

What are INCO Terms? Why are They Important for International Trade?



INCO Terms refer to International Commercial Terms that clearly define the respective obligations, costs, and risks involved in the delivery of goods from the seller to the buyer. These are a set of rules published by the International Chamber of Commerce—which are voluntary, authoritative, and globally-accepted. The last two INCO Terms publications are Incoterms® 2010 and Incoterms® 2020. Both are valid for use in your trade transactions, but remember, when it comes to the sales contracts, you should clearly mention which one you're going with by mentioning the year.

INCO Terms are divided into groups. The latest INCO Terms 2020 are categorized into four groups C, D, E, and F. These are classified according to the fees, risk and responsibility for formalities.

Category	Relevant INCO Terms
<p>Group C:</p> <p>The seller pays for the main carriage and other related costs.</p>	<p>CFR – Cost and Freight</p> <p>CIF – Cost Insurance and Freight</p> <p>CPT- Carriage Paid To</p> <p>CIP – Carriage and Insurance Paid To</p>
<p>Group D:</p> <p>The seller is obliged to deliver the goods to a specific place or to the port of destination.</p>	<p>DAP – Delivered at Place</p> <p>DPU – Delivered at Place Unloaded</p> <p>DDP – Delivered Duty Paid</p>
<p>Group E:</p>	<p>EXW – Ex Works</p>

The seller makes the goods available to the buyer at the seller's agreed delivery point.

Group F:

The seller does not pay for the main carriage but bears the other related costs up to the agreed cargo delivery point.

FCA – Free Carrier

FAS – Free Alongside Ship

FOB – Free On Board

Another important thing to know is that, within these groupings, there are INCO Terms that are transport mode specific. INCO terms such as FAS, FOB, CFR, and CIF are only applicable for Sea and inland waterways transport whilst all other terms can be used for any mode of transport.

Rules for any mode or modes of transport	Rules for sea and inland waterway transport
EXW – Ex Works	FAS – Free Alongside Ship
FCA – Free Carrier	FOB – Free On Board
CPT – Carriage Paid To	CFR – Cost and Freight
CIP – Carriage and Insurance Paid To	CIF – Cost Insurance and Freight
DAP – Delivered at Place	
DPU – Delivered at Place Unloaded	
DDP – Delivered Duty Paid	

This is where we see so many traders use incorrect terms as they don't really pay sufficient attention to select the correct INCO Term in their contracts. As a result, the transactions could end up in a massive financial and business loss when it comes to claims or disputes. Another common mistake that is made is the use of FOB instead of FCA for multimodal transport and for containerized shipments.

INCO Terms 2020 requires a different level of insurance coverage for the CIP term, with an 'Institute Cargo Clause A'. For all other INCO terms, depending on the actual term used, the seller or buyer should cover Insurance based on the relevant party's responsibility.

INCO Terms are just one part of a trade sales contract. INCO Terms don't say anything about the price to be paid, the method of payment of the transaction or any guarantee on the payment for goods.

Also, INCO Terms rules don't deal with the transfer of ownership of the goods, breach of contract, or product liability. All of these should be specifically stated in the contract of sale separately.

In conclusion, make sure to select the proper INCO Terms, and make sure both the buyer and seller thoroughly understand the INCO Terms used. Use of the right INCO Term eliminates ambiguities or inconsistencies in sales and shipping contracts. This makes it easy for sellers and buyers to identify and manage costs and liabilities when transporting cargo between origins to destinations.

These are just a handful of tips for buyers and sellers. We recommend you take a look at the new Incoterms® 2020 rule book published by the International Chamber of Commerce to make sure your transactions are trouble free.

Source - English: <https://economy.lk/what-are-inco-terms-en/>