



IncoTerms 2010 Rules

- Introduction:**

The Incoterms rules explain 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 point what we have to remember is that, Incoterms rules do not give you a complete contract of sale. Incoterms rules do say which party to the sale contract has the obligation to make carriage or insurance arrangements, when the seller delivers the goods to the buyer, and which costs each party is responsible for.

Incoterms rules; however, say nothing about the price to be paid or the method of its payment. Neither do they deal with the transfer of ownership of the goods, or the consequences of a breach of contract. These matters are normally dealt with through express terms in the contract of sale or in the law governing that contract.

The parties should be aware that mandatory local law may override any aspect of the sale contract, including the chosen Incoterms rule.

- Classification of the Inco Terms 2010 Rules:**

The 11 Inco terms 2010 rules are presented in two distinct classes:

- Rules for **any mode or modes** of transport:

- 1- EX-W EX-Work
- 2- FCA Free Carrier
- 3- CPT Carriage Paid to
- 4- CIP Carriage and Insurance Paid to
- 5- DAT Delivered At Terminal
- 6- DAP Delivered At Place
- 7- DDP Delivered Duty Paid

The first class includes the seven IncoTerms 2010 rules that can be used irrespective of the mode of transport selected and irrespective of whether one or more than one mode of transport is employed: EX-W, FCA, CPT, CIP, DAT, DAP and DDP belong to this class.

- Rules for **sea and inland waterway** transport:

- 1- FAS Free Alongside Ship
- 2- FOB Free On Board
- 3- CFR Cost and Freight
- 4- CIF Cost-Insurance and Freight

In the second class of Inco Terms 2010 rules, the point of delivery and the place to which the goods are carried to the buyer are both ports. Hence the label "Sea and Inland Waterway" rules: FAS, FOB, CFR and CIF belong to this class.

- **Rules for Domestic and International Trade:**

Incoterms rules have traditionally been used in international sale contracts where goods pass across national boards. In various areas of the world, however, trade blocs, like the European Union, have made border formalities between different countries less significant.

Consequently, the subtitle of the IncoTerms 2010 rules formally recognizes that they are available for application to both international and domestic sale contracts. As a result, the IncoTerms 2010 rules clearly state in a number of places that the obligation to comply with export & import formalities exist only where applicable.

Two developments have persuaded the ICC (International Chamber of Commerce) that a movement in this direction is timely. Firstly, traders commonly use IncoTerms rules for purely domestic sale contracts. The second reason is the greater willingness in the United States to use Inco Terms rules in domestic trade rather than the former Uniform Commercial Code Shipment and delivery terms.

- **Explanation of terms used in the Inco Terms 2010 rules:**

As in the IncoTerms 2000 rules, the seller's and buyer's obligation are presented in mirror fashion, reflection under column A the seller's obligations can be carried out personally by the seller or the buyer or sometimes, subject to terms in the contract or the applicable law, through intermediaries such as carriers, freight-forwarders or other persons nominated by the seller or the buyer for a specific purpose.

The text of the IncoTerms 2010 rules is meant to be self-explanatory. However, in order to assist users the following text sets out guidance as to the sense in which selected terms are used throughout the document.

Carrier: For the purposes of the IncoTerms 2010 rules, the carrier is the party with whom carriage is contracted.

Custom Formalities: These are equipments to be met in order to comply with any applicable customs regulations and may include documentary, security, information or physical inspection obligations.

Delivery: This concept has multiple meanings in trade law and practice, but in the Inco Terms 2010 rules, it is used to indicate where the risk of loss of or damage to the goods passes from the seller to the buyer.

Delivery Document: This phrase is now used as the heading to article "A8". It means a document used to prove that delivery has occurred. The delivery document is a transport document or corresponding electronic record. However, with EX-W, FCA, FAS and FOB, the delivery document may simply be a receipt. Also, "A" delivery document may have other functions, for example as part of the mechanism for payment.

Electronic Record or Procedure: A set of information constituted of one or more electronic messages and, where applicable, being functionally equivalent with the corresponding paper document.

Packaging: This word is used for different purposes:

1. The packaging of the goods to comply with any requirements under the contract of sale.
2. The packaging of the goods so that they are fit for transportation.
3. The stowage of the package goods within a container or other means of transport.

In the Inco Terms 2010 rules, packaging means both the first and second above.

- **RULES FOR ANY MODE OR MODES OF TRANSPORT:**
 - **EX-W (Ex Works)**

“EX Works” means that the seller delivers when it places the goods at the disposal of the buyer at the seller’s premises or at another named place (i.e., works factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle, nor does it need to clear the goods for export, where such clearance is applicable.

- **FCA (Free Carrier)**

“Free Carrier” means that the seller delivers the goods to the carrier or another person nominated by the buyer at the seller’s premises or another named place. The parties are well 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)**

“Carriage Paid To” means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

- **CIP (Carriage And Insurance Paid To)**

“Carriage and Insurance Paid to” means that the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place 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 buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.”

- **DAT (Delivered At Terminal)**

“Delivered at Terminal” means that 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 a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. 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)**

“Delivered at Place” means that 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 bears all risks involved in bringing the goods to the named place.

- **DDP (Delivered Duty Paid)**

“Delivered Duty Paid” means that the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation 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.

- **RULES FOR SEA AND INLAND WATERWAY TRANSPORT:**

- **FAS (Free Alongside Ship)**

“Free Alongside Ship” means that the seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) 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)**

“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.

- **CFR (Cost and Freight)**

“Cost and Freight” means that the seller delivers the goods on board the vessel 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. 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 and Freight)**

“Cost, Insurance and Freight” means that the seller delivers the goods on board the vessel 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. The seller must contract for and pay the costs and 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 buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.’