

Incoterms in International Trade

In order to assist you with the successful operation of your business, this best-practice risk control bulletin provides information and support in the area of the use of Incoterms.

This guide makes reference to guidance and best practice published within the United Kingdom.

Incoterms are essentially a set of rules designed to promote a common understanding between importers & exporters worldwide of the most frequently used terms in international trade.

The first edition of the rules was introduced in 1936, with the previous edition released in 2010, and the most recent edition coming in to effect on 1.1.2020.

Both the 2010 and 2020 rules are still relevant, as some companies may continue to use the old terms using the former terminology / obligations. It's important to note whether trade documentation refers to the old version or new version and note dates of contracts.

They provide a user-friendly, short-hand method of addressing certain contractual issues specific to agreed terms of sale, such as who arranges for the delivery of the goods and who is responsible for the costs involved. They are not a set of terms of trade in their own right, nor are they a substitute for having a written contract, as they address only specific issues.

It is important to note that although many Incoterms state that neither party has an obligation to insure the goods, buyer and seller are advised to arrange appropriate insurance to adequately cover the goods up to or from the point at which the risk transfers. It should not be assumed that insurance will automatically be in place.

To assist with utilising Incoterms correctly, some points are listed below which should be addressed prior to shipping product:

- Be clear about the method of transport, as certain Incoterms can only be applied to specific modes of transport

Applicable to any [or multi] modes of transit [2020 rules]:

- EXW [Ex Works], FCA [Free Carrier], CPT [Carriage Paid To], CIP [Carriage & Insurance Paid to], DAP [Delivered At Place], DPU [Delivered At Place Unloaded], & DDP [Delivered Duty Paid]*

Applicable to sea / inland waterway transits only:

- FAS [Free Alongside Ship], CFR [Cost And Freight], FOB [Free On Board], CIF [Cost Insurance & Freight]*

*The obligations, responsibilities and considerations relevant to these terms can be located at <https://iccwbo.org/publication/incoterms-2020-introduction/>.

- Know what terms are currently being used and decide if they are relevant /correct for the journey to be undertaken
- Establish if there is a company policy as to the risk you should be assuming for the transit
- Establish if there are restrictions on the Incoterm application in the country of import
- Make sure your trading partner agrees in writing with the Incoterm chosen and therefore agrees where each company's responsibilities lie.
- Be satisfied that each company can carry out the obligations stated by the chosen Incoterm.
- Make sure all staff using Incoterms have a proper understanding of how they should be used, have not applied any clauses to them and are fully aware of the implications of the incorrect application of Incoterms
- Ensure the correct terms are properly noted on relevant commercial paperwork
- Review shipment terms regularly as legislation and infrastructure can change
- Ensure the relevant insurance coverage reflects the Incoterms used

For more details, information and assistance on this topic you can visit the International Chamber of Commerce website on <https://iccwbo.org/publication/incoterms-2020-introduction/>

The same organisation also provides a free, downloadable wallchart providing an easy pictorial representation of the 11 current [2020] rules.

For further advice please speak with your normal insurance advisor.

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