

Incoterms
An Action Plan
and Checklist

Incoterms - An Action Plan and Checklist

This guide provides advice about how to choose an Incoterm.

You should read it if you are a member of your company's marketing or sales team or responsible for arranging the shipment of your company's goods to overseas markets.

How Do I Choose an Incoterm?

There are a number of issues you should consider when choosing an Incoterm. These include:

- **The Regulations of the Country of the Buyer:** Certain countries have regulations regarding which terms must be used when goods are brought into the country. The main reason for this is the desire for local shipping and insurance markets to benefit from the importing industry rather than those of the exporting country;
- **Standard Practices:** Some countries and areas of the world may not have regulations regarding which terms must be used, however, commercially there may be a normal practice. If less favourable terms are offered (for example FOB rather than DDP) you could lose out on the business. For example within the EU it is standard practice for goods to be sold on a "delivered" basis;
- **The Method of Transport Used:** There are certain Incoterms which are only suitable for traditional sea and inland waterway carriage - see the advice under [Transport Issues](#).
- **Availability of Information:** It is essential that you and your customer are able to meet your obligations under the chosen Incoterm. For example there may be occasions when you are unable to obtain an import licence or clear the goods for import - on these occasions the term DDP cannot be used. Additionally, it is important that you are able to obtain a good service and reasonable quotes for the service you will provide your customer. There may be times, for example when exporting to some of the remote regions of Russia, where it is not possible to obtain a quote to your customer's premises or even to ensure that the service provided is reliable and that the goods have arrived. In these instances a more appropriate Incoterms should be used where you take on less responsibility;
- **Customer Service:** Although it is essential for you to meet your obligations under the chosen Incoterm, it is equally important for you to offer competitive terms. It is unwise for you to offer what may be the easiest terms for you, if these are not suitable for your customer.

Transport Issues

As mentioned earlier the choice of Incoterm is affected by the way in which the goods are sent. The tables below shows which terms may be used for any mode of transport and which are intended for traditional maritime and inland waterway transport only.

Any Mode of Transport

Group	Incoterm	Description	Transfer of responsibility
Group E	EXW	Ex Works	Named place
Group F	FCA	Free Carrier	Named place
Group C	CPT	Carriage Paid To	Named place of destination
	CIP	Carriage and Insurance Paid To	Named place of destination
Group D	DAF	Delivered at Frontier	Named place
	DDU	Delivered Duty Unpaid	Named place of destination
	DDP	Delivered Duty Paid	Named place of destination

Maritime and Inland Waterway Transport Only

Group	Incoterm	Description	Transfer of responsibility
Group F	FAS	Free Alongside Ship	Named port of shipment
	FOB	Free on Board	Named port of shipment
Group C	CFR	Cost and Freight	Named port of shipment
	CIF	Cost, Insurance and Freight	Named port of shipment
Group D	DES	Delivered Ex Ship	Named port of shipment
	DEQ	Delivered Ex Quay	Named port of shipment

You should only use the terms in the second group for maritime and inland waterway transport only. The critical point in all of these terms is the ship's rail - this obviously has no meaning when the goods are moved, for example, by air, or in a container and could lead to difficulties in allocating responsibilities between you and your customer.

In virtually all cases, for containerised cargo you should use the first group of terms (those for any mode of transport). The container is usually delivered to the carrier (or other party nominated) and, again, the ship's rail has no relevant meaning for this type of transport.

Who Chooses - the Seller or the Buyer?

Often the Incoterm to be used will be stipulated by your customer. An enquiry may be made for "the best price, CIF Perth, for the following goods ...". When faced with this situation you may choose just to quote as requested. At the other end of the spectrum, you may give your usual export quote such as "ExW" or "FOB", especially if you are in a niche market, and leave your customer just to accept the terms as offered.

However, it can be beneficial to both you and your customer to negotiate the terms to be used. With new trading partners negotiation can start from the beginning of the relationship, but even in an established trading relationship it is worth checking the terms used, perhaps once a year, to ensure that they are still acceptable to both parties and just as importantly, that the terms used are still applicable to the method of trading. For example, if the term usually quoted is CFR, but you decide to contract for insurance, the term used should be changed to CIF.

You should also remember that the same Incoterm may not always be suitable for the same customer. If the usual Incoterm used is FOB, but an urgent consignment of spare parts is needed and sent by air, then an alternative, such as FCA, should be used.

Obviously your customer will usually have more influence but finding a term that suits both parties is often a way to ensure that you and your customer know and understand your obligations and thus avoid later problems.



Checklist

The following points should be kept in mind when choosing an Incoterm.

1. What method of transport is to be used?
2. What are the terms currently used? Who chose these?
3. Are there any company policies on which terms should be used and how much responsibility should be taken?
4. Are there any restrictions on the term to be used imposed by the country of importation?
5. Are there any commercial norms in the country with which you are dealing?
6. Discuss the terms to be used with your trading partner - it is important to take their point of view into account.
7. Ensure that both parties understand and can carry out their obligations.
8. Ensure that you are able to obtain enough information to give a quote for a certain Incoterm.
9. Read Incoterms 2000. The introduction gives good advice and can clarify certain issues and the individual terms themselves are accurately described.
10. Ensure all staff (especially those involved in sales and marketing) are properly trained in order to understand the basic principles of Incoterms and in particular the details of the individual Incoterms.
11. Incorporate the terms decided into all relevant commercial paperwork such as invoices, quotations, terms and conditions of sale.
12. Review the terms periodically and change them if necessary.

Further Information

The above is only a guide to Incoterms. The full rules are available in **Incoterms 2000** from the International Chamber of Commerce.

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<http://www.iccbookshop.com/>

Further enquiries about the use of Incoterms can be addressed by the SITPRO Helpdesk team.

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