

*Incoterms 2010* is the eighth set of pre-defined international contract terms published by the [International Chamber of Commerce](#), with the first set having been published in 1936. *Incoterms 2010* defines 11 rules, down from the 13 rules defined by *Incoterms 2000*.<sup>[3]</sup> Four rules of the 2000 version ("Delivered at Frontier", DAF; "Delivered Ex Ship", DES; "Delivered Ex Quay", DEQ; "Delivered Duty Unpaid", DDU).<sup>[4]</sup> are replaced by two new rules ("Delivered at Terminal", DAT; "Delivered at Place", DAP) in the 2010 rules.

In the prior version, the rules were divided into four categories, but the 11 pre-defined terms of *Incoterms 2010* are subdivided into two categories *based only on method of delivery*. The larger group of seven rules may be used regardless of the method of transport, with the smaller group of four being applicable only to sales that solely involve transportation by water where the condition of the goods can be verified at the point of loading on board ship. They are therefore not to be used for containerized freight

## Incoterms in Government Regulations

---

In some jurisdictions, the duty costs of the goods may be calculated against a specific Incoterm (for example in India, duty is calculated against the CIF value of the goods, and in South Africa the duty is calculated against the FOB value of the goods). Because of this it is common for contracts for exports to these countries to use these Incoterms, even when they are not suitable for the chosen mode of transport. Care must be exercised to ensure that the liability issues are addressed by negotiation with the customer.

## General Transport

---

### **EXW – Ex Works (named place)**

The seller makes the goods available at his/her premises. This term places the maximum obligation on the buyer and minimum obligations on the seller. The Ex Works term is often used when making an initial quotation for the sale of goods without any costs included. EXW means that a buyer incurs the risks for bringing the goods to their final destination. Either the seller does not load the goods on collecting vehicles and does not clear them for export, or if the seller does load the goods, he does so at buyer's risk and cost. If parties wish seller to be responsible for the loading of the goods on departure and to bear the risk and all costs of such loading, this must be made clear by adding explicit wording to this effect in the contract of sale.

The buyer arranges the pickup of the freight from the supplier's designated ship site, owns the in-transit freight, and is responsible for clearing the goods through Customs. The buyer is also responsible for completing all the export documentation.

These documentary requirements may cause two principal issues. Firstly, the stipulation for the buyer to complete the export declaration can be an issue in certain jurisdictions (not least the European Union) where the customs regulations require the declarant to be either an individual or corporation resident within the jurisdiction. Secondly, most jurisdictions require companies to provide proof of export for tax purposes. In an Ex Works shipment, the buyer is under no obligation to provide such proof, or indeed to even export the goods. It is therefore of utmost importance that

these matters are discussed with the buyer before the contract is agreed. It may well be that another Incoterm, such as FCA *seller's premises*, may be more suitable.

### **FCA – Free Carrier (named place of delivery)**

The seller delivers the goods, cleared for export, at a named place. This can be to a carrier nominated by the buyer, or to another person nominated by the buyer.

It should be noted that the chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at the seller's premises, the seller is responsible for loading the goods on to the buyer's carrier. However, if delivery occurs at any other place, the seller is deemed to have delivered the goods once their transport has arrived at the named place; the buyer is responsible for both unloading the goods and loading them onto their own carrier.

### **CPT – Carriage Paid To (named place of destination)**

CPT replaces the venerable C&F (cost and freight) and CFR terms for all shipping modes outside of non-containerised seafreight.

The seller pays for the carriage of the goods up to the named place of destination. Risk transfers to buyer upon handing goods over to the first carrier at the place of shipment in the country of Export. The Shipper is responsible for origin costs including export clearance and freight costs for carriage to named place (usually a destination port or airport). The shipper is not responsible for delivery to the final destination (generally the buyer's facilities), or for buying insurance. If the buyer does require the seller to obtain insurance, the Incoterm CIP should be considered.

### **CIP – Carriage and Insurance Paid to (named place of destination)**

This term is broadly similar to the above CPT term, with the exception that the seller is required to obtain insurance for the goods while in transit. CIP requires the seller to insure the goods for 110% of their value under at least the minimum cover of the Institute Cargo Clauses of the Institute of London Underwriters (which would be Institute Cargo Clauses (C)), or any similar set of clauses. The policy should be in the same currency as the contract.

CIP can be used for all modes of transport, whereas the equivalent term CIF can only be used for non-containerised seafreight.

### **DAT – Delivered at Terminal (named terminal at port or place of destination)**

This term means that the seller covers all the costs of transport (export fees, carriage, unloading from main carrier at destination port and destination port charges) and assumes all risk until destination port or terminal. The terminal can be a Port, Airport, or inland freight interchange. Import duty/taxes/customs costs are to be borne by Buyer.

### **DAP – Delivered at Place (named place of destination)**

Can be used for any transport mode, or where there is more than one transport mode. The seller is responsible for arranging carriage and for delivering the goods, ready for unloading from the arriving conveyance, at the named place. Duties are not paid by the seller under this term. The seller bears all risks involved in bringing the goods to the named place.

## **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 seller is not responsible for unloading. This term is often used in place of the non-Incoterms "Free In Store (FIS)". This term places the maximum obligations on the seller and minimum obligations on the buyer. With the delivery at the named place of destination all the risks and responsibilities are transferred to the buyer and it is considered that the seller has completed his obligations <sup>[5]</sup>

## **Sea and Inland Waterway Transport**

---

To determine if a location qualifies for these four rules, please refer to 'United Nations Code for Trade and Transport Locations (UN/LOCODE)'. <sup>[6]</sup>

The four rules defined by Incoterms 2010 for international trade where transportation is entirely conducted by water are as per the below. It is important to note that these terms are generally not suitable for shipments in shipping containers; the point at which risk and responsibility for the goods passes is when the goods are loaded on board the ship, and if the goods are sealed into a shipping container it is impossible to verify the condition of the goods at this point.

Also of note is that the point at which risk passes under these terms has shifted from previous editions of Incoterms, where the risk passed at the ship's rail.

### **FAS – Free Alongside Ship (named port of shipment)**

The seller delivers when the goods are placed alongside the buyer's vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment. The FAS term requires the seller to clear the goods for export, which is a reversal from previous Incoterms versions that required the buyer to arrange for export clearance. However, if the parties wish the buyer to clear the goods for export, this should be made clear by adding explicit wording to this effect in the contract of sale. This term can be used only for sea or inland waterway transport. <sup>[7]</sup>

### **FOB – Free on Board (named port of shipment)**

FOB means that the seller pays for delivery of goods to the vessel including loading. The seller must also arrange for export clearance. The buyer pays cost of marine freight transportation, insurance, unloading and transportation cost from the arrival port to destination. The buyer arranges for the vessel, and the shipper must load the goods onto the named vessel at the named port of shipment according to the dates stipulated in the contract of sale as informed by the buyer. Risk passes from the seller to the buyer when the goods are loaded aboard the vessel. This term has been greatly misused over the last three decades ever since *Incoterms 1980* explained that FCA should be used for container shipments.

### **CFR – Cost and Freight (named port of destination)**

The seller pays for the carriage of the goods up to the named port of destination. Risk transfers to buyer when the goods have been loaded on board the ship in the country of Export. The Shipper is responsible for origin costs including export clearance and freight costs for carriage to named port.



Incoterms 2010	Export customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading on vessel in port of export	Carriage (Sea/Air) to port of import	Insurance	Unloading in port of import	Loading on truck in port of import	Carriage to place of destination	Import customs clearance	Import taxes
CPT	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Buyer/Seller	Seller	Buyer	Buyer
CFR(CNF)	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer/Seller	Buyer	Buyer	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
CIP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer/Seller	Seller	Buyer	Buyer
DAT	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller

### **DAF – Delivered at Frontier (named place of delivery)**

This term can be used when the goods are transported by rail and road. The seller pays for transportation to the named place of delivery at the frontier. The buyer arranges for customs

clearance and pays for transportation from the frontier to his factory. The passing of risk occurs at the frontier.

### **DES – Delivered Ex Ship**

Where goods are delivered ex ship, the passing of risk does not occur until the ship has arrived at the named port of destination and the goods made available for unloading to the buyer. The seller pays the same freight and insurance costs as he would under a CIF arrangement. Unlike CFR and CIF terms, the seller has agreed to bear not just cost, but also Risk and Title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties, taxes, etc. are for the Buyer. A commonly used term in shipping bulk commodities, such as coal, grain, dry chemicals; and where the seller either owns or has chartered, their own vessel.

### **DEQ – Delivered Ex Quay (named port of delivery)**

This is similar to DES, but the passing of risk does not occur until the goods have been unloaded at the port of discharge.

This is no more. In ICC 2010 it is deleted

### **DDU – Delivered Duty Unpaid (named place of destination)**

This term means that the seller delivers the goods to the buyer to the named place of destination in the contract of sale. A transaction in international trade where the seller is responsible for making a safe delivery of goods to a named destination, paying all transportation expenses but not the duty. The seller bears the risks and costs associated with supplying the goods to the delivery location, where the buyer becomes responsible for paying the duty and other customs clearing expenses.