Trade & Transportation Insurance News

vero national marine

Incoterms

February 2007

Introduction

International Trade is complex and various interpretations can be applied to buying / selling arrangements.

Incoterms were developed to standardise Terms of Trade, assist with confidence and consistency in International Trading Practices and reduce misunderstandings, disputes and litigation.

Incoterms were first published by the International Chamber of Commerce (ICC) in 1936 and the most recent version is 2000.

Some of the more common terms are explained in this newsletter.

Disclaimer

This newsletter is for information purposes only and is not legal advice.

Ex Works - EXW

EXW represents the minimum involvement of the Seller and the maximum involvement of the Buyer.

The goods are at the Buyer's risk once they are placed at their disposal by the Seller at the warehouse and the Buyer is responsible for all charges to the final destination.

The Buyer should insure the goods from the time they begin loading at the warehouse at the place of shipment.

Free on Board - FOB

FOB is one of the most common terms used in international trade.

The Seller is responsible for all charges incurred and all loss or damage until the goods are placed on board the vessel. He should insure the goods to the FOB point, Ships' rail .

The Buyer is responsible from thereafter and should insure the goods from Ships' rail' to the final destination.

Cost & Freight (CFR)

Previously known as C&F or CAF.

The Seller is responsible for all carriage and charges up to a 'named port of destination' but is responsible for loss or damage only until they deliver the goods to the custody of the shipowner at the port of shipment.

The Buyer should insure the goods from Ships' rail to final destination.

Cost, Insurance & Freight (CIF)

CIF is very similar to CFR but the Seller also arranges the insurance.

The Seller is required to arrange insurance on the goods on terms specifically laid down in the Sales Contract with an insurer of 'good repute'. In the absence of specific contractual requirements only 'minimum cover' must be purchased by the Seller.

'Tail End' exposures occur in CIF contracts where there is confusion as to where the Seller supplied insurance contract ceases. Insurance will generally cease at 'named port of destination' leaving the Buyer with an exposure from the port or vessel to the final destination.

Buyer's insurers may not want to provide full coverage without survey because of the possibility of hidden damage. The principal solution is for Buyers to contract on FOB or CFR terms and arrange their own insurance for the transit from ship's rail.

As always, if you would like more information, please contact us.

The Team at
Vero National Marine