



## Introduction to Incoterms

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Incoterms, short for “international commercial terms”, are a set of uniform international terms of sale published by the International Chamber of Commerce (ICC). They are adhered to by most national governments and are in wide use for cross-border transactions. Each individual Incoterm specifies at what point risk is transferred from Seller to Buyer, how the expenses of transportation and insurance are to be shared by Seller and Buyer, and the Seller’s documentary obligations. Incoterms also define which party is responsible for government requirements (ie, export and import regulations).

### **Incoterms Do:**

Indicate each party’s costs, risks & obligations with regard to the delivery of the goods

- *When and where delivery is to be completed*
- *Which Party must comply with what government requirements*
- *What are the modes and terms of carriage*
- *What are the delivery terms, and what is required as proof of delivery*
- *Where and when risk of loss is transferred from Seller to Buyer*
- *How transport costs are to be shared between Buyer and Seller*

### **Incoterms Do Not:**

Incoterms are not sufficient on their own to express the full intent of the Parties. They will not:

- Define contractual rights and obligations, such as price, quantity, etc., other than for delivery
- Specify details of the transfer, transport and delivery of the goods
- Determine how title to the goods will be transferred
- Protect a Party from his/her own risk
- Cover the goods before or after delivery
- Define remedies for breach of contract

### **Cost/Risk Elements: To Be Shared Between Seller and Buyer**

- Goods: Provision For, Payment For
- Licenses and Customs Formalities
- Carriage and Insurance
- Delivery
- Risk Transfer
- Costs
- Notices
- Proof of Delivery, Transport Documents
- Checking, Packing Marking
- Inspections
- Payment



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The following Incoterms definitions are only a brief summary. The complete definition of each term is available from The International Chamber of Commerce (ICC), and can be obtained by purchasing the Incoterms Reference Book through their online bookstore at <http://www.iccbooks.com/>. This site also offers relevant publications about conducting business in the international marketplace. You can read the latest Incoterms' revisions and detailed definitions at <http://www.iccwbo.org/incoterms/faq.asp>.

**EXW Ex Works.** The minimum obligation of a seller under Incoterms. The seller agrees to make the goods available to the buyer at the seller's premises (named place). The seller is not responsible for bearing the cost of loading the goods onto the vehicle provided by the buyer, unless otherwise agreed in advance. The buyer bears the full costs and risks involved in bringing the goods from that EXW location to the ultimate destination. It is the seller's responsibility during initial negotiations to clearly name the location.

**FCA Free Carrier.** The seller delivers the goods, cleared for export, to a carrier and location that is named by the buyer. Carrier defines any person by whom or in whose name a contract of carriage such as by road, rail, air, sea, barge, ferry, or any combination of these modes (thus multi-modal) has been made.

**FAS Free Alongside Ship.** Used only for sea or inland waterway. The seller is required to deliver the goods alongside the ship at the pier or quay. From that point forward, the buyer bears all costs and risks. The *seller* is required to clear the goods for export (a reversal from previous Incoterms versions).

**FOB Free on Board.** Used only for sea or inland waterway. Shipped goods are placed on board the ship by the seller at the specific port of shipment named in the sales agreement, purchase order, or contract. The seller is required to clear the goods for export. All costs and risks from the point where the cargo *crosses* the ship's rail (is lifted from the quay or pier onto the vessel) passes to the buyer.

**CFR Cost and Freight.** Used only for sea or inland waterway. Seller delivers when goods pass the ship's rail in the port of shipment. The seller is required to clear the goods for export. The title and risks change at the ship's rail, just as in FOB terms (see previous), but the cost allocation is different.

- For goods shipped CFR, the *seller* pays all costs to deliver the goods up to the named port of destination and the *buyer* is responsible for risks and title.
- For goods shipped FOB, the *buyer* pays all costs to deliver the goods up to the named port of destination and is responsible for risks and title.

**CIF Cost, Insurance, and Freight.** Used only for sea or inland waterway. Seller delivers when goods pass the ship's rail in the port of shipment and must pay costs and freight to the port destination. The seller is required to clear the goods for export. In its simplest form, CIF is CFR (see previous) plus Insurance. The seller must procure transport insurance against the risk of loss or damage to the goods to the extent that is mutually agreed upon in the sales agreement. Seller contracts with insurance carrier or agent to pay the premium, but issues insurance in a form or format that allows the buyer to later make claim directly to the insurance carrier or said carrier's agent.



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**CPT Carriage Paid To.** Used for intermodal transportation. The seller delivers goods to a carrier named by the seller and must pay cost of carriage of goods to the destination. The buyer bears all risks and costs after delivery of goods.

**CIP Carriage and Insurance Paid To.** Used for intermodal transportation. The seller delivers goods to a carrier named by the seller and must pay cost of carriage of goods to the destination. The buyer bears all risks and costs after delivery of goods. The seller has to procure minimum insurance coverage for buyer's risks of loss or damage of goods during carriage.

**DAF Delivered at Frontier.** Seller delivers when the goods are placed at the disposal of the buyer on arriving means of transport—not unloaded, and cleared for export, but not cleared for import—at the named point and place at a *land* frontier. The seller bears all costs and risks up to this point, but is not responsible for customs clearance, duty or taxes.

**DES Delivered Ex Ship.** Used only for sea or inland waterway. Seller delivers when the goods are placed at the disposal of the buyer on board the ship not cleared for import at the named destination. The seller bears all costs and risks and title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties or taxes, is the Buyer's responsibility. Essentially a term for bulk commodities.

**DEQ Delivered Ex Quay.** Used only for sea or inland waterway. Seller delivers when the goods are placed at the disposal of the buyer on the quay (wharf) not cleared for import at the named destination. The seller bears all costs and risks and title up to the arrival of the vessel at the named port and discharging the goods on the quay. Clearing the goods for import and the costs for unloading the goods and any duties or taxes, is the Buyer's responsibility. Essentially a term for bulk commodities.

**DDU Delivered Duty Unpaid.** Requires that the seller delivers the goods to the buyer not cleared for import and not unloaded at the point or place named in the sales agreement. The seller bears all costs and risks up to this location.

**DDP Delivered Duty Paid.** The seller (maximum obligation) agrees to pay all costs and risks, including customs clearance fees and payment of import duties, up to the named place of destination. Buyers and Sellers sometimes agree that taxes such as VAT or Excise or Luxury TAX are not included in these terms. In such cases, additional words should be added, such as "Delivered Duty Paid to Any Town, Any Country, excluding VAT and/or other taxes."