INCOTERMS

Trade terms define who is responsible for the different steps in the export process. For example, the terms of sale may specify that the goods are to be transferred to a Mexican buyer at the Canadian manufacturer's premises. This is known as an ex works (EXW) arrangement. In this instance, the buyer assumes responsibility for all the steps connected with moving the goods from Canada to the final destination in Mexico.

At the other extreme, the Canadian manufacturer may agree to assume responsibility for transporting the goods, clearing them through customs and delivering them to the buyer's premises in Mexico. This is known as a delivered duty paid (DDP) transaction and it confers maximum responsibility on the exporter.

Terms such as EXW and DDP are two of the thirteen terms developed by the International Chamber of Commerce to define different divisions of responsibility between the parties to an international transaction. Referred to as Incoterms, these standardized terms help to define the parameters of a deal and can also be crucial in resolving contractual disputes.

By incorporating Incoterms into the contract on a formal basis, the exporter has the basis for referring to an independent arbitrator in the case of a contractual dispute. Moreover, using Incoterms can help to avoid litigation, since their clear definitions prevent any misunderstandings arising from a poorly drafted contract.

Each term has a direct impact on a company's cash position. In an EXW transaction, the goods are made available to the buyer at the factory gate and the exporter incurs no further costs. At the other extreme, the DDP transaction requires the exporter to bear all risks and costs until the goods arrive at their final destination. Clearly, these different levels of risk and responsibility will be reflected in the purchase price negotiated: buyers will pay less for goods EXW than they will for goods DDP. As well, the trade terms agreed to will have an impact on who assumes liabilities for insurance purposes. What may be more important for a cash-strapped exporter, however, is that the "E" and "F" terms of sale will place less strain on cashflow than the "C" or "D" terms.