IMPORTANCE OF DELIVERY CONDITIONS IN THE EXTERNAL PRICE CALCULATION

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Abstract: *The delivery conditions of the merchandise at export, established by the rules INCOTERMS 2000, influence the external price structure. There are some conditions in which the external price includes only the value of the merchandise and other conditions in which, besides the value of the merchandise, the price includes also the external transport and insurance. In the case of the exports on commercial credit, when it appears the notion of external interest, this one may be included in the price or may be invoiced separately, thus defining gross external prices and net external prices.*

Keywords: *INCOTERMS conditions, external transport, external insurance, gross price, net price, sale at departure, sale at arrival*

1. Introduction

This paper has the purpose to analyze the modalities in which the delivery conditions of the merchandise at export influence the external sale price structure.

The contract of international sale includes a series of clauses regarding the modality of the merchandise future delivery from the seller to the buyer and the parties' obligations. The period in which the seller must transmit the merchandise toward the buyer is defined as term of delivery, the place and the moment in which the merchandise is transmitted from the seller to the buyer, together with the expenses and the risks implied, define the parity of delivery.

2. The term of delivery

There are calculated either in the contract, either after the contract conclusion, in function of a certain date. In the foreign trade, the delivery takes place:

- in the first 30 days from the letter of credit opening;
- without exceeding 45 days from the contract signing;
- in the first, the second or the third decade of the month.

In the case in which the payment was realized in advance, the term of delivery is calculated, not from the date of the contract signing, but from the date of the advance payment. If the merchandise delivery is done in installments, there are established both intermediary terms of delivery and the final term. The delivery modality may be a global one or using installments.

If the seller delivers the merchandise with delay, the buyer may ask for the achievement of the contract or for its cancellation. In any case, the lack of respect regarding the delivery terms leads for the exporter to the payment of some penalties of delay that must be stipulated in the contract, for each day of delay.

3. The INCOTERMS conditions of delivery

They concern the mutual obligations of the seller and the buyer, included in the contract of international sale, regarding the following aspects:

- The seller's obligation to deliver the merchandise and the buyer's one to take the merchandise and to pay it. The seller must deliver the merchandise from the quantitative, qualitative, of the term and the delivery place points of view, according to the contract, together with the delivery documents presentation. The buyer must take the merchandise at the established place and term and he must pay the price according to the contract.
- Bearing the expenses of packing corresponding to the seller.
- The quantitative and qualitative control affected by the seller, with the purpose to put the merchandise at the buyer's disposal, in accordance with the contract.

- The establishment of the transfer place for the expenses and risks from the seller to the buyer.
- The seller's obligation to announce the buyer that the merchandise was put at his disposal and the buyer's obligation to announce the seller about the conditions the merchandise must be given to the carrier.
- The signing of the transport contract and the delivery documents getting.
- Obtaining the authorization, the origin certificate a.s.o.
- Organization of clearing the customs and the customs duties payment.

The INCOTERMS 2000 conditions of delivery include thirteen rules referring to:
- the seller's obligations regarding the delivery;
- the transfer of risks from the seller to the buyer;
- the expenses distribution between the parties during the transport;
- the documents owed by the seller to the buyer.

They regard only the international contracts and they have a flexible character, being able to be changed. The above mentioned rules are grouped in four categories:

◊**THE E GROUP** – the seller put the merchandise at the buyer's disposal in own spaces (EXW).
◊**THE F GROUP** – the seller must deliver the merchandise to a carrier named by the buyer (FCA, FAS, FOB).
◊**THE C GROUP** – the seller must bear the transport (CFR, CIF, CPT, CIP); in the conditions CIF and CIP the seller must also bear the insurance of the merchandise, but without assuming the risk of the merchandise loss or damaging and without bearing the supplementary expenses after the charging and expedition.
◊**THE D GROUP** – the seller must bear all the expenses and risks corresponding to the merchandise transport until the destination country (DAF, DES, DEQ, DDU, DDP).

The FOB and CIF conditions are the most used ones. The above mentioned conditions use the notion of **sale at departure**, when the merchandise circulates on the buyer's risk and account, and the notion of **sale at arrival**, when the merchandise circulates on the seller's risk and account. Schematically, the 4 groups of INCOTERMS rules, structured in function of the transport modality and the type of sale (at departure or at arrival), are presented as it follows:

INCOTERMS 2000 Conditions of delivery

Group	Symbol	Condition of delivery	Modality of transport	Type of sale
E	EXW	Ex works	anyone	sale at departure
F	FCA	Free carrier	anyone	sale at departure
	FAS	Free along side ship	maritime	sale at departure
	FOB	Free on board	maritime	sale at departure
C	CFR (CAF)	Cost and freight	maritime	sale at departure
	CIF	Cost, insurance and freight	maritime	sale at departure
	CPT	Cost (Transport) paid until to...	anyone	sale at departure
	CIP	Cost (Transport) and insurance paid until to…	anyone	sale at departure
D	DAF	Delivered at frontier	land	sale at arrival
	DES	Delivered ex uncharged ship	maritime	sale at arrival
	DEQ	Delivered ex quay	maritime	sale at arrival
	DDU	Delivered duty unpaid	anyone	sale at arrival
	DDP	Delivered duty paid	anyone	sale at arrival

The 13 conditions enunciated before indicate the geographical point in which the merchandise is transmitted from the seller to the buyer, point in which the obligation of the merchandise transport organization until the destination and the obligation of bearing the expenses and risks corresponding to the transport are transferred from the seller to the buyer. For the conditions from the C group, the point of the expenses transfer is not the same with the one of risks transfer.

◊**THE E GROUP** includes the condition EXW (Ex Works) applicable to all the modalities of transport, with sale at departure.

The seller puts the merchandise at the buyer's disposal in his own spaces (factory, deposit a.s.o.) without accomplishing the customs formalities at export and without the obligation of merchandise charging on the mean of transport. If it is stipulated in the contract, by an explicit clause, the seller may bear the expenses and the risks at the charging, in the point of expedition. The buyer must specify the modality of transport for the seller to choose the suitable type of packaging.

◊**THE F GROUP** includes the conditions: FCA, FAS, FOB, with sale at departure.

- **The FCA condition** (Free Carrier) supposes that the expenses transfer from the seller to the buyer is done in the moment of merchandise delivery, in the same place with the risks transfer. The seller does assume neither the risks, nor the expenses for the transport, but he realizes the clearing in customs of the merchandise for export.
- **The FAS condition** (Free Alongside Ship) is used in the case of the maritime transport and it supposes that the expenses and risks transfer from the seller to the buyer takes place on the quay, in the agreed embankment port. The seller must take care of the customs formalities for the merchandise at export. If the clearance at customs is in the charge of the buyer, this must be mentioned explicitly in the contract.
- **The FOB condition** (Free On Board) is applied in the case of the maritime transport and it supposes that the transfer of the expenses and risks from the seller to the buyer takes place in the same point, after the merchandise passing over the railing of the ship in the harbor of charging. The buyer concludes the contract of transport on his expense, having the obligation to inform the seller regarding the name of the ship, the place of charging, the term of delivery. If the ship does not arrive in the port at the established date, the risks of loss or damaging of the merchandise are beard by the buyer. The clearing in customs of the merchandise at export is on the charge of the seller.

The seller's obligations:

- The delivery of the merchandise according to the contract – he delivers the merchandise and supplies the commercial invoice, in accordance with the sale contract.
- Licenses, authorizations and formalities – he obtains, on his risk and expense, the license of export or any other official authorization and he accomplishes the customs formalities for the export.
- The contract of transport and the insurance – he has no obligation.
- The delivery – he delivers the merchandise at the board of the ship designated by the buyer, in the established port and at the established date.
- The risks transfer – he bears all the risks of loss or damaging of the merchandise, until the moment in which it crosses the railing of the ship in the agreed port of charging.
- The distribution of the expenses – he bears all the expenses linked to the merchandise until the moment of passing the railing of the ship in the agreed port.
- The buyer's notification – he notifies the buyer that the merchandise was delivered at the ship board.
- The proof of delivery and the document of transport – he supplies to the buyer, on his expense, the document that proves the delivery of the merchandise.
- The checking, packaging, marking – he pays the operations of quality control, the measurement, the weighing, the counting, necessary for putting the merchandise at the buyer's disposal.
- Other obligations – he gives to the buyer at his demand, on the risk and expense of this one, the support in obtaining any documents that the buyer could need and he supplies the information necessary for the insurance realization.

The buyer's obligations:

- The payment of the price – he pays the price stipulated in the contract of international sale.
- Licenses, authorizations and formalities – he obtains, on his risk and expense, the license of import or other official authorizations, accomplishes the customs formalities of import and, if necessary, the formalities of transiting a third country.
- The contract of transport – he concludes, on his expense, the contract for the merchandise transport from the agreed port of charging.
- The merchandise taking – he takes the merchandise at the board of the ship, in the agreed port, at the established date.
- The risks transfer – he bears all the risks of loss or damaging of the merchandise from the moment in which it passed the railing of the ship, in the agreed port of charging.
- The expenses distribution – he pays all the expenses linked to the merchandise from the moment in which it passed the railing of the ship in the charging port. He bears any supplementary expenses owed to the lack of the ship presentation at time or the lack of charging at the term. He pays the customs duties and other official duties and he bears the accomplishment of the customs formalities of import, those linked to the transition of the merchandise in a third country.
- The seller's notification – he notifies the seller regarding the name of the ship, the place of charging and the term of delivery.

- The proof of delivery and the document of transport – he accepts the proof of the delivery with the corresponding document.
- The merchandise inspection – he bears all the expenses linked to the preliminary inspection of the merchandise charging, including the situation if the inspection is realized by the authorities from the exporting country.
- Other obligations – he bears the expenses linked to the obtaining of other necessary documents and he returns to the seller the sums spent by him for getting the necessary documents for the buyer.

◈**THE C GROUP C** includes the conditions: FR, CIF, CPT and CIP, with sale at departure.

- **The CFR (CAF) condition** (Cost and Freight) – represents, in fact, the FOB condition, to which it is added the freight paid by the seller. This one chooses the maritime company, reserves the ship and he bears the cost of the maritime transport. The risks regarding the merchandise during the transport are beard by the buyer, who bears also the payment of the insurance prime. So the transfer of the risks takes place in the port of embankment and the transfer of the expenses takes place in the port of destination. The seller has the obligation of clearing in the customs of the merchandise at export.
- **The CIF condition** (Cost, Insurance and Freight) represents, in fact, the CFR (CAF) condition, at which it is added the cost of the merchandise insurance (the prime of insurance). Although the merchandise is transported on the risk of the buyer, the seller has the charge to pay the prime of insurance. The seller has the obligation of clearing in the customs of the merchandise at export. The condition is valid only for the maritime transport.

The seller's obligations:

- The delivery of the merchandise – he delivers the merchandise in accordance with the contract and he supplies the commercial invoice.
- Licenses, authorizations and formalities – he obtains, on his risk and expense, the license of export and accomplishes the customs formalities of export.
- The contract of transport and the insurance – he concludes, on his expense, the contract of transport at the port of destination, with a maritime ship. He concludes, on his expense, the merchandise insurance, he supplies to the buyer the insurance note.

The contract is concluded with an insurance company, for a sum that covers the price stipulated in the contract, at which it is added 10 %, expressed in the currency of the contract. The period of insurance begins with the moment of passing over the railing of the ship in the port of charging.

- The delivery – He delivers the merchandise at the board of the ship, in the port of charging, at the established date.
- The transfer of the risks – he bears all the risks of loss or damaging of the merchandise until the moment in which this one passes the railing of the ship in the port of charging.
- The distribution of the expenses – he bears all the expenses linked to the merchandise until the moment of its delivery, the freight and the expenses of charging at the board of the ship.
- The buyer's notification – he notifies the buyer that the merchandise was delivered at the board of the ship.
- The proof of the delivery and the document of transport – he supplies to the buyer, on his expense, the usual document of transport for the agreed port of destination.
- The sale, the packaging and the marking – he pays the operations of quality control, measurement, weighing, counting, necessary for the delivery of the merchandise and he supplies, on his expense, the packaging necessary, with the corresponding mark.
- Other obligations – he gives support to the buyer, on this one's risk and expense, for obtaining any documents necessary, including the ones of transit.

The buyer's obligations:

- The payment of the price – he pays the price in accordance with the contract of sale.
- Licenses, authorizations, formalities – he obtains, on his risk and expense, the license of import and he accomplishes the customs formalities of import and, if it is the case, of transit.
- The contract of transport – he has no obligations.
- The taking of the merchandise – he accepts the delivery of the merchandise according to the contract, receiving the merchandise from the carrier in the port of destination.
- The transfer of the risks – he bears the risks of loss or damaging of the merchandise from the moment in which it passed the railing of the ship in the port of charging.
- The CPT condition (Carriage Paid To …) represents the FCA condition, at which there are added the expenses of transport, beard by the seller. The seller chooses the mean of transport and the carrier reserves the necessary space.

- The CIP condition (Carriage and Insurance Paid to ...) represents the CPT condition, at which it is added the cost of the merchandise insurance, beard by the seller (the prime of insurance). The risks of damaging or loss of the merchandise during the transport are beard by the buyer.

◈**The D GROUP** includes the conditions: DAF, DES, DEQ, DDU and DDP, with sale at arrival.

- **The DAF condition** (Delivered At Frontier) represents a delivery at the frontier designated by the parties, not at destination. The transfer of the expenses and risks from the seller to the buyer is done in the established place, at the frontier of the established country. It may be used only in the case of the car or railway transport. The expenses of discharging at the frontier are beard by the buyer, who takes the merchandise from the agreed place, on his risk.
- **The DES condition** (Delivered Ex Ship) prevails that the transfer of the expenses and risks takes place on the deck of the ship, in the port of destination. The seller must put the merchandise at the importer's disposal, at the board of the ship, in the agreed port of destination, at the established date, so that the merchandise may be taken from the ship with suitable means of discharging for the type of the merchandise. The discharging and the clearing at the customs of the merchandise are beard by the importer but, because the merchandise circulates on the seller's risk, this one will bear the cost of the insurance.
- **The DEQ condition** (Delivered Ex Quay) – the merchandise circulates on the risk and account of the buyer. The difference from the DES condition is that the seller bears the expenses of discharging and of laying of the merchandise on the quay.

The buyer realizes the customs formalities of import and bears the customs duties, the commissions and others. If there is a convenience between the parties these may be also beard partially by the seller. The transfer of the expenses and risks takes place on the quay of the destination port.

- **The DDU condition** (Delivered Duty Unpaid) – the seller delivers the merchandise at the agreed place of destination, with duties unpaid and uncharged. The formalities of import and the payment of the customs duties are in the charge of the buyer. The transfer of the expenses and risks is produced at the place of destination, before the payment of the customs duties and the discharging.
- **The DDP condition** (Delivered Duty Paid) – the seller delivers the merchandise at the established place of destination, costumed at import. The discharging of the merchandise is done on the risk and account of the buyer. The customs duties and the formalities of import are in the charge of the seller and the transfer of the expenses and risks takes place after the customs, at the place of destination.

4. The advantages of the INCOTERMS rules

Essentially, the use of the INCOTERMS 2000 conditions presents some advantages, under the following aspects:

I. There is allowed to establish rigorously the seller's and buyer's responsibilities for the delivery operations realization

- Packaging	–	in the charge of the exporter for all the groups (E, F, C, D);
- Depositing	–	in the charge of the export for all the groups (E, F, C, D);
- Charging at the works/ deposit	–	In the charge of the importer for the E group and of the exporter for the F, C and D groups;
- Customs at export	–	in the charge of the importer for the E group and of the exporter for the F, C and D groups;
- External transport	–	in the charge of the importer for the E and F groups and of the exporter for the C and D groups (at the DAF condition, if the frontier point is not at destination, the charge is of the importer);
- External insurance	–	the importer for the E and F groups and the exporter for the C (CIF, CIP) and D groups;
- Customs at import	–	the importer for all the groups (with the exception of the DDP condition, when it is in the charge of the exporter);
- Discharging at destination	–	the importer for all the groups.

II. There are established the obligations of the parties regarding the obtaining of the delivery documents: invoice, license of export, certificate of the merchandise inspection, certificate of origin, document of transport, policy of insurance, license of import.

- The invoice	–	is issued for all the groups by the seller.

- The license of export	–	is issued for the E group on the buyer's expense and for the other groups on the seller's expense.
- The certificate of control and of origin	–	are issued for all the groups on the buyer's expense.
- The document of transport	–	is issued on the buyer's expense for the E and F groups and on the seller's expense for the C and D groups.
- The policy of insurance	–	is obtained on the buyer's expense for the E and F groups and, from the C group, for CFR, CPT - on the seller's expense for the other conditions (CIF, CIP, D).
- The license of import	–	is obtained for all the groups on the buyer's expense, with the exception of the DDP condition, when it is obtained on the seller's expense.

III. The delivery conditions influence directly the price encased by the exporter.

The option in the application of one or another from the delivery conditions is realized taking into account: the rapport between the currency of the contract and the currency of payment of the transport, of the insurance, the tariffs of transport a.s.o.

If there is a strong competition, the exporter may gain clients by offering them minimum risks and expenses, using the DEQ or DDP conditions. If the exporter may obtain advantageous conditions from the companies of transport he chooses the CFR, CIF, CPT or CIP condition. If he wants to assume the responsibility until the destination, knowing well the security of the route, he may choose the DAF, DES, DEQ or DDP condition. If he considers that the route is not secure he chooses FAS, FOB, CFR.

IV. **The delivery conditions are used to specify the moment and the place of the risks and expenses transfer from the seller to the buyer.** Usually the two transfers are the same. The exceptions are the CFR (CAF) and CIF conditions, in which the transfer of the expenses takes place at destination, while the transfer of risks takes place at the port of embankment. The INCOTERMS conditions must be correlated, in their application, with the conditions of the transport lines, with the settlements from the ports and with the work legislation from the concerned countries.

Conclusions

The most used delivery conditions at the export are: FOB, CAF (CFR) and CIF. In the FOB condition the external price includes only the value of the merchandise (net FOB), meaning the value of the merchandise plus the external interest (gross FOB). In the CAF condition the external price includes the value of the merchandise, the external transport and the external interest. In the CIF condition the external price includes the value of the merchandise, the external transport and insurance, adding also the external interest.

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