

Seacon Logistics

Incoterms® whitepaper

VALUE THROUGH KNOW-HOW



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Seacon Logistics Incoterms® whitepaper

The new ICC Incoterms® 2020 are here. As the global logistics chain director, Seacon Logistics has clarified the most important changes for you, and we are keen to help you reduce the risk of doing business.

With Incoterms® (International Commercial Terms), you're able to make agreements about transport, insurance and delivery that are known and recognised worldwide. Incoterms® are developed and published by the International Chamber of Commerce (ICC). There are four rules governing transport by sea and inland waterways, while the other seven are focused on all forms of multimodal transport. ICC updates the Incoterms® rules every ten years. The most recent version came into force on 1 January 2020.

With this whitepaper we inform business owners, existing and new Seacon Logistics clients about the changes to Incoterms® and the potential solutions that we're able to offer you.



It covers the following aspects:



1. Incoterms® 2020



2. Things that have changed since the 2010 version



3. Incoterms® in practice

Incoterms® 2020

If your company does business internationally, you will need to have clear agreements between buyer and seller; not only agreements on the division of obligations, risks and costs, but also about transport, permits and customs. There are different types of Incoterms® available for these. Their use is not mandatory, but it is certainly strongly recommended. The rules are available in 31 different languages, and are known to the various Chambers of Commerce around the world. This means that you are always able to access a suitable translation. As a buyer and seller, you can choose from the following Incoterms®:

Rules for every mode of transport (multimodal transport):

- **EXW** / Ex Works
- **FCA** / Free Carrier
- **CPT** / Carriage Paid To
- **CIP** / Carriage and Insurance Paid To
- **DAP** / Delivery At Place
- **DPU** / Delivery At Place Unloaded
- **DDP** / Delivery Duty Paid

Rules for sea and inland waterway transport:

- **FAS** / Free Alongside Ship
- **FOB** / Free On Board
- **CFR** / Cost And Freight
- **CIF** / Cost, Insurance And Freight

Good to know

- Would you like to see everything in a single clear overview, or share it with your colleagues?
Then download our Seacon Logistics Incoterms® infographic from www.seaconlogistics.nl.

Things that have changed since the 2010 version



The International Chamber of Commerce updates the Incoterms® periodically to keep up with developments, new technologies, environmental guidelines, and user experience. The content of the 2020 version is not enormously different from the 2010 version. We've listed the most important changes for you:

Good to know

- On-board Bill of Cargo option has been added to Free Carrier (FCA). Previously the Bill of Lading was only issued to the buyer. This change means that it can now be issued to the seller as well.
- Various levels of insurance coverage have been expanded for Cost, Insurance And Freight (CIF) and Carriage and Insurance Paid To (CIP). This gives you more options for transport insurance.
- The option to arrange your own means of transport has been added to Free Carrier (FCA), Delivery At Place (DAP), Delivery At Place Unloaded (DPU) and Delivery Duty Paid (DDP). Previously this was the seller's responsibility. In the new situation, the buyer is also able to organise the transport of goods.
- The abbreviation for Delivered at Terminal (DAT) has been changed to Delivery At Place Unloaded (DPU). The name has been changed to avoid any confusion about delivery locations.
- Various safety-related requirements have been added to the obligations covering transport and costs.

Incoterms® in practice

As a global logistics chain director, Seacon Logistics uses Incoterms® a great deal. Although we are not involved in trade agreements between buyer and seller, prior to a deal we are regularly consulted about the risks and consequences of the various Incoterms®. In practice, it turns out that many companies still underestimate the risks.

Case 1

Competition is constantly increasing for many businesses. In order to be able to compete with, say, a company from China, for some businesses Delivery Duty Paid (DDP) is the only way to stay ahead of competitors. If, for example, your company has made an agreement based on DDP, your company then carries all the obligations while your buyer has minimal obligations.

For many countries, you can export using DDP without issues. If your transport is going to America, for example, then the rules are fairly clear and structured. If your transport is going to Nigeria or Vietnam, you are completely dependent on the process at the destination. You need to consider rules that you have no influence on locally, and certainly not remotely. In the worst-case scenario, if customs will not release your containers they may be left there longer than the time you have factored in. Not only will you be billed for demurrage charges, but you also won't be able to deliver to your client on time. This can expose your company to unnecessary risk. Your profit may be reduced, or you might even incur a loss as unexpected costs stack up.

Case 2

Let's say that your company closes on an Ex Works (EXW) basis. In this case, the buyer has maximal obligations while the seller has minimal obligations. Your buyer issues you with a Letter of Credit. Although your obligations are minimal, there are still a number of risks that you should take into account.

The disadvantage of EXW is that you are completely dependent on the party that comes to load your containers. It may be that you have no commercial ties to this party at all, or that the customs formalities run into problems. For example, the designated Forwarder may also be late in organising the necessary documents, meaning that your containers cannot be loaded. In a worst-case scenario you might not get paid, because the transport did not run as agreed.

You can avoid this by appointing your own party to organise the documentation. We advise you to arrange a minimum of FOB (Free On Board), stating the agreed port of shipment, so you have a guarantee that the documentation will be organised in time.

Good to know

- Seacon Logistics has its own customs department, which enables us to give professional advice and to provide the necessary documentation on time.

It is impossible to completely exclude risk when importing and exporting goods. For example, if there are extreme weather conditions en route and/or politically-related changes in the destination country, resulting in transport being delayed or impossible. The current spread of coronavirus was an unforeseen risk. It means that (amongst other things) the shipments have temporarily stalled, and may end up being re-routed at additional cost. Fortunately issues like this are not common.

The new Incoterms® 2020 offer more clarity and certainty for doing business internationally. They provide a basis for the import and export of goods. In practice it seems that there are still ambiguities about how the rules apply to issues such as insurance, payment plans and customs, for example. Our extensive experience and expertise within the multimodal logistics segment and our knowledge of the supply chain solutions and engineering fields make Seacon your ideal partner for advice on your Incoterms® issues.



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