

# SIGNIFICANCE OF INCO TERMS IN SUPPLY CHAIN MANAGEMENT FOR REDUCTION OF PROCUREMENT COST

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**Abstract** - This paper is prepared & submitted with an intention to explain the importance of INCO terms 2010 and also play significance role in reduction/optimization of procurement cost for procurement of various materials such capital expenditure items, consumables ( lube oil, HF HSD, HSD, Chemicals, Liquid nitrogen, gases, calibration gases, PPE items etc ), spares (mechanical, electrical, instrumentation), project items ( static & rotary). Further, this paper shall provide details about buyer & seller obligations for import & export of materials and also cost analysis charts for easy understanding of buyer & seller obligation of risk, cost, document submission, custom clearance, loading & unloading, cargo readiness notices, transport document and inspection of goods under various INCO Terms 2010.

**Keywords** - INCO (International Commercial Terms)

## I. INTRODUCTION

- 1.1 INCO terms are a set of uniform rules codifying the interpretation of trade terms defining the rights and obligations of both buyer and seller in an international transaction. INCOTERMS are drafted by the international Chamber of Commerce (ICC).
- 1.2 INCOTERMS 2010 is adopted in major trading countries. Eleven INCO Terms enable the business person to select the most suitable terms for company needs.
- 1.3 INCOTERMS are designed to arrange for the transfer of risk from seller to buyer at an convenient place.
- 1.4 INCO TERMS define obligations of buyer & seller such as
  1. Transportation from factory to place of delivery
  2. Insurance form factory to place of delivery
  3. Export license & other export authorization (if required)
  4. Security clearance payable to carrier at origin
  5. Security clearance at destination
  6. Information required for insurance e.g. carrier details, vessel age & registration certificate payable to carrier
  7. Loading of cargo on trailer or rail wagon at seller premises
  8. Discharge of cargo from seller's means of transport at place of delivery
  9. Loading of goods mean of transport (main carriage)
  10. Pre-shipment checking i.e. quality, weighing, measuring, counting etc
  11. Documents e.g certificate of origin, packing list, legalization of documents etc required by buyer for import clearance.
  12. Pre-shipment inspection as per buyer's requirement ( as per contract/PO)

13. Pre-shipment inspection (mandatory at country of origin)
14. Pre-shipment of inspection (mandatory as law of importing country)
15. Export license ( if required), customs clearance (export) and export duty if any.
16. Miscellaneous cots e.g. Octroi , local taxes, excise duty, VAT, CST etc at origin.
17. Transport documents fee ( B/L, MTC, AWB fee) payable to carrier for obtaining transport documents
18. Import license, custom clearance (import) and import duty if any
19. Miscellaneous cots e.g. Octroi , local taxes, excise duty, VAT, CST etc at destination.
20. CFS charges if any at final destination.
- 1.5 In order to ensure proper selection of INCO terms, buyers and sellers are expected to look beyond INCO TERMS 2010 publication i.e.
  - What type of transport document (B/L, MTD, and AWB) will be ideal for the transaction.
  - What type of logistics service provider one must use
  - Which will be the "named place" for each of the INCOTERMS
  - How and when the payment and banking transaction will take place
  - Buyer and seller must have good knowledge of import/export procedure and operations.

## II. INTERNATIONAL COMMERCIAL TERMS (INCO) TERMS

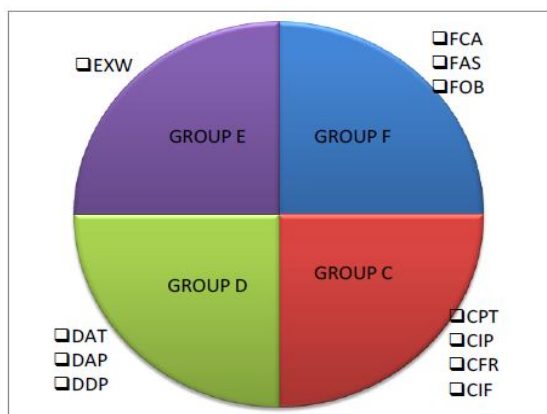
2.1 What are INCOTERMS 2010 :- INCO Terms are classified based on nature of shipment in to four group namely E , F ,C & D and are as under

TYPE OF GROUP	REPRESENTATION
GROUP E	DEPARTURE
GROUP F	MAIN CARRIAGE UNPAID
GROUP C	MAIN CARRIAGE PAID
GROUP D	ARRIVAL

### 2.3 Difference between INCO Terms 2000 & 2010

S.NO	GROUP	INCO TERMS-2000	INCOTERMS-2010
1	E	EXW	EXW
2	F	FCA	FCA
3		FAS	FAS
4		FOB	FOB
5	C	CPT	CPT
6		CIP	CIP
7		CFR	CFR
8		CIF	CIF
9		DDP	DDP
10	D	DAF	DAP
11		DES	DAT

### 2.2 Details of detailed INCO TERMS in pictorial representation is as under :-



Yellow colour indicates in the above table is deleted and green colour indicates in the above table is added.

### 2.4 Frequently used terms in INCO Terms 2010 are as under:-

2.5 Place of Delivery: - Place where risk of loss of cargo or damage to cargo passes from seller to buyer.

2.6 Transport Documents :-

2.6.1 Bill of Lading (B/L)

2.6.2 Multimodal Transport Document (MTD) or Combined Transport Document(CTD)

2.6.3 Railway Receipt (R/R)

2.6.4 Truck or Lorry receipt (L/R)

2.6.5 Air Waybill (AWB)

2.6.6 Forwarder's Cargo Receipt (FCR)

2.6.7 Sea Waybill (SWB) etc.

### 2.7 Risk & Cost under various INCO Terms 2010



**2.8 EXW (EX WORKS)**

EXW (insert named place of delivery) Inco terms 2010 (This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

**Word of Caution:**

- ✓ Ex Works is suitable for domestic trade.
- ✓ For international trade, FCA is more appropriate.
- ✓ The buyer needs to arrange customs clearance hence not in position to customs clear goods at country of origin. It is advised not to use EXW. Under these circumstances FCA will be more suitable.
- ✓ The seller's obligation is least in EXW.

**Place Where the Risk Passes from Seller to****Buyer:**

- ✓ Risk passes at the seller's premises
- ✓ "Ex Works" means that the seller delivers goods at the seller's premises.

**Freight (Main Carriage) & Insurance:**

- ✓ The buyer is responsible to arrange insurance and carriage from seller's premises.

**Loading & Unloading:**

- ✓ The sellers need not load the goods on means of transport e.g. truck, trailer or rail wagon. If the seller does load the goods it is done at the buyer's risk and expense.

**Customs Clearance:****Export**

- ✓ The seller need not customs clear the goods for export.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must keep the goods ready for delivery on the agreed date or during the agreed period.
- ✓ The seller must give the buyer a notice of cargo readiness to enable the buyer to take delivery of goods.
- ✓ The buyer must give required notice to seller about the date and time of pickup.
- ✓ The buyer must reimburse the seller additional costs incurred if buyer fails to nominate carrier or carrier fails to accept goods for transportation or the carrier fails to give sufficient notice to the seller.

**Information & Documents Required**

**For Import Clearance:** The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin.

**Transport Document (MTD/CTD, LR,****RR):**

- ✓ Buyer or carrier nominated by buyer must give proof of delivery to seller e.g. RR, LR or MTD/CTD upon taking delivery.

- ✓ Seller is not required to pay any charges for this document.
- ✓ Charges if any will be on account of buyer e.g. B/L or transport documentation fee payable to carrier

**Inspection of Goods**

- ✓ The buyer must pay for pre-shipment inspection

**2.9 FCA (FREE CARRIER)**

FCA (insert named place of delivery) Inco terms 2010 (This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

**Word of Caution:**

- ✓ In this term, as the freight is paid by buyer. Many people use wrong incoterm.  
Example:
  - "FOB New Delhi ICD" or "FOB Pune ICD" is wrong usage
  - "FCA New Delhi ICD" or "FCA Pune ICD" is more appropriate
- ✓ FOB must be used only when ocean transport is involved
- ✓ FCA can be applied in two situations.

**Place where the Risk Passes from Seller to Buyer:****Situation 1**

The seller delivers the goods to the carrier nominated by the buyer at the seller's premises. (Or)

**Situation 2**

The seller delivers the goods to the carrier nominated by the buyer at a named place e.g. air cargo terminal, rail and road terminal.

**Freight (Main Carriage) & Insurance:****Situation 1**

The buyer is responsible to arrange carriage (pay freight) and insurance from seller's premises.

**Situation 2**

The buyer is responsible to arrange carriage (pay freight) and insurance from air cargo terminal, rail and road terminal. The buyer must notify seller the name and contact details of nominated carrier and place where cargo must be delivered.

**Loading & Unloading:****Situation 1**

Named Place- the seller's premises.

The seller must load the goods on the means of transport e.g. truck, trailer, container, rail wagon provided by the buyer.

**Situation 2**

Named Placed –other than the seller's premises e.g. air cargo terminal, rail and road terminal.

The seller must place the vehicle at named air cargo terminal, rail and road terminal. Nominated carrier or terminal operator must discharge goods from the arriving truck, trailer, rail wagon on account of buyer.

**Customs Clearance:****Export**

- ✓ The seller must clear the goods for export.

- ✓ Seller must obtain export license if required and pay export duty if any.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

**Situation 1**

The seller must keep the goods ready for delivery on the agreed date or during the agreed period and give notice of cargo readiness to buyer.

**Situation 2**

- ✓ The seller must give the buyer a notice when goods are delivered to carrier at air cargo terminal, rail and road terminal.
- ✓ The buyer must notify seller name and contact details of nominated carrier and place where cargo must be delivered.
- ✓ The buyer must reimburse the seller additional costs incurred, if buyer fails to nominate carrier or carrier fails to accept goods for transportation.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer's request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, packing list, legalization of document etc.

**Transport Document (MTD/CTD.LR, RR):**

The seller must provide assistance to the buyer in obtaining transport document e.g. MTD/CTD, AWD, rail or road receipt, at the buyer's request, risk and expenses.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at destination country.

**2.10 CPT (CARRIAGE PAID TO)**

CPT (insert named place of delivery) Incoterms 2010(This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

**Word of Caution:**

- ✓ When CPT is used, the seller pays the freight till final destination however the risk passes from seller to buyer when goods are handed over to first carrier at country of origin and not when the goods reach the place of destination
- ✓ CPT- as the freight is paid by seller many people use wrong Incoterm.

Example: "C&F New Delhi" or CFR New Delhi" is wrong usage.

- ✓ First of all C&F is not used anymore and CFR is used only for port to port shipment.
- ✓ New Delhi is not a sea port therefore "CPT New Delhi" will be more appropriate.

**Place Where the Risk Passes from Seller to Buyer:**

When CPT is used, the seller pays the freight till final destination however the risk passes from seller to buyer when goods are handed over to first carrier at country of origin and not when the goods reach the place of destination. In view of this buyer must specify the place where goods must be handed over to first carrier and place of delivery.

**Example :**

If seller is located in remote place and if seller delivers goods to first carrier at this place, risk will be transferred at the same place. If this is not acceptable to buyer, the buyer must specify the place in contract/PO.

**Freight (Main Carriage) & Insurance:**

The seller must pay the freight till final destination and the buyer must arrange insurance. However the seller must provide the buyer, at the buyer's request, risk and expense (if any), with information that the buyer needs for obtaining insurance e.g. date of MTC/CTD, name of carrier, registration certificate, classification certificate etc.

**Loading & Unloading:**

The freight and all other costs in the seller's account under the contract of carriage (B/L, MTD, AWB terms) will be paid by seller.

**Customs Clearance:**

**Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must ship the goods on the agreed date or during the agreed period.
- ✓ The seller must advise the buyer when goods are shipped and expected time of arrival at destination to enable the buyer to take delivery of goods.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer's request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, packing list, legalization of documents etc.

**Transport Document (MTD/CTD,LR, RR):**

- ✓ The seller must provide transport document e.g. MTD/CTD,AWD, rail or road receipt to the buyer at seller's expenses.
- ✓ This transport documents must cover the goods mentioned in contract.
- ✓ MTD/CTD if requested by buyer must be "negotiable documents" to enable the buyer to sell the goods in transit by endorsing the documents to a subsequent buyer.
- ✓ Full set of negotiable transport documents be presented to buyer or the bank as the case may be.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at destination country.

**2.11 CIP (CARRIAGE AND INSURANCE PAID TO)**

CIP (insert named place of delivery) Inco terms 2010 (This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

**Word of Caution:**

- ✓ When CIP is used, the seller pays the freight and insurance till final destination however the risk passes from seller to buyer when goods are handed over to first carrier at country of origin and not when the goods reach the place of destination.
- ✓ Seller must buy insurance cover where buyer is beneficiary.
- ✓ CIP- as the freight and insurance is paid by seller many people use wrong Incoterm.  
Example:  
"CIF New Delhi" is wrong usage as CIF is used only for port to port shipment.
- ✓ New Delhi is not a sea port therefore "CIP New Delhi" will be more appropriate.

**Place where the Risk Passes from Seller to Buyer:**

- ✓ When CIP is used, the seller pays the freight and insurance till final destination however the risk passes from seller to buyer when goods are handed over to first carrier at country of origin and not when the goods reach the place of destination. In view of this buyer must specify the place where goods must be handed over to first carrier and place of delivery.

**Example:**

If seller is located in remote place and if seller delivers goods to first carrier at this place, risk will be transferred at the same place. If this is not acceptable to buyer, the buyer must specify the place in contract/PO.

**Freight (Main Carriage) & Insurance:**

- ✓ The seller must pay the freight and insurance till final destination.
- ✓ The seller must pay insurance however the risk passes from seller to buyer when goods are handed over to first carrier at country of origin. In view of this the beneficiary of insurance cover must be consignee.
- ✓ Under CIP the seller is required to obtain insurance only on minimum cover as provided by Clauses (C) of the Institute Cargo Clauses. However if the buyer wish to have more insurance protection, buyer must reimburse seller the additional cost or the buyer must make its own extra insurance arrangements.
- ✓ The insurance must cover the price provided in the contract plus 10% (i.e. 110%).
- ✓ The insurance must be in the currency of the contract e.g. if contract of sale is in USD, the insurance must be in USD and not in some other currency.
- ✓ The seller must provide the insurance policy to buyer.

**Loading & Unloading:**

The freight and all other costs in the seller's account under the contract of carriage (B/L, MTD, and AWB terms) will be paid by seller.

**Customs Clearance:****Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must ship the goods on the agreed date or during the agreed period.
- ✓ The seller must advise the buyer when goods are shipped and expected time of arrival at destination to enable the buyer to take delivery of goods.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer's request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, packing list, legalization of documents etc.

**Transport Document (MTD/CTD,LR, RR):**

- ✓ The seller must provide transport document e.g. MTD/CTD, AWD, rail or road receipt to the buyer at seller's expenses.
- ✓ This transport documents must cover the goods mentioned in contract/P.O.

- ✓ MTD/CTD if requested by buyer must be “negotiable documents “to enable the buyer to sell the goods in transit by endorsing the documents to a subsequent buyer.
- ✓ Full set of negotiable transport documents be presented to buyer or the bank as the case may be.

#### **Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin
- ✓ The buyer must pay for pre-shipment inspection if it is

#### **2.12 DAT (DELIVERED AT TERMINAL)**

**DAT** (insert named place of delivery) Inco terms 2010 (This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

**Word of Caution:** This is the new Inco term.

**Place Where the Risk Passes From Seller to Buyer:**

“Terminal “includes any place e.g. open storage place, berth or quay, warehouse inside the port, container yard, air cargo terminal, rail & road transporter’s cargo terminal.

- ✓ “Delivered at Terminal “means that the seller delivers when the goods are unloaded from the arrival means of transport and are placed at the disposal of buyer at terminal.
- ✓ If the buyer wants the seller to bear the risk and costs involved in transporting and handling the goods up to another place like buyer’s distribution center or buyer’s own warehouse, then the DAP rules should be used.

#### **Freight (Main Carriage) & Insurance:**

- ✓ The seller must pay the freight and insurance till final destination.
- ✓ Under DAT, seller’s risk passes to buyer at destination hence it is advisable that seller buys insurance to protect its own interest.

#### **Loading & unloading:**

- ✓ The seller must pay cost of loading at origin and cost of discharge from arriving means of transport at destination.

#### **Customs Clearance:**

##### **Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.
- ✓ Seller must obtain export clearance if required when goods are transported through another country before arrival at final destination. E.g. goods being transported from Canada to Mexico by road or by rail will be transported via U.S.A. if any customs formalities are involved at U.S.A border, seller must pay for such clearances.

##### **Import**

- ✓ The buyer must clear import consignment.

#### **Cargo Readiness & Notice:**

The seller must advise the buyer when goods are shipped and expected time of arrival at destination to enable the buyer to take delivery of goods.

#### **Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer’s request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, packing list, legalization of document etc.

#### **Transport Document (MTD/CTD,LR, RR):**

- ✓ The seller must provide transport document e.g. MTD/CTD, AWD, rail or road receipt to the buyer at seller’s expenses.

#### **INSPECTION OF GOODS**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at destination country.

#### **2.13 DAP (DELIVERED AT PLACE)**

**DAP** (insert named place of delivery) Inco terms 2010 (This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

#### **Word of Caution:**

This term might remind you of DDU-Incoterms 2000, DDU is withdrawn from Incoterms 2010. However there is no need to compare DAP with DDU.

#### **Place Where the Risk Passes from Seller to Buyer:**

- ✓ “Delivered at Place “means that the seller delivers the goods at the buyer’s warehouse or buyer’s distribution centers where buyer must discharge goods from arriving means of transport e.g. truck, trailer or rail wagon.
- ✓ If the buyer wants the seller to pay import duty and carry out import customs formalities, the DDP term should be used.

#### **FREIGHT (MAIN CARRIAGE) & INSURANCE:**

- ✓ The seller must pay the freight and insurance till final destination.
- ✓ Under DAP, seller’s risk passes to buyer at destination hence it is advisable that seller buys insurance to protect its own interest.

#### **LOADING & UNLOADING:**

- ✓ The seller must pay cost of loading at origin
- ✓ The buyer must pay cost of discharge from arriving means of transport at destination.

#### **Customs Clearance:**

##### **Export**

- ✓ The seller must clear the goods for export.

- ✓ Seller must obtain export licence if required and pay export duty if any.
- ✓ Seller must obtain export clearance if required when goods are transported through another country before arrival at final destination. E.g. goods being transported from Canada to Mexico by road or by rail will be transported via U.S.A. if any customs formalities are involved at U.S.A border, seller must pay for such clearances.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must advise the buyer when goods are shipped and expected time of arrival at destination to enable the buyer to take delivery of goods.
- ✓ The buyer must reimburse the seller additional costs incurred buyer fails to arrange customs clearance or delays taking delivery of goods at named place.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer's request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, packing list, legalization of document etc.

**Transport Document (MTD/CTD, LR, RR):**

- ✓ The seller must provide transport document e.g. MTD/CTD, AWD, rail or road receipt to the buyer at seller's expenses.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at destination country.

**2.14 DDP (DELIVERED DUTY PAID)**

DDP (insert named place of delivery) Incoterms 2010 (This rule must be used for road, rail or air as a single mode of transport or road, rail, air and sea as multimodal transport)

**Word of Caution:**

- ✓ The seller must not accept DDP if the seller is unable directly or indirectly to obtain import clearance. In such case the DAP rule should be used.
- ✓ DDP: maximum obligation for the seller.

**Place Where the Risk Passes from Seller to Buyer:**

- ✓ "Delivered Duty Paid" means that the seller delivers the goods at the buyer's warehouse or

buyer's distribution centers where buyer must discharge goods from arriving means of transport e.g. truck, trailer or rail wagon.

- ✓ The seller must pay import duty and carry out import customs formalities.

**Freight (Main Carriage) & Insurance:**

- ✓ The seller must pay the freight and insurance till final destination.
- ✓ Under DDP, seller's risk passes to buyer at destination hence it is advisable that seller buys insurance to protect its own interest.

**Loading & Unloading:**

- ✓ The seller must pay cost of loading at origin
- ✓ The buyer must pay cost of discharge from arriving means of transport at destination.

**Customs Clearance:**

**Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.
- ✓ Seller must obtain export clearance if required when goods are transported through another country before arrival at final destination. E.g. goods being transported from Canada to Mexico by road or by rail will be transported via U.S.A. if any customs formalities are involved at U.S.A border, seller must pay for such clearances.

**Import**

- ✓ The seller must clear import consignment and pay import duty if any.

**Cargo Readiness & Notice:**

- ✓ The seller must advise the buyer when goods are shipped and expected time of arrival at destination to enable the buyer to take delivery of goods.
- ✓ The buyer must reimburse the seller additional costs incurred on account of delays in taking delivery of goods at named place.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer's request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.

**Transport Document (MTD/CTD, LR, RR):**

- ✓ The seller must provide transport document e.g. MTD/CTD, rail or road receipt to the buyer at seller's expenses.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin and at destination country.

**2.15 FAS (FREE ALONGSIDE SHIP )**

FAS (insert named place of delivery) Inco terms 2010 (This rule must be used only for inland waterways or sea transport as a single mode of transport)

**Word of Caution:**

- ✓ This rule is not suitable for containerized cargo because the seller hands over the container to the carrier at a terminal and not alongside the vessel.
- ✓ Bulk, break bulk, project cargo or heavy lift cargo can be handed over to carrier alongside ship by barge or by trucks/railway wagons. Hence the FAS rule would be appropriate for bulk, break bulk, project cargo or heavy lift cargo.

**Place where the Risk Passes from Seller to Buyer:**

- ✓ "Free Alongside Ship" means that the seller delivers the goods alongside the vessel e.g., on a quay or berth. Often this is called "UNDER THE SHIP'S HOOK".
- ✓ The risk of loss or damage to the goods passes when the goods are delivered alongside the ship.
- ✓ The buyer bears all costs from that moment onwards e.g. cost of loading.
- ✓ At many ports goods are transported to open/closed storage area in the port prior to ship's arrival to complete customs formalities and to ensure speedy supply of cargo to ship. Under these circumstances the seller must pay for additional cost of storage and transportation. However, there no specific mention of this issue in official publication of Incoterm.
- ✓ The buyer and seller are well advised to specify as clearly as possible the loading point at the named port of shipment.

**Freight (Main Carriage) & Insurance:**

- ✓ The buyer is responsible to arrange carriage (pay freight) or charter vessel and the buyer must arrange insurance. Seller must insure cargo till the time goods are delivered alongside the vessel.

**Loading & Unloading:**

- ✓ The buyer must pay for loading and unloading of ship

**Customs Clearance:**

**Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must keep the goods ready for delivery on the agreed date or during the agreed period and give notice of cargo readiness to buyer.
- ✓ The buyer must notify seller the name and contact details of nominated carrier, name of vessel, loading point etc. Often Captain of ship is instructed to give arrival notice to the seller. When vessel is chartered by buyer, necessary clause about notice to the seller is added in charterparty.

- ✓ The seller must give the buyer a notice when goods are delivered to carrier.
- ✓ If buyer fails to give required notice to the seller about arrival of vessel the buyer must pay any additional costs incurred by seller.
- ✓ If the vessel nominated by the buyer arrives late or is unable to take the goods (quantity as indicated in contract of sale/P.O) or stops accepting cargo earlier than the time notified the buyer must pay any additional costs incurred by seller.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer's request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, legalization of documents etc.

**Transport Document (MTD/CTD, LR, RR):**

- ✓ Seller must present docks or port receipt (at seller's expense) as proof of delivery of goods alongside ship. However the seller must provide assistance o the buyer in obtaining transport document at the buyer's request, risk and expense.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin.
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at country of destination.

**2.16 FOB (FREE ON BOARD)**

FOB (insert named place of delivery) Incoterms 2010 (This rule must be used only for inland waterways or sea transport as a single mode of transport)

**Word of Caution:**

- ✓ This rule is not suitable for containerized cargo because the seller hands over the container to the carrier at a terminal and not alongside the vessel. Hence FCA rule would be appropriate for containerizes cargo.
- ✓ Bulk, break bulk, project cargo or heavy lift cargo can be handed over to carrier on board the ship. Hence the FOB rule would be appropriate for bulk, break bulk, project cargo or heavy lift cargo.

**Place where the Risk Passes from Seller to Buyer:**

- ✓ Risk passes when the seller delivers the goods on board the vessel nominated by the buyer or chartered by the buyer at a named place.



- ✓ The buyer and seller are well advised to specify as clearly as possible the port of shipment and place of loading i.e. berth.
- ✓ “String Sale” is very common in commodity trade. This term facilitates such transaction. The seller is required either to deliver the goods on board the ship or procure goods already delivered on board the vessel for shipment.

**Freight (Main Carriage) & Insurance:**

- ✓ The buyer is responsible to arrange carriage (pay freight) or charter vessel and the buyer must arrange insurance. Seller must insure cargo till the time goods are loaded on board the vessel.

**Loading & Unloading:**

- ✓ The seller must pay for loading
- ✓ The buyer must pay for unloading of ship

**Customs Clearance:**

**Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must keep the goods ready for delivery on the agreed date or during the agreed period and give notice of cargo readiness to buyer.
- ✓ The buyer must notify seller the name and contact details of nominated carrier, name of vessel, loading point etc. Often Captain of ship is instructed to give arrival notice to the seller. When vessel is chartered by buyer, necessary clause about notice to the seller is added in charterparty.
- ✓ The seller must give the buyer a notice when goods are delivered to carrier.
- ✓ If buyer fails to give required notice to the seller about arrival of vessel the buyer must pay any additional costs incurred by seller.
- ✓ If the vessel nominated by the buyer arrives late or is unable to take the goods (quantity as indicated in the contract of sale) or stops accepting cargo earlier than the time notified the buyer must pay any additional costs incurred by seller.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer’s request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g.

certificate of origin, legalization of documents etc.

**Transport Document (MTD/CTD, LR, RR):**

- ✓ Seller can present Mates Receipt as proof of delivery of goods on board the vessel. However the seller must provide assistance to the buyer in obtaining transport documents e.g. Ocean bill of lading at the buyer’s request, risk and expense.
- ✓ This transport documents must cover the goods mentioned in contract.
- ✓ If the buyer has requested for “Negotiable Ocean Bill of Lading”, a full set of negotiable transport documents must be presented to buyer or the bank as the case may be.
- ✓ “Negotiable Ocean Bill of Lading” enables the buyer to sell the goods in transit by endorsing the documents to a subsequent buyer.

**INSPECTION OF GOODS**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin.
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at country of destination.

**2.17 CFR (COST AND FREIGHT)**

CFR (insert named place of delivery) Incoterms 2010 (This rule must be used only for inland waterways or sea transport as a single mode of transport)

**Word of Caution:**

- ✓ Many people call this term as C&F which is outdated term. Instead of C&F one must use CFR.
- ✓ When CFR is use, the seller pays the freight till final destination however the risk passes from seller to buyer when goods are “Shipped on Board” and not when the goods reach at destination.
- ✓ This rule is not suitable for containerized cargo because the seller hands over the container to the carrier at a terminal and not alongside the vessel. Hence CPT rule would be appropriate for containerized cargo.
- ✓ Bulk, break bulk, project cargo or heavy lift cargo can be handed over to carrier on board the ship hence the CFR rule would be appropriate for bulk, break bulk, project cargo or heavy lift cargo.

**Place where the Risk Passes from**

**Seller to Buyer:**

- ✓ Risk passes when the seller delivers the goods on board the vessel selected by the seller or when vessel is chartered by the seller.
- ✓ When CFR is used, the seller pays the freight till final destination however the risk passes from seller to buyer when goods are “Shipped on Board” and not when the goods reach at destination.

- ✓ The buyer and seller are well advised to specify as clearly as possible the port of shipment and place of loading i.e. berth.
- ✓ “String Sale” is very common in commodity trade. This term facilitates such transaction. The seller is required either to deliver the goods on board the ship or procure goods already delivered on board the vessel for shipment.

**Freight (Main Carriage) & Insurance:**

- ✓ The seller is responsible to arrange carriage (pay freight) or charter vessel and the buyer must arrange insurance.
- ✓ However the seller must provide the buyer, at the buyer’s request, risk and expense (if any), with information that the buyer needs for obtaining insurance e.g. date of Bill of Lading, name of ship, registration certificate, classification certificate etc.
- ✓ The seller must insure cargo till the time goods are loaded on board the vessel.

**Loading & Unloading:**

- ✓ The seller must pay for loading and buyer must pay for unloading of ship.
- ✓ The buyer must pay the unloading costs including lighterage and wharfage charges.

**Customs Clearance:**

**Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.

**Import**

- ✓ The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must keep the goods ready for delivery on the agreed date or during the agreed period and give notice of cargo readiness to buyer.
- ✓ The seller must select carrier or charter vessel and notify the buyer about probable date of shipment.
- ✓ The seller must give shipment information when goods are loaded on vessel. Shipment information must consist of name of vessel, sailing date, quantity loaded and expected time of arrival of vessel at destination.
- ✓ Often Captain of ship is instructed to give arrival notice to the seller. When vessel is chartered by seller, necessary clause about notice to the buyer is added in charterparty.
- ✓ The seller must give the buyer a notice when goods are delivered to carrier.
- ✓ If the buyer is unable to take delivery of the goods in specified time frame the buyer must pay any additional costs incurred by seller.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer’s request any information that is required for the security clearance of the goods e.g. importer

security filing destination. Buyer must pay seller for the required information.

- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, legalization of documents etc.

**Transport Document (MTD/CTD, LR, RR):**

- ✓ The seller must at its own expense provide Ocean Bill of Lading.
- ✓ Bill of Lading must cover the goods mentioned in contract. Date of Bill of Lading must be within the period agreed for shipment.
- ✓ In order to enable the buyer to claim the goods from the carrier at the port of destination or enable the buyer to sell the goods in transit” Negotiable Bill of Lading” if requested by buyer must be obtained by seller.
- ✓ When negotiable Bill of Lading is obtained in several originals, a full set of originals must be presented to the buyer or the banker as instructed by buyer.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin.
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at country of destination.

**2.18 CIF (COST INSURANCE AND FREIGHT)**

CIF (insert named place of delivery) Incoterms 2010 (This rule must be used only for inland waterways or sea transport as a single mode of transport)

**Word of Caution:**

- ✓ This rule is not suitable for containerized cargo because the seller hands over the container to the carrier at a terminal and not alongside the vessel. Hence CIP rule would be appropriate for containerized cargo.
- ✓ Bulk, break bulk, project cargo or heavy lift cargo can be handed over to on board the ship hence CIF rule would be appropriate for bulk, break bulk, project cargo or heavy lift cargo.
- ✓ When CIF is use, the seller pays the freight till final destination however the risk passes from seller to buyer when goods are “Shipped on Board” and not when the goods reach at destination.
- ✓ Seller must buy insurance cover where buyer is beneficiary.

**Place where the Risk Passes from Seller to Buyer:**

- ✓ Risk passes when the seller delivers the goods on board the vessel selected by the seller or when vessel is chartered by the seller.
- ✓ When CIF is used, the seller pays the freight till final destination however the risk passes from seller to buyer when goods are “Shipped

on Board” and not when the goods reach at destination.

- ✓ The buyer and seller are well advised to specify as clearly as possible the port of shipment and place of loading i.e. berth.
- ✓ “String Sale” is very common in commodity trade. This term facilitates such transaction. The seller is required either to deliver the goods on board the ship or procure goods already delivered on board the vessel for shipment.

**Freight (Main Carriage) & Insurance:**

- ✓ The seller is responsible to arrange carriage (pay freight) or charter vessel and arrange insurance.
- ✓ The seller must pay insurance however the risk passes from seller to buyer when goods are shipped on board. In view of this the beneficiary of insurance cover must be consignee.
- ✓ Under CIF the seller is required to obtain insurance only on minimum cover as provided by Clauses (C) of the Institute Cargo Clauses. However if the buyer wish to have more insurance protection, buyer must reimburse seller the additional cost or the buyer must make its own extra insurance arrangements.
- ✓ The insurance must cover the price provided in the contract/ P.O plus 10% (i.e. 110%).
- ✓ The insurance must be in the currency of the contract e.g. if contract of sale is in USD, the insurance must be in USD and not in some other currency.
- ✓ The seller must provide the insurance policy to buyer.

**Loading & Unloading:**

- ✓ The seller must pay for loading.
- ✓ The buyer must pay for unloading of ship. The buyer must pay the unloading costs including lighterage and wharfage charges.

**Customs Clearance:**

**Export**

- ✓ The seller must clear the goods for export.
- ✓ Seller must obtain export licence if required and pay export duty if any.

**Import**

The buyer must clear import consignment.

**Cargo Readiness & Notice:**

- ✓ The seller must keep the goods ready for delivery on the agreed date or during the agreed period and give notice of cargo readiness to buyer.
- ✓ The seller must select carrier or charter vessel and notify the buyer about probable date of shipment.
- ✓ The seller must give shipment information when goods are loaded on vessel. Shipment information must consist of name of vessel,

sailing date, quantity loaded and expected time of arrival of vessel at destination.

- ✓ Often Captain of ship is instructed to give arrival notice to the buyer. When vessel is chartered by seller, necessary clause about notice to the buyer is added in charterparty.
- ✓ If the buyer is unable to take delivery of the goods in specified time frame the buyer must pay any additional costs incurred by seller.

**Information & Documents Required for Import Clearance:**

- ✓ The seller must provide, at the buyer’s request any information that is required for the security clearance of the goods e.g. importer security filing destination. Buyer must pay seller for the required information.
- ✓ The buyer must reimburse the seller for all costs and charges incurred by the seller in obtaining/providing documents and information required for import clearance e.g. certificate of origin, legalization of documents etc.

**Transport Document (MTD/CTD, LR, RR):**

- ✓ The seller must at its own expense provide Ocean Bill of Lading.
- ✓ Bill of Lading must cover the goods mentioned in contract. Date of Bill of Lading must be within the period agreed for shipment.
- ✓ In order to enable the buyer to claim the goods from the carrier at the port of destination or enable the buyer to sell the goods in transit” Negotiable Bill of Lading” if requested by buyer must be obtained by seller.
- ✓ When negotiable Bill of Lading is obtained in several originals, a full set of originals must be presented to the buyer or the banker as instructed by buyer.

**Inspection of Goods**

- ✓ The seller must pay for pre-shipment inspection if it is mandatory at country of origin.
- ✓ The buyer must pay for pre-shipment inspection if it is mandatory at country of destination.

**III. RECOMMENDED USAGE OF INCO TERMS 2010 BY MODES OF TRANSPORT AS FOLLOWS**

- ✓ EXW,FCA,CPT,CIP,DAT,DAP,DDP : Rail, Road, Air as a signal mode of transport or Rail, Road, Air and Water as multimodal transport (combined transport)
- ✓ FAS,FOB,CFR,CIF : Inland waterways or sea transport only. (Port to Port)
- ✓ FCA,CPT,CIP and DAT : can be used for air port to air port service.

**COST ANALYSIS CHART**

<b>COST ANALYSIS CHART 1</b>									
<b>Following Inco terms are ideal for containerized shipments, air, rail, road or combined transport shipments</b>									
<b>S.No</b>	<b>Cost</b>	<b>EXW</b>	<b>FCA-1</b>	<b>FCA-2</b>	<b>CP T</b>	<b>CI P</b>	<b>DA T</b>	<b>DA P</b>	<b>DD P</b>
1	Transportation from factory to place of delivery	NA	NA	S	S	S	S	S	S
2	Insurance from factory to place of delivery	NA	NA	S	S	S	S	S	S
3	Export licence & other export authorization (if required)	B	S	S	S	S	S	S	S
4	Security clearance payable to carrier at origin	*B	S!	S!	S!	S!	S!	S!	S!
5	Security Clearance : Importer Security Filing at destination	B	B	B	B	B	B	B	B
6	Information required for insurance e.g. carrier details, vessel age & registration certificate payable to carrier.	*B	*B	*B	*B	S	S	S	S
7	Loading of cargo on trailer or rail wagon at seller's premises.	B	S	S	S	S	S	S	S
8	Discharge of cargo from seller's means of transport at place of delivery.	NA	NA	B	S	S	S	S	S
9	Loading of goods on means of transport (main carriage)	B	B	B	S	S	S	S	S
10	Pre-shipment checking i.e. quality, weighing, Measuring, counting.	S	S	S	S	S	S	S	S
11	Documents e.g. Certificate of origin, packing list, Legalization of documents etc. required by buyer for import clearance.	*B	*B	*B	*B	*B	*B	*B	*s
12	Pre-shipment inspection as per buyer's requirement ( as per contract/PO).	B!	B!	B!	B!	B!	B!	B!	B!
13	Pre-shipment inspection (mandatory at country of origin).	*B	S	S	S	S	S	S	S
14	Pre-shipment inspection (mandatory as law of importing country).	*B	*B	*B	*B	*B	*B	*B	S
15	Export licence (if required)	B	S	S	S	S	S	S	S
16	Customs clearance (Export)	B	S	S	S	S	S	S	S
17	Export duty if any	B	S	S	S	S	S	S	S
18	Miscellaneous cost e.g. Octroi, local taxes, "gate in fee" etc at origin.	B	S	S	S	S	S	S	S
19	B/L fee (transport document fee) payable to carrier for obtaining transport document.	B	*B	*B	S	S	S	S	S
20	Import licence	B	B	B	B	B	B	B	S
21	Customs clearance (Import)	B	B	B	B	B	B	B	S
22	Import duty if any	B	B	B	B	B	B	B	S
23	Miscellaneous cost e.g. Octroi, local taxes, "gate out fee" etc at destination	B	B	B	B	B	B	B	S

24	Destination THC or Charges at airport	B	B	B	B	B	S	S	S
25	“Delivery Order” charges payable to shipping line/carrier to take physical delivery of cargo.	B	B	B	B	B	S	S	S
26	Transportation from place mentioned as final destination on “ Transport Document” to buyer’s warehouse.	B	B	B	B	B	B	NA	NA
27	Contract of carriage for main carriage.	B	B	B	S	S	S	S	S
28	Contract of insurance for main carriage.	B	B	B	B	S	S	S	S
* = If seller is providing the information or documents then the buyer must reimburse cost if any									
!= There is no mention of these expenses in official book of Inco terms 2010. Hence it is suggested that this matter must be discussed while negotiating contract.									

### COST ANALYSIS CHART 2

**Following Inco terms are Ideal for bulk, break-bulk or project cargo (heavy lift and over dimension) shipments by inland waterways or sea.**

S.No	Cost	FAS	FOB	CFR	CIF
1	Transportation from factory to port.	S	S	S	S
2	Insurance from factory to port	S	S	S	S
3	Export licence & other export authorization (if required)	S	S	S	S
4	Security clearance payable to carrier at origin	S!	S!	S!	S!
5	Security Clearance : Importer Security Filing at destination	B	B	B	B
6	Information required for insurance e.g. carrier details, vessel age & registration certificate payable to carrier.	*B	*B	*B	S
7	Loading of cargo on trailer or rail wagon at seller’s premises.	S	S	S	S
8	Discharge of cargo from seller’s means of transport at place of delivery.	S	S	S	S
9	Loading of goods on vessel	B	S	S	S
10	Pre-shipment checking i.e. quality, weighing. Measuring, counting.	S	S	S	S
11	Documents e.g. Certificate of origin, packing list, Legalization of documents etc. required by buyer for import clearance.	*B	*B	*B	*B
12	Pre-shipment inspection as per buyer’s requirement ( as per contract/PO).	B!	B!	B!	B!
13	Pre-shipment inspection (mandatory at country of origin).	S	S	S	S
14	Pre-shipment inspection (mandatory as law of importing country).	*B	*B	*B	*B
15	Export licence (if required)	S	S	S	S
16	Customs clearance (Export)	S	S	S	S
17	Export duty if any	S	S	S	S
18	Miscellaneous cost e.g. Octroi, local taxes, “gate in fee” etc at origin.	S	S	S	S
19	B/L fee (transport document fee) payable to carrier for obtaining transport document.	B	B	S	S
20	Import licence	B	B	B	B
21	Customs clearance (Import)	B	B	B	B
22	Import duty if any	B	B	B	B
23	Miscellaneous cost e.g. Octroi, local taxes, “gate out fee” etc at destination	B	B	B	B
24	Discharge from vessel	B	B	B	B

25	“Delivery Order” charges payable to shipping line/carrier to take physical delivery of cargo.	B	B	B	B
26	Transportation from place mentioned as final destination on “Transport Document” to buyer’s warehouse.	B	B	B	B
27	Contract of carriage for main carriage.	B	B	S	S
28	Contract of insurance for main carriage.	B	B	B	S
* = If seller is providing the information or documents then the buyer must reimburse cost if any					
!= There is no mention of these expenses in official book of Inco terms 2010. Hence it is suggested that this matter must be discussed while negotiating contract.					

## CONCLUSION

In current market conditions, both buyers & sellers are not having clear knowledge of various INCO Term 2010 while carrying out the material procurement due to which buyer may be paying more consideration than what it actual cost and thereby, company cash out flow are considerable on high side for procurement of any material.

In order to overcome above issue, It is very necessary to provide above explanation, charts, cost analysis table to buyer & seller and therefore, they will acquire sufficient knowledge of various INCO Term.

2010 for import & export trading for material procurement. Thereby, both buyer & seller can reduce/optimize the hidden cost involved in material procurement and finally, controls the cash out flow of company, which may be convert in to company profits. Further, buyer & seller must study the cost analysis chart provided at S.No.5 for their ready reference, whenever any issue envisaged to control the hidden cost.

## REFERENCES

Refer official publication of ICC.

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