

Shippers' Academy

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**SA**

**INTERNATIONAL**



**The Global  
Manager  
Series**



# Incoterms<sup>®</sup> 2020

මොනවද මේ Incoterms? එහි වැදගත්කම කුමක්ද?

Shippers' Academy

# SA

INTERNATIONAL

**FUNDAMENTALS & BASIC KNOWLEDGE ON UNDERSTANDING INCOTERMS  
A MUST FOR ALL IN THE INTERNATIONAL TRADING ENVIRONMENT**



**Conducted by Rohan Masakorala**

Certified trainer by UNESCAP

Founder/CEO Shippers' Academy International

Member ICC (Paris) Incoterms

+ Transport 2015 working group

Registration:



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Online Session (ZOOM): 16th October 2021 and 23rd October 2021-10.00am to 12.30pm (2 Saturdays)

Enquiries: 0773820703 | [info@shippersacademy.com](mailto:info@shippersacademy.com)

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## **DAY 1**

**Part 01:** Introduction and the basics

**Part 02:** INCOTERMS History, how and what, where

**Part 03:** Commonly used terms Why you should not use  
FOB ,CFR & understanding Insurance in INCOTERMS

**Part 04.** More on INCOTERMS

## **DAY 2**

**Part 05:** Terms one by one  
2020 Changes + Incoterms +  
Incoterms Plus Transport brief

**Part 06:** FAQs

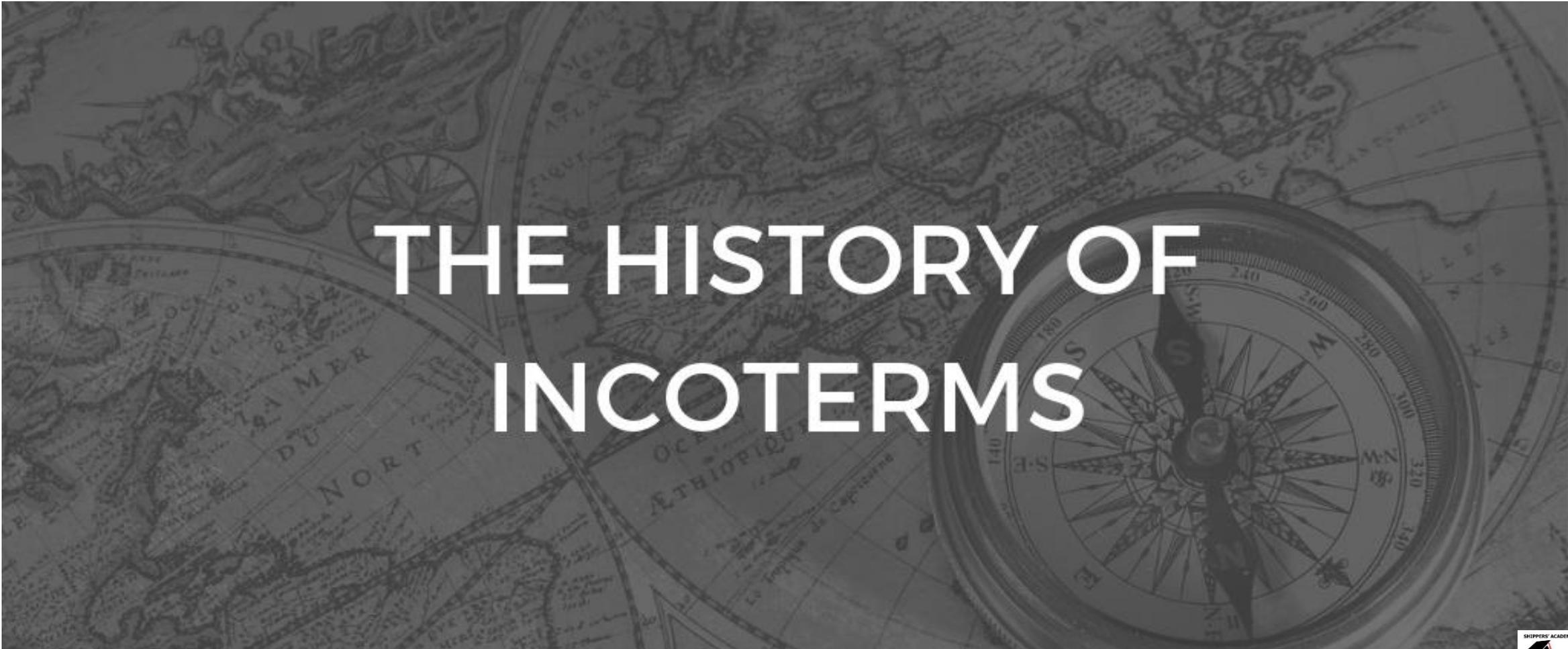


**PART  
01**

## 4 main International trade contracts

- **Sales Contract-** Between buyer and seller  
**Guiding Document: ICC Incoterms**
- **Contract of Carriage-** Between Transporter/Logistic operator and Buyer / Seller  
**Guiding Document: Hamburg/ HV rules**
  - **conventions of transport modes**
- **Payment contract-** seller/buyer and bank  
**Guiding Document: UCP 600**
- **Liability contract-** seller/buyer and insurance  
**Guiding Document: Institute of Cargo Clauses**
- **Lloyds Marine insurance policy**

- What is the ICC ?
- INCOTERMS – what does it mean?
- The history of INCOTERMS
- How to use the INCOTERMS?
- Main features of INCOTERMS rules
- Rules for any mode(s) of transport
- Rules for sea and inland waterway transport



# THE HISTORY OF INCOTERMS

# INCOTERMS



CIF Incoterm

83 years later, thanks to the expansion of world trade, a second Incoterm was born.

CIF

6

INCOTERMS

- CIF
- FOB
- FAS
- C&F
- Ex Ship
- Ex Quay

1812

1895

1936

### 3 new non-maritime Incoterms

The first Incoterms revision came after WWII. Rail transportation was on the rise and three new Incoterms were introduced for non-maritime transport: Free on Rail, Free on Truck, and Delivered Costs Paid. EXW Incoterm was also added.

- DCP
- FOR/FOT
- EXW

1953

1976

14

INCOTERMS

1980

### Increase in container traffic

Due to the proliferation of freight traffic in containers, two new Incoterms were added: FRC and FCI, which are known today as FCA and CIP respectively.

- FRC → FCA
- FCI → CIP



13  
INCOTERMS

### Simplification

In 2000, Incoterm formats were simplified for clarity and to better distribute responsibilities for customs clearance.

1990

2000

2010

2020 ?

### Adapting to inter-modal transport

A complete revamp of Incoterms to adapt to inter-modal transportation. Changes were made to accommodate the increasing use of Electronic Data Interchange (EDI).



13  
INCOTERMS

### New Incoterms and concerns over security

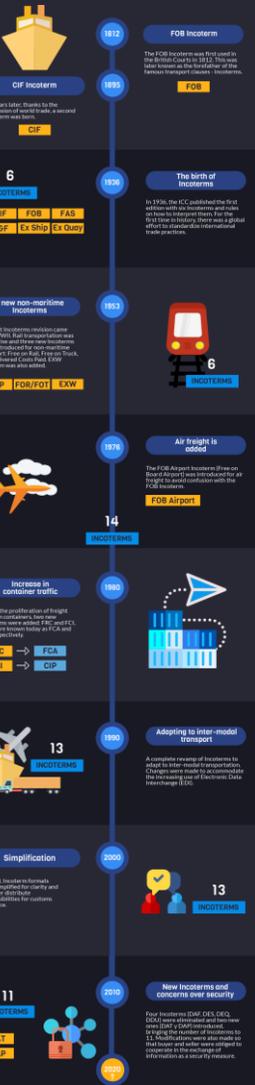
Four Incoterms (DAF, DES, DEQ, DDU) were eliminated and two new ones (DAT y DAP) introduced, bringing the number of Incoterms to 11. Modifications were also made so that buyer and seller were obliged to cooperate in the exchange of information as a security measure.



11  
INCOTERMS

- DAT
- DAP

## THE HISTORY OF INCOTERMS



**1812:** The FOB Incoterm was first used in the British Courts in 1812. This was later known as the forefather of the famous transport clauses - Incoterms.

**1895:** 83 years later, thanks to the expansion of world trade, a second Incoterm was born.

**1936:** The birth of Incoterms as we know them today. In 1936, the ICC published the first edition with six Incoterms and rules on how to interpret them. For the first time in history, there was a global effort to standardize international trade practices.

**1953:** The first Incoterms revision came after WWII. Rail transportation was on the rise and three new Incoterms were introduced for non-maritime transport: Free on Rail, Free on Truck, and Delivered Costs Paid. [EXW Incoterm](#) was also added.

**1976:** The FOB Airport Incoterm (Free on Board Airport) was introduced for air freight to avoid confusion with the FOB Incoterm.

**1980:** Due to the proliferation of freight traffic in containers, two new Incoterms were added: FRC and FCI, which are known today as [FCA](#) and [CIP](#) respectively.

**1990:** A complete revamp of Incoterms to adapt to inter-modal transportation. Changes were made to accommodate the increasing use of Electronic Data Interchange (EDI).

**2000:** In 2000, Incoterm formats were simplified for clarity and to better distribute responsibilities for customs clearance.

**2010:** Four Incoterms (DAF, DES, DEQ, DDU) were eliminated and two new ones ([DAT](#) and [DAP](#)) introduced, bringing the number of Incoterms to 11. Modifications were also made so that buyer and seller were obliged to cooperate in the exchange of information as a security measure.

**2020:** .

## ABOUT ICC

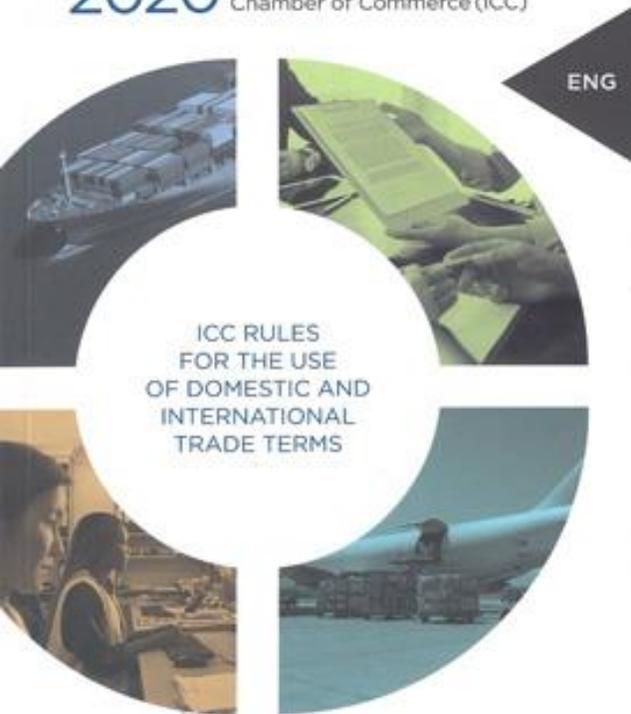
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- ICC is the world business organization, speaking on behalf of businesses of all sizes, from all sectors and from all parts of the world.
- Founded in 1919 with the mission to promote international trade and investment as a driver of economic growth, job creation and sustainable development.
- ICC's global network has grown to over 6.5 million companies, local and national chambers of commerce and business associations in more than 130 countries worldwide.
- ICC is the main voice of the business community at the WTO, the WCO and many other intergovernmental organizations.

**Incoterms** are trade terms published by the International Chamber of Commerce (ICC) that are commonly used in both international and domestic trade contracts

- **Universally recognised set of definitions of international trade terms**
- **Recognised by courts and other authorities**
- **Define the trade contract responsibilities and liabilities between buyer and seller**
- **Updated regularly to keep pace with changes and developments in international trade**

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



## Incoterms [International commercial terms]

A widely-used terms of sale, are a set of internationally recognized rules which define the Risk cost, liability of sellers and buyers.

Incoterms specifies who is responsible for paying for and managing the shipment, insurance, documentation, customs clearance, and other logistical activities.

INCOTERMS ARE FOR ?

BUYERS AND SELLERS

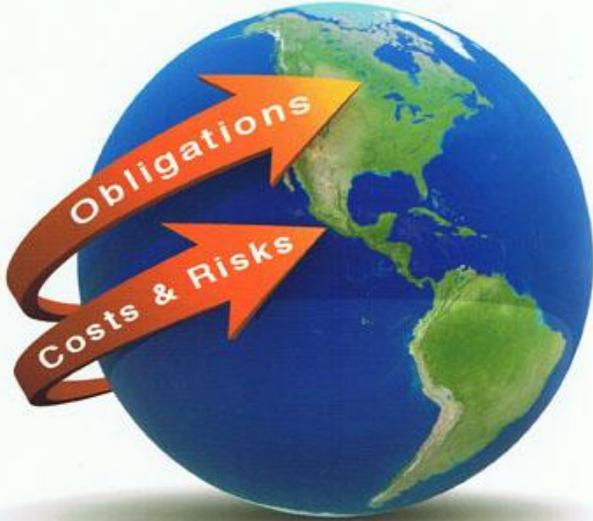
WHO ELSE SHOULD KNOW?

SERVICE PROVIDERS TO BUYERS AND SELLERS

2011

**Incoterms® 2010**  
by the International Chamber of Commerce (ICC)

ICC rules for the use of domestic  
and international trade terms



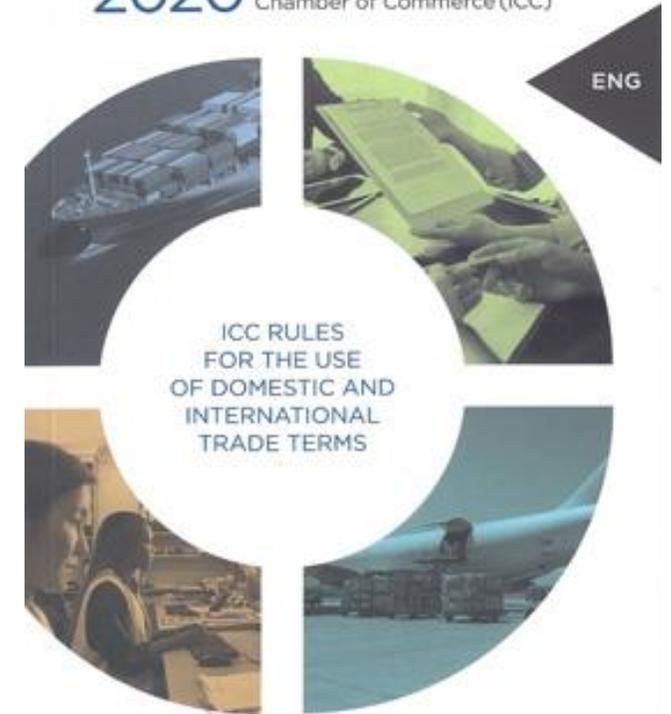
2016

ICC GUIDE ON TRANSPORT  
and the Incoterms® 2010 Rules



2020

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



**WHY INCOTERMS?**  
**Standardizing trade and to include  
into contracts to reduce legal issues.**

There are people who think  
FOB is **Freight** on board,  
still use C**&**F  
or  
think the rules as a cost matter  
only.

**95% of contracts don't use  
incoterms correctly  
In containerising  
LCL /FCL  
FOB CFR, CIF does not work**

**Example Ex works. FOB. DDP, CIF is  
not recommended  
for containers or air**

Who should use  
incoterms?  
Seller and buyer must  
use (B2B)

Have you got to use  
incoterms?  
NO  
But what happens if  
something happens?  
**lawyers win**

Can it be used for domestic  
sales?  
YES

**Common mistake!**  
**Wrong rule for wrong transaction**  
**Read the book!**  
**Make sure you understand the rules**  
**What do you want to achieve**  
**Then decide the rule**

## Tips for containerised cargo

Sellers best term CPT

Buyers Best FCA

Why?

Better control

Don't or avoid use **D** rules for international trade, EU is okay for rail and road.

Sellers responsibly seller cannot control

Don't use **Ex Works** or **DDP** is unworkable

# STAKEHOLDERS IN INTERNATIONAL TRADE

Exporters –Importers

Manufacturers and traders

Banks -Insurance

Government and regulators

Ports and shipping

Freight forwarders -Logistics services

International organisations - Lawyers

# Contract of sale



## OVERVIEW ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS

*Contracts for the international sale of goods is the agreement between parties whose places of business are in different countries or separate customs areas, according to which the Seller (the Exporter) is obliged to deliver goods, and transfer the ownership thereof to the Buyer (the Importer); the Buyer is obliged to receive of the goods and the ownership thereof, and arrange payment.*





**Contract of sale**

Risk, cost & liability  
+ documents

Destination/Delivery

Carriage, delivery  
+ documents

INCOTERM

CONVENTION

Origin Cargo

**Contract of carriage**

# How many Incoterms are there in 2020?

# SUMMARY

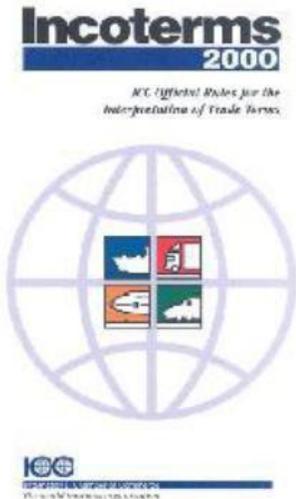


2010

## Main changes on the Incoterms® 2010

Number of Incoterms was reduced from 13 to 11.

EXW  
FAS  
FOB  
FCA  
CFR  
CIF  
CPT  
CIP  
~~DAF~~  
~~DES~~  
~~DEQ~~  
DDU  
DDP



EXW  
FAS  
FOB  
FCA  
CFR  
CIF  
CPT  
CIP  
**DAP**  
**DAT**  
DDP



**Change in title from DAT - DPU**

EXW  
FAS  
FOB  
FCA  
CFR  
CIF  
CPT  
CIP  
**DAP**  
DDP

2020

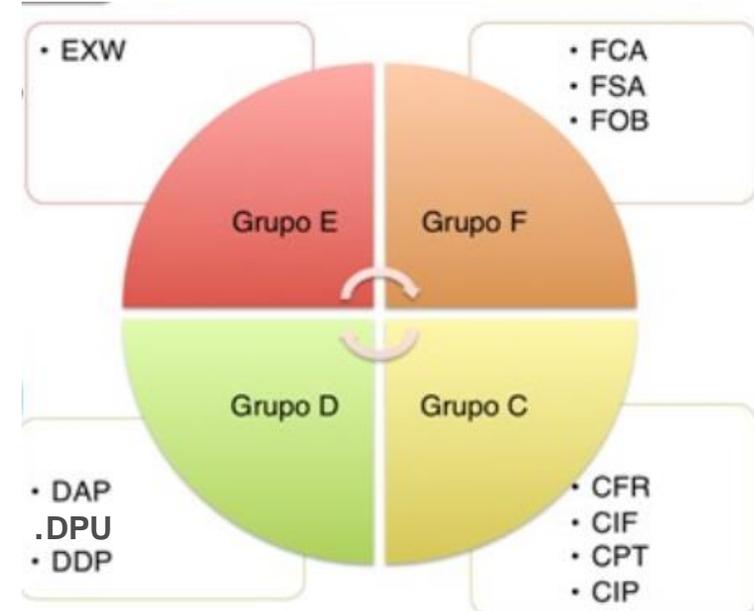
EXW	Ex works
FAS	Free Along Side
FOB	Free On Board
FCA	Free Carrier
CFR	Cost and Freight
CIF	Cost, Insurance & Freight
CPT	Carriage Paid To
CIP	Carriage and insurance paid to
<b>DAP</b>	Delivered At Place
<b>DPU</b>	Delivered At place Unloaded
DDP	Delivery Duty Paid



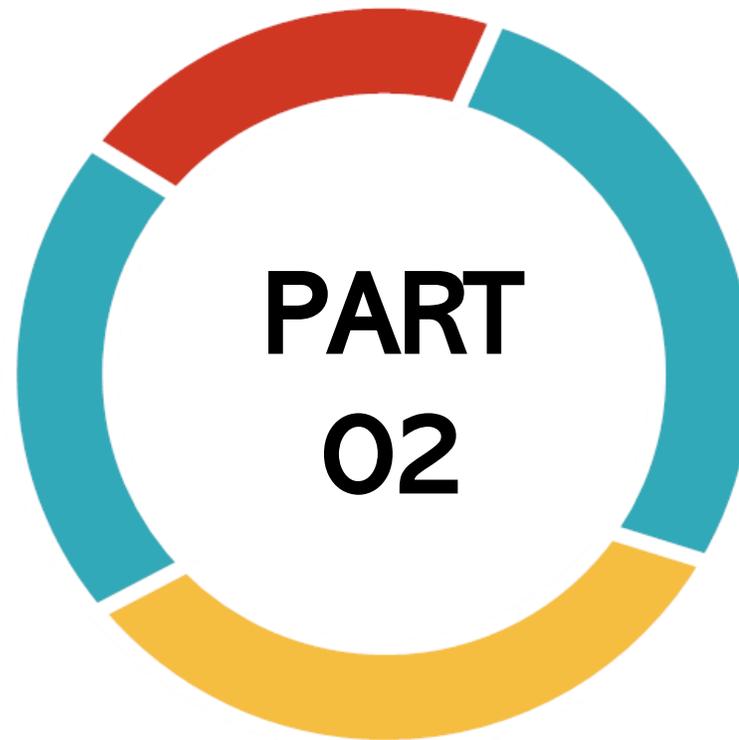


## INTERNATIONAL COMMERCIAL TERMS

INCREASED OBLIGATIONS OF THE SELLER



Grupo E	Departure	Grupo F	Main carriage unpaid
Grupo D	Arrival	Grupo C	Main carriage paid



**PART  
02**

# INCOTERMS –More to know What does it mean?

- A set of three-letter trade terms reflecting business-to-business practice in contracts for the sale of goods
- The INCOTERMS rules describe mainly the tasks, costs and risks involved in the delivery of goods from sellers to buyers

**THE RULE**

**IS IT LAW,  
REGULATION OR  
OPTIONAL  
CONVENTION?**

**A RULE**

- Official instructions, often written down, which tell us what we are allowed to do, and we are not in a particular place or situation;
- The course of action that you should take in order to do something properly or to achieve a particular goal;
- A statement that describes the way that things usually happen in a system

**THE RULE**

- The course of action that you should take in order to do something – **GUIDELINE**
- The way of behaving or taking part in something – **CONVENTION**
- **Is right**
- **Acceptable**
- **Most people agree with it**

## MAIN FEATURES OF THE INCOTERMS RULES

- The 11 INCOTERMS rules are presented in two classes:
- rules for any modes of transport
  - rules for sea and inland waterway transport

## HOW TO USE THE INCOTERMS?

Remember that the  
INCOTERMS rule don't give  
you a complete contract of  
sale

REFER THE BOOK

## INCOTERMS RULES SAY NOTHING ABOUT:

- The price to be paid and the method of payment
- Transfer of ownership of the goods
- Consequences of a breach of contract

## INCOTERMS RULES DO SAY:

- Which party the sales contract has the obligation to make carriage or insurance arrangements
- When the seller delivers the goods to the buyer
- Which costs each party is responsible for in the logistics movement

## HOW TO CHOOSE THE APPROPRIATE INCOTERMS?

The chosen INCOTERMS rule must be appropriate:

- To the goods;
- To the means of their transport;
- To whether the parties intend to put additional obligations, such as obligation to organize carriage or insurance on the seller/buyer

## HOW TO USE THE INCOTERMS?

- If we want the INCOTERMS 2020 to apply to contract of sale, we have to make it clear in the contract, through such words: *CIF Hamburg Incoterms 2020*
- The chosen INCOTERMS rule can only work if the parties or contract name a place or port and specify this place or port as precisely as possible: *FCA 38 Cours Albert 1<sup>er</sup>, Paris, France Incoterms 2020*

## MAIN FEATURES OF INCOTERMS RULES

- GUIDANCE NOTES
- Before each INCOTERMS rules you will find a *Guidance/ Explanatory Note*
- Guidance /Explanatory Notes explain the fundamentals of each INCOTERMS rules: when it should be used, how costs are allocated between seller and buyer

## VARIANTS OF INCOTERMS RULES

- Sometimes the parties want to alter an INCOTERMS rule
- INCOTERMS 2020 rules do not prohibit such alteration
- There are dangers in doing so
- In order to avoid any unwelcome surprises, the parties of contract would need to make the intended effect of such alterations extremely clear in their contract

## TERMS USED IN INCOTERMS 2020

The seller's obligations and the buyer's obligations can be carried out personally by the seller or by the buyer, or sometimes through intermediaries such as carriers, freight forwarders or other persons nominated by the seller or the buyer for a specific purpose

## TERMS USED IN INCOTERMS 2020

- **CARRIER** – the party with whom carriage is contracted
- **CUSTOMS FORMALITIES** – may include documentary, security, information or physical inspection obligations
- **DELIVERY** – this concept is used to indicate where the risk of loss or damage to the goods passes from the seller to the buyee

## TERMS USED IN INCOTERMS 2020

- **DELIVERY DOCUMENT** – a document used to prove that the delivery has occurred: a transport document or corresponding electronic record
- **PACKAGING:**
  - the packaging of the goods to comply with any requirements under the contract of sale
  - the packaging of the goods so that they are fit for transportation



**PART  
03**

# Inco**te**rms<sup>®</sup> 2020 by the International Chamber of Commerce (ICC)

### **Can Incoterms® 2020 be included in contracts now?**

According to the [ICC website](#) Incoterms® 2020 rules "come into effect on 1 January 2020". There is no prohibition in the Incoterms® 2020 rules that they only "come into effect" on 1 January 2020 however.

Incoterms® rules users also do not have to switch over to Incoterms® 2020. Users can, if they clearly specify it in the contract, carry on using Incoterms® 2010 if they want to. Practically it may take 12-18 months for most Incoterms® users to switch over to Incoterms® 2020.

Incoterms® 2020 rules may be included in contracts that are currently being prepared now and should be. If a contract is entered into on or after 1 January 2020, it is likely that Incoterms® 2020 shall apply unless the contract says otherwise.

# INCOTERMS® 2020 RULES

## CHART OF RESPONSIBILITIES AND TRANSFER OF RISK

	Any Transit Mode		Sea/Inland Waterway Transport				Any Transport Mode				
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex Works	Free Carrier	Free Alongside Ship	Free On Board	Cost & Freight	Cost Insurance & Freight	Carriage Paid To	Carriage Insurance Paid To	Delivered at Place	Delivered at Place Unloaded	Delivered Duty Paid
Transfer of Risk	At Buyer's Disposal	On Buyer's Transport	Alongside Ship	On Board Vessel	On Board Vessel	On Board Vessel	At Carrier	At Carrier	At Named Place	At Named Place Unloaded	At Named Place
Charges/Fees											
Packaging	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading Charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to Port/Place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Duty, Taxes & Security Clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin Terminal Charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on Carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage Charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance						Seller		Seller			

# All modes of transport

## EXW Ex Works (named place of delivery)



## FCA Free Carrier (named place of delivery – seller's premises)



## CPT Carriage Paid To (named place of destination)



## DPU Delivered at Place Unloaded (named place of destination)



## DDP Delivered Duty Paid (named place of destination)



## CIP Carriage and Insurance Paid To (named place of destination)



## DAP Delivered at Place (named place of destination)

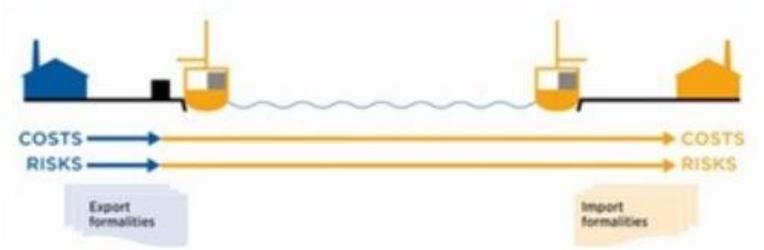


**Incoterms**<sup>®</sup>  
2020 by the International Chamber of Commerce (ICC)

Source: Self created from images used in a presentation by ICC Incotern

Only for water ways

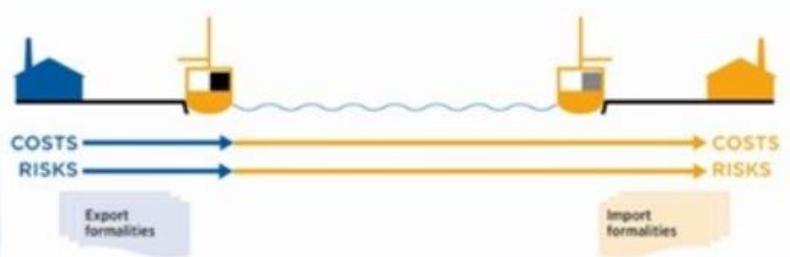
### FAS (named port of destination)



### CFR Cost and Freight (named port of destination)



### FOB Free on Board (named port of shipment)



### CIF Cost, Insurance and Freight (named port of destination)



**Incoterms**<sup>®</sup>  
2020 by the International Chamber of Commerce (ICC)

Source: Self created from images used in a presentation by ICC Incotern

# The 10 questions and answers that the seller and buyer should know on Incoterm 2010

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## Seller A

- A1.**General obligations of the seller
- A2.**Licence,authorisations,security, clearance and other formalities
- A3.**Contract of carriage and insurance
- A4.**Delivery
- A5.**Transfer of risk
- A6.**Allocation of cost
- A7.**Notice to the buyer
- A8.**Proof of delivery
- A9.**Inspection of goods
- A10.**Assistance with information and related cost

## Buyer B

- B1.**General obligations of the buyer
- B2.**Licence,authorisations,security, clearance and other formalities
- B3.**Contract of carriage and insurance
- B4.**Taking delivery
- B5.**Transfer of risk
- B6.**Allocation of cost
- B7.**Notice to the seller
- B8.**Proof of delivery
- B9.**Inspection of goods
- B10.**Assistance with information and related cost

## VIII. ORDER WITHIN THE INCOTERMS® 2020 RULES

52. All the ten A/B articles in each of the Incoterms® rules are important—but some are more important than others.
53. There has, indeed, been a radical shake-up in the internal order in which the ten articles within each Incoterms® rule have been organised. In *Incoterms® 2020*, the internal order within each Incoterms® rule now follows this sequence:
- A1/B1 General obligations
  - A2/B2 Delivery/Taking delivery
  - A3/B3 Transfer of risks
  - A4/B4 Carriage
  - A5/B5 Insurance
  - A6/B6 Delivery/transport document
  - A7/B7 Export/import clearance
  - A8/B8 Checking/packaging/marking
  - A9/B9 Allocation of costs
  - A10/B10 Notices
54. It will be noticed that concerning the Incoterms® 2020 rules, after recording in A1/B1 the basic goods/payment obligations of the parties, Delivery and the Transfer of risks are moved to a more prominent location, namely to A2 and A3 respectively.



**PART  
04**

# THE TERMS & FREIGHT PAYMENT

## The logic of the Incoterms 2020 rules

The eleven rules are divided into two main groups

Rules for any transport mode

- Ex Works EXW
- Free Carrier FCA
- Carriage Paid To CPT
- Carriage & Insurance Paid to CIP
- Delivered At Terminal DAT
- **Delivered At Place Unloaded DPU**
- Delivered Duty Paid DDP Rules for sea & inland

waterway only

- Free Alongside Ship FAS
- Free On Board FOB
- Cost and Freight CFR
- Cost Insurance and Freight CIF

In general the “transport by sea or inland waterway only” rules should only be used for bulk cargos (e.g. oil, coal etc) and non-containerised goods, where the exporter can load the goods directly onto the vessel. Where the goods are containerised, the “any transport mode” rules are more appropriate.

A critical difference between the rules in these two groups is the point at which risk transfers from seller to buyer. For example, the “Free on Board” (FOB) rule specifies that risk transfers when the goods have been loaded on board the vessel. However the “Free Carrier” (FCA) rule specifies that risk transfers when the goods have been taken in charge by the carrier.

# NEW! ICC GUIDE ON TRANSPORT + INCOTERMS 2010 RULES

## Freight under incoterms

3-F Terms -  
7- C & D Terms-  
1-E Term -

Collect  
Prepaid  
Either

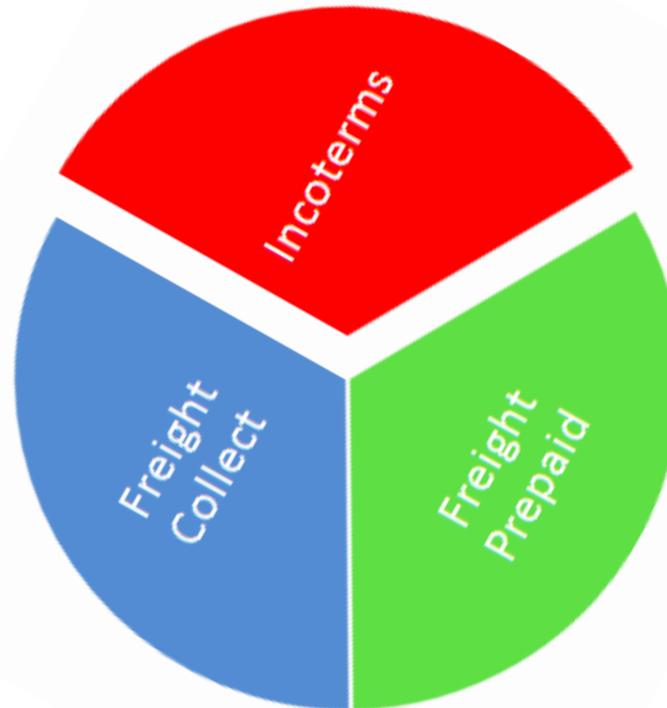


Any mode:  
EXW,FCA,CPT,CIP,DPU,DAP,DDP

Sea and inland waterways:  
FAS,FOB, CFR,CIF

## NEW! ICC GUIDE ON TRANSPORT + INCOTERMS 2010 RULES

# Where does most confusion happen?



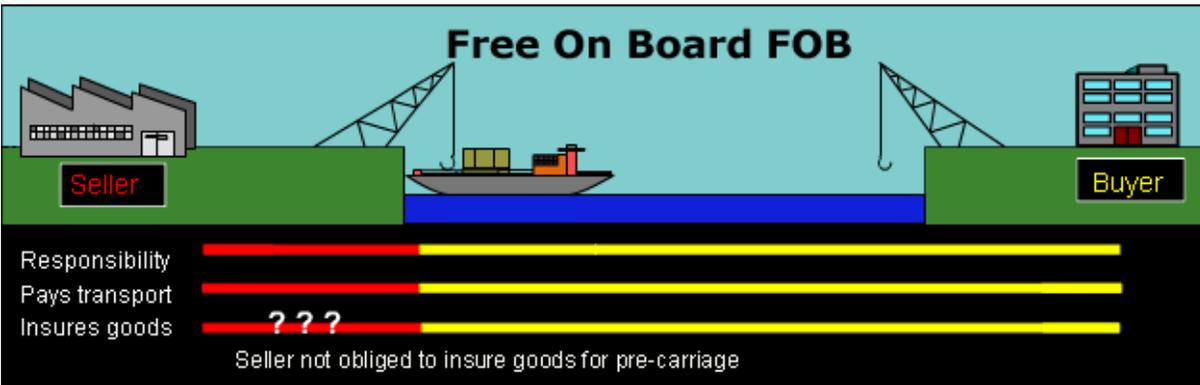
# FOB & CFR

- **Know the basics**

- FOB is the opposite of CFR

- Don't Use these two terms in containerised cargo
- Where good are delivered to a terminal

- Don't Use these two terms in containerised cargo
- Where good are delivered to a terminal



SEA OR INLAND  
WATERWAY ONLY



**FOB**  
FREE ON BOARD



3-F Terms - Collect  
7- C & D Terms- Prepaid  
1-E Term - Either

## Free On Board (FOB)

Use of this rule is restricted to goods transported by sea or inland waterway.

In practice it should be used for situations where the seller has direct access to the vessel for loading, e.g. bulk cargos or non-containerised goods.

For containerised goods, consider “Free Carrier FCA” instead.

Seller delivers goods, cleared for export, loaded on board the vessel at the named port.

Once the goods have been loaded on board, risk transfers to the buyer, who bears all costs thereafter.

FOB is now only appropriate for ro/ro (cars), over-sized cargo, and bulk items where the shipper must physically arrange for the goods to be loaded onto a vessel – i.e. drive it, or hire the cranes to load it.



3-F Terms - Collect  
7- C & D Terms- Prepaid  
1-E Term - Either

**Cost and Freight (CFR)**

Use of this rule is restricted to goods transported by sea or inland waterway.

In practice it should be used for situations where the seller has direct access to the vessel for loading, e.g. bulk cargos or non-containerised goods.

For containerised goods, consider 'Carriage Paid To CPT' instead.

Seller arranges and pays for transport to named port. Seller delivers goods, cleared for export, loaded on board the vessel.

However risk transfers from seller to buyer once the goods have been loaded on board, i.e. before the main carriage takes place.

NB seller is not responsible for insuring the goods for the main carriage.  
See also "Cost Insurance and Freight CIF"

## FOB

### Free on Board ( named port of shipment)

- Seller must load the goods on board the vessel nominated by the buyer
- Cost and risks are passed when the goods are actually on board of the vessel ( this rules is new!) and the buyer bear all the costs from that moment
- The seller must clear the goods for export

## FOB

### The seller's obligations

- To deliver the goods by placing them on board the vessel nominated by the buyer at the loading point at the named port of shipment
- To bear all risks of loss of/or damage to the goods until they have been placed on board
- To pay costs of customs formalities in export, all duties, taxes, charges payable upon export

## FOB

### The buyer's obligations

- To pay the price of the goods
- Must contract at its own expense for the carriage of the goods from the named port of shipment
- To bear all risks of loss of/damage to the goods from the time they have been placed on board
- To pay costs of customs formalities in import, all duties, taxes, charges payable upon import of the goods

# KNOWING YOUR LOADING CIRCUMSTANCE CUSTOMARY WAY PORTS OPERATE



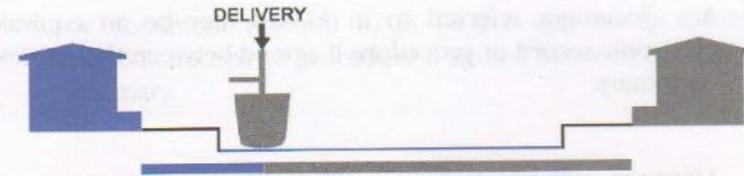
## Evolution of FOB since 1990

**FOB**

FOB

FREE ON BOARD

FOB (insert named port of shipment) Incoterms® 2010



### GUIDANCE NOTE

This rule is to be used only for sea or inland waterway transport.

“Free on Board” means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards.

The seller is required either to deliver the goods on board the vessel or to procure goods already so delivered for shipment. The reference to “procure” here caters for multiple sales down a chain (‘string sales’), particularly common in the commodity trades.

FOB may not be appropriate where goods are handed over to the carrier before they are on board the vessel, for example goods in containers, which are typically delivered at a terminal. In such situations, the FCA rule should be used.

FOB 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.

**1990:** Free on board means that the seller fulfils his obligation to deliver when the goods have passed Over the ship's rail at the name port of shipment. This means that the buyer must bear all costs and risks of loss of or damage to the goods from that point

**2000:** Free on board means that the seller to **delivers** when the goods pass the ship's rail at the name port of shipment. This means that the buyer must bear all costs and risks of loss of or damage to the goods from that point. **The FOB tern requires the seller to clear the goods for Export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail FCA term should be used**

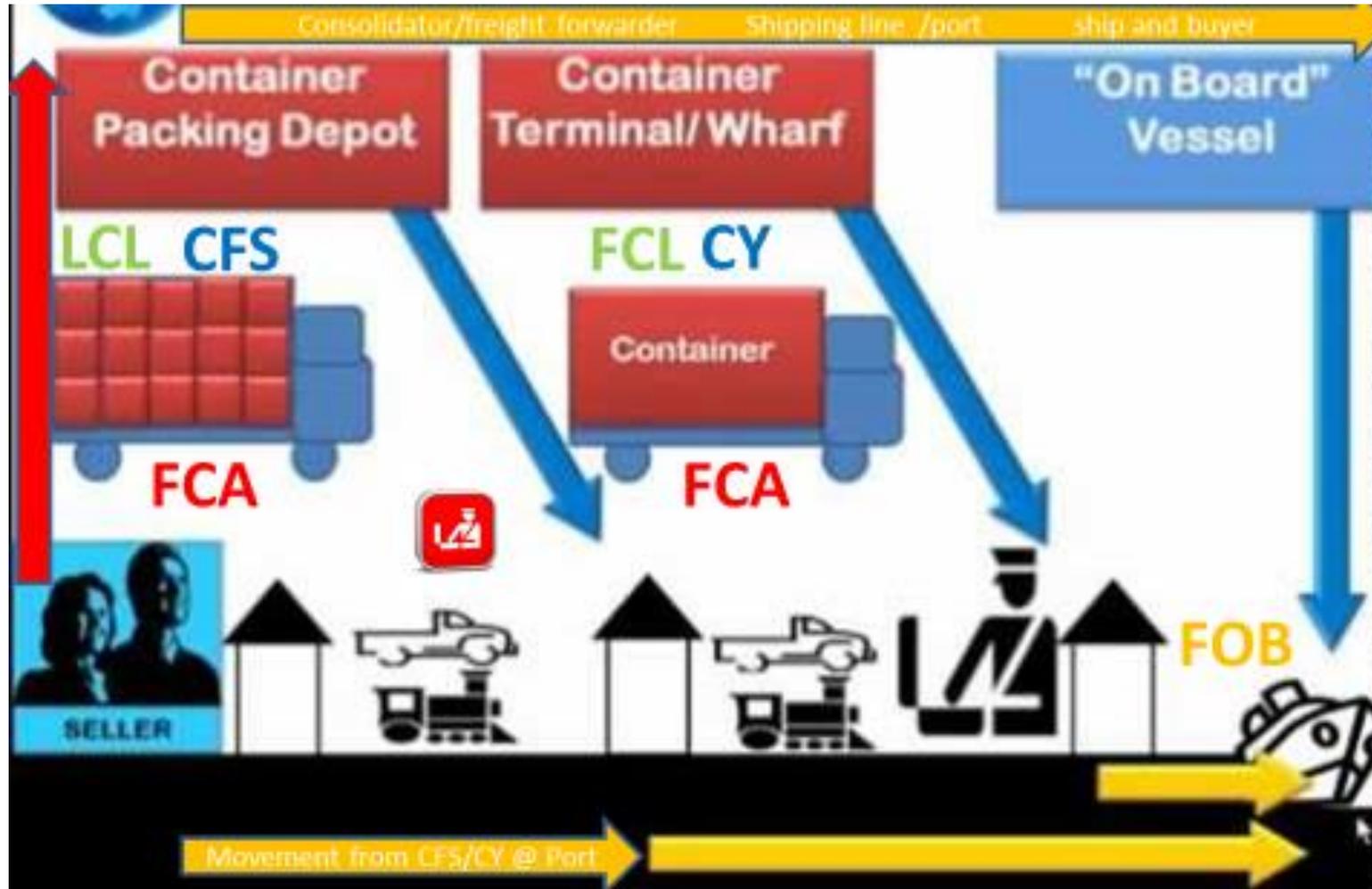
# NEW! ICC GUIDE ON TRANSPORT + INCOTERMS 2010 RULES

## What I achieved in



FOB may not be appropriate where goods are handed over to the carrier before they are on board the vessel, for example goods in containers, which are typically delivered at a terminal. In such situations, the FCA rule should be used.

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# Hanjin Shipping bankruptcy causes turmoil in global sea freight



Hanjin goes into bankruptcy before container is loaded, so container will never get loaded at this point. The shipper is informed by the buyer's Freight forwarder that they can pull out the container, trans load and book with another carrier. Seems logical right? Who should pay for these additional fees? you are thinking "The Buyer, it is their booking, their chosen carrier." You would be right, but the buyer is under a different impression. They state, "Terms are FOB, we do not own the freight until it is loaded on board, supplier is responsible for these additional fees."

Two things : First, we already established FOB is not appropriate for containerized cargo, but more importantly, risk of loss and transfer of ownership are two concepts unrelated to each other. Transfer of ownership is specifically NOT defined in Incoterms for a variety of reasons. Ownership of cargo is defined by who holds the Bill of Lading (BL). BLs may be held by the shipper for whatever reason, but mostly until some sort of contractual arrangement is fulfilled by the buyer, such as payment. This allows the shipment to sail, and even dock at destination, but the buyer will not have access to the cargo until the shipper releases the goods. In other words, a shipment can be FCA incoterm, but transfer of ownership can take place at any time - completely unrelated to the Incoterm

The buyer's statement that they do not own the cargo until it is loaded on board is actually correct, but not for the reason they believe. This particular buyer required Seaway/ Express BL, which means a physical printed BL will not be produced for the shipper to hold as leverage. As soon as the Seaway/Express BL is printed, the buyer has complete access to the goods. When is the Express / Seaway BL printed? When the cargo is loaded on board!! So the buyer does take possession of the goods at this time due to the type of BL, but they assume the risk of loss as soon as cargo is delivered to the terminal.

1) Use FCA for Containers and LCL cargo. Both you and your customer/ supplier do not want to risk any disagreements, and neither of you want to have an insurance claim denied because you are using the terms incorrectly.

2) There should be a separate clause in your agreements identifying where the transfer of title takes place. Both parties need to understand ownership and risk of loss are not related to each other.

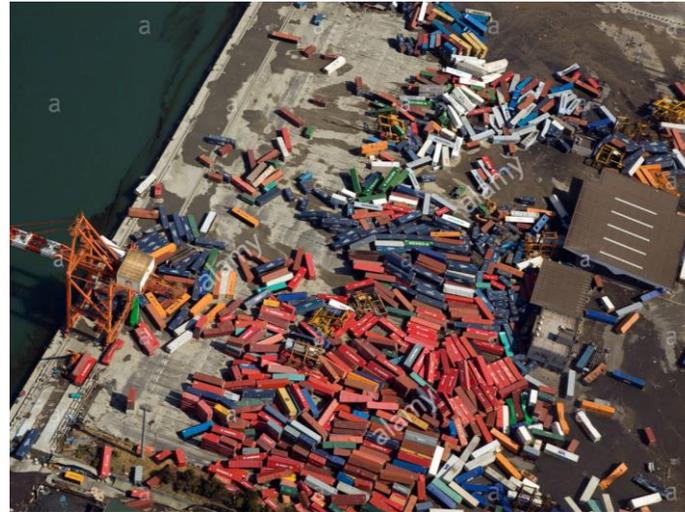
# Tidal Waves

Bangladesh 2006

Japan 2011

# Dhaka –Chittagong cargo debacle 2006

## Japan – 2011 Tsunami



*A dramatic recent example was the Japanese tsunami in March 2011, which wrecked the Sendai container terminal. Many hundreds of consignments awaiting dispatch were damaged. Exporters who were using the wrong rule found themselves responsible for losses that could have been avoided!*



## NEW! ICC GUIDE ON TRANSPORT + INCOTERMS 2010 RULES

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# What about insurance?

There is a special note on insurance except for CIP.CIF

In all other terms insurance has to be agreed upon by buyer and seller

Depending on the mode of transport as per applicable convention (86)

# ! ACCIDENTS !

IT HAPPENS.

WHOSE PROBLEM IS IT?

# Cargo insurance based on "Institute Cargo Clauses" (ICC) A, B, C conditions



Incoterms 2010 both CIF and CIP

Incoterms 2020 CIF

Incoterms 2020 CIP

	Institute Cargo Clauses		
	(A)	(B)	(C)
Fire, explosion	✓	✓	✓
Vessel sinking	✓	✓	✓
Jettison	✓	✓	✓
Breakage, theft	✓	✗	✗
Washing overboard	✓	✓	✗
War, strikes	✗	✗	✗



**Transfer of Title**

ICC: Origin/Delivery point on B/L very important according to the customary manner in each country the ports operate for FCL/LCL Bulk etc.

Door, CY, CFS

**Transfer of Title**

Door: Door

CY: Door

CY: CY

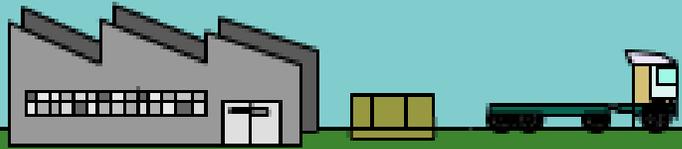
CY: CFS

CFS: Door

CFS: CFS

CFS:CY

## Ex Works EXW



**Seller**



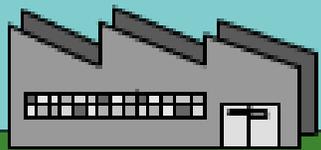
**Buyer**



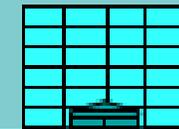
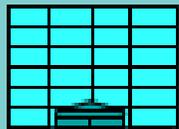
Responsibility  
Pays transport  
Insures goods



## Free Carrier FCA



Seller



Buyer

Responsibility

Pays transport

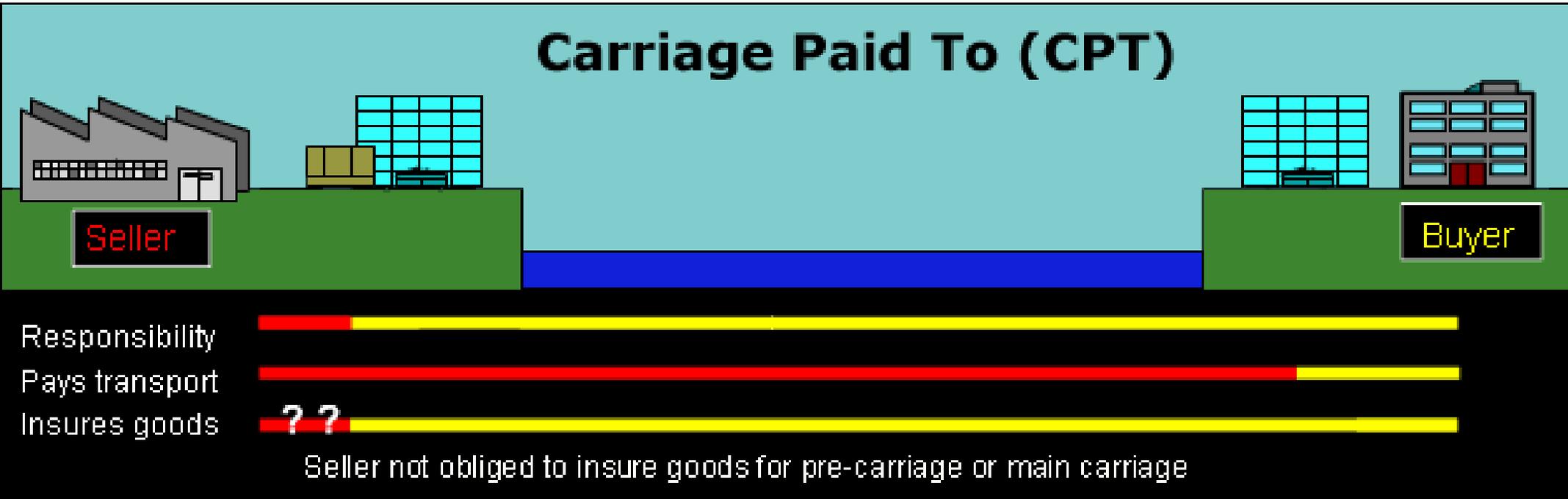
Insures goods



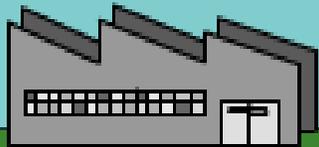
Seller not obliged to insure goods for pre-carriage



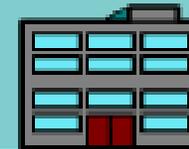
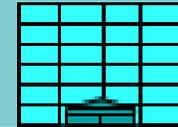
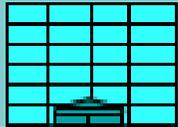
## Carriage Paid To (CPT)



## Carriage & Insurance Paid to CIP



Seller



Buyer

Responsibility



Pays transport



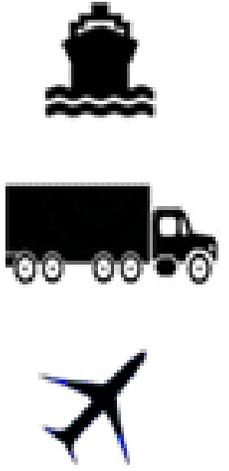
Insures goods



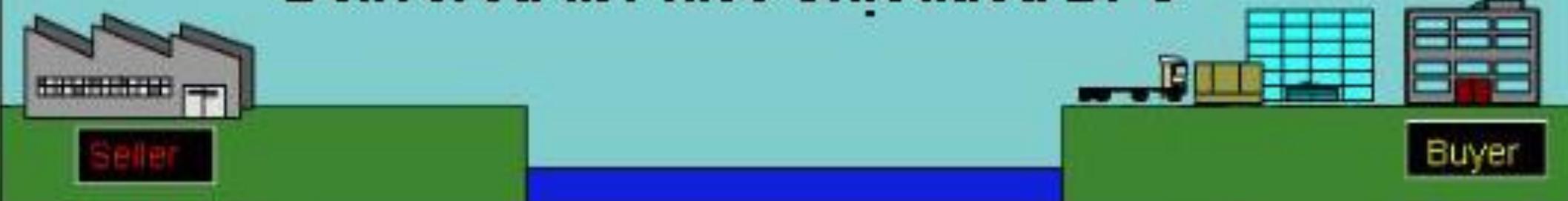
Seller insures goods for main carriage to named place



## Delivered At Place DAP



## Delivered at Place Unloaded DPU



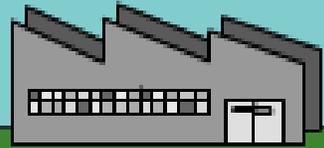
Responsibility	Red bar (Seller)   Yellow bar (Buyer)
Pays transport	Red bar (Seller)   Yellow bar (Buyer)
Insures goods	Red bar (Seller)   Yellow bar (Buyer)

???

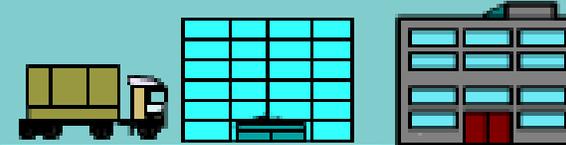
Seller responsible for goods during transport to named place, but not obliged to insure



## Delivered Duty Paid DDP



Seller



Buyer

Responsibility  
Pays transport  
Insures goods

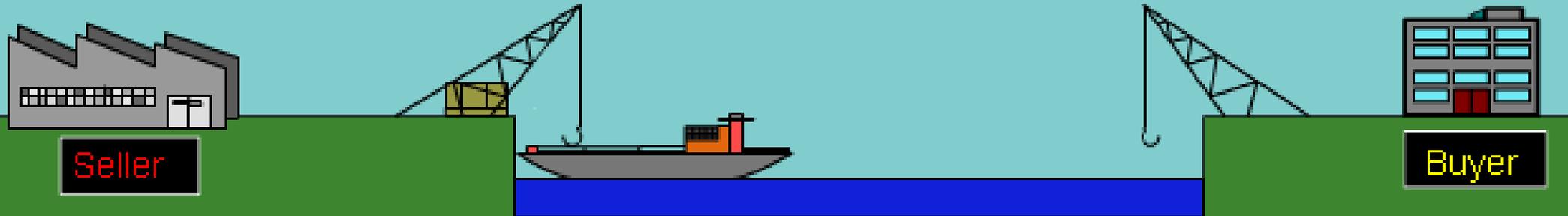


Seller not obliged to insure goods for pre-carriage or main carriage



## Free Alongside Ship FAS

SEA OR INLAND  
WATERWAY ONLY



Seller

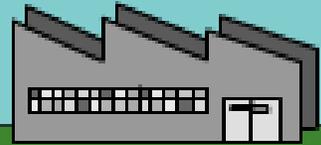
Buyer

Responsibility  
Pays transport  
Insures goods

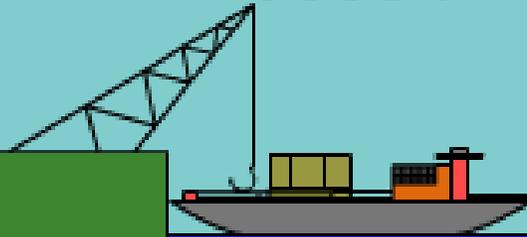


Seller not obliged to insure goods for pre-carriage

## Cost and Freight CFR



Seller



Buyer

SEA OR INLAND  
WATERWAY ONLY



Responsibility



Pays transport



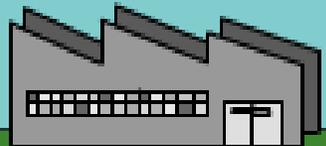
Insures goods



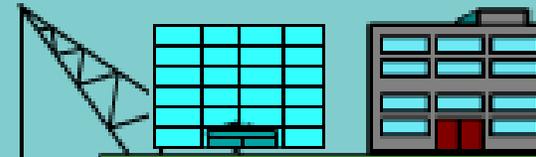
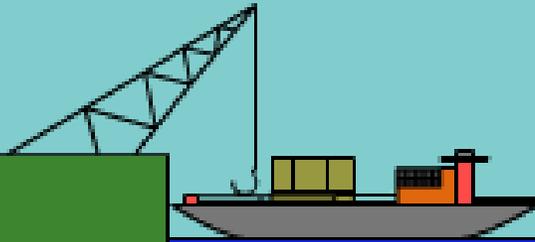
Seller not obliged to insure goods for pre-carriage or main carriage

## Cost Insurance and Freight CIF

SEA OR INLAND  
WATERWAY ONLY



Seller



Buyer

Responsibility

Pays transport

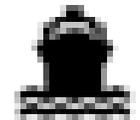
Insures goods



Seller insures goods for main carriage to named place

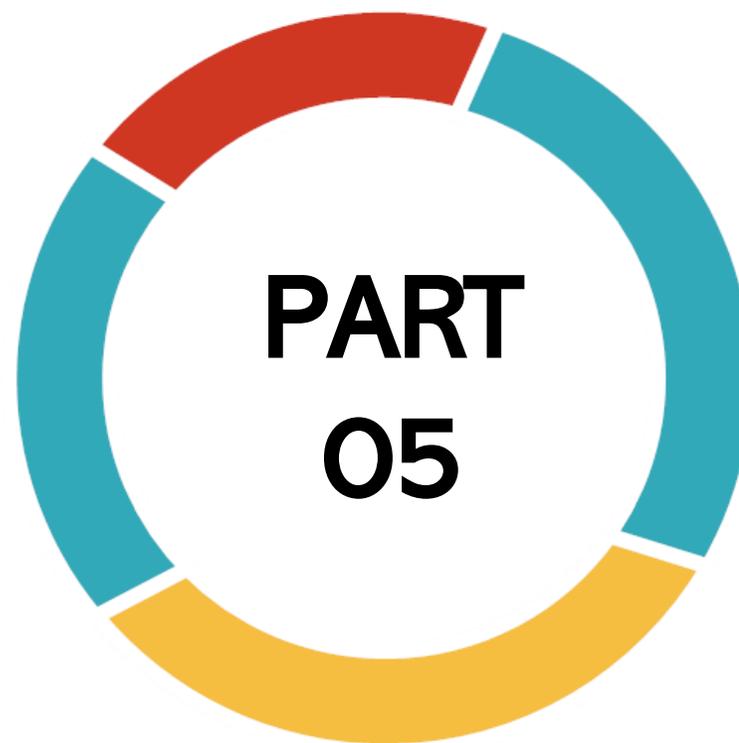


SEA OR INLAND  
WATERWAY ONLY



*thank you*

**Next session:  
23<sup>rd</sup> October 10am IST**



**PART  
05**