

Incoterms® Factsheet

What are Incoterms®?

These are the internationally recognised terms of trade set by the International Chamber of Commerce. They set the contractual obligations between parties and set out who is responsible for the payment and management of the shipment, insurance, documentation, customs clearance, import taxes e.g. VAT and duties and other logistical activities.

The terms dictate where the transfer of risk takes place. They do not cover the passage or transfer of title to the goods or the payment terms between the buyer and seller (this information should be in the sales contract).

When specified they may be relied upon to resolve any disputes should it reach the courts, although the Incoterms® cannot supersede a legal sales contract.

What Incoterms® are available and what do they mean?

The table below summarises the terms. We recommend referring to the International Chamber of Commerce's full guide to Incoterms® 2020, to understand the finer detail of each term.

Incoterm®	Abbreviation	Transfer of risk	Seller responsible for fees up to...	Buyer responsible for fees from...
Ex Works	EXW	At buyer's disposal	Packaging	Loading
Free Carrier	FCA	On buyer's transport	Export Duty, taxes and security clearance	Origin terminal charges
Free Alongside Ship	FAS	Alongside Ship	Origin terminal charges	Loading on carriage
Free On Board	FOB	On board vessel	Loading on carriage	Carriage charges

Incoterm®	Abbreviation	Transfer of risk	Seller responsible for fees up to...	Buyer responsible for fees from...
Cost & Freight	CFR	On board vessel	Carriage charges	Destination terminal charges
Cost Insurance & Freight	CIF	On board vessel	Carriage charges, plus insurance	Destination terminal charges
Carriage Paid To	CPT	At carrier	Destination terminal charges	Delivery to destination
Carriage Insurance Paid To	CIP	At carrier	Destination terminal charges, plus insurance	Delivery to destination
Delivered At Place	DAP	At named place	Destination terminal charges	Delivery to destination
Delivered At Place Unloaded	DPU	At named place unloaded	Destination terminal charges	Delivery to destination
Delivered Duty Paid	DDP	At named place	Import Duty, taxes and security clearance (i.e. all)	N/A

How do I know which Incoterms® is right for me?

This will depend on the parties involved, their ability and appetite to fulfil the required obligations and pay any additional costs. Generally, it is easier if the seller exports and deals with the export paperwork and the buyer imports and acts as importer of record. As this will generally remove the requirement to register for VAT in different countries and avoid issues with agents becoming joint and severally liable for any mistakes.



Key questions

- 1) What is the additional cost or saving of the proposed term?
- 2) Who will be responsible for exporting the goods from the country of origin?
- 3) If title to the goods is transferred in the country of origin, do you have the necessary VAT registration, EORI number and fiscal representative (if required) to fulfil other tax obligations?
- 4) Who will be responsible for the importation of the goods into the country of destination?
- 5) If the importer of record, do you have the necessary VAT registration, EORI number, Duty Deferment Account and fiscal representative (if required), to fulfil other tax obligations?
- 6) Who will be submitting the declarations?
- 7) Who will be responsible for loading/unloading the goods?
- 8) If responsible for loading, do you fully understand the packaging and documentation requirements for the delivery route?
- 9) Who will be responsible for freight and insurance?
- 10) How well do you know the supply chain, have you carried out sufficient due diligence and are you in control of the carrier used? These may all impact on when you are happy to accept transfer of risk for the shipment

- Under FAS, the seller must provide the buyer with proof that the goods have been delivered
- Under CFR, the seller must provide the buyer with evidence that freight has been paid to the destination port
- Under CIF, the seller must contract for insurance against the buyer's risk to point of destination
- Under CPT, care should be taken to define the point of delivery or will default to the first carrier and the seller has no obligation to clear the goods for importation
- Under CIP, the seller must contract for insurance against the buyer's risk to point of destination, but only minimum insurance is obliged, and any additional insurance should be agreed with by the buyer. The seller must provide the buyer with evidence of insurance cover
- Under DAP, where delivery is post-clearance, the seller should ensure they are aware of the risk of extra costs caused by delays in liaison between the carrier and customs authorities
- Under DDP (maximum obligations for the seller), the seller should consider whether they are able to undertake all the necessary formalities in the buyer's country including how to reclaim any import VAT and pay and import taxes

Note that the insurance requirement under Incoterms® and the sales contract may differ, and care should be taken to ensure, where you are responsible for insurance, that the requirements of both the Incoterm® used and the sales contract are met.

Things to consider when setting the term

- *Ex Works is the minimum obligation for the seller. The seller will still need to pay for checking operations and packing and may also be required to assist the buyer in raising documents if requested. The buyer will need a local EORI number and they will have the export evidence required for the zero-rated VAT treatment of the seller*
- *Under FCA, the seller must obtain any required export licences, therefore a clear list of documents should be agreed. The buyer has an obligation to provide proof of export*

Finally, it is common practice for trade terms to differ from the published Incoterms® particularly where the requirements for both buyer and seller are not completely met by an existing Incoterm®. As a result, it is crucial to ensure the terms are clearly laid out in any sales contract rather than selecting a 'best fit' Incoterm® and relying on this without clear wording in the sales contract.