A GUIDE TO INCOTERMS

TERMS OF SALE

A merchant's requirements for marine insurance are determined by the terms of sale he/she negotiates with the party to whom he/she is selling or buying from. In turn, those terms govern the respective responsibilities in respect of:

- Who should pay the costs of carriage of the goods
- Who should arrange customs clearance for export or import
- Who should pay the costs of loading and discharging
- How should the risk of loss of or damage to the goods be divided between them
- Who should arrange Cargo insurance as a protection against these risks
-

Incoterms are a set of international rules and standard trade definitions that are accepted by governments, legal authorities and practitioners worldwide.

They help to either reduce or remove uncertainties arising from differing practices and procedures in different countries, by specifying the rights and obligations of the parties to the contract of sale with respect to the transport and delivery of goods sold.

The 'Guide to Incoterms' groups the sale terms into four categories

Group E	**EXW**	Ex Works
Group F	**FCA**	Free Carrier
	FAS	Free Alongside Ship
	FOB	Free on Board
Group C	**CFR (formerly C&F)**	Cost and Freight
	CIF	Cost, Insurance & Freight
	CPT	Carriage Paid to
	CIP	Carriage and Insurance Paid to
Group D	**DAF**	Delivered at Frontier
	DES	Delivered ex-Ship
	DEQ	Delivered ex-Quay
	DDU	Delivered Duty Unpaid
	DDP	Delivered Duty Paid

GROUP E

It will be seen that there is only one E term, namely EXW or Ex Works. This represents the sellers minimum obligation in that he fulfils his contract merely by making the goods available to the buyer at his (the sellers) works or warehouse. The buyer therefore accepts the goods at that point and assumes all onwards responsibility.

- The **seller** needs no Cargo insurance.
- The **buyer** needs to insure the goods for the whole transit through to final destination.

GROUP F

Under the F terms, the seller has the responsibility to deliver the goods either on board the vessel (FOB) or to some other named point (sometimes his own premises) where they are handed to a carrier for the main part of the transit (FCA), free of risk and expense to the buyer.

He is also obliged to obtain the bill of lading or consignment note evidencing receipt by the carrier and pass this to the buyer along with the other documents required under the contract.

The buyer, having accepted the documents, assumes risk and expense from the named point (or ships rail) onwards.

- The **seller** needs to insure the goods from his premises until loaded on board the vessel (FOB) or delivered to the carrier at the named point (FCA). (He may also need Sellers Contingency Cover).
- The **buyer** needs to insure the goods from the time of loading on vessel or delivery to carrier at the named point through to final destination

GROUP C

The 'C' terms are similar to the 'F' terms except that the seller must bear certain costs relating to the transit after the point where the buyer assumes risk, (i.e. loading on board vessel or delivery to carrier at named point). These extra costs include the freight or carriage charges paid to the carrier to transport the goods to a named destination.

Under CIF and CIP terms these extra costs include the Cargo insurance premium to insure the goods to final destination. The policy or certificate is passed to the buyer along with the other documents of title and, being assigned to him, enables the buyer to claim under this insurance for loss or damage occurring after the point when the goods become at his risk.

Under CIF or CIP terms therefore,

- The **seller** needs to arrange insurance from his premises through to final destination.
- The **buyer** needs no primary cover but may buy Buyers Contingency Cover, or, if he is trading in a raw material or commodity, may need Increased Value Cover

Unless otherwise agreed, the insurance arranged by the seller should cover 110% of CIF or CIP invoice price and be on conditions current in the trade. A buyer claiming under a policy arranged by the seller will normally deal with the Insurers local claim settling agent as nominated on the policy or certificate.

Under the other C terms, (CFR and CPT), insurance needs are the same as for F terms.

GROUP D

The D terms place further responsibility on the seller as he has not fulfilled his obligations until the goods are actually delivered to a stated destination (usually in the buyers country) and the goods are at the sellers risk up to that point. Under DDU and DDP terms the stated destination would usually (but not always) be the buyers warehouse. (If the delivery under DDU or DDP is at some other place, delivery is completed when the cargo is loaded onto the collecting vehicle sent by the buyer, unless the contract specifies otherwise).

- The **seller** needs to insure from his premises through to the named destination.
- The **buyer** needs no insurance unless there is transit beyond the named destination.

One source of misunderstanding which commonly occurs is in respect of the difference between a CIF contract and a Delivered contract, both of which involve procurement by the seller of Cargo insurance covering the whole transit.

It must be emphasised that under a CIF contract, the seller has fulfilled his obligations when he has delivered the specified goods on board the vessel at loading port (or to the sea carrier for shipment), has paid or agreed to pay the freight and insurance charges, has obtained the bill of lading or other carriage document and has passed this with the other documents required in the contract (including insurance document) to the buyer.

Once the buyer has accepted the documents and thus title to the goods, he has also accepted the risk of loss or damage retrospectively from time of shipment (loading on board or delivery to carrier). If loss occurs after this point, e.g. during the voyage, he has no recourse against the seller (unless the loss was caused by the sellers negligence, e.g. failure to pack the goods properly) but can claim under the insurance document which the seller has assigned to him.

Under a Delivered contract, however, the seller has not fulfilled his obligations until the goods have been delivered to the buyer at the named destination. Thus any loss or damage during the voyage would fall against the seller who would claim under his Cargo insurance.

Although the nature of the F terms and C terms seems complicated, these are often most appropriate when transactions are being financed through the banking system, either through documentary credits (letters of credit) or documentary collections. Under these transactions the goods are represented by the set of documents called the documents of title and ownership passes with these documents

COMMON TERMS

1. Cost, Insurance & Freight (C.I.F.)	**Seller** responsible for insurance from his works or warehouse until delivered to Buyer's warehouse or other final destination stipulated by the Buyer.	**Buyer** may require cover in respect of increased value arising out of charges payable at destination or rising market prices.
2. Cost & Freight (C.F.R.)/Free on Board (F.O.B.)	**Seller** responsible for insurance from his works or warehouse to Free on Board. May also require Contingency Cover if he extends credit to his overseas buyer.	**Buyer** responsible for insurance from Free on Board until delivered to final destination.
3. Free on Rail (F.O.R.) IFREE on Trailer (F.C.T.)	Same application as C.& F. / F.O.B.	Same application as C.& F. / F.O.B.
4. Free on Quay (F.O.Q.) IFREE Alongside (F.A.S.)	Same application as C.& F. / F.O.B.	Same application as C.& F. / F.O.B.
5. Ex Works	**Seller** needs no transit insurance but may require Contingency Cover if he extends credit to his overseas buyer.	**Buyer** responsible for insuring the whole transit from place of sale from Seller's warehouse to final destination.
6. DDU (Delivered Duty Unpaid)	**Seller** responsible for insurance from his works or warehouse until delivered to Buyer's warehouse or other final destination stipulated by the Buyer. Seller is required to provide cover for the value of the consignment before the application of duty in the country of destination. Seller will wish to protect himself in respect of the possibility of his incurring liability for duty in the event of loss of the goods prior to the point of transfer of risk.	**Buyer** may require cover in respect of increased value arising out of charges payable at destination or rising market prices. In particular, the buyer will require cover for duty actually paid, or for which he has a potential liability if goods remain in bond.
7. DDP (Delivered Duty Paid)	**Seller** responsible for insurance from his works or warehouse until delivered to Buyer's warehouse or other final destination stipulated by the Buyer. Seller is responsible for, and therefore must arrange insurance cover for, all charges, including taxes, attaching to the goods up to the delivery point unless specifically agreed otherwise with the buyer.	**Buyer** should not need to arrange cover other than to the extent that he has agreed with the seller to accept responsibility for local charges and taxes. Additionally, the buyer will require cover in respect of any further transit onwards from the agreed point of delivery.

EFFECT ON PRICE OF TERMS

The nature of the obligations on the seller under the different sale terms will obviously influence the price charged to the buyer. The price of goods sold CIF, for example, will be greater than the price charged if the same goods are sold FOB as the CIF price will include freight charges and insurance premium paid by the seller.

This is an important point to remember when we come across an importer who is buying CIF and we are persuading him to switch his insurance arrangements so that he insures with us. He should be advised to request a C & F (now called CFR) price from the seller so that he can compare the difference in prices with the cost of our own premiums.