

INCOTerms - sales terms which govern cost responsibilities between buyer and seller

What are INCOTerms and when should they be used?

- Incoterms are a set of rules for the interpretation of the most commonly used trade terms in international trade - International Commercial Terms. They were first published by the International Chamber of Commerce (ICC) in 1936 and since then have been updated in 1953, 1967, 1976, 1980, 1990 and the current revision 2000.
- Parties to a contract are often unaware that there are different trading practices in their respective countries, for example FOB for an American company may have a different meaning to FOB for a UK trader. This can lead to misunderstanding and, in the worst scenario, costly litigation. Incoterms set out to avoid this problem by giving a set of standard rules that are recognised throughout the world.
- The basic purpose of each Incoterm is to clarify how functions, costs and risks are split between the buyer and seller in connection with the delivery of the goods as required by the sales contract. Delivery, risks and costs are known as the critical points. Each term clearly specifies the responsibilities of the seller and the buyer. The terms range from a situation in which everything is fundamentally the responsibility of the buyer to the other extreme where everything is fundamentally the responsibility of the seller

Commonly used INCOTerms

- **Ex-Works** - When the producer of the goods does not want to be responsible for their transport to destination Ex-Works will be used, the only responsibility of the seller is then to make the goods available at their premises to be collected.
- **CFR (Formerly C&F)** - This stands for Cost & Freight, it requires the seller to pay the freight charges up to the destination, but all liability for damage to the goods or any cost increases are then transferred over to the buyer, and it is their responsibility to arrange insurance if they choose to.
- **CIF (Cost, Insurance & Freight)** - As the above (CFR) but with the seller having responsibility to arrange insurance for the goods during transit to destination.
- **CPT (Carriage Paid to)** - With this INCOTERM the seller will pay for the transportation of the goods to their destination. Liability for the goods are handed over to the buyer at a later stage this time being when the goods are in the custody of the final carrier.
- **CIP - (Freight, Insurance Paid to)** - As with the above term, CPT except with the seller having responsibility of arranging insurance for the goods during their transportation.

