

INCOTERMS: ESSENCE AND SIGNIFICANCE

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The buyer and the supplier have to agree on the terms of goods delivery — who will be in charge of transporting, loading and unloading, and who will be responsible for breakage or loss of the goods. However, it is not necessary to describe everything in the contract, for this purpose a system of designations has been developed which are internationally recognized and can be equally understood in different countries. Incoterms rules (International Commercial Terms) have been employed in international trade since 1936. They are a collection of trade term definitions designed and implemented by the International Chamber of Commerce (ICC). They describe the contract responsibilities and liabilities of the buyer and the seller, as well as differentiate their risks and expenses. In respect of responsibilities, they can imply which party will organize the transportation or insurance of goods, or which party will deal with export or import formalities and pay customs duties. As for the risks, they might imply cases in which the responsibility for the safety of the goods is devolved from the supplier to the buyer. On the subject of expenses, these refer to distribution of the costs on transportation, packaging, loading or unloading, as well as the costs on inspection and security.

A number of items are not concerned by International Incoterms rules such as transfer of goods ownership; consequences of delay and other violations in the performance of obligations under the contract; characteristics of goods; time, place, method or currency of payment for the goods; force majeure;

intellectual property rights and controversial resolution in case of their violation. The above-mentioned items are to be stipulated in the sales agreement [1].

The chosen delivery terms influence on the final price of the goods, because the transportation and procurement costs depend on Incoterms. The rules are revised every ten years and each upcoming revision cannot disable the former one which means that although any rules can be used, the International Chamber of Commerce provides recommendations to still apply the recent ones – Incoterms 2020 (Fig. 1).

Incoterms rules consist of eleven three-letter trade terms defining basic delivery terms. The bases of delivery are divided into 4 groups — E, F, C, D, depending on the participation of the seller and the buyer in the main delivery.

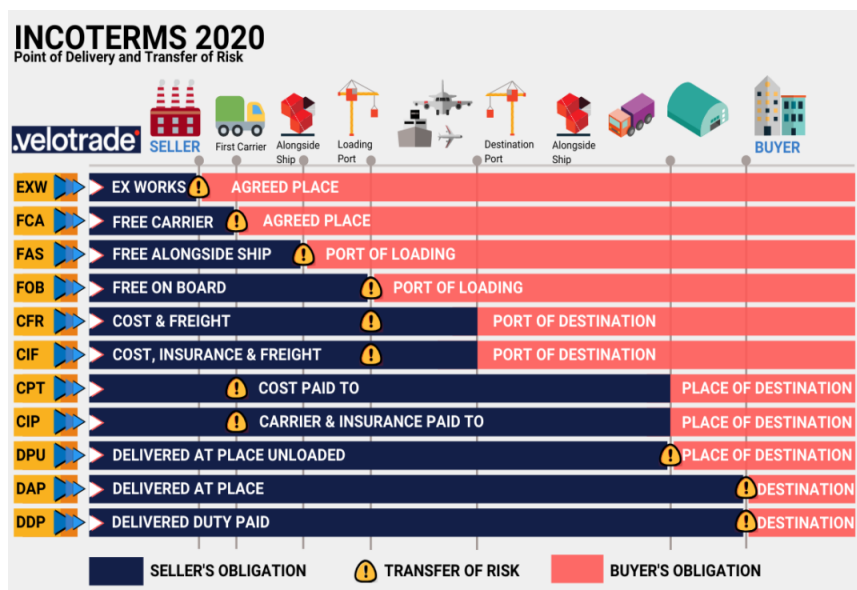


Figure 1 – Incoterms Rules 2020

References

1. Incoterms 2020 Explained, How They Will Affect Global Trade. [Electronic resource]. – Mode of access: <https://incodocs.com/blog/incoterms-2020-explained-the-complete-guide/>. – Date of access: 16.03.2023