

Internation Trade  
INCOTERMS



L.C. Aarón Espinosa García

# International Trade INCOTERMS

Shipper



# Cost Risk



Consignee



International Trade  
INCOTERMS

# Incoterms 2023:

If you are shipping goods, knowing your incoterms is essential to understanding who is responsible for what in your supply chain.

## International Trade INCOTERMS

# Freight Shipping

1. [What are Incoterms?](#)
2. [How Incoterms Impact Your Shipping Cost](#)
3. [Types of Incoterms](#)
4. [Incoterms for Air Freight](#)
5. [Why are Incoterms Important?](#)
6. [What Incoterms Should I Use?](#)
7. [Main Differences Specific to a Country](#)
8. [When to Challenge Advice](#)
9. [What Shipping Incoterms Don't Cover](#)
10. [Define Named Place in the Sales Contract](#)
11. [How Letters of Credit Limit Choice of Incoterm](#)
12. [Individual Incoterms](#)

## International Trade INCOTERMS

### **Freight Shipping**

#### **What are Incoterms?**

Freight incoterms (International Commercial Terms) are the standard terms used in sales contracts for importing and exporting. They are used to define responsibility and liability for goods over the course of a shipment. In other words, they spell out when responsibility for the goods transfers from the supplier to the buyer. They also define who pays which costs for the goods and their transport.

## International Trade INCOTERMS

### **Freight Shipping**

#### **How Incoterms Impact Your Shipping Cost**

impact your freight cost. For example, when shipping EXW, you'll be responsible for the added cost of getting your goods from your supplier to the seaport or airport. Simply choose container, box, or pallet shipping, €

## International Trade INCOTERMS

### Freight Shipping

#### Types of Incoterms

FOB (Free On Board), EXW (Ex Works) and FCA (Free Carrier) are the most well-known incoterms but there are more to choose from. Which one is right for you depends on factors including what type of goods you're shipping, your experience as a shipper, and your relationship with your supplier.

Most incoterms can be used for any mode of transport. The exceptions are FOB, FAS, CFR, and CIF, which are used for sea freight only.

# International Trade INCOTERMS

## Types of Incoterms

### Incoterms for Air Freight

Incoterms commonly used for air shipments are:

**EXW (Ex-works)**, in which the buyer assumes responsibility at the seller's warehouse and takes care of everything including transportation and insurance.

**CIP (Carriage and insurance)**, which puts responsibility for insurance on the seller.

**CPT (Carriage Paid To)**, in which the seller delivers the goods and covers all fees involved in delivering the goods to the named destination. After delivery, the buyer assumes responsibility.

**DDP (Delivered Duty Paid)**, which puts most obligations on the seller. They carry all the costs and risks of transport, insurance, and customs clearance. This is the only incoterm that lists the seller as the importer of record at destination.

**DAP-Delivered At Place**, where the seller covers the costs involved in main carriage but is not responsible for customs clearance.



## International Trade INCOTERMS

### Freight Shipping

#### **Why are Incoterms Important?**

Importers and exporters should consider which incoterms is best for them before the contract of sale is negotiated. This can prevent surprise costs and unnecessary complications.

Choosing an incoterm means getting on the same page as your supplier – it aligns everyone on shipping procedures when multiple parties and stakeholders are involved. These globally accepted terms ensure the timely payment of goods, services, and duties, while protecting suppliers, carriers, and buyers.

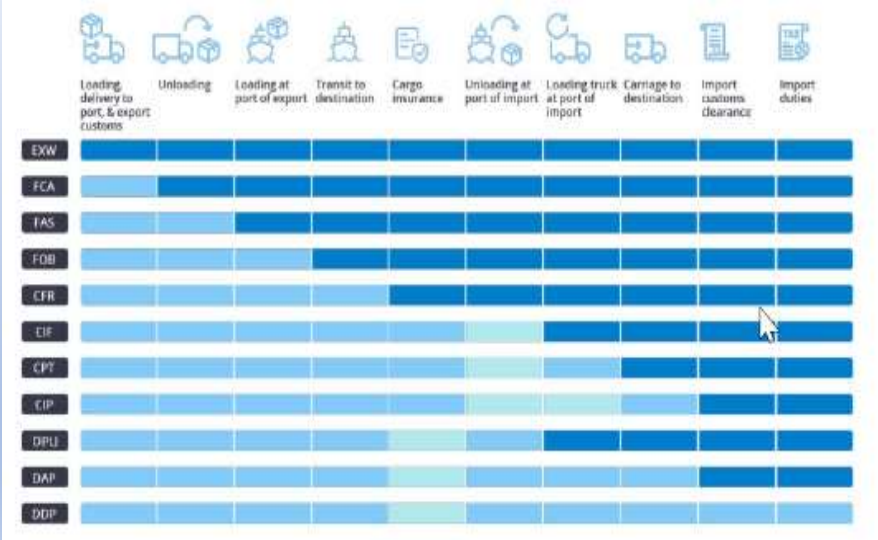
## International Trade INCOTERMS

### **Incoterms Chart, List & PDF**

Check out this quick reference of Incoterms and the breakdown of who is responsible for what at various points in the international supply chain.

# International Trade INCOTERMS

● Buyer
 ● Seller
 ● Negotiable



- EXW Ex Works
- FCA Free Carrier
- FAS Free Alongside Ship
- FOB Free On Board
- CFR Cost and Freight
- CIF Cost, Insurance, and Freight
- CPT Carriage Paid To
- CIP Carriage Insurance Paid To
- DAT Delivered at Terminal
- DAP Delivered At Place
- DDP Delivered Duty Paid

## International Trade INCOTERMS

### **What Incoterms Should I Use?**

Here are some of the most common incoterms and when you might choose them:

#### **FOB (Free on Board)**

This very common incoterm is for sea freight only, and means that liability and responsibility for cost transfer to the buyer when the goods are loaded "on board" the shipping vessel.

FOB gives the buyer a high degree of control over the freight shipping process. Since the buyer is choosing their own forwarder, they benefit from greater flexibility with regards to cost, terms, and shipping planning.

## International Trade INCOTERMS

### **EXW (ExWorks)**

The ExWorks incoterm means that responsibility transfers to the buyer at the supplier's warehouse and not on board the vessel.

This means the buyer pays for and is responsible for goods' transport every step of the way, from door to door. All the supplier needs to do is prepare the goods for pick up.

This incoterm gives the buyer full control over freight costs, but also means they are responsible for everything that happens in the origin country– which is frequently not their country of residence. More experienced shippers may benefit from using this incoterm.

## International Trade INCOTERMS

### **FCA (Free Carrier)**

When using FCA, the buyer assumes responsibility and costs once the goods are loaded onto a mode of transportation or delivered to a specific location agreed upon by the buyer and seller – typically this is a port.

This incoterm is used for all shipping modes.

With FCA, the supplier is responsible for packaging and transport at the origin. This means the supplier has more responsibility than they do with ExWorks, but the buyer still assumes costs and responsibilities earlier than they do when using FOB.

## International Trade INCOTERMS

### **Main Differences Specific to a Country**

The above advice covers most countries in most circumstances. But there are some factors to keep in mind when choosing an incoterm with your supplier:

- Customs procedures are much more relaxed at porous borders, like within the EU
- Different countries require different procedures and paperwork for shipments: the US requires a [Customs Bond](#), importing into the UK requires a Deferment Account, and exporting from India includes a withholding tax.

## International Trade INCOTERMS

### **When to Challenge Advice**

Some *freight forwarders* prefer only using a favored set of incoterms because they “seem to work.” Therefore don’t be surprised if some forwarders push back on your selection of incoterm, despite it being the most appropriate incoterm for your shipment.



## International Trade INCOTERMS

### **What Shipping Incoterms Don't Cover**

Incoterms do not cover property rights, possible force majeure situations and breach of contract. Include of these within the contract of sale. Similarly, all incoterms except the C terms do not assign responsibility for arranging insurance. *Cargo insurance* is, therefore, a separate cost for buyers.

## International Trade INCOTERMS

### **Define Named Place in the Sales Contract**

When the incoterm is written in the sales contract, the named place should immediately follow the three letter incoterm abbreviation, e.g. "FCA Shenzhen Yantian CFS." Be precise when defining the location, especially with larger cities that may have several terminals, and with larger terminals that may have several drop-off points. You can use this [global port finder](#) to find specific port codes.

## International Trade INCOTERMS

### **How Letters of Credit Limit Choice of Incoterm**

If the sale is being completed with a letter of credit or documentary credit, the chain that releases funds begins with the seller providing several documents to the bank, including the bill of lading/air waybill. Letters of credit are used where there is limited trust between the seller and the buyer. That rules out EXW, because the supplier will be paid before pickup. F terms require trust because if the buyer cancels the international transit, the supplier won't have a bill of lading to present to the bank. D terms require trust because the seller is bearing all of the transport costs. That leaves the four C terms as the best options to use with a letter of credit.

## International Trade Tariff

- The numerical tariff does not directly measure how much protection domestic producers receive

## International Trade Tariff

### The effective rate of protection

\*The percentage change in value added\*

You can think of the concept of  
an effective rate of protection

the percentage change in  
value added following a tariff.

## International Trade Tariff

### An example

- Autos sell for 8k, produced for 6k
- Value added is 2k

## International Trade Tariff

- 25%



## International Trade Tariff

Price from 8k to 10k

New value added is  $10k - 6k = 4k$

Value added from 2k to 4k, up 100%

Effective protection is 100%, tariff was 25%

how much more surplus is going  
to producers,



## International Trade Tariff

When is effective protection  
negative?

Tariffs on inputs

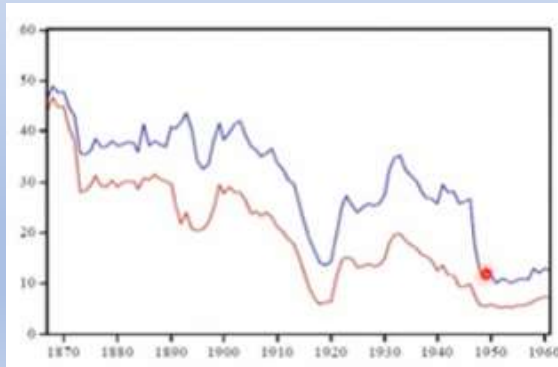
The simplest way to think about  
a negative rate of effective protection  
is to think about tariffs on inputs.

## International Trade Tariff

Why are there tariffs?

especially for developed nations.

Tariffs have been falling



## International Trade Tariff

### Very high tariffs

- Chocolate
- Roquefort cheese
- Ham
- Peanuts
  
- 100% or more
- Gus Lubin, "25 American Products that Rely on Huge Protective Tariffs to Survive"

## International Trade Tariff

### Other tariffs

Auto parts

Brooms

Leather ware

Sneakers

Decorative glassware

## International Trade Tariff

### Explanations

Concentrated benefits, diffuse costs

and they probably won't find it  
worthwhile to organize against the tariff.

Tariffs therefore tend to favor relatively  
small and relatively well-organized groups

## International Trade Tariff

Foreign policy considerations

free trade based relationships  
with other nations

for the ostensible purpose of  
keeping them away from communism

and an alliance with the Soviet Union.

and, perhaps, eventually move them  
both closer to some kind of democracy.

## International Trade Tariff

Constrained efficient result

Predictors of tariffs:

Is an industry politically organized?

Import elasticity

Import-penetration ratio

## International Trade Tariff

### Import elasticity

From the Ramsey tax rule, tax products in inelastic demand

The import elasticity rule is that tariffs be relatively high

when imports are in inelastic demand.

Now, going back to the protection for sale setting,



## International Trade Tariff

### Import elasticity

if you imagine interest groups bidding for different policies, well, the policies most likely to win that auction will be the policies with relatively low deadweight losses and those will be the policies which place import taxes on products with relatively inelastic demand.

## International Trade Tariff

### Import elasticity

Import-penetration ratio

Theory predicts low import-penetration leads to high protectionism

that tends to lead  
to high protectionism.

The intuition here is simply that  
the tariff penalizes the consumers less

when the import-penetration  
ratio is relatively low.

## International Trade Tariff

**Import elasticity**

**that maybe we expect  
to find higher tariffs**

**or higher pressures for tariffs**

**in areas where competition  
from foreign products is increasing.**

**And in this regard, empirically,  
the production for sale model  
has not held up in every regard.**