

# INCOTERMS 2020



Your Single Window Logistics Service Partner

## INCOTERMS 2020

**INCOTERMS** are drafted by International Chamber of Commerce (ICC) to facilitate International Trade with a set of uniform rules and regulation defining the rights and obligation of Buyer/Consignee and Seller/Shipper in International transaction.

For business terminology to be effective, phrases must mean the same thing throughout the industry. That is why the International Chamber of Commerce created "INCOTERMS" in 1936. **INCOTERMS** are designed to create a bridge between different members of the industry by acting as a uniform language they can use.

Each **INCOTERM** refers to a type of agreement for the purchase and shipping of goods internationally. There are 11 different terms, each of which helps users deal with different situations involving the movement of goods/cargo.

It defines the trade contract responsibilities and liabilities between Buyer and Seller

**INCOTERMS** enable Buyer & Seller to decide which is the most suitable for his or her needs basis of making a contract. The main objectives of **INCOTERMS 2010** revolve around the contract of Foreign Trade concerned with the Loading, Transport, Insurance and Delivery transactions. Its main function is the distribution of goods and regulation of transport charges.

## INCOTERMS 2020

### Why INCOTERMS ???

Language is one of the most complex and important tools of International Trade. As in any complex and sophisticated business, small changes in wording can have a major impact on all aspects of a business agreement.

The Exporter and the Importer need not undergo a lengthy negotiation about the conditions of each transaction. It is essential for Shippers to know the exact status of their shipments in terms of ownership and responsibility. It is also vital for Sellers & Buyers to arrange Insurance on their goods while the goods are in their "legal" possession. Lack of Insurance can result in wasted time, lawsuits, and broken relationships. Once they have agreed on a commercial term like FOB, CIF they can sell and buy at FOB , CIF without discussing who will be responsible for the Freight, Cargo Insurance, Customs Clearance, Transportation and other costs and risks.

- Obligations between buyer and seller.
- Risks – when the risk is transferred from seller to buyer
- Costs – for whose account at which stage
- Delivery of Goods
- Insurance
- Export / Import Clearane
- Shipping Documents

# What Incoterm Rules **do not do**

- Rules are not substitute to 'contract of sale' though it is a part of 'contract'

## **Do not deal with:**

- Specification of goods
- Payment terms – when, where, how much to be paid and in which currency to be settled
- Remedies for breach of contract
- Method, venue or law of dispute resolution in case of such breach of contract
- Consequences of delay in delivery
- Imposition of tariffs
- Imposition of prohibitions for entry of goods.
- Intellectual Property Rights
  - ▶ **Transfer of property**
  - ▶ **Transfer of title**
  - ▶ **Transfer of ownership of the goods sold**

# INCOTERMS From 2010 to 2020

## ▶ Terms in 2010

- ▶ EXW
- ▶ FCA
- ▶ CPT
- ▶ CIP
- ▶ **DAT - DROPPED**
- ▶ DAP
- ▶ DDP
- ▶ FAS
- ▶ FOB
- ▶ CFR
- ▶ CIF

## ▶ Terms in 2020

- ▶ EXW
- ▶ FCA
- ▶ CPT
- ▶ CIP
- ▶ DAP
- ▶ **DPU – New term introduced**
- ▶ DDP
- ▶ FAS
- ▶ FOB
- ▶ CFR
- ▶ CIF

## International Commercial Terms ( INCOTERMS 2020)

GROUP	TERM	Stands for
E	EXW	<u>Ex Works</u>
F	FCA	<u>Free Carrier</u>
	FAS	<u>Free Alongside Ship</u>
	FOB	<u>Free On Board</u>
C	CFR	<u>Cost and Freight</u>
	CIF	<u>Cost, Insurance and Freight</u>
	CPT	<u>Carriage Paid To</u>
	CIP	<u>Carriage and Insurance Paid To</u>
D	DPU	<u>Delivered At Place Unloaded</u>
	DAP	<u>Delivered At Place</u>
	DDP	<u>Delivered Duty Paid</u>

# Ex. Works (EXW)

- One of the simplest and most basic shipment arrangements places the minimum responsibility on the Seller with greater responsibility on the Buyer.
- Ex. means from Works means Factory or Warehouse, which is the Seller's premises. EXW terms applies to Goods/Cargo available only at the Seller's premises.
- Buyer is responsible for loading the Cargo on Truck or Container at the Seller's premises, and for the subsequent costs and risks. In practice, it is not uncommon that the Seller loads the Cargo on Truck or Container at the Seller's premises without charging loading fee.
- Seller hand over cargo at his Warehouse to nominated Carrier/Agent by the Buyer. Transportation, Cargo Insurance, Customs Clearance and Carriage/Freight paid by Buyer.
- In L/C or Order, indicate the named place (Seller's premises) after the acronym EXW. For example EXW Vadodara or EXW New Jersey.
- The term EXW is commonly used between the Manufacturer (Seller) and Export-Trader (Buyer), and the Export-Trader resells on other trade terms to the foreign Buyers.

# Free Carrier (FCA)

- In this type of transaction, the Seller is responsible for arranging transportation, but he is acting at the risk and the expense of the Buyer. Where in FOB the Freight Forwarder or Carrier is the choice of the Buyer, in FCA the seller chooses and works with the Freight Forwarder or the Carrier.
- Seller deliver the Cargo/Container to Carrier nominated place by the Buyer after Customs Clearance.
- The delivery of Cargo on Truck, Rail Car or Container at the specified point (depot) of departure, which is usually the Seller's premises, or a named CFS Terminal or into the custody of the Carrier, at Seller's expense. The point (depot) at origin may or may not be a Customs Clearance center.
- Buyer is responsible for the main Carriage/Freight, Cargo Insurance, Import Customs Clearance and other costs and risks. In the Air shipment, technically speaking, goods placed in the custody of an Air Carrier is considered as delivery on board the plane. In practice, many Importers and Exporters still use the term FOB in the Air shipment.
- In the L/C or Order, indicate the point of departure (loading) after the acronym FCA. For example FCA Mumbai and FCA Hong Kong.
- Some manufacturers may use the former terms FOT (Free On Truck) and FOR (Free On Rail) in selling to Export-Traders. The term FCA is also used in the RO/RO (roll on/roll off) services.



# Free Alongside Ship (FAS)

- In these transactions, the Buyer bears all the transportation costs and the risk of loss of goods. FAS requires the Shipper/Seller to clear goods for export, which is a reversal from past practices.
- Seller deliver the cargo alongside the Ship nominated by Buyer at the nominated Port after Customs clearance.
- Goods are placed in the dock shed or at the side of the Ship, on the dock or lighter, within reach of its loading equipment so that they can be loaded aboard the Ship, at Seller's expense. Buyer is responsible for the loading fee, main Carriage/Freight, Cargo Insurance and other costs and risks.
- In the L/C or Order, indicate the Port of Origin (loading) after the acronym FAS. For example FAS Nhava Sheva and FAS New York.
- The FAS term is popular in the break-bulk shipments and with the Importing countries using their own vessels.

# Free On Board (FOB)

- One of the most commonly used and misused-terms, FOB means that the Shipper/Seller uses his Freight Forwarder to move the merchandise to the port or designated point of origin. Though frequently used to describe Inland movement of cargo, FOB specifically refers to Ocean or Inland Waterway transportation of goods. "Delivery" is accomplished when the Shipper/Seller releases the goods to the Buyer's Forwarder.
- Seller load the cargo on Ship after Customs Clearance by Buyer's nominated Port.
- The delivery of goods on board the vessel at the named Port of Origin (loading), at Seller's expense. Buyer is responsible for the main Carriage/Freight, Cargo Insurance, Import Customs Clearance and other costs and risks.
- In the L/C and Order, indicate the port of origin (loading) after the acronym FOB. For example FOB Mumbai and FOB Shanghai.
- Under the rules of the INCOTERMS 1990, the term FOB is used for Ocean Freight only. However, in practice, many Importers and Exporters still use the term FOB in the Air Freight.
- FOB Origin means the Buyer is responsible for the Freight and other costs and risks.

# Cost And Freight (CFR)

- This term formerly known as CNF (C&F) defines two distinct and separate responsibilities. One is dealing with the actual cost of merchandise "C" and the other "F" refers to the Freight charges to a predetermined destination point. It is the Shipper/Seller responsibility to get goods from their door to the port of destination. Many Importers and Exporters worldwide still use the term C&F.
- Shipper/Seller carriage cargo upto nominated port by Buyer at destination.
- Customs Clearance at Origin and Sea Freight to nominated port on Shipper account.
- The delivery of goods to the named port of destination (discharge) at the Seller's expense. Buyer is responsible for the cargo Insurance. Import Customs clearance and other costs and risks on Buyer account.
- In the L/C and Order, indicate the port of destination (discharge) after the acronym CFR. For example CFR New York and CFR Nhava Sheva.
- Under the rules of the INCOTERMS 1990, the term Cost and Freight is used for Ocean Freight only. However, in practice, the term Cost and Freight (C&F) is still commonly used in the Air Freight.

# Cost Insurance And Freight (CIF)

- This arrangement similar to CFR, but instead of the Buyer insuring the goods for the maritime phase of the voyage, the Shipper/Seller will insure the merchandise. In this arrangement, the Seller usually chooses the Forwarder.
- Seller carriage cargo upto nominated port by Buyer at destination.
- Customs Clearance at Origin and Sea Freight to nominated port on Shipper account
- The cargo Insurance and delivery of goods to the named port of destination (discharge) at the Seller's expense.
- Buyer is responsible for the Import Customs Clearance and other costs and risks.
- In the L/C or Order, indicate the port of destination (discharge) after the acronym CIF. For example CIF Shanghai and CIF Singapore.
- Under the rules of the INCOTERMS 1990, the term CIF is used for Ocean Freight only. However, in practice, many Importers and Exporters still use the term CIF in the Air Freight.

# Carriage Paid To (CPT)

- **In CPT transactions the Shipper/Seller has the same obligations found with CIF, with the addition that the Seller has to buy cargo insurance, naming the Buyer as the insured while the goods are in transit.**
- **Seller carriage cargo upto nominated place by Buyer at destination.**
- **Customs Clearance at Origin and Sea Freight to nominated place on Shipper account**
- **The delivery of goods to the named place of destination (discharge) at seller's expense. Cargo Insurance, Import Customs Clearance, payment of Customs Duties and Taxes, and other costs and risks on Buyer account.**
- **In the L/C or Order, indicate the place of destination (discharge) after the acronym CPT. For example CPT Chicago and CPT New Delhi.**

# Carriage And Insurance Paid To (CIP)

- This term is primarily used for multimodal transport. Because it relies on the carrier's insurance, the Shipper/Seller is only required to purchase minimum coverage.
- Seller carriage cargo upto nominated place by Buyer at destination covering insurance also.
- Customs Clearance at Origin and Sea Freight to nominated place on Shipper account.
- The delivery of goods and the cargo insurance to the named place of destination (discharge) at Seller's expense.
- Import Customs Clearance, payment of Customs Duties and Taxes, and other costs and risks on Buyer account.
- In the L/C or Order, indicate the place of destination (discharge) after the acronym CIP. For example CIP Chicago and CIP New Delhi.

# Delivered At Place (DAP)

- This arrangement is basically the same as with DDP, except for the fact that the buyer is responsible for the duty, fees and taxes.
- This term replaced by DDU.
- Seller carriage Cargo/Container upto nominated place (Door) by Buyer at destination.
- Customs Clearance at Origin and Sea Freight to nominated place on Shipper account.
- The seller is responsible for cargo Insurance , Import Customs Clearance, and the delivery of goods to the final point at destination, which is often the project site or buyer's premises.
- Buyer assumes the payment of Customs Duties and Taxes. The seller may opt not to insure the goods at his/her own risks.
- In the L/C or Order, indicate the point of destination (discharge) after the acronym DAP. For example DAP Rotterdam or DAP Vadodara.

# Delivered At Place Unloaded (DPU)

- DPU is replaced by DAT
- Here the Seller's responsibility is to hire a Forwarder to take goods to a named Place, which usually a Warehouse. "Delivery with unloading of Cargo/ Container" occurs at this time.
- Seller responsible for carriage of cargo and deliver at Buyer Warehouse place unloaded at destination.
- Customs Clearance at Origin and Sea Freight to nominated place on Shipper account.
- The delivery of goods to the specified place unloaded at Seller's expense. Buyer is responsible for the Import Customs Clearance, payment of Customs Duties and Taxes, and other costs and risks.
- In the L/C or Order, indicate the point at frontier (discharge) after the acronym DPU. For example DPU California with place and DPU Hong Kong with place.



# Delivered Duty Paid (DDP)

- DDP terms tend to be used in Inter-modal shipments. Whereby, the Shipper/Seller is responsible for dealing with all the tasks involved in moving goods from the manufacturing plant to the Buyer/Consignee's door.
- Seller carriage cargo upto nominated place (Door) by Buyer at destination.
- The seller is responsible for most of the expenses, which include the cargo Insurance, Import Customs Clearance, and payment of Customs Duties and Taxes at the Buyer's end, and the delivery of goods to the final point at destination, which is often the project site or Buyer's premises.
- The seller may opt not to insure the goods at his/her own risks.
- In the L/C or Order, indicate the point of destination (discharge) after the acronym DDP. For example DDP Baltimore with place and DDP Bremen with place.

# Summary

- **Departure (Buyer Obligation)**  
EXW: EX Works
- **Main carriage not paid by Seller (Instructed by Buyer)**  
FCA: Free Carrier  
FAS: Free Alongside Ship  
FOB: Free On Board
- **Main carriage paid by Seller (Seller Choice)**  
CFR: Cost and Freight  
CIF: Cost, Insurance and Freight  
CPT: Carriage Paid To  
CIP: Carriage and Insurance Paid to
- **Arrival ( Responsible by Seller)**  
DAP: Delivered At Place  
DPU: Delivered At Place Unloaded  
DDP: Delivered Duty Paid

EXW; FCA; CPT; CIP; DPU; DAP; DDP : ALL MODES (COMBINED TRANSPORT)

FAS; FOB; CFR; CIF : PORT TO PORT