

TRADE TERMS

STANDARD TERMS OF SALE

You must address certain questions in every international trade transaction, for example:

- Who is responsible for arranging and paying for the cartage of goods from one point to another?
- Who is liable if the operation cannot be carried out?
- Who assumes the risk of loss associated with goods lost or damaged in transit?

There are many ways of dividing the above risks between the exporter and foreign buyer. This is exactly what trade terms are meant to do. They set out the rights and obligations of each party. The International Chamber of Commerce has standardized a set of rules, commonly referred to as Incoterms, which set out the obligations of buyer and seller. These trade terms have worldwide acceptance and are used in price quotations to minimize misunderstandings. The following are the most common terms:

Ex Works (EXW). The buyer assumes the full cost and risk associated with taking the goods from the seller's premises to the ultimate destination. This term represents minimum obligation for the seller and maximum obligation for the buyer.

Free on Rail and Free on Truck (FOR/FOT). This term simply denotes that the seller's responsibility is limited to loading the goods onto railway wagons. The buyer assumes the remaining responsibility to move the goods to their final destination. The two terms are synonymous since the word "Truck" relates to the railway wagons.

Free Alongside Ship (FAS). The exporter maintains ownership of the goods and responsibility for their handling until they are placed alongside the ship at the port of embarkation. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that moment. The buyer is also required to clear the goods for export.

Free on Board (FOB). The risk of loss or damage is transferred to the buyer when the goods pass the ship's rail. The goods are placed on board a ship by the seller at the port of shipment named in the sales contract.

Cost and Freight (C&F). The buyer must assume the risk of loss or damage when the goods pass the ship's rail at the port of embarkation. The seller is responsible for the costs and freight necessary to get the goods to the destination named in the contract.

Cost, Insurance & Freight (CIF). This is basically the same as C&F with the exception that the seller also assumes the risk of loss or damage to the goods during transit until arrival at final destination stipulated in the contract. This term denotes maximum obligation for the seller.

Ex Quay. The seller is responsible for making the goods available to the buyer on the wharf at the location stipulated in the sales contract. There are two "Ex Quay" contracts in use: "Ex Quay (duty paid)" and "Ex Quay (duties on buyer's account)." The latter means that the liability to clear the goods for import are to be undertaken by the buyer.