

INCOTERMS® 2020 RULES

THE MERCADO INSTITUTE OF
INTERNATIONAL TRADE

DECEMBER 4, 2019

mercado



SIX-INSTALLMENT WEBINAR SERIES: OBJECTIVE

- Help importers and their supply chain partners to be more competitive in their trade endeavors
 - Heighten ***awareness*** of the strategic, tactical, and financial considerations inherent to the import process
 - Broaden ***perspective*** on the multi-functional and multi-player nature of importing



SIX-INSTALLMENT IMPORT WEBINAR SERIES: REMAINING SCHEDULE (ALL EVENTS 10:30 A.M. PST)

- 12/18/19: **Move: The ABC's of International Shipping & Customs Compliance**
- 1/8/20: **Buy & Move: Five Ways to Reduce Import Costs**

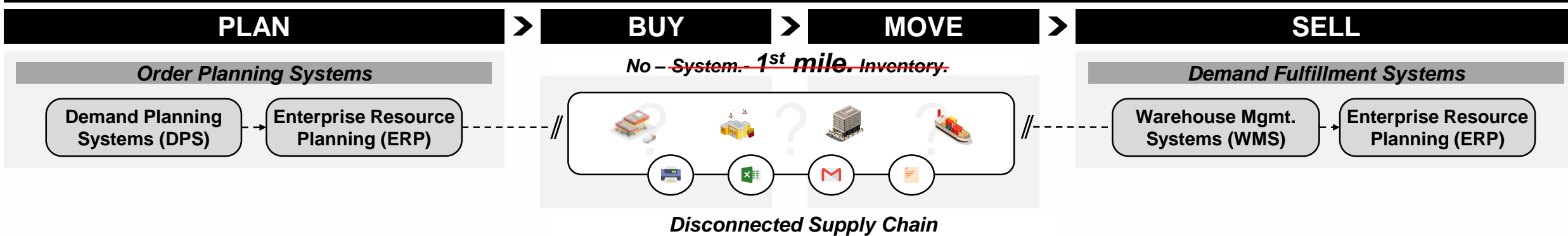
TODAY'S AGENDA

- Introduction to Mercado Labs
- What you'll always need to know about Incoterms
 - What Incoterms do, and do NOT do
- What's different about Incoterms® 2020 Rules
- Review of the eleven updated Incoterms® Rules 2020



THE MISSING LINK IN YOUR SUPPLY CHAIN

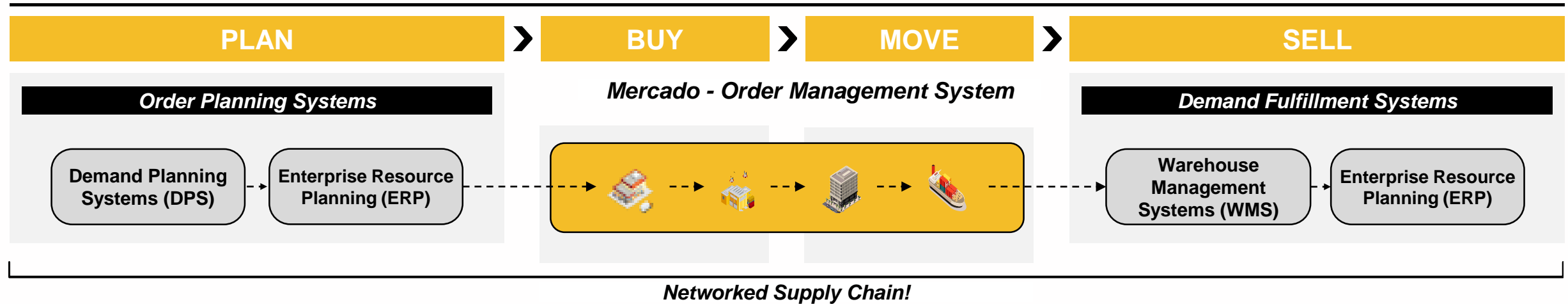
CURRENT STATE – Importers have systems to plan and sell products, however no system to manage product supply.



Digitize your First Mile, Transform your Global Supply Chain

BRING ORDER TO YOUR IMPORTS

MERCADO PLATFORM -



Affordable. Easy to Implement. Easy to Use.

TRANSFORM YOUR GLOBAL SUPPLY CHAIN

- Who needs Mercado?
 - Importers and your supply chain ecosystem
- Why do you need Mercado?
 - Increase sales
 - Decrease landed cost
 - Compress cumulative lead-time
 - Optimize inventory levels



WHAT YOU'LL ALWAYS NEED TO KNOW ABOUT INCOTERMS® RULES

- Incoterms (aka “shipping terms”) were established in 1936 by the International Chamber of Commerce in Paris, France
 - Ex Works, Free Carrier, Free On Board, etc.
- Incoterms are not laws, they are rules that govern responsibilities for shipping-related activities between a Seller and Buyer
 - When Incoterms® Rules are embedded in a legally binding Purchase Agreement, interpretation of shipping-related issues are subject to what is found in the Incoterms 2020 publication

INCOTERMS® RULES DEFINED

- By focusing on the seller's **delivery obligations** within an international sales contract Incoterms govern **three** critically important considerations:
 - At what physical point in a supply chain the risk of loss or damage to the goods shifts from seller to buyer
 - At what physical point in a supply chain the responsibility for all transportation, customs clearance, duties and related charges shift from the seller to the buyer
 - Responsibility between seller and buyer for execution of certain operational activities related to shipping the goods

THE ELEVEN OFFICIAL INCOTERMS® 2010 RULES

EXW Ex Works (named place of delivery)

FCA Free Carrier (named place of delivery)

FAS Free Alongside Ship (named port of shipment)

FOB Free On Board (named port of shipment)

CFR Cost & Freight (named port of destination)

CIF Cost, Insurance & Freight (named port of destination)

CPT Carriage Paid To (named place of destination)

CIP Carriage & Insurance Paid To (named place of destination)

DAT Delivered At Terminal (named terminal at port or place of destination)

DAP Delivered At Place (named place of destination)

DDP Delivered Duty Paid (named place of destination)

NEW INCOTERMS® RULES FOR 1/1/2020

- **DPU-Delivered At Place Unloaded**

EXISTING INCOTERMS® RULES THAT ARE MODIFIED IN THE 2020 UPDATE

- Free Carrier (FCA)
- Cost, Insurance & Freight (CIF)
- Carriage & Insurance Paid To (CIP)

INCOTERMS® 2020 RULES

EXW Ex Works (named place of delivery)

FCA Free Carrier (named place of delivery)

FAS Free Alongside Ship (named port of shipment)

FOB Free On Board (named port of shipment)

CFR Cost & Freight (named port of destination)

CIF Cost, Insurance & Freight (named port of destination)

CPT Carriage Paid To (named place of destination)

CIP Carriage & Insurance Paid To (named place of destination)

DAP Delivered At Place (named place of destination)

DPU Delivered At Place Unloaded (named place of destination)

DDP Delivered Duty Paid (named place of destination)

Black = Unchanged

Green = New

Purple = Modified

WHAT INCOTERMS® RULES DO AND DON'T DO

In a contract for sale between a Seller and Buyer Incoterms® Rules **cover**:

- Transfer of risk of loss or damage to the goods
- Responsibility for transportation, customs and related expenses
- Certain functional responsibilities related to the delivery of the goods

In a contract for sale between a Seller and Buyer Incoterms® Rules **do not cover**:

- Title transfer***
- Revenue recognition
- Remedies for breach of contract
- Payment terms
- Verified Gross Mass (VGM)**
- Any other non-delivery related clause in a comprehensive sales contract

NEW ORDER OF ARTICLES IN THE INCOTERMS® 2020 PUBLICATION

Seller's Obligations

- **A1:** General obligations
- **A2:** Delivery
- **A3:** Transfer of risks
- **A4:** Carriage
- **A5:** Insurance
- **A6:** Delivery/transport document
- **A7:** Export/import clearance
- **A8:** Checking/packaging/marking
- **A9:** Allocation of costs
- **A10:** Notices

Buyer's Obligations

- **B1:** General obligations
- **B2:** Taking delivery
- **B3:** Transfer or risks
- **B4:** Carriage
- **B5:** Insurance
- **B6:** Delivery/transport document
- **B7:** Export/import clearance
- **B8:** Checking/packaging/marking
- **B9:** Allocation of costs
- **B10:** Notices

DPU ARTICLES (EXCERPT)

A7 Export/import clearance

a) Export and transit clearance

Where applicable, the seller must carry out and pay for all export and transit clearance formalities required by the country of export and any country of transit (other than the country of import), such as:

- ▶ export/transit licence;
- ▶ security clearance for export/transit;
- ▶ pre-shipment inspection; and
- ▶ any other official authorisation.

b) Assistance with import clearance

Where applicable, the seller must assist the buyer, at the buyer's request, risk and cost, in obtaining any documents and/or information related to all import clearance formalities, including security requirements and pre-shipment inspection, needed by the country of import.

A8 Checking/packaging/markings

The seller must pay the costs of those checking operations (such as checking quality, measuring, weighing, counting) that are necessary for the purpose of delivering the goods in accordance with A2.

The seller must, at its own cost, package the goods, unless it is usual for the particular trade to transport the type of goods sold unpackaged. The seller must package and mark the goods in the manner appropriate for their transport, unless the parties have agreed on specific packaging or marking requirements.

A9 Allocation of costs

The seller must pay:

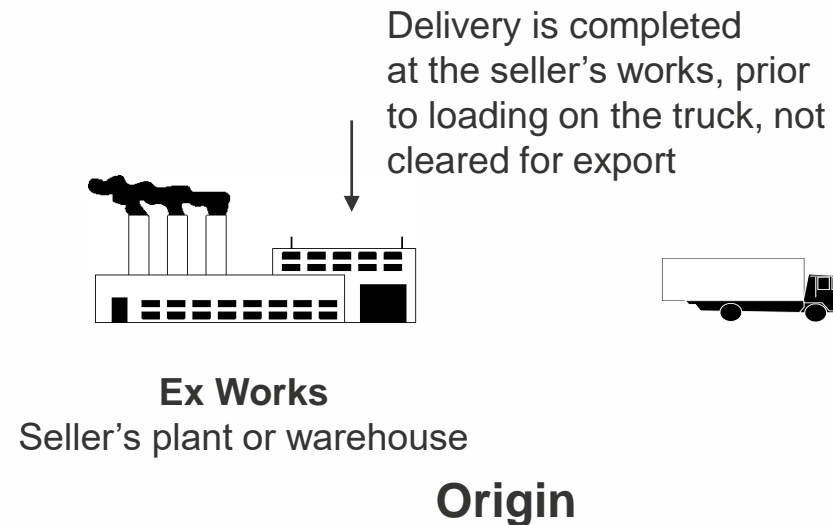
- a) all costs relating to the goods and their transport until they have been unloaded and delivered in accordance with A2, other than those payable by the buyer under B9;
- b) the cost of providing the delivery/transport document under A6;
- c) where applicable, duties, taxes and any other costs related to export and any transit clearance under A7(a); and
- d) the buyer for all costs and charges related to providing assistance in obtaining documents and information in accordance with B5 and B7(a).

FOCUS OF THE UPDATED INCOTERMS® 2020 RULES

- Additional clarity on the division of transportation and Customs related costs between Seller & Buyer
 - A9 & B9 in the Incoterms Articles
- An emphasis on security related obligations between Seller & Buyer
 - A4, A7, A9 & B9 in the Articles
- Addition of new section to the Incoterms publication, “Article by Article Text of Rules”
- *Under FCA, DAP, DPU and DDP, seller can provide carriage with their own equipment

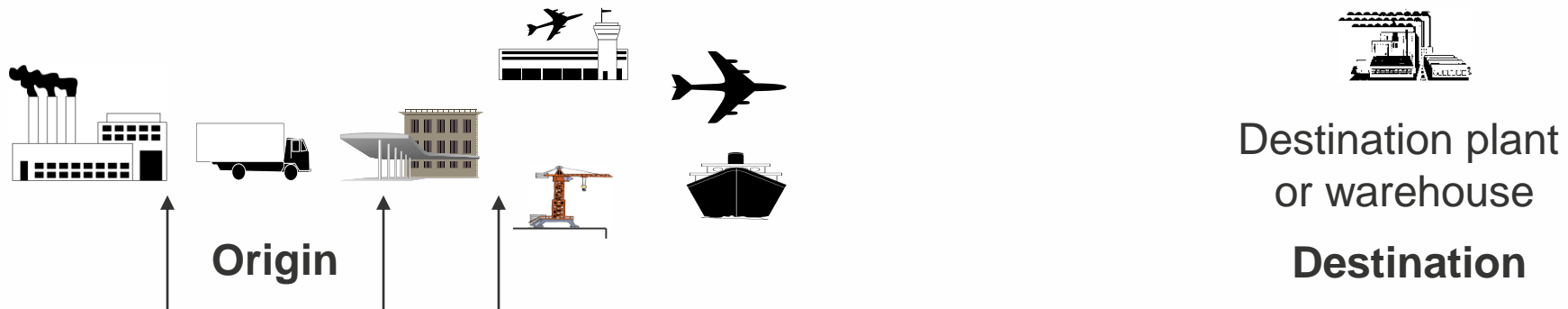
EXW: EX WORKS (NAMED PLACE OF DELIVERY)

- Minimum risk to the seller
- Delivery occurs when goods are made available at the seller's facility in origin & all transport/customs related costs are for the buyer
- Seller is not responsible for export customs clearance or loading of collecting vehicle
- Can be used with any mode or transport or combination thereof



FCA: FREE CARRIER (NAMED PLACE OF DELIVERY)

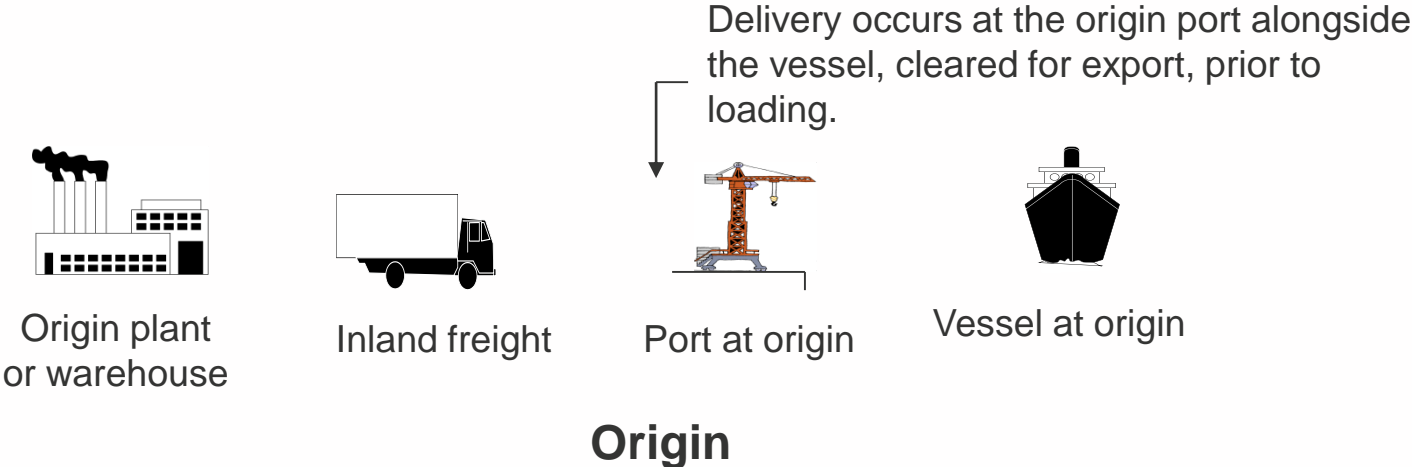
- There can be more than one delivery point at origin (seller's facility, forwarder's facility, port or airport)
- Delivery occurs when goods are presented to the carrier nominated by the buyer at the named place or port, loaded on the collecting vehicle, cleared for export
- "On Board"** notation allowed for ocean bill of lading (if agreed upon)



The seller's delivery responsibility can end at his works, at a forwarder's facility or at a port/airport. Under each scenario goods must be cleared for export.

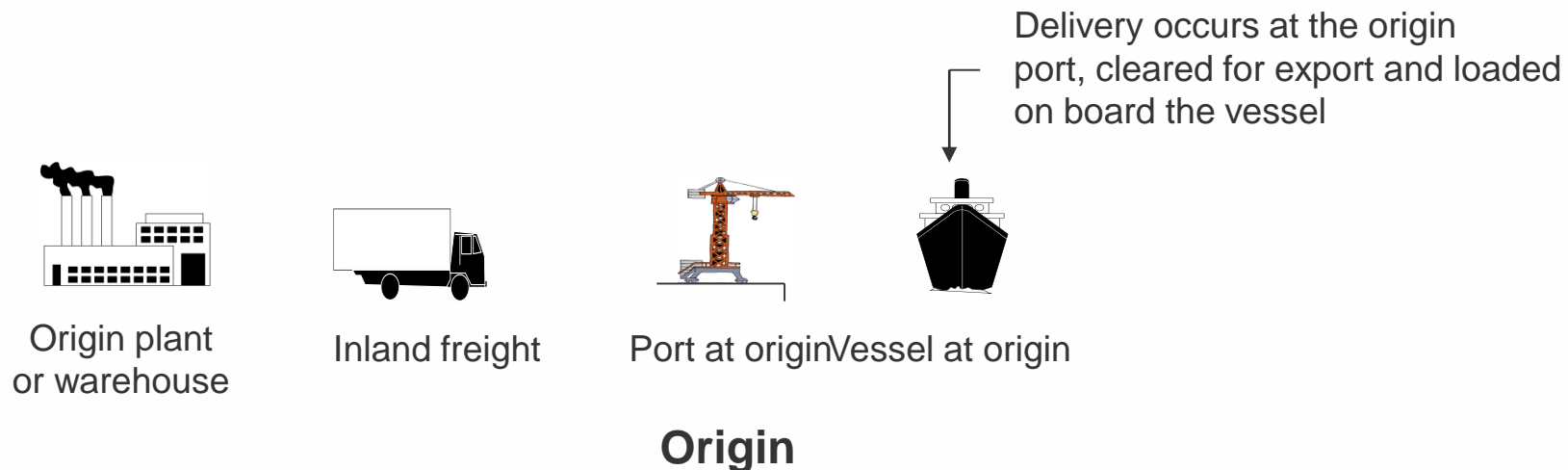
FAS: FREE ALONGSIDE SHIP (NAMED PORT OF SHIPMENT)

- Delivery occurs in the port of shipment alongside the vessel, prior to loading and all charges beyond that delivery point (including loading onboard the vessel at origin) are for the buyer
- Export clearance and inland freight charges up to the delivery point are for the seller's account
- Intended for ocean or inland waterway transportation only

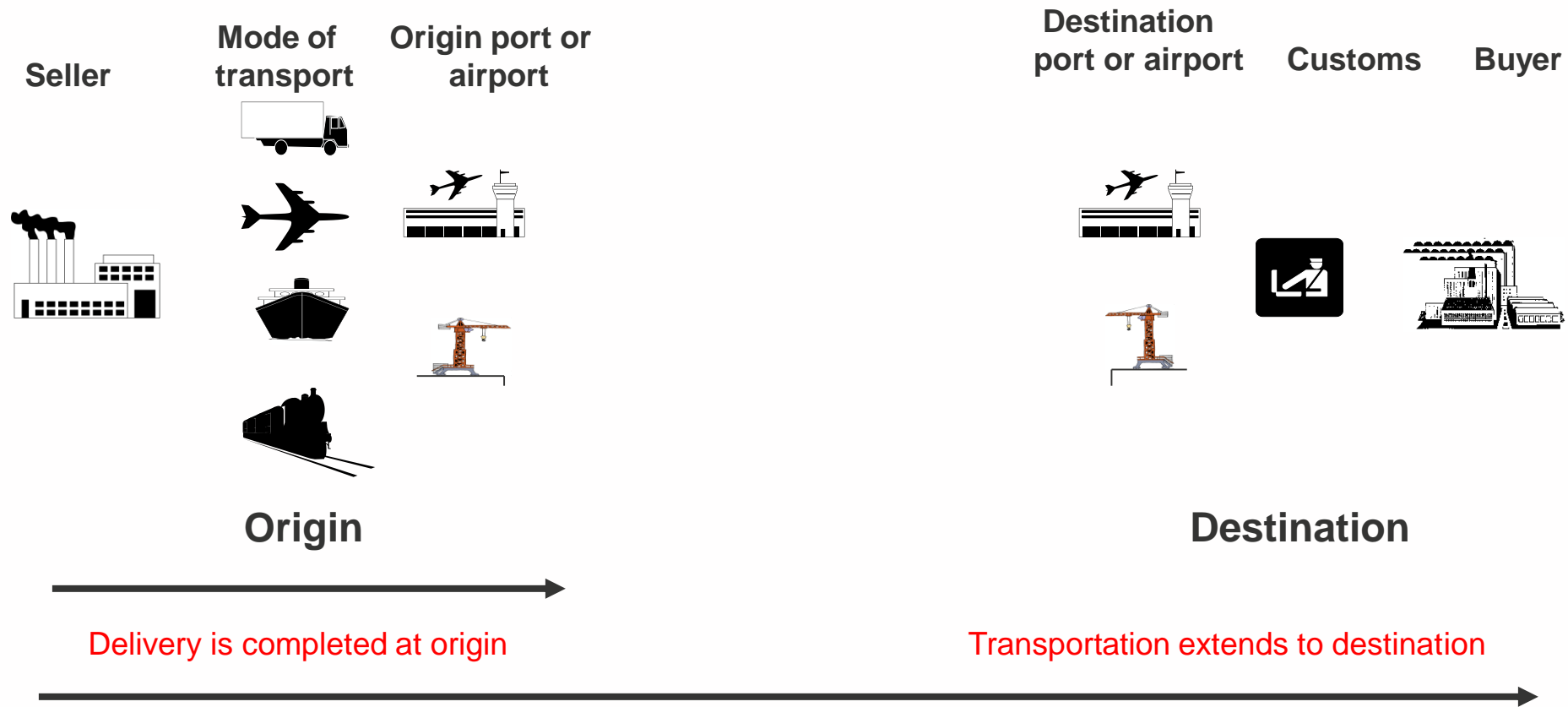


FOB: FREE ON BOARD (NAMED PORT OF SHIPMENT)

- Delivery occurs in the port of shipment when goods are loaded on board the buyer's nominated carrier (vessel) and all costs/risks beyond that point are for the buyer
- Export clearance and inland freight charges up to the delivery point are for the seller's account
- Not suitable for containerized cargo (use FCA in this case)
- Intended for ocean or inland waterway transportation only

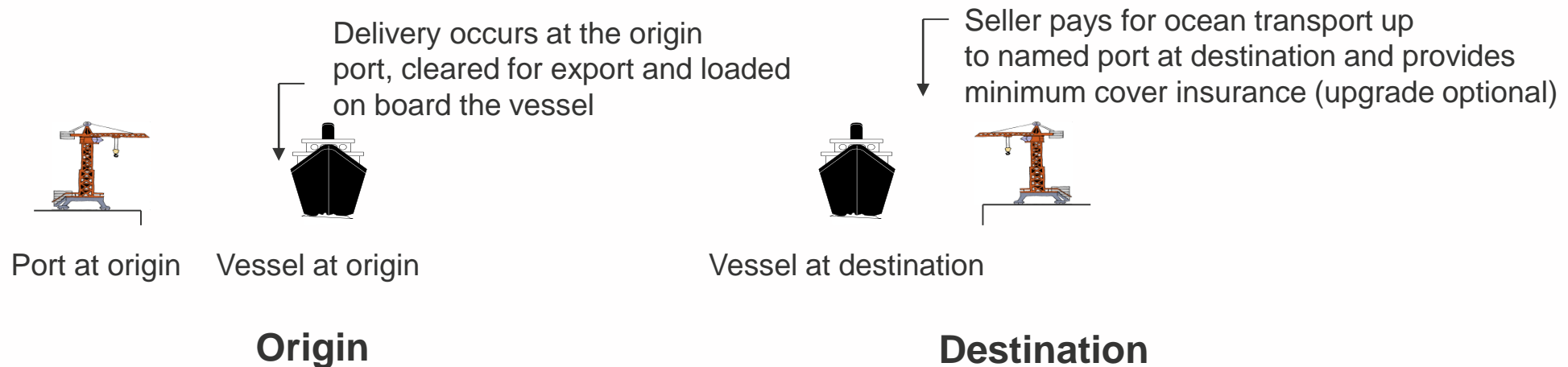


GROUP C "SHIPMENT" CONTRACTS: A HUGE DIFFERENCE BETWEEN DELIVERY AND TRANSPORT



CIF: COST INSURANCE & FREIGHT (NAMED PORT OF DEST.)

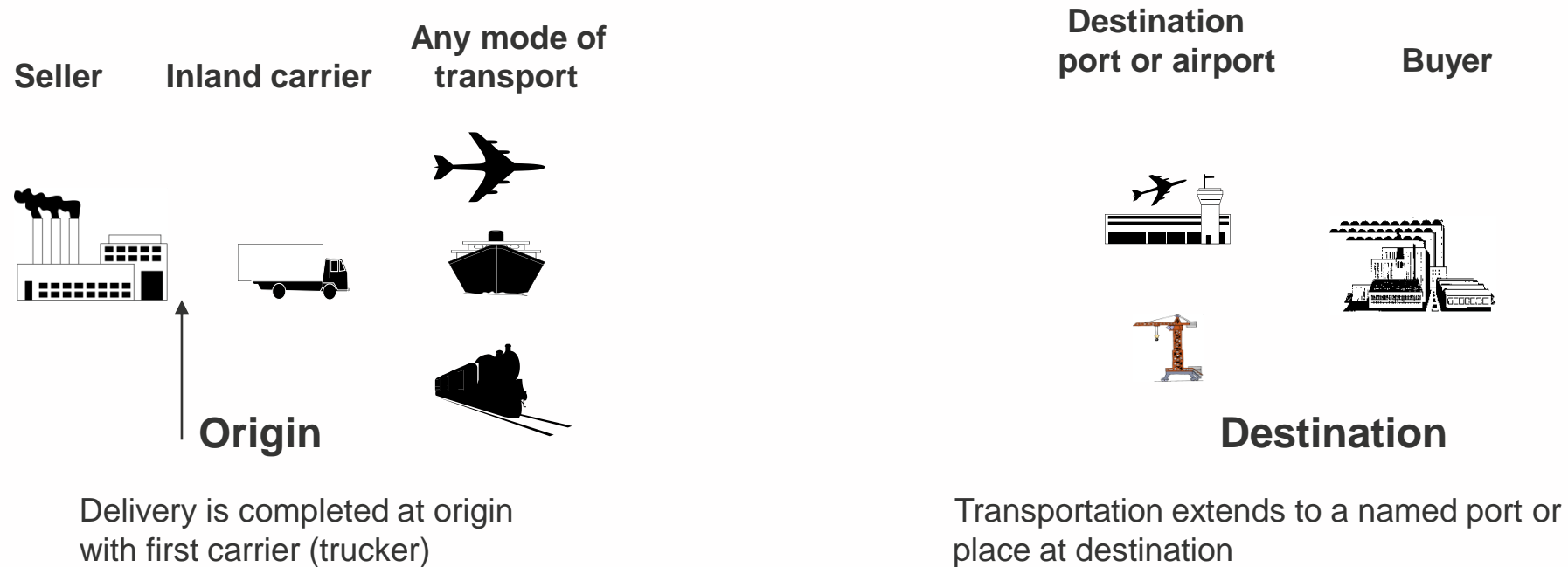
- Delivery occurs in the port of shipment when goods are loaded on the vessel
- Risk shifts to the buyer when goods are loaded on board a ship at origin, but seller must pay all transport costs to port of arrival
- Minimum cover insurance required (Inst. Cargo Clause C), but can be upgraded
- Not intended for containerized cargo (consider CIP as an alternative)



CPT: CARRIAGE PAID TO (NAMED PLACE OF DESTINATION)

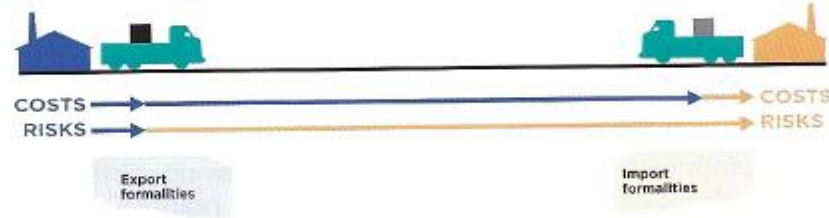
-Risk shifts with the first carrier at origin (normally the collecting vehicle at the seller's facility), but seller pays transport costs to the named place at destination

-Can be used for any mode of transportation or combination thereof



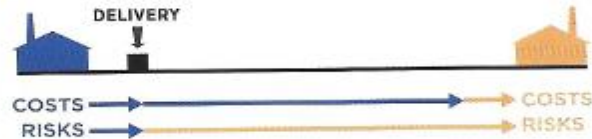
CPT EXPLANATORY NOTES (EXCERPT)

CPT (insert named place of destination) Incoterms® 2020



EXPLANATORY NOTES FOR USERS

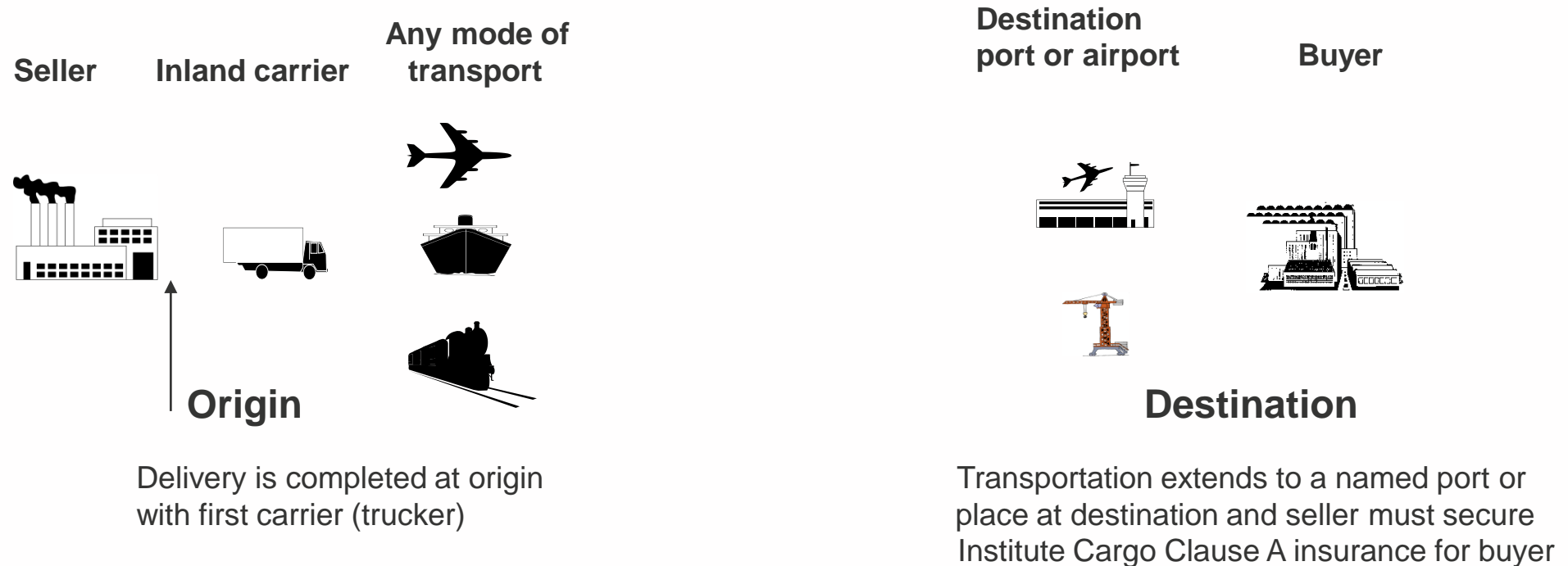
- 1. Delivery and risk**—“Carriage Paid To” means that the seller delivers the goods—and transfers the risk—to the buyer
 - ▶ by handing them over to the carrier
 - ▶ contracted by the seller
 - ▶ or by procuring the goods so delivered.
 - ▶ The seller may do so by giving the carrier physical possession of the goods in the manner and at the place appropriate to the means of transport used.



Once the goods have been delivered to the buyer in this way, the seller does not guarantee that the goods will reach the place of destination in sound condition, in the stated quantity or indeed at all. This is because risk transfers from seller to buyer when the goods are delivered to the buyer by handing them over to the carrier; the seller must nonetheless contract for the carriage of the goods from delivery to the agreed destination. Thus, for example, goods are handed over to a carrier in Las Vegas (which is not a port) for carriage to Southampton (a port) or to Winchester (which is not a port). In either case, delivery transferring risk to the buyer happens in Las Vegas, and the seller must make a contract of carriage to either Southampton or Winchester.

CIP: CARRIAGE & INSURANCE PAID TO (NAMED PLACE OF DEST.)

- Risk shifts with the first carrier at origin (normally the collecting vehicle at the seller's facility), but seller pays transport costs to named place at destination
- Seller must procure Institute Cargo Clause A insurance (Not C)
- Can be used for any mode of transportation or combination thereof

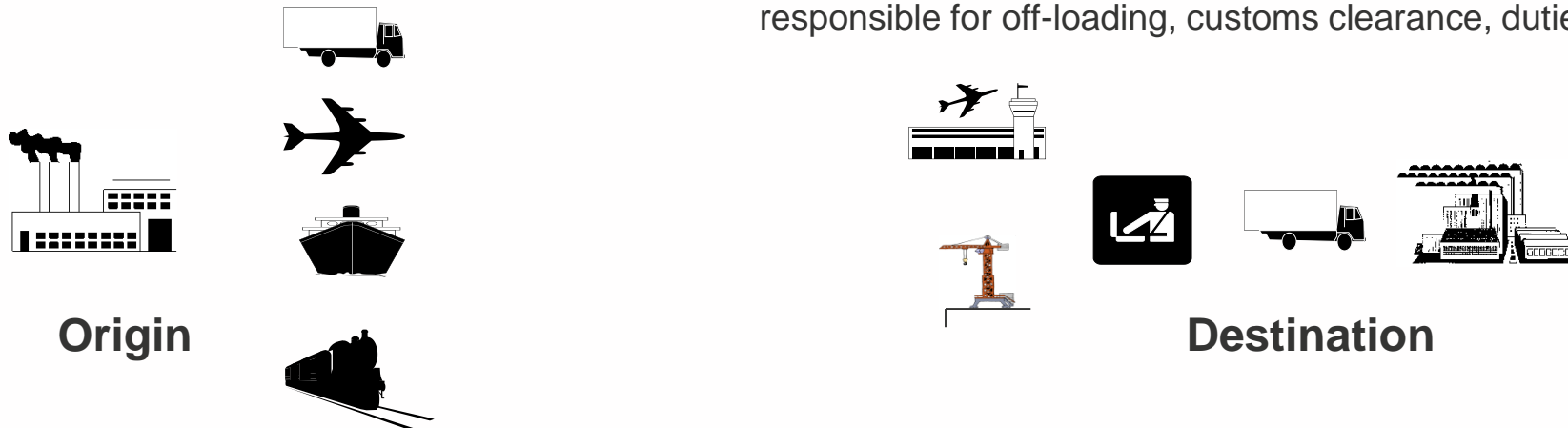


DAP: DELIVERED AT PLACE (NAMED PLACE OF DESTINATION)

-Seller delivers when goods are made available to the buyer at the named place in destination, not unloaded from the delivering vehicle, and seller must pay all transport costs to that delivery point (does not include clearance, duties or taxes)

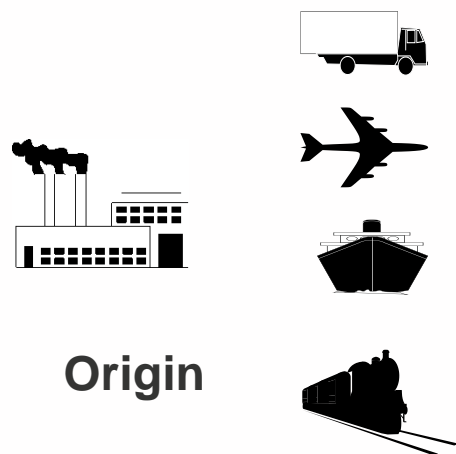
-Can be used for any mode of transport

Seller is responsible for risk of loss or damage and transportation up to named place at destination, but is not responsible for off-loading, customs clearance, duties or taxes

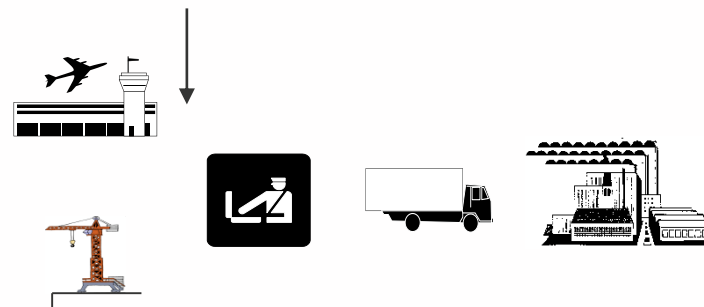


DPU: DELIVERED AT PLACE UNLOADED (NAMED PLACE OF DESTINATION)

- This Incoterm replaces DAT: Delivered At Terminal
- Delivery is complete when the goods are placed at the disposal of the buyer at a named place of destination, off-loaded, & seller pays transport costs to that place (does not include clearance or duties)
- The only Incoterms Rule that puts onus for off-loading on the seller



Seller is responsible for risk of loss or damage and transportation up to a named place at destination, off-loaded



DPU EXPLANATORY NOTES (EXCERPT)

DPU (insert named place of destination) Incoterms® 2020



EXPLANATORY NOTES FOR USERS

- 1. Delivery and risk**—“Delivered at Place Unloaded” means that the seller delivers the goods—and transfers risk—to the buyer
 - ▶ when the goods,
 - ▶ once unloaded from the arriving means of transport,
 - ▶ are placed at the disposal of the buyer
 - ▶ at a named place of destination or
 - ▶ at the agreed point within that place, if any such point is agreed.

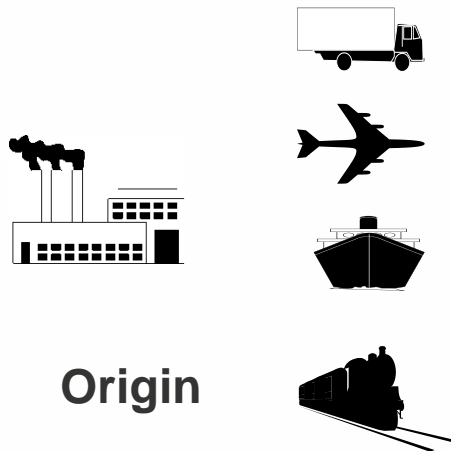


The seller bears all risks involved in bringing the goods to and unloading them at the named place of destination. In this Incoterms® rule, therefore, the delivery and arrival at destination are the same. DPU is the only Incoterms® rule that requires the seller to unload goods at destination. The seller should therefore ensure that it is in a position to organise unloading at the named place. Should the parties intend the seller not to bear the risk and cost of unloading, the DPU rule should be avoided and DAP should be used instead.

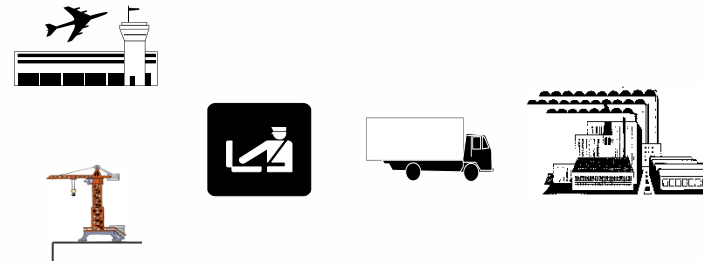
- 2. Mode of transport**—This rule may be used irrespective of the mode of transport selected and may also be used where more than one mode of transport is employed.

DDP: DELIVERED DUTY PAID (NAMED PLACE OF DESTINATION)

- Seller delivers when goods are made available to the buyer at the named place at destination, cleared for import but not unloaded from the delivering vehicle
- Seller is responsible for all transportation, customs & related costs up to named place at destination
- Can be used with any mode of transport



Seller is responsible for risk of loss or damage and transportation up to named place at destination, including customs clearance, duties and taxes



THANK YOU!



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