

# Incoterms and Insurance

Guidance for World Bank Procurement of  
Textbooks and Reading Books

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# ACRONYMS AND ABBREVIATIONS

<b>Incoterms</b>	International Commercial Terms
<b>ICC</b>	International Chamber of Commerce
<b>LTL</b>	Less Than Truck Load
<b>RFQ</b>	Request for Quotation
<b>HS code</b>	Harmonized System
<b>SGS</b>	Société Générale de Surveillance ( <a href="http://www.sgsgroup.us.com">www.sgsgroup.us.com</a> )
<b>PVoC</b>	Pre-export Verification of Conformity
<b>BIVAC</b>	Pre-export Verification by Veritas – Bivac International
<b>EXW</b>	ExWorks
<b>FCA</b>	Free Carriage
<b>FAS</b>	Free Alongside
<b>FOB</b>	Free On Board
<b>CFR</b>	Cost on Freight
<b>CIF</b>	Cost, Insurance, and Freight
<b>CMR</b>	Carriage of Merchandise by Road
<b>CPT</b>	Carriage Paid To
<b>CIP</b>	Carriage Insurance Paid
<b>DAP</b>	Delivery at Place
<b>DPU</b>	Delivery at Place Unloaded
<b>DDP</b>	Delivery Duty Paid
<b>NCB</b>	National Competitive Bidding
<b>ICB</b>	International Competitive Bidding
<b>TUE</b>	Twenty-foot Unit Equivalent
<b>ETA</b>	Estimated Time of Arrival



# GLOSSARY

**A Bill of Lading (BL or BoL):** Legal document issued by a carrier to a shipper that details the type, quantity, and destination of the goods being carried. A bill of lading also serves as a shipment receipt when the carrier delivers the goods at a predetermined destination. This document must accompany the shipped products and be signed by an authorized representative from the carrier, shipper, and receiver.

**Container Release:** Upon receipt of a correctly endorsed original Bill of Lading and full collection of the outstanding charges due, the shipping line sends a Cargo Release Notice and the logistics supplier can pick up the container.

**Container Seal:** Containers need to be secured and locked to prevent pilferage or tampering with the goods during transit. Each container seal can be used only once. The Buyer's representative must ensure that the seal is intact upon delivery.

**Demurrage:** Demurrage is a storage fine or charge that is levied by a freight provider if goods are not removed from a port or terminal within a predefined amount of time. Often importers are allowed to store goods or containers for a number of 'free' days, after which charges are applied.

**Letter of Credit:** Or "credit letter," is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. Even if the buyer is unable to make a payment, the bank will be required to cover the full or remaining amount of the purchase. Letters of credit are often used in international trade.

**Local Shopping:** Local procurement process; occasionally used for small quantities of books.

**Port Charges:** Fees collected from ship or/and cargo owners to defray the costs of constructing, maintaining, operating, engineering and navigation facilities, the port authorities' request for payment of demurrage or detention charges, bonded storage fees for Customs formalities, and/or fees for access to the port facilities. The logistics supplier should include these charges in the contract but if the free demurrage period has ended (see above), there will be additional charges.

**Transshipment:** When cargo or a container is moved from one vessel to another while in transit to its final destination.

## INTRODUCTION

The objective of this guide on Incoterms and Insurance is to support Bank staff, country counterparts, procurement teams, and evaluation committees in the choice of the Incoterm for procurement and their evaluation of bidders' compliance, when procuring textbooks, teacher's guides, reading books, and other types of educational materials. Incoterms is an abbreviation of International Commercial Terms, a trademark of the International Chamber of Commerce.

Unlike national trade policies, Incoterms® rules are global, providing clarity and predictability to businesses around the world.

The Incoterms® rules have become an essential part of the daily language of trade. They are incorporated in contracts for the delivery of goods worldwide and provide guidance to importers, exporters, attorneys, transporters, and insurers of international trade.

The main purposes of Incoterms are to:

- Clarify the carriage (delivery) obligations: how far the Seller will take the shipment before the Buyer assumes responsibility for the goods.
- Define the allocation of delivery costs between the Seller and the Buyer
- Determine when the risks of loss and damage are transferred from the Seller to the Buyer.

Incoterms must always be included in bidding documents, in proposals, in contracts, in all documents used for shipping, and in letters of credit and invoices.

Procurement teams must select the appropriate Incoterm according to the type of procurement process that is being used: International Competitive Bidding (ICB), National Competitive Bidding (NCB), or Local Shopping; the mode of transport required; the final destination; the scope of work of the in-country distributor, if any; the project's timeframe; and the complexity of Customs clearance in the country receiving the books.

One of the most important aspects of each Incoterm is insurance, as coverage depends on the Incoterm selected. Shippers and importers are often left wondering who is responsible for obtaining insurance and if they are insured in case something goes wrong while goods are in transit, at the port, or at the warehouse.

When choosing the Incoterm for a contract, the Buyer needs to understand what insurance coverage is needed during shipment and throughout the entire process of contract execution. This guide will explain how to select Incoterms that appropriately assign responsibilities for Sellers and Buyers throughout the delivery process. We'll also look at how insurance coverage is affected by each of these Incoterms.



## SELECTING A MODE OF TRANSPORT

Prior to issuing bidding documents, the procurement team should determine what mode of transportation is the most appropriate to deliver the books to the expected destination and consequently which Incoterm will be required.

There are three main modes of transportation:



### AIR

Air freight is the most expensive mode of transport and only recommended when book quantities are minimal. The average cost for air transport ranges from 6 to 8 USD per kilogram (Kg) between Europe and Africa or India and Africa. Due to this high unit cost, air freight should only be used when absolutely necessary and should not be used for book deliveries weighing more than 1,000 Kg. Below this weight, air and sea freight costs can be equivalent due to the high fixed costs of shipping partially filled containers (sea part-shipment).



### SEA

Sea freight should generally be selected if the weight of the book shipment is greater than 1,000 Kg. The average cost of sea freight is estimated at 0.20 USD per Kg between Europe and Africa or India and Africa.

Sea freight takes much longer than air freight, as it requires container handling and packing, often several intermediary stops before arriving at the final destination, time for container release, and Customs clearance at the destination port. Additionally, unlike air transport, the container or containers of books need to be delivered to the departure port at least two days prior to departure.



### ROAD

Road transport is the most economical mode of transport for local or regional delivery when printers and destinations are in close proximity.

Table 1

## ADVANTAGES AND DISADVANTAGES OF EACH MODE OF TRANSPORT

	Advantages	Disadvantages
<b>Air</b>	Shortest delivery time Minimal risk of delay or flight cancellation. Lower risk of transshipment. Easy to track cargo locations. Quick to spot errors and take corrective action	Extremely costly
<b>Sea</b>	Far cheaper than air transport Easy to track shipments	Long delivery periods. High risk of transshipment*. Takes longer to spot errors and correct them.
<b>Road transport</b>	Cheapest mode of transport Allows flexibility; books can be transported from printers to schools directly.	Poor road infrastructure can increase costs and delay arrival Traffic in large cities can cause delays Security can be an issue in fragile and conflict-affected countries.

In the case of National Competitive Bidding (NCB), road transport is recommended for national suppliers, as it is less costly than air transport. However, in countries with insufficient road infrastructure, large distances to be covered or minimal quantities to be delivered, air transport or inland waterway transport should be considered. If an international supplier is awarded the contract, as is possible in NCB, the correct Incoterm will be required.

In the case of International Competitive Bidding (ICB) and NCB awarded to an international supplier, the mode of transport will be determined after the evaluation process. The location of the awarded bidder will determine the mode of transport. For local bidders, road or air transport can be utilized, whereas for international bidders, multiple modes of transport such as sea freight and road transport may need to be considered. An Incoterm compatible with every mode of transport will need to be selected.

The Buyer needs to select an Incoterm that is applicable to all possible modes of delivery before publishing the tender documents.

Factors to consider when selecting the possible modes of delivery:

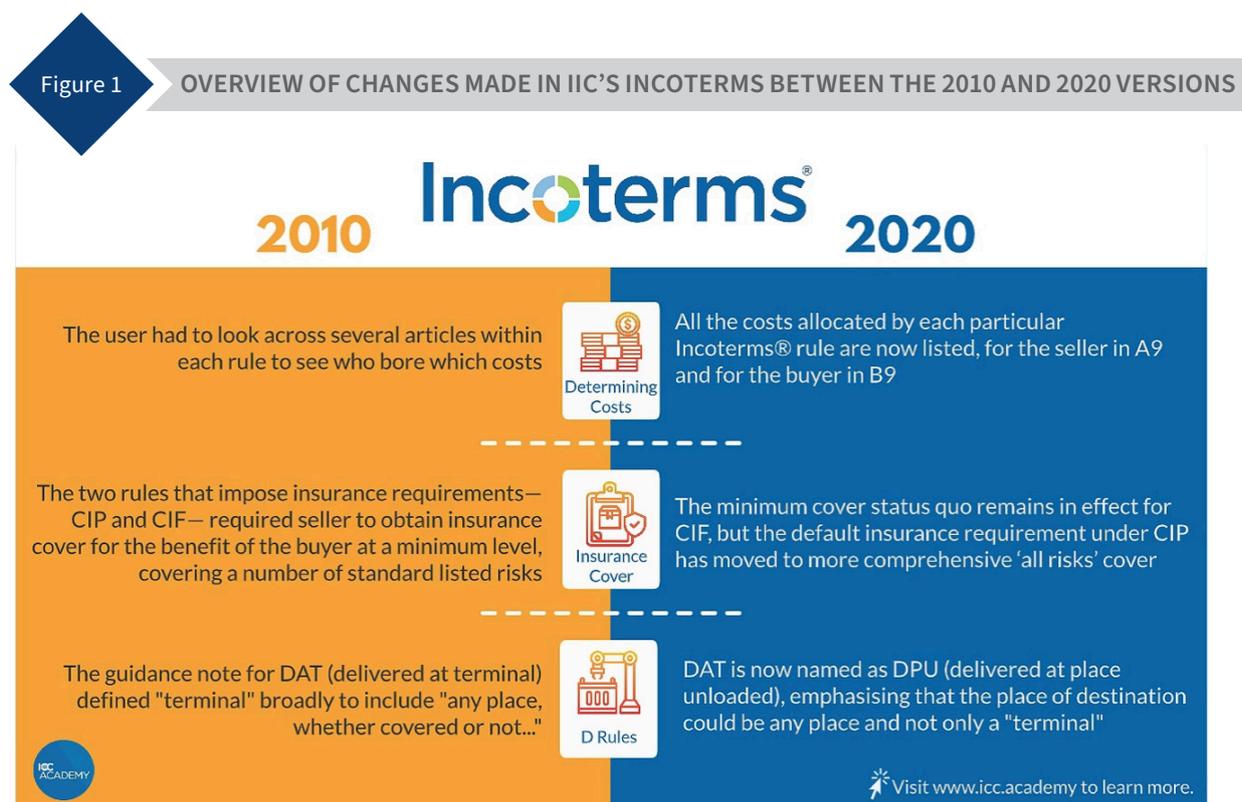
- Book weight and volume
- Lead time for delivery
- Distance
- Geographical context

Selecting the right mode of transport saves time and money.

## INCOTERMS® 2020<sup>1</sup>

Incoterms® 2020 is the current version of the trade terms, but Incoterms® 2010 is still in effect as well because Buyers are not always aware of the new version.

The changes made in the ICC's Incoterms® 2020 cover, among other subjects, increased security requirements, improved clarity on cost allocation, and insurance concerns.



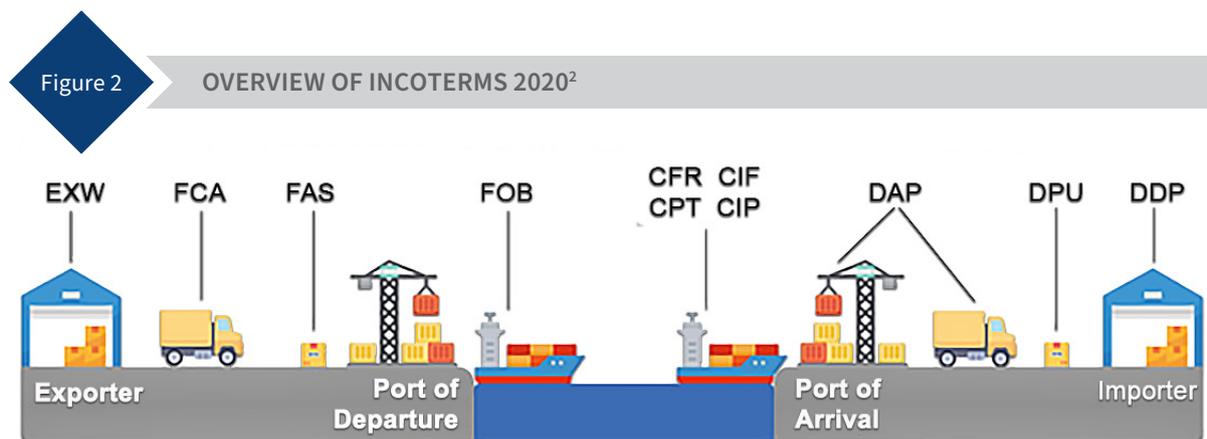
Each contract is governed by the version of Incoterms® that was referred to in the contract. If the contract refers only to Incoterms® but not to a specific year, then the Incoterms® version in force at that time of contracting would most likely be applied in the event of a dispute. Best practice is always to refer to the most recent revision, e.g., Incoterms® 2020.

The first part of this chapter is a short description of Incoterms® 2020. The second part focuses on the most commonly used Incoterms in book procurement, detailing rules, risks, responsibilities of the Buyer and the Seller, listing the pro and cons of each, and outlining required documentation.

<sup>1</sup> <https://icc.academy/incoterms-2020-vs-2010-whats-changed/>

## DEFINITION OF INCOTERMS® 2020

The vast majority of international trade is conducted by sea. Out of the eleven Incoterms, four are only applicable to sea freight and the other seven can also be used for air and road transportation. The Incoterms can be divided into three groups:



### 1. Incoterms applicable if the agreed delivery place is located between the production/storage premises of the Seller and the seaport of departure

#### **EXW: ExWorks** \_\_\_\_\_ **Applicable to Sea, Air and Road**

The Seller makes the goods available at their production/storage site, ready to be loaded. The Buyer picks up the goods at the Seller's production/storage site and is responsible for all onward transport.

Export and import Customs formalities are handled by the Buyer.

#### **FCA: Free Carrier** \_\_\_\_\_ **Applicable to Sea, Air and Road**

The Seller makes the goods available at the production/storage site, loaded on trucks or containers provided by the Buyer. The Buyer picks up the goods at the site and brings them to the seaport of departure. The goods are Customs cleared for export by the Seller.

#### **FAS: Free Alongside Ship** \_\_\_\_\_ **Applicable to Sea transportation only**

The Seller loads the goods into containers and delivers them to the port of departure chosen by the Buyer. The goods are Customs cleared for export by the Seller.

#### **FOB: Free on Board** \_\_\_\_\_ **Applicable to Sea transportation only**

The Seller loads the goods into containers, delivers them to the port of departure chosen by the Buyer, and loads them on board the vessel. The goods are Customs cleared for export by the Seller.

<sup>2</sup> <https://www.trade-easy.fr/en/les-incoterms-2020-la-nouvelle-reference-a-venir-du-commerce-international/>

## 2. Incoterms applicable if the agreed place of delivery is located past the departure seaport

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### **CFR Cost on Freight** \_\_\_\_\_ **Applicable to Sea transportation only**

The Seller loads the goods on board the vessel (the ship). The goods are Customs cleared for export by the Seller, but the Buyer is responsible for clearing them for import.

The Seller is responsible for the shipping costs from the departure port to the destination port, but the Buyer carries the risks of loss or damage during the shipping from port to port.

### **CIF Cost, Insurance and Freight** \_\_\_\_\_ **Applicable to Sea transportation only**

The Seller loads the goods on board the vessel. The goods are Customs cleared for export by the Seller and cleared for import by the Buyer.

The Buyer carries the risks of loss or damage during shipping from port to port, but the Seller covers the shipping and insurance costs from the departure port to the destination port (Cf. Detailed description of the Incoterm CIF page 17).

## 3. Incoterms applicable if the agreed place of delivery is located in the country of the Buyer

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### **CPT: Carriage Paid To** \_\_\_\_\_ **Applicable to Sea, Air and Road**

The Seller delivers the goods in the containers to the destination specified by the Buyer. The goods are Customs cleared for import by the Buyer. The Buyer carries the risks of loss or damage from the departure location (usually the printing plant or warehouse) to the stipulated delivery location.



**CIP: Cost, Insurance Paid To \_\_\_\_\_ Applicable to Sea, Air and Road**

The Seller delivers the goods in the containers to the destination stipulated by the Buyer. The goods are Customs cleared for import by the Buyer. The Buyer carries the risks of loss or damage from the departure location (usually the printing plant or warehouse) to the stipulated delivery location. The Seller is responsible for the shipping and insurance costs from the departure point to stipulated delivery location (Cf. Detailed description of the Incoterm CIP page 17).

**DAP: Delivery at Place \_\_\_\_\_ Applicable to Sea, Air and Road**

The Seller delivers the goods, in the containers, to the destination stipulated by the Buyer. The goods are Customs cleared for import by the Buyer. The Seller covers the costs of shipping, insurance and carries all risks of loss and damage from departure to the stipulated delivery point.

*[The difference between the CIP and DAP Incoterms is the risk allocation between the Seller and the Buyer.]*

**DPU: Delivery at Place Unloaded \_\_\_\_\_ Applicable to Sea, Air and Road**

Delivery conditions are identical to those in Incoterm DAP, but the goods are unloaded from the containers by the Seller to the place designated by the Buyer (warehouses, storerooms...).

**DDP: Delivery Duty Paid \_\_\_\_\_ Applicable to Sea, Air and Road**

The Seller delivers the goods, in the containers, to the destination stipulated by the Buyer. The goods are Customs cleared for import by the Seller. The Seller covers the shipping and insurance costs from the departure point to the stipulated delivery location.

See Annex 1 for ICC Chart of Incoterms® 2020: Transport Obligations, Cost and Risks



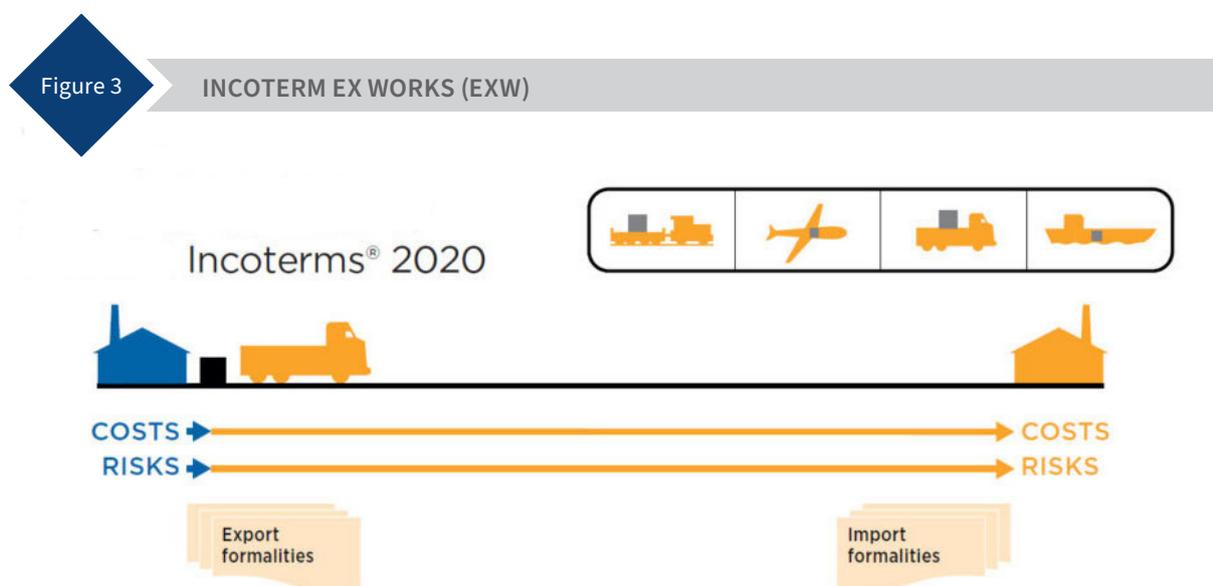
## THE SEVEN COMMONLY USED INCOTERMS FOR DELIVERY OF TEXTBOOKS, TEACHER'S GUIDES, READING BOOKS AND OTHER EDUCATIONAL MATERIALS FROM INTERNATIONAL SUPPLIERS

The following seven Incoterms are the most frequently used when procuring books from international suppliers: EXW, FOB, CIF, CIP, DPA, DPU, DDP

When choosing between these seven, it is particularly important to understand these four elements:

- A. Cost Allocation:** the division of costs such as loading trucks or containers, haulage, sea freight and transportation to the final place of delivery, Customs clearance, etc. between the Seller and the Buyer;
- B. Responsibilities and tasks** to be performed by each party.
- C.** when the **Transfer of Risk** of loss and/or of damage to the books from the Seller to the Buyer takes place; and
- D. Insurance requirements** and the need for insurance coverage against risks, during the entire period of contract execution.

### 1. EXW: Ex Works



In the Incoterm EXW, the books are picked up by the Buyer at the Seller's premises.

The Seller provides the books, in labelled boxes, ready to be loaded onto trucks or into containers provided by the Buyer.



## A. Cost Allocation

### i. Costs to Seller

none

### ii. Costs to Buyer

The Buyer must pay for delivery from the Seller's premises to the final destination, including:

- loading the books into the vehicles or the containers
- haulage from the production site to the port
- export Customs clearance formalities
- loading on the vessel (ship)
- sea freight to the port of destination
- offloading from the vessel
- import Customs clearance formalities
- transportation to the final delivery location
- payment of port charges and applicable taxes and duties if any
- Insurance costs from the Seller's premises to the final destination

## B. Responsibilities and Tasks

### i. Seller

The Seller informs the Buyer of the readiness of the books and issues a commercial invoice and a packing list according to the quantity loaded into the Buyer's vehicles.

The Seller provides an inspection certificate before loading if required by the authorities at the destination or by the Buyer.

### ii. Buyer

The Buyer is responsible for:

- truck or container reservations and scheduling
- truck or container placement
- container loading
- container sealing
- verifying the reservation for the vessel has been done on time by the shipping company
- transportation to the port
- export formalities, payment of applicable duties, taxes or fees if any
- providing the shipping documentation to the port of destination (**cf. Annex 2 – Documentation for shipping and custom clearance**)
- container release

- import formalities and payment of applicable taxes and duties if any
- transport to the final destination.

### *C. Transfer of Risk*

The risk of loss or damage to the goods passes to the Buyer when the books are loaded on the truck or the container.

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**“In case of damages during loading, the rule of the EXW Incoterm prevails and the Buyer’s insurance must provide coverage for damages.”**

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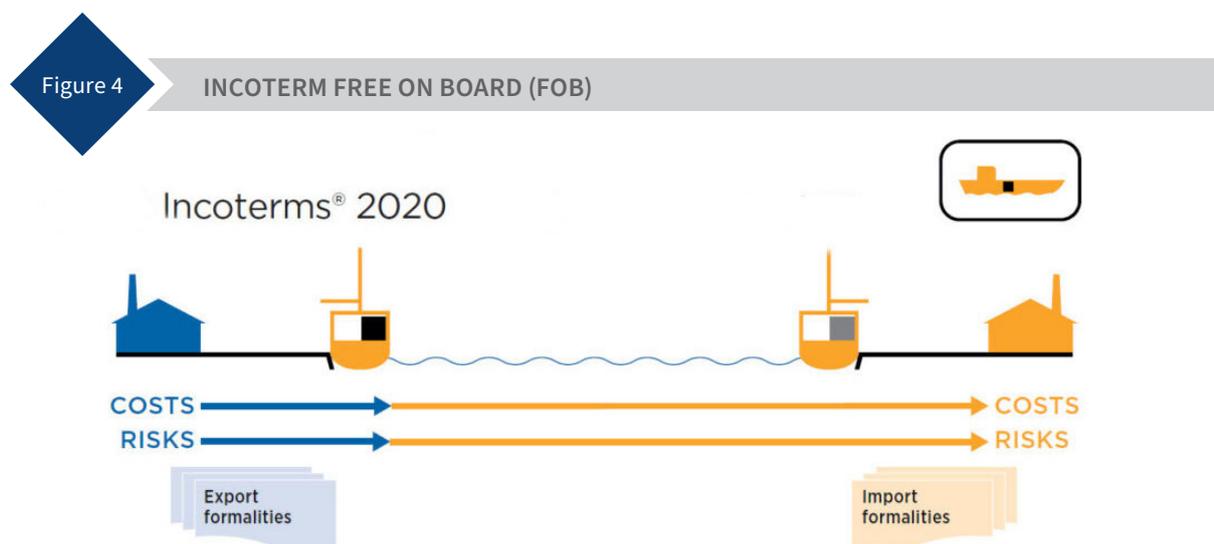
### *D. Insurance Requirements*

The Seller is not required to provide insurance other than the policies that cover normal plant and warehouse operations.

The Buyer must carry sufficient insurance to cover any loss or damage during transportation of the books from the Seller’s premises to the final destination. Marine insurance policies (the policies that cover vessels), rarely cover the risks during transportation from Sellers’ facilities to the completion of loading the books on the ship.

**The Incoterm EXW is not recommended for book delivery because export formalities are very complex for organizations that are purchasing books internationally.**

## 2. FOB: Free On Board



### A. Cost Allocation

#### i. Costs to Seller

The Seller is responsible for the costs of delivering the books on board the vessel designated by the Buyer at the stipulated departure port of departure, including:

- loading the containers at the printing plant/warehouse
- transportation to the named port of departure
- export formalities costs and taxes if any
- port charges
- loading the containers on the vessel

#### ii. Costs to Buyer

The Buyer shall contract for and pay the cost of transportation from the port of departure to the stipulated delivery location, including:

- sea freight costs from the departure port to the destination port
- costs of unloading the containers from the vessel
- container release and port charges
- costs of import formalities and payment of taxes and duties at destination if any
- transportation costs from the port to the stipulated delivery location.

### B. Responsibilities and Tasks

#### i. Seller

The Seller requests container placement from the shipping company selected by the Buyer.



The Seller is responsible for loading the boxes of books into the containers, sealing the containers and issuing the shipping documentation, listed in **Annex 2 - Documentation for shipping and Customs clearance** and any additional documentation required by the authorities at the departure point or destination locations.

The Seller must also organize an inspection before shipment if required by the authorities of the country of export or by the Buyer (Cf. annex 2).

The Seller is responsible for transportation from the printing plant/warehouse to the departure port, for export formalities, and for loading the containers on the vessel.

## ii. Buyer

The Buyer is responsible for the selection of the logistics company. The Buyer must work with the logistics company to manage all steps of the shipping process: to find the shipping line offering the best routing at the lowest cost, to book the space for the containers on the vessel, and to coordinate the operations with the Seller, who loads the containers on the vessel.

The Buyer shall provide or organize the delivery of the shipping documentation to the port of destination before the ETA (Estimated Time of Arrival) of the vessel at the destination port, including:

- Shipping from the port of departure to the port of destination, transshipment, or delay
- unloading of containers from the vessel
- import formalities, taxes and duties payment if any
- container release after submission of all required documents and payment of all charges
- transportation to the named place of delivery.

## C. *Transfer of Risk*

The Seller carries the risks of loss and damage from his premises to loading of the containers on the vessel.

The Buyer takes on the risks once the books “pass the ship’s rail” (used in the Incoterms to refer to when the goods are loaded onto a vessel and ‘pass’ their rail).

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**“The risk of loss or damage to the goods passes to the buyer when the goods are on the vessel”**

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### *D. Insurance Requirements*

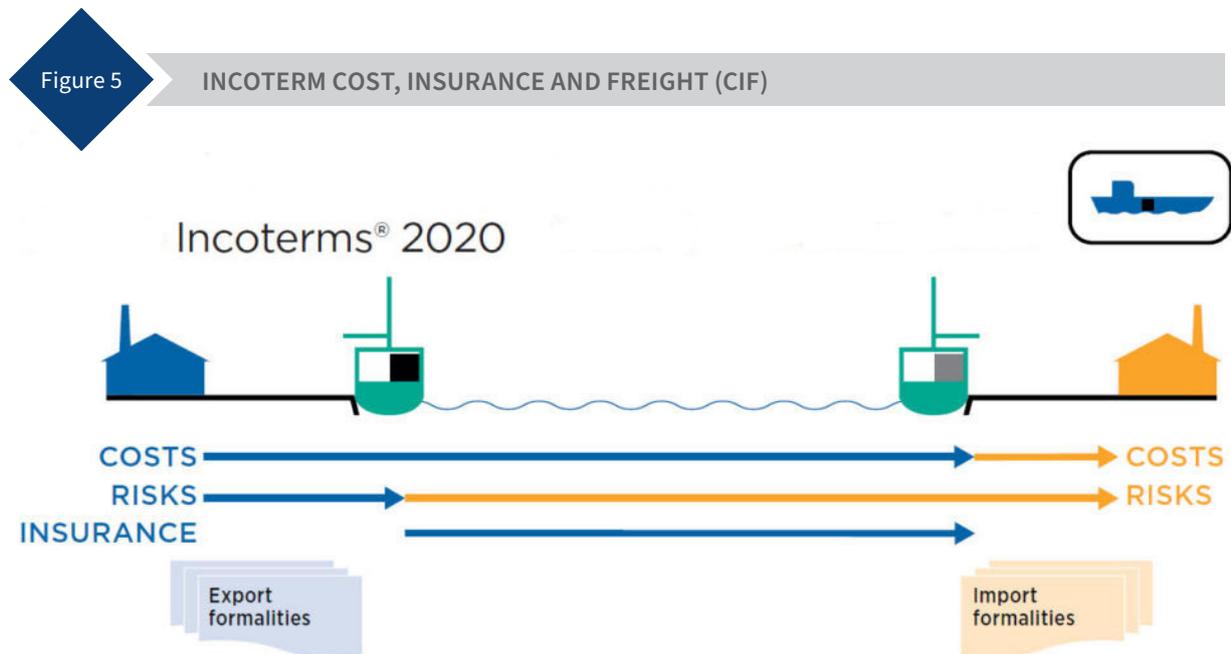
The Seller shall contract and pay for insurance against loss and damage from the Seller's premises to the loading of the vessel, which is usually covered by the commercial insurance already in place for the Seller's activities in the country. That coverage must always be verified by the Seller.

The Buyer shall contract and pay for insurance coverage against loss and damage from the port of departure to the named place of destination; marine insurance can be sufficient, but the Buyer must verify the coverage of the marine insurance at the port of destination area and within his country.

Under this Incoterm, insurance coverage arranged by the Buyer typically starts on the date the containers are loaded on the vessel and the Bill of Lading is issued.

**The Incoterm FOB is rarely used for book procurement because the transfer of risk at the port of departure is difficult to manage: the Seller has to work with a shipping company selected by the Buyer and on the other side, the Buyer needs to be experienced with sea freight procedures at the port and in other countries and to have proper insurance coverage.**

### 3. CIF: Cost, Insurance and Freight



#### A. Cost Allocation

##### i. Costs to Seller

The Seller is responsible for the costs of the delivery of the books once loaded on the vessel to the named port of destination including insurance. The Seller is responsible for the costs of loading the boxes of books into the containers, and for transportation to the port of departure. The Seller must manage the export formalities and pay the taxes and duties if any.

In addition, the Seller pays for the port charges applicable at the port of departure, for the cost of loading the containers aboard the vessel, and for the sea freight from the port of departure to the port of destination.

##### ii. Costs to Buyer

Once the books arrive at the port of destination, the Buyer is responsible for the costs of offloading the containers from the vessel, the port charges, the service for the import formalities, and the applicable taxes and duties at destination if any.

Without paying all taxes, duty, and charges, the containers will not be released to the Buyer.



## ***B. Responsibilities and Tasks***

### ***i. Seller***

The Seller is responsible for contracting a logistics company. The logistics company will suggest the most cost-effective routing and will select the best shipping line. The logistics company will ensure the booking of containers for the agreed voyage, arrange the delivery of the empty containers to the Seller's premises, load and seal the containers and provide the shipping documents including the **Bill of Lading** (BoL) issued by the shipping company. The logistics company then gives the BoL and other shipping documents to the Seller, who is responsible for transmitting them to the Buyer.

If required by the country of destination or by the Buyer, the Seller must organize an inspection and verification of the books before transportation. The Seller must also pay for the transportation from the printing plant/warehouse to the port of destination, the export formalities and tax and duties if any.

The Seller will follow-up the shipping operations, namely the:

- loading of the containers on board the vessel
- delivery of the shipping documents to the port of destination before the ETA of the vessel
- shipping from the port of departure to the port of destination

### ***ii. Buyer***

The Buyer is responsible for all operations after the arrival of the vessel at the port of destination: unloading of the containers from the vessel, the release of the containers from Customs, import formalities, taxes and duties payment if any, and transportation to the named place of delivery.

## ***C. Transfer of Risk***

The Seller carries the risks of loss and damage from his premises to the port of departure (container on vessel).

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**“The risk of loss or damage to the books passes to the Buyer when the books are a board the vessel at port of departure”**

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#### *D. Insurance Requirements*

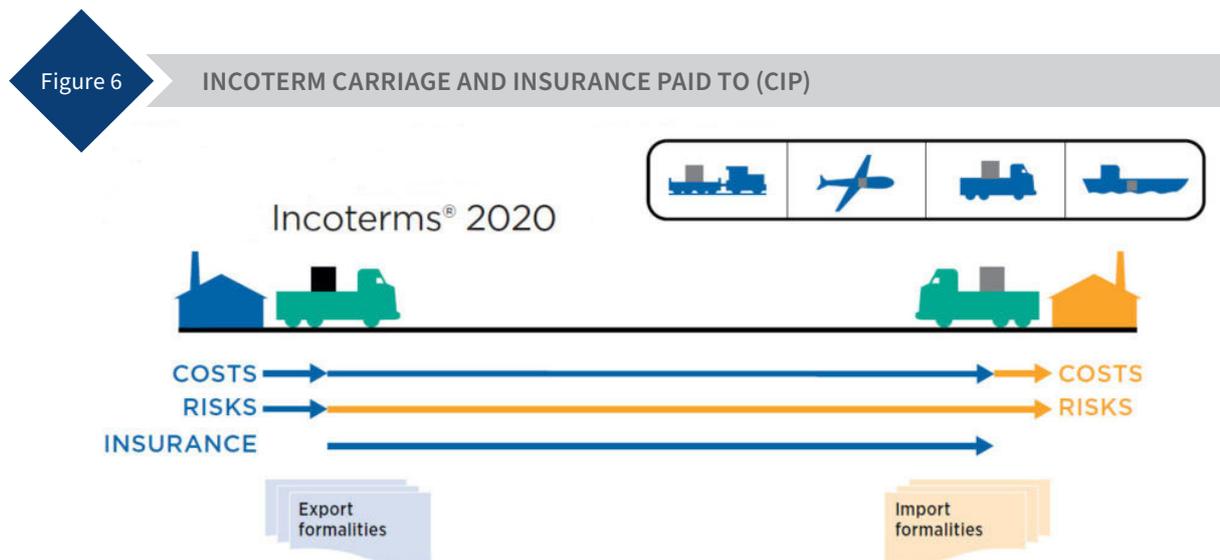
Because the Buyer carries the risks from departure of the vessel to the named place of destination, the Seller must contract and pay for insurance coverage against the Buyer's risk of loss or damage during the transportation to the port of destination.

The Buyer must obtain proof that the Seller's insurance covers the risk of loss or damage to the books during transportation to the port of destination for the total cost of the books. Insurance coverage up to 110% of the contractual value is recommended in case of price increases after contract signing.

The Buyer shall also verify that his insurance covers loss and damage from the port of destination, including the port area, to the final delivery place.

**The Incoterm CIF can be used for book procurement if the Buyer will manage the final stages of distribution through a separate contract after the arrival of the books at the port of destination.**

## 4. CIP: Carriage and Insurance Paid to



This Incoterm is similar to CIF, but is applicable to all modes of transportation, not only sea freight and inland waterways.

### A. Cost Allocation

#### i. Costs to Seller

The Seller contracts and pays for the loading of the books in trucks or containers, for the export formalities, for the transportation from the Seller's premises to the named place of destination (in case of sea freight: haulage, loading onboard the vessel, shipping by sea, offloading from the vessel, container release and transportation). The Seller is also responsible for paying the export taxes and duties if any.

#### ii. Costs to Buyer

At the delivery location, the Buyer is responsible for the costs of offloading the books, for import formalities and the payment of applicable taxes and duties for import if any.

### B. Responsibilities and Tasks

The responsibilities of the Seller and the Buyer are the same as for the CIF Incoterm. The main difference is that CIP is valid for all modes of transportation and not only for sea freight.

### *C. Transfer of Risk*

One of the main differences between CIF and CIP is the transfer of risk. In CIP, the Seller is responsible for the costs of the delivery of the books to the named place of delivery but the risk transfers to the Buyer when the Seller loads the books on vehicles or in containers.

The Seller carries the risks of loss and damage at the printing plant/warehouse after the books are loaded.

The Buyer carries the risks from the departure of the container or truck from the Seller's premises to the named place of delivery.

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**“The risk of loss or damage to the books is transferred to the Buyer when the books leave the Seller’s premises and not at the port of departure.”**

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### *D. Insurance Requirements*

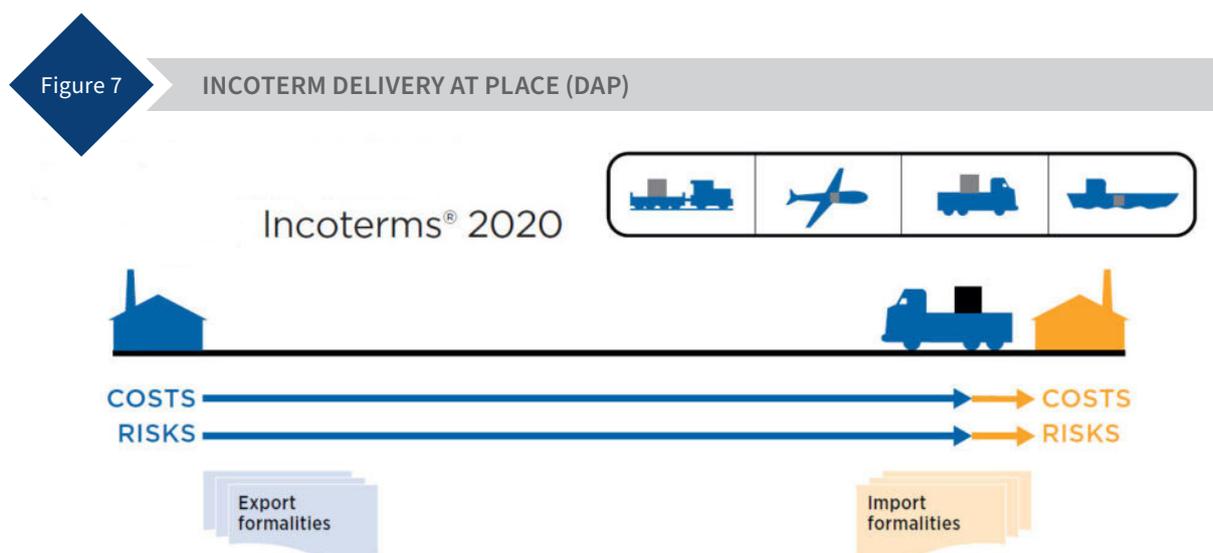
Because the Buyer carries the risks from the Seller's premises to the named place of delivery, the Seller must have insurance coverage against the Buyer's risk of loss or damage to the books from his premises to the named place of destination.

The Buyer must obtain proof that the Seller's insurance covers the risk of loss or damage to the goods during transportation to the port of destination for the total cost of the books. Insurance coverage up to 110% of the contractual value is recommended in case of price increases after contract signing.

The Buyer shall also verify that insurance covers risks against loss and damage from the named place of destination to another final destination, including any warehouse or storage location where the books might be unloaded.

**The Incoterm CIP is regularly used in book procurement, but it is not the most suitable because the risk transferred to the Buyer at the Seller's premises at a early stage of the project.**

## 5. DAP: Delivery at Place



### A. Cost Allocation

#### i. Costs to Seller

The Seller oversees the delivery of the books and contracts and pays for the costs of transportation to an agreed place of delivery.

#### ii. Costs to Buyer

the Buyer pays for the:

- costs of the Customs clearance in the country of destination,
- taxes and duties applicable on import
- costs of unloading the containers or trucks at the agreed destination are the responsibility of the Buyer.

### B. Responsibilities and Tasks

#### i. Seller

The Seller is responsible for contracting a logistics company. The logistics company will suggest the most cost-effective routing and will select the best shipping line. The logistics company will ensure the booking of containers for the agreed voyage, arrange the delivery of the empty containers to his premises, load and seal the containers and provide the shipping documents including the **Bill of Lading** issued by the shipping company. The logistics company then gives the BoL and other shipping documents to the Seller, who is responsible for transmitting them to the Buyer.

If required by the country of destination or by the Buyer, the Seller must organize an inspection and verification of the books before the transportation from his premises to the named place of delivery.

If the transportation is partly by Sea Freight, the Seller must monitor the following operations:

- loading of the containers on board the vessel
- delivery of the shipping documents to the port of destination before the ETA of the vessel
- shipping from the port of departure to the port of destination
- offloading of the containers from the vessel
- payment of the port charges at destination
- container release from Customs
- transportation to the named place of delivery

## ii. Buyer

The Buyer is responsible for import formalities and the payment of the taxes and duties if any. He is also responsible for the unloading of the books from the trucks or containers at the destination.

## C. Transfer of Risk

The Seller carries the risks of losses and of damages from his premises to the named place of delivery.

The Buyer carries the risks when the truck or container arrives and is unloaded at the named place of delivery.

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**“The risk of losses or damage to the books is transferred when the books are delivered to the named place of delivery, and unloaded from the truck or container”**

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## D. Insurance Requirements

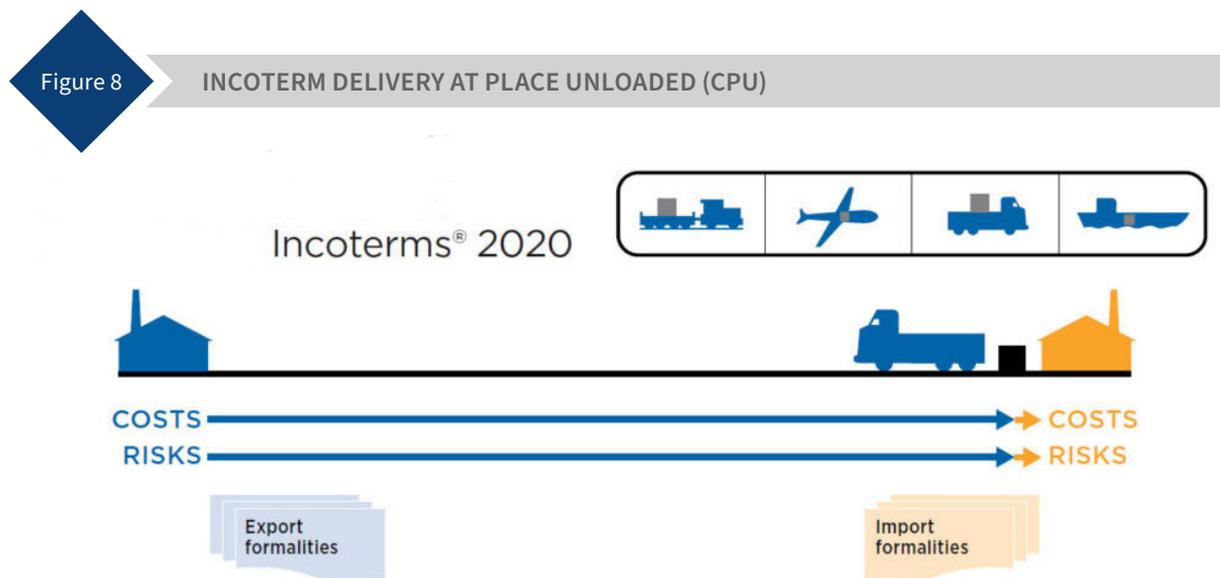
The Seller must have insurance coverage against loss or damage to the books during transportation to the named place of destination.

The Seller must have a separate insurance policy that covers from arrival in the country of destination to the named place of delivery because standard insurance normally covers only risk prior to arrival.

As the Seller carries the risks and responsibilities during delivery, the Buyer doesn't need insurance coverage, but the Buyer must verify that the Seller has coverage that will cover the risk of loss and damage of the books. The Buyer must verify that his own insurance covers his risks against loss and damage to the books during the unloading of containers or trucks and in the warehouse at the named place of destination.

**The Incoterm DAP is regularly used in book procurement, but it is not the most suitable because the books are delivered unloaded and the Buyer rarely has adequate resources at his disposal to unload trucks.**

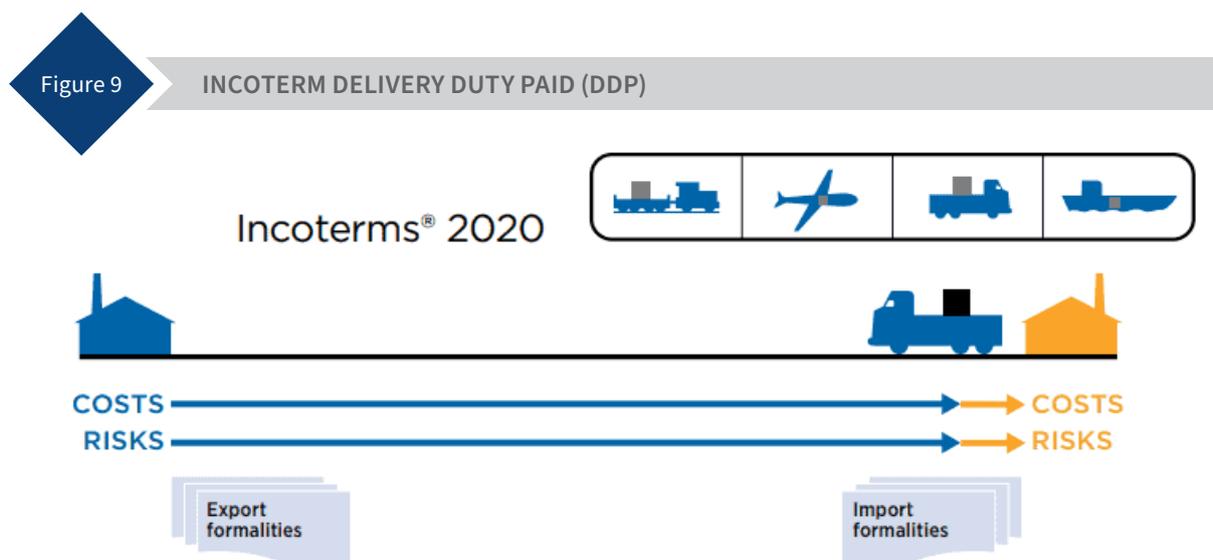
## 6. DPU: Delivery at Place Unloaded



The cost allocations, the responsibilities, and risks at each stage are similar to the Incoterm DAP. In addition, the Seller is responsible for unloading the books from the containers or trucks at the named place of destination and obtaining appropriate unloading insurance coverage.

**DPU is recommended for international book procurement. It ensures that the Seller is responsible for the delivery of books from the printing plant/warehouse to the final destination, including unloading trucks or containers upon arrival.**

## 7. DDP: Delivery Duty Paid



### A. Cost Allocation

#### i. Costs to Seller

The Seller delivers the books, **cleared for import and** ready for unloading at the named place of destination.

The Seller is responsible for the transportation to the named place of delivery, and is also responsible for:

- costs of Customs clearance
- payment of import taxes and duties

#### ii. Costs to Buyer

The Buyer bears the costs for unloading the books from the containers or trucks at the named place of destination

### B. Responsibilities and Tasks

#### i. Seller

The Seller is responsible for all shipping operations during the shipping, until the delivery at the named place of destination.

#### ii. Buyer

The Buyer is responsible for unloading the books from the containers or trucks.

### *C. Transfer of Risk*

The Seller carries the risks of losses and of damages from his premises to the named place of delivery.

The Buyer carries the risks when the truck or container arrives unloaded at the named place of delivery.

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**“The risk of losses or damages to the books is transferred when the books are delivered unloaded at the named place of delivery”**

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### *D. Insurance Requirements*

The Seller must have insurance coverage against risks of loss or damage to the books during delivery as the Seller carries all the risks from the printing plant/warehouse to the named place of destination.

As detailed in the Incoterm DAP, the Seller usually needs a separate insurance policy that covers risks from entry into the Buyer’s country to the named place of delivery. As the Seller carries the risks and responsibilities during the delivery process, the Buyer doesn’t need insurance, but must verify that the Seller has insurance coverage including during container unloading and in his warehouse.

**This Incoterms is recommended when the Buyer insists that the Seller pay all duties and taxes on the import of books (i.e. the project or book procurement is not exonerated from duties and taxes).**



## IMPLICATIONS FOR INSURANCE COVERAGE

The place and time of risk transfer are clearly defined in the seven Incoterms commonly used in international trade.

The chart presented in [Annex 3](#) summarizes when the transfer of risks takes place and as a result, when the Seller or the Buyer must have insurance coverage.

Sellers are usually insured for risks at their premises and for transportation of books by sea, air or road through their marine cargo Insurance policy but generally only up to the seaport of arrival. The shipping line's insurance covers losses or damages during shipping, only to the extent of the value of the sea freight costs (not for the value of the goods).

Most marine cargo Insurance covers risks in the Seller's country and in international waters but not in other countries.

For this reason, the Seller must have land cargo Insurance coverage against risk of loss and damage to books that may occur in the country of destination, when the Incoterm rules require insurance coverage for activities conducted in the Buyer's country.

There are two types of insurances:

- Named perils policy (protects against certain perils: fire, wind, water... as defined by the specific policy)
- all-risks insurance.

All-risks policies are recommended as they cover loss and damage in almost all circumstances. However, most policies, even all-risks policies, exclude loss and damage caused by war, riots, act of terrorism, strikes, or civil disobedience.

All-risks policy cost approximatively 0.5 up to 2% of the declared value of the goods.

As mentioned above, it's recommended that insurance cover 110% of the contract value, including freight and insurance costs. The extra 10% covers expenses that may be incurred to cover losses including any price increases.



## **CONCLUSION: SELECTING THE MOST APPROPRIATE INCOTERM FOR DELIVERY OF BOOKS FROM INTERNATIONAL PRINTERS**

The selection of the right Incoterm is one of the keys to a successful international book procurement as it clarifies the financial risks and responsibilities of the contractual parties.

The first step for the Buyer is to choose a mode of transport considering the timeframe and the budget.

The final place of delivery is the second factor influencing the Incoterm choice as it needs to be selected according to the scope of work. For example, CIF cannot be selected if the books need to be distributed to schools by the supplier, because CIF ends at the port of destination.

The third step, once the mode of transport is selected, is for the Buyer to decide on the level of service he wants from the Seller

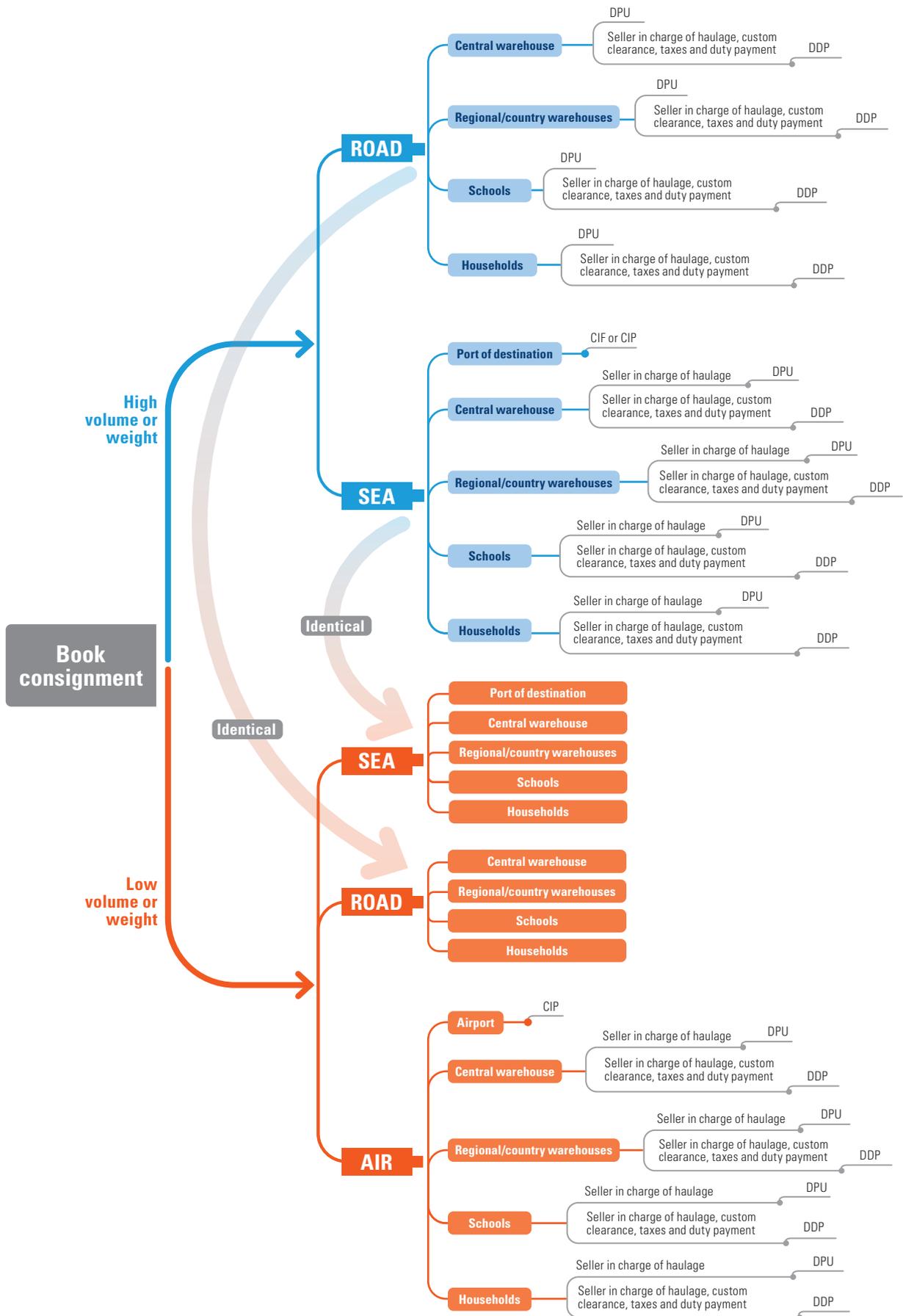
- Export formalities
- Import formalities
- Payment of import taxes and duties
- In country transportation
- Distribution

The mode of transport and the level of service chosen will guide the Buyer on the selection of the Incoterm that will then define the insurance coverage that the Seller must provide.

The below decision tree provides an overview and recommendations of Incoterms for international book procurement.

Figure 10

DECISION TREE FOR THE SELECTION OF THE INCOTERMS





# ANNEXES

# ANNEX 1<sup>3</sup> - INCOTERMS 2020



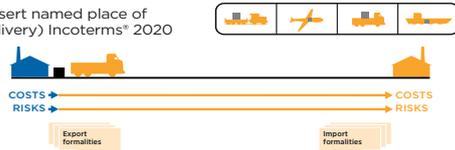
## TRANSPORT OBLIGATIONS, COSTS AND RISKS

Blue indicates seller's Gold indicates buyer's Green indicates mixed or shared

### RULES FOR ANY MODE OR MODES OF TRANSPORT

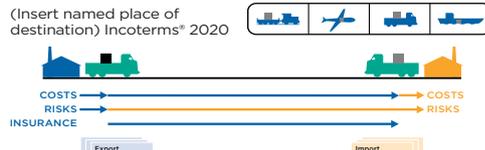
#### EXW Ex Works

(Insert named place of delivery) Incoterms® 2020



#### CIP Carriage and Insurance Paid To

(Insert named place of destination) Incoterms® 2020



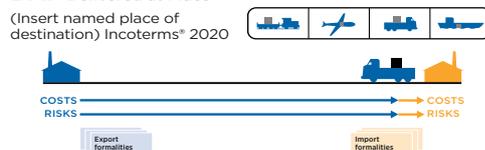
#### FCA Free Carrier

(Insert named place of delivery) Incoterms® 2020



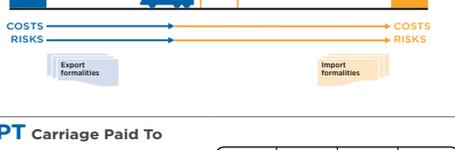
#### DAP Delivered at Place

(Insert named place of destination) Incoterms® 2020



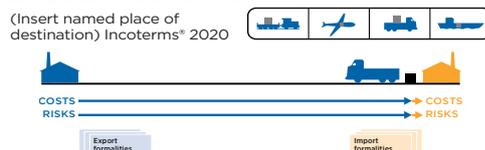
#### FCA Free Carrier

(Insert named place of delivery) Incoterms® 2020



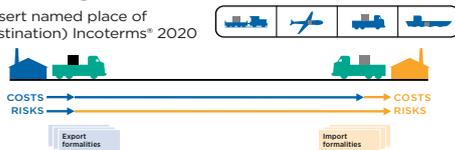
#### DPU Delivered at Place Unloaded

(Insert named place of destination) Incoterms® 2020



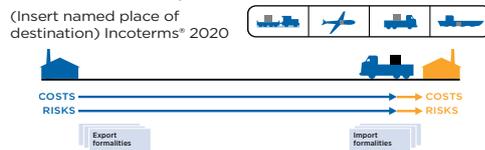
#### CPT Carriage Paid To

(Insert named place of destination) Incoterms® 2020



#### DDP Delivered Duty Paid

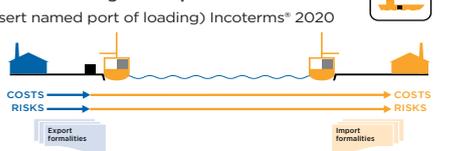
(Insert named place of destination) Incoterms® 2020



### RULES FOR SEA AND INLAND WATERWAY TRANSPORT

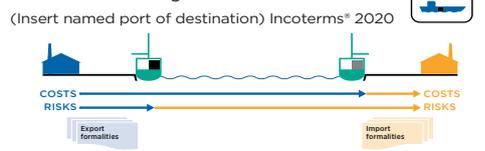
#### FAS Free Alongside Ship

(Insert named port of loading) Incoterms® 2020



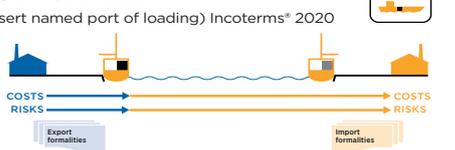
#### CFR Cost and Freight

(Insert named port of destination) Incoterms® 2020



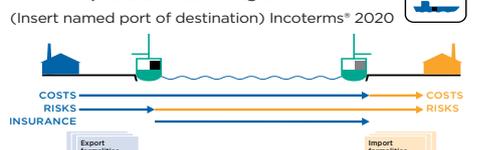
#### FOB Free on Board

(Insert named port of loading) Incoterms® 2020



#### CIF Cost, Insurance and Freight

(Insert named port of destination) Incoterms® 2020



**WARNING:** This chart is not intended to be used alone, and should always be used in conjunction with the Incoterms® 2020 rule book.

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## ANNEX 2 - DOCUMENTATION FOR SHIPPING AND CUSTOMS CLEARANCE

### Acronyms and Abbreviations

HS Code	Harmonized System Classification
BL/BoL	Bill of Lading
IATA	International Air Transport Association
AWB	Air Waybill
COO	Certificate of Origin
SGS	Société Générale de Surveillance <a href="http://www.sgsgroup.us.com">www.sgsgroup.us.com</a>
PVoC	Pre-export Verification of Conformity
BIVAC	Pre-export Verification by Veritas – Bivac International

### Glossary of Terms

**Consignee:** A person or company to whom goods are to be delivered to.

**Harmonized System Codes (HS):** International nomenclature for the classification of traded products. It allows countries to classify goods on a common basis for Customs purposes around the world, in order to assess duties and taxes. The HS is administrated by the **World Customs Organization** (WCO) and updated every five years.

**Gross and net weight of goods:** Commonly used terminology for shipping purposes. The gross weight includes the weight of the product, its packing (boxes), any other packing required for shipping (pallets, covers, belts...) and the weight of the container. The net weight refers to the weight of the product and does not include the weight of the packaging or container.

**Fumigated pallets:** Pallets that have been disinfected and gone through pest control processes. In order to ensure that pests are not transferred from one country to another, some countries require the fumigation of imported goods.

At the completion of the fumigation process, a fumigation certificate is issued and can be provided to Customs authorities for the clearance of imported goods, if required.



## International Shipping (by Air, Sea or Road)

For international shipping, the general documents required are explained below. However, national authorities can require additional documentation to clear books for export and/or import, such as a tax discharge for import an import license, an Arrival Notice, a subscription for port access, etc.

Commonly required documents for shipping are listed below

### *1. A commercial invoice, which specifies:*

- the Buyer and Seller's names
- the name and address of the consignee
- the reference to the contract, the purchase order or proforma invoice
- a detailed description of the goods
- the Harmonized System code (HS code) of the goods
- the issuing date of the invoice
- the price
- the payment terms
- the Incoterm
- the delivery details (how and where the goods will be delivered)
- the currency
- the Seller's bank account information

Depending on the Incoterm the insurance information may be added, and the insurance costs detailed in the invoice.

For sea freight, a commercial invoice must be issued for all shipments. If several containers are being shipped, the commercial invoice must include the container numbers, quantity, weight, and value of all the containers of the shipment.

### *2. A packing list, issued by the Seller before shipping.*

The packing list identifies the items in the shipment and includes the net and gross weights, and dimensions of the packages. For Sea Freight, a packing list must be completed per container and must include the container and seal numbers. An export packing list/slip needs to be more detailed than a packing list for domestic transportation. This list will be used by the freight forwarder to create the bills of lading for the shipment, by banks before issuing a letter of credit, and by Customs officials in the country of destination to identify the location of packed items they want to inspect.



### 3. *Originals of the bill of lading issued by the shipping line*

The bill of lading (BL or BoL) is a legal document issued by a carrier to a Seller that details the type, quantity, and destination of the goods being carried. The bill of lading also serves as a shipment receipt when the carrier delivers the goods at a predetermined destination. This document must accompany the Seller's products, no matter the form of transportation, and must be signed by an authorized representative from the carrier, shipper, and receiver.<sup>4</sup>

The BL contains similar information to that provided on the commercial invoice of the Seller, including:

- the name of the Seller, shipper, or exporter
- the name of the Buyer, consignee, or importer
- the Contract or Purchase Order reference
- the description of the goods
- the HS code
- the gross weight/net weight of the goods
- goods origin and final destination.

There are two types of bills of lading: straight and negotiable. A straight bill of lading is used when a shipment is intended to a specific consignee and is not negotiable. The consignee takes possession of the goods by presenting a signed, original bill of lading to the carrier. A negotiable bill of lading is consigned "to order" or "to order of shipper" and is signed by the shipper and sent to a bank in the buyer's country. The bank retains the original bill of lading until the requirements of a letter of credit have been satisfied.

### 4. *Air Waybill issued by the International Air Transport Association (IATA)*

An air waybill (AWB) is a document that accompanies goods shipped by an international air courier to provide detailed information about the shipment and allow it to be tracked. The bill has multiple copies so that each party involved in the shipment can document it.

An air waybill (AWB), also known as an air consignment note, is a type of BL. However, an AWB serves a similar function to ocean bills of lading, but an AWB is issued in non-negotiable form, meaning there's less protection with an AWB versus bills of lading<sup>5</sup>

It serves as a receipt of goods by an airline, as well as a contract of carriage between the shipper and the carrier. It's a legal agreement that's enforceable by law.

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4 <https://www.investopedia.com/terms/b/billoflading.asp>

5 <https://www.investopedia.com/terms/a/airway-bill.asp>

The AWB will also contain:

- the name and address of the Seller, shipper, or exporter
- the name and address of the Buyer, consignee, or importer
- the Contract or Purchase Order reference
- the description of the goods
- the HS code
- three-letter origin airport code
- three letter destination airport code
- declared shipment value for customs
- quantity, the gross weight/net weight of the good
- any special instructions (e.g., “perishable”)

An AWB also contains the conditions of the contract that describe the carrier’s terms and conditions, such as its liability limits and claims procedures and applicable charges.

#### ***5. The Certificate of Origin, which indicates the country where the books were produced.***

Certificates of Origin (COO) usually need to be signed by organizations such as the International Chamber of Commerce (ICC) or a country’s consular office. A certificate of origin may be required even if the seller included the country of origin information on the commercial invoice.

#### ***6. A pre-shipment inspection or pre-export certificate is required at the port of destination (SGS, PVoC Program, BIVAC).***

This is a country-specific certificate required by the country of destination to ensure that the goods conform with their description, the packing list, and the environmental and safety regulations applicable in the country of destination, such as fumigated pallets.

These pre-export processes need to be conducted and certified by companies specialized in the control and inspection of goods for export, as they know the importation requirements of the country of destination.



## 7. *The insurance certificate*

For the incoterms CIF, CIP, DAP, DPU, DDP, the Seller must provide proof that the goods are insured for at least 110% of the total contract value.

For international transportation by land, the bill of lading is replaced by a Carriage of Merchandise by Road (CMR). The CMR contains information about the Seller, the carrier and the receiver of the goods (Buyer) and acts as a contract of carriage of goods between a shipper and the international carrier. It's not recognized as proof of delivery.

## Customs clearance

Customs clearance requires the:

- proforma or commercial invoice
- packaging list
- BL or AWB
- COO
- insurance certificate
- copy of the Letter of Credit if specified in the shipping document or in the invoice.

For Customs clearance purposes, a power of attorney for the agent or the logistics company in charge of Customs clearance is also required. This power of attorney authorizes the agent to act on behalf of the Buyer. The agent can complete the Customs clearance formalities, submit the documentation, and sign in the name of the Buyer.

If the project is tax and duty exempt, a letter of exemption must be provided to the agent in charge of the Customs clearance. When the Ministry of Finance issues tax and duty exemption status to a World Bank project, the books imported under the project are automatically exempt. The Ministry of Finance should issue a letter of exemption indicating the project name, project or contract number, and the name and address of the consignee who is the beneficiary of the tax exemption status.



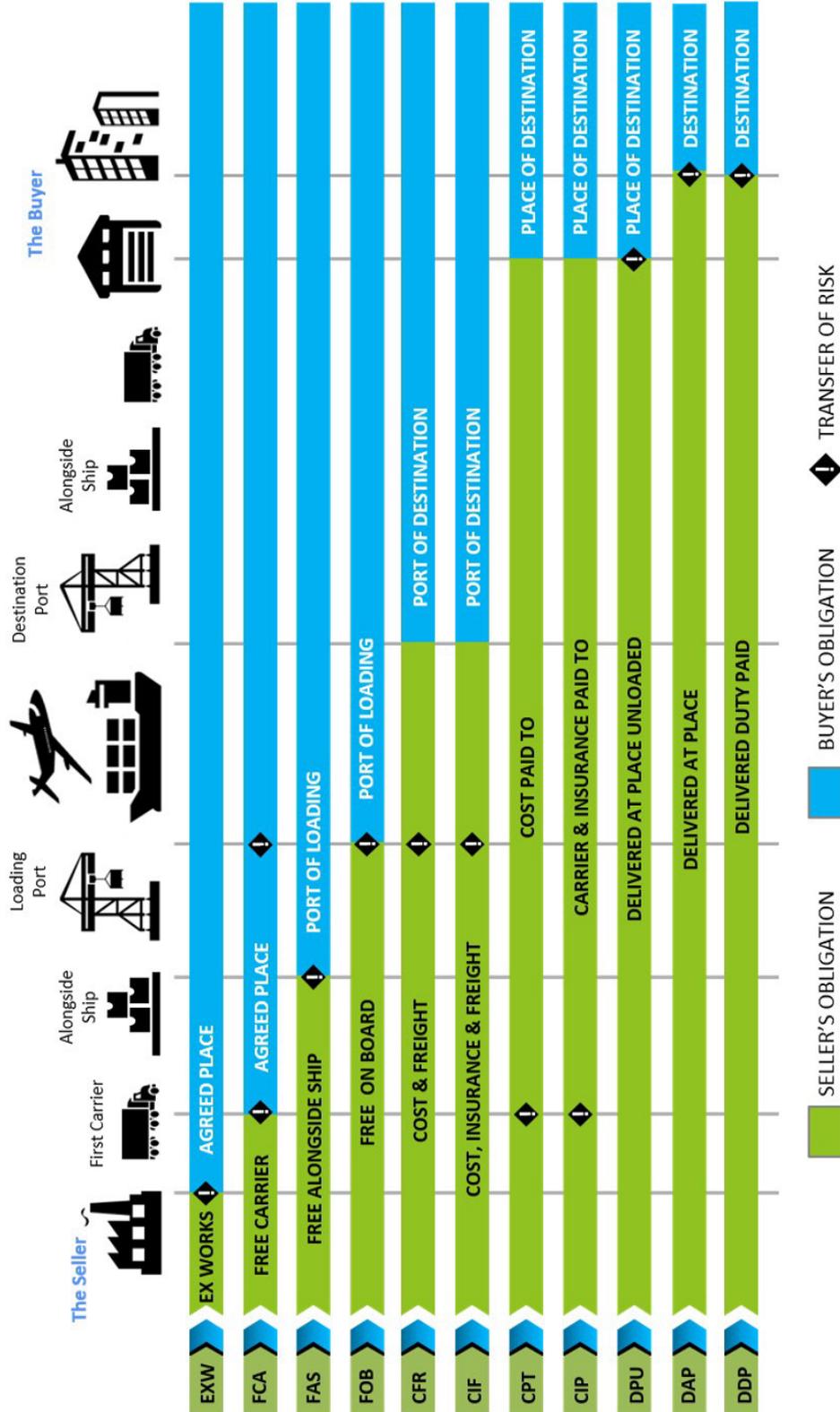
## Local Transportation (Road or Waterway)

The Delivery Note is the most important document for this type of transportation. The delivery note is issued by the Seller in several copies. The Delivery Note must be signed twice: once by the transporter when they pick up the books specified on the Delivery Note and once by the Buyer when the books have been delivered to their specified destination. The Delivery Note should include:

- the name of the Seller
- the name of the Buyer
- the contract or purchase order reference
- the description of the goods
- the gross weight/net weight of the goods
- the origin of the books and their final destinations
- space for comments or complaints about the delivery

# ANNEX 3<sup>6</sup> - INCOTERMS 2020 TRANSFER OF RISK

## INCOTERMS 2020 Point of Delivery and Transfer of Risk



6 <https://abcofprocurement.com/incoterms>



## IMAGE REFERENCES

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