carriage Paid To (.. named place of destination) (E.g. CPT Los Angeles, Incoterms 2010)

- The seller delivers when the goods are loaded to a seller's carrier to place of destination.
- The seller assumes all risks till goods are delivered to the carrier and pays all costs from point of delivery to the named destination including export charges.
- The buyer assumes all risk (after goods loaded on carrier) and all cost from named destination to final destination including any import duties and charges.

Group C

CIP – Carriage and Insurance Paid to (.. named place of destination) (E.g. CIP New York Airport, Incoterms 2000)

- Same as CPT for the seller. + seller provide/pay Insurance for the goods against buyer's risk.
- The buyer assumes all risk (after goods loaded on carrier) and all cost from named destination to final destination including any import duties and charges.

INCOTERMS 2000: Key Terms



DAF – Delivered At Frontier (.. named place)

Group D

- The seller delivers when the goods are loaded to a seller's carrier to a named place at frontier but before the custom border of the adjoining country.
- The seller assumes all risks till goods are delivered to the carrier and pays all costs from point of delivery to the named place including export charges.
- The buyer assumes all risk (after goods loaded on carrier) and all cost from named place to final destination including any import duties and charges.
- Seldom used. **(Deleted and replaced in Incoterms 2010)**

DES/ DEQ – Delivered Ex Ship/Quay (.. named port of destination)

- The seller delivers when the goods are placed at the disposal of the buyer on board the ship/ on the quay at the named port of destination. **For Sea shipment only.**
- The buyer assumes all risk and all cost from named port of destination to final destination including any import duties and charges.
- Difference between DES & DEQ is that seller is unloading goods from Vessel for DEQ.

Group D

(Deleted and replaced in Incoterms 2010)

INCOTERMS 2000: Key Terms



DDU/ DDP – Delivered Duty Unpaid / Paid (... named place of destination) (E.g. DDP,5th Avenue New York, USA, Incoterms 2010)

Group D

- Very commonly used.

DDU

- The seller delivers when the goods are arrived at the named place of destination, not cleared for import and loaded on vehicles going to named destination.
- The buyer assumes all risk and all cost from named place of destination to final destination including any import duties and charges.
- Difference between DDU & DDP is that DDP's seller is clearing and paying for import duties and charges.

(DDU deleted and replace in Incoterms 2010)

INCOTERMS 2010: Key Terms



DAT – Delivered at Terminal...named Terminal at Port or place of destination (E.g. DAT, New York Airport, Incoterms 2010)

▪ Delivered at Terminal means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport **unloaded** at the named destination terminal or place of destination.

DAP- Delivered at Place...named place of destination (E.g. DAP, New York Port, USA, Incoterms 2010)

▪ Delivered at Place means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport **not unloaded** at the named place of destination **uncleared for import.**

INCOTERMS – BUYER AND SELLER RESPONSIBILITIES



- **Seller** always bears responsibility to:
 - ✓ Have goods ready on time, packed for export;
 - ✓ Meet quality assurance to sample or specification;
 - ✓ Make delivery in accordance with Incoterms used.
- **Seller** always prepares:
 - ✓ Invoice;
 - ✓ Packing List.
- **Buyer** has responsibility to accept delivery in accordance with Incoterms used.
- **Buyer** always has the right to inspect goods to ensure conformance with specification or sample.





General Rule: The seller is responsible for export clearance and the buyer is responsible for import clearance.

- Exception for EXW: Buyer responsible for both export & import clearance
- Exception for DDP: Seller responsible for both import & export clearance

INCOTERMS – AREAS OF NEGOTIATION



- Export Clearance
- Import Clearance
- Insurance
- Carriage
- Loading & Unloading



INCOTERMS: Chart of Responsibility



	<u>EXW</u>	<u>FCA</u>	<u>FAS</u>	<u>FOB</u>	<u>CFR</u>	<u>CIF</u>	<u>CPT</u>	<u>CIP</u>	<u>DAT</u>	<u>DAP</u>	<u>DDP</u>
Warehouse Storage	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse Labor	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland Freight	Buyer	Buyer/ Seller*	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarder's Fees	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading On Vessel	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air Freight	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
	<u>EXW</u>	<u>FCA</u>	<u>FAS</u>	<u>FOB</u>	<u>CFR</u>	<u>CIF</u>	<u>CPT</u>	<u>CIP</u>	<u>DAT</u>	<u>DAP</u>	<u>DDP</u>
Export Duty, Taxes, & Customs Clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Import Duty, Taxes & Customs Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery To Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Unloading at destination point	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer	Seller
Unloading at Buyer's warehouse	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer

Source : INCOTERM 2010 course notes; Singapore Business Federation

INCOTERMS (who pays what)



TERM	CIP Carriage & Insurance Paid To	DAF Delivery At Frontier	DES Delivered Ex- Ship	DEQ Delivered Ex- Quay, Duty Unpaid	DDU Delivered Duty Unpaid	DDP Delivered Duty Paid
SERVICE	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays
Warehouse storage at point of origin	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse labor at point of origin	Seller	Seller	Seller	Seller	Seller	Seller
Export packing	Seller	Seller	Seller	Seller	Seller	Seller
Loading at point of origin	Seller	Seller	Seller	Seller	Seller	Seller
Inland freight	Seller	Seller	Seller	Seller	Seller	Seller
Port receiving charges	Seller	Seller	Seller	Seller	Seller	Seller
Forwarders fee	Seller	Seller	Seller	Seller	Seller	Seller
Loading on ocean carrier	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air freight charges	Seller	Seller	Seller	Seller	Seller	Seller
Charges at foreign Port/Airport	Seller	Seller	Buyer	Seller	Seller	Seller
Customs, Duties & Taxes abroad	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery charges to final destination	Buyer	Buyer	Buyer	Buyer	Seller	Seller

Source : <http://www.skymartworldwide.com/incoterms-2009.html>

Other Considerations



- Sellers who wish to leave the risk of ocean transportation to the Buyers may choose one of the following:
FCA/FAS/FOB/CFR/CIF
- Sellers delivering goods to developed countries where ports are well-equipped and developed with good labor conditions, the following are advisable: **DAF/DES/DEQ/DDU/DDP (or DAT/DAP in Incoterms 2010)**
Here, **Sellers' cost or risk is maximized**
- If Sellers wish to arrange and pay for pre-carriage in the country of origin due to good connections with local transporters, the following are recommended: **FCA/FAS/FOB**
- Sellers who wish to arrange and pay for the main carriage due to their ability to negotiate for better freight from carriers locally but without assuming the risk, the following can be used:
CFR/CIF/CPT/CIP

Today's Problem



- For **ExW**, in addition to the Selling Price of US\$18000 , Irina will also have to pay for
 - Loading Fee
 - Inland Freight Charges
 - Forwarder Fees
 - Loading on Vessel
 - Ocean freight with Insurance
 - Terminal Handling Charges
 - Customs Clearance and Tax
 - Delivery Charges
- Totaling another **US\$1,741**
 - ✓ A substantial cost incurred.
- Counter Offer to Dong Fang Bags through negotiations
 - Determine the benefits that could be derived from the new Incoterms and also identify possible benefits to Dong Fang Bags.
 - E.g. DDU , Port of Singapore, Incoterms 2010,
 - Reducing total costs for Irina to **US\$40** (compared to **US\$1,741** for EXW)

Possible Negotiation Strategies



- **Short Term Strategy**

- Provide demand forecast to Dong Fang Bags more frequently so that supplier could use this to reduce operational costs E.g. production planning & scheduling, components inventory cost, etc.
- Hinting to Dong Fang Bags that customer service is a key and more & more of his competitors or partners are doing DDP delivery for a simple reason of keeping customer's loyalty.

- **Mid Term Strategy**

- State your aim to achieve true collaboration where each partner takes some risks and responsibilities for any transaction.
- Engage common 3PL services to reduce the supply chain costs.

Possible Negotiation Strategies



- Long Term Strategy

- Think **Win-Win** & create a successful supply chain alliance. Keep eyes on big picture which is growing customer demand
- Possibility of ordering larger quantity and variety of products), rather than getting bogged down on operational detail
- Possible co-location of distribution in Guangzhou in the future and identify as many collaboration opportunities as possible with supplier



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