

# INCOTERMS 2010

**INCOTERMS are abbreviations of standard trade terms most commonly used in international contracts for the sale of goods. It is mandatory that you are aware of these terms of trade prior to shipment.**

**Incoterms 2010 came into force on 1st January 2011.**

Incoterms – International Commercial Terms

The Incoterms rules are an internationally recognized standard and are used worldwide in international and domestic contracts for the sale of goods. First published in 1936, Incoterms rules provide internationally accepted definitions and rules of interpretation for most common commercial terms.

The rules have been developed and maintained by experts and practitioners brought together by ICC and have become the standard in international business rules setting. Launched in mid-September 2010, Incoterms 2010 came into effect on 1 January 2011. They help traders to avoid costly misunderstandings by clarifying the tasks, costs and risks involved in the delivery of goods from sellers to buyers. Incoterms rules are recognized by UNCITRAL as the global standard for the interpretation of the most common terms in foreign trade.

Please note that all contracts made under INCOTERMS 2000 remain valid even after 2011. Moreover, although ICC recommends using Incoterms 2010 after 2011, parties to a contract for the sale of goods can agree to choose any version of the Incoterms rules after 2011. It is important however to clearly specify the chosen version INCOTERMS 2010, INCOTERMS 2000 or any earlier version.

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.

INCOTERMS also deals with the documentation required for global trade, specifying which parties are responsible for which documents. Determining the paperwork required to move a shipment is an important job, since requirements vary between countries. The following two documents however are standard: the commercial invoice and the packing list.

## Incoterms 2010

CFR	Cost and Freight
CIF	Cost, Insurance and Freight
CIP	Carriage and Insurance Paid To...
CPT	Carriage Paid To
DAP	Delivered at Place
DDP	Delivered Duty Paid
DAT	Delivered at Terminal
EXW	Ex Works
FAS	Free Alongside Ship
FCA	Free Carrier
FOB	Free on Board

### Rules for Sea and Inland Waterway Transport:

**FAS - Free Alongside Ship:** Risk passes to buyer, including payment of all transportation and insurance costs, once delivered alongside the ship (realistically at named port terminal) by the seller. The export clearance obligation rests with the seller.

**FOB - Free On Board:** Risk passes to buyer, including payment of all transportation and insurance costs, once delivered on board the ship by the seller. A step further than FAS.

**CFR - Cost and Freight:** Seller delivers goods and risk passes to buyer when on board the vessel. Seller arranges and pays cost and freight to the named destination port. A step further than FOB.

### Incoterms explained

**CFR - Cost and Freight (... named port of destination)**

Cost and Freight means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.

The CFR term requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the CPT term should be used.

#### **CIF - Cost, Insurance and Freight (... named port of destination)**

Cost, Insurance and Freight means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination But the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.

CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage.

Consequently, the seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements. The CIF term requires the seller to clear the goods for export. This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the CIP term should be used.

#### **CIP - Carriage and Insurance Paid To (... named place of destination)**

Carriage and Insurance paid to... mean that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any additional costs occurring after the goods have been so delivered. However, in CIP the seller also has to procure insurance against the buyer's risk of loss of or damage to the goods during the carriage. Consequently, the seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIP term the seller is required to obtain insurance only on minimum cover

The buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements.

Carrier means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport, by rail, road, air, sea, inland waterway or by a combination of such modes. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CIP term requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport including multimodal transport.

#### **CPT - Carriage Paid To (... named place of destination)**

Carriage paid to... means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to the named destination. This means that the buyer bears all risks and any other costs occurring after the goods have been so delivered.

Carrier means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport, by rail, road, air, sea, inland waterway or by a combination of such modes. If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CPT term requires the seller to clear the goods for export. This term may be used irrespective of the mode of transport including multimodal transport.

#### **DAP - Delivered at Place (...named place of destination)**

New Term - May be used for all transport modes

Seller delivers the goods when they are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. Parties are advised to specify as clearly as possible the point within the agreed place of destination, because risks transfer at this point from seller to buyer. If the seller is responsible for clearing the goods, paying duties etc., consideration should be given to using the DDP term.

#### *Responsibilities*

- *Seller bears the responsibility and risks to deliver the goods to the named place*
- *Seller is advised to obtain contracts of carriage that match the contract of sale*
- *Seller is required to clear the goods for export*
- *If the seller incurs unloading costs at place of destination, unless previously agreed they are not entitled to recover any such costs*
- *Importer is responsible for effecting customs clearance, and paying any customs duties*

#### **DDP - Delivered Duty Paid (... named place of destination)**

Delivered duty paid means that the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing the goods thereto including, where applicable (Refer to Introduction paragraph 14), any «duty» (which term includes the responsibility for and the risk of the carrying out of customs formalities and the payment of formalities, customs duties, taxes and other charges) for import in the country of destination.

Whilst the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation. This term should not be used if the seller is unable directly or indirectly to obtain the import licence.

However, if the parties wish to exclude from the seller's obligations some of the costs payable upon import of the goods (such as value-added tax: VAT), this should be made clear by adding explicit wording to this effect in the contract of sale

If the parties wish the buyer to bear all risks and costs of the import, the DDU term should be used. This term may be used irrespective of the mode of transport but when delivery is to take place in the port of destination on board the vessel or on the quay (wharf), the DES or DEQ terms should be used.

#### **DAT - Delivered at Terminal (...named terminal at port or place of destination)**

New Term - May be used for all transport modes

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 quay, warehouse, container yard or road, rail or air terminal. Both parties should agree the terminal and if possible a point within the terminal at which point the risks will transfer from the seller to the buyer of the goods. If it is intended that the seller is to bear all the costs and responsibilities from the terminal to another point, DAP or DDP may apply.

#### **Responsibilities**

- *Seller is responsible for the costs and risks to bring the goods to the point specified in the contract*
- *Seller should ensure that their forwarding contract mirrors the contract of sale*
- *Seller is responsible for the export clearance procedures*
- *Importer is responsible to clear the goods for import, arrange import customs formalities, and pay import duty*
- *If the parties intend the seller to bear the risks and costs of taking the goods from the terminal to another place then the DAP term may apply*

**EXW - EX Works ( ... named place)**

Ex works means that the seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (i.e. works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle.

This term thus represents the minimum obligation for the seller, and the buyer has to bear all costs and risks involved in taking the goods from the seller's premises. However, if the parties wish the seller to be responsible for the loading of the goods on departure and to bear the risks and all the costs of such loading, this should be made clear by adding explicit wording to this effect in the contract of sale.

This term should not be used when the buyer cannot carry out the export formalities directly or indirectly. In such circumstances, the FCA term should be used, provided the seller agrees that he will load at his cost and risk.

**FAS - Free Alongside Ship (... named port of shipment)**

Free Alongside Ship means that the seller delivers when the goods are placed alongside the vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment. The FAS term requires the seller to clear the goods for export. THIS IS A REVERSAL FROM PREVIOUS INCOTERMS VERSIONS WHICH REQUIRED THE BUYER TO ARRANGE FOR EXPORT CLEARANCE. However, if the parties wish the buyer to clear the goods for export, this should be made clear by adding explicit wording to this effect in the contract of sale.

This term can be used only for sea or inland waterway transport.

**FCA - Free Carrier (...named place)**

Free Carrier means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place. It should be noted that the chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at the seller's premises, the seller is responsible for loading. If delivery occurs at any other place, the seller is not responsible for unloading.

This term may be used irrespective of the mode of transport, including multimodal transport.

Carrier means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes.

If the buyer nominates a person other than a carrier to receive the goods, the seller is deemed to have fulfilled his obligation to deliver the goods when they are delivered to that person.

**FOB - Free On Board (... named port of shipment)**

Free on Board means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA term should be used.