



International Commercial Contracts - Incoterms

This guide explains International Commercial Terms (Incoterms), and how traders can use them in buyer or seller contracts to make clear who is responsible for the goods at each point of the transport process. The guide also explains the benefits of using Incoterms and what each Incoterm means for the buyer and seller, as well as offering sources of further help and advice for traders.

Incoterms are standard trade terms that set out buyer and seller responsibilities. They aim to avoid misunderstanding and are principally used in agreements about the delivery of goods. Each Incoterm outlines who is responsible for transport, insurance, duties and clearance. Before you use Incoterms, consider the country of the buyer. Some countries stipulate that set Incoterms are used, while others set chosen Incoterms as standard practice. Transport may also affect your choice as some Incoterms can only be used for transport by sea and inland waterways.

This guide contains intermediate information. For basic information, see our guide on getting paid when selling overseas and for intermediate and detailed information, see our section on practical exporting.

You can use our interactive tool to assess the best method of payment for your transaction.

Ex-Works

The Incoterm Ex-Works (EXW) means the seller minimises their risk by making the goods available at their own premises. The buyer loads the goods then arranges and pays for transport, customs clearance and insurance.

Obligations of the seller

Under this Incoterm, if you are selling goods, you are responsible for making the goods available to your buyer from your premises or an appointed place (such as a factory or depot). Once you have made the goods available you are no longer responsible for them.

Obligations of the buyer

The buyer must arrange and pay for the transport having taken delivery of the goods. The buyer is responsible for the goods, and anything that happens to them having taken delivery of them. EXW means that the buyer carries all the risk and bears the entire cost for the movement of the goods once they are made available at the seller's premises.

EXW in practice

Sellers and buyers add words and terms to the EXW Incoterm. For example, "EXW-loaded" is sometimes added to the contract wording if the seller is to load the goods. However, if you choose to add words or clauses to your contract, you must make clear in writing who carries out or pays for the extra work and who bears the risk. Download a guide to variants of the EXW Incoterm from the International Chamber of Commerce (ICC) website (PDF) - Opens in a new window.

Methods of transport

Because the responsibility for moving goods is entirely up to the buyer, EXW can be used for all types of transport. To find out about transport obligations and risks, download the Incoterms wallchart from the ICC website (PDF) - Opens in a new window.

Use our interactive tool to identify which Incoterm you should use.

Free Carrier

All three Incoterms beginning with "F" - Free Carrier (FCA), Free Alongside Ship (FAS) and Free On Board (FOB) - mean that the seller is responsible for arranging and paying for arranging and paying for delivering the goods to a carrier. The buyer pays for the main carriage onward from that point.

Obligations of the seller

FCA means that, as the seller, you must deliver the goods to a named place, by any means of transport, and for them to be cleared for export to a main carrier. The seller is responsible for the goods until they reach a named place and enter the carrier's possession.

Either the buyer or seller can arrange the main carriage, but the buyer pays.

Obligations of the buyer

As the buyer, you select the main carrier. The arrangements with the carrier can then be organised by the buyer or seller on the buyer's behalf.

The buyer becomes responsible for the goods once they enter the carrier's possession at a named place. They also have responsibility for costs of onward transport.

FCA in practice

In some shipping contracts traders will use shipping terms such as "terminal handling charges" in relation to FCA. Costs and risks of these charges, which refer to fees charged by shipping lines for loading or using containers, may differ depending on the port. You must clarify what this means for both buyer and seller. As a rule, when contracts use terms that add to or vary from standard Incoterms, they must be explained in detail in each contract.

Download a guide to the FCA Incoterm from the International Chamber of Commerce (ICC) website (PDF) - Opens in a new window.

Methods of transport

The FCA Incoterm is suitable for all modes of transport.

Use our interactive tool to identify which Incoterm you should use.

Free Alongside Ship and Free On Board

Like Free Carrier (FCA), the Incoterms Free Alongside Ship (FAS) and Free On Board (FOB) mean that the seller is responsible for arranging and paying for delivering goods to a carrier. The seller's risk ends when the goods are delivered to the main carrier. The buyer pays for the main carriage.

FAS - obligations of the seller

Under the FAS Incoterm, as the seller you must complete all export documentation, arrange and be responsible for the carriage of goods to bring them alongside a ship at a named port of shipment. The seller is also responsible for clearing goods for export. Download further information on the FAS Incoterm from the International Chamber of Commerce (ICC) website (PDF) - Opens in a new window.

FAS - obligations of the buyer

Once the goods have been delivered alongside a ship, the buyer becomes responsible for all risks and costs associated with the goods.

FOB - obligations of the seller

Under the FOB Incoterm, as the seller you are responsible for delivering the goods to a carrier chosen by the buyer. This means that you are responsible for the goods until they pass the rail of the ship at a named port of shipment, after which the buyer assumes costs and risks.

The seller arranges all export documentation and has to bring the goods right up to the point of passing over a ship's rail at a named port of shipment. Download further information about the FOB Incoterm from the ICC website (PDF) - Opens in a new window.

FOB - obligations of the buyer

As the buyer, the costs and risks associated with the goods only become your responsibility when the goods pass across a ship's rail.

FOB in practice

If the seller doesn't intend to load the goods, the FCA Incoterm should be used instead of FOB. See the page in this guide on Free Carrier.

Methods of transport

FAS and FOB are used only for sea or inland waterway transport.

Use our interactive tool to identify which Incoterm you should use.

Cost and Freight and Cost, Insurance and Freight

Both the Cost and Freight (CFR) and Cost, Insurance and Freight (CIF) Incoterms mean that the seller is responsible for arranging and paying for the main carriage, but the risk of damage or extra costs stays with the buyer.

CFR - obligations of the seller

As the seller, you arrange the carriage. You are then responsible for the goods only until they pass a ship's rail in the port of shipment but must pay the costs for bringing the goods to the port of destination, ie the full journey by water.

CFR - obligations of the buyer

Under CFR, the buyer becomes responsible for the goods and all associated extra costs and risks once they have been delivered over a ship's rail at the outgoing port. Download further information on the CFR Incoterm from the International Chamber of Commerce (ICC) website (PDF) - Opens in a new window.

CIF - obligations of the seller

Under CIF, as the seller you have the same obligations as a seller using the CFR Incoterm. However, under CIF you are also responsible for arranging and paying for insurance covering the buyer's risks during movement of the goods.

CIF - obligations of the buyer

The buyer is responsible for the goods and all associated risks once they have been delivered over a ship's rail at the port of shipment. Download further information on the CIF Incoterm from the ICC website (PDF) - Opens in a new window.

Methods of transport

Both the CFR and CIF Incoterms can only be used for goods shipped by sea or inland waterway. To find out about transport obligations download the Incoterms wallchart from the ICC website (PDF) - Opens in a new window.

For other modes of transport, the CPT Incoterm should be used. See the page in this guide on Carriage Paid To and Carriage and Insurance Paid To.

Use our interactive tool to identify which Incoterm you should use.

Carriage Paid To and Carriage and Insurance Paid To

Both the Carriage Paid To (CPT) and Carriage and Insurance Paid To (CIP) Incoterms mean that the seller is responsible for arranging and paying for the main carriage, but the risk of damage or extra costs stays with the buyer.

CPT - obligations of the seller

Under CPT, as the seller you are responsible for choosing a carrier and delivering the goods to them. You are also responsible for paying the cost of transport to deliver the goods to a named destination. You must also clear goods for export.

CPT - obligations of the buyer

As the buyer, you become responsible for all risks associated with the goods once they have been delivered to the nominated carrier. You pay costs once the goods have reached their named place of destination. Download further information about the CPT Incoterm from the International Chamber of Commerce (ICC) website (PDF) - Opens in a new window.

CIP - obligations of the seller

The seller is responsible for the same obligations under CPT. But in addition, the seller is also obliged to arrange and buy insurance covering the buyer's risks of damage or loss during transport.

CIP - obligations of the buyer

As the buyer, you are liable for the risks associated with the goods once they are delivered to the carrier. You become responsible for costs once they reach their destination. Download information about the CIP Incoterm from the ICC website (PDF) - Opens in a new window.

CPT and CIP in practice

CPT requires that the seller must clear goods for export. Under both CPT and CIP, the buyer becomes responsible for onward transport costs and risks once the nominated carrier has delivered the goods.

Methods of transport

The CPT and CIP Incoterms can be used for any form of transport and for more than one type.

Use our interactive tool to identify which Incoterm you should use.

Delivered At Frontier, Delivered Ex-Ship and Delivered Ex-Quay

All Incoterms beginning with "D" - including Delivered At Frontier (DAF), Delivered Ex-Ship (DES) and Delivered Ex-Quay (DEQ) - mean the seller covers all costs and risks involved in bringing goods to the named place of destination. These Incoterms carry most risk for sellers. See the page in this guide on Delivered Duty Unpaid and Delivered Duty Paid.

DAF

Sellers must arrange and pay for transporting goods to a named point and place at the frontier. They must also clear goods for export, but not import, and are responsible for risks and costs associated with goods until they reach a frontier. Under DAF, buyers take over the risk once goods have been delivered to the frontier.

Buyers and sellers may want to add an extra agreement that the seller is responsible and pays for unloading goods on arrival at the frontier. Clarify what this means for both buyer and seller. Usually, when contracts use terms that add to or vary from standard Incoterms, they must be explained in detail in each contract.

DAF is usually used for road or rail transport.

DES

Sellers are responsible for delivering goods to a named destination port, but not for clearing them for import. They make goods available to the buyer on board the ship and are not responsible for unloading goods.

Under DES, buyers are responsible for risks and costs associated with goods once on board ship.

If you agree the buyer is responsible for discharging goods, use the DEQ Incoterm instead.

DES is used for sea and inland waterway transport only.

DEQ

Sellers are responsible for delivering goods not cleared for import, at a named destination port. They also cover all costs and associated risks with transporting and discharging goods on the quay.

Under DEQ, buyers are responsible for clearing goods for import and for import taxes and duties.

Both parties can agree that the seller is responsible for the costs of importing goods. Clarify what this means for both buyer and seller. Usually, when contracts use terms that add to or vary from standard Incoterms, they must be explained in detail in each contract.

DEQ is used for sea and inland waterway transport only.

Use our interactive tool to identify which Incoterm you should use.

Delivered Duty Unpaid and Delivered Duty Paid

Like the rest of the Incoterms in the "D" category, the seller has to pay all costs and cover all risks involved in bringing goods to the named place of destination. While the Incoterm Ex-Works (EXW) represents the least responsibility for the seller, the Delivered Duty Paid (DDP) Incoterm represents the highest responsibility for the seller.

Delivered Duty Unpaid (DDU) - obligations of the seller

The seller is responsible for delivering the goods to the buyer at a named place of destination. The seller neither clears the goods for import nor unloads the goods.

DDU - obligations of the buyer

The buyer has to clear the goods for import and taken on the risks and costs of the goods as soon as they are accessible at the named destination.

DDU in practice

It can also be agreed that the seller is responsible for loading, duties, costs and risks. If both parties agree to this arrangement, it should be written into the contract as it is a variation of the Incoterm. Download further information on the DDU Incoterm from the International Chamber of Commerce (ICC) website (PDF) - Opens in a new window.

DDP - obligations of the seller

The seller must deliver the goods to a named destination, unload and clear them for import. The seller has responsibility for all costs and risks linked to bringing the goods to the named destination. The seller must pay all duties, taxes and charges in the country of import.

DDP - obligations of the buyer

Some taxes, such as VAT, can be excluded from the seller's obligations and transferred to the buyer. This variation to the Incoterm should be written into the sales contract.

DDP in practice

This Incoterm is not used if the seller is unable to arrange an import licence. Download further information on the DDP Incoterm from the ICC website (PDF) - Opens in a new window.

Methods of transport

Both DDU and DDP cover all modes of transport. However, if goods are delivered on board a ship or on a quay, then the Delivered Ex-Ship and Delivered Ex-Quay Incoterms must be used. See the page in this guide on Delivered At Frontier, Delivered Ex-Ship and Delivered Ex-Quay.

Use our interactive tool to identify which Incoterm you should use.

Incoterms and contracts

This page explains how to use the right version of Incoterms and how to incorporate them into your trade contracts.

The International Chamber of Commerce (ICC) originally published the very first set of Incoterms in 1936. Since that first publication, they have been updated in 1953, 1967, 1980, 1990 and most recently in 2000.

Because Incoterms are standard definitions, they are used in contracts to reduce confusion and avoid traders having difficulty understanding the import requirements and shipping practice used in other countries.

Using the correct Incoterms clarifies the contracts you have with your suppliers or customers. "Incoterms" is an ICC trade mark and only the original texts of Incoterms are to be considered as authoritative for incorporation into contracts. You should use the current version, Incoterms 2000 (ICC Publication No. 560), and note this in the contract. These terms should also be used on any paperwork linked to the contract, such as invoices or statements. Failing to state that you are using Incoterms 2000 could result in a dispute. You can download a summary of each Incoterm from the ICC website (PDF) - Opens in a new window.

Most contracts from 1 January 2000 will refer to Incoterms 2000, unless the seller and the buyer agree to use an earlier version. Contracts dated before 1 January 2000 are still binding under Incoterms 1990 (ICC Publication No. 460).

Incoterms 2000 has been endorsed by the United Nations Commission on International Trade Law (UNCITRAL) and is now available in 31 languages. You can find further information about the full Incoterms text on the ICC website - Opens in a new window.

The sales contract between the buyer and seller should also state which country's legal system will be used in case of a dispute. If both parties' countries are signed up to the UN Convention, this will provide the legal framework for settling the dispute. Incoterms will provide the legal backbone to settling the dispute.

Use our interactive tool to identify which Incoterm you should use.

Incoterms and VAT

This page gives a summary of when traders may have to pay import and export VAT and how they can incorporate it into contracts as an addition.

VAT is not covered as part of the "costs" under any Incoterm, but it is payable on many international trade transactions. Summaries of when you have to pay import VAT and export VAT are given below. If you wish to agree that the buyer or seller is responsible for paying VAT, it should be written as an addition into the sales contract as it will not be covered by the Incoterm.

Import VAT

Generally, you must pay VAT on imported goods at the same rate that the goods attract if they were supplied in the UK. The procedure for making payment depends mostly on whether the country from which you are importing goods is inside or outside the European Union (EU). You can reclaim VAT from goods imported from within the EU when you declare them on your VAT return.

Find out more about import VAT in our guide on excise and VAT in international trade.

Export VAT

When you export goods outside the EU you can usually zero-rate the goods for VAT. To qualify, the goods must leave the EU within a set time limit and you must keep records of the sale and transport of the goods. Separate rules apply to goods that are moved through EU countries to other EU countries. Goods exported to a customer outside the EU can also be zero-rated for VAT even if they initially travel through other EU countries.

Find out more about zero rating goods for VAT in our guide on excise and VAT in international trade.

Use our interactive tool to identify which Incoterm you should use.

SITPRO Helpdesk

020 7215 8150

HMRC National Advice Service Enquiry Line

0845 010 9000

UK Trade & Investment Enquiry Line

020 7215 8000

International Trade Hotline

0845 050 5054

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Related web sites you might find useful

Download a guide to variants of the EXW Incoterm from the ICC website (PDF)
<http://www.iccwbo.org/incoterms/preambles/pdf/EXW.pdf>

Read an Incoterms action plan and checklist on the SITPRO website
<http://www.sitpro.org.uk/trade/incoterms2.html>

Download a summary of each Incoterm from the ICC website (PDF)
<http://www.iccwbo.org/incoterms/wallchart/wallchart.pdf>

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<http://www.iccwbo.org/incoterms/preambles/pdf/FCA.pdf>

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Download further information on the DAF Incoterm from the International Chamber of Commerce (ICC) website (PDF)
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Download information on the DDP Incoterm from the ICC website (PDF)
<http://www.iccwbo.org/incoterms/preambles/pdf/DDP.pdf>

Order the full Incoterms text on the ICC Business Bookstore website
<http://www.iccbooks.com/Product/CategoryInfo.aspx?cid=87>

Find out how to order the full Incoterms text on the ICC website
<http://www.iccwbo.org/incoterms/id3039/index.html>

Send an enquiry via email to the ICC on the ICC website
<http://www.iccwbo.org/incoterms/id3046/index.html>

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