

International Commercial Terms (Incoterms)

Incoterms, short for International Commercial Terms, are a set of standardized rules established by the International Chamber of Commerce (ICC) to define the responsibilities, costs, and risks associated with the delivery of goods between buyers and sellers in international trade. First introduced in 1936, these terms are widely used in global commerce to ensure clarity and reduce misunderstandings in contracts.

Incoterms specify key aspects of a transaction, such as:

- Who is responsible for transportation, insurance, and customs clearance.
- At what point the risk of loss or damage to the goods transfers from the seller to the buyer.
- Who covers the costs at various stages of the shipping process.

The latest version, Incoterms 2020, includes 11 terms, divided into two categories based on the mode of transport:

Rules for Any Mode of Transport

1. EXW (Ex Works): The seller makes the goods available at their premises, and the buyer handles everything else (transport, insurance, customs).
2. FCA (Free Carrier): The seller delivers the goods to a carrier or place nominated by the buyer, after which the buyer assumes risk and cost.
3. CPT (Carriage Paid To): The seller pays for transport to a named destination, but risk transfers to the buyer once the goods are handed to the carrier.
4. CIP (Carriage and Insurance Paid To): Like CPT, but the seller also provides insurance coverage until the destination.
5. DAP (Delivered at Place): The seller delivers the goods to a named place, ready for unloading by the buyer, who assumes risk once the goods are available.
6. DPU (Delivered at Place Unloaded): The seller delivers and unloads the goods at a named place, with risk transferring to the buyer after unloading.
7. DDP (Delivered Duty Paid): The seller bears all costs and risks, including duties and taxes, until the goods are delivered to the buyer's specified location.

Rules for Sea and Inland Waterway Transport

8. FAS (Free Alongside Ship): The seller delivers the goods alongside a ship at the named port, with risk passing to the buyer once the goods are in place.
9. FOB (Free on Board): The seller loads the goods onto the ship, and risk transfers to the buyer once the goods are on board.
10. CFR (Cost and Freight, sometimes known as C&F): The seller pays for transport to the destination port, but risk transfers to the buyer once the goods are loaded on the ship.
11. CIF (Cost, Insurance, and Freight): Like CFR, but the seller also provides insurance until the goods reach the destination port.

Incoterms are updated periodically (e.g., 2010, 2020) to reflect changes in global trade practices. They do not cover ownership, payment terms, or contractual disputes beyond delivery obligations, so they are typically paired with other contract details. If you are involved in trade, choosing the right Incoterm depends on your role (buyer or seller), logistics capabilities, and risk tolerance.