

# Incoterms

In international sales the „[terms of delivery](#)“ are a main subject to each contract with its „terms and conditions“. Especially in the automotive industry where products often are produced in various production facilities at different suppliers within the overall supply chain, clear regulatories are needed for the safety of all business partners.

Part of each contract should be:

- Shipping quantity/lot size
- Shipping quality
- Delivery timing
- Cost transfer and risk taking (who is bearing the risk from which point in the process onwards)
- Packaging and marking of the freight
- Transport insurance

The **shipping quantity** generally is based on the agreed lot sized with for example minimum ordering quantities, size and weight (net or gross).

The **shipping quality** is mostly based on masters, samples or technical references on which the trade parties have agreed on and are measured against.

The **delivery timing** can include a „prompt delivery“ or a delivery for a certain period of time to fixed timings or time frames as „delivery on term“. A delivery timing can also happen „as required“ which means according to changing timings. Mostly this happens in the automotive industry as ordering schedules in this industry often fluctuate, sometimes even quite significantly, and mostly according to regularly sent schedules.

The significant role for the **cost transfer** as well as the **risk taking** for shippings, especially across borders, is governed by the „**International Commercial Terms (Incoterms)**“.

Once 2 parties agree on the terms and conditions a [Purchase Order \(PO\)](#) can be raised by the ordering party against which the manufacturing or selling party will confirm the details e.g. pick-up timing, quantity of pallets, weight etc.

## What are the Incoterms rules?

The Incoterms rules are the rules set up and agreed on by the [International Chamber of Commerce \(ICC\)](#) for the use of domestic and international [trade terms](#).

The Incoterms rules define the responsibilities of buyers and sellers for the delivery of goods within sales contracts and determine how costs are allocated. In general it an be said that the Incoterms spell out „What the buyer must do“ and „What the seller must do“.

## What do the Incoterms cover?

Incoterms rules mainly describe tasks, costs and risks involved in the delivery of goods – excluding

intangibles – from sellers to buyers.

Since the year 2000 the „Incoterms 2000“ represent a guideline for international commercial terms. Originally they had been intended to be for international trade only but have now more or less become rules for international and domestic sales.

The following overview shows the Incoterms Rules since 2000 with which party carries which risks and costs up until when and from where onwards.

The **International Chamber of Commerce** has released a new table of contents to the Incoterms 2010. This latest Incoterms release is valid from 01.01.2011 onwards. Compared to Incoterms 2000 the Incoterms 2010 include a reduction from 13 to 11. Four existing terms have been deleted and two new Incoterms rules have been introduced. The four Incoterms that have been deleted are Delivery at Frontier (DAF), Delivery Ex-Ship (DES), Delivery Ex-Quay (DEQ), and Delivered Duty Unpaid (DDU). Instead they have been replaced by two new Incoterms, named, Delivered at Terminal (DAT) and Delivered at Place (DAP). These two new rules have made the deleted four Incoterms superfluous and are easier to use.

## The 2 Incoterms categories:

### Incoterms for any Mode or Modes of Transport:

- **EXW** - Ex Works
- **FCA** - Free Carrier
- **CPT** - Carriage Paid To
- **CIP** - Carriage and Insurance Paid
- **DAT** - Delivered At Terminal (new)
- **DAP** - Delivered At Place (new)
- **DDP** - Delivered Duty Paid

### Incoterms for Sea and Inland Waterway Transport Only:

- **FAS** - Free Alongside Ship
- **FOB** - Free On Board
- **CFR** - Cost and Freight
- **CIF** - Cost, Insurance and Freight

## Incoterms 2010: Detailed Summary

Please note: an Incoterm must be accompanied by a “named place” ex. “FOB Stuttgart”, “EXW Szolnok”

<p><b>EXW</b> (Ex Works)</p>	<p>The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. The seller's obligation is to make the goods available at his premises (works, factory, warehouse). This term represents minimum obligation for the seller. This term can be used across all modes of transport.</p>
<p><b>FCA</b> (Free Carrier)</p>	<p>The seller's obligation is to hand over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When the seller's assistance is required in making the contract with the carrier the seller may act at the buyers risk and expense. This term can be used across all modes of transport.</p>
<p><b>CPT</b> (Carriage Paid To)</p>	<p>The seller pays the freight for the carriage of goods to the named destination. The risk of loss or damage to the goods occurring after the delivery has been made to the carrier is transferred from the seller to the buyer. This term requires the seller to clear the goods for export and can be used across all modes of transport.</p>
<p><b>CIP</b> (Carriage &amp; Insurance Paid to)</p>	<p>The seller has the same obligations as under CPT but has the responsibility of obtaining insurance against the buyer's risk of loss or damage of goods during the carriage. The seller is required to clear the goods for export however is only required to obtain insurance on minimum coverage. This term requires the seller to clear the goods for export and can be used across all modes of transport.</p>
<p><b>DAT</b> (Delivered At Terminal)</p>	<p><i>New Term</i> Seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. „Terminal“ includes quay, warehouse, container yard or road, rail or air terminal. Both parties should agree the terminal and if possible a point within the terminal at which point the risks will transfer from the seller to the buyer of the goods. If it is intended that the seller is to bear all the costs and responsibilities from the terminal to another point, DAP or DDP may apply.</p> <p><b>Responsibilities</b></p> <ul style="list-style-type: none"> <li>• Seller is responsible for the costs and risks to bring the goods to the point specified in the contract</li> <li>• Seller should ensure that their forwarding contract mirrors the contract of sale</li> <li>• Seller is responsible for the export clearance procedures</li> <li>• Importer is responsible to clear the goods for import, arrange import customs formalities, and pay import duty</li> <li>• If the parties intend the seller to bear the risks and costs of taking the goods from the terminal to another place then the DAP term may apply</li> </ul>
<p><b>DAP</b> (Delivered At Place)</p>	<p><i>New Term</i> Seller delivers the goods when they are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. Parties are advised to specify as clearly as possible the point within the agreed place of destination, because risks transfer at this point from seller to buyer. If the seller is responsible for clearing the goods, paying duties etc., consideration should be given to using the DDP term.</p> <p><b>Responsibilities</b></p> <ul style="list-style-type: none"> <li>• Seller bears the responsibility and risks to deliver the goods to the named place</li> <li>• Seller is advised to obtain contracts of carriage that match the contract of sale</li> <li>• Seller is required to clear the goods for export</li> <li>• If the seller incurs unloading costs at place of destination, unless previously agreed they are not entitled to recover any such costs</li> <li>• Importer is responsible for effecting customs clearance, and paying any customs duties</li> </ul>
<p><b>DDP</b> (Delivered Duty Paid)</p>	<p>The seller is responsible for delivering the goods to the named place in the country of importation, including all costs and risks in bringing the goods to import destination. This includes duties, taxes and customs formalities. This term may be used irrespective of the mode of transport.</p>
<p><b>FAS</b> (Free Alongside Ship)</p>	<p>The seller has fulfilled his obligation when goods have been placed alongside the vessel at the port of shipment. The buyer is responsible for all costs and risks of loss or damage to the goods from that moment. The buyer is also required to clear the goods for export. This term should only be used for sea or inland waterway transport.</p>
<p><b>FOB</b> (Free On Board)</p>	<p>Once the goods have passed over the ship's rail at the port of export the buyer is responsible for all costs and risks of loss or damage to the goods from that point. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.</p>
<p><b>CFR</b> (Cost and Freight)</p>	<p>The seller must pay the costs and freight required in bringing the goods to the named port of destination. The risk of loss or damage is transferred from seller to buyer when the goods pass over the ship's rail in the port of shipment. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.</p>
<p><b>CIF</b> (Cost, Insurance &amp; Freight)</p>	<p>The seller has the same obligations as under CFR however he is also required to provide insurance against the buyer's risk of loss or damage to the goods during transit. The seller is required to clear the goods for export. This term should only be used for sea or inland waterway transport.</p>

Please note for your daily trade in business that Incoterms is simply a guideline to help trade partners to fix transport cost and responsibility issues. This interpretation is simply provided as a guideline only. Each industry might have individual and more special conditions and additional terms that may be added to the Incoterms as explained above.

## References

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