

INCOTERMS **(International Commercial Terms)¹**

To remedy the problems (misunderstandings, disputes and litigation) that quite frequently arose due to different trading practices in the world, the INTERNATIONAL CHAMBER OF COMMERCE, based in Paris, France, published in 1936 a set of international rules for the interpretation of terms used in foreign trade. These rules were published as “INTERNATIONAL COMMERCIAL TERMS” or “INCOTERMS”, as they are commonly known. These rules have been amended in 1953, 1967, 1976, 1980, 1990, 2000 and 2010. The INCOTERMS have been arranged into the following groups:

A) SELLER BRINGS GOODS TO A CARRIER OR MAKES AVAILABLE AT SELLER’S PREMISES

- 1. GROUP “E’ – DEPARTURE** (Seller makes the goods available to Buyer at Seller’s premises)

EXW – Delivered at Place of Origin (Named Place of Origin)

Under this term, **EXW**, Seller makes the goods available at Seller’s premises. Buyer is responsible for all charges.

This trade term places the greatest responsibility on the Buyer and the obligations for the Seller. “Ex Works” is often used when making an initial quotation for the sale of goods without any costs included.

- 2. GROUP “F” – MAIN CARRIAGE UNPAID** (Seller has to deliver goods to a carrier named by the Buyer)

FCA – Free Carrier (named place)

FAS – (Free Alongside Ship (named loading port)

FOB – Free On Board (named loading port)

FCA – Free Carrier (named place)

Under this term, **FCA**, Seller delivers goods, cleared for export, to the first carrier, named by the buyer, at the named place. Delivery and transfer of risk takes place, when the goods are ready for unloading by the first carrier. (If there is more than one carrier then risk transfers on delivery to the first carrier.)

¹ The 8th revision of INCOTERMS, effective January 1, 2011, defines 11 INCOTERMS in use. Their commonality in trading contracts makes it important for you to understand what they mean and the responsibilities of the various involved parties. Six of the eleven INCOTERMS are about ocean freight. The remaining five INCOTERMS are regarding all transport modalities. The latest set of Incoterms was published in 2010, and this is currently under revision for 2020.

This term is suitable for all modes of transport, including air, rail, road and containerized or multi-modal sea transport. This is the correct “freight collect” term to use for sea shipments in containers, whether LCL (less than container load) or FCL (full container load).

FAS – Free Alongside Ship (named loading port)

Under this term, **FAS**, Seller must deliver the goods *alongside the ship* at the named port, cleared for export. Risk transfers to the Buyer once the Seller clears goods for export. The Buyer is responsible for loading the goods and all costs thereafter. This term is suitable only for maritime transport but not for multimodal sea transport in containers.

In practice, it should be used for situations where the Seller has direct access to the vessel for loading, e.g., heavy-lift, bulk cargos or non-containerized goods. For containerized goods, consider “FCA” instead.

FOB – Free On Board (named loading port)

Under this term, **FOB**, Seller must deliver goods, cleared for export, and *loaded on board the vessel* at the named port. Once the goods have been loaded on board, the risk transfers to the Buyer, who bears all costs thereafter.

Term is suitable for maritime transport but not for multi-modal sea transport in containers. Buyer must instruct Seller of the details of the vessel and port where the goods are to be loaded and there is no reference to, or provision for, the use of a carrier or forwarder. This term does not include air transport.

B) SELLER BRINGS GOODS TO DESTINATION

- 1. GROUP “C” – MAIN CARRIAGE PAID (Seller arranges for shipment **without** assuming risk of loss or damage to goods after shipment to destination.)**

CFR or CNF – Cost and Freight...(named destination port)

CIF – Cost, Insurance, Freight...(named destination port)

CPT – Carriage Paid To...(named destination port)

CIP – Carriage and Insurance Paid...(named destination port)

Under the term, **CFR** or **CNF**, Seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods have crossed the ship’s rail. Includes maritime transport only. Insurance for the goods is not included. Insurance is the buyer’s responsibility.

Under the term, **CIF**, it's the same as **CFR** except that the Seller must, in addition, procure and pay for insurance for the buyer's protection. To be used for maritime transport only.

The major difference between **CIF/CFR** and **CIP/CPT** is that the shipping term **CPT/CIP** is used in all modes of transport, whereas **CIF/CFR** terms of shipping is used only for sea and inland water transport.

2. GROUP "D" – ARRIVAL (Seller bears all the costs and risks to bring the goods to the destination.)

DAT – Delivered At Terminal ... (named place of destination)

DAP – Delivered At Place ... (named place of destination)

DDP – Delivered Duty Paid ... (named place of destination)

DAT – Delivered At Terminal (Named Place of Destination)

Under the term, **DAT**, seller delivers or meets his/her obligation when the goods are unloaded from the arriving means of transportation and are placed at the disposal of the buyer at a named terminal at the named port or place of destination.

Terminal includes any place, such as quay, warehouse, container yard or road, rail or air cargo terminal.

Seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

If the seller is to bear the risks and costs involved in transporting and handling the goods from the terminal to another place, then **DAP** or **DDP** should be used. This term requires the seller to clear the goods for export, but the seller has no obligation to clear the goods for import or pay any duty or carry out import customs formalities.

DAP – Delivered At Place (Named Place of Destination)

Under the term, **DAP**, seller's obligation is fulfilled 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.

Seller bears all risks involved in bringing the goods to the named place. If the seller incurs costs for unloading under its contract of carriage, seller cannot recover those costs from the buyer, unless agreed upon between the parties. Seller must clear the goods for export, but has no obligation to clear goods for import, or pay customs duties or carry out import customs formalities.

DAP – Delivered Duty Paid (Named Place of Destination)

Under the term, **DAP**, seller pays for all transportation costs and bears all risks until the goods have been delivered and pays customs duties.

This term is also interchangeable with the term “free domicile” and is the most comprehensive term for the buyer. In most countries, import expenses, such as “VAT” (Value Added Tax) and excise taxes are included. These expenses do not represent a direct cost for the importer, since they will be recovered against sales in the domestic (local) market.