

# Incoterms<sup>1</sup>

## ❖ What are Incoterms rules?

The Incoterms rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms rules are there to guide you. The Incoterms rules provide specific guidance to individuals participating in the import and export of global trade on a daily basis.

## ❖ Who publishes the Incoterms rules?

Since its founding in 1919, ICC has been committed to the facilitation of international trade.

Different practices and legal interpretations between traders around the world necessitated a common set of rules and guidelines. As a response, ICC published the first Incoterms rules in 1936. We have been maintaining and developing them ever since.

As ICC celebrates its Centenary in 2019, the world business organization is pleased to announce the publication of Incoterms 2020. The newest edition of the Incoterms rules will help prepare business for the next century of global trade.

## ❖ Why use Incoterms rules in international trade?

Although other clauses for global trade exist around the world, such as the Harmonized Tariff Schedule of the United States, Incoterms rules are global in their reach. Similarly, Incoterms rules do not include trade terms codified for national purposes, such as the "less than truckload shipping" (LTL) rule of the United States. Unlike national trade policies, Incoterms rules are universal, providing clarity and predictability to business.

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<sup>1</sup> International Chamber of Commerce (ICC), "INCOTERMS® RULES", available at <https://iccwbo.org/resources-for-business/incoterms-rules/> , consulted at 10/06/2020.

## ❖ What does “Incoterms” stand for?

“Incoterms” is an acronym standing for international commercial terms. “Incoterms” is a trademark of International Chamber of Commerce, registered in several countries.

The Incoterms rules feature abbreviations for terms, like FOB (“Free on Board”), DAP (“Delivered at Place”) EXW (“Ex Works”), CIP (“Carriage and Insurance Paid To”), which all have very precise meanings for the sale of goods around the world.

These terms hold universal meaning for buyers and sellers around the world.

ICC last updated the Incoterms rules in 2019. While Incoterms 2020 is the most current version of the trade terms, Incoterms 2010 is still in effect today.

The most common incoterms are the following:

### **RULES FOR ANY MODE OR MODES OF TRANSPORT**

- **EXW – Ex Works**

“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.

- **FCA – Free Carrier<sup>2</sup>**

“Free Carrier” means that the seller delivers the goods to the carrier or another person nominated by the buyer at the seller’s premises or another named place. The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

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<sup>2</sup> Free Carrier (FCA) has been revised for *Incoterms® 2020* to cater to a situation where goods are sold FCA for carriage by sea and buyer or seller (or either party’s bank) requests a bill of lading with an on-board notation. FCA in article A6/B6 now provides for the parties to agree that the buyer will instruct the carrier to issue an on-board bill of lading to the seller once the goods have been loaded on board, and for the seller then to tender the document to the buyer (often through the banks).

- **CPT – Carriage Paid to**

“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.

- **CIP – Carriage and Insurance Paid to**

“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 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 seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

- **DAT – Delivered at Terminal<sup>3</sup>**

“Delivered at Terminal” 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 terminal at the named port or place of destination. “Terminal” includes a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

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<sup>3</sup> In *Incoterms® 2020* the former Delivered at Terminal (DAT) has been changed to Delivered at Place Unloaded (DPU) to emphasize that the place of destination can be any place and not just a “terminal,” and to underscore the sole difference from Delivered at Place Unloaded (DPU) – under DAP the seller does not unload the goods, under DPU, seller does unload the goods. And since delivery under DAP happens before unloading, *Incoterms® 2020* presents the newly named DPU after DAP.

- **DAP – Delivered at Place**

“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.

- **DDP – Delivered Duty Paid**

“Delivered 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.

## **RULES FOR SEA AND INLAND WATERWAY TRANSPORT**

- **FAS – Free Alongside Ship**

“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.

- **FOB – Free On Board**

“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.

- **CFR – Cost and Freight**

“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. the seller must contract

for and pay the costs and freight necessary to bring the goods to the named port of destination.

- **CIF – Cost, Insurance and Freight**

“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. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.