

What are Incoterms?



Incoterms are only part of the contract for sale. However, they are an integral part of the international transaction. Incoterms deal with the questions related to the **delivery** of the products from the seller to the buyer. This includes the carriage of products, export and import clearance responsibilities, who pays for what, and who has risk for the condition of the products at different locations within the transport process. Incoterms are **always** used with a geographical location and **do not** deal with transfer of title.

In determining what incoterm is appropriate to structure a transaction, here are some issues to think about.

1. What is included in the seller's price (where is the buyer taking responsibility for the shipment)?
2. How much control does the seller need in the transaction? For instance, does the seller need to present documents to a bank in a draft or letter of credit transaction?
3. Does the seller regularly ship and receive any large freight discounts that can be passed along to the buyer, or is the product sensitive or fragile so the seller wants to contract for carriage and control part of the transport?
4. Does the buyer have facilities in the U.S. to take possession of the goods?
5. How much knowledge does the buyer have in international trade?
6. Does the product need an export license?
7. What is the importing country, are there any specific currency or payment control?
8. What is the method of payment (open account, letter of credit, draft, or cash in advance)?
9. Who is insuring the products, since incoterms only address this issue in terms - CIP and CIF. In the other 11 terms, it is a negotiable point.

Different aspects of the international transaction

- Packaging the product for export.
- Loading the product on the first carrier - **pre-carriage**.
- Clearing the shipment for export.
- Arranging for international transport - **main carriage**.
- Payment for the main carriage
- Arranging for insurance - **this is only addressed in 2 terms, and is the seller's responsibility in these terms - CIP and CIF.**
- Arranging for customs clearance in the buyer's country.
- Arranging for and paying for transport from point of arrival in buyer's country to the

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destination point within the buyer's country - on-carriage.

Buyer & Seller: Mirror Image of Obligation

Seller Must	Buyer Must
<ol style="list-style-type: none">1. Provide products in conformity with the contract2. Licenses, authorizations, other formalities3. Contract of carriage and insurance4. Deliver the products to agreed location5. Transfer of risk for the products6. Division of costs7. Notice to buyer8. Proof of delivery, transport or electronic documentation9. Checking, packaging, and marking the shipment10. Other obligations	<ol style="list-style-type: none">1. Pay the price of the products2. Licenses, authorization, and formalities3. Contract of carriage and insurance4. Take delivery of products5. Transfer of risk for the products6. Division of costs7. Notice to seller8. Proof of delivery, transport or electronic documents9. Inspection of products10. Other obligations