

# Incoterms and Export Costing Worksheet

EXPORT SERIES

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## Incoterms™ 2000 - An Introduction

*Disclaimer: The following information is intended as only an introduction to the topic and should not be used as the sole source for determining contractual Incoterms™. The topic of Incoterms™ and the explanation of terms presented below has been summarized. As such, a full understanding of the topic will require researching additional information. Additional information is available from the International Chamber of Commerce Publication ICC Guide to Incoterms™ 2000 and the ICC official rules, Incoterms™ 2000. It is recommended to obtain legal council before negotiating any contractual terms.*

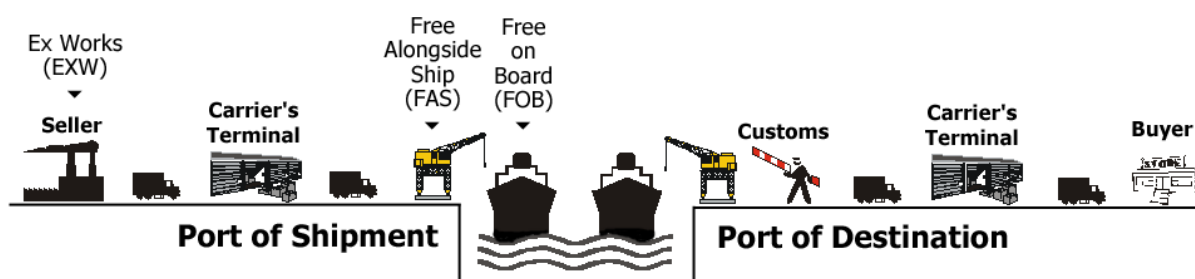
The feasibility of any transaction (profit) requires exporters and importers to understand the costs and risks associated with any international transaction: responsibility for shipping costs, purchasing insurance, customs clearance and duties, etc. If something should go wrong during transportation (risk), who has title to the goods? What obligations did each of the parties agree to? These issues will matter greatly!

Incoterms™ are internationally accepted commercial trade terms which determine the passing of risk and the passing of costs under an international contract of sale. The terms tell each party to the contract what their obligations are for the carriage of goods from the seller to the buyer, for insurance and export and import clearances. In addition, should a dispute arise, Incoterms™ are the only international trade terms recognized in a court of law. It is strongly recommended that express reference is made in the contract using the words "Incoterms 2000" to avoid confusion with any previous version of Incoterms™.

There are 13 Incoterms™ and they are divided into four major groups: "E", "F", "C" and "D" terms. The first letter is an indication of the group to which the term belongs. Each group means additional responsibilities and costs for the exporter. For example, the most commonly used terms under each of these groups are: Ex Works (EXW), Free Alongside Ship (FAS), Free On Board (FOB), Cost and Freight (CFR), Cost, Insurance and Freight (CIF), and Delivered Duty Paid (DDP). In this guide, we chose to present the 6 most common Incoterms™ widely used by exporters around the world. You will find the complete list of Incoterms™ and their definitions in the appendix at the end of this document.

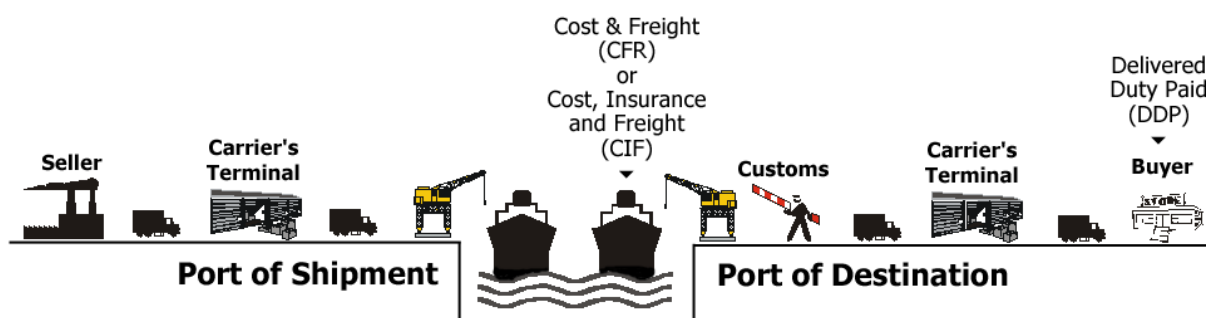
**NOTE:** Incoterms™ have precise responsibilities for transaction costs and risks, and other Incoterms™ 2000 exist. Please consult "Incoterms™ 2000" and "ICC Guide to Incoterms™ 2000" available at [\*The Business Link\*](#). Always seek professional assistance before using these terms in international negotiations.

| <b>Incoterms™ 2000</b>           | <b>Seller's Responsibilities</b>   | <b>Buyer's Responsibilities</b>  |
|----------------------------------|--|--|
| <b>Ex Works (EXW)</b>            | <i>Minimum responsibility;</i> goods made available at factory or seller's premises (cost usually includes crating for export)                                   | <i>Maximum responsibility;</i> buyer; responsible for all costs and risks from seller's premises |
| <b>Free On Board (FOB)</b>       | All costs and risks including export clearances to a named port until the goods pass the ship's rail (loading onto ship)   | Costs and risks transfer to the buyer when goods pass the ship's rail                            |
| <b>Free Alongside Ship (FAS)</b> | Costs and risks to a named port alongside the ship (costs such as loading at factory, inland transportation, insurance, unloading at dock AND export clearances) | Costs and risks of loading on ship plus all additional costs to buyer's location                 |



| <b>Incoterms™ 2000</b>        | <b>Seller's Responsibilities</b>  | <b>Buyer's Responsibilities</b>  |
|-------------------------------|---|--|
| <b>Cost and Freight (CFR)</b> | Costs to port of destination (freight and other charges, export documentation and freight forwarder's fees). Note insurance risk ends at port of shipment, ship's rail. | Risks assumed pass the ship's rail at the exporter's port of shipment. Must have marine insurance and must cover all costs after goods pass ship's rail at port of destination |

|  |  |  |
|--|--|--|
| <b>Cost, Insurance and Freight (CIF)</b> | All export documentation and transportation costs and marine insurance against buyer's risk of loss to port of destination.  | Likely require <u>additional marine insurance</u> to supplement coverage provided by seller. All costs and risk after ship arrives at port of destination                              |
| <b>Delivered Duty Paid (DDP)</b>         | <i>Maximum responsibility</i> for seller; all costs and risks to a specific destination in the importing country (includes costs such as unloading fees, storage, import licence, fees, duties and taxes, custom broker's fees, ground transport, loading and unloading fees, insurance, etc.) | <i>Minimum responsibility</i> and risk to buyer; all costs and risks covered by seller until buyer actually receives the goods. Exporter has to handle any customs clearance problems. |



## Other Modes of Transport

If the parties do not intend to deliver goods across a ships rail, other Incoterms™ 2000 should be used. For example, FCA, Free Carrier is preferable to FOB. Free Carrier obligates the seller to clear the goods for export and to deliver to a carrier named by the buyer to a named location. The buyer is responsible for unloading and all other costs and risks. Note even though Incoterms™ 2000 improves ease of understanding, you will still find many transactions within North America still operate with FOB pricing terminology. For example, FOB Las Vegas even though such a place has no marine port. It is advisable to research other terms, which remove the notion of crossing a ships rail such as CPT, Carrier Paid To and CIP, Carrier and Insurance Paid To.

For additional information, visit [http://www.iccwbo.org/index\\_incoterms.asp](http://www.iccwbo.org/index_incoterms.asp) and consult the appendix of this document as well as the reference guides "Incoterms™ 2000" and "ICC Guide to Incoterms™ 2000" available at *The Business Link*'s library.

## Export Costing Worksheet

A costing sheet is your guide to pricing out how much it will cost you to produce, transport, deliver, and finance your international transaction. Each costing stage identifies the different delivery terms which will affect your responsibilities and risks in the transaction. At each stage of pricing, your costs and quoted price to your buyer will increase. Below is a summary of the export costing process by the four most common Incoterms™ (delivery terms).

### Advisory Note:

This costing worksheet is to be used as a guide only. It may not necessarily include all costs for all export transactions.

## 1. CALCULATING AN EXWORKS TRANSACTION

### Product cost

|                 |          |
|-----------------|----------|
| Material        | \$ _____ |
| Labour          | \$ _____ |
| Plant overhead  | \$ _____ |
| Administration  | \$ _____ |
| Financing costs | \$ _____ |
| Domestic duties | \$ _____ |

Total cost of production \$ \_\_\_\_\_

### Foreign Marketing

|                        |          |
|------------------------|----------|
| Travel accommodations  | \$ _____ |
| Promotion              | \$ _____ |
| Communications         | \$ _____ |
| Translation            | \$ _____ |
| Professional fees      | \$ _____ |
| Agency marketing costs | \$ _____ |

Total marketing costs + \$ \_\_\_\_\_

**Preparation for shipping**

|               |    |       |
|---------------|----|-------|
| Labelling     | \$ | _____ |
| Packaging     | \$ | _____ |
| Packing       | \$ | _____ |
| Marking, etc. | \$ | _____ |

Total shipping preparation costs + \$ \_\_\_\_\_

**\*Total Cost Ex Works of Product** = \$ \_\_\_\_\_

|                          |    |       |
|--------------------------|----|-------|
| International Financing  |    |       |
| Costs of instruments     | \$ | _____ |
| Export credit insurance  | \$ | _____ |
| Discount on receivables  | \$ | _____ |
| Currency conversion fees | \$ | _____ |
| Loan interest cost       | \$ | _____ |

Total international financing costs + \$ \_\_\_\_\_

Profit Mark-up + \$ \_\_\_\_\_

**QUOTE EX WORKS PRICE AT=** **= \$** \_\_\_\_\_

**2. CALCULATING AN FOB TRANSACTION**

\*Total Cost Ex Works of Product \$ \_\_\_\_\_

|                         |    |       |
|-------------------------|----|-------|
| Domestic Freight        |    |       |
| Documentation           | \$ | _____ |
| Factory loading charges | \$ | _____ |
| Transportation to port  | \$ | _____ |
| Transport insurance     | \$ | _____ |
| Unloading at port       | \$ | _____ |
| Storage                 | \$ | _____ |
| Port costs              | \$ | _____ |
| Ship loading charges    | \$ | _____ |
| Freight forwarding fees | \$ | _____ |

Total domestic freight + \$ \_\_\_\_\_

**\*\*Total Cost FOB of Product** = \$ \_\_\_\_\_

|                                     |    |             |
|-------------------------------------|----|-------------|
| International Financing             |    |             |
| Costs of instruments                | \$ | <hr/>       |
| Export credit insurance             | \$ | <hr/>       |
| Discount on receivables             | \$ | <hr/>       |
| Currency conversion fees            | \$ | <hr/>       |
| Loan interest costs                 | \$ | <hr/>       |
| Total international financing costs |    | + \$ <hr/>  |
| Profit Mark-up                      |    | + \$ <hr/>  |
| <b>QUOTE FOB PRICE AT=</b>          |    | <b>= \$</b> |

### 3. CALCULATING A CIF TRANSACTION

|  |    |                   |
|--|----|-------------------|
| **Total Cost FOB of Product                            |    | \$ <hr/>          |
| International Freight                                  |    |                   |
| International freight                                  | \$ | <hr/>             |
| Shipping insurance coverage<br>(Usually 110% of value) | \$ | <hr/>             |
| Total international freight                            |    | + \$ <hr/>        |
| <b>***Total Cost CIF of Product</b>                    |    | <b>= \$</b> <hr/> |
| International Financing                                |    |                   |
| Costs of instruments                                   | \$ | <hr/>             |
| Export credit insurance                                | \$ | <hr/>             |
| Discount on receivables                                | \$ | <hr/>             |
| Currency conversion fees                               | \$ | <hr/>             |
| Loan interest costs                                    | \$ | <hr/>             |
| Total international financing costs                    |    | + \$ <hr/>        |
| Profit Mark-up   |    | + \$ <hr/>        |
| <b>QUOTE CIF PRICE AT=</b>                             |    | <b>= \$</b>       |



#### 4. CALCULATING A DDP TRANSACTION

|                                      |    |             |       |
|--------------------------------------|----|-------------|-------|
| ***Total Cost CIF of Product         |    | \$          | <hr/> |
| Customs                              |    |             |       |
| Unloading at receiving port          | \$ |             | <hr/> |
| Foreign duties                       | \$ |             | <hr/> |
| Broker fees                          | \$ |             | <hr/> |
| Storage                              | \$ |             | <hr/> |
| Total landing/clearing costs         |    | +\$         | <hr/> |
| Inland Freight                       |    |             |       |
| Loading charges                      | \$ |             | <hr/> |
| Transportation                       | \$ |             | <hr/> |
| Unloading at destination             | \$ |             | <hr/> |
| Total inland freight                 |    | +\$         | <hr/> |
| <b>****Total Cost DDP of Product</b> |    | = \$        | <hr/> |
| International Financing              |    |             |       |
| Costs of instruments                 | \$ |             | <hr/> |
| Export credit insurance              | \$ |             | <hr/> |
| Discount on receivables              | \$ |             | <hr/> |
| Currency conversion fees             | \$ |             | <hr/> |
| Loan interest costs                  | \$ |             | <hr/> |
| Total international financing costs  |    | +\$         | <hr/> |
| Profit Mark-up                       |    | +\$         | <hr/> |
| <b>QUOTE DDP PRICE AT=</b>           |    | <b>= \$</b> |       |

#### Notes:

- Foreign Distribution Agent(s)

Depending on your distribution channels, there may be a need to involve a local agent. In such cases, these individuals or businesses are going to require a commission payment based on the work that they undertake on your behalf. You will need to add these additional costs to your pricing quotations.

- Freight Forwarders

Freight forwarding fees will vary depending on the responsibilities undertaken by the Incoterms™. That is, the freight forwarders' fees for FOB will be lower as the responsibilities end at the departure port. The freight forwarders' fees for DDP will be increased as responsibilities extend to the destination terminal.

## **Appendix: Incoterms™ 2000**

To provide a common terminology for international shipping and minimize misunderstandings, the International Chamber of Commerce has developed a set of 13 terms known as Incoterms™. They are as follows:

### **EXW EX WORKS (...named place)**

"Ex Works" means that the seller (foreign supplier) delivers when he places the goods at the disposal of the buyer (importer) at the seller's premises or another named place (i.e. works, factory, warehouse, etc) not cleared for export and not loaded on any collecting vehicle.

### **FCA FREE CARRIER (...named place)**

"Free Carrier" means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place.

### **FAS FREE ALONGSIDE SHIP (...named port of shipment)**

"Free Alongside Ship" means that the seller delivers when the goods are cleared for export and placed alongside the vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment.

### **FOB FREE ON BOARD (...named port of shipment)**

"Free on Board" means that the seller delivers when the goods are cleared for export and pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. This term can only be used for sea or inland waterway transport.

### **CFR COST AND FREIGHT (...named port of destination)**

"Cost and Freight" means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. This term can only be used for sea or inland waterway transport.

### **CIF COST, INSURANCE AND FREIGHT (...named port of destination)**

"Cost, Insurance and Freight" means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during carriage. This term can only be used for sea or inland waterway transport.

### **CPT CARRIAGE PAID TO (...named place of destination)**

"Carriage paid to..." means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any other costs occurring after the goods have been so delivered.

### **CIP CARRIAGE AND INSURANCE PAID TO (...named place of destination)**

"Carriage and Insurance paid to..." means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any additional costs occurring after the goods have been so delivered. However, in the CIP the seller also has to procure insurance against the buyer's risk of loss or damage to the goods during the carriage.

### **DAF DELIVERED AT FRONTIER (...named place)**

"Delivered at Frontier" means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the customs border of the adjoining country. The term "frontier" may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.

### **DES DELIVERED EX SHIP (...named port of destination)**

"Delivered Ex Ship" means that the seller delivers when the goods are placed at the disposal of the buyer on board the ship not cleared for import at the named port of destination. The seller has to bear all costs and risks involved in bringing the goods to the named port of destination before discharging. If the parties wish the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used.

### **DEQ DELIVERED EX QUAY (...named port of destination)**

"Delivered Ex Quay" means that the seller delivers when the goods are placed at the disposal of the buyer not cleared for import on the quay (wharf) at the named port of destination. The seller has to bear all costs and risks involved in bringing the goods to the named port of destination and discharging the goods on the quay. The DEQ term requires the buyer to clear the goods for import and to pay for all formalities, duties, taxes and other charges upon import.

### **DDU DELIVERED DUTY UNPAID (...named place of destination)**

"Delivered Duty Unpaid" means that the seller delivers the goods to the buyer, not cleared for import, and not unloaded from any arriving modes of transport at the named place of destination. The seller has to bear all costs and risks involved in bringing the goods thereto, other than, where applicable, any "duty" (which term

includes the responsibility for and the risks of the carrying out of customs formalities, and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination. Such “duty” has to be borne by the buyer as well as any costs and risks caused by his failure to clear the goods for import in time.

### **DDP DELIVERED DUTY PAID (...named place of destination)**

“Delivered Duty Paid” means that the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving modes of transport at the named place of destination. The seller has to bear all costs and risks involved in bringing the goods thereto, including, where applicable, any “duty” (which term includes the responsibility for and the risks of the carrying out of customs formalities, and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination.

Whilst the EXW term represents the minimum obligation to the seller (exporter), DDP represents the maximum obligation.

(Source: International Chamber of Commerce)

#### *Disclaimer:*

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