

# TPM<sup>24</sup>

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## Incoterms<sup>TM</sup> 2020 Rules: Understanding & Application

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## What You'll Learn in this Session

- What's going on with Incoterms during the Red Sea and Panama Canal crises...
- How Incoterms 2020 Rules impact the international seller/buyer relationship
- Gain a clear understanding of the three main points of Incoterms Rules
- Begin the process of using Incoterms 2020 Rules as a source of competitive advantage



## What's Going on With Incoterms 2020 Rules in 2024?

- Remember, Incoterms Rules deal with risk transfer and the division of transportation/customs related expense between the seller & buyer
- To mitigate risk, sellers of goods to U.S. buyers have moved away from “C” and “D” terms to more risk averse terms like Ex Works, Free Carrier or Free On Board
- This shift puts the onus for risk of loss or damage to the goods, as well as the majority of import transportation costs on the importer (as well as for any other problems that might arise...)



## Introduction to Incoterms 2020 Rules

- **International Commercial Terms** (Incoterms) are published by the International Chamber of Commerce ([www.iccwbo.org](http://www.iccwbo.org))
- The most recent version is “Incoterms 2020”, which is updated on the decade
- There are 11 official Incoterms 2020 Rules (unofficially called “shipping terms”)
- Incoterms Rules govern very specific aspects of the relationship between an international seller & buyer of goods



## The Eleven Official Incoterms 2020 Rules

- **EXW Ex Works** (named place of delivery)
- **FCA Free Carrier** (named place of delivery)
- **FAS Free Alongside Ship** (named port of shipment)
- **FOB Free On Board** (named port of shipment)
- **CFR Cost & Freight** (named port of destination)
- **CIF Cost, Insurance & Freight** (named port of destination)
- **CPT Carriage Paid To** (named place of destination)
- **CIP Carriage & Insurance Paid To** (named place of destination)
- **DAP Delivered At Place** (named place of destination)
- **DPU Delivered At Place Unloaded** (named place of destination)
- **DDP Delivered Duty Paid** (named place of destination)

## Incoterms 2020 Rules Defined

- By focusing on the seller's **delivery** obligations under an international sales contract, Incoterms govern three critically important considerations:
  - Identification of the physical point in the supply chain where responsibility for risk of loss or damage to the goods shift from the seller to the buyer
  - Identification of the physical point in the supply chain where responsibility for all transportation, customs clearance, duties and related charges shift from the seller to the buyer
  - Clarity on the responsibility between seller and buyer for the execution of certain functional activities



## Incoterms Meaning of “Delivery”

- International sellers and buyers of products should not assume that they understand the Incoterms definition of the term “delivery”
- Within the context of Incoterms Rules, delivery does not necessarily mean up to final destination
- That is because “delivery” under Incoterms means the point in the physical supply chain where risk of loss or damage to the goods shifts from the seller to the buyer
- Under Incoterms Rules, remember that **Delivery = Risk Transfer**



## Key Points to Remember About Incoterms 2020 Rules

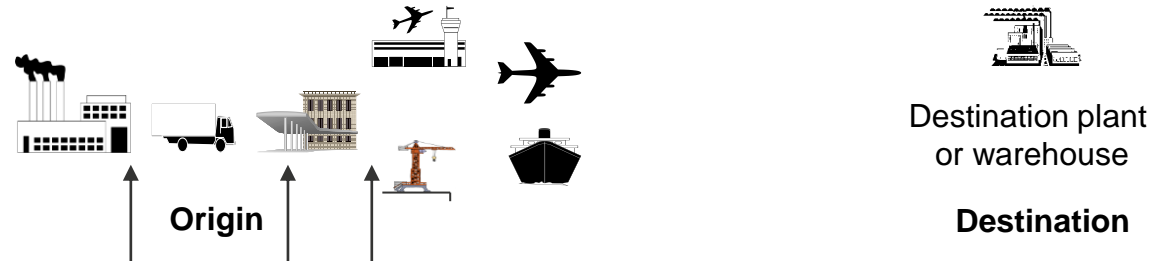
- Under the E & F terms, the seller's responsibility ALWAYS ends somewhere at origin
- Be careful with the C terms because the seller pays for freight up to a named port or place at destination, BUT risk transfers at origin
- With the D terms, the seller is responsible for risk AND cost up to a named port or place at destination
- Some Incoterms Rules can be used for any mode of transport; others are intended for maritime transport only





# Free Carrier (FCA): Named Place of Delivery

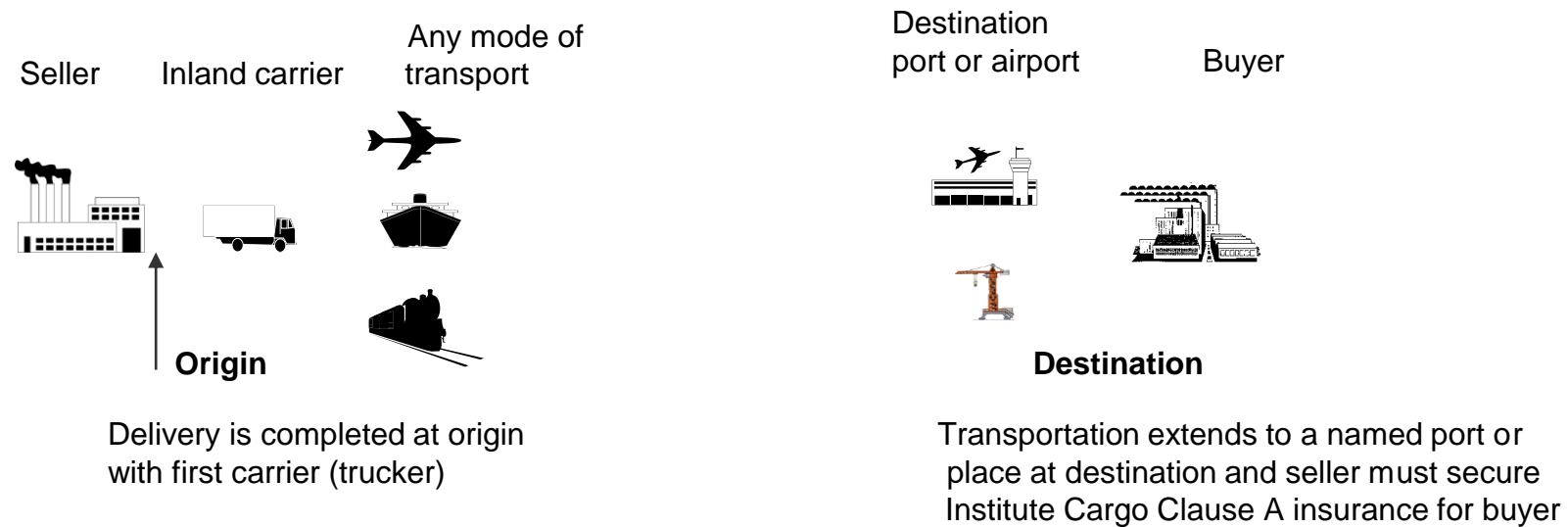
- There can be more than one delivery point at origin (seller's facility, forwarder's facility, port or airport)
- Delivery occurs when goods are presented to the carrier nominated by the buyer at the named place or port at origin, loaded on the collecting vehicle, cleared for export
- Beyond the designated delivery point, all charges are for the buyer
- Can be used for any mode of transport or combination thereof



The seller's delivery responsibility can end at his works, at a forwarder's facility or at a port/airport. Under each scenario goods must be cleared for export.

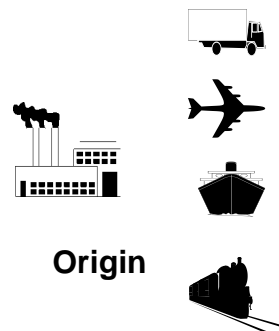
# Carriage & Insurance Paid To (CIP): Named Place of Destination

- Risk shifts (delivery occurs) with the first carrier at origin, which is normally the collecting vehicle at the seller's facility
- Seller prepays freight to the named port or place of destination
- Seller must procure Institute Cargo Clause A insurance on behalf of buyer (not Clause C)
- Can be used for any mode of transport or combination thereof



# Delivered At Place (DAP): Named Place of Destination

- Seller delivers when goods are made available to the buyer at the named place of destination, not unloaded from the delivery vehicle, and seller must pay all transport costs up to the delivery point (does not include customs clearance, duties, taxes, VAT, et al.)
- Freight is prepaid by the seller to the named place at destination
- Can be used for any mode of transport or combination thereof



Seller is responsible for risk of loss or damage and transportation up to named place at destination, but is not responsible for off-loading, customs clearance, duties or taxes



## Suggestions for Use of Incoterms 2020 Rules

- Be sure to include a negotiated Incoterms Rule in your contract, purchase order and/or sales order
- Always reference a named port or place at either origin or destination (depending on the Incoterms Rule negotiated)
- Make sure your freight forwarder and customs broker know what the Incoterms Rule is that governs a given shipment
- These days, and regardless of the Incoterms Rule, pay special attention to ocean carrier service loops, transit times and surcharges



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