



## MAIN FEATURES OF CHANGES IN INCOTERMS 2010

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### Abstract

International business transactions have a great importance for the companies that are dealing with importation and exportation. Nowadays, physical borders between countries disappear and companies are engaged in international business like a domestic business. However, it should be noted that, international business transactions have some particular rules and instruments. Recognition of these particular rules and instruments will protect companies, against potential losses and risks.

The concept of Incoterms could be explained as international commercial terms, and these terms are revised in certain periods by International Chamber of Commerce. They are presented to the use of companies who are dealing with import and export operations. Finally, the terms are updated as Incoterms 2010 and have been used by companies since first of January 2011.

In this study, the historical development of the terms has been investigated in detail and contemporary applications of Incoterms 2010 examined. Furthermore, the causes of the revisions have been researched and the consequences of the amendments have been evaluated. On the other hand, opinions on the subject have been given in the section of conclusions and recommendations.

**Keywords:** International Business, International Logistics, Incoterms, Delivery Terms, International Commercial Terms.

### ANA HATLARIYLA INCOTERMS 2010 İLE MEYDANA GELEN DEĞİŞİKLİKLER

#### Öz

Uluslararası ticari işlemler, ithalat ve ihracat ile uğraşan işletmeler için büyük önem arz etmektedir. Günümüzde, ülkeler arasında fiziki olarak sınırlar, neredeyse kalkmış ve işletmeler adeta ulusal ticaret yapar gibi uluslararası ticaret ile uğraşmaktadırlar. Ancak, uluslararası ticaretin çok doğal olarak kendine has bazı kuralları ve enstürmanları vardır. Bu kural ve enstürmanların bilinirliği ve doğru olarak uygulanması işletmeleri potansiyel risk ve kayıplara karşı önemli ölçüde koruyacaktır.

Uluslararası ticari terimler olarak açıklayabileceğimiz INCOTERMS kavramı, Milletlerarası Ticaret Odası tarafından belli dönemlerde güncellenerek, dış ticaret ile uğraşan işletmelerin kullanıma sunulmaktadır. Son olarak, 2010 yılında INCOTERMS terimleri güncellenmiş ve işletmeler tarafından 2011 yılından beri kullanılmaya başlanmıştır.

Bu çalışmada, INCOTERMS terimlerinin tarihsel gelişimi ve günümüzdeki son hali detaylı olarak incelenmiştir. Ayrıca 2010 yılında yapılmış olan revizyonun sebepleri araştırılmış ve değişikliğin ne gibi sonuçlar doğuracağı yorumlanmıştır. Öte yandan sonuç ve öneriler bölümünde konuyla ilgili görüşlere yer verilmiştir.

**Anahtar Kelimeler:** Uluslararası Ticaret, Uluslararası Lojistik, Incoterms, Teslim Şekilleri, Uluslararası Ticari Terimler.

## **1.Introduction**

International business relations are affected by the world's rapid globalisation. Global business activities are advancing very fast with the impact of emerging developments in the technology, capital, communication and other areas. As a natural result of the progress in international business, the need of amendments in the commercial rules is inevitable.

Incoterms, first published in 1936 by International Chamber of Commerce is considered as an important milestone for delivery terms to stabilize the international commercial activities.

Delivery terms are constantly evolving and changing in accordance with the commercial life. Therefore with this study, relationship between Incoterms and commercial life are examined in depth. The history, chronological revisions and their results were studied. Afterwards the differences arising with the contemporary applications were compared with the previous revisions.

## **2.The Development of Delivery Terms in International Business**

International business have been growing rapidly with the effect of global influence in the world economy. Especially after the Second World War and the 1990's, major improvements are observed in the global economy. In this respect, international business between countries has a serious distance. This rapid advancement has led to the emergence of some problems in the world global trade. Transport costs are the most significant costs as it is known, therefore emerging issues, focuses on delivery terms and transportation (Doğanlar and others, 2003: 83-87).

On the other hand, both parties of the business can feel some safety problems due to the following reasons (Sayım and Zengin, 2012: 216);

- Both importer and exporter can not fully know each other,
- The big distances between countries,
- Differences in national legislation of the countries,
- Some problems that may be experienced in case of a conflict.

There have been a huge number of studies on the delivery terms in international business transactions. Six terms, expressed by three letters were first introduced by International Chamber of Commerce in 1923. These terms were; FOB, FAS, FOT, FOR, C&F and Free Delivered CIF (International Chamber of Commerce, 2015).

According to this commercial application, both importer and exporter will already know in advance where, when and how the delivery will be done. For this reason, a term that has been expressed by a single abbreviation, will contain the information of a multi pages written agreement (Caruntu and Lapaduși, 2010: 99).

In order to regulate international commercial activities all over the world, some variety of alternative applications have emerged beside the Incoterms rules such as; Revised American Foreign Trade Definition and Warsaw-Oxford Rules. However, none of these applications became successful as much as Incoterms applications which was put forth by the International Chamber of Commerce and over time all these potential transactions have been eliminated ( Zhai, 2013: 86).

In 1936, international commercial terms were firstly published by the International Chamber of Commerce as the official name of Incoterms. These terms which are internationally accepted, have eliminated many commercial disputes in national and international sales contracts all around the world. The major function of Incoterms is eliminating the interpretation difference and prevented implementation of the differences between countries. Based on the needs arising, International Chamber of Commerce made several revisions by expert lawyers and trade consultants, in 1953, 1967, 1976, 1980, 1990, 2000 and 2010 (Kaya and Turguttopbaş, 2012:55).

Revised drafts are prepared by the international business and law expert group of International Chamber of Commerce and after that they are presented to National Committees in order to receive comments and suggestions. In accordance with the comments and suggestions, the Commission of Commercial Law and Practices presents the draft to the approval of Board of Directors for publishing (International Chamber of Commerce, 2015).

If we take a look to the general reasons of all revisions, we can see that it is mainly caused by the developments of international business. Consequently the elements that play an important role in the development can be listed as follows (Doğanlar and others; 2003:83-91).;

- Rapid growth of business,
- Structural changes that occur in the business life,
- As a natural result of developments in logistics activities, dropping of transport costs all around,
- The developments that occurred in the field of international competition.

For these reasons, some of the major amendments that are done by International Chamber of Commerce, can be determined as follows (International Chamber of Commerce, 2015);

-In the revision 1980, FCA term added to Incoterms to be used in different means of transport except seaway,

-In revision 1990, instead of paper documentation electronic communications were provided for the parties,

-In the 2000 revision, two major changes were made. The first change was made in the FAS term. Responsibility of export customs procedures, which were given to the buyer previously, amended as to the seller with the Incoterms 2000 revision. Other change occurred in the term FCA. In this term loading the goods to the vehicle was buyer's responsibility but with the amendment it is given to the seller.

Before the revision of Incoterms 2010, the prevail application was Incoterms 2000 and it's cost basis grouping can be examined as follows (Rai, 2010: 57).

Table 1: Incoterms 2000

<b>Incoterms 2000</b>		
<b>Group E</b>	<b>EXW</b>	Ex Works
	<b>FAS</b>	Free Alongside Ship
	<b>FCA</b>	Free Carrier
<b>Group F</b>	<b>FOB</b>	Free On Board
	<b>CFR</b>	Cost and Freight
	<b>CIF</b>	Cost Insurance Freight
	<b>CPT</b>	Carriage Paid To
<b>Group C</b>	<b>CIP</b>	Carriage and Insurance Paid To
	<b>DAF</b>	Delivered At Frontier
	<b>DES</b>	Delivered Ex Ship
	<b>DEQ</b>	Delivered Ex Quay
	<b>DDU</b>	Delivered Duty Unpaid
<b>Group D</b>	<b>DDP</b>	Delivered Duty Paid

Reference: Rai, 2010: 57

Naturally, delivery terms told us the delivery place and condition of the business but of course this is not enough alone. At the end, a whole sales contract will tell us more about the business conditions (Paliu and Babucea, 2011: 155).

### **3. Contemporary Applications of Incoterms and Main Reasons for the Latest Revision**

Today, latest revision of Incoterms which emerged in 2010 are used effectively by the companies in international business. The revision of 2010 contains quite radical changes when we compared it with the previous revisions. In addition, this revision also contains some structural changes and all terms become very suitable for today's business operations (Dugan and Talmaciu, 2012: 42).

On the other hand, with this revision Incoterms has become suitable not only for international business transactions but also suitable for domestic business transactions. Therefore, the use of Incoterms have been expanded to the unions and countries which spread over a wide geographical areas such as United States, China, Russia, European Union (Bergami, 2012: 34);.

As a result of these changes, Incoterms 2010 are grouped as follows (Malfliet, 2011: 165);.

#### Rules for Any Mode of Transport;

1. EXW – Ex-Works
2. FCA – Free Carrier
3. CPT – Carriage Paid To
4. CIP – Carriage And Insurance Paid To
5. DAT – Delivered At Terminal
6. DAP – Delivered At Place
7. DDP – Delivered Duty Paid

#### Rules for Sea and Inland Waterway Transport

1. FAS – Free Alongside Ship
2. FOB – Free On Board
3. CFR – Cost and Freight
4. CIF – Cost, Insurance and Freight

The basic changes that occur after this classification can include the following main themes (Dugan and Talmaciu, 2012: 43);

-In the past, terms are classified according to their costs but after 2010 revision they are classified under two different headings, any mode of transport and sea/inland waterway transport.

- DAF (Delivered at Frontier), DES (Delivered Ex-Ship), DEQ (Delivered Ex-Quay) and DDU (Delivered Duty Unpaid) terms were located at Incoterms 2000 but these terms were not acquired in Incoterms 2010.

- DAT (Delivered at Terminal) and DAP (Delivered at Place) have been added rather than extracted terms which thought to be more functional.

- Incoterms 2000 was containing 13 terms, but after the revision, Incoterms 2010 contains totally 11 terms.

- The 2010 revision also made quite structural changes at some of the terms in order to make them more functional and widespread use. For example; there had been a significant change at the risk and loss passes of the term FOB. On the other hand this changes also effected contiguous cost of terms in seaway.

In a general sense, the significant changes for the revision can be realised in categorisation of the terms, number of the terms, new added and removed terms. Consequently, the main differences between Incoterms 2000 and Incoterms 2010 can be seen in table 2.

Table 2: Comparison of Incoterms 2000 and Incoterms 2010

	<b>Incoterms 2000</b>		<b>Incoterms 2010</b>
<b>Group E</b>	Ex Works (EXW)		Ex Works (EXW)
	Free Alongside Ship (FAS)		Free Alongside Ship (FAS)
	Free Carrier (FCA)		Free Carrier (FCA)
<b>Group F</b>	Free On Board (FOB)		Carriage Paid To (CPT)
	Cost and Freight (CFR)	<b>Any Mode of Transport</b>	Carriage and Insurance Paid To (CIP)
	Cost Insurance Freight (CIF)		Delivered At Terminal (DAT)
	Carriage Paid To (CPT)		Delivered Duty Paid (DDP)
<b>Group C</b>	Carriage and Insurance Paid To (CIP)		Free Alongside Ship (FAS)
	Delivered At Frontier (DAF)	<b>Sea and Inland Waterway Transport</b>	Free On Board (FOB)
	Delivered Ex Ship (DES)		Cost and Freight (CFR)
	Delivered Ex Quay (DEQ)		Cost Insurance Freight (CIF)
	Delivered Duty Unpaid (DDU)		
<b>Group D</b>	Delivered Duty Paid (DDP)		

Reference: Bergami, 2012:36.

As a result, changes and innovations occurring in international commercial terms opens the way for a safe global business. In this safe business, both seller and buyer have

some basic and important responsibilities, such as customs declarations, carriage, loading and unloading, insurance and taxes. These obligations are summarized below table for the parties (Caruntu and Lapaduși, 2010: 103);

Table 3: Cost Distribution of Incoterms 2010

Incoterms 2010	Export-Customs Declaration	Carriage to Port of Export	Unloading of Truck in Port of Export	Loading Charges in Port of Export	Carriage (Sea Freight/Air Freight) to Port of Import	Unloading Charges in Port of Import	Loading on Truck in Port of Import	Carriage to Place of Destination	Insurance	Import Customs Clearance	Import Taxes
EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
DAS	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FOB	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Seller	Buyer	Buyer
CPT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
CIP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer
DAT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Seller

Reference: Caruntu and Lapaduși, 2010: 103.

As mentioned previously, according to the various needs Incoterms are revised during a certain period. If the needs of revisions are examined periodically, the main reasons of changes can be explained better. Incoterms 2010 entered into force on the first of January 2011. In the set of rules, the new and latest version of Incoterms contains 11 terms. As already stated, Incoterms 2010 introduced us two new terms and eliminated four previous terms with the revision. The reason for revisions can be explained by following points (Dugan and Talmaciu, 2012: 43);

-Geographical and political changes occurring in the border between the countries. On this subject the best examples can be given from the European countries. A business occurred between Germany and the Czech Republic is not an international business transaction anymore.

-The changes take into account in information technologies.

-The need of an adaptation for electronic commerce, billing and data transfer (Electronic Data Interchange) applications.

-Global changes occurred in transportation and logistics fields.

-The need of security and monitoring the transportation.

-Incoterms 2000 has lost its practices due to the effect of globalisation.

Consequently, with the effect of above mentioned reasons terms are developed by International Chamber of Commerce and used worldwide for international and domestic contracts for the sale of goods. On the other hand, it should be noted that although Incoterms 2010 came into effect on 1 January 2011, previous version Incoterms 2000 remains valid even after 2011. However, International Chamber of Commerce recommends to parties using version Incoterms 2010 after the beginning of 2011. The important point is the chosen version of Incoterms must be specified on the sales contract. The new version of Incoterms assist both parties and avoid costly misunderstandings by clarifying the cases, costs and risks included during the delivery of goods from exporters to importers (International Chamber of Commerce, 2015).

#### **4. The Purpose, Method and Findings of the Research**

The aim of this study is putting forth the significances and differences that occurred between the last revision Incoterms 2010 and previous revisions of the international commercial terms.

In this study, content analysis method is used, to examine the studies about international commercial terms. Content analysis is used often in the field of social sciences and it can be defined as a technique, based on specific rules of coding; books, book chapters, letters, historical documents, newspapers and articles (Tavşancıl ve Aslan, 2001: 22). In this study, studies about international commercial terms are examined in academic data bases and indexes, in accordance with specified screening and selection criteria. The most important criteria for the studies can be listed as follows;

-Study must be an academic research.

-Study should contain keywords of; Incoterms, International Commercial Terms and Delivery Terms.

-Study must be published at an international refereed journal or presented at an international conference or a symposium.

As a result of browsing, randomly selected 30 studies about international commercial terms analysed in terms of important points such as; study fields, research methods, study year, publishment of the study.

According to the examination of the distribution of the studies as per year, given at Table 4, an increase at studies is clearly observed after the latest version Incoterms 2010.

According to data in the table, it is understood that most of the studies are done at year 2012 (%33), year 2011 (%27) and year 2010 (%20). As previously mentioned, Incoterms 2010 entered into force on the first of January 2011 and as per the data at Table 4, it can be seen that, %60 of the studies are done after the final revision of International Chamber of Commerce. This increase at studies can be explained by the structural changes of the revision 2010. It can be said that, the changes in Incoterms caused the need of deeply investigations and researches.

Table 4: Dates of Studies

Dates of Studies	Number of Study	%
2003	1	3%
2005	1	3%
2007	2	7%
2009	2	7%
2010	6	20%
2011	8	27%
2012	10	33%
<b>Total</b>	30	100%

It can be observed from Table 5 that, the most researched topic at the studies is Incoterms and revisions. On the other hand, other important fields are determined as Comparison of Incoterms Revisions and Incoterms and Performance with 6 studies. These 3 topics represent %73 of the studies. This shows us that; after the structural changes in international commercial terms, the case of revision, comparison and performance became important for the researches.

Table 5: Study Fields

Study Fields	Number of Study	%
Incoterms and Revisions	10	33%
Comparison of Incoterms Revisions	6	20%
Incoterms and Performance	6	20%
Influence of Revisions	4	13%
Incoterms and Importance	2	7%
Innovation in International Business	2	7%
<b>Total</b>	30	100%

Studies reveal that, most of the authors preferred quantitative methods for their studies. As can be seen from Table 6, only %27 of authors preferred qualitative methods for the selected studies. Also 6 of studies (%20) contains both quantitative and qualitative methods.

Table 6: Research Methods

<b>Research Methods</b>	<b>Number of Study</b>	<b>%</b>
Quantitative	16	53%
Qualitative	8	27%
Quantitative and Qualitative	6	20%
<b>Total</b>	<b>30</b>	<b>100%</b>

On the other hand publication of the studies is another important point for this study. We can clearly observe from Table 7 that, %80 of the studies are published at International Refereed Journals. 6 studies are presented at International Conferences or Symposiums.

Table 7: Publication of the Studies

<b>Publication of the Studies</b>	<b>Number of Studies</b>	<b>%</b>
International Refereed Journal	24	80%
International Conferences and Symposium	6	20%
<b>Total</b>	<b>30</b>	<b>100%</b>

In this sense, studies about Incoterms related with Incoterms revision, revision comparison, effects of Incoterms on performance and influences of the Incoterms revisions may very positive effects on the companies that are dealing with import and export operations.

Consequently, the results for academic researches related with international commercial terms can be summarised as follows;

- The need of new studies on this subject is increased very much after the final revision.

- Important subjects related with Incoterms are; revisions, comparison and performance.

- An increase at the number of the studies may be expected after new innovative revisions.

-Differentiation on important issues should be expected together with the new revision that will be made at the following years by International Chamber of Commerce.

Consequently, we see that lots of companies can have benefits from many of the academic studies that are related with international commercial terms. The causes and results of the revisions can be assessed by the companies that are dealing with international business operations, in order to increase their performance and capacity.

## **5. Conclusion**

International business life, is making progress in parallel with the developments in daily life. It is quite natural that, life evolves and progresses in commercial operations are effected by this situation, improving and advancing. In addition, when the effect of globalization on this situation added, there are serious issues occur that need to be found. Some innovations in business activities are necessary for the solution of the problems. The recently made revisions on Incoterms and new payment methods that emerged are very good examples for the innovative solutions.

The reliability and vocation of delivery term is very important both for the seller and the buyer. Therefore, the Incoterms revisions made by International Chamber of Commerce in face of developments and changes will bring positive results to international business activities.

As a result, the inevitable revisions that have been made to the international commercial terms is a requirement and will continue to be made in certain periods by the International Chamber of Commerce. For this reason, academic studies to be carried out on the delivery terms are very important for the companies dealing with international business. Therefore, on this subject studies of the following topics will contribute to the enrichment of the issues of the delivery terms.

- The reasons and comparisons of Incoterms revision made from the present to the past,
- The effects of delivery terms and payment methods to each other,
- Disputes of delivery terms and arbitration applications in international business,
- International transport modes according to delivery terms,
- Delivery term preferences according to countries,
- Delivery terms in international business according to sectorial characteristics,
- Financial results of delivery terms in international business transactions,

-Legal consequences of delivery terms.

In order to make necessary arrangements on time, this is quite certain that, International Chamber of Commerce will continue to follow the developments that occurred in business life.

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