

INCOTERMS



What are Incoterms

- International Commercial Terms (Incoterms)
- Formulated by ICC in 1923 as trade terms & later in 1936 as Incoterms.
- A set of standardized guidelines that parties in different countries (and different legal environments) use for structuring the logistical elements of selling and buying goods.
- The emphasis is on delineating (in a sales transaction of tangible goods) the risks and costs between seller & buyer via determining a specific place and time for delivery of the goods.
- Revised earlier 3 times and subsequently in 1980, 1990, 2000, 2010, and now in 2020.
- Latest revision is applicable from January 2020

10 clauses for Seller & Buyer & coverage

(A for seller and B for buyer)

1. General Obligations
 2. Delivery
 3. Transfer of Risks
 4. Carriage
 5. Insurance
 6. Document of Delivery / Transport
 7. Export / Import clearance
 8. Checking / Packing / Marking
 9. Allocation of Costs
 10. Notices
- Warehousing
 - Packing and loading
 - Inland freight
 - Terminal charges
 - Freight forwarder's fees
 - Ocean/air freight
 - Duty, taxes, & customs clearance
 - Delivery
 - Security Clearances

Any Mode Terms

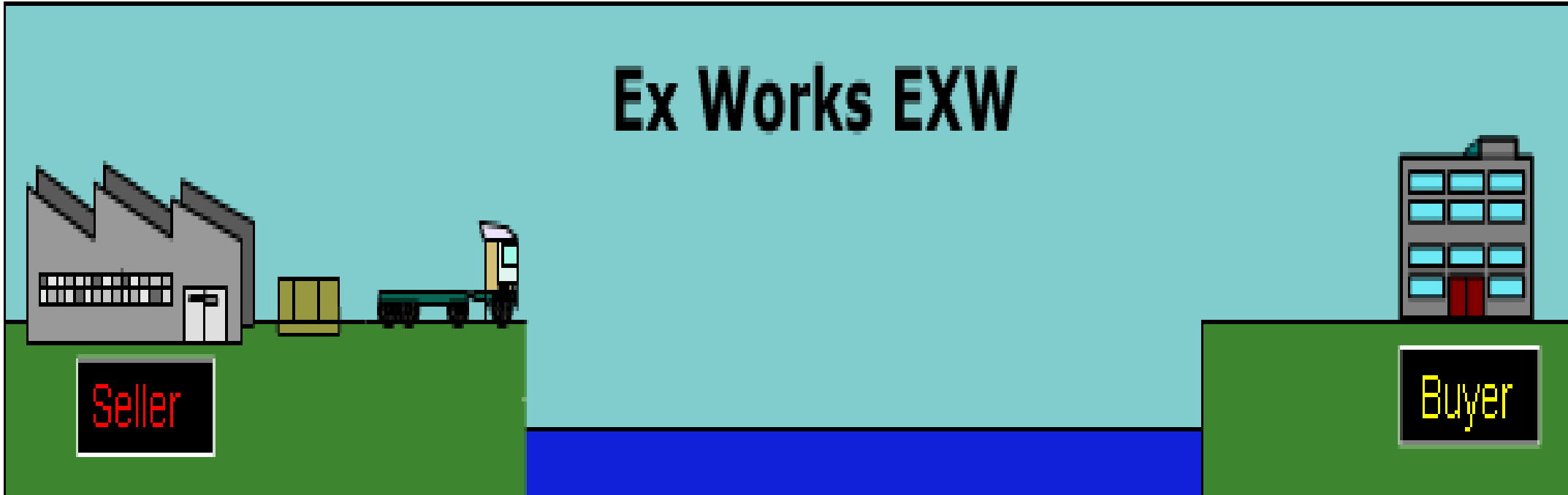
Any mode terms:

- EXW : Ex-Works
- FCA : Free Carrier
- CPT : Carriage Paid To
- CIP : Carriage & Insurance Paid
- DAP : Delivered At Place
- DPU : Delivered at Place Unloaded
- DDP : Delivered Duty Paid

Sea & Inland Waterway

- FAS
- FOB
- CFR
- CIF

Ex Works EXW



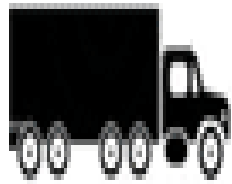
Responsibility



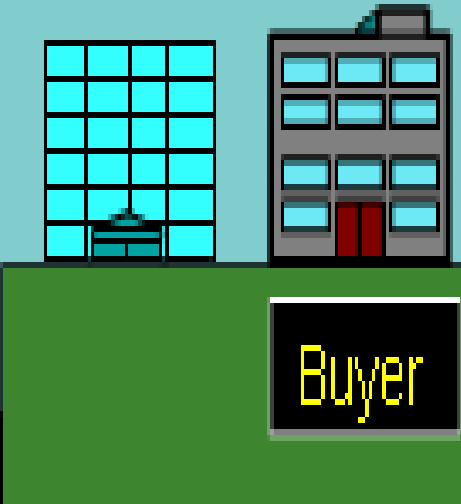
Pays transport



Insures goods



Free Carrier FCA



Responsibility



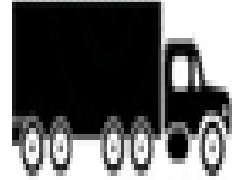
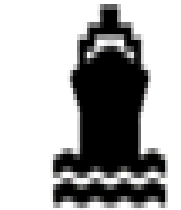
Pays transport



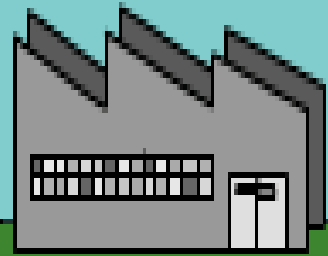
Insures goods



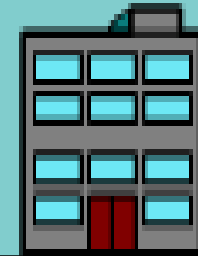
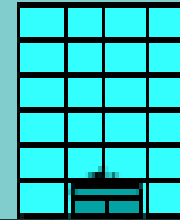
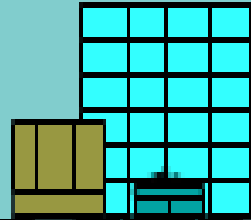
Seller not obliged to insure goods for pre-carriage



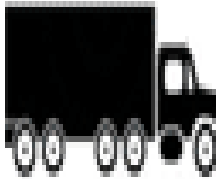
Carriage Paid To (CPT)



Seller



Buyer



Responsibility



Pays transport



Insures goods



Seller not obliged to insure goods for pre-carriage or main carriage

Carriage & Insurance Paid to CIP



Responsibility



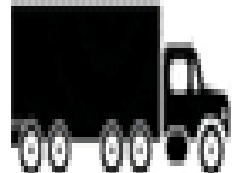
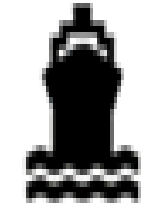
Pays transport



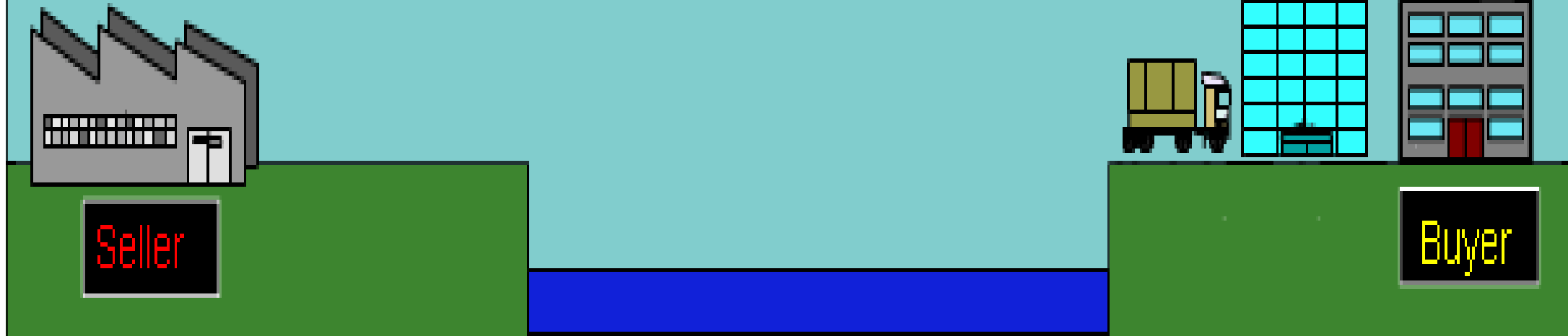
Insures goods



Seller insures goods for main carriage to named place



Delivered At Place DAP



Responsibility



Pays transport



Insures goods

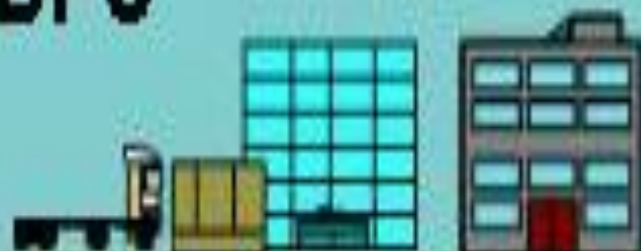


Seller responsible for goods during transport to named place, but not obliged to insure

Delivered at Place Unloaded DPU



Seller



Buyer

Responsibility

Pays transport

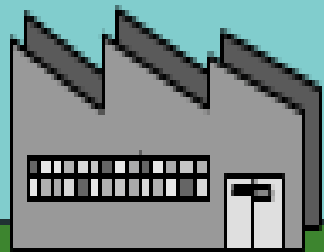
Insures goods

???

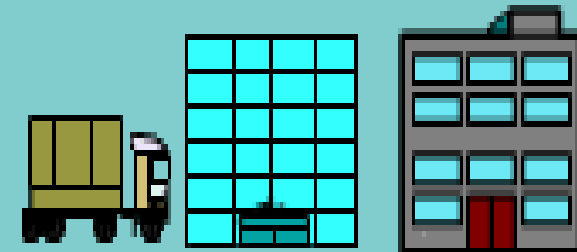
Seller responsible for goods during transport to named place, but not obliged to insure



Delivered Duty Paid DDP



Seller



Buyer

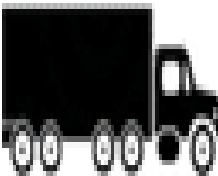
Responsibility

Pays transport

Insures goods

???

Seller not obliged to insure goods for pre-carriage or main carriage



Sea & inland waterway terms

Any mode terms:

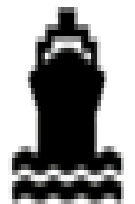
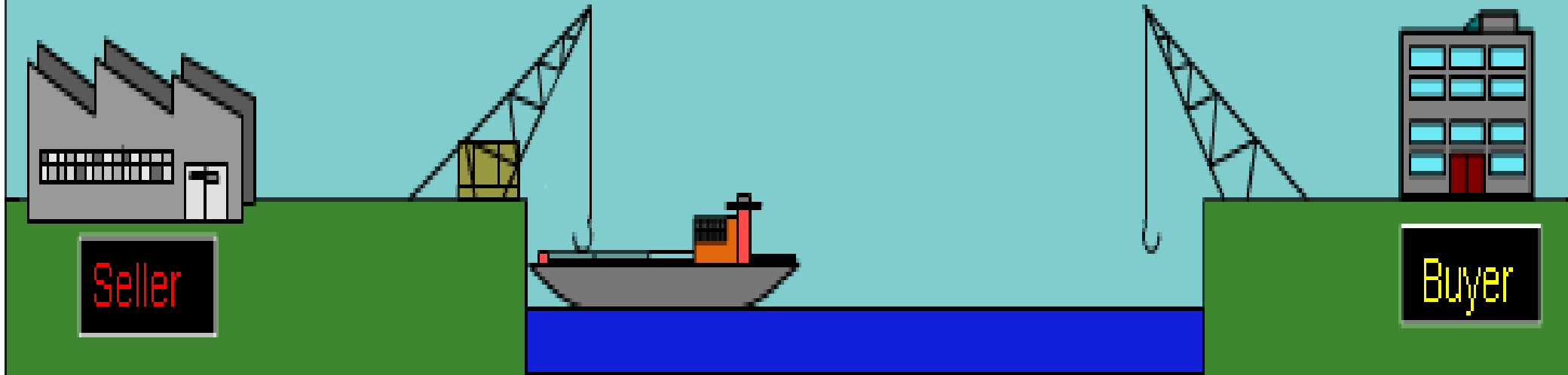
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Sea & Inland Waterway

- **FAS**
- **FOB**
- **CFR**
- **CIF**

Free Alongside Ship FAS

SEA OR INLAND
WATERWAY ONLY



Responsibility



Pays transport

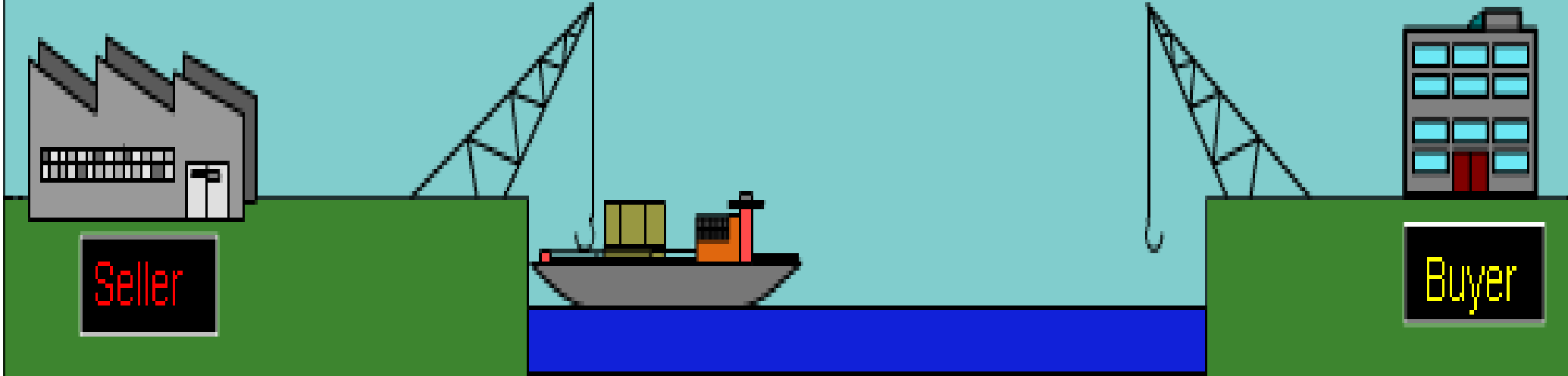


Insures goods



Seller not obliged to insure goods for pre-carriage

Free On Board FOB



SEA OR INLAND
WATERWAY ONLY



Responsibility



Pays transport

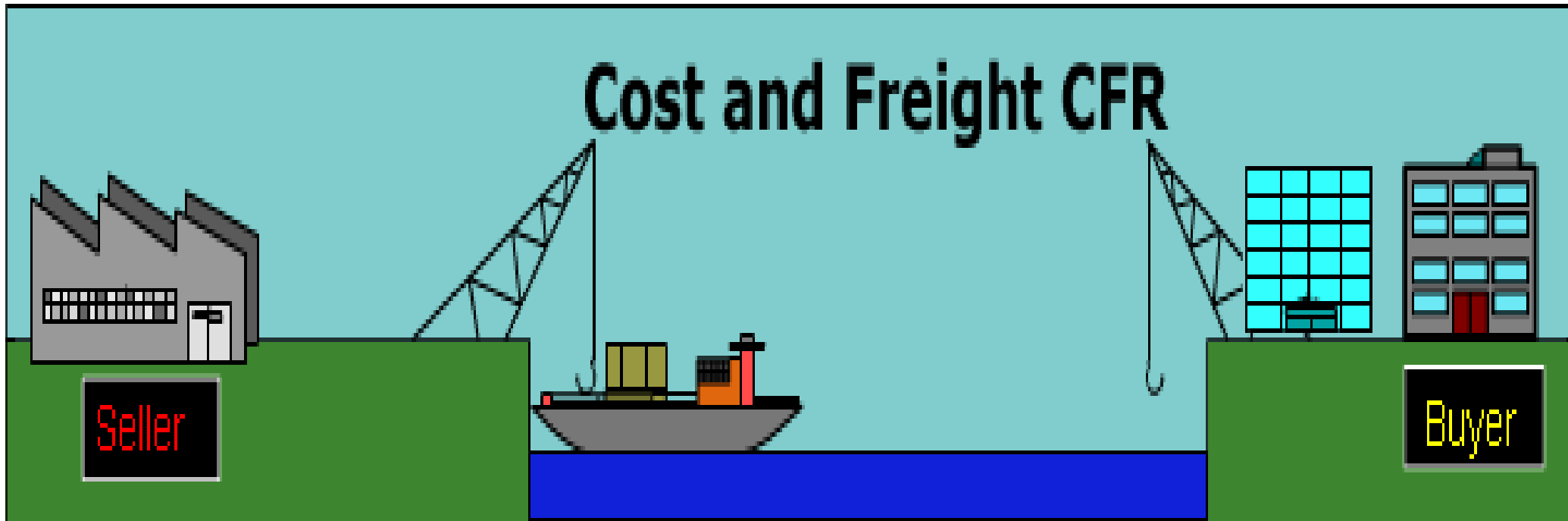


Insures goods

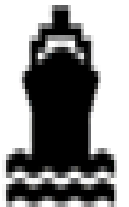


Seller not obliged to insure goods for pre-carriage

Cost and Freight CFR



SEA OR INLAND
WATERWAY ONLY



Responsibility



Pays transport

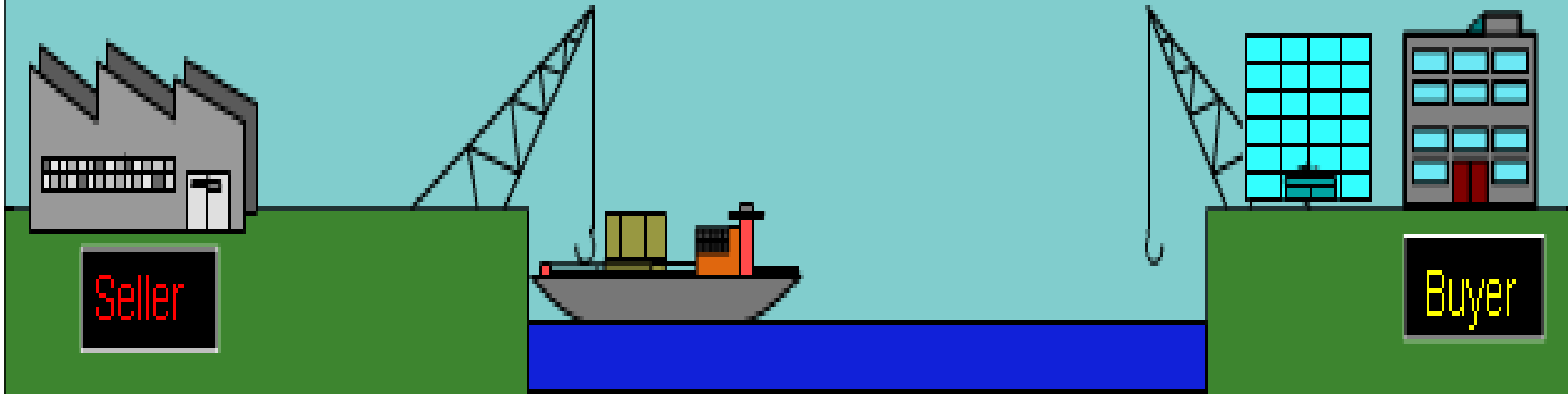


Insures goods

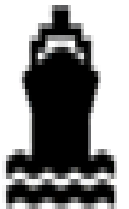


Seller not obliged to insure goods for pre-carriage or main carriage

Cost Insurance and Freight CIF



SEA OR INLAND
WATERWAY ONLY



Responsibility



Pays transport



Insures goods



Seller insures goods for main carriage to named place

Not covered by Incoterms

- Do not address transfer of legal title
- Not law. So do not automatically apply to every sales transaction of tangible goods. Applies only if Parties specify the transaction as subject to Incoterms.
- Do not determine revenue or expense recognition in financial statements
- Do not specify how goods are to be packed for shipment
- Do not specify how goods are to be loaded and stowed onto transport equipment
- Finally, these are not payment terms.

Summary Snapshot of Incoterms



Incoterm	Seller	Customs	Loading	Carriage	Named Place	Port	Transport	Port	Named Place	Carriage	Customs	Unloading	Buyer
EXW (Ex Works)	Risk, Cost												
FCA (Free Carrier)	Risk, Cost												
FAS (Free Alongside Ship)	Risk, Cost												
FOB (Free On Board)	Risk, Cost												
CFR (Cost and Freight)	Risk, Cost												
CIF (Cost, Insurance and Freight)	Risk, Cost							Insurance					
CPT (Carriage Paid To)	Risk, Cost												
CIP (Carriage and Insurance Paid to)	Risk, Cost							Insurance					
DAP (Delivered At Place)	Risk, Cost												
DPU (Delivered Place Unloaded)	Risk, Cost											Risk, Cost	
DDP (Delivered Duty Paid)	Risk, Cost												Risk, Cost

SEA FREIGHT

■ Risk ■ Cost ■ Insurance

All information without guarantee. For details see Incoterms® 2020. Basically, their wording applies.

Carriage & Risk Passage: Summary points

- Buyer responsible for all carriage : EXW
- Buyer arranges main carriage : FAS, FOB, and FCA.
- Seller arranges main carriage
& risk passes **after** main carriage : DAP, DPU, DDP
- Seller arranges main carriage
but risk passes **before** main carriage : CFR, CIF, CPT, CIP

Common Mistakes Incoterms – 1/3

1. Using FOB for containerized cargo:

Because when containerized, the container is handed over to the carrier. Carrier 'on boards' the cargo later. Seller loses control once the cargo is handed to the Carrier. Similarly, FAS, CFR, and CIF are also not appropriate for containerized cargo. FCA, CPT, CIP are suitable for containerized cargo.

2. Not specifying location:

FCA Hyderabad. Is it at Ranigunj; Nampally, or Kattedan?

Such incomplete specification helps Seller to chose his preferred location

3. Seller accepting DDP without realizing he has to obtain import license.

4. Seller accepting DPU without having sufficient unloading arrangement

5. Improper estimation of terminal charges at both ends.

Common Mistakes Incoterms – 2/3

6. Buyer accepting EXW without realizing difficulty of loading arrangements and carriage arrangements, and even export clearances. For seller, it will not qualify as Export and therefore will lose export benefits.
7. Buyer not making risk assessment for insurance in CIP and CIF terms.
8. Buyer not verifying if the insurance company is present in his location to have smooth claim process in case of any eventuality.
9. Not aligning Incoterm for payment instrument viz., LC / BG, etc.
[if LC requires Bill of Lading, FCA term is not suitable since receipt of B/L by Seller is at the mercy of Buyer]. Also not choosing same currency of the transaction
10. No details of Title Transfer in PO as Incoterm wont cause title transfer.

Common Mistakes Incoterms – 3/3

11. Where more than 1 carrier exists (ex: transshipment), risk transfers from Seller to Buyer at the 1st carrier itself.

12. Using Incoterms that do not exist
[Ex: DAT, Delivered Ex. Ship; Delivered At Frontier; Delivered Ex. Quay, etc. Not referring to the version of the Incoterms.

13. Not suitably modifying the terms.
Ex: EXW Loaded, Gachibowli; FOB Stowed, MPT; FCA Wire-secured, ICD Sanathnagar, Hyderabad, etc.

14. Not specifying the specific packing requirements.

15. Lack of harmony / sufficient coordination among all the team members involved in the process i.e., factory, procurement, logistics, finance, and insurance departments of the organization.

ICC Head Quarters, Paris



**Thank You....
it is a good discussion.**