

Understanding International Commercial Terms (Incoterms) – 2020 by ICC Paris

What are Incoterms 2020 and its purpose?

- * The **INCOTERMS** is a universally recognized set of definitions of international trade terms, such as FOB, CFR and CIF, developed by the International Chamber of Commerce (ICC) in Paris, France.
- * The Incoterms rules are a total of 11 terms published by the International Chamber of Commerce, which define costs, risks and obligations of buyers and sellers in international transactions
- * It defines the trade contract Responsibilities and Liabilities between buyer and seller. It is invaluable and a cost-saving tool.
- * Easy to Communicate with different Languages & Business Practices
- * The **INCOTERMS** was first published in **1936 -INCOTERMS 1936** - and it is revised periodically to keep up with changes in the international trade needs.
- * The complete definition of each term is available from the current publication---**INCOTERMS 2020**
- * Banks use Incoterms for fixing and utilisation/ disbursements of working limits (pre-post shipments) given to exporters;
- * Customs uses Incoterms (mainly CIF) for arriving at the Custom Duty payable by the importers and FOB for Incentives disbursements by the DGFT etc.
- * India, generally exporters prefer FOB and Importers prefer CIF and in Europe traders prefers DDP due to customs union
- * This divides the duties between the exporter and



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importer. The more importer expect exporter to do its duty, than exporter is eligible to charge more by way of Incoterms.

2. The process followed for Incoterms 2020 – a common set of rules:

- ★ The exporter and the importer need not undergo a lengthy negotiation about the conditions of each transaction.
- ✓ Once they have agreed on a commercial term like FOB, they can sell and buy at FOB without discussing who will be responsible for the freight, cargo insurance, and other costs and risks
- ✓ The Incoterms provide the most often used international terms of trade and an official version of the Incoterms should be referenced in the text of the contract.
- ✓ The goal is to alleviate or reduce confusion over interpretations of shipping terms by outlining who is obligated to take control of and/or insure goods at a particular point in the shipping process.
- ✓ Furthermore, the terms outline the obligations for

the clearance of the goods for export or import and packing requirements

3. Various Incoterms: Marine Restricted - Blue Omni-Modal -Green

EXW – Ex Works

FCA – Free Carrier

FAS – Free Alongside Ship

FOB – Free On Board

CFR – Cost and Freight

CIF – Cost, Insurance & Freight

CPT – Carriage Paid To

CIP – Carriage & Insurance Paid To

DPU – Delivered At Place Unloaded

DAP – Delivered At Place

DDP – Delivered Duty Paid

Omni- Modal Marine Restricted

The costing process for understanding each incoterm

INCOTERMS -2020 - Costing & Pricing

Inconterms 2020					
Costing & Pricing		Mobile-INR			
		Omni-Modal		Equivalent	Marine Restricated
		INR			INR
Ex-Works		25000		FAS	25100
FCA		25000		FOB	25200
CPT		25500		CFR	25500
CIP		25700		CIF	25700



DAU		25800			
DAP		25800			
DDP		28000			
		IUSD=73.50			
		2800/73.50=\$380.95 per Piece			

Incoterms Chart describing the duties and responsibility of Seller and Buyer for each Incoterms as under:

	INCOTERMS® 2020 RULES CHART OF RESPONSIBILITIES AND TRANSFER OF RISK											
	Any Transit Mode		Sea inland waterway Transport				Any Transport Mode					
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DPU	DAP	DDP	
	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost and Freight	Cost, Insurance & Freight	Carriage Paid To	Carriage & Insurance Paid To	Delivered At Place Unloaded	Delivered At Place	Delivered Duty Paid	
Transfer of Risk	At Buyer's Deposal	On Buyer's Transport	Alongside Ship	On Board Vissel	On Board Vissel	On Board Vissel	At Carrier	At Carrier	At Named Place	At Named Place Unloadad	At Named Place	
Charges/Fees												
Packaging	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Loading Charges	Buyer	Seller*	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Delevry to Port Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Export Duty, Taxes & Security clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Origen Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Loading on Carriages	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Carriages Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	
Insurance						Seller		Seller				
Distination Terminal charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer**	Buyer**	Seller	Seller	Seller	
Delevry to Distination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	
Inport Duties, Taxes & Security Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	

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* Seller is responsible if term is FCA at seller's facility.
 ** If seller insurs costs under its contract of carriage, seller cannot recover the costs from the buyer without buyer's agreement.

INCOTERMS –ICC PARIS
Any mode of transport



Omni-Modal

Incoterm 2020



Incoterms – ICC, Paris - Omni-Modal

EXW – Ex Works (named place of delivery) The seller makes the goods available at its premises. The buyer is responsible for unloading. This term places the maximum obligation on the buyer and minimum obligations on the seller

FCA – Free Carrier (named place of delivery) The seller hands over the goods, cleared for export, into the disposal of the first carrier (named by the buyer) at the named place. The buyer pays for carriage to the named point of delivery, and risk passes when the goods are handed over to the first carrier.

CPT – Carriage Paid To (named place of destination) The seller pays for carriage. Risk transfers to buyer upon handing goods over to the first carrier at place of Import.

CIP – Carriage and Insurance Paid to (named place of destination) The containerized transport/multimodal equivalent of CIF. Seller pays for carriage & insurance to the named destination point; risk passes when the goods are handed over to the first carrier.

DPU – Delivered at Place Unloaded (named place Unloaded) Seller pays for carriage to the terminal, except for costs related to import clearance, and assumes all risks up to the point that the goods are unloaded at the terminal.

DAP – Delivered at Place (named place of destination) Seller pays for carriage to the named place, except for costs related to import clearance, and assumes all risks prior to the point that the goods are ready for unloading by the buyer.

DDP – Delivered Duty Paid (named place of destination) 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 buyer is responsible for unloading

Water Transport Only Incoterms - 2020



INCOTERMS –ICC PARIS

Sea and inland waterway transport

FAS – Free Alongside Ship (named port of shipment) 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. This term is typically used for heavy-lift or bulk cargo.

FOB – Free on Board (named port of shipment) The seller must load 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. 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. The buyer must instruct the seller the details of the vessel and the port where the goods are to be loaded.

CFR – Cost and Freight (named port of destination) Seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods are loaded on the vessel. Insurance for the goods is NOT included. This term is formerly known as CNF (C&F). Maritime transport only.

CIF – Cost, Insurance and Freight (named port of destination) Exactly the same as CFR except that the seller must in addition procure and pay for the insurance. Maritime transport only

PS: Detailed explanation and study can be done with Incoterms 2020 published by ICC, Paris

Regulatory Framework



Sources used:

Google