

# Incoterms (The C Terms)

With reference to the International Terms of buying and selling, we would like to have a look at the terms of buying and selling for both the importer (buyer) and exporter (seller). This will explain to what extent you will be liable for goods that you've bought or sold.

With this you would see where the liabilities ends or start. We will also go into the VAT factor and give some clarification on the matter as well.

In this issue, we will look into all the Incoterms starting with C (CFR, CIF, CPT and CIP)

## **CFR (Cost and Freight)**

**(+ the named point of destination)**

Cost and Freight is the delivery of goods to the named port of destination at the seller's expense. The buyer is responsible for the cargo insurance and other costs and risks. The term CFR was formally written as C&F.

This term is used for ocean shipments that are not containerised.

### **The Seller's Obligations**

Ten obligations that the seller might need to fulfill in terms of Cost and Freight:

- 1) The provision of goods in conformity with the contract;
- 2) Licences, authorisations, and formalities;
- 3) Contracts of carriage and insurance;
- 4) Delivery;
- 5) Transfer of risks;
- 6) Division of costs;
- 7) Notice to the buyer;
- 8) Proof of delivery, transport documents or equivalent electronic message;
- 9) Checking, packaging, marking; and
- 10) Other obligations.

As for the transfer of risks, the seller bears all risks of the loss or damage to the goods until delivery has taken place at the named place of destination. In relation to the division of costs, the seller must pay all the costs relating to the goods up to the delivery at the named place of destination, and in certain instances, the costs, duties, taxes, and other charges payable on export and at the port of destination. The seller must give sufficient notice to the buyer that the goods have been delivered. If the carrier fails to take delivery at agreed time, the seller needs to inform the buyer.

### **The Buyer's Obligations**

Ten obligations that the might need to fulfill:

- 1) The payment of the price;
- 2) Licences, authorisations, and formalities;
- 3) Contracts of carriage and insurance;
- 4) Taking delivery;
- 5) Transfer of risks;
- 6) Division of costs;
- 7) Notice to the seller;
- 8) Proof of delivery, transport documents or equivalent electronic message;
- 9) Inspection of the goods; and
- 10) Other obligations

## **CIF (Cost, Insurance and Freight)**

**(+ the named port of destination)**

Cost, Insurance and Freight to the named port of destination (discharge), is at the seller's expense. The buyer is responsible for the import customs clearances and other costs and risks.

In the export quotation, indicate the port of destination (discharge) after the acronym CIF, for example **CIF Harare**.

Under the rules of the INCOTERMS 1990, the term **CIF** is used in ocean freight only. However, in practice, many importers and exporters still use the term **CIF** in airfreight.

The three critical points of CIF are:

- 1) The carriage and insurance are arranged by the seller,
- 2) The risk transfers from the seller to the buyer when the goods have been delivered to the port of destination, and
- 3) The cost transfers from the seller to the buyer when the goods have been delivered at the named port of destination.

### **The Seller's Obligations**

The obligations of the seller is the same as explained under the obligations for the seller in CFR above, except that it includes insurance to that port.

## **The Buyer's Obligations**

The buyer's obligations is the same as explained under the obligations for the buyer in CFR above.

## **CPT (Carriage Paid To)**

**(+ the named place of destination)**

Carriage Paid To is the delivery of goods to the named place of destination (discharge) at the seller's expense. The buyer assumes the cargo insurance, import customs clearance, payment of customs duties and taxes, and other costs and risks.

The three critical points of CPT are:

- 1) The carriage is arranged by the seller,
- 2) The risks transfers from the seller to the buyer when the goods are delivered at the named port of discharge, and
- 3) The cost transfer at the port of destination, with the buyer paying costs that are not for the seller's account under the contract of carriage.

## **The Seller's Obligations**

The obligations of the seller is the same as explained under the obligations for the seller in CFR and CIF above.

## **The Buyer's Obligations**

The buyer's obligations is the same as explained under the obligations for the buyer in CFR and CIF above.

## **CIP (Carriage and insurance Paid To)**

**(+ the named place of destination)**

Carriage and Insurance Paid To is the delivery of goods to the named place of destination (discharge) at the seller's expense. The buyer is responsible for import customs clearance, payment of customs duties and taxes, and other costs and risks.

The three critical points of CIP are:

- 1) The carriage and insurance are arranged by the seller,
- 2) The risks transfers from the seller to the buyer when the goods are delivered at the named port of discharge, and
- 3) The cost transfer at the port of destination, with the buyer paying costs that are not for the seller's account under the contract of carriage.

If used as an Incoterm in the correct manner, the seller and the buyer are endeavouring to qualify certain aspects of the sales contract, perhaps most importantly to establish where 'delivery' occurs - with delivery being the completion of the contract i.e. what is the very last obligation the seller has to the buyer. With CIP this is when the seller hands the cargo over to the first carrier in the process, having disbursed the freight necessary to pay for the transit of the goods to the destination address (which is written as part of the CIP expression.) Note also that this term could be used in any form of transport, so it may be used in airfreight.

It is also suggested rather to sell on a CIF or CIP basis, and carry the cost of insurance, as the seller is liable for the goods to be delivered at the port or point of destination.

### **The Seller's Obligations.**

The obligations of the seller is the same as explained under the obligations for the seller in CFR, CIF and CPT above.

### **The Buyer's Obligations.**

The buyer's obligations is the same as explained under the obligations for the buyer in CFR, CIF and CPT above.

### **The "C" Terms and VAT.**

As the seller is in control of the freight and the delivery, CFR, CIF, CPT and CIP, contract should be ZERO Rated and the seller should not charge VAT.