

## An overview of INCOTERMS® 2020

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## **1. Introduction of Incoterms®**

### 1.1 Incoterms® aim and scope

Incoterms® aim is to create a set of international rules for the interpretation of the most commonly used terms in the field of foreign trade. Thus, the ambiguities caused by the different interpretations of such terms in different countries will be eliminated or at least greatly reduced”<sup>1</sup> (ICC, 2000:5).

Incoterms® scope is to separation of responsibilities between seller and buyer and while doing so trying to diminish discrepancy between traders. Additionally, it is very normal that neither sellers nor buyers can fully comprehend one country’s custom requirements and procedures. However, by using Incoterms® traders are making a settlement on the responsibilities of transportation of the goods.

### 1.2 Historical evolution of Incoterms®

International Commerce Chambers (ICC) is founded in 1919. One of ICC’s main goals is to develop foreign trade. ICC publishes Incoterms®, in order to prevent discrepancy between traders all around the world. Incoterms® is the acronym form of “international commercial terms” which is more commonly used and known. In order to do that Incoterms® regulates a set of instructions and guidelines. In 2020, the latest edition of the Incoterms® was published. In 1923 ICC started its first studies to create Incoterms®. In 1928 second incoterms instructions were broad enough to expand their scope to improve clarity of trading terminology. In 1936 first edition of Incoterms® was published which consists six trade terms of carriage by sea transportation mode. In 1953 three new non-

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<sup>1</sup> “INCOTERMS 2020 - ICC - International Chamber of Commerce.” *ICC*, 8 June 2022, <https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-2020/>.

maritime terms (Free on Rail, Free on Truck and Delivery Costs Paid) were added to Incoterms®. After World War II, there were a gradual increase in usage of rail transportation, therefore it is understandable that those three words were not maritime related. In 1967, third edition of incoterms was published with two new words (Delivery at Frontier) and Delivery in Country of Destination). Fourth edition of Incoterms® was published on 1976 which introduced and on 1980 Free Carrier term was added. On 1990, 1953 Incoterms® version was fully revised. FRC term became FCA and inclusion of electronic messages was added as a provision. On the beginning of the new era, 2000 publication of Incoterms® was mainly about altering the “delivery” section. ICC released Incoterms® 2010 and reduced its thirteen terms to eleven and lastly on 2020 latest incoterms was published <sup>2</sup>(INCOTERMS® ® 2020). As it is evident, Incoterms® consists abbreviations terms which have universal meanings. However, it is well-known that ICC does change those terms or alter their meaning in times of need.

## **2. Incoterms® 2020**

### 2.1 Incoterms® 2020 terms

#### 2.1.1 Any mode of Transport

##### 1) EX WORKS aka EXW

This is one of the oldest Incoterms® and it is the most eligible way of transportation for the seller. Since, sellers only responsibility is to fulfilling the promise given to buyer about making sure that goods are

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<sup>2</sup> “INCOTERMS® 2020.” INCOTERMS ® 2020 Türkiye Milletlerarası Ticaret Odası, <https://tobb.org.tr/BilgiErisimMudurlugu/Kampanyalar/incoterms/001/>.

ready to be transported in buyers' facilities. Thus, it is clear that EXWORKS is a riskier and more tedious mode of transport.

2) FREE CARRIER aka FCA

Seller's responsibility is to loading and delivering the goods to the named place. Cost and risk responsibility is going to be passed to the buyer when the good is delivered to the named place. Unloading procedure is always on the buyer. Therefore, sellers can choose this transportation mode if they want less responsibility.

3) CARRIAGE PAID TO aka CPT

Seller is responsible with arranging transportation and the risk is on the seller until the goods are delivered to the first carrier. Thus, seller is paying for the carriage costs but its responsibilities end in first carrier delivery process.

4) CARRIAGE AND INSURANCE PAID TO aka CIP

Not only seller is responsible with arranging transportation and costs but also making insurance on behalf of the buyer to the named place at the destination.

5) DELIVERED AT PLACE aka DAP

Seller's responsibility is to delivering goods at the agreed place of destination. Unloading expenses should be carried out by the buyer.

6) DELIVERED AT PLACE UNLOADED aka DPU

This is the new incoterms, and in this way of transportation seller is responsible of handling all procedural requirements excluding import custom formalities and insurance. Insurance can be done by the seller, however it is not mandatory.

7) DELIVERY DUTY PAID aka DDP

Seller is responsible of all costs including import formalities. Only unloading process should be done by the buyer. There is no mandatory requirement for seller to make an insurance.

2.1.2 Sea and Inland Waterway Transport

8) FREE ALONGSIDE SHIP aka FAS

Sellers's responsibilities are, delivering goods to the port and handling export formalities. After that, risks and other costs should be carried by the buyer.

9) FREE ON-BOARD aka FOB

Sellers's responsibilities are loading the goods and export formalities. Unloading the goods and import formalities should be done by the buyer. Thus, when loading the goods to the vessel is complete the responsibility transfers to the buyer.

10) COST AND FREIGHT aka CFR

Seller is responsible of covering freight costs and buyers' responsibilities are unloading and import formalities.

11) COST, INSURANCE AND FREIGHT aka CIF

Sellers's responsibilities are covering insurance and freight costs. When the loading procedure is done, responsibilities transfers to the buyer. Making an insurance policy for the buyer's name is a must for the seller.

**2.2 What is new with Incoterms® 2020**

In latest version of Incoterms® 2020, there are few changes made from the older versions. These are;

Unlike Incoterms® 2010 Free Carrier aka FCA, in 2020's Incoterms® buyer is mandate to buy a high level of insurance coverage (minimum 110% of the value of the goods). Additionally, *“this option is specified, for maritime transport, so that the buyer may instruct the carrier (shipping company or its agent) which has been contracted in order to issue a Bill of Lading (B/L – Bill of Lading) on behalf of the seller with the annotation of “aboard” (on-board), which specifies that the goods have been loaded aboard the ship”*<sup>3</sup>(INCOTERMS 2020: Main changes).

Delivered at Terminal also known as DAT is renamed as Delivered at Place Unloaded (DPU). However, context of it is unchanged. With the help of the new name, it is now more understandable that DPU covers goods which are cannot solely be unloaded at a transport terminal or infrastructure *“but likewise at any other point in the destination country which has facilities for the unloading procedures of the goods from the means of transport”*<sup>4</sup>(INCOTERMS 2020: Main changes).

Security of goods transport responsibility is approached more decisively under two factors; custom clearance formalities in transit/export/import and transportation from the country of origin to the agreed place. Additionally, security responsibility is also been estimated by the party who carriers out the goods subject to the contact. The responsibility of custom clearance is on the safety liability party which is mandate to undertake the clearance.

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<sup>3</sup>“INCOTERMS 2020: Main Changes -.” Global Negotiator Blog, 5 Nov. 2019, [https://www.globalnegotiator.com/blog\\_en/incoterms-2020-main-changes/](https://www.globalnegotiator.com/blog_en/incoterms-2020-main-changes/).

<sup>4</sup> “INCOTERMS 2020: Main Changes -.” Global Negotiator Blog, 5 Nov. 2019, [https://www.globalnegotiator.com/blog\\_en/incoterms-2020-main-changes/](https://www.globalnegotiator.com/blog_en/incoterms-2020-main-changes/).

In old version on Incoterms®, CIP and CIF transportation type have had a standardized minimum guarantee and a non-broad scope of shipping insurance. In Incoterms® 2020 the insurance coverage limit in CIP increased to “all risks” and different minimum insurance guarantees released for CIF and CIP unless otherwise agreed by the seller and the buyer. After that if the parties want, they can make a lower or higher guarantee limit for both distribution methods by preparing a guaranty limit inside their sales contracts.<sup>5</sup>

Incoterms® 2010 had a guidelines and comments section. In Incoterms® 2020 that section is turned into “Explanatory Notes for Users” for each mode of transportation.<sup>6</sup>

### **3. Conclusion**

In conclusion, Incoterms® is being widely used as a guiding method of transportation for goods all over the world. Thankfully, with the incremental increase of usage of Incoterms® disputes between traders can cease to an end. It can be seen from the context of Incoterms® 2020 that its aim is to make traders to choose the most suitable term for their trades by clarifying Incoterms® 2010 terms.

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<sup>5</sup> “INCOTERMS 2020 Ve Getirdiği Değişiklikler.” *Globelink Ünimar*, 21 June 2021, <https://globelink-unimar.com/incoterms-2020-ve-getirdigi-degisiklikler/#:~:text=Incoterms%C2%AE%202010%20kurallar%C4%B1nda%2C%20DAT,%E2%80%9Cterminal%E2%80%9D%20terimi%20k%C4%B1saltmadan%20%C3%A7%C4%B1kar%C4%B1lm%C4%B1%C5%9Ft%C4%B1r.>

<sup>6</sup> Ağaoğlu, Cahit. “Incoterms® 2020.” <https://dergipark.org.tr/tr/download/article-file/1446957>. Accessed 27 June 2022. Research Article, 13 Dec. 2020.

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