Common Incoterms® 2020
(updated August 2021)

The Incoterms® rules explain a set of eleven business practices used in contracts of sale and purchase. The Incoterms® describe:

- *Obligations* - who does what, as between the seller and the buyer; and
- *Risk* - where and when the seller 'delivers' the goods i.e. when risk transfers from seller to buyer. This is a vital point when considering marine insurance; and
- *Costs* - which party, i.e. seller or buyer, is responsible for which costs e.g. transport, packaging, loading and unloading costs, checking and security-related costs.

Incoterms® do <u>not</u> deal with

- the transfer of property / title / ownership of the goods sold. Incoterms® are not in themselves, and are no substitute for, a contract of sale
- the goods' specification; the time, place, method or currency of payment; most consequences of delay; sanctions; export or import prohibitions; tariffs, etc.

The only Incoterms® that include a specified requirement to arrange insurance are Cost Insurance and Freight (CIF) and Carriage and Insurance Paid To (CIP). In the 2010 Incoterms® this was the minimum Institute Cargo Clauses (C). Now the 2020 CIP Incoterm® stipulates Institute Cargo Clauses (A). The 2020 CIF Incoterm® remains at ICC(C). In both CIF and CIP, it remains open to the commercial parties to specifically amend these insurance terms in their contract. With any Incoterm® it is very important that both buyers and sellers are aware of *when* they are "At Risk" and whether the duration of the marine insurance arranged by the seller covers each of their "At Risk" period.

Incoterms® should be described as "[*the chosen Incoterm®*] [*named port, place or point*] Incoterms® 2020" e.g. CIF Beijing Incoterms® 2020. Depending on which Incoterm® is chosen, the named port or place will identify the place or port at which the goods are considered delivered by the seller to the buyer, the place of delivery, or the place or port to which the seller must organise the carriage of goods. The named place or port is critical for both *Risk* and *Costs*.

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Incoterm®	Delivery and Risk Transfer Point
Incoterms® for sea and inland waterway transport	
Cost and Freight (CFR)	**Delivery / Risk Transfer:** The seller delivers the goods on board the vessel and the risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to the destination port. Thus, risk and costs pass at different places and at different times. Seller must clear the goods for export only. Previously the transfer point used to be an imaginary line above the ship's rail – no longer. **Insurance:** No responsibility for insurance is specified in CFR for either party, so both parties should arrange their own insurance cover for the time they are on risk. **Note:** Containers are generally delivered to container terminals prior to being loaded on the vessel (e.g. CPT)
Cost Insurance and Freight (CIF)	**Delivery / Risk Transfer:** The seller delivers the goods on board the vessel (again, not the ship's rail) and the risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to the destination port. Seller must clear the goods for export only. **Insurance:** The seller also contracts for insurance cover against the buyer's risk of loss or damage to the goods during carriage. The CIF Incoterm® only requires the seller to purchase ICC(C) cover, so the contract should explicitly state that a greater amount of cover is required where necessary. **Note:** CIF is usually not appropriate where the goods are handed over to the carrier before they are loaded on board the vessel. Usually this occurs at a container terminal, so use CIP instead.

Incoterms for sea and inland waterway transport (continued)	
Free Alongside Ship (FAS)	**Delivery / Risk Transfer:** Delivery occurs when the goods are placed alongside the vessel (e.g. on a quay or barge) at the nominated loading point at a named port of shipment i.e. prior to loading. The risk of loss or damage passes when the goods are alongside the ship, and the buyer bears all cost from that moment onwards. Seller must clear the goods for export only. **Insurance:** No responsibility for insurance is specified in FAS for either party, so both parties should arrange their own insurance cover for the time they are on risk. **Note:** Usually suited to break-bulk shipments where there is a warehouse directly beside the dock. Containers are generally delivered to container terminals (e.g. CIP).
Free On Board (FOB)	**Delivery / Risk Transfer:** Delivery occurs when the goods are on board the vessel (again, not the ship's rail) at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards. Seller must clear the goods for export only. **Insurance:** No responsibility for insurance is specified in FOB for either party, so both parties should arrange their own insurance cover for the time they are on risk. **Note:** FOB is not suitable for containers, which are usually handed to the carrier by delivery to a terminal (when FCA is more appropriate).

Incoterm®	**Delivery and Risk Transfer Point**
Incoterms for any mode or modes of transport	
Carriage Paid To (CPT)	**Delivery / Risk Transfer:** Both occur when the goods are handed over to the carrier at an agreed place. This point is usually in the seller's country, prior to export. However, the seller has contracted to pay the carrier to take the goods to a named destination beyond that agreed place of delivery, usually in the buyer's country. Risk and freight costs therefore pass at different points, and usually in different countries. Seller must clear the goods for export only. **Insurance:** No responsibility for insurance is specified in CPT for either party. So even though the seller bears the freight costs from the point of delivery to destination, they do not have to purchase insurance beyond the delivery point.
Carriage and Insurance Paid To (CIP)	**Delivery / Risk Transfer:** As per CPT, i.e. risk still transfers when the goods are delivered to the carrier at the nominated place prior to delivery. **Insurance:** The important distinction between CIP and CPT is that the seller must purchase marine insurance through to destination. So, at the point of Risk Transfer, the purchased marine insurance either commences or, if already in existence for the seller's benefit, is assigned from seller to buyer. **Note:** The CIP Incoterm® now requires the seller to purchase ICC(A) cover, but the contract of sale can explicitly state different insurance terms are required if necessary
Delivered At Place (DAP)	**Delivery:** At a nominated place of destination. The seller bears all risks and costs of bringing the goods to this named place. The seller delivers the goods and transfers risk when the goods are made available to the buyer on the arriving means of transport at the named place. Under DAP, the seller does not bear the costs of unloading the goods. The seller must clear the goods for export only. **Risk Transfer / Insurance:** Under DAP the seller bears the risk during an international transit prior to delivery, and so should have a marine insurance policy. The buyer bears the risk from the time of the ship docking and the goods being available for unloading. The seller is under no obligation to purchase an assignable marine policy for both parties, so the buyer will have their own transit policy that commences when the buyer assumes risk when the goods are available for unloading. **Note:** There are some dangers in this for the buyer if the goods are not inspected for damage prior to unloading

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Incoterms for any mode or modes of transport (continued)	
Delivered At Place Unloaded (DPU)	**Delivery / Risk Transfer:** occurs when the goods have been unloaded from the arriving means of transport and placed at the disposal of the buyer. This may be a container or air cargo terminal, or freight yard, or any suitable place to unload the goods, but often this will be the buyer's premises, so delivery and arrival at destination coincide. The seller bears the risk and costs of unloading. Should this not be the intention, then DAP should be used instead. **Insurance:** No responsibility for insurance is specified in DAT for either party. So, the buyer should arrange insurance to commence at the time the risk is unloaded from the seller's transport at the terminal. **Note:** DAT is an increasingly common term used for container shipments
Delivered Duty Paid (DDP)	**Delivery / Risk Transfer:** Both occur when the goods are ready for unloading from the arriving means of transport at the nominated place of destination. The seller bears all the costs and risks involved in bringing the goods to that point, including export and import licence and customs costs. DDP therefore represents the maximum obligation for the seller. **Insurance:** The seller is under no obligation to purchase an assignable marine policy for both parties. The seller retains the risk on arrival in the buyer's country until delivery. **Important Note:** If delivery is agreed to a point short of final destination, for example at the container terminal at the port of import, and the cargo container continues on to the buyer's premises, *this final leg is not a local transit as it is a continuation of the import transit*. A local transit insurer cannot be expected to pick up loss or damage that has occurred in the international transit, prior to coming on cover. The buyer should inspect for transit damage at delivery, and/or arrange a specific import cover where the premium charged recognises the possibility of undisclosed prior damage.
Ex-Works (EXW)	**Delivery:** When the goods are placed at the disposal of the buyer at a nominated place (usually the seller's premises). Seller does not need to load the goods on the buyer's vehicle or clear the goods for export. **Risk Transfer:** At the time the goods have been placed at the disposal of the buyer. **Insurance:** The buyer purchases marine insurance. An EXW sale is effectively a domestic sale for the seller. No responsibility for insurance is specified in EXW for either party.
Free Carrier (FCA)	**Delivery / Risk Transfer:** Both occur when the goods are provided to the buyer's nominated carrier at a nominated place. If the nominated place is the seller's premises, then delivery happens and risk transfers when the goods have been loaded onto the buyer's transport. If it is anywhere else (for example the premises of the buyer's nominated carrier) then delivery is completed, and risk is transferred when the goods are available for unloading from the seller's transport. Seller must clear the goods for export. **Insurance:** The seller may have local transit insurance cover, either a stand-alone policy or an adjunct to a Property Stock policy; and the buyer can purchase marine insurance for the international transit. No responsibility for insurance is specified in FCA for either party.