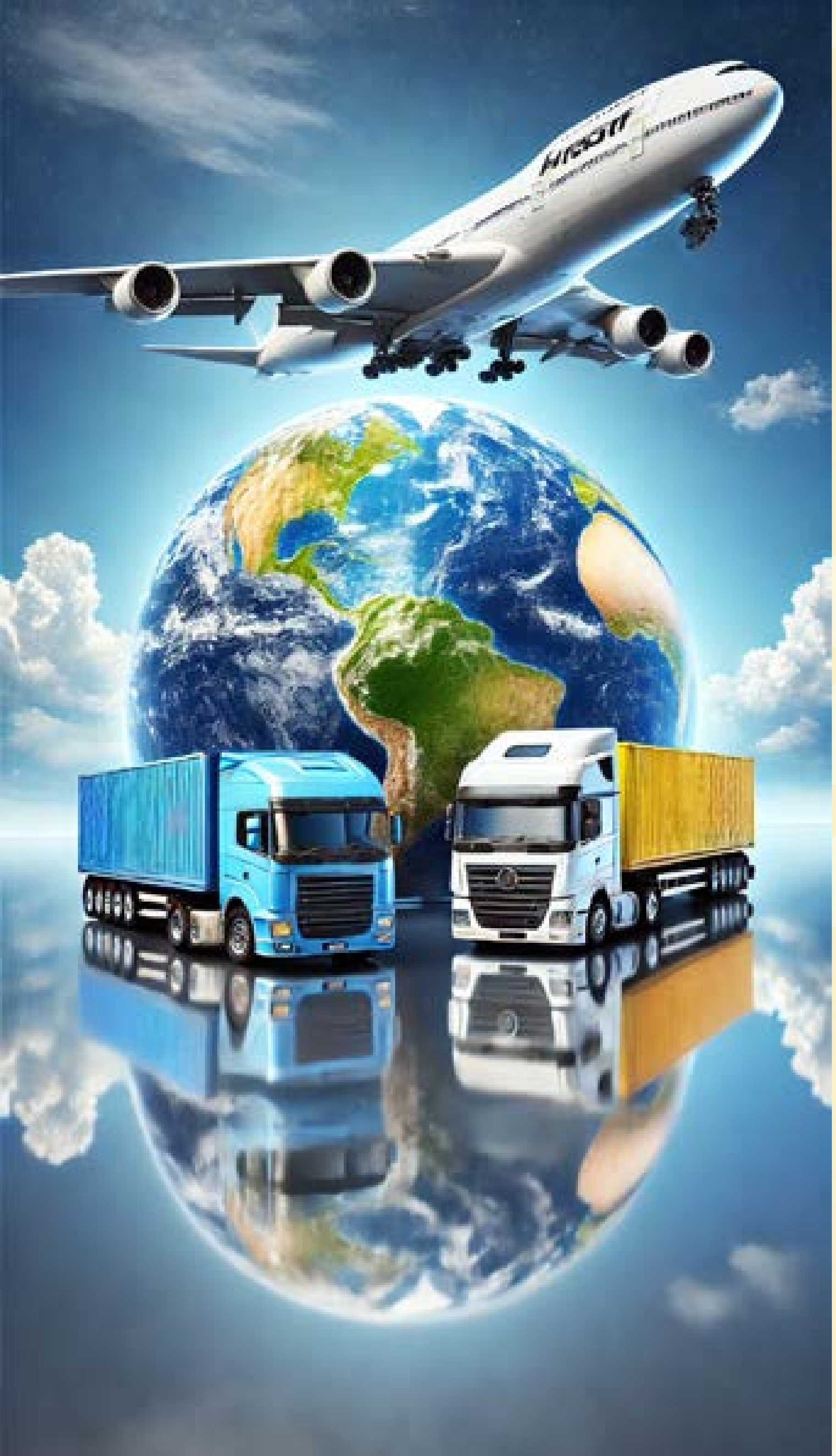

The Complete Guide to INCOTERMS

INCOTERMS, or International Commercial Terms, are globally recognised standards set by the International Chamber of Commerce (ICC) to clarify the responsibilities of buyers and sellers in international transactions. These terms define who is responsible for each part of the shipping journey, where and when the risk and responsibility are transferred from seller to buyer and who handles customs clearance, insurance and associated costs.

INCOTERMS are crucial in international trade as they provide clarity on costs, manage risks and ensure customs compliance. By setting clear guidelines, they help both parties understand their obligations, avoiding disputes and maintaining positive business relationships.

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Commonly Used INCOTERMS

INCOTERMS are essential for smooth international trade operations, especially when exporting goods to markets like the UAE. These terms provide a standardised framework for understanding responsibilities in shipping processes. By using the correct INCOTERM, businesses can prevent misunderstandings, avoid unnecessary costs and ensure a seamless shipping experience.

The following sections will explore some of the most frequently used INCOTERMS, detailing the responsibilities they entail for both buyers and sellers, and providing guidance on when to use each term effectively.

1 **EXW (Ex Works)**
Seller makes goods available at their premises. Buyer takes on all costs and risks from there.

2 **FCA (Free Carrier)**
Seller delivers goods to a named place. Buyer takes on costs and risks from that point.

3 **FOB (Free on Board)**
Seller loads goods onto the vessel. Buyer assumes responsibility once goods are on board.

4 **CFR (Cost and Freight)**
The seller covers the cost of shipping to the destination port. The buyer assumes risk as soon as the goods are loaded onto the vessel.

5 **CIF (Cost, Insurance, and Freight)**
Seller covers shipping and insurance to the destination port. Buyer assumes risk once goods are on board.

6 **DAP (Delivered at Place)**
The seller is responsible for delivering goods to a named destination. The buyer takes on risks and costs after delivery.

7 **DDP (Delivered Duty Paid)**
The seller delivers the goods to the destination and is responsible for all costs.

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EXW (Ex Works)

Under EXW terms, the seller's responsibilities are minimal. They only need to make the goods available at their premises, such as a factory or warehouse. The buyer takes on all costs and risks from this point forward, including loading, transport, insurance and customs duties. This INCOTERM is ideal for buyers who have strong relationships with logistics providers and are experienced in managing international shipping and customs procedures.

EXW offers the least amount of responsibility for the seller, making it a good choice for businesses new to exporting or those who prefer to have minimal involvement in the shipping process.

Seller Responsibilities

Make goods available at their premises

Buyer Responsibilities

All costs and risks from seller's premises

Ideal For

Buyers experienced in international shipping and customs

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FCA (Free Carrier)

FCA terms require the seller to deliver the goods to a named place (like a port or transport hub) and handle export customs clearance. The buyer takes on costs and risks from the named place onward, including international shipping and import duties. This INCOTERM provides a good balance of responsibility, making it popular for transactions where both parties want some control over shipping but prefer to share the risk and cost.

FCA is particularly useful when dealing with containerised freight or multimodal transport, as it allows for flexibility in the handover location.

Seller Responsibilities

Deliver goods to named place

Handle export customs clearance

Buyer Responsibilities

Take on costs and risks from named place

Manage international shipping

Handle import duties

Benefits

Balanced responsibility

Flexible handover location

Suitable for container freight

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FOB (Free on Board)

FOB terms, applicable only for sea freight, require the seller to load the goods onto the vessel and handle export customs clearance. The buyer assumes responsibility for the goods once they are on board, covering costs for ocean freight, insurance and import clearance. This INCOTERM is often used in transactions involving large shipments via sea freight.

FOB gives the buyer control from the point of loading, which can be beneficial if they have established freight agreements. It's particularly advantageous for buyers who can secure competitive shipping rates or prefer to manage the main leg of transportation themselves.

1

2

3

Seller Loads Goods

Seller is responsible for loading goods onto the vessel and export clearance.

Risk Transfer

Risk transfers to the buyer once goods are on board the vessel.

Buyer's Responsibility

Buyer covers sea freight, insurance and import clearance costs.

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CFR (Cost and Freight)

Under CFR terms, which apply only to sea freight, the seller pays for shipping to the destination port but does not cover insurance. The buyer takes on risk once the goods are on board the vessel and is responsible for insurance, import customs clearance and transport from the destination port. This INCOTERM is useful when the seller has good shipping rates but doesn't want to take on the risk of insuring the goods for the journey.

CFR can be advantageous for sellers who want to maintain control over the shipping process while limiting their risk exposure. It's also beneficial for buyers who prefer to arrange their own insurance coverage.

Aspect	Seller	Buyer
Shipping Cost	Responsible	Not Responsible
Insurance	Not Responsible	Responsible
Risk Transfer	At Loading	From Loading
Import Clearance	Not Responsible	Responsible

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CIF (Cost, Insurance and Freight)

CIF terms, applicable only for sea freight, require the seller to cover both the shipping and insurance to the destination port. The buyer assumes risk once the goods are on board the vessel but benefits from insurance provided by the seller. This INCOTERM is often chosen for sea freight when the buyer wants peace of mind that the seller has insured the goods.

CIF is commonly used for transactions involving valuable goods, as it ensures that the shipment is insured throughout the main transportation leg. It's particularly beneficial for buyers who may not have established relationships with insurers in the seller's country.

Sea Freight Only

CIF applies exclusively to sea transport, not other modes.

Seller Insures

Seller provides insurance, giving buyer peace of mind.

Cost Coverage

Seller covers shipping and insurance costs to destination port.

Risk Transfer

Buyer assumes risk once goods are on board the vessel.

DAP (Delivered at Place)

Under DAP terms, the seller covers all transport costs and risks up to a named destination but is not responsible for import customs clearance or duties. The buyer handles import customs clearance and pays any duties or taxes at the destination. This INCOTERM is suitable when the seller has established logistics solutions and wants to ensure the goods are delivered to the buyer's specified location.

DAP offers significant convenience for the buyer, as the seller manages most of the logistics process. It's particularly useful for sellers who want to provide a comprehensive service without taking on the complexities of import procedures in the destination country.

1 Seller Responsibilities

The seller manages all aspects of transportation, including costs and risks, up to the agreed destination point. This comprehensive service ensures smooth delivery to the buyer's doorstep.

2 Buyer Responsibilities

The buyer's main tasks involve handling import customs clearance and paying any applicable duties or taxes. This allows the buyer to manage local regulatory requirements effectively.

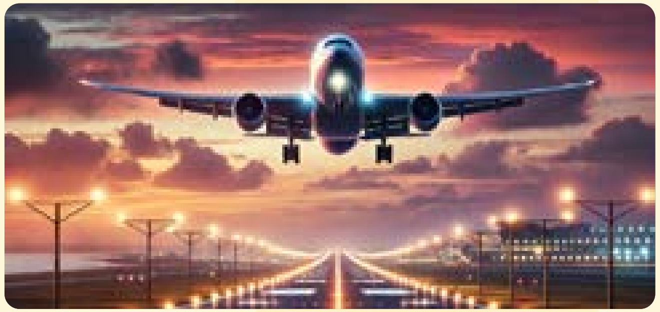
3 Risk Transfer

The risk transfers from the seller to the buyer at the named destination, just before the goods are unloaded. This clear distinction helps in defining liability during the transaction.

DDP (Delivered Duty Paid)

DDP terms place the maximum obligation on the seller. They cover all costs and risks, including import duties, up to the buyer's location. The buyer simply receives the goods without further responsibilities or costs. This INCOTERM is ideal for buyers who want minimal involvement in the logistics process and prefer the seller to handle everything, including customs and duties.

DDP offers a turnkey solution for the buyer, making it attractive for those entering new markets or dealing with complex import procedures. However, it requires the seller to have a thorough understanding of the destination country's import regulations and tax structures.



Air Freight

DDP terms cover all modes of transport, including air freight, ensuring door-to-door delivery regardless of the shipping method.

Custom Clearance

The seller handles all customs procedures, simplifying the process for the buyer and ensuring compliance with local regulations.

Final Delivery

The seller's responsibility extends to the final delivery point, providing a complete logistics solution for the buyer.

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Choosing the Right INCOTERM

Selecting the appropriate INCOTERM is crucial for managing costs, risks, and operational efficiency in international trade. Consider the nature of your product, as perishable or high-value items may require more control over transportation, favouring terms like FCA or FOB. Your team's experience in international shipping should also influence your choice, with less experienced teams potentially preferring terms that shift responsibility to the other party.

Cost considerations play a significant role. If you can secure favourable shipping rates, choose terms that allow you to handle transportation. For better cost control, opt for terms transferring responsibility to the buyer. Risk management is another key factor, with terms like CIF and DDP giving the seller greater control and reducing the buyer's risk, beneficial in high-stakes markets.

Take the next step in mastering international trade! Choosing the right INCOTERM can make all the difference in your export success. If you need guidance tailored to your business or market, get in touch with us today. Let us help you navigate the complexities of global trade and ensure your operations are efficient, cost-effective and risk-managed.

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