



"Reliable payment is the first fundamental of free trade."

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INCOTERMS 1990

Incoterms 1990 published by the International Chamber of Commerce, Paris, France, is the international standard for defining a trade transaction between buyer and seller.

What is an INCOTERM

The Incoterm defines the point in time and space where the seller's title is transferred to the buyer in exchange for remuneration. It also defines the obligations of each party for freight, insurance, taxes, and duties during the physical movement of goods from one point to the other.

The buyer and seller should select and agree on the Incoterm early in the trade transaction since not only costs are involved, but also the capability to perform at all.

The most common error in using a particular Incoterm is the correct use of the named port, place, or destination. Freight cost responsibility is defined from a specific named place or port, if the Incoterm uses a place designation, and a port name is used instead, the seller would have to incur the cost from the place to the port (inland freight for example).

E TERM: The seller makes the goods available to the buyer at the seller's own premises.

How to Properly Use the INCOTERM

Sellers and buyers must decide on the Incoterm they are going to use early in the transaction, or risk unexpected costs and possible failure of the trade.

EXW - EX WORDS (...named place)

"Ex works" means that the seller fulfils his obligation to deliver when he has made the goods available at his premises (i.e. works, factory, warehouse, etc.) to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. This term thus represents the minimum obligation for the seller. This term should not be used when the buyer cannot carry out directly or indirectly the export formalities.

F TERMS: The seller is called upon to deliver the goods to a carrier appointed by the buyer.

FCA - FREE CARRIER (...named place)

"Free Carrier" means that the seller fulfils his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When, according to commercial practice, the seller's assistance is required in making the contract with the carrier the seller may act at the buyer's risk and expense.

FAS - FREE ALONGSIDE SHIP (...named port of shipment)

"Free Alongside Ship" mean that the seller fulfils his obligation to deliver when the goods have been placed

alongside the vessel on the quay or in lighters 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 moment. The FAS term requires the buyer to clear the goods for export. This term can only be used for sea or inland waterway transport.

FOB - FREE ON BOARD (...named port of shipment)

"Free on Board" means that the seller fulfils his obligation to deliver when the goods have passed over the ship's rail 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. The FOB term requires the seller to clear the goods for export. This term can only be used for sea or inland waterway transport.

C TERMS: The seller must contract for carriage, but without assuming the risk of loss or damage to the goods.

CFR - COST AND FREIGHT (...named port of destination) (previously CNF)

"Cost and Freight" means that 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 the goods have been delivered on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment. The CFR term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport.

CIF - COST, INSURANCE AND FREIGHT

(...named port of destination)

"Cost, Insurance and Freight" means that the seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is only required to obtain insurance on minimum coverage. The CIF term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport.

CPT - CARRIAGE PAID TO

(...named place of destination)

"Carriage paid to ..." means that the seller pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier. The CPT term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

CIP - CARRIAGE AND INSURANCE PAID TO

(...named place of destination)

"Carriage and insurance paid to ..." means that the seller has the same obligation as under CPT but with the addition that the seller has to procure cargo insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The CIP term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

D TERMS: The seller has to bear all costs and risks needed to bring the goods to the country of destination.

DAF - DELIVERED AT FRONTIER

(...named place)

"Delivered at Frontier" means that the seller fulfils his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. 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. The term is primarily intended to be used when goods are to be carried by rail or road, but it may be used for any mode of transport.

DES - DELIVERED EX SHIP

(...named port of destination)

"Delivered Ex Ship" means that the seller fulfils his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared 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. This term can only be used for sea or inland waterway transport.

DEQ - DELIVERED EX QUAY (DUTY PAID)

(...named port of destination)

"Delivered Ex Quay (duty paid)" means that the seller fulfils his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto. This term should not be used if the seller is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and pay the

duty the words "duty unpaid" should be used instead of "duty paid". This term can only be used for sea or inland waterway transport.

DDU - DELIVERED DUTY UNPAID

(...named place of destination)

"Delivered duty unpaid" means that the seller fulfils his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and the costs of carrying out customs formalities). The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time. This term may be used irrespective of the mode of transport.

DDP - DELIVERED DUTY PAID

(...named place of destination)

"Delivered duty paid" means that the seller fulfils his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes and other charges of delivering the goods thereto, cleared for importation. Whilst the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation. This term may be used irrespective of the mode of transport.

Note: The above Incoterms and definitions has been extracted from the International Chamber of Commerce Publication No. 460, INCOTERMS 1990.

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