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INCOTERMS: International Commercial Terms

2020 Incoterms update

WHAT IS AN INCOTERM?

International trade relies on the smooth transportation of goods between buyers and sellers.

Each year trillions of dollars of goods make the journey across the globe.

It's a complicated business. From loading bay to lorry and from dock to doorstep, there are numerous systems and procedures to manage.

These include customs and carriage charges, delivery and duties, insurances and import taxes, and more.

That's where Incoterms (International Commercial Terms) come in.

Governments, legal authorities and businesses share the International Chamber of Commerce's Incoterm rules. They provide a global language for transporting goods so shipments don't go astray.

INCOTERMS:



Define responsibilities for buyers and sellers in a global transaction.



Outline the costs and risks allocated to the buyer and the seller.



Provide a global language for ensuring a smooth trade transaction.



Establish risk transfer for insurance purposes.



Are expressed as 11 different three-letter acronyms.

HOW DOES THE THREE-LETTER SYSTEM WORK?

To standardise the terms of trade, the International Chamber of Commerce began publishing the Incoterms in 1936, and it's responsible for creating, revising and administering the rules.

The goal is to assist with confidence and consistency in international trade to reduce misunderstandings, disputes and litigation.

Each INCOTERM is a three-letter code packed with information that outlines the buyers and seller's obligations, costs and risks at each stage of the journey. The code details:

- **Who pays the loading charges onto the ship?**
- **At which point in the journey is the risk transferred from the buyer to the seller or vice-versa?**
- **Which party pays the export and import taxes?**
- **Whose responsibility is it to pay the terminal charge at arrival?**
- **Who is responsible for insurance cover?**

The Incoterms provide 11 codes to cover the stages of a cargo's journey from packing to delivery at its final destination. The code is universally shared, so everyone is aware of their responsibilities.

It is essential to understand the differences in the updated Incoterms.

2020 INCOTERMS UPDATE

From 1 January 2020, the ICC has updated its Incoterms for the first time since 2010.

There are a few changes:

- The DAT (Delivered at Terminal) has been changed to DPU (Delivery at Place Unloaded) to reduce confusion around the use of the word 'terminal' with its implication of being a covered area. Now, it's 'any place, whether covered or not'.
- Previously, CIP/CIF required the same level of insurance, but in Incoterms 2020, CIP and CIF require different levels of insurance. Now, CIP requires the higher level of insurance of the Institute Cargo Clause (A).
- Incoterms 2020 now provides a more comprehensive pricing structure to prevent sellers or buyers being back charged because of an ambiguous 'allocation of costs'.

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- The new update strengthens security-related requirements to reflect the importance of cargo security in the post-9/11 world.
 - The new rules remove the assumption that goods carried between a buyer and a seller were always carried out by a third party.
 - Incoterms 2020 closes the delivery gap between FOB and FCA - which carried a much higher cost and risk to the FCA. Now the buyer can instruct the carrier to issue a bill of lading to the seller so they can get paid faster.
 - The new rules come with better design and diagrams for ease of understanding.
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INCOTERMS EXPLAINED

Choosing the right code to import or export goods is more than just about cost. You need to consider the risks and responsibilities to carry out all the obligations.

For example, picking the EXW or DDP code may mean that you are unable to fulfil your duties and responsibilities in the other country.

Here is a short primer on each code.

EXW - Ex Works

For any transit mode. The seller packages the goods and the buyer bears all the costs and risks associated with transporting the goods from a named place of delivery (like a factory or warehouse).

FCA - Free Carrier

Any transit mode. The seller agrees to package and load the goods, deliver them to a named place or the port and meet the costs associated with export duty, tax and security. At that point, the risk is transferred to the buyer.

FAS - Free Alongside Ship

This code is used solely for marine cargos. The seller's risk and costs end once the goods have been packed and delivered alongside the ship, and all export, tax, security and terminal costs cleared (origin terminal only).

FOB - Free on Board

Maritime only. The same as FAS but the seller also pays the 'loading on board the vessel' costs. The buyer bears all the costs and risks once the cargo is loaded.

CFR - Cost and Freight

Maritime only. The same as FOB, except that the seller is responsible for paying all the carriage charges to the point of discharge.

CIF - Cost Insurance and Freight

Maritime only. The same as CFR, but the seller also pays for an insurance policy (obligation is for perils cover only) to cover the journey (obligation may be to named port only).

CPT - Carriage Paid To

Any transport mode. The seller arranges for the carriage of the goods (including destination terminal charges), but is not responsible for insuring the goods. Risk transfers once the goods are handed over to the carrier.

CIP - Carriage Insurance Paid To

Any transport mode. The same as CPT, but the seller insures the goods (obligation is for all risks cover).

DAP - Delivered at Place

Any transport mode. The same as CPT, but the seller is responsible for the goods' delivery to a named place.

DPU - Delivered at Place Unloaded

Any transport mode. The same as DAP, but the transfer of risk occurs when the cargo is unloaded at the named place. There are no restrictions on the named place.

DDP - Delivered Duty Paid

Any transport mode. The seller is responsible for the entire journey, including import duty, taxes and security clearance. There are no obligations on the buyer.

WHAT THE CHANGES MEAN FOR AUSTRALIAN TRADE AND OPERATORS?

The updated Incoterms are in full force as of 1 January 2020, and businesses must check their documentation and processes to ensure that their codes are updated.



References to INCOTERMS 2010 should immediately be changed to INCOTERMS 2020.

It is important that exporters, importers and logistics companies understand the detail of the changes.

Training staff on the updates and refreshing them on the terms will be important for Australian companies, to ensure the smooth application of the new rules.

Australian operators should review their transport logistics in light of the changes and update their IT systems as needed.

INCOTERMS 2020 RULES

CHART OF RESPONSIBILITIES AND TRANSFER OF RISK

	ANY TRANSIT MODE		SEA/INLAND WATERWAY TRANSPORT				ANY TRANSPORT MODE				
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered at Place	Delivered at Place Unloaded	Delivered Duty Paid
Transfer of Risk	At Buyer's Disposal	On Buyer's Transport	Alongside Ship	On Board Vessel	On Board Vessel	On Board Vessel	At Carrier	At Carrier	At Named Place	At Named Place Unloaded	At Named Place
Charges/Fees											
Packaging	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to Port/ Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Duty, Taxes & Security Clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance	-	-	-	-	-	Seller	-	Seller	-	-	-
Destination Terminal Charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Delivery to Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Import Duty, Taxes & Security Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

KNOW YOUR INCOTERMS

**The updated Incoterms 2020
are in full force as of 1 January 2020.**

Knowledge of the correct trade terms will mean insurance advice is accurate.

Importers and exporters can check out the International Chamber of Commerce <https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-2020/>

For more information, contact Marine Protect:

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