TERMS OF DELIVERY IN INTERNATIONAL TRADE

The Incoterms® rules have become an essential part of the daily language of trade. They have been incorporated in contracts for the sale of goods worldwide and provide rules and guidance to importers, exporters, lawyers, transporters, insurers and students of international trade.

RULES FOR ANY MODE OR MODES OF TRANSPORT

- EXW Ex Works

"Ex Works" means that the seller delivers when it places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e.,works, factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.

- FCA Free Carrier

"Free Carrier" means that the seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place. The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

- CPT Carriage Paid To

"Carriage Paid To" means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

- CIP Carriage And Insurance Paid To

"Carriage and Insurance Paid to" means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

'The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements."

- DAT Delivered At Terminal

"Delivered at Terminal" means that the seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. "Terminal" includes a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

- DAP Delivered At Place

“Delivered at Place” means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

- DDP Delivered Duty Paid

“Delivered Duty Paid” means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

RULES FOR SEA AND INLAND WATERWAY TRANSPORT

- FAS Free Alongside Ship

“Free Alongside Ship” means that the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.

- FOB Free On Board

“Free On Board” means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

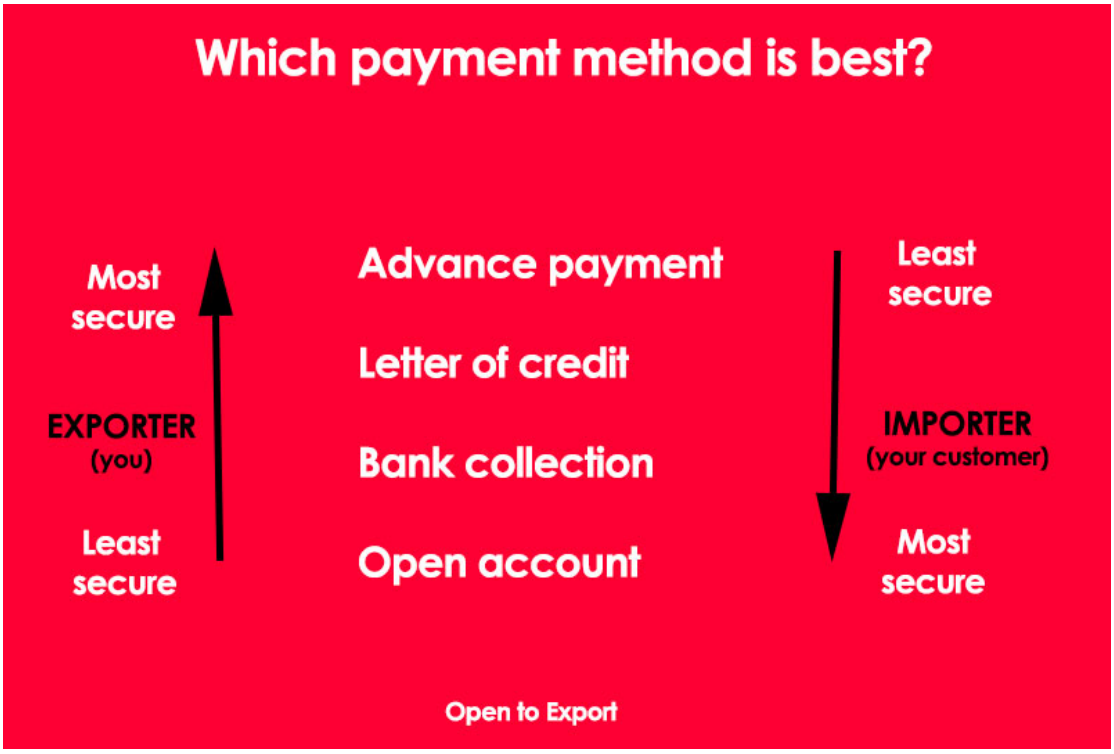
- CFR Cost and Freight

“Cost and Freight” means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

- CIF Cost, Insurance and Freight

“Cost, Insurance and Freight” means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.
‘The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.”

TERMS OF PAYMENT IN INTERNATIONAL TRADE



To select the best payment method, it can be helpful to think about it in terms of the above risk ladder. The nature of the relationship with your buyer may also determine the settlement method used.

Payment Method 1: Open account

This is probably the least secure payment method for you as the exporter. Your buyer receives the goods and then pays for them, usually with a credit period attached (30, 60 or 90 days).

This payment method extends the period before which your business receives cash –and your working capital position will be impacted further if a period of credit applies.

You might consider offering this option under the following circumstances:

- You have an established relationship with the buyer
- The buyer is a multinational business with strong buying power and strong buyer credit rating
- Smaller value exports.

Payment method 2: Bank collection

This is a more secure option than an open account, whereby, as the name suggests, your bank collects the money on your behalf. It is also known as a documentary collection.

An instruction document is forwarded by your bank to your buyer's bank for release against either Payment (Documents against Payment) or Acceptance – of a Bill of Exchange (Documents against Acceptance).

This can be a good way of "meeting in the middle" with your buyer, wherein the risk is reduced (but not eliminated) for you both.

It is also not as time consuming or costly as a letter of credit, and doesn't take up any credit facilities.

Payment method 3: Letter of credit

A letter of credit is essentially a bank's promise to another bank that you they know you and (hold your overdraft facility) will act as a guarantor for your transaction. You need both banks' party to the transaction to agree to act in this way.

Once it is agreed, in the event that your buyer is unable to make payment, the bank will cover and pay the outstanding amount, provided that certain delivery conditions have been met.

One of the important things to note from a payment method perspective is that, if ever you receive a letter of credit, ensure you give it your immediate attention and check it in detail.

Remember, it is a document that should lead to your business being paid on time. Lack of attention to detail could delay payment and cost you money.

Payment method 4: Advance payment

This is the most advantageous method for you as the exporter as, where the buyer has to pay for the goods before they receive them. Consumers essentially do this every day when purchasing online, being charged either at the time of order or when the goods dispatch.

This method is advisable in the following circumstances:

- You have a new relationship with the buyer, where there is a 'lack of trust' between buyer and seller
- The buyer does not have a strong credit rating
- You sell a unique/rare product of high value.

So, once you have selected the appropriate method of payment, allow sufficient time to get everything in place and make sure you ask questions – of your buyer, if need be, and especially of your bank, who are there to help.