

Incoterms 2010 will be valid for approx. 10 years, depending on changes in commercial practices.

Incoterms 2010 (the latest update) clearly define the responsibilities of the seller and the buyer involved in an international transaction. Incoterms are commonly used throughout the world, and are accepted by banks, customs authorities, air - ocean - truck - rail - and barge carriers, transportation intermediaries and financial institutions.

The below definitions are meant to be a brief summary. The authoritative definition of each term is available from The International Chamber of Commerce (ICC), and can be obtained via their BOOKSTORE at www.iccbooks.com. This site also offers various other pertinent and interesting publications on conducting business in the international marketplace.

<u>EXW</u>	EX WORKS	(... NAMED PLACE)
FCA	FREE CARRIER	(... NAMED PLACE)
FAS	FREE ALONGSIDE SHIP	(... NAMED PORT OF SHIPMENT)
FOB	FREE ON BOARD	(... NAMED PORT OF SHIPMENT)
CFR	COST AND FREIGHT	(... NAMED PORT OF DESTINATION)
CIF	COST, INSURANCE AND FREIGHT	(... NAMED PORT OF DESTINATION)
CPT	CARRIAGE PAID TO	(... NAMED PLACE OF DESTINATION)
CIP	CARRIAGE AND INSURANCE PAID TO	(... NAMED PLACE OF DESTINATION)
<u>DAT</u>	DELIVERED AT TERMINAL	(... NAMED PLACE OF DESTINATION)
<u>DAP</u>	DELIVERED AT PLACE	(... NAMED PLACE OF DESTINATION)
DDP	DELIVERED DUTY PAID	(... NAMED PLACE OF DESTINATION)

EXW - EX WORKS (... named place)

"Ex Works" is the minimum/lowest obligation of a seller under Incoterms. The seller agrees to make the goods available to the buyer at the seller's premises (named place). The seller under EXW is not even responsible for bearing the cost of loading the goods onto the vehicle provided by the buyer, unless otherwise agreed in advance. The buyer bears the full cost and risks involved in bringing the goods from that EXW location to the ultimate destination. N.B. "Works" can mean "factory" or "warehouse" or "plant" - virtually anything defined by seller since EXW is always to be accompanied by a "named place". It is seller's responsibility during initial negotiations to clearly name the place/location.

FCA - FREE CARRIER (... named place)

This is a term designed to meet the needs of multimodal transportation, and is also ideally suited when buyer has named a transportation intermediary to take control of their cargo PRIOR to loading on board a vessel, aircraft, barge, etc. It is based upon the same principle as FOB (see below), except that the seller has fulfilled its obligations when the goods have been delivered to the "carrier" or "transportation intermediary" (usually named) at the "named place". "Carrier" means any person by whom or in whose name a contract of carriage (by road, rail, air, sea, barge, ferry, or any combination of these modes - thus "multi-modal") has been made. A transportation intermediary can also include "forwarder, nvocc, consolidator, distributor". Under FCA the seller has fulfilled its obligation upon delivery to any of the above. The usual instruments to prove such fulfillment are Bills of Lading, Waybills, Cargo Receipts, and FCR's (Forwarder's Certificate of Receipt), but completion can be proven by any means acceptable to buyer and seller (i.e. electronic notification from carrier/intermediary to buyer).

FAS - FREE ALONGSIDE SHIP (... named port of shipment)

Under FAS terms, the seller is required to deliver the goods alongside the actual ship on the pier/quay. From that point forward, the buyer bears all costs and risk. The chief difference between FAS and FOB (see below) is that under FAS terms the buyer (not the seller) is required to clear the goods for export, and pay the cost of loading the goods. (In modern multimodal transport, this can be a very problematic term, since proving actual delivery to "shipside" might be impossible. This term is, however, commonly used in shipments of large items via breakbulk and charter.

FOB - FREE ON BOARD (... named port of shipment)

Goods shipped under FOB terms are placed on board the ship by the seller at the specific port of shipment named in the sales agreement/purchase order/contract. All costs and risks from the point where the cargo "crosses the ship's rail" (i.e. is lifted from the quay/pier onto the vessel) passes to the buyer. (By its very nomenclature, this term should not be used for airfreight - FCA should be used instead.)

CFR - COST AND FREIGHT [formerly C&F] (... named port of destination)

CFR has a sometimes confusing "double standard". Under CFR, the title and risks change at the ship's rail, just as in FOB terms. But the cost allocation is different. For goods shipped CFR, the seller pays all costs to deliver the goods up to the named port of destination (while under FOB, above, the buyer is responsible for those costs).

Therefore, in simplified terms:

TERM	COST TO DESTINATION	RISK/TITLE
FOB	Buyer	Buyer
CFR	Seller	Buyer

CIF - COST, INSURANCE AND FREIGHT (named port of destination)

In its simplest form, CIF is CFR + Insurance. The seller must procure transport insurance against the risk of loss or damage to the goods (to the extent that is mutually agreed upon in the sales agreement). Seller contracts with insurance carrier or agent and pays the premium - but issues insurance in a form/format that allows the buyer to later make claim directly to the insurance carrier or said carrier's agent. (Since Title/Risk has changed hands at FOB point, the seller is no longer entitled to make claim, unless specifically on behalf of the buyer, who, in fact, owns the goods.)

CPT - CARRIAGE PAID TO (named place of destination)

Just as CIF can be considered CFR plus Insurance, CPT can be considered to be FCA plus carriage. The Risk/Title will change hands when the shipment is turned over to the carrier or intermediary, but the seller additionally prepays the transportation costs. This term is meant to be used in place of FOB when dealing with intermodal transportation methods or dealing with shipments turned over to a transportation intermediary for furtherance or for consolidation and movement at a later date. It removes the "over the ship's rail" requirement.

CIP - CARRIAGE AND INSURANCE PAID TO (named place of destination)

See also CIF, above. This is CPT plus insurance. All the same comments under CIF pertain to title and risk. The difference, again, is removal of the "on board" or "over the ship's rail" requirement.

DAT - DELIVERED AT TERMINAL (... named place of destination)

"Delivered at Terminal" means that the 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 any place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

The parties are well advised to specify as clearly as possible the terminal and, if possible, a specific point within the terminal at the agreed port or place of destination, as the risks to that point are for the account of the seller. The seller is advised to procure a contract of carriage that matches this choice precisely.

Moreover, if the parties intend the seller to bear the risks and costs involved in transporting and handling the goods from the terminal to another place, then the DAP or DDP rules should be used.

DAT requires the seller to clear the goods for export, where applicable. However, the seller has no obligation to clear the goods for import, pay any import duty or carry out any import customs formalities.

DAP - DELIVERED AT PLACE (... named place of destination)

"Delivered at Place" means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

The parties are well advised to specify as clearly as possible the point within the agreed place of destination, as the risks to that point are for the account of the seller. The seller is advised to procure contracts of carriage that match this choice precisely. If the seller incurs costs under its contract of carriage related to unloading at the place of destination, the seller is not entitled to recover such costs from the buyer unless otherwise agreed between the parties.

DAP requires the seller to clear the goods for export, where applicable. However, the seller has no obligation to clear the goods for import, pay any import duty or carry out any import customs formalities. If the parties wish the seller to clear the goods for import, pay any import duty and carry out any import customs formalities, the DDP term should be used.

DDP - DELIVERED DUTY PAID (... named place of destination)

Just as EXW represented the seller's minimum obligation in an international transaction, DDP would represent the seller's MAXIMUM obligation. (Under Incoterms. It is possible to accept more risk/obligation contractually, but Incoterms ends at this juncture.) Under DDP, seller agrees to all costs and risks, including customs clearance fees and payment of import duties, up to the named place/point. Buyers and Sellers sometimes agree that taxes (such as VAT or Excise or Luxury TAX) are not included in these terms. In such cases, additional words should be added, such as "Delivered Duty Paid to Anytown, AnyCountry, excluding VAT and/or other taxes.

This distinction is very important. Taken literally, DDP does not mention "tax", but a buyer will generally take the term to be the international equivalent of a shipment prepaid to the buyer's door (i.e. no charges of any kind to buyer's account). The seller may have originally intended it so, but may not have specified "including taxes" when costing out the transaction, and can be left paying much larger amounts than anticipated. With such a possibility for contention, it is best to simply list the items one intends the other to pay or not pay.