



# Incoterms<sup>®</sup> 2010

by the International Chamber of Commerce (ICC)

# Incoterms<sup>®</sup> 2010, In Practice

Presented by:

# Goals of the Program

## To Understand Why & What You Need to Know:

- **What Incoterms<sup>®</sup> are and what they are intended to do**
- **How to apply Incoterms<sup>®</sup> in contracts, letters of credit and other international transactions**



## What Incoterms are **NOT**

- They are **NOT** Terms of Payment that dictate **HOW** and **WHEN** you get paid
- They do **NOT** speak about:
  - **Forms of Payment, such as:**

Cash in advance	Documentary collections
Open Account	Documentary credit
- They do **NOT** speak to how long it takes to get paid

## What Incoterms<sup>®</sup> are **NOT**

- Incoterms<sup>®</sup> do **NOT** speak to transfer of title and ownership of goods
  - This should be addressed in a contract of sale
- They are **NOT** the American Foreign Trade Definitions of 1941
- They are **NOT** :
  - An international law, or
  - A U.S. or International regulation

## What Are They?

- 
- **They are an internationally accepted convention**
  - **Properly cited in a contract, the rules and their provisions are accorded legal standing**
  - **Not being law/regulation, any version may be cited as long as buyer/seller understand & agree**

## What Incoterms<sup>®</sup> Do

- **Provide internationally accepted definition of:**
    - the responsibilities/obligations of buyer & seller
    - the allocation of costs
    - the assumption/transfer of risks
  - **Overcome differences in interpretation, customary practices**
  - **Provide basis for dispute resolution**
- All related to the DELIVERY OF GOODS***



# INCOTERMS<sup>®</sup>

**Most commonly accepted terms of sale are the:**

**INternational COmmercial TErms (INCOTERMS<sup>®</sup>) published by the International Chamber of Commerce**

- ❖ **ICC Publication 715**
- ❖ **Incoterms<sup>®</sup> 2010 published 1/01/2011**



# Classes of Rules for 2010

## All Modes of Transport

- **EXW** – ex-works
- **FCA** – free carrier
- **CPT** – carriage paid to
- **CIP** – carriage & insurance paid to
- **DAP** – delivered at place
- **DAT** – delivered at terminal
- **DDP** – delivered duty paid

## Sea or waterway only

- **CFR** – cost & freight
- **CIF** – cost, insurance & freight
- **FAS** – free alongside ship
- **FOB** – free on board





## Incoterms<sup>®</sup> in Use

- **Incoterms<sup>®</sup> are always cited using the accepted three character abbreviation, *i.e., EXW, FCA, CPT, DAP . . .***
- **An Incoterm<sup>®</sup> is always followed by a “Named Place”. *Example, FCA Newark Airport.***
  - ***You must have a Place (or Port) at which the transition between seller and buyer occurs***



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## **EXW** Ex-Works... (named *place*, origin)

- **Seller fulfills all obligations when:**
  - goods made available at the agreed place and time [seller's side of transaction]
  - Presenting buyer proper Notice
  - Not loaded upon a collecting conveyance
  - If int'l, not cleared for export
- **Buyer bears all costs and risks in taking the goods to the desired destination.**
  - If int'l, Buyer must arrange & pay for **export clearance** in origin country

## **EXW Ex-Works...** **(Key Points)**

- **Represents the least responsibility for the seller and most for the buyer**
- **From the seller's stand point not good for letters of credit**
- **Seller losing control early in the transactions**
- **Seller may loose buying power with carriers**
- **Buyer must have the ability to control goods from origin**
- **Buyer does control transportation costs**

## **FCA Free Carrier...** **(named *place*, origin)**

- **Seller fulfills obligations when:**
  - goods are handed off
  - if int'l, cleared for export
  - to buyer's designated carrier/agent at named place on seller's side of transaction
    - Named place could be:
      - Seller's premises
      - Any other point/place/port/terminal within origin country (seller's side of transaction)
- **Buyer bears all costs and risk from time goods are handed off its designated carrier/ agent through to desired destination**

## **FCA Free Carrier...** **(Key Points)**

- **The carrier is many times the buyer's forwarder**
- **Can be applied to some shipments to Mexico**
- **Can be used in place of EXW if the seller wants to control loading**
- **The buyer may be responsible for the AES/EEI filing**
- **Not commonly used naming the international carrier**
- **Can reduce the sellers risk while still providing control in origin country**

## **CPT Carriage Paid To...** (named *place*, destination)

### ➤ **Seller:**

- Arranges & pays for pre & main carriage to agreed place, including offloading
- If int'l, clear goods for export
- **Bears risk to point of carrier acceptance at origin**

### ➤ **Buyer:**

- Arranges & pays for on-carriage at destination
- If int'l, arrange & pay for import clearance
- **Risk during main and on carriage**

## **CPT** Carriage Paid To... (Key Points)

- **Can work to the seller's advantage in letters of credit**
- **Buyer's must understand that they have the risk of loss for the seller's decision regarding main carriage**
- **Can be an advantage to the buyer if the seller has greater buying power then the buyer**



## **CIP** Carriage & Insurance Paid to... (named *place*, destination)

### ➤ **Seller:**

- Arranges & pays for pre & main carriage to agreed place, including offloading
- If int'l, clear goods for export
- **Bears risk to point of carrier acceptance at origin**
- *Arranges & pays for insurance per A3*

### ➤ **Buyer:**

- Arranges & pays for on-carriage at destination
- If int'l, import clearance
- **Risk during main and on carriage**

## **CIP** Carriage & Insurance Paid to... (Key Points)

- **Insurance is in favor of the buyer**
- ***Buyer must insure the insurance is with an acceptable underwriter***
- ***Insurance is for CIF plus 10%***



## **DAT** Delivered At Terminal... (named *terminal*, destination)

### ➤ **Seller:**

- Arrange & pays for all carriage to deliver goods to named **terminal** at or within destination country (buyer's side of transaction), **offloaded**
- Bears risk to point of delivery at terminal
- If int'l, clear goods for export

### ➤ **Buyer:**

- Arranges & pays import clearance (if applicable)
- Arranges & pays for on-carriage from terminal

## **DAT** Delivered At Terminal... (Key Points)

- **Can be used to replace DEQ ( Incoterms 2000)**
- **Has an advantage to the buyer over CPT, CIP, CFR, CIF**
- **May not be a preferred term from the seller's point of view**



## **DAP** Delivered At Place... (named *place*, destination)

### ➤ **Seller:**

- Arranges & pays for all carriage to named place at or within destination country (buyer's side of transaction), **not offloaded**
  - maybe the buyer's premises
  - maybe any other place on buyer's side
- Bears risk of loss up to delivery at named place
- If Int'l, clears goods for export

### ➤ **Buyer:**

- Arranges & pays import formalities (if applicable)
- Buyer's arranges/pays on-carriage (as necessary) from named place to desired destination
- Bears risk from time of delivery at named place

## **DAP** Delivered At Place... (Key Points)

- **Can be used to replace DES, DAF and DDU (Incoterms 2000)**
- **Must be a foreign destination**
- **Buyers selects Customs Broker and is responsible for all entry fees, duties, taxes, inspection fees, storage if goods not released in a timely manor**
- **Seller must coordinate with the buyer's customs broker**

## **DDP** Delivered Duty Paid... (named *place*, destination)

### ➤ **Seller:**

- Arranges & pays for all carriage to named place at or within destination country (buyer's side of transaction), **not offloaded**
  - maybe the buyer's premises
  - maybe any other place on buyer's side
- Bears risk of loss up to delivery at named place
- Clears goods for export **AND IMPORT** (where applicable)

### ➤ **Buyer:**

- Buyer's arranges/pays on-carriage (as necessary) from named place to desired destination
- Bears risk from time of delivery at named place

## **DDP** Delivered Duty Paid... (Key Points)

- **Seller is responsible for all costs involved with delivery to the named destination**
- **Most difficult for the buyer to quote**
- **If used DDP (named place) excluding VAT or related taxes, should be considered**
- **Seller must consider currency conversion, classification and other issues that can affect the costing**
- **Buyer may have better cash flow as opposed to handling directly**
- **Quote is nearly a full landed cost**





# Ocean & Inland Waterway Rules



## **FAS** Free Alongside Ship ... (named *port* of shipment)

### ➤ **Seller:**

- **Fulfills obligations when goods**
  - **placed alongside vessel (selected by Buyer) on the quay**
  - **cleared for export (where applicable)**
  - **notice provided to buyer**
- **Bears risk until goods alongside vessel**

### ➤ **Buyer:**

- **Arranges & pays for main and on-carriage**
- **Bears all costs of loading & offloading**
- **Arranges & pays for import clearance (*where applicable*)**
- **Bears risk from time goods placed alongside vessel through to desired destination**

## **FAS** Free Alongside Ship ... (Key Points)

- **Not commonly used for liner service**
- **Can be used with FOB, DAP and DAT to determine who is at risk for loading and unloading**
- **Commonly used for charters, heavy lift or out of gage shipments**
- **Buyer has risk for origin services that they may not be able to control**

## **FOB Free On Board...** **(named *port* of shipment)**

➤ **Seller:**

- **Fulfills obligations when**
  - **goods have been placed onboard a vessel (selected by Buyer) at named port**
  - **cleared for export (where applicable)**
  - **Bears risk until goods placed aboard**

➤ **Buyer:**

- **Arranges & pays for main & on-carriage**
- **Bears risk from point goods are placed onboard through to desired final destination**
- **Arranges & pays for import clearance (where applicable)**

## **FOB** Free On Board... (Key Points)

- **Most misunderstood term**
- **Not use as commonly as you may think**
- **Relieves the buyer of the risk and expense of loading**
- **The definition of loading is not as clear as in incoterms 2000**
- **Buyer may select the carrier so the buyer should consider exercising this option**
- **Avoid using this term with only a general named place**

## **CFR** Cost and Freight... (named *port* of destination)

### ➤ **Seller:**

- Arranges & pays for pre & main carriage to agreed destination port, including offloading
- If int'l, clear goods for export
- **Bears risk to point of goods placed aboard vessel at origin port**

### ➤ **Buyer:**

- Arranges & pays for on-carriage at destination
- Bears cost of offloading at destination port
- If int'l, import clearance
- **Risk during main and on carriage**

## **CFR** Cost and Freight... (Key Points)

- **Has one major difference from CPT in that the seller is at risk until the goods are loaded on board the vessel**
- **If loading is a cost or risk factor not a preferred term from the seller's point of view**
- **Loading charges must be included in the quote**
- **Buyer may wish to use when goods originate in a high risk country**

## **CIF** Cost, Insurance & Freight... (named *port* of destination)

### ➤ **Seller:**

- Arranges & pays for pre & main carriage to agreed destination port
- If int'l, clear goods for export
- **Bears risk to point of goods placed onboard vessel at origin port**
- *Arranges & pays for insurance*

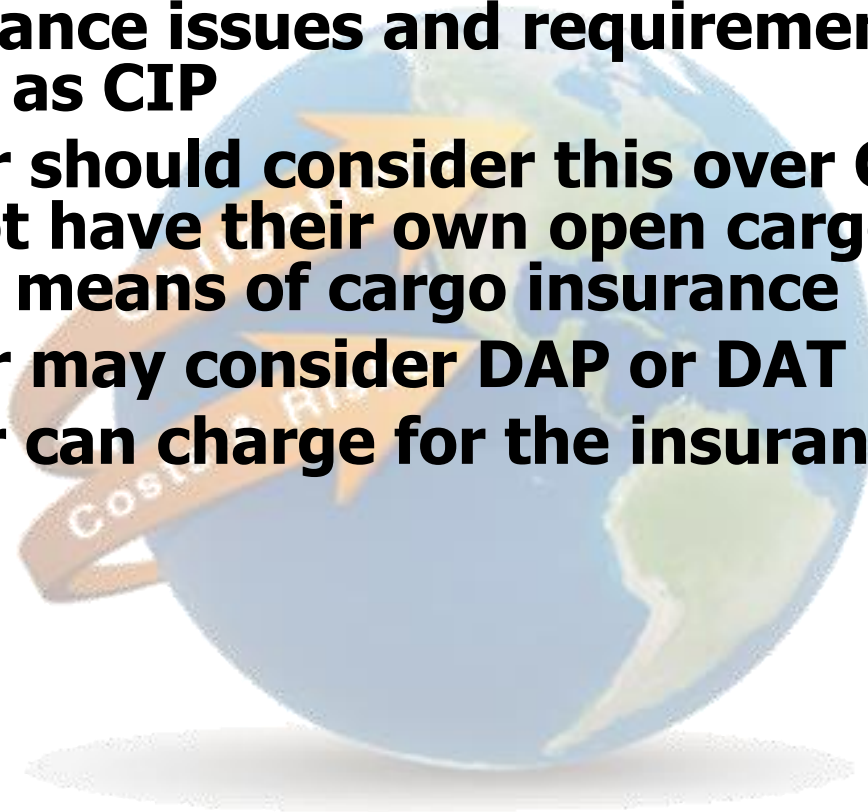
### ➤ **Buyer:**

- Arranges & pays for on-carriage at destination
- Bears cost of offloading at destination port
- If int'l, import clearance
- **Risk during main and on carriage**



## **CIF** Cost, Insurance & Freight... (Key Points)

- **Insurance issues and requirements are the same as CIP**
- **Buyer should consider this over CFR if they do not have their own open cargo policy or other means of cargo insurance**
- **Buyer may consider DAP or DAT**
- **Seller can charge for the insurance**



## Conclusion

**There are no good or bad Incoterms. They are all good if they reflect the agreement between the seller and the buyer. They are all bad if they do not or the seller or buyer cannot effectively exercise their obligations**

**One of the most critical items is to insure that the agreed upon term with the agreed upon name place be part of any sales contract, purchase order, etc.**

# Thank You!

## For Attending This NASBITE INTERNATIONAL Program

