

Understanding Popular Incoterms Used in International Trade

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Types of Transport	Any Mode or Modes of Transport			Sea and Inland Waterway Only			Any Mode or Modes of Transport				
INCOTERMS 2020	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DDP	DDP
	Ex Works (place)	Free Carrier (place)	Free Alongside Ship (port)	Free On Board (port)	Cost & Freight (port)	Cost, Insurance & Freight (port)	Carriage Paid To (place)	Carriage & Insurance Paid to (place)	Delivered At Place (place)	Delivered At Place Unloaded (place)	Delivered Duty Paid (place)
Transfer of Risk	At Buyer's Disposal	On Buyer's Transport	Alongside Ship	On Board Vessel	On Board Vessel	On Board Vessel	At Carrier	At Carrier	At Named Place	At Named Place Unloaded	At Named Place
Responsibilities & Charges											
Export 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
Delivery to Port/Place	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Export Duty, Taxes & Customs Clearance	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Origin Terminal Handling Charges	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Loading on Carriage	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Freight Charges	BUYER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	SELLER	Negotiable	SELLER	Negotiable	Negotiable	Negotiable
Destination Terminal Handling Charges	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER	SELLER	SELLER
Delivery to Destination	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER	SELLER	SELLER
Unloading at Destination	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER	BUYER
Import Duty, Taxes & Customs Clearance	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	SELLER

International trade is a complex arena where buyers and sellers across different countries engage in transactions involving the movement of goods. To facilitate these transactions and avoid misunderstandings, a standardized set of rules known as Incoterms (International Commercial Terms) was developed by the International Chamber of Commerce (ICC).

Incoterms define the responsibilities of buyers and sellers for the delivery of goods under sales contracts, specifically in terms of transportation costs, risk management, and customs duties.

This article explores the most popular Incoterms used in international trade, providing an overview of each term and its significance in facilitating smooth cross-border transactions.

What Are Incoterms?

Incoterms are a set of predefined commercial terms that outline the roles and responsibilities of buyers and sellers in international trade transactions. Introduced in 1936 and regularly updated (the latest version being Incoterms 2020), these terms help ensure that both parties have a clear understanding of who is responsible for the transportation, insurance, and customs clearance of goods.

Incoterms are divided into two categories:

1. Terms for Any Mode of Transport: These include Incoterms that apply to all types of transportation, whether by air, sea, rail, or road.
2. Terms for Sea and Inland Waterway Transport: These are specific to goods transported via waterways.

Popular Incoterms Used in International Trade

1. EXW (Ex Works)

Meaning:

- The seller makes the goods available at their premises (factory, warehouse, etc.), and the buyer is responsible for all costs and risks associated with transporting the goods from the seller's location to the destination.

Responsibilities:

- Seller: Provides access to the goods at their premises.
- Buyer: Handles all transportation, export duties, insurance, and import clearance.

Example:

- A furniture manufacturer in Italy sells goods to a buyer in Japan under EXW terms. The Japanese buyer arranges for the transportation, export clearance, and import formalities, bearing all the risks once the goods are made available at the Italian factory.

Significance:

- EXW is often used when the buyer has more control over the transportation process and when the seller's involvement is minimal beyond making the goods available for pickup.

2. FOB (Free on Board)

Meaning:

- The seller is responsible for delivering the goods onto a vessel nominated by the buyer at the named port of shipment. The risk passes to the buyer once the goods are on board the ship.

Responsibilities:

- Seller: Handles export clearance, delivery of goods to the port, and loading onto the vessel.
- Buyer: Assumes risk and responsibility for the goods once they are on board, including shipping, insurance, and import duties.

Example:

- An exporter of coffee in Brazil agrees to sell coffee beans to a buyer in Germany under FOB terms. The Brazilian exporter arranges for the beans to be transported to the port of Santos and loaded onto the vessel. Once on board, the German buyer takes on all responsibility.

Significance:

- FOB is widely used in maritime trade as it clearly delineates the point at which the seller's responsibility ends and the buyer's begins.

3. CIF (Cost, Insurance, and Freight)

Meaning:

- The seller is responsible for the cost of goods, insurance, and freight to the named port of destination. The risk transfers to the buyer once the goods are loaded onto the vessel.

Responsibilities:

- Seller: Covers the cost of goods, freight to the destination port, and marine insurance.
- Buyer: Takes on the risk once the goods are on board, including unloading and any subsequent transportation.

Example:

- A supplier in India sells textiles to a buyer in the United Kingdom under CIF terms. The supplier arranges and pays for the shipment to the port of Liverpool, including marine insurance. The buyer assumes responsibility once the textiles are on board the vessel.

Significance:

- CIF is commonly used because it combines the seller's responsibility for shipping and insurance, providing more security for the buyer.

4. DAP (Delivered at Place)

Meaning:

- The seller delivers the goods to a named place of destination. The seller is responsible for all costs and risks involved in delivering the goods to that place, except for import duties and taxes, which are the buyer's responsibility.

Responsibilities:

- Seller: Bears the risk and cost of transportation to the named destination.
- Buyer: Responsible for import clearance, duties, and taxes.

Example:

- A machinery manufacturer in the United States sells equipment to a buyer in France under DAP terms. The U.S. manufacturer arranges for the transportation of the equipment to the buyer's warehouse in Paris. The French buyer handles the import duties and taxes.

Significance:

- DAP is useful when the seller wants to ensure the goods are delivered directly to the buyer's specified location, with the buyer handling only the import formalities.

5. DDP (Delivered Duty Paid)**Meaning:**

- The seller bears all costs and risks associated with delivering the goods to the buyer's location, including import duties, taxes, and customs clearance.

Responsibilities:

- Seller: Handles everything from export clearance, transportation, import duties, and final delivery to the buyer's premises.
- Buyer: Simply receives the goods at the agreed location.

Example:

- An electronics exporter in South Korea sells a shipment of televisions to a buyer in Canada under DDP terms. The Korean seller is responsible for delivering the televisions to the buyer's warehouse in Toronto, including paying Canadian import duties and taxes.

Significance:

- DDP is the most seller-friendly Incoterm, offering maximum convenience for the buyer, who has no responsibility for logistics or customs clearance.

6. CFR (Cost and Freight)**Meaning:**

- The seller is responsible for the cost of goods and freight to the named port of destination. However, the risk transfers to the buyer once the goods are on board the vessel.

Responsibilities:

- Seller: Covers the cost of goods and transportation to the destination port.
- Buyer: Assumes risk once the goods are on board and is responsible for insurance and import clearance.

Example:

- A Chinese manufacturer sells machinery to a buyer in Egypt under CFR terms. The manufacturer arranges and pays for the shipping to the port of Alexandria. The buyer in Egypt assumes the risk once the goods are on board and arranges for marine insurance and customs clearance.

Significance:

- CFR is similar to CIF but without the inclusion of insurance. It's often chosen when the buyer prefers to arrange their own insurance coverage.

7. FCA (Free Carrier)

Meaning:

- The seller delivers the goods to a carrier or another person nominated by the buyer at the seller's premises or another named place. The risk passes to the buyer when the goods are handed over to the carrier.

Responsibilities:

- Seller: Handles export clearance and delivery of the goods to the carrier.
- Buyer: Responsible for transportation from the point of delivery, insurance, and import clearance.

Example:

- An agricultural equipment manufacturer in the Netherlands sells machinery to a buyer in Argentina under FCA terms. The Dutch seller delivers the equipment to the carrier nominated by the buyer at the seller's premises. The buyer takes on the risk and responsibility once the equipment is handed over to the carrier.

Significance:

- FCA is flexible, allowing the buyer to choose the point of transfer and the carrier, making it a popular choice for multimodal transport.

8. CPT (Carriage Paid To)**Meaning:**

- The seller pays for the carriage of goods to the named place of destination. However, the risk passes to the buyer when the goods are handed over to the first carrier.

Responsibilities:

- Seller: Covers transportation costs to the named destination.
- Buyer: Takes on the risk from the point where the goods are handed to the carrier, and is responsible for insurance and import clearance.

Example:

- A food exporter in Australia ships a consignment of dairy products to a buyer in Singapore under CPT terms. The Australian seller pays for the transport of the goods to the port in Singapore. However, the risk transfers to the buyer once the dairy products are handed over to the shipping company in Australia.

Significance:

- CPT is suitable for buyers who prefer to manage their own insurance coverage but want the seller to handle the logistics of getting the goods to a named destination.

Conclusion

Incoterms play a vital role in international trade by clearly defining the responsibilities and risks of both buyers and sellers in cross-border transactions. The choice of Incoterm can significantly impact the logistics, cost, and risk distribution between the parties involved. Understanding the popular Incoterms—such as EXW, FOB, CIF, DAP, DDP, CFR, FCA, and CPT—enables businesses to make informed decisions that align with their operational capabilities and risk tolerance.

Whether you are a buyer or a seller, selecting the right Incoterm for your international trade transactions is essential for ensuring smooth operations and minimizing the potential for disputes or misunderstandings. As global trade continues to evolve, staying informed about Incoterms and their implications remains a key component of successful international business practices.

References

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