



# Incoterms 2020 – the main changes

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# Brief overview

- New Incoterms become effective from 01/01/2020
- Terms define relationship between “buyer” and “seller”:-
  - Contract for sale and purchase of goods
  - Impact ancillary contracts including carriage etc.
- Important that the above parties:-
  - Select the correct Incoterms
  - Define “Place of Delivery” accurately as defined in Article A2 of the Terms
- 11 rules – same number as in 2010 Incoterms
- Each Term consists of 10 articles

# The Rules – a summary

- There are:-
  - 7 rules applicable to all four main modes of transport
  - 4 rules appropriate to be used only for Sea and Inland waterways
- These 11 rules are subdivided into E, F, C and D groups.

# Seven F and C Rules

- In all F and C rules
  - The place of delivery is in the seller's side of the anticipated carriage contract.
    - When on board a vessel at port of loading e.g. CFR, CIF and FOB
    - Handing goods to carrier in CPT or CIP
    - Loading them on the means of transport provided by the buyer or making them available of the buyers carrier in FCA.
- In these two groups risk transfers from seller to buyer at the formers end of the main carriage contract:-
  - Under F terms the buyer arranges for carriage from place/port of delivery to destination
  - Under the C rules the seller has that responsibility

# The Eleven Terms

- ExW- Ex Works
- FCA - Free Carrier
- FAS - Free Alongside Ship (Sea and IW)
- FOB - Free on Board (Sea and IW)
- CPT - Carriage Paid to
- CIP - Carriage and Insurance Paid to
- CFR - Cost and Freight (Sea and IW)
- CIF - Cost Insurance and Freight (Sea and IW)
- DAP - Delivered at Place
- DPU - Delivered at Place Unloaded – **NEW**
- DDP – Delivery Duty Paid

# The Ten Articles

- Significant changes in ordering:-
  - A1/B1            General obligations
  - A2/B2            Delivery/Taking Delivery ( formerly A4/B4)
  - A3/B3            Transfer of risks (formerly A5/B5)
  - A4/B4            Carriage
  - A5/B5            Insurance
  - A6/B6            Delivery/transport document
  - A7/B7            Export/import clearance
  - A8/B8            Checking/packaging/marketing
  - A9/B9            Allocation of costs
  - A10/B10        Notices

# New Layout

- The most significant changes are in the way the text is structured within the Incoterms publication
- The book has grown from 128 pages in 2010 to 193 in 2020
- Traditional layout out until page 134
- From page 135 –new layout:-
  - Article by article
    - Then the relevant text from the terms
    - Makes cross referencing text easier
    - Aims to make selecting relevant term easier

# Differences between 2010 and 2020-general

- Greater emphasis on steering traders to selecting the correct Term
- Clearer explanation of the demarcation and connection between:-
  - Sales contract
  - Ancillary contracts
- Expanded Explanatory Notes replace Guidance Notes giving greater detail about each term
- Re-ordering of articles as previously discussed.



# Trade changes since 2010

- The two most significant trade changes since 2010 have been:-
  - Introduction of the Verified Gross Mass (VGM) for ocean containers
  - Additional security related issues
- Processes and costs relevant to the above are included in appropriate Articles
- Discussion at drafting stage concluded related costs could be included in existing Articles.

# The seven changes

- Bills of lading with an “on-board” notation shipped under FCA terms
- Costs and where they are listed
- Different levels of insurance cover in CIF and CIP
- Sellers or buyers arranging carriage in FCA, DAP, DPU and DDP
- DAT becomes DPU
- Security related requirements within carriage obligations and costs
- Enhanced Explanatory Notes for Users.

# Bills of Lading with an on board notation shipped under the FCA rule

- Where goods are sold under FCA for carriage by sea, sellers (or their banks) where a L/C is required banks often needs on board bill of lading.
  - Delivery is affected prior to vessel loading
- This requirement conflicts with carriers contract of carriage
  - Only able to issue an on board bill of lading only when goods are physically loaded on the vessel.

## **Bills of Lading with an on board notation shipped under the FCA rule – the solution**

- Buyer and seller can agree as per FCA A6/B6 that the buyer will instruct its carriers to issue an on board bill of lading to the seller after the goods have been loaded.
- The seller is obliged to tender the bill to the buyer (often via the bank)

# Different levels of insurance cover in CIF and CIP

- Under 2010 rules in both terms Article A3 placed an obligation on the seller “to obtain at is own expense cargo insurance complying with the minimum cover as provided by clauses ( C ) of the Institute Cargo Clauses. (limited risks)
- Under 2020 terms:-
  - CIF (mostly commonly used in maritime/bulk trades) the level of cover as per Institute Cargo Clauses ( C )
  - Under CIP the seller is obliged to obtain cover under Institute Clauses ( A ) – “All risks”, both parties can vary these terms.

## Costs and their listings

- Costs now appear in the A9/B9 article of each Incoterms rule
- Under the 2020 edition all the costs allocated under each particular rule are listed in this article
- Aims to provide Buyers/Sellers in one place the costs relevant to their responsibilities
- Itemised costs are still referred to in the relevant article e.g. costs for obtaining documents under FOB terms are in A6/B6.

## Arranging carriage using sellers or buyers own means of transport

- Applicable to FCA, DAP, DPU and DDP.
- 2010 rules presumed that goods would at all times be carried by a third party carrier
- 2020 edition acknowledges that in some cases the seller or buyer may transport goods themselves.

# DAT becomes DPU

- DPU has replaced DAT:-
  - Delivery at Place Unloaded
- Under DPU the goods are delivered “at a named place” or “agreed point within that place”.
  - Maybe a Terminal or
  - Another place
- Only term under which the seller is responsible unloading at (A2) at the agreed delivery point.
  - Also “The seller must contract to or arrange at its own cost to the named place of destination.”



# Security related requirements

- 2010 Incoterms included the first references to security related requirements
- Due to connection with carriage express allocation of security related obligations is included in articles A4 and A7/B7 of each Incoterms Rule
- Costs are more prominently referred to in A9/B9

# Varying Incoterms

- The published terms are the 11 most frequently used.
- Can be varied:-
  - Consequences have to be considered
- Always ensure that the term is applicable and achievable
- Cross refer obligations under each term against legal obligations



# Thank you

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