

## **INCOTERMS 2020: Standard Trade Definitions Used In International Freight Transactions**

This is an introductory guide only, for those involved in international freight transactions. These explanations of Incoterms used worldwide in international and domestic contracts are useful in determining costs, risks, and responsibilities for cargo insurance between buyers and sellers.

This document highlights Incoterms 2020 changes from Incoterms 2010.

### **Incoterms 2020**

The [International Chamber of Commerce](#) has published Incoterms 2020, comprising 11 Incoterms (expanded summary follows introduction). The Incoterms 2020 are organized into two categories:

#### **Incoterms for any Mode or Modes of Transport:**

- **EXW** - Ex Works
- **FCA** - Free Carrier
- **CPT** - Carriage Paid To
- **CIP** - Carriage and Insurance Paid To
- **DAP** - Delivered At Place
- **DPU** - Delivery at Place Unloaded
- **DDP** - Delivered Duty Paid

#### **Incoterms for Sea and Inland Waterway Transport Only:**

- **FAS** - Free Alongside Ship
- **FOB** - Free On Board
- **CFR** - Cost and Freight
- **CIF** - Cost, Insurance and Freight

#### **KEY CHANGES in Incoterms 2020 compared to the 2010 edition:**

- DAT (Delivered at Terminal) is replaced by **Delivered at Place Unloaded (DPU)**
- FCA (Free Carrier) now allows for Bills of Lading to be issued after loading

#### **Other changes include:**

- CIF (Cost, Insurance and Freight) and CIP (Carriage and Insurance Paid To) set out new standard insurance arrangements, but the level of insurance continues to be negotiable between buyer and seller.
- Where listed, cost allocation between buyer and seller is stated more precisely - one article lists all costs the seller and the buyer are responsible for.
- FCA (Free Carrier), DAP (Delivered at Place), DPU (Delivered at Place Unloaded) and DDP (Delivered Duty Paid) now take account of buyer and seller arranging their own transport rather than using a third party.

- Security-related obligations are now more prominent.
- CIP now requires as default insurance coverage ICC A or equivalent. It was ICC C under Incoterms 2010. Required insurance coverage under CIF remains.

## Incoterms 2020: Expanded Summary

**Note:** an Incoterm must be accompanied by a "named place" or "named port" ex. "FOB Sydney", "EXW Tahiti"

### **EXW**

(Ex Works - named place of delivery)

May be used for all transport modes.

The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. The seller's obligation is to make the goods available at his premises (works, factory, warehouse). This term represents minimum obligation for the seller.

### **FCA**

(Free Carrier - named place of delivery)

May be used for all transport modes.

The seller's obligation is to hand over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When the seller's assistance is required in making the contract with the carrier the seller may act at the buyers risk and expense.

### **CPT**

(Carriage Paid To - named place of destination)

May be used for all transport modes.

The seller pays the freight for the carriage of goods to the named destination. The risk of loss or damage to the goods occurring after the delivery has been made to the carrier is transferred from the seller to the buyer. This term requires the seller to clear the goods for export.

### **CIP**

(Carriage & insurance Paid to - named place of destination)

May be used for all transport modes.

The seller has the same obligations as under CPT but has the responsibility of obtaining insurance against the buyer's risk of loss or damage of goods during the carriage. The seller is required to clear the goods for export however is only required to obtain insurance on minimum coverage. This term requires the seller to clear the goods for export.

### **DAP**

(Delivered At Place - named place of destination)

May be used for all transport modes.

Seller delivers the goods when they are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. Parties are advised to specify as clearly as possible the point within the agreed place of destination, because risks transfer

at this point from seller to buyer. If the seller is responsible for clearing the goods, paying duties etc., consideration should be given to using the DDP term.

### **Responsibilities**

- Seller bears the responsibility and risks to deliver the goods to the named place
- Seller is advised to obtain contracts of carriage that match the contract of sale
- Seller is required to clear the goods for export
- If the seller incurs unloading costs at place of destination, unless previously agreed they are not entitled to recover any such costs
- Importer is responsible for effecting customs clearance, and paying any customs duties

### **DPU**

(Delivered at Place Unloaded - named place of destination)

**New Term** - replaces Incoterms 2010 rule DAT (Delivered At Terminal)

May be used for all transport modes.

There are no restrictions on the named place – it can be ex. a transport hub, a warehouse or the buyer's depot.

*Specify the place precisely*, as many transport hubs are very large.

### **Responsibilities**

- The seller is responsible for arranging carriage and for delivering the goods, unloaded from the arriving means of transport, at the named place
- Risk transfers from seller to buyer when the goods have been unloaded
- This is the only rule that requires the seller to unload the goods in order to complete delivery
- The buyer is responsible for import clearance and any applicable local taxes or import duties

### **DDP**

(Delivered Duty Paid - named place of destination)

May be used for all transport modes.

The seller is responsible for delivering the goods to the named place in the country of importation, including all costs and risks in bringing the goods to import destination. This includes duties, taxes and customs formalities.

**FAS**

(Free Alongside Ship - named port of shipment)

May be used for sea or inland waterway transport only. The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. Suitable only for maritime transport but NOT for multimodal sea transport in containers (see Incoterms 2010, ICC publication 715). This term is typically used for heavy-lift or bulk cargo.

**FOB**

(Free On Board - named port of shipment)

May be used for sea or inland waterway transport only. The seller must load themselves the goods on board the vessel nominated by the buyer. Cost and risk are divided when the goods are actually on board of the vessel (this rule is new!). The seller must clear the goods for export. The term is applicable for maritime and inland waterway transport only but NOT for multimodal sea transport in containers (see Incoterms 2010, ICC publication 715). The buyer must instruct the seller the details of the vessel and the 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 has been greatly misused over the last three decades ever since Incoterms 1980 explained that FCA should be used for container shipments.

**CFR**

(Cost and Freight - named port of destination)

May be used for sea or inland waterway transport only. The seller must pay the costs and freight required in bringing the goods to the named port of destination. The risk of loss or damage is transferred from seller to buyer when the goods pass over the ship's rail in the port of shipment. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.

**CIF**

(Cost, Insurance & Freight - named port of destination)

May be used for sea or inland waterway transport only. The seller has the same obligations as under CFR however he is also required to provide insurance against the buyer's risk of loss or damage to the goods during transit. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.