

A Reference and Commercial Guide

AIF Trading® – Alexandria International for Trading & Contracting [AIF Trading]
 This document provides an overview of INCOTERMS® 2020, the internationally recognized commercial rules published by the International Chamber of Commerce (ICC). It explains the core principles, classifications, and applications of these rules in international trade transactions, with a specific focus on risk transfer, cost allocation, and their relevance to commodity trading. This guide aims to enhance understanding and facilitate the correct incorporation of INCOTERMS® 2020 into sales contracts, ensuring transparency and mitigating risks for both buyers and sellers.

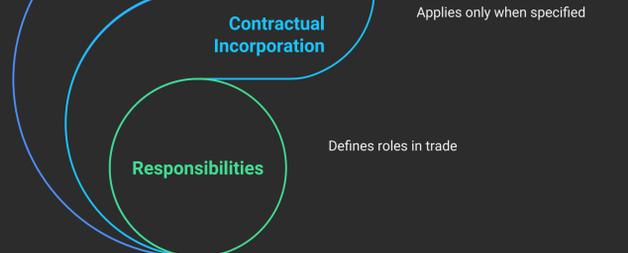
Overview

INCOTERMS® 2020 are a set of internationally recognized commercial rules published by the International Chamber of Commerce (ICC). They define the responsibilities of buyers and sellers in international trade transactions, specifically regarding delivery obligations, transfer of risk, costs allocation, transportation, insurance, and customs clearance. These rules do not replace a sales contract but are incorporated into contracts to clearly define each party's obligations and reduce misunderstandings.

Core Principles

- **Definition of Responsibilities:** INCOTERMS® define who is responsible for what actions, who pays for which costs, and at what point the risk transfers from the seller to the buyer.
- **Contractual Incorporation:** They apply only when explicitly stated in the contract (e.g., "FOB Novorossiysk Port – INCOTERMS® 2020").
- **Scope of Regulation:** They regulate delivery, risk, and cost, but not ownership transfer, payment terms, or contract breach remedies.

INCOTERMS® 2020 Principles



Made with Napkin

Classification of INCOTERMS® 2020

INCOTERMS® 2020 are classified into four groups based on the seller's obligations:

Group E – Departure

EXW – Ex Works [Named Place]

- **Seller's Obligation:** The seller makes the goods available at their premises.
- **Buyer's Obligation:** The buyer bears all costs and risks from that point onward.
- **Seller's Responsibility:** The seller has minimal obligations.

Group F – Main Carriage Unpaid

FCA – Free Carrier [Named Place]

- **Seller's Obligation:** The seller delivers the goods to a carrier nominated by the buyer. The seller also clears the goods for export.
- **Buyer's Obligation:** The buyer is responsible for the main carriage.
- **Risk Transfer:** Risk transfers upon delivery to the carrier.

FAS – Free Alongside Ship [Named Port of Shipment]

- **Seller's Obligation:** The seller delivers the goods alongside the vessel at the named port.
- **Buyer's Obligation:** The buyer bears the risk and cost once the goods are alongside the ship.
- **Suitable For:** This term is suitable only for sea or inland waterway transport.

FOB – Free On Board [Named Port of Shipment]

- **Seller's Obligation:** The seller delivers the goods on board the vessel at the named port.
- **Buyer's Obligation:** The buyer bears the risk and cost once the goods are on board the vessel.
- **Risk Transfer:** Risk transfers once the goods are loaded.
- **Commonly Used For:** Bulk commodities such as fertilizers, minerals, and petroleum products.
- **Suitable For:** This term is suitable only for sea or inland waterway transport.

Group C – Main Carriage Paid

CFR – Cost and Freight [Named Port of Destination]

- **Seller's Obligation:** The seller pays the cost and freight to the destination port.
- **Buyer's Obligation:** The buyer is responsible for insurance.
- **Risk Transfer:** Risk transfers once the goods are on board at the shipment port.
- **Suitable For:** This term is suitable only for sea or inland waterway transport.

CIF – Cost, Insurance and Freight [Named Port of Destination]

- **Seller's Obligation:** Same as CFR, but the seller also provides minimum insurance coverage.
- **Buyer's Obligation:** The buyer is responsible for additional insurance if required.
- **Risk Transfer:** Risk transfers once the goods are on board at the shipment port.
- **Commonly Used In:** Commodity trading.
- **Suitable For:** This term is suitable only for sea or inland waterway transport.

CPT – Carriage Paid To [Named Place of Destination]

- **Seller's Obligation:** The seller pays the transport costs to the named place of destination.
- **Buyer's Obligation:** The buyer is responsible for insurance.
- **Risk Transfer:** Risk transfers at delivery to the first carrier.

CIP – Carriage and Insurance Paid To [Named Place of Destination]

- **Seller's Obligation:** The seller pays for carriage and insurance to the named place of destination. The seller provides higher insurance coverage than CIF.
- **Buyer's Obligation:** The buyer is responsible for additional insurance if required.
- **Risk Transfer:** Risk transfers early, despite insurance being paid by the seller.

Group D – Arrival

DAP – Delivered At Place [Named Place]

- **Seller's Obligation:** The seller delivers the goods ready for unloading at the named place.
- **Buyer's Obligation:** The buyer handles import clearance and duties.
- **Risk Transfer:** Risk transfers when the goods are placed at the disposal of the buyer.

DPU – Delivered at Place Unloaded [Named Place]

- **Seller's Obligation:** The seller delivers and unloads the goods at the named place.
- **Buyer's Obligation:** The buyer handles import clearance and duties.
- **Seller's Risk:** The seller bears the unloading risk.

DDP – Delivered Duty Paid [Named Place]

- **Seller's Obligation:** The seller bears all costs, risks, and import duties to deliver the goods to the named place.
- **Buyer's Obligation:** The buyer is responsible for unloading the goods at the named place.
- **Seller's Responsibility:** Maximum seller responsibility.

INCOTERMS® 2020 Classification

Characteristic	Group E - Departure	Group F - Main Carriage Unpaid	Group C - Main Carriage Paid	Group D - Arrival
Seller's Obligation	Makes goods available at premises	Delivers goods to buyer's carrier	Pays transport costs to destination	Delivers goods ready for unloading
Buyer's Obligation	Bears all costs and risks onward	Responsible for main carriage	Responsible for insurance	Handles import clearance and duties
Risk Transfer	At seller's premises	Upon delivery to carrier	Once goods are on board	When goods are at buyer's disposal
Suitable For	All transport modes	Sea or inland waterway transport	Sea or inland waterway transport	All transport modes
Seller's Responsibility	Minimal obligations	Clears goods for export	Provides minimum insurance coverage	Bears all costs and import duties

Made with Napkin

Risk Transfer Summary

- The risk transfer point varies by INCOTERM.
- Transfer of risk does not equal ownership transfer.
- Clear naming of the place or port is essential.

Application in Commodity Trade

For fertilizers, petrochemicals, minerals, and bulk commodities:

- **FOB:** Preferred for seller-controlled pricing.
- **CFR/CIF:** May be offered for strategic buyers.
- **Insurance:** Insurance responsibility must be clearly stated.

Contractual Best Practices

- Always specify: INCOTERMS® 2020 + Named Place/Port.
- Align payment terms with delivery obligations.
- Include non-circumvention and force majeure clauses separately.
- INCOTERMS® do not govern quality, payment, or title transfer.

Conclusion

INCOTERMS® 2020 provide a standardized framework for international trade transactions, ensuring transparency, risk mitigation, and operational clarity when correctly incorporated into sales contracts. Used properly, they protect both buyer and seller and facilitate smooth cross-border trade operations.

Disclaimer

This document is provided for general informational and reference purposes only. It is prepared in alignment with INCOTERMS® 2020 rules as published by the International Chamber of Commerce (ICC) and does not constitute a legal interpretation, legal advice, or a contractual obligation unless expressly incorporated into a binding agreement.

Balancing Risk and Responsibility in Trade



Made with Napkin

Salah Farrag

CEO – Alexandria International for Trading & Contracting Co.

✉ ceo@aiftrading.com | ✉ info@aiftrading.com | ☎ +20 103 223 2254

INCOTERMS 2020 Point of Delivery and Transfer of Risk

