



Global Trade Advisory Alert

Incoterms[®] 2020: What's new and important for global trade

In September 2019, the International Chamber of Commerce (ICC) revised and published its new International Commercial Terms, Incoterms[®] 2020, which will come into effect on 1 January 2020. The Incoterms[®] rules explain a set of three-letter trade terms reflecting business-to-business practice in contracting for the sale of goods. Exporters and importers that rely on the use of Incoterms[®] in their contracting should consider familiarizing themselves with the changes that have occurred and begin to use the revised terms in their go-forward contracting.

Specific changes

Incoterms® 2020 contains the ICC's rules for use of 11 Incoterms® that reflect the latest developments in commercial practices. For ease of use, they include extensive explanatory notes and illustrative graphics to help users efficiently choose the correct Incoterm for a particular transaction. New classification guidance is also available to help traders select the most suitable Incoterm® in relation to the mode of transport being used for a transaction.

Like Incoterms® 2010, Incoterms® 2020 remains arranged into two main groups: (i) **Any mode or modes of transport**; and (ii) **sea and inland waterway transport only**. We summarize the grouping of Incoterms® 2020 below:

Group I (any mode or modes of transport)

1. EXW – Ex Works
2. FCA – Free Carrier
3. CPT – Carriage Paid To
4. CIP – Carriage and Insurance Paid
5. DAP – Delivered at Place
6. DPU – Delivered at Place Unloaded (replaces DAT-Delivered at Terminal, Incoterms® 2010)
7. DDP – Delivered Duty Paid

The seven Incoterms® in this group may be used irrespective of the mode of transport selected and regardless of whether one or more mode transport is employed. These can be used when there is no maritime transport, or in cases where a ship is used for a part of the carriage.

Group II (sea and inland waterway transport)

1. FAS – Free Alongside Ship
2. FOB – Free on Board
3. CFR – Cost and Freight
4. CIF – Cost, Insurance, and Freight

These four Incoterms® should be used when the delivery point and the place where the goods are carried to the buyer are both maritime ports.

Order of articles within Incoterms® 2020

The obligations within Incoterms® 2020 are set forth in the context of the seller's obligations ("A") versus the buyer's obligations ("B"), each of which sets forth a list 10 articles of varying importance. The ICC has reorganised the order of the 10 articles as follows:

- 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/packing/markings
- A9/B9 Allocation of costs
- A10/B10 Notices

Key differences between Incoterms® 2010 and Incoterms® 2020

In considering revisions for Incoterms® 2020, the ICC mainly focused on two premises: how the presentation of the rules could be enhanced to support their correct usage in international trade contracts and how to align the Incoterms® with sale contracts and obligations of sellers and buyers. Thus, the key parameters considered for general changes were:

- Right choice of Incoterms®;
- Clearer guidance on demarcation and connection between the sale contract and ancillary contracts (A4/B4 and A5/B5, carriage, and insurance);
- Guidance on each of the Incoterms® by introduction of explanatory notes; and
- Re-ordering of articles within the Incoterms® rules.

Below are the specific changes made by the ICC:

- Bills of lading with an on-board notation and the FCA Incoterms® rule;
- Costs, where they are listed;
- Different level of insurance cover in CIF and CIP;
- Arranging for carriage with seller's or buyer's own means of transport in FCA, DAP, DPU, and DDP;
- Replacement of DAT with DPU;
- Inclusion of security-related requirements within carriage obligations and cost; and
- Explanatory notes for users.

What to do?

Exporters and importers should review Incoterms® 2020 and align sale or purchase contracts and trade technology tools to incorporate these changes. Companies should also assess their supply chain, logistics arrangements, and stakeholder/user training so they are aware how the revised Incoterms® should be used.

Deloitte's Global Trade Advisory specialists are part of a global network of professionals who can provide specialised assistance to companies in global trade matters. Our professionals can help companies seeking to manage the impacts and potential impacts of the developments described above. Specifically, the Global Trade Advisory team monitors the latest developments on this matter and can support companies in determining the correct usages of Incoterms® and their application.

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