

Incoterms® 2020

Compiled by Ideal Products

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The Incoterms® rules are the world's essential terms of trade for the sale of goods, pre-defined and published by the International Chamber of Commerce (ICC). They are commonly used in international commercial transactions or procurement processes and also provides specific guidance to individuals participating in the import and export of global trade on a daily basis.

Disclaimer & Credits

***Disclaimer**

the Incoterms rules define the division of responsibilities between a seller and a buyer for the tasks, costs and risks involved in delivering merchandise. First introduced in 1936, they have been revised on a regular basis to reflect changes in international trade; since 1980 they've been updated every 10 years. The Incoterms revisions are changed in style and substance improve certain aspects of the Incoterms and includes a detailed explanation of how to choose the most appropriate Incoterms rule for a sale contract.

This information has been provided as a resource to familiarize one with Incoterms®. This page is not legal advice, and the information provided is not the official legal or full definition of each Incoterm®. When pursuing a specific export transaction, you are encouraged to conduct your own due diligence and to consult legal counsel as appropriate. Licensed freight forwarders may also be helpful. Ideal Products does not assume any liability for use or interpretation of the information provided herein.

Information resources:

- International Chamber of Commerce www.iccbo.org
- Kuehne+Nagel www.kuehne-nagel.com
- Livingston International www.livingstonintl.com
- Wikipedia www.wikipedia.org

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What are Incoterms®?

“Incoterms®” is an acronym standing for international commercial terms. “Incoterms®” is a trademark of International Chamber of Commerce, registered in several countries.

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.

The International Chamber of Commerce (ICC) has released the Incoterms 2020 update of their international trade terms for the sale of goods. The new version of Incoterms 2020 takes effect as of January 1, 2020 and replaces 2010 terms.

When were ICC’s Incoterms® rules last updated?

ICC last updated the Incoterms® rules in 2019. While Incoterms® 2020 is the most current version of the trade terms; Incoterms® 2010 is still in effect today and can be accessed under ICC’s resources for business.

Changes from 2010 to 2020

The following highlight some of the key changes within the new edition of the Incoterms 2020:

DAT is changing to DPU.

DAT means Delivered-At-Terminal, will be replaced by DPU – Delivery-At-Place Unloaded. DPU mean that the seller delivers the goods and transfers risk to the buyer once the goods unloaded at place of destination agreed. The import customs clearance and related costs remain for the account of the buyer. DPU is basically a DAP Delivered at Place, with unloading. The reference to terminal has been removed to make it more general.

Change of insurance in CIP/CIF.

Cost of Insurance and Freight (CIF) means the seller delivers to the carrier and pays the carriage and insurance to named destination in any mode of transport. For 2020, the same insurance requirements apply but Carriage and Insurance Paid (CIP) has increased the insurance required under this term. The reason is CIF is generally used with bulk goods (waterways only) and CIP (multimodal) is often used for manufactured goods. This is revised for the need of flexibility depending on the type and transport of goods.

Costs clarification

Incoterms 2020 has all the cost obligations for both buyer and seller. The principle is that the seller is responsible for costs up to the point of delivery and the buyer for costs beyond that. This change is in response to feedback received about the increasing number of disputes about allocation of costs especially those in or around the port of place of delivery.

Security requirements

Transportation security has become the new norm (example: mandatory screening of containers). Incoterms 2020 brings security related obligations to the forefront in each Incoterm at A4 and A7 of each rule and the costs are featured under A9/B9 of each rule.

FCA and FOB

FOB term is generally used for container shipments, for this the seller takes risks as seller loses control of container on arrival at port and still liable until container is loaded which exposes the seller to cost and risk. FCA has been changed to allow the parties to agree for the buyer to direct the carrier to issue the onboard bill of lading to the seller.

In 2020, the buyer can instruct the carrier to issue an on-board bill of lading after loading to the seller. The seller will be obliged to tender the bill of lading to the buyer. When this option is used the seller does not take on an obligation to the buyer in respect of the terms of contract of carriage.

In Incoterms 2020 the explanatory notes for each incoterm has been modified to provide more details and with useful pictures. It is important to use the appropriate Incoterm per contract.

The Incoterms® 2020 rules are updated and grouped into two categories reflecting modes of transport. Of the 11 rules, there are seven for ANY mode(s) of transport and four for SEA or LAND or INLAND WATERWAY transport.

Other key differences between Incoterms® 2010 and 2020

- The Incoterms® FCA (Free Carrier) now provides the additional option to make an on-board notation on the Bill of Lading prior loading of the goods on a vessel.
- The costs now appear centralized in A9/B9 of each Incoterms® rule.
- CIP now requires at least an insurance with the minimum cover of the Institute Cargo Clause (A) (All risk, subject to itemized exclusions).
- CIF requires at least an insurance with the minimum cover of the Institute Cargo Clause (C) (Number of listed risks, subject to itemized exclusions).
- The Incoterms® rules Free Carrier (FCA), Delivered at Place (DAP), Delivered at Place Unloaded (DPU) and Delivered Duty Paid (DDP) now take into account that the goods may

be carried without any third-party carrier being engaged, namely by using its own means of transportation.

- The rule Delivered at Terminal (DAT) has been changed to Delivered at Place Unloaded (DPU) to clarify that the place of destination could be any place and not only a “terminal”.
- The Incoterms® 2020 now explicitly shifts the responsibility of security-related requirements and ancillary costs to the seller.

There are basically two categories for Incoterms®

1. Seven terms for any mode(s) of Transport
2. Four for Sea and Inland Waterway Transport

The seven Incoterms® 2020 rules for any mode(s) of transport

- EXW - Ex Works (insert place of delivery)
- FCA - Free Carrier (Insert named place of delivery)
- CPT - Carriage Paid to (insert place of destination)
- CIP - Carriage and Insurance Paid To (insert place of destination)
- DAP - Delivered at Place (insert named place of destination)
- DPU - Delivered at Place Unloaded (insert of place of destination)
- DDP - Delivered Duty Paid (Insert place of destination).

Note: the DPU Incoterms replaces the old DAT, with additional requirement for the seller to unload the goods from the arriving means of transport.

The four Incoterms® 2020 rules for Sea and Inland Waterway Transport

- FAS - Free Alongside Ship (insert name of port of loading)
- FOB - Free on Board (insert named port of loading)
- CFR - Cost and Freight (insert named port of destination)
- CIF - Cost Insurance and Freight (insert named port of destination)

Incoterms Descriptions

EXW – Ex Works (named place of delivery)

The Ex Works term is often used while making an initial quotation for the sale of goods without any costs included. EXW means that the seller makes the goods available at their premises or at another named place (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

There is no obligation for the seller to make a contract of carriage, but there is also no obligation for the buyer to arrange one either - the buyer may sell the goods on to their own customer for collection from the original seller's warehouse. However, in common practice the buyer arranges the collection of the freight from the designated location, and is responsible for clearing the goods through Customs. The buyer is also responsible for completing all the export documentation, although the seller does have an obligation to obtain information and documents at the buyer's request and cost.

FCA – Free Carrier (named place of delivery)

The seller delivers the goods, cleared for export, at a named place (possibly including the seller's own premises). The goods can be delivered to a carrier nominated by the buyer, or to another party nominated by the buyer.

In many respects this Incoterm has replaced FOB in modern usage, although the critical point at which the risk passes moves from loading aboard the vessel to the named place. The chosen place of delivery affects the obligations of loading and unloading the goods at that place.

If delivery occurs at the seller's premises, or at any other location that is under the seller's control, the seller is responsible for loading the goods on to the buyer's carrier. However, if delivery occurs at any other place, the seller is deemed to have delivered the goods once their transport has arrived at the named place; the buyer is responsible for both unloading the goods and loading them onto their own carrier.

CPT – Carriage Paid To (named place of destination)

CPT replaces the C&F (cost and freight) and CFR terms for all shipping modes outside of non-containerized sea freight.

The seller pays for the carriage of the goods up to the named place of destination. However, the goods are considered to be delivered when the goods have been handed over to the first or main carrier, so that the risk transfers to buyer upon handing goods over to that carrier at the place of shipment in the country of Export.

The seller is responsible for origin costs including export clearance and freight costs for carriage to the named place of destination (either the final destination such as the buyer's facilities or a port of destination. This has to be agreed to by seller and buyer, however).

If the buyer requires the seller to obtain insurance, the Incoterm CIP should be considered instead.

CIP – Carriage and Insurance Paid to (named place of destination)

This term is broadly similar to the above CPT term, with the exception that the seller is required to obtain insurance for the goods while in transit.

CIP can be used for all modes of transport, whereas the Incoterm CIF should only be used for non-containerized sea-freight.

DAP – Delivered at Place (named place of destination)

Incoterms 2010 defines DAP as 'Delivered at Place' – 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. Under DAP terms, the risk passes from seller to buyer from the point of destination mentioned in the contract of delivery.

Under DAP terms, the seller needs to manage all risks involved in bringing the goods in. All carriage expenses with any terminal expenses are paid by seller up to the agreed destination point. The necessary unloading cost at final destination has to be borne by buyer under DAP terms.

DPU – Delivered at Place Unloaded (named place of destination)

This Incoterm requires that the seller delivers the goods, unloaded, at the named place of destination. The seller covers all the costs of transport (export fees, carriage, unloading from main carrier at destination port and destination port charges) and assumes all risk until arrival at the destination place.

The destination can be a Port, Airport, or inland freight interchange, but must be a facility with the capability to receive the shipment. If the seller is not able to organize unloading, they should consider shipping under DAP terms instead.

All charges after unloading (i.e.: Import duty, taxes, customs and on-carriage) are to be borne by buyer. However, it is important to note that any delay or demurrage charges at the terminal will generally be for the seller's account.

DDP – Delivered Duty Paid (named place of destination)

The seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes. The seller is not responsible for unloading. Maximum obligations are placed on the seller and minimum obligations on the buyer. No risk or responsibility is transferred to the buyer until delivery of the goods at the named place of destination.

The most important consideration for DDP terms is that the seller is responsible for clearing the goods through customs in the buyer's country, including both paying the duties and taxes, and obtaining the necessary authorizations and registrations from the authorities in that country.

Allocations of Costs to buyer/seller according to Incoterms 2020

Incoterm 2020	Loading at origin	Export customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading on vessel/airplane in port of export	Carriage (sea/air) to port of import	Insurance	Unloading in port of import	Loading on truck in port of import	Carriage to place of destination	Import customs clearance	Import duties and taxes	Unloading at destination
EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Seller	Seller	Buyer/Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FAS	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FOB	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CPT	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer/Seller	Buyer/Seller	Seller	Buyer	Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CIP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer/Seller	Buyer/Seller	Seller	Buyer	Buyer	Buyer
DPU	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Seller
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer

Allocations of Risks to buyer/seller according to Incoterms 2020

Rules for Sea and Inland Waterway Transport

Incoterm 2020	Seller	Carrier	Port	Loading at Port	Onboard	Unloading at Port	Port
FOB	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
FAS	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer

Rules for any modes of transport

Incoterms 2020	Seller	Carrier	Port	Ship	Port	Terminal	Named Place	Unloading at
EXW	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
CPT	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
CIP	Seller	Seller	Insurance	Insurance	Insurance	Insurance	Insurance	Buyer
DPU	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller