

A Guide to the Use of Incoterms[®]



Incoterms® are internationally accepted rules for the interpretation of the most commonly used trade terms in foreign trade and were developed and published by the International Chamber of Commerce (ICC).

They are designed to aid the international movement of goods by avoiding, or at least reducing, the uncertainties of differing interpretations of such terms in different countries, thus providing the forwarding industry with a clearer understanding of the contract agreed between shipper and consignee.

Incoterms® are merely accepted commercial practice. They become contractual when incorporated in the contract between buyer and seller. Forwarders need to know the exact terms of sale between buyer and seller. This can only be established with certainty if shipping instructions are given in writing. Uncertainty can still exist if terms are not quoted in full.

Incoterms® can never be absolute on which party is responsible for certain precise costs however the clearer the intention is stated then there is less possibility of disputes arising.

Prior editions of Incoterms®

One thing to remember is that Incoterms® do not get automatically superseded by a new edition. To use an Incoterm correctly the edition should be stipulated. For example FOB Shanghai Incoterms® 2010 or FOB Shanghai Incoterms® 2000 are both valid Incoterms® should a seller and buyer agree them. To use the latest variation of Incoterms® a seller would have to put FOB Shanghai Incoterms® with the appropriate edition year.

Checklist

- Has the shipper quoted terms in full? For example, CIF [Cost, Insurance and Freight] must additionally show a named place. Even CIF London may not be sufficiently definitive.
- Is the Incoterm® used appropriate to the mode of transport?
- Do you understand your contractual responsibility? Because forwarders may work for the buyer or the seller – and sometimes both – these responsibilities must be clarified if unclear.
- Some Incoterms® definitions do not clearly indicate who is responsible for each element of the forwarder's charges. For example, FCA [Free Carrier] (named place) does not clarify sufficiently who might pay Terminal Handling Charges. Check with the supplier/ consignee regarding their understanding of the terms.
- Has the edition of Incoterms® been specified?

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