



PROFIT

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Incoterms

FACTSHEET // OCTOBER 2020

Incoterms

1. Introduction

The import and export of goods requires a written contract. The terms of this contract must be clearly understandable by both the exporter and the importer, even if they do not speak the same language, and even if their two countries have different business practices and legal systems.

To reduce the possibility of misunderstandings, 11 internationally recognised standard contract terms, known as Incoterms, are widely used in contracts between exporters and importers to set out the key tasks and responsibilities involved in delivering and receiving goods.

This factsheet explains what Incoterms are and how they are used. It also provides a short description of each Incoterm and sources of further information about exporting.

The factsheet is intended as a starting point only. To avoid costly contractual mistakes and disputes it is essential for importers and exporters to consult the full 'Incoterms 2020' document published by the International Chamber of Commerce (ICC) before agreeing contract terms.

2. What are Incoterms?

Incoterms are standard contract terms that are developed and published by the ICC. They can only be used in contracts that concern the import and export of goods. Contracts for services cannot use Incoterms.

Incoterms are used to set out agreements about key issues, such as:

- Where goods will be delivered.
- Who is responsible for arranging transport.
- Who is responsible for insuring the goods.
- Who deals with customs procedures and makes any necessary duty and tax payments.

The ICC publishes a revised and updated edition of the Incoterms every few years. The current edition is 'Incoterms 2020', which replaced 'Incoterms 2010' with effect from 1 January 2020.

Although Incoterms can be used freely by exporters and importers to assist with drafting contracts, they are the intellectual property of the ICC, which enforces its copyright actively to ensure that there are no incorrect descriptions of the Incoterms that could cause confusion or dispute. The word 'Incoterms' is a registered ICC trademark.

For more information about using Incoterms without breaching ICC copyright, go to <https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-rules-copyright/>.

3. List of Incoterms

The following summaries of the 11 Incoterms are based on descriptions provided on the ICC website.

3.1. Incoterms for any mode 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 (that is, 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)

'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.

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)

'Carriage and Insurance Paid' 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 at a level of cover specified under the Incoterms. 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.

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.

DPU (Delivered at Place Unloaded)

'Delivered at Place Unloaded' 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 of destination. The seller bears all risks involved in bringing the goods to and unloading them at the destination.

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.

3.2. Incoterms 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 (for example, 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)

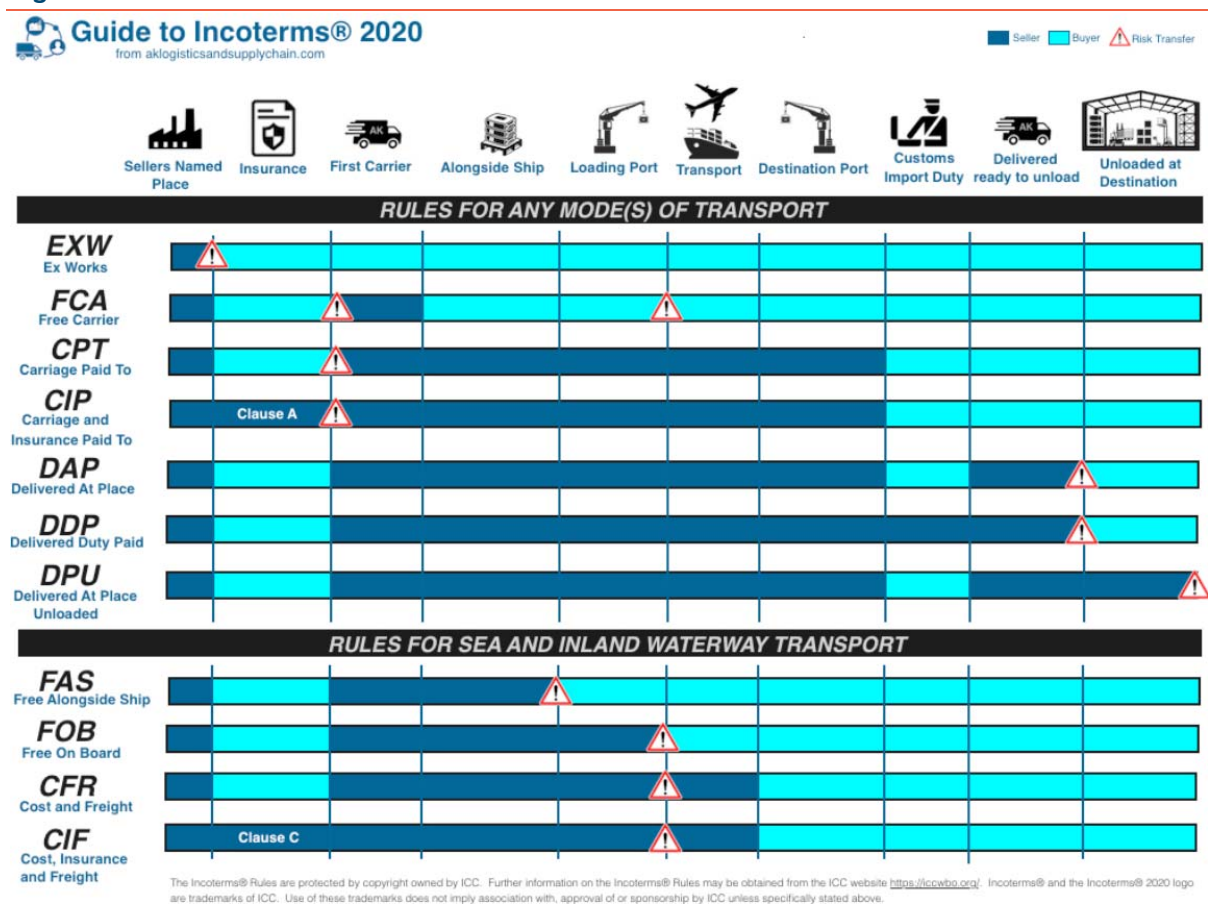
'Cost, Insurance and Freight' means that the seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring 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.

4. Further information

AK Logistics and Supply Chain has a good guide to Incoterms, and indeed to most other aspects of logistics as well, and has prepared a free graphical guide to the Incoterms which is especially helpful as it shows whether it is the seller or buyer who is responsible for the costs associated with each of the steps. See figure 1.

Figure 1: Guide to Incoterms



Source: AK Logistics & Supply Chain, <https://aklogisticsandsupplychain.com/incoterms-2020-guide/>

Other information can be found at:

- The full 'Incoterms 2020' document can be purchased from the ICC at https://2go.iccwbo.org/incoterms-2020-eng-config+book_version-Book/.
- A wide range of guidance publications about how to use 'Incoterms 2020' in business can be purchased from the ICC Store at <https://2go.iccwbo.org/explore-our-products/books/incoterms.html>.

The International Chamber of Commerce (ICC) is a business organisation that promotes international trade, responsible business conduct and a global approach to regulation.

DISCLAIMER While all reasonable efforts have been made to ensure the accuracy of the information in this factsheet, the publisher makes no warranties that it is accurate or up-to-date and will be neither responsible for any errors or omissions nor any consequences of any errors or omissions. Professional advice should be sought where appropriate.

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