

Incoterms - What Are International Commercial Terms?



International commerce has always been a compelling combination of thrilling adventure, perilous risk, and alluring profits for those brave enough to do business across borders.

In the days of the Silk Road, doing business abroad meant trusting that goods could survive an ever-shifting series of regional rules, questionable middlemen, and dangerous conditions to produce profit.

With items changing hands countless times, and liabilities unclear, few merchants ever traveled the entire route, and those who used it were left to their wits and good luck as they sought epic profits in the face of potential ruin.

Fortunately, modern businesses enjoy a global business community guided not by patient hope and faith in Lady Fortune, but a set of terms and conditions known as *International Commercial Terms*, or *Incoterms*.

Incoterms Definition: A History of Modern

International Commerce

Governments, legal authorities, and businesses around the world rely on Incoterms to provide mutually agreeable definitions of the most common commercial terms used when conducting international trade and managing the transfer of risk between buyers and sellers as goods are exchanged.

Incoterms themselves were created in 1936 by the International Chamber of Commerce (ICC).

Founded in 1919 by a group of “merchants of peace” concerned about the lack of global business standards in the wake of World War One, the ICCO created Incoterms to provide clear global guidelines for both sellers and buyers with respect to how goods are transported from sellers to buyers, reducing miscommunication.

Incoterms also provide guidance on import and export clearances and specific divisions of rights, risks, costs, and obligations between the two parties.

Incoterms, when included in the formalized text of purchase orders, sales contracts, and other trade agreements, are legally binding.

They are useful in neatly and collaboratively defining contract specifics touching on goods sold, insurance, packaging, freight charges, licensing, customs, and approved processes for material handling in different countries.

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Incoterms: A Glossary

The first Incoterms consisted of just six defined terms. In the decades since, they have gone through numerous revisions, with two versions—the seventh, Incoterms 2000 and the eighth, Incoterms 2010—still in use.

The latest version decreases the total number of rules from 13 to 11, but all 13 trade terms are still supported by businesses, governments, and organizations

who continue to use both versions.

The terms themselves are divided by transport time; seven are related to all methods of transport, while six are specific to ocean freight and inland waterway transport methods.

Four of the thirteen terms present in Incoterms 2000 have been recombined into two terms used in Incoterms 2010.

Incoterms Related to All Modes of Transport

Carriage and Insurance Paid (CIP)

The seller delivers the goods to the seller's preferred shipper, pay the cost of carriage to deliver the goods to a named destination, and procure insurance against damage or loss during said carriage on the buyer's behalf.

Carriage Paid To (CPT)

Similar to CIP, except the buyer incurs all costs after goods are delivered to a named destination.

However, the seller is obligated to clear the goods for export.

Delivered At Place (DAP)

The seller incurs all costs of carriage for deliver to a named place, with the exception of those related to import clearance.

The seller also assumes all risk up to the point where the goods are unloaded by the buyer.

Delivered at Terminal (DAT)

The seller pays carriage costs for delivery to the terminal. As with DAP, the seller is off the hook for import clearance costs, although they do assume all risks up to the moment the goods are unloaded at the terminal.

Delivered Duty Paid (DDP)

The seller's obligations and liability end when goods are made available to the buyer at an agreed-upon time (or within an agreed-upon period) at the designated place of destination in the importing country, but not discharged from the carriage transport.

The seller is obligated to cover clearance and assumes all risks and import costs, including taxes, fees, etc.

ExWorks (EXW)

The seller is considered to have delivered the goods when they are made available to the buyer at the seller's premises or at another named place (e.g., a warehouse, a factory, etc.).

The seller is not obligated to load the goods onto any vehicle for transport, and does not need to clear the goods for export.

Free Carrier (FCA)

The seller delivers goods that have been cleared for export to a specific place named by the buyer.

The seller pays for carriage to the place named, and all expenses and risk of loss or damage to the goods passes to the buyer once the goods are delivered at the named location.

Incoterms Related to Sea and Inland Waterway Transport

Cost, Insurance and Freight (CIF)

The seller either delivers the goods on board a vessel or procures said goods once delivered. The risk of loss of or damage passes to the seller when the goods are on board a vessel.

The seller is obligated to contract (if required) and cover freight costs incurred

while bringing goods to a named port of destination.

In addition, the seller contracts for insurance to cover the buyer's risk of loss of or damage to the goods while en route.

Note: As sellers are only obligated to obtain the minimum required insurance, buyers may wish to negotiate for additional coverage with the seller or arrange for their own additional insurance coverage to make up any shortfall.

Cost and Freight (CFR)

The seller either delivers the goods on board a vessel or procures said goods after delivery. As with CIF, risk of loss of or damage passes to the seller when the goods are on the vessel.

The seller must contract (if required) and cover freight costs necessary to bring the goods to the named port of destination.

Free Alongside Ship (FAS)

Delivery of goods is complete when the seller places them alongside a vessel (e.g., on a barge or quay) selected by the buyer at a named port of shipment.

Risk passes (for both loss and damage) to the buyer once the goods are alongside the ship, and the buyer bears all costs related to the shipment from that point forward.

Free On Board (FOB)

Also called "Freight on Board." The seller either delivers goods on board a vessel chosen by the buyer to the named port of shipment or procures said goods after delivery.

The risk of loss or damage passes to the buyer as soon as the goods are on board the vessel, with the buyer bearing all costs from that point forward.

Note: Depending on the specifics negotiated between buyer and seller, FOB may require different levels of supplier and buyer liability. FOB is often negotiated into international contracts and sales agreements; specific terms will appear on both the FOB purchase order and the invoice generated from it.

Obviated Terms Used by Incoterms 2000

These four terms were combined into DAT and DAP in Incoterms 2010, but remain in use by Incoterms 2000 traders.

Delivered At Frontier (DAF)

Goods are considered delivered once the seller places them at the disposal of the buyer without unloading said goods from the mode of transportation used.

The goods are cleared for export but not import at the named point at the frontier, i.e., the border and customs facility of the country adjacent to the final destination in the country of import.

Delivered Duty Unpaid (DDU)

Goods are delivered to the buyer at the named place of destination, but are not cleared for import and not unloaded from the transport.

The seller covers all costs and assumes all risks related to bringing the goods to the named place, with the exception of “duty” (i.e., responsibility for customs formalities, taxes, and duties) related to the goods’ importation into the country of destination.

The buyer assumes all costs related to customs, duties, and taxes.

Delivered Ex Ship (DES)

Goods are considered delivered once they are placed at the disposal of the buyer on board the ship while remaining uncleared for import at the named port of destination.

The seller is responsible for all costs & risks related to transporting the goods to the named port prior to discharge. This term is limited to goods delivered via ocean transports.

Delivered Ex Quay (DEQ)

Similar to DES, except the seller is responsible for placing goods (not yet cleared

for import) at the buyer's disposal on the specified quay or wharf at the named port of destination.

As with DES, the seller must bear all costs & risks, in addition to discharging the goods on the quay.

This term is also limited to goods delivered using ocean transport.

Incoterms Bring Order and Security to Global Trade

Competing in the global marketplace requires every advantage you can muster, whether it's cost reductions, process improvements, or simply protecting the goods you need to do business.

Mastering the usage of Incoterms gives you the terminology and negotiation power to protect your company's interests, manage an ever-more complex global supply chain, and conduct business around the world with confidence.

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