Shipping Terminology

When goods travel from a seller to a buyer, many questions appear. Who pays for the transport, the insurance and the customs duties? And who carries the risk if the goods are damaged on the way? Shipping terms answer these questions in just three letters. The most widely used are the Incoterms rules, published by the International Chamber of Commerce and last updated in twenty twenty. Knowing them helps sales, purchasing, finance and customer service speak the same language.

1. The Shipping Journey

Every international shipment follows a similar journey: the seller's premises, the port of loading, the sea voyage, the port of destination, import customs and finally the buyer's door. Each shipping term marks two points on this journey. The first is where the costs pass from the seller to the buyer. The second is where the risk passes, and it is not always the same point.

Example: Omar owns a chain of cafés in Dubai, and he orders twenty coffee machines from a factory in Shanghai. The term in his contract decides exactly what he pays for, and when the machines become his risk.

2. EXW and FCA

Under EXW, or Ex Works, the seller simply makes the goods available at its own premises. The buyer arranges and pays for everything else, including loading, export customs and transport. This term gives the seller the least work, and the buyer the most. Under FCA, or Free Carrier, the seller hands the goods, cleared for export, to the carrier chosen by the buyer.

Example: under EXW Shanghai, Omar's agent collects the machines from the factory gate.

At work: under FCA Shanghai, the factory delivers the machines to Omar's freight company, with the export papers ready.

3. FOB, CFR and CIF

These three terms are used for sea freight. Under FOB, or Free On Board, the seller's responsibility ends when the goods are loaded on the ship at the port of loading. Under CFR, or Cost and Freight, the seller also pays the freight to the destination port, but the risk still passes at loading. CIF, or Cost, Insurance and Freight, adds insurance paid by the seller. This is a

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common trap: with CFR and CIF, the seller pays for the voyage, but the buyer carries the risk at sea.

Example: under FOB Shanghai, Omar books the ship and pays the sea freight himself.

At work: under CIF Jebel Ali, the factory pays the freight and the insurance to Dubai. If a storm damages the machines, Omar claims from the insurer.

4. DAP and DDP

With delivered terms, the seller carries the goods all the way to the buyer's country. Under DAP, or Delivered At Place, the seller delivers to an agreed place, and the buyer pays the import duties and taxes. Under DDP, or Delivered Duty Paid, the seller pays everything, including the import duties. This term gives the buyer the least work, and the seller the most. An older term, DDU, has been replaced by DAP.

Example: under DAP Dubai, the machines arrive at Omar's warehouse, and Omar pays the customs duty.

At work: under DDP Dubai, the factory pays the duty too, so Omar simply signs for the delivery.

5. Containers and Documents

Goods can travel in a Full Container Load, called FCL, where one shipper uses the whole container. With Less than Container Load, or LCL, several shippers share one container and pay only for their space. Air freight is faster and more expensive, so it suits urgent or high-value goods. The key document at sea is the Bill of Lading: a receipt for the goods, proof of the transport contract and a document of title.

Example: for a small order of spare parts, Omar uses LCL to save money. When two machines are late for a new café opening, he sends them by air.

Conclusion

In summary, shipping terms decide who pays, who carries the risk and where the responsibility changes hands. EXW gives the buyer the most work, DDP gives the seller the most, and the other terms sit in between. Always check the term and the named place in every contract and quotation. A few letters can make a big difference to your costs and your risks.

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