

Incoterms[®]

2020 by the International Chamber of Commerce (ICC)

Incoterm 2020, replaces the incoterm 2010. The new changes came into force as at 1st January 2020. The revisions to the rules have been produced by the ICC Drafting Group, which was made up of eight members from Australia, China, EU member states, Turkey, and the USA.

The Inco-terms[®] (abbreviation of International commercial terms) rules developed by the International Chamber of Commerce (ICC) was created as an industry standard to facilitate international trade and for the interpretation of the trade terms that the parties to a contract of sale could agree to apply.

Currently in its 8th version, Inco-terms[®] was first introduced in 1936 and as global trade developed and evolved, the Inco-terms[®] rules were also revised in 1957, 1967, 1976, 1980, 1990, 2000, 2010 and 2020 to accommodate changes in global trade.

Today, these rules form an essential part of day to day international trade as well as domestic trades and they form an integral part of many sales contracts worldwide. It is important to remember that “Inco-terms” is not a generic name for international trade terms but is a trademark used to designate the rules devised by ICC.

There are 11 Inco-term rules in circulation currently.

They are divided into two classes:

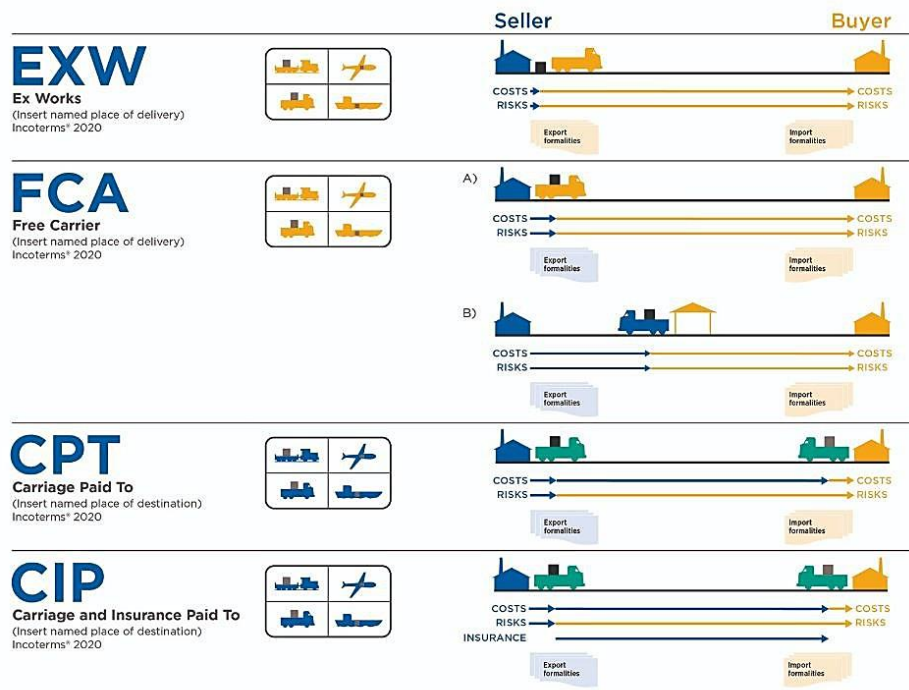
Rules for Any Mode of Transport

- a) EXW (EX WORKS)
- b) FCA (FREE CARRIER)
- c) CPT (CARRIAGE PAID TO)
- d) CIP (CARRIAGE AND INSURANCE PAID TO)
- e) DPU (DELIVERED AT PLACE UNLOADED)
- f) DAP (DELIVERED AT PLACE)
- g) DDP (DELIVERED DUTY PAID)

Rules for Sea and Inland Waterway Transport

- a. FAS (FREE ALONGSIDE SHIP)
- b. FOB (FREE ON BOARD)
- c. CFR (COST & FREIGHT)
- d. CIF (COST INSURANCE & FREIGHT)

RULES FOR ANY MODE OR MODES OF TRANSPORT



ANY MODE OF TRANSPORT

a) EXW (EX WORKS)

EXW “Ex Works” means that the seller delivers when it places the goods at the disposal of the buyer at the seller’s premises or at another named place (i.e., works factory, warehouse, etc.).

The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.

In simple terms, if you are the buyer and you are buying the goods from the seller on EXW terms, you will need to send your truck to the seller’s premises and collect the cargo from there and take care of all the other shipping requirements to get it to your destination.

Officially the shipper is NOT obliged to do anything other than provide you access to the cargo.

Key roles of the seller under EX WORKS is to prepare the commercial invoice, arrange for packaging according to buyers requirements, ensures the goods are of good quality and to mark/ label the cargo. Insurance remains negotiable as no party is obliged to pay it.

b) FCA (FREE CARRIER)

In incoterm 2020, FCA rule now contains an additional element relating to bills of lading. In which the buyer and seller agree that the buyer's carrier will issue an on-board bill of lading to the seller after loading, which the seller will then tender to the buyer (likely through the banking chain).

This is designed to overcome the issue that, under the old FCA rule, delivery was completed before the loading of the goods on board the vessel, which prevented the seller from obtaining an on-board bill of lading.

The risk is transferred when;

- The seller loads the goods to the buyer's carrier
- The goods are at the buyer's disposal and ready for unloading at a named place

Roles of the seller under FCA

- Prepares commercial invoice
- Ensures proper packaging, labeling and good quality of the goods
- Loads goods to buyer's carrier
- Pays export duty and taxes

Roles of the buyer under FCA

- Pays terminal handling charges both at the port of origin and destination.
- Pays freight charges
- Bears the risk and cost of delivery up to his/her premises
- Pays import duties and taxes at the port of discharge

c) CPT (CARRIAGE PAID TO)

Means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

The risk is transferred from the seller to the buyer when the goods are handed over to the seller's nominated carrier at a named place.

Explanation of the term In a CPT transaction the seller is obliged to deliver the goods to the agreed destination. This agreed destination in CPT term could be any place expressly agreed between the buyer and seller and will most commonly be an overseas destination.

Roles of the seller under CPT

- Prepares commercial invoice
- Ensures proper packaging, labeling and good quality of the goods
- Performs loading and inland delivery of cargo
- Pays export duties and taxes
- Pays terminal handling charges at the port of origin
- Pays the freight charges.

Roles of the buyer under CPT

- Pays terminal handling charges at the port of destination
- Bears the unloading cost at the destination
- Bears the cost and risk of delivery to final destination
- Pays the import duty and taxes

d) CIP (CARRIAGE INSURANCE PAID TO)

Definition of the term "Carriage and Insurance Paid to" means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between the parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination

Under this incoterm the risk is transferred from the seller to the buyer when the goods are handed over to the seller's nominated carrier at a named place.

However, in CIP trades the level of minimum insurance has been increased to that complying with Clauses (A) of the Institute Cargo Clauses (ICC) meaning "all risks" cover, subject to exclusions.

Roles of the seller under CIP

- Bears the all the risk of insurance of the goods up to the named destination
- Bears the cost of carriage of goods up to the named destination
- Prepares commercial invoice
- Ensures proper packaging, labeling and good quality of the goods
- Performs loading and inland delivery of cargo
- Pays export duties and taxes
- Pays freight charges

Roles of the buyer under CIP

- Pays terminal handling charges at the port of destination
- Bears the unloading cost at the destination
- Bears the cost and risk of delivery to final destination
- Pays the import duty and taxes

e) (DPU) DELIVERED AT PLACE UNLOADED

It was formerly known as Delivered at Terminal (DAT) but it has been revised to DPU to reflect that the destination can be any place and not just a terminal.

It means that the seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named place.

Roles of the seller under DPU

- The seller must do the export clearance formalities
- Pay for the transportation from his door to the named place including freight charges
- Enter into relevant contracts of carriage with the various carriers up to the named place
- Take care of any and all export permits, quotas, special documentation, etc. relating to the cargo
- All risk up to the agreed point of delivery
- Must ensure that the goods arrive at the agreed place.
- Pays terminal handling charges at the port of destination
- Pays for unloading charges at the point of destination
- Bears the cost of delivery up to agreed destination

Roles of the buyer under DPU

- Bears the import duty and taxes

f) DAP (DELIVERED AT PLACE)

Means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

Roles of the seller

- Do the export clearance formalities
- Pay for the transportation from his door to the agreed destination
- Enter into relevant contracts of carriage with the various carriers up to the name destination including any on-carriages applicable

- Take care of any and all export permits, quotas, special documentation, etc. relating to the cargo
- All risk up to the agreed point of delivery
- Must ensure that the goods actually arrive at the destination
- Pays freight charges
- Pays terminal handling charges both at the port of loading and port of discharge

Roles of the Buyer

- Pays import duty and taxes at the port of destination
- Bears the unloading charges at the port of destination

g) DDP (DELIVERD DUTY PAID)

Means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination.

The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

Explanation of the term DDP may be considered as a term at the other end of the trade spectrum in terms of obligations as compared to EXW where the buyer has the maximum obligation. In DDP, the seller has the maximum obligation as it involves the delivery of the goods to the buyer at the agreed destination.

So, if you are the buyer buying on DDP basis, you can take a seat and relax while **the seller will:**

- Do the export clearance formalities
- Pay for the transportation from his door to the agreed destination including freight charges.
- Enter into relevant contracts of carriage with the various carriers up to the agreed destination including any on-carriages applicable
- Take care of any and all export permits, quotas, special documentation, etc. relating to the cargo
- Cover all risk up to the agreed point of delivery
- Ensure that the goods actually arrive at the destination
- Take care of customs clearance formalities at the destination port(s), pay the duty, VAT and other local charges applicable

Roles of the buyer

- To unload the goods the destination

RULES FOR SEA AND INLAND WATERWAY TRANSPORT

a. FAS (FREE ALONGSIDE SHIP)

Means that the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment.

The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.

FAS term is more suitable for non-containerized cargo because, in a containerized shipment, the containers cannot be delivered alongside the ship but rather at a container terminal. For containerized shipments FCA (Free Carrier) maybe more suitable

Roles of the seller under FAS

- Handle the export clearance formalities for shipment
- Pay for the transportation from his door to the agreed port, terminal, quay or ship
- Enter into relevant contracts of carriage with the various carriers including any pre-carriages applicable up to the agreed port, terminal, quay or ship
- Take care of any and all export permits, special documentation, etc. relating to the cargo
- Pays the export duties

Roles of the buyer under FAS

- Obligated to organize suitable contract of carriage with the most suitable carrier
- The loading of the goods on the ship
- Bears all cargo handling charges at port of origin and destination
- Pays the freight charges
- Bears the import duties and taxes at the port of destination
- Bears the cost and the risk of moving the goods up top destination
- Bears the cost of unloading

b. FOB (FREE ON BOARD)

Means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered.

The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

In FOB, the seller has the obligation to deliver the goods on board the ship. Since in FOB, goods have to be delivered on board, it may not be appropriate for goods which are handed over to the carrier before they are loaded on board, like containerized shipments.

It is still used by most people to refer to cargo for which freight is collected at the destination and where the contract of carriage is fixed by the buyer

FOB term has some extensions such as “**Stowed**”, “**Stowed and Trimmed**”, etc. which are designed to ensure that the seller completes the activity of loading.

These are used when trading in cargoes such as grain or minerals which may cause stowage issues if it is left untrimmed or cargoes such as pipes, logs, which may also cause stowage issues if it is left unstowed.

Roles of the seller under FOB

- Handle the export clearance formalities for shipment
- Pay for the transportation from his door till the goods are loaded on board a ship
- Enter into relevant contracts of carriage with the various carriers including any pre-carriages applicable up to the agreed point
- Take care of any and all export permits, quotas, special documentation, etc. relating to the cargo
- Cover all risk up to the agreed point of delivery

Roles of the buyer under FOB

- Pays the freight charges
- Bears the import duties and taxes at the port of destination
- Bears the cost and the risk of moving the goods up to destination
- Bears the cost of unloading

c. CFR (COST AND FREIGHT)

Means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel nominated by the seller at origin.

The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

In a CFR transaction the seller is obliged to arrange for the movement of the cargo to the named destination, and since CFR may be used only for waterway transport, this destination must be a destination accessible through waterways.

The “risk” passes from seller to buyer once the seller delivers the cargo on board the performing vessel, whereas the costs up to the named destination will still be for the seller.

Roles of the seller under CFR

- Pays export duties and taxes
- Pay for the transportation from his door to the named and agreed destination and enter into relevant contract of carriage with the various carriers
- Take care of any and all export permits, quotas, special documentation, etc. relating to the cargo
- Pay for the terminal handling charges at the port of origin
- Ensures loading and inland delivery of cargoes to the named destination.

Roles of the buyer under CFR

- Pays terminal handling charges at the destination
- Bears the cost and risk of delivery to final destination
- Bears the unloading charges at the destination
- Pays the import duties and taxes

d. CIF (COST, INSURANCE AND FREIGHT)

Means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel nominated by the buyer at origin.

The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

The “risk” passes from seller to buyer once the seller delivers the cargo on board the performing vessel, whereas the costs up to the named destination will still be for the seller.

Under the new incoterm 2020, the level of minimum insurance in CIF has diverged. CIF terms continue to require the seller to obtain cargo insurance complying with Clauses (C) of the LMA/IUA Institute Cargo Clauses.

Roles of the seller under CIF

- Bears the minimum insurance cover but is free of ‘particular average’
- Pays export duties and taxes
- Pay for the transportation from his door to the named and agreed destination and enter into relevant contract of carriage with the various carriers
- Take care of any and all export permits, quotas, special documentation, etc. relating to the cargo
- Pay for the terminal handling charges at the port of origin

Roles of the buyer under CIF

The buyer takes care of;

- Any transport movement past the agreed place of destination including on-carriage etc
- The risk from the time the seller delivers the cargo on board the ship
- Any and all import permits, quotas, special documentation, etc. relating to the cargo
- Import customs clearance and all related formalities

Note

Incoterms 2020 contain six significant changes from Incoterms 2010:

1. The FCA rule now contains an additional element relating to bills of lading. Under this option, the buyer and seller agree that the buyer’s carrier will issue an on-board

bill of lading to the seller after loading, which the seller will then tender to the buyer (likely through the banking chain). This is designed to overcome the issue that, under the old FCA rule, delivery was completed before the loading of the goods on board the vessel, which prevented the seller from obtaining an on-board bill of lading. This caused difficulties because on-board bills of lading are often required by banks before making payment under letters of credit and therefore the FCA rule was revised to take account of this market reality.

2. Costs are now consistently listed in A9 (seller's obligations) and B9 (buyer's obligations), providing a "one-stop list of costs" for each rule. This new consolidated costs section appears in addition to the allocation of cost under the relevant obligation. For example, in an FOB sale, the costs involved in obtaining the delivery/transport document appear in both A6/B6 and A9/B9.
3. The level of minimum insurance in CIF and CIP terms has diverged. CIF terms continue to require the seller to obtain cargo insurance complying with Clauses (C) of the LMA/IUA Institute Cargo Clauses. However, in CIP trades the level of minimum insurance has been increased to that complying with Clauses (A) of the Institute Cargo Clauses (meaning "all risks" cover, subject to exclusions).
4. Provision has been made for the seller or buyer to employ their own means of transportation rather than employing a third party carrier, as was assumed in the Incoterms 2010. The changes are reflected in the FCA, DAP, DPU and DDP rules.
5. The DAT (Delivered at Terminal) rule has been renamed DPU (Delivered at Place Unloaded). This is to reflect that the destination can be any place and not just a terminal.
6. An express allocation of security-related obligations has been added to A4 and A7 of each Incoterm, the costs of which are included in A9/B9. For example, A4 of the FOB Incoterm states "The seller must comply with any transport-related security requirements up to delivery". These provisions reflect the increasing prevalence of concerns relating to security in international trade.

Disclaimer! This is just a brief guide to incoterm 2020. For full understanding refer to [ICC INCOTERM 2020](#).