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EFFECTIVE USE OF INCOTERMS IN THE CASE COMPANY

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INCOTERMIEN TEHOKAS KÄYTTÖ KOHDEYRITYKSESSÄ

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Opinnäytetyön aiheena on kansainvälisten kaupallisten ehtojen (Incotermien) tehokas käyttö kohdeyrityksessä. Opinnäytetyön tarkoituksena on tunnistaa tehokkaimmat Incotermit, joita yritys käyttää ja yksinkertaistaa Incotermien käyttöä yhtiön suositustaulukoiden avulla. Tutkimus toteutettiin vuoden 2018 lopussa.

Kohdeyritys tarvitsi tarkemman näkemyksen Incotermien käytöstä ja analyysin siitä, miten niitä voitaisiin käyttää tehokkaammin. Yksi painopistealueista oli yrityksen ymmärryksen kehittäminen Incotermien eduista ja haitoista. Yrityksen tietämys Incotermeista oli välttämätöntä päivittää.

Opinnäytetyössä käytettiin kvalitatiivista tutkimusta sen tavoitteiden saavuttamiseksi. Opinnäytetyön empiirinen osa luotiin useista lähteistä ja tutkimusosa toteutettiin viidellä teemahaastattelulla. Jokainen näistä haastatteluista sisälsi viisi tärkeintä aihealuetta, jotka muodostivat haastattelun perustan. Haastatteluista kaksi tehtiin logistiikka-alan ammattilaisten kanssa, kun taas kolme muuta tehtiin myyntihenkilöstön kanssa.

Tutkimuksen tulokset osoittautuivat hyödyllisiksi kohdeyritykselle, koska tulokset osoittivat, että yritys on jo käyttänyt Incotermeja tehokkaasti, mutta voisi edelleen kehittää käyttöä muutamilla keskeisillä alueilla. Tässä tutkimuksessa esitetyt suositukset, jotka estävät Incotermien väärinkäytön ja edistävät tehokasta käyttöä, todettiin hyödyllisiksi ja helppokäyttöisiksi.

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The topic of this thesis is the effective use of International Commercial Terms (Incoterms) in the case company. The purpose of this thesis is to identify the most effective Incoterms for use by the case company and to simplify the company's use of Incoterms through the use of recommendation charts and a country-specific approach. The research was implemented at the end of the 2018.

The case company required a closer view of its Incoterms and an analysis of how they could be used more effectively. One area of focus was the development of the company's understanding of the Incoterms' advantages and disadvantages. Essentially, the company's knowledge of its Incoterms needed to be updated.

This thesis used qualitative research to achieve its stated aims. The empirical part of the thesis was created using multiple sources, while the research part was conducted using five theme interviews. Each of these theme interviews included five main questions that formed the basis of the interview. Two of the interviews were conducted with logistics professionals, while the remaining three were conducted with sales professionals.

The results of this research proved useful for the case company, as the results demonstrated that the company was already using Incoterms effectively but could further develop its use of Incoterms in a few key areas. The recommendation charts presented in this research, which prevent the misuse of Incoterms and lead to their effective use, were found to be helpful and easy to apply.

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1 INTRODUCTION

This thesis focuses on finding the most effective Incoterm for the case company. The main topics are aspects that effect choosing Incoterm and Incoterms effect on sales of contract. The thesis idea is to find the effective Incoterms by country specific and to simplify the using of Incoterms by recommendation charts. The topic for the thesis was requested by the case company.

International trade terms also known as Incoterms, contains eleven delivery clauses. Trade term is one part of a commercial contract, between seller and buyer. Correctly used trade terms enhance logistic, decreases the risks and bring cost savings for company. Successful transporting gives firm base for continuing deals. The thesis focuses on eleven Incoterms and clarifies the effective Incoterms for the case company.

The theoretical part focuses on Incoterms on generally level and focuses on risk and cost dividing between the seller and the buyer. Aspects that effect choosing Incoterm and Incoterms effect on sales of contract are main part of the theory. Effecting aspects by continent/country are also noticed in the theory part. The research part includes the case company's starting point and what should be developed. The sixth chapter includes the recommendation charts by country specific.

The result of the study will give useful information of the current situation and how the activities should be developed. The recommendation charts give the possibility to use the Incoterms correctly with simplified way. Correct use of Incoterms prevents the misuse and loss of effectiveness in the operations. The result convinces the product group managers to pay more attention to Incoterms. With the better understanding of the Incoterms the case company gets an advantage in international sales.

1.1 Purpose and objectives of this thesis

This thesis aims to identify the most beneficial and cost-effective Incoterms for use by the case company. The case company faces a common problem of the quotation and contract stage: it is unclear what the most suitable Incoterms are for different cases. As such, this thesis summarises the correct Incoterms for use in every case, focusing specifically on Asia, Europe, Russia, the United States and South America. The purpose is to find suitable, easy and cost-effective Incoterms for every objective. One challenge faced in fulfilling this aim was that the managers who quote the products do not have an understanding of Incoterms or why there are such an important part of contracts. To overcome this challenge, this thesis seeks an explanation for this lack of knowledge and defines when different Incoterms are recommended. The research questions explored in this thesis are as follows:

1. What aspects affect Incoterm use?
2. How do Incoterms affect trading?
3. What Incoterms are effective and reasonable for use by the case company?

1.2 Methodology

This thesis implements qualitative research and, specifically, theme interviews. The key concept in qualitative research is finding an answer to a question, with the aim of identifying underlying perspectives and insights. The aim of qualitative research is not to find an existing answer or preconceived theory about the research object. Rather, the best outcome of such research is gaining a comprehensive view of the object and its causes. Qualitative research happens in a natural environment, and data is collected from professionals and specialists through an interactive relationship with the researcher. The research material is diverse and is collected from text, pictures, interviews and other media. Theme interviews are a common way of gathering information in qualitative research. Data from these interviews is analysed in inductive, recursive and interactive ways. Inductive analysis is used to develop a theory for practise, recursive is recuperating and interactive analysis involves communication between the researcher and interviewee.

Qualitative research is the basis of all research, including quantitative research. Quantitative research differs from qualitative research in that it starts from a position in which that question needing to be answered has already been defined. In qualitative research, theories are developed with the aim of defining the question; in quantitative research, the direction is from theory to practise, which is also known as deduction. (Kananen 2017, 32-34,44.)

In this study, the research material consists of theme interviews. Theme interviews include two components, according to their name: 1) interviews, in which face-to-face, open conversation of the topic occurs, and 2) themes, which means that more than just a single question or topic is discussed but rather a more general theme is discussed. Through this discussion, the researcher tries to expand the knowledge of the topic and visualise the big picture. Discussion proceeds according to the interviewee's terms; the interviewee shares details on the topic, while the interviewer provides specific questions that keep the conversation flowing. Usually, theme interviews require a second round so that more specific follow-up conversation can occur. To generate better discussion, the interviewer needs to have a clear vision of the topic, and knowledge of the topic ensures more detailed and specified conversation. (Kananen 2017,95- 96.) As such, theme interviews should consist of open questions, follow-up questions and hypothetical questions (Murchison 2010, 109).

1.3 Reliability and Validity

Qualitative research must be evaluated in terms of reliability and validity. *Reliability* indicates the persistence of the results. For instance, if the thesis is renewed and the results are the same, this confirms the results of the research. Research reliability is related to the implementation of research, and qualitative research often uses reliability measures such as confirmation from the informant, intersubjectivity, the absence of interpretation conflict, saturation and earlier investigations. *Validity* indicates that the research relates to the correct matters. Research validity is related to the design of the research and whether the analysis of the data is done correctly.

To ensure the reliability and validity of this thesis, the logistics manager from the case company will read the results to confirm or deny the results and interpretations of the research. In this way, the thesis will gain confirmation from the informant. Confirmation of the arguments presented in this thesis will be gained through evidence from multiple sources of information example from books, articles and webpages. Intersubjectivity is ensured by wide documentation, which will be collected throughout the process to ensure that all stages of the study are justified. Qualitative research must be applicable and workable, and this is measured by saturation; *saturation* means that, when the research results begin to repeat, the results can be considered reliable. In this thesis, interviews will be shown to be reliable based on saturation.

1.4 Conceptual framework

Conceptual framework describes how different variables connect with each other. Purpose of the conceptual framework is to clear up overall view (Webpage of the Simplyeducate.me 2018).

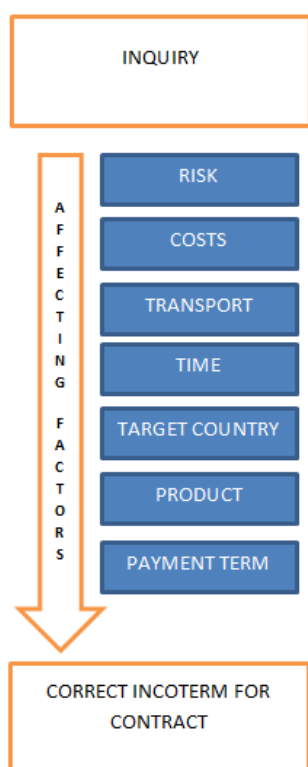


Figure 1. Conceptual framework of the thesis

The conceptual framework describes the main factors of this thesis. Top of the figure is inquiry. After company receive the inquiry, product group manager needs to scale the different variables, what effect on choosing suitable Incoterm. As the figure shows, there are seven affecting factors, what needs to be notice. After all the factors are consider and examined, the last part of the figure actualizes. Correct Incoterm for contract is chosen based on product, target country, time, transport, costs, liability and payment term.

1.5 Case company

The case company has been operational since beginning of the 1900. The company has been active in Western Finland since 1940, when the factory was moved from Eastern Finland for strategic reasons.

The company offers wide range of different copper products, for various applications. Power generation, electrical devices and motors, high energy physics, welding industry, busbar systems, high-purity applications and electroplating are company's main target markets. The organization is run by president and CEO and the two subdivisions, business functions and business units. The case company is one part of the total five business units and employs over three hundred employees. Year 2017 was successful for the company and turnover was over 200 million euros. Focus on this thesis will be sales activities and logistics.

2 INCOTERMS 2010

2.1 Generally

International and domestic trade terms also known as Incoterms, contains eleven delivery clauses. Four of the clauses are used only in sea freight. Almost every Finnish export and import companies use international chamber of commerce authorised trade terms.

Trade term is one part of a commercial contract, between seller and buyer. Correctly used trade terms enhance logistic, decreases the risks and bring cost savings for company. Successful transporting gives firm base for continuing deals. (Riskit paremmin hallintaan... 2010.)

Trade term contains agreement of the tasks, costs and risks involved delivery. Rule work as delivery contract and involve cost dividing between buyer and seller. Trade term determine which party is obligated to cover the shipping damages. In other words, which party insurance is in use. Definition of export/import declaration include in trade terms. Usually seller has liability of declaration. In addition, documentation needs to be agreed. Parties negotiate what documents are needed example CMR, Bill of Lading, certificate of origin and other documents. Packing, announcement and supervision are included to trade terms. Usually these three rules are on seller, because seller can affect to these matters. Concept trade term consist together nine different variables. Trade term concept includes all the shipping related contracts and rules. Rule bear when product is packed and ends as agreed. Delivery term liability may end already at the seller's door or the latest on buyer's door. (Jimenez 2012, 43.)

Globally used term for delivery terms is Incoterms. Newest version of terms is Incoterm 2010 and latest update is from year 2011. Globally used and known Incoterms rules clarify trading between different nations. Incoterms rules clarify the obligations and risks between seller and buyer. (Website of the Logistiikanmaailma 2018.)

2.2 Ex works

Named place of delivery (EXW). Ex Works include the minimum responsibility for seller. Buyer will handle entire transportation, costs and insurance. (Jimenez 2012, 43.)

Specifications EXW	Charges	Risks
Packaging	S	S
Pre-carriage	B	B
Export customs	B	B
Loading into main carriage (handling)	B	B
Main transportation	B	B
Transportation insurance	B	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 2. Specifications. (Webpages of Santander Trade 2018.)

The seller's obligation is to place the goods at the disposal of the buyer in a named place on the seller's premises. The named place can be a factory or warehouse. An Ex Works (EXW) clause does not obligate the seller to load the goods. The buyer bears all the costs and risks associated with handling the loading. Usually, an EXW clause is used when the product is in a location where the seller does not have loaders or loading systems. However, the seller can load the material at the buyer's risk and expense. It is commonly recommended to use the Free Carrier (FCA) rule if loading is executed by the seller (Jimenez 2012, 53). If the seller does the loading, the EXW clause should be amended with statement 'loading is at the seller's cost and risk' in the contract (United Nations Development Programme [UNDP] 2008, 49). One downside to using the EXW clause for a seller is the loss of competitiveness, as the clause might give potential new customers a poor view of the service level, especially if competitors offer different terms example CIP – Carriage Insurance paid. (Webpage of the iContainer 2016.)

The EXW clause also requires the seller to assist the buyer with export clearance, but the seller is not obligated to organise or maintain it. If the buyer cannot easily attain export clearance, it is recommended that other Incoterm clauses be used. The buyer is not obligated to provide any information about the export—information that might be crucial to the seller for taxation and reporting purposes. If the seller needs the

information, it is recommended that seller handle the export clearance (Jimenez 2012, 53). In fact, the buyer is not obligated to obtain export clearance, which is why the EXW clause is recommended for use only in local trade. However, if the clause is used in export trading, the seller must confirm that the buyer handles the export clearance. To ensure that the export clearance is obtained and that the seller gets the Movement Reference Number (MRN), the seller should use modified clause 'Ex Works cleared for exports'. This modified clause specifies the seller's obligation to obtain export clearance. (Railas 2016, 216-217.)

The EXW clause has been criticised of having an unclear interpretation. The International Chamber of Commerce (ICC) nearly chose to remove the clause from the Incoterms, but it has maintained its place because it represents a seller's minimum obligations and works as a 'building block' in accounting. Essentially, the EXW price is an indication of the goods' selling price without any transporting costs. (Railas 2016, 214.)

2.3 F rules

Free carrier (FCA) clause means that the seller delivers the goods by releasing them to a carrier designated by the buyer at the seller's premises or at another designated location. All parties must clearly specify the place of delivery, which must be a location where the risks are acceptable to the buyer. Usually, the named place is the seller's premises, and the seller is obliged to load the goods. If the parties agree upon another named place, that should be stated clearly. The FCA rule obliges the seller to load the goods at the named place and to clear the goods for export (Jimenez 2012, 54). The FCA clause is one of the recommended options when a foreign buyer handles the transportation from the country of origin. (Hörkkö, Koskinen & Laitinen 2010, 385.)

In sea freight, the FCA clause is replaced with the Free On Board (FOB) clause. However, the FCA clause is more suitable in roll-on/roll-off (RORO) shipments and in terminal traffic. In container shipments, goods are released after the container is

placed in the container yard (Railas 2016, 230). The seller is not obligated to stow the buyer's container at the seller's location unless the Incoterm phrase 'FCA (named place), containerised' is used in the contract (UNDP 2008, 49).

If the delivery is going to be done at a place other than the seller's plant—for example, a terminal—the seller is in charge of transporting the goods to the named terminal but is not responsible for unloading the goods (Webpage of Santander Trade 2018).

Specifications FCA	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	B	B
Main transportation	B	B
Transportation insurance	B	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 3. Specifications. (Webpages of Santander Trade 2018.)

Free alongside ship (FAS). FAS is one of the four rules, what are used only in sea transport. Seller is obligated to deliver the goods alongside the vessel (on quay). Parties must specify the shipping port and determine clearly the loading point. In container shipments FAS is not suitable term, because containers are always shipped to terminal. (International chamber of commerce 2010, 195.)

Term FAS obligate seller clear the goods for export but not for import. Seller is not obligated to make contract of carriage or insurance. Seller bears the risks until the goods have been deliver to alongside the vessel. (International chamber of commerce, 195)

Specifications FAS	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	B	B
Main transportation	B	B
Transportation insurance	B	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 4. Specifications. (Webpages of the Santander Trade 2018.)

Free on board (FOB) rule is only for sea transport. Seller is obligated to deliver the goods to named port, what buyer has determined. The risks are on seller until goods has been loaded to vessel, after that buyer bears all the risks. Seller is obligated to confirm that the delivery is made accordingly to the contract. Seller is not obligated to make a contract of insurance, but all the needed information must be given to buyer, that needs to have obtaining insurance. Seller must pay all the delivery costs to the named port, after that buyer bears all the costs. Export declaration is made by seller. (International chamber of commerce 2010, 203) FOB and FAS clauses loading costs are on buyer, because the forwarder is purchased by buyer. If goods are dropped during loading and are damaged, goods will still be deemed to be at the seller's risk (Railas 2016, 230, 250.)

FOB clause is not suitable to use in terminal traffic. In terminal traffic the goods are handed to the loading port up to several days before the vessel arrives. The goods have been delivered to the shipowner but remains at the seller's risk until it is delivered to the ship, even though the seller cannot control it. If, prior to the loading, there is a seizure stoppage, the goods would not have been delivered to the ship within the time limit and the shipowner would not be able to provide a properly dated on-board bill of lading, which would otherwise be required by the letter of credit. Even worse for the seller would be if the goods were destroyed or damaged before goods are loaded. (Railas 2016, 248.) FOB clause means that responsibility as a seller is to leave the goods at the port of origin. With no control over shipping times and costs, you lose influence and therefore competitiveness (Webpages of the iContainers 2016.)

Specifications FOB	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S
Main transportation	B	B
Transportation insurance	B	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 5. Specifications. (Webpages of the Santander Trade 2018.)

2.4 C rules

Carriage paid to (CPT), is suitable to all transport modes, including combined transport modes. CPT clause is suitable for container and terminal shipments. Seller is obligated to arrange the delivery to named place and pay the costs of the delivery. Delivery contract may include the costs of the loading and unloading. If contract includes the loading charges, seller can interpret that the risk has passed for buyer, before the loading. Seller needs to be careful with the agreed place of delivery and notice the terms in delivery contract. Seller is not justified to demand extra costs of the possible unloading or handling in delivery place from the buyer, if these are not separately agreed in contract. Rule obligate sellers to clear the goods. Buyer is obligated to do import declaration and pay all the taxes and duties in country destination. (Railas 2016, 268.)

Seller is not obligated to do contract of insurance but needs to provide all the needed information, that buyer is able to do it. Seller bears all the risks until goods have been released to carrier. Seller is obligated to handle all the agreed delivery documents and pack, check and mark its own costs. (International chamber of commerce 2010, 33.)

Specifications CPT	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S
Main transportation	S	B
Transportation insurance	B	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 6. Specifications. (Webpages of the Santander Trade 2018.)

Carriage and insurance paid to (CIP). The seller is obligated to arrange the carrier and deliver the goods to the named place. Seller bears the costs to the named place of destination. Risks pass to the buyer, after seller has released the goods to the first carrier. CIP clause is convenient in container and terminal shipments and inconvenient when seller is obliged certain arrival dates (Railas 2016, 280). CIP rule

oblige the seller for insurance what covers risks of loss and damages during the carriage (Jimenez 2012, 54). Clause requires the seller insure the goods for 110% of the invoice value under of the Institute Cargo Clauses of London Underwriters. Currency must be the same as in the contract. Seller is obligated to provide also Institute War Clause or Institute Strike Clause in insurance. Seller should always use Institute Cargo Clause (A) in CIP shipments. Insurance must be in force from agreed place of loading to agreed place of delivery. (Website of the Enco 2018.)

Seller pays all the delivery charges, until goods have been delivered. Loading and unloading should be determinate in delivery contract. Seller is obligated to do all the export formalities, including export declaration, export duties and taxes. Buyer must handle all the import formalities, like import clearance and import duties and taxes. Buyer is obligated to receive the goods in the named place. Neglecting to receive the goods causes extra costs for buyer. (Railas 2016, 280.)

Specifications CIP	Charges	Risks
Packaging	V	V
Pre-carriage	V	V
Export customs	V	V
Loading into main carriage (handling)	V	V
Main transportation	V	A
Transportation insurance	V	A
Unloading from main carriage (handling)	A	A
Import customs	A	A
Post-carriage	A	A

Figure 7. Specifications. (Webpages of the Santander Trade 2018.)

Cost and freight (CFR) term is used only in sea transport. Seller is obligated to deliver the goods in named place. Buyer bears the risks after goods are on board. CFR term has two critical points, because risks and the costs divide in different stages. Seller pays the freight to the port of destination. Delivery port will be named in contract and if not, seller has the right to choose the delivery port. Seller needs to be aware of the delivery terms and be precise of unloading and handling costs, because all the extra costs will be on seller, if not mentioned in delivery contract.

CFR rule obligate the seller clear the goods. Contract of insurance is on buyer side, but seller is obligated to inform all the needed details for insurance. After the goods

have been handed to carrier, buyer bears all the risks. Seller must pay all the delivery costs and needed custom formalities. Seller must pay the costs of the checking, packing and marking and prepare all the needed delivery documents. (International chamber of commerce 2010, 219.) CFR clause is suitable for Lo-Lo loading and unloading methods. All the C-clauses are suitable when seller needs to be released of the risks in the country of origin. CFR is not suitable in line shipping, because seller must deliver the goods on board. Terminal and container shipments are delivered in terminal first and not straight to the ship. Usually in container shipments, goods are released to the forwarder days before the ship departure. Risk is released to the buyer after the goods are loaded to the ship. Container shipments delivery is from container yard to container yard and not straight to ship. CFR clause common modification is Free In (FI), Free Out (FO) and these combination (FIO) addition. CFRFIO clause is used when needs to define the loading, unloading or both costs. (Railas 2016,290-291.)

Specifications CFR	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S
Main transportation	S	B
Transportation insurance	B	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 8. Specifications. (Webpages of the Santander Trade 2018.)

Cost Insurance and Freight (CIF) is used only in sea transport. In this clause, the seller delivers the goods on board a vessel. The seller is obligated to pay the costs associated with bringing the freight to the named destination port. The seller must have insurance to cover the buyer's risks during transport (ICC 2018). Specifically, the clause requires the seller to insure the goods for 110% of the invoice value under the Institute Cargo Clauses of London Underwriters, and the currency must be the same as that used in the contract. The seller is also obligated to provide an Institute War Clause or Institute Strike Clause in the insurance (Webpage of Enco 2018). The seller should always use Institute Cargo Clause (A) in CIF shipments. Insurance must

be in force from the agreed upon port of loading to the agreed upon port of delivery. (Railas 2016, 299.)

The seller is obligated to perform all the export formalities, including export declaration, export duties and taxes. The buyer must handle all the import formalities, including import clearance, import duties and taxes. The buyer is also obligated to receive the goods at the named place; neglecting to receive the goods causes extra costs for the buyer. The CIF clause is not suitable in line shipping because the seller must deliver the goods on board. Terminal and container shipments are first delivered to the terminal rather than directly to the ship. In container shipments, goods are generally released to the forwarder days before the ship's departure. Still, the risk is released to the buyer after the goods are loaded onto the ship. Container shipments' delivery is from container yard to container yard—again, not directly to the ship. Common modifications to the CIF clause include Free In (FI), Free Out (FO) and a combination of Free In and Free Out (FIO) clauses. A CIFFIO clause is used when there is a need to define the loading and/or unloading cost liabilities. (Railas 2016, 299-301.)

Specifications CIF	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S/B
Main transportation	S	B
Transportation insurance	S	B
Unloading from main carriage (handling)	B	B
Import customs	B	B
Post-carriage	B	B

Figure 9. Specifications. (Webpages of the Santander Trade 2018.)

2.5 D rules

Delivered at terminal (DAT) is used to all transport modes. Seller is obligated to deliver the goods unloaded to named terminal. Concept "terminal" can be dock, warehouse, container yard or road freight, rail freight or airfreight terminal. Seller bears the risks until the goods have been unloaded to named place. (International chamber of commerce 2010, 56.)

Parties should specify precisely the unloading terminal and even unloading spot in terminal. Seller must handle the unloading and it's caused costs to agreed place. In DAT rule, seller is obligated to clear the goods but not obligated to get contract of insurance. Contract of insurance is recommendable to do, because the seller bears the risk trough the delivery. (International chamber of commerce 2010, 56.) Although sellers bear all the risks, seller has the authority trough the delivery. Seller does the export formalities and buyer import formalities. DAT clause is suitable for terminal and container deliveries and recommendable to use in air freight, because of the clear terminal delivery.

Specifications DAT	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S
Main transportation	S	S
Transportation insurance	S*	S*
Unloading from main carriage (handling)	S	S
Import customs	B	B
Post-carriage	B	B

* non-mandatory

Figure 10. Specifications. (Webpages of the Santander Trade 2018.)

Delivered at place (DAP) is used in every transport modes. Seller is obligated to deliver the goods to the named place. Seller bears all the risks during the transport. Parties must define clearly the named place. DAP rule oblige seller to clear the goods for export but does not oblige to clear the goods for import. Contract of insurance is not obligatory for seller but seller must provide the needed information for buyer. (International chamber of commerce 2010, 61.) DAP differs from DAT that buyer can name other person to receive the goods behalf of the buyer. Person can be forwarder or other buyer named carrier, who handles the unloading from arrival vehicle. Seller is not obligated to unload the goods. (Railas 2016, 342.)

In challenging countries DAP is extended with "cleared" clause. Seller is not obligated to do import clearance but in some countries, to save extra charges, seller is reasonable to do the clearance. These countries buyers can delay the import clearance

preparation and seller must pay all the costs in terminal until goods are cleared. (Railas 2016, 346.)

Specifications DAP	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S
Main transportation	S	S
Transportation insurance	S	S
Unloading from main carriage (handling)	S	S
Import customs	B	B
Post-carriage	S	S

Figure 11. Specifications. (Webpages of the Santander Trade 2018.)

Delivered duty paid (DDP) rule represent maximum responsibility for seller. Rule includes transport cost, risks, duties and formalities to destination. This clause doesn't require any actions from buyer. This rule can be used in any mode of transportation. (Jimenez 2012, 45) Seller bears the risk through the delivery and that's why it is critical to do insurance contract with Institute Cargo Clause (A), what is the full cover for shipment. Buyer is obligated to receive the goods in the named place. Neglecting to receive the goods cause extra costs for buyer. In DDP buyer can name other person to receive the goods behalf of the buyer. Person can be forwarder or other buyer named carrier, who handles the unloading from arrival vehicle. Seller is not obligated to unload the goods but is obligated to pay the unloading charges. DDP clause is practical when seller has at least registered as value added tax company to get tax deductions. (Railas 2016, 350.)

Specifications DDP	Charges	Risks
Packaging	S	S
Pre-carriage	S	S
Export customs	S	S
Loading into main carriage (handling)	S	S
Main transportation	S	S
Transportation insurance	S	S
Unloading from main carriage (handling)	S	S
Import customs	S	S
Post-carriage	S	S

Figure 12. Specifications. (Webpages of the Santander Trade 2018.)

2.6 Addition rules

Parties can specify the chosen Incoterm with addition clause and additional determination. Possible addition must be clear for both seller and buyer. The official way is to determinate the addition clause in contract of sales. (Hörkkö, Koskinen & Laitinen 2010, 396.)

Using addition clause or additional determinations must be careful, that the Incoterm meaning, and content doesn't change. This applies to C-clauses. However, using these additions might be solution for previous interpretation of the controversy. The contents of the additional determinations should cover both costs and responsibilities. For example, FCA Helsinki, loaded means that seller is responsible of the all loading costs in country of origin. (Hörkkö, Koskinen, Laitinen 2010, 396.)

3 INCOTERM IN CONTRACTS

Incoterms are agreed upon between the seller and buyer as part of the sales agreement. Incoterm rules include many matters related to the law that affect quotations, contracts and sales agreements. (Railas 2016, 25.) Incoterms should always be clearly included in contracts. Usually, clauses are explicitly defined (e.g., 'Carriage And Insurance Paid To [CIP] Rotterdam Incoterms 2010'). However, another way to include them is to attach the Incoterm clauses to the contract or use the statement 'All transactions covered by this document are subject to Incoterm 2010' (Jimenez 2012, 47).

3.1 Contract of sales

Quotation is the first step in trading and the contract of sales is the following formal stage. Quotation is seller announcement of the price and other terms and is prepared of on its own initiative or based on buyers offer inquiry. (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 41.) Quotation content needs to be precise, so that buyer gets all the needed information from there. Detailed quotation includes product

description, price, Incoterm, currency, payment term, delivery time, packing information, offer validity and sign. (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 43.)

After when buyer accept the quotation content, seller can prepare the sales of contract. Export transactions requires contract of sales. The known contracts are sellers “pro forma invoice” and buyers “purchase order”. Contracts are often and should be attached with legal conditions also known as General Conditions of Sale. Parties might have conflict among general conditions, if conditions don’t match. ICC model of contract for the International Sale of Goods ensure appropriate contract at once. (Jimenez 2012, 75.)

International contract of sales should be use in every company. International sale of contract should include following key clauses and provisions. The parties correct legal names, a clause what goods sold, price, the currency, and delivery terms. ICC recommends always use Incoterms latest version. Contract should include also time of delivery, inspection of the goods, credit insurance companies, the payment method and terms of non-conforming goods. Usually sale contract accords with the International Sales of Goods (CIGS). Force majeure and other detailed terms are common clauses in contract of sale but are not compulsory. (Jimenez 2012, 80-86.)

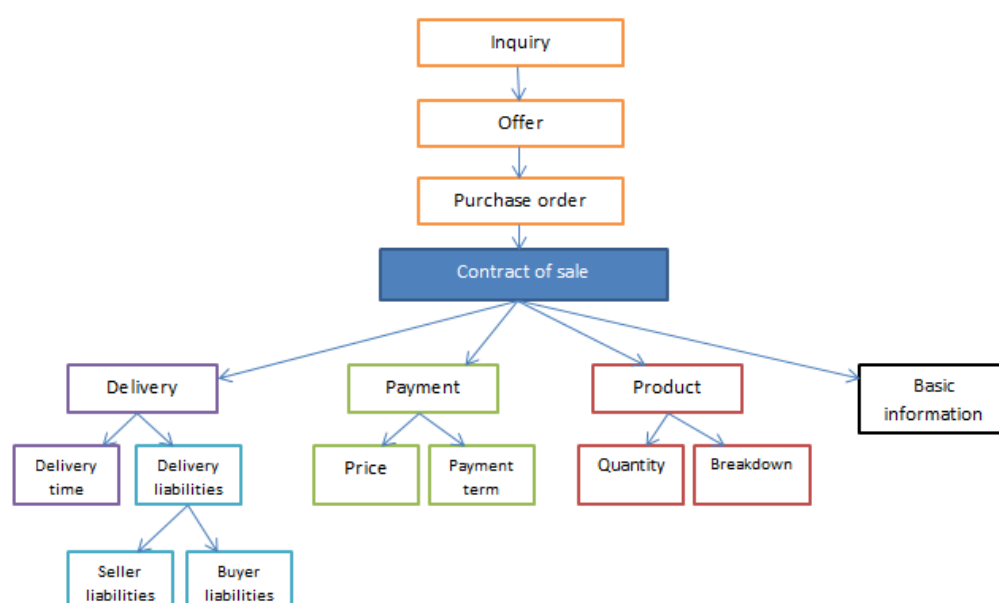


Figure 13. Content of contract of sales (Modified from webpage of Logistiikanmaailma 2018)

3.2 Incoterms effect in contract of sales

The content of Incoterms is rendered differently in different countries. For this reason, Incoterms must be clearly stated and agreed to in the contract of sales (Pehkonen 2000, 91). An understanding of how to use Incoterms is vital because they are the part of the contract that determine the buyer's and seller's obligations. The importance of Incoterms tends to be underestimated, and sometimes, parties do not understand the value of these terms in contracts. Incoterms reduce the risk. In international trade, there are many different nations and languages represented. As such, language barriers can be avoided by using internationally known Incoterm clauses, reducing the risk of misunderstanding. When both parties are aware of the responsibilities, problems during shipment are lessened. 'For example, country A traditionally defines tariffs as fees imposed by the local government. Country B defines tariffs as taxes, fees, and surcharges imposed by federal, state, and local governments' as said in Miller's article. These assumptions can be avoided using Incoterms. (Webpage of the Flashglobal 2018.)

Incorrectly used incoterms can also lead to problems. Parties must have an understanding of how different Incoterms are used, as well as the definitions of the different clauses. Misused Incoterms can affect payment, delivery schedules and extra costs, resulting in weak inventory control or a negative customer experience. Another important aspect is that Incoterms are not the correct tool for determining the ownership of goods; however, this is unfortunately all too common in international trade. The ownership of goods should be determined by payment terms or using another contract. (Webpage of the Flashglobal 2018.)

Incoterms affect both money and competition. Correctly used Incoterms ensure timely payments and services. Incorrectly used Incoterms break the supply chain and, accordingly, affect the invoicing schedule. Incoterms ensure that both parties have a competitive advantage in international trading. For example, local terminology might favour the shipper, causing the buyer to suffer limitations or other regulations. Local terminology might also lead to high additional costs that the buyer is unable to pay. This can cause a shipment to stop and or result in additional costs to the shipper,

depending on the clause. Incoterms prevent unexpected penalties and fines in global trade. (Webpage of the Flashglobal 2018.)

Using Incoterms incorrectly can ultimately result in unethical global trading. Primarily, Incoterms keep the international supply chain working by preventing bottlenecks caused by misunderstandings. Incoterms have prevented common problems such as unpaid duties, which results in the seizure of goods and risks bearing caused problems. Every trading company should have a strong knowledge of Incoterms to handle global trade compliance (Miller 2018). Incoterms play a large role in fostering clear and standardised international trade. Without Incoterms, parties suffer difficulties in the shipping process, as Incoterms clarify and prevent problematic situations, acting as the basis for appropriate global trading. (Webpage of the Flashglobal 2018.)

4 ASPECTS THAT EFFECTS CHOOSING INCOTERM

Risk, cost, target country, time, product and payment term affect Incoterm choice and trade terms, which in turn, have a huge impact on international trade. Incoterms must be selected by scaling the affecting variables. Correctly used Incoterms are cost effective and result in successful outcomes. (Hörkkö, Koskinen & Laitinen 2010, 396.)

Incoterm selection depends on user knowledge. To choose the correct Incoterm, the user must have a thorough knowledge of the Incoterm content. Another factor affecting this selection is the company's sales policies; companies that use Incoterms to their advantage allow for cost-effective and reasonable choices to be made when using Incoterms. These companies are usually fluent and active in foreign trade, as they benefit from the cost savings and use the freight payer advantage to affect the course of events like shipping schedules. Incoterms should not be taken as an obligation but an advantage to help control the trade. (Hörkkö, Koskinen & Laitinen 2010, 396.)

4.1 Risk

Risks are determined through Incoterms, as Incoterm clauses define the risk releasing point. In C-clauses, the risk passes to the buyer when the seller has released the goods to the first carrier. The risk-releasing point is critical in damage or loss situations. An explanation of risk indicates a thorough outline of all the economic consequences of physical damage to goods that could occur. In terms of risks, D-clauses are better for buyers but worse for sellers; as such, developed industrial goods buyers rarely accept C-clauses. (Railas 2016, 185, 290.)

Risk is different for both parties. When risk passes to the buyer at the beginning of the delivery—as is the case, for example, in F- and C-clauses—the buyer must pay the whole purchase price in case of damage or loss. These Incoterms are the recommended options because they are very competitive but relatively risk-free. In D-clauses, the seller is obligated to provide the goods in the agreed upon condition at the agreed upon delivery time. This means that, in case of damage, the seller is obligated to produce new material and deliver it on the agreed upon arrival date. Usually, the delivery of new goods breaks the contract because of delivery delays (Railas 2016, 186).

The more control a seller has over transportation costs, the greater the competitive advantage of that seller becomes. Delivered at Place (DAP) might seem like an excellent choice from a competitive point of view, but with greater power comes greater commitment. This exposes the seller to more risk in the country of destination (Webpage of the iContainers 2016). In E-, F- and C-clauses, delay risk passes to the buyer at an early stage. The seller is obligated to release the goods to the carrier on the agreed upon date; after that, the buyer is responsible for delay risk (Railas 2016, 186).

4.2 Costs

Suitable Incoterms are cost effective. Placing the burden of delivery costs onto the customer is not always the most cost-effective solution; this is because, when delivery costs are on the customer's side, the product price might need to be discounted to remain competitive. Essentially, a business must remain profitable after delivery costs are paid, even if they are paid by the customer. In such situations, it is necessary to determine which of the parties has the best freight contract and can handle the delivery in the most cost-effective manner. If the seller has better freight contracts, it is reasonable for the seller to take care of the shipment rather than to decrease the price of the goods to compensate for the buyer paying for delivery. For every sale, the most cost-effective delivery method should be calculated. (Webpage of the Flashglobal 2018.)

If a company has a strict quarterly sales plan, it is recommended to use rules that place risk on the buyer. This way, the seller can ship and invoice the goods in the planned quarter. For example, if the EXW clause is included, the buyer is obliged to arrange transportation, and the customer might prolong the goods collection, delaying the invoicing schedule. (Webpage of the Flashglobal 2018.)

Trade terms also affect cash flow. Certain trade terms include clauses that stipulate that the seller can invoice the buyer after the material has arrived at its destination. This can prolong payment time, sometimes even by months. This affects cash flow because the seller can only close the invoice after the buyer has received the goods. This can be harmful for the seller but beneficial for the buyer. (Webpage of the Flashglobal 2018.)

Sea freight includes terminal handling charges (THCs). THCs are shipping lines' charges related to unloading, stripping the container and warehousing. The costs can be surprisingly high because bigger shipments arrive by sea freight; however, these costs vary worldwide. Charges also include documentation costs of around 80 to 125 euros, warehousing costs of about 80 euros per m³ and demurrage charges. If the agreed upon Incoterms are Free on Board (FOB), Cost And Freight (CFR), Cost Insurance and Freight (CIF), Delivered At Place (DAP) or Delivered Duty Paid

(DDP), the seller is obligated to pay the THC at the loading port. However, the THC of the destination port is paid by the buyer under these Incoterms. The EXW rule indicates that the THC of both ports is paid by the buyer (Website of the Global Negotiator 2018). Using C-clauses, THCs are not unambiguous at the destination port. In the worst-case scenario, THCs can be charged to both parties. According to the main rule, however, the sender is obligated to pay all the charges before the goods arrive at the agreed upon destination.

Shipment outside the European Union (EU) also includes customs clearance charges, which tends to cost between 75 and 100 euros. The payer of these charges depends on the Incoterms used and agreed upon in the contract of sales. (Website of Paggage 2018.)

Loading costs and reloading costs are, as would be expected, charged to the seller, unloading costs remain a grey area in C-clauses. According to International Road Transport Regulations, unloading is always the buyer's obligation, while in container shipments, the opposite is true and the seller is obligated to release the material unloaded. Unloading and all the additional costs can be agreed upon in the contract of sales. If the seller does not want to pay for the unloading and other costs, this should be clearly present in the contract and the forwarder should be advised of the agreement. (Railas 2016, 304-305.)

In challenging countries, extending Incoterms with a 'cleared' clause is recommended. Here, the seller is not obligated to do import clearance, but in countries where it saves on extra charges, clearance can be done by the seller. In these countries, buyers can delay the import clearance preparation and the seller must pay all the costs at the terminal until the goods are cleared (Railas 2016, 346). Custom clearance charges are possible to calculate using the Market Access Database (MADB). To use the MADB, the product harmonised system (HS) code and country of destination must be provided. Then, the MADB gives information about the possible custom duties, tax rates and value-added tax (VAT). The database also shows tariff fees for the general rate (GEN) group and most favoured nation (MFN) group. The MFN is constituted mainly of World Trade Organization (WTO)

members. This tool should be used if import clearance, including taxes and duties, is offered to customer. (Webpage of MADB 2019.)

Different transport costs arise for different modes of transportation covering the distance between the seller and the buyer and its various stages, depending on the Incoterm. Transport costs can be arranged into three stages: country of origin costs, including pick-up charges, export clearance and THCs; transport costs, including freight, additional freight costs and conveyance; and country of destination costs, including THCs, import customs clearance and destination delivery cost. In internal trade within the EU, Incoterms should not be chosen only according to the price of customs or custom clearance costs. (Hörkkö, Koskinen & Laitinen 2010, 397.) This is because transportation costs are an important factor, especially if the goods margin is low. These products are better shipped in joint shipments, by the cheapest transport mode. It is not reasonable to ship all small orders all the time, especially when the goods must go through customs clearance. (UNDP 2008, 13.)

Distribution of costs according to the Incoterm negotiated in the contract

SPECIFICATIONS Incoterm / Cost	Departure from ware- house	Main transportation not paid by the seller			Main transportation paid by the seller				Shipping charges paid by the seller until reaching destination point		
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAT	DAP	DDP
Packaging	S	S	S	S	S	S	S	S	S	S	S
Loading from warehouse	B	S	S	S	S	S	S	S	S	S	S
Pre-carriage	B	S	S	S	S	S	S	S	S	S	S
Export customs clearance	B	S	S	S	S	S	S	S	S	S	S
Handling at departure	B	B	B	S	S	S	S	S	S	S	S
Main transportation	B	B	B	B	S	S	S	S	S	S	S
Transportation insurance	B	B	B	B	B	S	B	S	S*	S	S
Handling at arrival	B	B	B	B	B	B	B	B	S	S	S
Import customs clearance	B	B	B	B	B	B	B	B	B	B	S
Post-carriage	B	B	B	B	B	B	B	B	B	B	S
Unloading into warehouse	B	B	B	B	B	B	B	B	B	B	S

S: Cost paid by the seller

B: Cost paid by the buyer

* Non-mandatory

Figure 14. Allocations of costs by clauses (Santander Trade www-pages 2018)

4.3 Transport

Freight costs when exporting to foreign countries are usually higher than expected. However, if freight is organised reasonably, companies raise their competitiveness while simultaneously creating cost savings. Choosing Incoterms for quotations requires knowing the transport mode. A seller arranging transportation can be a good gesture to the customer and be easier and advantageous to the seller. Offering delivery to customer's door can strengthen the seller's relationship with the customer. (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 54.)

The choice of freight mode is based on the product and on time and cost requirements. The need for cautious handling, the weight and volume of the goods, the value of the goods and the frequency of delivery also affect the selection of transport mode (UNDP 2008, 13). There are four main transport modes: sea, road, rail and air transport (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 53).

Sea freight is traditional way to export goods. Sea freight is used for heavier and larger shipments, because the freight costs are notably smaller when compared to other modes (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 55). As such, sea freight is used and adapted for the shipment of many types of goods. Full container load (FCL) and less than a container load (LCL) are two methods applied in containerised shipments. Other sea transport modes include general cargo—which is transported in bulk and is also known as conventional cargo—RORO cargo, and lift-on/lift-off (LOLO) cargo. (UNDP 2008, 10.)

As rail transport technology has advanced, its cheap cost and the reliability of delivery it offers have become more attractive. Road transport is ideal for continuous shipments, which is its biggest advantage, but it is also generally reasonably priced and faster than sea freight. It can be used for big or small shipments. Air freight is the fastest transporting mode, but its weakness is its expensive price. Because its price per kilogram is usually very high and because larger package sizes can be a problem for certain connections, air freight is suitable for smaller shipments (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 55-56.) Other benefits of air freight include

better security (and better security reduces cargo's exposure to theft or damage) and, accordingly, lower insurance rates (UNDP 2008, 11).

The type of material being shipped also affects transport mode selection. Pallets and box packages can be shipped by all the transport modes, but if the shipped material is not standard—for example, fertilizer—shipment must be made by alternative methods, such as sea or truck. Dangerous goods might not be allowed in air freight shipments. The country of origin and delivery destination also determine the type of transport selected; logically, shipments from the EU to the US are done by air or sea freight. Infrastructure, safety and security also affect shipments. Fragile or sensitive high-valued goods are best sent by air, even if there is no special urgency in the dispatch; however, the best way to ensure safe shipment is to insure the goods. (UNDP 2008, 13.)

4.4 Time

Delivery time is another notable matter contributing to the choice of Incoterms used. Aspects that affect delivery time include lot size, logistic connections, transport equipment and handling times. (Kansainvälisen kaupan koulutusohjelma FINTRA. 2003, 54.) Time is often an important factor in shipments; as noted, in urgent cases, air freight or road freight are the fastest modes. However, if the supply chain has been planned wisely, any mode of transportation can be executed within a stipulated time. (UNDP 2008, 13.)

4.5 Target country

Country-specific thinking is also important when selecting Incoterms. Other cultures and countries can have regulations that either help or complicate exporting. Buyers from the US usually require the seller to handle the entire shipment; they want to receive cleared goods, with duties and taxes paid. As such, many shipments to the US are sold using the DDP Incoterm (Website of the iContainers 2016.)

Domestic trade provides an opportunity to use the EXW clause but rarely to use sea freight clauses. The EXW clause is recommended only in domestic trade and, if needed, in EU trade because of the difficulty of export clearance (Railas 2016, 216.)

The target country also affects the payment term, which is related to the choice of Incoterm. Certain countries' trade habits include the letter of credit (L/C) payment method. The L/C method limits the choice of suitable Incoterm to four terms, which will be discussed in greater detail in the following chapter. (Website of the Freightos 2018.)

If the agreed upon term includes delivering the goods to the customer's warehouse or storage unit, it is crucial that the seller be in control of the aspects of shipment and delivery that happen in the country of destination. It is necessary to be aware of and able to manage the possible complexities of transport in the target country. (Webpage of the iContainers 2016.)

4.6 Product

The types of goods companies provide affects their sales policies. Certain goods do not require the added value of delivery services, freight, customs clearance or any further sales efforts. In these cases, EXW, FCA, Free Alongside (FAS) or FOB clauses are used. (Hörkkö, Koskinen & Laitinen 2010, 396.) More expensive goods, such as developed industrial goods, have higher margins. For these goods, the buyer rarely accepts C-clauses, as the goods margin is usually calculated at such a rate that it bears the cost of delivery. (Railas 2016, 290.)

Delivery volumes are another factor that must be considered in international trade. Countries' specified shipping volumes usually determine freight costs; the larger the volumes are, the cheaper the freight costs are. (Hörkkö, Koskinen & Laitinen 2010, 396.)

4.7 Payment term

The contract of sale defines the payment term. The most common payment terms currently in use are payment in advance, payment after invoice date (e.g. 30 days after invoice date), L/C, bill of exchange and payment against documents, but other terms do exist. (Webpage of the NIBusinessInfo 2019.)

Payment terms do not have a huge impact on the selection of Incoterms. L/C is the only payment term that effects the choice of Incoterms, as it demands that several documents be given to the bank, including the bill of lading (B/L) or air waybill (AWB). L/C usually includes many shipment demands, such as partial shipment, transshipment, on-deck shipment or date requirements. As such, the EXW clause and F- and D-clauses do not work with L/Cs. In fact, the EXW clause is the worst clause that could be used in conjunction with an L/C because the seller would not have any access to the required documentation the buyer has. F-clauses carry the risk that the buyer will cancel the international trade deal and the seller will not have the B/L to present to the bank. D-clauses require trust because the seller bears all the transport costs. With all this in mind, C-clauses are the best choice for use with an L/C because the freight is controlled and paid by seller. (Website of the Freightos 2018.)

5 ASPECTS AFFECTING INCOTERM SELECTION, BY CONTINENT/COUNTRY

Associations have major impact in using Incoterms. Globally, a total almost sixty countries has signed and associated to the U.N Convention on Contract for the International Sale of Goods (CISG). Major parties like U.S, China and France are agreed to CISG contract. Contract main target is to bring global transactions for international business into unison on common trade term use. The CISG has implicitly shared international business conditions, such as Incoterms. Contract eases the Incoterm use globally and prevents the misunderstandings. (Webpage of the Flashglobal 2018.)

5.1 Asia

Asian purchase behaviour should be considered when creating offers and sale of contract terms, as well as in the choice of Incoterms. Asian purchase behaviour differs from that of other continents. In China and Japan, good relationships and cooperation are more respected than is the price. Asia is, by its very tradition, a service culture. Service is known to be crucial for facilitating lucrative trade. Asian trade partners value a proper distance being preserved in a relationship but at the same time require close cooperation. (Schütter 1995, 43.) Offers and contracts should therefore be prepared with a service approach, and this same approach should be taken when choosing Incoterms. C-clauses and D-clauses tend to be the best options because these clauses offer freight services and the Asian customer respect the added value of the freight service.

However, import clearance in some of Asian countries can cause problems, making the DDP clause discordant. The DAP—or ‘cleared’—clause can be workable in air freight. Import clearance in difficult countries is recommended for air freight when there is a risk of terminal changes in the country of destination. In such cases, charges can arise as a result of missing import clearance which the customer has not released. (Railas 2016, 346.) The seller should have offices in countries known for complications if DDP clauses are used to ensure local expertise of trade. For example, shipments travelling through developing countries can experience transportation complications, delays at customs in country of destination and similar situations, resulting in additional costs. (Webpage of the iContainers 2016.)

The European Parliament has approved the EU–Japan Free Trade Agreement, which will enter into force on 1 February 2019. After this time, most of the products originating in the EU will no longer be subject to import duties in Japan. Obtaining a customs benefit in Japan requires that the European export company draws up a declaration of origin for the invoice or other commercial document in which the product of origin is described with sufficient accuracy. (Webpage of the Tulli 2019.)

Asian logistic connections and infrastructure should also affect Incoterm choice. The case company’s trading partners in Asia include India, Japan, Korea, China,

Vietnam, Malaysia, Thailand and Taiwan. The overall level of in Asia is good, and the state of the roads, airports and sea ports in the listed countries is at a standard level, according to the Global Competitiveness Report (GCR). In particular, Japan and Korea are among the top ten of the 137 included countries in terms of infrastructure level. (Schwab 2018, 42-315.) There are a total of 1717 ports and thousands of airports in Asia, which improves sea and air export opportunities to Asia from Europe (Webpage of the Ports 2019).

5.2 Russian Federation

Russians tend to be very brand-loyal consumers. If a company manages to secure a deal with a Russian customer, it is highly likely that customer will keep coming back. Because of the high rate of scamming in Russia, if you can prove to consumers that your actions are legal and that you provide a high-quality service, you will gain long-term leads. Therefore, the main target for sellers to Russian buyers is to achieve consumers' trust at the beginning of the business relationship. Starting from the quotation stage, the seller must consider the trade terms, including the Incoterms, as it is with the quotation that the seller creates the all-important first impression for the consumer. (Webpage of the Wordbank 2017.)

The GCR has ranked the Russian Federation 35 out 137 countries in terms of infrastructure. Due to the location of the case company, railroads and roads are the most used transport modes. Russian railroad connections and infrastructure are on a great level, but the condition of the roads is generally poor. (Schwab 2018, 248.)

5.3 Europe

Most European countries are members of the EU. The EU has developed an internal single market, which ensures the free movement of people, goods, services and capital. EU members have agreed upon a customs union that involves the application of a common external tariff on all goods entering the market. Once goods have been admitted into the market, they cannot be subjected to customs duties, discriminatory taxes or import quotes, as they travel internally. The non-EU member states of

Iceland, Norway, Liechtenstein and Switzerland participate in the single market but not in the customs union. (Webpage of the European Union 2019.)

The infrastructure of Europe is the most advanced in the world. Overall, the European infrastructure is ranked in the top 20. Due to the location of the case company, road freight is the most used mode of transport when shipping to the EU, as it is the fastest transport method. (Schwab 2018, 223-529.)

5.4 United States and South America

A majority of the fifty states of the US have adopted the Uniform Commercial Code (UCC). The UCC includes nine articles of a set of laws governing the sale of goods, lease of goods, negotiable instruments, bank deposits, fund transfers, L/Cs, bulk sales, warehouse receipts, B/Ls, investment securities and secured transactions. The UCC is used in US domestic trade and includes following trade terms: FOB Origin; FOB Origin, Freight Collect; FOB Origin, Freight Prepaid; FOB Origin, Freight Prepaid & Charged Back, FOB Origin; Freight Prepaid & Add, FOB Destination; FOB Destination, Freight Collect; FOB Destination, Freight Prepaid; FOB Destination, Freight Collect and Allowed. These terms establish the contractual rights and responsibilities between a buyer and seller for delivery, risk of loss, title and payment of freight charges. Because of the UCC, US trade partners can struggle to understand the Incoterms' FOB clause, which can result in trade terms being used wrongly. (Petersen 2017.)

US customers tend to demand the DDP Incoterm, as delivery to the door and having duties and taxes paid are high priorities for such buyers. Because a high percentage of goods imported to the US are shipped using the DDP clause, import and other formalities tend to be easy to handle. (Webpage of the iContainers 2018.)

The infrastructure of the US is among the best in the world. The railroads, roads, airports and ports are all ranked within the top 10 of the total 137 countries. Due to the location of the case company, sea freight and air freight are the most used

transport modes. The US also has excellent air and sea connections from Europe, which allows for improved trading between the EU and US. (Schwab 2018, 303.)

Leading the market in Latin America, Brazil and Argentina have the most complicated and complex trading and customs requirements, making trading challenging and expensive in these countries. In Central America and the Caribbean, trade volumes are often low, which makes trading even more complicated because of the strict rules and regulations. This creates a greater need for experienced supply chain partners. When choosing Incoterms, sellers must consider their own ability to export to Latin America. The cost of import clearance, custom duties and taxes should be calculated and allowed for in the price of the goods. The seller must also be aware that, if import clearance is made by the customer, a clearance delay might occur, which can incur further costs. (Webpage of the Flashglobal 2018.)

6 RESEARCH RESULTS AND ANALYSIS

6.1 Background

The case company faces a common problem at the offer and contract stage in that it is unclear what the most appropriate Incoterm is in different cases and why. This thesis aims to identify the correct Incoterms for the case company to use and to explain the benefits of these Incoterms.

The case company has one rule with regard to the Incoterms: the use of D-clauses was forbidden by accountants ten years ago because of the risk-releasing point and invoicing date. When D-clauses are used, the invoice can be closed when the risk has passed from the seller to the buyer; for the case company, this is impossible to implement.

As such, for the past ten years, the case company has mostly used C-clauses, and these clauses have been proven to work. However, the company has some development goal, the primary of which is to improve the product group managers'

awareness of the benefits and disadvantages of Incoterms. The second goal is to create clear propositions to make the use of Incoterms easier.

6.2 Effective use of Incoterms

The theme interviews conducted in this study revealed that product group managers choose Incoterms based on cost. Most of the managers take freight costs into account in their pricing, including the cost as part of a premium price. Other variables tended to have a minimal effect on managers' choice of Incoterms. The impact of the risk-releasing point on the selection of Incoterms was minimal, and managers' knowledge of the risk-releasing point was limited. Depending on the product, the cost analysis and transport mode differ; products with a lower margin must be reviewed closely to determine the most cost-effective Incoterm to use. Lower-margin products are usually shipped by sea or road. In urgent cases, air freight is usually used, and the buyer is responsible for the freight costs. Currently, the most profitable products are not closely reviewed in terms of the costs or risks. High-margin projects and products are usually offered by the buyer's request, which includes Incoterms. The volume of goods being delivered does not affect the choice of Incoterms; rather, shipment quantity affects the choice of Incoterms.

Quantity is also considered when a manager chooses the transport mode and, accordingly, the Incoterms. One aspect that affects this choice is the target country. Most of the managers know the trading habits of the countries in which trading occurs and what Incoterms are recommended in certain countries. However, the problem comes when the target country requires another Incoterm that has not previously been used. Such cases require knowledge of the country and the Incoterms, as cost effectiveness is threatened by the use of the wrong Incoterm. Managers are also aware of the effect of payment terms on Incoterms. When L/Cs are used, managers are able to choose the right Incoterm.

The effective use of Incoterms begins with knowledge of the risk-releasing point. If the risk-releasing point defined by an Incoterm is at an early stage, the company is

released from liability. When the risk is on the seller throughout the delivery, however, the company must cover delays and immediately deliver replacement products in case of damage. The liability to cover damage within a certain time is impossible for the case company because the case company produces special products, for which production can take months. As such, risk releasing at an early stage is particularly desirable. If the material is damaged during delivery, the customer is obligated to pay for the damaged material and for the new material (which they will likely still require). The case company's prohibition of D-clauses has contributed to the early release of risk. According to the interviews, some of the product group managers have been in a situation in which the customer asks for the inclusion of D-clauses. Unfortunately, these have been accepted because there is of managers' lack of knowledge about the risk transfer. For such situations, therefore, it is good for managers to have basic information about Incoterms.

The case company should always use C-clauses (i.e., the CIP or CIF clause). The company has annual insurance contracts covering all the shipments. From a customer service point of view, offering delivery and insurance gives added value to the product. For some of customers, the seller's insurance is obligatory, so it was determined that offering it to every customer made sense.

Logistic operations should be implemented in the most cost-effective way. Every manager should have the mindset of cost effectiveness, regardless of the product margin. Based on the interviews, higher margin product group managers tend not to take a closer look at delivery costs as these managers do not understand the advantage of using certain Incoterms. One example of this disregard for cost effectiveness is the use of the clause 'FCA Helsinki' for air freight to India; an interview with a logistics manager revealed that this problematic and expensive clause is commonly used in higher margin product offers. In contrast, lower margin product group managers do examine delivery costs and use cost-effective Incoterms. This type of thinking should be a priority for every manager, as the company will be less effective if one group does not consider such things. The managers should also notice the charges other than just the freight cost; customs clearance, duties, taxes and possible terminal charges should always be considered to determine if any such

charges are covered by the selected Incoterm. The MADB is a great tool to use for calculating customs costs.

Transport mode is generally considered by the managers when choosing Incoterms, but based on the interviews, some of the managers have used waterway Incoterms in road freight and indeterminate Incoterms in sea freight. In particular, if an indeterminate Incoterm is used in sea freight (e.g., 'CIP Istanbul'), the buyer has the right to demand delivery to the door. These errors must be removed from offers and contracts as they give the buyer the opportunity to benefit from the seller's ignorance. Generally, company managers have a good knowledge of what Incoterm is ideal for use with each transport method. To avoid losing the advantage of the Incoterms, managers need to be precise when choosing them. Recommendation charts will help managers to avoid such situation and to select the correct Incoterms for sea and air shipments. Providing information on the consequences of misused Incoterms is the best way to help managers understand Incoterms' relevance.

Time also affects Incoterm selection. Based on the interviews, managers do consider whether delivery is urgent when selecting Incoterms. In urgent cases, the sea transport Incoterms are not selected. Managers should discuss with the customer which of the parties has better freight contracts. If the case company has the better delivery time and price for shipment, the seller should implement the transportation. The interviews indicated that the managers' knowledge of the target countries' trading habits is very good. In particular, the managers who have more Indian and Russian customers have a lot experience with and knowledge of the trading habits there.

These countries were also noted to be the most challenging countries in which to trade, according to the interviews. Managers have certain Incoterms that they use in such offers, and these Incoterms are considered in the 'Recommendations' chapter.

Target country affects Incoterms choice not only because of the cultural habits and manners common in that country. Geographical location is another important matter to consider, as the target country's location affects the choice of transport mode and, accordingly, the Incoterm chosen. As such, the product group managers should be aware of the buying habits of the target country, its overall geographical situation

and its customs formalities. The recommendation chart provides country-specific details about what Incoterms should be used, and the managers should check this chart before sending an offer.

The case company's products are categorised into different product groups. According to the interviews, one of the product groups contains small products, which are generally shipped by air or LCL shipment. Another category is 'volume trading', which encompasses heavy-weight shipments in containers or trucks. Other products also exist between these two categories, which are at either ends of the spectrum in terms of size and weight. Managers usually dealing either with small products or with heavy products, or them manage the specific categories between these two. The recommendation here is that these managers study at least the suitable Incoterms for their own product group. For special cases, the recommendation charts should be checked or help should be sought from logistics managers.

As has been mentioned, the only payment term that affects Incoterm choice is the L/C payment term. The case company managers know the effect of L/Cs on Incoterm choice. Based on the interviews, managers are aware of the correct Incoterm with L/C but did not know why this Incoterm should be used. To prevent the wrong Incoterm being used with L/C, managers need to be aware of the reason behind this rule.

The case company should pay particular attention to these seven matters that can affect Incoterm choice. Overall, Incoterm use by the managers at the case company is good, but many of the points require more precise consideration to ensure the company takes full advantage of Incoterms.

6.3 Suggestions for case company

This section contains country-specific proposals for the case company to clarify the selection of Incoterms.

The EU is the easiest trading partner for the case company because Finland, where the company is located, is also a member of the EU. The EU's single market and

customs union status makes trading easy. The customs union releases the members of customs liabilities, such as customs clearance and customs duties. VAT is the only thing that must be noted in the invoice.

Between EU members, the CIP clause is the most suitable. EU members are geographically close to the case company, so freight should be transported by road. The case company has an annual insurance contract that includes Institute Cargo Clause (A) and covers all shipments. For this reason, it is reasonable to use the CIP clause. This also helps the company present a service-minded attitude, as they provide insurance to the customer. According to the interviews with logistics managers, customer satisfaction is higher when the company provides insurance.

The case company engages in competitive bidding for freight prices quarterly, cooperating with two other companies in the same field. By cooperating, the companies have such a large shipment volume that they are able to secure lower freight prices. As noted in the previous chapter, when choosing Incoterms, costs are the main factor. Many managers have the wrong idea that the FCA clause is the best solution dealing with cost. Smaller companies with smaller volumes rarely have as competitive freight prices as the case company. As such, to obtain the best possible price for goods, the CIP clause is the most suitable. However, if there is potential that the customer will have better freight prices, the FCA clause should be used. For the case company, the risk-releasing point must be the point when the seller releases the goods to the carrier. In CIP and FCA clauses, this requirement is fulfilled. According to this method of operation, the buyer must pay the whole purchase price, even in the case of damage or loss. These Incoterms are recommended because they are very competitive but relatively risk free.

Country	European Union (EU) member states
Transport	Road
Incoterms 2010	CIP
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service.
Mark	'CIP Berlin Incoterms 2010'

Figure 15. Recommendation chart.

Norway, Switzerland and Liechtenstein are not EU member states. Although, the countries participate in the single market but not in the customs union. This means that trading with the mentioned countries include the custom formalities.

Country	Norway, Switzerland and Liechtenstein
Transport	Road
Incoterms 2010	CIP, Cleared
Obligation	Freight costs and insure the goods for 110%. Export and import clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service and custom clearances.
Mark	'CIP - Cleared, Oslo Incoterms 2010'

Figure 16. Recommendation chart.

Based on theory and interviews, Russian customer appreciates the options. The first suggestion is CIP clause and the transport is implemented by road freight. Unlike the EU shipments, CIP clause to Russia requires export formalities. Seller is obligated to clear the goods for export but not for import.

Country	Russian Federation, Ukraine, Belarus
Transport	Road
Incoterms 2010	CIP
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service.
Mark	'CIP Moscow Incoterms 2010'

Figure 17. Recommendation chart.

Russian customers appreciate service, so the offer should include the option of different delivery terms. For such offers, the FCA clause is suggested. Interviews with case company employees revealed that many of the Russian customers prefer the FCA clause because they tend to have better freight prices. Including both Incoterms to the offer enables customers to decide what is most cost effective for them. Offers presenting the alternative of CIP or FCA clauses indicate to the customer that the case company wants to serve the customer in the best way it can. According to the interviews, Russian customers sometimes demand 'FCA Lappeenranta', which means that all the transport costs to Lappeenranta must be handled by the seller. This clause is as simple as 'FCA Pori', but the seller should notice the transport cost to Lappeenranta in the price.

Country	Russian Federation, Ukraine, Belarus
Transport	Road
Incoterms 2010	FCA
Obligation	Export clearance
Advantage	The risk passes when the goods are delivered to the first driver.
Mark	'FCA Pori Incoterms 2010'
Addition	FCA Lappeenranta (Transport costs to Lappeenranta on seller)

Figure 18. Recommendation chart.

Turkey, Morocco, Algeria, Egypt and Tunis all border the Mediterranean Sea. As such, sea freight is the most cost-effective transport mode to these countries. Through discussions with the case company employees, it was found that many of them see these countries complicated to work with. A common assumption is that the FCA clause is the best choice; however, rather than FCA, the CIF clause is more recommended. That being said, the price term needs to agree with the Incoterm. With the CIF clause, documents against payment (D/P) should be used to ensure that the company receives payment before the goods are handed to the customer. With the FCA clause, payment in advance should be used. However, the CIF clause combined with the correct payment term is the most effective Incoterm to use for the above-listed countries. With the CIF clause, materials shipments can be implemented right

after the goods are processed and the materials can be invoiced in the planned quarter. The FCA clause always carries uncertainty about when the customer collects the material and when the material can be invoiced. Because the case company has very competitive container freight prices, this should be used to its advantage by implementing CIF clauses when possible.

Country	Turkey, Morocco, Algeria, Tunis, Egypt
Transport	Sea
Incoterms 2010	CIF
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are on board. Added value from the transport service and insurance.
Mark	'CIF Ambarli port Incoterms 2010'

Figure 19. Recommendation chart.

Every interview revealed that the most complicated country to trade in is India. The export process to India includes a lot of documentation and formalities. Indian customers usually require the FCA clause, so this is the clause usually offered by the case company when exporting to India. It is recommended that the company continue using the FCA clause in such situations to avoid all the difficulties in documentation and handling formalities. One factor of great importance here is that the clause should always offered as 'FCA Pori', as this avoids problems example the extra terminal charges. Indian customers can be difficult trading partners because they tend to determine the terms they require. According to the interviews, a common problem is that Indian companies sometimes require the 'FCA Helsinki' clause. This clause is very difficult because of the uncertainty of the costs in Helsinki. A lack of documentation and slow action on the customers' side can also lead to high terminal charges because the material stands for days at the terminal. As previously noted, in the FCA clause, the seller is not obligated to pay any charges except transportation to the terminal; the buyer is obligated to pay all the terminal charges, including

unloading. The case company has Incoterm rules in place to confirm that the buyer is obligated to pay the charges. However, this can be a problem if the customer does not agree to the charges even though they are subject to the rules.

As mentioned, Indian companies can be complicated to work with, so the primary recommendation here is to offer the 'FCA Pori' clause and to accept other terms only in extremely rare situations when other clauses are absolutely necessary. Accepting other terms can lead to high expenses, and the consequence can be a loss-making deal. If the situation requires the 'FCA Helsinki' clause, the seller must explain to the buyer that the buyer is responsible for any terminal charges that arise. Alternatively, terminal charges can be included in the product conversion price.

Country	India (South Asia)
Transport	Air/Sea
Incoterms 2010	FCA
Obligation	Export clearance
Advantage	The risk passes when the goods are delivered to the first driver. No extra expenses.
Mark	'FCA Pori Incoterms 2010'
Addition	Accepting other terms might lead to high expenses and the consequence can be a loss-making deal, because of the challenging export process.

Figure 20. Recommendation chart.

As mentioned, Asian customers highly appreciate good customer service. To offer Asian customers the best service level, the case company should use CIP or CIF clauses. These clauses give added value by offering paid transport and insurance throughout the shipment. The case company has a lot of experience and knowledge of Asian trading habits because of the high percentage of its total volume of goods that is shipped in Asia. Through the interviews, it was found that managers see Asian countries as some of the easiest in which to trade. The main reason for this is that

Asia is one of the continents that is most experienced in trading, contributing a high percentage of the total global trading volume.

Most of the L/C customers are from Asia, according to the Interviews, and CIP/CIF clauses are the most suitable Incoterms for use with L/C. This is one of the reasons why it is beneficial to use these Incoterms with Asian companies.

Country	East & Southeast Asia (China, Korea, Taiwan & Indonesia, Malaysia, Thailand, Vietnam, Singapore)
Transport	Air / Sea
Incoterms 2010	CIP/CIF
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are on board. Added value from the transport service and insurance.
Mark	"CIF Taichung port Incoterms 2010" "CIP Taichung Airport Incoterms 2010"
Notice	

Figure 21. Recommendation chart.

In 2019, Japan reached a free trade agreement with the EU. This concerns only companies that are exporting products of EU origin. The case company belongs to this group. However, the preferential duties for products under individual titles have to be checked when planning to export or import from databases. The necessary details can be found from the Taric system and from the Market Access Database.

Japan trading should be implemented by CIP or CIF, depending on the freight mode. CIP clause should be used in airfreight and CIF in sea freight. Because of this new free trade agreement, there is no longer a need for D-clauses. Free trade agreements hopefully reduce freight prices because of the increasing trading volume. CIP and CIF clauses oblige the seller to pay the transport and provide the insurance. The case company has negotiated good freight prices to Japan and has an annual contract of insurance. The delivery service and insurance add value to the product, which Japanese customers appreciate according to the theory.

Country	Japan
Transport	Air / Sea
Incoterms 2010	CIP/CIF
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service.
Mark	CIP Tokyo Incoterms 2010"
Addition	Free trade agreement (no longer import duties in Japan)

Figure 22. Recommendation chart.

Both the interviews and theory indicate that US customers demand freight services to the door. In the interviews, many of the employees held the opinion that US customers tend not to have the skills to perform import formalities. The case company interviewees expressed that providing offers with the DDP clause is the only option for US customers. However, because the DDP clause is forbidden by the case company, managers avoid it by instead using the clause Carriage And Insurance Paid, Cleared, Tax and Duty Paid (CIPDPC).

The case company's logistics manager indicated that a common problem in the US is that local transport is expensive due to driver shortages. This has increased freight costs to the US. Because the customer demands delivery to the door, these increased costs must be considered in the conversion price. In addition, other costs, including taxes and duties, should be considered in the conversion price. An easy way to calculate these costs is to use the MADB. All charges must be taken into account to ensure a profitable deal.

An alternative recommended term for use when shipping to the US is the CIF; however, because of common customer demands, the best choice remains the

CIPDPC clause. Providing offers that include delivery service gives the case company an advantage in the US market. Based on the interviews, US customers' knowledge of Incoterms is generally poor. As mentioned, the US has its own trade terms, which has led to confusion with Incoterms, especially in terms of the FOB clause. If the case company has the chance to offer terms other than DDP (CIPDPC), it is important to ensure that customer understands the clause's meaning.

Country	United States
Transport	Sea
Incoterms 2010	CIPDPC
Obligation	Freight costs and insure the goods for 110%. Export and import clearance. Taxes and duties.
Advantage	Customer satisfaction
Mark	'CIPDPC Boston port Incoterms 2010'

Figure 23. Recommendation chart.

The Incoterms suggested for use in Latin America are CIF/CIP clauses. These clauses guarantee effective shipment. Material can be shipped and invoiced in the planned time with C-clauses. The CIP/CIF clauses do not require the performance of any import formalities on the part of the seller. The case company only has a few trading partners in Latin American countries; as such, its experience with and ability to trade with these countries is limited. CIP/CIF clauses are safe to implement because the risk releases at an early stage and the import formalities are the buyer's responsibility. These clauses also include the insurance that the case company can offer.

To avoid the complications and extra costs in the shipping process, the Incoterm must be stated clearly in the contract. In air freight, the 'CIP Buenos Aires Airport Incoterms 2010' clause is vital. After the goods have been unloaded from the airplane, the buyer is responsible for costs and customs. The same rule applies with the CIF clause. The clause should be stated as 'CIF Buenos Aires port Incoterms

2010' to avoid any confusion in the shipment. If the clause is not stated with the port addition, the buyer is justified in demanding delivery to the door, which can lead to unprofitable business.

Country	Latin America
Transport	Sea / air
Incoterms 2010	CIF / CIP
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are on board. Added value from the transport service and insurance.
Mark	'CIF Buenos Aires port Incoterms 2010' "CIP Buenos Aires Airport Incoterms 2010"
Notice	Complicated and complex trading and customs requirements

Figure 24. Recommendation chart.

The case company has the fewest customers in the Middle East, excluding Turkey. The continuing state of war and sanctions in certain countries complicate trading significantly. Middle Eastern countries require a lot of documentation, with different authorities' stamps. As such, the Incoterm recommended for use in most cases is 'FCA Pori'. Through this clause, the case company's only obligations are to load the goods and clear the goods for export. Export clearance guarantees the necessary export documents for the seller.

The other advantage of using the FCA clause in Middle Eastern countries is that the seller is not obligated to prepare any special documentation and does not have to be involved in any shipment or import liabilities. It is more reasonable for the case company to handle their few Middle Eastern customers using the FCA clause than to try to survive complicated trading environments. The main rule in Middle East shipments is that D-clauses are highly prohibited, as they can lead to major problems that go beyond just incurring extra costs.

Country	Middle East (Saudi Arabia, Iraq, Qatar, United Arab Emirates)
Transport	
Incoterms 2010	FCA Pori
Obligation	Load the goods. Clear the goods for export.
Advantage	Risks and costs on buyer.
Mark	'FCA Pori Incoterm 2010'
Notice	Complicated and unstable market area

Figure 25. Recommendation chart.

According to the interviews, larger projects are often offered with the EXW clause. The EXW clause is used for cash settlement. Invoices can be closed after the customer is informed that the material is ready for collection. The case company has strict quarterly sales plans, and projects cover a high percentage of the total cash flow.

The only problem they have faced in relation to this has been export declaration control. There is no proof that material has left the EU if the customer has not provided the export declaration. The customer is not obligated to handle the declaration for the seller, which is why the EXW clause is recommended only in domestic trade. However, this problem can be solved with an addition to the clause: EXW clauses should be amended with the 'cleared' addition. This addition obliges the seller to do the export clearance, and this way, the seller is sure to have all the needed documentation to prove that the material has left the EU. If the seller does not have the clearance to prove that the material has left the EU, VAT must be added to the invoice. In Finland, the VAT is 24%, which causes significant extra charges.

According to the EXW clause, loading should be implemented by the buyer. This is impossible in the case company's situation, as loading is always conducted by the company's own loaders. In case of damage at the loading point, the risk is on the buyer. However, the buyer is likely to fight against this because the seller did the loading. Therefore, to avoid unnecessary confusion, 'loaded' should also be added to

the clause. When loading is agreed upon to be the responsibility of the seller, the seller, naturally, has full responsibility for the loading; because the case company has comprehensive insurance, this setup is recommended.

Country	Project (Outside EU)
Transport	
Incoterms 2010	EXW, Loaded and Cleared
Obligation	Loading and Export clearance
Advantage	Agreed loading. Certain export declaration for custom, to approve goods leaving EU. Invoice closing after material is ready to ship.
Mark	'EXW, Loaded and Cleared, Pori Incoterms 2010'
Notice	

Figure 26. Recommendation chart.

7 DISCUSSION

The theory section of this thesis presented detailed information about every Incoterm that could be used by the case company. It is important to have knowledge of the all Incoterms in order to use them correctly and effectively. The theory section includes details about what the case company needs to be aware of when trading. When unclear situations arise, the theory offers solutions and explains the liabilities in case of damage. The importance of Incoterms is also explained in the theory section because an understanding of their importance leads to their effective use. Incoterms have significant influence on smooth transport, continuing deals, cash flow and risk-free trading.

The research questions explored in the thesis were ‘What aspects affect Incoterm use?’, ‘How do Incoterms affect trading?’, and ‘What Incoterms are effective and reasonable for use by the case company?’ These questions were answered in the results of this research.

In answering the first research question, ‘What aspects affect Incoterm use?’, the thesis identified seven affecting factors: risk, cost, transport, time, product, target country and payment term. All these factors have some effect upon Incoterm selection, which was supported both by the theory and by the interviews. The second research question related to how Incoterms affect trading. The theory part revealed the importance of Incoterms, which significantly affect the smoothness of transport, continuing deals, cash flow and risk-free trading. In addition, Incoterms can affect whether an offer is accepted and a customer is secured. The last research question focused on what the most effective Incoterms are for the case company. The theory and interviews found that the most effective Incoterms for the company are the CIP, CIF, FCA and EXW clauses. CIP and CIF are the Incoterms that include the insurance and early risk-releasing point. FCA and EXW were found to be suitable for use in difficult and developing countries and in projects.

This thesis was implemented using qualitative research and, specifically, using theme interviews. In the theme interviews, three logistics professionals and three sales professionals were interviewed. The core of the interviews was simple and included only five basic questions. The interviews proceeded as intended; the results were comprehensive and the discussions were rewarding. Reliability and validity were verified by the logistics manager. Results were repeated in the theory and interviews portions of this research, giving saturation confirmation to the thesis.

8 CONCLUSION

The purpose of this thesis was to determine the effective Incoterms for use by the case company. The main problem faced by the case company was a lack of knowledge of Incoterms on the part of managers. Most of the product group managers were not aware of the liabilities in different Incoterms. Costs were considered, but only the freight costs—managers’ knowledge of the other charges needed to be improved. The case company’s sales support team and logistics managers had a strong knowledge of the Incoterms. The case company was already using Incoterms effectively but needed to make fine adjustments to its practises.

The company's reasons for choosing certain Incoterms needed a few adjustments. The product group managers should consider charges other than just freight cost, and cost-effective thinking should be a priority for all the managers to achieve the best results. Managers need to be educated about the advantages and disadvantages of different risk-releasing points. Other aspects affecting Incoterm selection should at least be considered as, previously, these aspects have not been considered at all. A recommendation chart was created to help simplify the selection of Incoterms in various situations.

The theory and interviews supported each other. The most favourable clauses were CIP and CIF clauses. The case company was already using these clauses in most shipments, and insurance and delivery service were notable value additions to the product used in most cases. Control of the shipment was listed one of the advantages in the use of such clauses. The most remarkable factor is the early risk-releasing point. The case company has one rule regarding Incoterms, which is that the use of D-clauses is forbidden because the risk-releasing point of such clauses is impossible to implement for the case company. Other terms that were suggested, both in theory and through the interviews, were FCA and EXW clauses. The case company uses the EXW clause in major projects, where it was the only viable option for use. In theory, this clause could be amended to 'EXW, cleared and loaded' to prevent customs clearance problems from being the responsibility of the seller and to avoid possible misunderstandings about loading. The FCA clause is recommended for use in complicated and developing countries to avoid difficult customs formalities and extra paperwork.

The thesis presented professional knowledge of Incoterms to the case company and explained how to use Incoterms effectively. The writing process was educational. Earlier editions of the Incoterms were confused in many of the articles reviewed, making old literature unusable. The source critic was tested through the project. From the writer's perspective, the thesis outcome was as expected, and all the problems were solved and answered. In addition, the case company received the condensed material, which was written to simplify the explanation of how to use the Incoterms. As a writer, I gained considerable expertise from Incoterms, which is an

advantage for the logistics career. As a follow-up to the research, the issue could be upgraded when the 2020 Incoterm changes take effect.

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APPENDIX 1

Theme interview

Interviewer: Henni Huuhka

Interviewee: Logistic manager and two Sales support specialists from case company

Time and place: 23.11.2018

1. Tell about the use of Incoterms in the case company
2. What Incoterm you use in different countries and why?
3. How Incoterms effect on trading?
4. What are the effecting aspects when choosing Incoterm?
5. How Incoterms are interpreted in different countries?

APPENDIX 2

Theme interview

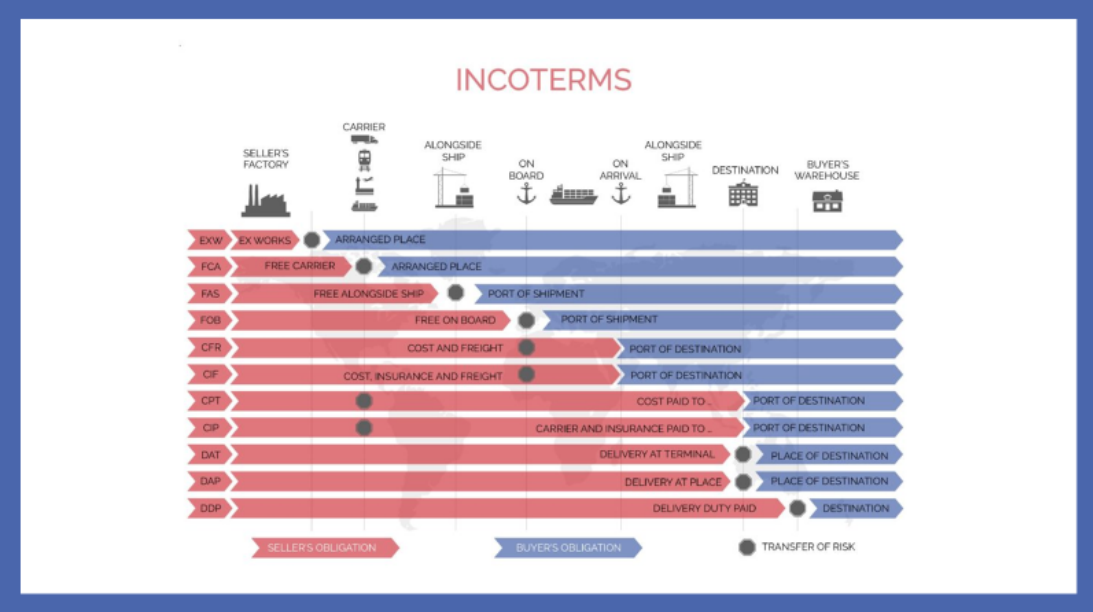
Interviewer: Henni Huuhka

Interviewee: Three Product group managers from case company

Time and place: 5.12.2018

1. Thoughts of the Incoterms
2. Do you need more training of the Incoterms?
3. What Incoterms you use and why?
4. What are the aspects that effects choice of the Incoterm?
5. How Incoterms effect on trading?
6. Does the different country habits effect on choosing Incoterm?

INCOTERM HANDBOOK



INCOTERM CONTENT

- Incoterm contains agreement of the obligations, costs and risks involved delivery
 - Incoterm NOT specify the ownership of the goods

OBLIGATIONS

- **Delivery**

- Who arrange the delivery
- Advantage of handling the delivery



- **Cost**

- Which party has a better freight agreement
- Note the variable charges in different clauses



- **Insurance**

- Seller is obligated to provide insurance in CIP and CIF clauses
- Annual insurance contract



TRANSFER OF RISK

- Invoice can be closed after buyer has received the goods (implementation is impossible)
- When risk passes to buyer in beginning of the delivery, example F- and C-clauses, buyer must pay the whole purchase price, also in case of damage or loss
- In D-clauses seller is obligated to provide the goods in the agreed condition in agreed delivery time. This means that in case of damage, seller is obligated to produce new material and deliver it in agreed arrival date

INCOTERM PROS AND CONS



APPENDIX 6

EXW – Ex Works

- + Minimum obligations
- + Early transfer of risk
- + Closing the invoice when the goods are ready
- Recommended only in domestic trade
 - Export clearance unmanageable
 - “EXW Cleared” in foreign trade
- Excluding loading

FCA – Free Carrier

- + Suitable for international trade
- + Export clearance
- + Risk transfer after loading
- + No charges
- No control to shipment
 - Pick up might delay numerous days

FOB – Free on Board (sea freight)

- + International trade
- + Export clearance
- + Risk transfer after goods are loaded to vessel
- Loading damages on seller
- Misunderstood in USA
 - Because their UCC terms
- Unclear
 - Recommended to use FCA instead

FAS – Free alongside Ship (sea freight)

- + International trade
- + Export clearance
- Not suitable in container freight
 - Delivery alongside the vessel
 - Difficult to define the risk transfer
 - Recommended to use FCA instead

CIP – Carriage and Insurance Paid to

- + International trade
- + Export declaration
- + Transfer of risk after loading to truck
- + Control of the shipment
- + Suitable with all payment terms
- +/- Freight cost
- +/- Insurance cost
 - Added value of the services

CPT – Carriage Paid to

- + International trade
- + Export clearance
- + Transfer of risk after loading to truck
- + Control of the shipment
- + Risk transfer
- + If company don't have annual insurance contract
 - Rather CIP if company have annual contract
- +/- Freight cost
 - Added value of the services

**CIF – Cost, Insurance and Freight
(Sea freight)**

- + International trade
- + Export declaration
- + Transfer of risk after loading to vessel
- + Control of the shipment
- + Suitable with all payment terms
- +/- Freight cost
- +/- Insurance cost
 - Added value of the services

**CFR – Cost and Freight
(Sea freight)**

- + International trade
- + Export declaration
- + Transfer of risk after loading to vessel
- + Control of the shipment
- + If company don't have annual insurance contract
 - Rather CIF if company have annual contract
- +/- Freight cost
 - Added value of the services

DAT – Delivered at Terminal

- + International trade
- + Export clearance
- +/- Freight cost
- +/- Delivery to agreed terminal
 - Unloading costs
- Transfer of risk after unloading
- Invoice can be closed after buyer has received the goods
 - Recommended to use "CIP Cai Mep Terminal" instead

DAP – Delivery at Place

- + International trade
- + Export clearance
- +/- Freight cost
- +/- Delivery to door
 - Added value
- Transfer of risk after unloading in place of destination
- Invoice can be closed after buyer has received the goods
 - Recommended to use "CIPDUC" or CIP (in EU) instead

DDP – Delivered Duty Paid

- + International trade
- + Export clearance
- Risk transfer in place of destination
- Represent maximum responsibility of seller
- Import clearance, customs duties and taxes
 - Expensive
 - In US trade use "CIPDPC"

NOTICE!

- **USE ALWAYS CORRECT INCOTERM FOR SEA, AIR AND LAND TRANSPORTATIONS**
 - The use of the wrong Incoterm gives an unprofessional image of the company
- **MARK INCOTERM CORRECTLY IN YOUR SALES OF CONTRACT**
 - Air freight mark "CIP Tokyo airport".
 - If the marking is missing airport, buyer can demand the delivery anywhere in Japan.
 - Road freight mark "CIP Birmingham"
 - Sea freight mark "CIP Istanbul Ambarli port"
 - Specify the destination as precise as possible to the sales of contract.

RECOMMENDATIONS

Country	European Union (EU) member states
Transport	Road
Incoterms 2010	CIP
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service.
Mark	"CIP Berlin Incoterms 2010"

- CIP clause is the most suitable.
- EU members are geographically located near by the company and the freight should be implemented by road.
- The case company has annual contract for insurance including Institute Cargo Clause (A) and covering all the shipments.

Country	Norway, Switzerland and Liechtenstein
Transport	Road
Incoterms 2010	CIP, Cleared
Obligation	Freight costs and insure the goods for 110%.Export and import clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service and custom clearances.
Mark	"CIP - Cleared, Oslo Incoterms 2010"

- Norway, Switzerland and Liechtenstein are not EU member states.
- The countries participate in the single market but not in the customs union. This means that trading include the custom formalities.
- Import clearance give the added value and easy the buyer trading process

APPENDIX 10

RECOMMENDATIONS

Country	Russian Federation,Ukraine, Belarus
Transport	Road
Incoterms 2010	CIP
Obligation	Freight costs and insure the goods for 110%.Export clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service.
Mark	'CIP Moscow Incoterms 2010'

Country	Russian Federation,Ukraine, Belarus
Transport	Road
Incoterms 2010	FCA
Obligation	Export clearance
Advantage	The risk passes when the goods are delivered to the first driver.
Mark	'FCA Pori Incoterms 2010'
Addition	FCA Lappeenranta (Transport costs to Lappeenranta on seller)

- The first suggestion is CIP clause and the transport is implemented by road freight.
- Unlike the EU shipments, CIP clause to Russia requires export formalities. Seller is obligated to clear the goods for export but not for import.
- The other suggestion is FCA.
- Many of the Russian customers prefers FCA, because they have better freight prices.
- Include the both Incoterms to the offer, customer can decide what is the most cost-effective for them.

RECOMMENDATIONS

Country	Turkey, Morocco, Algeria, Tunis, Egypt
Transport	Sea
Incoterms 2010	CIF
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are on board. Added value from the transport service and insurance.
Mark	'CIF Ambarli port Incoterms 2010'

Country	India (South Asia)
Transport	Air/Sea
Incoterms 2010	FCA
Obligation	Export clearance
Advantage	The risk passes when the goods are delivered to the first driver. No extra expenses.
Mark	'FCA Pori Incoterms 2010'
Addition	Accepting other terms might lead to high expenses and the consequence can be a loss -making deal, because of the challenging export process.

- Turkey, Morocco, Algeria, Egypt and Tunis geographic location border the Mediterranean Sea. Sea freight is the most cost-effective transport mode to these countries.
- Price term needs to comport with the Incoterm.
- Recommendable is to use FCA, to avoid all the difficulties in documentation and formalities handling.
- The most effecting factor is that clause should always offered FCA Pori
- Price term needs to comport with the Incoterm.

APPENDIX 11

RECOMMENDATIONS

Country	East & Southeast Asia (China, Korea, Taiwan & Indonesia, Malaysia, Thailand, Vietnam, Singapore)
Transport	Air / Sea
Incoterms 2010	CIP/CIF
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are on board. Added value from the transport service and insurance.
Mark	"CIF Taichung port Incoterms 2010" "CIP Taichung Airport Incoterms 2010"
Notice	

- To offer for Asian customer the best service level, the case company should use CIP or CIF clause.
- The clauses give added value by providing paid transport and insurance through the transportation

Country	Japan
Transport	Air / Sea
Incoterms 2010	CIP/CIF
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are delivered to the first driver. Added value from the transport service.
Mark	CIP Tokyo Incoterms 2010"
Addition	Free trade agreement (no longer import duties in Japan)

- Japan trading should be implemented by CIP or CIF, depending of the freight mode.
- CIP clause should be used in airfreight and CIF in sea freight. Because of the new free trade agreement, there is no longer need for D-clauses

RECOMMENDATIONS

Country	United States
Transport	Sea
Incoterms 2010	CIPDPC
Obligation	Freight costs and insure the goods for 110%. Export and import clearance. Taxes and duties.
Advantage	Customer satisfaction
Mark	"CIPDPC - Cleared, Tax and Duty Paid Boston port Incoterms 2010"

- US customers demand the delivery to the door.
- US customers don't have skills to do the import formalities.
- Use the clause CIPDPC - Carriage & Insurance paid, cleared, Tax and Duty paid.

Country	Latin America
Transport	Sea / air
Incoterms 2010	CIF / CIP
Obligation	Freight costs and insure the goods for 110%. Export clearance.
Advantage	The risk passes when the goods are on board. Added value from the transport service and insurance.
Mark	"CIF Buenos Aires port Incoterms 2010" "CIP Buenos Aires Airport Incoterms 2010"
Notice	Complicated and complex trading and customs requirements

- Incoterm suggestion for Latin America is CIF/CIP. These clauses guarantee effective shipment. Material can be shipped and invoiced in planned time with C clauses.
- CIP/CIF clause don't require from seller any acts regarding the import formalities.
- Complicated import formalities can be avoided by C-clauses

APPENDIX 12

RECOMMENDATIONS

Country	Middle East (Saudi Arabia, Iraq, Qatar, United Arab Emirates)
Transport	
Incoterms 2010	FCA Pori
Obligation	Load the goods. Clear the goods for export.
Advantage	Risks and costs on buyer.
Mark	'FCA Pori Incoterm 2010'
Notice	Complicated and unstable market area

- The continuing state of war and sanctions in certain countries complicate the trading significantly.
- Middle East countries requires a lot of documentation with different authorities' stamps.
- The most recommendable Incoterm is FCA Pori. Only obligations are load the goods and clear the goods for export.

Country	Project (Outside EU)
Transport	
Incoterms 2010	EXW, Loaded and Cleared
Obligation	Loading and Export clearance
Advantage	Agreed loading. Certain export declaration for custom, to approve goods leaving EU. Invoice closing after material is ready to ship.
Mark	'EXW, Loaded and Cleared, Pori Incoterms 2010'
Notice	Cleared addition obligatory

- - EXW should be amend with "cleared" addition in project shipments. Addition oblige seller to do the export clearance. This way seller ensures to have all the needed documentation to prove that the material has left the EU border.
- - If the seller doesn't have the clearance to prove that the material has left the EU, must add VAT to the invoice. In Finland VAT would be 24%, what will cause significant extra charges.
- - EXW loading should be implemented by buyer. This is impossible in case company's premises, and loading is always implemented by company's own loaders. To avoid unnecessary confusion, addition "loaded" should add to the clause