



International Commercial Terms **(Incoterms or Terms of Trade)**

The Incoterms, which are also known as terms of trade, are standard trade definitions most commonly used in international sales contracts. Developed and administered by the International Chamber of Commerce in Paris (ICC), Incoterms are universally recognized and adhered to by the major trading nations of the world.

Incoterms describe the supplier and buyer's obligations and specify the point when the responsibilities for the transportation costs shift.

There are currently 13 Incoterms in use but we will only explain the Incoterms that are most frequently used in Australian Imports/Exports.

1. EX-WORKS (Ex factory)

Under Ex-works the seller minimizes his risk by only making the goods available at his own premises.

Ex-works represents the minimum involvement of the supplier and the maximum involvement of the buyer in the arrangement of the transportation of the goods from the premises of manufacture to their premises.

Buyers Obligations under the Ex-works term;

- ✓ Inland freight
- ✓ Export customs clearance
- ✓ Origin port charges
- ✓ Payment of customs charges and taxes in Australia
- ✓ Main carriage/freight
- ✓ Cargo (marine) insurance
- ✓ Unloading from the main carrier and port charges
- ✓ Customs clearance in buyers country
- ✓ Payment of customs duties and taxes in buyers country
- ✓ Inland freight in buyers country
- ✓ Other costs and risks in buyers country

2. FOB (Free on Board)

FOB is one of the most common terms used in international trade. Under FOB the supplier is responsible for delivering goods to the named port, export customs clearance and loading them onto the vessel.

The point of transfer of responsibilities under FOB is described as the point “when the goods pass the ship’s rail”. That means that if during the loading onto the ship, the goods would fall on the wharf or into the water, the supplier would be responsible for the losses, but if the goods fall on the deck of the ship, the losses are the buyers.

Buyers Obligations under FOB Terms;

- ✓ Main carriage/freight
- ✓ Cargo (marine) insurance
- ✓ Unloading from the main carrier and port charges
- ✓ Customs clearance in buyers country
- ✓ Payment of customs duties and taxes in buyers country
- ✓ Inland freight in buyers country
- ✓ Other costs and risks in buyers country

3. CFR (formerly C & F changed 1990)

Cost and freight - The supplier is responsible for export customs clearance, delivering the goods to the named port of destination.

4. CIF

Cost, Insurance and Freight - Responsibility of supplier to arrange export customs clearance, delivery of goods to named port of destination and insurance of goods.

Buyers Obligations under the CIF & CRF terms;

- ✓ Customs clearance in buyers country
- ✓ Payment of customs duties and taxes in buyers country
- ✓ Inland freight in buyers country
- ✓ Other costs and risks in buyers country
- ✓ Marine Insurance (CIF only)

5. DDU – Delivered Duty Unpaid

All costs are to the supplier until the goods arrive at the named place of destination. Duty is paid by the buyer in the buyer's country.

6. DDP – Delivered Duty Paid

This service is basically a door-to door service provided by the supplier where he would bear the entire risk and the entire cost of shipment to buyer's door. Buyer has no control. This is the same as DDU except the duty is also paid by shipper.