

Analysis of CPT International Trade Terms from the Perspective of Risk and Cost

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Abstract—Trade terms, also known as price terms, are the technical terms that describe the risks involved in the delivery of goods, and the division of liability costs. With the emergence of new shipping method like container transport, freight transport is no longer confined to water transport. Since the introduction of trade terms, FCA, CPT, CIP gradually improve and become mature after years of development. This paper attempts to compare CPT with CFR, FCA, CIP, and grasp the similarities and differences between them, so as to better understand the risk transfer and the cost division in CPT trade terms.

Index Terms—Trade terms, CPT, risk, cost.

I. INTRODUCTION

Based on different delivery locations, the trade term is a short concept or an acronym which describes the place of delivery, the price of a commodity, the cost of the seller and the buyer in a transaction, and also the division of responsibilities and risks between two sides [1]. In Incoterms®,¹ trade terms are divided into four groups of different basic types.

- 1) Group E (EXW). The Seller shall prepare the goods for the buyer at his place.
- 2) Group F (FAS, FCA, FOB). The seller shall deliver the goods to the named carrier.
- 3) Group C (CFR, CIF, CPT, CIP). The Seller shall conclude a contract of carriage, but take no responsibility for the additional costs caused by the accident after shipment or the risk of loss and damage to the goods after loaded.
- 4) D (DAT, DAP, DDP). The Seller shall bear all costs and risks required in the process of delivering the goods to the destination.

With the development of international transportation technology, including the collection of goods, container transport, the increasing use of multimodal transport and etc., the status of FCA, CPT, CIP has become increasingly prominent. FCA, CPT and CIP are not only suitable for various modes of transport, but also suitable for multimodal

transport, which make it more convenient for the parties to transfer the goods [2]. The correct choice of terms of trade is essential to the smooth completion of trade. In order to make good use of them, we have to distinguish their differences and advantages correctly, as well as their respective risk transfer and cost sharing.

II. AN OVERVIEW OF THE CPT TERMINOLOGY

The “C” here represents the first letter of the word “CARRIAGE”. The difference between “FREIGHT” and “CARRIAGE” is that “CARRIAGE” includes shipping, water transport, land transport. However, “FREIGHT” only includes shipping and water transport. The “P” represents the first letter of the word “PAID”. The “T” represents “TO”, which means the direction. CPT is usually followed by the destination port when applied.

CPT represents “Carriage Paid To” (… followed by the named place of destination). In this term, the seller delivers the goods to the named carrier at the time and place agreed upon in the contract. In addition, the seller must sign a contract of carriage and pay the cost of the delivery of the goods to the destination. The term can be applied to a variety of modes of transport, including multimodal transport.

In the CPT trade terms, the seller's obligations are:

- 1) Obtain an export license or official authorization, pay the costs of customs formalities for the export of goods at their own expense.
- 2) Sign or obtain a contract of carriage at their own expense, pay the freight, and deliver the goods to the carrier at the time and place specified in the contract and notify the buyer in time.
- 3) Bear the risk and cost before the delivery of the goods to the carrier.
- 4) Provide proof of delivery to the buyer at their own expense.

The obligations of the buyer are:

- 1) Obtain an export license or official authorization, pay the costs of customs formalities for the export of goods at their own expense.
- 2) Sign the insurance contract at their own expense.
- 3) Bear the risk and cost after the delivery of the goods to the carrier.
- 4) Accept the documents provided by the seller, receive the goods and make payment according to the contract.
- 5) Make the payment of all costs arising from transportation and unloading charges except for the usual freight.

Manuscript received March 15, 2017; revised May 12, 2017. Incoterms® (International Commercial Terms) are a set of international rules for the uniform interpretation of common contract clauses in export/import transactions. They were first published in 1936 by the International Chamber of Commerce (ICC) in Paris, and are updated periodically. The latest version, Incoterms® 2010, was launched in September 2010 and became effective January 1, 2011.

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III. RISK TRANSFER IN CPT TERMINOLOGY

A. *Explanations Based on Incoterms®2010*

It is emphasized in the introduction of CPT terminology in Incoterms®, that the seller and the buyer shall determine the following two points as accurately as possible in the sales contract:

- 1) Where the goods are transferred to the buyer.
- 2) The named place of destination stated in the contract of carriage.

If a plurality of carriers is used to deliver the goods to the named place of destination, and the buyer and seller have not agreed on the place of delivery, the default risk of the contract is transferred from the buyer to the first carrier. If the parties wish the risk transfer to be postponed to a later place, then they need to make a clear agreement in the sales contract. It can be seen that, the risk from the goods is transferred to the buyer when the goods are handed over to the first carrier except that there is a clear agreement.

In the terms of the CPT terms, the seller shall bear all risks of loss or damage to the goods until they have been delivered in accordance with provision A4². And the buyer must bear all risks of loss of or damage to the goods after the delivery in accordance with provision A4. Thus, the carrier is a boundary of the transfer of risk.

In addition, if the buyer fails to give notice to the seller in accordance with provision B7, the buyer must bear all risks of loss of or damage to the goods from the agreed date of delivery or expiry date of delivery, as long as the goods have been duly appropriated to the contract. Provision B7 is about the buyer's obligation to inform the seller. That is, the buyer must give the seller sufficient notice as long as they have the right to decide the time and / or the place of destination or the place where the goods to be received. Therefore, if the buyer fails to perform the obligation of notification, the transfer of risk from seller to buyer is no longer on the basis of the procedure of delivery to the carrier, but depends on the date of expiry of the agreed delivery date or expiry date of delivery.

B. *Comparison between CPT and CFR*

Cost and Freight (… followed by the named port of destination), refers to that the seller delivers the goods on board of the vessel and undertakes the necessary cost and freight to deliver the goods to the port of destination.

The term CPT is the same as CFR, which includes both the cost of the goods and the freight to the destination [3]. All of them belong to the contract of shipment. The seller only needs to make sure that the goods are delivered on time without the need to guarantee the punctual delivery of the goods. The main difference between the two lies in:

- 1) Different modes of transport. CPT trade terms are applicable to a variety of modes of transport, but CFR trade terms are applicable to water transport.
- 2) Place of delivery. For CPT, the place of delivery is agreed by both parties because of the different modes of delivery. For CFR, the place of delivery is at the port of shipment.
- 3) Different basis on the attribution of risk.

Details of provisions will be listed in appendix.

For CPT, the transfer of risk from seller to buyer is demarcated by the procedure of delivery to the carrier. For CFP, the transfer of risk from seller to buyer is demarcated by the procedure of delivery on board.

From the perspective of risk transfer, CPT and CFR both belong to the C group terms. If the transaction is completed by these two terms, the transfer of risk is done with the completion of the seller's obligations of delivery. The reason why the risk demarcation is different is that the modes of transport in CPT and CFR are different, which leads to different delivery locations.

IV. DIVISION OF COSTS IN CPT TERMINOLOGY

A. *Explanations Based on INCOTERMS® 2010*

It is suggested in the introduction of CPT terminology in Incoterms®2010, that since the cost of carrying the goods to the named place of destination is borne by the seller, the parties shall determine the specific location of the destination as accurately as possible. The seller is not entitled to claim expense from the buyer for the costs incurred in the process of unloading at the named place of destination, unless extra agreement by both parties. It is clear that the cost of carrying the goods to the named place of destination shall be borne by the seller.

In CPT terms, the seller must pay these expenses including:

- 1) All costs relating to the goods before delivery in accordance with provision A4.
- 2) Freight and all other expenses incurred in accordance with the provisions of the contract of carriage including the expense for the loading and unloading at the destination in accordance with the contract of carriage.
- 3) Customs formalities necessary for the export of goods and all duties, taxes and other charges payable upon export.
- 4) The fees paid by the seller for the transit of goods from other countries if necessary.

In CPT terms, the buyer must pay these expenses including:

- 1) The costs arising from the delivery in accordance with provision A4.
- 2) All costs of goods in transit until they reach their destination unless they are paid by the seller in accordance with the contract of carriage.
- 3) Unloading charges, unless the seller shall pay in accordance with the contract of carriage.
- 4) All additional costs incurred for goods from the agreed date of shipment or the expiry date of shipment if the buyer fails to give notice in accordance with the provision of B7, as long as the goods have been duly appropriated to the contract.
- 5) Customs formalities necessary for the export of goods and all duties, taxes and other charges payable upon export unless they are included in the contract of carriage.

It can be seen that under the CPT conditions, the seller should bear the freight in addition to the import and export costs and the cost of delivery. In terms of freight, the seller is only responsible for the normal freight from the place of

delivery to the named place of destination. Other costs other than normal freight are generally borne by the buyer. Besides, the cost of loading and unloading of goods may be included in the freight and paid by the seller. It can also be set by the parties in the contract separately.

B. Comparison of CPT with FCA and CIP

FCA (free carrier) represents that the delivery is not completed until the goods are delivered to the buyer at the named place and the export customs clearance is completed.

CIP (carriage and insurance paid to) represents that when goods are delivered to the carrier, the seller must pay the freight for the goods to be delivered to the destination and the insurance against the risk of loss or damage to the goods during transit.

The common points of FCA, CPT, and CIP trade terms are as follows:

- 1) The same mode of transport can be applied, and any mode of transport is applicable.
- 2) Same basis for the demarcation of risk, that is the goods are delivered to the first carrier.
- 3) As far as the nature of the contract, all of them belong to the contract of shipment.

Therefore, in terms of risk, $FOB=CFR=CIF$. In terms of costs, there are subtle differences between them.

Under FCA conditions, the seller is responsible for the delivery of the goods to the carrier, but the cost of the transport of the goods shall be borne by the buyer. Under CPT conditions, the seller shall deliver the goods to the carrier according to the contract, and on the basis of this, pay the freight for the normal carriage of the goods, so here $CPT=FCA+C$. Under CIP conditions, on the basis of CPT, the seller also have to bear the insurance for goods, so $CIP=CPT+I$ or $CIP=FCA+C+I$. Thus, the seller's expense increases according to the order FCA, CPT, CIP [4].

V. CONCLUSION

In the CPT terms of trade, the named place of designation is different from the place of delivery, which means the named place is the place where the freight has been paid by the seller, the place of delivery and the place where the risk is transferred to the carrier are the place where the seller delivers the goods to the carrier. Thus, although the seller bears the cost of the goods shipped to the destination, the risk of goods has been transferred to the buyer after the delivery.

It should be noted that, the freight is paid by the seller, but the actual payer is the buyer, because usually the freight is included in the total price paid by the buyer. Transportation costs may sometimes include the handling and moving cost of goods in port or container terminal, and the carrier or the port operator is likely to charge the buyer for the goods received [5]. In order to avoid the buyer's payment of two charges for the same service, Incoterms®2010 specified the sharing of such costs in the provision A6 and B6 of CPT. That is to say, the unloading charges at the destination shall be borne by the buyer, unless they are to be borne by the seller under the contract of carriage. The seller shall not be entitled to claim compensation from the buyer for the unloading charges of the goods at the port of destination in accordance with the

contract of carriage, unless there is an agreement reached by both parties. Thus, Incoterms® does not encourage repeated charges unless otherwise agreed between the parties.

If the buyer is not located at the port, and the seller wants to control the control of the goods in transit, and to bear the cost of the goods shipped to the destination, you can choose to use the CPT terminology. However, under the terms of this trade, since the seller does not have the cargo transportation insurance policy, once the goods are lost or damaged in transit and the buyer refuse to take delivery of the goods, the seller may suffer the loss of both money and goods. Therefore, the seller may strive to select the CIP term for the premium to which the goods are shipped to the destination [5].

APPENDIX

Here are the provisions mentioned in the paper in Incoterms® 2010.

A. Contracts of carriage and insurance

a) Contract of carriage

The seller must contract or procure a contract for the carriage of the goods from the agreed point of delivery, if any, at the place of delivery to the named place of destination or, if agreed, any point at that place. The contract of carriage must be made on usual terms at the seller's expense and provide for carriage by the usual route and in a customary manner. If a specific point is not agreed or is not determined by practice, the seller may select the point of delivery and the point at the named place of destination that best suit its purpose.

b) Contract of insurance

The seller has no obligation to the buyer to make a contract of insurance. However, the seller must provide the buyer, at the buyer's request, risk, and expense (if any), with information that the buyer needs for obtaining insurance.

B. Delivery

The seller must deliver the goods by handing them over to the carrier contracted in accordance with A3 on the agreed date or within the agreed period.

C. Allocation of Costs the Seller Must Pay

a) All costs relating to the goods until they have been delivered in accordance with A4, other than those payable by the buyer as envisaged in B6;

b) The freight and all other costs resulting from A3 a), including the costs of loading the goods and any charges for unloading at the place of destination that were for the seller's account under the contract of carriage;

c) Where applicable, the costs of customs formalities necessary for export, as well as all duties, taxes and other charges payable upon export, and the costs for their transport through any country that were for the seller's account under the contract of carriage.

D. Allocation of Costs

The buyer must, subject to the provisions of A3 a), pay

a) all costs relating to the goods from the time they have been delivered as envisaged in A4, except, where applicable, the costs of customs formalities necessary for export, as well as all duties, taxes, and other charges payable upon export as referred to in A6 c);

b) All costs and charges relating to the goods while in transit until their arrival at the agreed place of destination, unless such costs and charges were for the seller's account under the contract of carriage;

c) Unloading costs, unless such costs were for the seller's account under the contract of carriage;

d) Any additional costs incurred if the buyer fails to give notice in accordance with B7, from the agreed date or the expiry date of the agreed period for dispatch, provided that the goods have been clearly identified as the contract goods;

e) Where applicable, all duties, taxes and other charges, as well as the costs of carrying out customs formalities payable upon import of the goods and the costs for their transport through any country, unless included within the cost of the contract of carriage.

E. Notices to the Seller

The buyer must, whenever it is entitled to determine the time for dispatching the goods and/or the named place of destination or the point of receiving the goods within that place, give the seller sufficient notice thereof.

If customary or at the buyer's request, the seller must provide the buyer, at the seller's expense, with the usual transport document[s] for the transport contracted in accordance with A3.

This transport document must cover the contract goods and be dated within the period agreed for shipment. If agreed or customary, the document must also enable the buyer to claim the goods from the carrier at the named place of destination and enable the buyer to sell the goods in transit by the transfer

of the document to a subsequent buyer or by notification to the carrier.

When such a transport document is issued in negotiable form and in several originals, a full set of originals must be presented to the buyer.

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