

Chapter 6

International Terms of Trade

International Terms of Trade: Incoterms[®] Rules

- International Commerce Terms
- Understanding Incoterms[®] Rules
- Overview of all 11 Incoterms[®] Rules
- Electronic Data Interchange
- Common Errors in Incoterms[®] Rules Usage
- Incoterms[®] Rules as a Marketing Tool

International Terms of Trade

For each international sale, it is important to determine, who (of the exporter or the importer) is responsible for:

- Pre-carriage, the domestic transportation in the exporting country
- Main carriage, the international transportation between the exporting country and the importing country
- On-carriage, the domestic transportation in the importing country
- The risks involved in international transportation
- Customs clearance in the importing country

International Commerce Terms: Incoterms[®] Rules

- In 1936, the International Chamber of Commerce developed International Commercial Terms rules (or Incoterms[®] rules) that formalized these responsibilities. Incoterms rules were revised in 1953, 1967, 1980, 1990, 2000, and 2010.
- The latest version of Incoterms[®] rules is dated 2020 and was implemented on 1 January 2020.
- Incoterms rules follow international trade practices and reflect the way shipping is conducted by international logisticians. The 2020 version made some modifications over the 2010 version.

Incoterms[®] Rules 2020

Incoterms[®] rules formally define the following aspects of an international sale:

- Which tasks will be performed by the exporter
- Which tasks will be performed by the importer
- Which activities will be paid by the exporter
- Which activities will be paid by the importer
- The exact point at which the responsibility for the goods transfers from the exporter to the importer

There are 11 different Incoterms[®] rules, all abbreviated with a 3-letter acronym, such as EXW, DAP, FOB, and so on.

Choice of an Incoterms[®] Rule

Choosing the correct Incoterms[®] rule depends on which export strategy a company is following. The following factors are particularly important:

- The type of product being sold (weight, volume, perishability, value, sensitivity to temperature changes, and so on)
- The method of shipment
- The ability and willingness of either of the exporter and importer to perform the tasks involved
- The amount of trust placed by either of the parties in the other party

Incoterms[®] Rules

The International Chamber of Commerce specifies that there are two groups of Incoterms rules:

- Seven Incoterms rules that can be used for any means of transportation (ocean, road, air, train).
- Four Incoterms rules that can only be used for ocean transportation (these are the oldest terms of trade).

Incoterms[®] Rules

Any mode of Transportation	EXW	· Ex-Works
	FCA	· Free Carrier
	CPT	· Carriage Paid To
	CIP	· Carriage and Insurance Paid To
	DAP	· Delivered At Place
	DPU	· Delivered At Place, Unloaded
	DDP	· Delivered Duty Paid
Ocean Transportation	FAS	· Free Alongside Ship
	FOB	· Free On Board
	CFR	· Cost and Freight
	CIF	· Cost, Insurance and Freight

Incoterms[®] Rules

Each Incoterms rule has:

- A scope — The type of products for which it can be used
- A modality — The mode of transport for which it can be used
- A syntax — The way it is stated on invoices and paperwork

Each Incoterms rule defines:

- The responsibilities of the exporter
- The responsibilities of the importer
- A specific transfer point at which the responsibilities for the goods shifts from the exporter to the importer

Incoterms® Rules for Any Mode of Transportation

There are seven Incoterms® Rules that can be used for any mode of transportation:

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

Ex-Works (EXW)

- Scope

Ex-Works can be used for any type of goods. However, in the Incoterms[®] rules 2020, the International Chamber of Commerce clearly wants EXW to be used for small packages that are picked up by express packages services, such as FedEx or DHL.

- Modality

Ex-Works can be used for any mode of transportation.

- Syntax

EXW [Address in the City of Departure where goods are made available], Incoterms[®] 2020.

**EXW · 2400 Progress Drive, Poughkeepsie,
New York 12601, USA, Incoterms[®] 2020.**

Ex-Works (EXW)

- Responsibilities of the Exporter

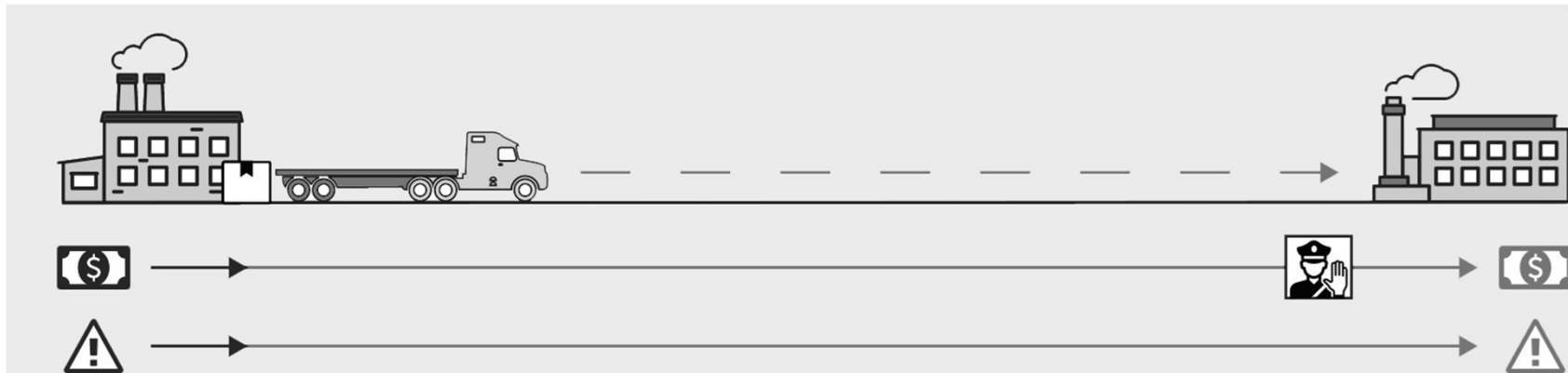
The exporter must package the goods for the international voyage and provide the importer with the documents necessary to clear the goods for export in the exporting country and to clear customs in the importing country.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter makes the goods available to the importer.



- In an EXW transaction, the exporter (in blue) puts the goods at the disposal of the importer (in orange).
- The importer hires a carrier to come and pick them up, and is responsible for all costs from picking up the goods, placing them on the truck, transporting them to their destination, and clearing customs.
- The importer is responsible for the goods from the time it picks them up.



Small-Packet Delivery Vehicle in Germany, used to pick up EXW shipments.
Source: unknown

Free Carrier (FCA)

- Scope

Free Carrier can be used for any type of goods.

- Modality

Free Carrier can be used for any mode of transportation.

- Syntax

FCA [Address in the City of Departure where goods are delivered to carrier], Incoterms® 2020.

**FCA · Bâtiment B, 46 Allée Corbière, F-81000 Castres, France,
Incoterms® 2020**

Free Carrier (FCA)

Under the FCA Incoterms[®] rule, there are two choices regarding the delivery of the goods. The exporter and importer can agree on:

- FCA Exporter's Premises

The exporter loads the goods at its place of business on a truck (means of conveyance) provided by the importer.

- FCA Carrier's Premises

The exporter loads the goods on its own truck and delivers them to the carrier's place of business, still loaded on the truck. It is the responsibility of the carrier to unload them from the truck.

Free Carrier (FCA)

- Responsibilities of the Exporter

The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear customs in the importing country, and deliver the goods on the truck either at its own place of business or the carrier's place of business.

- Responsibilities of the Importer

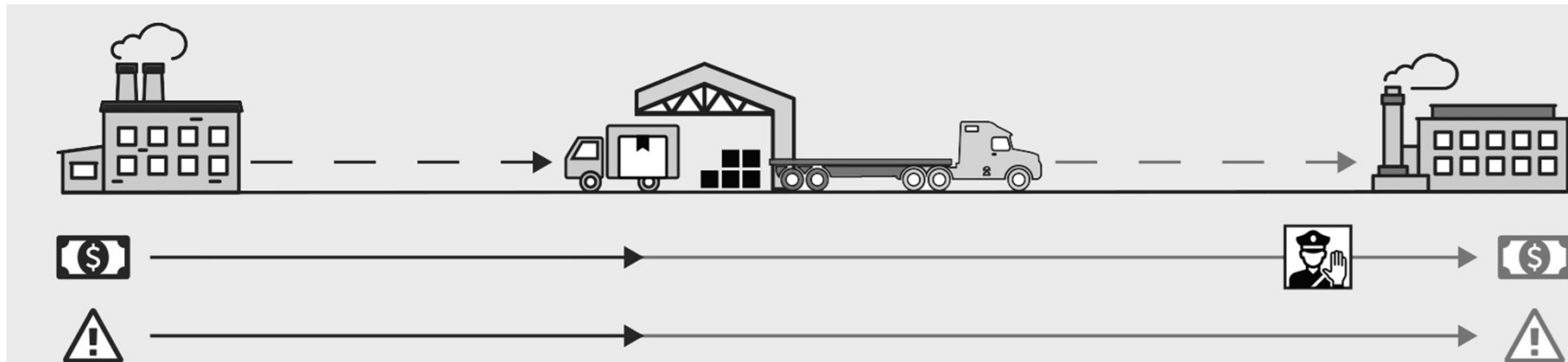
The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the goods are delivered to the carrier, loaded on the truck.



- In an FCA Exporter's Premises transaction, the exporter (in blue) places the shipment on the truck provided by the importer (in orange).
- The importer hires a carrier to pick up the goods and is responsible for all costs after they are loaded on the truck, from transporting them to their destination to clearing customs.
- The importer is responsible for the goods from the time it picks them up.



- In an FCA Carrier's Premises transaction, the exporter (in blue) takes the goods on its own truck and delivers them to the carrier designated by the importer (in orange).
- The importer hires a carrier to transport the goods and is responsible for all costs after they are received from the exporter, from unloading the goods from the truck, transporting them to their destination, and clearing customs.
- The importer is responsible for the goods from the time the carrier receives them.



A shipment made under FCA Carrier's Premises is delivered when the goods arrive at the carrier's facilities.

Source: Siwakorn1933

Carriage Paid To (CPT)

- Scope
Carriage Paid To can be used for any type of product.
- Modality
Carriage Paid To can be used for any mode of transportation.
- Syntax
CPT [Address in the City of Destination where goods are delivered],
Incoterms® 2020.

**CPT · Graacher Straße 20, Köln,
Deutschland D-50969, Incoterms® 2020.**

Carriage Paid To (CPT)

- Responsibilities of the Exporter

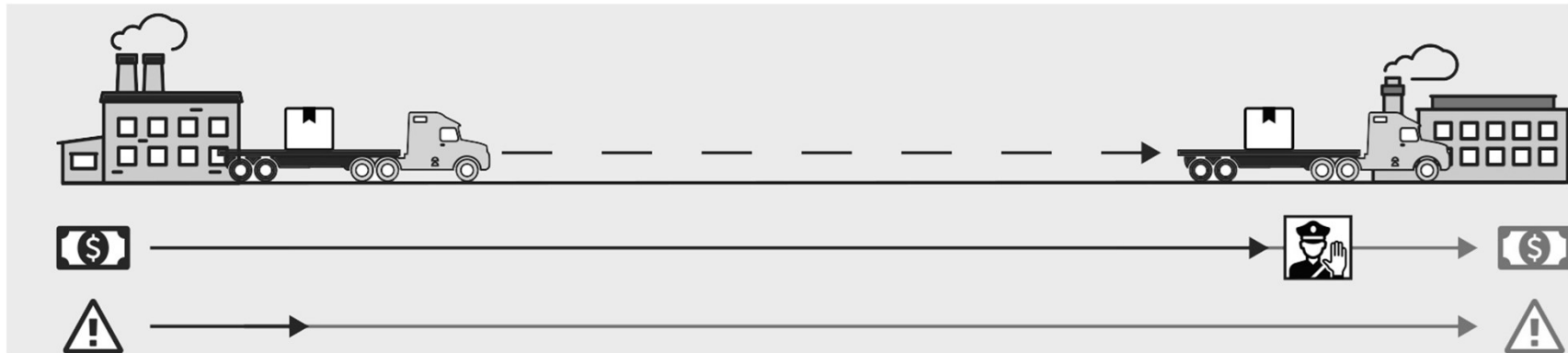
The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for pre-carriage, main carriage and on-carriage to the city of destination.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods to the first carrier in the exporting country.



- In a CPT transaction, the exporter (in blue) places the goods on a truck it has hired and pays for transporting them to the importer (in orange).
- The exporter hires a carrier to transport the goods and is responsible for all costs to transport the goods to their destination.
- The importer is responsible for unloading the goods and clearing customs.
- The importer is responsible for the goods from the time they are loaded on the first means of conveyance.



In a CPT transaction, delivery takes place when goods are loaded in the first means of conveyance. Here, white-sugar bags are being loaded into a container in Thailand.

Source: Amarin Jitnathum

Carriage and Insurance Paid To (CIP)

- Scope

Carriage and Insurance Paid To can be used for any type of product.

- Modality

Carriage and Insurance Paid To can be used for any mode of transportation.

- Syntax

CIP [Address in the City of Destination where goods are delivered],
Incoterms® 2020.

**CIP · Ulitsa Poruchik Nedelcho Bonchev,
Sofia, Bulgaria, Incoterms® 2020**

Carriage and Insurance Paid To (CIP)

- Responsibilities of the Exporter

The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for pre-carriage, main carriage, on-carriage and insurance to the city of destination.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods to the first carrier in the exporting country.

Carriage and Insurance Paid To (CIP)

Insurance under CIP:

- Under the CIP Incoterms® rule, the exporter must provide insurance for the goods that provides coverage A of the Institute Cargo Clauses. This is an all-risks policy, which means that the goods are covered against all the risks of an international shipment.
- The amount of insurance is always 110 percent of the value of the goods.



- In a CIP transaction, the exporter (in blue) places the goods on a truck it has hired and pays for transporting them to the importer (in orange).
- The exporter hires a carrier to transport the goods and is responsible for all costs to transport the goods and insures them to their destination.
- The importer is responsible for unloading the goods and clearing customs.
- The importer is responsible for the goods from the time they are loaded on the first means of conveyance.



In a CIP transaction, damage to the goods while they are traveling are the responsibility of the importer, even though the exporter paid for transportation and insurance.

Source: United States Coast Guard

Delivered At Place (DAP)

- Scope
Delivered At Place can be used for any type of product.
- Modality
Delivered At Place can be used for any mode of transportation.
- Syntax
DAP [Address in the City of Destination where goods are delivered],
Incoterms[®] 2020.

**DAP · 97 Brisbane Street, Sydenham 8023,
New Zealand, Incoterms[®] 2020.**

Delivered At Place (DAP)

Under the DAP Incoterms® rule, the exporter and the importer generally agree to use a location in the importing country. However they could agree on a location in the exporting country, or one in a country through which the goods will transit.

Delivered At Place (DAP)

- Responsibilities of the Exporter

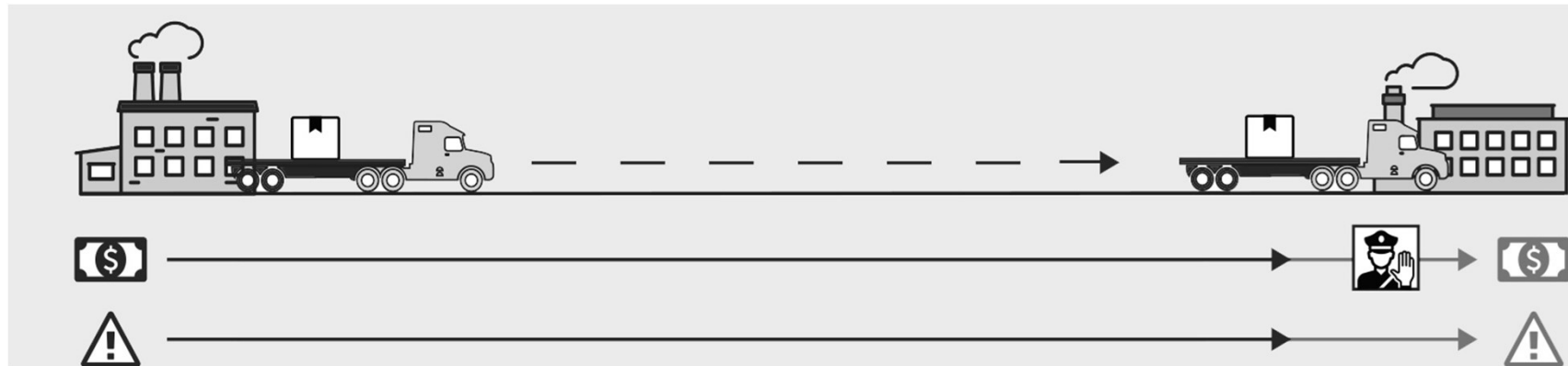
The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for pre-carriage, main carriage and on-carriage to the city of destination.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer.

When the exporter delivers the goods to the place of delivery, still loaded on the mode of transportation.



- In a DAP transaction, the exporter (in blue) places the goods on a truck it has hired and pays for transporting them to the importer (in orange).
- The exporter hires a carrier to transport the goods and is responsible for all costs to transport the goods to their destination.
- The importer is responsible for unloading the goods and clearing customs.
- The importer is responsible for the goods from the time they are delivered at the place specified on the agreement, still loaded on the truck.

Delivered at Place, Unloaded (DPU)

- Scope

Delivered at Place, Unloaded can be used for any type of product, but it is designed for containerized cargo.

- Modality

Delivered at Place, Unloaded can be used for any mode of transportation.

- Syntax

DPU [Address in the City of Destination where goods are delivered],
Incoterms[®] 2020.

**DPU · Paranaguá Container Terminal, Avenida Portuária,
Paranaguá, Parana 83206-410, Brazil, Incoterms[®] 2020.**

Delivered At Place, Unloaded (DPU)

- The Delivered At Place, Unloaded Incoterms[®] rule was created in 2020.
- The DPU rule is meant to be used for containerized cargo delivered to a port, and to replace the maritime cargo terms (FAS, FOB, CFR, CIF), which the ICC wants to reserve for non-containerized cargo.
- Under the DPU Incoterms[®] rule, the exporter and the importer can agree on a terminal that is located in the exporting country, or one located in the importing country, or yet one located in a country through which the goods will transit.
- The DPU Incoterms[®] rule reflects the practices followed by companies that utilize containers in international trade. They deliver containers to terminals in the country of export and collect containers at terminals located in the country of import.

Delivered At Place, Unloaded (DPU)

- Responsibilities of the Exporter

The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for transportation to the terminal at which the goods are to be delivered.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

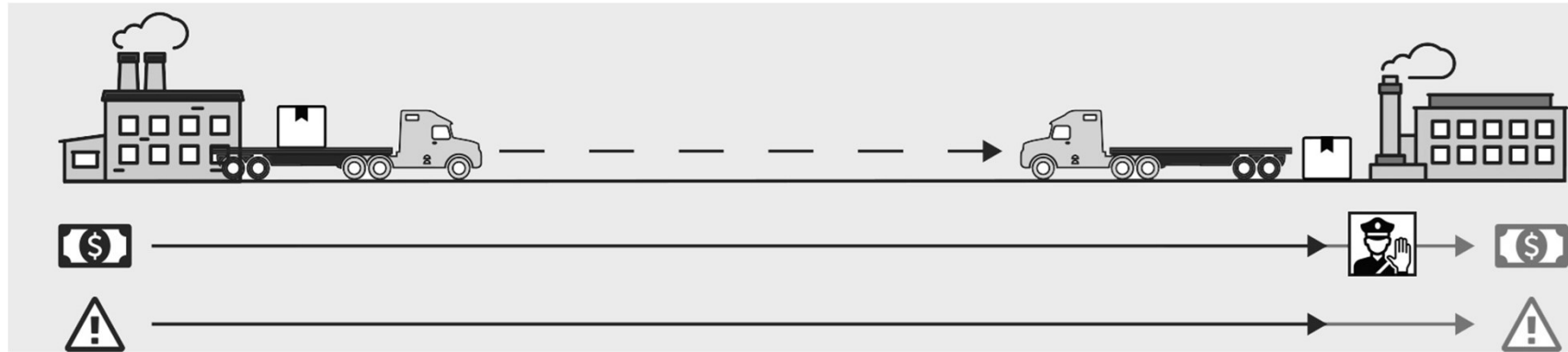
When the exporter delivers the goods, unloaded from the mode of transportation, to the terminal.

Delivered At Place, Unloaded (DPU)

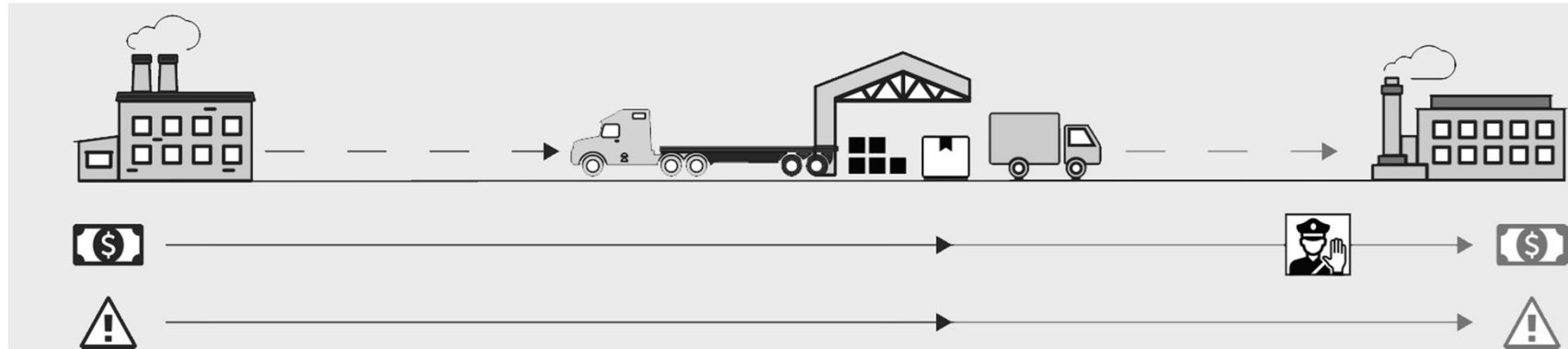
The location at which the goods can be delivered, unloaded, can be the importer's premises.

However, it is also possible for the exporter and the importer to agree to a point of delivery somewhere between the exporter's premises and the importer's premises, such as a terminal.

The DPU Incoterms® Rule is replacing a 2010 Incoterms® Rule, which was called Delivered At Terminal (DAT), so it's likely that some international logisticians will continue using it in that context.



- In a DPU transaction to the importer's premises, the exporter (in blue) places the goods on a truck it has hired and pays for transporting them to the importer (in orange).
- The exporter hires a carrier to transport the goods and is responsible for all costs to transport the goods to their destination and unloading them.
- The importer is responsible for clearing customs.
- The importer is responsible for the goods from the time they are delivered at the place specified on the agreement, once they are unloaded from the truck.



- In a DPU transaction to a terminal, the exporter (in blue) places the goods on a truck it has hired and pays for transporting them to the terminal.
- The exporter hires a carrier to transport the goods and is responsible for all costs to transport the goods to their destination and unloading them.
- The importer is responsible for picking up the goods and transporting them to their final destination, and for clearing customs.
- The importer is responsible for the goods from the time they are delivered at the terminal specified on the agreement, once they are unloaded from the truck.



A container being unloaded from an Antonov 124 in Baikonur, Kazakhstan. It's delivered at that point if it is a DPU shipment.

Source: vicspacewalker

Delivered Duty Paid (DDP)

- Scope

Delivered Duty Paid can be used for any type of product.

- Modality

Delivered Duty Paid can be used for any mode of transportation.

- Syntax

DDP [Address in the City of Destination where goods are delivered],
Incoterms[®] 2020.

**DDP · Kopparbergsgatan 226, Malmö 214 44, Sverige/Sweden,
Incoterms[®] 2020.**

Delivered Duty Paid (DDP)

- Responsibilities of the Exporter

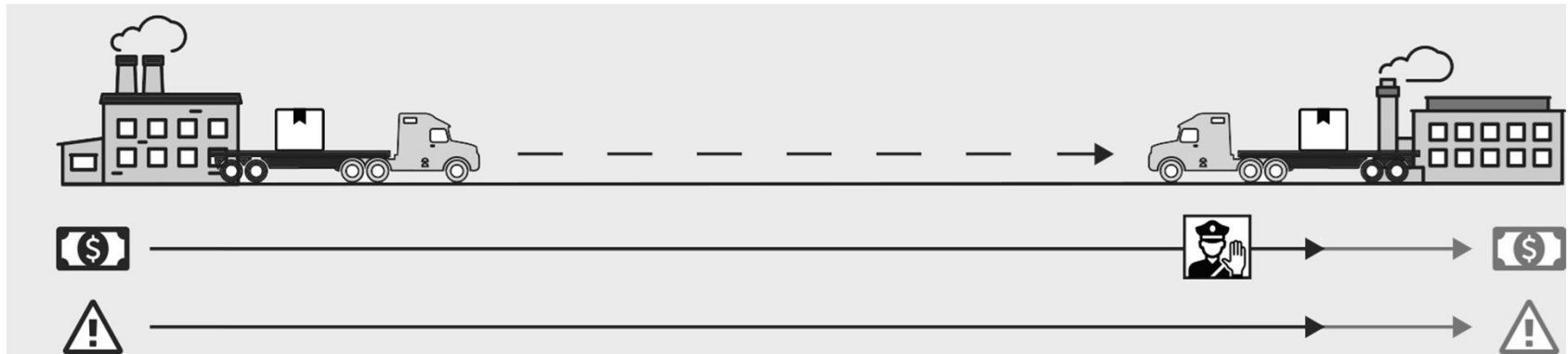
The exporter must package the goods for the international voyage, arrange and pay for pre-carriage, main carriage and on-carriage to the city of destination, and clear Customs in the importing country.

- Responsibilities of the Importer

The importer must unload the goods from the means of conveyance.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods to the delivery location, still loaded onto the mode of transportation.



- In a DDP transaction, the exporter (in blue) places the goods on a truck it has hired and pays for transporting them to the importer (in orange).
- The exporter hires a carrier to transport the goods and is responsible for all costs to transport the goods to their destination, and for clearing customs.
- The importer is responsible for unloading the goods.
- The importer is responsible for the goods from the time they are delivered to its premises.

Incoterms[®] Rules for Maritime Transportation

There are four Incoterms[®] Rules that can only be used for maritime transportation:

- Free Alongside Ship (FAS)
- Free On Board (FOB)
- Cost and Freight (CFR)
- Cost, Insurance, and Freight (CIF)

Free Alongside Ship (FAS)

- Scope

Free Alongside Ship can be used for any type of product. However, the International Chamber of Commerce would like FAS to be used only for non-containerized cargo.

- Modality

Free Alongside Ship can only be used for ocean transportation.

- Syntax

FAS [Address of the dock in the Port of Departure where the goods are delivered], Incoterms[®] 2020.

**FAS · Waalhaven Noordzijde 2089, Rotterdam,
3089KM, The Netherlands, Incoterms[®] 2020.**

Free Alongside Ship (FAS)

- Responsibilities of the Exporter

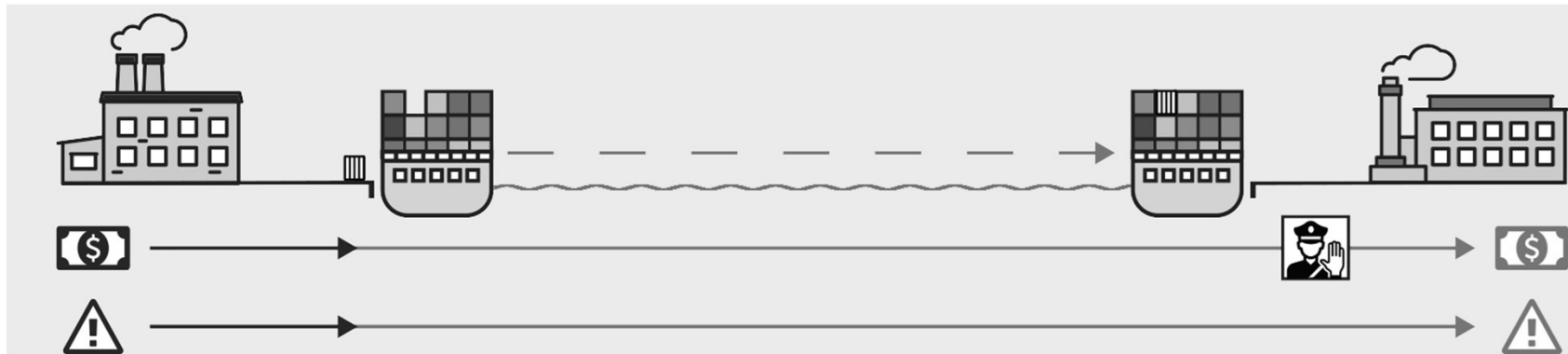
The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for pre-carriage to the port of departure.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods to the port of departure, unloaded from the mode of transportation.



- In an FAS transaction, the exporter (in blue) places the goods alongside a ship that was hired by the importer (in orange).
- The importer is responsible for loading the goods into the ship, paying for international transportation, for unloading the ship, and for clearing customs.
- The importer is responsible for the goods from the time they are delivered alongside the ship.



FAS Delivery: Wood Logs Delivered Alongside the Ship in the Port of Kandla, India.

Source: Hari Mahidhar

Free On Board (FOB)

- Scope

Free On Board can be used for any type of product. However, the International Chamber of Commerce would like FOB to be used only for non-containerized cargo.

- Modality

Free On Board can only be used for ocean transportation.

- Syntax

FOB [dock (or ship) in the Port of Departure where the goods are delivered], Incoterms® 2020.

**FOB · Breakbulk Terminal, 660 Duncan Road,
Cape Town, South Africa, Incoterms® 2020.**

Free On Board (FOB)

- Responsibilities of the Exporter

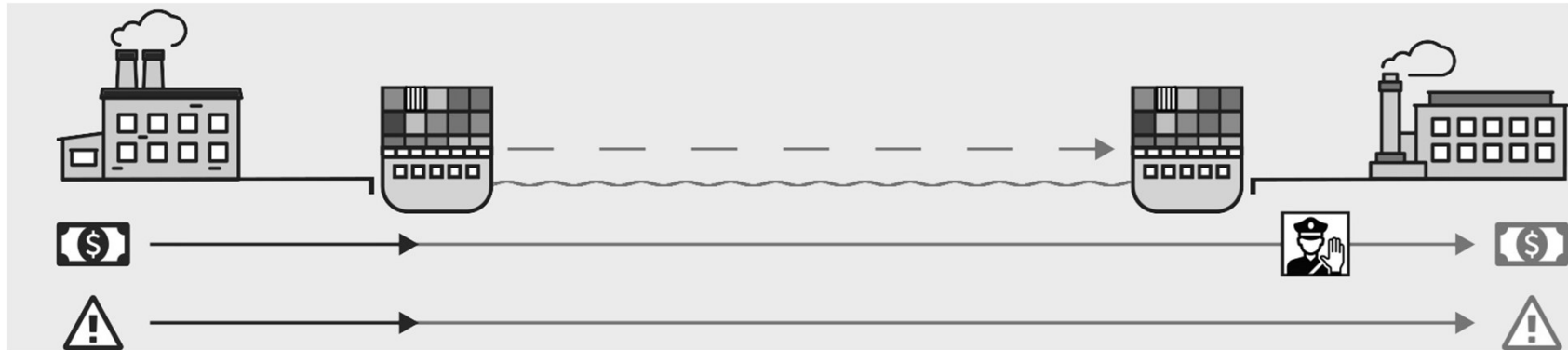
The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, arrange and pay for pre-carriage to the port of departure and loading onto the ship.

- Responsibilities of the Importer

The importer must handle everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods onboard the ship in the port of departure.



- In an FOB transaction, the exporter (in blue) places the goods onboard the ship that was hired by the importer (in orange).
- The importer is responsible for transporting the goods, unloading them, and clearing customs.
- The importer is responsible for the goods from the time they are on board the ship in the port of origin.



FOB Delivery: Bags of Rice Loaded and Stowed in the Hold of a Ship, Port of Bangkok.

Source: Think4photop

Cost and Freight (CFR)

- Scope

Cost and Freight can be used for any type of product. However, the International Chamber of Commerce would like CFR to be used only for non-containerized cargo.

- Modality

Cost and Freight can only be used for ocean transportation.

- Syntax

CFR [Address of the dock in the Port of Destination where goods are delivered], Incoterms[®] 2020.

**CFR · ENL Multi-purpose Terminal, Apapa Wharf,
Lagos, Nigeria, Incoterms[®] 2020.**

Cost and Freight (CFR)

- Responsibilities of the Exporter

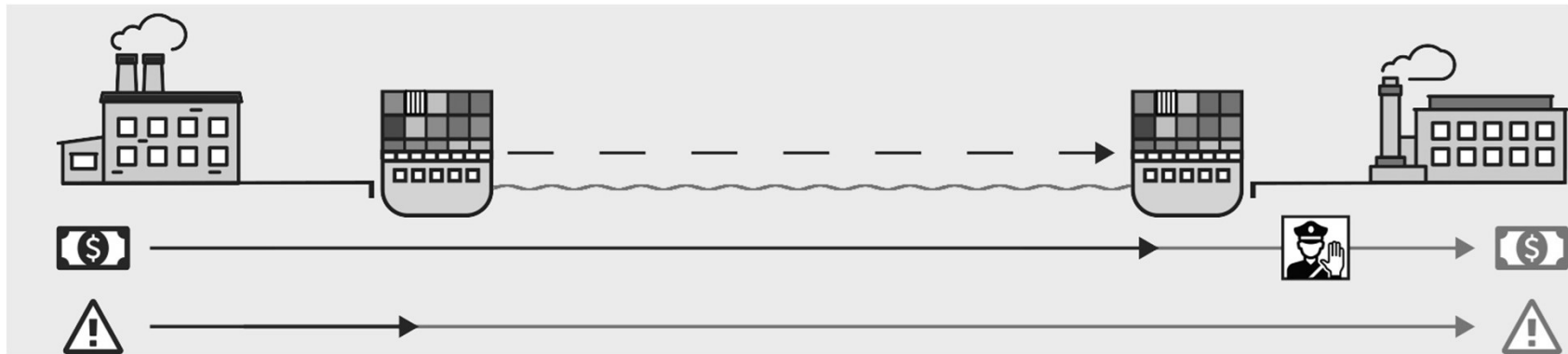
The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for pre-carriage and main carriage to the port of destination.

- Responsibilities of the Importer

The importer must do everything else.

- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods onboard the ship in the port of departure.



- In a CFR transaction, the exporter (in blue) places the goods onboard the ship that it has hired to take them to the importer (in orange).
- The exporter is responsible for transporting the goods to the port of destination, and unloading them.
- The importer is responsible for clearing customs.
- The importer is responsible for the goods from the time they are on board the ship in the port of origin.



CFR Landed: Automobiles Being Unloaded from a RORO Ship, Port of Mersin, Turkey.

Source: Canaran

Cost, Insurance and Freight (CIF)

- Scope

Cost Insurance and Freight can be used for any type of product. However, the International Chamber of Commerce would like CIF to be used only for non-containerized cargo.

- Modality

Cost Insurance and Freight can only be used for ocean transportation.

- Syntax

CFR [Address of the dock in the Port of Destination where goods are delivered], Incoterms[®] 2020.

**CIF · Naigai Lines, 176 Higashi-Machi, Chuo-Ku,
Kobe 650-0031, Hyogo, Japan, Incoterms[®] 2020.**

Cost, Insurance and Freight (CIF)

- Responsibilities of the Exporter

The exporter must package the goods for the international voyage, provide the importer with the documents necessary to clear Customs in the importing country, as well as arrange and pay for pre-carriage, main carriage and insurance to the port of destination.

- Responsibilities of the Importer

The importer must do everything else.

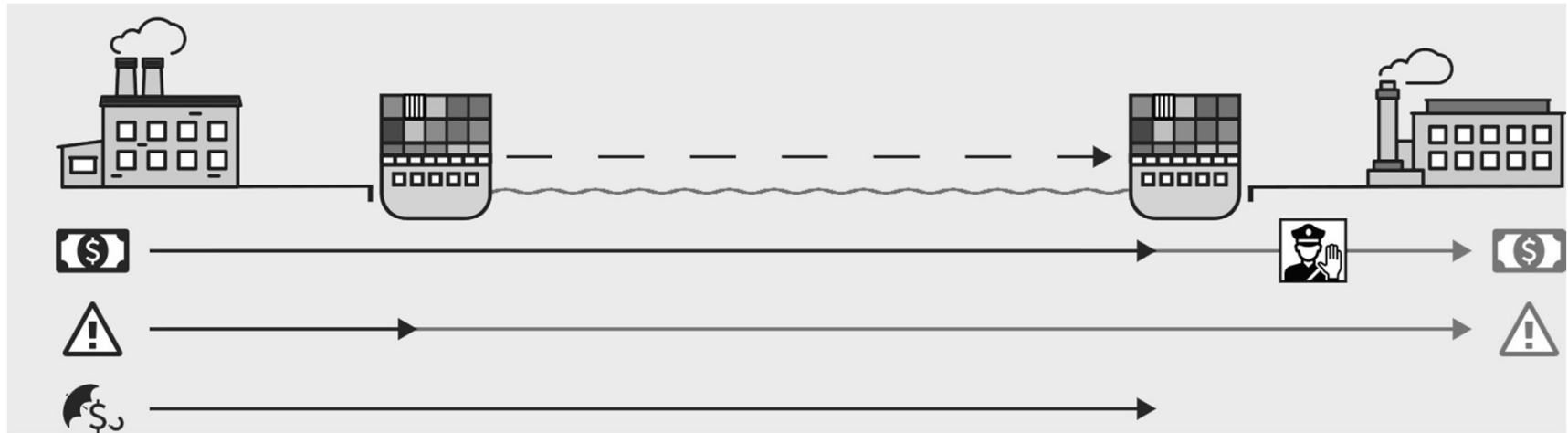
- Point at which the responsibility for the good shifts from exporter to importer

When the exporter delivers the goods onboard the ship in the port of departure.

Cost, Insurance and Freight (CIF)

Insurance under CIF

- Under the CIF Incoterms® rule, the exporter must provide insurance for the goods, but it is minimum insurance (coverage C of the Institute Cargo Clauses). It covers very few of the risks of international shipping.
- The amount of insurance is always 110 percent of the value of the goods.
- Incoterms® rule Variant
It is possible for the exporter and the importer to agree to a higher level of insurance (coverage A). In this case, the Incoterms syntax changes to:
**CIF · Naigai Lines, 176 Higashi-Machi, Chuo-Ku,
Kobe 650-0031, Hyogo, Japan, Incoterms® 2020, maximum cover.**



- In a CIF transaction, the exporter (in blue) places the goods onboard the ship it has hired to take them to the importer (in orange).
- The exporter is responsible for transporting the goods to the port of destination, paying for insurance, and unloading them.
- The importer is responsible for clearing customs.
- The importer is responsible for the goods from the time they are on board the ship in the port of origin.

Incoterms[®] Rules in Domestic Trade

- The International Chamber of Commerce had intentionally designed the 2010 Incoterms[®] rules to be used in domestic trade.
- The main reason for this change is that domestic trade and international trade often use the same terminologies (for example, FOB is a frequently used domestic term of trade), but with different meanings. Consider a company doing business in several countries, all of which have a different understanding of FOB in addition to the ICC version.
- In an attempt to simplify trade, the ICC wanted domestic and international shipments to use Incoterms[®] rules.
- This effort has not been met with much success.

Electronic Data Interchange (EDI)

- For several Incoterms[®] rules, there is no transport document that is issued at the point where the responsibility shifts from the exporter to the importer (for example, a Bill of Lading).
- Electronic Data Interchange has attempted to solve this problem.
- Whenever there is no transport document possible, the exporter can still send an EDI “notice” to the importer, which acts as a proof of delivery for both parties. The exporter has a record of the notification sent, and the importer knows unambiguously when the goods were delivered to the quay or when they arrived in port.

Common Errors in Incoterms® Rules Usage (I)

- Confusion with Domestic Terms of Trade
An inexperienced exporter will use “FOB factory” rather than the correct corresponding Free Carrier Seller’s Premises (FCA) Incoterms® rule.
- Confusion with older Incoterms® rules
The International Chamber of Commerce modified the Incoterms® rules in 1980, 1990, 2000, 2010, and 2020. It eliminated some Incoterms® rules, modified others and created some new ones. For a number of reasons, several exporters have failed to adapt to these changes, and will use an obsolete Incoterms® rule.

Common Errors in Incoterms® Rules Usage (II)

- Improper Use of a Correct Incoterms® rule

Some Incoterms® rules are sometimes specific to certain modes of transportation and types of cargo, and cannot be used for others.

The most frequent misuse is when FOB is used with an air shipment: FOB is designed to be used only with an ocean shipment term.

The correct Incoterms® rule to use for an air shipment should be Free Carrier (FCA), to clearly outline the responsibilities of the exporter and of the importer.

Common Errors in Incoterms® Rules Usage (III)

- Not Specifying the Incoterms® rule version

Incoterms rules have changed from 2000 to 2010, and 2020. Until the 2020 rules are solidly established, it would be advisable to always specify “Incoterms 2020”.

Since the FOB point of delivery changed from Incoterms 2000 to Incoterms 2010 (and therefore 2020), some possible problems may develop should cargo be damaged during the loading of a ship if the version (2020) is not specified.

Incoterms® Rules as a Strategic Advantage

A strategic advantage can be gained by an exporter willing to facilitate the sale of its products by assisting a novice importer in the handling of a shipment.

On the other hand, an experienced importer may be intent on performing all or most of the tasks involved in the shipment.

Most exporters would gain by being flexible, offering a quote where they list several possible Incoterms:

- FCA, 123 Main Street, Cleveland, Ohio, USA \$ 245,000
- FOB, *M/V APL Florence*, Miami, Florida, USA \$ 258,000
- DPU, Tecon Terminal, Santos, Brazil \$ 285,000

and let the importer decide which Incoterms rule it would rather use.