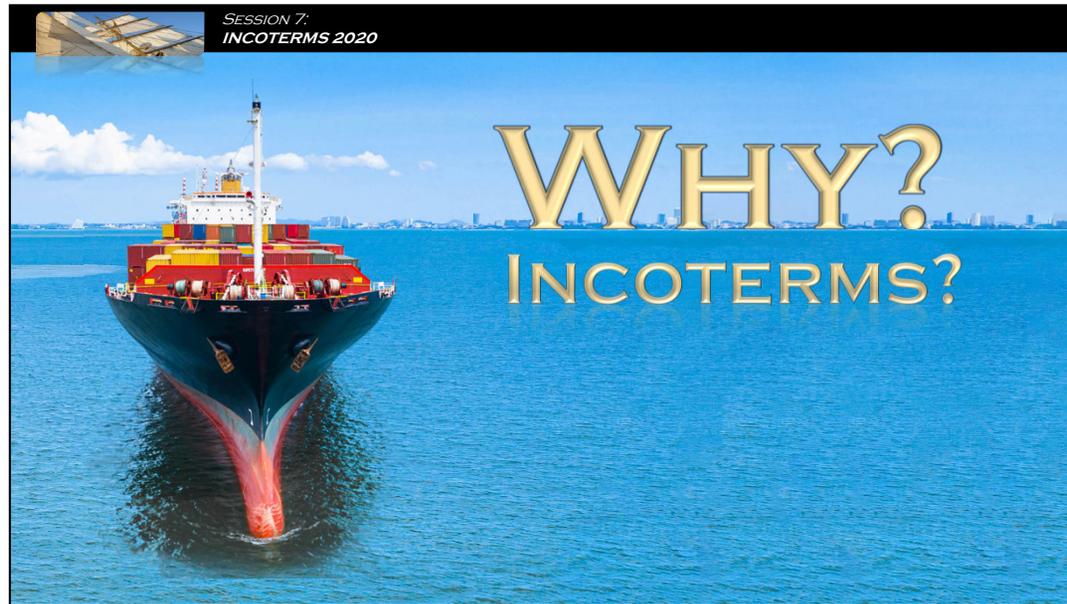




Hi, I'm Bob Erwin, and welcome to this session of Export-U, about International Commercial Shipping Terms,..... more commonly known as INCOTERMS

In this session, we'll explore how Incoterms can be used to ensure a smooth shipping process,... with controlled risk..



Okay, ...why is it that Incoterms are so vital to ...international shipping?... And, why should you care....

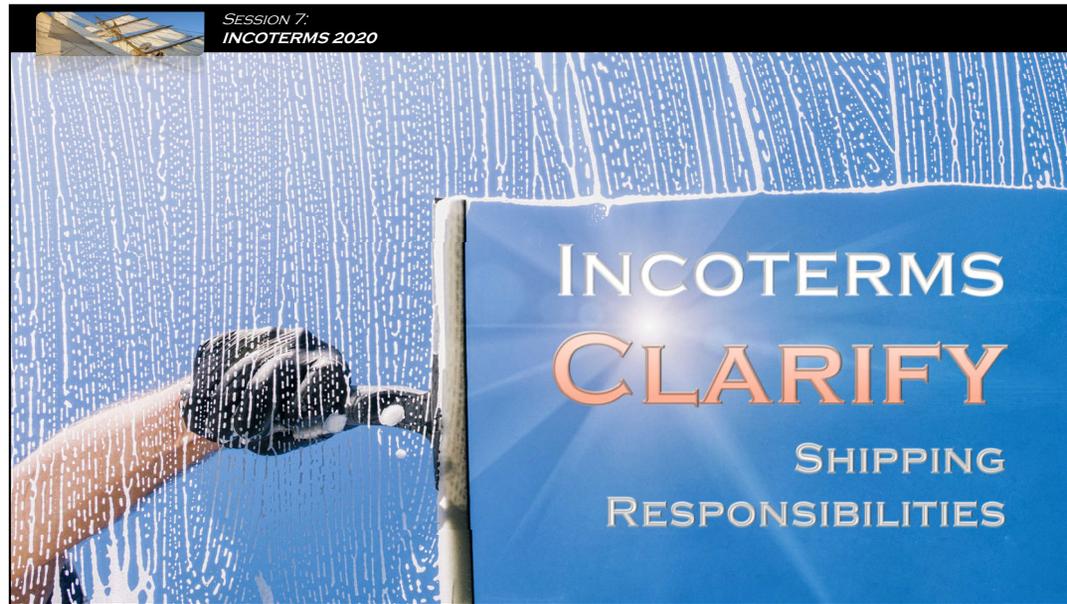


One reason to care about Incoterms is that....

bad stuff happens....

Each year, thousands of shipping containers are lost at sea for various reasons, including storms, accidents, and even piracy.

True, this is a tiny fraction of all shipments, but if it is your shipment that's lost, it can be a very big deal. You want to know who's responsible for covering the loss.



Incoterms are designed to clarify the shipping responsibilities of both exporters and their overseas customers.



Incoterms define who is responsible for each phase of shipping process, and who orchestrates the:

- Transportation...
- Customs clearance... and
- Insurance.... They also define who...
- Pays for the various Costs and who...
- Assumes the Risk during each shipping phase.



Incoterms are essential, in part because the world speaks a ton of different languages and dialects

And, even when two countries like Britain and the US "theoretically" share the same language verbal communication can be difficult.

Take for example, my old TR6. The British repair manual I used was often confusing, because some car parts have

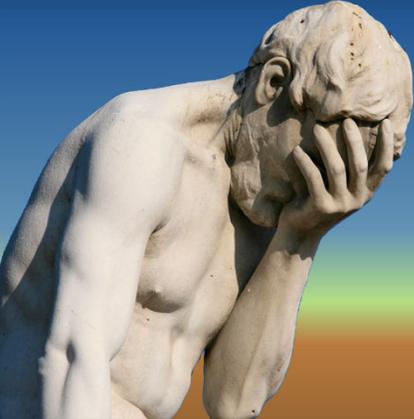
totally different names here and in the UK.....



So, to avoid international shipping confusion, our advice is to... use INCOTERMS for all of your export price quotes, invoices, and shipping documents.

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INCOTERMS DON'T



- Define the ownership transfer point
- Help if your customer:
 - won't pay or
 - breaks the sales contract*

* (except when passing risks or costs as defined by Incoterms)

While Incoterms are incredibly useful, they DON'T.....

- Define at what point you transfer ownership of the goods to your customer.
- They also can't help if your customer won't pay, or breaks the sales contract

The only exception is.... when passing risks or costs as defined by INCOTERMS....

OK, now let's take a look at how Incoterms work.



Now, to understand how INCOTERMS work, let's consider the various steps in the international shipping process..... In general,...

- everything starts-out from a US factory or warehouse. From there, the goods are
- sent out overland by truck or train to a
- port or airport, and ... then, after arriving overseas they must
- clear customs to enter that market. And be
- delivered to your customer.

The idea hereis that responsibility for a shipment can be passed from you to your customer.... at any point you designate, using Incoterms..



By determining the hand-off point for shipping responsibilities, Incoterms also set your level of risk for the shipment.

For this presentation, we have grouped Incoterms into 3 categories of risk:

...low, ...shared,.....and maximum.



The low risk shipping category is really simple...

Your customer picks up the goods from your loading dock,and takes them away...



Shared Risk Incoterms are much more common.

Under these seven terms you hand-off shipping responsibility to your customer at some designated point in the shipping process.



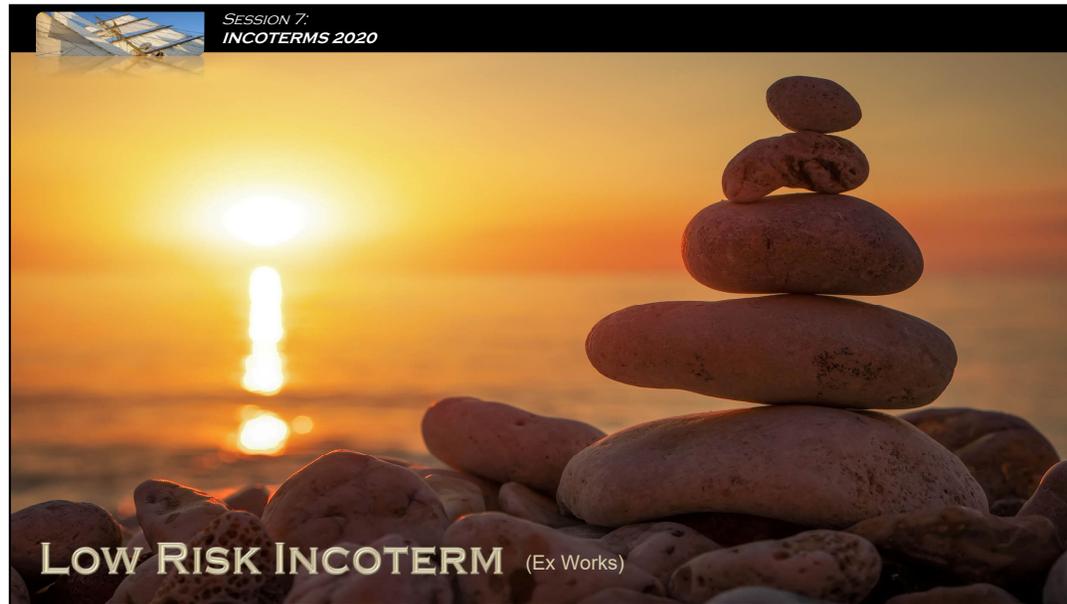
Finally, we classify three Incoterms as having maximum risk.

Each starts with the letter "D" which stands for "delivered" overseas.



In total, there are now 11 Incoterms,and each is represented by a three-letter acronym.

Now, let's take a closer look at these various Incoterms ...to see what they actually mean.



Let's first consider the one and only "Low Risk" Incoterm.....Ex Works.



Under Ex Works, your overseas customer....

- sends a truck to your business --- (which is referred to in Incoterms as your "Works") --- it's an old British term
- He then hauls off the goods, and takes full responsibility for the entire shipping process.

Of course, the main problem with Ex Works shipping is that it's not a very customer-friendly.....so it might actually cost you business.



Far more common are Shared Risk Incoterms, ...and there are seven of these.

Under shared risk terms, you and your customer agree on which portions of the shipping process you and they will manage and pay for.

Lets take a closer look at these Incoterms.....



FREE CARRIER AT (FCA)

You're Done!

You Hand-off to Carrier



FCA, or Free Carrier At, is a Shared Risk Incoterm, under which you..... hand-over the goods to your customer's designated carrier, usually somewhere in your vicinity...

Not very risky...



CPT, or Carriage Paid To, is another Shared Risk Incoterm.

Here you...ship the goods to specific location that you and your customer have agreed on.

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2. Shared Risk

CARRIAGE & INSURANCE PAID TO (CIP)

You Pay Shipping
and Insurance
to a Specific Place

The illustration shows a factory on the left with smoke coming from a chimney. In the center, a worker in a blue cap and shirt pushes a red cart with a box labeled 'INSURED'. A red arrow points from the text 'to a Specific Place' to the cart. A large red 'X' is drawn over the word 'PLACE' at the bottom of the cart. On the right, there is a yellow crane structure. The background is a blue sky with clouds and green grass.

PLACE

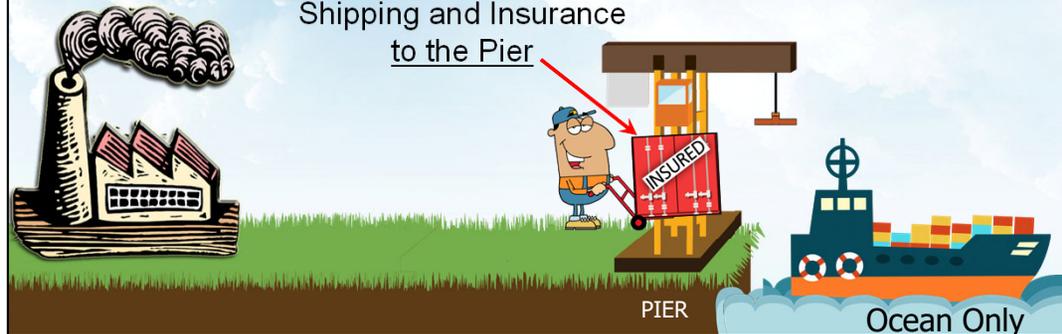
CIP, or Carriage and Insurance Paid To, is similar to the previous term, ...

but now you must also insure the goods until they reach the hand-off place.



FREE ALONGSIDE SHIP (FAS)

You Pay
Shipping and Insurance
to the Pier



Under FAS, or Free Alongside the Ship, you must deliver the insured goods to the outbound ship's pier.

This term is only used for Ocean Shipments.

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2. Shared Risk

FREE ONBOARD (FOB)

You Pay Shipping and Insurance
Onto the Ship

FOB Baltimore

Ocean Only

FOB, stands for Free Onboard. It requires that you pay for shipping and insurance until the goods are loaded on the ship.

The FOB term is always used in conjunction with the US port-of-departure,..... as inFOB Baltimore. Again, this term is only used for...Ocean Shipments.

(By the way, ...the term FOB is sometimes used incorrectly for domestic shipments ...that never involve a ship, ...as in FOB Atlanta.)



CFR , or Cost and Freight, simply means that you pay for shipping to an overseas port, ...

..where your customer takes over and clears the goods through customs.

For example.... CFR Shanghai

Again, this term is only used for... Ocean Shipments.

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2. Shared Risk

COST INSURANCE & FREIGHT (CIF)

You Pay Shipping and Insurance
to Overseas Port

Ocean Only

CIF Shanghai

The final Shared Risk Incoterm is CIF, ... or Cost Insurance and Freight. ...

It is just like CFR, except you must insure the shipment until it reaches the overseas port.

Again, CIF is only used for Ocean Shipments.



Now, let's consider the "D" terms: ...the Maximum Risk terms..

These Incoterms can be risky.... since you must actually deliver your goods overseas. I

And, if something goes wrong out-of-country, ...you can't be there in person to "pound-on-the-desk," and sort things out. So the question is

Do you feel lucky?"

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3. MAXIMUM Risk

DELIVERED AT PLACE (DAP)

You Pay to Ship and Deliver

PLACE

DAP, or Delivered at Place, is a term that requires you to ...deliver the goods overseas... to a specific location, ...

And,... after they clear customs..

What if there's a holdup with customs? ...It's on your dime?Not good!

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3. MAXIMUM Risk

**DELIVERED AT PLACE
UNLOADED
(DPU)**

You Pay to Ship, Deliver and Unload

PLACE

DPU, or Delivered at Place Unloaded ...is just like DDP, ...but now you must arrange for unloading of the goods.... when they are delivered.

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3. MAXIMUM Risk

DELIVERED DUTY PAID (DDP)

You Pay to Ship and Deliver with
Import Duty Paid

PLACE

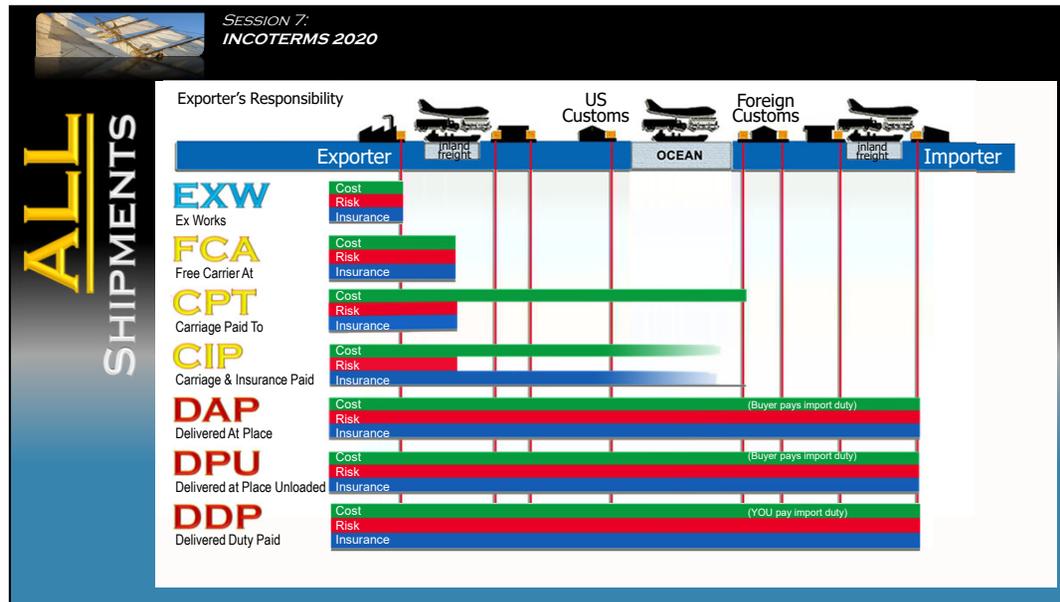
Finally,.... the most risky Incoterm of all is DDP, or Delivered Duty Paid. Here you must take full end-to-end shipping responsibility, and all the risk.



Let me re-emphasize that the DDP Incoterm can be extremely risky in some foreign markets,

especially where the customs officials may be corrupt.

And, bribing overseas officials is against U.S. law under the "Foreign Corrupt Practices Act."



This chart shows the INCOTERMS which can apply to all modes of shipping --- land, sea, and air.

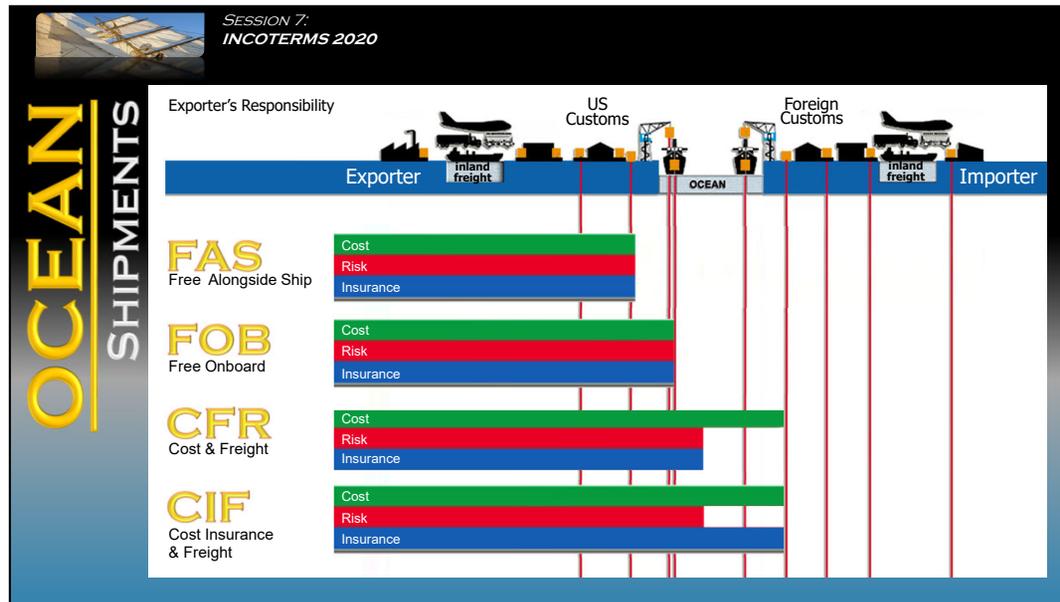
The upper blue band represents phases of the shipping process. ... Horizontal bars

for each term show the extent of your risk and responsibilities.

For example, under ... Ex Works, your obligation extends only to your own loading dock.

By contrast, under.... "Delivered Duty Paid," you must accept all the risks --- end-to-end.

The other terms fall somewhere in-between.



Here we see the 4 Incoterms used exclusively for Ocean shipments.

The most heavily used of these are FOB and CIF.



So, what INCOTERM should you use? Well it depends on the circumstances....

When shipping to a high-risk market likeNorth Korea, you probably want to hand-off the goods as soon as possible..... Maybe, FOB Baltimore.
....

But, if you are delivering expensive precision machinery to.....- Canada, you might will want to control the entire shipping process to make sure nothing gets damaged.

And finally, primary shipping responsibility is often assigned to the party with..... the most shipping experience and volume. --- Companies that ship a lot may get cheaper rates...



Clearly, there is a lot more to INCOTERMS than shown in this brief presentation.

To learn more, please check out the..... [links](#) page of this web site, and.....download our free Incoterms wall chart.

More detailed information on Incoterms is also available from..... the international Chamber of Commerce website and your nearest U.S. Commercial Service office.

Thank you.



Quiz 7

Quiz - 7 questions

Last modified: Tuesday, March 23, 2021 at 1:45:42 PM

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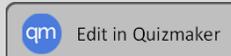
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SESSION 7:

THE END

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We hope you found this session of Export-U helpful.

Thank you again.