Incoterms Explained

A price for a shipment is never only a price. It also says who arranges the transport, who pays for each stage, and who carries the loss. The Incoterms rules, published by the International Chamber of Commerce, give traders a shared language of three letters for these questions. In this video, Samer, export manager at an office-furniture manufacturer, learns them after a dispute over a damaged shipment. This video is a teaching aid, so the current official text should be checked before any contract is signed.

1. What the Rules Do

Incoterms rules are standard terms that a seller and a buyer can put into a sales contract. Each rule answers three questions at a named place: where the seller's delivery is complete, where the risk of loss or damage passes to the buyer, and who pays for transport, insurance and customs clearance. The rules do not say when ownership passes or set the price and payment date, because those belong in the sales contract. The rules apply only if the contract mentions them, so it should state the rule, the named place and the edition.

Example: A buyer in a distant city agrees a machine price, and the contract only says delivered. Later the two sides disagree about who pays the import duty, and the machine waits in a port warehouse while they argue. A rule with a named place settles it in one line. That is exactly what Incoterms rules do.

At work: Samer's company sells its first shipment of office desks to a distributor abroad on the term EXW, which means ex works. The contract names no collection point and no date. The distributor's truck arrives two days late, and the rain ruins one pallet. Each side blames the other, and the contract has no line to settle it.

2. Two Families, Eleven Rules

The current edition has eleven rules in two families. Seven work for any transport: EXW, FCA, CPT, CIP, DAP, DPU and DDP, while four are for sea and inland waterway only: FAS, FOB, CFR and CIF. We read them by how far the seller goes. In EXW the seller does the least, only placing the goods at the buyer's disposal, and in FCA the seller hands the goods to the buyer's carrier at a named place and clears them for export. In CPT and CIP the seller also pays for the main carriage, but the risk passes earlier, at the first carrier, and CIP adds insurance. In DAP the seller delivers at the destination, ready for unloading, in DPU the seller also unloads, and in DDP the seller also clears import and pays duties.

Example: A buyer who wants to control freight prefers a rule where the seller does less, such as FCA, and books the main transport itself. A buyer who wants one price and little work, such as a small shop with no logistics staff, prefers DAP and waits for the delivery at its door. That is exactly how the rules differ by the seller's effort.

At work: Samer lines up the rules on one sheet, from the least to the most effort for the seller, and marks where the risk passes in each. The distributor works with its own freight company, so FCA fits it. A hotel group that wants delivery to its site fits DAP.

This document is a property of Asaseeyat Academy - © Copy Right Protected.

3. Choosing the Right Term

Choosing a rule means deciding who can do each task better and more cheaply. We check the mode of transport, what each side can really do at each place, and the insurance. For containers, the ICC guidance favors rules that suit any mode, such as FCA, rather than FOB or CIF, because the seller usually hands a container to the carrier at a terminal, before it is on board a ship. We name the place as precisely as possible, because the split of risk and cost follows it. On insurance, CIF requires only a minimum cover and CIP requires a wider one, so a buyer who wants more must ask for it.

Example: A seller ships machines in containers from an inland factory. A sea-only rule would split the risk at a ship that the seller never sees, so the seller chooses FCA and names the container terminal. The risk then passes at the terminal, where the seller can see and prove the handover. That is exactly why the rule must fit the transport.

At work: For the next order, Samer offers FCA and names the exact loading dock of his factory, and the distributor books a truck for that date. The risk passes at loading, and Samer's team clears the desks for export. For the hotel group he offers DAP and names the hotel's delivery gate. He refuses DDP, because he cannot manage the taxes in the buyer's country.

4. Mistakes and Checks

The first mistake is to treat three letters as a full contract, when they cover delivery, risk and costs but not payment, ownership or penalties. The second is a vague place, the third is a sea rule for a container, and the fourth is forgetting who clears the goods for import. The fifth is comparing an EXW quote with a DAP quote before the missing costs are added to the first. Before signing, we ask four questions: where does delivery end, where does the risk pass, who pays for each stage, and who clears the goods at each border?

Example: Two quotes arrive for the same chairs, one EXW and one DAP. The EXW quote looks cheaper by a tenth. Once the buyer adds trucking, export clearance, freight and insurance, the DAP quote is lower. The buyer almost chose the wrong supplier because the cheaper quote left out costs. That is exactly why we compare quotes only after adding the missing costs.

At work: Samer builds a one-page checklist with the four questions for his sales team, and a table that adds the missing costs to every EXW quote. When a rainstorm later delays a pickup, the contract names the place, the date and the point where the risk passes. No dispute follows.

Conclusion

Incoterms rules turn a long argument into a short phrase. They fix where delivery ends, where the risk passes and who pays for each stage, but they leave ownership, price and payment to the contract. The right rule matches the transport and what each side can really do, and a precise named place makes it work. As with any contract term, the examples here are illustrations, so the current official text should be checked before an agreement is signed.

Sources

• ICC: Incoterms 2020 (eleven rules; FCA with on-board bill of lading option; DPU; insurance minimums for CIF and CIP) – https://iccwbo.org/business-solutions/incoterms-rules/incoterms-2020/

• ICC Academy: Incoterms 2020, FCA or FOB? (FCA suits containers and any mode of transport; FOB only for sea and inland waterway) – https://academy.iccwbo.org/incoterms/article/incoterms-2020-fca-or-fob/

• Incoterms is a registered trademark of the ICC. This video is independent training material and is not affiliated with the ICC. Companies, prices and shipments are invented for teaching.

This document is a property of Asaseeyat Academy - © Copy Right Protected.