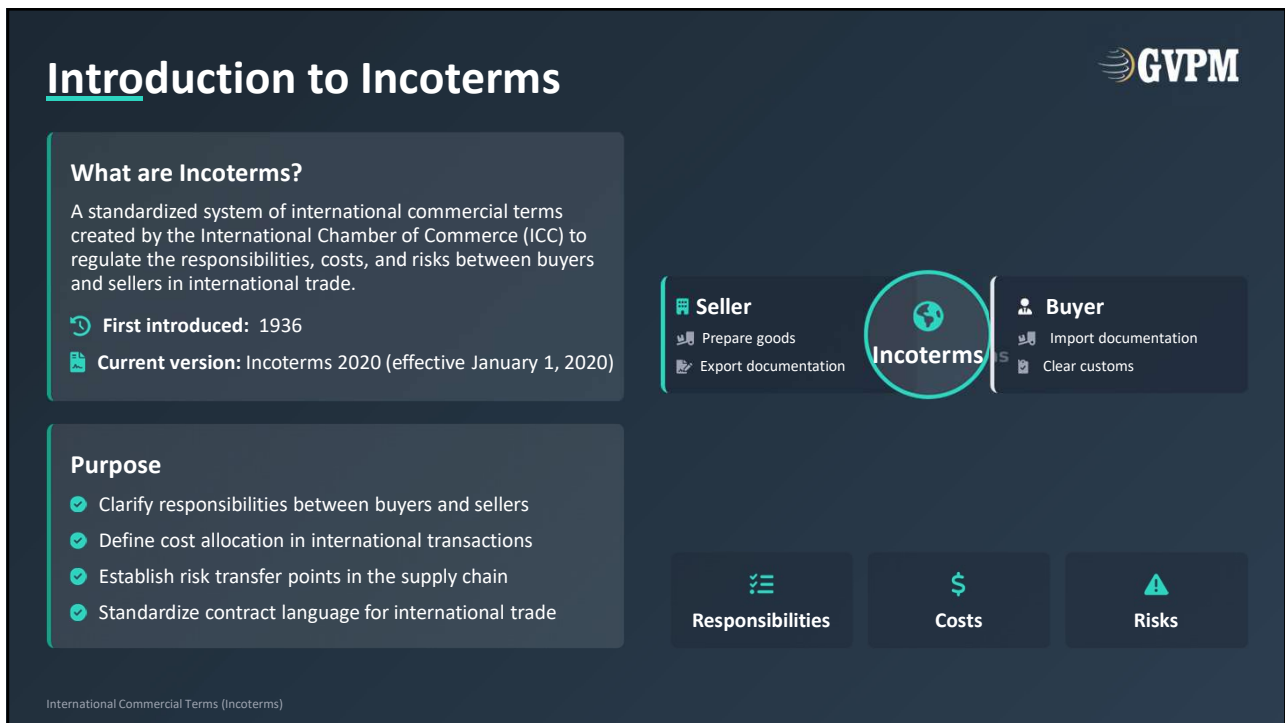


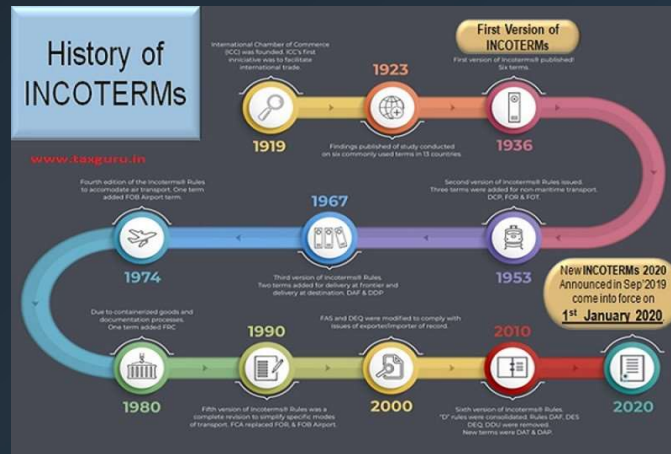


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History and Evolution of Incoterms



1936

First version of Incoterms rules published by ICC

1953

Second edition with additional revisions and expansions

2020

Incoterms 2020 released on September 10, 2019 and came into effect on January 1, 2020

International Commercial Terms (Incoterms)

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Why Companies Need Incoterms



Incoterms provide a standardized framework for international trade, helping companies:



Clarify Responsibilities

Define obligations of buyers and sellers in international transactions



Minimize Misunderstandings

Reduce errors and disputes by clearly allocating costs and risks



Standardize Terms

Use internationally recognized terms for pricing and delivery



Pricing

Helps export companies set correct prices



Cost Allocation

Clarifies cost distribution between parties



Documentation

Standardizes contract language



Incoterms Foundation



Common Business Challenge

Many business professionals only have vague understanding of differences between EXW, FOB, CIF or DDP terms



Without clear understanding of Incoterms, companies may be unprepared for unexpected events like loading/unloading responsibilities or insurance claims

International Commercial Terms (Incoterms)

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Legal Status and Responsibility Levels



Legal Status

- ✈ Accepted by governments worldwide
- 🏛 Used by legal institutions
- 📄 Common in commercial contracts

Benefits

- ✓ Reduces uncertainty in international trade
- ✓ Standardizes contract language
- ✓ Facilitates communication between parties

Responsibility Groups

E E-Group (EXW)

- Seller has minimum responsibilities
- ↓ Risk & costs from goods collection

F F-Group

- Risk transfers when delivered to carrier
- ↓ Risk & costs from delivery to carrier

C C-Group

- Costs from main carrier, risk from supplier
- ↓ Risk from delivery to main carrier

D D-Group (DDP)

- Buyer has maximum responsibilities
- ↓ Risk from delivery at destination

Responsibility Spectrum



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Incoterms 2020: Key Updates



DAT Replaced by DPU

DAT (Delivered at Terminal) has been replaced with **DPU (Delivered at Place Unloaded)**, clarifying that any location can be specified as the unloading point, not just terminals.

Enhanced Insurance

Different insurance levels have been specified for CIF and CIP terms, with higher requirements for CIP.

Security Obligations

Increased security-related obligations and requirements for transport documents have been added.

Improved Guidance

More clear explanatory notes and practical guidance have been provided.

From DAT to DPU

↓
DAT
Delivered at Terminal
Limited to terminals

↑
DPU
Delivered at Place Unloaded
Any location specified

Additional Updates

- ✓ Better alignment with modern supply chain practices
- ✓ Electronic communication now has same effect as paper documents
- ✓ Insurance information obligations moved from A10/B10 to A3/B3

📅 Effective: January 1, 2020

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Classification of Incoterms 2020



Category 1

Seven Rules for Any Mode of Transport

Applicable to all transportation methods including sea, air, rail, road, and multimodal transport.

💡 Most commonly used in international trade

🏭 EXW - Ex Works

🚚 FCA - Free Carrier

🚚 CPT - Carriage Paid To

🛡️ CIP - Carriage & Insurance Paid To

🚚 DPU

🚚 DAP

📦 DDP

💡 Selection Tip

Consider the nature of goods, transport route, and trade relationship when choosing the right Incoterm.

✅ Key Benefit

Clear classification helps traders understand which Incoterms are appropriate for their specific transportation needs.

Category 2

Four Rules for Sea and Inland Waterway Transport

Specifically designed for maritime and inland water transportation.

💡 Traditional terms for shipping goods by water

🚚 FAS - Free Alongside Ship

🚢 FOB - Free On Board

🚢 CFR - Cost and Freight

🛡️ CIF - Cost, Insurance and Freight

International Commercial Terms (Incoterms)

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Rules for Any Mode of Transport (1/7)



🏭 EXW - Ex Works

Seller makes goods available at their premises (factory, warehouse) for buyers to collect.

Seller Responsibilities

- ✓ Prepare goods
- ✓ Label goods correctly

Buyer Responsibilities

- ✓ Transport goods
- ✓ Export/import customs

Example

Company A buys printers from Company B, \$4,000 EXW, \$200 EXW freight. Company A finds third-party transport for \$170, saving \$30.

Best Use

- ✓ When buyer has strong logistics
- ✓ When seller wants minimum risk

EXW: Seller Responsibility Timeline

Seller	Buyer
Min	Max

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Rules for Any Mode of Transport (2/7)



International Commercial Terms (Incoterms)

FCA - Free Carrier

Seller delivers goods to carrier at specified location, risk transfers when delivered.

Seller Responsibilities

- ✓ Prepare goods
- ✓ Deliver to buyer's carrier

Buyer Responsibilities

- ✓ Arrange carrier
- ✓ Pay transport costs

Example

Exporter A sells electronic components to Importer B, FCA terms. A prepares goods, loads onto B's carrier, completes export customs. Risk transfers when delivered to carrier.

Best Use

- ✓ When buyer wants to arrange transport
- ✓ When multi-modal transport needed

FCA: Risk Transfer Point



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Rules for Any Mode of Transport (3/7)



CPT - Carriage Paid To

Seller pays freight to transport goods to designated destination. Risk transfers when delivered to first carrier.

Key Features:

- ✓ Seller arranges and pays main freight
- ✓ Risk transfers when goods cross ship's rail

Seller Responsibilities:

- ⚙️ Arrange transport to destination
- 📄 Complete export customs procedures

Buyer Responsibilities:

- ⚠️ Take responsibility after goods cross ship's rail
- 💡 Arrange and pay insurance

💡 Best for: Limited insurance needs, seller has carrier relationships



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Rules for Any Mode of Transport (4/7)



🛡️ CIP - Carriage & Insurance Paid To

Seller pays both freight and insurance for transport. Risk transfers when delivered to first carrier.

Key Features:

- ✔ Seller arranges and pays freight & insurance
- ✔ Higher insurance coverage than CIF

Seller Responsibilities:

- ⚙️ Arrange transport to destination
- 📄 Complete export customs procedures
- 🛡️ Arrange comprehensive insurance

Buyer Responsibilities:

- ⚠️ Take responsibility after goods cross ship's rail

💡 Best for: High-value goods, comprehensive insurance protection

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Rules for Any Mode of Transport (5/7)



🚚 DPU - Delivered at Place Unloaded

Delivered at Place Unloaded- Seller delivers goods at specified destination after unloading

Seller Buyer

Key Features:

- ✔ Seller unloads goods at destination
- ✔ Buyer assumes responsibility after unloading

When to Use:

Heavy goods requiring specific unloading



Responsibility Comparison

DPU

- Seller: Transport & export
- Buyer: Import & unloading

DAP

- Seller: Terminal delivery
- Buyer: Import & unloading

DDP

- Seller: All responsibilities
- Buyer: Minimum responsibilities

International Commercial Terms (Incoterms)

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Rules for Any Mode of Transport (6/7)



DAP - Delivered at Place

Delivered at Place- Seller delivers goods at specified terminal, not unloaded

Seller Buyer

Key Features:

- ✓ Seller delivers at terminal
- ✓ Buyer handles unloading and import

When to Use:

When seller wants to provide terminal delivery service

Responsibility Comparison

DPU

- Seller: Transport & export
- Buyer: Import & unloading

DAP

- Seller: Terminal delivery
- Buyer: Import & unloading

DDP

- Seller: All responsibilities
- Buyer: Minimum responsibilities

International Commercial Terms (Incoterms)

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Rules for Any Mode of Transport (7/7)



DDP

Delivered Duty Paid- Seller delivers goods at destination with import clearance

Seller Buyer

Key Features:

- Seller bears maximum responsibility
- Handles import clearance and duties

When to Use:

When seller wants to provide complete service



Responsibility Comparison

DPU

- Seller: Transport & export
- Buyer: Import & unloading

DAP

- Seller: Terminal delivery
- Buyer: Import & unloading

DDP

- Seller: All responsibilities
- Buyer: Minimum responsibilities

International Commercial Terms (Incoterms)

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Rules for Sea and Inland Waterway Transport (1/4)

FAS - Free Alongside Ship

The seller delivers goods alongside the vessel at the named port of shipment.

Key Characteristics:

- ✓ Seller delivers goods to port, not necessarily on board
- ✓ Buyer is responsible for loading goods onto ship
- ✓ Risk transfers when goods are placed alongside ship

Responsibility Allocation:

Seller

- Deliver to port
- Unload at port

Buyer

- Arrange vessel
- Load onto ship

Example:

Coffee exporter delivers coffee beans at Santos Port, Brazil. Buyer arranges vessel and loads beans onto ship.



Common Mistakes

Using FOB for containerized cargo (use FCA instead)

International Commercial Terms (Incoterms)



Best Use

FAS: Bulk commodities, FOB: When seller has port access

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Rules for Sea and Inland Waterway Transport (2/4)



Common Mistakes

Using FOB for containerized cargo (use FCA instead)



Best Use

FAS: Bulk commodities, FOB: When seller has port access

International Commercial Terms (Incoterms)



FOB - Free On Board

The seller delivers goods on board the vessel at the named port of shipment.

Key Characteristics:

- ✓ Seller is responsible for loading goods onto ship
- ✓ Risk transfers when goods cross the ship's rail
- ✓ Applicable only to sea or inland waterway transport

Responsibility Allocation:

Seller

- Load onto ship
- Export clearance

Buyer

- Import clearance
- Pay freight

Example:

Supplier loads machinery onto buyer's vessel at Rotterdam port. Risk transfers when machinery crosses ship's rail.

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Rules for Sea and Inland Waterway Transport (3/4)



CFR - Cost and Freight

Definition: Seller is responsible for shipping goods to the specified destination port and paying the freight costs. Risk transfers when goods are loaded onto the ship.

Example

Australian producer exporting raw materials to Indian manufacturer using CFR terms, shipping to Mumbai port.

- ✓ **Seller responsibility:** Package materials and arrange transport to Melbourne port
- ✓ **Buyer responsibility:** Bear risk and costs after goods are on board the ship

Risk Transfer Point

Risk transfers when goods cross the ship's rail



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Key Characteristics

- Seller arranges and pays for transport to destination port
- Buyer is responsible for insurance and risks after loading
- Only applicable for sea or inland waterway transport

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Rules for Sea and Inland Waterway Transport (4/4)



Key Characteristics

- Seller arranges and pays for transport to destination port
- Seller provides insurance with higher requirements than CFR
- Only applicable for sea or inland waterway transport

International Commercial Terms (Incoterms)



CIF - Cost, Insurance and Freight

Definition: Seller is responsible for shipping goods to the specified destination port, paying freight costs, and providing insurance for the goods during transport. Risk transfers when goods are loaded onto the ship.

Example

Same scenario as CFR, but with insurance component.

- ✓ **Seller responsibility:** Same as CFR plus provide insurance during transport
- ✓ **Buyer responsibility:** Same as CFR but may arrange additional insurance

Risk Transfer Point

Risk transfers when goods cross the ship's rail



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Selecting the Right Incoterm



Key Selection Factors



Transport Mode

Choose based on your logistics capabilities and supply chain requirements.



Risk Tolerance

Balance responsibilities and risks between parties.



Logistics Capability

Consider your resources for export/import procedures.



Commercial Objectives

Align with your business goals and market position.

Incoterm Selection Guide

Any Mode of Transport

EXW:

Seller responsibility

FCA:

Carrier selection

CPT:

Transport payment

CIP:

Insurance included

DPU:

Unloaded delivery

DAP:

Terminal delivery

DDP:

Maximum seller service

Sea & Inland Waterway

FAS:

Alongside ship

FOB:

On board ship

CFR:

Cost & freight

CIF:

Cost, insurance, freight



Special Considerations

- High-value goods: Consider CIP or DDP
- Complex import regulations: Consider DDP
- Buyer logistics: Consider FCA or DAP

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Digital Transformation and Incoterms



Electronic Documentation

Incoterms 2020 recognizes electronic communications with the same validity as paper documents when both parties agree.



Key Benefits:

- Reduced paper trail
- Standardized data exchange

Blockchain & Smart Contracts



Blockchain Applications:

Creates an immutable record of transactions, enhancing trust between parties.



Smart Contracts:

Self-executing agreements triggered by predefined conditions that ensure Incoterm terms compliance.

Digital Platforms & Data Sharing

Digital transformation increases transparency and efficiency in global trade.



Real-time tracking

Monitor cargo status



Collaboration

Enhanced coordination

Digital Applications



CIF Transactions

Digital platforms enable real-time cargo tracking and insurance document processing.



DDP Arrangements

Digital tools streamline customs clearance and facilitate electronic payment of duties.

International Commercial Terms (Incoterms)

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Common Mistakes and Best Practices



Common Mistakes

- ✗ **Misunderstanding Risk Transfer**
Not recognizing when risk transfers from seller to buyer (e.g., at ship's rail for FOB or when goods are delivered to first carrier for CPT/CIP)
- ✗ **FOB vs. FCA Confusion**
Using FOB for containerized cargo instead of FCA, or vice versa for bulk cargo
- ✗ **Undefined Delivery Location**
Not clearly specifying the delivery location, leading to disputes about responsibility for final delivery
- ✗ **Chain Sales Overlap**
In chain sales, middle sellers not clarifying whether they will actually ship goods or purchase already-shipped goods

Best Practices

- ✓ **Clear Contract Terms**
Always specify Incoterm version (e.g., "FOB Rotterdam, Incoterms 2020") and include detailed conditions for FCA terms
- ✓ **Select Appropriate Incoterm**
 - Use EXW when seller has limited logistics capabilities
 - Use FCA when seller wants flexibility in carrier selection
 - Use CPT/CIP when seller has good shipping rates
 - Use DDP when seller wants to provide comprehensive service
- ✓ **Digital Documentation**
Leverage digital platforms for real-time tracking and electronic documentation to enhance transparency and efficiency
- ✓ **Insurance Considerations**
For CIF/CIP transactions, ensure adequate insurance coverage and clear communication about insurance responsibilities

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Key Takeaways



Clear Responsibility Division

Incoterms provide a clear framework for dividing responsibilities, costs, and risks between buyers and sellers in international transactions.



Risk Management

Each Incoterm defines specific risk transfer points, helping traders manage and mitigate risks in cross-border transactions.



Cost Allocation

Incoterms provide a standardized method for allocating transportation, insurance, and other costs between parties.



Standardized Terms

Incoterms offer a standardized language for international trade, reducing misunderstandings and disputes.



Evolution of Incoterms

From 1936 to 2020, Incoterms have evolved to adapt to changing global trade practices and technologies.



Digital Transformation

Incoterms 2020 reflects the digital era with enhanced electronic communication provisions and integration with modern supply chain practices.

Incoterms Framework



"Understanding Incoterms is essential for successful international trade"

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