



GREYSTONE COLLEGE
OPENING UP GLOBAL CAREER OPPORTUNITIES



Incoterms

Unit 9

Agenda

- The Basics of Incoterms
- Group 1: Terms for any mode of transport
- Group 2: Terms for sea and inland waterway transport
- Tips for Negotiating Incoterms

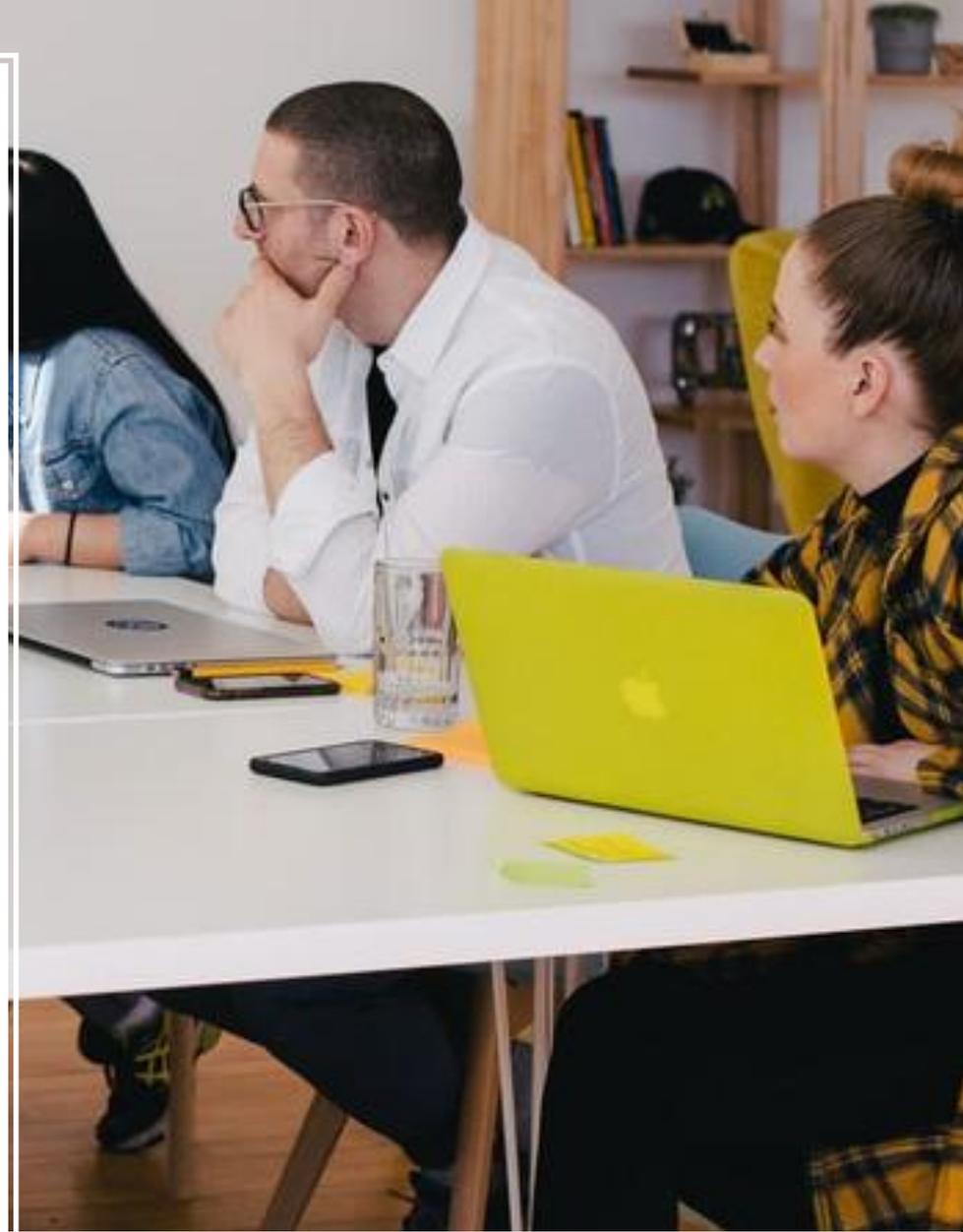
The basics of Incoterms

The roles and limitations of Incoterms



Discussion: International Communication

You've probably played the game "Telephone" before. Your teacher is going to tell one student a set of instructions. How did the information change?



International Communication

- One of the biggest issues in international trade is effectively and accurately communicating the needs and obligations of each party
 - International communication is difficult, as there are different languages, cultures, and interests involved
 - Communication across borders is often done electronically, not in-person

→ This creates a lot of room for miscommunication

Incoterms[®]
2020



Incoterms were created by the International Chamber of Commerce in 1921 and have been updated six times, the last in 2020

- The terms outline a comprehensive set of international rules for common terms in international trade
- They define the obligations of both the buyer and the seller
- They determine the distribution of the goods and the transfer of risks

Using Incoterms

- There are 6 different versions of Incoterms
 - The most recent was 2020, the one before was from 2010
- Incoterms must be incorporated into the sales contract
 - [Choice of Incoterm] [*Named port, place, or point] [Incoterm version]

Canada Inc. is negotiating with Export Inc. to buy merchandise based on FOB Hong Kong, Incoterms 2020.

Using Incoterms

- The named place is important!
 - In all Incoterms **except** the C rules, the place indicated is where the goods are “delivered” (= where the risk transfers from the buyer to the seller)
 - For D rules, it is the place of delivery and the place of destination (the seller needs to organize carriage to that point)
 - For C rules, it is the destination to which the seller must organize and pay for the carriage of the goods, but this is not the place of delivery

Limits of Incoterms

- A contract of sales is required
 - Incoterms are only terms within the sale itself, not a contract
- Things that are not covered by Incoterms:
 - The specifications, time, place, method, and currency of payment
 - Legal remedies, methods, venues, or choice of law for dispute resolution when the contract of sales is breached
 - Sanctions, import or export prohibitions or sudden government tariffs
 - Intellectual property rights
 - Force majeure or hardship
 - Transfer of property/title/ownership of the goods sold

Group 1: Terms for any mode of transport

The 7 terms for any mode of transport



Group 1: Terms for any mode of transport

Ex Works
(EXW)

Free Carrier
(FCA)

Carriage Paid To
(CPT)

Carriage and
Insurance Paid To
(CIP)

Delivered at
Place
(DAP)

Delivered Duties
Paid
(DDP)

Delivered at
Place Unloaded
(DPU)

EXW - INCOTERMS® 2020



Ex Works (EXW)

- The seller fulfills his side of the deal by having the goods available for pickup at his premises (factory, warehouse, etc.)
- The buyer bears all risks and costs from the point he picks up the goods at the seller's location to his destination

Example: A seller walks out the door of his warehouse with a box of tomatoes. He puts the box down, which breaks, and the tomatoes tumble to the ground. Who's responsible for the cost of the tomatoes?

FCA - INCOTERMS® 2020



Free Carrier (FCA)

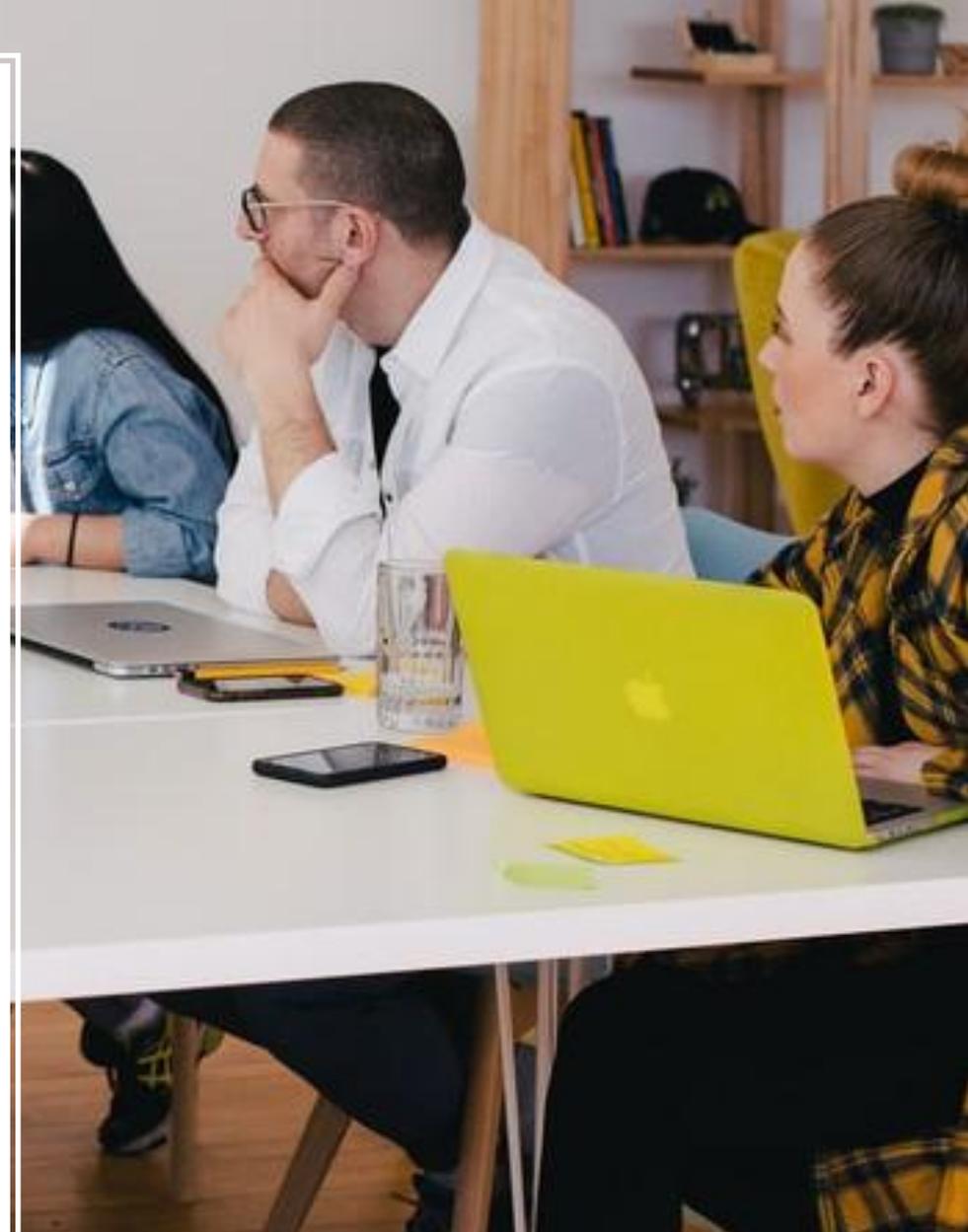
- The seller loads the goods into a transport vehicle and deals with export clearance
- The buyer bears all risks and costs of the main carriage to the place of final delivery

Note: FOA (Free on Airplane), FOR (Free on Rail) or FOT (Free on Truck) used to exist, but not since Incoterms 2000. Thus, FCA is now used for air, rail, or road shipments.

Discussion: Example

A Canadian exporter in Manitoba makes a deal with an American importer under FCA. The goods were to be available for pickup at the exporter's loading dock (No. 1) between 4PM and 5PM on June 13, 2021. That day, the exporter puts the goods in front of the loading dock at 4PM, but the buyer does not come to pick it up until June 14, 2021 at 1:45PM. When he comes, he is unable to access the No. 1 loading dock because there was a truck fire and the fire department were working on putting the fire out. The goods are destroyed.

Who's responsible for this?



CPT - INCOTERMS® 2020



ANY MODE

<https://internationalcommercialterms.guru>

CPT



CARRIAGE PAID TO

PLACE OF DESTINATION



SELLER COST



BUYER COST



TRANSFER OF RISK

Carriage Paid To (CPT)

- The seller organizes transportation and pays the freight up to the agreed place of destination. However, they do not have to guarantee arrival
- The buyer bears all risks during transport, especially from the moment the goods are handed over in the departure terminal for main carriage

Example: The seller agrees to transport your goods, but during transportation, the boat gets stuck in a storm and the goods are thrown overboard to save the ship from sinking. Who's responsible for the goods? Who pays the costs?

CIP - INCOTERMS® 2020



ANY MODE

CIP

<https://internationalcommercialterms.guru>



CARRIAGE AND INSURANCE PAID TO

PLACE OF DESTINATION



SELLER COST



BUYER COST



TRANSFER OF RISK

Carriage and Insurance Paid To (CIP)

- Similar to CPT, however, insurance costs are now included.
- The seller loads the goods into a transport vehicle and deals with export clearance
- The buyer bears all risks and costs of the main carriage to the place of final delivery

Note: Goods must be insured for **maximum risk** (all-risk) to the named place of destination. The buyer can get additional insurance as well.

DAP - INCOTERMS® 2020



<https://internationalcommercialterms.guru>

ANY MODE

DAP

DELIVERY AT PLACE !

PLACE OF DESTINATION

SELLER COST

BUYER COST

! TRANSFER OF RISK

Delivered at Place (DAP)

- The seller bears all costs and risks until the goods arrive in the destination country.
- The buyer clears the goods for import in the destination country and unloads the goods from the arriving transport.

Note: This term minimizes the seller's risk when they deliver the goods to the first point of entry, because they do not need to concern themselves with unloading the goods.

DDP - INCOTERMS® 2020



ANY MODE

<https://internationalcommercialterms.guru>

DDP

DELIVERY DUTY PAID  PLACE OF DESTINATION

 SELLER COST

 BUYER COST

 TRANSFER OF RISK

Delivered Duty Paid (DDP)

- The seller bears all costs and risks until the goods arrive at the destination. They also agree to getting import licenses and carry out import formalities.
- The buyer is only responsible for unloading from the arriving means of transport.

Fun fact: Some countries prohibit the use of this rule because import taxes can only be paid by domestic importers. This term requires the seller to have extensive knowledge on import processes in the receiving country and ensure maximum risk, so it's not ideal for the seller.

DPU - INCOTERMS® 2020


SELLER LOADED


LOADED FIRST CARRIER



 
LOADED UNLOADED LOADED BUYER

ANY MODE

DPU

<https://internationalcommercialterms.guru>

DELIVERY AT PLACE UNLOADED

! PLACE OF DESTINATION

 SELLER COST

 BUYER COST

 TRANSFER OF RISK

Delivered at Place Unloaded (DPU)

- The seller bears all costs and risks until the goods arrive in the destination country, and takes responsibility for unloading of the goods
- The buyer clears the goods for importation in the country of destination

Fun fact: This is a new term in Incoterms 2020, where the seller is responsible for unloading the goods at the destination

Group 2: Terms for sea and inland waterway transport

The 4 terms for sea and inland waterway transport



Group 2: Terms for sea and inland waterway transport (ONLY)

Free
Alongside Ship
(FAS)

Free On Board
(FOB)

Cost & Freight
(CFR)

Cost Insurance
& Freight
(CIF)

FAS - INCOTERMS® 2020



<https://internationalcommercialterms.guru>

FAS

FREE ALONGSIDE SHIP  PORT OF SHIPMENT

 SELLER COST

 BUYER COST

 TRANSFER OF RISK

Free Alongside Ship (FAS)

- The seller is responsible for bringing the goods to the agreed place of international/main shipment and dealing with export formalities
- The buyer bears all risks and costs from the moment the goods have been presented alongside the ocean vessel

Note: FAS is often used for bulk commodities. Here, the seller is responsible for bringing the goods as close as they can to the buyer's choice of vessel (alongside ship).

FOB - INCOTERMS® 2020



<https://internationalcommercialterms.guru>

FOB

FREE ON BOARD  PORT OF SHIPMENT

 SELLER COST

 BUYER COST

 TRANSFER OF RISK

Free on Board (FOB)

- The seller deals with transportation to the agreed place of shipment (the port) and carries out all export formalities. The goods must be handed over to a **carrier** on board a vessel.
- The buyer bears all costs and risks from the point the goods are loaded onto the vessel.

***Fun Fact:** Each vessel used to have a fence on the deck so no one could fall overboard. If the container passed that fence, the responsibility was said to be transferred, if not, it was still on the seller.*

CFR - INCOTERMS® 2020



Cost & Freight (CFR)

- The seller loads the goods into a transport vehicle and deals with export clearance. They pay for freight to the final port of destination, but risk transfers while goods are on board the ship
- The buyer bears all risks and costs from the port of arrival to the final destination, including discharge and import clearance cost

Note: This term is usually used for agricultural or chemical products where the seller has expertise and buying power on loading and transportation until the port of destination.

CIF - INCOTERMS® 2020



<https://internationalcommercialterms.guru>

CIF

COST INSURANCE AND FREIGHT !

PORT OF DESTINATION

SELLER COST

BUYER COST

! TRANSFER OF RISK

Cost Insurance & Freight (CIF)

- The seller clears the goods at origin, loads the cargo onto the ship and pays for insurance until the destination port at minimum coverage
- The buyer is responsible from the point the goods are on board, and pays for import fees and transportation to the final destination

Note: The seller's insurance obligation is limited to minimum coverage

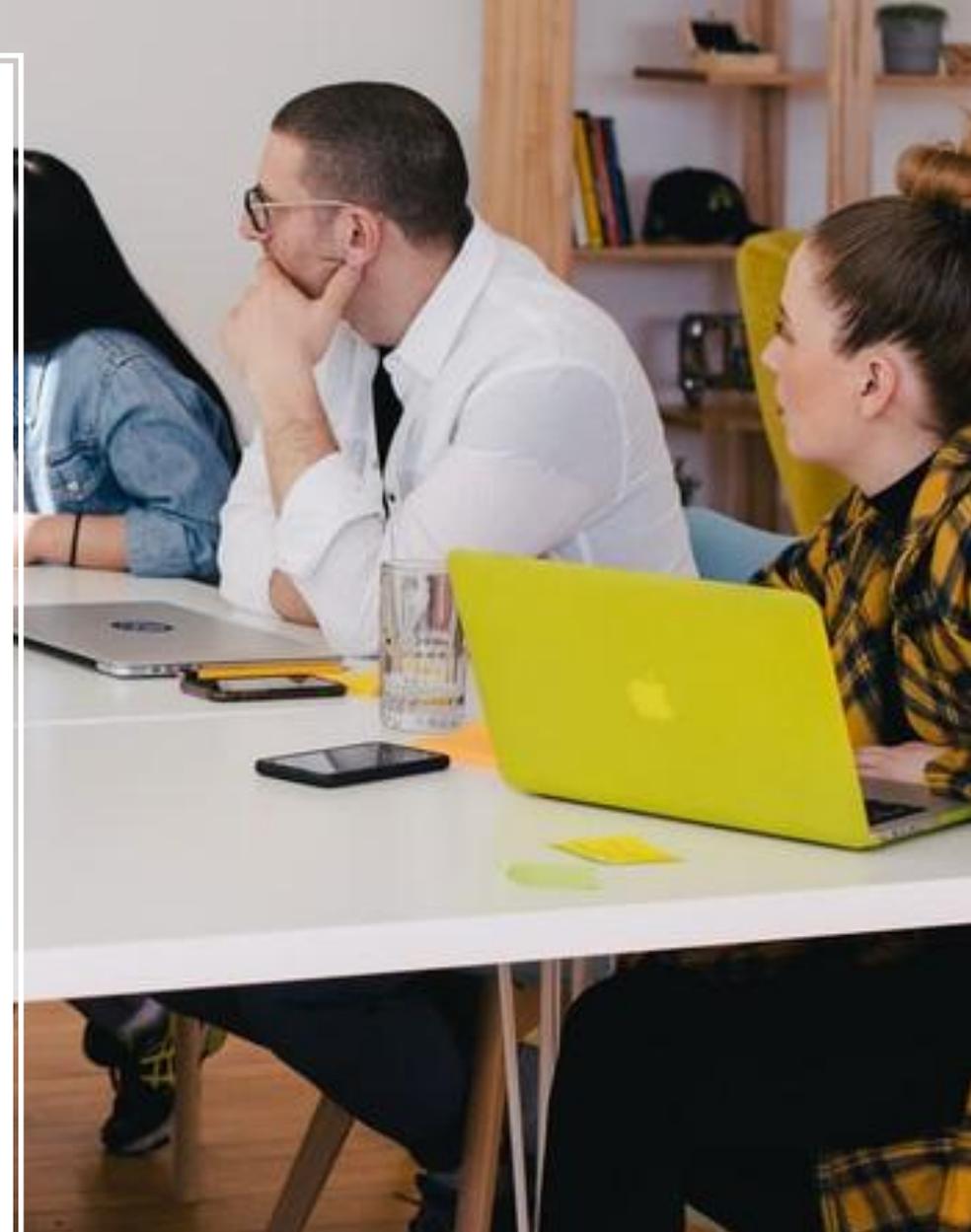
Key Takeaways

- Consider the costs, the risks, and the obligations when choosing your Incoterms
- Remember that **FAS, FOB, CFR and CIF** are only for water transportation

Activity: Whose responsibility?

Fill out the following: Are these the responsibilities of the buyer or the seller?

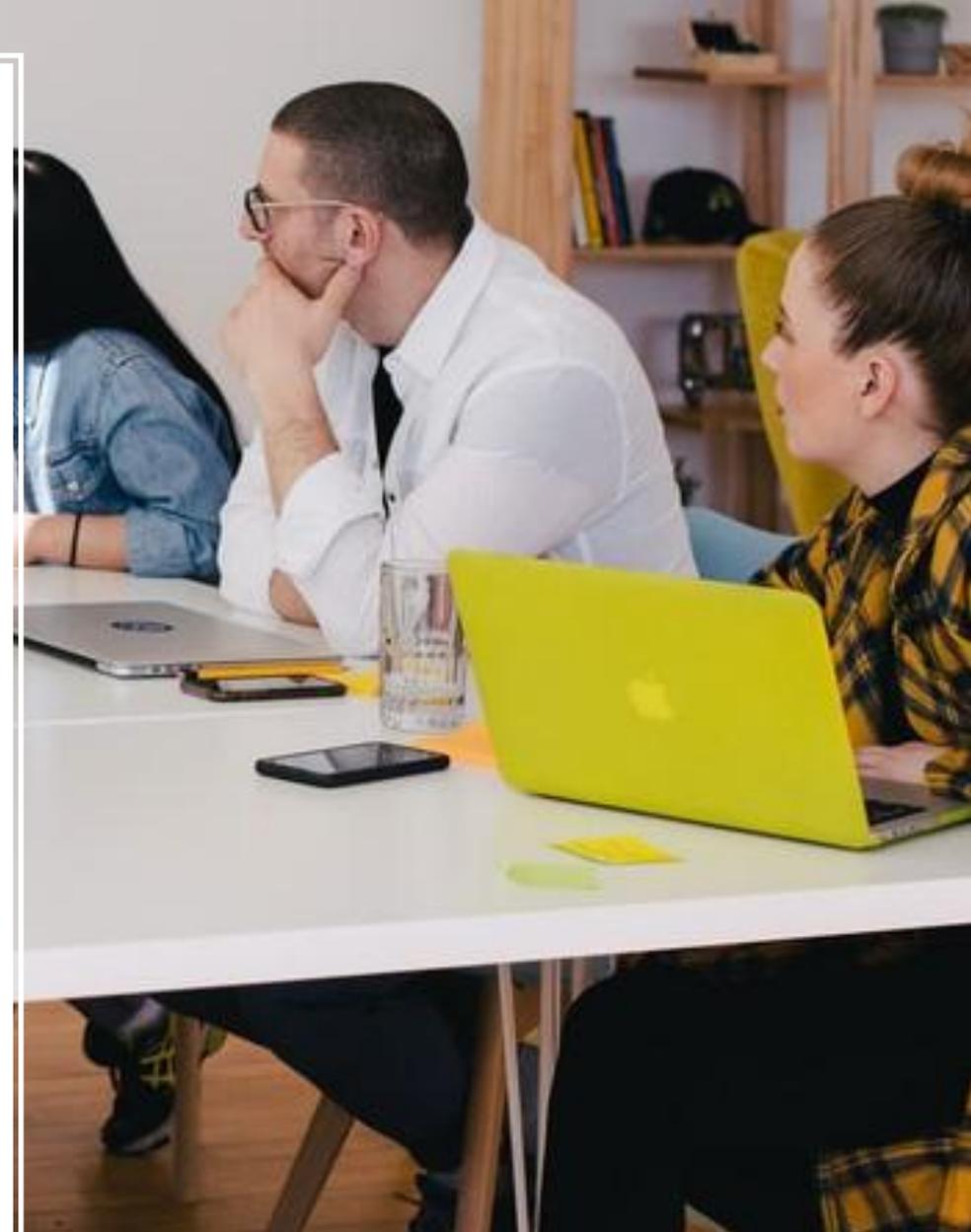
	FAS	CFR	FOB
Ocean freight charges			
Providing a commercial invoice			
Obtaining an export permit			
Paying import customs duties			



Activity: Whose responsibility?

Fill out the following: Are these the responsibilities of the buyer or the seller?

	EXW	CIP	DAP
Goods damaged in transit to export port			
Goods washed overboard			
Goods stolen while loading onto truck at factory			
Goods destroyed by fire while in the ocean			



Tips for negotiating Incoterms

How to negotiate Incoterms



General Negotiation Tips

Focus on your
interests

Consider: What are you
arguing for, and why?

Be creative with your
solutions so
everyone can benefit

The point of a negotiation
is not about who speaks
best or who “wins” the
most – find solutions that
everyone can benefit from

In business, try to maintain good relationships and reputations as much as possible... you never know when you mind need something from them in the future!

Negotiating Incoterms

Costs

- Consider what you would have to pay for
 - Export fees
 - Transportation
 - Warehousing fees
 - Import fees
 - Insurance

Ability

- Consider your abilities as a company
 - Knowledge about importing/exporting (or access to a third-party freight forwarder/customs broker)
 - Understanding of your time constraints

Risks

- Consider your risks
 - Can you take responsibility for anything that might happen during transportation?
 - Do you have insurance that covers such risks?

Negotiating Incoterms

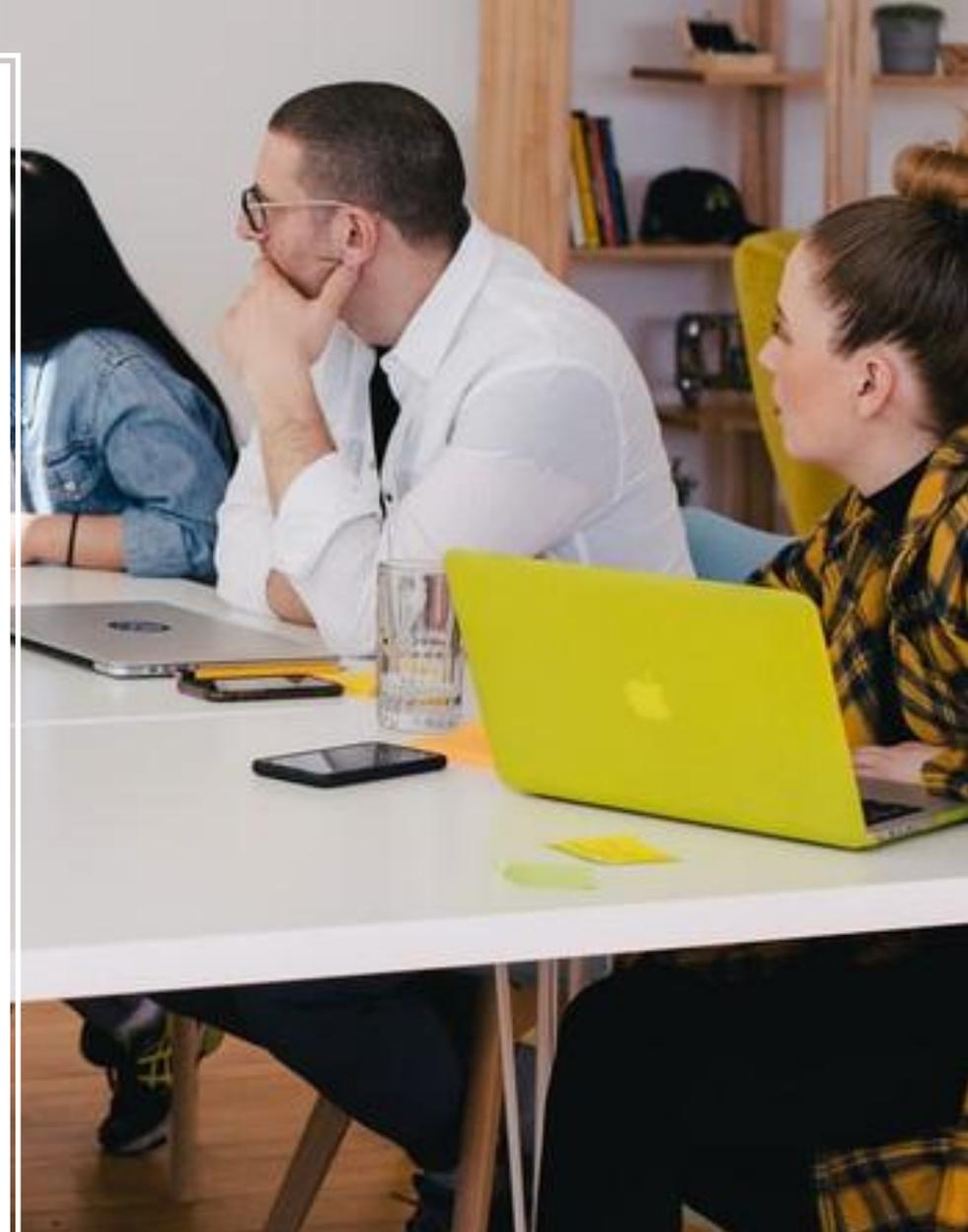
- The best Incoterm to use will depend on whether you are the buyer or the seller
- Incoterms should be included in the contract – this means as soon as you write up the contract, the Incoterm you chose becomes legally binding

Discussion: Best Incoterm

Imports Inc. sells their products to Maple Company in Uruguay. They were going to use ocean freight and load 20 wooden pallets into a 40-foot ocean container. What's the best incoterm for the seller? What's the best incoterm for the buyer? What Incoterm would you recommend for a win-win situation?

Then figure out:

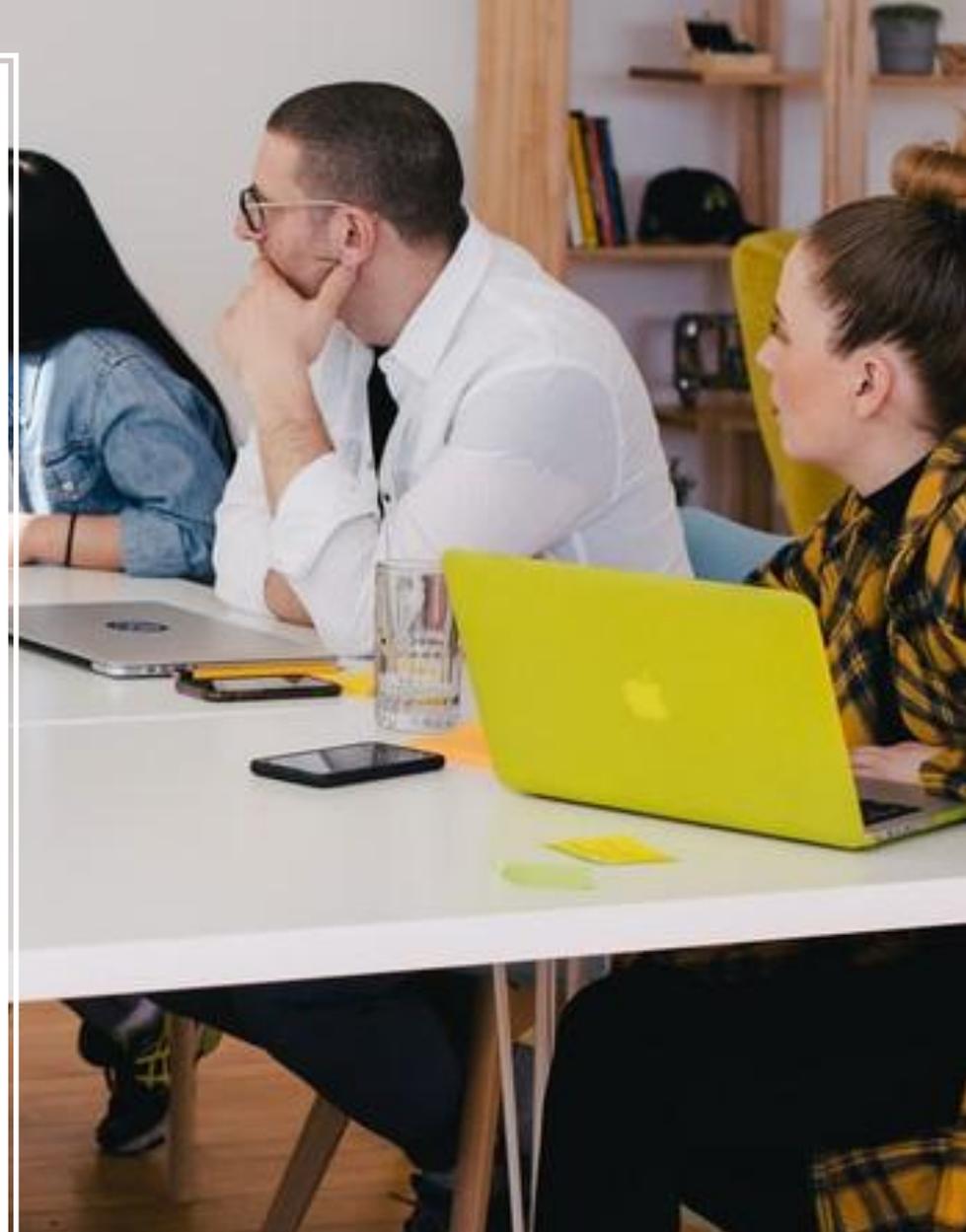
- Who selects the freight forwarder and pays transportation charges?
- Let's say the shipment was delayed and warehousing costs had to be paid. Who pays them?
- Who pays for clearing the goods?
- Who pays if the goods were damaged at sea?

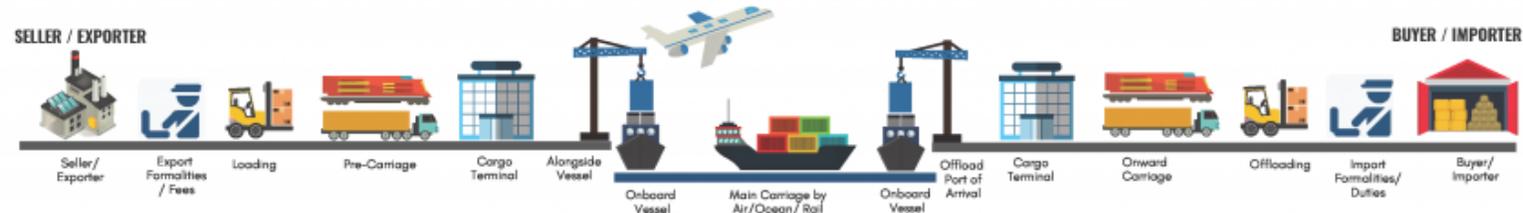


Project: Incoterms

For your project, figure out what Incoterm you would recommend for your shipment of goods between Ukraine and your country. In one of your slides, write out:

- What is the Incoterm?
- Who bears and costs and risks and from which point?
- Why is this your recommended Incoterm?





RULES FOR ANY MODE OF TRANSPORT / MULTIMODAL

Incoterm	Description	CARRIAGE	COSTS	RISKS
EXW	Ex Works (... named place of delivery)	Seller	Buyer	Buyer
FCA	Free Carrier (... named place of delivery)	Seller	Buyer	Buyer
CPT	Carriage Paid To (... named place of destination)	Seller	Buyer	Buyer
CIP	Carriage & Insurance Paid To (... named place of destination)	Seller	Buyer	Buyer
DAP	Delivered at Place (... named place of destination)	Seller	Buyer	Buyer
DPU	Delivered at Place Unloaded (... named place of destination)	Seller	Buyer	Buyer
DDP	Delivered Duty Paid (... named place of destination)	Seller	Buyer	Buyer

RULES FOR SEA AND INLAND WATERWAY TRANSPORT

Incoterm	Description	CARRIAGE	COSTS	RISKS
FAS	Free Alongside Ship (... named port of loading)	Seller	Buyer	Buyer
FOB	Free on Board (... named port of loading)	Seller	Buyer	Buyer
CFR	Cost and Freight (... named port of destination)	Seller	Buyer	Buyer
CIF	Cost, Insurance and Freight (... named port of destination)	Seller	Buyer	Buyer



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