

## INCOTERMS

17 January 2020

The International Chamber of Commerce (ICC) has released the new Incoterms 2020 regulations that define responsibilities of buyers and sellers operating in the international trade system. Delivery conditions were reviewed by 500 experts from more than 40 countries.

Each party involved in the logistics chain must have a clear understanding of the role and responsibilities they have, in order to ensure to the clients planned and coordinated activities with maximum efficiency. For over 80 years, Incoterms rules have played a major role in this process.

### What does “Incoterms” stand for?

“Incoterms” is an acronym standing for international commercial terms. “Incoterms” is a trademark of International Chamber of Commerce, registered in several countries.

The Incoterms rules feature abbreviations for terms, like FOB (“Free on Board”), DAP (“Delivered at Place”) EXW (“Ex Works”), CIP (“Carriage and Insurance Paid To”), which all have very precise meanings for the sale of goods around the world.

These terms hold universal meaning for buyers and sellers around the world.

### Why are these rules important?

Incoterms offers precise rules and guidelines, representing an essential element of the global trade which is the basis of trade negotiations that directly or indirectly involve sellers, buyers, transport companies, shippers, customs commissioners, chambers of commerce, etc.

This set of rules define the mutual obligation of the seller and the buyer in terms of costs, supply of documents, distribution of risks and how they can be reduced.

The clauses are recognized worldwide and are used in more than 30 different languages.

Also, the experiences gained over the last decade will increase the development of Incoterms 2020, making the rules more flexible in addressing discrepancies relating costs and risk transfer, packaging, marking, goods inspection, security verification and other formalities.

It should also improve the responsibilities of participants, agents and stakeholders in the procurement and supply chain activities and it will be highly optimized to keep up with commercial transactions, which have become increasingly complex.

### When do Incoterms 2020 come into force?

The new terms take effect on 1 January 2020.

This means that if a contract is entered into on or after 1 January 2020 then it is likely that Incoterms 2020 shall apply - unless the contract says otherwise.

Incoterms users do not have to switch over to Incoterms 2020. Instead, they can carry on using Incoterms 2010 - the only requirement is to mention it clearly in the contract.

The International Chamber of Commerce (ICC) estimates that it will take 12-18 months for most Incoterms users to switch over to the new rules.

### Incoterms 2020 has a clearer structure

Unlike Incoterms 2010, where the clauses were divided into four groups (E, F, C or D), in Incoterms 2020, they are structured into two broad categories, depending on the mode of transport:

- Clauses applicable to all modes of transport - EXW (ExWorks), FCA (Free Carrier), CPT (Carriage Paid To), CIP (Carriage and Insurance Paid), DAT (Delivered At Terminal), DAP (Delivered At Place), DDP (Delivered Duty Paid).
- Clauses that apply only to maritime and inland waterway transport - FAS (Free Alongside Ship), FOB (Free On Board), CFR (Cost and Freight), CIF (Cost, Insurance and Freight).

## What's New in Incoterms 2020 Rules

- **DAT (Delivered At Terminal) becomes DPU (Delivered at Place Unloaded)**

According to the DAT clause of Incoterms 2010, the seller delivered the goods as soon as they were unloaded from the means of transport to a "terminal". However, according to the notes issued in Incoterms 2010, the term "terminal" was not to be understood from a technical point of view, but it meant any download location. This fact was taken into account in the Incoterms 2020 rules by renaming the DAT clause in the DPU (Delivered at Place Unloaded) for the sake of clarity. This means that, in the future, any (agreed) place can be the place of destination.

- **Different levels of coverage in CIF and CIP**

As in the past, the seller is still obliged to conclude a transport insurance at his own expense in the CIF (Cost Insurance Freight) and CIP (Carriage Insurance Paid) clauses.

But the two clauses now provide different minimum coverage.

The minimum rate to be respected when the CIF clause is agreed remains unchanged: the transport insurance to be concluded by the seller must correspond at least to the coverage in accordance with clauses (C) of [the Cargo Institute clauses](#) or similar clauses (named risk insurance).

But if the CIP clause is the one agreed upon, the new rules stipulate that the seller is responsible for purchasing a higher level of insurance coverage—at least 110% of the value of the goods as detailed in Clause A of the Institute Cargo Clauses—under the revised term CIP.

Both the CIF clause and the CIP clause allow the parties to the contract to agree on the degree of insurance coverage that derives from them.



- **FCA and On-Board Bills of Lading**

One of the most important changes relates to the Free Carrier (FCA). This is the most widely used term (about 40% of international commercial operations are carried out with it), because it is very versatile and allows the delivery of goods from different places in the country of the seller, such as: address of the seller, terminal for transport on land, port, airport, etc. In either case, the seller is responsible for loading the goods on the buyer's transport.

Problems occurred with this term when the seller was responsible for loading the goods on a truck or some other transport hired by the buyer and not directly on the international carrier. If the seller and buyer had agreed on using a letter of credit as the payment method for this transaction, banks often require the seller to present a bill of lading with an on-board notation before they can get paid.

An international carrier won't typically provide a seller who did not present the goods directly to them with such a bill of lading. Under the new Incoterms 2020 rules, FCA allows the parties to agree in the sales contract that the buyer should instruct its carrier to issue a bill of lading with the on-board notation to the seller.

- **Security Requirements**

The security requirements for freight have now been included in Rules A 4 and 7 of each Incoterms 2020 clause.

Article A4 ("Carriage") of each Incoterm now requires the seller, where applicable, to comply with any transport-related security requirements, up to the point of delivery, and/or to provide the buyer, at the buyer's request, risk and cost, with any information concerning transport-related security requirements, that the buyer needs for arranging carriage.

Article A7 ("Export/Import Clearance") of each Incoterm, where applicable, now also expressly requires the seller to carry out any security-related export clearance formalities and/or assist the buyer to obtain any documents, or information necessary, for complying with import or transit security-related clearance formalities. Transport-related security costs have also been given greater prominence in the stand-alone list of costs obligations under articles A9/B9 of each Incoterm.

Note: The references to "security" in Incoterms 2020 are general.

- **Costs: where are they listed**

In the new version of Incoterms, the costs are now grouped in the same article, so that the seller or buyer can find in one place all the costs that they would be responsible for under a particular term.

- **More transparency**

Incoterms 2020 has notes that explain the basics of each rule, when they should be used, when the risk is transmitted and how the costs are shared between the seller and the buyer. The purpose of the explanatory notes is to help the user accurately and efficiently towards the appropriate Incoterms rule, and provide guidance on issues that may need interpretation.

### What should you do?

In order to comply with the new rules, David Lowe, Global Co-chair of the Incoterms 2020 drafting group [has some recommendations](#):

- Identify what Incoterms your business typically uses.
- Check if you are using the right Incoterms.
- Check the changes introduced by Incoterms 2020 and analyze their impact on your business.
- Update your standard contracts accordingly and make sure that they refer to Incoterms 2020.

You need help with all of this? There are many trainers in international trade. Make sure you use one who is up to date and familiar with Incoterms 2020. You should know that the ICC has accredited trainers who it recognizes as understanding Incoterms 2020.

## How do you get a copy of Incoterms 2020?

You can buy the Incoterms text and other useful tools from the [International Chamber of Commerce website](#) or you can contact your local Chamber of Commerce. Also, [there is an app](#) that can be downloaded to your phone in order to have the most important topics and updates about Intercom 2020 at your fingertips.

## Sources and further reading:

Incoterms 2020 - International Chamber of Commerce

<https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-2020/>

Lexology - A Practical Overview of ICC Incoterms 2020

<https://www.lexology.com/library/detail.aspx?g=a6d530f0-f180-4973-8092-4dbfee36b1de>

Incoterms 2020: Here's What's New - Shipping Solutions

<https://www.shippingsolutions.com/blog/incoterms-2020-heres-whats-new/>