The terms, divided into two groups, are

A. *Rules for any mode of transport (port or destination must be specified).* These are used where there is no maritime transport at all or where the maritime transport is used for only a part of the carriage.

1. EXW: Ex Works
   This term represents the minimum obligation for the seller. The seller pays for export packing, marking, and labelling, and the buyer bears all costs and risks involved in taking the goods from the seller's premises. Delivery occurs when the goods are placed at the disposal of the buyer at the seller's premises. This term is often used in domestic trade and by novice international traders.
2. FCA: Free Carrier
   The seller is responsible for export packing, marking, and labelling and for export clearance. The buyer then assumes all responsibility for shipping and insurance after export clearance. FCA, the most commonly used Incoterm, is employed in an estimated 40 percent of all international trade transactions carried out since it is versatile and allows the delivery of goods to different places such as the seller's address, a land transport terminal, a port, or an airport.
3. CPT: Carriage Paid To
   This term obliges the seller to pay packing, export clearance, and freight charges for transporting the goods to the named destination.
4. CIP: Carriage and Insurance Paid To
   This term can be used for any kind of shipment. It includes insurance as well as cost and freight. The seller arranges for the goods to be delivered to the named port of destination and is responsible for all costs until the goods have been delivered to that named port of destination.
5. DAP: Delivered at Place
   This term should be used when the goods are delivered at any place other than a transportation terminal (for example, the buyer's address), and the seller assumes the payment of the custom duties, taxes and any other costs related to export.
6. DPU: Delivered at Place Unloaded
   This term replaced the old Delivered at Terminal (DAT). The seller delivers and the risk transfers when the goods are unloaded at a named place of destination. The seller has the obligation to clear the goods for export but no obligation to clear the goods for import, pay any import duty, or carry out any import customs formalities. This is the only Incoterm that requires the seller to unload the goods.
7. DDP: Delivered Duty Paid
   Here, the seller bears all the costs and risks involved in bringing the goods to the named destination. This rule imposes the maximum level of obligation on the seller.

B. *Terms for carriage by sea or inland waterway.* These rules are for transport where the port of delivery and the place to which the goods are carried are both ports.

8. FAS: Free Alongside Ship
   The seller must clear the goods for export but the buyer bears all transport costs and risk of loss of goods. Delivery occurs when goods are turned over to the buyer's representative for transportation at the quay or barge.

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9. FOB: Free On Board Vessel
   This is one of the most commonly used and misused terms. It is frequently used to describe inland movement of cargo, although it is designed to refer to ocean or inland waterway transportation of goods. Delivery occurs when the seller releases the goods to the buyer's forwarder, which is the point at which the buyer's responsibility for insurance and transport begins.
10. CFR: Cost and Freight
    Here, the seller must get the goods from her door to the port of destination. The buyer is responsible for insurance from the port of origin to the buyer's door, although the seller is responsible for transportation.
11. CIF: Cost, Insurance, and Freight
    This term is similar to CFR except that the seller insures the goods. CIF contracts, while popular because the seller pays costs, insurance, and freight, may complicate verifying freight and insurance charges and may result in a higher price to the buyer/importer.

Choice of Terms

Choosing the most appropriate Incoterm for the transaction requires the parties to consider factors such as the following:

- the type of the goods (for example, containerized goods, manufactured goods, and bulk goods or commodities);
- the means of transport (maritime, non-maritime, or multimodal);
- the conditions of payment and the documentary requirements imposed by these conditions; and
- the capacity of and the efficiency with which the seller or the buyer can perform the obligation to deliver the contracted goods—in other words, who can perform the tasks associated with the delivery more cheaply.

The parties involved will probably be guided by other criteria in their choice of trade terms as well. These may include market factors, access to reliable transport and insurance, and government involvement.

Market Factors

In a highly competitive market, the seller may wish to offer prices to the buyer that are comparable to prices offered in the buyer's domestic market. Because additional costs and risks accepted by the seller are always reflected in the price, the seller would undertake to deliver the goods using terms such as "DAP." At a minimum, the seller would be obliged to arrange and pay for transportation by using such terms as "CPT," or "CIF."

Access to Reliable Transport and Insurance

An exporter of large and regular volumes of goods will usually be in a position to obtain better terms from carriers and insurers than the "occasional" importer can obtain. It may be comparatively simple to arrange the transport in the country of exportation, and the risk of something going wrong is minimal. Under normal conditions of trade between countries with well-organized container ports and peaceful labour conditions, the risk of political disturbances, congestion in the ports, strikes, or interruptions of trade may be minimal. In such cases, the seller may elect to assume the risk during transport and to choose a term in which its responsibilities extend to the arrival of the goods at the destination (a "D" or "arrival" contract). The "D" terms are becoming increasingly common. As more countries develop sophisticated infrastructures

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and reliable and transparent rules, sellers have become more willing to undertake an obligation in the country of the importer. On the other hand, a seller who thinks that such risks may be difficult to ascertain and therefore difficult to include in the calculation of the price might prefer to have the buyer assume the risks during international transport and use "F" terms.

Governmental Involvement

Directly or indirectly, government authorities may guide or even instruct parties in their country to sell on CIF terms and to buy on FOB terms. There are two main reasons for this:

- Trade terms constitute an important tool for directing the flow of goods to national shipping lines or other national carriers.
- It is possible to save foreign currency. A seller who has undertaken to pay for carriage and insurance will include these costs in his price for the goods and thereby obtain more foreign currency. On the other hand, a buyer who has assumed these costs will pay less for the goods and may sometimes be able to pay for transportation and insurance services in domestic currency.

Once the appropriate trade term has been chosen, there are other matters that need to be considered by the parties.

Price

Depending on the types of goods being sold, certain industry practices may dictate how the price will be expressed in the contract. (The price might be expressed as per unit, average, bulk, formula, or market price). The price will also reflect the Incoterm selected. For example, if the seller is responsible for shipping and clearing customs and insurance, she can charge a premium, and the price for the goods will likely be higher than if the buyer shared the responsibilities.

It is important to indicate what currency will be used to pay for the purchase. Export transactions are sensitive to fluctuations in the exchange rate of different currencies. A price agreed with a seller on one day could rise or fall if the exchange rate changes. Often, sellers prefer to use the American dollar, the euro, or the Chinese yen, as these are considered more stable currencies; however, this could make the deal less attractive to the buyer. The currency and price of the goods agreed upon will depend on the bargaining power of each of the parties and the market conditions at the time of the negotiation.

Date and Method of Payment

There are a number of different ways the purchase price can be paid. Over the years, standardized methods of payment in international trade have been developed, the most common of which are open account, the letter of credit (discussed in detail in Chapter 7), and cash in advance. Table 6.3 summarizes the risk, pros, cons, and recommended uses for each of these payment methods.

Open Account

The seller sends the goods together with all requisite documents to the buyer, and the goods are shipped and delivered before payment is due. The payment will be due in 30, 60, or 90 days after delivery. In using this payment method, the seller should be confident that the buyer will accept shipment and pay at the agreed time and that the importing country is commercially and politically secure. This method of payment is often used between parties that have a long-standing relationship and trust each other or in situations when the seller is in a very competitive market and needs to make the payment terms more attractive to set himself apart from others.

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