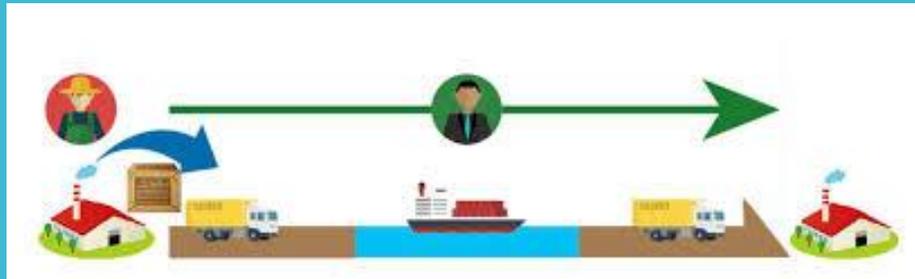


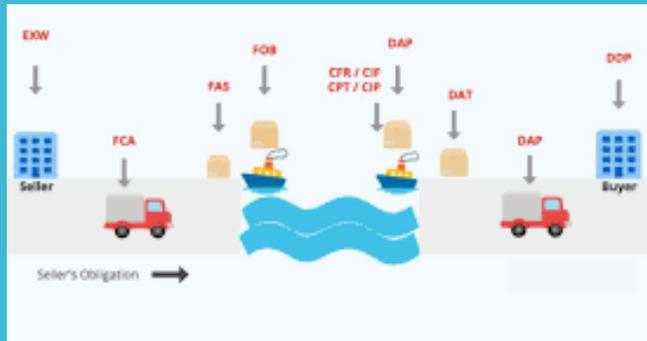
Unit 3

Incoterms



Asst. Prof. Dr. Punchaya Hiranrithikorn

Incoterms in International Trade



The Incoterms are a set of commercial/trade rules established by the International Chamber of Commerce (“ICC”) that are used in international sale contracts. The Incoterms are not mandatory rules – for them to receive legal effect, they must be explicitly incorporated by the parties into their contract. In the following paragraphs, after outlining the classification of Incoterms, we will describe basic features of Incoterms used for all modes of transport, as well as of those used only for sea and inland waterway transport. We will also describe changes in the Incoterms 2020 rules.

**Incoterms
2020**



Classification of Incoterms

The Incoterms are divided into four principal categories: E, F, C and D.

Category E (Departure), which contains only one trade term, i.e. **EXW** (Ex Works).

Category F (Main Carriage Unpaid), which contains three trade terms:

- **FCA** (Free Carrier)
- **FAS** (Free Alongside Ship)
- **FOB** (Free on Board)

Classification of Incoterms

Category C (Main Carriage Paid), which contains four trade terms:

- **CPT** (Carriage paid to)
- **CIP** (Carriage and Insurance paid to)
- **CFR** (Cost and Freight)
- **CIF** (Cost, Insurance and Freight)

Classification of Incoterms

Category D (Arrival), which contains three trade terms:

- **DAP** (Delivered at Place)
- **DPU** (Delivered at Place Unloaded)
- **DDP** (Delivered Duty Paid)

The four above-mentioned categories can also be classified as per the means of transportation:

- Incoterms for any mode of transport: EXW, FCA, CPT, CIP, DPU, DAP and DDP;
- Incoterms only for sea and inland waterway transport: FAS, FOB, CFR and CIF.

Basic Features of Incoterms Used for All Modes of Transport

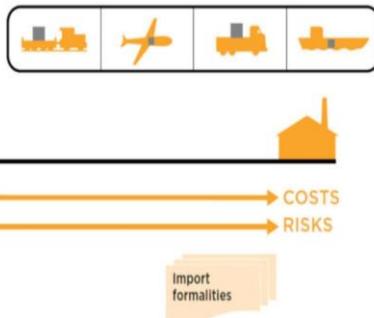


EXW Incoterm (Ex Works)

The EXW Incoterm imposes only minimum obligations on the seller. More particularly, the seller is simply required to deliver the goods to the buyer at a named place of delivery which is usually the seller's place of business, but can be any particular location such as a warehouse, factory, etc., and within the agreed time specified in the contract.[2] It is not required for the seller to load the goods on any specific vehicle or to clear the goods for export. If the place of delivery is not specified in the contract, or if several place of delivery can be envisaged, "the seller may select the point that best suits its purpose." [3] In principle, until the goods have not been delivered as specified in the sale contract, the seller bears all risks of loss or damage to the goods. Once delivered, such risk is automatically shifted to the buyer. The same is true for any costs relating to the goods – until the delivery of the goods, the costs are to be borne by the seller; after their delivery, by the buyer.

EXW Ex Works

(Insert named place of delivery) Incoterms® 2020



EXW
Incoterm
(Ex Works)

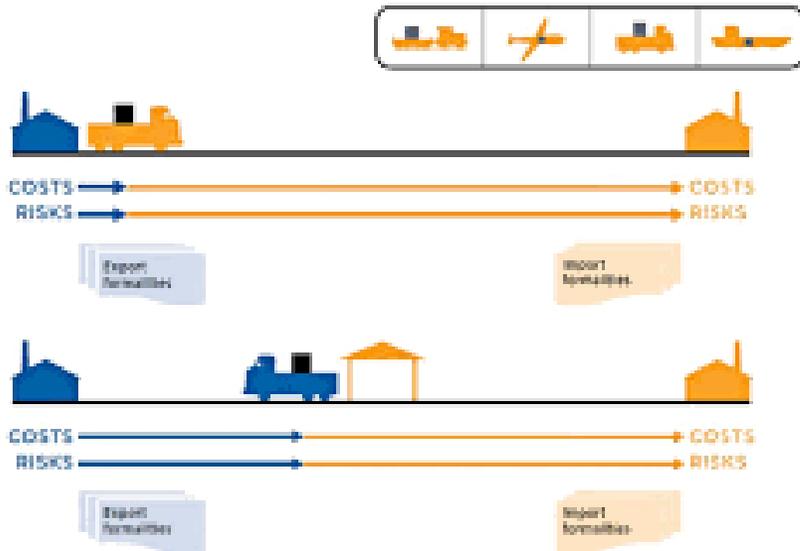


FCA Incoterm (Free Carrier)

Under the FCA Incoterm, the delivery of goods occurs as follows:

- When the named place of delivery is the seller's premises, the goods are deemed to be delivered when they are loaded on the transportation vehicle arranged by the buyer;
- When the named place of delivery is elsewhere, e.g., a warehouse or factory, etc., the goods are deemed to be delivered when the following requirements are met: after having been loaded on the seller's transportation vehicle, they reach the named place, are ready for unloading from the seller's transportation vehicle and are placed at the disposal of the carrier nominated by the buyer.

FCA Free Carrier

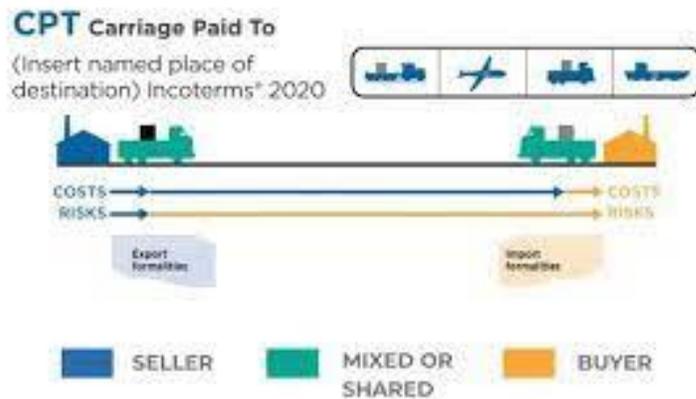


FCA Incoterm (Free Carrier)



CPT Incoterm (Carriage Paid to)

Under the CPT Incoterm, the delivery of the goods occurs when they are delivered by the seller to the carrier at the agreed place or are procured by the seller so delivered. In this respect, the seller has an obligation to contract, at its expense, for the carriage of the goods from the point of delivery to the place of destination of the goods. The existence of the contract of carriage has no impact on the transfer of risk from the seller to the buyer which occurs at the point of delivery, i.e., by handing over the goods to the carrier. However, if the seller incurs costs relating to unloading of goods at the place of destination under the contract of carriage, it must bear them, unless otherwise agreed.

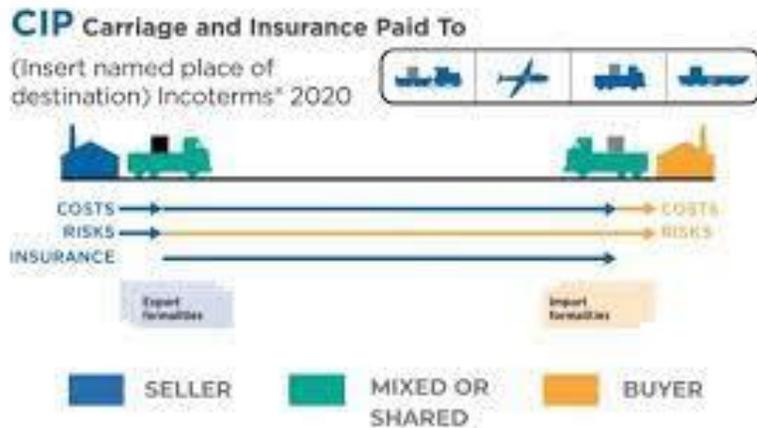


**CPT Incoterm
(Carriage
Paid to)**



CIP Incoterm (Carriage and Insurance Paid to)

Under the CIP Incoterm, the seller has the same obligations as under the CPT Incoterm, i.e., to hand over the goods to the carrier contracted by the seller and to clear the goods for export, with the addition of an obligation to contract for insurance in order to cover against the buyer's risk/damage to the goods from the place of delivery to, at least, the place of destination.



**CIP Incoterm
(Carriage and
Insurance
Paid to)**



DAP Incoterm (Delivered at Place)

This Incoterm is normally used in cases when the parties do not wish that the seller bear the risk and cost of unloading, contrary to the DPU Incoterm (see below). Under the DAP Incoterm, the goods are deemed delivered by the seller to the buyer when they are put at the disposal of the buyer on the transportation vehicle ready for unloading at the place of destination or an agreed point within such place, if any.[15] Contrary to the CPT/CIP Incoterms, the place of delivery and the place of destination are the same under the DAP Incoterm. Therefore, the seller bears the risk until it has put the goods at the disposal of the buyer at the place of destination as described above.

DAP Delivered at Place

(Insert named place of destination) Incoterms® 2020



SELLER BUYER

DAP Incoterm (Delivered at Place)

DPU Incoterm (Delivered at Place Unloaded)

According to the DPU Incoterm, the delivery of the goods by the seller to the buyer occurs when the goods are unloaded from the transportation vehicle and put at the disposal of the buyer at the place of destination or at the agreed point within the place of destination, if any. It is the only Incoterm “that requires the seller to unload goods at destination.”[17] Again, the place of delivery and the place of destination are the same under the DPU Incoterm. Therefore, the seller bears the risk until it has unloaded the goods at the place of destination.

DPU Delivered at Place Unloaded

(Insert named place of destination) Incoterms® 2020



DPU Incoterm (Delivered at Place Unloaded)



DDP Incoterm (Delivered Duty Paid)

Under the DDP Incoterm, the goods are supposed to be delivered by the seller to the buyer if they are placed at the disposal of the buyer, cleared for import, on the arriving transportation vehicle, ready for unloading at the place of destination or an agreed point within such place, if any. The DDP Incoterm imposes the maximum responsibility on the seller as it is the only Incoterm requiring import clearance by the seller.

DDP Delivered Duty Paid

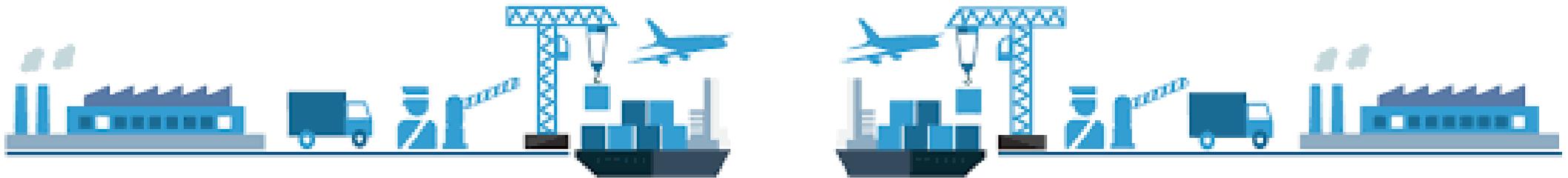
(Insert named place of destination) Incoterms® 2020



**DDP Incoterm
(Delivered
Duty Paid)**



Basic Features of Incoterms Used for Sea and Inland Waterway Transport

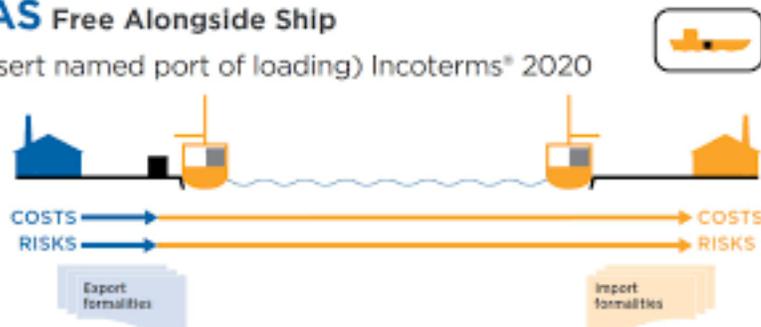


FAS Incoterm (Free Alongside Ship)

According to the FAS Incoterm, the seller delivers the goods when it either places them alongside the ship/vessel nominated by the buyer at the named port of shipment or it procures the goods so delivered.[20] The risk/damage to the goods is transferred from the seller to the buyer when the goods are alongside the ship. The seller undertakes to clear the goods for export, not import.

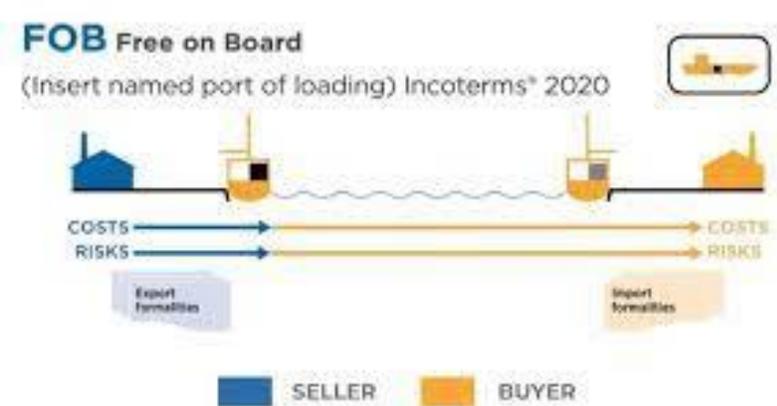
FAS Free Alongside Ship

(Insert named port of loading) Incoterms® 2020



FOB Incoterm (Free on Board)

Under the FOB Incoterm, the goods are deemed to be delivered by the seller to the buyer when they are delivered on board the ship nominated by the buyer at the named port of shipment or the seller procures the goods so delivered.[22] Therefore, the risk of loss/damage to the goods is shifted onto the buyer once the goods are placed on board the ship. The seller shall clear the goods for export, not import.



FAS and FOB

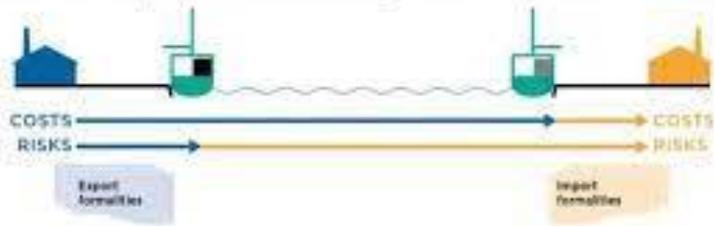


CFR Incoterm (Cost and Freight)

According to the CFR Incoterm, the seller delivers the goods to the buyer by placing them on board the ship or procuring them so delivered. Therefore, the risk of loss of/damage to goods is shifted on the buyer when the goods are placed on board of vessel at the port of delivery, and not the port of destination as in the case of the above-referenced FOB Incoterm.

CFR Cost and Freight

(Insert named port of destination) Incoterms® 2020

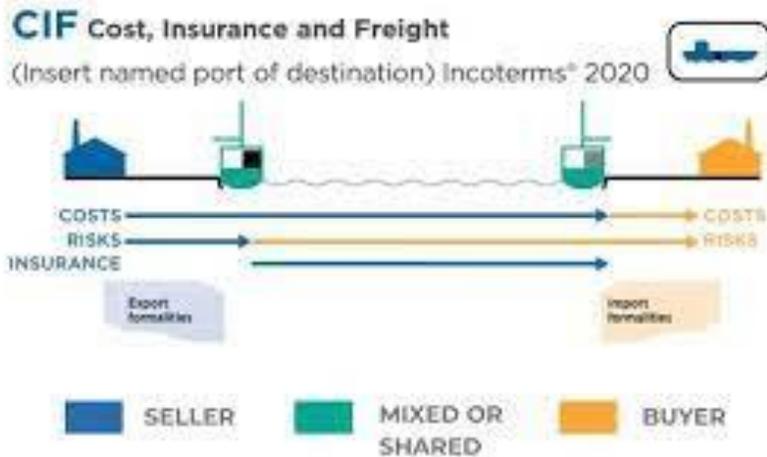


■ SELLER ■ MIXED OR SHARED ■ BUYER

CIF Incoterm (Cost, Insurance and Freight)

The regime of the CIF Incoterm is very similar to the one under the CFR Incoterm:

- the goods are to be delivered under the CIF Incoterm when the seller places them on board the ship or procures them so delivered
- although the transfer of risk takes place at the port of delivery, the seller has an obligation to conclude a contract of carriage of the goods until the port of destination;
- the seller must bear all costs related to unloading at the port of destination resulting from the the contract of carriage, unless agreed otherwise;
- the seller has an obligation to clear the goods for export, not import.



CFR and CIF



Conclusion

The use of Incoterms in international trade is a widespread phenomenon, and disputes frequently arise due to confusion concerning them. Prior to inserting an Incoterm into a contract, it is essential for the parties to make sure that the Incoterm meets all their expectations and needs regarding the following issues:

- Is transport to be made by sea/inland waterway means or not?
- Who should bear the majority of the risk of loss/damage to the goods – the seller or the buyer? At what point in time in the delivery to the place of destination should risk be shifted from the seller onto the buyer?
- Is there a need to use the services of a carrier? If so, who should have an obligation to conclude a contract of carriage – the seller or the buyer?
- Should the seller be responsible for the unloading of the goods?
- Is there a need to subscribe an insurance contract?

