

E216 Distribution and Transportation

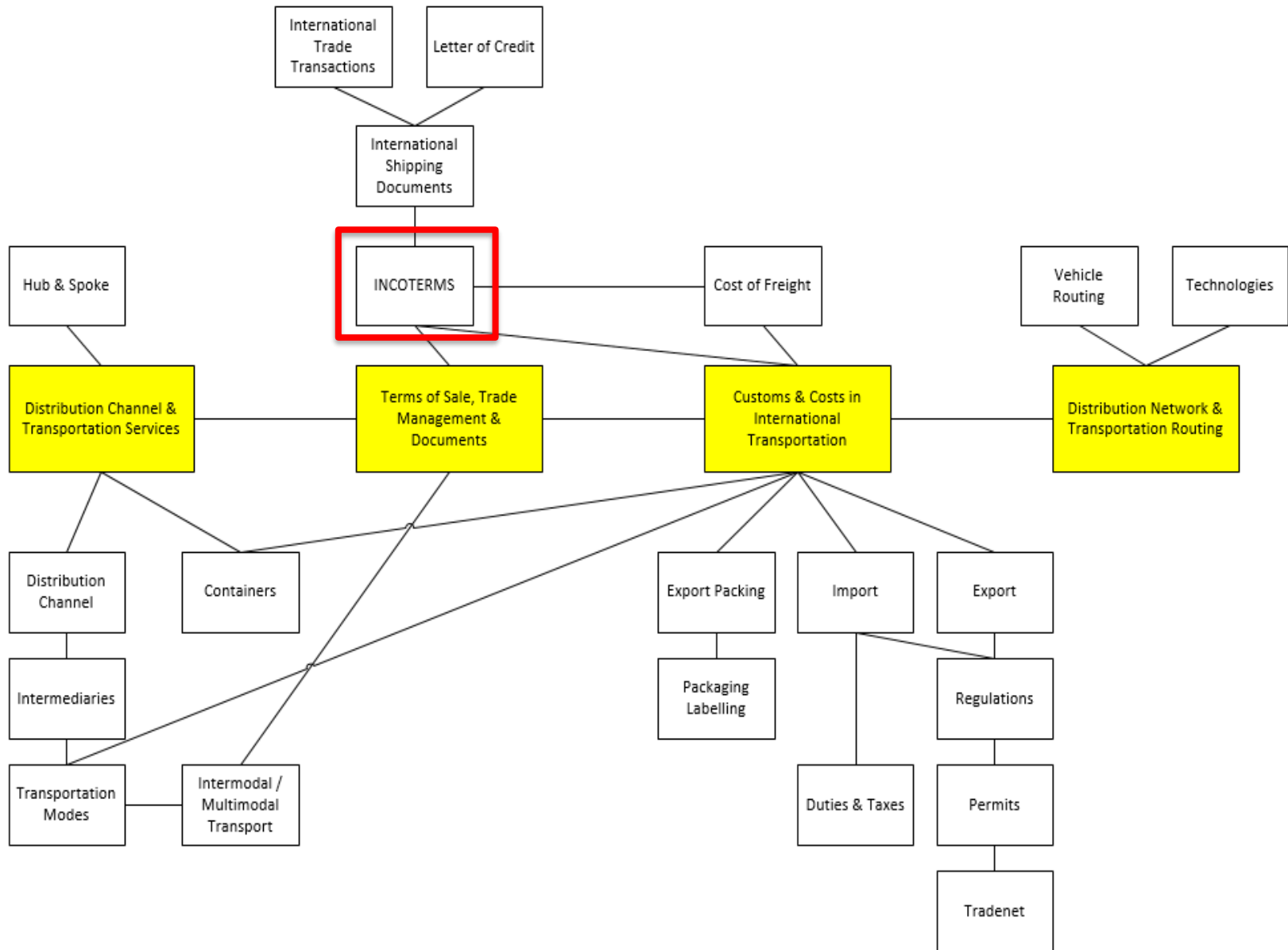
P10

What Terms to use



SCHOOL OF
ENGINEERING
E216 Distribution
& Transportation

E216 Distribution & transportation - Topic Tree



INCOTERMS®



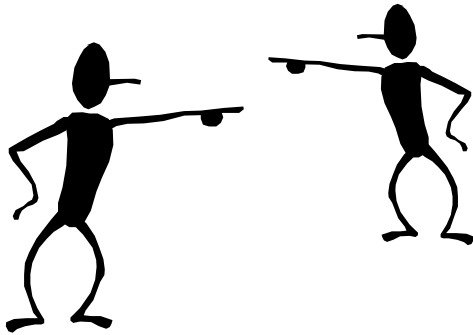
- Stands for “**International Commercial Terms**”
- Published by ICC (International Chamber of Commerce, www.iccwbo.org) in 1936
 - Since 1936, ICC has updated INCOTERMS® several times, most recently in 2010. Please note that all contracts made under INCOTERMS® 2000 remain valid even after 2011. It is important to clearly specify the chosen version INCOTERMS® 2010, INCOTERMS® 2000 or any earlier version in the contract
- Contractual code / acronyms
- Standardized common international language for buyers & sellers
 - Not legal binding but exporters & importers around the world accept them as **contracts of carriage**
- Prevent misunderstandings when conducting business deals globally
- Also known as **sales term, trade term, delivery term** or **shipment term**
- Note: Incoterms are **NOT Payment Terms** (E.g. Advance Payment, Letter of Credits)

Purposes of Incoterms®



- Eliminate barriers caused by distance, language and local business practices
 - To minimize misunderstanding and disputes
- Eliminate uncertainties and different interpretation of trade terms on a worldwide scale
 - To lessen international trade friction
- Reduce risks & time wasted caused by disputes & litigation
- As universal language with banks
- Clarify some contractual obligations of buyers and sellers
- Needed for export clearance and to declare the correct customs value
 - Prevent penalties & delays
 - Protect valuable trade privileges

What is in INCOTERMS®?



It spells out **who is responsible** for:

- Risk of Loss
- Delivery
- Export License and Custom Clearance
- Contract of insurance
- Loading of goods on vehicles

Common Misconception
Note: Incoterms® do not
provide regulations on the
transfer of ownership

Identify the Delivery Point where Risk of Loss is Transferred



- Risk of Loss (ROL): The party that bears the physical risk of loss or damage to the goods during transit

Note: ROL does not cover other types of risk, such as delay or non-fulfillment of the contract

- If goods are damaged or destroyed:
 - **ROL on buyer**: Buyer pays full price of goods.
 - **ROL on seller**: Damages awarded based on local laws or contract terms



Who is Responsible for Paying What ?



- Incoterms[®] set forth the **division of costs between the seller and buyer** for transporting goods to their destination
- Costs include:
 - Costs of dispatch, carriage and **delivery**;
 - **Export and import clearance**
 - **Contract of insurance**
 - **Loading of goods**
 - Services provided by one party to another to assist in carrying out an obligation



Incoterms® 2000 — 13 Incoterms®



Group E— Departure

- EXW — EX WORKS ...named place

Group F— Main Carriage Unpaid

- FCA — Free Carrier... named place
- FAS — Free Alongside Ship... named port of shipment
- FOB — Free on Board... named port of shipment



Group C — Main Carriage Paid

- CFR — Costs & Freight ... named port of destination
- CIF — Costs, Insurance & Freight ... named port of destination
- CPT — Costs Paid To ... named destination
- CIP— Carriage, Insurance Paid... named destination

Group D — Arrival

- DAF — Delivered At Frontier...named place
- DES — Delivered Ex-Ship ... named port of destination
- DDU — Delivered Duty Unpaid ... named place of destination
- DEQ — Delivered Ex-Quay ... named port of destination
- DDP — Delivered Duty Paid ... named place of destination

Replace by two
new terms DAT
and DAP in
Incoterms® 2010

Incoterms® 2010 — 11 Incoterms®



Group E— Departure

- EXW — EX WORKS ...named place
used where the seller does not want to arrange transport.

Group F— Main Carriage Unpaid

- FCA — Free Carrier... named place
- FAS — Free Alongside Ship... named port of shipment
- FOB — Free on Board... named port of shipment
used where the seller can arrange some transport within his/her own country.

Group C — Main Carriage Paid

- CFR — Costs & Freight ... named port of destination
- CIF — Costs, Insurance & Freight ... named port of destination
- CPT — Costs Paid To ... named destination
- CIP— Carriage, Insurance Paid... named destination
used where the seller can arrange and pay for most of the freight charges up to the foreign country.

Group D — Arrival

- DAT — Delivered At Terminal...named terminal of delivery
- DAP — Delivered At Place ... named place of delivery
- DDP — Delivered Duty Paid ... named place of destination
used where the seller can pay for most of the delivery charges to the destination country.

Also known as
Shipment Contracts
As seller's risk ends at point of shipment

Also known as **Arrival Contracts**
As seller's risk ends when goods arrive at buyer's appointed destination point

Rules for Incoterms® 2010



Any Mode of Transport

- EXW
- FCA
- CPT
- CIP
- DAT
- DAP
- DDP

For truck, train, plane
and sea shipment
when ship's rail are
not used as delivery
point E.g. RORO ship
& container ship

For Sea & Inland Waterway Transport

- FAS
- FOB
- CFR
- CIF

Relevant for sea
shipment when the
ship's rail are used
as legal delivery
point

The Incoterms® 2010 Rules



- “I” must be a capital letter
- Incoterms must have an “s”
- Use the ® register trademark next to the Incoterms
- Specify the place or the port as precisely as possible

Example: US\$1,000 EXW (20, XYZ Road, Singapore 123456)

Incoterms® 2010

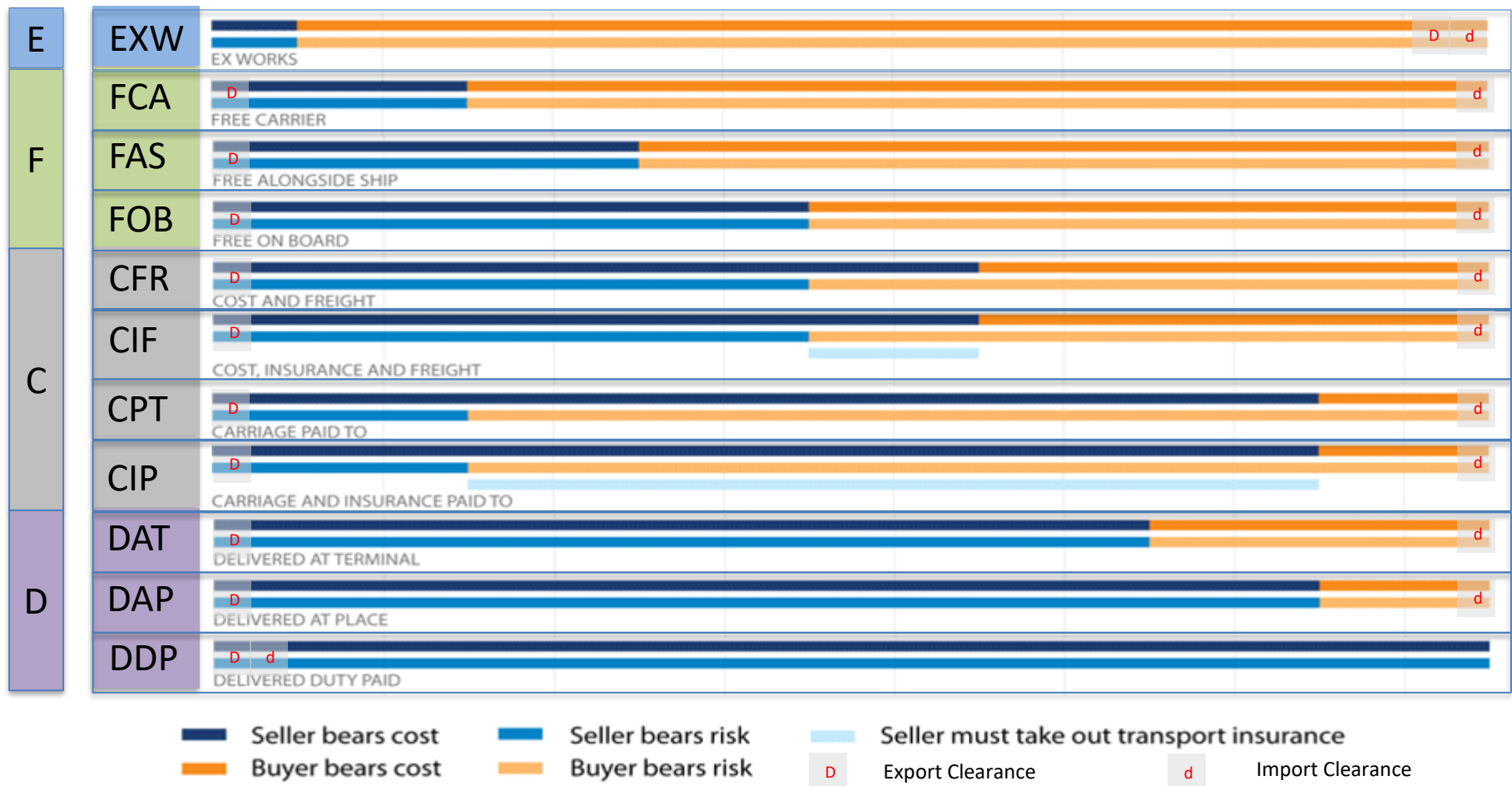
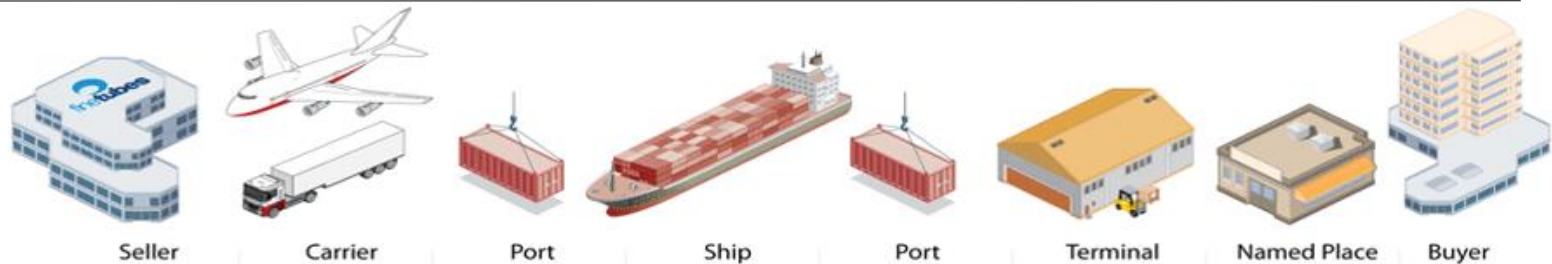
- Incoterms® rules do not give a complete contract of sales

Example: It mentions the obligation of the seller and buyer but does not mention the method of payment. Such terms have to be negotiated on a separate matter



R U L E S

Important



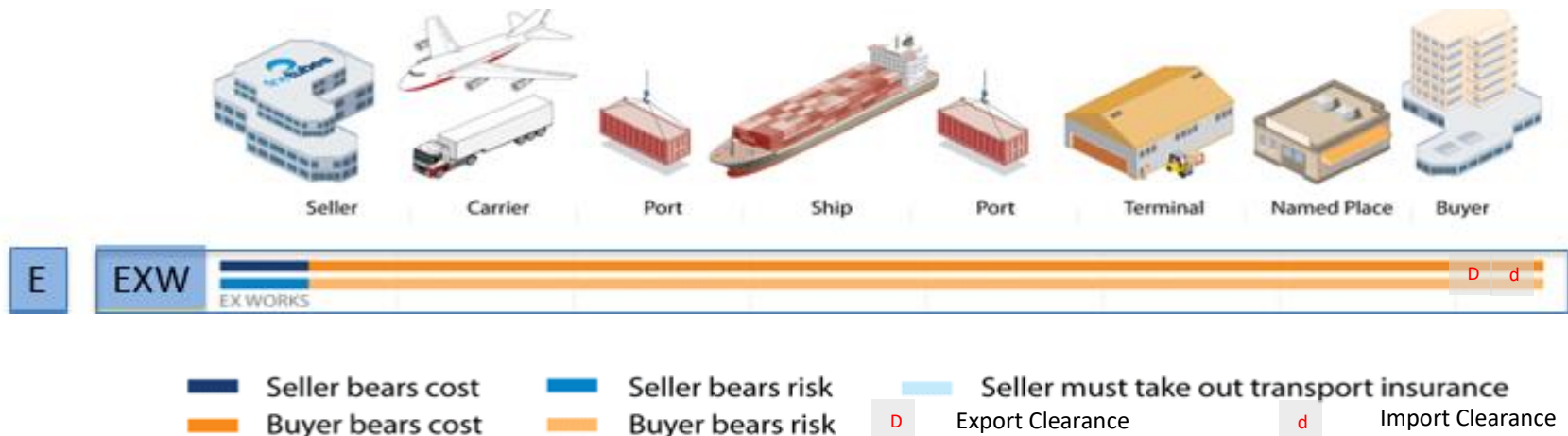
INCOTERMS® 2010: Key Terms

Take note of
how the full
incoterms® is
written

EXW – Ex Works (.. Named place) (E.g. US\$1,000 ExW, Jurong Factory, S'pore, Incoterms® 2010)

- The seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (e.g. warehouse). Not cleared for Export and not loaded on any vehicles
- The buyer assumes all risks and costs including export charges & import duties/charges , from point of delivery
- Minimum risk to seller
- If seller loads, it loads at buyer's risk

Group E



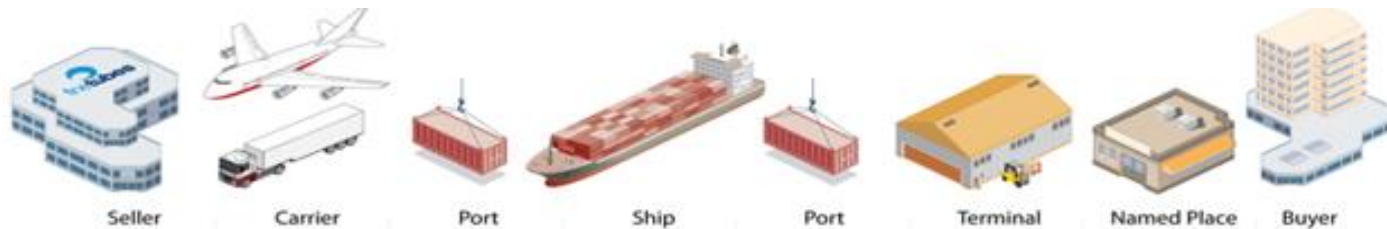
INCOTERMS® 2010: Key Terms



FCA – Free Carrier (.. Named place) (E.g. FCA Changi Airport, S'pore, Incoterms® 2010)

- The seller delivers the goods, cleared for export, to the carrier chosen by buyer at the named place.
- The seller assumes all risks & costs to the named place of delivery including export charges.
- The buyer assumes all risks and costs from point of delivery.
- FCA Seller's premises – Seller load to carrier
- FCA named places – Buyer to load to carrier

Group F



Seller bears cost	Seller bears risk	Seller must take out transport insurance
Buyer bears cost	Buyer bears risk	
	Export Clearance	Import Clearance

INCOTERMS® 2010: Key Terms



FAS – Free Alongside Ship (.. named port of shipment) (E.g. FAS, Jurong Port, S'pore, Incoterms® 2010) **Only used for sea shipment**

- The seller delivers when the goods are placed alongside the vessel at the named port of shipment.
- Seller clears for Export and not loaded on any vessels. The seller assumes all risks and costs including export charges, from seller's premises to alongside ship, named port of shipment.
- E.g. Oversize or non-standard goods with special handling requirements (More often for Oil & Gas, Rail, Aerospace industry)

Group F



■ Seller bears cost ■ Seller bears risk ■ Seller must take out transport insurance
■ Buyer bears cost ■ Buyer bears risk ■ Export Clearance ■ Import Clearance



INCOTERMS® 2010: Key Terms



FOB – Free On Board (.. named port of shipment) (E.g. FOB Jurong Port, S'pore, Incoterms® 2010) Only used for sea shipment

- The seller delivers when the goods are on board the vessel at the named port of shipment, cleared for export.
- The seller assumes all risks & costs including export charges till the goods pass the ship's rail.
- E.g. Bulk Cargo – Fuel Oil (See picture on the right)



Picture of Bulk Carrier

Group F



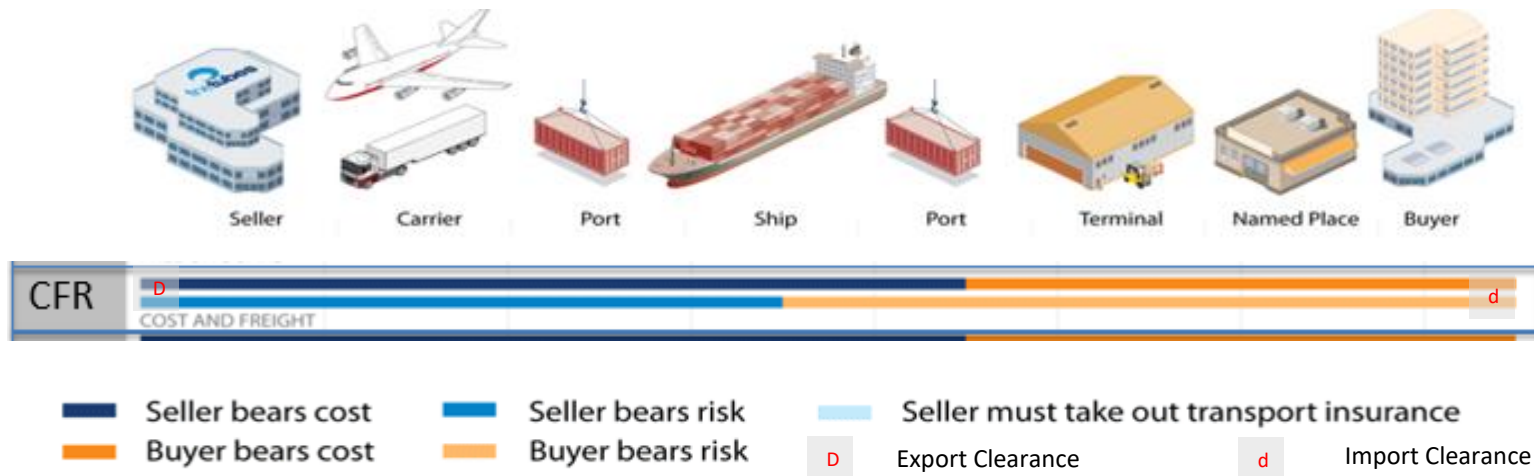
INCOTERMS® 2010: Key Terms



CFR – Cost and Freight (.. named port of destination) (E.g. CFR New York, USA, Incoterms® 2010) Only used for sea shipment

- Seller delivers when the goods are loaded on vessel at port of shipment. (Origin)
- Seller assumes all risks from seller's premises to the port of shipment. (Origin)
- **Seller** assumes all costs including export charges from seller's premises to the **named port of destination**.
- Buyer assumes risk from port of shipment and cost from port of destination.

Group C



INCOTERMS® 2010: Key Terms



CIF – Cost, Insurance and freight (.. named port of destination) (E.g. CIF New York, USA, Incoterms® 2010) **Only used for sea shipment**

- The seller delivers when the goods pass the ship's rail at the named port of destination, cleared for export. The seller is also required to provide insurance for the goods.
- Same as CFR for the seller + paying for insurance
- It is advised that buyer get insurance from 3rd party where seller's insurance coverage ends.

Group C



INCOTERMS® 2000/ 2010: Key Terms



CPT – Carriage Paid To (.. named place of destination) (E.g. CPT Los Angeles, Incoterms® 2010)

- The seller delivers when the goods are loaded to a seller's carrier.
- The seller assumes all risks till goods are delivered to the carrier.
- The seller pays all costs including export charges from seller's premises to the named destination.
- Common issue - Terminal handling charges is typically included in the freight rates by seller, but it is not always the case.



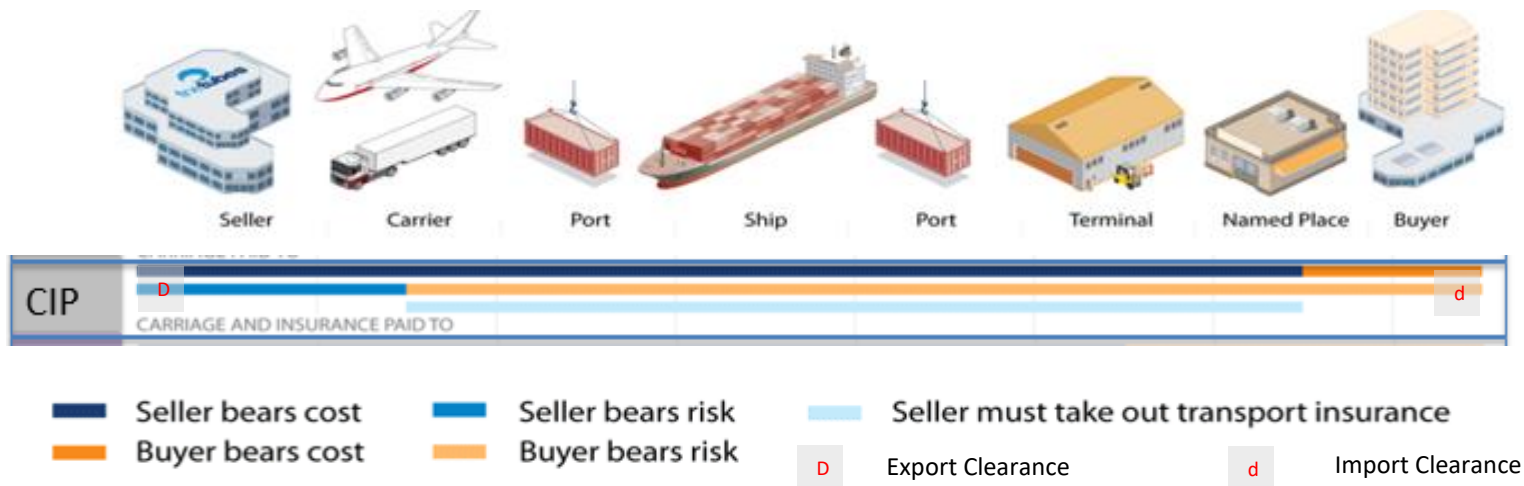
INCOTERMS® 2000/ 2010: Key Terms



CIP – Carriage and Insurance Paid to (.. named place of destination) (E.g. CIP New York Airport, Incoterms® 2000)

- Same as CPT for the seller. + seller pays Insurance for the goods to named destination

Group C



INCOTERMS® 2010: Key Terms



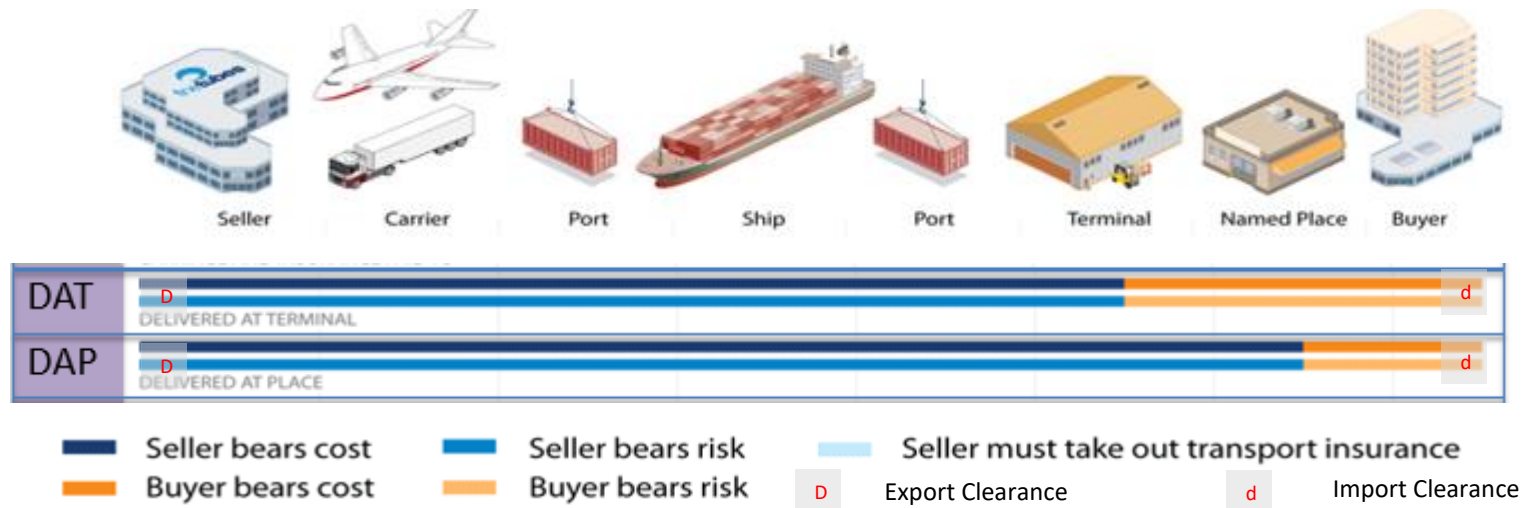
DAT – Delivered at Terminal...named Terminal at Port or place of destination (E.g. DAT, New York Airport, Incoterms® 2010)

- Delivered at Terminal means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport **unloaded** at the named destination terminal or place of destination.

Group D

DAP- Delivered at Place...named place of destination (E.g. DAP, New York Port, USA, Incoterms® 2010)

- Delivered at Place means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport **not unloaded** at the named place of destination **not cleared for import**



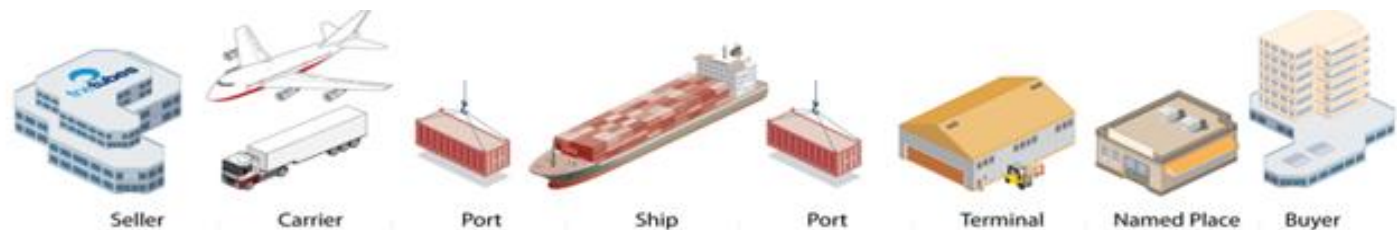
INCOTERMS® 2010: Key Terms



DDP – Delivered Duty Paid (... named place of destination) (E.g. DDP,5th Avenue New York, USA, Incoterms® 2010)

- Very commonly used
- DAP + Import duties and taxes
- Seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including **import duties and taxes**
- DDP represents the seller's maximum obligation

Group D



■ Seller bears cost
■ Buyer bears cost

■ Seller bears risk
■ Buyer bears risk

■ Seller must take out transport insurance
■ D Export Clearance

■ Import Clearance
■ d

INCOTERMS® 2000: Key Terms



DDU – Delivered Duties Unpaid (..named place)

- Similar to DAP (**Deleted and replaced in Incoterms® 2010**)

*DAF – Delivered At Frontier (.. named place)

- The seller delivers when the goods are loaded to a seller's carrier to a named place at frontier but before the custom border of the adjoining country
- The seller assumes all risks till goods are delivered to the carrier and pays all costs from point of delivery to the named place including export charges
- The buyer assumes all risk (after goods loaded on carrier) and all cost from named place to final destination including any import duties and charges
(Deleted and replaced in Incoterms® 2010)

*DES/ DEQ – Delivered Ex-Ship/Quay (.. named port of destination)

- The seller delivers when the goods are placed at the disposal of the buyer on board the ship/ on the quay at the named port of destination. **For Sea shipment only**
- The buyer assumes all risk and all cost from named port of destination to final destination including any import duties and charges.
- Difference between DES & DEQ is that seller is unloading goods from Vessel for DEQ.
(*Deleted and replaced in Incoterms® 2010)

INCOTERMS® – BUYER AND SELLER RESPONSIBILITIES



- **Seller** is responsible to:
 - Have goods ready on time, packed for export
 - Meet quality assurance to sample or specification
 - Make delivery in accordance with Incoterms® used
 - **Buyer** is responsible to accept delivery in accordance with Incoterms® used
- **Seller** is responsible for export clearance
 - **Buyer** is responsible for import clearance

Exception for EXW: Buyer responsible for both export & import clearance

Exception for DDP: Seller responsible for both import & export clearance
- **Seller** prepares:
 - Invoice;
 - Packing List
 - **Buyer** always has the right to inspect goods to ensure conformance with specification or sample

INCOTERMS® – AREAS OF NEGOTIATION



- Export Clearance
- Import Clearance
- Insurance
- Carriage
- Loading & Unloading



Risks of loss/damage along supply chain



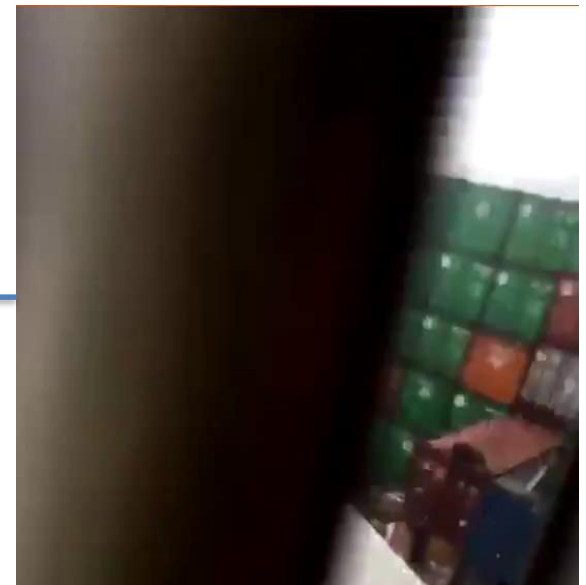
22-Feb-14

Ship loses more than 500 containers at sea



13-Sep-16

Typhoon Meranti Topples Containers at Terminal – Taiwan (Video – Click to play)



3-Feb-16

Fiery truck crash causes more than \$1 million damage



Cost reduction Strategy



■ Short Term Strategy

- Hinting to the vendor that customer service is a key and more & more of her **competitors** are doing **DDP delivery** for **cheaper prices**
- Provide **demand forecast** to the vendor so that they could use this to **reduce operational costs** E.g. production planning & scheduling, lower level material inventory cost, etc. and at the same time, **assurance** to vendor that you will be a **long term, repeating customer**

■ Mid Term Strategy

- State your aim to achieve true **collaboration** where **each partner** takes **some risks and responsibilities** for any transaction
- Engage common **3PL services** to reduce the supply chain costs by either taking over delivery from vendor at their factory with **FCA terms** or **DAT** since the local trucking provided by vendor is on the high side. Emma has high chances of **getting cheaper local trucking services** in Singapore, as she knows the local delivery scene better

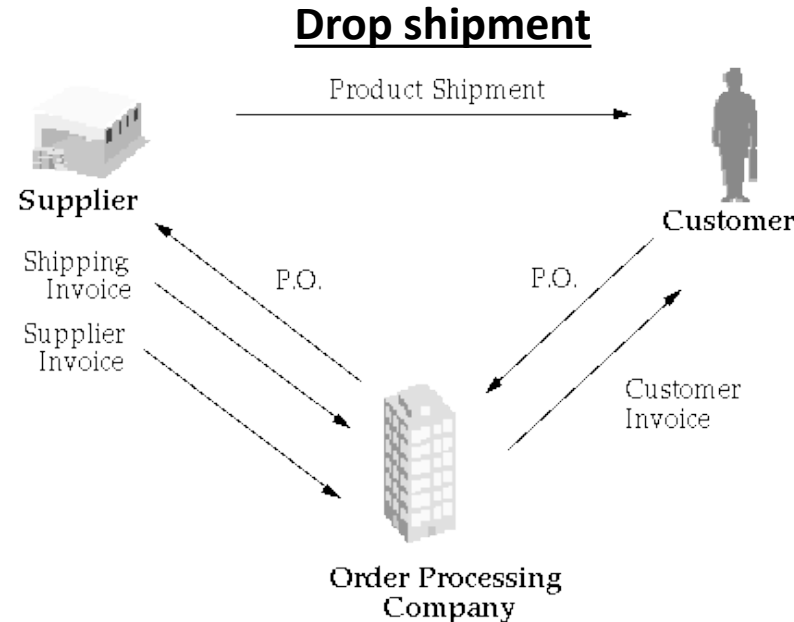


Cost reduction Strategy



▪ Long Term Strategy

- Think Win-Win & create a successful supply chain alliance, lower the overall supply chain cost together. E.g. Possibility of **drop shipment** to save cost.
- Possibility of ordering **larger quantity, reducing variety of products, increasing spend**



Incoterms® in your life



940 items sold | 5142 (89%)

[Share](#) [Report](#) [Review](#)

Group Buy

★GSS★ USB Fan LiLeng HandFan Remax Portable Mini USB Fan 360 Degree Rotat Stroller Pram Table Fan Ultra Quiet Design Strongest Wind Power (Buy 1 Get 1 Free *)

Group Buy Price ?

~~SS\$29.99~~ **SS\$0.75**

Time left : 13 day 23 hr 8 min 43 sec

Deal is ON!

Purchased : 8478

* If 1 orders hadn't met, the deal will be cancelled.

[See more Groupbuy item](#)

Gift

Buy 1 Get 1 Free * (Applies to Model With Buy1Get1Free 1 Under Selection)

Credit Card Benefit

0% Interest Instalment Plan(max 24 months)

[Details](#)

Shipping From

Domestic

Overseas Shipping

Singapore only

Shipping Rate **QS**

☐ Singpost normal mail - **SS\$1.15 ~**

☒ Qxpress - **SS\$3.90 ~**

☐ Store Pickup - **Free** [Shop Info](#)

Usable within 14 days from payment date

Cancellation : Within 1days from payment date

Surcharge

Shipping rate will be added according to Qty.

[Details](#)

CPT buyers address

DDP buyers address

ExW seller store

Other Considerations (Going Further)



- Different **sellers and buyers**, will have **varying experience**, **relationship** and **purchasing power** at **different segments** of the route from seller to buyer.
- Below are a few examples of changing Incoterms® such that both parties can benefit
- Sellers delivering goods to developed countries where ports are well-equipped and developed with good labor conditions, e.g. **DAT/DAP**
Here, Sellers' cost or risk is maximized, but able to provide door to door services for customer who do not wishes to spend resources on in bound logistics.
- If buyers has better rates for ocean transportation insurance, it would be beneficial to both parties for **FCA/FAS/FOB terms**
- If buyers who has better local delivery at destination, the following terms could be used: e.g. DAT, DAP
- If Sellers can get good freight rates, but don't want the risk. The following terms could be used. e.g. **CFR/CIF/CPT/CIP**

Special items to note



Shipping special/Project cargo

- FOB **L/S/D**
 - Lashed secured dunnage
 - Huge cost difference with FOB



Learning Outcome



- Explain INCOTERMS®
 - Incoterms® 2000
 - Incoterms® 2010
- Apply Negotiation Strategies in Delivery Terms
 - Short, Mid & Long Term

