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# Relevance of shipping terms

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Abstract

This paper seeks to analyze the Shipping terms, which act as a contract between two parties, as they clearly outline who is responsible for each task and what is expected of them. So, incoterms will tell everyone involved with a delivery that needs to cover the cost of exporting goods abroad. This may involve customs clearance, duties, and freight. In some cases, the seller will cover all costs, but at other times it will be the buyer

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## 1 Introduction

Shipping terms, also known as incoterms, are three-letter abbreviations used when exporting goods overseas. Created by the International Chamber of Commerce in 1939, incoterms (International Commercial Terms) make it easier for businesses to communicate effectively when exporting goods around the world. Since international trade will often involve language barriers, shipping terms break down barriers to communication and help minimize the chance of miscommunication between sellers and freight companies.
Shipping terms also act as a contract between two parties, as they clearly outline who is responsible for each task and what is expected of them. So, incoterms will tell everyone involved with a delivery who needs to cover the cost of exporting goods abroad. This may involve customs clearance, duties, and freight. In some cases, the seller will cover all costs, but at other times it will be the buyer. Put simply, shipping terms refer to three things:

- Who is responsible for arranging transport and the carrier.
- Who needs to cover the cost of transport.
- Where and when the goods will be transferred from the seller to the buyer.

If this is the first time you've come across the term 'shipping terms' as a small or large business, don't panic. We're going to clearly explain every shipping term you'll ever need to know! Once you've mastered these trading practices, you'll feel more confident when exporting goods around the world.

**Benefits of using shipping terms**

1. **Empowers international trade**

   Trading overseas is made easier when using incoterms. As long as both sellers, freight companies, and buyers understand what incoterms are, what they represent, and how to use them correctly, exporting goods and trading on a global scale is a simple and straightforward process. From the distribution center to the shipping recipient, disputes and disruptions to the supply chain can be avoided when using shipping terms correctly. The key to a successful international business is a steady flow of cash, stock ready to ship, and excellent customer service, and incoterms can help sellers achieve this.

2. **Incoterms impact monetary gain**

   If you want to have an edge over your competitors, incoterms could be the answer. When shipping terms are effectively used, they can ensure goods are delivered on time and payment is received. This gives businesses involved in the entire overseas supply chain a competitive advantage. Should a single government be able to change shipping terms and regulations, this could encourage bribery and unfair business practices. But, by everyone using a standardized set of terms and terminology, penalties, fines, and criminal activity can be avoided. [1]

3. **Standardized terminology minimizes mistakes**

   While regular business terms and phrases can often be misunderstood between sellers and buyers, language barriers can also cause communication issues when you start trading overseas. That's why using standardized terminologies such as incoterms is best for carriers and buyers. By using the same terms when exporting goods abroad and trading internationally, there is no room left for error or confusion about each party's role, responsibility, and management. So sending goods from one destination to another, whether it's within the same continent or thousands of miles overseas, shipping terms can give all parties involved complete peace of mind.

   In short incoterms help to eliminate following doubts of an exporter or an importer.

- **Which task will be performed by the exporter**
- **Which task will be performed by the importer**
- **Which activities will be paid by the exporter**
- **Which activities will be paid by the importer**
- **When the transfer of responsibilities will take place**

**The 12 Incoterms**

1. **FCA - free carrier**

This shipping term tells the seller to deliver the products to a certain destination, to the carrier chosen by the buyer. This destination will determine the loading and unloading requirements in the first transport. If delivery is made on the premises of the seller, then they are liable for the load. However, if the delivery takes place elsewhere, then the buyer is responsible for unloading the shipment. This also lets both parties know that the seller will take care of the export customs clearance. Since a new rule came into force in 2010, the buyer can now instruct its carrier to issue a bill of lading with an on-board notation to the seller so that they may satisfy the terms of a letter of credit

- FCA can be used for multi model transportation
- Customs clearance by the exporter

- Loading the container on carriers truck

2. **EXW - ex works**

This means that the seller will deliver to their own warehouse or factory for the buyer to pick up. The seller does not load the goods for the buyer or is involved in export clearance. The buyer is therefore responsible for all expenses and risks involved

- EX-Works can be used for any merchandise
- Make the goods available to the importer at exporters go down
- Package the goods
- Provide information to the importer for customs clearance

3. **DPU - delivered at place unloaded (formerly known as DAT delivered at terminal)**

The seller will deliver the goods unloaded in the country of destination, in a port or airport for example. Then transportation risk is passed from the seller to the buyer as delivery is made and completed. The export customs clearance is handled by the seller, but import customs clearance and any tariffs are paid by the buyer.

The buyer is responsible for the duty, fees and taxes.

4 **CPT - carriage paid to**

CPT means that the seller contracts and pays for transportation to the delivery destination in the buyer's country. When the goods are received by the first carrier in the chain, the seller is no longer responsible for the items and all risk is passed over to the buyer. The export customs clearance is completed and handled by the seller

- It is not applicable to ocean transportation, but to multi modal transportation. The point at which the responsibility shift from the exporter to the importer ,at the time goods deliver to the carrier

5 **CIP - carriage and insurance paid to**

This incoterm means that the seller is also responsible for transport and shipping insurance. The seller is now also responsible for purchasing a higher level of insurance coverage, at least 110% of the value of goods as detailed in Clause A of the Institute of Cargo Clauses

- It is not applicable to ocean transportation, but to multi modal transportation

The point at which the responsibility shift from the exporter to the importer ,at the time goods deliver to the carrier

6. **DAP - delivered at place**

The seller must deliver the goods to the country specified by the buyer, and the items must be ready to be unloaded in a place other than a terminal or transport infrastructure. The risk of transporting the goods passes from the seller to the buyer once delivery has been made. The buyer pays import customs clearance and tariffs, but the seller completes export customs clearance

7. **DDP - delivered duty paid**

This shipping term means that the seller will deliver the goods, ready for unloading, at the place of destination requested by the buyer. This is usually a factory or warehouse owned by the buyer. All risks and costs, including customs fees such as clearance of export and import, are handled by the seller

- DDP terms tend to be used in intermodel or courier-type shipments.
- Whereby, the shipper/seller is responsible for dealing with all the tasks involved in moving goods from the manufacturing plant to the buyer/consignee's door.
- It is the shipper/seller's responsibility to insure the goods and absorb all costs and risks including the payment of duty and fees.

8. **FAS - free alongside ship**

FAS means that the seller is obliged to deliver the goods, alongside a vessel at the port of destination. Once delivered, all costs and associated risks are passed over to the buyer, although the seller handles customs clearance.

- This is specifically designed for ocean transportation
- Exporter has to deliver the goods along side a ship designated by the importer, keep goods on a quay waiting for ship.
- He has to clear the goods
- Stevedoring & handling charges are not to be paid

9. **FOB - free onboard**

When shipping goods overseas, FOB refers to the responsibility of the seller to deliver goods on board the ship, at the port of shipment. The buyer chooses to ship and pay for freight. The transportation risk will move from the seller to the buyer once the goods are delivered and are safely onboard the ship. With FOB, export customs clearance is handled by the seller.

- This is specifically designed for ocean transportation
- The exporter has to load the goods on to the ship
- The point at which the responsibility shift from the exporter to the importer , is the ships rail, at the port of loading.
- Clearing charges, Terminal Handling Charges, are to be paid by the exporter.Ocean freight charges should be born by the importer

10. **CFR - cost and freight**

This means that the seller is responsible for freight to the port of destination. But, once the goods are loaded onto the ship at the shipment port, the risk of loss or damage to the goods moves from the seller to the buyer. Again, responsibility for export customs clearance lies with the seller

- This is specifically designed for ocean transportation
- This term formerly known as C&F .
- Ocean freight charges should be born by the exporter.
- The point at which the responsibility shift from the exporter to the importer , is the ships rail, at the port of delivery
- Clearing charges, THC, Ocean freight charges should be born by the exporter

11. **CIF - cost, insurance, and freight**

Going back to CFR, the same obligations apply to the seller when using the shipping term CIF. The seller must also provide and pay for transport insurance to safeguard the goods, but insurance coverage only needs to be at a basic level.

- This arrangement similar to CFR,
- This is specifically designed for ocean transportation
- The point at which the responsibility shift from the exporter to the importer , is the ships rail, at the port of delivery
- Clearing charges, THC, Ocean freight charges & Insurance should be born by the exporter

12. **LCL - less than container load**

LCL is a common shipping term used when exporting overseas and to a named port. Small ocean freight shipment is transported using this code when the shipper doesn't contract for a full container due to the low quantity of goods. In this case, a freight forwarder may create a consolidation by putting together multiple LCL shipments before gating in at the container yard at the place of destination or named port.

## Conclusion

While international sellers should be aware of the majority of shipping terms, you may not need to use all of them while exporting goods overseas. So, which Incoterms will an online seller trading internationally need to use?

The most commonly used shipping terms:

- **FAS** - for heavy and bulky machinery, this shipping term is often used and helps to export such items abroad easier.
- **FCA** - one of the best shipping terms for international sellers. By using this term, the seller doesn't need to be involved with transport costs and won't be responsible for additional risks.
- **FOB** - while this particular incoterm is widely misunderstood, it is also a popular term to use among global sellers. FOB is only intended to be used for shipping goods, and the seller is responsible for loading the goods onto the ship sent by the buyer. Once goods are on board, the seller is free of responsibility.

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