

# A Guide to Incoterms Risk and Responsibilities

The Incoterms rules are created and published by the International Chamber of Commerce (ICC) and are revised periodically, the most recent revision is Incoterms 2010.

The Incoterms are standard sets of trading terms and conditions designed to assist companies when goods are sold and transported.

Each Incoterms rule specifies:

- **the obligations of each party** (e.g. who is responsible for services such as transport; import and export clearance etc)
- **the point in the journey where risk transfers from the seller to the buyer**

By agreeing on an Incoterms rule and incorporating it into the sales contract, the buyer and seller can achieve an understanding of exactly what each party has agreed to do, and where responsibility lies in event of loss or damage.

All Incoterms are based on the principle that the risk of loss or damage is transferred from the seller to the buyer when the seller has fulfilled the delivery obligation according to the applicable term. It is important to note that this point can be different to the point at which the seller is responsible for paying for the carriage to.

There are **eleven rules which are divided into two main groups**:

<u>RULES FOR ANY TRANSPORT MODE</u>	<u>RULES FOR SEA &amp; INLAND WATERWAY ONLY</u>
<ul style="list-style-type: none"> <li>• Ex Works EXW</li> <li>• Free Carrier FCA</li> <li>• Carriage Paid To CPT</li> <li>• Carriage &amp; Insurance Paid to CIP</li> <li>• Delivered At Terminal DAT</li> <li>• Delivered At Place DAP</li> <li>• Delivered Duty Paid DDP</li> </ul>	<ul style="list-style-type: none"> <li>• Free Alongside Ship FAS</li> <li>• Free On Board FOB</li> <li>• Cost and Freight CFR</li> <li>• Cost Insurance and Freight CIF</li> </ul>

The **“transport by sea or inland waterway only”** rules should only really 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 actually 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.

Another useful way of classifying the rules is by considering **who is responsible for the main carriage – the buyer or the seller?**

If the seller is responsible for the main carriage, **where does the risk pass from the seller to the buyer – before the main carriage, or after it?**

Considering this the terms give us four groups as follows:

**C Terms** - Seller arranges main carriage, but risk passes before main carriage – CFR; CIF; CPT; CIP

**D Terms** - Seller arranges main carriage, risk passes after main carriage – DAT; DAP; DDP

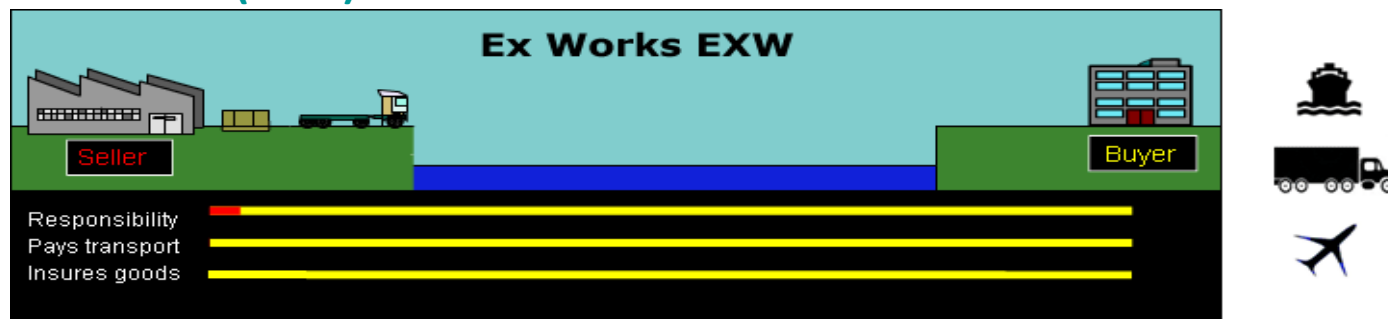
**E Terms** - Buyer responsible for all carriage – EXW

**F Terms** - Buyer arranges main carriage – FAS; FOB; FCA

Lets now look at the individual terms.

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## EX WORKS (EXW)



### Carriage

The **seller has no obligation to make a contract of carriage nor even to load the goods.**

The **buyer is responsible for carriage from loading the goods onto a vehicle** (even though the seller may be better able to do this and does often load the vehicle this would still be considered as the buyers risk); for all export procedures; for onward transport and for all costs arising after collection of the goods.

### Risk Transfer

The seller delivers, and risk transfers, when the **goods are placed at the disposal of the buyer, suitably packaged, at the seller's premises or other named place.**

### Insurance

The **seller has no obligation to insure.**

The goods are at the **buyers risk from the point they are placed at their disposal at sellers premises** and they should consider purchasing insurance to include risks of loading to the vehicle at the collection point until received at final destination.

### General Comment

This rule can present operational difficulties for export goods as the seller may still need to be involved in export reporting and clearance processes, and cannot realistically leave these entirely to the buyer. Consider Free Carrier (seller's premises) instead.

Can be used for any transport mode, or where there is more than one transport mode.

The seller has no responsibility for export clearance. The buyer is responsible for both export and import clearance.

## FREE CARRIER (FCA)



### Carriage

The **seller** has no obligation to make a contract of carriage but are **responsible for loading of the goods to the collection vehicle** or they may be required to arrange for transport to a nominated place such as the terminal or a forwarders warehouse.

The **buyer** is responsible for **arranging carriage**.

### Risk Transfer

Delivery of the goods takes place, and risk transfers from seller to buyer, at the **point the goods are delivered to the carrier or another person nominated by the buyer at the sellers premises or another named location** (e.g. a terminal or transport hub, forwarder's warehouse etc). If the named place is the sellers premises – risk transfers when the goods are **loaded on to the buyers arranged transport**. In any other case risk transfers when goods are placed at the disposal of the buyers carrier **or named place whilst on the sellers means of transport ready for unloading** (the buyers carrier is responsible for unloading and if there is more than one carrier, then risk transfers on delivery to the first carrier).

### Insurance

The **seller has no obligation to insure** but can if they wish arrange insurance up to the **point of delivery to the carrier**.

The goods are at the **buyers risk** thereafter and they should consider purchasing insurance **from point of delivery to the carrier until received at final destination**.

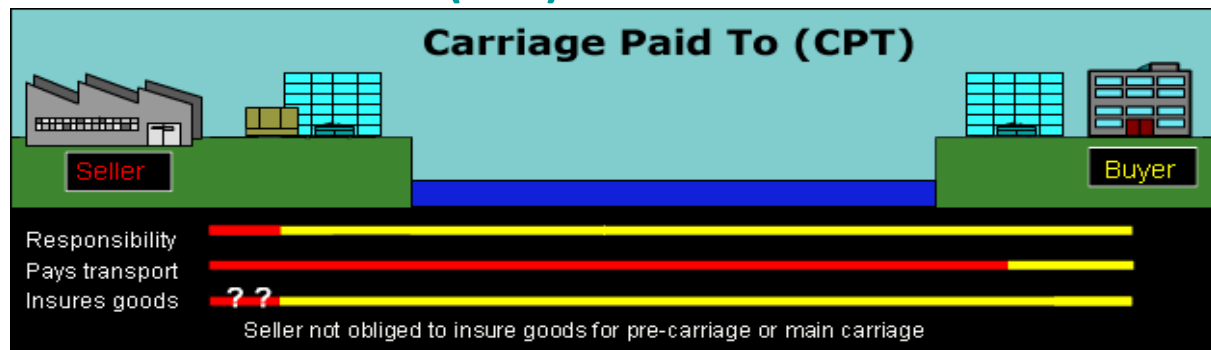
### General Comment

For this term to work correctly the Incoterm should clearly specify the point within the named place of delivery (sellers premises address or other named location). Can be used for any transport mode, or where there is more than one transport mode but most suitable rule for containerised goods where the buyer arranges for the main carriage.

The seller is required to clear the goods for export, if applicable. The buyer assumes all risks and costs after the goods have been delivered at the named place.

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## CARRIAGE PAID TO (CPT)



### CARRIAGE

The **seller** is responsible for arranging and paying cost of carriage to a **nominated person at an agreed destination**.

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point where the **goods are taken in charge by a carrier**.

### INSURANCE

The **seller has no obligation to insure** the goods but can if they wish arrange insurance up to the point of delivery to the carrier.

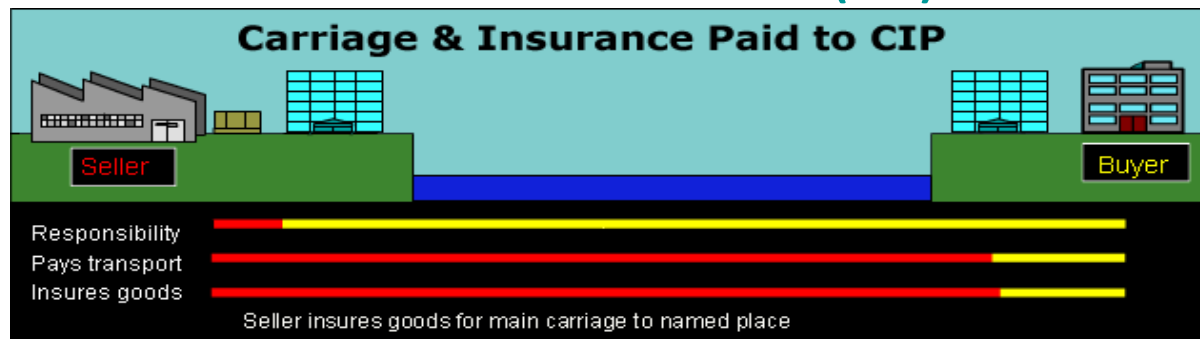
The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance from **point of delivery to the carrier until received at final destination**.

### GENERAL COMMENT

Can be used for any transport mode, or where there is more than one transport mode.

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## CARRIAGE AND INSURANCE PAID TO (CIP)



### CARRIAGE

The **seller** is responsible for arranging and paying cost of carriage **to a nominated person at an agreed destination.**

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point where the **goods are taken in charge by a carrier.**

### INSURANCE

The **seller contracts and pays for insurance** cover whilst goods are at the buyers risk **during carriage to the named place.** (See separate Insurance Section regarding minimum cover provision with Incoterms.)

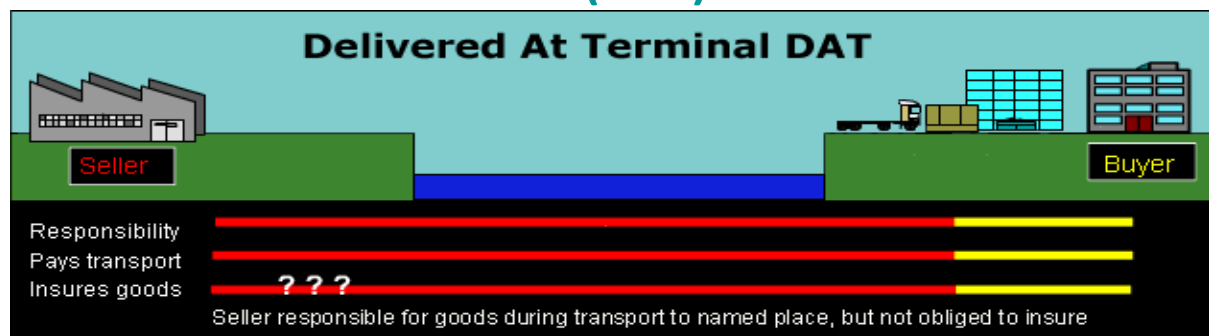
The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance **from point of delivery to the named place until received at final destination.**

### GENERAL COMMENT

Can be used for any transport mode, or where there is more than one transport mode.

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## DELIVERED AT TERMINAL (DAT)



### CARRIAGE

The **seller** is responsible for arranging and paying cost of carriage **to a named terminal** (the Terminal' can be any place – a quay, container yard, warehouse or transport hub, yard, port or place of destination and should be specified as precisely as possible).

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point when the **goods have been unloaded from the arriving transport and placed at the disposal of the buyer at the named terminal at place of destination. The seller bears the risks involved in transport and unloading.**

### INSURANCE

**The seller has no obligation to insure**, but can if they wish arrange insurance up to the **point of unloading at the terminal.**

The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance from **point goods unloaded at the terminal until received at final destination.**

### GENERAL COMMENT

Can be used for any transport mode, or where there is more than one transport mode.

Suitable for container operations where the seller bears responsibility for the main carriage.

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## DELIVERED AT PLACE (DAP)



### CARRIAGE

The **seller** is responsible for arranging and paying cost of carriage and **for delivering the goods ready for unloading at the named place of destination** (normally the terminal).

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point when **the goods are available for unloading at the place of destination**. Unloading carried out at the buyer's risk.

### INSURANCE

**The seller has no obligation to insure**, but can if they wish arrange insurance **until discharged at the named place** (normally the terminal).

The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance following **unloading at the named place until received at final destination**.

### GENERAL COMMENT

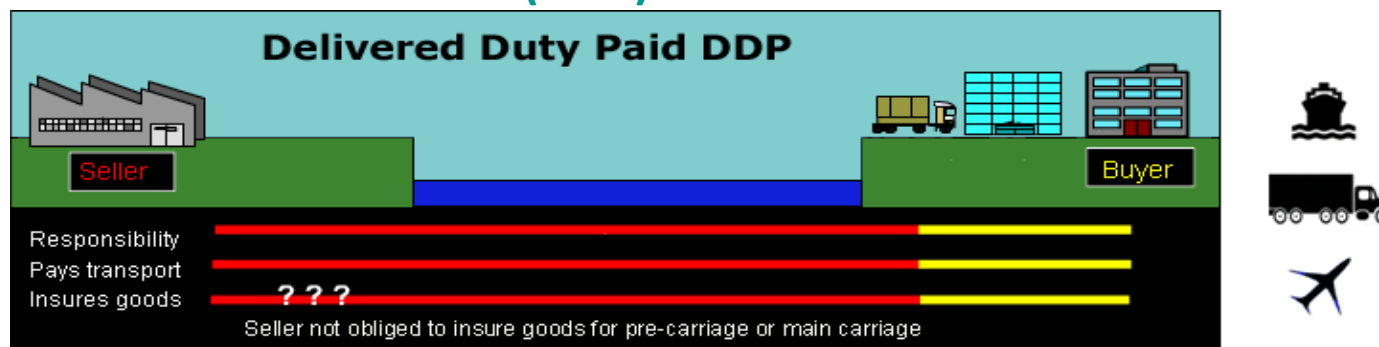
Can be used for any transport mode, or where there is more than one transport mode.

The seller is responsible for arranging carriage and for delivering the goods, **ready for unloading** from the arriving conveyance, at the named place - an important difference from Delivered At Terminal DAT, where the seller is responsible for unloading.

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable. The buyer is responsible for import clearance and any applicable local taxes or import duties.



## DELIVERED DUTY PAID (DDP)



### CARRIAGE

The **seller** is responsible for arranging and paying for costs of **carriage, import clearance and delivering the goods to the named place of destination**, this can be the buyer's own premises or may be a terminal or other named delivery point.

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point when the **goods are made available to the buyer, cleared and ready for unloading from the arriving conveyance at the place of destination.**

### INSURANCE

**The seller has no obligation to insure**, but can if they wish arrange insurance up to the **point of arrival at the named place** (normally the terminal).

The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance **if the named place is not their own premises from arrival at the named place, including unloading risk, until received at final destination.**

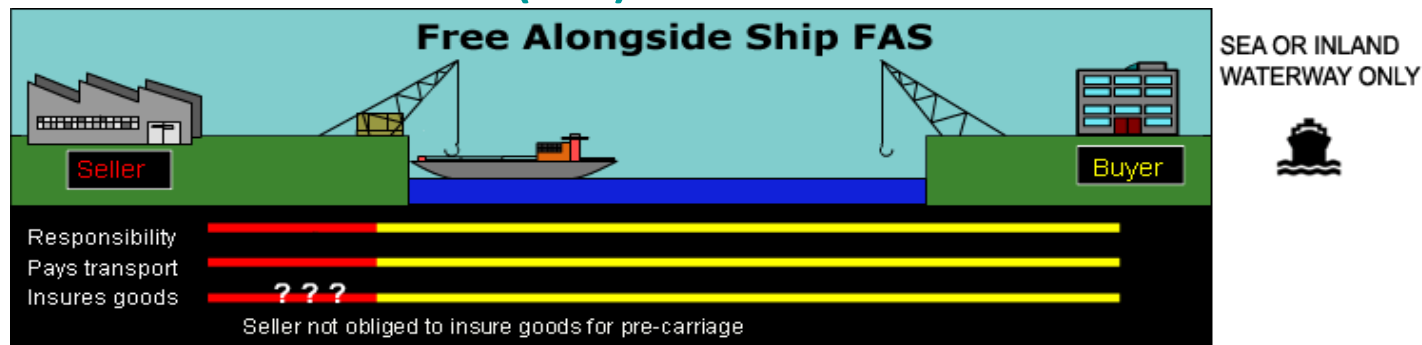
### GENERAL COMMENT

Can be used for any transport mode, or where there is more than one transport mode.

This rule places the **maximum obligation on the seller**, and is the only rule that requires the **seller to take responsibility for import clearance and payment of taxes and/or import duty.** This rule can cause difficulties for the seller as in some countries, import clearance procedures are complex and bureaucratic, and therefore may be best left to the buyer who has local knowledge of the processes and best procedures.

**Import/Export Clearance - The seller is responsible for both export and import clearance, duties and taxes.**

## FREE ALONGSIDE SHIP (FAS)



### CARRIAGE

The **seller** is responsible only for **arranging delivery of the goods alongside the vessel**.

The **buyer** is responsible for arranging and paying cost of **carriage from port to place of destination**.

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point when the **goods are placed alongside the vessel** nominated by the buyer at the named port of shipment. The buyer is responsible for loading the goods and all costs thereafter.

### INSURANCE

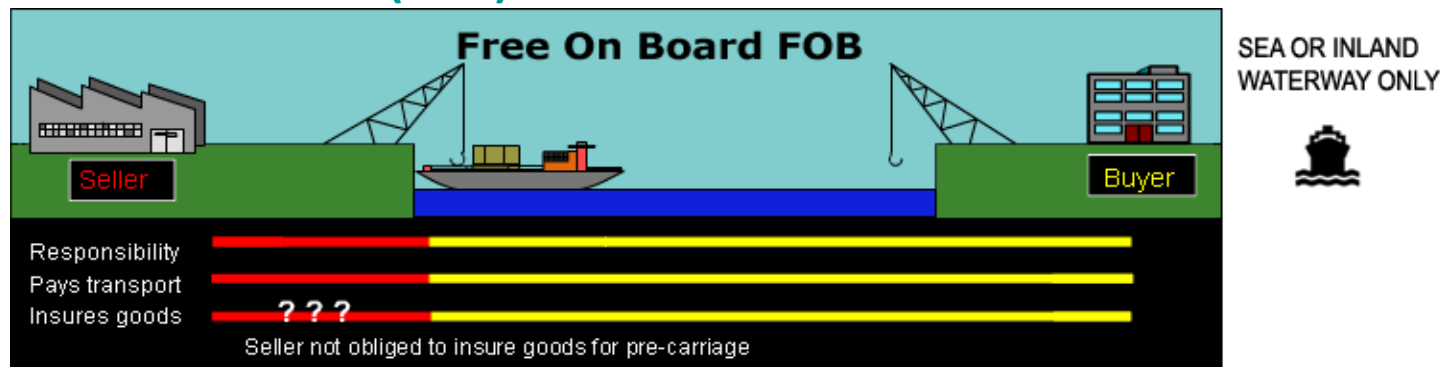
The **seller has no obligation to insure**, but can if they wish arrange insurance up to the point of **goods being delivered alongside the vessel**. The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance from **goods being delivered alongside the vessel, including loading risk, transport until received at final destination**.

### GENERAL COMMENT

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".

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable, but not for import. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## FREE ON BOARD (FOB)



### CARRIAGE

The **seller** is responsible only for **arranging delivery of the goods until they are placed on board the vessel**.

The **buyer** is responsible for arranging and paying cost of **carriage from port to place of destination**.

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point the **seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment** and bears **risk until goods are on board the vessel**. Once the goods have been loaded on board, risk transfers to the buyer.

### INSURANCE

The **seller has no obligation to insure**, but can if they wish arrange insurance up to the point of **goods being loaded to the vessel**.

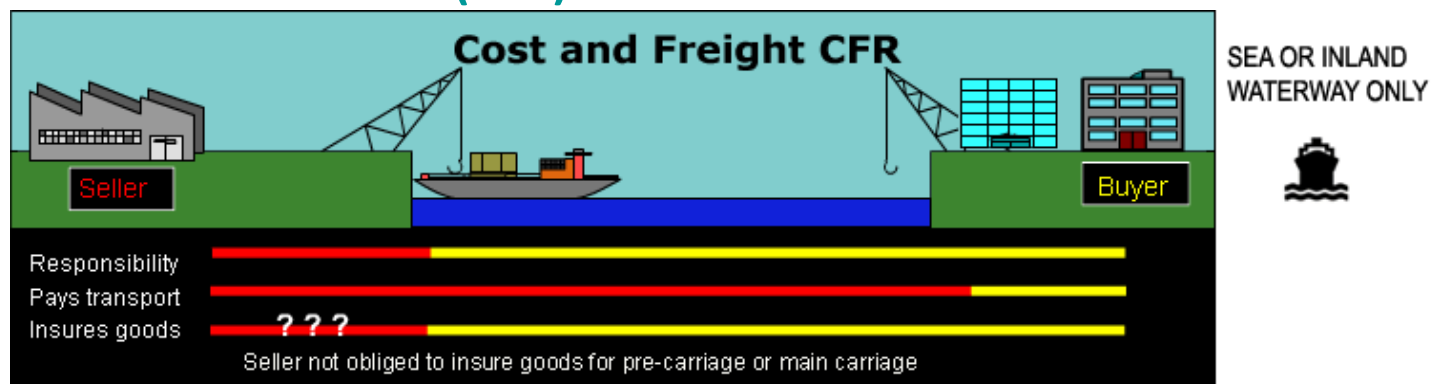
The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance from the time the **goods have been loaded to the vessel, including loading risk, transport until received at final destination**.

### GENERAL COMMENT

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".

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable, but not for import. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## COST AND FREIGHT (CFR)



### CARRIAGE

The **seller** is responsible for arranging and paying for costs of **carriage, import clearance and delivering the goods to the named place of destination.**

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the point the **goods are placed on board the vessel**, i.e. before the main carriage takes place

### INSURANCE

The **seller has no obligation to insure**, but can if they wish arrange insurance up to the point of **goods being loaded to the vessel.**

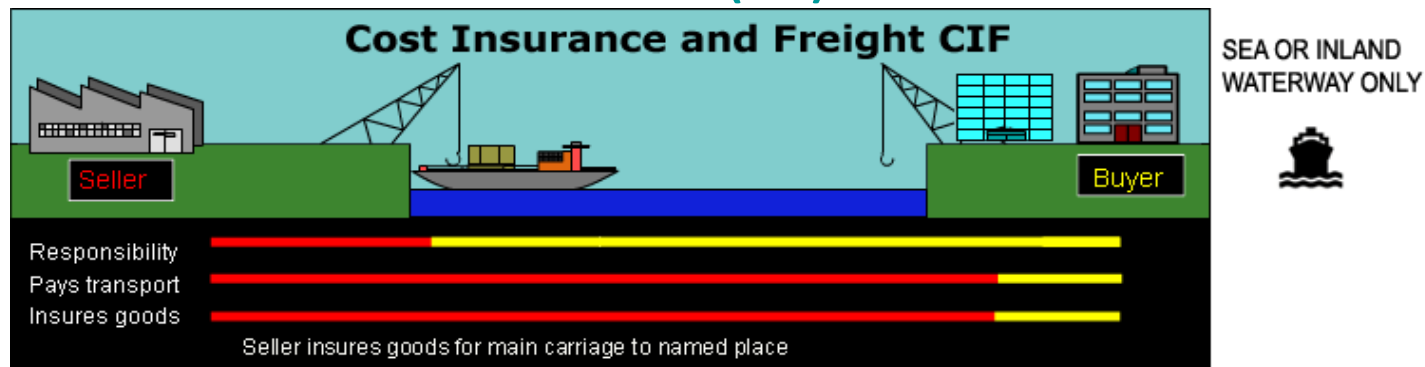
The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance **from the time the goods have been loaded to the vessel, including loading risk, transport until received at final destination.**

### GENERAL COMMENT

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'.

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable, but not for import. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## COST INSURANCE AND FREIGHT (CIF)



### CARRIAGE

The **seller** is responsible for arranging and paying cost of **carriage to the named port of destination**.

### RISK TRANSFER

Delivery of the goods takes place, and risk transfers from seller to buyer, at the **point the goods have been loaded on board**, i.e. before the main carriage takes place.

### INSURANCE

The **seller arranges and pays for insurance for the goods for carriage** to, at least, the **named port of destination**. The rule only requires a minimum level of cover under Institute Cargo Clause (C), which may be commercially unrealistic. Therefore the level of cover may need to be addressed elsewhere in the commercial agreement.

The goods are at the **buyers risk** thereafter and therefore they should consider purchasing insurance **from the time the goods are delivered at the named port of destination until received at final destination**.

**The buyer can ask the seller to arrange insurance to the final delivery point at destination.**

### GENERAL COMMENT

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 and Insurance Paid CIP'.

**Import/Export Clearance** - The seller is required to clear the goods for export, if applicable, but not for import. The buyer is responsible for import clearance and any applicable local taxes or import duties.

## INSURANCE

In general, most of the rules are silent on the matter of insurance – the buyer and the seller each decide whether they wish to insure the cargo for that part of the journey for which they bear the risk of loss or damage.

The Incoterm rules deal only with the **seller's obligation to take out insurance** to the benefit of the buyer **under CIP and CIF terms** where goods are intended to be sold in transit. In both cases, the seller is required to buy cargo insurance for the portion of the journey where the seller is “off risk”, once the goods have been [delivered](#) to the carrier.

The Incoterms only requires the seller to take out insurance on minimum terms which under the Incoterms guidelines is that of Institute Cargo Clauses (C) which provides only for loss or damage resulting from a specified major peril such as fire, explosion, vessel sinking or grounding, overturning of land conveyance, vessel collision and jettison). This would often not be suitable for the buyer's requirements and ideally therefore the insurance requirement should be agreed as part of the sales contract. In practice most insurances are now arranged under Institute Cargo Clauses (A) but may cease at the port of arrival rather than continuing until the final delivery point.

If goods are not intended to be sold in transit, it is natural for the parties to arrange their own insurance, should they so wish, in order to protect them for their own risk. The Seller can protect himself for risks of loss or damage to the goods up to the point he is at risk, agreed point of delivery according to the F, C or D term. There is no need for the seller to insure goods sold Ex Works EXW. The buyer should then arrange their own insurance from the point of delivery where they are at risk.

**It is the contractual delivery point under the Incoterm, the point at which risk transfer takes place, which should be established when buying insurance cover so as to establish that the party has an insurable interest (risk) in the goods otherwise the cover may be invalid.**

## Summary of Cost Responsibilities

Incoterm	Loading on truck	Export customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading on Vessel in port or export	Carriage to port of import	Loading on truck in port of import	Carriage to place of destination	Import customs clearance	Import taxes	Insurance
EXW	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER
FCA	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	INSURE OWN RISK
CPT	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	INSURE OWN RISK
CIP	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	SELLER
DAT	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	BUYER	INSURE OWN RISK
DAP	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	INSURE OWN RISK
DDP	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	INSURE OWN RISK
FAS	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	BUYER	BUYER	BUYER	INSURE OWN RISK
FOB	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	BUYER	BUYER	INSURE OWN RISK
CFR	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	BUYER	INSURE OWN RISK
CIF	SELLER	SELLER	SELLER	SELLER	SELLER	SELLER	BUYER	BUYER	BUYER	BUYER	SELLER