

Incoterms (International Commercial Terms)

What are Incoterms?

THROUGHOUT THE YEARS, AS INTERNATIONAL COMMERCE WAS PROGRESSING, THE NEED FOR COMMON CODES OF CONDUCT AND CONTRACT CREATED THE INCOTERMS RULES.

Since 1923, the International Chamber of Commerce (ICC) has been publishing these rules, creating the framework in which a deal is executed, and determining the obligations, costs and risks between the seller and the buyer. Ever since then, one has to search real hard to find a commercial invoice between two parties that doesn't have those distinct three letter codes that determine who is responsible for payment and risk throughout the cargo's journey from origin to destination.

The international chamber of commerce first published in 1936 a set of international rules for the interpretation of trade terms. These rules were known as Incoterms 1936. Amendments and additions were later made as 1953, 1967, 1990 and 2000 to bring the standards in line with current international trade practices.

The Incoterms rules were amended with the eighth version— **Incoterms 2010** having been published on January 1, 2011. The ICC have begun consultations on a new revision of Incoterms, to be called ***Incoterms 2020***

The Incoterms rules focus on these two key aspects of the transaction:

- Which party – buyer or seller – is responsible for arranging and paying for transport (and associated activities such as loading or unloading), import and export procedures, insuring the goods etc.?
- At what point in the journey does responsibility for the consignment transfer from seller to buyer? This becomes important if the goods are lost or damaged in transit

By agreeing to use an Incoterms rule, the buyer and seller achieve precision and clarity in defining their obligations and responsibilities.

Note that the Incoterms rules do not attempt to cover all aspects of the commercial agreement – there are important matters such as transfer of title and how the goods are to be paid for, on which the Incoterms rules are silent.

When the parties have agreed on an Incoterms rule to govern the transaction, it is incorporated into the commercial agreement by way of a reference such as the following:

The following are the Incoterms

1) EXW (ex-works)

1. a) Carriage to be arranged by the buyer.
2. b) Risk transfer from the seller to the buyer when the goods are at the disposal of the purchaser.
3. c) Cost of assignment from the vendor to the buyer when the goods are at the disposal of the buyer.

2) FCA (free carrier)

1. a) Carriage has to be arranged by the buyer or either by the seller on the behalf of the buyer.
2. b) Risk transfer from the vendor to the buyer when the goods have been delivered to the carrier at the named place.
3. c) Cost transfer from the seller to the buyer when the goods have been delivered to the carrier at the named place.

3) FAS (free alongside ship)

1. a) Carriage to be arranged by the buyer.
2. b) Risk transfer from the seller to the buyer when the goods have been placed alongside the ship.
3. c) Cost transfer from the vendor to the buyer when the goods have been placed alongside the ship.

4) FOB (free on board)

1. a) Carriage to be arranged by the purchaser.
2. b) Risk transfer from the seller to the buyer when the goods pass the ship's rail.
3. c) Cost transfer from the vendor to the buyer when the goods have been placed alongside the ship.

5) CFR (cost and freight)

1. a) Carriage and insurance have to be arranged by the seller.
2. b) Risk transfer from the vendor to the buyer when the goods pass the ship's rail.
3. c) Cost transfer at the port of destination buyer, paying such fees as are not for the sellers account under the carriage contract.

6) CIF (COST insurance and freight)

1. a) Carriage and insurance have to be arranged by the seller.
2. b) Risk transfer from the seller to the buyer when the goods pass the ship's rail.
3. c) Cost transfer at the port of destination buyer, paying such costs as are not for the sellers account under the carriage contract.

7) CPT – (Carriage Paid to -duty paid)

1. b) Risk transfer from the seller to the buyer when the goods pass the ship's rail.
2. c) Cost transfer at the port of destination buyer , paying such costs as are not for the sellers account under the carriage contract.

8) CIP (Carriage and Insurance paid to)

1. a) Carriage and insurance have to be arranged by the seller.
2. b) Risk transfer from the seller to the buyer when the goods pass the ship's rail.

3. c) Cost transfer at the port of destination buyer, paying such costs as are not for the sellers account under the carriage contract.

9) DPT (Delivered at Terminal)

1. a) Carriage to be arranged by the seller.
2. b) Risk transfer from the seller to the buyer when the goods have been discovered at the port terminal.
3. c) Cost transfer from the seller to the buyer when the goods have been delivered at the port terminal.

10) DAP (Delivered at Place)

1. a) Carriage to be arranged by the seller.
2. b) Risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on the board of the ship.
3. c) Cost transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on the board of the ship.

11) DDP (delivered duty paid)

1. a) Carriage to be arranged by the seller.
2. b) Risk transfer from the seller to the buyer when the goods are placed at the disposal of the buyer on the board of the ship.
3. c) Cost transfer from the seller to the buyer including customs duty when the goods are placed at the disposal of the buyer on the board of the ship.

