# *Incoterms*

Incoterms or “international commerce terms” is a series of international sales terms that is widely used throughout the world, which are contain in every commercial contract.

Each Incoterm refers to a type of agreement done between buy and seller for the purchase and shipping of goods internationally, dividing transaction costs and responsibilities. This will determine which party pays the cost of each segment of transport, who is responsible for loading & unloading of goods, and who bears the risk of loss at any given point during a given international shipment. Incoterms also influence Customs valuation basis of imported merchandise.

They are drafted and administered by the International Chamber of Commerce in Paris. They have been updated every ten years or so, resting with the most recent edition which is referred to as "INCOTERMS 2000". They closely correspond to the U.N. Convention on Contracts for the International Sale of Goods, but are not law but Uses of Commerce.
These are the 13 terms currently in use:

**ExWorks (EXW)**

The seller (exporter) makes the goods available to the buyer (importer) at the seller's premises. The buyer is responsible for all transportation costs, duties, and insurance, and accepts risk of loss of goods immediately after the goods are purchased and placed outside the factory door. The ExWorks price does not include the price of loading goods onto a truck or vessel, and no allowance is made for clearing customs. If FOB is the Customs valuation basis of the goods in the country of destination, the transportation and insurance costs from the seller's premises to the port of export must be added to the ExWorks price.

**Free Alongside Ship (FAS)**

The seller transports the goods from his place of business, clears the goods for export and places them alongside the vessel at the port of export, where the risk of loss shifts to the buyer. The buyer is responsible for loading the goods onto the vessel (unless specified otherwise) and for paying all costs involved in shipping the goods to the final destination.

**Free Carrier (FCA)**

The seller (exporter) clears the goods for export and delivers them to the carrier and place specified by the buyer. If the place chosen is the seller’s place of business, the seller must load the goods onto the transport vehicle; otherwise, the buyer is responsible for loading the goods. Buyer assumes risk of loss from that point forward and must pay for all costs associated with transporting the goods to the final destination.

**Free On Board (FOB)**

The seller (exporter) is responsible for delivering the goods from his place of business and loading them onto the vessel of at the port of export as well as clearing customs in the country of export. As soon as the goods cross the “ships-rails” (the ship’s threshold) the risk of loss transfers to the buyer (importer). The buyer must pay for all transportation and insurance costs from that point, and must clear customs in the country of import. An FOB transaction will read “FOB, port of export”. For example, assuming the port of export is Boston, an FOB transaction would read “FOB Boston”. If CIF is the Customs valuation basis, international freight and insurance must be added to the FOB value.

**Cost & Freight (CFR)**

The seller (exporter) is responsible for clearing the goods for export, delivering the goods past the ships rail at the port of shipment and paying international freight charges. The buyer assumes risk of loss once the goods cross the ship’s rail, and must purchase insurance, unload the goods, clear customs, and pay for transport to deliver the goods to their final destination. If FOB is the Customs valuation basis, the international freight costs must be deducted from the CFR price.

**Cost, Insurance & Freight (CIF)**

The seller (exporter) is responsible for delivering the goods onto the vessel of transport and clearing Customs in the country of export. He is also responsible for purchasing insurance, with the buyer (importer) named as the beneficiary. Risk of loss transfers to buyer as the goods cross the ship’s rail. If these goods are damaged or stolen during international transport, the buyer owns the goods and must file a claim based on insurance procured by the seller. The buyer must clear customs in the country of import and pay for all other transport and insurance in the country of import. CIF can be used as an Incoterm only when the international transport of goods is at least partially by water. If FOB is the Customs valuation basis, the international insurance and freight costs must be deducted from the CIF price. A CIF transaction will read CIF, port of destination. For example, assuming that goods are exported to the port of Los Angeles, a CIF transaction would read “CIF Los Angeles”.

**Carriage Paid To (CPT)**

The seller (exporter) clears the goods for export, delivers them to the carrier and is responsible for carriage costs to the named place of destination. Risk of loss transfers to buyer once the goods are transferred to the carrier and the buyer must insure the goods from that time on. If FOB is the Customs valuation basis, the international freight cost must be deducted from the CPT price.

**Carriage and Insurance Paid To (CIP)**

The seller transports the goods to the port of export, clears Customs, and delivers them to the carrier. From that point risk of loss shifts to the buyer. Seller is responsible for carriage and insurance costs to the named place of destination. The buyer is responsible for all costs, and bears risk of loss from that point forward. If FOB is the Customs valuation basis, international freight and insurance costs need to be deducted from the CIP price.

**Delivered at Frontier (DAF)**

The seller (exporter) is responsible for all costs involved in delivering the goods to the named point and place at the frontier. Risk of loss transfers at the frontier. The buyer must pay the costs and bear the risk of unloading the goods, clearing Customs, and transporting the goods to the final destination. If FOB is the Customs valuation basis, the international insurance and freight costs must be deducted from the DAF price.

**Delivered Ex-Ship (DES)**

The seller (exporter) is responsible for all costs involved in delivering the goods to a named port of destination. Upon arrival, the goods are made available to the buyer (importer) on-board the vessel. Therefore, the seller is responsible for all costs/risk of loss prior to unloading at the port of destination. The buyer (importer) must have the goods unloaded, pay duties, clear Customs and provide inland transportation & insurance to the final destination.

**Delivered Ex-Quay (DEQ)**

The seller (exporter) is responsible for all costs involved in transporting the goods to the wharf (quay) at the port of destination. The buyer must pay duties, clear Customs, and pay the cost/bear the risk of loss from that point forward. If FOB is the Customs valuation basis, the international insurance and freight costs, in addition to unloading costs, must be deducted from the DEQ price.

**Delivered Duty Unpaid (DDU)**

The seller (exporter) is responsible for all costs involved in delivering the goods to a named place of destination where the goods are placed at the disposal of the buyer. The buyer (importer) assumes risk of loss at that point and must clear Customs and pay duties and provide inland transportation & insurance to the final destination.

**Delivered Duty Paid (DDP)**

The seller (exporter) is responsible for all costs involved in delivering the goods to a named place of destination and for clearing Customs in the country of import. Under a DDP Incoterm, the seller provides literally door-to-door delivery, including Customs clearance in the port of export and the port of destination. Thus the seller bears the entire risk of loss until goods are delivered to the buyer's premises. A DDP transaction will read "DDP named place of destination". For example, assuming goods imported through Baltimore are delivered to Silver Spring, the Incoterm would read "DDP, Silver Spring". If CIF is the Customs valuation basis, the costs of unloading the vessel, clearing Customs, and delivery to the buyer's premises in the country of destination including inland insurance, must be deducted to arrive at the CIF value.