

Session 7:

# INCOTERMS®

*International ly Standardized Shipping Terms*



Export-U.com is operated by the US Export Assistance Center, in Atlanta, a collaborative partnership including the SBDC International Trade Center of the University of Georgia and the US Commercial Service. The SBDC program is funded by the University of Georgia and the U.S. Small Business Administration. SBA's funding is not an endorsement of any products, services, or services. All SBA funded programs are provided to the public on a nondiscriminatory basis. Photo: <http://www.flickr.com/photos/turnogre/1413504919/>

Hi, I'm Bob Erwin, and welcome to this session of Export-U2.

In this presentation, we will discuss the use of International Commercial Shipping Terms, which are also known as INCOTERMS.....

And, we will explore how these terms can be used to simplify the export and pricing of your goods.

# PREVIOUS PIECES

1. Are you ready?
2. Global market intelligence
3. More intelligence
4. Costing
5. Market approach
6. Tradeshows

Photo: by Balintherain

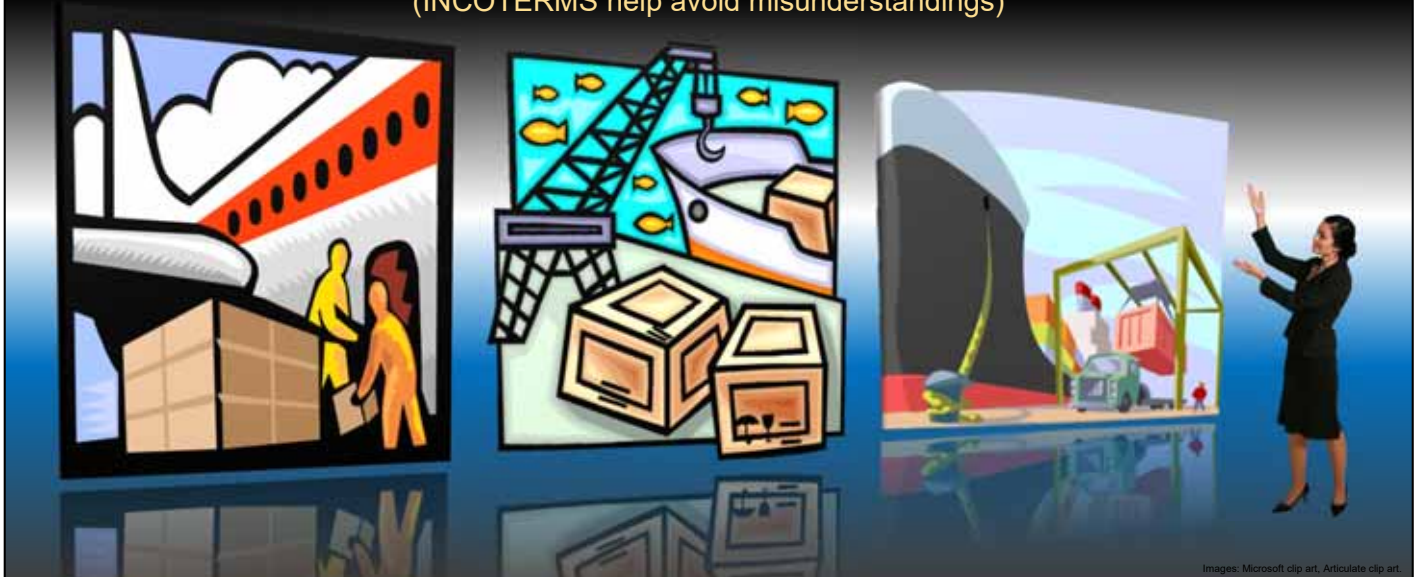
In previous sessions of Export-U, we've discussed several pieces of the export puzzle. These included:

- CLICK-1- Determining if you are ready to export?
- CLICK-2- 2. Global market intelligence to identify high-potential markets,
- CLICK-3- More intelligence on targeted markets,
- CLICK-4- Determining the cost of your goods overseas,
- CLICK-5- Approaching foreign markets with help from the US Commercial Service, ....and finally..
- CLICK-6-How to successfully participate in international trade shows



# WHO IS RESPONSIBLE FOR WHAT?

(INCOTERMS help avoid misunderstandings)



Now, we're ready to actually ship your goods to overseas customers.

Clearly, there are a lot of steps in the shipping process and a fair amount of cost is associated with each.

To make things go smoothly, and avoid confusion, you need to determine

-CLICK-1-

who is responsible for what.

And, ...you need a method to clearly spell this all out in advance,

because....

Failure to do so can lead to

-CLICK-2-



# USE INCOTERMS!

Assign shipping responsibilities

Standardized worldwide

Used in price quotes and invoices



Photo: Shanghai, "The Bund Night View" by Wei Jiang

Our advice? Use INCOTERMS....Using INCOTERMS the best way to

-CLICK-1- assign shipping responsibilities between you and your overseas customers. You have probably heard of some of the more common INCOTERMS like CIF and FOB. These "terms" are

-CLICK-2- standardized worldwide. And, they are

-CLICK-3- used for price quotes and invoices to spell out precisely what is included in the price, and to avoid misunderstandings with your customers.



# INCOTERMS ASSIGN:

## 1. Responsibilities for:

- Shipping phases
- Customs clearance
- Insurance

## 2. Who pays for each phase

## 3. Risks for each phase



Images: Microsoft clip art

INCOTERMS do basically three things:

First, they assign responsibilities for the different phases of shipping, for customs clearance, and for insurance. Secondly, by assigning responsibility,... they also determine

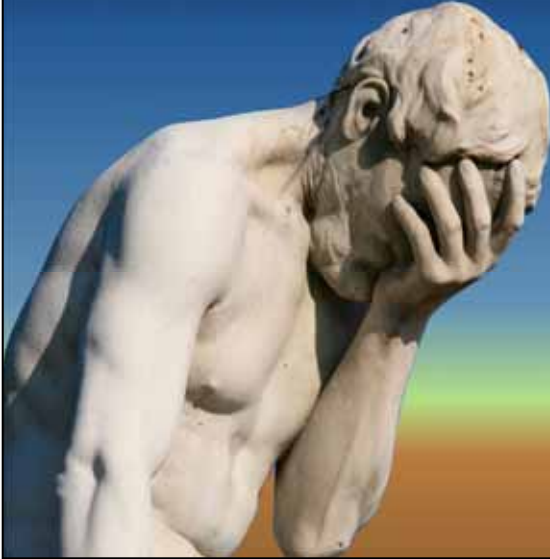
-CLICK-1- who pays for each phase....And finally....They assign

-CLICK-

risks associated with each shipping segment.



# What INCOTERMS **DON'T** Do



- ✦ Define the ownership transfer point
- ✦ Reduce your contractual liabilities
- ✦ Protect you from breach of contract  
(except when related to the passing of risks and costs)

There are also a number of things that INCOTERMS Don't do.

-CLICK-1-

They don't define when ownership of the goods passes from you to your customer.


-CLICK-2-

They don't reduce your contractual liabilities if something goes wrong....and

-CLICK-3-

They don't protect you from a customer breach of contract, except if the breach is related to the passing of risk or costs.

Session 7:  
INCOTERMS



# INCOTERMS ALPHABET SOUP

(Why so many terms? Many options.)

- 1. Minimum obligation:**  
Customer picks up the product (EXW)
- 2. Extended obligation:**  
You hand over the goods at specific point during shipping (FCA, FAS, FOB, CFR, CPT, CIF, CIP) (Most common)
- 3. Maximum obligation:**  
You must arrange for final delivery (DAT, DAP, DDP)

Photos: 1. refurbished rope factory, are facilities of Turku, Finland, oridlyhowsy.blogspot.com; 2. Container ship-5 photo by Gerhard Suster; 3. Cityscape by \_Tawcan\_ on Flickr

There are 11 commonly used INCOTERMS, some are used more frequently than others.

Why so many? ----- As a group, these 11 terms define a broad range of options for shipping responsibility.....

Generally, INCOTERMS fall into three broad categories:

-CLICK-1-

At minimum, you simply provide the product for customer pick-up from your own loading dock.

-CLICK-2-

More often, Extended Obligation terms will specify the hand-off point, where a shipment passes from you to your customer.

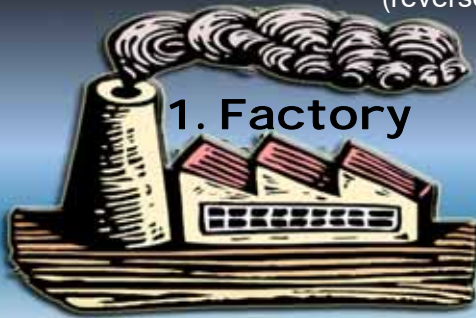
-CLICK- 3-

And, sometimes, you must accept maximum responsibility, and arrange transportation, end-to-end.



# Outbound Shipping Steps

(reverse these steps on the receiving side)



1. Factory



2. Inl and carrier(s)

4. Ship  
(or PI ane)



3. Customs

To understand how INCOTERMS work, you must consider the various steps in the international shipping process.

-CLICK-

In general, all products start-out from a US factory or warehouse.

-CLICK-

Typically, they are then sent out overland by truck or train to a port or airport.

-CLICK-

At the port, they pass through outbound customs.

-CLICK-

And, finally, they go on a ship or plane for transit overseas.

At the other end, these steps are reversed,..... until the goods are finally delivered to your customer.

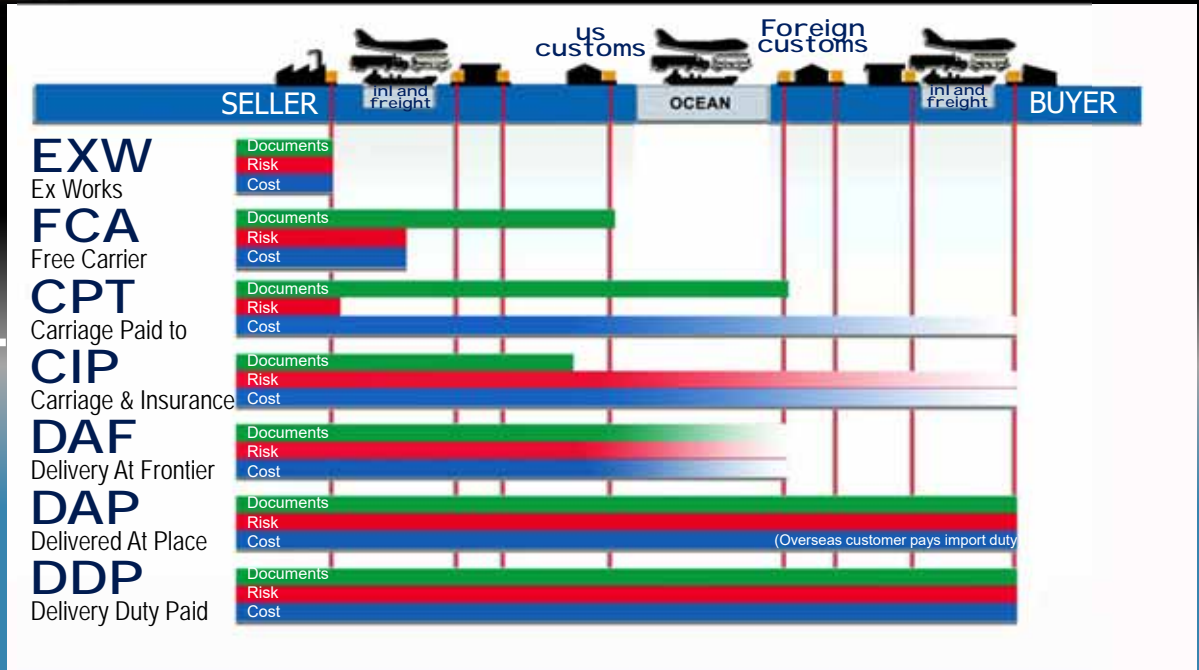
The idea here .....is that responsibility for the shipment can be handed-over from seller to buyer.... at any point along the way.

You just need to specify at which point,... using INCOTERMS.





# ALL Shipments



Here we see a list of INCOTERMS that may be used for all modes of shipping --- land, sea, or air.

The blue band across top of the chart shows the various stages in shipping from Seller to overseas Buyer.

Horizontal bars

-Click-1

for each INCOTERM delineate your responsibilities as an exporter.

For example, with the upper-most term, "Ex Works", your responsibility extends only to your factory or warehouse loading dock.

In contrast, the bottom term, "Delivery Duty Paid," assigns you full end-to-end responsibility for all documents, risks, and costs.

The remaining terms fall somewhere in-between the two.

Also, most INCOTERMS are used in conjunction with a named location. ----

For example, if you are shipping to China under CPT terms, you might say "Carriage paid to Shanghai".



# OCEAN Shipments



Here we see a listing of terms used only for trans-ocean shipments.

-Click-1

A couple of the most heavily used INCOTERMS are FOB and CIF.

Under FOB, or Free On Board, you are responsible for the goods until they are placed on a ship.

Under CIF, or Cost, Insurance and Freight, you must arrange shipping until the goods are offloaded at the overseas port.

In both cases, the foreign buyer must pay the import customs duty.



# Which INCOTERM is Right for You?

- What term does your customer want?
- What's your risk appetite?
- How important is control?
- How risky is the market?
- Who is more experienced with logistics?



So, how do you know which INCOTERM is right for you? – Well it depends...

Proper INCOTERM selection strikes the right balance between risk and control. For example, you might ask yourself:

-CLICK-1-

What shipping term does your customer want?

-CLICK-2-

What is your appetite for risk?

-CLICK-3-

Do you need to carefully control the shipment, for example with fragile goods?

-CLICK-4-

Are you shipping to a risky market?

And finally,

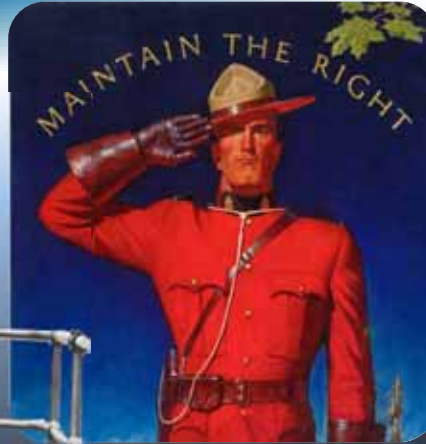
-CLICK-5-

Who is more experienced with logistics --- you or your customer? If your customer



# WHAT INCOTERM?

Experience



Extended  
control



An early hand-off  
*(if you can ship there at all)*

Photos: 1. Kim Un, All over web. 2. Old Canadian Mountie recruiting poster, all over web. 3. Antique sea captain photo: www.bf.org.uk

So, what INCOTERM is right for you?

If you are shipping to a high-risk market like

-CLICK-1- North Korea, you probably want to hand-off the goods as soon as possible..... Maybe, FOB Baltimore. (That is, of course if you can legally ship anything to that country.)

Conversely, if you are delivering expensive precision machinery for a factory in

-CLICK-2- Canada, you might will want to control the entire shipping process.

And finally, primary shipping responsibility is often assigned to the company with

-CLICK-3- the most logistics experience, and shipping volume. --- Companies that ship a lot may have cheaper shipping rates...



Clearly, there is a lot more information on the use of INCOTERMS than that contained in this shore presentation.

If you want to learn more, please refer to the [links](#) page of this web site.

There, you will find several excellent references to sources that cover the topic in considerable detail.



call:

**1-800-USA TRADE**

or consult your nearest

**US Export Assistance Center**

In Georgia you can also call the SBDC International Trade Center at 678-985-6820

Photo: NASA, <http://apod.nasa.gov/apod/ftp/image/0803/iss015e10469.jpg>

I hope you found this session of Export-U helpful. If you should have any questions about INCOTERMS, please feel free to drop me an email ~~by clicking on the button to the left of the screen.~~

-CLICK-2

You can also direct specific questions to the Commerce Department's Trade Information Hotline at 1-800-USA-TRADE.

Another excellent resource for exporting can be found at your nearest US Export Assistance Center, or SBDC International Trade Center.

Thank you.

-CLICK-3

*Session 7:*  
***The End***  
*INCOTERMS*

