Incoterms and your supply chain: tightening links

By Marian Ladner

Keeping up with the intricacies and details of a supply chain might seem like a logistical nightmare requiring a Herculean amount of management skill. But ensuring that your supply chain is above board and running smoothly is vital to sustaining a profitable, successful company. Not only can thinking through every aspect of your supply line keep a company in the black, but it can also prevent legal problems and catch costly mistakes before they happen.

Successful supply-chain management will always understand who their vendors are — from the widget and gizmo manufacturer, to the warehouseman, to the shipper and the carrier. Working out dependable international contracts ensures predictability and accountability, but requires terminology that is familiar and universal to all interested parties.

To fill that need, the International Chamber of Commerce devised the International Commerce Terms. Incoterms are the trade terms most commonly used in international contracts and have been in circulation since 1936. There are 13 Incoterms, and companies perceive them as the most important factor in a transaction after price and quantity. Why then, if there are only 13 Incoterms, are companies routinely confused or unaware as to what legal terms are controlling their transactions? I can only conclude that the explanation rests in lack of adequate training.

Correct use of Incoterms, which have been translated into 31 languages, can bridge misunderstandings, prevent disputes, and can create legal certainty that allow people to act without hesitation. They efficiently detail a buyer's and seller's obligations inherent in the contracts of carriage that govern the international transportation of merchandise.

As such, the various Incoterms available are worth committing to memory. Those negotiating trades can rely on Incoterms to keep every link of their supply chain tightly connected, and to eliminate delays. What they cannot do, however, is determine the terms of sale of the contract or transaction at issue. Incoterms have nothing at all to do with the passage of title and/or ownership of the goods. They only address the risks and obligations relating to the contract of carriage for the merchandise. Passage of title must be specifically addressed in either the contract of sale or on the purchase order.

Briefly, the 13 Incoterms outline the following arrangements:

EXW: "ex works." This means that all the seller has to do is put the goods up for purchase at his or her premises. The seller is not responsible for clearing the goods for export or for moving them out of his premises. This arrangement imposes the least amount of obligation on the seller and the most on the buyer.

FCA: "free carrier." The seller delivers the goods, already cleared for export, to a prearranged place. If delivery is to any place other than the seller's premises, the seller is not responsible for unloading the goods.

FAS: "free alongside ship." This means that the goods are considered to have been delivered if they are placed next to the vessel at the port they will be shipped from. This term only relates to water transport.

FOB: "free on board." This one goes a little bit further: The goods are delivered when they pass the ship's rail. Once again, this term is only used for water transport.

CFR: "cost and freight." This arrangement means the goods are delivered when the seller delivers them past the ship's rail in the port of destination. The seller pays for the shipment's cost and freight.

CIF: "cost, insurance, and freight." The only difference from CFR is that the seller also has to buy marine insurance to protect the buyer if the goods are lost or damaged in transit.

CPT: "carriage paid to." The seller delivers the goods to a mutually agreed destination and pays for the delivery. The seller also chooses the carrier that will deliver the goods. The buyer takes on the risk and cost after the goods have been delivered.

CIP: "carriage and insurance paid to." Just like CPT, except that the seller also has to purchase insurance.

DAF: "delivered at frontier." The goods are delivered when they arrive at the frontier, but not unloaded. They are cleared for export but not import. This term may be used irrespective of the mode of transport. The frontier is not necessarily the border of the importing country. For example, a shipment bound for the U.S. via Canada reaches the frontier when it arrives in Canada.

DES: "delivered ex ship." Goods are delivered when placed at the buyer's disposal at a named port onboard a ship. The seller bears the costs and risks up to delivery, but the importer pays for customs clearance in his country as well as the costs of discharging the goods.

DEQ: "delivered ex quay." The goods, not cleared for import, are delivered when they are placed at the quay of the named port of destination. The seller bears all costs and risks up to delivery, including the cost of unloading the goods at the wharf.

DDU: "delivery duty unpaid." The seller bears all costs and risks of delivering goods to the destination, including unloading. The buyer pays for customs clearance, any taxes or customs duties, along with additional costs, such as demurrage because of customs delays caused by the importer.

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Airbus North America selects chief executive

Barry Eccleston

Airbus North America Holdings Inc., the U.S. subsidiary of Airbus SAS, appointed Barry Eccleston president and chief executive. He will oversee all efforts of Airbus in the United States and Canada, including sales and marketing, service and training.

Eccleston joins Airbus from Honeywell's engines, systems and services division, where he served as vice president and general manager of the Propulsion Systems Enterprise, a position he held for almost two years. Prior to that position, Eccleston was Honeywell's vice president of commercial aerospace for Europe, the Middle East and Africa.

Eccleston's 36-year career in aviation and aerospace began at Rolls-Royce where he started as a flight-test engineer and held increasingly senior positions with the company for 25 years, culminating in his role as president and chief executive of International Aero Engines.

Dettmann joins RailSecure

RailSecure appointed Charles Dettmann senior technical adviser on rail security. In addition, Dettmann has taken a seat on the Mobius Security Group's board of advisers. Dettmann previously served at the Association of American Railroads as executive vice president for safety and operations.

Prior to joining RailSecure, Dettmann spent nearly 25 years in high-level positions with the Union Pacific and Missouri Pacific railroads. During his tenure, he negotiated "open-border" agreements and successfully addressed hazardous-material transport by spearheading coalitions and helping write federal legislation for safer operations.

Matson appoints Robinson director of trans-Pacific service

Matson Navigation named Dan Robinson director of trans-Pacific service at the company's headquarters in Oakland. He will lead all of the China market efforts in the U.S. and work closely with Matson's headquarters pricing and marketing departments. Matson plans to begin a weekly service next February from Shanghai and Ningbo to Long Beach.

Robinson joins Matson with more than 30 years of maritime experience, including 14 years at APL and 16 years at Sea-Land Service. His most recent position was vice president of trans-Pacific eastbound pricing for Hyundai Merchant Marine.

Sea Star names director of inside sales

Sea Star Line LLC appointed Kambiz Pakzad director of inside sales. Pakzad will report directly to Bill Stallings, vice president of sales.

Prior to joining Sea Star Line, Pakzad held several sales and sales management roles with Crowley Maritime Corp. He joins Sea Star from a software development firm that provides software-based transportation and logistics solutions to shippers, carriers and logistics providers.

To further support this reorganization, Desiree Boyett will lead Sea Star's new business development strategies within the inside sales program.

TNT Freight Management appoints Souza

TNT Freight Management appointed David Souza finance director. In his new role, Souza will be based in Gothenburg, Sweden.

He previously served as corporate controller for TNT Logistics North America, headquartered in Jacksonville, Fla.. Souza joined its predecessor company, Customized Transportation Inc., in 1995 as director of financial reporting and investments. He was also actively involved in the predecessor company's acquisition by TNT in 2000. Souza was promoted to corporate controller in 2002 and joined the business unit's management committee at that time.

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DDP: "delivery duty paid." Just like DDU, except that the seller is responsible for duties and customs. This term involves the greatest risk possible for the seller. However, it also can translate into the most expensive overall price to the buyer if the seller passes on all the additional costs, along with a premium fee.

Once solid contracts have been established, a whole host of other factors present themselves, such as how "just-in-time" inventory management for production can affect a supply chain, and whether or not it makes good business sense to join a government partnership program, such as the Customs-Trade Partnership Against Terrorism. Such factors can determine what language in your contracts or purchase orders will be most beneficial to the efficient operation of your supply chain, and what areas will need to be explored, reconsidered and refurbished.

With well-planned, clear, precise and comprehensive contracts or purchase orders, implementing even drastic changes to a supply chain can be done. However, you must understand your partners and the decisions you face so that you can best position your company to obtain greater efficiency and transparency in your supply chain.

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