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Incoterms® 2020

The 11 delivery rules: where do risk and cost change hands?

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Online interactive version: **https://ozgurkonakci.com/en/guide/incoterms-2020/**

SHORT ANSWER

Incoterms® 2020 are the 11 delivery rules published by the ICC that set where risk, cost, insurance and customs formalities pass from seller to buyer. Seven rules work for any mode (EXW, FCA, CPT, CIP, DAP, DPU, DDP) and four only for sea and inland waterway (FAS, FOB, CFR, CIF). For containers, FCA is recommended instead of FOB and CIP instead of CIF.

What are Incoterms?

Incoterms® are delivery rules published by the International Chamber of Commerce (ICC). When a sales contract says something like "FOB Port of Istanbul, Incoterms® 2020", the parties have answered four questions with a single word:

- **Risk:** If the goods are damaged or lost in transit, who bears the loss?
- **Cost:** Up to which point does each party pay for loading, freight, terminal charges and unloading?
- **Insurance:** Is either party obliged to take out cargo insurance?
- **Customs:** Who handles export and import clearance, and who pays the duties?

There are also questions Incoterms **do not** answer: when ownership of the goods passes, how payment is made, the sale price, and the consequences of a breach of contract. These are dealt with in other clauses of the sales contract.

Rule by rule: the journey of the cargo

Each circle is one stage of the cargo's journey from the seller's premises to the buyer's premises, and shows three things at once:

- **Inner disc (cost):** Who pays for that stage? Copper means the seller, blue means the buyer.
- **Inner ring (responsibility for the goods):** If the goods are damaged or lost at that stage, whose loss is it? The **red line** marks the point where risk passes from seller to buyer.
- **Outer ring (insurance):** A thick coloured ring shows the seller's contractual obligation to insure, which exists only under CIF and CIP. A thin grey ring means insurance is not compulsory; at those stages the

party carrying the risk is advised to insure in its own interest.

Hover over the circles to see the details of each stage.

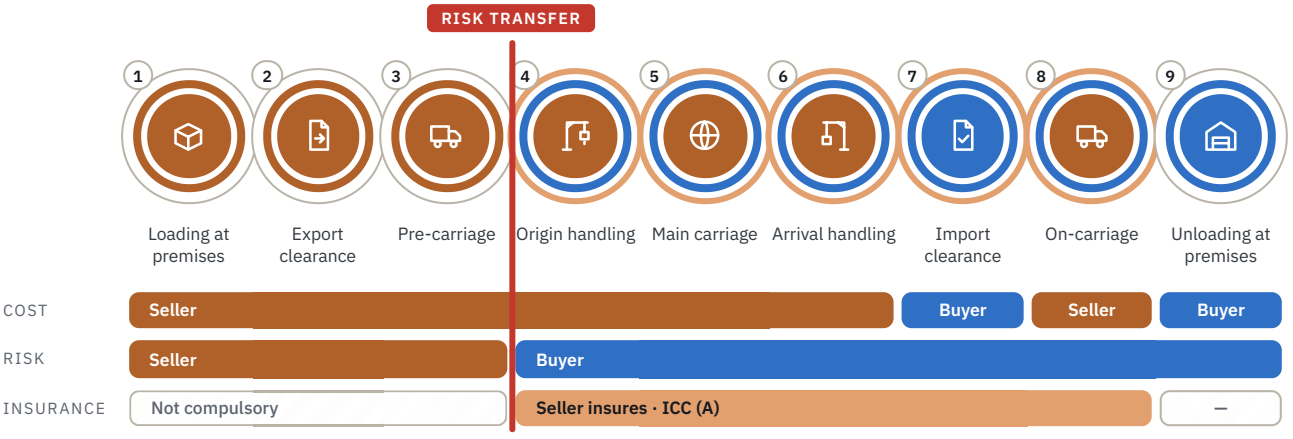
Example: CIP — Carriage and Insurance Paid To

CIP Carriage and Insurance Paid To

Any mode of transport

The same as CPT; in addition, the seller must take out cargo insurance in the buyer's favour.

RISK TRANSFER	COST TRANSFER
On delivery to the first carrier	At the named place of destination TWO CRITICAL POINTS
INSURANCE OBLIGATION	**CUSTOMS**
Seller · ICC (A)	Export: Seller · Import: Buyer



Seller · Buyer · Per contract of carriage · Compulsory insurance · Where risk passes to the buyer

Inner disc: cost · inner ring: risk · outer ring: insurance

All rules are compared in the matrix in the next section. In the interactive version each of the 11 rules can be selected individually.

Matrix: all 11 rules at a glance

If you want to see the same information for every rule side by side, use the matrix below. The cells show who pays: **S** for seller, **B** for buyer. The **red line** marks where risk passes.

S Seller pays B Buyer pays D Depends on the contract of carriage

Where risk passes to the buyer

Rule	1 Loading at premises	2 Export clearance	3 Pre-carriage	4 Origin handling	5 Main carriage	6 Arrival handling	7 Import clearance	8 On-carriage	9 Unloading at premises	Insurance
ANY MODE OF TRANSPORT										
EXW Ex Works	B	B	B	B	B	B	B	B	B	Not compulsory
FCA Free Carrier	S	S	S	B	B	B	B	B	B	Not compulsory
CPT Carriage Paid To	S	S	S	S	S	S	B	S	B	Not compulsory
CIP Carriage and Insurance Paid To	S	S	S	S	S	S	B	S	B	Seller · ICC (A)
DAP Delivered at Place	S	S	S	S	S	S	B	S	B	Not compulsory
DPU Delivered at Place Unloaded	S	S	S	S	S	S	B	S	S	Not compulsory
DDP Delivered Duty Paid	S	S	S	S	S	S	S	S	B	Not compulsory
SEA AND INLAND WATERWAY										
FAS Free Alongside Ship	S	S	S	B	B	B	B	B	B	Not compulsory
FOB Free on Board	S	S	S	S	B	B	B	B	B	Not compulsory
CFR Cost and Freight	S	S	S	S	S	D	B	B	B	Not compulsory
CIF Cost, Insurance and Freight	S	S	S	S	S	D	B	B	B	Seller · ICC (C)

Reference scenario: seller's premises → pre-carriage → departure terminal → main carriage → arrival terminal → import clearance → on-carriage → buyer's premises. Under FCA, CPT and CIP the place of delivery is taken to be the departure terminal; under the C and D rules the named place of destination is taken to be the buyer's location. Incoterms® is a registered trademark of the International Chamber of Commerce (ICC); the official text of the rules is the ICC publication.

The rules in detail

EXW — Ex Works

The seller makes the goods available, not loaded, at its own premises. From loading onwards everything belongs to the buyer.

Mode of transport	Any mode of transport
Risk passes	When the goods are placed at the buyer's disposal at the seller's premises.
Cost	The seller only prepares and packs the goods; all costs, including loading, are for the buyer.
Customs	Export and import clearance are the buyer's responsibility; the seller only provides information and documents.
Insurance	Not compulsory
Watch out	The buyer may not be able to clear the goods for export in the seller's country. In that case FCA (at the seller's premises) is a safer choice.

FCA — Free Carrier

The seller clears the goods for export and delivers them to the carrier named by the buyer at the named place.

Mode of transport	Any mode of transport
Risk passes	If the place of delivery is the seller's premises, when the goods are loaded on the buyer's vehicle; if it is elsewhere, when they are placed at the carrier's disposal on the seller's vehicle, ready for unloading.
Cost	The seller pays up to the place of delivery, the buyer thereafter. In this matrix the place of delivery is shown as the departure terminal.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	The recommended rule instead of FOB for container shipments. Since the 2020 edition, if the parties agree, the seller can be given a bill of lading with an on-board notation (important in letter of credit transactions).

CPT — Carriage Paid To

The seller arranges and pays for carriage to the named place of destination, but risk passes to the buyer when the goods are handed to the first carrier.

Mode of transport	Any mode of transport
Risk passes	When the goods are handed to the first carrier. In this matrix, the departure terminal.
Cost	Freight to the named place of destination is for the seller. Unloading at destination is for the buyer unless it is included in the contract of carriage.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	Cost and risk pass at different places. Although the seller pays the freight, the risk of damage during the journey is the buyer's; the buyer is advised to take out insurance.

CIP — Carriage and Insurance Paid To

The same as CPT; in addition, the seller must take out cargo insurance in the buyer's favour.

Mode of transport	Any mode of transport
Risk passes	When the goods are handed to the first carrier.
Cost	As CPT; the insurance premium is for the seller.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Seller · ICC (A)
Watch out	The 2020 edition raised the minimum cover to Institute Cargo Clauses (A), i.e. 'all risks' cover. The insured amount must be at least 110% of the invoice value.

DAP — Delivered at Place

The seller brings the goods to the named place of destination, on the vehicle and ready for unloading. Import clearance is for the buyer.

Mode of transport	Any mode of transport
Risk passes	When the goods are placed at the buyer's disposal at the named place, on the arriving vehicle and ready for unloading.
Cost	Carriage to the named place is for the seller; unloading, import duties and clearance are for the buyer.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	The cost split looks the same as CPT, but the risk stays with the seller up to the place of destination. The contract should make clear who bears extra costs if the goods are held at customs.

DPU — Delivered at Place Unloaded

The seller brings the goods to the named place of destination and unloads them. It is the only rule under which the seller unloads.

Mode of transport	Any mode of transport
Risk passes	When the goods have been unloaded at the named place of destination and placed at the buyer's disposal.
Cost	For the seller, including unloading; import duties and clearance are for the buyer.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	Replaced DAT in the 2020 edition. The place of delivery no longer has to be a terminal; choose a place where the seller is able to unload.

DDP — Delivered Duty Paid

The seller brings the goods to the named place, including import clearance and duties. It is the most demanding rule for the seller.

Mode of transport	Any mode of transport
Risk passes	When the goods are placed at the buyer's disposal at the named place, cleared for import and ready for unloading.
Cost	Everything except unloading is for the seller, including import duties and VAT.
Customs	Export and import clearance by the seller.
Insurance	Not compulsory
Watch out	The seller may be unable to clear the goods for import in the buyer's country or to recover the VAT. In that case DAP may be more suitable.

FAS — Free Alongside Ship

The seller clears the goods for export and places them alongside the vessel named by the buyer (on the quay) at the port of shipment.

Mode of transport	Sea and inland waterway
Risk passes	When the goods are placed alongside the vessel at the port of shipment.
Cost	The seller pays up to alongside the vessel; loading on board and everything after is for the buyer.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	Mainly used for bulk and project cargo. Not suitable for containerised cargo.

FOB — Free on Board

The seller loads the goods on board the vessel named by the buyer at the port of shipment. Risk passes once the goods are on board.

Mode of transport	Sea and inland waterway
Risk passes	When the goods are loaded on board the vessel at the port of shipment.
Cost	The seller pays up to loading on board; freight and everything after is for the buyer.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	Containers are usually handed over at the terminal days before they are loaded on the vessel, and during that time the risk is still the seller's. FCA is the better choice for container shipments.

CFR — Cost and Freight

The seller pays the freight to the port of destination, but risk passes to the buyer when the goods are loaded on board at the port of shipment.

Mode of transport	Sea and inland waterway
Risk passes	When the goods are loaded on board the vessel at the port of shipment.
Cost	Freight to the port of destination is for the seller. Unloading at the port of destination is for the seller if it is included in the contract of carriage, otherwise for the buyer.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Not compulsory
Watch out	There are two critical points: risk changes hands at the port of shipment, cost at the port of destination. The buyer is advised to take out insurance.

CIF — Cost, Insurance and Freight

The same as CFR; in addition, the seller takes out marine insurance with minimum cover in the buyer's favour.

Mode of transport	Sea and inland waterway
Risk passes	When the goods are loaded on board the vessel at the port of shipment.
Cost	As CFR; the insurance premium is for the seller.
Customs	Export clearance by the seller, import clearance by the buyer.
Insurance	Seller · ICC (C)
Watch out	The minimum cover is Institute Cargo Clauses (C), i.e. limited risks. The insured amount is at least 110% of the invoice value. Wider cover must be agreed separately by the parties.

Two important details in the matrix:

- **Under the C rules (CPT, CIP, CFR, CIF)** cost and risk change hands at different points. The seller pays the freight to destination, but risk passes to the buyer at the point of shipment. This is the topic students mix up most often.
- **CPT and DAP have identical cost rows.** The only difference is risk: under CPT the buyer carries the transit risk, under DAP the seller does.

The four groups

E group (EXW): The seller's obligations are at their minimum. The goods are made available at the seller's premises; even loading is the buyer's job.

F group (FCA, FAS, FOB): The buyer arranges and pays for the main carriage. The seller delivers the goods to the carrier chosen by the buyer.

C group (CPT, CIP, CFR, CIF): The seller arranges and pays for the main carriage, but risk passes at the point of shipment. These are **shipment** rules, not arrival rules.

D group (DAP, DPU, DDP): The seller brings the goods all the way to the destination country and carries the risk along the way.

By mode of transport

Seven rules can be used for **any mode of transport**: EXW, FCA, CPT, CIP, DAP, DPU and DDP. Four are only for **sea and inland waterway** transport: FAS, FOB, CFR and CIF.

A common mistake in practice is to use FOB and CIF for container shipments. A container is handed over at the terminal days before it is loaded on the vessel, while under FOB risk only passes once the goods are on board. For that whole period at the terminal the seller carries risk in an area it does not control. That is why, for containerised cargo, **FCA is recommended instead of FOB, CPT instead of CFR and CIP instead of CIF**.

Insurance: compulsory under only two rules

The seller is **obliged** to insure only under CIF and CIP. Under the other rules insurance is not compulsory, but it is wise for whichever party carries the risk to insure itself.

- **CIF:** The minimum cover is Institute Cargo Clauses (C). It covers only listed major perils (such as fire, sinking or stranding).
- **CIP:** Since the 2020 edition the minimum cover is Institute Cargo Clauses (A). This is "all risks" cover; apart from the exclusions, it covers any kind of loss or damage.
- Under both rules the insured amount must be at least **110% of the invoice value**.

What changed in the 2020 edition?

1. **DAT was removed and DPU introduced.** The place of delivery no longer has to be a terminal; it can be any place where the seller can unload the goods.
2. **Higher insurance cover under CIP:** from clauses (C) to clauses (A).
3. **On-board bill of lading under FCA:** If the parties agree, the buyer instructs its carrier to issue this document to the seller. Banks often require it in letter of credit transactions.
4. **Carriage with own means of transport:** Under FCA, DAP and DPU the parties may carry the goods with their own vehicles instead of hiring a third-party carrier.
5. **Security-related obligations** were added, and the **costs are now listed in one place** under each rule.

Which rule should I choose?

The right rule depends on the mode of transport, each party's ability to handle customs formalities, and who can arrange the transport at a better price. The three questions below help you narrow down the options.

Who arranges and pays for the main carriage?	Where should risk pass?	Conventional sea cargo	Container or other modes
Buyer	In the country of origin	FAS (alongside the vessel) · FOB (on board)	FCA · EXW (if the seller will not load or clear for export)
Seller	In the country of origin	CFR · CIF (if the seller will also insure)	CPT · CIP (if the seller will also insure)
Seller	At destination	DAP (buyer unloads) · DPU (seller unloads) · DDP (seller also clears for import)	

How to write it in the contract

Write the rule as **the rule's abbreviation + named place + Incoterms® 2020**. The more precise the place, the lower the risk of a dispute.

- Correct: *FCA [full address of the seller's warehouse], Gebze, Kocaeli, Türkiye, Incoterms® 2020*
- Incomplete: *FCA Türkiye*

If the edition is not stated, the parties may each rely on a different one. The 2010 rules can still be used, but the contract must state which edition applies.

Test yourself

1. An exporter is shipping a container from Mersin to Rotterdam and wants to pay the freight, but wants risk to pass to the buyer at the point of shipment. Which rule would you suggest? *(Answer: CPT, or CIP if the seller will also arrange insurance.)*
2. Under CIF, the goods were damaged at sea. Who bears the loss? *(Answer: The buyer, because risk passed when the goods were loaded on board. The policy the seller took out is in the buyer's favour.)*
3. Under which rule is unloading the seller's responsibility? *(Answer: DPU.)*

Frequently asked questions

What is the difference between FOB and CIF?

Under both, risk passes to the buyer when the goods are loaded on board at the port of shipment. The difference is cost: under FOB the buyer pays freight and insurance; under CIF the seller pays freight to the port of destination and takes out insurance with at least ICC (C) cover in the buyer's favour.

Why is FCA recommended instead of FOB for containers?

A container is handed over at the terminal days before it is loaded on the vessel. Under FOB risk only passes on loading, so the seller carries risk in a terminal it does not control. Under FCA risk passes when the container is delivered to the carrier.

Do Incoterms decide when ownership passes?

No. Incoterms cover risk, cost, insurance and customs responsibility; transfer of ownership, payment and remedies for breach are dealt with elsewhere in the sales contract.

Under which Incoterms rules is insurance compulsory?

Only CIF and CIP. The minimum cover is ICC (C) under CIF and ICC (A) under CIP, and the insured amount must be at least 110% of the invoice value.

SOURCES

International Chamber of Commerce (ICC) — Incoterms® 2020, official publication
Addleshaw Goddard — Incoterms 2020: what's changed — https://www.addleshawgoddard.com/en/insights/insights-briefings/2019/commercial-services/incoterms-2020-whats-changed/

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