

## **International Commercial Terms** **(Incoterms or Terms of Trade)**

The Incoterms, which are also known as terms of trade, are standard trade Definitions most commonly used in international sales contracts. Developed and administered by International Chamber of Commerce in Paris (ICC), Incoterms are universally recognized and adhered to by the major trading nations of the world.

Incoterms describe the supplier and buyer's obligations and specify the point when the responsibilities for the transportation costs shift.

There are currently 13 Incoterms in use but we will only explain the Incoterms that are most frequently used in Australian Imports/Exports.

### **1. EX-WORKS (Ex factory)**

Under Ex-works the seller minimizes his risk by only making the goods available at his own premises.

Ex-works represents the minimum involvement of the supplier and the maximum involvement of the buyer in the arrangement of the transportation of the goods from the premises of manufacture to their premises.

#### **Buyers Obligations under the Ex-works term:**

- Inland freight
- Export customs clearance
- Origin port charges
- Payment of customs charges and taxes in Australia
- Main carriage/freight
- Cargo (marine) insurance
- Unloading from the main carrier and port charges
- Customs clearance in buyers country
- Payment of customs duties and taxes in buyers country
- Inland freight in buyers country
- Other costs and risks in buyers country

### **2. FOB (Free on board)**

FOB is one of the most common terms used in international trade. Under FOB the supplier is responsible for delivering goods to the named port, export customs clearance and loading them onto the vessel.

The point of transfer of responsibilities under FOB is described as the point "when the goods pass the ship's rail". That means that if during the loading onto the ship, the goods would fall on the wharf or in to the water, the supplier would be responsible for the losses, but if the goods fall on the deck of the ship, the losses are the buyers.