LANTIA MARÍTIMA

LANTIA RESOURCES

Incoterms 2020

A guide to the International Chamber of Commerce's international trade terms.

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INTRODUCTION

What are they?

The International Chamber of Commerce classifies the Incoterms according to the mode of transport used.

The first group includes 7 Incoterms (EXW, FCA, CPT, CIP, DPU, DAP and DDP) that can be used regardless of the mode of transport and whether one or more modes are used. The second group includes 4 Incoterms (FAS, FOB, CFR and CIF) for goods carried between two ports.

RULES FOR ANY MODE OR MODES OF TRANSPORT

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

These are the Incoterms to use when there is no port-to-port sea carriage: air or surface transport (rail or road), or when more than one mode is combined, even if one is a ship. This is the case for container shipments, which are almost always part of combined transport: even if a container travels from Bilbao to Mumbai, the 5,822 nautical miles via Suez will probably be accompanied by some road kilometres at each end.

EXW

At the seller’s premises

Ex Works

The seller delivers when it places the goods at the buyer’s disposal at its own premises (factory, warehouse, etc.). It is not responsible for loading the goods onto the buyer’s transport or for export clearance, unless otherwise agreed. The buyer bears all costs and risks of transport from the seller’s premises to destination.

This term represents the minimum obligation for the seller. It should not be used when the buyer cannot carry out export formalities directly or indirectly; FCA should be used instead. It suits domestic trade; for international trade, FCA is preferable.

Nor is it suitable for payment by documentary credit. If used, no transport document should be required, since delivery to the carrier is not the seller’s obligation.

FCA

Delivered to the buyer’s carrier

Free Carrier

The seller delivers when it hands over the goods, cleared for export, to the carrier nominated by the buyer at the agreed place.

If the buyer does not specify a delivery point, the seller may choose where to deliver within the agreed place or area. Where commercial practice requires the seller’s help to contract with the carrier (e.g. rail or air), it may do so at the buyer’s cost and risk. FCA can be used for all modes, including multimodal.

It should be used for sea freight whenever delivery does not take place on board (at a cargo, rail or container terminal or similar). Under FOB the seller would bear risks and costs up to loading during a period it cannot control.

CPT

Carriage paid to destination

Carriage Paid To

The seller pays the freight for carriage of the goods to the agreed destination.

The risk of loss or damage, and any additional costs arising after delivery to the carrier, pass from seller to buyer when the goods are handed into the carrier's custody. If several carriers are involved, risk passes on delivery to the first.

CPT requires the seller to clear the goods for export. It can be used for any mode, including multimodal.

CIP

Carriage and insurance paid to destination

Carriage and Insurance Paid To

The seller has the same obligations as under CPT and must also obtain cargo insurance against the buyer’s risk of loss or damage during carriage.

The seller contracts the insurance and pays the premium. The buyer should note that the seller only has to obtain minimum cover (110%), issued in negotiable form for the buyer and in the contract currency.

CIP requires the seller to clear the goods for export. It can be used for any mode, including multimodal.

DPU

Delivered and unloaded at the agreed place

Delivered at Place Unloaded

DPU was introduced in Incoterms 2020 and takes over the functions and obligations of the former DAT (Delivered At Terminal), which no longer exists.

The seller delivers the goods unloaded, preferably at destinations in the buyer's country with unloading facilities: transport terminals (road, air, sea), logistics infrastructure (ports, airports, rail stations) or similar facilities such as quays, warehouses, depots and free zones.

Although it can be used with any mode, it is best suited to delivery at a port in the buyer's country, where unloading involves greater cost and risk that the seller wishes to control.

DAP

Delivered at the agreed place

Delivered At Place

The seller delivers when the goods are placed at the buyer's disposal at the agreed destination, bearing risks and costs up to that point (excluding import duties, taxes and official charges).

The buyer bears any additional costs and the risks of failing to clear the goods for import. If the parties want the seller to handle customs formalities, or to add import costs such as VAT, this must be stated clearly (e.g. "DAP, VAT paid").

It is generally unsuitable for documentary credits, as it would require a document proving delivery at destination.

SECOND GROUP

Sea and inland waterway transport

FAS *Free Alongside Ship*

FOB *Free On Board*

CFR *Cost and Freight*

CIF *Cost, Insurance and Freight*

These Incoterms apply when both the point of delivery and the destination are ports. Delivery to the carrier takes place on board or alongside the ship, so the seller should control the goods until then.

When goods travel in containers, the seller usually hands them to the carrier at a terminal rather than on board or alongside. In that case FAS, FOB, CFR and CIF are inappropriate and the first group should be used: FCA instead of FAS or FOB, CPT instead of CFR and CIP instead of CIF.

FAS

Delivered alongside the vessel

Free Alongside Ship

The seller delivers when it places the goods alongside the ship, on the quay or in barges, at the named port of shipment. From then on, the buyer bears all costs and risks of loss or damage.

FAS may only be used for sea or inland waterway transport, and requires the seller to clear the goods for export.

For containerised goods FAS is unsuitable and FCA should be used.

FOB

Delivered on board

Free On Board

The seller delivers when the goods are placed on board at the named port of shipment. From then on, the buyer bears all costs and risks of loss or damage.

FOB requires the seller to clear the goods for export, and may only be used for sea or inland waterway transport.

Where passing the ship's rail has no practical meaning, as with roll-on/roll-off (cargo driven on board in a truck or wagon) or container traffic, FCA is more appropriate.

CFR

Cost and freight

Cost and Freight

The seller pays the costs and freight to bring the goods to the port of destination, but the buyer bears the risk of loss or damage, and any additional costs, from loading on board at the port of shipment.

CFR requires the seller to clear the goods for export, and may only be used for sea or inland waterway transport.

For roll-on/roll-off or container traffic, where passing the rail has no practical meaning, CPT is more appropriate.

CIF

Cost, insurance and freight

Cost, Insurance and Freight

The seller has the same obligations as under CFR and must also obtain marine insurance against the buyer's risk of loss or damage during carriage.

The seller contracts the insurance and pays the premium, for minimum cover only (110%), issued in negotiable form for the buyer and in the contract currency.

CIF requires the seller to clear the goods for export and may only be used for sea or inland waterway transport. For roll-on/roll-off or container traffic, CIP is more appropriate.

MAIN CARRIAGE PAID

The C Incoterms

CFR | CIF | CPT | CIP

The seller must contract the carriage, without assuming the risk of loss or damage or any additional costs after shipment and dispatch. CIF and CIP also require the seller to contract cargo insurance.

C terms are identical to F terms as regards performance: in both, the seller performs in the country of shipment or export dispatch. They are shipment contracts, not arrival contracts, which are exclusive to D terms. Although the seller contracts carriage (and insurance under CIF and CIP), risks and costs after shipment are for the buyer.

MAIN CARRIAGE PAID

The C Incoterms

CFR **CIF** **CPT** **CIP**

C terms differ because the split of costs does not match the split of risks: risk ends at shipment, transport costs at discharge. Care is therefore needed when adding seller obligations beyond the point where risk transfers.

Unstowing and discharge costs (under CIF and CFR) are usually covered by the freight on regular lines (*liner terms*), but the contract of carriage may exclude them; in that case it must be agreed in the sales contract.

Unless otherwise agreed, the transport document under CIF and CFR must allow the goods to be sold in transit: it must be a negotiable bill of lading presented to the buyer as a full set.

SUMMARY

Allocation of obligations

S = Seller B = Buyer

	EXW	FCA	CPT	CIP	DPU	DAP	DDP	FAS	FOB	CFR	CIF
Packing and checking	S	S	S	S	S	S	S	S	S	S	S
Loading	B	S/B	S	S	S	S	S	–	–	–	–
Pre-carriage	B	B	S	S	S	S	S	(S)	(S)	(S)	(S)
Export clearance	B	S	S	S	S	S	S	S	S	S	S
Loading on board	(B)	(B)	(S)	(S)	(S)	(S)	(S)	B	S	S	S
Ocean freight	(B)	(B)	(S)	(S)	(S)	(S)	(S)	B	B	S	S
Cargo insurance	b	b	b	S	s	s	s	b	b	b	S
Unloading from ship	(B)	(B)	(S/B)	(S/B)	(S)	(B/S)	(B/S)	B	B	S/B	S/B
Import clearance	B	B	B	B	B	B	S	B	B	B	B
On-carriage to destination	B	B	S/B	S/B	S/(B)	S/(B)	S/(B)	(B)	(B)	(B)	(B)
Unloading at destination	B	B	B	B	S/(B)	B/(S)	B/(S)	–	–	–	–

(S) / (B) = where applicable S/B = generally the seller B/S = generally the buyer s / b = no obligation, but bears the risk

ANY QUESTIONS?

We are here to help

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