



The Practical Guide to Incoterms® 2020

Who pays for what, where risk changes hands, and how to choose the right term — written for Canadian importers and exporters who want plain answers, not legal theory.

11 Rules Explained

Full Cost & Risk Chart

2010 vs 2020 Changes

China → Canada Notes

01 What Incoterms actually decide

Incoterms are a set of three-letter trade terms published by the International Chamber of Commerce. They are shorthand for a specific split of duties between a seller and a buyer on an international shipment.

What they cover

- ▶ Who arranges and pays for transport at each leg
- ▶ Who handles export and import customs formalities
- ▶ Exactly where risk of loss or damage passes from seller to buyer
- ▶ Who is responsible for insurance, and at what level
- ▶ Which documents each side must provide

What they do *not* cover

- ▶ Transfer of ownership or title to the goods
- ▶ Price, currency, or payment terms
- ▶ What happens if goods are defective or the contract is breached
- ▶ Which country's law governs the contract
- ▶ Sanctions, licensing, or product compliance obligations

Write it properly. An Incoterm is only complete when it names a place and the rule set. "FOB Ningbo, Incoterms® 2020" is usable. "FOB" on its own is an argument waiting to happen — and "CIF Toronto" on an ocean booking is a contradiction, because CIF ends at a port, not an inland city.

02 The two families

Incoterms 2020 contains eleven rules, split into two groups. Picking from the wrong group is the single most common mistake we see on commercial invoices.

Any mode of transport (7 rules)

EXW · FCA · CPT · CIP · DAP · DPU · DDP

Use these for air freight, courier, road, rail, and for any container shipment moving door-to-door or on a multimodal basis — which covers the majority of modern ocean container traffic.

Sea & inland waterway only (4 rules)

FAS · FOB · CFR · CIF

These were designed for cargo handed over at the ship's side or across the ship's rail — bulk, breakbulk, and project cargo. They fit containers poorly, because a container leaves the shipper's control at the terminal gate, days before it is loaded on board.

03 The eleven rules, one at a time

Each card gives the plain-language obligation and, just as importantly, the exact moment risk transfers. Cost and risk do not always transfer at the same point — that catches people out constantly.

Any mode of transport

EXW

Ex Works (named place)

Minimum obligation for the seller. The goods are simply made available at the seller's factory or warehouse, packed. The buyer arranges everything from that point, including export clearance.

Risk passes: at the seller's premises, once goods are placed at the buyer's disposal — before loading onto the collecting vehicle.

FCA

Free Carrier (named place)

Seller clears the goods for export and delivers them to a carrier nominated by the buyer. If the named place is the seller's premises, the seller loads the truck. If it is elsewhere (a terminal or CFS), the seller delivers ready for unloading.

Risk passes: on delivery to the buyer's nominated carrier at the named place.

CPT

Carriage Paid To (named destination)

Seller contracts and pays for carriage to the agreed destination, but carries no risk once the goods are handed to the first carrier. No insurance obligation.

Risk passes: at handover to the first carrier — far earlier than the point the seller pays freight to.

CIP

Carriage and Insurance Paid To

Identical to CPT, with one addition: the seller must buy cargo insurance covering the buyer. Under 2020, that cover must be a wide "all risks" level unless the parties agree otherwise.

Risk passes: at handover to the first carrier. Insurance runs to the named destination.

DAP

Delivered at Place (named destination)

Seller carries cost and risk all the way to the named destination and places the goods at the buyer's disposal on the arriving vehicle, ready for unloading. Import clearance and duties remain with the buyer.

Risk passes: at the named destination, on the arriving vehicle, not yet unloaded.

DPU

Delivered at Place Unloaded

The only rule that requires the seller to unload at destination. Otherwise the same shape as DAP. Import clearance and duties stay with the buyer.

Risk passes: at the named destination, after the goods have been unloaded.

DDP

Delivered Duty Paid (named destination)

Maximum obligation for the seller: delivery to the buyer's door with import clearance completed and duties and import taxes paid. The buyer only unloads.

Risk passes: at the named destination, ready for unloading, cleared for import.

Sea & inland waterway only

FAS

Free Alongside Ship (named port)

Seller clears for export and places the goods alongside the vessel at the loading port — on the quay or in a barge. The buyer books the vessel and covers loading onward.

Risk passes: once the goods are alongside the nominated ship.

FOB

Free on Board (named port)

Seller clears for export and loads the goods on board the vessel nominated by the buyer. The buyer contracts and pays the ocean freight.

Risk passes: once the goods are on board the vessel at the port of loading.

CFR

Cost and Freight (named destination port)

Seller pays ocean freight to the destination port, but risk transfers on board at origin. No insurance obligation on the seller — an uninsured gap the buyer must fill.

Risk passes: on board the vessel at the port of loading.

CIF

Cost, Insurance and Freight

CFR plus insurance. The seller must insure the cargo for the buyer's benefit, but only at a minimum level of cover unless a higher level is agreed in the contract.

Risk passes: on board the vessel at the port of loading. Insurance runs to the destination port.

04 Incoterms 2020 responsibility chart

Read left to right. Each column is a cost stage in the journey; each cell shows who bears it. Scroll sideways on a narrow screen, or print this page for a wall copy.

Cost and obligation allocation — Seller (S) vs Buyer (B)												
Rule	Export packing	Loading at origin	Inland haulage (origin)	Export customs	Origin terminal charges	Loading on vessel / aircraft	Main carriage (freight)	Cargo insurance	Destination terminal charges	Import customs & duty	Delivery to final place	Unloading at final place
ANY MODE OF TRANSPORT												
EXW Ex Works	S	B	B	B	B	B	B	B	B	B	B	B
FCA Free Carrier	S	S	S	S	B	B	B	B	B	B	B	B
CPT Carriage Paid To	S	S	S	S	S	S	S	B	S/B	B	B	B
CIP Carriage & Ins. Paid	S	S	S	S	S	S	S	S	S/B	B	B	B
DAP Delivered at Place	S	S	S	S	S	S	S	S*	S	B	S	B
DPU Delivered at Place Unloaded	S	S	S	S	S	S	S	S*	S	B	S	S
DDP Delivered Duty Paid	S	S	S	S	S	S	S	S*	S	S	S	B
SEA & INLAND WATERWAY ONLY												
FAS Free Alongside Ship	S	S	S	S	S	B	B	B	B	B	B	B
FOB Free on Board	S	S	S	S	S	S	B	B	B	B	B	B
CFR Cost & Freight	S	S	S	S	S	S	S	B	S/B	B	B	B
CIF Cost, Ins. & Freight	S	S	S	S	S	S	S	S	S/B	B	B	B

☐ **S** Seller's cost
 ☐ **B** Buyer's cost
 ☐ **S/B** Depends on the carriage contract

S/B on destination terminal charges: under CPT, CIP, CFR and CIF the seller pays freight, so whichever destination handling charges are already built into that freight contract sit with the seller. Anything the terminal or carrier bills separately at arrival lands on the buyer. Always confirm in writing which charges are included.

S* on insurance: under DAP, DPU and DDP there is no contractual duty to insure, but the seller carries the risk to destination — so a sensible seller insures its own exposure.

Where risk transfers — at a glance

Rule	Exact point risk moves from seller to buyer
EXW	At the seller's premises, goods at the buyer's disposal, <i>not</i> loaded
FCA	On delivery to the buyer's nominated carrier at the named place
FAS	Alongside the vessel at the named port of shipment
FOB / CFR / CIF	Once the goods are on board the vessel at the port of loading
CPT / CIP	On handover to the <i>first</i> carrier — not at destination
DAP	At destination, on the arriving vehicle, ready for unloading
DPU	At destination, once unloaded
DDP	At destination, cleared for import, ready for unloading

05 What changed from Incoterms 2010

If your supplier contracts or purchase order templates still reference the 2010 edition, these are the points to review.

1. **DAT became DPU.** The old "Delivered at Terminal" rule was renamed Delivered at Place Unloaded, and the destination is no longer limited to a terminal — it can be any agreed place, as long as the seller unloads.
2. **CIP now requires wider insurance.** Sellers under CIP must arrange a broad "all risks" level of cover. CIF kept the older minimum level, reflecting its use for bulk commodity trades.
3. **FCA gained an on-board bill of lading option.** Buyer and seller can agree that the carrier issues an on-board bill of lading to the seller after loading — which solves the long-standing letter-of-credit problem that pushed container shippers into using FOB when FCA was the correct rule.
4. **Own transport is recognised.** FCA, DAP, DPU and DDP now acknowledge that the party responsible may carry the goods on its own trucks rather than contracting a third-party carrier.
5. **Security obligations are spelled out.** Screening, security filings and related requirements are allocated explicitly in each rule, with the resulting costs assigned.
6. **Costs are listed in one place.** Each rule gathers the full cost allocation into a single article, so both sides can see the whole picture without cross-referencing.

06 Choosing well: notes for Canadian importers

Most of the disputes we get called into are not carrier failures. They are Incoterm choices that quietly handed control, or cost, to the wrong party.

If you are importing from China

- ▶ **FOB gives you control of the freight leg.** Your supplier delivers to the port and clears export; you choose the forwarder, the routing and the service level, and you see the real ocean rate instead of a marked-up one.
- ▶ **FCA is technically the better fit for containers.** With a container, you stop controlling the box at the terminal gate, not at the ship's rail — FCA reflects that. FOB remains the market habit in China, so if you use it, make sure both sides understand which charges sit on which side of the gate.
- ▶ **EXW is rarely worth it.** On paper it looks cheapest. In practice you inherit Chinese export clearance, which a foreign buyer cannot easily perform, and local charges tend to reappear as third-party fees.
- ▶ **CIF and CFR hide destination costs.** Your supplier picks the carrier and the rate looks attractive, then destination handling, documentation and release fees land on you at arrival with no leverage to negotiate. Budget for them before you compare quotes.
- ▶ **DDP into Canada deserves scrutiny.** The seller must act as importer for customs purposes, which brings CARM registration, valuation, tariff classification and compliance exposure into play. Many overseas sellers offering DDP are not set up to carry that responsibility properly, and errors surface later as CBSA reassessments.

Five checks before you confirm a term

1. Is the rule valid for the mode? Do not put FOB or CIF on an air waybill or a courier shipment.
2. Is the named place precise? A port, an airport, a street address — not just a country or a city.
3. Have you written "Incoterms® 2020" after the place, so there is no doubt which edition applies?
4. Do you know who is insured between the risk-transfer point and the destination? Under CFR, CPT and FOB, that gap is yours.
5. Does the term on the purchase order match the term on the commercial invoice, the packing list and the transport document?
Mismatched cause customs queries and payment delays.

Not sure which term fits your shipment? Send us the origin, destination, commodity, mode and who you would prefer to control the freight. We will tell you which rule we would use and why — including the cases where the answer is "keep what your supplier offered."



NUVOTRADE
LOGISTICS

Ocean FCL & LCL · Air Freight · Consolidation · Door-to-Door · Customs Coordination · Canadian Trucking & Warehousing

Vancouver, British Columbia, Canada | nuvotradelogistics.com

Incoterms® is a registered trademark of the International Chamber of Commerce. This guide is Nuvotrade Logistics' own plain-language summary prepared for the general information of our customers; it is not a reproduction of the ICC rules and it is not legal, customs or tax advice. The full official text is published by the ICC and should be consulted for contractual purposes. Obligations in any particular shipment are governed by your contract of sale. © Nuvotrade International Inc.