

Unit 1

Incoterms

Learning Objectives

In this unit, you will

- ❏ learn the definition and explanation of Incoterms;
- ❏ learn the modification of Incoterms.



Introduction

This unit starts with a general introduction to Incoterms¹ 2000. After knowing the history of Incoterms, you will learn 13 important trade terms in details. Besides their definitions and explanations, you are also supposed to master the differences among them and the modification of Incoterms.

Key Words and Terms

Incoterms 《国际贸易术语解释通则》
(简称《通则》)

EXW/Ex Works 工厂交货

FCA/Free Carrier 货交承运人

FAS/Free Alongside Ship 装运港船边
交货



1. Incoterms (International Commercial Terms) are a set of international rules for the interpretation of trade terms that are widely used throughout the world. They were set forth, devised and published by the International Chamber of Commerce (ICC).



FOB/Free on Board 装运港船上交货
 CFR/Cost and Freight 成本加运费
 CIF/Cost, Insurance and Freight 成本加保险费、运费
 CPT/Carriage Paid to 运费付至
 CIP/Carriage and Insurance Paid to 运费、保险费付至
 DAF/Delivered at Frontier 边境交货

DES/Delivered Ex Ship 目的港船上交货
 DEQ/Delivered Ex Quay 目的港码头交货
 DDU/Delivered Duty Unpaid 未完税交货
 DDP/Delivered Duty Paid 完税后交货



Part 1


The History of Incoterms

In order to clear up the confusion that existed in international trade, the International Chamber of Commerce drew up a set of standard terms and definitions in 1936. These were called Incoterms 1936, which indicated the division of costs and administrative responsibility between the exporter and his customer. Amendments and additions were later made in 1953, 1967, 1976, 1980, 1990 and presently Incoterms 2000 are prevailing.

The Chinese trading corporations usually adopt Incoterms for the interpretation of delivery terms, although there are the **Warsaw Oxford Rules 1932** (《1932 年华沙—牛津规则》) and **Revised American Foreign Trade Definitions 1941** (《1941 年美国对外贸易定义修订本》). It must be specifically stipulated in the business contract that the Incoterms 2000 is the basis of export price.



1. Can you interpret the role of Incoterms?



Part 2

A Brief View of Incoterms 2000

Now let us take a brief look at Incoterms 2000 and see what the main trade terms mean (see Table 1).

Table 1

Group E Departure	EXW	Ex Works
Group F Main carriage unpaid	FCA	Free Carrier
	FAS	Free Alongside Ship
	FOB	Free on Board
Group C Main carriage paid	CFR	Cost and Freight
	CIF	Cost, Insurance and Freight
	CPT	Carriage Paid to
	CIP	Carriage and Insurance Paid to
Group D Arrival	DAF	Delivered at Frontier
	DES	Delivered Ex Ship
	DEQ	Delivered Ex Quay
	DDU	Delivered Duty Unpaid
	DDP	Delivered Duty Paid



2. The terms in Incoterms 2000 are basically grouped into four different categories: Group E, Group F, Group C and Group D. Can you list all the Group C terms and explain why they are classified in the same group?



Part 3

Thirteen Trade Terms

3-1 EXW/Ex Works (...named place)

EXW means that the seller fulfills his obligation to deliver when he has made the goods available at his premises (i.e. works, factory, warehouse, etc.) to the buyer. In particular, he is not responsible for loading the goods on the vehicle provided by the buyer or for clearing the goods for export, unless otherwise agreed. The buyer bears all the costs and risks involved in taking the goods from the seller's premises to the desired destination. This term thus represents the minimum obligation for the seller. It should not be used when the buyer cannot carry out directly or indirectly the export formalities. In such circumstances, the FCA term should be used.

3-2 FCA/Free Carrier (...named place)

FCA means that the seller fulfills his obligation to deliver when he has cleared the goods for export¹, handed them over into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose, within the place or range stipulated, where the carrier shall take the goods into his charge. When, according to commercial practice, the seller's assistance is required in making the contract with the carrier (such as in rail or air transport) the seller may act at the buyer's risks and expenses, which includes any costs for arranging the transport.

This term may be used for any mode of transport, paid by the buyer including multimodal transport.

CARRIER means any person who, in a contract of carriage, undertakes to perform or to procure the performance of carriage by rail, road, sea, air, inland waterway or by a combination of such modes. If the buyer instructs the seller to deliver the cargo to a person, e.g. a **freight forwarder** (货运代理人), who is not a carrier, the seller is deemed to have fulfilled his obligation to deliver the goods when they arrive into the custody of that nominated person.



1. 办完出口清关手续。

TRANSPORT TERMINAL means a railway terminal, a freight station, a container terminal at yard, a multipurpose cargo terminal or any similar receiving point.

CONTAINER includes any equipment used to unitize cargo, e.g. all types of containers and/or flats, whether ISO accepted or not, trailers, swap bodies, **roll-on/roll-off** (滚装, 滚卸) equipment, igloos, etc., and it applies to all modes of transport.

3-3 FAS/Free Alongside Ship (...named port of shipment)

FAS means that the seller fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and **risks of loss of or damage to the goods** (货物发生灭失或损坏的风险) from that moment. The FAS term requires the seller to clear the goods for export.

FAS can only be used for sea or inland waterway transport.

3-4 FOB/Free on Board (...named port of shipment)

FOB means that the seller fulfills his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point.

The FOB term requires the seller to clear the goods for export.

This term can be used only for sea or inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the FCA term is more appropriate to use.

3-5 CFR/Cost and Freight (...named port of destination)

CFR means that the seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risks of loss of or damage to the goods, as well as any additional costs due to events occurring after the time that the goods have been delivered on board the vessel, are transferred from the seller to the buyer when the goods pass the ship's rail at the port of shipment.

The CFR term requires the seller to clear the goods for export. This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purpose, such as in the case of roll-on/roll-off or container traffic, the CPT term is more appropriate to use.

3-6 CIF/Cost, Insurance and Freight (...named port of destination)

CIF means that the seller has the same obligations as under CFR but with the additional responsibility that he must procure marine insurance against the buyer's risks of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the **insurance premium** (保险费). The buyer should note that under the CIF term the seller is required to obtain insurance only on **minimum coverage** (最低险别).

The CIF term requires the seller to clear the goods for export.

This term can only be used for sea and inland waterway transport. When the ship's rail serves no practical purposes such as in the case of roll-on/roll-off or container traffic, the CIP term is more appropriate to use.

3-7 CPT/Carriage Paid to (...named place of destination)

CPT means that the seller pays for the freight for the carriage of the goods to the named destination. The risks of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier, are transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier.

If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier. The CPT term requires the seller to clear the goods for export.

The CPT term may be used for any mode of transport including multimodal transport.

3-8 CIP/Carriage and Insurance Paid to (...named place of destination)

CIP means that the seller has the same obligations as under CPT but with the additional responsibility that the seller has to procure cargo insurance against the buyer's risks of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term the seller is required to obtain insurance only on minimum coverage.

The CIP term requires the seller to clear the goods for export. This term may be used for any mode of transport including multimodal transport.

3-9 DAF/Delivered at Frontier (...named place)

DAF means that the seller fulfills his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.

This term is primarily intended to be used when goods are to be carried by rail or road, but it may be used for any mode of transport.

3-10 DES/Delivered Ex Ship (...named port of destination)

DES means that the seller fulfills his obligation to deliver when the goods have been made available to the buyer on board the ship, uncleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination. The buyer must pay for unloading, customs clearance at destination, etc.

This term can only be used for sea or inland waterway transport.

3-11 DEQ/Delivered Ex Quay (...named port of destination)

DEQ means that the seller fulfills his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination. The buyer is responsible to clear the goods for importation.

If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods, such as value added tax (VAT), this should be made clear by adding words to this effect: "Delivered Ex Quay, VAT unpaid (...named port of destination)."

This term can only be used for sea or inland waterway transport.

3-12 DDU/Delivered Duty Unpaid (...named place of destination)

DDU means that the seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable on importation) as well as the costs and risks of carrying out customs formalities. The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time.

If the parties wish the buyer to carry out customs formalities and bear the costs and risks resulting therefrom, this has to be made clear by adding words to this effect. If the parties wish to include in the seller's obligations some of the costs payable upon importation of the goods (such as VAT), this should be made clear by adding words to this effect: "Delivered duty unpaid, VAT paid (...named place of destination)."

This term may be used irrespective of the mode of transport.

3-13 DDP/Delivered Duty Paid (...named place of destination)

DDP means that the seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes and other charges of delivering the

goods thereto, cleared for importation. While the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation.¹ This term should not be used if the seller is unable, either directly or indirectly, to obtain the import license.

If the parties wish the buyer to clear the goods for importation and to pay the duty, the term DDU should be used. If the parties wish to exclude from the seller's obligations, some of the costs payable upon importation of the goods (such as VAT), this should be made clear by adding words to this effect: "Delivered duty paid, VAT unpaid (...named place of destination)."

The term DDP may be used irrespective of the mode of transport.

Table 2 shows the differences among the 13 terms introduced above with regard to place of delivery, risk-changing point, etc.

Table 2 Comparison Table

Term	Place of Delivery	Risk-changing Point	Clearance Exp.	Clearance Imp.	Mode of Transport
EXW	premises of seller	delivery to buyer	buyer	buyer	any
FCA	carrier's	custody of carrier	seller	buyer	any
FAS	port of shipment	alongside ship	seller	buyer	sea
FOB	port of shipment	ship's rail	seller	buyer	sea
CFR	port of shipment	ship's rail	seller	buyer	sea
CIF	port of shipment	ship's rail	seller	buyer	sea
CPT	carrier's	custody of carrier	seller	buyer	any
CIP	carrier's	custody of carrier	seller	buyer	any
DAF	frontier	delivery to buyer	seller	buyer	any
DES	port of destination	on board ship	seller	buyer	sea
DEQ	port of destination	quay	seller	buyer	sea
DDU	import country	delivery to buyer	seller	buyer	any
DDP	import country	delivery to buyer	seller	seller	any



1. EXW 术语下卖方承担责任最小，而 DDP 术语下卖方承担责任最大。



3. According to Incoterms 2000, under which term is the buyer's responsibility to clear the goods for export?
4. According to Incoterms 2000, under which term is the seller's responsibility to clear the goods for import?
5. What are the differences between DDP and DDU?



Part 4

Modification of Incoterms

4-1 Obligations of the exporter

The obligations under these terms can be modified by mutual agreement. For example, the exporter may arrange insurance, freight or other charges on behalf of the customer with FOB contract, but responsibility remains with the customer. There can also be a “**mixed cost approach**” (混摊成本法) which means, for example, an exporter accepts certain cost obligations by quoting FOB but actually looks after freight on the customer's behalf. Flexibility is essential in interpreting Incoterms, but in general, the exporter's responsibility under each of the terms is as summarized. These 13 trade terms are normally known by their initials, as listed above, and are usually qualified by a place name, for example, “FAS Singapore” or “FOB Mombassa”.

Moreover, different markets, products, marketing channels and customs of the trade all influence decisions on terms of delivery and therefore export prices. For example, in selling manufacturing-grade beef to the United Kingdom, an exporter is likely to find that there are specialized importers from whom manufacturers get their supplies. This type of importers tends to want quotations on a CIF basis to guard against fluctuations in freight rates.

On the other hand, some very large buyers usually wish to buy direct from the exporter. Because of their location near shipping centers and the large volume of their business, they may be able to negotiate advantageous freight rates; consequently they may prefer their quotations FOB. There are no rules about which terms are the best and most suitable for all circumstances.

4-2 Firm offer and non-firm offer (实盘和虚盘)

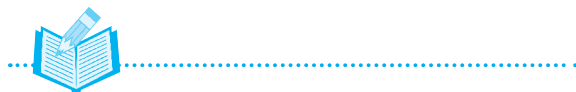
Once a quotation has been given to a customer using a particular term, such as “EXW Kabul” or “FOB New York”, and the order is placed and accepted on this basis, then the price must remain firm. When an exporter makes a firm offer, he makes a definite commitment to supply when the buyer accepts the offer.¹ However, the exporter may not be willing to make a firm offer. He will insert a **conditional phrase** (附加条件), e.g. subject to the customer’s final confirmation, subject to the goods being unsold, subject to prior sale, or simply state the offer without engagement, etc. This offer is a non-firm offer. If the exporter wishes to retain the right to change his price, he may insert into his conditions of sale a clause like: “The price is calculated on the basis of a freight rate of US\$1.00 per cubic foot; any variation in this rate is for buyer’s account.” Obviously, it is safer for the exporter to retain his right to alter the price or the conditions of an order, but the customer prefers definite terms and looks more favorable on an offer that quotes a firm price.

Part 5 Remarks

In the course of business negotiation, we should pay special attention to the following points:

(1) When quoting our delivery terms, we should take into consideration the available tonnage of our shipping capability since the China Ocean Shipping Company (COSCO) has possessed a large fleet of merchant vessels and the China National Chartering Corporation usually charters a number of foreign ships. We should try our best to make use of these ships, hence for big business transactions, we prefer FOB for our imports and CIF for our exports.

(2) When the freight market is strong with an upward tendency, we would quote FOB for exports rather than CIF. However, if the customer insists on CIF terms, to accommodate his request, it is advisable for us to adjust our price to include the



1. 当出口商发出一个实盘时，如果买方接受发盘，出口商必须明确承担供货义务。

compensation for future increase in freight rates. Conversely, we should ask for CIF terms for our imports under such circumstances.

(3) The rates of loading and unloading expenses vary from country to country. When the rate of loading expenses is relatively high at a certain foreign port, we should ask for FOB Stowed. If the goods are shipped in bulk, we should ask for FOB Stowed & Trimmed. When we export, CFR EX-ship's hold is more desirable than CIF EX-ship's hold because it explicitly requires the foreign buyer to pay for the unloading expenses. All this refers to shipping full shipload cargo and does not apply to freight charges of a liner.

Vocabulary

accommodate *v.* 满足

bear *v.* 承担

carrier *n.* 承运人

charter *v.* 包, 租

clearance *n.* 清关, 结关

commitment *n.* 承诺

container *n.* 集装箱

damage *n.* 损坏

delivery *n.* 交货

destination *n.* 目的地

flexibility *n.* 灵活性

fluctuation *n.* 波动

fulfill *v.* 履行

interpret *v.* 解释

modification *n.* 修改

negotiation *n.* 议付; 协商

obligation *n.* 义务

premise *n.* 场所

quotation *n.* 报价

risk *n.* 风险

roll-on/roll-off *n.* 滚装, 滚卸

shipment *n.* 装运

stipulate *v.* 规定, 约定

undertake *v.* 承担

vital *adj.* 极其重要的, 必不可少的

yard *n.* 工厂, 货场

additional cost 附加费用

business contract 贸易合同

conditional phrase 附加条件

firm offer 实盘

freight forwarder 货运代理人

insurance premium 保险费

in the custody of sb. 由某人保管

inland waterway transport 内河运输

International Chamber of Commerce (ICC) 国际商会

minimum coverage 最低险别

mixed cost approach 混摊成本法

non-firm offer 虚盘

transport terminal 运输站

value added tax (VAT) 增值税

Exercises



I. Translate the following terms.

1. From English into Chinese.
 - (1) EXW
 - (2) CPT
 - (3) CIF
 - (4) carrier
 - (5) transport terminal

2. From Chinese into English.
 - (1) 边境交货
 - (2) 未完税交货
 - (3) 完税后交货
 - (4) 预期目的地
 - (5) 运输方式

II. Fill in the blanks with the given words or expressions, making changes if necessary.

deliver	obligation	vary	firm
marketing	capacity	rather than	

1. EXW means that the seller fulfills his _____ to deliver when he has made the goods available at his premises to the buyer.
2. FOB means that the seller fulfills his obligation to _____ when the goods have passed over the ship's rail at the named port of shipment.
3. Different markets, products, _____ channels and customs of the trade all influence decisions on terms of delivery and therefore export prices.
4. Once a quotation has been given to a customer using a particular term, such as "EXW Kabul" or "FOB New York", and the order is placed and accepted on this basis, then the price must remain _____.
5. When quoting our delivery terms, we should take into consideration the available tonnage of our shipping _____ since the China Ocean Shipping Company has possessed a large fleet of merchant vessels.

6. When the freight market is strong with an upward tendency, we should quote FOB for exports _____ CIF.
7. The rates of loading and unloading expenses _____ from country to country.

III. Translate the following passage into Chinese.

The rates of loading and unloading expenses vary from country to country. When the rate of loading expenses is relatively high at a certain foreign port, we should ask for FOB Stowed. If the goods are shipped in bulk, we should ask for FOB Stowed & Trimmed. When we export, CFR EX-ship's hold is more desirable than CIF EX-ship's hold because it explicitly requires the foreign buyer to pay for the unloading expenses. All this refers to shipping full shipload cargo and does not apply to freight charges of a liner.

IV. Complete the following chart by filling in the missing words.

Incoterms 2000 术语对照表

术语	交货地	风险划分点	出口清关	进口清关	运输方式
工厂交货	卖方所在地				所有运输方式
货交承运人	承运人				
装运港船边交货	装运港				
装运港船上交货	装运港				
成本加运费	装运港				
成本加保险费、运费	装运港				
运费付至					
运费、保险费付至	承运人				
边境交货	边境				
目的港船上交货		目的港船上			
目的港码头交货		目的港码头			
未完税交货		货交买方			
完税后交货		货交买方			