The Incoterms 2010 rules

The Incoterms 2010 rules are standard sets of trading terms and conditions designed to assist traders 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

So by agreeing on an Incoterms rule and incorporating it into the sales contract, the buyer and seller can achieve a precise understanding of what each party is obliged to do, and where responsibility lies in event of loss, damage or other mishap.

The Incoterms rules are created and published by the International Chamber of Commerce (ICC) and are revised from time to time. The most recent revision is Incoterms 2010 which came into force on 1st January 2011.

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 DAP
- 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.

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?

This gives us these four groups:

- Buyer responsible for all carriage – EXW
- Buyer arranges main carriage – FAS; FOB; FCA
- Seller arranges main carriage, risk passes after main carriage – DAT; DAP; DDP
- Seller arranges main carriage, but risk passes before main carriage – CFR; CIF; CPT; CIP

EXW	Ex Works	The seller's only obligation is to make the goods available at its premises or at another named place (works, factory, warehouse, etc.). The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. This term represents the minimum obligation for the seller.
FCA	Free Carrier	The seller's obligation is to hand over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. The parties are advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.
CPT	Carriage Paid To	The seller pays the freight for the delivery of goods to the carrier or to another person nominated by the seller at the named destination. Once delivered, the risk of loss or damage to the goods is transferred from the seller to the buyer. This term requires the seller to clear the goods for export.
CIP	Carriage and Insurance Paid To	The seller has the same obligations as under CPT but has the responsibility of obtaining insurance against the buyer's risk of loss or damage to goods during carriage. Insurance only needs to be obtained at minimum coverage and the seller is required to clear the goods for export.
DAT	Delivered At Terminal	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 quay, warehouse, container yard or road, rail or air terminal. The seller is responsible for the export clearance procedures and the importer is responsible for clearing the goods for import, arranging import customs formalities, and paying import duty.
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 named place of destination. The seller is required to clear the goods for export and the importer is responsible for effecting customs clearance, and paying any customs duties.
DDP	Delivered Duty Paid	The seller is responsible for delivering the goods to the named place in the country of importation, including all costs and risks in bringing the goods to import destination. This includes all export and import duties, taxes and customs formalities.
FAS	Free Alongside Ship	The seller fulfils his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment.The FAS term requires the buyer to clear the goods for export. It should not be used when the buyer cannot carry out directly or indirectly the export formalities.

FOB	Free On Board	The seller fulfils his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can only be used for sea or inland waterway transport.
CFR	Cost and Freight	The seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment.
CIF	Cost Insurance and Freight	The seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is only required to obtain insurance on minimum coverage