

# **Incoterms® 2020 Explained – The Complete Guide**

## **Incoterms® 2020 Explained, how they will affect global trade.**

The [International Chamber of Commerce](#) have published new Incoterms® 2020 that have come into effect from the 1st of January 2020. The ICC originally published Incoterms® in 1936 and have continually made updates to reflect the changes to the Global Trade environment. It's important that all parties involved in trade clearly understand the changes and how they apply to global supply chains.

Incoterms® play such a vital role in the world of global trade. Incoterms® 2010 or Incoterms® 2020 may seem complicated, but it's imperative that buyers and sellers clearly understand how they work and their own obligations along the supply chain. In this article we explain the updates made and provide simple explanations, along with an Incoterms® infographic to explain Incoterms® 2020.

***Note: The content of this article and chart is only for general information purposes and shall not in any circumstances be considered bespoke legal advice or professional advice.***

## **What are Incoterms®?**

Put simply, Incoterms® are the selling terms that the buyer and seller of goods both agree to during international transactions. These rules are accepted by governments and legal authorities around the world. Understanding Incoterms® is a vital part of International Trade because they clearly state which tasks, costs and risks are associated with the buyer and the seller.

The Incoterm® states when the seller's costs and risks are transferred onto the buyer. It's also important to understand that not all rules apply in all cases. Some encompass

any mode or modes of transport. Transport by all modes of transport (road, rail, air and sea) covers FCA, CPT, CIP, DAP, DPU (replaces DAT) and DDP. Sea/Inland waterway transport (Sea) covers FAS, FOB, CFR and CIF, which we explain below.

## **Why are Incoterms® vital in International Trade?**

Incoterms® are referred to as **International Commercial Terms**. They are a set of rules published by the [International Chamber of Commerce \(ICC\)](#), which relate to International Commercial Law. According to the ICC, [Incoterms® rules](#) provide internationally accepted definitions and rules of interpretation for most common commercial terms used in contracts for the sale of goods’.

All International purchases will be processed on an agreed Incoterm to define which party legally incurs costs and risks. Incoterms® will be clearly stated on [relevant shipping documents](#).

## **An overview of Incoterms® 2020 for 11 Terms, 7 for any mode of transport.**

### **EXW – Ex-Works or Ex-Warehouse**

- Ex works is when the seller 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 them 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 explicitly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

#### 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 products are alongside the ship. 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 products are on board the vessel. 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 products 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 risk of loss of or damage to the goods passes when the products are on the ship.
- The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

- The seller also contracts 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.

#### 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 (replaces Incoterm® 2010 DAT)

- DPU replaces the former Incoterm® DAT (Delivered At Terminal). 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 named 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. They must clear the products not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

## **Download an easy to understand chart of all Incoterms® 2020**

This infographic states each Incoterm® and explains obligations and charges that are accepted by the buyer and seller.

[Click here to download PDF](#)

Incoterms® 2020 Rules Responsibility Quick Reference Guide											
IncoDocs	Freight Collect Terms						Freight Prepaid Terms				
Groups	Any Mode or Modes of Transport		Sea and Inland Waterway Transport				Any Mode or Modes of Transport				
Incoterm®	EXW Ex Works (Place)	FCA Free Carrier (Place)	FAS Free Alongside Ship (Port)	FOB Free On Board (Port)	CFR Cost and Freight (Port)	CIF Cost Insurance & Freight (Port)	CPT Carriage Paid To (Place)	CIP Carriage & Insurance Paid to (Place)	DAP Delivered at Place (Place)	DPU Delivered at Place Unloaded (Place)	DDP Delivered Duty Paid (Place)
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
Obligations & Charges:											
Export 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 & Customs 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	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	*Seller	Negotiable	**Seller	Negotiable	Negotiable	Negotiable
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	Seller	Seller	Seller
Unloading at Destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer
Import Duty, Taxes & Customs Clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

Chart showing new Incoterms 2020 updates for global trade

## What are the differences between Incoterms® 2010 and Incoterms® 2020?

The main explanations of Incoterms® 2020 have remained the same, with a few key updates and changes. The main change includes a new DPU term replacing DAT, along with other changes to Incoterms® as below. It's imperative that all parties involved in global trade understand these updates and how they may affect your supply chain.

### New Incoterm® DPU Replaces DAT

The previous Incoterm® DAT (Delivered at Terminal) is now called DPU (Delivered at Place Unloaded). It was decided to change the term to DPU to remove confusion that arose in the past. In the past, DAT required 'Delivery at Terminal (unloaded)', however the word "terminal" caused confusion. The new term DPU (Delivery at Place Unloaded) covers 'any place, whether covered or not'.

## **Different level of insurance cover between CIF and CIP**

CIF and CIP are the only two Incoterms® that require the seller to purchase insurance in the buyer's name. Under Incoterms® 2010 the insurance cover for both CIF and CIP was required under Institute Cargo Clause C. Under the new Incoterms® 2020, CIP requires insurance cover complying with Institute Cargo Clause A. Clause A covers a more comprehensive level of insurance which is usually suitable for manufactured goods, where Clause C would likely apply to commodities.

In summary:

- CIF remains the same, it requires '**Institute Cargo Clause C**' insurance cover – Number of listed risks, subject to itemized exclusions.
- CIP now requires an upgraded '**Institute Cargo Clause A**' insurance cover – All risk, subject to itemized exclusions.

## **Updated Costs and Listings**

Costs became quite a problem with Incoterms® 2010 with some parties. In some cases carriers were changing their pricing so sellers were often faced with new back charged terminal handling charges. Incoterms® 2020 now provides much more detail around costs and now appear under the A9/B9 sections of the rule. This clearly states which costs are allocated to each party.

## **Increased Security Requirements, Allocations and Costs**

In a world with increasing security requirements, the Incoterms® 2020 rules now provide more detail around security allocations and necessary costs. For each Incoterm® rule, the security allocations have been added to A4/A7 and the associated costs have been added to A9/B9.

## **Buyer's and Seller's Own Transport**

Under Incoterms® 2010 it was assumed that all transport would be undertaken by a third party transport provider. Updates to Incoterms® 2020 allows for the provision for the buyer or seller's own means of transport. This recognizes that some buyers and sellers are using their own methods of transport, including trucks or planes to get goods delivered.

- This allows for the buyer's own means of transport under the FCA rule
- This allows for the seller's own means of transport under DAP, DPU and DDP.

### **FCA, FOB and the Bill of Lading Process**

Updates were made to the previous Incoterms® 2010 to encourage exporters of containerized goods to use the FCA Incoterm®. In reality most parties were still using FOB when they should have been using FCA. This is because even experienced sellers still wanted to use FOB because they wanted the contract to be under a Letter of Credit.

Therefore provisions have been made to the Incoterms® 2020 to state that the buyer must instruct the carrier to issue a transport document stating that the goods have been loaded – i.e a Bill of Lading with an 'on board' notation. In the past carriers have frequently refused to issue a Bill of Lading with a notation to the seller if they have received the goods from an intermediary transport (such as a truck), instead of directly from the seller.

## **How to put Incoterms® 2020 into Practice on Sales Contracts**

The new Incoterms® 2020 have come into effect on the 'effective' date of the 1st January 2020. What does that actually mean for your business? Trading partners can still carry on using Incoterms® 2010 if they prefer to, which may occur when it is being used to confirm complex commercial agreements.



All parties must make it clear in contracts which Incoterms® version is being referred to in order to avoid any misunderstanding. Different trading partners will incorporate Incoterms® into contracts at different times.

It is imperative that you check existing contracts to ensure that the Incoterms® edition year is included. If there is no year stated then the following will apply:

- Up to 31st December 2019 – Incoterms® 2010
- From 1st January 2020 – Incoterms® 2020
- If a different year is stated, for example Incoterms® 1990, then the respective terms will apply

Source – IncoDocs.com