Samir J. Shah
CHIEF MENTOR & DIRECTOR
JBS Academy Private Limited

Incoterms® 2020 by the International Chamber of Commerce (ICC)

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Introduction

INCOTERMS or **international commercial terms** published by International Chamber of Commerce (ICC)

- Are widely used in international commercial transactions.

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Introduction

INCOTERMS or **international commercial terms** published by International Chamber of Commerce (ICC)

- They are used to divide transaction costs and responsibilities between buyer and seller and reflect state-of-the-art transportation practices.

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Introduction

INCOTERMS or **international commercial terms** published by International Chamber of Commerce (ICC)

- They closely correspond to the U.N. Convention on Contracts for the International Sale of Goods.

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Earlier Versions:

Year of publication	Years it remained functional
1936	17 years
1953	14 years
1967	09 years
1976	04 years
1980	10 years
1990	10 years
2000	10 years
2010	10 years
2020	10 years

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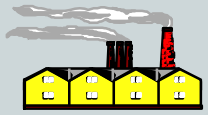

1 Packing

2 Loading

3 Preliminary Transportation

4 Customs Clearance for Export

5 Handling Outbound

6 Main International Transportation

7 Insurance

8 Handling Inbound

9 Customs Clearance Duties

10 Final Transportation

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What are INCOTERMS, and what can they do for you ?

To indicate each contracting party's costs, risks, and obligations with regards of the goods as follows.,

1. When is the delivery completed ?

2. How does a party ensure that the other party has met that standard of performance.

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What are INCOTERMS, and what can they do for you ?

To indicate each contracting party's costs, risks, and obligations with regards of the goods as follows.,

3. Which party must comply with requisite licenses and government-imposed import and export formalities ?

4. What are the mode and terms of carriage ?

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What are INCOTERMS, and what can they do for you ?

To indicate each contracting party's costs, risks, and obligations with regards of the goods as follows.,

5. What are the delivery terms and what is required as proof of delivery.

6. When is the risk of loss transferred from the seller to the buyer ?

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What are INCOTERMS, and what can they do for you ?

To indicate each contracting party's costs, risks, and obligations with regards of the goods as follows.,

7. How will transport costs be divided between the parties ?

8. What notices are the parties required to give to each other regarding the transport and transfer of the goods.

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What are INCOTERMS, and what can they do for you ?

To indicate each contracting party's costs, risks, and obligations with regards of the goods as follows.,

9. To establish basic terms of transport and delivery in a short format.

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INCOTERMS do not ……

They do not:

1. Apply to contracts for services.
2. Define contractual rights and obligations other than for delivery.

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INCOTERMS do not ……

They do not:

3. Specify details of the transfer, transport, and delivery of the goods.

4. Determine how title to the goods will be transferred.

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INCOTERMS do not ……

They do not:

5. Protect a party from his / her own risk of loss.

6. Define the remedies for breach of contract.

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INCOTERMS and Insurance:

INCOTERMS deal only with the seller's obligation to take out insurance to the benefit of the buyer under CIF and CIP.

Under all other terms, it is for the parties themselves to arrange insurance as they see fit.

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INCOTERMS and Insurance:

The seller's insurance obligation to the benefit of the buyer.

- Stems from the nature of the C-term, which requires the seller to contract for carrier – without assuming the risk of loss or damage to the goods in transit;
- Requires the seller only to take out insurance on minimum terms; and
- Invites the buyer to agree with the seller to arrange additional insurance or to arrange it himself.

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INCOTERMS and contracting practice:

INCOTERMS standardize contract practice by enabling the parties to:

- Use generally recognized key words.
- Agree on the most common understanding of such key words: and
- Avoid misunderstandings in the use of them.

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INCOTERMS and contracting practice:

Problems remain because:

- Commercial practice inconsistent;
- Variations of the basic key word may be not appropriate or sufficiently clear;
- The INCOTERMS is not sufficiently precise; and / or
- The parties inadvertently choose the wrong term.

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How to use the INCOTERMS ® 2010 rules.

- Incorporate the INCOTERMS 2010 rules into your contract of sale.
- Choose the appropriate INCOTERMS rules.
- Specify your place or port as precisely as possible.

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How to use the INCOTERMS ® 2010 rules.

- Remember that INCOTERMS rules do not give you a complete contract of sale.

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Main Features of INCOTERMS ® 2020

- Rules for domestic and international trade
- Guidance Notes
- Electronic communication
- Insurance cover
- Security-related clearance and information required for such clearances.
- Terminal handling charges
- String sales

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USING INCO-TERMS CORRECTLY.

- Following the three letters of the appropriate chose term with the exact destination place to which the delivery of goods is to be made, and afterwards the expression 'Incoterms 2010‘

Ex:- CIP port of Mundra, Gujarat, INDIA, Incoterms 2010

Consequences 0f not using correct inco term

- ✓ - Money loss
- ✓ High risk
- ✓ Goods/Business loss

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- Assessable Value:
  - Import : CIF
  - Export : FOB

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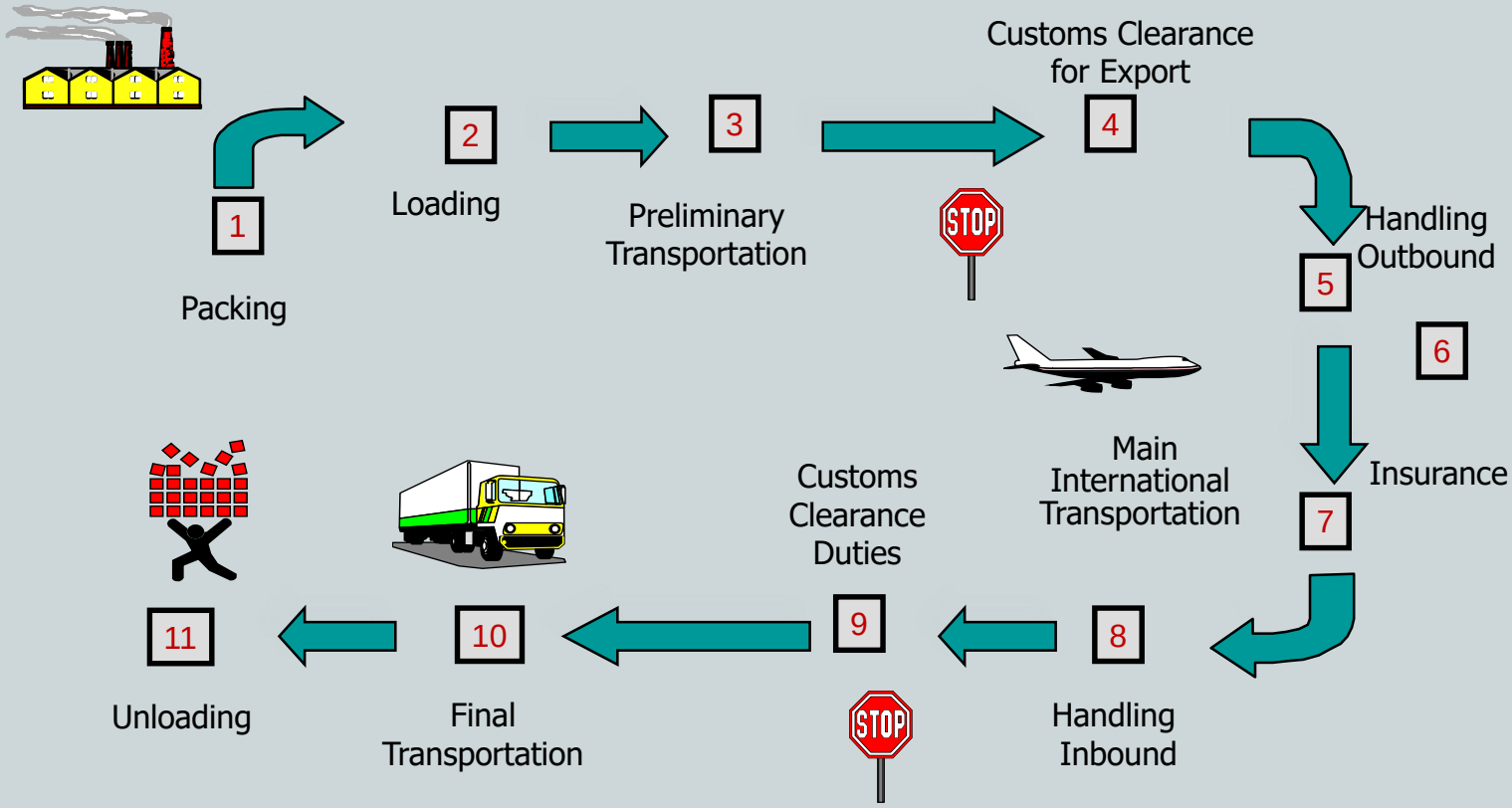

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Classification of the 11 INCOTERMS® 2020 rules

The 11 INCOTERMS® 2020 rules are presented in two distinct classes:

RULES FOR SEA AND INLAND WATERWAY TRANSPORT	
FAS	FREE ALONGSIDE SHIP
FOB	FREE ON BOARD
CFR	COST AND FREIGHT
CIF	COST INSURANCE AND FREIGHT

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Classification of the

11 INCOTERMS® 2020 rules

The 11 INCOTERMS® 2020 rules are presented in two distinct classes:

RULES FOR ANY MODE OR MODES OF TRANSPORT	
EXW	EX WORKS
FCA	FREE CARRIER
CPT	CARRIAGE PAID TO
CIP	CARRIAGE AND INSURANCE PAID TO
DAP	DELIVERED AT PLACE
DPU	DELIVERED AT PLACE UNLOADED
DDP	DELIVERED DUTY PAID

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2020 INCOTERM KEY CHANGES

- One of the major changes is deleting the DAT rule and replacing it with a DPU.

- Due to this change many confusions regarding what can be described as “terminal” have been resolved.

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INCOTERMS
AND
THERE PRACTICAL USES

UNDERSTANDING AND APPLICATION OF INCOTERMS

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Group E – Ex works (EXW) (any mode)

This trade term places the ***greatest responsibility on the buyer*** and minimum obligations on the seller.

The Ex Works term is often used when making an initial quotation for the sale of goods without any costs included.

EXW means that a seller has the goods ready for collection at his premises (Works, factory, warehouse, plant) on the date agreed upon.

The buyer pays all transportation costs and also bears the risks for bringing the goods to their final destination.

This term requires that the buyer must be able to carry out export formalities in the country of supply.

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Group E – Ex works (EXW) (any mode)

- In group E ***(Departure)***, the seller makes the goods available to the buyer at the delivery point indicated by the seller.
- The seller is not obliged either to customs or export clearance and does not bear the risk and costs of loading.
- EXW.

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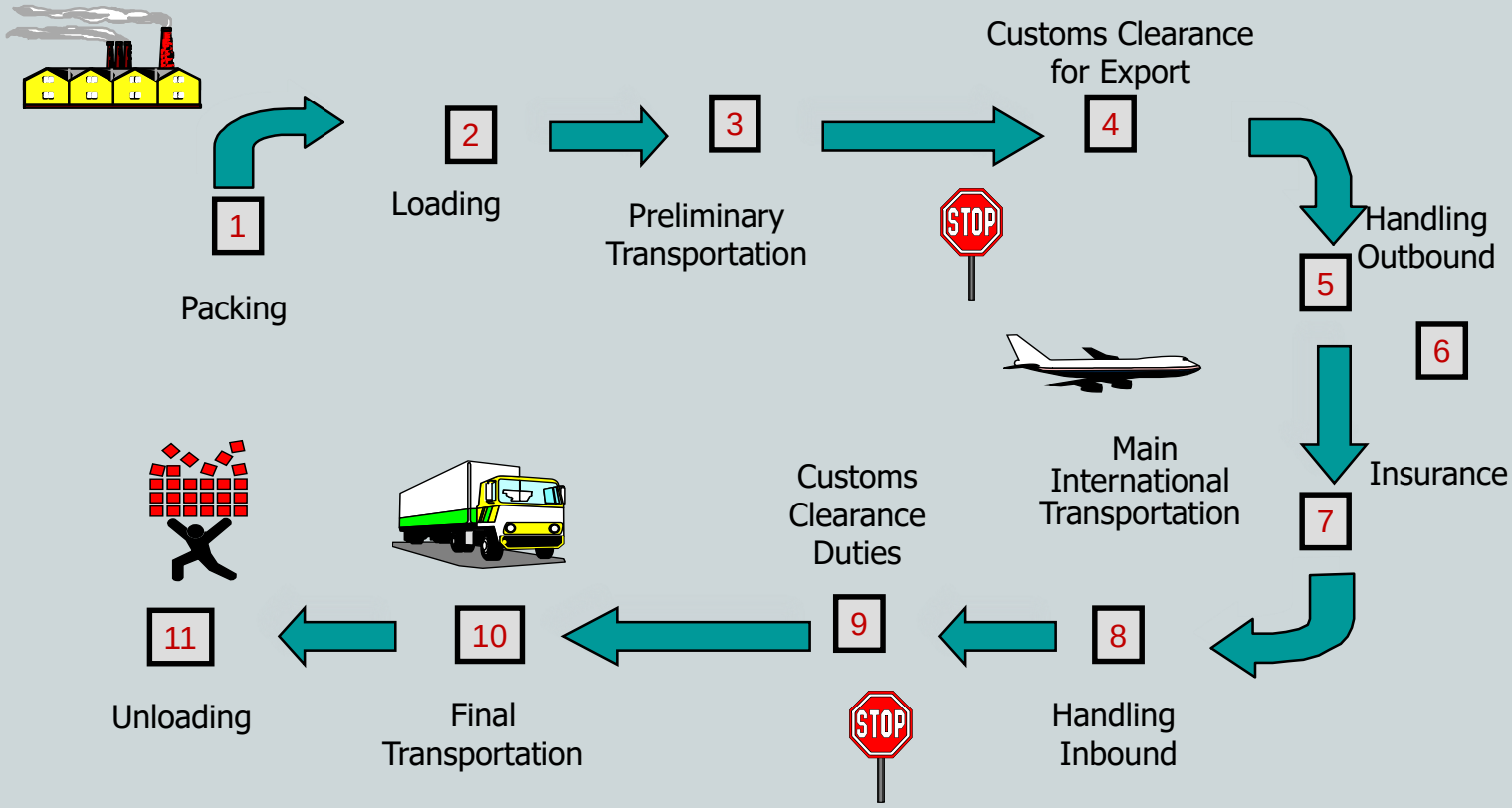

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Group C – Main Carriage Paid

- In group C ***(Main Carriage Paid)***, the seller concludes a transport contract with the forwarder and takes the costs.
- In this case, the seller is responsible for conducting export clearance.
- The risk is transferred at the time of posting the goods to the buyer.

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Group C – Main Carriage Paid

- All matters arising after loading costs related to transporting, and other events, are the buyer's responsibility.
- CFR, CIF, CPT, and CIP.

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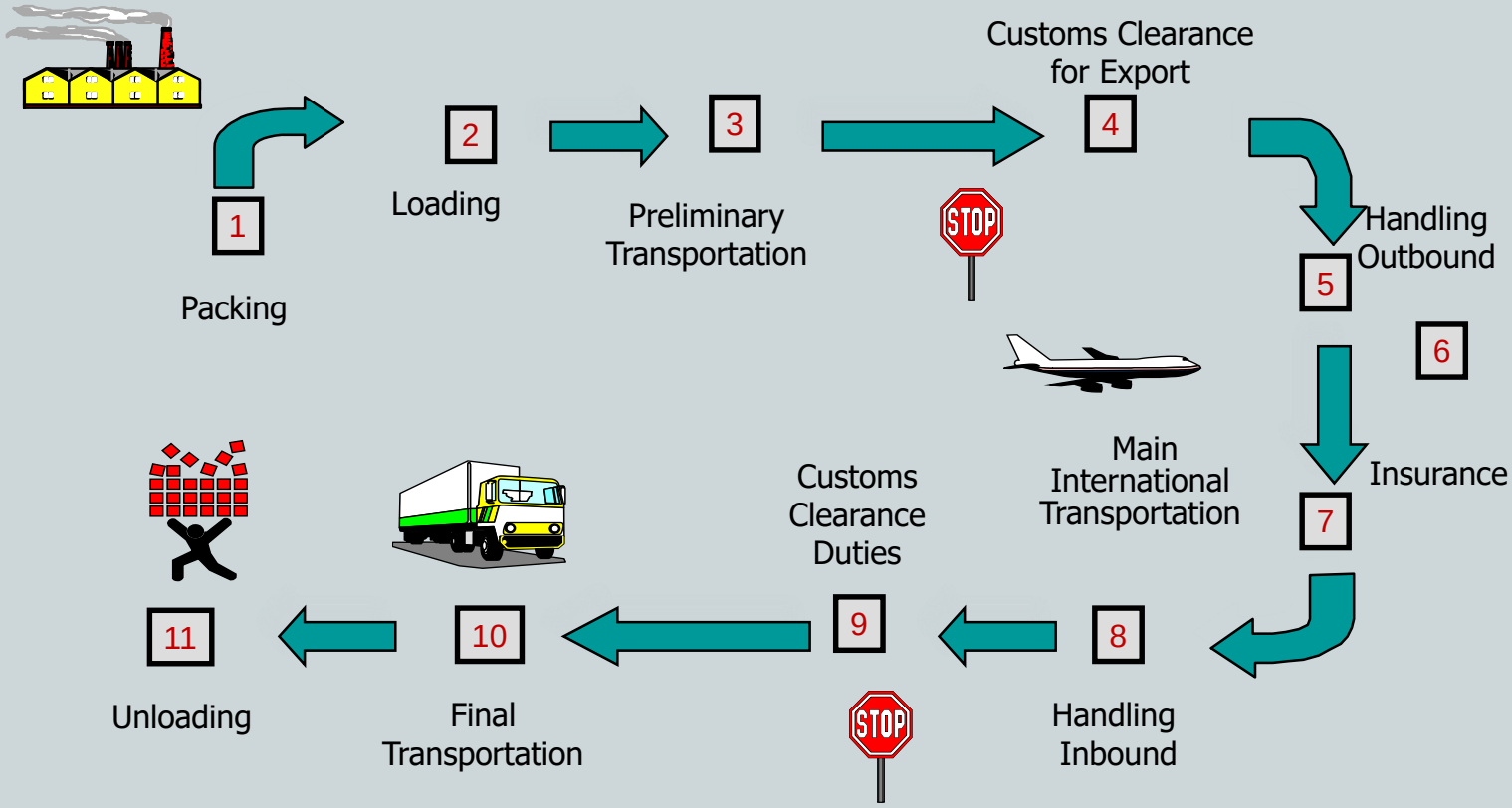

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Group D – Arrival

- Group D ***(Arrival)*** assumes that the seller is obliged to deliver the goods to a specific place or the port of destination.
- DAP, DPU, and DDP.

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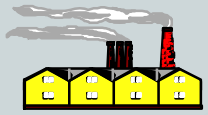

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Group F – Main Carriage Unpaid

- Group F ***(Main Carriage Unpaid)***
- Obliges the seller to perform export customs clearance.
- The seller does not pay transport and insurance costs.
- FCA, FAS, FOB.

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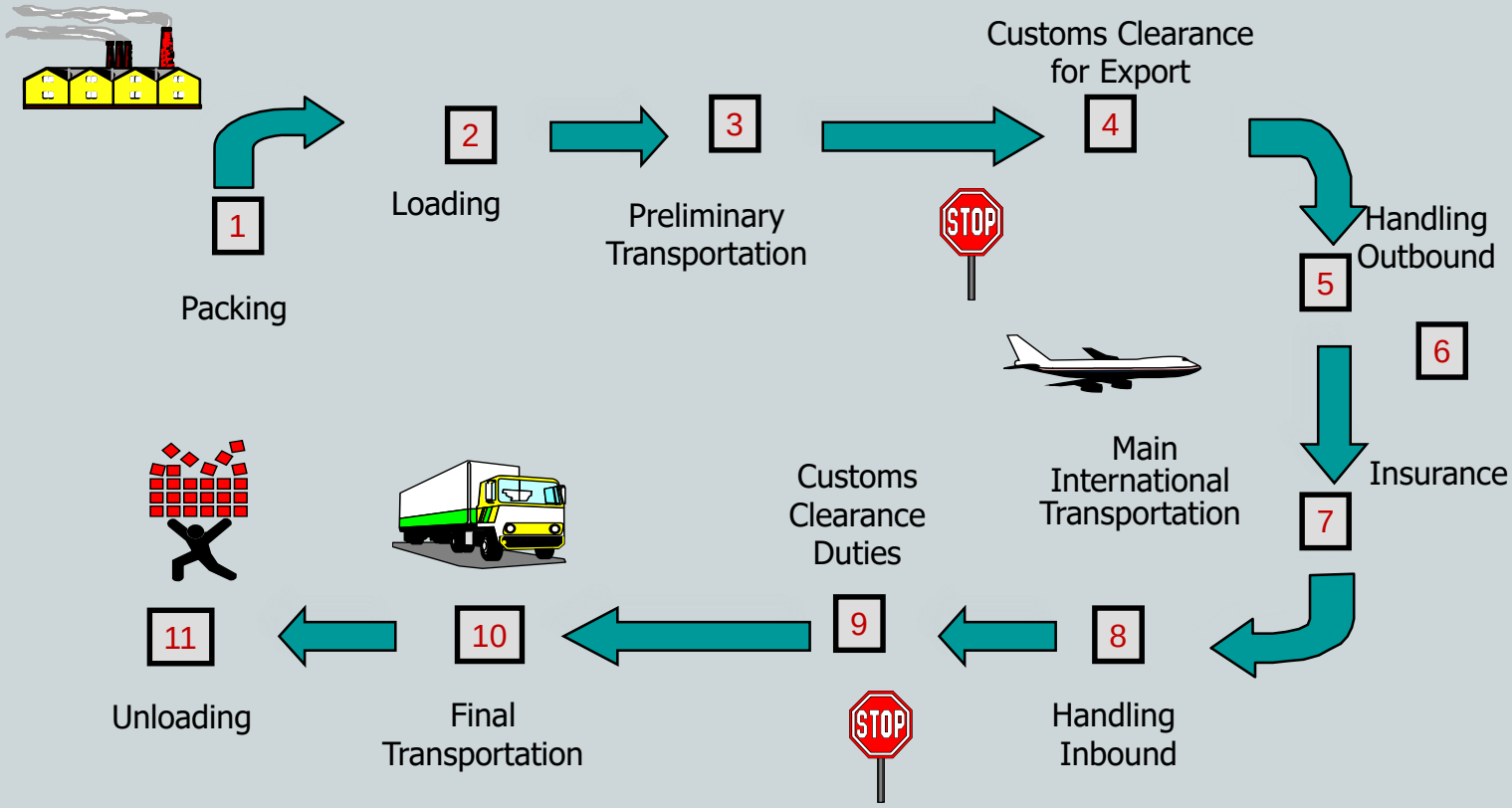

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EXW (Ex Works)

Seller	Buyer
• delivers goods at his own premises (factory/warehouse) • minimal obligations, risks &costs	• responsible for loading goods onto carrier and all other transport cost, duties and insurance • clearance of goods for export • Bears the whole risk on his own

Gain:- Minimal costs & risks for exporter

Loss:- lowest service offered leading to loss of competitiveness.

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FCA (Free Carrier)

Seller	Buyer
• completes and bears costs of export clearance and obtaining necessary documents • delivers goods at agreed place to carrier • liable for the load if delivery is made on his premises minimal obligations, risks & costs	• import clearance formalities • responsible for unload if delivery occurs in a facility or transport infrastructure

- **flexible, various delivery points**
- **any type of cargo and different payment methods**
- **best suited for goods transported in containers**

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CPT (Carriage Paid To)

Seller	Buyer
• contracts and pays transport to the buyer's country delivery place • completes formalities and bears export customs clearance costs • risk of transport is transferred when the goods are delivered to the first carrier in the seller's country	• supports transport costs starting from the moment goods have reached the place of delivery in his country • import clearance costs and formalities • supports the transport risk since the goods have been delivered to 1st carrier and the insurance for international transport

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CIP (Carriage and Insurance Paid To)

Seller	Buyer
• bears the same costs and obligations as in case of CPT • + *the obligation of hiring insurance to* • *cover the buyer's risk during international transport* • contracts the insurance and pays the premium	• beneficiary of the insurance paid by the seller • must take into account that the buyer is obliged only to a minimum coverage insurance • he needs to agree with the seller to hire additional insurance if he wants a larger coverage

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DAP (Delivery at Place)

Seller	Buyer
• delivers goods ready for unloading in the country of destination, in a place other than a transport terminal, such as the buyer's premises or a place nearby • risk is transferred to buyer in the same place where goods are delivered • complete formalities and bear export clearance costs	• pays the costs of import clearance customs

Useful for sales between countries of same economic area(EU) as there are no import customs.

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DPU (Delivery at place unloaded)

- The ICC have also amended the wording of DPU - "*terminal*" is no longer the place of delivery. This has been replaced with "*a named place of destination*". Practically this means that the place of destination could be any place i.e. not just a terminal as was the previous inference. It is recommended that the named place of destination is a location where goods can be unloaded.

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DPU (Delivery at place unloaded)

Seller	Buyer
• delivers goods unloaded at place of destination (in accordance with buyer's recommendation) • complete the formalities and bear costs of customs clearance for export • transport risk passes to the buyer at the time of delivery to destination country	• import customs clearance and tariffs paid • clearly mention the specific point chosen for delivery

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DDP (Delivery Duty Paid)

Seller	Buyer
• delivers goods ready for unloading in the country of destination, usually at buyer's premises • all costs and risks borne by seller • customs clearance of export and import also covered by seller • any import tax, including VAT are paid by the seller	• only cost he assumes is the unloading of goods at delivery place • if the parties agree in the contract of sale, the VAT or other taxes can be paid by the buyer, in what is known as a variant of DDP, called 'DDP VAT unpaid'

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FAS (Free Alongside Ship)

Seller	Buyer
• delivers the goods placing them alongside the ship chosen by the buyer • export clearance must be covered by the seller	• responsible for loading the goods on the ship • must have very good knowledge of the practices in the port of shipment

only used for certain commodities and materials that are not packed and cannot be individualised (grain, timber, minerals, etc.)

delivery is done in ports with specialised terminals

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FOB (Free on Board)

Seller	Buyer
• delivers goods by placing them on board of the ship named by the buyer • covers the terminal costs and export clearance	• assumes the transportation risk after the goods have been delivered on board of the ship

Oldest Incoterm and one of the most widely used

preferably used with bulk, heavy loads and in case of complex goods (machinery) whose loading involves certain risks

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CFR (Cost and Freight)

Seller	Buyer
• delivers the goods on board of a ship but he also pays the cost of freight to the destination point • covers terminal cost and export clearance • the risk is transferred to the buyer after the goods had reached the board of the ship	• must hire an insurance for transport from the port of shipment to the destination, as the seller is not obliged to do this

used mainly for large volumes of general cargo

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CIF (Cost, Insurance and Freight)

Seller	Buyer
• same obligations that CFR implies • + seller is obliged to hire insurance for transport covering at least the way from the port of shipping to the port of destination • insurance shall cover the price of the contract + *10%*	• he might want to hire additional insurance, as the seller is only obliged to purchase a minimum coverage insurance

used for general cargo of consumer or industrial products of high value
CIF value is used in most of the customs to apply tariffs and import taxes, facilitating the clearance of goods for export

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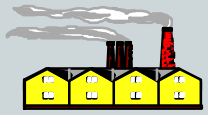

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