

An Overview of Incoterms® 2020

The updated Incoterms® 2020 rules are grouped into two categories, reflecting modes of transport. Of the 11 rules, there are 7 for ANY mode(s) of transport and 4 for SEA or INLAND WATERWAY transport.

The seven Incoterms® 2020 rules for ANY mode(s) of transport are:

EXW - Ex Works: The seller delivers when it places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e., works, factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.

FCA - Free Carrier: The seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place. The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

CPT - Carriage Paid to: The seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such site is agreed between parties). The seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination

CIP - Carriage and Insurance Paid to: The seller has the same responsibilities as CPT, but they also contract for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that, under CIP, the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

DAP - Delivered at Place: The seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

DPU - Delivered at Place Unloaded: The seller delivers when the goods, once unloaded are placed at the disposal of the buyer at a named place of destination. The seller bears all risks involved in bringing the goods to and unloading them at the place of destination.

DDP - Delivered Duty Paid: The seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

The four Incoterms® 2020 rules for Sea and Inland Waterway Transport are:

FAS - Free Alongside Ship: The seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.

FOB - Free on Board: The seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. 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.

CFR - Cost and Freight: The seller delivers the goods on board the vessel or procures the goods already so delivered. 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 bring the goods to the named port of destination.

CIF - Cost Insurance and Freight: The seller delivers the goods on board the vessel or procures the goods already so delivered. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination & also for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.

Key changes to Incoterms 2020 vis-à-vis Incoterms 2010

1. DAT has been changed to DPU (Delivery at Place Unloaded)

In Incoterms® 2020, Delivered at Terminal (DAT) has been changed to Delivered at Place Unloaded (DPU) to emphasise that the place of destination can be any place and not just a “terminal.”

2. Different levels of insurance coverage in CIF and CIP

The Incoterms® 2020 rules provide for different levels of insurance coverage in the Cost Insurance and Freight (CIF) rule and Carriage and Insurance Paid To (CIP) rule. Under the CIF Incoterms® rule, which is reserved for use in maritime trade and is often used in commodity trading, the Institute Cargo Clauses (C) remains the default level of coverage, giving parties the option to agree to a higher level of insurance cover. The CIP Incoterms® rule now requires a higher level of cover, compliant with the Institute Cargo Clauses (A) or similar clauses.

3. Listing of Costs

Within Incoterms® 2020, all costs associated with a given Incoterms rule now appear at article A9/B9 of that rule, allowing users to see the full list of expected costs at a glance. In addition to the aggregated presentation, the costs associated with each item – for example, carriage (article A4/B4) or export clearance (article A7/B7) – still appear in the respective articles to accommodate a user who wants to focus on a specific aspect of the sale transaction.

4. Security Requirements

Building on the extensive security-related requirements established by Incoterms® 2010, the latest edition of the Incoterms® rules includes clearer and more detailed security-related obligations in articles A4 on carriage and A7 on export/import clearance of each Incoterms® rule. Costs relating to these requirements also appear in the consolidated costs article, A9/B9.

5. Own transport

Incoterms® 2020 recognises that not all commercial trade transactions from the seller to the buyer are conducted by a third-party carrier. In some cases, transactions are conducted without a third-

party carrier at all, such as a seller using its own means of transportation, or a buyer using its own vehicle to collect goods.

6. FCA and Bills of lading

According to FCA, 'The buyer must contract or arrange at its own cost for the carriage of the goods'. The difference between FCA and FOB to the seller is a significant cost and risk. In 2010 Incoterms, exporters of goods in containers were encouraged to use FCA which seemed best for both parties. However, many exporters were using FOB, when they should've really been using FCA, since a standard Letter of Credit requires an on-board Bill of Lading to be presented. In Incoterms® 2020, FCA now clarifies that if the parties have so agreed, the buyer must instruct the carrier to issue to the seller, at the buyer's cost and risk, a transport document stating that the goods have been loaded (such as a Bill of Lading with an on board notation)'.