



The Significance of the Incoterms Rules in the Freight Forwarding Services Market

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ABSTRACT

The article aims at determining the significance and essence of Incoterms 2010 in the international trade. It presents groups of Incoterms 2010 transactions. Additionally, it discusses the distribution of Incoterms costs and risks. The particular terms of Incoterms 2010 and the ranges of responsibilities are distinguished.

Keywords: Incoterms, logistics, management

1. INTRODUCTION

When transacting business in the international trade, one should use Incoterms 2010 rules. Incoterms are international commercial terms. They define costs, risk and practical aspects of carriage of goods between the buyer and the seller. Applying these rules enables one to mitigate any misunderstandings resulting from a lack of precise knowledge of trade practices. A transaction means movement of goods and services between the seller and the buyer. What is more, these are all the actions undertaken in order to buy or sell goods.

2. THE SIGNIFANCE OF INCOTERMS 2010 RULES.

Incoterms are international rules for the interpretation of trade terms established by the International Chamber of Commerce in Paris. Casuccio explains that the ICC first developed Incoterms in 1936 [1]. These rules were first published in 1936. Additionally Incoterms should be understood as International rules [2].

Table 1. Updates to Incoterms.

Updates to Incoterms rules in the subsequent years						
1953	1967	1976	1980	1990	2000	2010

Source: own work

A new set of rules was developed in 2010 [3]. The latest version of this rules came in 2011 [4]. The main reason for new updates were changes in relations between business partners. Additionally, some rules were not complied with, and in other cases there was a loophole experienced. J. Ramberg claims that the first version of Incoterms was clearly focused on commodity trading and fixed the important delivery points at the ship's side or at the moment when the goods are taken on board the ship [5].

Trading terms are extremely significant since they mean application of procedures thanks to which one may distribute costs, risk, obligations and deliveries.

The properties of Incoterms are as follows:

- they include distribution of costs, responsibilities and risk,
- most often applied in the area of foreign trade,
- facilitate establishment of business relations,
- organize commerce processes.

Murray explains that [6], the new Incoterms are applicable to both domestic as well as international trade and the thirteen rules contained in Incoterms 2000 have been reduced to eleven by the introduction of two new Rules in place of four earlier Rules. Additionally this rules are very important in transactions [7].

Coetzee claims that, incoterms represent a codification of the international mercantile customs and usages applicable to the delivery obligations of the seller and buyer where goods have to be transported from one place to another [8]. Every manager should be motivated to use Incoterms.

H. Wojtaszek explains that motivation is a process of inspiring the need of working in an organization so that employees think that their effort for the organization will lead to the fulfillment of their own needs and achieving their own goals [9].

The fact that Incoterms rules do not transfer the property right and they do not constitute a contract of carriage is worth mentioning here.

Incoterms application is very helpful in the case of contracts. Thanks to using these rules one may amend the provisions. Incoterms enable business partners to define their responsibilities.

The seller's task is to provide goods according to the specific transaction and a proof of compliance provided for by a contract, and cover the packaging cost. The buyer shall be obliged to pay for the products and accept the goods if the seller made them available in place and time provided for the commercial contract.

In relation to Incoterms rules, one should remember about a shipper that is a party transferring goods for carriage which may also order transport services. Another very significant aspect is a delivery that means place and time where and when the seller meets the requirements concerning handing goods over to the buyer and it refers to place and time where and when the buyer receives the goods. Additionally explains that incoterms have provided a set of rules that the global trade community can use for the interpretation of shipping terms [10].

2. 1. Incoterms transaction groups

Within the frameworks of Incoterms transactions, distinguishes the following types:

- Ex that is delivery "on the spot"
- Free ("cost free").

Free transaction types were presented in Figure 1

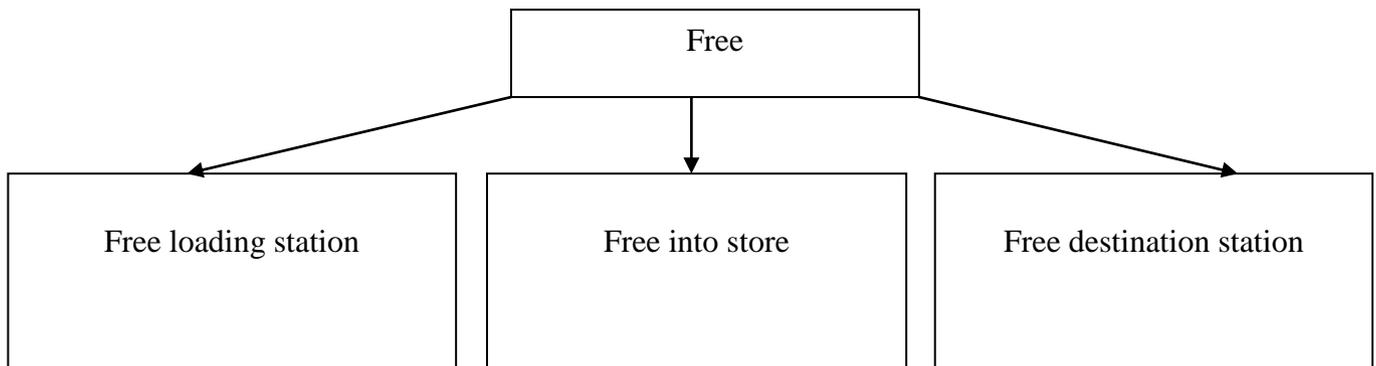


Figure 1. Free transaction types

Source: own work

Incoterms division according to groups:

- Concerning sea transport: FAS, FOB, CFR, CIF,
- Concerning all kinds of transport: EXW, FCA, CPT, DAT, CIP, DDP, DAP.

Management of carriage is a very important issue in Incoterms rules. This notion signifies the right and obligation to organise transport and cover costs including insurance and

carriage operations. One should also bear in mind a significant change implemented in 2011 concerning Incoterms conditions. A number of terms was reduced from thirteen to eleven.

Additionally, the following terms were eliminated in 2011:

- DAF
- DDU
- DEQ
- DES

Following these changes, DAP (delivered at place) and DAT (delivered at terminal) terms were added [11]. What is more, the use of electronic documents was first allowed. An important issue here is a possibility of using terms of 2000 provided that the contract includes information of using these terms.

Figure 2 presents Incoterms division:

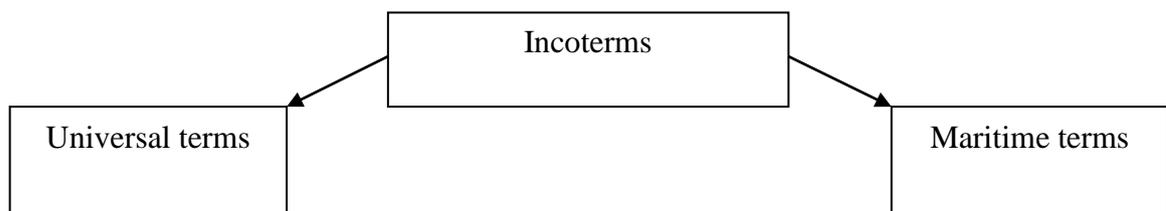


Figure 2. Incoterms division

Source: own work

Universal terms are:

- FCA- Free Carrier... (to a named place) means that seller delivers the goods to the carrier nominated by the buyer at the named place of loading. From the moment of delivering the goods to the carrier, the management of carriage responsibilities as well as costs and risk are transferred to the buyer,
- EXW- Ex Works... (from a named place). The buyer collects the goods from the seller's premises. Goods insurance, clearance, management of carriage and risk are responsibilities of the buyer. This term is very convenient to the producer.
- CPT- Carriage Paid to (a named place of destination). The seller pay all the costs of carriage. The seller is obliged to enter a contract of carriage to a place of destination named by the buyer. The seller is obliged to deliver goods to the carrier. The buyer bears all risk of goods damage or loss from the moment of handing it over to the carrier or the first carrier.
- CIP- Carriage and Insurance Paid to... (a named place of destination). The seller has the same responsibilities as in CPT term. What is more, he is obliged to make insurance arrangements.

- DAT- Delivered at Terminal... (named terminal at port/ place of destination). The seller is obliged to deliver the goods to the named terminal at port. The buyer covers the costs and takes the risk.
- DAP- Delivered at Place... (named place of destination). The seller delivers the goods to a specific place. The buyer bears costs of unloading and risk.
- DDP- Delivered Duty Paid... (named place of destination). The seller is obliged to hand the goods in the arriving means of transport over to the buyer at the named place and after covering the costs. The seller covers the cost payable upon import.

Another type of Incoterms are maritime terms.

Kim Hae-Suk and Jae-Hun Jang explain that FAS FOB, CIF and CFR which are used for the ocean and inland transportation are applied without any changes [12].

There are the following maritime terms distinguished:

- FAS- Free Alongside Ship... (named port of shipment) - the seller's responsibilities cease when the goods are delivered for loading in the named port of shipment. The buyer has to bear all the costs and risks from that moment.
- CFR- The seller must pay freight costs necessary to bring the goods to the port of destination, costs of loading aboard and handling during transport. The seller is also obliged to deliver the goods on board. The buyer covers insurance costs and the seller has to pay for loading aboard and freight to the point of destination.
- FOB Free on Board... (named port of shipment) – The seller delivers the goods to the ship named by the Buyer. The seller also bears costs of delivering the goods to the port of loading and loading the goods aboard as well as the risk of loss of or damage to the goods till the moment the goods pass the ship's rail. The buyer enters into the contract of carriage by sea, informs the seller of the port of loading, name of the ship and the required delivery date.
- CIF Cost, Insurance and Freight... (named port of destination) - Apart from the delivery and freight costs, the seller bears insurance costs and is obliged to present the buyer with the evidence of concluding insurance contract. Nugroho and Budi explain that „ The CIF term may be used in a customs declaration form for sea and waterway transport as a way to simplify the calculation of customs value because, generally, importers are more familiar with Incoterms than with the WTO Valuation Agreement [ppp]”.

Figure 3 shows Incoterms including range of costs and risks.

On the basis of the above-presented figure one may state that EXW term offers the smallest burden of the seller. Terms of D group constitutes the heaviest burden from the perspective of the seller.

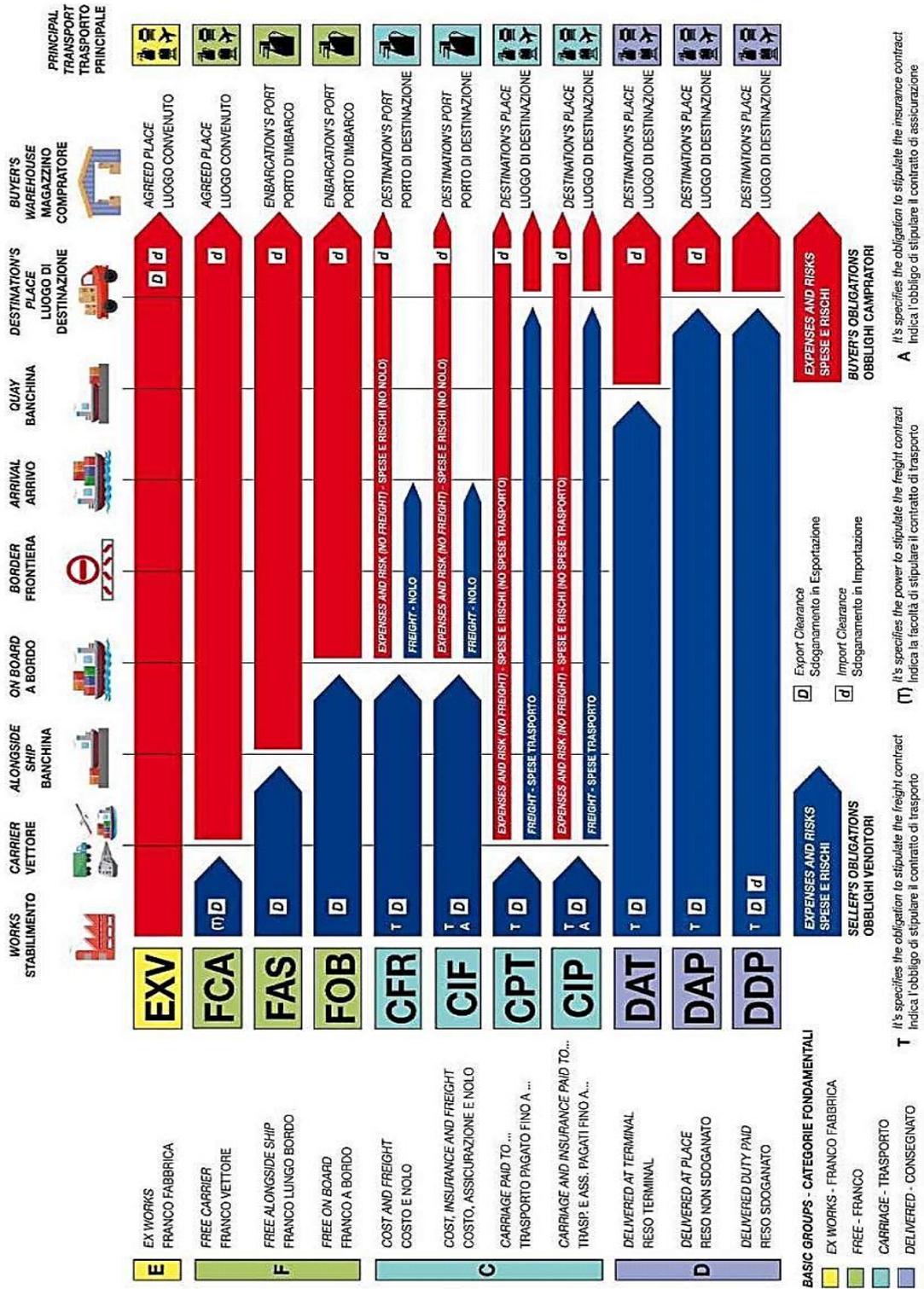


Figure 3. Incoterms 2010.

Source: <http://tecnofreight.net/home/en/tools/incoterms#.V6tFuSLQrh> (access: 10.08.2016)

2. 2. Division of coast and risks

INCOTERMS 2010

	EXW	FCA	FAS	FOBUS PORT	CFR**	CIF**	CPT***	CIP***	DAP	DAT	DDP
SERVICE / TERMS	EX WORKS	FREE CARRIER	FREE ALONG-SIDE SHIP	FREE ONBOARD VESSEL	COST & FREIGHT	COST, INSR-ANCE & FREIGHT	CARRIAGE PAID TO	CAR-RIAGE, INSR-ANCE PAID TO	DELIVERED EX SHIP	DELIVERY AT Terminal + Named place	DELIVERY DUTY PAID
WAREHOUSE STORAGE AT POINT OF ORIGIN	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
WAREHOUSE LABOR CHARGE AT POINT OF ORIGIN	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
EXPORT PACKING	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
LOADING AT POINT OF ORIGIN	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
ISLAND FREIGHT	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
PORT RECEIVING CHARGES	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
FORWARDER'S FEES	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
INSURANCE	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
LOADING ON OCEAN CARRIER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
OCEAN / AIR FREIGHT	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
CHARGES IN FOREIGN PORT / AIRPORT	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
CUSTOMS FORMALITIES	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
CUSTOMS DUTIES & TAXES	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
DELIVERY CHARGES TO FINAL DESTINATION	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER / SELLER *	SELLER

• THIS CHART IS FOR REFERENCE ONLY AND DOES NOT REPLACE A CONTRACT BETWEEN BUYER / SELLER

*Depends on the named place of deliver specified in contract

** Risk of loss or damage is transferred from seller to buyer when the goods are loaded on the vessel

***Risk of loss or damage is transferred from seller to buyer when the goods are delivered to the first carrier

Notes:

- ◆ Incoterms must always be accompanied by a "named place" including city, province/ state and country. The international Chamber of Commerce updates Incoterms every ten years, most recently in 2010. Because the implications and interpretations differ between publications, the year of the revised publication should also be stated. Example of correct Inco statement: "FOB Houston, Texas, USA, Incoterms 2010".
- ◆ Incoterms identify risk and cost to the seller and buyer, but not identify title transference.
- ◆ All reference to the cost of " customs clearance" includes not only duty and/ or other government levy but also administrative associated with fulfilling that process.
- ◆ The exporter and/ or importer may or may not be the seller or buyer. Exporter and importer status are specifically governed by the particular laws of the country of export and country of import.

Figure 4. The particular Incoterms 2010 together with ranges of responsibilities. Source: http://www.49ers.kr/bbs/board.php?bo_table=04_3&wr_id=18 (access 10.08.2016)

When discussing Incoterms division of costs and risks, one should start with the management of carriage which is subject to division in the particular terms. The obligation rests on the seller in the following terms: CPT, CFR, CIP, CIF, DAT, DAP, DDP, and on the buyer in the case of terms as EXW, FCA, FOB, FAS. Bergami explains that this rules “provide the basis for apportioning the rights, duties, obligations and responsibilities of sellers and buyers on a mutually exclusive basis [13]”.

Incoterms constitute the basis for determining the most convenient range of responsibilities of exporter and importer. A very important part is played here by the division or costs and risks which additionally have an impact on the product's price. When the ranges of responsibilities coincide, this is a common settlement. The common responsibilities are costs of permit and clearance arrangements. In the country of exportation, the seller is responsible for these actions; in the case of transit and import, it is the buyer who is a responsible party. The risk is transferred to seller when the goods are delivered to the named place. Forwarding agents may use different rules of costs settlements for Incoterms 2010 conditions.

Figure 4 offers a very clear presentation of the particular Incoterms as well as ranges of responsibilities for the particular actions.

3. CONCLUSIONS

Incoterms 2010 rules determine the division of costs and risks as well as responsibilities between the seller and the buyer. These terms have been subject to numerous changes over the years. The main reason for modifications is the changing world's economy and economic factors concerning cost reduction. Using Incoterms is a very good solution in the international trade business transactions.

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