



MASTER CUSTOMS SPECIALIST (MCS) COURSE

Part 4: Valuation | Module 11: Incoterms

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Lesson 1: What are Incoterms?

Incoterms are rules, issued by the International Chamber of Commerce (ICC) since 1936, that facilitate global trade. These rules are updated every 10 years or so in an effort to keep up with the development and changes that take place in international trade. The Incoterms 2020 rules were released in September 2019 but did not go into effect until January 1, 2020.

When included in a contract of sale, Incoterms define the obligations and risks for seller and buyer in an international transaction. More specifically, when considering international shipments, Incoterms determine when and where risk transfers, which party is responsible for transportation during the various legs of the shipment's journey, and, in some cases, which party carries insurance for the shipment.

Incoterms do not establish price or method of payment. They do not deal with title transfer of the goods or with consequences of a breach of contract. They do not address revenue recognition either. These matters are normally dealt with separately in the contract of sale.

Lesson 2: Incoterms 2020

Incoterms 2020 can be divided in two main groups based on the mode of transport selected.

- **All modes of transport:**
 - EXW – Ex Works
 - FCA – Free Carrier
 - CPT – Carriage Paid To
 - CIP – Carriage and Insurance Paid To
 - DPU – Delivered at Place Unloaded (changed from DAT - Delivered at Terminal in Incoterms 2010)
 - DAP – Delivered at Place
 - DDP – Delivered Duty Paid



- **Sea and inland waterway transport only:**
 - FAS – Free Alongside Ship
 - FOB – Free On Board
 - CFR – Cost and Freight
 - CIF – Cost Insurance and Freight

Lesson 3: Important Terms to Know

- **Risk** – When we talk about risk regarding Incoterms, we are referring to which party is responsible for the condition of the goods. If a truck carrying the goods overturns on the interstate, which party is responsible for the cleanup, damage, and so on? Incoterms help to determine this.
- **Delivery** – Typically, we think of delivery as when an item has reached its final destination. However, when it comes to Incoterms, delivery means the point at which risk transfers. This means that, depending on the Incoterm, delivery can actually take place much earlier than when the item reaches its final destination.
- **Exporter of Record** – The Exporter of Record is the party responsible for filing the appropriate documents with the appropriate customs agency in the country of export. It is very important to note that typically, the Exporter of Record must be located in the country of export. In other words, if my company is a U.S. company with no foreign subsidiaries that is ordering from a vendor in Greenland, I may not be able to act as the Exporter of Record in Greenland because my company is not located there. Therefore, I need to make sure to not agree to an Incoterm that would require me to act as the Exporter of Record.
- **Importer of Record** – The Importer of Record is the party responsible for filing the appropriate documents with the appropriate customs agency in the country of import. Again, it is very important to note that typically the Importer of Record must be located in the country of import. If my company is a U.S. company with no foreign subsidiaries selling to a customer in Thailand, I may not be able to act as the Importer of Record in Thailand because my company is not located there. I need to make sure to not agree to an Incoterm that would require me to act as the IOR in Thailand when I am unable to perform the Customs clearance.



Pre-Carriage:

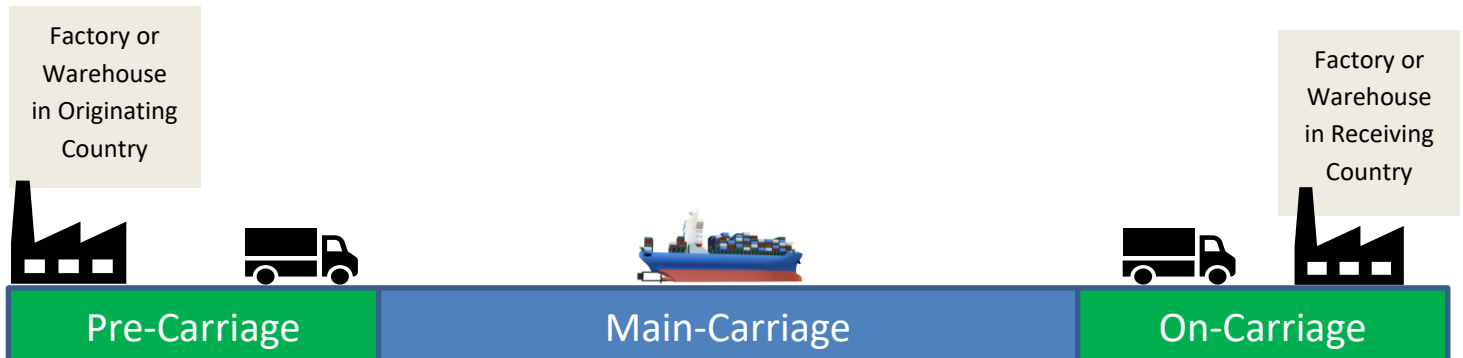
This is the portion of the journey for an international shipment that is in the exporting country. In this leg, goods leave the factory or warehouse in the originating country and travel to the port where they will then get on a ship. In the case of an air freight shipment, this would be the trip in the originating country to get the goods to the airport.

Main-Carriage:

This is the main portion of the journey. In an international shipment, this is typically either the ocean portion of the journey or, for an air freight shipment, the time spent in the air.

On-Carriage:

This is the final leg of the journey for an international shipment. It is the trip from the port or airport in the receiving country to the final destination.



Lesson 4: Incoterm Groups

This lesson will cover:

- “E Group” Incoterms, & “E Group” Risk Transfer
- “F Group” Incoterms , & “F Group” Risk Transfer
- “C Group” Incoterms , & “C Group” Risk Transfer
- “D Group” Incoterms , & “D Group” Risk Transfer

“E Group” Incoterms

The “E” Group of Incoterms terms is unique in that it only contains one Incoterm, EXW. EXW does have some disadvantages for sellers in that the buyer controls when the goods will be picked up, which carrier will be selected, and where the goods are going.



- **EXW** – “Ex Works” means that the seller delivers when the buyer picks up the goods at the seller’s location. The seller is not responsible for loading the buyer’s vehicle. The seller is only responsible for having the goods available at the agreed upon time and place and packaged in an appropriate manner for shipment. The buyer is responsible for the Pre-Carriage, Main-Carriage, and On-Carriage. The buyer is also responsible for filing the Export Clearance and the Import Clearance.
- A reminder here that if the buyer is unable to clear the goods for export because they do not have a presence in the originating country, a different Incoterm should be used. You may consider using FCA in this scenario.

“E Group” Risk Transfer

For our “E Group” Incoterm, EXW, risk transfers when the goods are picked up from the seller’s facility.



“F Group” Incoterms

“F” Group Incoterms are very seller-friendly because they do not require much of the seller, but they do require the seller to perform the Export Clearance, so you’ll want to make sure that the seller is able to perform this duty.

- **FCA** – “Free Carrier” means that the seller delivers the goods to the carrier nominated by the buyer at the named place, which is typically the seller’s factory or warehouse. The seller is also responsible for loading the collecting vehicle and performing the Export Clearance. The buyer is responsible for the Pre-Carriage, Main-Carriage, and On-Carriage and also for the Import Clearance.
 - This is a good Incoterm to use when you have a buyer who wants to handle everything but cannot act as the Exporter of Record.



- Under the Incoterms 2020, the buyer and the seller can agree that the buyer will instruct its carrier to issue an on-board bill of lading to the seller after the loading of the goods, the seller then being obliged to tender that bill of lading to the buyer, typically through the banks.
- **FAS** – “Free Alongside Ship” means that the seller delivers when the goods are placed alongside the buyer’s vessel at the named port of shipment. This means that the seller is responsible for the Pre-Carriage. The seller is also responsible for the Export Clearance. The buyer is responsible for the Main-Carriage, the On-Carriage, and the Import Clearance.
 - Note that there is a ship involved in this Incoterm, so this Incoterm is restricted to shipments traveling via ship. If your shipment is never getting on a ship of some kind, you cannot use this Incoterm.
- **FOB** – “Free on Board” means that the seller delivers when the goods are on board the vessel at the named port of shipment. This means that the seller is responsible for the Pre-Carriage all the way until the goods are placed onto the buyer’s vessel at the port in the originating country. The seller is also responsible for the Export Clearance. The buyer is responsible for the Main-Carriage, the On-Carriage, and the Import Clearance.
 - Note that there is a ship involved in this Incoterm, so this Incoterm is restricted to shipments traveling via ship. If your shipment is never getting on a ship of some kind, you cannot use this Incoterm. If you are attempting to use this Incoterm for anything other than what is specified above, you are probably confusing the FOB Incoterm with the FOB U.C.C. term. **DO NOT DO THIS**. They are very different and have very different implications.

“F Group” Risk Transfer

For our “F Group” Incoterms, risk transfers in various places as demonstrated below.





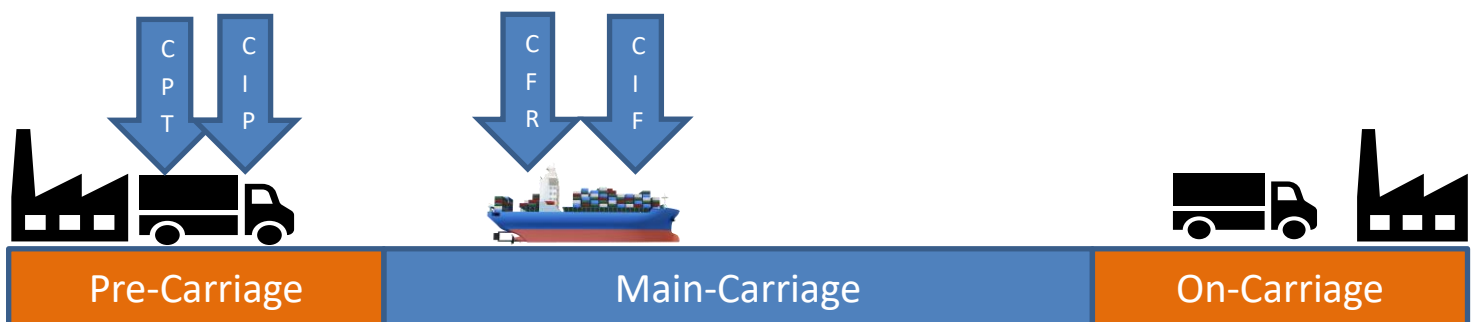
“C Group” Incoterms

“C Group” Incoterms are the most seller-friendly, but not necessarily buyer-friendly because the buyer is responsible for the condition of the goods during transit with a carrier selected by the seller.

- **CPT** – “Carriage Paid To” means that the seller delivers the goods to a carrier that he has chosen and pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods is the buyer’s responsibility when the seller has delivered to the first carrier. The seller is responsible for the Export Clearance. The buyer is responsible for the Import Clearance.
- **CIP** – “Carriage and Insurance Paid To” is similar to CPT but is one of two Incoterms that spells out who is responsible for obtaining insurance for the shipment.
 - Under Incoterms 2020, The seller must now obtain insurance coverage complying with Institute Cargo Clause A, “all risks”, instead of C.
- **CFR** - “Cost and Freight” means that the seller delivers the goods to a carrier that he has chosen and pays the freight for the carriage of the goods to the named destination. The risk of loss of or damage to the goods is the buyer’s responsibility when the seller has delivered the goods on board the seller’s ship at the port of departure. The seller is responsible for the Export Clearance. The buyer is responsible for the Import Clearance.
 - Note that there is a ship involved in this Incoterm, so this Incoterm is restricted to shipments traveling via ship. If your shipment is never getting on a ship of some kind, you cannot use this Incoterm.
- **CIF** – “Cost, Insurance, and Freight” is similar to CFR but is one of two incoterms that spells out who is responsible for obtaining insurance for the shipment. The seller is responsible for insurance under Institute Cargo Clause C.
 - Note that there is a ship involved in this Incoterm, so this Incoterm is restricted to shipments traveling via ship. If your shipment is never getting on a ship of some kind, you cannot use this Incoterm.

“C Group” Risk Transfer

For our “C Group” Incoterms, risk transfers in various places as demonstrated below.





“D Group” Incoterms

“D Group” Incoterms are buyer-friendly because they are low risk for buyers and don’t require buyers to do much. “D group” Incoterms are more work for sellers than E and F Group rules and require sellers to carry more risk than they do with “C Group” rules.

- **DPU** – “Delivered at Place Unloaded” means that the seller delivers when the goods have been unloaded by the seller at the named place of destination. The seller is responsible for the Export Clearance, Pre-Carriage, Main-Carriage, and On-Carriage. The buyer is responsible for the Import Clearance.
 - This is the only Incoterm rule that requires the seller to unload the goods at the buyer’s facility.
- **DAP** – “Delivered at Place” means that the seller delivers the goods to the named place of destination, typically the buyer’s facility. The seller is responsible for the Pre-Carriage, Main-Carriage, On-Carriage, and Export Clearance. The buyer is responsible for the Import Clearance.
- **DDP** – “Delivered Duty Paid” means that the seller delivers the goods to the named place of destination, typically the buyer’s facility. The seller is responsible for the Pre-Carriage, Main-Carriage, On-Carriage, Export Clearance, and On-Carriage.
 - Note that the difference between DAP and DDP is the responsibility for Import Clearance. A seller should not agree to DDP Incoterms if he cannot act as the Importer of Record in the buyer’s country. Instead, the parties should consider DAP Incoterms which would allow the seller to do everything except for the Import Clearance, which would be the buyer’s responsibility.

“D Group” Risk Transfer

For our “D Group” Incoterms, risk transfers at the named place of destination, typically the buyer’s facility.

