Part 1
International Delivery Terms

Overview

This part covers the following topics:

- The benefits of Incoterms
- Referencing Incoterms in a contract of sale
- Incoterms do not deal with
- Incoterms and contracting practice
- The need for interpretation of “key words”
- The features of 13 Incoterms
- The abbreviations: E-, F-, C- and D- Incoterms
- The 13 Incoterms

Objectives

By the end of this part, you will be able to:

- Define what incoterms are and are not
- Express the important role of incoterms in international contracts of sale
- Distinguish between the incoterms
- Analyze the application of incoterms in international trade
- Recognize the risks and responsibilities of each incoterms and compare with the others
Introduction

Frequently, parties to a contract are unaware of the different trade practices in their respective countries. This can cause a lot of misunderstandings, disputes and litigation, with all the waste of time and money that this entails. In order to remedy these problems, the International Chamber of Commerce a set of international rules for interpretation of trade terms.

The purpose of this part is to provide a set of international rules for the interpretation of most commonly used trade terms in foreign trade. Thus, the uncertainties of different interpretations of such terms in different countries can be avoided or at least reduced to a considerable degree.
The Benefits of Incoterms

The word ‘Incoterm’ is an abbreviation of International Commercial Terms, and incoterms are terms used in a contract of sale (N.B. not in a contract of carriage).

Trade terms are, in fact, key elements of international contracts of sale, since they tell all parties what to do with respect to

- The carriage of goods from seller to buyer, and
- Export and import clearance

They also explain the division of costs and risks between parties.

Merchants tend to use short abbreviations - such as FOB and CIF - to clarify the distribution of functions, costs and risks relating to the transfer of goods from seller to buyer. However, misunderstandings frequently arise concerning the proper interpretation of these expressions.

For this reason it was considered important to develop rules for the interpretation of trade terms, that parties, when writing a contract of sale, could agree to apply to. Incoterms, which were first published by the International Chamber of Commerce in 1936, constitute these rules of interpretation. Their official title is *International Rules for the Interpretation of Trade Terms*.
Incoterms do not Deal with:

- Transfer of property rights of the goods;
- Relieve one from obligations and exemptions from liability in case of unexpected or unforeseeable events;
- Alleviate one of the consequences of various breaches of contract, except those relating to the passing of risks and costs when the buyer is in breach of his/her obligations to accept the goods or to nominate the carrier under an F-term.

Merchants often believe that Incoterms can solve most problems, which may arise in trade practices. Indeed, most questions addressed to the ICC panel of experts on Incoterms concern matters other than the interpretation of Incoterms themselves. Frequently, the questions refer to contractual relations other than the contract of sale, such as the obligations of parties when dealing with documentary credits and contracts of carriage and storage. Along with many questions concerning the obligations of parties other than those connected with the delivery of goods.

Therefore, it is necessary to emphasize that Incoterms are only rules for the interpretation of terms of delivery and not of other terms of the contract of sale. This explains why - apart from the seller's fundamental obligation to make the goods available to the buyer or to hand them over for carriage or delivery to a set destination, and apart from the buyer's obligation to collect the delivery – Incoterms deal only with obligations in connection therewith, such as obligations to give notice, provide documents, procure insurance, and pack the goods properly and clear them for export and import.
Referencing Incoterms in a Contract of Sale

Although incoterms, in so far as they reflect generally recognized principles and practices, may become part of the contract of sale without expressed reference, parties are strongly advised to:

- Include in their contract in conjunction with the trade term the reference "Incoterms 2000"; and
- Check whether a standard contract used in the specific contract of sale contains such a reference, and, if not, superimpose the standardized reference ('Incoterms 2000') to avoid the application of any previous version of Incoterms

Incoterms and Contracting Practice

Incoterms standardize contract practice by enabling the parties to;

- Use generally recognized key words
- Agree on the most common understanding of such key words
- Avoid misunderstandings in the use of them

Problems remain because;

- Commercial practice is inconsistent
- Variations of the basic key word may not be appropriate or sufficiently clear
- The Incoterm is not sufficiently precise and/or
- The parties inadvertently choose the wrong term

What problems do you think could arise when using incoterms?
The Need for Interpretation of "Key Words"

Short abbreviations, such as FCA, FOB and CIF, can be regarded as ‘key words’, which, when used, explain a number of rights and obligations. **However, these key words cannot be understood unless they are given a specific meaning through rules of interpretation.** In the absence of an authoritative interpretation, incoterms may create confusion.

It can be debated whether the key words included in Incoterms represent consistent commercial practice. Ever since the first version of Incoterms was published in 1936, every effort has been made to ensure that this is the case. However, a number of short expressions used by some merchants do not correspond to Incoterms. To note a few examples, the term CFR frequently appears in contracts of sale as C&F. In some cases, CFR appears as C+F. One can generally assume that the parties in these cases intended that the abbreviations mean the same as CFR. However, it is far better, for the sake of clarity, to use the term as written in the official text.

In other cases, however, parties may choose an expression, which is not consistent with any of the terms represented by Incoterms. One example is FOB+I. Here it is apparent that the parties intended to add an insurance obligation for the seller but it is not clear whether it is the same kind of obligation that one finds under CIF and CIP. Consequently, disputes can arise as to the extent of the seller’s insurance obligation when the term appears as another term not officially recognized as an incoterm.

**Warning about Incoterms**

In the preambles to various Incoterms, strong warnings have been inserted to the effect that merchants should explain as precisely as possible what they mean when they use a variation or an addition to an Incoterm.
The Features of 13 Incoterms

The purpose of Incoterms is to reflect contemporary commercial practice and to offer parties a choice of:

- The seller's minimum obligation to make the goods available for the buyer at the seller's premises (EXW)
- The seller's extended obligation to hand over the goods for carriage either to a carrier nominated by the buyer (FCA, FAS, FOB), or to a carrier chosen and paid for by the seller (CFR, CPT) as well as provide insurance against risks in transit (CIF, CIP)
- The seller's maximum obligation to deliver the goods to the destination (DAF, DES, DEQ, DDU, DDP)

What are the advantages of using the most appropriate incoterms for the situation?

Incoterms are sometimes criticized for containing too many different terms. Would it not be more appropriate to restrict the number of terms so that parties could either choose delivery from the seller's place or from the buyer's place? The answer is that commercial practice involves different trading patterns for different types of cargo. With respect to commodities, such as oil, iron, ore and grain, the goods are frequently carried on chartered ships that accept the cargo as a full load, the ultimate buyer may not be known, since the goods may be sold in transit. This, in turn, explains the need for a negotiable transport document, a bill of lading. Moreover, even if the ultimate buyer is known, he/she is usually not prepared to accept the costs and risks that occur in the seller's country. This explains the need for maritime terms, which are still used for the largest volume of world trade.
With respect to manufactured cargo, however, maritime terms are seldom appropriate. Here, in most cases, the parties are well advised to use one of the Incoterms appropriate for delivery from the seller's place (EXW or possibly FCA) or delivery to the buyer's place, i.e., the destination terms, DDU and DDP.

With respect to insurance, it is only when goods are intended to be sold in transit that it is appropriate to let the seller undertake an insurance obligation to the buyer. In other cases, the buyer should preferably arrange his/her own insurance so that the insurance cover can be adapted to his/her particular needs.

**Which Incoterm should Be Chosen?**

Commercial practice and the type of goods will dictate whether:

- The seller should refrain from undertaking any additional obligation;
- The seller is prepared to do more than to make the goods available to the buyer at the seller's premises;
- The buyer's bargaining position allows him to require the seller to undertake extended obligations;
- The seller is able to undertake additional obligations, and, in particular, to quote a more competitive price by extending his obligations;
- It is necessary to use the maritime terms FAS, FOB, CFR or CIF when the goods are intended to be resold by the buyer before they reach the destination.
The different nature of trade terms is shown by grouping the terms into four categories, using the first letter as an indication of the group to which the term belongs. The first group has only one trade term, namely EXW. But in the other three groups there are three F- terms (FCA, FAS and FOB), four C- terms (CFR, CIF, CPT and CIP) and five D- terms (DAF, DES, DEQ, DDU and DDP).

- The letter F signifies that the seller must hand over the goods to a nominated carrier free of risk and expense to the buyer
- The letter C signifies that the seller must bear certain cost even after the critical point for the division of the risk of loss of or damage to the goods has been reached
- The letter D signifies that the goods must arrive at a stated destination

This grouping and identification of the various trade terms should enable merchants to understand the different fundamental meanings of the terms and guide them to the most suitable options.
### Table 1: Incoterms 2000

<table>
<thead>
<tr>
<th>Groups</th>
<th>Incoterms</th>
<th>Elaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROUP E Departure</td>
<td>EXW</td>
<td>Ex Works</td>
</tr>
<tr>
<td>Group F Main carriage Unpaid</td>
<td>FCA, FAS, FOB</td>
<td>Free Carrier, Free Alongside Ship, Free on Board</td>
</tr>
<tr>
<td>Group C Main carriage Paid</td>
<td>CFR, CIF, CPT, CIP</td>
<td>Cost and Freight, Cost, Insurance and Freight, Carriage Paid To, Carriage and Insurance Paid To</td>
</tr>
<tr>
<td>Group D Arrival</td>
<td>DAF, DES, DEQ, DDU, DDP</td>
<td>Delivered At Frontier, Delivered EX Ship, Delivered EX Quay, Delivered Duty Unpaid, Delivered Duty Paid</td>
</tr>
</tbody>
</table>

### The 13 Incoterms

**EXW – EX Works (...named place)**

"Ex works" means that the seller places the goods at the disposal of the buyer at their own premises or another named place (i.e. works, factory, warehouse, et.) the goods are not cleared for export and not loaded onto any collecting vehicle.
This term thus represents the minimum obligation for the seller, and the buyer has to bear all costs and risks involved in taking the goods from the seller's premises. However, if the parties wish the seller to be responsible for the loading of the goods on departure and to bear the risks and all the costs of such loading, this should be made clear by adding explicit wording to this effect in the contract of sale. In such circumstances, the FCA term should be used, provided the seller agrees that he/she will load at his/her cost and risk. This term should not be used when the buyer cannot carry out the export formalities directly or indirectly.
## A

**Sellers primary duty**
- Place the goods at the disposal of the buyer at the named place

**Documents**

- **Required documents**
  - Commercial invoice
  - Buyer’s receipt

- **Optional documents**
  - Other documents needed for export or transit of the goods through any country or for import clearance

### Critical points
- Carriage to be arranged by the buyer
- Risk transfer from the seller to the buyer when the goods are at the disposal of the buyer
- Cost transfer from the seller to the buyer when the goods are at the disposal of the buyer

### Figure 2: EXW (Ex Works)
FCA – Free Carrier (...named place)

"Free Carrier" means that the seller delivers the goods, cleared for export, to a carrier nominated by the buyer. It should be noted that the chosen place of delivery has an impact on who is responsible for the loading and unloading the goods at that place.

Figure 3: Process of FCA (Free Carrier)

This term may be used irrespective of the mode of transport it includes multi-modal transport.

A "carrier" means any person or company who, in a contract of carriage, undertakes to perform or to procure the conveyance of goods by road, air, sea, or inland waterway or by a combination of such modes.
## Module 2-1: International Delivery Terms

### A

**Sellers primary duty**
- Deliver the goods at the named point
- Provide evidence of the goods to the carrier
- Arrange export clearance

**Documents**
- **Required documents**
  - Commercial invoice
  - Usual document evidencing delivery of the goods to the carrier
- **Optional documents**
  - Other documents needed for transit of the goods through any country or for import clearance

**Carriage of goods**
- Carriage of goods
- Seller’s risk
- Seller’s cost

**Risks**

**Costs**

**Export clearance**

**Import clearance**

### B

**Buyer’s primary duty**
- Nominate carrier
- Contract for carriage

**Carriage of goods**
- Carriage of goods
- Buyer’s risk
- Buyer’s cost

**Critical points**
- Carriage to be arranged by the buyer or by the seller on the buyer’s behalf
- Risk transfer from the seller to the buyer when the goods have been delivered to the carrier at the named place
- Cost transfer from the seller to the buyer when the goods have been delivered to the carrier at the named place

**Figure 4: FCA (Free Carrier)**
If the buyer nominates a person other than a carrier to receive the goods, the seller is deemed to have fulfilled his/her obligation to deliver the goods when they have been delivered to that person.

FAS - Free Along Side Ship (...named port of shipment)

‘Free Alongside Ship’ means that the seller has delivered when the goods have been placed alongside the vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point on.

**Figure 5: Process of FAS (Free Along Side Ship)**

**What are the differences between FCA and FAS terms?**

The FAS term requires the seller to clear the goods for export. This is a reversal from previous inco term versions, which required the buyer to arrange for export clearance.
Figure 6: FAS (Free AlongSide Ship)
However, if parties wish the buyer to clear the goods for export, this should be made clear by adding explicit wording to this effect in the contract of sale. This term can be used only for sea or inland waterway transport.

**FOB – Free On Board (...named port of shipment)**

‘Free on Board’ means that the seller delivers the goods past the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that point on. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA term should be used.

**Figure 7: Process of FOB (Free On Board)**

What are the advantages of this term for the seller and the buyer?
Module 2-1: International Delivery Terms

A

Sellers primary duty
- Deliver the goods on board
- Provide a clean on board receipt
- Pay loading costs not included in the freight
- Arrange export clearance

Documents
- Required documents
  - Commercial invoice
  - Customary clean receipt
- Optional documents
  - Other documents needed for transit of the goods through any country or for import clearance

Carriage of goods
- Green

Seller’s primary duty
- Red

Seller’s cost
- Brown

Group F
main carriage not paid by the seller

B

Buyer’s primary duty
- Nominate carrier
- Contract for carriage
- Pay unloading costs

Carriage of goods
- Green

Buyer’s risk
- Red

Buyer’s cost
- Brown

Critical points
- Carriage to be arranged by the buyer
- Risk transfer from the seller to the buyer when the goods pass the ship’s rail
- Cost transfer from the seller to the buyer when the goods pass the ship’s rail

Figure 8: FOB (Free On Board)
CFR – Cost and Freight (...named port of destination)

‘Cost and Freight’ means that the seller delivers the goods past the ship’s rail in the port of destination. The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.

Figure 9: Process of CFR (Cost and Freight)

The CFR term requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transportation. If the seller does not intend to deliver the goods across the ship's rail, the CPT term should be used.
Module 2-1: International Delivery Terms

**A**

**Sellers primary duty**
- Contract for carriage
- Deliver the goods on board
- Provide a clean transport document (bill of lading or sea waybill)
- Arrange export clearance
- Pay unloading costs if for his account under the contract of carriage

**Documents**
- **Required documents**
  - Commercial invoice
  - Transport document
- **Optional documents**
  - Other documents needed for transit of the goods through any country or for import clearance

**Carriage of goods**
- Green: Carriage of goods
- Red: Seller’s risk
- Orange: Seller’s cost

**B**

**Buyer’s primary duty**
- Accept delivery of the goods upon shipment
- Receive the goods from the carrier
- Pay such costs as are not for the seller’s account under the contract of carriage

**Carriage of goods**
- Green: Carriage of goods
- Red: Buyer’s risk
- Orange: Buyer’s cost

**Group C**
- Main carriage paid by the seller

**Critical points**
- Carriage to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods pass the ship’s rail
- Cost transfer at port of destination, buyer paying such costs that are not the seller’s responsibility under the contract of carriage

**Figure 10: CFR (Cost and Freight)
CIF – Cost, Insurance and Freight (...named port of destination)

‘Cost, Insurance and Freight’ indicates that the seller delivers when the goods pass the ship’s rail at the port of destination. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's loss of or damage to the goods during carriage.

Consequently, the seller is responsible for insurance and pays the insurance premium. The buyer should note that the CIF term the seller is required to obtain insurance only on minimum cover.
### A

**Sellers primary duty**
- Contract for carriage and insurance
- Deliver the goods on board
- Provide a clean transport document and a cargo insurance policy or certificate
- Arrange export clearance
- Pay unloading costs if for his account under the contract of carriage

<table>
<thead>
<tr>
<th>Carriage of goods</th>
<th>Seller’s risk</th>
<th>Seller’s cost</th>
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<td><img src="orange.png" alt="Orange" /></td>
</tr>
</tbody>
</table>

**Documents**
- **Required documents**
  - Commercial invoice
  - Transport document
  - Insurance policy (certificate)
- **Optional documents**
  - Other documents needed for transit of the goods through any country or for import clearance

- **Carriage of goods**

- **Risks**

- **Costs**

- **Export clearance**

- **Import clearance**

### B

**Buyer’s primary duty**
- Accept delivery of the goods upon shipment
- Receive the goods from the carrier
- Pay such costs as are not for the seller’s account under the contract of carriage

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</table>

### Critical points
- Carriage and insurance to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods pass the ship’s rail
- Cost transfers at the port of destination, buyer paying such costs that are not the seller’s responsibility under the contract of carriage

**Figure 12: CIF (Cost, Insurance and Freight)**
Should the buyer wish to have the protection offered by a more comprehensive insurance cover, he/she would either need to agree to this with the seller or to make his/her own extra insurance arrangements. The CIF term requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the CIP term should be used.

**CPT – Carriage Paid To (...named place of destination)**

‘Carriage paid to...’ means that the seller delivers the goods to the carrier of his/her choice but the seller must in addition pay the cost of carriage necessary to transport the goods to the named destination. This means that the buyer bears all risks and any other costs occurring after the goods have been delivered.

![Diagram of CPT Process]

*Figure 13: Process of CPT (Carriage Paid To)*
### A

**Sellers primary duty**
- Contract for carriage
- Deliver the goods to the (first) carrier
- Provide a usual and clean transport document
- Arrange export clearance
- Pay loading costs
- Pay unloading costs if for his account under the contract of carriage

**Documents**

**Required documents**
- Commercial invoice
- Transport document

**Optional documents**
- Other documents needed for transit of the goods through any country or for import clearance

**Carriage of goods**
- Seller’s risk
- Seller’s cost

**Risks**

**Costs**

- Export clearance
- Import clearance

### B

**Buyer’s primary duty**
- Accept delivery of the goods when they have been delivered to the carrier
- Receive the goods from the carrier
- Pay such costs as are not for the seller’s account under the contract of carriage

**Carriage of goods**
- Buyer’s risk
- Buyer’s cost

### Critical points
- Carriage to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods have been delivered to the carrier
- Cost transfers at place of destination, buyer paying such costs that are not the seller’s responsibility under the contract of carriage

**Figure 14: CPT (Carriage Paid To)**
If subsequent carriers are used for carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CPT term requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport and including multi-modal transport.

CIP – Carriage and Insurance Paid to (...named place of destination)

“Carriage and Insurance paid to...” specifies that the seller delivers the goods to the carrier nominated by him/her but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any additional costs occurring after the goods have been so delivered. However, in CIP the seller also has to procure insurance against the buyer’s risk of loss of or damage to the goods during the carriage.

![Diagram of CIP process]

Figure 15: Process of CIP (Carriage and Insurance Paid to)
Consequently, the seller is responsible for insurance and pays the insurance premium. The buyer should note that under the CIP term the seller is required to obtain insurance only on minimum cover.

Should the buyer wish to have the protection of a more comprehensive cover, he/she would either need to agree to as much with the seller or to make his/her own extra insurance arrangements.

If subsequent carriers are used for carriage to the agreed destination, the risk passes to the buyer when the goods have been delivered to the first carrier.

Do you have problems with the CIP term? Could you share your experiences with us?
Module 2-1: International Delivery Terms

**A** Sellers primary duty
- Contract for carriage and insurance
- Deliver the goods to the (first) carrier
- Provide a usual and clean transport document and a cargo insurance policy or certificate
- Arrange export clearance
- Pay loading costs
- Pay unloading costs if for his account under the contract of carriage

**B** Buyer’s primary duty
- Accept delivery of the goods when they have been delivered to the carrier
- Receive the goods from the carrier
- Pay such costs as are not for the seller’s account under the contract of carriage

**Critical points**
- Carriage and insurance to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods have been delivered to the carrier
- Cost transfers at place of destination, buyer pays such costs that are not the seller’s responsibility under the contract of carriage.

**Figure 16: CIP (Carriage and Insurance Paid to)**
DAF – Delivered At Frontier (...named place)

‘Delivered at Frontier’ means that the seller delivers the export-cleared goods to a predetermined destination, the goods are cleared for export but not unloaded or cleared for import at the named point, in other words they are delivered to the frontier before customs. The term ‘frontier’ may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term. However, if the buyer wishes the seller to be responsible for unloading the goods from the delivery vehicle and for bearing the risks and costs of unloading, this should be made clear by adding explicit wording to this effect in the contract of sale.

Figure 17: DAF (Delivered At Frontier)

This term may be used irrespective of the mode of transport when goods are to be delivered to a land frontier. When delivery is to take place in the port of destination, on board a vessel or on a quay (wharf), the DES or DEQ terms should be used.
## Module 2-1: International Delivery Terms

### A

**Sellers primary duty**
- Deliver the goods at the named frontier
- Provide a document to enable the buyer to take delivery at the frontier or assist him/her to obtain a through transport document
- Arrange export clearance

### Documents

**Required Documents**
- Commercial invoice
- Transport document or warehouse warrant

**Optional documents**
- Through transport document
- Other documents needed for transit of the goods through any country or for import clearance

### B

**Buyer’s primary duty**
- Take delivery of the goods at the named frontier or assume responsibility for on-carriage
- Arrange import clearance

#### Carrier of goods
- Carriage of goods
- Seller’s risk
- Seller’s cost

#### Risks
- Carry

#### Costs
- Import clearance
- Export clearance

### Critical points
- Carriage to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods have been delivered at the frontier
- Cost transfer from the seller to the buyer when the goods have been delivered at the frontier

**Figure 18: DAF (Delivered At Frontier)**
DES – Delivered Ex Ship (...named port of destination)

‘Delivered Ex Ship’ means that the seller delivers when the goods are placed at the disposal of the buyer on board the ship but not cleared for import at the named port of destination. The seller has to bear all costs and risks involved in bringing the goods to the named port of destination before discharging them. If the parties wish the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used.

Figure 19: Process of DES (Delivered Ex Ship)

This term can be used only when the goods are to be delivered by sea or inland waterway or multi-modal transport on a vessel at the port of destination.

In which cases are DAF or DES terms more useful?
### Module 2-1: International Delivery Terms

**A**  
**Sellers primary duty**  
- Deliver the goods on board the ship at the port of destination  
- Provide a document to enable the buyer to take delivery from the ship (bill of lading or delivery order)  
- Arrange export clearance

<table>
<thead>
<tr>
<th>Carriage of goods</th>
<th>Seller’s cost</th>
<th>Seller’s risk</th>
</tr>
</thead>
</table>

**Documents**  
**Required Documents**  
- Commercial invoice  
- Bill of lading or delivery order

**Optional documents**  
- Other documents needed for transit of the goods through any country or for import clearance

- Carriage of goods
- Seller’s cost
- Buyer’s risk

**B**  
**Buyer’s primary duty**  
- Take delivery of the goods from the ship at the port of destination  
- Arrange import clearance

<table>
<thead>
<tr>
<th>Carriage of goods</th>
<th>Buyer’s cost</th>
<th>Buyer’s risk</th>
</tr>
</thead>
</table>

**Critical points**  
- Carriage to be arranged by the seller  
- Risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on board the ship  
- Cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on board the ship

**Figure 20: DES (Delivered Ex Ship)**
DEQ – Delivered Ex Quay (...named port of destination)

‘Delivered Ex Quay’ means that the goods are placed at the disposal of the buyer at the quay; they are not cleared for import at the named port of destination. The seller has to bear the costs and risks involved in bringing the goods to the named port of destination and also release the goods onto the quay. The DEQ term requires the buyer to clear the goods for import and to pay for all formalities, duties, taxes and other charges upon import.

![Diagram of DEQ process]

Figure 21: Process of DEQ (Delivered Ex Quay)

This is a reversal from previous incoterm versions, which required the seller to arrange for import clearance. If the parties wish to include in the seller’s obligations all or part of the costs payable upon the import of the goods, this should be made clear by adding explicit wording to this effect in the contract of sale.

What is the main difference between DES and DEQ terms?
**Module 2-1: International Delivery Terms**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
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</thead>
<tbody>
<tr>
<td><strong>Sellers primary duty</strong></td>
<td><strong>Documents</strong></td>
</tr>
<tr>
<td>▶ Deliver the goods on quay at the port of destination</td>
<td><strong>Required Documents</strong></td>
</tr>
<tr>
<td>▶ Provide a document to enable the buyer to take delivery from the quay (bill of lading or delivery order)</td>
<td>▶ Commercial invoice</td>
</tr>
<tr>
<td>▶ Arrange export clearance</td>
<td>▶ Bill of lading or delivery order</td>
</tr>
<tr>
<td></td>
<td><strong>Optional documents</strong></td>
</tr>
<tr>
<td></td>
<td>▶ Other documents needed for transit of the goods through any country or for import clearance</td>
</tr>
<tr>
<td><strong>Carriage of goods</strong></td>
<td><strong>Buyer’s primary duty</strong></td>
</tr>
<tr>
<td><img src="carriage.png" alt="Green" /></td>
<td><strong>Carriage of goods</strong></td>
</tr>
<tr>
<td><img src="risk.png" alt="Red" /></td>
<td><strong>Buyer’s risk</strong></td>
</tr>
<tr>
<td><img src="cost.png" alt="Yellow" /></td>
<td><strong>Buyer’s cost</strong></td>
</tr>
</tbody>
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</tr>
<tr>
<td><img src="cost.png" alt="Yellow" /></td>
<td><img src="risk.png" alt="Red" /></td>
</tr>
<tr>
<td><img src="carriage.png" alt="Green" /></td>
<td><img src="risk.png" alt="Red" /></td>
</tr>
<tr>
<td><img src="cost.png" alt="Yellow" /></td>
<td><img src="risk.png" alt="Red" /></td>
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</tbody>
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<tr>
<th><strong>Costs</strong></th>
<th><strong>Export clearance</strong></th>
<th><strong>Import clearance</strong></th>
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<td><img src="cost.png" alt="Yellow" /></td>
<td><img src="cost.png" alt="Yellow" /></td>
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</tbody>
</table>

**Critical points**

- Carriage to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on the quay
- Cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on quay

**Figure 22: DEQ (Delivered Ex Quay)**
This term can be used only when the goods are to be delivered by sea, inland waterway or multi-modal transportation and the goods are to be discharged from a vessel onto the quay at the port of destination. However, if the parties wish to include in the seller's obligations the risks and costs of handling the goods from the quay to another place (warehouse, terminal, station, etc.) in or outside the port, DDU or DDP terms should be used.

**DDU – Delivered Duty Unpaid (...named place of destination)**

‘Delivered duty unpaid’ means that the seller delivers the goods to the buyer, not cleared for import, and not unloaded from any arriving means of transport to the named destination. The seller has to bear the costs and risks involved in bringing the goods thereto, other than, where applicable, any ‘duty’ (which includes responsibility for and the risks of carrying out custom formalities, the payment for these formalities; such as customs duties, taxes and other charges) required for importing the goods into the country of destination. Such ‘duty’ has to be covered by the buyer along with any costs and risks caused by his/her failure to clear the goods for import on time.

![Diagram](image-url)
Module 2-1: International Delivery Terms

A

Sellers primary duty
- Deliver the goods at the named place of destination
- Provide a document to enable the buyer to take delivery
- Arrange export clearance

Documents
- Required Documents
  - Commercial invoice
  - Document needed for taking delivery
- Optional documents
  - Other documents needed for transit of the goods through any country or for import clearance

Carriage of goods
- Seller’s risk
- Seller’s cost

B

Buyer’s primary duty
- Take delivery of the goods from the named place of destination
- Arrange import clearance

Carriage of goods
- Buyer’s risk
- Buyer’s cost

Risks

Costs

Export clearance

Import clearance

Critical points
- Carriage to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer
- Cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer

Figure 24: DDU (Delivered Duty UnPaid)
However, if all parties wish the seller to carry out custom's formalities and bear the costs and risks resulting from these formalities as well as some of the costs payable upon import of the goods, this should be made clear by adding explicit wording to this effect in the contract of sale.

This term may be used irrespective of the mode of transportation but when delivery is to take place at the port of destination on board the vessel or on the quay, the DES or DEQ terms should be used.

**DDP – Delivered Duty Paid (...named place of destination)**

‘Delivered duty paid’ means that the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving means of transport to the named destination. The seller has to bear all costs and risks involved with bringing the goods thereto, including, where applicable, any ‘duty’ (which includes the responsibility for and the risk of carrying out customs formalities and the payment of these formalities, customs duties, taxes and other charges) for import into the country of destination.

**Figure 25: Process of DDP (Delivered Duty Paid)**
Whilst the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation.

This term should not be used if the seller is unable directly or indirectly to obtain an import license.

However, if the parties wish to exclude from the seller’s obligations some of the costs payable upon the import of the goods (such as value-added tax: VAT), this should be made clear by adding explicit wording to this effect in the contract of sale. If the parties wish the buyer to bear all risks and costs of importing, the DDU term should be used.

This term may be used irrespective of the mode of transport but when delivery is to take place at the port of destination, on board the vessel or on the quay, the DES or DEQ terms should be used.

Discuss in which situations the DDP term is more useful.
**Module 2-1: International Delivery Terms**

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sellers primary duty</strong></td>
<td><strong>Buyer’s primary duty</strong></td>
</tr>
<tr>
<td>- Deliver the goods at the named place of destination</td>
<td>- Take delivery of the goods from the named place of destination</td>
</tr>
<tr>
<td>- Provide a document to enable the buyer to take delivery</td>
<td></td>
</tr>
<tr>
<td>- Arrange export clearance</td>
<td></td>
</tr>
</tbody>
</table>

**Documents**

- **Required Documents**
  - Commercial invoice
  - Document needed for taking delivery

**Carriage of goods**

- Carriage of goods
- Seller’s risk
- Seller’s cost

**Risks**

**Costs**

**Export clearance**

**Import clearance**

**Group D**

arrival

**Critical points**

- Carriage to be arranged by the seller
- Risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer
- Cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer

**Figure 26: DDP (Delivered Duty Paid)**
Case Study: Timber Exports

An exporter of timber products sells an average of 500,000 tons a year. His buyer (about 100 in number) are primarily located in four countries – A, B, C and D. The exporter’s mill is inland – about 200 miles from his country’s main seaport. His products may be moved without difficulty by rail to alongside ship in the port of loading.

The exporter’s country has domestic ships that are suited to carry the products to the four countries, and it is in need of foreign currency. Also, the insurance risks can be covered by domestic cargo insurance companies. The political situation is stable, and tonnage is easily available.

The buyers’ factories are located at inland points some 200 to 300 miles from the respective ports of discharge. The following conditions have been noted in the different countries.

Country A
A has a well-organized port of discharge and efficient inland transportation by rail and truck but is known for labour disturbances.

Country B
B is known for congestion at its port of discharge: the waiting time of ships varies from 10 to 90 days. Inland transportation however is excellent.

Country C
C has no difficulties of the kind experienced by A and B but the buyers here are not entirely reliable because of difficult economic conditions.

Country D
D has all the advantages and none of the disadvantages of the other three countries.

Question

What delivery term would you suggest for the exporter’s sales contracts with buyers in each of the four countries?
Case Study: Television Sets Imports to India

An importer of television sets in Bombay, India, is negotiating a contract of sale with a manufacturer in Kyoto, Japan. There are facilities for multimodal door-to-door transport, using containers, from Kyoto to Bombay. This traffic is handled by a freight forwarder who offers a through rate and who assumes liability as contracting carrier under his own transport document, a so-called FIATA combined transport bill of lading (FBL).

The goods are containerized in LCL (less than container load) containers at the freight forwarder's container terminal, "Conterm," in Kyoto. These containers move on road vehicles to Yokohama and are shipped on container vessels from that port to Bombay. The seller is not prepared to assume the risks which may arise during the sea transit and in Bombay. The buyer, in turn, would prefer not to assume the risks before the goods have been delivered for carriage.

The following questions occur and your advice requested

1. Is it possible or practical for the seller to quote a FOB CFR or CIF price?
2. Should the transport document evidence shipment onboard?
3. Should FBL be approved as the proper transport document?
4. Would the freight forwarder qualify as "carrier" under the FCA, CPT or CIP terms?
5. Which delivery term would you, as an "officious by stander", suggest that the parties insert in their contract of sale?
Summary

The international business forum is a fertile place for contractual misunderstandings and an expensive place to resolve them through litigation. Recognizing a compelling need for universal terminology to try to overcome these misunderstandings in international trade contracts, the International Chamber of Commerce, among others, has developed a standard set of terms and abbreviations called Incoterms.

The rights and obligations of each party to a contract should be more clearly understood if the contract is expressed in Incoterms.

An international trade contract should:

- Describe the goods to be sold and the manner of shipment
- Set forth who is responsible if the goods are damaged or destroyed at any phase of delivery
- Express who is responsible for paying the expenses for clearing the goods at customs
- Express who is responsible for providing insurance while the goods are in transit
- Express who is responsible for freight charges
- Express who is responsible for loading and unloading costs
- Express who is to pay for any inspections
- Name the place where any litigation or arbitration will take place if a dispute arises under the contract
- Name the law that will apply to disputes that arise under the contract
### Key Terms

<table>
<thead>
<tr>
<th>Incoterms</th>
<th>CIF – Cost, Insurance and Freight</th>
</tr>
</thead>
<tbody>
<tr>
<td>E – Terms</td>
<td>CPT – Carriage Paid To</td>
</tr>
<tr>
<td>F – Terms</td>
<td>CIP – Carriage and Insurance Paid to</td>
</tr>
<tr>
<td>C – Terms</td>
<td>DAF – Delivered At Frontier</td>
</tr>
<tr>
<td>D – Terms</td>
<td>DES – Delivered Ex Ship</td>
</tr>
<tr>
<td>EXW – Ex Works</td>
<td>DEQ – Delivered Ex Quay</td>
</tr>
<tr>
<td>FCA – Free Carrier</td>
<td>DDU – Delivered Duty Unpaid</td>
</tr>
<tr>
<td>FAS – Free Alogside Ship</td>
<td>DDP – Delivered Duty Paid</td>
</tr>
<tr>
<td>FOB – Free On Board</td>
<td>Export Clearence</td>
</tr>
<tr>
<td>CFR – Cost and Freight</td>
<td>Import Clearence</td>
</tr>
</tbody>
</table>
Progress Check

1. Incoterms will tell the parties what to do with respect to...
   - Carriage of the goods from seller to buyer
   - Transfer of property rights in the goods
   - Consequences of various breaches of contract
   - Arrange the cost
   - To be as an intermediary

2. The incoterms group concerned with "main carriage unpaid" is:
   - Group E
   - Group F
   - Group C and group F
   - Group D
   - Group D and group E

3. In case of "FCA" terms, when does the "cost" transfer from the seller to the buyer?
   - When goods delivered at frontier
   - When carriage is paid
   - When delivered to the port of the customer
   - When delivered to the customer duty paid
   - When the goods have been delivered to the carrier at the named place
4. Under "group F" terms, who is responsible for the inland transport till the named point or place?

   a. Buyer  
   b. Agent  
   c. Seller  
   d. Carrier  
   e. Consignee

5. If the seller provides the goods packaged and marked with a commercial invoice to a carrier for transport, what kind of incoterms is this?

   a. FOB  
   b. EXW  
   c. FCA  
   d. CPT  
   e. DDU

6. If the seller agrees to deliver the goods to a ship, but not to pay for loading them, what is the terms?

   a. FCA  
   b. FAS  
   c. FOB  
   d. DES  
   e. DDP
7. According to the contract, the seller is responsible for the freight charges to the destination port. The seller may be willing to pay transportation expenses but not be willing to assume liability for damage en route. What is the terms in this case?

   a. CIF
   b. DES
   c. DEQ
   d. FCA
   e. CFR

8. The seller is asked to deliver the goods to the warehouse of the buyer without paying for the customs duty in this case, what kind of terms should you offer to the customer?

   a. CIP
   b. DAF
   c. DDU
   d. DDP
   e. EXW

9. What is the difference between "CIF" and "CIP" terms?

   a. CIF used only for sea transport and CIP for all modes of transport
   b. Both used for all transport modes
   c. No differences
   d. CIF used for road and CIP used for sea transport
   e. CIF used all modes of transport and CIP used only for sea transport
10. Let us assume that customer is asking you to pay for the freight but not for the insurance and the transport will be done by vessel. What will be your terms on the contract?

a. DDP  
b. CIP  
c. CFR  
d. DES  
e. DDU