

## **B.Com. IV Sem.**

### **Paper: Export Import Procedure & Documentation**

#### **Topic: Inco Terms**

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#### **Meaning**

The *Incoterms* or *International Commercial Terms* are a series of pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law. "*Incoterms*" is a registered trademark of the ICC which is widely used in international commercial transactions or procurement processes & their use is encouraged by trade councils, courts & international lawyers. A series of three-letter trade terms related to common contractual sales practices, the Incoterms rules are intended primarily to clearly communicate the tasks, costs, & risks associated with the global or international transportation & delivery of goods. Incoterms inform sales contracts defining respective obligations, costs, & risks involved in the delivery of goods from the seller to the buyer, but they do not themselves conclude a contract, determine the price payable, currency or credit terms, govern contract law or define where title to goods transfers.

The Incoterms rules are accepted by governments, legal authorities, & practitioners worldwide for the interpretation of most commonly used terms in international trade. They are intended to reduce or remove altogether uncertainties arising from the differing interpretations of the rules in different countries. As such they are regularly incorporated into sales contracts worldwide.

#### **Historical Background**

The first work published by the ICC on international trade terms was issued in **1923**, with the first edition known as Incoterms published in 1936. The Incoterms rules were amended in 1953, 1967, 1976, 1980, 1990, 2000, and 2010 with the ninth version— *Incoterms 2020* — having been published on September 10, 2019.

In 2010, the two main categories of Incoterms were updated & classified by modes of transport.

### **Group 1 Incoterms: Apply to Any Mode of Transport**

**EXW-Ex Works:** The seller delivers when it places the goods at the disposal of the buyer at the seller's location or at another specified place. The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export.

**FCA – Free Carrier –** The seller delivers the goods to the carrier or another person nominated by the buyer at the seller's location or another named place.

**CPT – Carriage Paid To –** The seller delivers the goods to the carrier or another person nominated by the seller at an agreed place. The seller must pay the costs of carriage necessary to bring the goods to the destination.

**CIP – Carriage and Insurance Paid To –** The seller delivers the goods to the carrier or another person nominated by the seller at an agreed place. The seller must pay the costs of carriage to bring the goods to the destination. In addition, the seller is required to obtain minimum insurance coverage. Should the buyer wish to have more insurance protection, it will need either to agree with the seller or to make its own extra insurance arrangements.

**DAT – Delivered At Terminal –** The seller delivers when the goods are unloaded and are placed at the disposal of the buyer at a named terminal at the named port or place of destination. 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.

**DAP – Delivered At Place –** 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 destination. The seller bears all risks involved in bringing the goods to the named place.

**DDP – Delivered Duty Paid –** The seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on arrival and ready for unloading at destination. The seller bears all costs and risks involved in bringing the goods to destination and is obligated to clear the goods not only for export but

also for import, to pay any duty for both export and import and to carry out all customs formalities.

## **Group 2 Incoterms: Apply to Sea and Inland Waterway Transport**

**FAS** – Free Alongside Ship – The seller delivers when the goods are placed alongside the vessel nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are alongside the ship, and the buyer bears all costs from that moment onwards.

**FOB** – Free On Board – The seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the goods are on board the vessel, & the buyer bears all costs from that moment onwards.

**CFR** – Cost & Freight – The seller delivers the goods on board the vessel. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.

**CIF**- Cost, Insurance, & Freight: The seller delivers the goods on board the vessel. The risk of loss of or damage to the goods passes when the goods are on board the vessel. The seller must contract for & pay the costs & freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The seller is only required to obtain minimum insurance coverage. However, should the buyer wish to have more insurance protection, it will need either to agree with the seller or to make its own extra insurance arrangements.

## **Terminology**

There are certain terms that have special meaning within Incoterms, & some of the more important ones are defined below:

- **Delivery:** The point in the transaction where the risk of loss or damage to the goods is transferred from the seller to the buyer
- **Arrival:** The point named in the Incoterm to which carriage has been paid

- **Free:** Seller has an obligation to deliver the goods to a named place for transfer to a carrier
- **Carrier:** Any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes
- **Freight forwarder:** A firm that makes or assists in the making of shipping arrangements;
- **Terminal:** Any place, whether covered or not, such as a dock, warehouse, container yard or road, rail or air cargo terminal
- **To clear for export:** To file Shipper's Export Declaration and get export permit

## **IncoTerms 2020**

It is the ninth set of international contract terms published by the International Chamber of Commerce, with the first set having been published in 1936. The most current revision of the terms, Incoterms 2020, went into effect on January 1, 2020, & consists of 11 Incoterms. The latest revision's changes include the following:

- The most obvious change is renaming the term Delivered at Terminal (DAT) to Delivered at Place Unloaded (DPU).
- The most significant change relates to the term Free Carrier (FCA). Under this term, the buyer can now instruct its carrier to issue a bill of lading with an on-board notation to the seller so that they may satisfy the terms of a letter of credit.
- Under the revised term CIP, the seller is now 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. The insurance requirement hasn't changed for CIF.
- Incoterms 2020 rules recognizes sellers who may use their own transport to deliver the goods. The terms now expressly state that sellers can make a contract for carriage or simply arrange for the necessary transportation.
- Incoterms 2020 rules now specifically call out the import & export security requirements & identifies whether the buyer or seller is responsible for meeting those requirements.