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## HOT TOPICS Archives

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### Understanding Incoterms – 2000

What are "Incoterms"? –Those dealing in international trade have just gotten comfortable with Incoterms 1990. Effective January 1, 2000 the revised version of Incoterms 2000 becomes effective. Since Incoterms were first published in 1936, they have been updated six times!

OK, so " what are Incoterms?" "Incoterms" precisely define the responsibilities of the buyer and the seller and are recognized as the international standard by customs authorities and courts in all the main trading nations. They are standard trade definitions and are issued by the International Chamber of Commerce.

When used correctly, their use reduces the risk of costly misunderstandings and legal disputes. The latest edition recognizes the increased use of intermodal transport. Several of the reworded terms provide for the delivery of goods from the seller to the buyer at any point in the transportation chain.

There are no new terms and none of the old terms are eliminated. The drafters of Incoterms 2000 want us to change our "mindset" about the application of the new terms. Replace title (ownership) change with "delivery" (i.e. at what place during the shipment does the seller transfer the *insurable risk of loss or damage* to the cargo to the buyer). Therefore, understanding Incoterms is critical as it relates to insurable interest. In other words, you must have insurable interest in the goods to insure them!

Incoterms also specify the loading and unloading obligations of the buyer and the seller. Revised definitions for the FAS (Free Alongside Ship) and DEQ (Delivered Ex Quay) Incoterms reverse the obligation of customs clearance. Under FAS, the seller will now have to clear the goods for export. Under DEQ, the buyer will now bear the responsibility for clearing the goods. The Incoterms 2000 have been redrafted to facilitate their use in customs-free zones. The Incoterm FOB is generally not appropriate for containerized cargoes. The term FCA (Free Carrier) is generally more suitable.

The 13 Incoterms are:

EXW (Ex Works)

FCA (Free Carrier)

FAS (Free Alongside Ship)

FOB (Free on Board)

CFR (Cost and Freight)

CIF (Cost, Insurance and Freight)

CPT (Carriage Paid To)  
CIP (Carriage and Insurance Paid To)  
DAF (Delivered At Frontier)  
DES (Delivered Ex Ship)  
DEQ (Delivered Ex Quay)  
DDU (Delivered Duty Unpaid)  
DDP (Delivered Duty Paid)

When shipping under EXW, FCA, FAS & FOB, the buyer can nominate forwarder and carrier AND control delivery. These terms are not appropriate for use with banking documents (drafts and letter of credit). Utilization of these terms should only be to deliver to a place in the United States. These terms can be very risky for the seller.

Additional information can be obtained from your local Roanoke Trade Services account executive or from the International Chamber of Commerce's web site at [www.iccwbo.org](http://www.iccwbo.org).

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