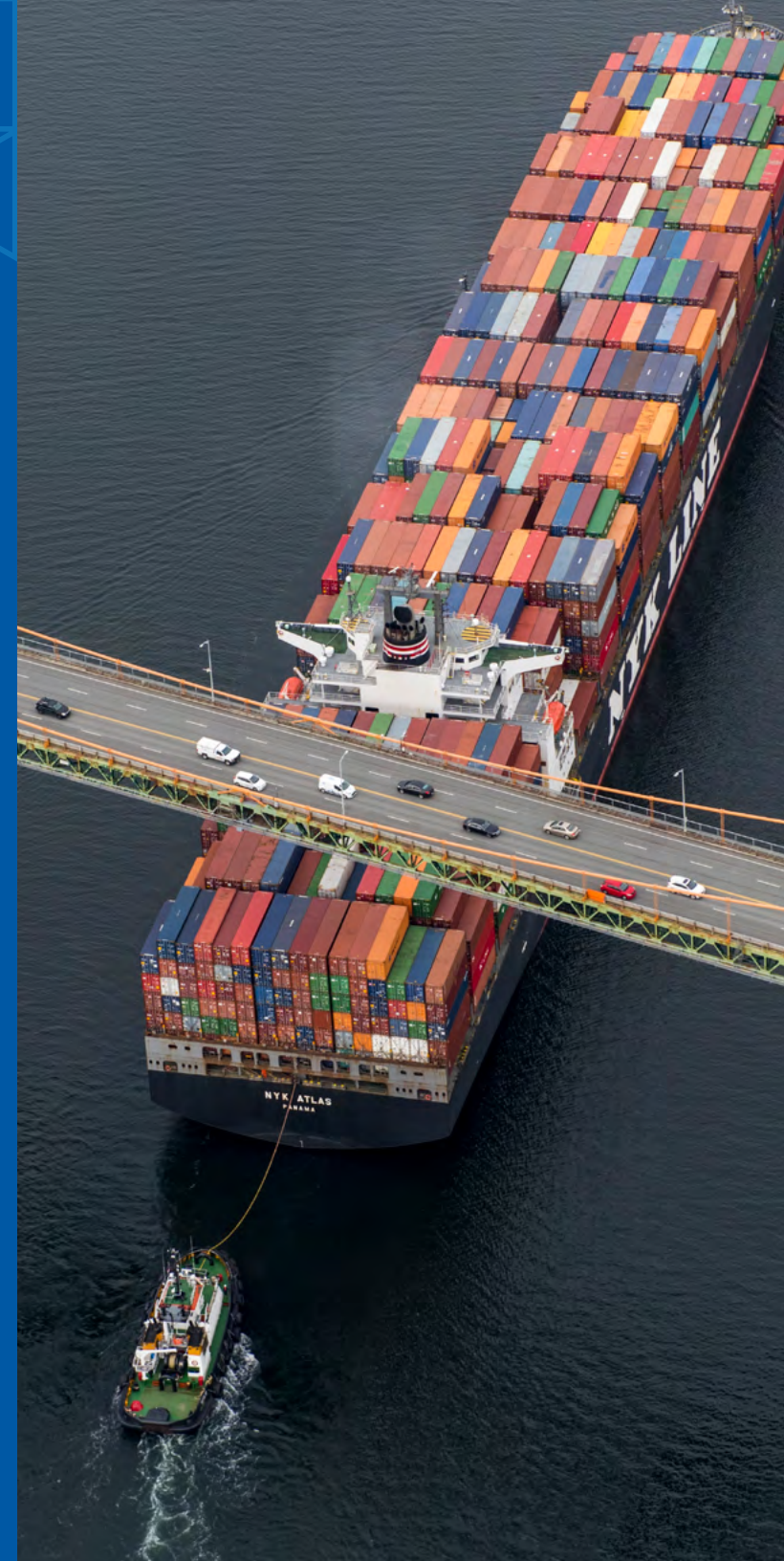


Understanding Incoterms® 2020

A Guide for Nova Scotia Exporters and Importers

► Clarifying responsibilities in global trade



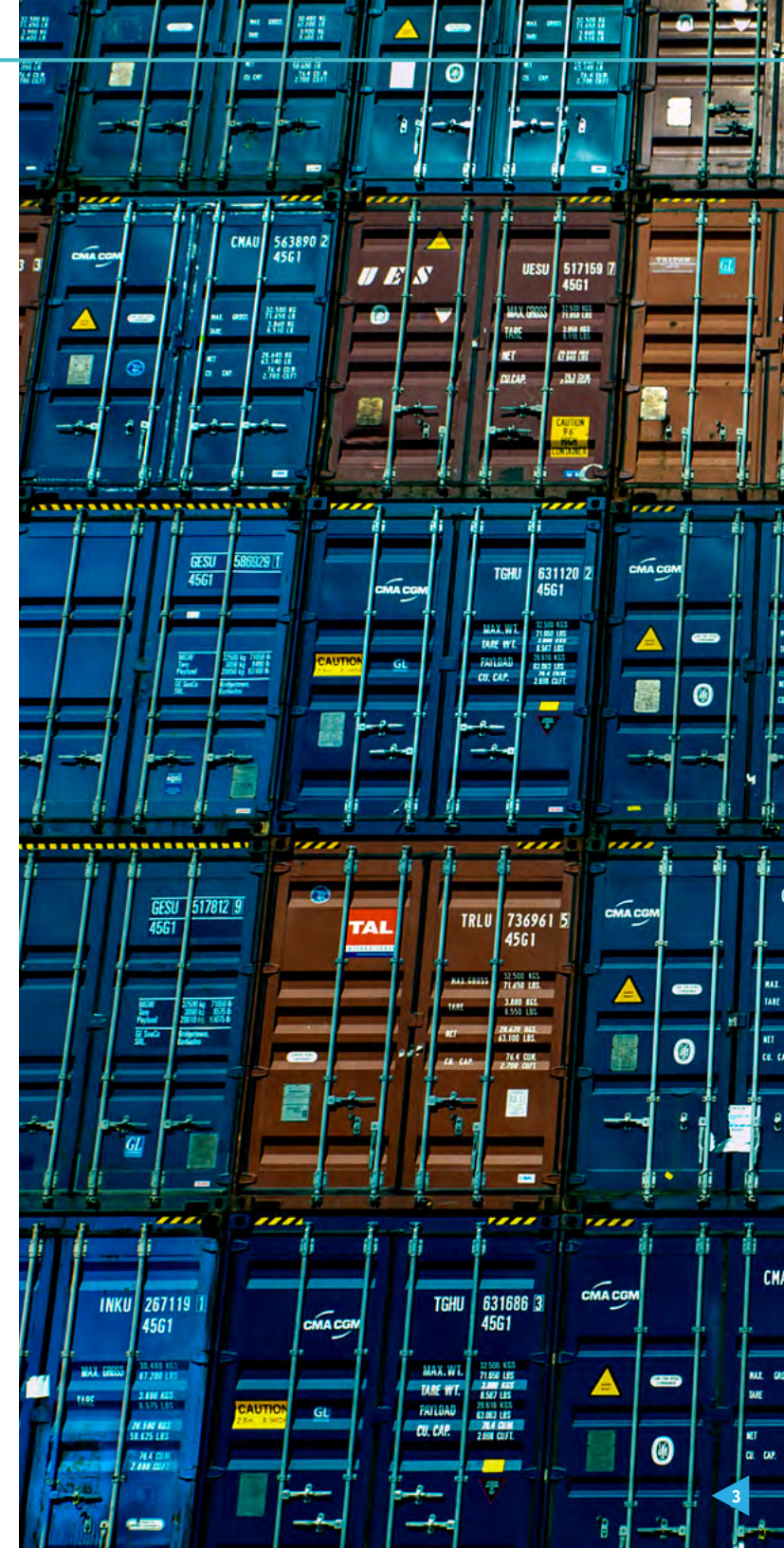
Introduction

Whether you're shipping goods from Nova Scotia to international markets or across provincial borders, understanding Incoterms® can help you avoid confusion, reduce risk, and protect your bottom line. These internationally recognized trade terms outline the responsibilities of buyers and sellers in the shipment of goods. This guide provides a clear overview of the Incoterms® 2020 rules to help Nova Scotia businesses navigate trade – both international and domestic – with greater confidence and clarity.



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Overview

First published in 1936, Incoterms rules are a set of eleven three-letter trade terms, reflecting business-to-business practice in contracts for the sale and purchase of goods.¹ Incoterms are the selling terms that the buyer and seller of goods agree to during international transactions. These rules are accepted by governments and legal authorities around the world. They clearly state which tasks, costs and risks are associated with the buyer and the seller. The International Chamber of Commerce (ICC) reviews and updates the terms every ten years with the newest set of Incoterms released in 2020.²

The Incoterms are grouped into two categories that reflect modes of transport, seven are for any mode of transport and four are specific to sea and inland waterway transport.³

The seven Incoterms for any mode of transport are:

- ▶ **EXW** - Ex Works (insert place of delivery)
- ▶ **FCA** - Free Carrier (insert named place of delivery)
- ▶ **CPT** - Carriage Paid to (insert place of destination)
- ▶ **CIP** - Carriage and Insurance Paid To (insert place of destination)
- ▶ **DAP** - Delivered at Place (insert named place of destination)
- ▶ **DPU** - Delivered at Place Unloaded (insert of place of destination)
- ▶ **DDP** - Delivered Duty Paid (Insert place of destination).

The four Incoterms for sea and inland waterway transport are:

- ▶ **FAS** - Free Alongside Ship (insert named port of loading)
- ▶ **FOB** - Free on Board (insert named port of loading)
- ▶ **CFR** - Cost and Freight (insert named port of destination)
- ▶ **CIF** - Cost Insurance and Freight (insert named port of destination)

¹International Chamber of Commerce. Accessed April 3rd, 2024. Incoterms® Rules.

²IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide

³International Trade Administration. An Overview of incoterms 2020.

Incoterms Summary Table

The table below provides a comprehensive overview of the responsibilities and risk transfer points between buyers and sellers under various Incoterms. The table visually separates the responsibility using colour-coded “Buyer” and “Seller” labels. The table also specifies the coverage of costs such as transportation, insurance, taxes, and duties, making it an optimal reference for understanding the allocation of risks, costs, and tasks for each Incoterm.

Incoterms Summary Table⁴

	Any Mode		Sea Transport Only				Any Mode				
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex-Works	Free Carrier	Free Alongside Ship	Free On Board	Cost and Freight	Cost, Insurance, Freight	Carriage Paid To	Carriage and Insurance Paid	Delivered At Place	Delivered At Place Unloaded	Delivered Duty Paid
Risk transfers when:	Goods placed at buyer's disposal	Goods placed at buyer's disposal	Goods arrive alongside ship	Goods loaded on ship	Goods loaded on ship	Goods loaded on ship	Goods taken in charge by carrier	Goods taken in charge by carrier	Goods arrive at named destination	Goods unloaded at named destination	Goods arrive at named destination
Loading and inland transport	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export taxes, clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading of the vehicle in the export port	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading fees in export port	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Main carriage	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading fees in import port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Negotiable	Seller	Seller	Seller	Seller
Loading to the transport vehicle in import port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
Transport to the delivery address	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Import formalities, duties, fees	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Unloading at named destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	Seller Clauses (A)	Negotiable	Seller Clauses (A)	Negotiable	Negotiable	Negotiable

⁴ Sheppard Mullin. July 2nd, 2020. Incoterms 2020: Our Handy Chart of Responsibilities of Parties.

Incoterms for any mode of transport

EXW– Ex-Works Or Ex-Warehouse

While using Ex-Works, the seller places the goods at the disposal of the buyer at the seller's premises (factory, warehouse, etc.). The seller does not need to load goods on any collecting vehicle.⁵ The seller is only responsible for making the goods available for pickup. Once the buyer collects the goods, the buyer is responsible for all risk of loss or damage.

► Advantages

- Allows buyer to consolidate multiple purchases
- Ability to anonymize a supplier
- Least expensive option for the seller
- Allows buyers to purchase in the domestic market

► Disadvantages

- Buyer assumes all risk and costs
- Need a trusted representative in the country goods are purchased from
- You might pay more than intended if you're unfamiliar with the process and costs⁶

Diagram of Ex-Works⁷



⁵IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide

⁶Investopedia. February 28th, 2024. Ex Works (EXW) Defined, Pros and Cons, Plus More Incoterms.

⁷Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

FCA - Free Carrier

The seller delivers the goods to the carrier, or another person nominated by the buyer at the seller's premises, or another named place. The parties are well advised to specify as explicitly as possible the point within the named place of delivery as risk passes onto the buyer at that point. In simple terms, FCA means the seller takes care of getting the goods to a specific place, and then it is the buyer's job to take full responsibility for loss or damage.⁸

► Advantages

- Provides buyers with greater control
- Seller is only responsible for transportation costs

► Disadvantages

- Not particularly optimized for ocean freight
- Requires additional steps at point of origin for buyer
- Still leaves seller responsible for regular export formalities such as customs clearance and obtaining the proper license⁹

Diagram of Free Carrier¹⁰



⁸ Investopedia. February 21st, 2024. Understanding Free Carrier (FCA) Shipping Terms.

⁹ Bloom. July 8th, 2022. Understanding the Free Carrier (FCA) Incoterm.

¹⁰ Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

CPT – Carriage Paid To

The seller delivers the goods to the carrier, or another person nominated by the seller at an agreed place. The seller must contract for and pay the costs of carriage necessary to bring the good to the named place of destination.¹¹ The seller arranges and pays for transportation, while the buyer assumes responsibility and risks once goods are handed to carrier at the agreed-upon location.

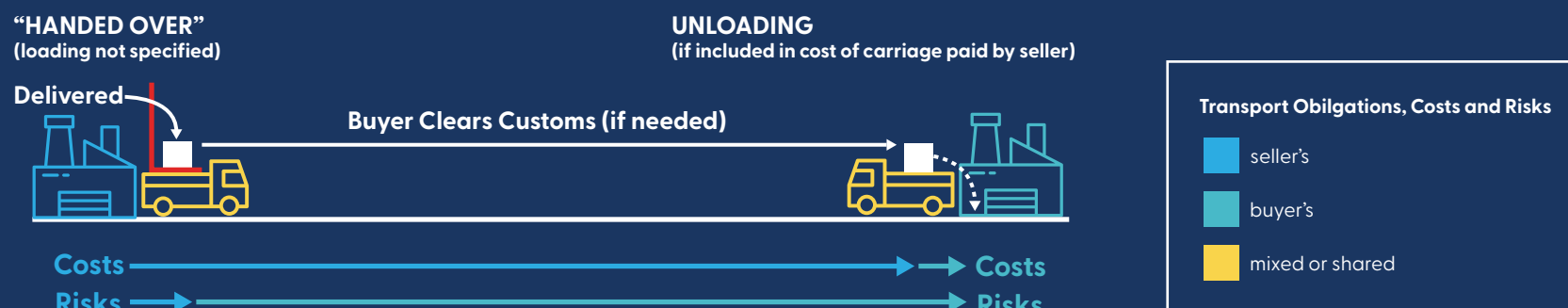
► Advantages

- Reduces the transportation risk for the buyer
- Helps the seller make a sale by assuming a larger proportion of transportation risk
- Buyer not responsible for handling export requirements and export fees

► Disadvantages

- Increases the risk for the seller
- If shipping by sea or air, higher risk for the buyer because the buyer assumes risk from the point of first carrier, usually a truck
- Buyer responsible for transit clearance¹²

Diagram of Carriage Paid To¹³



¹¹ IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

¹² Investopedia. March 26th, 2024. Carriage Paid To CPT): What It Means, How It Works, Example.

¹³ Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

CIP – Carriage And Insurance Paid To

The seller has the same responsibilities as CPT, but they also contract for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage.

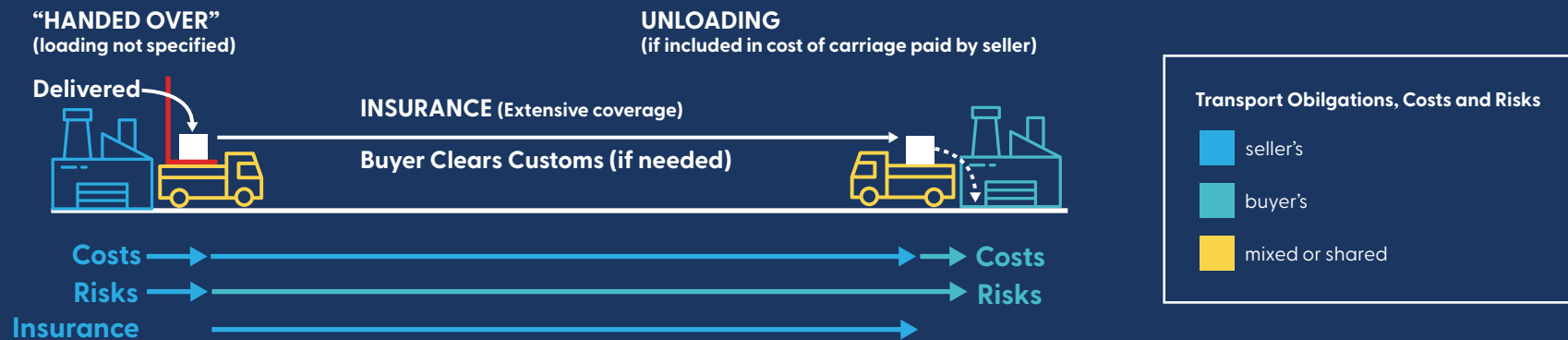
▶ Advantages

- Can be applied to any combination of transportation methods
- Allows businesses to select efficient and cost-effective transport solutions
- Simplifies process for buyers
- Ensures goods are properly insured during initial transportation stages

► Disadvantages

- Limited insurance coverage by seller
- Increases complexity and cost for buyer
- Buyer responsible for additional costs post-delivery¹⁴

Diagram of Carriage and Insurance Paid To¹⁵



¹⁴ Finance Strategists. August 20th, 2023. Carriage and Insurance Paid To (CIP).

¹⁵ Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

DAP – Delivered At Place

The seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.¹⁶ DAP places the responsibility for transportation, delivery, and associated costs on the seller until the goods are delivered to the buyer at the agreed-upon destination, and at that point risk is transferred to the buyer.

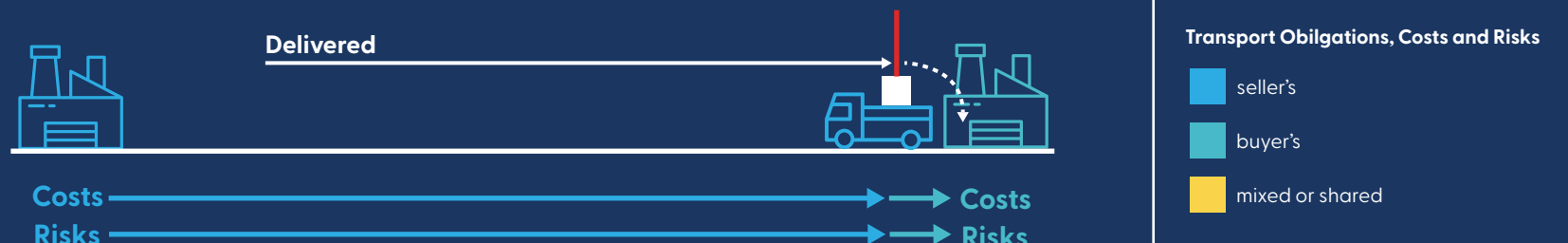
► Advantages

- Buyer has full knowledge of who is responsible for paying any additional expenses during the shipping process
 - Any unexpected costs during shipping are the seller's responsibility
- The buyer has minimum responsibilities during the shipping process.

► Disadvantages

- Seller is responsible for arranging all shipping logistics
- Buyer will likely pay a higher cost for goods as shipping costs are integrated into the sales price
 - This is because the seller handles all logistics¹⁷

Diagram of Delivered At Place¹⁸



¹⁶ IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

¹⁷ Bloom. August 4th, 2022. Understanding DAP Incoterms.

¹⁸ Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

DPU – Delivered At Place Unloaded

The seller delivers the goods, at the disposal of the buyer at a named place of destination after they have been unloaded from the arriving means of transport. The seller bears all risks involved in bringing the goods to and unloading them at the named place of destination. It is the only Incoterms rule that requires the seller to unload goods at the place of destination.¹⁹

► Advantages

- Clear division of responsibility
- Cost allocation
 - Seller covers expenses related to export clearance, freight transport, loading, and unloading.
 - Buyer assumes import duties, last-mile deliveries, and warehousing fees
- Flexibility
 - Can be used for all modes of transport

► Disadvantages

- Places additional responsibility on the seller
- The buyer may have limited control over the unloading process
- If the unloading process at the destination requires complex procedures or encounters unforeseen challenges, it may lead to delays in delivery for the buyer²⁰

Diagram of Delivered At Place Unloaded²¹



Transport Obligations, Costs and Risks

- seller's
- buyer's
- mixed or shared

¹⁹ IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

²⁰ Amazon Global Selling. Accessed April 3rd, 2024. Delivered at Place Unloaded (DPU) incoterm: Explained.

²¹ Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

DDP – Delivered Duty Paid

The seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination²² DDP places the responsibility for transportation, delivery, customs clearance, and associated costs on the seller until goods are delivered to the buyer at the agreed-upon destination.

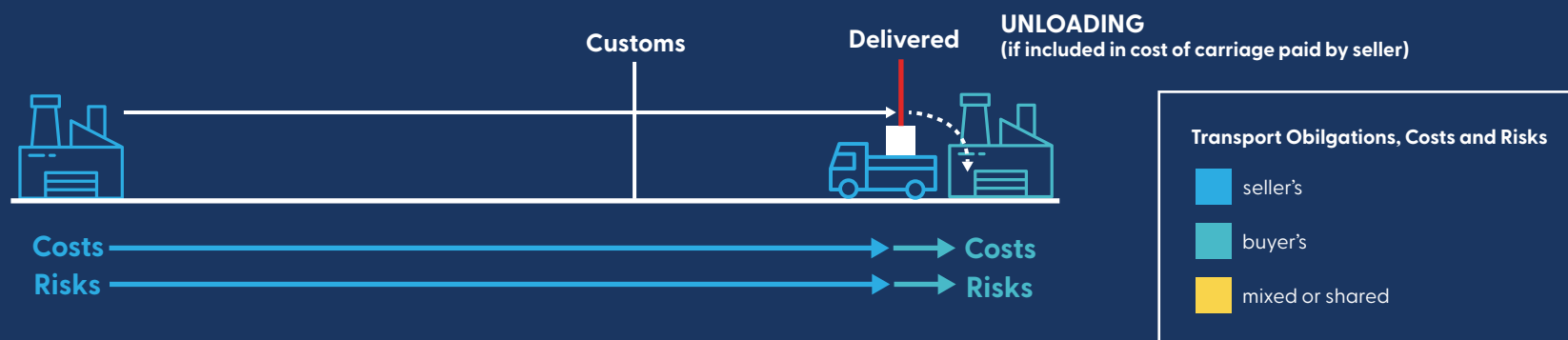
► Advantages

- DDP is the safest method for both buyers and sellers in regards to taxes and tariffs
- Buyers have a clear definition of their total spending from the beginning of transaction, as their duties and taxes are included in the initial sale price

► Disadvantages

- Buyers may not know who will handle their shipments after it arrives at their destination
 - Ex. Goods are couriered via sea or air to another country – there is no way of knowing exactly which agents will be used by the seller²³

Diagram of Delivered At Place¹⁸



²² Incoterms. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

²³ MWT Sourcing. August 9th, 2022. Pros and Cons of doing DDP (Delivered Duty Paid).

²¹ Incoterms PPT Slides. November 26, 2024. Incoterms. Presented by Leroy Lowe.

Incoterms For Sea And Inland Waterway Transport

FAS – Free Alongside Ship

The seller delivers when the goods are placed alongside the vessel (quay or barge) nominated by the buyer at the named port of shipment. The seller bears the costs and risks of delivering the goods to the named port, clearing them for export, and placing them alongside the ship. The risk of loss of or damage to goods passes to the buyer as soon as the goods are placed alongside the ship, and the buyer is then responsible for loading, paying for shipping, etc.²⁵

► Advantages

- The seller is only responsible for getting the goods to the buyer's vessel
- It reduces the risk on the buyer's part as the buyer has the control of the goods as soon as the goods are on the vessel
- It minimizes the seller's risk as the loading is the buyer's responsibility, therefore, any damages that may occur are not the seller's responsibility
- It reduces problems as the seller is obligated to assist the buyer with any paperwork or documentation, which allows for the process to be smooth

► Disadvantages

- It can be risky for the seller as the vessel might not arrive on time and the seller may transport the goods to the dock or port only to find the vessel is not present
- Unless an alternative agreement is in place, the seller is obligated to assist the buyer in getting the documents required for transportation of the goods.²⁶

Diagram of Free Alongside Ship²⁷



Transport Obligations, Costs and Risks

- seller's
- buyer's
- mixed or shared

²⁵ IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

²⁶ World Trade. July 7th, 2022. Advantages and disadvantages of Free alongside ship.

²⁷ Incoterms PPT Slides. November 28, 2024. Incoterms. Presented by Leroy Lowe.

FOB – Free On Board

The seller delivers the goods on board the vessel appointed by the buyer at the named port of shipment or procures the goods already delivered. The risk of loss or damage to the goods passes when the products are on board the vessel and the buyer bears all the costs from that moment onwards.²⁸

► Advantages

- Buyer has more flexibility and control over shipping arrangements and costs
- Most affordable/cost-effective option
- Seller has less risk and liability once the goods are loaded on the vessel

► Disadvantages

- Buyer is responsible for any loss or damage that occurs during transport
- Seller must bear costs and risks of delivering goods to the port of shipment (inland transport, port fees, loading charges, and export clearance)²⁹

Diagram of Free on Board³⁰



Transport Obligations, Costs and Risks

- seller's
- buyer's
- mixed or shared

²⁸ IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

²⁹ LinkedIn. Accessed April 3rd, 2024. What are the advantages and disadvantages of using FOB, CIF, and EXW Incoterms.

³⁰ Incoterms PPT Slides. November 28, 2024. Incoterms. Presented by Leroy Lowe.

CFR – Cost Of Freight

The seller delivers the goods on board the vessel or procures the goods already delivered. The risk of loss of or damage to the goods passes when the products are on board the vessel. The seller must contact for and pay the costs and freight necessary to bring the goods to the named port of destination.³¹ In simpler terms, the seller is responsible for paying for the transportation of goods to the named port of destination and loading them onto the vessel. After that, the buyer is responsible for everything.

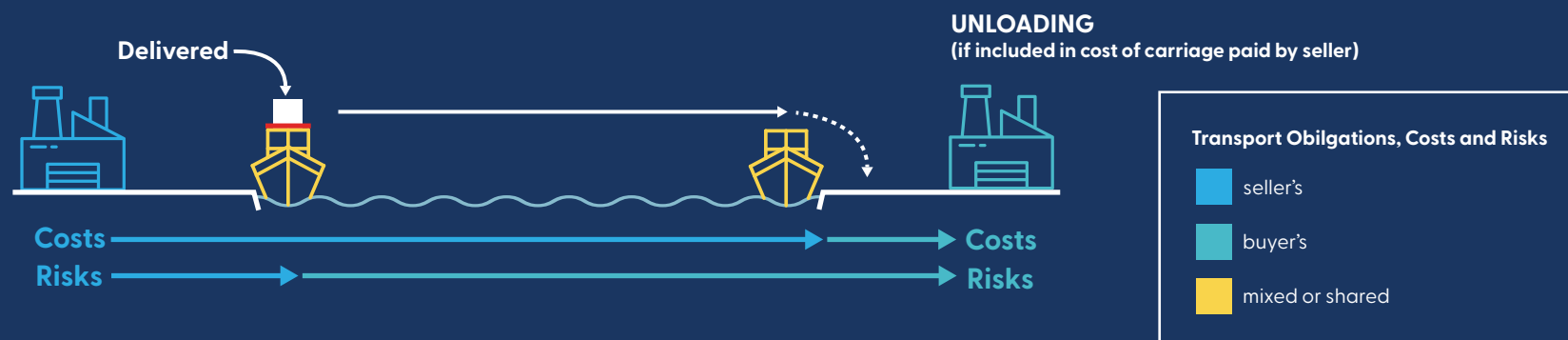
► Advantages

- Clarity on cost and accountability
 - The buyer has a clear idea of what is expected from each part in terms of cost and responsibilities.
- Lower cost for the buyer
 - The buyer does not have to worry about the freight of the goods in transport
- Simplification of the process
 - The CFR Incoterm is a simple and easy trade term to understand, which helps to simplify the international maritime trade process

► Disadvantages

- Risks for seller and buyer
 - The seller of the goods is responsible for costs, export formalities and freight until the goods arrive at the port of destination
- Risk during transport
 - The buyer is responsible for any deterioration or loss experienced by the goods during marine transit. The seller is only responsible for the freight and cost.
- Geographic Limitation
 - CFR only applies to maritime logistics
- Risk in unloading at port
 - The buyer is responsible for the cost and risks associated with the unloading of goods at the port of destination³²

Diagram of Cost of Freight³³



³¹ IncoDocs. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

³² Logisber. Accessed April 3rd, 2024. What are the pros and cons of the CFR Incoterm?

³³ Incoterms PPT Slides. November 28, 2024. Incoterms. Presented by Leroy Lowe.

CIF – Cost, Insurance, And Freight

The seller delivers the goods on board the vessel or procures the goods already delivered. The risk of loss of or damage to the goods passes when the products are on the ship. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. Additionally, the seller purchases insurance coverage for the goods covering the main risks of loss or damage during transportation.³⁴

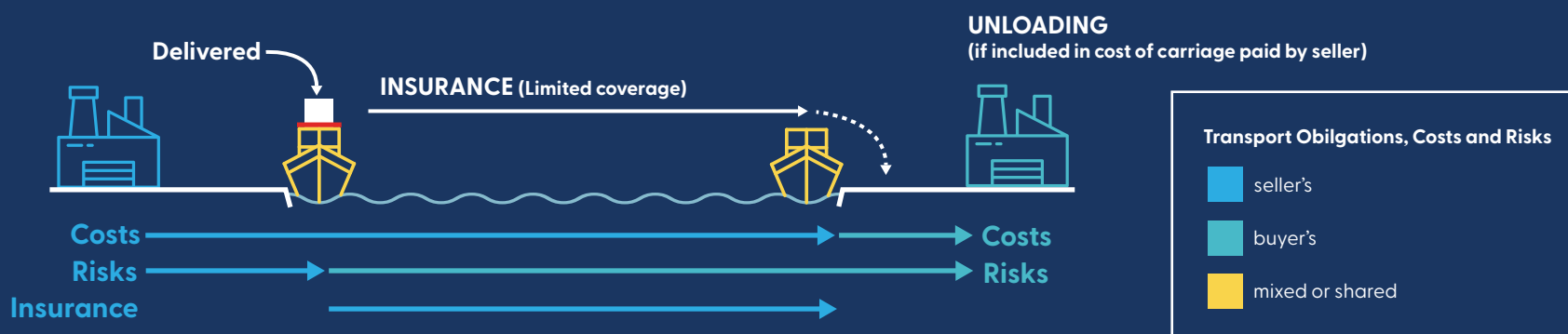
► Advantages

- Buyer has less upfront costs and hassle
- Buyer can claim from seller's insurance policy if any loss or damage
- Seller has more control and certainty over the shipping process

► Disadvantages

- Buyer has less control and visibility over the shipping process
 - Must rely solely on the seller's choice of carrier, route, transit time, etc.
- Seller has more risk and liability during transport³⁵

Diagram of Cost, Insurance, and Freight³⁶



³⁴ Incoterms. January 20th, 2020. Incoterms® 2020 Explained – The Complete Guide.

³⁵ LinkedIn. Accessed April 3rd, 2024. What are the advantages and disadvantages of using FOB, CIF, and EXW Incoterms.

³⁶ Incoterms PPT Slides. November 28, 2024. Incoterms. Presented by Leroy Lowe.

Additional Resources

- ▶ **International Trade Administration “Known Your Incoterms”** <https://www.trade.gov/know-your-incoterms>
- ▶ **International Trade Administration “Manage Export Shipping Costs and Risk with Incoterms”** YouTube
- ▶ **ICC Academy “Incoterms 2020 Certificate)** <https://icc.academy/certifications/incoterms-2020-certificate/>
- ▶ **Forum for International Trade Training (FITT) Incoterms 2020 Training** <https://fittfortrade.com/incoterms-2020-training>
- ▶ **Udemy “Incoterms 2020 MasterClass”** <https://www.udemy.com/course/incoterms-2020-masterclass/>
- ▶ **Trade Finance Global “Incoterms Training Online”** <https://www.tradefinanceglobal.com/incoterms/courses/>
- ▶ **Global Training Center “Incoterms Rules Training”** <https://globaltrainingcenter.com/incoterms/>
- ▶ **DB Schenker “Master New Incoterms 2020 Rules”** <https://ts.dbschenker.com/training/incoterms-training/>
- ▶ **IFTS Learning “Incoterms International Commercial 2020”** <https://iftslearning.com/courses/incoterms-2020/>
- ▶ **Allyn International Incoterms 2020 training** <https://allynintlcatalog.trainlearnngrow.com/product/incoterm-training/>

