What are incoterms?

Incoterms, short for International Commercial Terms, are a set of pre-defined commercial terms, related to and used in international trade and sales. These pre-defined terms are designed to clearly identify and communicate the various tasks, risks, obligations, and costs associated with the transportation and delivery of goods, from the seller to the buyer. These terms are not a contract, and do not define the transfer of titles, price, payments terms, etc.

The incoterms are broken down into two sets. One set that encompasses rules for any mode of transportation. The second set encompasses rules for sea and inland waterway transportation.

Below you will find the different terms of both sets, along with their definitions.

Any Mode of Transportation

- EXW – Ex Works (named place of delivery)

The seller has the goods available at their premises, or at another specified location. This incoterm places the maximum level of responsibility on the buyer of the goods, and the minimum set of responsibilities on the seller.

Meaning the buyer takes on the risks of bringing the goods to their final point of destination. The seller either does or does not load the goods on collecting vehicles. The party responsible for this action must be explicitly laid out in the wording of the contract.

The Ex-Works term is most often used upon initial price quotation for the sale of goods.

- FCA – Free Carrier (named place of delivery)

The seller of the goods delivers them to a named place, and clears for export. The goods can be delivered to either a carrier named by the buyer, or to another party named by the buyer.

The chosen place of delivery affects the obligations and responsibilities of both the buyer and seller. If the delivery is at a place under the control of the seller, then they are responsible for loading the goods onto the buyer's carrier. If the place of delivery is elsewhere, then the buyer is responsible for both the unloading and loading of goods onto their carrier.

- CPT – Carriage Paid To (named placed of destination)

The seller of the goods pays for the goods up to the named place of delivery. However, the goods are considered delivered by the seller when handed over to the first or main carrier. Meaning the risk transfers to the buyer upon handing over those goods at the place of shipment in the exporting country.

The seller's responsibilities include export clearance, and freight costs for carriage to the place of destination. This destination must be predetermined between the buyer and seller.

- CIP – Carriage and Insurance Paid To (named place of destination)

This term is the same as above, with the exception that the seller is required to purchase insurance for the goods during transit.

- DAT – Delivered At Terminal (named terminal at port of place of destination)

The seller of the goods must deliver the products, and unload them at the named terminal. The seller is responsible for covering the costs of transport (ie. export fees, carriage, unloading from main carrier at destination, and destination port charges).

All charges after unloading (ie. import duty, taxes, customs, and on-carriage) are the responsibility of the buyer.

- DAP – Delivered At Place

Under this incoterm, the sellers obligations have been completed when the goods are accessible to the buyer on the means of transport it arrives on, and is ready to be unloaded at the named destination. At this point the risk passes from the seller to the buyer. Meaning the buyer is responsible for unloading, customs, duties, taxes, etc.

- DDP – Delivered Duty Paid (named place of destination)

The seller's obligations are to deliver the goods to the named final destination in the country of the buyer. Paying all costs associated with brining in the goods, including import duties and taxes, and obtaining the required registrations and authorizations from that country. The seller is not the responsible party for unloading of the goods.

This incoterm places the maximum level of risk on the seller, and no risk or responsibility is transferred to the buyer until the goods are delivered at the predetermined place of destination.

Sea & Inland Waterway Transport

- FAS – Free Alongside Ship (named port of shipment)

The seller is obligated to deliver the goods alongside the buyer's vessel at the named port of destination. At this time, the risk and responsibility transfers to the buyer.

This term requires the seller to clear the goods for export. However, if the opposite is desired, meaning the buyer clears the goods for export, this must be explicitly stated in the contract of sale.

- FOB – Free On Board (named port of shipment)

Under this term, the seller takes on all risks and costs up to the point where the goods are loaded onto the buyers chosen vessel. The seller bears the responsibility of export clearance. However, the buyer is responsible for paying the cost of ocean freight, bill of lading fees, insurance, unloading, and transportation from arrival port to final place of destination.

- CFR – Cost and Freight (named port of destination)

The seller is responsible for the carriage of the goods to the named port of destination. The risk is transferred to the buyer once the goods are loaded onto the vessel in the country of export. The shipper is responsible for costs, including export clearance and freight costs for carriage to the named port.

- CIF – Cost, Insurance and Freight

This incoterm is similar to the one above, with the exception that the seller is required to purchase insurance for the goods while in transit. The seller must also hand over all documents for acceptance of the goods by the buyer (ie. invoice, insurance policy, and bill of lading). At this point, the seller's obligations and responsibilities are complete.