

eLearning module

# Incoterms® 2020

Course takeaways

This eLearning course provides a general overview of **Incoterms® 2020** rules from both the perspectives of the **EU Customs & Tax administrations** and the **EU traders**.

This is a quick and handy summary of the most relevant module information:

## 1. The Incoterms® rules purpose

With the **revolution** in the international trade in the last century, **different** practices and inconsistent legal **interpretations** between the **trading parties** around the world soon resulted into the necessity of a **common set of trading rules** and guidelines. The **International Chamber of Commerce (ICC)**, as a response, published the first **Incoterms® rules** in 1936.

**Incoterms®** is an acronym that stands for "**International Commercial Terms**". It is a series of **three-letter** trade terms related to **common contractual trading practices** that can be used in sales contracts.

These clauses distinguish between the **responsibilities** and the **obligations** of the buyer and the seller. Incoterms® set up the bearing by the parties of **various expenses** of the delivery of goods, such as **loading the goods**, arranging the **transport**, covering with **insurance**, processing the export and import **customs clearance** etc., and they distinguish the **transfer of risks** in the event of damage to the goods during their transport.

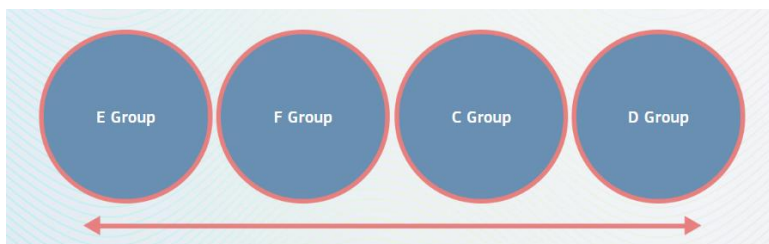
The Incoterms® rules provide specific **guidance** and **clarity** to economic operators who deal with **trading of goods** around the globe on a daily basis.

## 2. Incoterms® and the UCC

These **Incoterms® descriptions** are stipulated in the **UCC** and correspond to the terms used in the legal acts. They refer to the customs clearance and the duties of the trading parties that are **only applicable** in the case of international (from and to EU) trade.

## 3. Universal Guidance

Incoterms® are clauses used in trade contracts established by the International Chamber of Commerce,



which regulate the obligations and responsibilities of the buyer and seller for the delivery of goods.

Incoterms® are divided into 4 groups. They are denoted by three-letter abbreviations, where the first

letter represents the group and the other two represent the main characteristics of the relevant delivery conditions

### 3.1 Responsibilities - Obligations

The **responsibilities** and the **obligations** of the seller and the buyer include the **costs** of the **transportation** of goods, **insurance**, **loading** and **handling** of goods, the **provision of documents** and information accompanying the goods, the settlement of **export**, **import** and, where appropriate, **customs formalities**.

### 3.2 Risks

**Incoterms®** define the **place** where and the **time** when the **delivery** of goods takes place, and where/when the **risk passes** from the seller to the buyer.



### 3.3 Costs

**Incoterms**<sup>®</sup> distinguish the **responsibility of the costs** between the trading parties, including the goods transportation, packaging, loading or unloading costs, handling, insurance, administrative costs, export and import taxes.

**All costs** incurred in a third country related to the delivery of goods are included in the **customs value**, unlike costs incurred in the customs territory of the Union.

### 3.4 Legal validity

The **Incoterms**<sup>®</sup> rules are **not a legal act**; they are not required by law, nor are they mandatory. They are only **useful** elements that can be used in trading **contracts** and customs.

### 3.5 Older Incoterms<sup>®</sup> versions

Contracts referring to **previous versions** of Incoterms<sup>®</sup> rules are still valid. Each contract is controlled by the version of Incoterms<sup>®</sup> rules that was referred to.

In contracts, trading parties are advised to always refer to the **most recent revision** of Incoterms<sup>®</sup>.

### 3.6 Transfer of property or title

Incoterms<sup>®</sup> rules do not deal with the **transfer of the property/title/ownership** of the goods. They only determine the **place of the delivery** of goods.

### 3.7 Insurance

**Incoterms**<sup>®</sup> only address one trading party's obligations to the other party. As a rule, Incoterms<sup>®</sup> **do not require** either side of the trading parties to procure **insurance** as part of their contractual obligations; however, this does not mean that the seller and the buyer should not insure their goods.

## 4. Group E: Dispatch

The **delivery place** is the point where the seller simply **puts the goods** at the disposal of the buyer for **collection**. This is also the spot where the **risk is transferred** from the seller to the buyer.

The risk is transferred from the seller to the buyer **before** the transport cycle even starts. The seller fulfils their obligation to deliver the goods no matter whether they actually arrive at their destination.

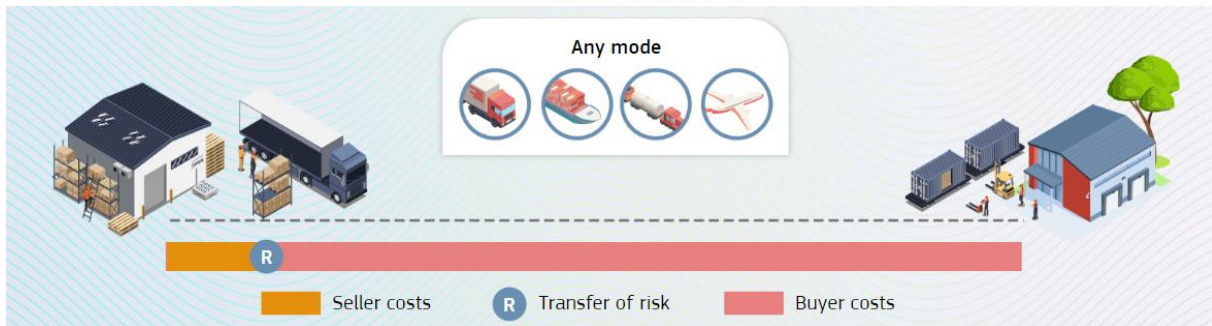
The **E Group** contains the rule with **minimum** obligations, risks and costs imposed on the seller.

### 4.1 EXW - Ex Works

The **EXW, Ex Works**, delivery conditions are applicable to **all modes** of transport, including rail and air. Several modes of transport can be used in combination.

The seller prepares the goods to be **handed over** to the buyer at the **seller's premises** or another indicated place (i.e., factory, company, warehouse, etc.). The contracting parties should precisely specify the **delivery place**; the seller is responsible for all costs and risks up to that point, while the buyer bears all costs and risks of transport thereafter that point of delivery.

The seller does **not** undertake any **obligations to load** the goods into the buyer's means of transport nor to arrange the **customs formalities** for the export of the goods.



## 5. Group F: Basic transportation unpaid

In both the F and C groups of Incoterms® the place of delivery is on the **seller's side** of the anticipated transport cycle, no matter if a multimodal means of transport is used, or exclusively a maritime one. These rules are often called '**shipment rules**'.

In the F Group it is the responsibility of the **buyer** to arrange the **carriage of the goods** beyond the place of delivery to their destination (unless the trading parties agree otherwise).

### 5.1 FCA - Free Carrier

The **FCA, Free Carrier**, delivery conditions are applicable to **all modes of transport**, including rail and air. Several modes of transport can be used in combination.

Having completed the **customs formalities** for the **export** of the goods and paid (or accepted the responsibility to pay) the **export taxes**, the seller delivers the goods in one of the following two ways:

#### When the goods are delivered at the seller's premises

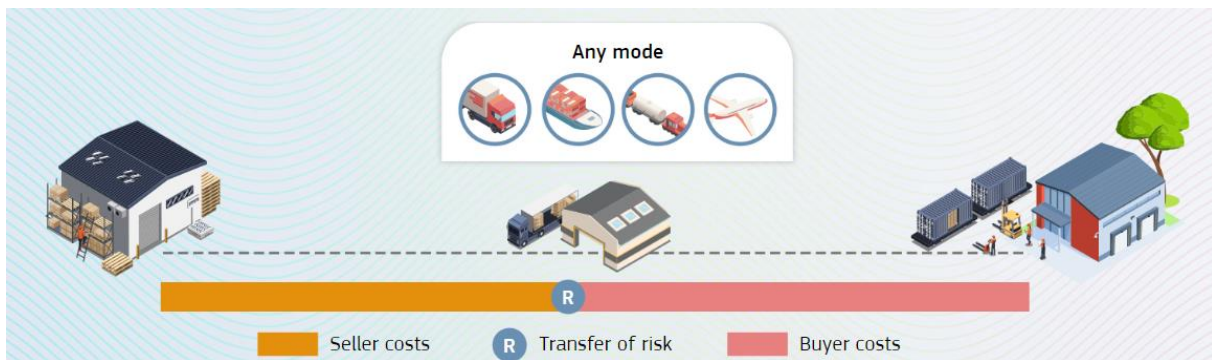
The seller must **load the goods** onto the means of transport specified by the buyer and bear the related costs and risks.



#### When the goods are delivered at a different place than the seller's premises, i.e. carrier or other warehouse, railway station, sea or airport warehouses, etc.

The seller must **place** the goods at the **disposal** of the carrier, or another person designated by the buyer; the goods loaded on the seller's means of transport arrive at the specified place and are ready for unloading and at the disposal of the carrier or of another person nominated by the buyer.

All **costs** related to the **delivery** of the goods to the **place specified** by the buyer are paid by the **seller**. From this delivery moment, all costs related to the goods and the risk of loss or damage to the goods are **transferred** from the seller to the buyer.



## 5.2 FAS - Free Alongside Ship

The **FAS, Free Along Ship**, delivery conditions are applicable **only to sea and inland waterway transport**.

When **FAS** is used, it is the seller's responsibility to carry out **export clearance for the goods**, take the goods to the port, and **place them next to the ship** designated by the buyer at the designated place (in the port). This means that the seller bears the risk and costs up to that point.



## 5.3 FOB - Free on Board

The **FOB, Free on Board**, delivery conditions are applicable **only to sea and inland waterway transport**.

The FOB Incoterm® is used if the seller has the opportunity to organize the **transportation** of the goods to the **port** and **load the goods onto the ship**. From this moment, the obligations are transferred to the buyer.



## 6. Group C: Main transportation paid

In the C Group it is the responsibility of the **seller** to arrange the carriage of the goods beyond the place of delivery to their destination (unless the trading parties agree otherwise). The trading parties need to attach to the name of the C Group Incoterms® rule the **destination place**, to which the seller must arrange the carriage of goods.



However, the destination **never** becomes the place of delivery. In the C Group rules, the delivery point and the destination place are **different** places.

## 6.1 CFR - Cost and Freight

The **CFR, Cost and Freight**, delivery conditions are applicable **only to sea and inland waterway transport**.

When the **CFR** delivery condition is applied, the seller is responsible for the cost of the **transportation** of the goods to the **port of their destination** as specified by the buyer, including the **costs of loading** onto the ship. The contract must **include** the port of destination, not only the port where the goods are loaded onto the ship, even though the port of loading is where the **risk** of damage to the goods passes to the buyer.



## 6.2 CIF - Cost, Insurance and Freight

The **CIF, Cost, Insurance and Freight**, delivery conditions are applicable **only to sea and inland waterway transport**.

When the **CIF** delivery condition is applied, the seller is responsible for the cost of the **transportation** and **insurance** of the goods to the **port of their destination** as specified by the buyer, including the **costs of loading** onto the ship. The contract must also **include** the port of destination, not only the port where the goods are loaded onto the ship, even though the port of loading is where the risk of damage to the goods passes to the buyer.



## 6.3 CPT - Carriage Paid to

The **CPT, Carriage Paid to**, delivery conditions are applicable to **all modes of transport**, including rail and air. Several modes of transport can be used in combination.

The seller **delivers the goods** to a carrier, with whom they sign a specific contract for the delivery of the goods at their **destination**. The seller **hands over** the goods to the carrier and **pays** for the transport. The carrier **transports the goods** to the place specified by the buyer.

The **risk** of loss and damage of the goods, as well as all other costs related to the goods (which are not covered by the contract of carriage) pass from the seller to the buyer when the goods are **delivered** by

the seller **to the (first) carrier**. This is the **place of delivery** and not the place of the goods destination - as is sometimes mistakenly considered.



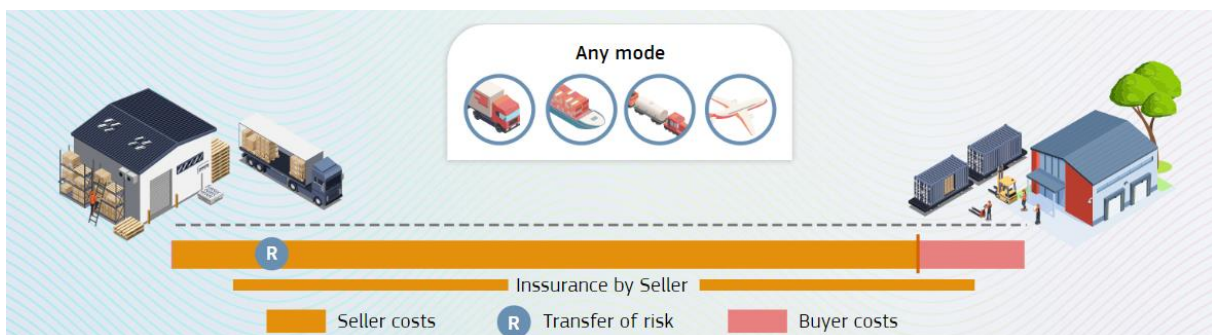
## 6.4 CIP - Carriage and Insurance Paid to

The CIP, **Carriage and Insurance Paid to**, delivery conditions are applicable to **all modes of transport**, including rail and air. Several modes of transport can be used in combination.

The seller **delivers the goods** to a carrier, with whom they sign a specific contract for the delivery of the goods at their destination. The seller **hands over** the goods to the carrier and **pays for the transport**. The carrier transports the goods to the **place** specified by the buyer.

Additionally, the seller is obliged to **insure** the goods for the **maximum amount of money** against the **risk** of their possible damage or loss during transportation.

The **risk** of loss and damage of the goods, as well as all other costs related to the goods (which are not covered by the contract of carriage) pass from the seller to the buyer when the goods are **delivered** by the seller **to the (first) carrier**. This is the **place of delivery** and not the place of the goods destination - as is sometimes mistakenly considered.



## 7 Group D: Delivery

When the D Group rules are used (DAP, DPU and DDP), the **delivery place** and the **destination point** are the **same** location. The seller fulfils their obligation to deliver the goods **only** if they actually arrive at the **agreed destination point**.

The risk is transferred from the seller to the buyer **very late** in the transport cycle, at the place of their arrival at the agreed destination.

The seller should **bring the goods to the buyer** at the point agreed in the buyer's country, or at any rate in a country chosen. When the DDP rule is used the seller is also responsible for the **import clearance** of the goods in the case of international trade.

The D Group rules impose the **maximum** level of involvement on the seller, in terms of obligations, risk and costs.

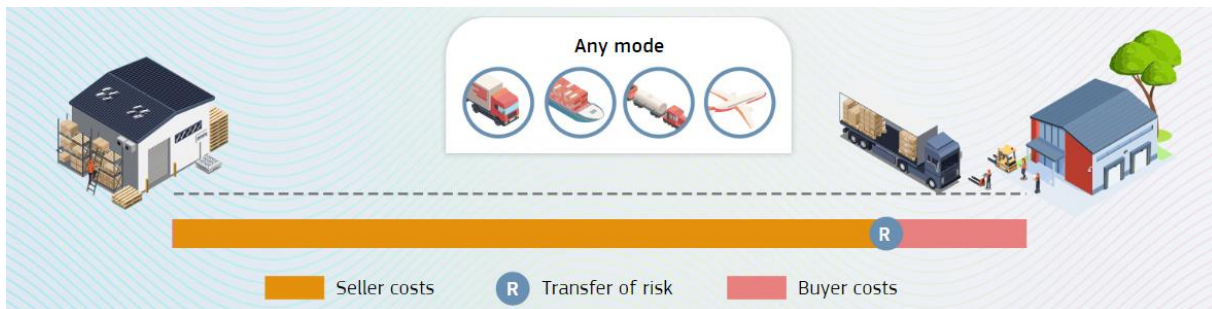


### 7.1 DAP - Delivered at Place

The **DAP Incoterm® conditions** can be used for **all modes of transport**, as well as when combining modes of transport.

The seller is responsible for **organizing the means of transport** and paying the **transport costs** to the **specified destination**; the goods must be **ready for unloading**, but not unloaded.

The **risk** passes from the seller to the buyer when the goods **reach their destination**.

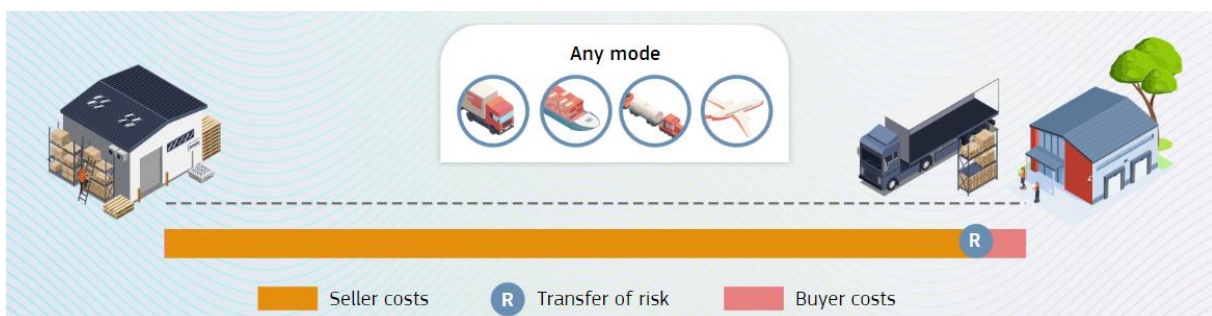


### 7.2 DPU - Delivered at Place Unloaded

The **DPU, Delivered at Place Unloaded**, Incoterms® can be used for **all modes of transport**, as well as when combining modes of transport.

The seller is responsible for **organizing the means of transport** and paying the **transport costs** (including transit if applicable) up to the **specified destination**, including **unloading** from the means of transport (a significant difference with the DAP delivery clause).

The **risk** passes from the seller to the buyer when the **goods arrive** at the **specified place** and are **unloaded** from the means of transport (including the ship). Therefore, the seller bears the risk arising from the unloading of the goods.



### 7.3 DDP - Delivered Duty Paid

The **DDP, Delivered Duty Paid**, Incoterms® can be used for **all modes of transport**, as well as when combining modes of transport.

The seller is responsible for the organization of the **means of transport** and the **delivery** of the goods to the **place specified** in the contract, as well as for the payment of **import customs clearance**, including import taxes (customs duty, value added tax and excise). The **risk** of damage to the goods passes from the seller to the buyer when the goods **have arrived** at the **buyer's location, ready for unloading**.

The DDP rule imposes the **maximum** obligation on the seller. The DDP sales contract covers the **value of the goods**, their **delivery costs** and customs clearance: **import and export fees and taxes, where applicable**.



The DDP delivery condition can raise many **questions** by the customs of the destination country: customs may require additional information about the value of the goods without transport costs, taxes paid, customs representative costs, etc.



## 8 XXX - Incoterm® rule not specified

There might be cases where the buyer and seller of the goods agree on **other** delivery terms or conditions than those included in Incoterms® 2020. The trading parties are still **able to use** delivery terms from **previous** Incoterms® versions in their contracts, such as DAT, DAF, DDU, DES, or DEQ.

In these cases, a **detailed description** of the delivery conditions must be stipulated in the contract between the trading parties:

- The **seller's obligations**: prepare, deliver, load or reload the goods at the place of delivery agreed with the buyer, as well as bear the risks, insurance coverage and costs (including transportation costs).
- The **buyer's obligations**: pick up from the seller, load or restock the goods at the place of delivery agreed with the seller, as well as bear the risks and costs (including transportation costs)

## 9 Customs Declaration

When completing a customs declaration for the release of the goods for free circulation in the EU, it's essential to provide accurate and complete information, including the applicable Incoterm. This ensures a smooth and efficient customs clearance process and reduces the risk of delays or additional charges being incurred.

### 9.1 Contracts

The trading parties choose the **Incoterms® 2020** rule that satisfies their specific delivery requirements and preferences, as well as the nature of the goods being shipped and the shipping method they select. It should be underlined that agreeing on an Incoterms® **does not replace** the sales contract between the seller and the buyer.

Even if the trading parties can select the most appropriate Incoterms® rule, they have the freedom to set **amendments** to the delivery conditions, according to their **needs**. In this case these **delivery specifics** should be **described** and confirmed in the **contract** for the purchase and sale of goods.

### 9.2 External transportation costs

Bringing the goods to the place of first entry to the customs territory of the Union

#### Incoterms® E and F Groups

When the **Incoterms® Group E** delivery conditions are applied, the **costs** of transporting goods from the place of dispatch of the goods to their destination are paid by the **buyer**.

When the **Incoterms® Group F** delivery conditions are applied, the cost of carriage from the place of handover of goods to the carrier or the cost of carriage of goods from the place of the specified port of departure to the place of destination are paid by the **buyer**.

The part of these costs related to bringing the goods to the **place of entry into the customs territory of the Union** must be **added** to the transaction value of the imported goods.

### **Incoterms® C and D Groups**

When the delivery conditions of **Incoterms® Groups C or D** are used, the goods transportation costs are paid by the **seller**.

In cases where transportation costs are indicated **separately** in the invoice provided by the seller to the buyer, the transaction value of the imported goods is the **sum** of the transaction price of the goods and the transportation costs to the place of entry of the goods to the customs territory of the Union.

### **9.3 Intra-EU transportation costs**

If goods brought into the customs territory of the Union **continue** to be transported to their destination, regardless of whether the goods are transported by the same means of transport or not, the costs of their **transportation inside the customs territory of the Union** are **deducted** from the transaction value of imported goods.

The declarant usually calculates the transportation costs inside the customs territory of the Union, using information about the **route of goods**, and/or the **invoice** for payment for transport services, etc.

### **9.4 Costs Evidence**

The **conditions of delivery of goods** specified in the contract of sale of goods or the invoice, and the fulfilment of other obligations of the buyer and seller (payment of the costs of transportation, insurance, loading and handling of the goods) are substantiated by the following documents:

- **Contracts** for the carriage of goods and/or **bills of lading** (aircraft bills of lading, CIM or SMGS railway bills of lading, CMR bills of lading, etc.) and/or freight forwarding documents;
- **Invoices** and **receipts** for the services of loading, reloading, unloading, storage or handling of goods
- **Insurance policies** or other insurance documents;
- **Other** invoices and receipts for payment for related services

### **9.5 Loading, handling and insurance costs**

The **costs of loading, unloading, reloading** and **insurance** of goods or their part are **added** to the transaction value of imported goods, taking into account the Incoterms® 2020 delivery conditions and the additional obligations assumed by the parties to the contract.

### **9.6 Distribution of costs in case of importing several types of goods**

If the **costs** of transportation, loading, unloading and/or transshipment of **several types of goods** are indicated in the invoice or other document as **one sum together**, they shall be **distributed** proportionally according to the **value** or **mass** of each type of goods, except in cases where another distribution of these costs based on objective and quantifiable data is submitted to customs.

If the **insurance costs** of several types of goods are indicated together in the insurance policy or other insurance document, they are **distributed proportionally** according to the **value or mass** of each type of goods, except in cases where another distribution of these costs based on objective and quantifiable data is presented to customs.



## 9.7 Secondary customs valuation methods

In cases where the purchase and sale documents of imported goods submitted to customs **do not specify** their delivery conditions, and the costs invoices and receipts contain **conflicting information** or do not specify the costs of transporting the goods at all, customs will **request** additional documents from the declarant.

## 9.8 VAT

In order to calculate the **taxable value** of imported goods, from which **import VAT** is calculated, the following costs are added to the transaction value of goods:

- **Customs duties, taxes** and other contributions paid or payable in a third country and **import duties, taxes** and other contributions determined in the European Union, with the exception of VAT;
- **Costs** related to the **delivery of the goods** (including additional transport services) to the first destination in the territory of the country (the place specified in the documents or the first place of entry of the goods into the country), **insurance** of the goods, costs of **packing** the goods and commissions paid or payable for **representation**;
- Incidental **expenses**, such as commission, packing, transport and insurance costs, incurred up to the **first place of destination** within the territory of the Member State of importation as well as those resulting from transport to another place of destination within the Community, if that other place is known when the chargeable event occurs.

## 10 Customs Clearance

Incoterms® rules play a crucial role in customs clearance because they determine who is responsible for covering the costs of transportation and insurance of the goods that affect the value of goods, and who is responsible for customs clearance and payment of import duties and taxes, where applicable.

Incoterms® provide a standardized language that is recognized and understood globally, facilitating communication between parties from different countries and cultures. This can help to streamline the customs clearance process and reduce the risk of errors or misunderstandings

### 10.1 The declarant

For **customs clearance**, the **declarant** is responsible for submitting all the **necessary documentation**, and paying any **applicable duties** and **taxes** to the customs authorities.

- If the buyer is responsible for the **import formalities**, they should ensure they **have obtained** all the required information and documentation from the seller to facilitate customs clearance, such as the **invoice**, the **packing list**, the **bill of lading** or **airway bill**, and any relevant **invoices, receipts, certificates** or **licenses**.
- If the buyer is not familiar with the **customs clearance process**, they may want to consider contracting a **customs representative** to handle this for them. The customs representative can provide **guidance** on the required **documentation**, handle the customs clearance process on the buyer's behalf, and ensure **compliance** with all relevant regulations and requirements.

### 10.2 Customs

**Customs clearance** in the European Union (EU) involves a series of procedures to obtain **permission** from customs authorities to **import** or **export** goods. Customs plays a crucial role in this process by verifying the **accuracy of the information** provided, **ensuring compliance** with EU regulations and laws, and collecting any applicable **taxes** and **duties**.

Customs clearance implies the following actions by Customs:

- **Documents verification:**  
EU customs officers will **review the documents** submitted by the importer/exporter to ensure that they are **complete** and **accurate**. This includes the invoice, packing list, bill of lading or airway bill, and any relevant certificates or licenses.
- **Risk assessment:**  
EU customs officers may **assess the level of risk** associated with the goods being imported/exported based on factors such as the origin of the goods, the nature of the product, and the importer/exporter's history.
- **Physical inspection:**  
EU customs officers may **physically inspect** the goods to verify that they **match the description** provided in the documents and to **check** for any prohibited or restricted items. The inspection may take place at the point of entry or at a designated inspection site.
- **Calculation of duties and taxes:**  
EU customs will **calculate** the applicable **duties** and **taxes** based on the value of the goods and any other relevant factors. This includes Excise, **Value Added Tax (VAT)** and customs **duties**. Customs may sometimes ask the declarant for a proof of the 'clean cost' of the goods ('ex works price' or sometimes referred also as "intrinsic value") without any loading or transport costs. A document proving this value can generally be issued only by the seller of the goods.
- **Payment processing:**  
Once the duties and taxes have been calculated, the importer/exporter will need to **pay** these **fees** to EU customs. This can be done electronically through the EU's Customs Decision Management System (CDMS).
- **Release of goods:**  
After the duties and taxes have been paid or guaranteed, and any necessary inspections have been completed, EU customs will **release the goods** for import/export.

*Remember, this is a quick and handy summary of the most relevant course information. Only the European Union legislation published in the Official Journal of the European Union is deemed authentic. The Commission accepts no responsibility or liability whatsoever with regard to the training.*

