



# Commercial Compass #2

INCOTERMS IN SUPPLY CONTRACTS

# Incoterms in supply contracts

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Incoterms (*International Commercial Terms*) are international trade standards developed by the International Chamber of Commerce (*ICC*). They are widely used in supply contracts around the world, clarifying the obligations of the supplier and the recipient in the transport of goods. Incoterms play a key role in international trade by providing clarity and predictability in transactions, minimising the risk of disputes.

## CLASSIFICATION OF INCOTERMS

Incoterms can be divided into two main categories: universal terms, which apply to all modes of transport, and terms specific to sea and inland waterway transport.

### Incoterms for all modes of transport (EXW, FCA, CPT, CIP, DAP, DPU, DDP)

1. **EXW (*Ex Works*):** The supplier makes the goods available at his factory or warehouse. The recipient bears the full cost and risk of transport from the time of receipt of the goods.
2. **FCA (*Free Carrier*):** The supplier delivers the goods to a carrier designated by the recipient. The risk passes to the recipient upon delivery to the carrier.
3. **CPT (*Carriage Paid To*):** The supplier pays the costs of transport to the specified destination, but the risk passes to the recipient when the goods are handed over to the carrier.
4. **CIP (*Carriage and Insurance Paid To*):** Similar to CPT, except that the supplier is also required to insure the goods during transit.
5. **DAP (*Delivered At Place*):** The supplier delivers the goods to the specified destination. Risk is transferred to the recipient at the time of delivery.
6. **DPU (*Delivered at Place Unloaded*):** The supplier bears the cost and risk until the goods are unloaded at the specified destination.
7. **DDP (*Delivered Duty Paid*):** The supplier bears all costs and risks associated with the delivery of the goods, including duties and taxes in the country of destination.




### Incoterms specific to sea and inland waterway transport (FAS, FOB, CFR, CIF)

1. **FAS (Free Alongside Ship):** The supplier delivers the goods alongside the ship at the port of loading. The risk is transferred to the recipient at the time of delivery.
2. **FOB (Free on Board):** The supplier bears the cost and risk until the goods are loaded onto the ship. The risk then passes to the recipient.
3. **CFR (Cost and Freight):** The supplier bears the cost of transport to the port of destination, but the risk passes to the recipient when the goods are loaded onto the ship.
4. **CIF (Cost, Insurance and Freight):** Similar to CFR, except that the supplier is also responsible for insuring the goods for transport.

### GUIDELINES FOR NEGOTIATING SUPPLY CONTRACTS

Following these guidelines when negotiating supply contracts using Incoterms can significantly improve the security of commercial transactions and minimise your risk.

1. **Precisely define the place of delivery:** Avoid misunderstandings by clearly defining the place of delivery.
2. **Carefully select the right Incoterm:** Choose the Incoterm that best suits the specifics of the transaction, the type of transport and your interests.
3. **Include insurance:** If you use terms that include insurance, make sure the coverage is adequate.
4. **Consider customs costs and taxes:** Choose terms that make it clear who is responsible for duties and taxes.
5. **Pay attention to the detailed logistical requirements:** Make sure all logistical requirements, such as loading, transport and unloading, are clearly defined. Some goods, such as ammunition or hazardous materials, may require special procedures and regulations.
6. **Documentation and paperwork:** Ensure that all necessary documentation is provided in accordance with the requirements of the selected Incoterm. Failure to provide the appropriate documentation may result in delays and additional costs.
7. **Consider environmental and sustainability aspects:** Consider environmental issues when choosing dates and planning logistics. Today's business strategies increasingly take sustainability into account, which can be important when choosing suppliers and transport methods.

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- A vertical photograph on the left side of the page shows a railway track curving through a dark, industrial setting. In the foreground, several red freight cars with corrugated metal roofs are visible. In the background, a train of silver tanker cars is moving along the tracks. The scene is illuminated by overhead lights, creating strong shadows and highlights.
8. Risk analysis: Before signing the contract, carefully analyse the potential risks associated with the chosen Incoterm and the transport of the goods. Identify possible risks and determine which party is responsible for them.

### EXPECTED DEVELOPMENTS

Incoterms will evolve to meet the changing international trade environment, taking into account digitalisation, sustainability and new technologies in logistics and transport.

**Are you interested in this topic?  
Feel free to contact us.**

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