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Terms of Sale and of Payment

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When and where:

1. title to the goods
2. responsibility (insurance)
3. care for shipment
4. responsibility for paying and arranging changes
5. payment for the goods





Terms of sale

1. Cost of the product
2. Risk of physical loss
3. Cost of moving
4. Jurisdiction: Incoterms



Incoterms: selling terms

Group E – Departure

EXW – Ex Works (named place)

This trade term places the greatest responsibility on the buyer and minimum obligations on the seller. The Ex Works term is often used when making an initial quotation for the sale of goods without any costs included.

EXW means that a seller has the goods ready for collection at his premises (Works, factory, warehouse, plant) on the date agreed upon.

The buyer pays all transportation costs and also bears the risks for bringing the goods to their final destination.

Group F – Main carriage unpaid

FCA – Free Carrier (named places)

The seller hands over the goods, cleared for export, into the custody of the first carrier (named by the buyer) at the named place. This term is suitable for all modes of transport, including carriage by air, rail, road, and containerised / multi-modal sea transport. This is the correct "freight collect" term to use for sea shipments in containers, whether LCL (less than container load) or FCL (full container load).

FAS – Free Alongside Ship (named loading port)

The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. Suitable only for maritime transport only but NOT for multimodal sea transport in containers (see Incoterms 2010, ICC publication 715). This term is typically used for heavy-lift or bulk cargo.

Incoterms: selling terms

Group F – Main carriage unpaid

FOB – Free on board (named loading port)

The seller must themselves load the goods on board the ship nominated by the buyer, cost and risk being divided at ship's rail. The seller must clear the goods for export. Maritime transport only but NOT for multimodal sea transport in containers (see Incoterms 2010, ICC publication 715). The buyer must instruct the seller the details of the vessel and port where the goods are to be loaded, and there is no reference to, or provision for, the use of a carrier or forwarder. It DOES NOT include Air transport. This term has been greatly misused over the last three decades ever since Incoterms 1980 explained that FCA should be used for container shipments.

Group C – Main carriage paid

CFR or CNF – Cost and Freight (named destination port)

Seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods have crossed the ship's rail. Maritime transport only and Insurance for the goods is NOT included. Insurance is at the Cost of the Buyer.

CIF – Cost, Insurance and Freight (named destination port)

Exactly the same as CFR except that the seller must in addition procure and pay for insurance for the buyer. Maritime transport only.

CPT – Carriage Paid To (named place of destination)

The general/containerised/multimodal equivalent of CFR. The seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.

CIP – Carriage and Insurance Paid (To) (named place of destination)

The containerised transport/multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.

Incoterms: selling terms

Group D – Arrival

DAF – Delivered At Frontier (named place)

DES – Delivered Ex Ship (named port)

DEQ – Delivered Ex Quay (named port)

DDU – Delivered Duty Unpaid (named destination place)

DAT (Delivered at Terminal)

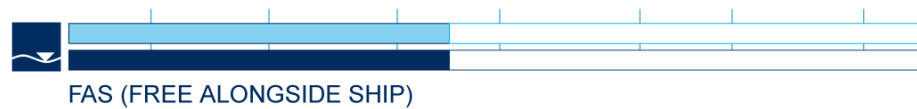
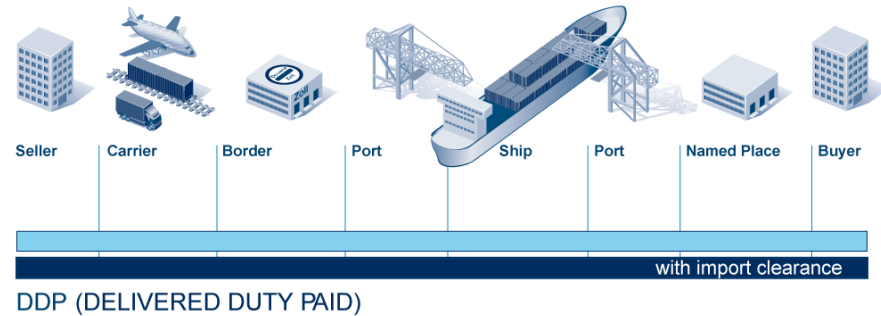
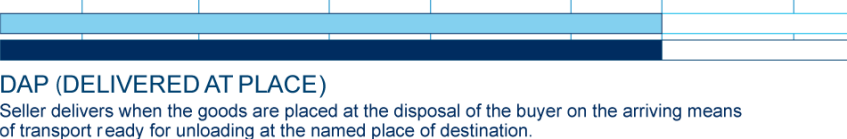
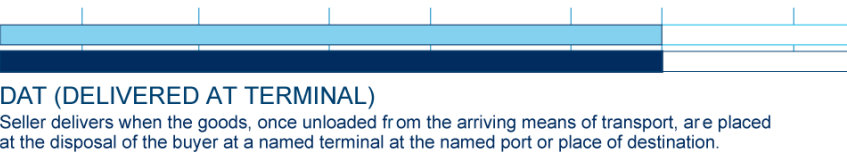
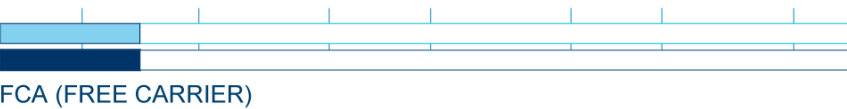
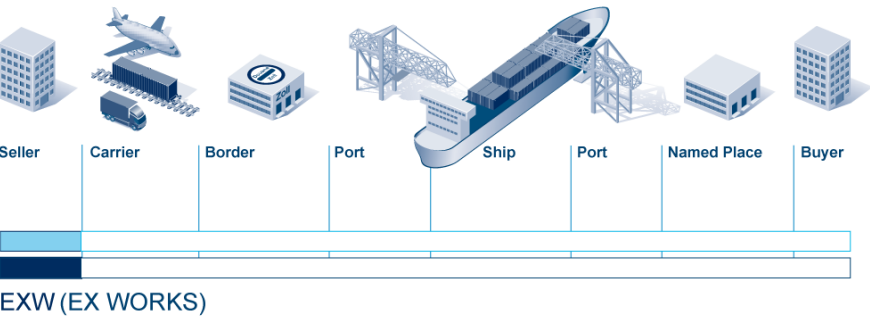
Seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. "Terminal" includes quay, warehouse, container yard or road, rail or air terminal. Both parties should agree the terminal and if possible a point within the terminal at which point the risks will transfer from the seller to the buyer of the goods. If it is intended that the seller is to bear all the costs and responsibilities from the terminal to another point, DAP or DDP may apply.

DAP (Delivered at Place)

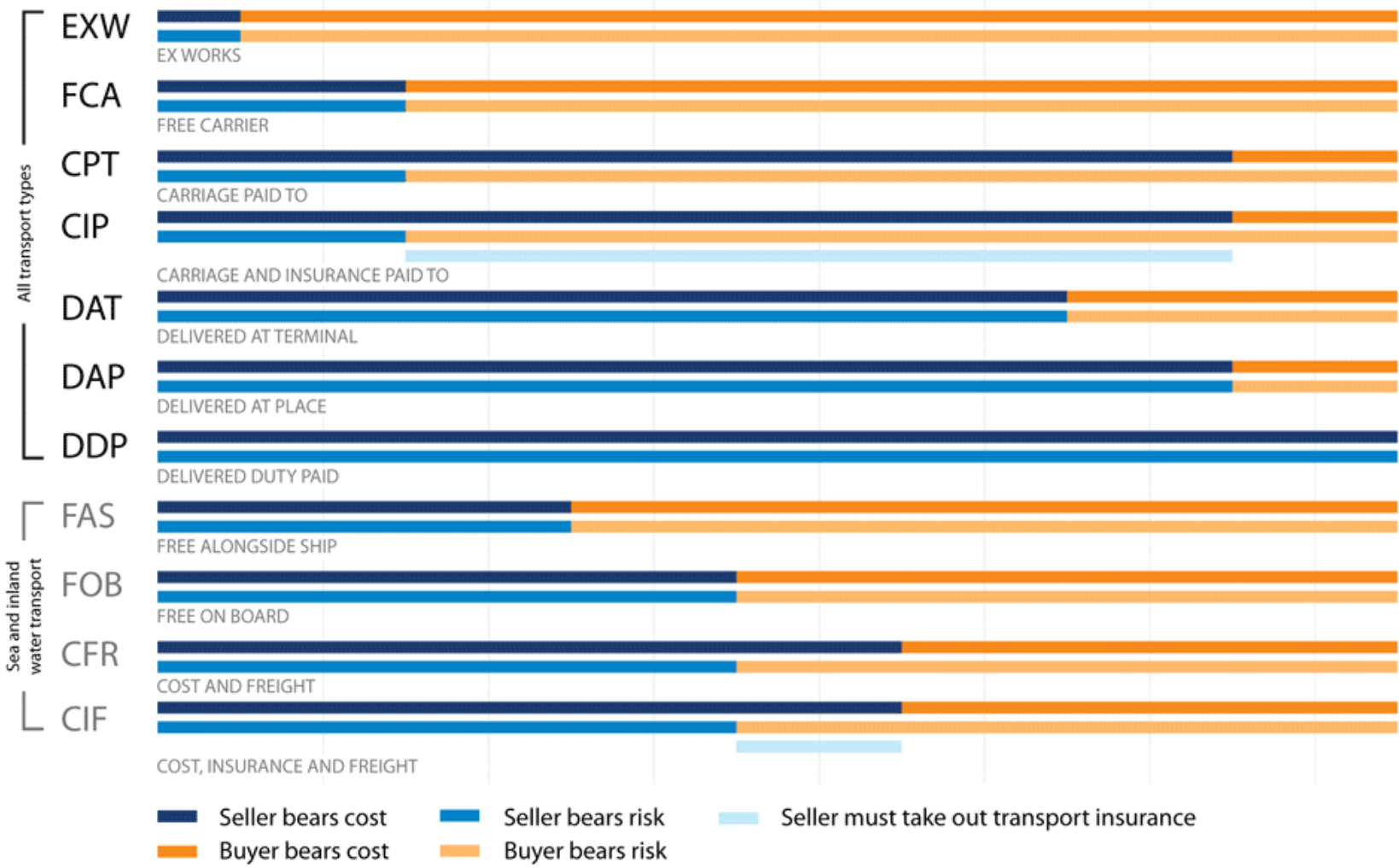
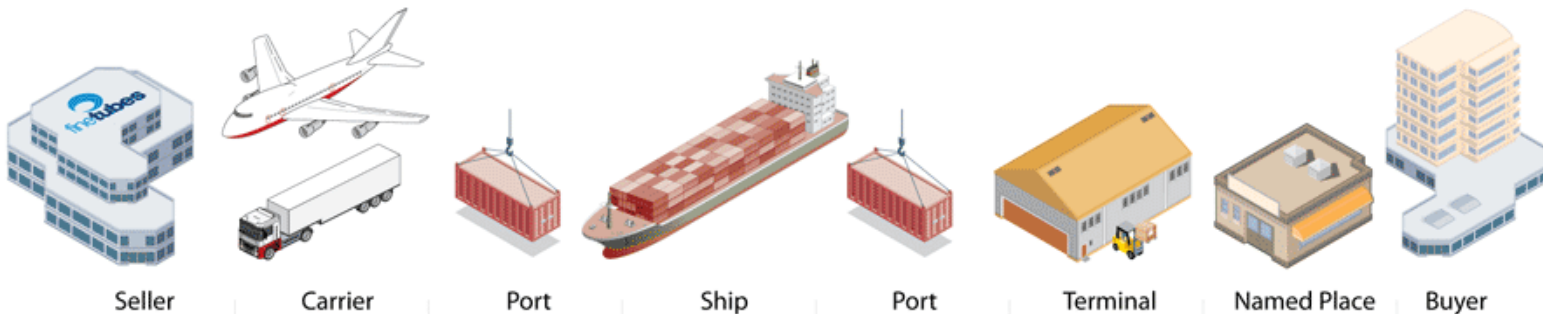
Seller delivers the goods when they are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. Parties are advised to specify as clearly as possible the point within the agreed place of destination, because risks transfer at this point from seller to buyer. If the seller is responsible for clearing the goods, paying duties etc., consideration should be given to using the DDP term.

DDP – Delivered Duty Paid (named destination place)

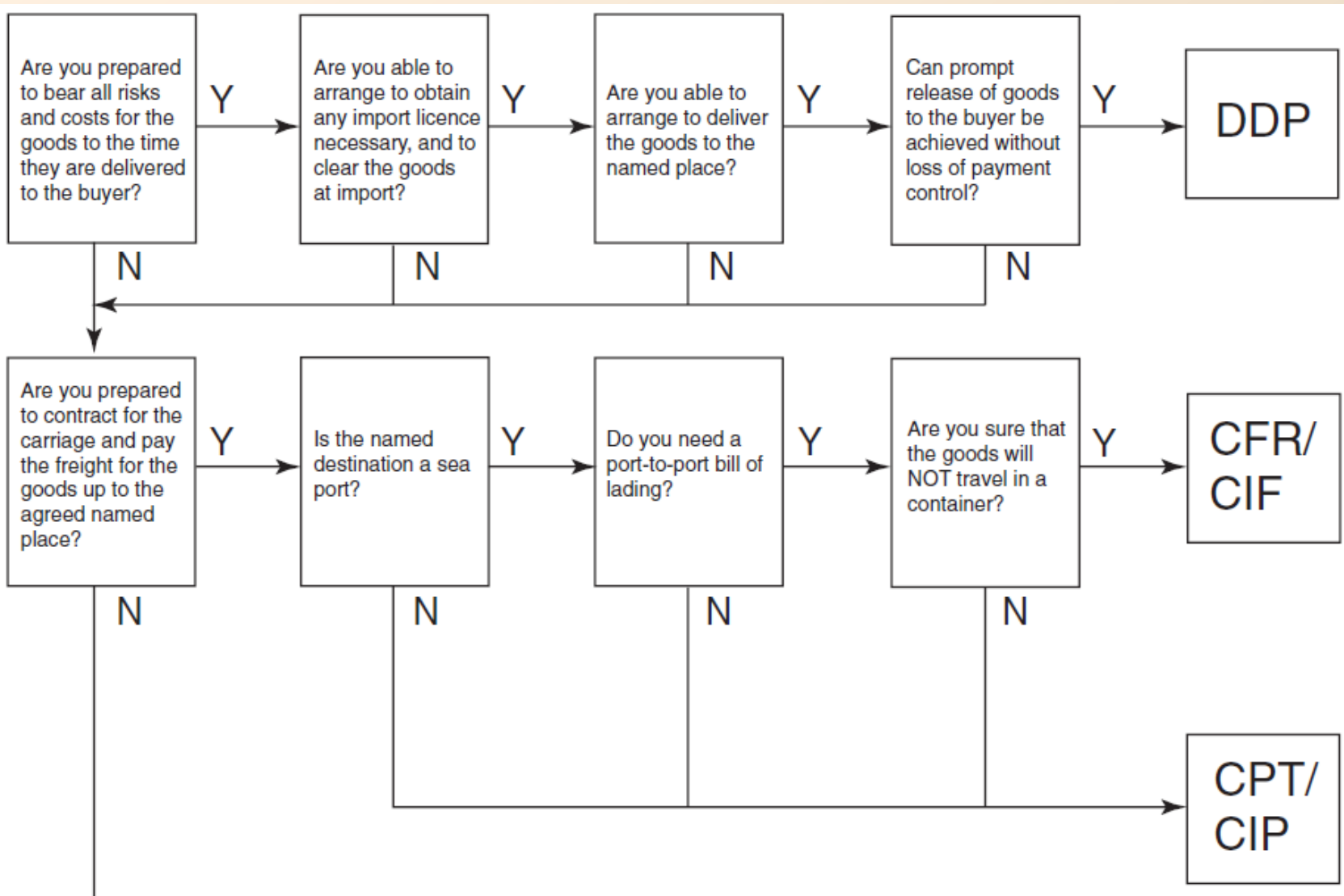
This term means that the seller pays for all transportation costs and bears all risk until the goods have been delivered and pays the duty. Also used interchangeably with the term "Free Domicile". The most comprehensive term for the buyer. In most of the importing countries, taxes such as (but not limited to) VAT and excises should not be considered prepaid being handled as a "refundable" tax. Therefore VAT and excises usually are not representing a direct cost for the importer since they will be recovered against the sales on the local (domestic) market.



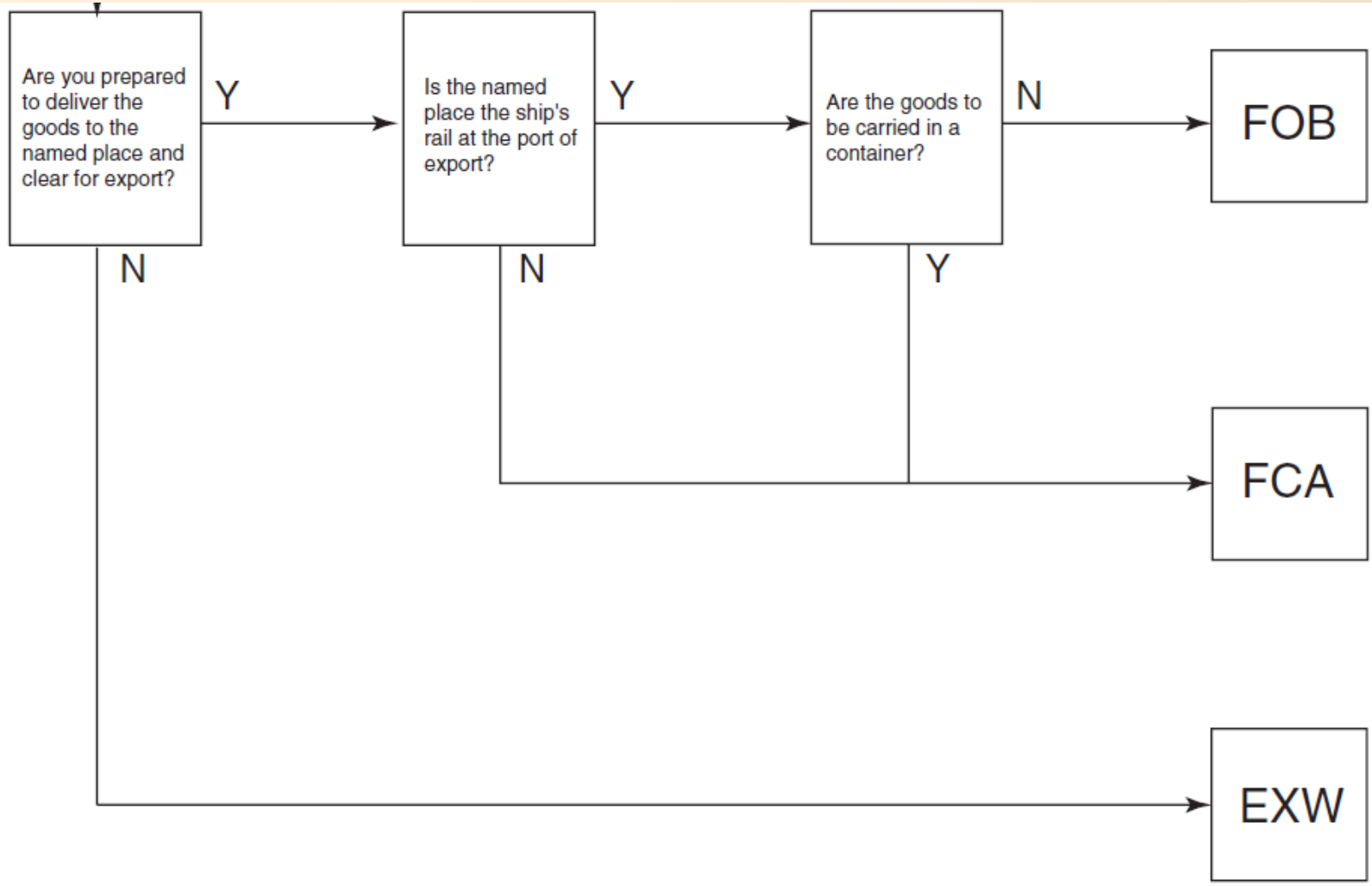
- The risk is borne by the seller
- The costs are borne by the seller
- Transport insurance is the responsibility of the seller
- The risk is borne by the buyer
- The costs are borne by the buyer
- Clauses for sea and inland water transport



Incoterm Guide



Incoterm Guide





Terms of Payment

1. amount of commercial credit
2. direct deal or intermediaries
3. open accounts, progress payments, options, bonuses and penalties
4. risk of being paid and of receiving the goods – how to solve it

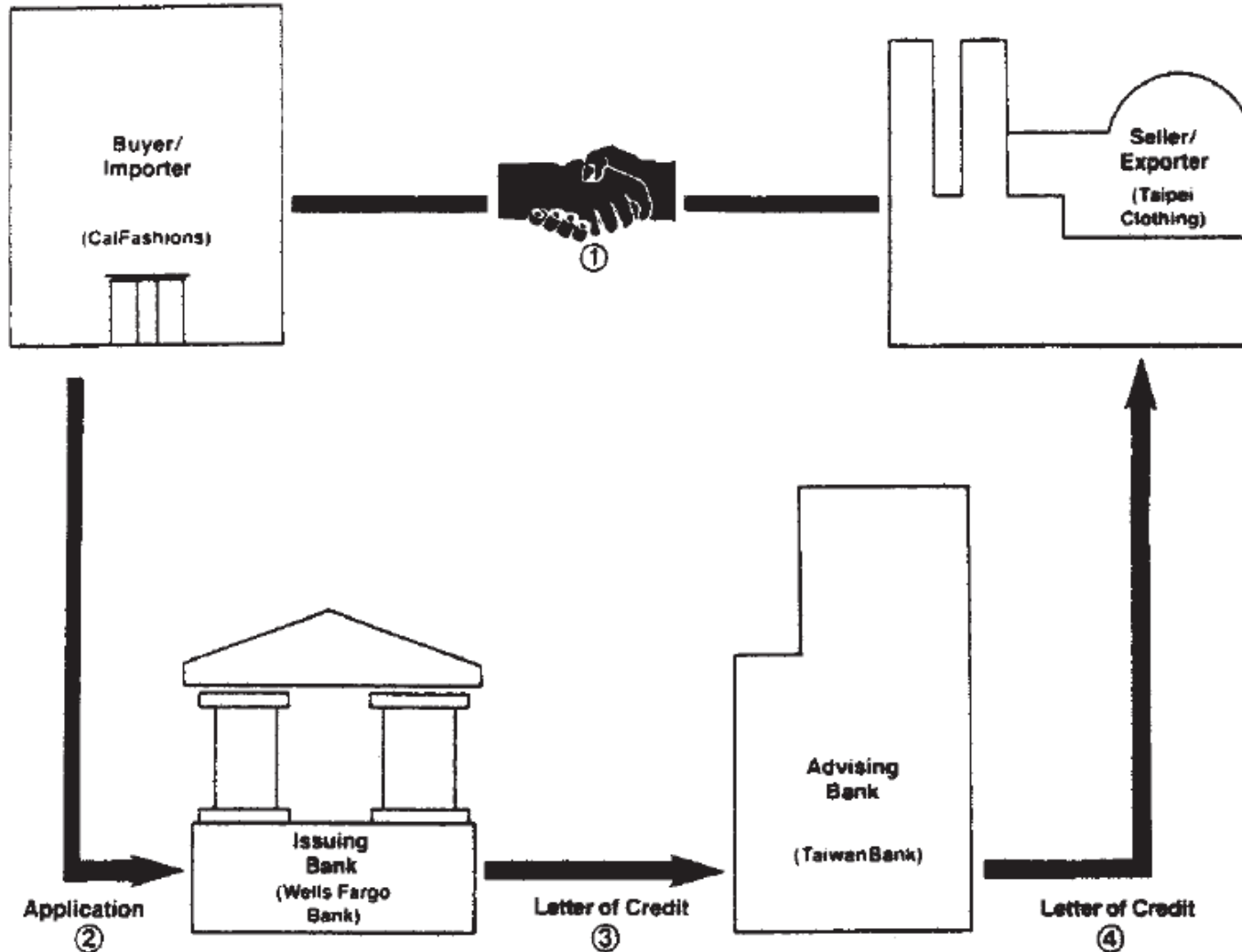


Documents related to terms of sale

1. Drafts (sight/documents against acceptance, date/time)
2. Bill of lading
3. Documentary letters of credit

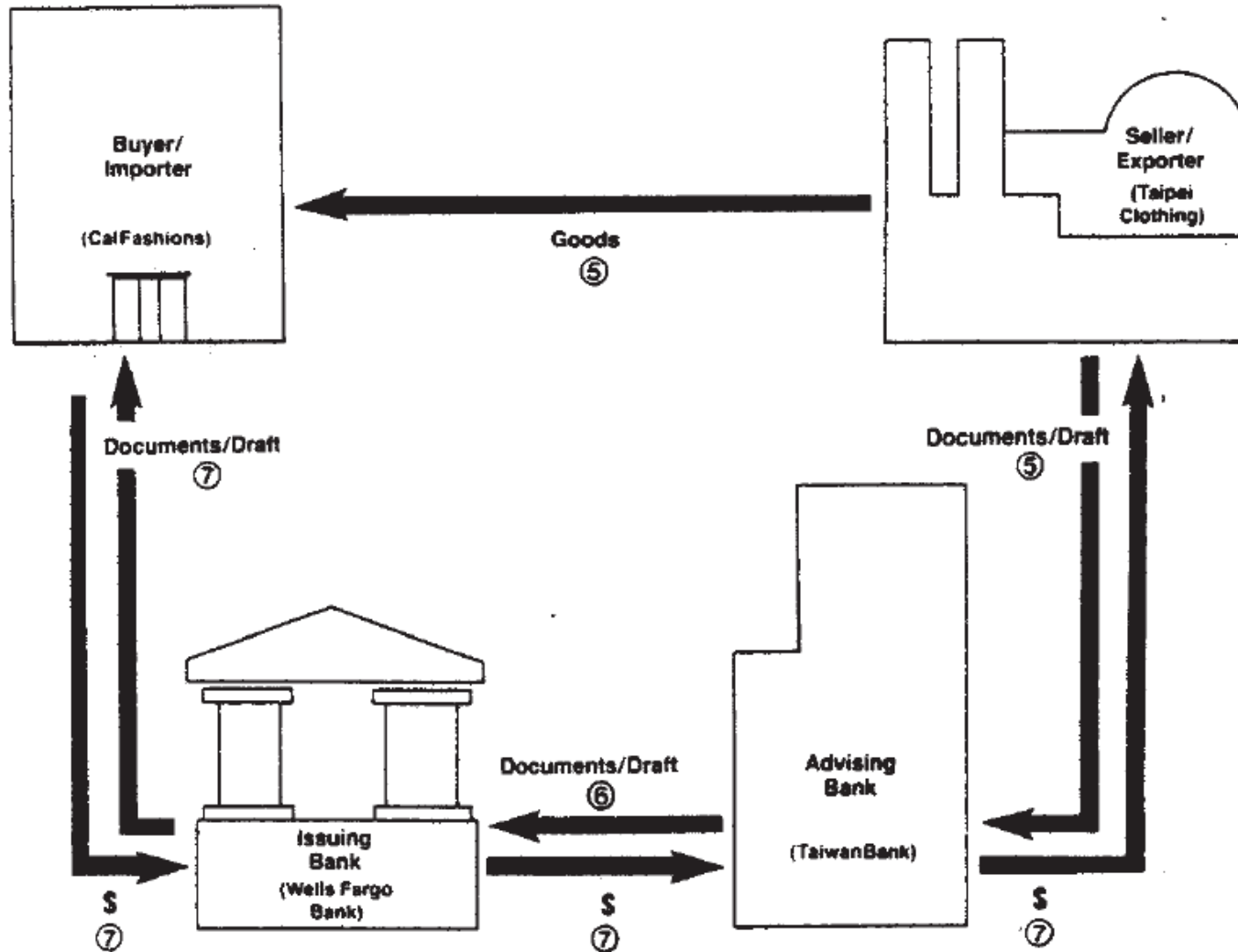
Letter of Credit: Phase one

First Phase: Application, Issuance, and Advice of a Letter of Credit



Letter of Credit: Phase two

Second Phase: Presentation of Documents and Payment



UCP500

Facsimile signed documents

Banks treat a facsimile signature as the equivalent of a hand signature. Accordingly, a document that appears to bear the document issuer's facsimile signature is also treated as an original document.

Photocopies

Banks treat as non-original any document that appears to be a photocopy of another document. If, however, a photocopy appears to have been completed by the document issuer's hand marking the photocopy, then, consistent with . . . , the resulting document is treated as an original document unless it indicates otherwise. . . .

Payment modes

1. Cash in advance
2. Letters of credit
3. Sight drafts/documents against payment
4. Date drafts/documents against acceptance
5. Open account

Example

Subj.: Your enquiry of 8Th April

In reply to your letter, we are pleased to quote for the hotel furniture and fittings which interest you.

Prices: CIF Alexandria, Incoterms 2010

Packing: one 40' container

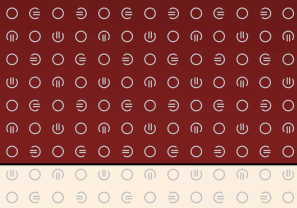
Payment: by L/C on our bank BNM Agenzia 4

Delivery: by the end of July as requested if order received before 20th May 2010

Exercise

1. Which Incoterms represent the minimum and maximum obligation for the supplier respectively?
2. Which Incoterms refer specifically to transport by sea?
3. What does the customer have to pay for under FOB terms?
4. At what point of a business transaction has the supplier fulfilled his/her obligations under FAS terms?
5. What is the main difference between DAP terms and DAT terms?
6. Does the supplier bear more responsibility under CIF or CIP terms?

- Since the UCP 500 (Uniform Customs and Practice for Documentary Credits - International Chamber of Commerce Publication No. 500) came into effect in January 1, 1994, introducing the new rules governing letters of credit (or documentary credits) operations, there have been many disputes over the conformity of the bills of lading to the UCP 500 articles. The main reason is that certain bills of lading that were compliant under the old UCP 400 rules are now no more acceptable by the banks.
- As a result, 90% of bills of lading in the U.S.A. and 60% in the U.K. are rejected by the banks. This does not in fact affect the carriers or the banks, even though the bills of lading cannot meet the bankers' requirements under the new rules. The customers of the banks or the carriers, for example, the shippers, the consignees and the notified parties, are the ones that suffer, even though they have done nothing wrong.



Study material: Chapter 11

International Logistics (2nd Edition)
Wood, Donald F. Barone, Anthony Murphy,
Paul

Pages: 456, Publisher: AMACOM Books
ISBN: 9780814426739

Available at:

<http://site.ebrary.com/lib/masaryk/>

