INCOTERMS

The Ultimate TFG Guide to Incoterms

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Incoterms are a standard set of terminology, created by the International Chamber of Commerce (ICC), used universally, defining the key parts of freight forwarding

What are Incoterms?

Incoterms are a standard set of terminology, created by the International Chamber of Commerce (ICC), used universally, defining the key parts of freight forwarding.

In 1936 the ICC first defined the INternational COmmerce Terminology (INCO Terms), and we have summarised the 11 most commonly used terms below.

Incoterms is a registered trademark of the International Chamber of Commerce.

We've put together this free guide for you to make understanding International Commerce Terms easy!

Enjoy!

Trade Finance Global Team

Incoterms - What's Covered?

- What are Incoterms and Why are they used?
- What are the rules for all modes of transport?
- What are the rules for goods transported by sea or inland waterway?

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ABOUT TRADE FINANCE GLOBAL

Trade Finance Global assists companies with debt finance. While we can access many traditional forms of finance, we specialise in alternative finance and complex funding types and help companies raise finance in ways that mainstream lenders cannot.

We pride ourselves in both understanding trade finance and having an in-depth knowledge of many markets and sectors. This helps us to work with you to deliver the financing solutions you need.

It is important to look at the many facilities that are available along with the business need and sector. We do this and work together with you to try and create the most suitable and sustainable solution.

> *Due to the fast pace of the market and increasing difficulties faced, we understand that quick decisions are needed within your business. This should not compromise the ultimate financing solution that you come to. We work with both your company and our partner funders to assist in structuring a facility that works for your business.*
>
> Trade Finance Team (TFG)

MULTI MODAL INCOTERMS

International Commerce Terms that can be used Multi-modally - Rules for all modes of transport

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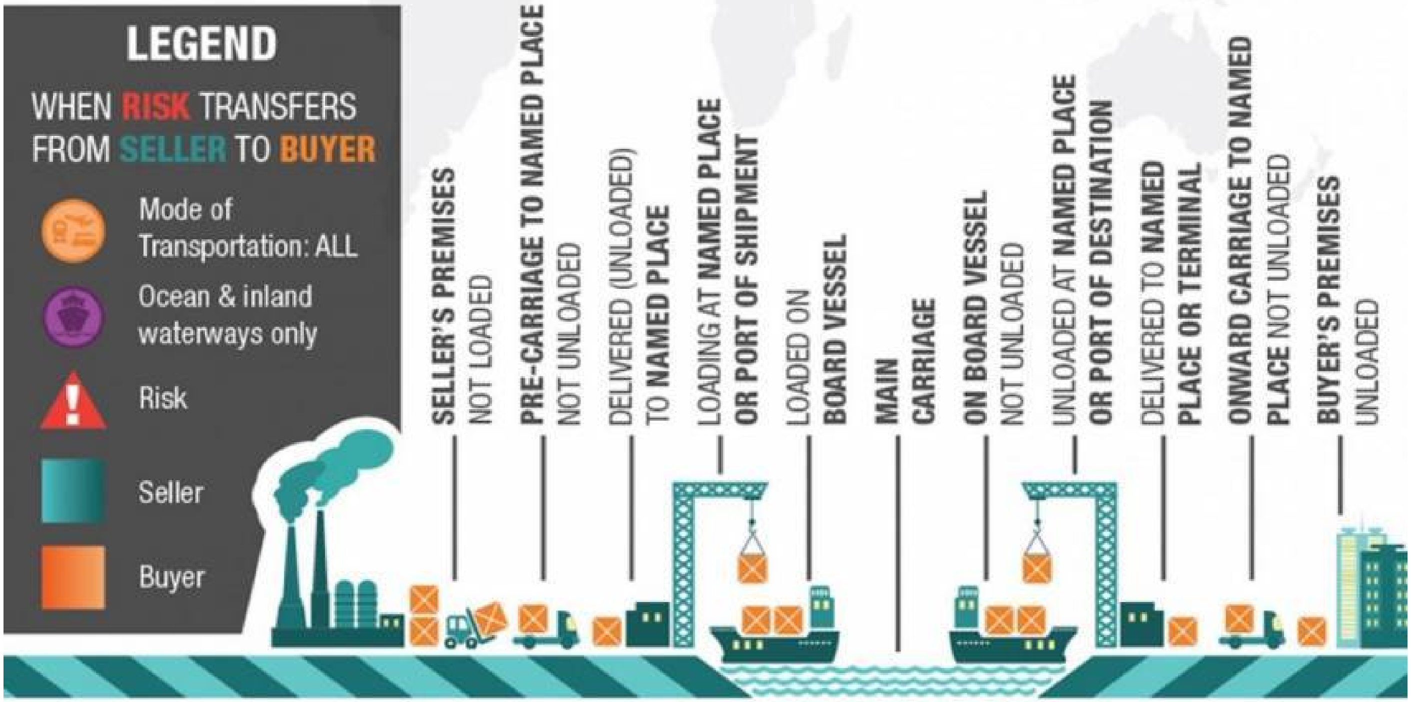
1. RISK TRANSFER POINT FROM SELLER TO BUYER.



EXW
Ex Works

RISK TRANSFERS TO BUYER: When conveyance arrives at SELLER's premises where goods are ready for transport.

FCA
Free Carrier

RISK TRANSFERS TO BUYER: When vehicle arrives at named place, ready for unloading.

CPT
Carriage Paid To

RISK TRANSFERS TO BUYER: When goods are taken in charge by carrier.

CIP
Carriage & Insurance Paid To

RISK TRANSFERS TO BUYER: When goods are taken in charge by carrier.

DAT
Delivered at Terminal

RISK TRANSFERS TO BUYER: When goods have been delivered & unloaded at a specified place inside the destination terminal.

DAP
Delivered at Place

RISK TRANSFERS TO BUYER: When goods arrive at destination. BUYER is responsible for unloading.

DDP
Delivered Duty Paid

RISK TRANSFERS TO BUYER: When goods arrive at destination. BUYER is responsible for unloading.

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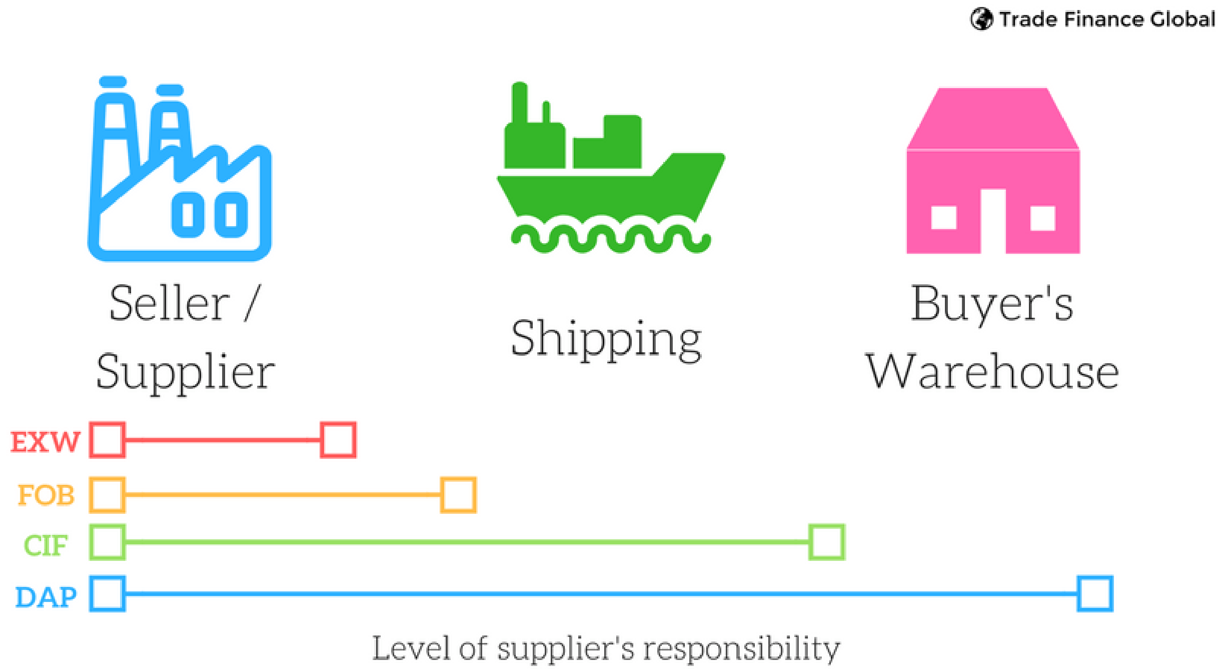
- CHAPTER 1 -

EWW - Ex Works

Ex Works (EXW) is the term used to describe the delivery of goods to an available designation at their place of business, normally in their factory, offices or warehouse.

The seller does not need to then load items onto a truck or ship, and the remainder of the shipment is the responsibility of the buyer (e.g. overseas shipment and customs duty). EXW is therefore more favourable to the seller as they do not need to worry about the freight once it has left their premises.

Ex Works – What are Ex Works?



Ex Works are a type of Incoterm, defined by the ICC.

Ex Works is a rule making the seller (or shipper / supplier) of goods responsible for packaging and leaving the goods at their factory or place of manufacture.

The buyer (or consignee) is then responsible for everything else:

- Loading goods onto transport
- Transporting goods to a port or terminal
- Shipping the goods
- Unloading the goods at the buyer's port or terminal
- Transporting the goods to the end destination or warehouse

Ex Works can be complex and problematic for a buyer importing goods from overseas, given that they will still need the seller's communication or authority to pass goods through customs or provide documentation to freight parties along the way.

In Ex Works, the buyer is responsible for everything from the point of the goods being made available, so diligent and detailed planning is advised.

Ex Works is preferable for domestic (in market) transportation of goods, and the buyer can use their preferred freight forwarders or logistics partners to arrange the transport, potentially being cheaper than the seller arranging the entire delivery process.

- CHAPTER 2 -

FCA - Free Carrier

Unlike EXW, Free Carrier pushes the responsibility of delivering the goods to the buyers nominated premises onto the seller, so they have to organise shipping and various export documents.

Free Carrier – What is Free Carrier?

Free Carrier is another type of International Commercial Term (Incoterm) as defined by the International Chamber of Commerce to standardise global shipping terms and responsibilities between the buyer and the seller.

Free Carrier is a common agreement where a seller (or shipper / supplier) of goods is responsible for packaging and loading goods onto a truck at their transport hub or port, different to Ex Works, where the seller is just responsible for getting the making the goods available at their own factory or place of manufacture.

The seller is also responsible for export clearance of the goods at the port or terminal.

The buyer (or consignee) is then responsible for everything else:

- Shipping the goods
- Unloading the goods at the buyer's port or terminal
- Transporting the goods to the end destination or warehouse

When does FCA liability transfer from the seller to the buyer?

The agreed transportation point of the goods can be at a port, terminal or goods loading point, providing it's within the home country of the seller.

Free Carrier (continued)

Once the goods are have been loaded and cleared customs (export clearance) and the shipment is accepted, responsibility shifts from the seller to the buyer to arrange shipment and delivery to the end warehouse or customer.

The seller may charge for their services to arrange any contracts to the carrier (e.g. a cargo ship or airport authority).

The buyer and seller might arrange for the goods to be shipped by ocean freight on a container. The liability might therefore shift to the buyer at the Container Freight Station or Container Yard – this needs to be clearly defined and agreed by both parties in advance.

Free Carrier is multimodal

Whether the goods are shipped by inland waterway, rail, road, sea, air or a combination, FCA can be an agreed form of transport agreement between the buyer and seller.

FCA can be less problematic than Ex Works as the seller is responsible for clearing customs, and they are likely to have the relevant licenses.

FCA Price

The price of Free Carrier can vary, depending on where the goods are dropped to, but there are several levers and known costs which should be investigated:

- Fees to contract with the carrier (which the seller might do on the buyer's behalf)
- Shipping and transport costs
- Insurance
- Warehouse Storage
- Unloading fees

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CPT - Carriage Paid To

"Carriage Paid To", or CPT, goes into a little more detail than FCA, specifying that the seller bears the costs for transporting the goods to the nominated place that the buyer requests.

Carriage Paid To – What is CPT?

Carriage Paid To (CPT) is an International Commercial Term (Incoterm) which was set out by the International Chamber of Commerce in their Incoterms 2010 guide with the aim of standardising shipping terms and defining all of the responsibilities between buyers and sellers.

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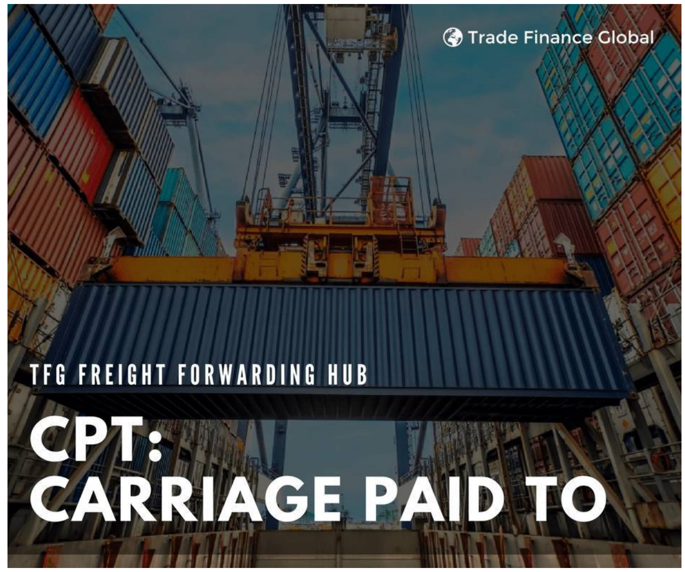
CPT is common for large importers who have their own port agents that can manage the delivery of goods when they arrive in their country.

However, the risk of the seller passes on to the buyer once the goods leave their country or port, despite the seller paying for the transport of the goods.

The buyer (or consignee) is then responsible for everything else:

- Insuring the goods as they are being shipped (but not paying for this shipment)
- Unloading the goods at the buyer's port or terminal
- Transporting the goods to the end destination or warehouse

When does the liability shift from the seller to the buyer under CPT?



As soon as the goods are delivered to the carrier (e.g. loaded onto the ship at the port of the seller's country), the liability and risk of these goods is transferred over to the buyer.

The agreed transportation point of the goods can be at a port, terminal or goods loading point, providing it's within the home country of the seller.

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CIP - Carriage and Insurance Paid to

"Carriage and Insurance Paid to", or CPI, specifies that the seller needs to pay the costs of transport as well as the insurance cover for the goods in transit (by any transport mode) to the destination named by the buyer.

Carriage and Insurance Paid

CIP (or Carriage and Insurance Paid To) is an Incoterm where the seller is responsible for the delivery of goods to an agreed destination in the buyers country, and must pay for the cost of this carriage. The sellers risk however, ends once they have placed the goods on the ship, at the origin destination. The buyer can pay for additional insurance during carriage of the goods.

The risk is passed when the goods are received by the first carrier. Carriage and Insurance Paid to is eligible for any form of transportation.

How does CIP work?

Cost and Insurance Paid To requires the seller to pay for the cost of transporting the goods and also minimum insurance to transport them to the end destination.

With CIP, the seller pays for both the **transportation** and the **insurance** to the destination. The seller also needs to insure the goods during carriage, and it's normally always at a minimum cover level as the liability lies with the buyer at this point. Minimum insurance might not be adequate for manufactured goods or high value / precious merchandise.

Carriage and Insurance Paid To

Given that the goods being shipped are at the buyer's own risk, it's advisable for the buyer to ensure adequate insurance protection is in place. The term 'delivery' means from the country of origin to the final destination. The seller also needs to arrange export clearance from the origin country of the goods, which can be for any mode of transport.

In the case of CIP, damaged goods can be claimed against the insurance company through the buyer. When the goods arrive in the port of destination, the buyer needs to ensure the goods clear through customs.

1. Complying with contracts – Goods Delivery

The seller must prove the goods have been delivered and provide an invoice or equivalent, as well as shipping / delivery proof

2. Licences and other formalities

The seller must provide a sufficient export license for the goods, or government authorisation to allow the goods to leave the country

3. Insurance

The seller should provide a Contract of insurance at their own expense. The seller must obtain at his own expense cargo insurance as agreed in the contract, such that the buyer, or any other person having an insurable interest in the goods, shall be entitled to claim directly from the insurer and provide the buyer with the insurance policy or other evidence of insurance cover.

4. Delivery

The seller must deliver the goods to the first carrier as agreed at a named place and time

5. Transfer of risks

The seller is responsible for any goods which are lost or damaged if this happens before the goods have been delivered

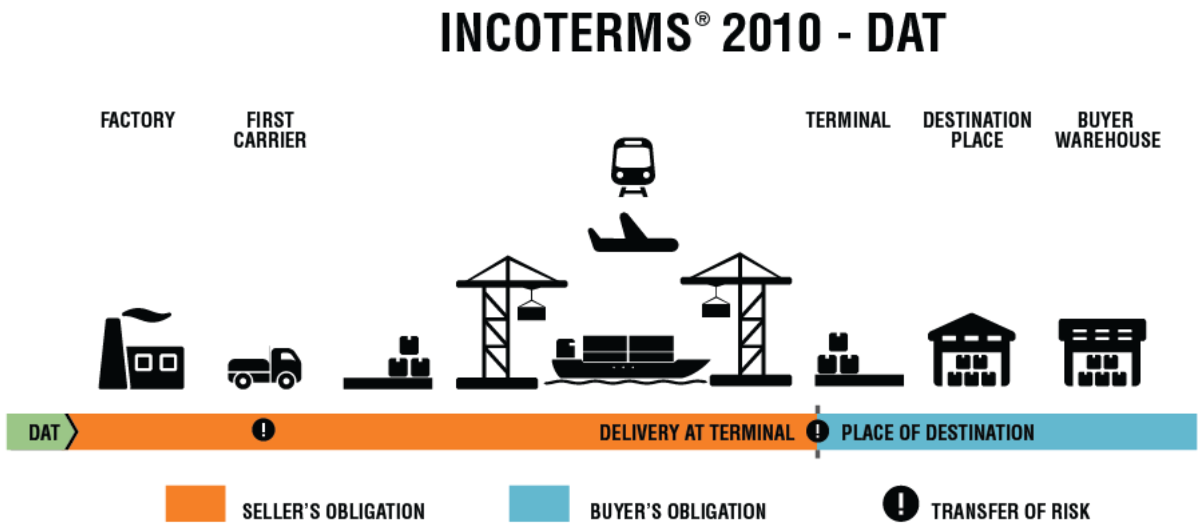
- CHAPTER 5 -

DAT - Delivery at Terminal

“Delivered at Terminal”, or DAT, means that all of the costs up until the point of delivery to a nominated terminal (e.g. a port or a quay) need to be covered. As in the table above, the buyer would need to arrange Duties and Taxes and clearing goods through customs. With DAT, the seller is also responsible for unloading the goods at the terminal.

It’s advisable to ensure the terminal, hub or port is clearly specified, given the size of many terminals.

Delivery at Terminal – What is DAT?



DAT, or, Delivery at Terminal, is where the seller clears goods for export and is fully responsible for the goods until they have arrived at a named terminal at the end destination. The goods must be unloaded at the terminal. DAT can be used with any transportation mode.

It is recommended that the seller's contract with their forwarding company mirrors the contract of sale.

Delivery at Terminal is used when the seller's responsibility includes the full delivery of goods up until the end terminal or port of destination, as well as the unloading of the goods.

How does DAT work?

The seller pays for all of the expenses incurred until the place of delivery and the buyer pays for customs clearance and taxes at destination.

'Terminal' means a quay, warehouse, container yard or any road for rail, air or road.

As with all of the 'D' incoterms, the risks *and* responsibility of goods gets transferred from the seller to the buyer at the same point – the end destination. DAT was specifically designed to meet airport and port deliveries.

For ocean cargo and shipping goods by sea, any discharged containers are then moved to a container yards (CY), which is where containers are stored before they are moved to their final destination. Sellers are responsible for any destination terminal handling charges and the buyer only pays for customs clearance, duties and taxes.

Benefits of DAT

The key advantages of Delivery at Terminal are around convenience and reduced risk to the importer:

1. The supplier delivers goods to the destination place (importer doesn't need to cover these costs)
2. The risk is transferred from the supplier to the importer once the goods have been dispatched and unloaded at a defined place at the destination
3. The supplier bears the responsibility for most of the carriage/transport of the goods from the origin to the destination
4. Less hassle and organisation for the buyer of goods

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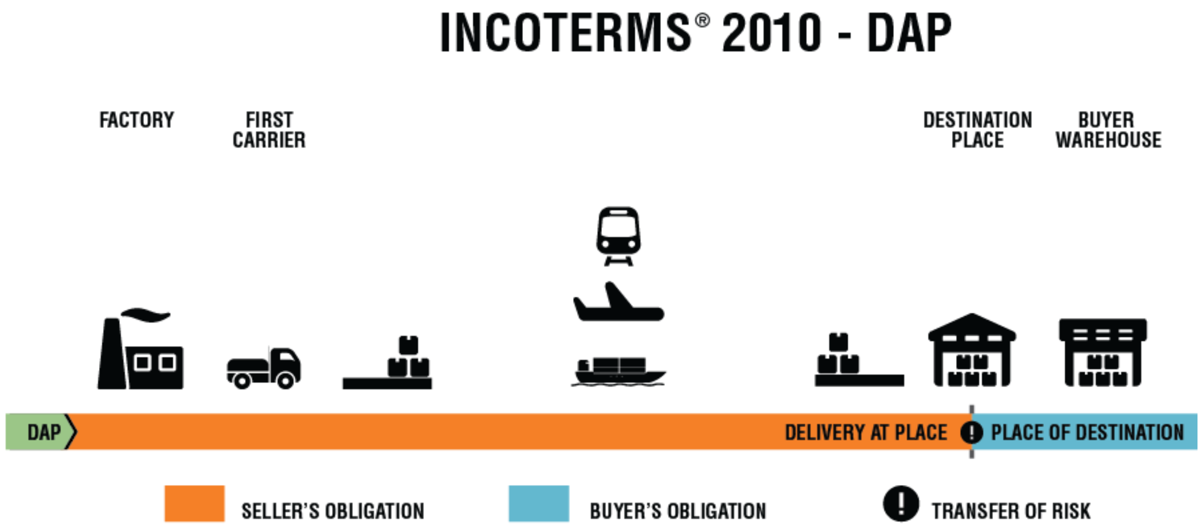
DAP - Delivered at Place

"Delivered at Place", or DAP, can also be used for any mode of transport. An extension of DAT, the seller delivers the goods at a named destination, specified by the buyer, although under the ICC rules, the unloading of the goods are the responsibility of the buyer.

The buyer is also required to sort out duties and taxes, as well as clearing the goods through customs.

Delivered at Place – What is DAP?



DAP, or, Delivery at Place is an incoterm defining the buyer and seller's responsibilities when moving goods. In this case, the seller is responsible for moving the goods from the country of origin right through to the end destination, which includes responsibility for loading, transport and unloading.

With DAP, we'd recommend being very clear about the end destination place to avoid any confusion later on. DAP means that seller bears the risk of any issues with the goods until the agreed delivery point. If there are any extra fees for unloading the goods, the seller must incur these.

This term can be used for any mode of transportation.

How does DAP work?

DAP requires the seller to load, ship and unload the goods at an agreed destination place (normally after the port or terminal where the goods arrive at the country of destination). DAP can be used for any mode of transportation, and the seller needs to pay for:

- import customs clearance
- duties
- taxes
- loading / unload costs

Contrary to DAT, goods are delivered unloaded from the transport vehicle.

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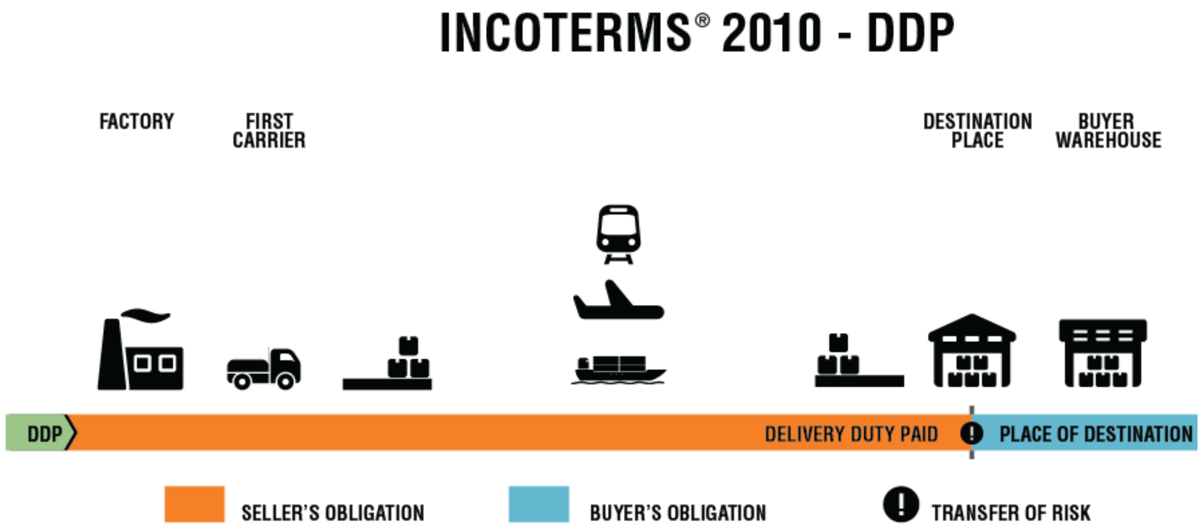
DDP - Delivered Duty Paid

"Delivered Duty Paid", or DPP, can be used for any mode of transport. In this case, the seller is responsible for delivering the goods at a place specified by the buyer, up to the point of unloading. Unlike DAP rules, the seller is also required to pay for all Duties and Taxes, clear the goods for import and pay relevant taxes.

DPP is often complex as shipment of goods into a market are often best left to local experts (e.g. the in-market buyer), so it's a less commonly used INCO Term.

Delivered Duty Paid - What is DDP?



DDP stands for Delivery Duty Paid, an international commerce term (incoterm) used to describe the delivery of goods where the seller takes most responsibility.

Under DDP, the supplier is responsible for paying for all of the costs associated with the delivery of goods right up until they get to the named place of destination. The buyer is then responsible for unloading the goods at the end destination.

DDP can be used to describe ocean, road or air transportation of goods, including multimodal transportation.

It's also expected that the seller clears the goods at export and import customs.

How does DDP work?

DDP requires the supplier to deliver goods from their factory / plant to an agreed point, known as the destination place. This could be the terminal, container yard, factory or warehouse of the buyer. The supplier is responsible for:

- Clearing goods through export and import customs
- VAT
- Paying for duties and other taxes

DDP is most risky for the seller of goods, so is normally used by advanced suppliers. DDP is used particularly when the cost of supply doesn't vary too much and is easy to predict.

Benefits of DDP

The key advantages of Delivery Duty Paid are in favour of the buyer. The seller takes most responsibility and risk.

DDP puts the maximum risk and responsibility on the seller. It is the only one of the Incoterms that requires the seller to take responsibility for import clearance and payment.

The seller bears all the costs and risks involved in bringing the goods to the place of destination. The seller is obliged to clear the goods for both export and import, to pay duties for both export and import, and to execute all customs formalities.

Sellers may not understand the complex and bureaucratic import clearance procedures that exist in some countries and make mistakes or miscalculations that affect their bottom line; therefore, it may be best left to the buyer who has local knowledge and understanding. Keep this in mind before choosing DDP.

1. The supplier takes on the most risk and responsibility as opposed to the buyer. DDP is one of the only incoterms that requires the supplier to also take responsibility for import clearance and paying for various import taxes
2. The supplier takes on all of the cost for transporting and getting the goods to the end destination
3. The supplier needs to clear goods through customs at both the country of origin and place of destination, as well as clearing all customs formalities, duties and taxes

SEA & INLAND WATERWAY

Incoterms that can be used specifically for goods transported via Sea or Inland Waterway

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OCEAN & INLAND WATERWAYS ONLY. In most cases, use only for bulk cargos (e.g. oil, coal etc.) & non-containerised goods where the exporter loads goods directly onto the vessel.
Point of Risk transfer from seller to buyer is different between OCEAN & INLAND WATERW ONLY & ALL MODES OF TRANSPORTATION. Example: FOB (Free on Board) risk transfers **when goods have been loaded on board the Vessel**. FCA (Free Carrier) risk transfers **when the good have been taken in charge by the carrier**.

FAS
Free Alongside Ship

RISK TRANSFERS TO BUYER: When the goods arrive alongside the s BUYER is responsible for loading goods.

FOB
Free On Board

RISK TRANSFERS TO BUYER: When the goods have been loaded into the ship.

CFR
Cost & Freight

RISK TRANSFERS TO BUYER: When the goods have been loaded into the ship.

CIF
Cost Insurance & Freight

RISK TRANSFERS TO BUYER: When the goods have been loaded into the ship.

LEGEND

WHEN **RISK** TRANSFERS FROM **SELLER** TO **BUYER**

- Mode of Transportation: ALL
- Ocean & inland waterways only
- Risk
- Seller
- Buyer

SELLER'S PREMISES NOT LOADED

PRE-CARRIAGE TO NAMED PLACE NOT UNLOADED

DELIVERED (UNLOADED) TO **NAMED PLACE**

LOADING AT **NAMED PLACE OR PORT OF SHIPMENT**

LOADED ON **BOARD VESSEL**

MAIN CARRIAGE

ON BOARD VESSEL NOT UNLOADED

UNLOADED AT **NAMED PLACE OR PORT OF DESTINATION**

DELIVERED TO **NAMED PLACE OR TERMINAL**

ONWARD CARRIAGE TO NAMED PLACE NOT UNLOADED

- CHAPTER 8 -

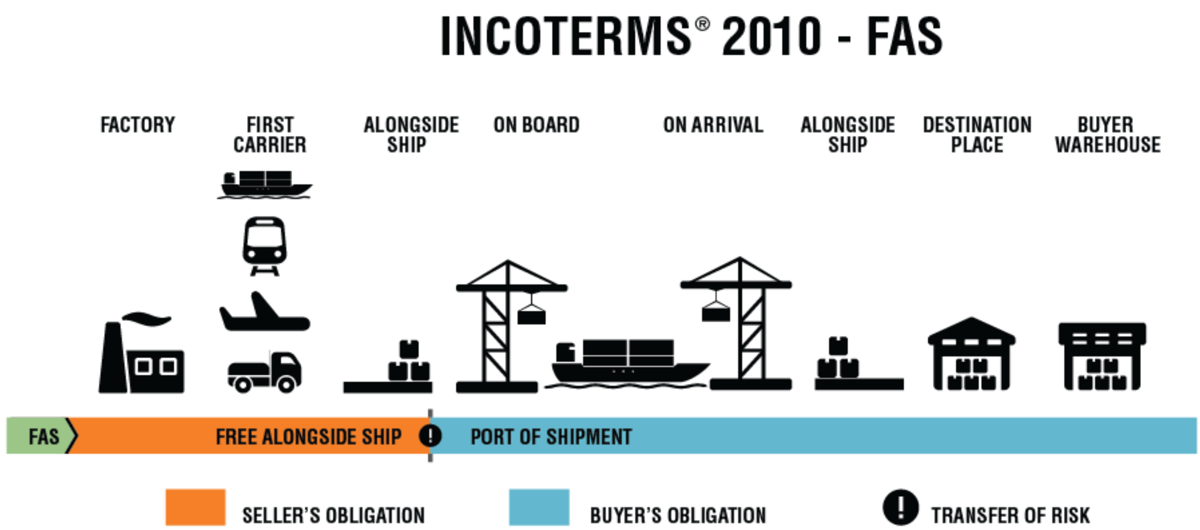
FAS - Free Alongside Ship

"Free Alongside Ship", or FAS, is used in situations when the seller can place the goods alongside other non-containerised goods (e.g. on a vessel or barge).

The seller might do this if they have access to sea or inland waterway routes and want to place the goods en route to the buyer alongside other goods on the ship. It's not recommended for goods that can be placed in a container (more on this below, see FCA).

The risk of transporting the goods 'alongside ship' move from the seller to the buyer once the goods are delivered to a terminal or port and unloaded.

Free Alongside Ship - What is FAS?



FAS stands for Free Alongside Ship, an international commerce term (incoterm) used to describe the delivery of goods where the seller takes on some responsibility for the shipment of goods.

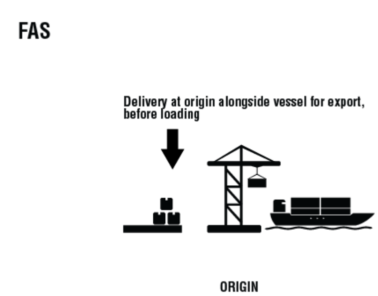
Under FAS, the exporter is responsible for clearing the goods at customs and delivering them to the vessel at the point of origin.

Free Alongside Ship only applies to sea or inland waterway ports. As with most points of delivery, it's recommended to highlight the exact location at which the goods are being delivered to, particularly in the case of large ports as the seller is responsible up for the goods until the port of shipment.

FAS is ideal for the shipping:

- Hard commodities (e.g. oil)
- Soft commodities (e.g. grain, soybean)
- Liquids
- Chemicals (both pharmaceutical and non-pharmaceutical)
- Bulk cargo
- Break bulk cargo

FAS is generally **not used for containerised goods** as they would often be delivered to a container yard or terminal; in this case, FCA might be a more appropriate incoterm to go by.



Free Alongside Ship

In the case of FAS, the seller is responsible for delivering the buyer's goods next to the shipping vessel. The seller is also responsible for completing export customs documentation. FAS is often used for cargo that doesn't fit into containers – known as Out of Gauge (OOG) cargo – as these would typically be transported to a container yard under the FCA incoterm.

FAS is applicable to goods being transported by inland waterway and sea transport, and the costs for loading these goods onto the vessel is the responsibility of the seller.

With FAS, the buyer is then responsible for the cost of loading the goods onto the ship, and all costs thereafter.

Benefits of FAS

The key advantages of Free Alongside Ship:

- FAS is ideal for situations where the seller can easily access the vessel for loading the goods, for example, with bulk cargos or non-containerized goods.
- With FAS, the risk transfers to the buyer when the goods are alongside the ship, and the buyer bears the cost and responsibility thereafter.

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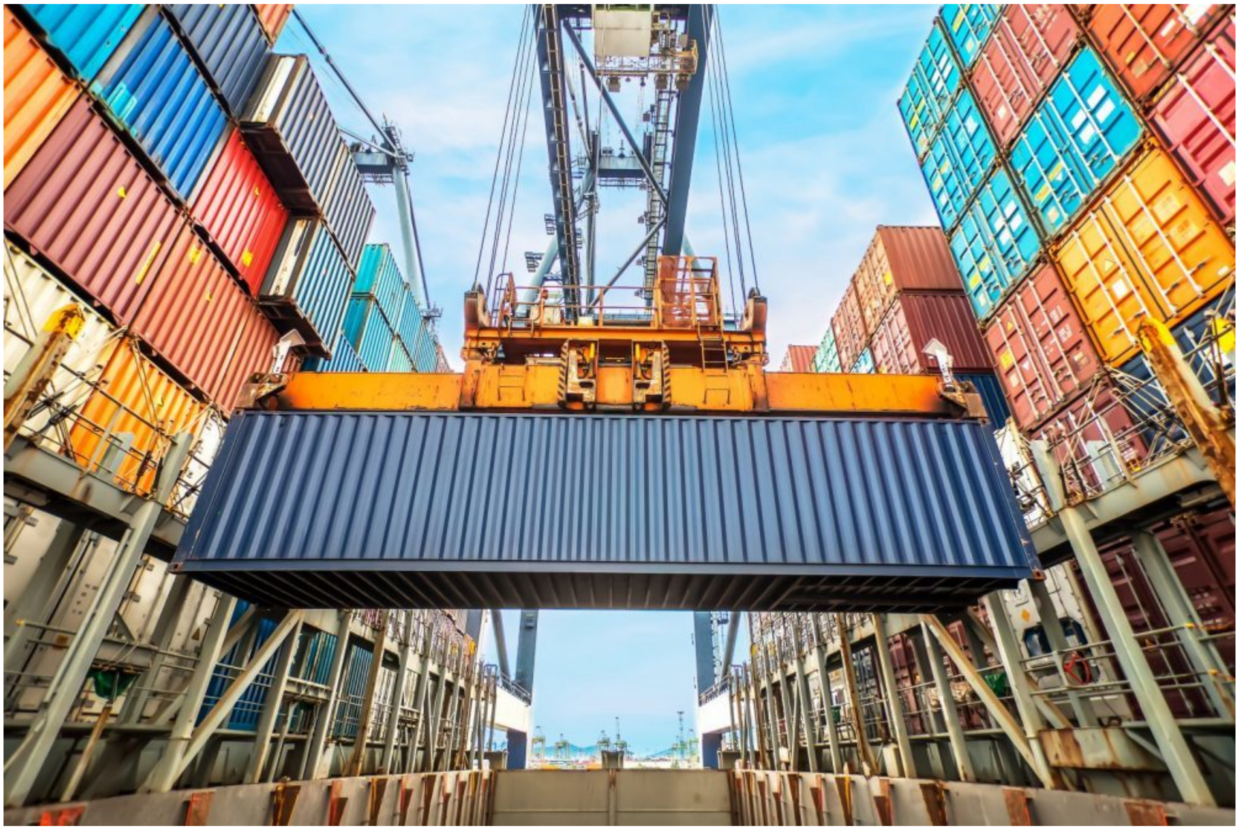
- CHAPTER 9 -

FOB - Free On Board

"Free On Board", or FOB, occurs when the seller delivers the goods to the port of shipment, at which then it becomes the responsibility of the buyer once unloaded onto a vessel. If the goods are damaged when on board the vessel, it's the responsibility of the buyer.

Free on Board - What is FOB?



To understand FOB pricing, one must understand what FOB means.

FOB is the short form term for Free On Board (or Freight on Board) and roughly translates to mean that the cost of product being delivered to the nearest port is included in the purchase price, but the purchaser is liable to pay the shipping costs from that port. This is along with all other fees for the onward journey to the port of the buyer's destination.

It is clearly understood when this shipping term is used, that the supplier will pay for the product cost and inland delivery costs from their factory to the port. This will not include costs in relation to onward shipping fees.

FOB Price

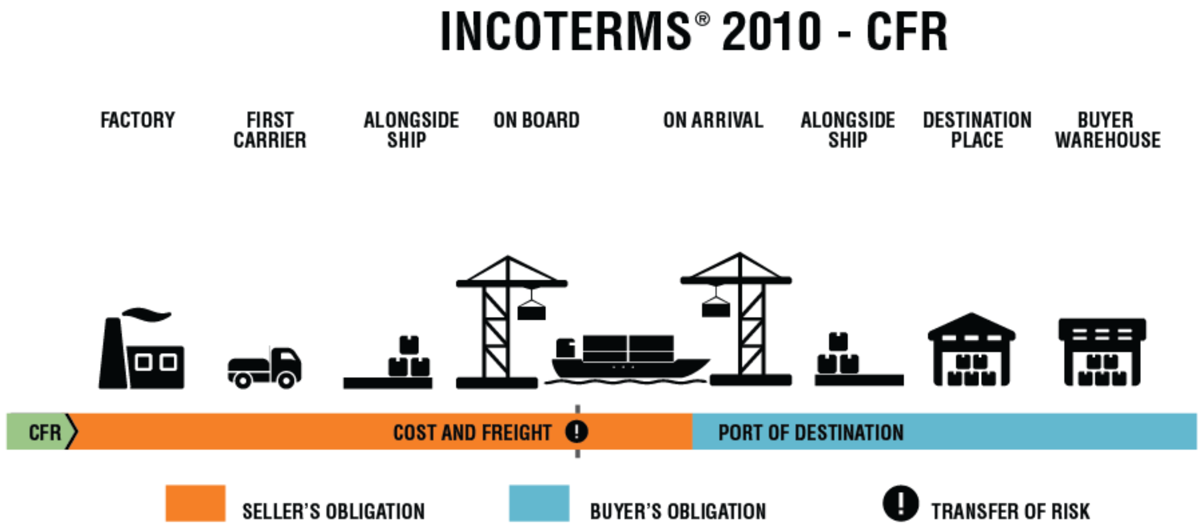
FOB is best understood by contrasting it with other shipping terms. As discussed above, when purchasing FOB the buyer will pay for the transport. In contrast to this many contracts are EXW (Ex-Works) or Ex-Factory cost. Therefore, it is just the cost of the product that is paid by the buyer; which includes no transportation or customs costs in the fee paid.

- CHAPTER 10 -

CFR - Cost and Freight

"Cost and Freight", or CFR, incurs more risk and responsibility onto the seller. The seller delivers the goods up and takes all responsibility and cost right up until the ship has docked at the end point and the goods have been unloaded. The seller will also cover the cost of insurance at atleast the minimum level.

Cost and Freight - What is CFR?



CFR stands for Cost and Freight – it's a legal term used in international shipping meaning the seller assumes more responsibility for the delivery of goods and needs to pay for transport to an agreed port. The seller will also need to pay for the delivery of goods and export, up until the point the goods are loaded on board the ship.

It is important to first note the difference between the shipping terms CFR and CIF. CFR stands for Cost and Freight.

Cost and Freight

The term CFR means that the seller has more responsibility; they will pay for and arrange transportation. This can be contrasted with a seller under an FOB shipping transaction; where the seller is merely responsible for delivery of the goods to the port of origin; they will then be transported.

In relation to a CFR trade, the exporter will pay for and arrange transportation to the port of destination that is specified by the receiving party. The exporting company will arrange and fund the transportation that is set out by the purchasing party. In relation to liability and ultimate responsibility, the purchaser will take on the responsibility when the ship has docked in the port of destination. The further costs that will include further transportation and the unloading of the vessel will be bared by the buyer.

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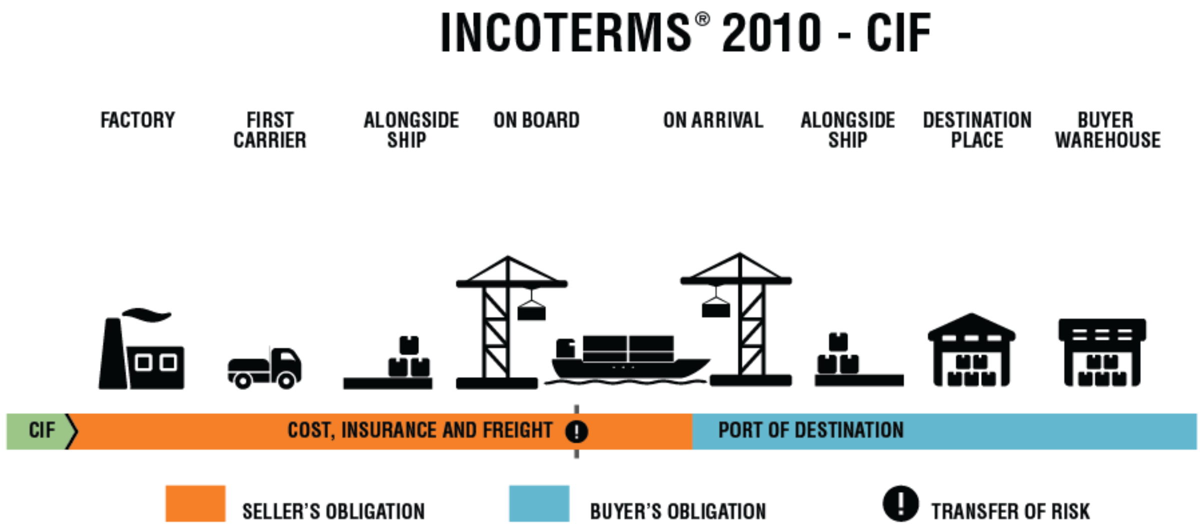
Cost, Insurance and Freight

"Cost, Insurance and Freight", also known as CIF, is also restricted to sea or inland waterway modes of transport. In this case, the seller insures the goods transported up until they arrive at the port, but it becomes the responsibility of the buyer (in terms of risk and insurance).

Cost, Insurance and Freight



What is Cost, Insurance and Freight?

CIF stands for Cost, Insurance and Freight – it's a legal incoterm term which is used in international shipping for the delivery of goods to a port. In this case, the seller must pay for the delivery of goods, and their export, including insurance, and has responsibility of the goods right up until they're loaded on the ship.

CIF and FOB (Free on Board) are the most common shipping terms.

The term CIF means that the seller has more responsibility; they will pay for and arrange transportation, freight duties and insurance. This can be contrasted with a seller under an FOB shipping transaction; where the seller is merely responsible for delivery of the goods to the port of origin; they will then be transported.

CIF Tips

Watch outs for importers and tips for CIF:

- Your supplier has control of the insurance coverage – this means that the seller is likely to choose the cheapest / most basic insurance option for your product
- Watch out for the beneficiary of the insurance policy – in the case of damages, if the seller is the beneficiary if your goods get damaged in transit, payment will go to them to then be reimbursed to you as the importer
- CIF stops after the goods arrive at the port – if goods are damaged at the port or when unloaded, as well as any additional port or storage fees are incurred, this will be your responsibility
- CIF could be more expensive – given that the seller invoices CIF, the costs might be inflated above the actual cost of insuring your goods

Get in Touch

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