



# Mitigating risk starts with understanding who owns the risk.

Critical terms of sale in a purchase order are often reduced to a three-letter acronym (EXW, FOB, CIP, DEQ and seven more). Confusion over these terms can result in a lost sale or a financial loss on a sale. It is important that you understand what terms you are agreeing to before you finalize a contract.



## What are Incoterms®?

# IN + CO + TERMS

International

Commercial

A set of pre-defined contract terms for determining the costs, risks and obligations of buyers and sellers in purchase transactions. They were first devised and published by the International Chamber of Commerce (ICC) in Paris in 1936, and have been periodically revised to account for changing modes of transport and document delivery.

## In English?

A clear agreement between the buyer and seller of who bears what responsibilities, costs and risks relating to the purchase, transport and delivery of goods.



## You should know...

### Incoterms...

...are not implied and must be specifically written into the contract.

...determine when the risk of loss is transferred from the seller to the buyer.

...are usually influenced by which party has more leverage in the transaction.

...do NOT protect a party from his/her own risk of loss, cover the goods before or after delivery or define the remedies for breach of contract.

...can be useful, but have limitations. Used incorrectly, they could make your contract ambiguous, if not impossible to perform. Understand their scope and purpose before you rely on them to define terms like mode of delivery, customs clearance, passage of title and transfer of risk.

...are not laws. In a dispute, courts and arbitrators will look at the sales contract, who has possession of the goods and what payment, if any, has been made.

## 3 stages of a shipment's journey



Pre-carriage				Main carriage		On-carriage			
Transport of goods from the seller's premises to the main port of shipment. Usually by truck, rail or inland waterway.				Primary transport of goods, generally for the longest part of the journey and generally from one country to another.		Transport from the port of arrival in the country of destination to the buyer's premises. Usually by truck, rail or inland waterway.			
Seller/exporter premises	Export documents formalities	Delivered at named place of Frontier/Terminal/Quay	Loading port of shipment	Onboard ship's rail	Discharging port of arrival	Delivery at named place of destination: Frontier/Terminal/Quay	Import documents formalities	Buyer/importer premises	

Incoterms, among other things, determine at which stage of the journey responsibility for the goods transfers from seller to buyer.

## Are Incoterms insurance?

**Nope.** Only two Incoterms refer to cargo insurance, which is to be arranged and paid for by the seller (CIF, CIP). For the other nine terms, the buyer and seller decide to insure for the part of the voyage for which they are "on risk." Both parties should determine if, and when, they have insurable interest in the goods, and risk mitigation best-practices should include the purchase of insurance coverage. Don't assume your trading partner bears the risk and/or has the goods insured for your benefit.



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<sup>1</sup> 90 days provided standard in CargoEdge™ policies offered through UPS Capital Insurance Agency, Inc.

SOURCE: Dictionary of International Trade, 5th edition

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