

HSBC Trade Academy: Understanding Incoterms

15th Nov 2023

It's great doing
business
as we get a better
understanding of trade



Opening up a world of opportunity

Agenda

◆ Introduction

◆ Overview of Articles A and B

◆ Summary of Incoterms

◆ Incoterms 2020 – all 11

Introduction - Incoterms

What are Incoterms?

- ◆ Incoterms refer to International Commercial Terms, rules for the interpretation of commonly used trade terms
- ◆ It is a document published by the International Chamber of Commerce (ICC)
- ◆ It is voluntary in nature and binding on parties only if it is incorporated into the trade contract

Why are Incoterms important?

- ◆ Clearly communicate the tasks, costs, and risks associated with the transportation and delivery of goods between buyer & seller.
- ◆ Simplify sales contracts by defining respective obligations, costs, and risks involved in the delivery of goods

Incoterms DO NOT ...

- ◆ Define a complete contract
- ◆ Bind other parties beyond seller and buyer
- ◆ Define transfer of title or ownership
- ◆ Define payment
- ◆ Address breach of contract
- ◆ Apply by default. The use of Incoterms must be specified in the contract

Incoterms 2010 vs. 2020

- ◆ More emphasis in the introduction on choosing the right rule
- ◆ Appropriate usage in the sale/purchase contracts
- ◆ Clearer explanation of inter relation of ancillary contracts, such as sales contracts, letters of credits, or insurance contracts, etc.
- ◆ Upgraded explanatory notes for each rule
- ◆ Re-ordering of articles in each rule to highlight delivery and risk
- ◆ It is a document published by the International Chamber of Commerce (ICC)
- ◆ It is voluntary in nature and binding on parties only if it is incorporated into the trade contract

Incoterms – A and B articles defining obligations of the Seller and the Buyer

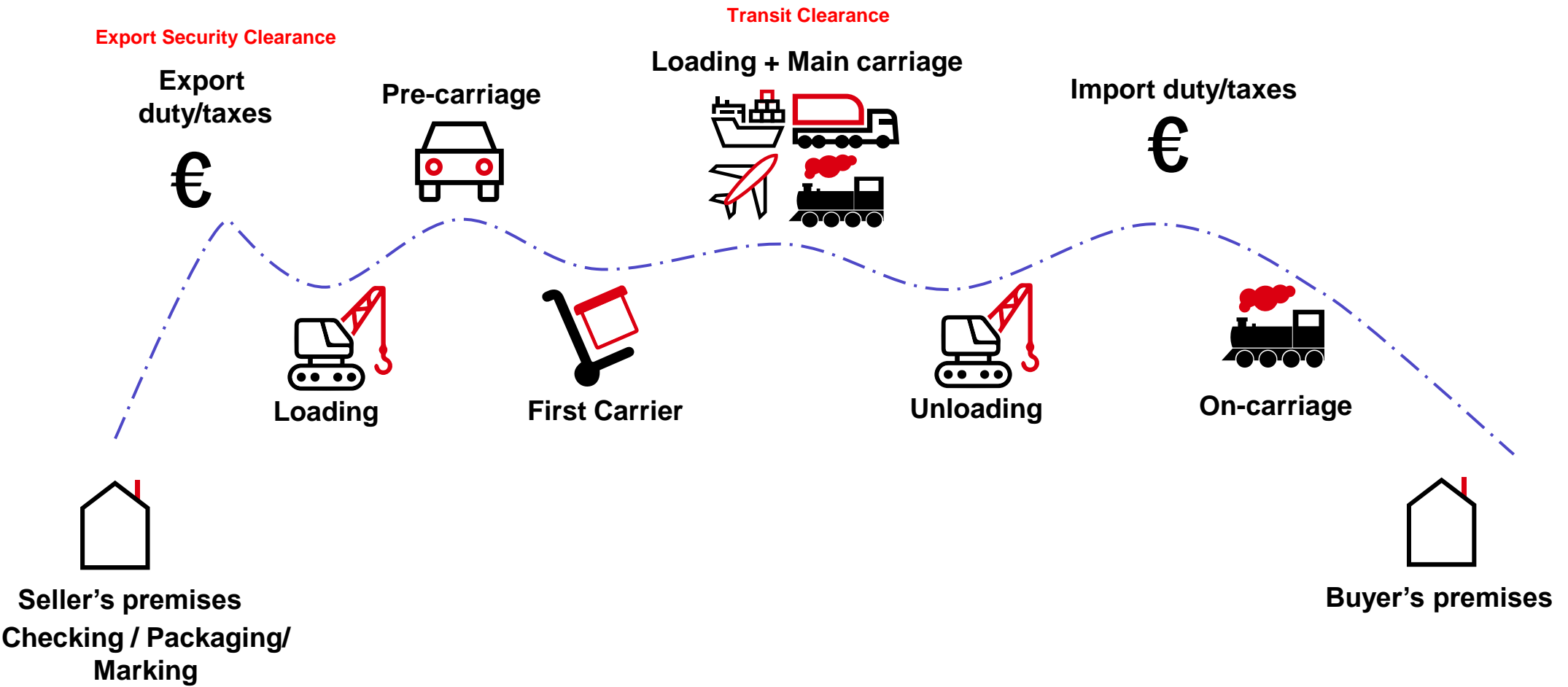
- ◆ A1 / B1 General Obligations
- ◆ A2 / B2 Delivery / Taking delivery
- ◆ A3 / B3 Transfer of risks
- ◆ A4 / B4 Carriage
- ◆ A5 / B5 Insurance
- ◆ A6 / B6 Delivery / transport document
- ◆ A7 / B7 Export / import clearance
- ◆ A8 / B8 Checking / packaging / marking
- ◆ A9 / B9 Allocation of costs
- ◆ A10 / B10 Notices



Incoterms chart

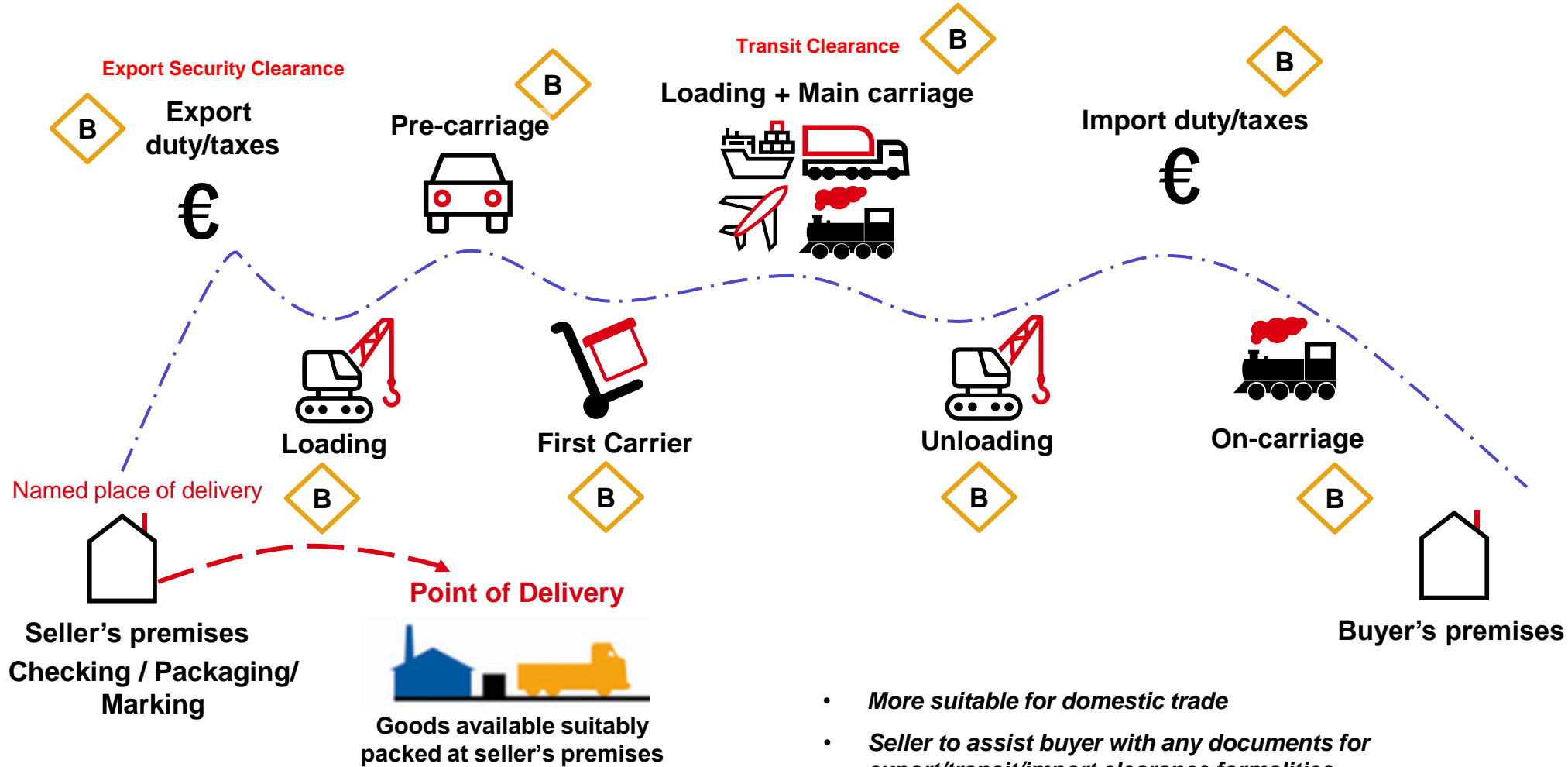
Incoterm	Abbr.	Transfer of Risk/Delivery	Packing Goods	Export Custom Duties	Export Security Clearance	Pre Carriage	Loading Charges	Main Carriage	Insurance	Transit Clearance	Unloading Charges Arriving Means of Transport	Import Custom Duties	On Carriage
All Modes of Transport													
Ex-Works	EXW	When goods placed @ the disposal of buyer @ the named place	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Free Carrier	FCA	When goods placed @ the disposal of buyer loaded on the buyer's means of transport or ready for unloading form seller's means of transport @ named place	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Carriage Paid To	CPT	When goods are handed over to first carrier (Of Seller)	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
Carriage Insurance paid to	CIP	When goods are handed over to first carrier(Of Seller)	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer
Delivered at Place	DAP	When goods placed @ the disposal of buyer @ the named place ready for unloading from arriving means of transport	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Seller
Delivered at Place Unloaded	DPU	When goods placed @ the disposal of buyer @ the named place unloaded from arriving means of transport	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller
Delivered Duty Paid	DDP	When goods placed @ the disposal of buyer @ the named place ready for unloading from arriving means of transport	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Seller
Sea and Inland Waterways													
Free Alongside Ship	FAS	When goods placed alongside the ship	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Free On Board	FOB	When goods are placed on board the vessel	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Cost and Freight	CFR	When goods are placed on board the vessel	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
Cost Insurance & Freight	CIF	When goods are placed on board the vessel	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer

Journey of Goods



EXW (named place of delivery)

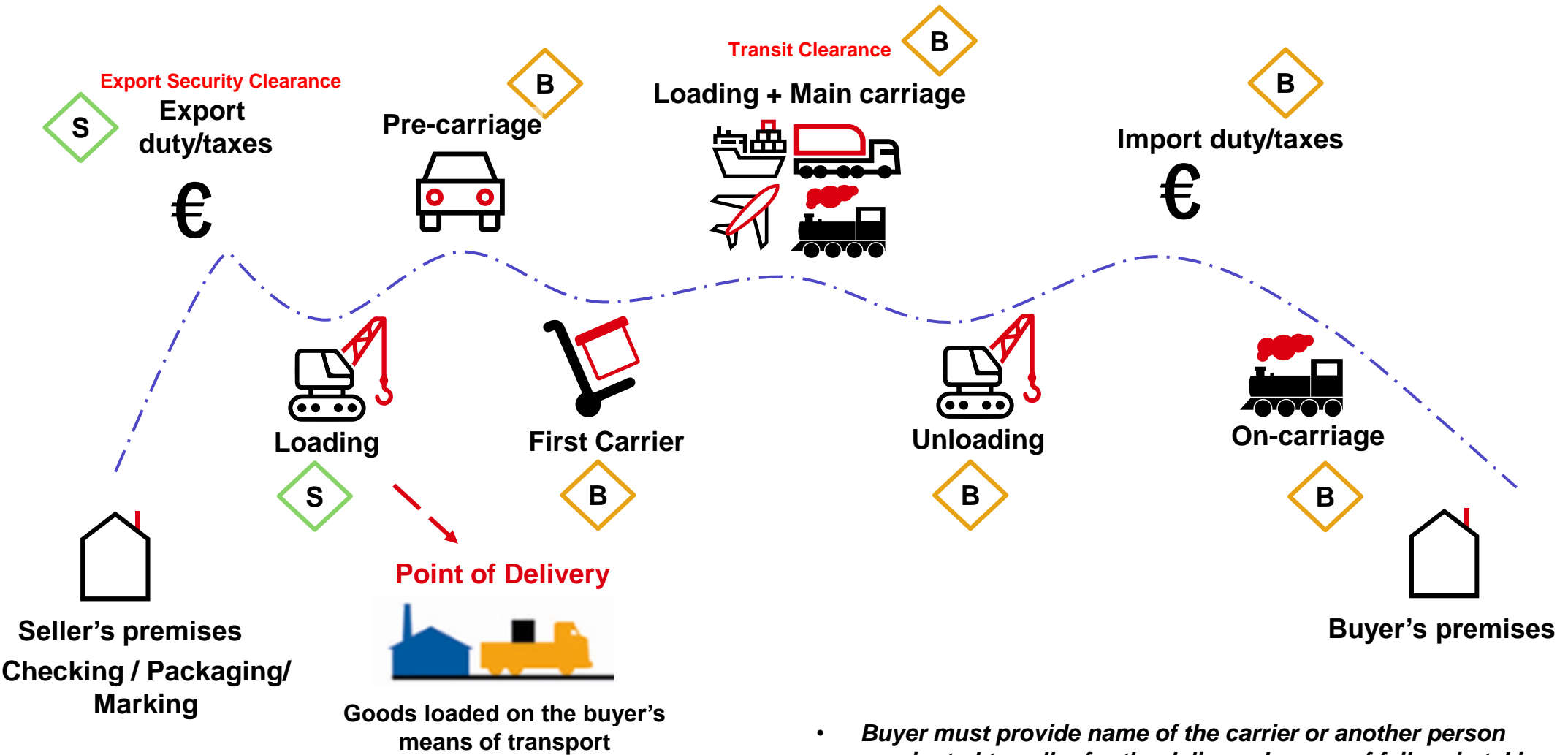
Least Obligation for Seller



Risk
Cost
Insurance

- *More suitable for domestic trade*
- *Seller to assist buyer with any documents for export/transit/import clearance formalities*
- *Buyer must provide the seller with appropriate evidence of having taken delivery*

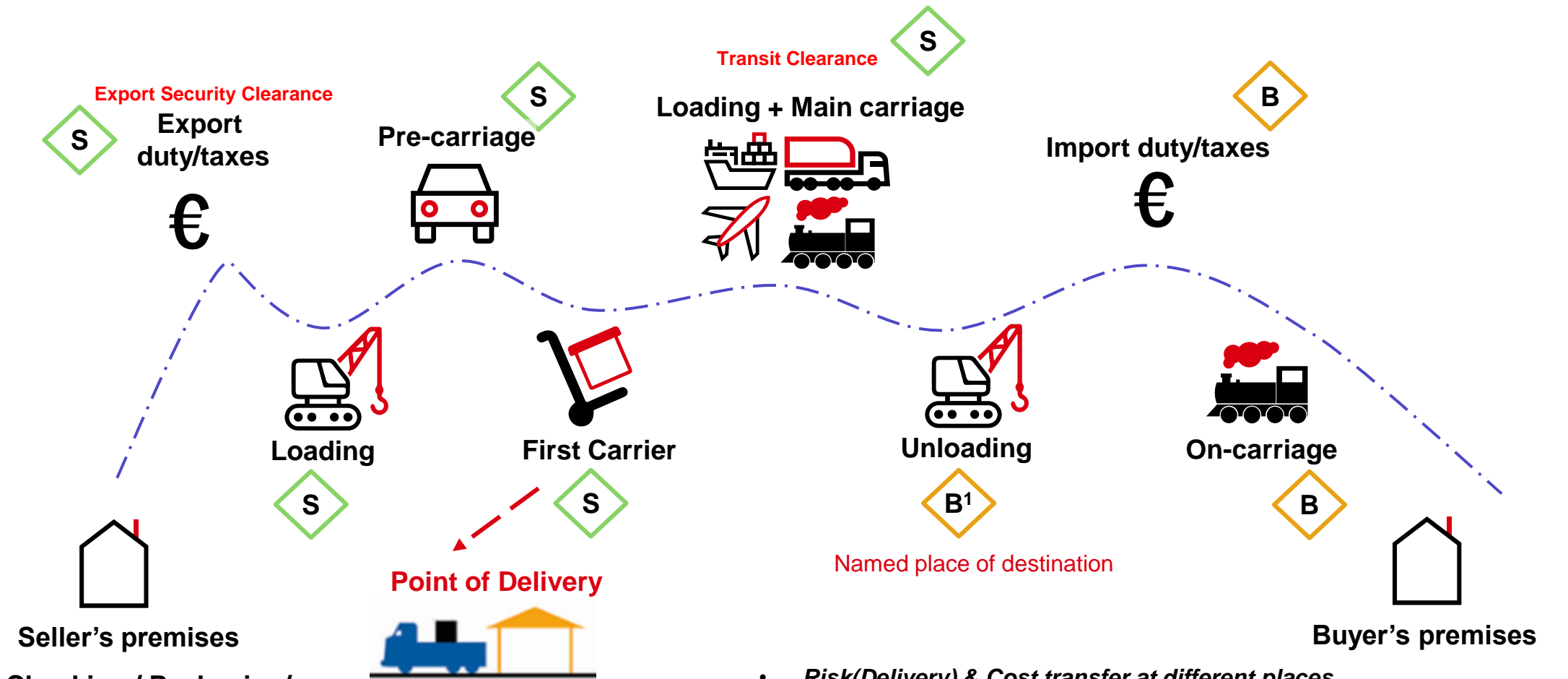
FCA (named place of delivery) Seller's Place



- *Buyer must provide name of the carrier or another person nominated to seller for the delivery. In case of failure in taking delivery seller must notify buyer.*

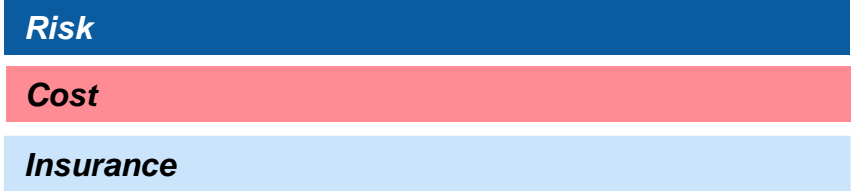
Risk
Cost
Insurance

CPT (named place of destination)



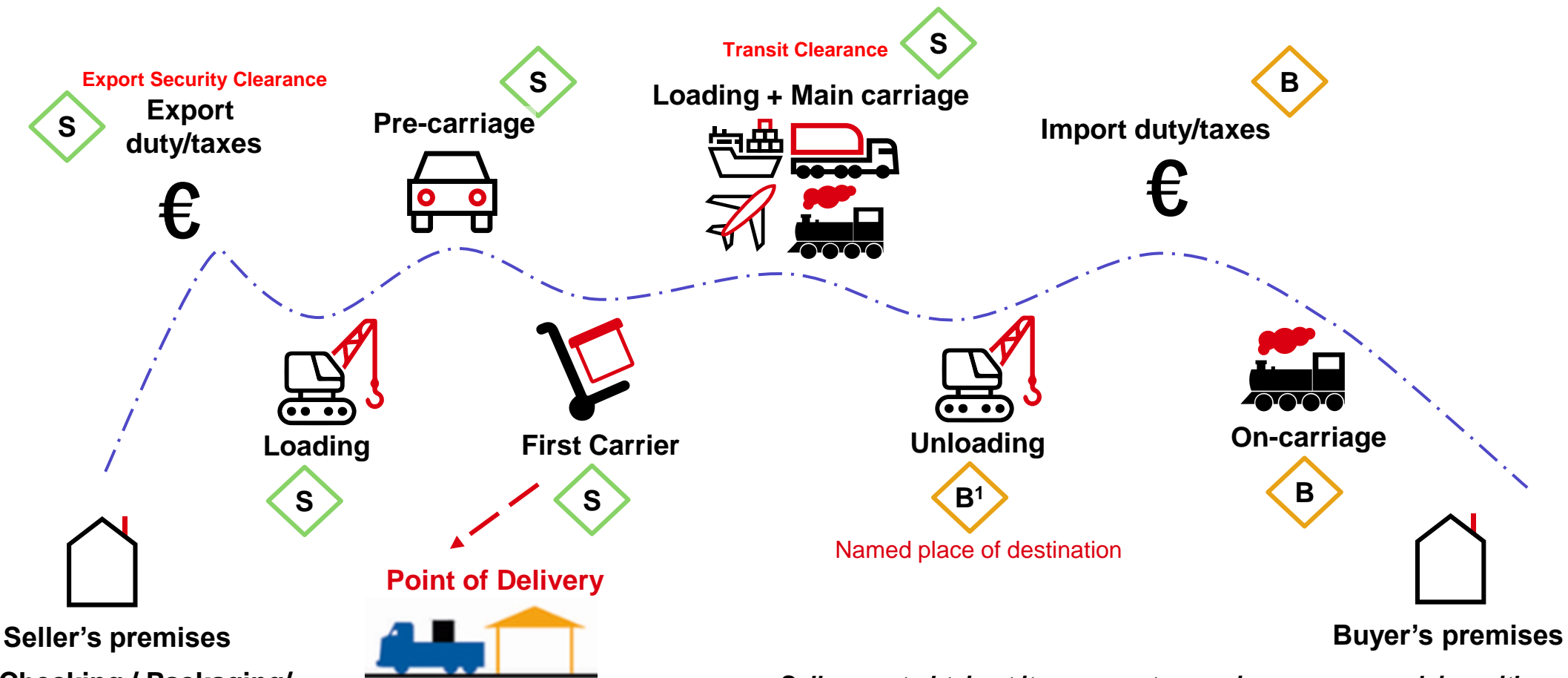
Goods are handed over to the first carrier unloaded on the seller's means of transport

- Risk(Delivery) & Cost transfer at different places
- Seller has no obligation to the buyer to make a contract of insurance.
- Seller is not responsible even if the goods so delivered do not reach the place of destination, in sound condition, in the stated quantity or indeed at all.



B¹ May be of seller account if agreed under the contract of carriage.

CIP (named place of destination)



Goods are handed over to the first carrier unloaded on the seller's means of transport

- Seller must obtain at its own cost cargo insurance complying with the cover provided by Clauses (A) of the Institute Cargo Clauses (LMA/IUA) or any similar clauses as appropriate to the means of transport and for 110% of contract value
- Seller must cover the goods from the point of delivery to at least the named place of destination

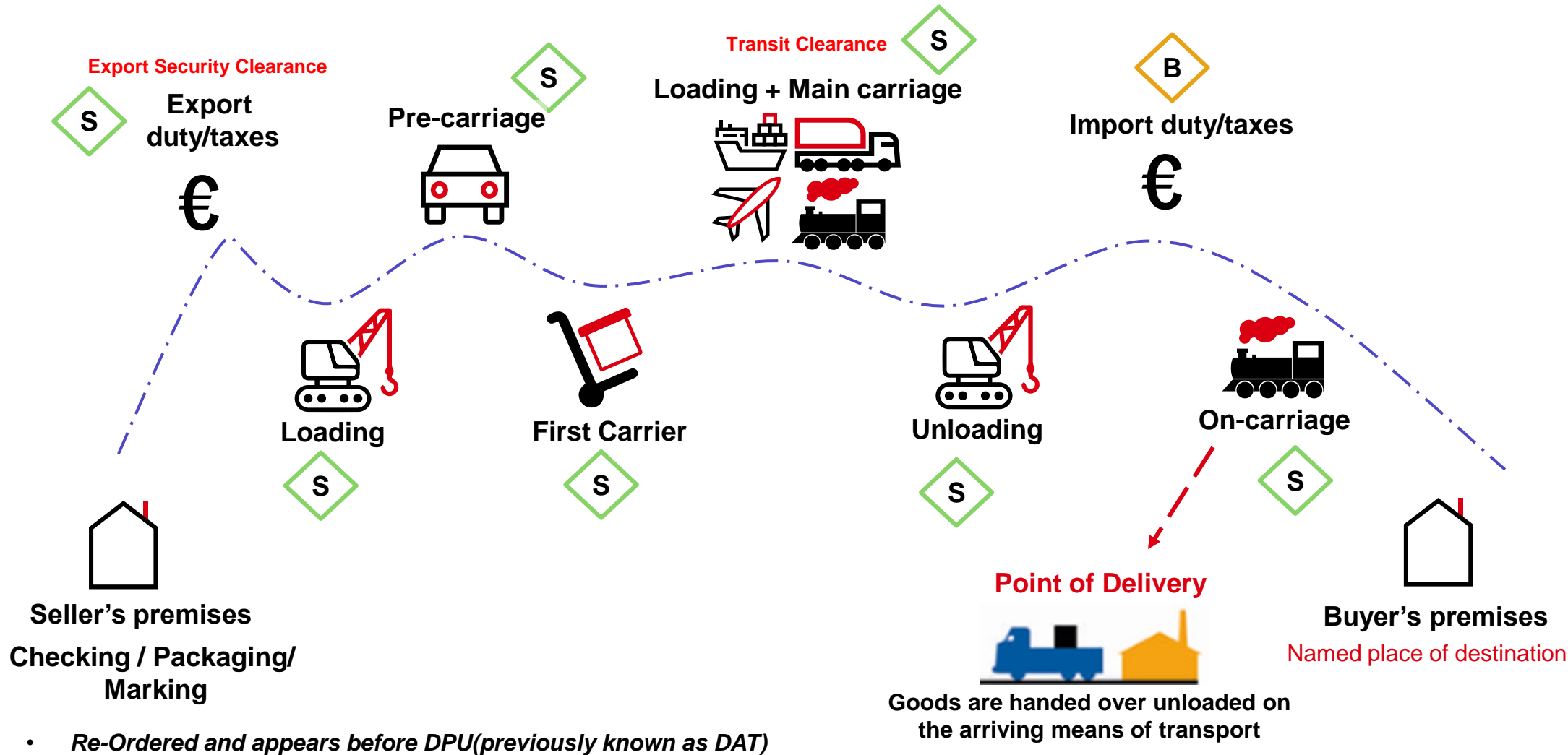
Risk

Cost

Insurance

B¹ May be of seller account if agreed under the contract of carriage.

DAP (named place of destination)

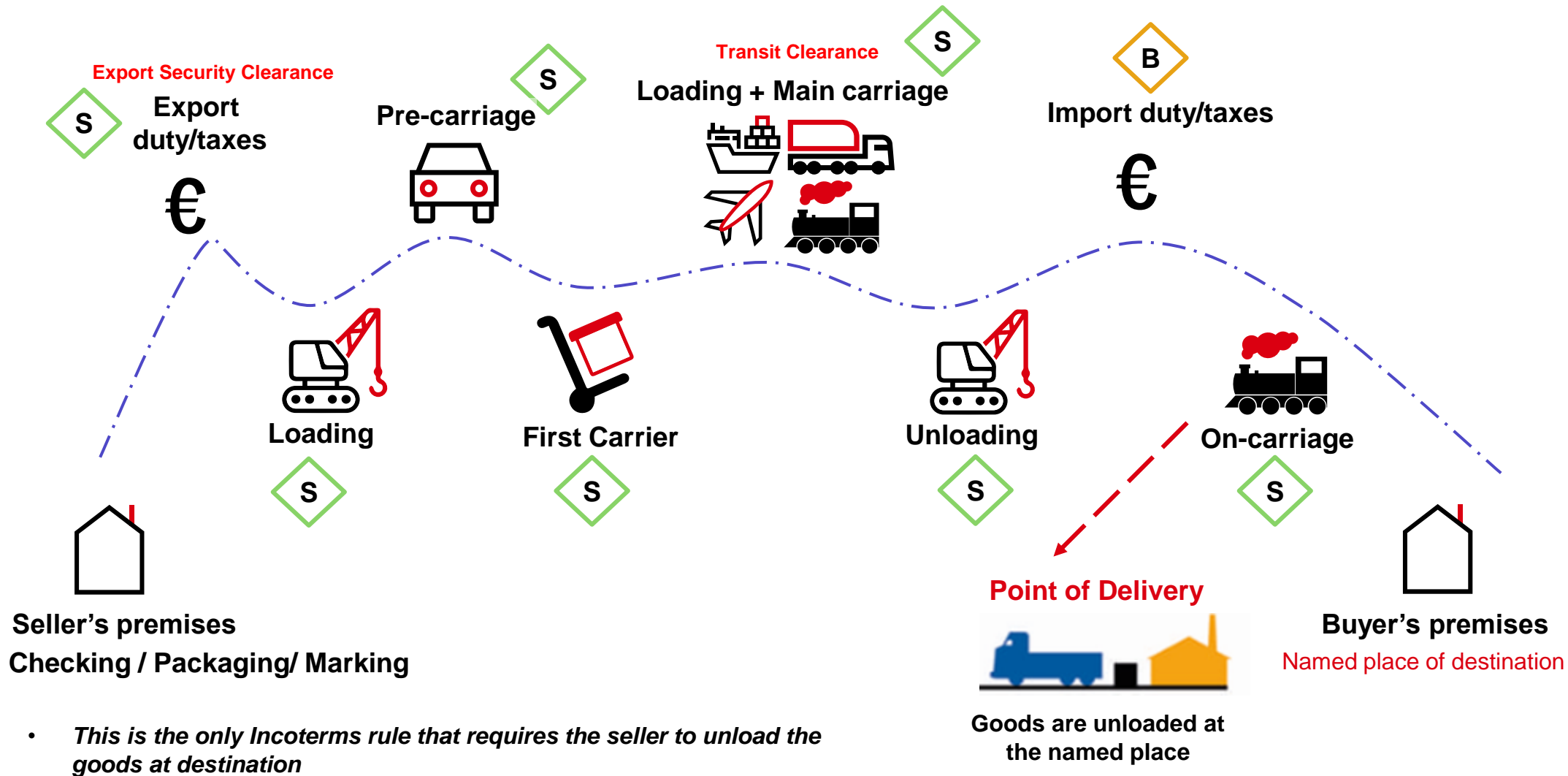


Risk

Cost

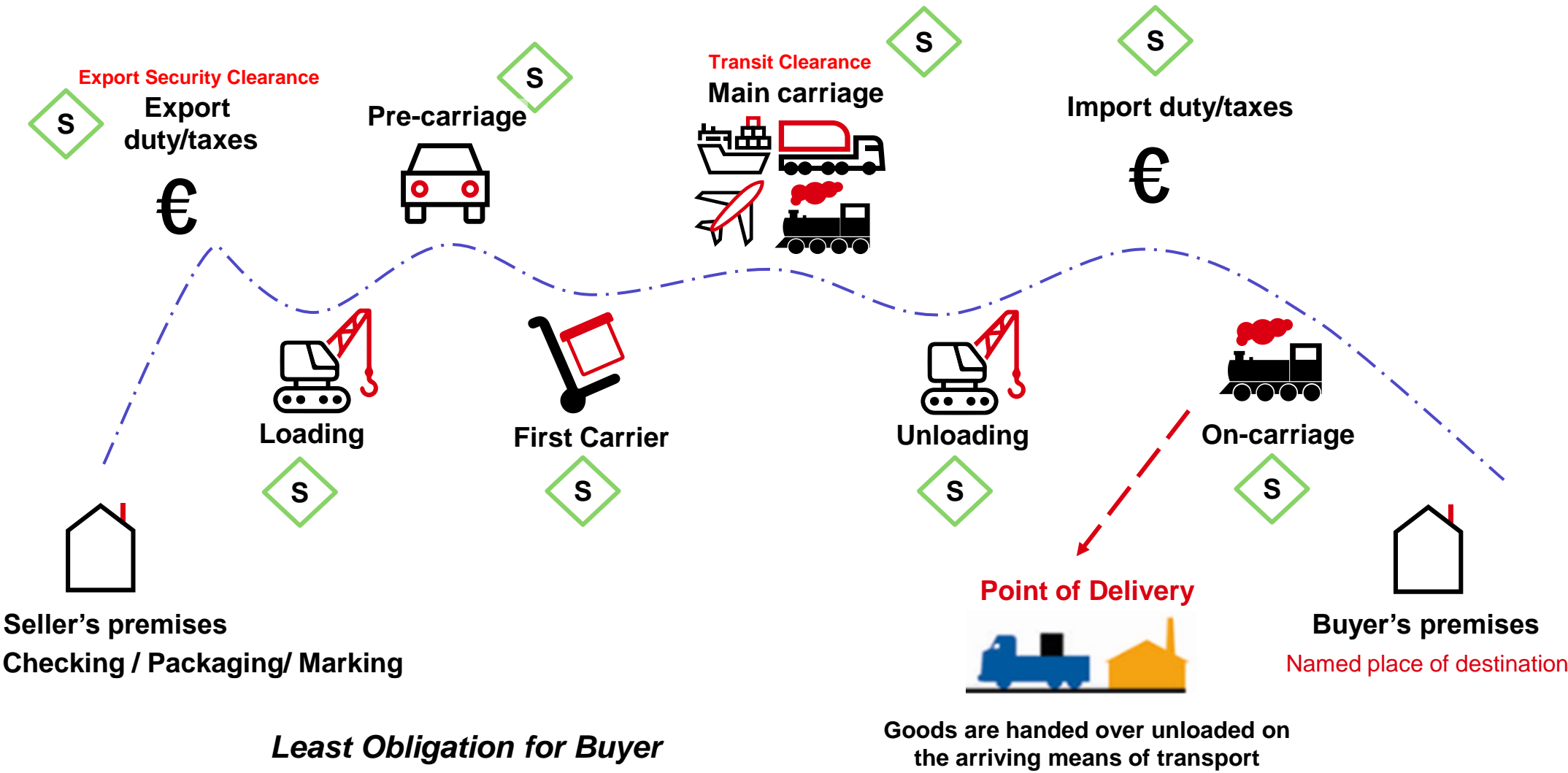
Insurance

DPU (named place of destination)



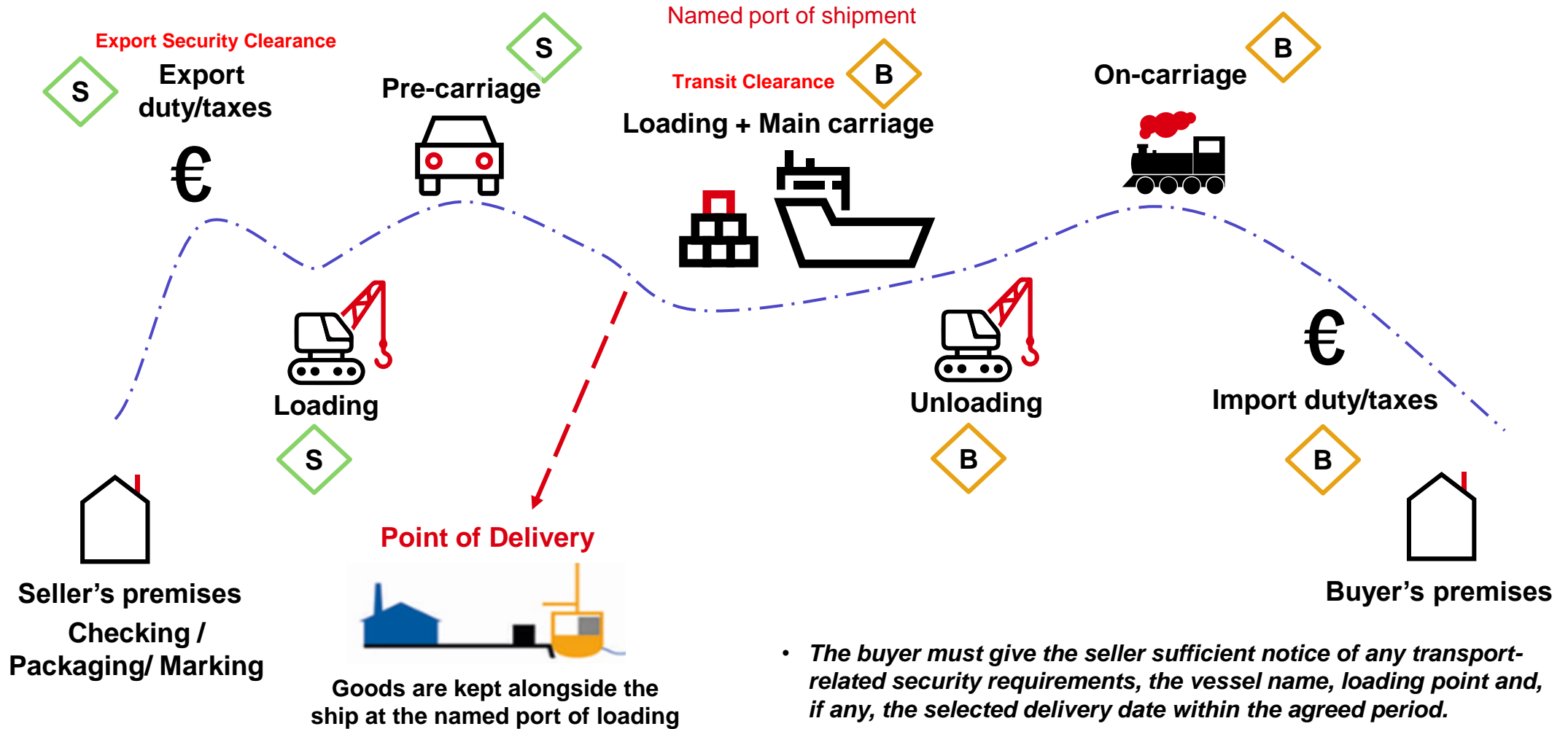
Risk
Cost
Insurance

DDP (named place of destination)



Risk
Cost
Insurance

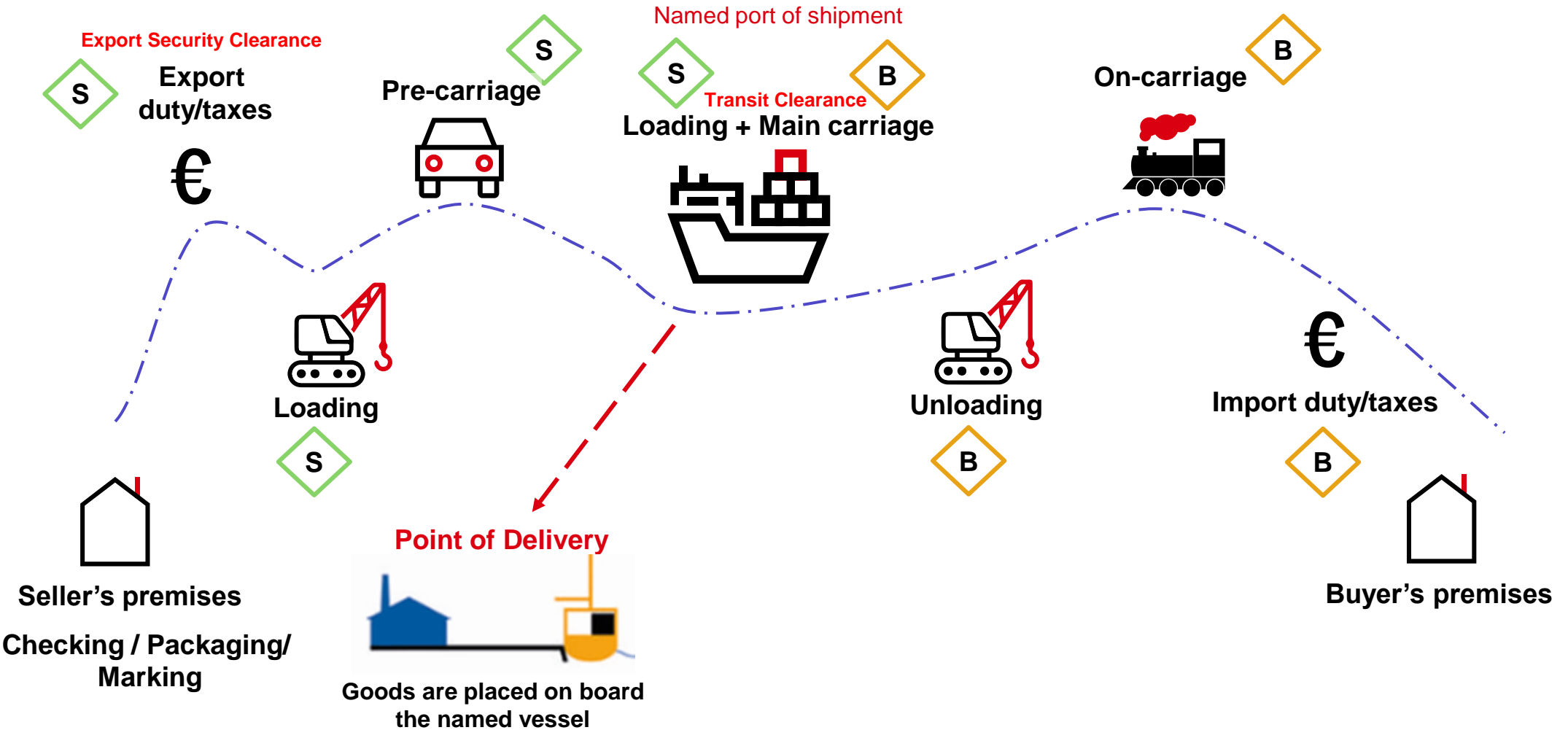
FAS (named port of shipment)



- *The buyer must give the seller sufficient notice of any transport-related security requirements, the vessel name, loading point and, if any, the selected delivery date within the agreed period.*
- *Buyer is responsible for any additional cost incurred by seller due to failure in timely notice by buyer*

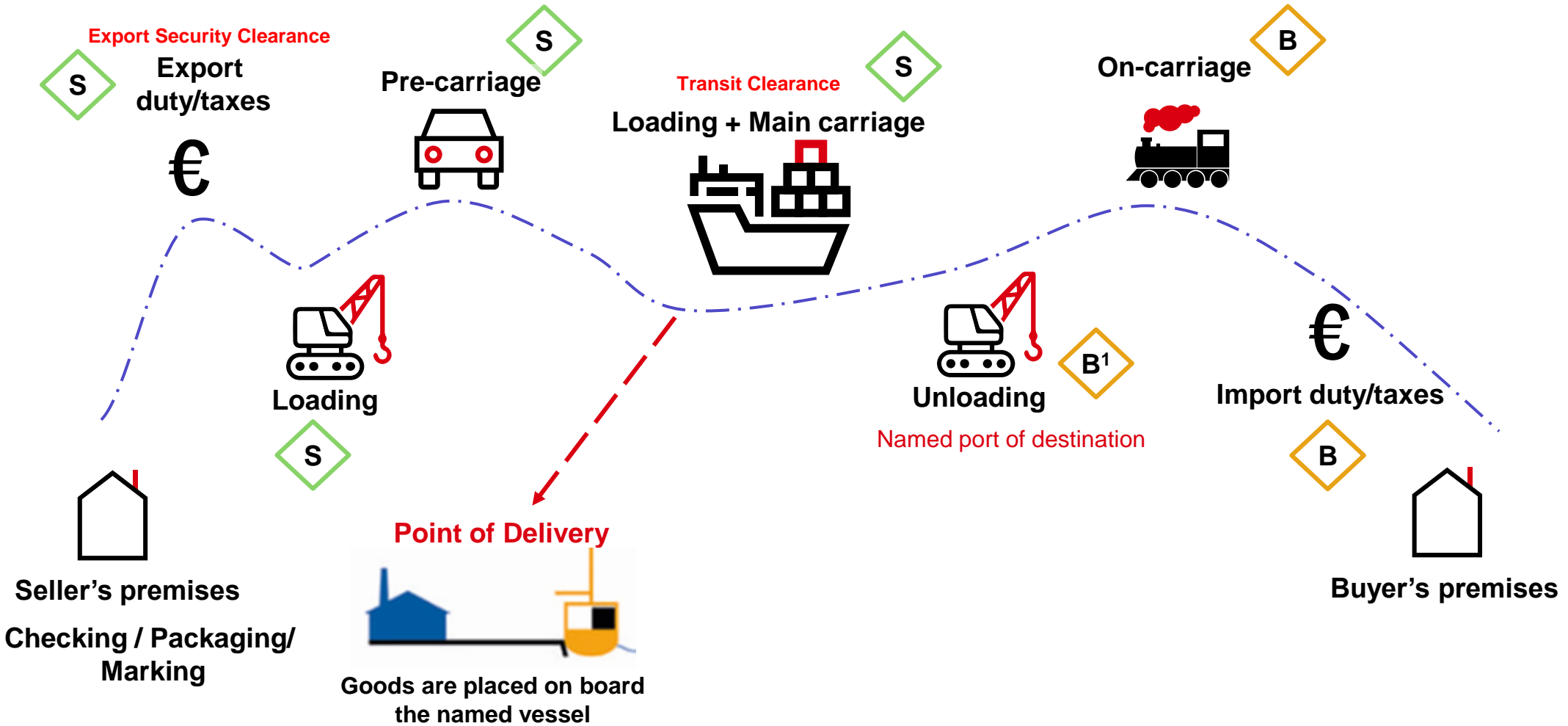
Risk
Cost
Insurance

FOB (named port of shipment)



<i>Risk</i>
<i>Cost</i>
<i>Insurance</i>

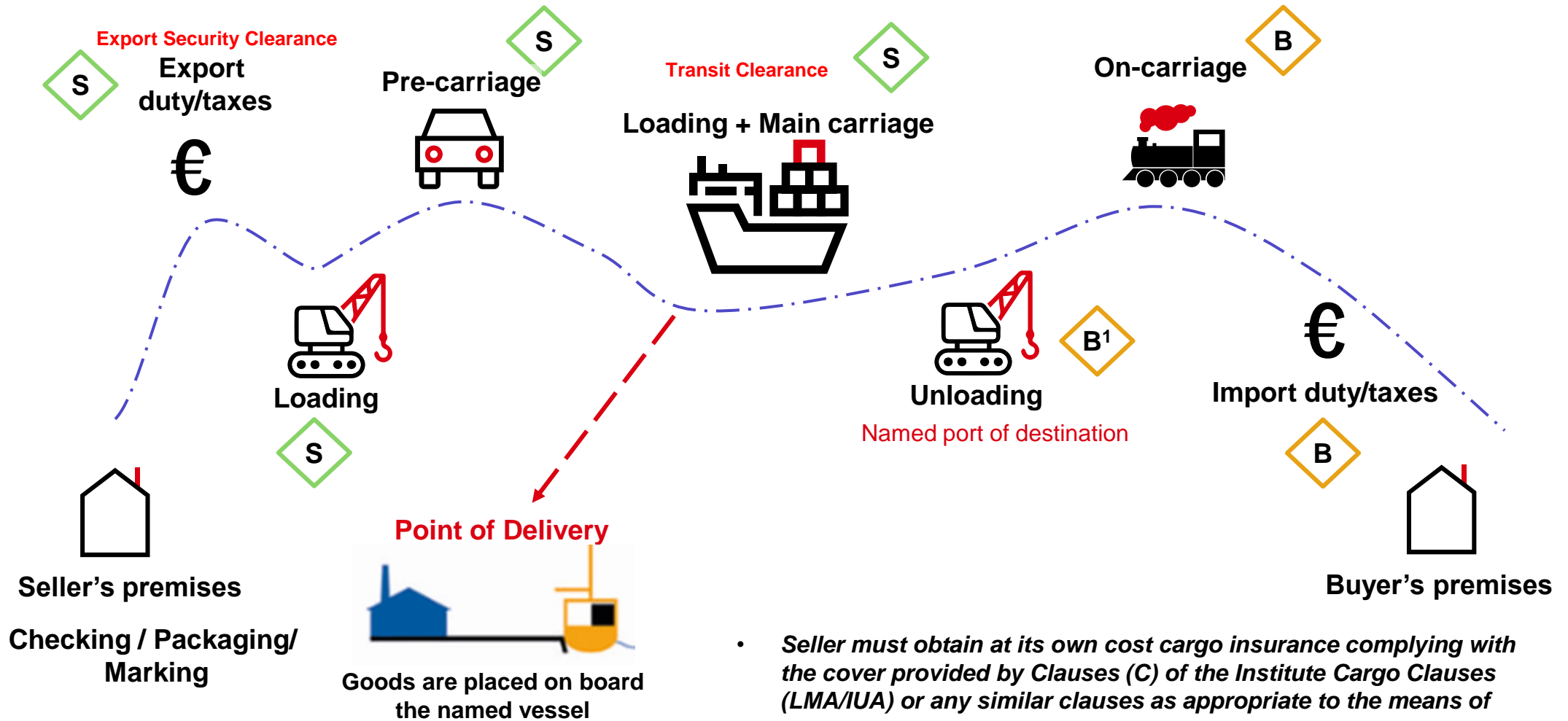
CFR (named port of destination)



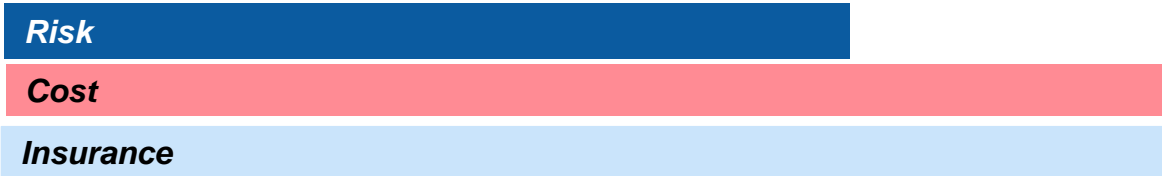
Risk	From Seller's premises to Point of Delivery
Cost	From Seller's premises to Buyer's premises
Insurance	From Seller's premises to Point of Delivery

B¹ May be of seller account if agreed under the contract of carriage.

CIF (named port of destination)



- Seller must obtain at its own cost cargo insurance complying with the cover provided by *Clauses (C) of the Institute Cargo Clauses (LMA/IUA)* or any similar clauses as appropriate to the means of transport



B1 May be of seller account if agreed under the contract of carriage.

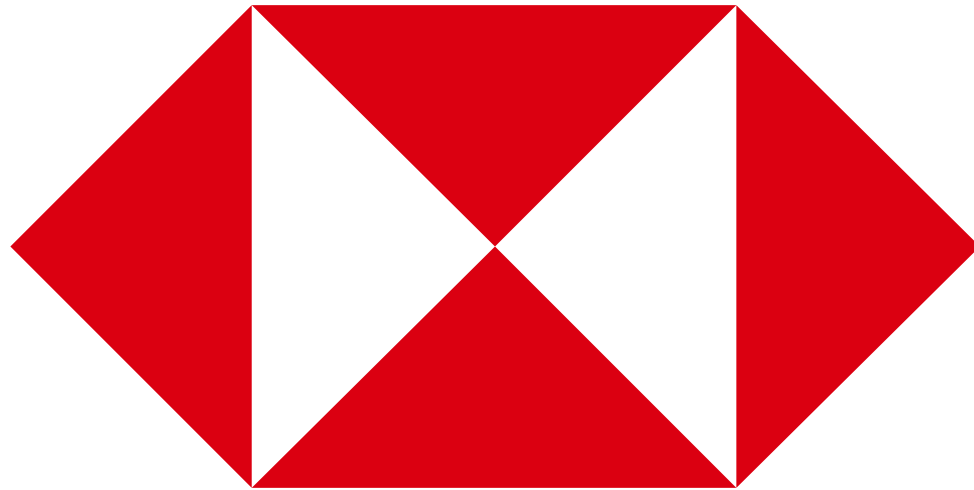
Use of Insurance for Incoterms CIP and CIF

- ◆ CIP – seller takes responsibility for arranging and paying for carriage of goods to a named destination including insurance coverage
- ◆ Insurance is covered for the period of transportation, however, upon arrival at destination, risk shifts to the buyer

- ◆ CIF – seller's responsibility is similar to CIP, however, the insurance coverage is extended beyond the transportation to destination port; it is until the goods are discharged at destination port
- ◆ Seller bears the risk until goods are completely unloaded at destination



Questions?



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