# Chapter 6: Terms of Trade or Incoterms® Rules

TRUE/FALSE

1. Under the Free Carrier Incoterms® Rule, the exporter is responsible for clearing the merchandise for export.

ANS: T DIF: Easy REF: page 205

1. An advantage of the Free Alongside Ship Incoterms® Rule is the thorough documentation of the receipt of goods at a port holding area or to the quay alongside the ship.

ANS: F DIF: Hard REF: page 215

1. Under the FOB Incoterms® Rule, in countries where import authorities require a pre-shipment inspection, the importer must pay for it.

ANS: T DIF: Hard REF: page 219

1. The CFR Incoterms® Rule means “Cost and Freight.”

ANS: T DIF: Easy REF: page 220

1. The Cost, Insurance, and Freight Incoterms® Rule is specifically designed for ocean transportation.

ANS: T DIF: Moderate REF: page 222

1. Under the Cost, Insurance, and Freight Incoterms® Rule, the importer takes responsibility for the goods when they arrive at the importer’s port.

ANS: F DIF: Moderate REF: page 223

1. Conceptually, the CPT Incoterms® Rule is the same as the CFR Incoterms® Rule, except it applies to goods shipped by means other than ocean transport, or shipped by sea without being handed over at the port of departure.

ANS: T DIF: Moderate REF: page 205

1. The Incoterms® Rule CPT means “Cargo Placed at Terminal.”

ANS: F DIF: Easy REF: page 205

1. An Incoterms® Rule expressed as “CIP, 126 Strada Molitor, Bucharest, Romania, Incoterms® Rules 2020” means that under Incoterms® Rules as of 2020, the goods are “Carriage and Insurance Paid” to that address in Bucharest, where the importer will take ownership of them.

ANS: F DIF: Moderate REF: page 208

1. A bill of lading or equivalent document (air waybill, sea waybill, multi-modal bill of lading) acts as proof of delivery under the CIP Incoterms® Rule.

ANS: T DIF: Moderate REF: page 208

1. The EXW Incoterms® Rule is mostly used for bulk shipments of commodities where the parties wish to have the exporter pay for the loading of the ship.

ANS: F DIF: Moderate REF: page 200

1. Under Incoterms® Rule FAS, the importer is the party responsible for loading the goods onto the carrier.

ANS: T DIF: Moderate REF: page 215

1. Under Incoterms® Rule FOB, transfer of responsibility for cargo from importer to exporter is when the cargo is loaded onto the ship

ANS: T DIF: Moderate REF: page 219

1. The DAP Incoterms® Rule means “Deliver At Port.”

ANS: F DIF: Easy REF: page 209

1. Under the DPU Incoterms® Rule, the exporter is responsible for the costs of transportation to the goods’ final destination and for the costs of clearing customs.

ANS: F DIF: Moderate REF: page 211

1. Under the FCA Incoterms® Rule, it is the responsibility of the importer to arrange and pay for the loading of the goods.

ANS: F DIF: Hard REF: page 205

1. Under the DDP Incoterms® Rule, the importer takes control of the goods in the city where the exporter is located.

ANS: F DIF: Hard REF: page 214

1. In planning their export strategy, companies generally determine which Incoterms® Rule they will use on a case-by-case basis.

ANS: F DIF: Moderate REF: page 230

1. Under the CIF Incoterms® Rule, the proof of delivery is an ocean bill of lading or a sea waybill.

ANS: T DIF: Moderate REF: page 223

1. It is always best to use only one term of trade in a quote to a potential customer so that there is no possible confusion.

ANS: F DIF: Moderate REF: page 230

1. The least customer-friendly of the Incoterms® Rules in the EXW (Ex-Works) Incoterms® Rule.

ANS: T DIF: Moderate REF: page 200

1. The more recent versions of Incoterms® Rules are more likely to be reflecting the trade practices of international logisticians and should be preferred over older versions, even if the ICC allows their use.

ANS: T DIF: Moderate REF: page 228

1. The DPU Incoterms® Rule is new with the 2020 version of Incoterms® Rules.

ANS: T DIF: Moderate REF: page 211

1. A shipment leaving Denver, Colorado, for Kobe, Japan, could be sold under an FOB Incoterms® Rule.

ANS: F DIF: Moderate REF: page 217

1. Incoterms® Rules are arbitrated by the International Trade Commission.

ANS: F DIF: Moderate REF: page 196

MULTIPLE CHOICE

1. Incoterms® Rules stands for

|  |  |  |  |
| --- | --- | --- | --- |
| a. | terminal incorporation procedures. | d. | intercontinental term standards. |
| b. | in-country termination. | e. | international commercial terms. |
| c. | international company terminology. |

ANS: E

Incoterms® Rules is the acronym for International Commercial Terms.

DIF: Moderate REF: page 196

2. While on the surface Incoterms® Rules determine who pays what when, ultimately the \_\_\_\_\_ directly or indirectly pay(s) the costs of transportation and international shipping.

|  |  |  |  |
| --- | --- | --- | --- |
| a. | importer | d. | carrier |
| b. | exporter | e. | seller |
| c. | customs office |

ANS: A

The importer ultimately pays since any costs the exporter pays will be built into the price.

DIF: Hard REF: page 199

3. The choice of the Incoterms® Rule is almost always the decision of the

|  |  |  |  |
| --- | --- | --- | --- |
| a. | importer. | d. | distributor. |
| b. | agent. | e. | carrier. |
| c. | exporter. |

ANS: C

Agents and distributors are importers, so in this case, these terms are essentially synonymous and they do not select the choice of Incoterms® Rule.

DIF: Moderate REF: page 199

4. The choice of a proper Incoterms® Rule is a critical decision because

|  |  |  |  |
| --- | --- | --- | --- |
| a. | it can be an integral part of export strategy. | d. | it commits the exporter to complete a series of tasks. |
| b. | it is linked to the level of customer service the firm is attempting to provide. | e. | all of the answers in this set apply to this decision. |
| c. | it can be a competitive advantage. |

ANS: E

Choosing the proper Incoterms® Rule is crucial because it can be an integral part of an export strategy, andit is linked to the level of customer service the firm is attempting to provide, while the competitive advantage is implied.

DIF: Hard REF: page 198

5. In terms of cost and responsibility, the easiest Incoterms® Rule for the exporter which is, in turn, the most difficult for the importer is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Delivered At Place (DAP). | d. | Free On Board (FOB). |
| b. | Ex-Works (EXW). | e. | Cost and Freight (CFR). |
| c. | Delivered Duty Paid (DDP). |

ANS: B

Delivered At Place (DAP) and Delivered Duty Paid (DDP) require the most responsibility for the exporter rather than the importer. Free On Board (FOB) basically splits the responsibility for the shipment between the exporter and the importer, and Cost and Freight places most of the responsibility on the exporter. Ex-Works (EXW) is correct as it is the easiest for the exporter.

DIF: Moderate REF: page 200

6. The Incoterms® Rule FCA means

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Free Carrier. | d. | Free Customs Administration. |
| b. | From California. | e. | Free Carriage Agreement. |
| c. | For Countries Abroad. |

ANS: A

FCA stands for Free Carrier.

DIF: Easy REF: page 203

7. FOB is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Free On Board. | d. | Freight On Board. |
| b. | an Incoterms® Rule that can be used only for merchandise that is containerized. | e. | an Incoterms® Rule that was created most recently. |
| c. | an Incoterms® Rule specifically designed for inland transportation. |

ANS: E

FOB is Free on Board, used exclusively for ocean transportation, and recommended for non-containerized goods.

DIF: Moderate REF: page 217

8. Under the Incoterms® Rule FOB, responsibility for the cargo

|  |  |  |  |
| --- | --- | --- | --- |
| a. | shifts from exporter to importer at the ship’s rail. | d. | shifts from exporter to importer when the importer pays the exporter. |
| b. | shifts from exporter to importer when the goods are placed on the exporter’s loading dock. | e. | shifts from exporter to importer when the goods are lifted from the delivery truck in the port of departure. |
| c. | shifts from exporter to importer when the goods are loaded onto the ship in the country from which the goods are leaving. |

ANS: C

In FOB, the responsibility shifts from the exporter to the importer when the goods are onboard the ship.

DIF: Moderate REF: page 219

9. Incoterms® Rules determine

|  |  |  |  |
| --- | --- | --- | --- |
| a. | how much the agents commission will be. | d. | where the goods change ownership from exporter to importer. |
| b. | which tasks will be performed by the exporter. | e. | which country will collect the duty on the goods. |
| c. | how much duty will be charged by the importing country. |

ANS: B

Incoterms® Rules define several aspects of an international sale, one being which tasks will be performed by the exporter.

DIF: Easy REF: page 197

10. The Incoterms® Rule EXW specifies what regarding delivery?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the mode of transportation for delivery | d. | it lets the exporter decide when the goods are delivered |
| b. | who pays for delivery | e. | the goods are delivered when the importer picks them up. |
| c. | who buys insurance for delivery |

ANS: D

Under EXW delivery takes place when the goods are made available by the exporter for pick up.

DIF: Hard REF: page 202

11. The document that corresponds clearly to the transfer of responsibility for a Free Carrier shipment is the receipt given by the carrier to the exporter. This receipt can be

|  |  |  |  |
| --- | --- | --- | --- |
| a. | a sea waybill. | d. | a uniform bill of lading. |
| b. | an air waybill. | e. | any type of waybill or bill of lading. |
| c. | a multi-modal bill of lading. |

ANS: E

Each of these can function as a receipt indicating responsibility transfer.

DIF: Moderate REF: page 204

12. The only Incoterms® Rule which requires the importer to clear the merchandise for export from the country from which it is coming is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Free Alongside Ship. | d. | Delivered At Place. |
| b. | Ex-Works. | e. | Free Carrier. |
| c. | Cost and Freight. |

ANS: B

Free Alongside Ship, Cost and Freight, Delivered At Place, and Free Carrier all require the *exporter* to clear the merchandise for export.

DIF: Hard REF: page 202

13. Under the Free On Board Incoterms® Rule, if a piece of cargo breaks loose while it is loaded onto the ship, it becomes the responsibility of

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the exporter. | d. | the stevedore. |
| b. | the importer. | e. | the shipping line. |
| c. | the harbor master. |

ANS: B

If the cargo is damaged prior to being onboard the ship, it is the responsibility of the exporter.

DIF: Easy REF: page 219

14. Under the Cost, Insurance, and Freight Incoterms® Rule,

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the importer must pre-pay the insurance. | d. | the exporter controls the goods until their arrival in the port of destination. |
| b. | the insurance must total at least 110 percent of the value of the goods. | e. | the importer pre-pays for international carriage. |
| c. | the importer pays all shipping costs, including on-carriage. |

ANS: B

Under CIF, the exporter must pre-pay the insurance, which must total at least 110 percent of the value of the goods. The exporter pays all shipping costs, except for on carriage, which is to the importer’s account.

DIF: Moderate REF: page 222

15. One of the differences between the Delivered at Place Unloaded Incoterms® Rule and the Delivered At Place Incoterms® Rule

|  |  |  |  |
| --- | --- | --- | --- |
| a. | the unloading costs are borne by the exporter under DAP and by the importer under DPU. | d. | unloading costs are borne by the cargo owner in both DAP and DPU. |
| b. | the unloading costs are borne by the exporter under DPU and by the importer under DAP. | e. | unloading costs are so small that it does not really matter. |
| c. | both importer and exporter share unloading costs in both DAP and DPU. |

ANS: B

Under DPU, the unloading costs are borne by the exporter. They are borne by the importer in a DAP transaction.

DIF: Easy REF: page 211

16. Delivered At Place is an Incoterms® Rule designed specifically for

|  |  |  |  |
| --- | --- | --- | --- |
| a. | ocean transportation. | d. | barge transportation. |
| b. | land transportation. | e. | it can be used for any means of transportation. |
| c. | air transportation. |

ANS: E

Delivered At Place is for any merchandise, and any mode of transportation.

DIF: Easy REF: page 209

17. Which Incoterms® Rule shares a delivery point with the FOB Incoterms® Rule?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | Cost and Freight (CFR). | d. | Carriage and Insurance Paid to (CIP). |
| b. | Free Alongside Ship (FAS). | e. | No Incoterms® Rule shares a delivery point with the FOB Incoterms® Rule. |
| c. | Carriage Paid To (CPT). |

ANS: A

The FOB, CFR, and CIF Incoterms® Rule share the same delivery point; when the goods are loaded onto the ship.

DIF: Moderate REF: page 223

18. Under the Delivered Duty Paid Incoterms® Rule, unloading costs are borne by the

|  |  |  |  |
| --- | --- | --- | --- |
| a. | railroad. | d. | harbor. |
| b. | ship line. | e. | importer. |
| c. | exporter. |

ANS: E

Unloading costs are borne by the importer.

DIF: Moderate. REF: page 215

19. Which Incoterms® Rule(s) requiring the exporter to pay import duty?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | FCA. | d. | EXW. |
| b. | CIP. | e. | DAP. |
| c. | DDP. |

ANS: C

Only DDP (Delivered Duty Paid) requires the exporter to pay duty.

DIF: Hard REF: page 215

20. In a quote which includes multiple Incoterms® Rules, so that the customer can choose, the Incoterms® Rule that has the highest invoiced amount is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | EXW. | d. | CIP. |
| b. | FCA. | e. | DPU. |
| c. | DDP. |

ANS: C

DDP (Delivered Duty Paid) requires the greatest effort on the part of the exporter and the greatest costs, which are then invoiced to the importer.

DIF: Moderate REF: page 231

21. Among the following, the most customer-friendly Incoterms® Rule is

|  |  |  |  |
| --- | --- | --- | --- |
| a. | FCA. | d. | FAS. |
| b. | CIP. | e. | FOB. |
| c. | DAP. |

ANS: C

Under a DAP transaction, the exporter is providing more services to the importer than for FCA, CIP, FOB, or FAS.

DIF: Hard REF: page 209

22. Certain countries do not allow importers to purchase insurance abroad. Which Incoterm is therefore not available to importers located in these countries?

|  |  |  |  |
| --- | --- | --- | --- |
| a. | FCA. | d. | DES. |
| b. | CIP. | e. | FOB. |
| c. | DAP. |

ANS: B

Under CIP, the exporter provides insurance, which means that the importer purchases insurance “abroad.”

DIF: Hard REF: page 224

COMPLETION

1. Under the FAS Incoterms® Rule, in countries where export authorities require a pre-shipment inspection, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ has to pay for it.

ANS: exporter

DIF: Hard REF: page 217

2. Under the CFR Incoterms® Rule, until the merchandise is placed\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ship, it is the responsibility of the exporter, after that, of the importer.

ANS: onboard

DIF: Easy REF: page 220

3. Under the CFR Incoterms® Rule, if the pre-paid contract of carriage does not include the unloading of the ship, then the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ must pay for it.

ANS: importer

DIF: Hard REF: page 222

4. Under the CPT Incoterms® Rule, the bill of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can act as a proof of delivery from the carrier.

ANS: lading

DIF: Easy REF: page 207

5. Under the DAP Incoterms® Rule, the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is responsible for unloading the goods from the carrier’s truck, clearing customs, and paying for any inland transportation beyond the city of destination.

ANS: importer

DIF: Moderate REF: page 210

6. Under the DPU Incoterms® Rule, the exporter is responsible for the goods until they arrive in the agreed-upon terminal in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of departure or of destination.

ANS: port

DIF: Moderate REF: page 211

7. As far as the importer is concerned, under the DDP Incoterms® Rule, receiving an international shipment is no different that receiving a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ shipment.

ANS: domestic

DIF: Moderate REF: page 214

8. Variants to the CFR Incoterms® Rule were created to reflect which of the trade partners was responsible for unloading costs. When the exporter bears the costs, the term “CFR \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_” is used.

ANS: Landed

DIF: Hard REF: page 221

9. The Incoterms® Rule CPT means “\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Paid To.”

ANS: Carriage

DIF: Easy REF: page 205

10. The Incoterms® Rule FAS means “Free \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ship.”

ANS: Alongside

DIF: Easy REF: page 215

11. The customer-focused exporter gives the importer a quote in which the importer can determine which \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ should govern the transaction.

ANS: Incoterms® Rule

DIF: Easy REF: page 230

12. The choice of an Incoterms® Rule, as well as the choice of the method of payment and of other related transaction alternatives, constitute an exporter’s \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ service strategy.

ANS: customer

DIF: Hard REF: page 198