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Incoterms® 2020

Incoterms®
2020 by the International
Chamber of Commerce (ICC)

Disclaimer : While due care has been taken in compilation we are not responsible for Errors & Omissions. For further clarity please refer to the ICC website at <https://iccwbo.org/>

Introduction

➤ What are Incoterms® rules?

The Incoterms® rules are the world's essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms® rules are there to guide you. The Incoterms® rules provide specific guidance to individuals participating in the import and export of global trade on a daily basis.

➤ Why use Incoterms® rules in international trade?

Although other clauses for global trade exist around the world, such as the Harmonised Tariff Schedule of the United States, Incoterms® rules are global in their reach. Similarly, Incoterms® rules do not include trade terms codified for national purposes, such as the “less than truckload shipping” (LTL) rule of the United States. Unlike national trade policies Incoterms® rules are universal, providing clarity and predictability to business.

➤ What does “Incoterms®” stand for?

“Incoterms®” is an acronym standing for International Commercial Terms.

The Incoterms® rules feature abbreviations for terms, like FOB (“Free on Board”), DAP (“Delivered at Place”) EXW (“Ex Works”), CIP (“Carriage and Insurance Paid To”), which all have very precise meanings for the sale of goods around the world.

These terms hold universal meaning for buyers and sellers around the world. If you are a financial analyst in the City of London, then you might associate the acronym “FCA” with the United Kingdom’s Financial Conduct Authority. However, for importers and exporters around the world, FCA are the initials used for “Free Carrier,” or the seller’s obligation to deliver the goods to the carrier nominated by the buyer at the seller’s premises or another named place.



Historical evolution of Incoterms®

1923 : ICC's first sounding of commercial trade terms

After ICC's creation in 1919, one of its first initiatives was to facilitate international trade. In the early 1920's the world business organization set out to understand the commercial trade terms used by merchants. This was done through a study that was limited to six commonly used terms in just 13 countries. The findings were published in 1923, highlighting disparities in interpretation.

1928 : Clarity improved

To examine the discrepancies identified in the initial survey, a second study was carried out. This time, the scope was expanded to the interpretation of trade terms used in more than 30 countries.

1936 : Global guidelines for traders

Based on the findings of the studies, the first version of the Incoterms® rules was published. The terms included FAS, FOB, C&F, CIF, Ex Ship and Ex Quay.

1953 : Rise of transportation by rail

Due to World War II, supplementary revisions of the Incoterms® rules were suspended and did not resume again until the 1950's. The first revision of the Incoterms® rules was then issued in 1953. It debuted three new trade terms for non-maritime transport. The new rules comprised DCP (Delivered Costs Paid), FOR (Free on Rail) and FOT (Free on Truck).

1967 : Misinterpretations corrected

ICC launched the third revision of the Incoterms® rules, which dealt with misinterpretations of the previous version. Two trade terms were added to address delivery at frontier (DAF) and delivery at destination (DDP).



1974 : Advances in air travel

The increased use of air transportation gave cause for another version of the popular trade terms. This edition included the new term FOB Airport (Free on Board Airport). This rule aimed to allay confusion around the term FOB (Free on Board) by signifying the exact “vessel” used.

1980 : Proliferation of container traffic

With the expansion of carriage of goods in containers and new documentation processes, came the need for another revision. This edition introduced the trade term FRC (Free Carrier...Named at Point), which provided for goods not actually received by the ship’s side but at a reception point on shore, such as a container yard.

1990 : A complete revision

The fifth revision simplified the Free Carrier term by deleting rules for specific modes of transport (i.e., FOR; Free on Rail, FOT; Free on Truck, and FOB Airport; Free on Board Airport). It was considered sufficient to use the general term FCA (Free Carrier...at Named Point) instead. Other provisions accounted for increased use of electronic messages.

2000 : Amended customs clearance obligations

The “License, Authorisations and Formalities” section of FAS and DEQ Incoterms® rules were modified to comply with the way most customs authorities address the issues of exporter and importer of record.

2010 : Reflections on the contemporary trade landscape

Incoterms® 2010 is the most current edition of the rules to date. This version consolidated the D-family of rules, removing DAF (Delivered at Frontier), DES (Delivered Ex Ship), DEQ (Delivered Ex Quay) and DDU (Delivered Duty Unpaid) and adding DAT (Delivered at Terminal) and DAP (Delivered at Place). Other modifications included an increased obligation for buyer and seller to cooperate on information sharing and changes to accommodate “string sales.”





1923

ICC conducts first study of most commonly used trade terms, highlighting disparities of their interpretation.



1928

Second **Incoterms**[®] rules study expands scope to improve clarity of trade terms in over 30 countries.



1936

ICC publishes first edition of the **Incoterms**[®] rules featuring six trade terms relating to carriage by sea.



1953

Three new non-maritime terms address the rise of transport of goods by rail in the wake of World War II: **FOR** (Free on Rail), **FOT** (Free on Truck) and **DCP** (Delivered Costs Paid).



1980

FRC (Free Carrier) term and new documentation processes introduced to address rise of containerisation.



1976

Fourth edition of the **Incoterms**[®] rules announces new terms to end confusion relating to the interpretation of **FOB** (Free on Board) for air transport.



1967

ICC launches third edition of the **Incoterms**[®] rules including two new terms: **DAF** (Delivery at Frontier) and **DDP** (Delivery in Country of Destination).



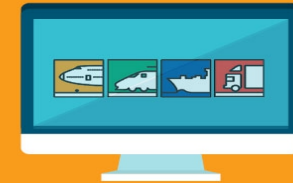
1990

ICC unveils **Incoterms**[®] 1990, a complete revision of the 1953 version reflecting contemporary practices in international trade and use of intermodal transport. **FRC** becomes **FCA**. Changes also contain provisions for the use of electronic messages.



2000

Publication of **Incoterms**[®] 2000 sees major changes to the "Delivery" section, which made the term **FCA** (Free Carrier) far clearer and easier to use.



2010

ICC releases **Incoterms**[®] 2010, reducing the number of terms from 13 to 11 by inclusion of two new rules for use irrespective of the agreed mode of transport. Other modifications to reflect contemporary trade landscape comprises measures to enhance cooperation among parties and adaptations regarding commodities sales and domestic transactions.

Overview of Incoterms®

- Most essential trade terms for sale and purchase of goods
- Two key players - Seller & Buyer
- Helps in
 - Filing a purchase order/sales contract/purchase contract
 - Deciding obligations - who does what as a Buyer and Seller
 - Identifying the party responsible for cost towards Carriage, Transportation, Insurance, Packing and Labelling
 - How/when does the risk transfers from the Seller to the Buyer



What the Incoterms[®] rules DO

- Incoterms rules explain a set of eleven most commonly used three letter trade terms.
 - E.g. CIF; DAP; FOB etc.
- Obligation - Who does what between the Buyer and Seller.
 - E.g. who organises Carriage or Insurance
- Risk - Where and when the Seller delivers the goods i.e. when the Risk is transferred.
- Costs - Which party is responsible for various costs, such as Transport, Packaging, Loading, Un-loading and others



What the Incoterms® rules **DO NOT DO**

- Whether there is a Contract of Sale at all
- Specifications of the Goods Sold
- Time, Place, Method or Currency of Payment
- Remedies which can be sought in case of Breach of Contract
- Consequences of delay and any other breaches in the performance of Contractual Obligation
- Effects of Sanctions
- Imposition of Tariffs
- Export or Import Prohibitions
- Force Majeure or hardship
- Intellectual property rights
- Method, Venue or Law in case of dispute resolution
- Most importantly is does not deal with transfer of property/title/ownership of the goods sold



Important !!

Incoterms[®] rules are *NOT* themselves a contract of sale; They only become *PART* of the contract when they are incorporated into a contract.



How best to incorporate Incoterms®

- If parties want Incoterms® 2020 rules to apply to a their contract, the safest way is to clearly mention in the contract

For example :

- **CIF** Rotterdam, The Netherlands Incoterms® 2020
 - **FOB** Nhava Sheva, India Incoterms® 2020
 - **DAP** 23 North Street, London, United Kingdom Incoterms® 2020
-
- Leaving the year out could cause problems that may be difficult to resolve. The parties, a Judge or an Arbitrator need to be able to determine which version of the Incoterms rules applies to the contract.



Delivery & Transfer of Risk in the Incoterms® 2020 Rules

➤ Incoterms rules traditionally grouped into 4 terms

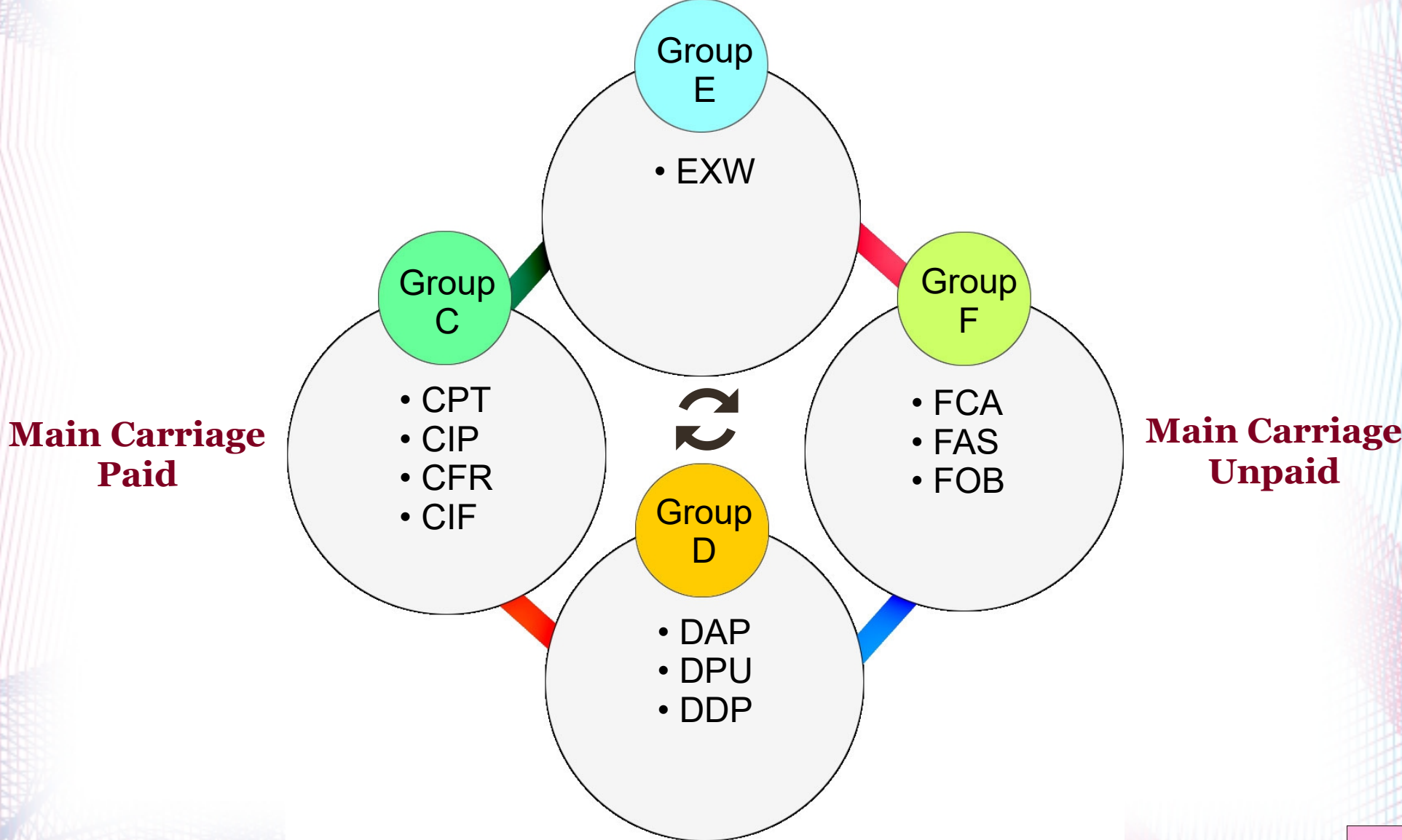
- **E,F,C and D**

- E and D rules lying at extreme poles from each other in terms of point of delivery and F and C rules lying in between
- EXW - an agreed point of collection for Buyer, irrespective of the destination to which the Buyer will take them where as DAP, DPU & DDP the delivery point is the same as the destination point to which the Seller or its carrier will carry the goods
- In EXW, risk transfers before the transport cycles even starts where as in 'D' rules the risk transfers very late
- In case of FOB, CFR and CIF delivery occurs i.e. the risk is transferred when the goods are placed in board the vessel at the port of loading
- In case of CPT and CIP delivery occurs i.e. the risk is transferred when the goods are handed over to the first carrier
- In case of FAS delivery occurs i.e. the risk is transferred when the goods are place along side the vessel at the port of loading
- In case of FCA delivery occurs i.e. the risk is transferred when the goods are placed at the disposal of the Buyer or by loading them on the means of transport provided by the Buyer

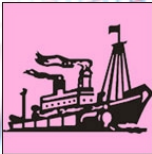


Incoterms® 2020 Structure

Departure



Arrival



Incoterms® 2020 Rules

Category 1 : Rules for any Mode or Modes of Transport (Multi-modal)

EXW Ex Works

DPU Delivered at Place Unloaded

FCA Free Carrier

DAP Delivered at Place

CPT Carriage Paid To

DDP Delivered Duty Paid

CIP Carriage Insurance Paid To



Incoterms® 2020 Rules

Category 2 : Rules for Sea and Inland Waterway Transport (Maritime)

FAS Free Alongside Ship

FOB Free On Board

CFR Cost & Freight

CIF Cost, Insurance & Freight



EXW - Ex Works

EXW (insert named place of delivery) Incoterms® 2020

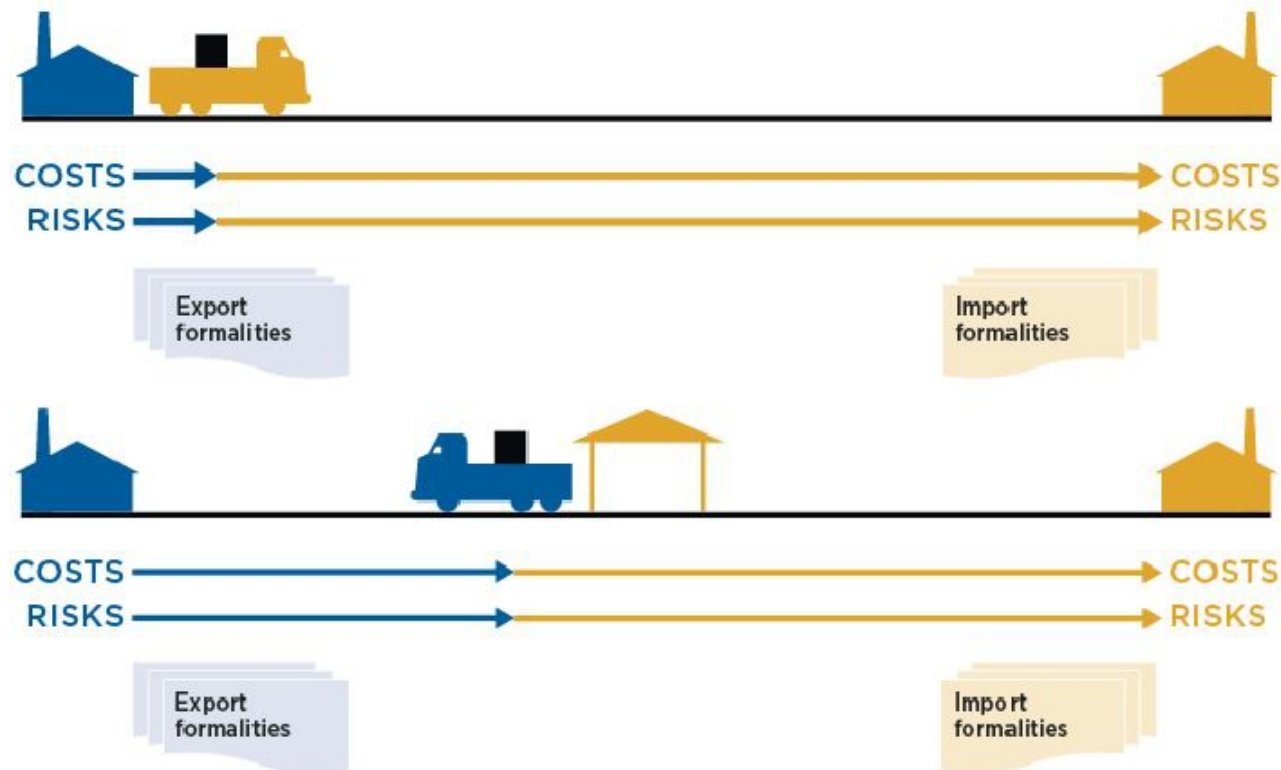


- “**Ex Works**” means that the seller delivers when it places the goods at the disposal of the buyer at the seller’s premises or at another named place (i.e., works, factory, warehouse, etc.).
- The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.



FCA - Free Carrier

FCA (insert named place of delivery) Incoterms® 2020



- “**Free Carrier**” means that the seller delivers the goods to the carrier or another person nominated by the buyer at the seller’s premises or another named place.
- The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.



CPT - Carriage Paid to

CPT (insert named place of destination) Incoterms® 2020

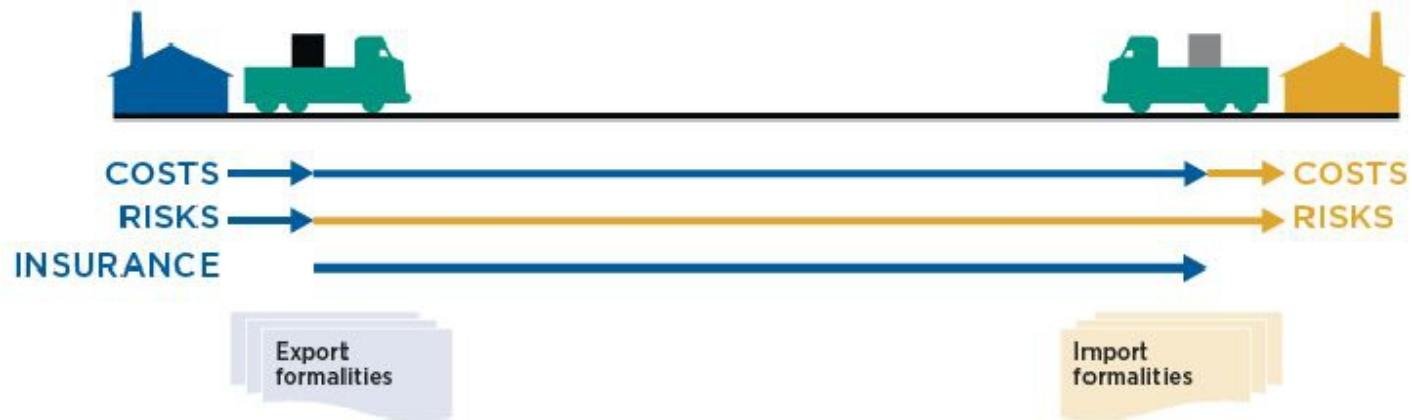


- **“Carriage Paid To”** means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.



CIP - Carriage and Insurance Paid to

CIP (insert named place of destination) Incoterms® 2020

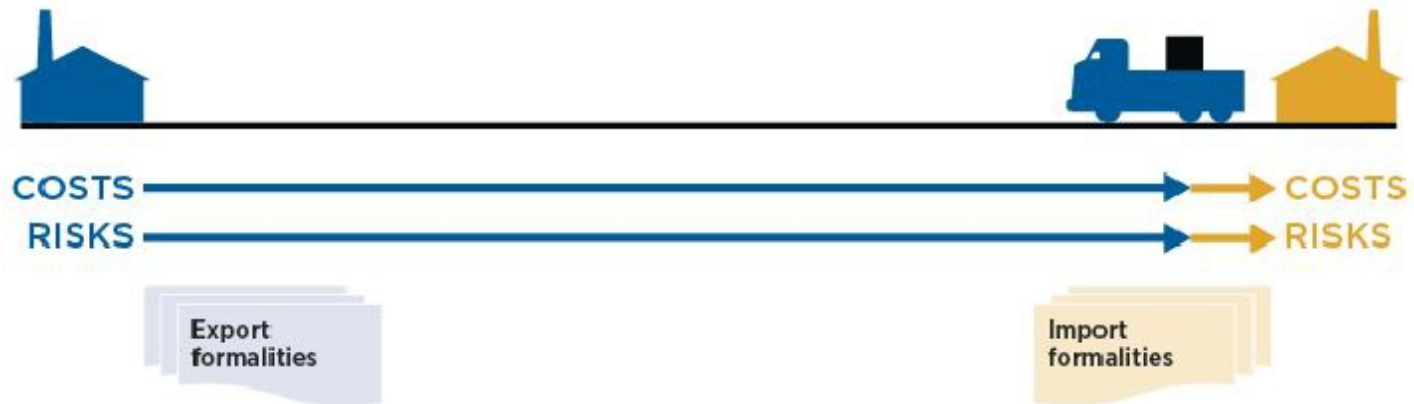


- **“Carriage and Insurance Paid to”** means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.
- The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage.
- The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.



DAP - Delivered at Place

DAP (insert named place of destination) Incoterms® 2020

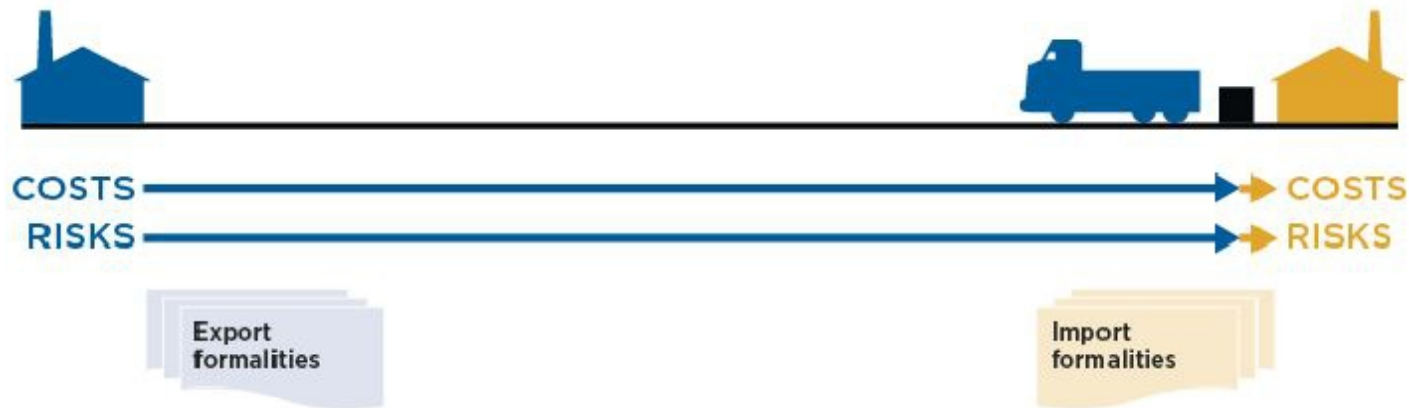


- **“Delivered at Place”** means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.



DPU - Delivered at Place Unloaded

DPU (insert named place of destination) Incoterms® 2020

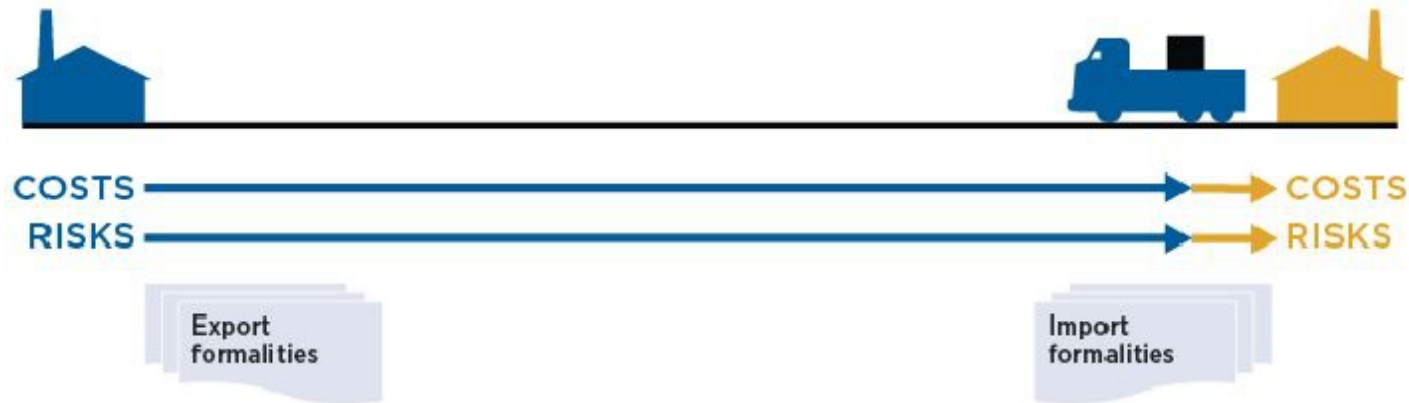


- **“Delivered at Place Unloaded”** means that Seller delivers the goods and transfer risk to Buyer, when the goods once unloaded from the arriving means of transport are placed at the disposal of the Buyer & at the named place or destination or at an agreed point within that place, if any point has been agreed
- The contract of carriage must be arranged by the Seller up to the agreed point of delivery of destination
- The Seller is liable to unload the good from the means of transportation
- DPU requires the Seller to clear the goods for export however the Seller is under no obligation to clear the good for import or transit through third countries
- Buyer must arrange for import customs clearance and customs duties



DDP - Delivered Duty Paid

DDP (insert named place of destination) Incoterms® 2020

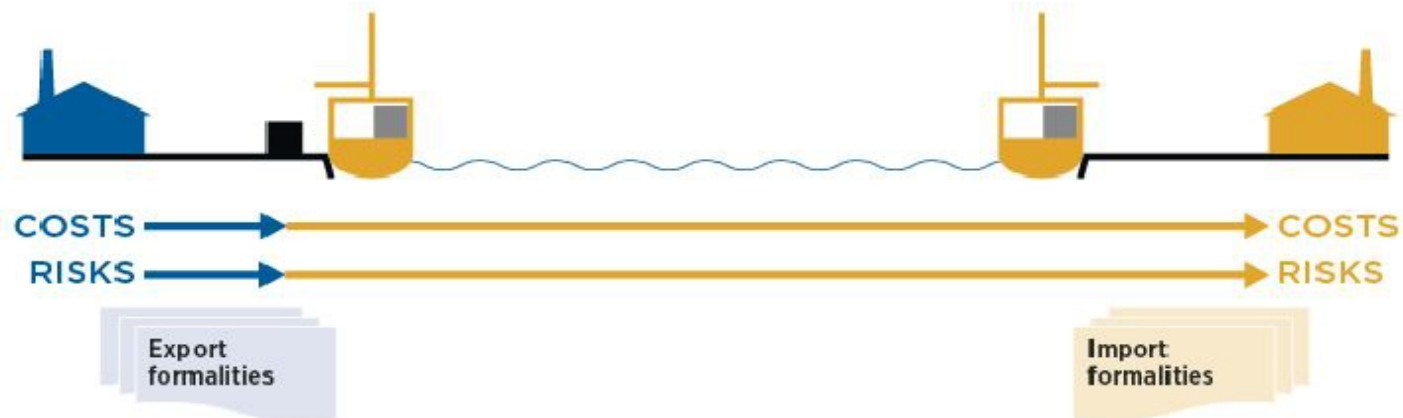


- **“Delivered Duty Paid”** means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination.
- The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.



FAS - Free Alongside Ship

FAS (insert named port of shipment) Incoterms® 2020

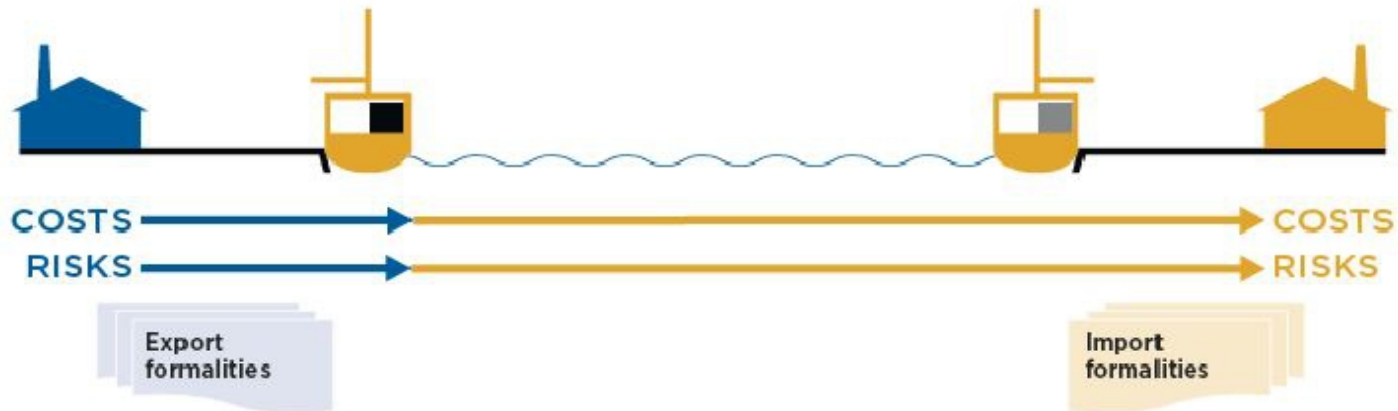


- “**Free Alongside Ship**” means that the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment.
- The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.



FOB - Free On Board

FOB (insert named port of shipment) Incoterms® 2020

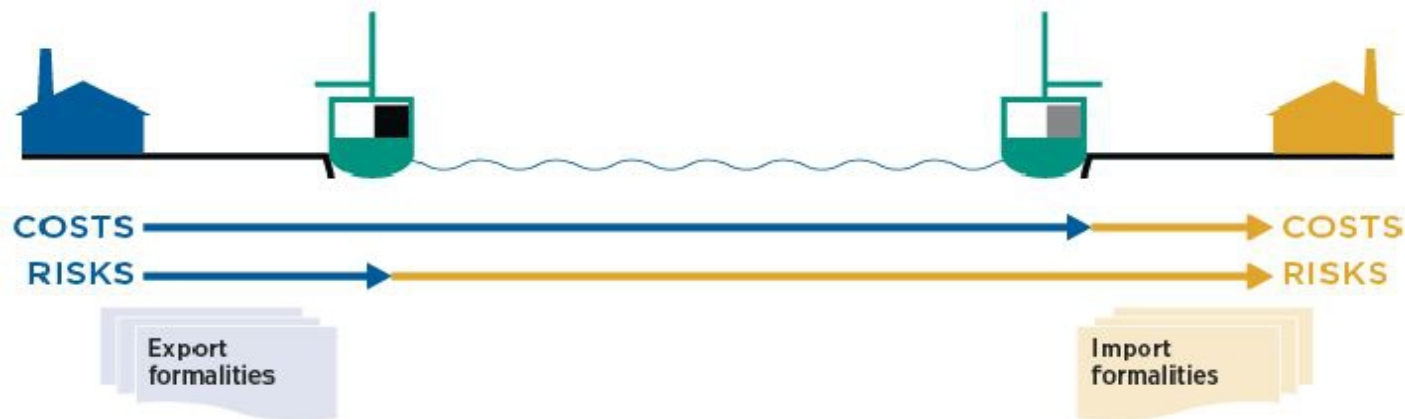


- **“Free On Board”** means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.



CFR - Cost and Freight

CFR (insert named port of destination) Incoterms® 2020

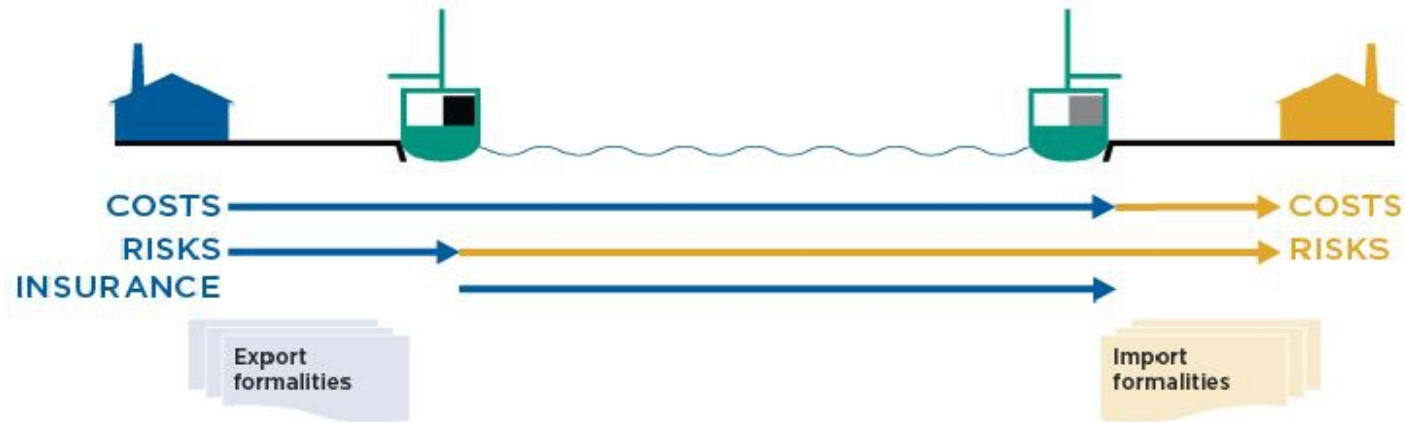


- “**Cost and Freight**” means that the seller delivers the goods on board the vessel or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel. the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.



CIF - Cost, Insurance and Freight

CIF (insert named port of destination) Incoterms® 2020



- **“Cost, Insurance and Freight”** means that the seller delivers the goods on board the vessel or procures the goods already so delivered.
- The risk of loss of or damage to the goods passes when the goods are on board the vessel.
- The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer’s risk of loss of or damage to the goods during the carriage.
- The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.



Incoterms® 2020 Changes

- DAT Incoterm changed to DPU (Delivery at Place Unloaded)
- Insurance points are clarified in CIF and CIP incoterms rules
- Costs and cost structures are now clarified
- Security in relation to transport is now clearly detailed
- Provisions to allow for own transport rather than assuming 3rd party transport
- FCA, FOB and Bills of Lading
- Presentation and design is much more user friendly



Transfer of Risk from the Seller to the Buyer

TERM	CARRIAGE OF GOODS	RISKS
EXW	Carriage to be arranged by the Buyer	Risk transfer from the Seller to the Buyer when the goods are at the disposal of the Buyer
FCA	Carriage to be arranged by the Buyer or the Seller on the Buyer's behalf	Risk transfer from the Seller to the Buyer when the goods have been delivered to the carrier at the named place
CPT	Carriage to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods have been delivered to the carrier
CIP	Carriage and insurance to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods have been delivered to the carrier
DAP	Carriage to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods are delivered to named place ready for unloading
DPU	Carriage to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods are delivered and unloaded at named place
DDP	Carriage to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods are placed at the disposal of the Buyer at named place
FAS	Carriage to be arranged by the Buyer	Risk transfer from the Seller to the Buyer when the goods have been placed alongside the ship
FOB	Carriage to be arranged by the Buyer	Risk transfer from the Seller to the Buyer when the goods pass the ship's rail
CFR	Carriage to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods pass the ship's rail
CIF	Carriage and insurance to be arranged by the Seller	Risk transfer from the Seller to the Buyer when the goods pass the ship's rail CIF

Thank you!



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