

Chapter 4 Trade Terms





Do you think it's necessary to use trade terms in international trade?

What should we learn about the trade terms?



Learning Objectives

- Have a good command of Incoterms 2010
- Have a coherent understanding of the obligation of the seller and the buyer under FOB
- Have a sufficient understanding of CIF, CFR, FCA, CIP and CPT
- Be familiar with terms such as EXW, FAS, DAT, DAP and DDP
- Understand the applying of commission and discount when quoting a price



International trade always involves many procedures, which should be completed either by the seller or the buyer.

For example,

How do the exporter and importer calculate and express unit price in international trade?

Who should effect marine cargo insurance?

Who should place shipping order?

Who should apply for the import and /or export license?

And so on.



Trade terms

It is very time-consuming for the exporter and importer to negotiate the obligations and the division of costs and risks involved in every procedure for every transaction, and It is complicated to write all the things mentioned above in a contract one by one. In order to facilitate the negotiation in international trade, there arise the trade terms.

I TRADE TERMS (贸易术语)

The trade terms, also called price terms or delivery terms, are a set of uniform rules for the interpretation of trade terms to indicate the formation of the unit price and determine the rights and obligations of both the seller and the buyer as well as the time of passing the property in the goods in international trade.

Generally, they are three-letter abbreviations or short forms of the trade terms, for example, FOB stands for Free on Board.

The use of trade terms can significantly simplify the business negotiations, thus save time and costs.



II. Why Incoterms?

Incoterms means International Rules for the Interpretation of Trade Terms(国际贸易解释通则)

The creation of trade terms in different countries is to facilitate the negotiation of international trade. But different countries might have different ways of interpreting the same terms, which will lead to a lost sale or a loss on a sale. Frequently, parties to a contract are unaware of the different trading practices in their respective countries. This can give rise to misunderstandings, disputes and litigation , with all the waste of time and money that this entails.



II. Why Incoterms?

In order to remedy these problems, the **International Chamber of Commerce (ICC)** first published in 1936 a set of international rules for the interpretation of trade terms. These rules were known as “**Incoterms 1936(1936年通则)**” (**International Rules for the Interpretation of Trade Terms** 国际贸易术语解释通则). Amendments and additions were later made in 1953, 1967, 1976, 1980, 1990, 2000 and **presently in 2010 (called “Incoterms 2010” 《2000年通则 》)** in order to bring the rules in line with current international trade practices. **Incoterms 2010 came into force on January 1st 2011.**



II. Why Incoterms?

Incoterms are a set of international rules for the interpretation of the most commonly used trade terms in foreign trade.

Thus, the uncertainties of different interpretations of such terms in different countries can be avoided or at least reduced to a considerable degree. Reference to Incoterms 2010 in a sales contract defines clearly the parties' respective obligations and reduces the risk of legal complications.

III. What do Incoterms cover?

It should be stressed that the **scope of Incoterms is limited to matters relating to the rights and obligations of the parties to the contract of sale with respect to the delivery of goods sold (in the sense of “tangibles”, not including “intangibles” such as computer software).**



III. What do Incoterms cover?

It appears that two particular misconceptions about Incoterms are very common. They are:

1. Incoterms are frequently misunderstood as applying to the contract of carriage rather than to the contract of sale.

There are various contracts needed to perform an international sales transaction - where not only the contract of sale is required, but also contracts of carriage, insurance and financing - **Incoterms relate to only one of these contracts, namely the contract of sale.**

III. What do Incoterms cover?

2. Incoterms are sometimes wrongly assumed to provide for all the duties which parties may wish to include in a contract of sale.

Although Incoterms are extremely important for the implementation of the contract of sale, a great number of problems which may occur in such a contract are not dealt with at all, like transfer of ownership and other property rights, breaches of contract and the consequences following from such breaches as well as exemptions from liability in certain situations.

As always underlined by ICC, **Incoterms only deal with the relation between sellers and buyers under the contract of sale, and, moreover, only do so in some very distinct respects.**



IV. Why revision of Incoterms?

The main reason for successive revisions of Incoterms has been the need to adapt them to contemporary commercial practice.

Revision in 1980 was to keep pace with the development of transport practices - combined or multimodal transport. Thus a new term “Free Carrier” (now FCA) was first introduced in 1980 revision in order to deal with the frequent case where the reception point in maritime trade was no longer the traditional FOB - point (passing of the ship’s rail) but a point on land, prior to loading on board a vessel, where the goods were stowed into a container for subsequent transport by sea or by different means of transport in combination.



IV. Why revision of Incoterms?

Further, revision in 1990 was to adapt itself to the increased use of Electronic Data Interchange (EDI) in business transactions. In the 1990 revision of Incoterms, the clauses dealing with the seller's obligation to provide proof of delivery permitted a replacement of paper documentation by EDI - messages provided the parties had agreed to communicate electronically.

 Revision in 2000 took account of the spread of customs-free zones in the 1990s.

Needless to say, **every revision of Incoterms is to improve all the trade terms to facilitate their practical implementation.**



IV. Why revision of Incoterms?

In order to keep pace with the development in international trade practice, ICC published its seventh revision of Incoterms on September 27, 2010, i.e. Incoterms 2010, which came into force on January 1st 2011.

Section One Components of Trade Terms

In international trade, the price terms of a sales contract include unit price and total price. Total price(total value) is the total amount of a deal. Unit price is the price per measurement unit.

The unit price in international trade includes four parts: 1)type of currency (pricing currency), 2) unit price figure, 3) measurement unit and 4) trade term.

For example: Unit price: USD 20/pc FOB Guangzhou

USD 20 per piece CIF New York

Explain: USD 20/pc FOB Guangzhou

USD
pricing currency

20
unit price
figure

/pc (per piece)
measurement unit

FOB Guangzhou
trade term



国家或地区	币种	原符号	标准符号
中国香港	港元 HongKong Dollars	HK\$	HKD
中国	人民币元 Renminbi Yuan	RMB¥	CNY
日本	日圆 Japanese Yen	¥;J.¥	JPY
新加坡	新加坡元 Ssingapore Dollar	S.\$	SGD
澳大利亚	澳大利亚元 Australian Dollar	\$A.	AUD
新西兰	新西兰元 New Zealand Dollar	\$NZ.	NZD
欧洲货币联盟	欧元 Euro	EUR	EUR



国家或地区	币种	原符号	标准符号
俄罗斯	卢布 Russian Ruble (or Rouble)	Rbs. Rbl.	SUR
德国	马克 Deutsche Mark	DM.	DEM
瑞士	瑞士法郎 Swiss Franc	SF.;SFR.	CHF
英国	英镑 Pound, Sterling	£ ; £ Stg.	GBP
法国	法郎 French Franc	F.F.;Fr.Fc.; F.FR.	FRF
加拿大	加元 Canadian Dollar	Can. \$	CAD
美国	美元 U.S.Dollar	U.S. \$	USD



Section Two Incoterms

I . What are the 11 trade terms in Incoterms 2010?

For the purpose of easier reading and understanding, 11 trade terms in Incoterms 2010 have been grouped into two basically different categories denoted by the first letter in the three-letter abbreviation.

11 trade terms

1. Any mode of transport or multimodal transport:

EXW, FCA, CPT, CIP, DAT, DAP and DDP

2. Only sea or inland water way transport

FAS, FOB, CFR and CIF



INCOTERMS 2010

Group E: The seller only makes the goods available to the buyer at the seller's own premises

Departure (Departure contract)	EXW	Ex Works (Insert named place)
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Group F: The seller is called upon to deliver the goods to a carrier appointed by the buyer

Main Carriage Unpaid (Shipment contract)	FCA	Free Carrier (Insert named place)
	FAS	Free Alongside Ship (Insert named port of shipment)
	FOB	Free On Board (Insert named port of shipment)

Group C: the seller has to contract for carriage, but without assuming the risk of loss of or damage to the goods or additional costs due to events occurring after shipment and dispatch.

Main Carriage Paid (Shipment contract)	CFR	Cost and Freight (Insert named port of destination)
	CIF	Cost, Insurance and Freight (Insert named port of destination)
	CPT	Carriage Paid To (Insert named place of destination)
	CIP	Carriage and Insurance Paid To (Insert named place of destination)



Group D: The seller has to bear all costs and risks needed to bring the goods to the place of destination

Arrival (Arrival contract)	DAT	Delivered At Terminal (Insert named terminal at port or place of destination)
	DAP	Delivered At Place(Insert named place of destination)
	DDP	Delivered Duty Paid (Insert named place of destination)

II. Other International Practice Concerning Trade Terms

Besides Incoterms, there are also “Warsaw-Oxford Rules 1932” and “Revised American Foreign Trade Definitions 1990” as international practice concerning trade terms:

1. Warsaw- Oxford Rules, made by International Law Association in 1928, and revised in 1932, which only defines CIF contracts.

2 Revised American Foreign Trade Definition 1990

American Foreign Trade Definition was made by 9 American business groups in 1919. It's revised in 1941 and 1990, the revised form for six price terms



Section 2

II. Other International Practice Concerning Trade Terms

By far the most widely used set of terms is the Incoterms. The Revised American Foreign Trade Definitions (1990), although still in use, primarily in the USA and the North America, are slowly being phased out in favor of Incoterms. Consequently, this unit will limit itself to comments on Incoterms.



Section 2

II. Other International Practice Concerning Trade Terms

Although popularly and generally accepted, Incoterms are not laws or international conventions as “United Nations Convention on Contracts for International Sale of Goods” is. Incoterms are merely international trade practice. That means they can be binding on Buyers or Sellers provided the sales contract specifies that a particular Incoterms will apply, for example “FOB Guangzhou Incoterms 2010”.



Section 2

III. General obligations of the seller and the buyer in Incoterms 2010

Incoterms 2010 not only specify where the exporter's responsibility and liability end, and where the buyer's responsibility and liability begin, but also determine the division of costs and risks.



Section 2 Incoterms

Attention should be paid to the following:

1. Obligations of the seller and the buyer
2. Time and place of delivery
3. Division of risks and costs
4. Provision of documents

Section 2 Incoterms 2010

Obligations of the seller and the buyer

Seller's obligation:

1. General obligations
2. Licences, authorizations, security clearances and other formalities
3. Contracts of carriage and insurance
4. Delivery
5. Transfer of risks
6. Allocation of costs
7. Notice to the buyer
8. Delivery document
9. Checking-packaging-marking
10. Assistance with information and related costs

Section 2 Incoterms 2010

Obligations of the seller and the buyer

Buyer's obligation:

1. General obligations
2. Licences, authorizations, security clearances and other formalities
3. Contracts of carriage and insurance
4. Taking delivery
5. Transfer of risks
6. Allocation of costs
7. Notice to the seller
8. Proof of delivery
9. Inspection of goods
10. Assistance with information and related costs



Thank You !