The Perfect INCOTERM® of Sale

While accommodating the purchase terms of the foreign buyer

CIF, DDP, FCA, CFR, DAT … – which Incoterm of delivery gets the international sale? There are 11 of them. Basically they represent who pays for services and transportation along the international supply chain – seller or buyer. Ultimately, the buyer pays for ALL supply chain charges. It gets down to *who* the buyer pays – to the seller, with the charges added to the cost of the product, or to the vendors providing the supply chain functions.

EXW	FCA	FAS	FOB	CFR	CIF (2)	CPT (1)	CIP (1) (2)	DAP	DPU	DDP
Ex Works	Free Carrier	Free Alongside Ship	Free Onboard Vessel	Cost & Freight	Cost, Insurance & Freight	Carriage Paid To	Carriage And Insurance Paid To	Delivered At Place	Delivered At Place Unloaded	Delivered Duty Paid

EXW *named place* and DDP *named place* are the opposite extremes of seller vs. buyer responsibility. Ideally, sellers would favor EXW as that is closest to selling domestically. In theory, buyers should welcome DDP as all supply chain arrangements, including payment of Customs duty in their country, are handled by the foreign seller. The other 9 choices are variations of increasing involvement by the seller moving left to right, from FCA to DPU.

What service provider commonly quotes and subsequently handles the coordination of the international supply chain vendors? **The International Freight Forwarder** (IFF). Typically, the IFF is providing the input to the seller to offer terms other than EXW. Wouldn't the foreign buyer obtain better control of the routing (and likely the pricing) if they dealt directly with the IFF? Unlike the standard relationship, the IFF would then work for the buyer, not the seller. The IFF in this case is called an FPA – Foreign Principal Agent. The FPA offers all IFF functions and FowarderPlus™ services.

Neither the seller nor buyer is an expert in the nuances of marine insurance, international (air or ocean) shipping, export regulations, import formalities, dealing with airports or marine terminals, or any of the other myriad functions along the international supply chain. The product being sold and how to pack it effectively for shipping is the seller's expertise. So, from the seller's perspective, wouldn't EXW *the seller's shipping location* be the only Incoterms of relevance?

If the FPA is the link to bridge the seller's shipping facility to the buyer's desired purchase terms of delivery, using two invoices makes sense. The cost of the product, including proper packing, is invoiced by the seller; all other charges from the seller's shipping location would be invoiced by the FPA directly to the buyer. The seller need not add the FPA charges to their invoice.

The seller's concerns with offering EXW terms

"EXW is a risky Incoterm because the buyer is responsible for the compliance with export formalities." Unless stipulated as an addendum to the sales agreement, the buyer is responsible to handle the needed declarations to get the goods out of the origin country. That could pose compliance issues to the seller if the buyer's agent mishandles the declaration. Ultimately, most countries look to the seller in their country to conform with needed export regulations BEFORE any product can leave the country.

"Under EXW terms, the loading is up to the collection conveyance." Having the pick-up trucker handle the loading of sophisticated machinery may not be a good idea. The shipping dock folks know the best way to load the product on a shipping conveyance. After loaded on the collection conveyance, logistics takes over.

What Incoterm is like EXW, but addresses the concerns of EXW?

Next to EXW is Free Carrier At-- FCA *named place*. Looking at the chart of responsibilities (buyer or seller), the difference is that under FCA compared to EXW, the seller is responsible for origin loading, origin export Customs declaration/duty/tax, and delivery to the Port of Export / Inland Freight. The "port of export" could be a receiving facility operated by a carrier, FPA /IFF, warehouse, OR the seller's own loading dock. In other words, selling FCA *seller's factory / loading facility* no inland transportation would need to be arranged by the seller – similar to EXW. The issues of selling EXW are addressed using FCA.

	EXW	FCA
	Ex Works	Free Carrier
SERVICES	Who Pays	Who Pays
Origin Warehouse Packaging Service	Seller	Seller
Origin Loading	Buyer	Seller
Origin Export Customs Declaration/Duty/Tax	Buyer	Seller
Delivery to Port of Export/Inland Freight	Buyer	Seller
Origin Terminal/Port Charges	Buyer	Buyer
Loading on Vessel	Buyer	Buyer
Carriage Charges (Ocean/Air Freight)	Buyer	Buyer
Insurance	N/A	N/A
Destination Terminal/Port Charges	Buyer	Buyer
Delivery to Place of Destination	Buyer	Buyer
Unloading at Place of Destination	Buyer	Buyer
Import Customs Clearance/Tax/Duty	Buyer	Buyer

What Incoterm works best for the buyer?

The seller's objective is to accommodate the terms of delivery requested by the buyer. As mentioned, DDP *named place* would on the surface be most appealing to a buyer – everything's taken care of to the buyer's doorstep. However, in actual practice, the buyer typically has an existing relationship with transportation providers and Customs brokers in the destination country.   Likely, they know the best transportation options to the ultimate destination from the port or airport of unloading.   And, Customs brokers can handle import clearance formalities best while working directly with the importer (usually also the buyer).

The "D" Incoterms all involve the seller's responsibility to arrange transportation in the destination country. And, in the case of DDP, the seller arranges the *destination* Customs clearance / tax / duty. How does the seller do this? Primarily, their IFF handles the on-carriage through an agent in the destination country. This requires the IFF to obtain an inland quote from their affiliate (or office) in the destination country and likely bump up those costs to account for unforeseen situations, or generate more revenue for themselves. In the case of DDP, the IFF has their destination affiliate attend to the import clearance formalities. This can prove to be very awkward, particularly factoring classification, valuation, or other agency issues with the destination government. Bottom line: the buyer should avoid requesting the "D" Incoterms, particularly if they already work with a reliable Customs broker.

	DAP	DPU	DDP
	Delivered At Place	Delivered At Place Unloaded	Delivered Duty Paid
SERVICES	Who Pays	Who Pays	Who Pays
Origin Warehouse Packaging Service	Seller	Seller	Seller
Origin Loading	Seller	Seller	Seller
Origin Export Customs Declaration/Duty/Tax	Seller	Seller	Seller
Delivery to Port of Export/Inland Freight	Seller	Seller	Seller
Origin Terminal/Port Charges	Seller	Seller	Seller
Loading on Vessel	Seller	Seller	Seller
Carriage Charges (Ocean/Air Freight)	Seller	Seller	Seller
Insurance	N/A	N/A	N/A
Destination Terminal/Port Charges	Seller	Seller	Seller
Delivery to Place of Destination	Seller	Seller	Seller
Unloading at Place of Destination	Buyer	Seller	Buyer
Import Customs Clearance/Tax/Duty	Buyer	Buyer	Seller

If the seller's best option is FCA *seller's origin facility* and the "D" terms are not advised to be in the best interest of the buyer, the remaining 6 Incoterms could be considered. FOB and FAS are strictly ocean terms, not to be used with other mode of transportation, such as air. The "C" terms involve international transportation routing by the seller (likely through their IFF).

If the buyer's Customs broker or international transportation provider can offer the best international shipping arrangement (main carriage), the buyer may request FCA *international carrier's loading location*. For instance, the buyer may have an existing service contract or their international service provider offers attractive NVOCC or air consolidation value. If it is best to take out insurance coverage by the buyer, which typically renders the best control, terms of CIP and CIF shouldn't be used. If the buyer seeks flexibility of shipping mode, CPT should be requested in lieu of CFR, which only pertains to ocean freight moves.

If the seller's invoice covers costs to the FCA *seller's shipping facility* and the buyer requests CPT *named unloading airport or seaport*, the FPA fills in the logistics gap between the two. If the buyer requests CPT terms, the second invoice is billed by the FPA to the buyer and covers the costs from FCA *seller's shipping facility* to CPT *named unloading airport* *or seaport.* At the earliest stage of securing the business, two pro forma invoices are involved – one from the seller, the other from the FPA. The seller offers terms to the buyer FCA *seller's shipping facility,* the FPA offers terms requested by the buyer.

Under this 2 part arrangement, the FPA necessarily gets involved in the transaction at the time the seller offers their pro forma invoice to the buyer. The FPA is actively involved in the transaction once the buyer's purchase order is issued. These are ForwarderPlus™ services that go beyond the role of the traditional IFF. In the chart below, "FPA" replaces wherever "Seller" is shown. The FPA invoices the buyer for supply chain functions that otherwise would have been added to the seller's invoice.

	FAS	FOB	CFR	CIF (2)	CPT (1)	CIP (1) (2)
	Free Alongside Ship	Free Onboard Vessel	Cost & Freight	Cost, Insurance & Freight	Carriage Paid To	Carriage And Insurance Paid To
SERVICES	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays	Who Pays
Origin Warehouse Packaging Service	Seller	Seller	Seller	Seller	Seller	Seller
Origin Loading	Seller	Seller	Seller	Seller	Seller	Seller
Origin Export Customs Declaration/Duty/Tax	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to Port of Export/Inland Freight	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal/Port Charges	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Vessel	Buyer	Seller	Seller	Seller	Seller	Seller
Carriage Charges (Ocean/Air Freight)	Buyer	Buyer	Seller	Seller	Seller	Seller
Insurance	N/A	N/A	N/A	Seller	N/A	Seller
Destination Terminal/Port Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Delivery to Place of Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Unloading at Place of Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Import Customs Clearance/Tax/Duty	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer

ForwarderPlus™ Services benefit both the seller and buyer

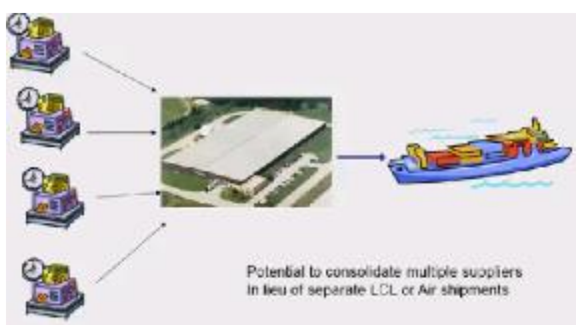
Many logistic issues can be best addressed at the earliest stages of consummating the sale with the input of the logistics expert. ForwarderPlus™ services ask the logistic questions often overlooked on the seller's pro forma invoice and buyer's purchase order. The FPA's involvement in creating the Logistics Pro Forma Invoice (LPFI) winds up benefiting both the seller and buyer. Under the "standard export transaction," in which the seller of the goods arranges the transport of the merchandise out of the country, the IFF's role is typically limited to providing the associated transportation and insurance premium costs for the seller to add to their pro forma. If the business is won by the seller, the IFF with the best quotation is typically picked as the forwarder and/or transportation carrier for the resulting export shipment. Their involvement occurs long after the buyer's purchase order is issued. Many logistics decisions could be made without the forwarder's input, possibly in an informational vacuum negotiated between the seller and buyer.

What can the buyer do working with an FPA that isn't normally available under "standard export" transactions?

- Changing the shipment mode is shown first since it is much more likely to occur, as real world circumstances change from what was originally planned on paper. The means to ship some cargo is a no-brainer -- shipping via ocean/waterway as opposed to air/air express is obvious. But, most shipments are potentially eligible to ship air or ocean. When the purchasing manager creates the purchase order, the shipping mode for each line item being ordered is typically assigned. Having the flexibility to change that mode is not readily available when "standard export transactions" are handled by the seller's IFF. Likely the seller's IFF has already made arrangements to move the cargo to a specific marine terminal or airport. Changing that for a portion of what is being shipped would prove to be very difficult, no to mention possibly changing Incoterms in mid-stream.

On the other hand, the FPA works for the buyer, not the seller. Accordingly, the control of *how* the cargo is routed falls to the buyer through their FPA. The buyer may instruct the FPA – "Even though the PO Line Item xyz indicates shipping by ocean, change the mode to expedited air." Conversely, when the order is placed, shipping via air seems feasible. But, the shipping size and weight prohibitively add to the cost, necessitating a change to ocean. Further, once the cargo is received at the FPA's warehouse, the buyer could instruct "pull 60 items of PO LI xyz from a warehouse receipt's package (carton or skid), put in a new carton, and ship via expedited air service." That sort of flexibility would be very cumbersome when the routing is controlled by the seller, particularly if the cargo has already left their shipping facility.

- Opportunity to consolidate purchases from other origin suppliers. On a unit price basis, it's always cheaper to ship ocean as a Full Container (FCL) compared to Less than Containerload (LCL). Air rates go down when cargo weight / dimensional weight increases. Each time there is a separate shipment involved; fixed costs (such as forwarder or destination clearance fees) run up the tab. The FPA has the flexibility of moving LTL (less than truckload) cargo to a consolidation warehouse where inland deliveries from the supplier can be segregated by ship mode.



If the buyer has purchases from other origin country suppliers, the critical mass to warrant the expense of a full container may be evident. Or, the opportunity is there to tender larger shipments to air carriers, thus driving down the rate. For buyers that regularly source from multiple origin locations or suppliers, this opportunity is routinely available compared to shipping each order individually. Multiple purchase orders and suppliers can be combined on one consolidated CI, sorted by supplier and purchase order. Or, if the destination Customs requires, separate CI's for each supplier can be generated. Either situation, the same consignee (buyer) is involved.

- Sync classification and valuation shipment data with their Customs broker. The commercial invoice (CI) is typically the basis for Customs declaration in the foreign country. It can be of extreme benefit to the buyer that their Customs broker has a role in working with the FPA to compose the CI. The CI could delineate which supply chain charges are dutiable and which are not. The description of the goods could be refined for destination Customs purposes, possibly avoiding a costly inspection by destination Customs. Other fields required by the destination Customs would be on the CI, some of which may not be part of a "standard CI format." Destination Customs are becoming more sophisticated and may require details of the product be shown on the CI (such as pictures, proper labeling, clauses indicating compliance with other agency regulations, HTS code, manufacturer information, etc.) In effect, the destination Custom brokers can "pre clear" shipments before they arrive if they have a hand in composing the CI. That can translate into broker fee discounts and more importantly, a quick clearance (less chance of demurrage, miss market, needless delays, etc.)

- Ability to inspect or inventory cargo prior to the international leg of the supply chain. Some countries require formal pre-shipment inspections before issuing an import permit to allow the cargo to be shipped to the destination country. Buyers may also request such formal inspections, carried out by noted inspection services.

As a practical matter, most shipments don't involve a formal inspection. But, the buyer may want assurance that the piece count of what was ordered is correct, they may want the condition of the product checked, or pictures taken before the cargo is shipped from the origin country. When the buyer controls the routing and works with an FPA, inspection services of that sort are available using the receiving warehouse labor – and the buyer can be confident in the findings as the FPA works in their behalf.

- Label packages for ease in receiving at destination. How about putting bar codes on the labels? Sellers are likely to put labels on the packages that hold the product content. But, those labels may not easily relate to the purchase order line items.

The FPA can sub-contract with the receiving warehouse to apply whatever labels the buyer may want on the cargo to ease the receiving operations at destination. Also, labels such as country of origin that may have been overlooked by the seller can be applied. Without them, the shipment likely could be detained by the destination Customs.

- Directly check on the status of purchase orders to the line item level. When a "Standard Export" transaction occurs – and the seller offers, for instance, CIF destination unloading port terms; getting a handle on when the cargo arrives at the destination may require some effort on the part of the buyer. Since control of the routing lies with the seller, the buyer must contact the seller to obtain an update on the shipping status. Often, this triggers the seller contacting their IFF who in turn may have to obtain an update from the main carrier. This gives the status of the shipment itself (for ocean, usually by container number), but typically wouldn't drill down to the purchase order line item level. Often the buyer wants to know the specifics – "What's the status of PO Line Item 2 of PO # OW 21170091? We ordered 26 units to ship by expedited air. "

OW 21170091	2	DFPCLCLCE3MM	Air	)	4/2/2021	26	26	EA

PONumber:	PO LI #	WR #:		WR Qty Rcd:	Arrival USCP:	File #		AWB-BL	Place of Dely	ETA
OW 21170091	2	82284	WR Detail	26	3/11/2021	EXP-8634	File	6035844426	Dammam	3/20/20

With the buyer working directly with the FPA, on-line status drilled to this level can easily be obtained. Expect the order on 3.20.21 under expedited file number EXP-8634. Click further to see the main carriage details.

If the purchase order allows partial shipments, there could be more than one warehouse receipt against each PO line item. The seller may not have the whole lot ordered available and ships in piecemeal stages. It is possible portions of one PO line item are then shipped under internationally under separate shipments, depending upon the urgency at the buyer's end.

- Ability to review shipping documents before they are finalized. What documents are needed by the Customs broker to satisfy destination Customs and other clearance agencies? Instead of automatically designating common documents that may not be required, the FPA in collaboration with the destination Customs broker, will create what documents are actually required. This can be listed on the FPA's pro forma invoice and factored into the FPA's pricing.

- Details of the LC application can include input from the FPA. Often documents not pertinent to the LC are requested, or shipping dates can't be complied with. With input from the FPA, these sort of potential issues are addressed before the LC is issued by the bank.

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:46A:.
1. MANUALLY SIGNED COMMERCIAL INVOICE IN ONE ORIGINAL PLUS TWO
   COPIES THE ORIGINAL MUST BE CERTIFIED BY LOCAL CHAMBER OF
   COMMERCE.
2. CERTIFICATE OF ORIGIN ISSUED IN ONE ORIGINAL PLUS TWO COPIES
   THE ORIGINAL MUST BE CERTIFIED BY THE CHAMBER OF COMMERCE
   STATING THE NAME AND ADDRESS OF THE MANUFACTURER/PRODUCER AND
   SHIPPER AND COUNTRY OF ORIGIN.
3. FCR (FORWARDER CERTIFICATE OF RECEIPT) ISSUED BY THE SHIPPING
   AGENT: H.C. BENNETT COMPANY, C/O MAPLE LOGISTICS SOLUTIONS
   60, GRUMBAEHER ROAD, YORK PA 17406, TEL:443 2706333, FAX:443-
   2706396 CONFIRMING RECEIPT OF GOODS DESCRIBED UNDER THIS L/C
   FOR ONWARD SHIPMENT VIA DAMMAM SEAPORT, KSA, FOR FINAL
   DELIVERY TO THE APPLICANT. THE FCR MUST BE SIGNED BY EITHER
   MR. DAVE BENNETT OR URANIA CREDIDIO. THE SPECIMEN SIGNATURES
   WILL FOLLOW AS ATTACHMENT NO.'01' BY COURIER TO FORM AN
   INTEGRAL PART OF THIS LETTER OF CREDIT.
4. PACKING LIST IN ONE ORIGINAL PLUS TWO COPIES.
5. CERIFICATE OF CONFORMITY (COC).
6. MANUFACTURER TEST PERFORMANCE REPORT (PTR).
:47A:.
A) INSURANCE COVERED BY THE APPLICANT
B) ALL DOCUMENTS REQUIRED MUST BEAR THE NUMBER OF THIS CREDIT.
C) ALL DOCUMENTS MUST BE MADE OUT IN ENGLISH LANGUAGE.
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What about transfer of risk?

	Any Transit Mode		Sea/Inland Waterway Transport				Any Transport Mode				
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered at Place	Delivered at Place Unloaded	Delivered Duty Paid
Transfer of Risk	At Buyer's Disposal	On Buyer's Transport	Alongside Ship	On Board Vessel	On Board Vessel	On Board Vessel	At Carrier	At Carrier	At Named Place	At Named Place Unloaded	At Named Place

Transfer of risk is often the same as transfer of title, but Incoterms do not specifically convey title transfer. They do indicate when the seller's liability for possible claims ends and the buyer's liability starts. Under FCA *seller's loading facility*, the buyer assumes risk at the time the cargo is loaded on the collection carrier appointed by the FPA. Basically, this means that if there is a claim discovered after the cargo is loaded on the collection conveyance, the buyer would need to coordinate handling the claim (usually through the FPA who works for the buyer). This is separate from insuring the goods. Under FCA *seller's loading facility*, the buyer would be responsible for arranging for cargo insurance, usually covering seller's loading facility to buyer's ultimate destination (best warehouse to warehouse, all risk coverage). If warranted, the buyer's insurance company would get involved at the time the claim is discovered.

Note also from the chart above, the mode of transport is shown for each Incoterm. Often, the intention of the buyer is to ship via sea/inland waterway, but circumstances change where the shipment (or portion thereof) is changed to another mode (usually air or express air). Any transport mode is available under FCA and 6 other terms, whereas 4 terms are restricted to the sea/inland waterway mode. Flexibility of shipping mode can be of great benefit.

Routed transactions – myths exposed

"FCA is the best Incoterm to use when the buyer is arranging the main carriage of the goods. And, the Foreign Trade Regulations of the US calls the arrangement a 'routed transaction' when the buyer controls the international transportation." How can a foreign buyer make these arrangements when they are located in another country? This is where the FPA comes into play. Working for the foreign buyer, the FPA has the interests of the buyer, their customer, foremost.

Whether or not the FPA actually books the main carrier, they necessarily are aware of the shipping details, including delivery to the port/airport of loading. Knowing that information, the FPA is in a position to file the export declaration. This is filed in behalf of the seller, who in the US is usually the USPPI – US Principal Party of Interest. The USPPI is responsible for providing accurate export details to Census and comply with all US export regulations. There is no obligation for the seller to use the FPA to file the export declaration (they could file it themselves or through another agent), but typically the FPA won't charge the seller for the filing. At the seller's request, the details of the filing can be provided by the FPA to the seller, thus ensuring that the declaration was properly filed.

In actual practice, the FPA realizes their appointment by the buyer is tied to the buyer's transaction with the seller. In many cases, the seller may introduce the FPA to the buyer. Consequently, there is a strong motivation for the FPA to look out for the interests of both the seller and buyer. The transaction runs smoothly when both the seller and buyer are happy. That occurs when the FPA communicates effectively with all parties. A "routed transaction" shouldn't be viewed by the seller as a "takeover" of normal freight forwarding functions by the buyer's agent, but as a collaborative undertaking.

"Routed transactions are not advised when a letter of credit is involved." Believing the "operative document" for the seller to get paid on an LC is the negotiable bill of lading would seemingly prohibit the seller to control that document when a routed transaction is involved. However, under FCA terms, instructions by the FPA can be given to the carrier to issue an "on-board" bill of lading copy to be expressly used for the seller's bank presentation purposes. Or, more commonly used, the FPA can issue a Forwarder's Certification of Receipt (FCR). The document is issued when the cargo transfers to the FPA's care, usually at an origin receiving warehouse. When used as the "operative document," the FCR can be presented to the advising bank by the seller once that transfer takes place. This is often much earlier than when an original bill of lading is issued and perhaps not under the same level of scrutiny as a bill of lading is. The ability to get paid faster and in an easier fashion, yet still retain all the protections of an LC sale, further benefits the seller.

Just how does the FPA charge for their services?

Think of the FPA charges as similar to the IFF's freight forwarding fee. Most of the services provided by the FPA mirror what the IFF would have provided in behalf of the seller. Those include cargo booking, delivery coordination, hiring and interfacing sub-contractors along the supply chain, and create shipping documents. In addition, the FPA's involvement at the purchase order issuance stage can involve charging a fee to process the PO line items. Warehouse receipts are also a common cost variable – activity is triggered each time cargo is received against the purchase order.

A good FPA is transparent by passing on the actual cost of sub-contracted vendors, such as the main carrier, receiving warehouse, drayman, marine terminal, insurance underwriter, inspection service, etc.; as applicable. The underlying vendor's invoice is provided to the buyer to substantiate the charges.

When the FPA issues a Logistics Pro Forma Invoice, the actual charges invoiced should mirror what is calculated on the pro forma version. As some charges are variable, dependent upon the volume of activity (such as number of warehouse receipts that are involved in the shipment), a pricing schedule would accompany the Logistics Pro Forma Invoice.

Summary – Transaction Example

The Perfect Incoterm© of sale is FCA *seller's shipping facility*, buyer's requested delivery terms arranged by the commonly appointed FPA. A separate Logistics Pro Forma Invoice is formulated by the FPA to cover anticipated charges from the seller's terms (FCA *seller's shipping facility*) to whatever Incoterm of delivery requested by the buyer. As explained, the use of CPT *named unloading port or airport* can be the best choice for the buyer to request.

The best way to illustrate the information provided in this white paper is through an actual shipment example. This describes how the Logistics Pro Forma Invoice is created and takes the viewer through the steps involved from PO issuance, cargo receiving, and main carriage shipping. The benefits of using an FPA become evident to both the buyer and seller.