

INCOTERMS 2010: Standard Trade Definitions Used in International Freight Transactions

For those involved in international freight transactions, the following explanations of international standard trade definitions are useful in outlining risks and responsibilities between buyers and sellers.

This guideline highlights the Incoterms 2010 changes from Incoterms 2000.

Incoterms 2010: The International Chamber of Commerce has released the table of contents to the Incoterms 2010. Incoterms 2010 consists of only 11 Incoterms, a reduction from the 13 Incoterms 2000. The reduction in Incoterms from 13 to 11 different terms was accomplished by substituting two new Incoterms, DAT (Delivered At Terminal) and DAP (Delivered At Place), for DAF (Delivered At Frontier), DES (Delivered Ex-Ship), DEQ (Delivered Ex-Quay) and DDU (Delivered Duty Unpaid).

Incoterms 2010 also addresses duties to provide information regarding security-related clearances, such as Importer Security Filings and other chain-of-custody information.

The Incoterms 2010 are organized into two categories:

Incoterms for any Mode or Modes of Transport:

- **EXW** – Ex Works
- **FCA** – Free Carrier
- **CPT** – Carriage Paid To
- **CIP** – Carriage and Insurance Paid
- **DAT** – Delivered At Terminal (*new*)
- **DAP** – Delivered at Place (*new*)
- Delivered Duty Paid

Incoterms for Sea and Inland Waterway Transport Only:

- **FAS** – Free Alongside Ship
- **FOB** – Free On Board
- **CFR** – Cost and Freight
- **CIF** – Cost, Insurance and Freight

Incoterms 2010: Expanded Summary:

EXW (Ex Works): The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. The seller's obligation is to make the goods available at his premises (works, factory, warehouse). This term represents minimum obligation to the seller. This term can be used across all modes of transport.

FCA (Free Carrier): The seller's obligation is to hand over the goods, cleared for export into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When the seller's assistance is required in making the contract with the carrier, the seller may act at the buyers risk and expense. This term can be used across all modes of transport.

CPT (Carriage Paid To): The seller pays the freight for the carriage of goods to the named destination. The risk of loss or damage to the goods occurring after the delivery has been made to the carrier is transferred from the seller to the buyer. This term requires the seller to clear the goods for export and can be used across all modes of transport.

CIP (Carriage & Insurance Paid To): The seller has the same obligations as under CPT but has the responsibility of obtaining the insurance against the buyer's risk of loss or damage of goods during the carriage. The seller is required to clear the goods for export however, is only required to obtain insurance on minimum coverage. This term requires the seller to clear the goods for export and can be used across all modes of transport.

DAT (Delivered At Terminal): Seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. "Terminal" includes quay, warehouse, container yard or road, rail or air terminal. Both parties should agree the terminal and if possible a point within the terminal at which point the risks will transfer from the seller to the buyer of the goods. If it is intended that the seller is to bear all the costs and responsibilities from the terminal to another point, DAP or DDP may apply.

Responsibilities:

- Seller is responsible for the costs and risks to bring the goods to the point specified in the contract;
- Seller should ensure that their forwarding contract mirrors the contract of sale;
- Seller is responsible for the export clearance procedures;
- Importer is responsible to clear the goods for import, arrange import customs formalities, and pay import duty;
- If the parties intend to the seller to bear the risks and costs of taking the goods from the terminal to another place then the DAP term may apply.

This new term may be used for all transport modes.

DAP (Delivered At Place): Seller delivers the goods when they are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. Parties are advised to specify as clear as possible the point within the agreed place of destination, because risks transfer at this point from seller to buyer. If the seller is responsible for clearing the goods, paying duties, etc., consideration should be given to using the DDP term.

Responsibilities:

- Seller bears the responsibility and risks to deliver the goods to the named place;
- Seller is advised to obtain contracts of carriage that match contract of sale;
- Seller is required to clear the goods for export;

- If the seller incurs unloading costs at place of destination, unless previously agreed, they are not entitled to recover any such costs;
- Importer is responsible for effecting customs clearance and paying any customs duties.

This new terms may be used for all transport modes.

DDP (Delivered Duty Paid): The seller is responsible for delivering the goods to the named place in the country of importation, including all costs and risks in bringing the goods to import destination. This includes duties, taxes and customs formalities. This term may be used irrespective of the mode of 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 (see Incoterms 2010, ICC publication 715). This term typically used for heavy-lift or bulk cargo.

FOB (Free On Board – named port of shipment): The seller must load themselves the goods on board the vessel nominated by the buyer. Cost and risk are divided when the goods are actually on board 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 (see Incoterms 2010, ICC publication 715). The buyer must instruct the seller the details of the vessel and the port where the goods are to be loaded, and there is no reference to, or provision for, the use of a carrier or forwarder.

CFR (Cost and Freight): The seller must pay the costs and freight required in bringing the goods to the named port of destination. The risk of loss or damage transferred from seller to buyer when the goods pass over the ship's rail in the port of shipment. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.

CIF (Cost, Insurance & Freight): The seller has the same obligations as under CFR however, he is also required to provide insurance against the buyer's risk of loss or damage to the goods during transit. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.

This interpretation is provided as a guide only.