

Navigating Global Trade With Confidence

Your Guide to Incoterms

Understanding Incoterms

Incoterms (International Commercial Terms) are globally recognised rules, first established by the International Chamber of Commerce in 1936 and updated approximately every ten years to reflect current international trading practices.

These terms clearly define the obligations of both sellers and buyers in international transactions. They specify who is responsible for costs, the point at which risk transfers, and the tasks each party must undertake, such as delivery, customs clearance, and insurance.

A solid understanding of Incoterms is crucial for preventing misunderstandings and ensuring smooth international trade.

Incoterms Rules for Any Mode of Transport

1. EXW (Ex Works)

Seller's Responsibility: Minimal. The seller makes the goods available at their premises.

Buyer's Responsibility: Bears all transportation costs and risks from the seller's premises.

2. FCA (Free Carrier)

Seller's Responsibility: Delivers the goods to the carrier at a named location.

Buyer's Responsibility: Handles main carriage, insurance, and all other costs from that point.

3. CPT (Carriage Paid To)

Seller's Responsibility: Pays for the cost of carriage to the named destination.

Buyer's Responsibility: Assumes risk once the goods are handed over to the carrier.

4. CIP (Carriage & Insurance Paid To)

Seller's Responsibility: Pays for carriage and insurance to the named destination.

Buyer's Responsibility: Assumes risk once the goods are handed over to the carrier.

5. DAP (Delivered at Place)

Seller's Responsibility: Delivers the goods to the named place of destination, ready for unloading.

Buyer's Responsibility: Responsible for import duties, unloading the goods, and any subsequent transportation costs.

6. DPU (Delivered at Place Unloaded)

Seller's Responsibility: Delivers and unloads the goods at the named place of destination.

Buyer's Responsibility: Responsible for import duties and any subsequent transportation costs (after unloading).

7. DDP (Delivered Duty Paid)

Seller's Responsibility: Covers all costs and risks, including import duties and taxes, until the goods are made available at the named place.

Buyer's Responsibility: Minimal. The buyer simply receives the goods at the agreed-upon location.



Important Note: Fast Parcel Operators (FPOs) like DHL, UPS, and FedEx predominantly use DAP and DDP Incoterms for their door-to-door express deliveries, while the remaining Incoterms are primarily for larger cargo, road, and sea freight movements.

Incoterms Rules for Sea and Inland Waterway Transport



8. FAS (Free Alongside Ship)

Seller's Responsibility: Delivers goods alongside the vessel at the named port of shipment.

Buyer's Responsibility: Bears all costs and risks from that point, including loading and main carriage.

9. FOB (Free on Board)

Seller's Responsibility: Delivers goods on board the vessel at the named port of shipment and clears them for export.

Buyer's Responsibility: Assumes all costs and risks once goods are on board the vessel.

10. CFR (Cost and Freight)

Seller's Responsibility: Pays for costs and freight to the named port of destination.

Buyer's Responsibility: Assumes risk once goods are on board the vessel at the port of shipment.

11. CIF (Cost, Insurance and Freight)

Seller's Responsibility: Pays for costs, freight, and minimum insurance to the named port of destination.

Buyer's Responsibility: Assumes risk once goods are on board the vessel at the port of shipment, despite seller arranging insurance.



Important Note: These four Incoterms (FAS, FOB, CFR, CIF) are specifically for non-containerised cargo transported by sea or inland waterway. For containerised goods or other modes of transport, the "Any Mode of Transport" rules (EXW, FCA, CPT, CIP, DAP, DPU, DDP) are generally more appropriate.

Key Considerations When Selecting Incoterms



Nature of the Goods: The value, fragility, and perishability of your goods can significantly influence the need for specific shipping and insurance arrangements within the chosen Incoterm.

Mode of Transport: The method of transportation (sea, air, rail, or a combination) is a critical factor. Certain Incoterms are specifically designed for sea and inland waterway transport, while others apply to any mode.

Cost Allocation: Clearly define how costs such as transportation, insurance, and import/export duties will be divided between the buyer and the seller. This is a fundamental aspect of selecting the appropriate Incoterms.

Risk Transfer: Understand precisely at which point the responsibility for loss or damage to the goods transfers from the seller to the buyer. This is essential for managing potential liabilities.

Applicable Trade Laws: Be aware of the international trade laws and regulations of the countries involved, as these can impact the suitability and legal validity of a particular Incoterm.

The Benefits of Using Incoterms



Universal Understanding: Incoterms provide a globally recognised framework, ensuring that all parties involved in international trade have a common understanding of their obligations.

Clarity and Simplicity: These standardised rules offer clear and concise guidelines, minimising potential confusion regarding responsibilities.

Enhanced Efficiency: When roles and responsibilities are clearly defined, international transactions can proceed more quickly and smoothly.

Reduced Disputes: By establishing clear rules upfront, Incoterms significantly reduce the likelihood of disagreements and misunderstandings.

Improved Cost Control: Businesses can more accurately predict and manage their shipping-related expenses by understanding the cost allocation defined by the chosen Incoterm.

In conclusion, selecting the appropriate Incoterm is vital to international trade, contributing to smoother, safer, and more cost-effective transactions for your business.