

Choosing the right Incoterms rule

Incoterms 2020 rules define where delivery occurs, when risk transfers, which party arranges transport and which party handles export or import formalities. They do not determine ownership, payment terms, product quality or remedies for breach.

Rule	Mode	Seller delivers / risk transfers	Main carriage	Export clearance	Import clearance / duty	Insurance
EXW	Any	Goods placed at buyer's disposal at seller's premises or named place, not loaded.	Buyer	Buyer*	Buyer	None required
FCA	Any	Goods handed to buyer's carrier at the named place. Seller loads if delivery is at seller's premises.	Buyer	Seller	Buyer	None required
CPT	Any	Goods handed to the first carrier. Seller pays carriage to named destination, but risk transfers earlier.	Seller	Seller	Buyer	None required
CIP	Any	Goods handed to the first carrier. Seller pays carriage to named destination.	Seller	Seller	Buyer	Seller: broad cover
DAP	Any	Goods placed at buyer's disposal on arriving transport, ready for unloading at named destination.	Seller	Seller	Buyer	None required
DPU	Any	Goods unloaded and placed at buyer's disposal at named destination.	Seller	Seller	Buyer	None required
DDP	Any	Goods placed at buyer's disposal at named destination, cleared for import, ready for unloading.	Seller	Seller	Seller	None required
FAS	Sea only	Goods placed alongside the vessel at the named port of shipment.	Buyer	Seller	Buyer	None required
FOB	Sea only	Goods loaded on board the vessel at the named port of shipment.	Buyer	Seller	Buyer	None required
CFR	Sea only	Goods loaded on board the vessel. Seller pays freight to destination port, but risk transfers at shipment.	Seller	Seller	Buyer	None required
CIF	Sea only	Goods loaded on board the vessel. Seller pays freight to destination port.	Seller	Seller	Buyer	Seller: minimum cover

KEY POINT

Always state the rule, the precise named place or port, and 'Incoterms 2020' in the contract. The named place controls where delivery, cost and risk obligations change.

*EXW can create export-clearance problems where the overseas buyer cannot lawfully clear goods. FCA is often a more practical alternative for international shipments.

Practical selection guide

Start with the transport mode and the commercial outcome you want. Then confirm the named place, carrier handover, insurance level, customs capability and local tax implications with your forwarder and advisers.

Situation	Often considered	Why / caution
Containerised export or multimodal shipment	FCA	Designed for delivery to a carrier or terminal. Usually preferable to FOB for container movements.
Seller pays freight but buyer accepts transit risk	CPT / CIP	Risk transfers at first-carrier handover, not at the destination. CIP includes broader seller-arranged insurance.
Seller controls delivery to destination; buyer clears import	DAP / DPU	Use DPU only when the seller will unload. Under DAP, unloading is the buyer's responsibility.
Seller offers a delivered, duty-paid outcome	DDP	Seller bears import-clearance and duty obligations. Confirm the seller can legally act as importer and manage local taxes.
Traditional bulk or non-containerised sea cargo	FAS / FOB / CFR / CIF	Sea-only rules. Risk generally transfers at the shipment port, even when the seller pays ocean freight.
Buyer collects from seller	FCA / EXW	FCA normally gives clearer loading and export-clearance responsibilities for cross-border trade.

What Incoterms rules cover

- Delivery point and transfer of risk
- Allocation of transport-related costs
- Export and import clearance responsibilities
- Who arranges carriage
- Insurance obligation under CIP and CIF

What they do not cover

- Transfer of title or ownership
- Price, payment method or credit terms
- Product specifications or acceptance
- Force majeure, sanctions or breach remedies
- Every tax, customs or regulatory consequence

Shipment checklist

- Use the three-letter rule plus an exact named place or port.
- Specify 'Incoterms 2020' in the sales contract.
- Check the rule matches the transport mode.
- Confirm who books each transport leg and pays local charges.
- Confirm cargo insurance scope, exclusions and claims process.
- Align invoices, letters of credit and customs entries with the agreed rule.
- Check destination handling, unloading, duty, GST/VAT and importer-of-record requirements.

This guide is a simplified operational summary, not legal, tax, customs or insurance advice. Contract wording and the exact named place can materially change outcomes. Seek advice for the specific transaction.

Source: ICC Incoterms 2020 rules (ICC Publication No. 723E). Incoterms is a registered trademark of the International Chamber of Commerce.