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## **INCOTERMS CLAUSES IN TRADE BETWEEN SERBIA AND THE NEIGHBOURING COUNTRIES<sup>1</sup>**

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### **ABSTRACT**

We compared the usage of Incoterms clauses among Serbian exporters and importers in trade with the neighbouring countries and analyse the similarities and differences regarding the clauses and groups of clauses used in trade with different countries. There are many reasons for the choice of a particular Incoterms clause, such as the subjective characteristics of trade partners, business environment, geographic, trade and logistic opportunities and barriers. The similarities and specific variations among country-level preferences toward particular Incoterms clauses and groups of clauses are presented and possible reasons for them are discussed. Geographic distance was excluded as a possible impact factor in the selection of Incoterms clauses, as we considered only the closest countries. The relationship between applied Incoterms clauses and macro-logistic performances, measured as logistics performance index (LPI), was also examined.

**KEY WORDS:** Incoterms clauses; Serbia; Balkan region; local drivers and impediments.

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<sup>1</sup> Original scientific article

## INTRODUCTION

Today, almost all international sale contracts include an Incoterms clause, which clearly determines division of responsibility for delivery of goods between trade parties. Hence, exploring the characteristics and the nature of applied terms have a crucial importance for the logistics sector. Applied clauses may reflect some opportunities and impediments in trade between countries. They may refer to macroeconomic environment, like the administrative, political, economic, geographical and logistic characteristics of the country. They may also reflect firms' policy, habits and skills.

While a significant amount of the literature body explores the relationship between international trade and logistics, the role of Incoterms clauses and their relationship with opportunities and impediments in international trade is almost neglected. The purpose of this paper is to explore the characteristics of Incoterms clauses used in trade between Serbia and neighbouring countries, to reveal the regularities, if any, and their possible impact factors. The selected country-level preferences related to the usage of Incoterms terms will be analysed and discussed. A comprehensive one-year database of international trade flows between Serbia and neighbouring countries is analysed for the purposes of this research.

The rest of the paper is organized as follows. In the second section, Incoterms clauses, their role and significance for international trade are briefly presented. In the third section, the impact factors on the choice of Incoterms clauses are identified and discussed, and the literature gap is highlighted. The methodology is briefly presented in the fourth section. The fifth section contains results and discussion; final remarks are given in the last Section.

## THE IMPACT FACTORS OF THE SELECTION OF INCOTERMS CLAUSES IN SALE CONTRACTS

### Incoterms clauses

Incoterms® rules have been developed since 1936 by the International Chamber of Commerce. Up to date, there were seven revisions and the current version is Incoterms®2010. This is a set of three-letter trade terms which clearly determine division of risks, costs and tasks in international delivery between trade parties (ICC, 2010). The Incoterms®2010 consists of 11 rules, whereby seller's obligations gradually increase from E, over F and C to D rules. However, the place denoted by the contract rule (e.g., EXW Novi Sad) eventually sets the point of transfer obligation. The clauses are as follows:

EXW [Ex-Works at seller's named place of business]  
FCA [Free Carrier at seller's named place of dispatch]  
CPT [Carriage Paid To buyer's named destination]  
CIP [Carriage, Insurance Paid to buyer's named destination]  
DAP [Delivered At buyer's named Place]  
DAT [Delivered At buyer's named Terminal]  
DDP [Delivered Duty Paid to buyer's named place of]  
FAS [Free Alongside Ship at seller's named port]  
FOB [Free On Board at seller's named port]  
CFR [Cost and Freight paid to buyer's named port]  
CIF [Cost, Insurance, Freight paid to buyer's named port].

The first seven of the eleven clauses can be used in all transport modes and in multimodal transport, whereas the remaining four can be used only in sea and inland waterway transport.

### The factors influencing Incoterms clause choice

Many factors impact the choice of Incoterms clauses in a particular case. They are related to the logistics performances and overall business environment in trade countries, risks in delivery, habits of companies involved in trade and their capability and willingness to take responsibility for delivery, goods and cargo

characteristics, etc. (David, 2013; Gardner, 2012, Schaefer, 2017, Stojanović, 2017). The impact factors can be classified into several levels:

- goods level (volume, type, price, packaging);
- sale contract companies level (willingness and capability to organize delivery, habits, policy etc.);
- supply chain level (logistics performances of all parties involved in the supply chain, risks and opportunities throughout the supply chain);
- trade countries' level (geographic positions, economic development, connectivity and infrastructure, political relations, market access and administrative barriers, language, culture, business environment).

The particular combination of the factors influences the company decision in every single case. Still, there are general preferences which could be recorded on company, national and international level. The usage of particular clauses in sale contracts is an underresearched topic. Among rare exceptions is the work of del Rosal (2016) who found out that Spanish exporters' most used terms in seaborne trade were EXW and FOB in export (almost 75%), and FOB and CIF in import (73%). In the practice guide published by UNDP (UNDP, 2016), it is pointed out that the eight terms out of thirteen were widely used in Incoterms 2000, namely, EXW, FCA, FOB, all four C terms and DDU. However, with our best we couldnot find any paper exploring the usage of Incoterms terms in a landlocked country, and between neighbouring countries.

## METHODOLOGY

A dataset of the Incoterms clauses used in 2016 was obtained from the Customs Administration of the Republic of Serbia, Ministry of Finance. The total range of the import data was 888 156 transactions with a value of 3 476million US dollars and a gross weight of 5 924thousands of tons. The range of the export data was 788 911 transactions, with a value of 4.021million US dollars and gross weight of 8.978thousands of tons.

Descriptive statistics is used to get an insight into regularities in the usage of Incoterms clauses in import and export from Albania (AL),Bosnia and Herzegovina (BA), Bulgaria (BG),Croatia (HR), Hungary (HU), Montenegro (ME), Macedonia (MK) andRomania (RO).

We analysed the frequency of the usage of particular clauses in international sale contracts in bilateral trade between Serbia and surrounding countries. More specifically, we examined the possible role of the existing infrastructure (i.e. the presence of the international inland waterways, European corridors) and the overall country level logistics performance, expressed as the logistics performance index (LPI). A starting premise was that they may impact on the choice of Incoterms clauses.

Some clauses may be used only in waterway transport, and their share in total volume of trade could show the role of waterway transport and division of related obligations between parties in international trade. Inland waterway class, ports development and type of goods in bilateral trade may strongly impact on the usage of waterway clauses.

The values of LPI were also included into analysis. They comprise both logistics and macroeconomic characteristics of the country (Korinek and Sourdin, 2011, Civelek et al., 2015, D'Aleo and Sergi, 2017), and therefore we excluded the later from further analysis. We also excluded the culture and geographic distance from further analysis, because it was supposed that such barriers do not have a relevant impact on the choice of clauses in this case. In the similar way, we excluded administrative barriers, because Serbia has the trade agreements with all other countries (i.e. CEFTA with the non-EU countries and SAA between the EU countries and Serbia). Thus, the selected country-level factors which could influence the Incoterms clauses choice are shown in Table 1.

Table 1. Selected country-level impact factors on Incoterms clauses selection (Source for LPIs: Arvis et al., 2016)

Country	ME	AL	MK	BA	RS	BG	RO	HR	HU
LPI	2,38	2,41	2,51	2,60	2,76	2,81	2,99	3,16	3,43
Waterway connections	No	No	No	Yes	-	Yes	Yes	Yes	Yes
PAN-E corridors	No	No	X	No	-	VII, X	VII	VII	VII, X

## RESULTS AND DISCUSSION

Table 2 shows shares of groups of clauses in gross weight for the total annual trade of Serbia, and trade with neighbouring countries. More similarities could be observed in share distribution between two groups in export than in import. Differences in shares of F and C clauses between total trade and trade with countries in the region in import exceeded 10%. However, in both cases in export F clauses significantly prevailed. In import from the countries in the region, F and D clauses have the similar shares (32,59% and 29,57% respectively).

C clauses are the specific ones because the place of delivery may be either out, or in the import country. However, in the small and neighbouring countries, the place of delivery in C clauses should rather be in the import countries, because they include the main carriage. It could be supposed that on such short delivery distances, E and F clauses imply the Incoterms term place in the seller's country, while the C and D clauses should mostly have the place of delivery in buyer's country.

Table 2. Share of groups of clauses in international sale contracts in Serbia, in gross weight in 2016

Groups of clauses		<b>E</b>	<b>F</b>	<b>C</b>	<b>D</b>
World	<b>import</b>	20,31%	20,96%	33,97%	24,76%
	<b>export</b>	13,12%	53,80%	17,14%	15,94%
Region	<b>import</b>	15,43%	32,59%	21,02%	29,57%
	<b>export</b>	14,33%	57,97%	14,84%	12,34%

In the next step, we considered different metrics for share of Incoterms clauses. Figure 1 and Figure 2 show the significance of particular Incoterms clauses measured in the gross weight of transported goods, the value and the number of transactions, in import and export respectively. Such approach reveals the great difference in the usage of particular clauses within some groups.

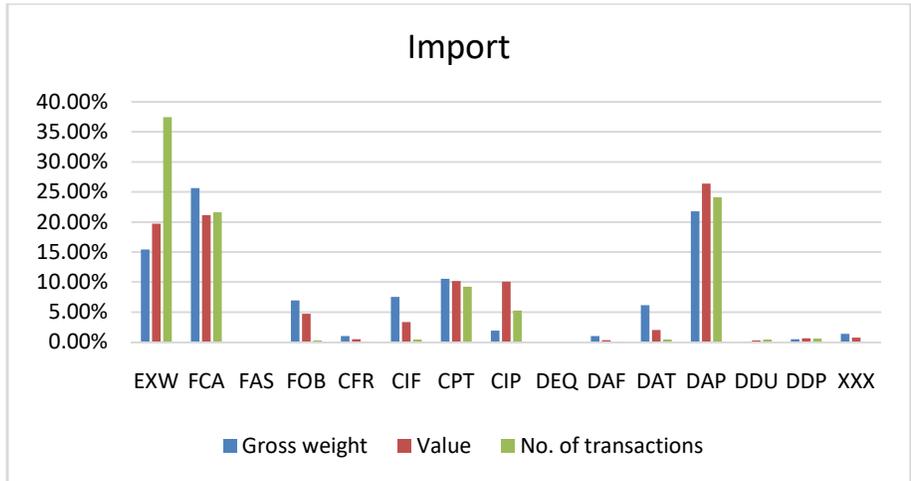


Figure 1. Share of clauses in import, measured in gross weight, value and transactions in 2016.

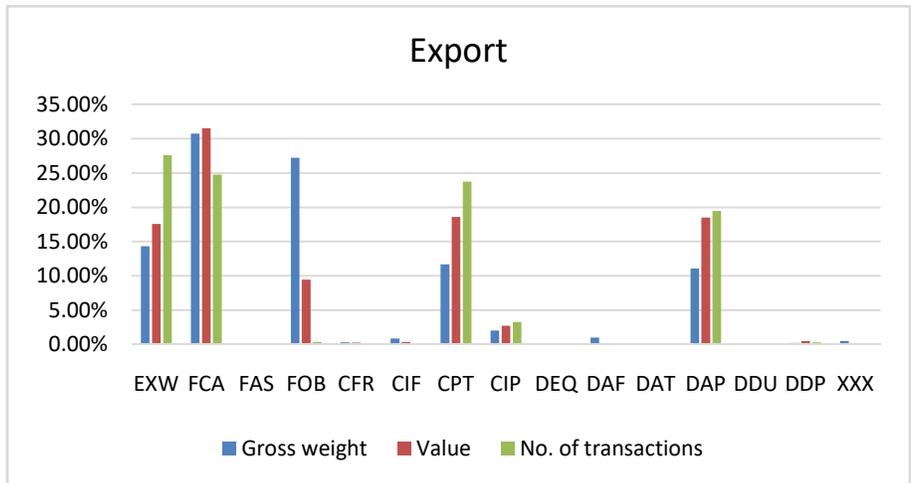


Figure 2. Share of clauses in export, measured in gross weight, value and transactions, in 2016.

The most popular clauses in import are EXW, FCA and DAP according to all metrics. In export, we can add CPT and FOB to the previous three clauses. The

common characteristics of F clauses in both directions is that the share of the gross weight exceeds the share of value and the number of transactions (the number of sale contracts). It probably means that the F clauses are more frequently used in the trade of cheaper goods, transported as bigger shipments, than other clauses. Also, both in import and export, EXW is the single most used clause in the sale contracts. This is partly consistent with the research of delRosál (2016), who found out that Spanish exporters used EXW in 30% of trade contracts, as the single most used clause in seaborne trade. Another observation is that EXW seems to be one of the most popular clauses irrespective of the transport modes, distance and country geographic position.

In export, E and F clauses, where exporter does not have obligation for the main carriage, slightly prevailed over the C and D clauses in transported tons (72%), value (59%) and number of transactions (53%). In import, the shares are even more balanced; E and F clauses had a share of 48% in transported tons, 46% in value of goods, but still prevailed in the number of transactions (59%). Again, it seems that exporters in the region prefer to let to importers the most of obligations related to delivery. On the other side, if we suppose that the buyer has more power in sale contract, buyers are also willing and capable to accept obligations related to delivery.

The most detailed distribution of particular clauses for each country is shown in Figures 3 and 4 for import and export respectively. The countries are sorted according to values of their LPIs. We could see that FOB clause is used whenever countries have international waterway connections with Serbia. Among such countries, there is a great variety in goods transported under FOB clause. The FOB clause is dominantly used in trade with Romania, compared with other countries, as well as compared with other clauses in trade with Romania. The corridor VII obviously supports this choice. However, the other countries on the river Danube did not record such significant role of FOB clause, which is probably related to the type of goods in trade. Interestingly, the same countries which use FOB clause mostly have higher LPIs than Serbia, with exception of Bosnia and Herzegovina.

Finally, we compared preferences for the obligations on the main carriage, e.g. the usage of C and D clauses with logistics performances of observed countries. We focused on the volume of transported goods, as the most relevant indicator for logisticians. The simple relationship between LPI of trade countries and used groups of clauses was not found out. Among the countries which do not belong to EU, Serbia has the highest LPI. Still, it seems that LPIs do not have a significant impact on the logistics obligations regarding delivery in sale contracts.

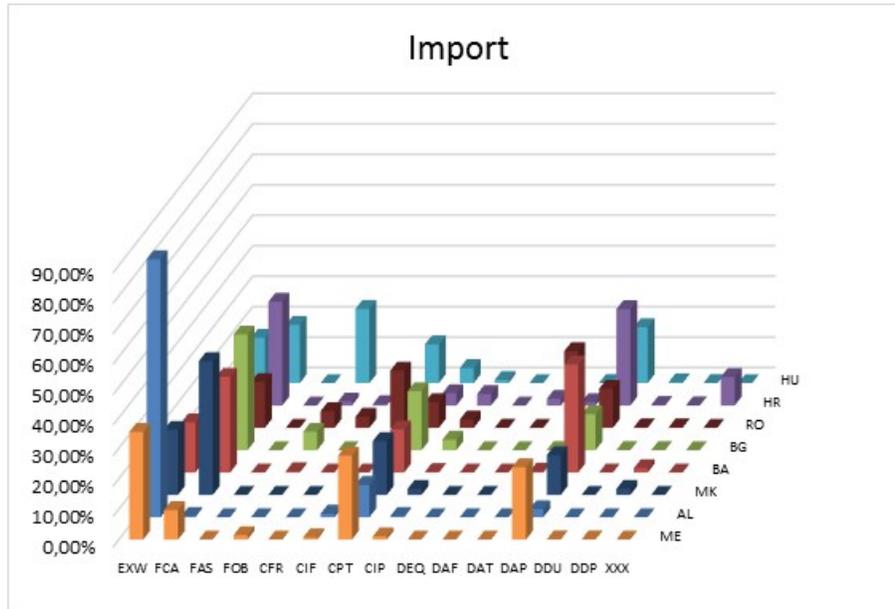


Figure 3. Shares of Incoterms clauses in import to Serbia from all countries in gross weight in 2016.

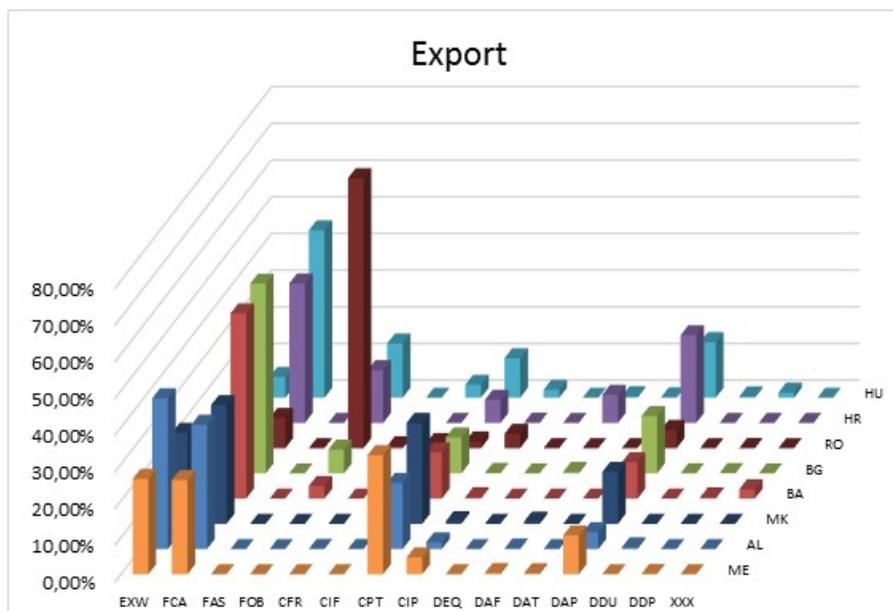


Figure 4. Shares of Incoterms clauses in export from Serbia to all countries in gross weight in 2016.

## CONCLUSION

We explored the usage of Incoterms clauses in international sale contracts between Serbia and neighbouring countries. The special focus was on the impact of selected country-level factors on used clauses, i.e. the natural geographic characteristics (waterway connections), developed road infrastructure (primarily measured through existing Pan-European corridors) and logistics performance index.

The first two indicators mostly interfere with the higher values of average LPI. Naturally, the waterways clearly directly impact the usage of waterway clauses, particularly FOB. The relationship between the values of LPI and preferences in usage of the particular clauses or groups of clauses was not found. In general, Serbian exporters prefer to let the buyers in neighbouring countries to organize

delivery; in import, the results are more complex, but still the obligation for the main carriage cannot be clearly related to LPs. It seems that opportunities and impediments which impact the clause selection in trade between Serbia and neighbouring countries are more related to another three levels given in the second Section, i.e. goods, supply chain and company characteristics. The obvious frequency of E clause is probably most related to the company level characteristics, i.e. skills and habits of trade parties, supported by logistics companies' performances and business environment. It should be also noted that the sale contract logistics obligations mostly indicate the extent of the usage of domestic logisticians, but not necessarily. For example, in the neighbouring countries and especially on shorter distances, there is also a possibility to engage carriers from another country. An additional limitation of this research is that the places of delivery, which also have to be indicated with the terms of delivery in the sale contracts, were not included into the analysis. Theoretically, it could be important mostly for the C clauses, as discussed in the previous section.

With our best we could not find any other similar research, which explores the preferences in the usage of Incoterms clauses in a landlocked country. Moreover, we tried to connect these preferences with selected country-level characteristics. We found that only the presence of international waterways and related infrastructure clearly impact seller's obligations and selection of clauses in delivery. Road infrastructure and LPs (which also comprise logistics infrastructure) seem to be overshadowed by other factors which impact the choice of Incoterms clause in sale contracts, given in the second Section. Further research could provide more insights about the usage of Incoterms clauses, their relationship with the country-level logistics performances and impact of different opportunities and barriers on sale contract parties' decision.

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