

Incoterms: Changes in 2020 and an Overview

When dealing with international credit, credit managers have to consider more complex terms, legalities and trade terms that do not apply to domestic trade. In order to keep trade and deliveries more orderly for business-to-business (B2B) companies, the International Chamber of Commerce (ICC) created Incoterms to help with regulating international trade.

Incoterms are updated by the ICC every 10 years. Incoterms for 2020 were released during the fall of 2019 and have been effective since Jan. 1, 2020. International creditors need to be aware of the changes to Incoterms for 2020 so they can make more thoughtful and precise credit decisions. FCIB hosted a webinar on the topic led by Chip Thomas, FCIB Instructor from the American Export Training Institute, titled “Incoterms 2020—What Changes Are Being Made and Why You Should Care” to demystify any misconceptions related to Incoterms.

“Even though Incoterms stand alone, they shouldn’t be considered that way,” Thomas said. “We need to consider them along with their impact on other areas on your transaction that you’re working on. ... They exist to standardize global trade terms.”

When picking an Incoterm for a contract, creditors need to understand the risks involved with using a particular term. Creditors want to get paid for their products, and Incoterms help with that process.

The major difference between 2010 and 2020 is to steer users toward the right Incoterms rules for their sales contracts. The changes emphasize making the right choice, being clear about the explanation between the shipping contract and payment contract, and include an upgraded explanatory notes section that goes into each term in great detail. Delivery and risk are highlighted more profoundly than in 2010 as well.

In the context of Incoterms, standardizing global trade terms relates to the physical shipment of goods. In total, there are 11 Incoterms that reflect B2B practice in contracts for the sale and purchase of goods.

Incoterms do not deal with whether there is a contract of sale; what specific goods were sold; the time, place, method or currency of the payment; the solutions for what happens after a breach of contract of a sale; consequences of delay and other breaches of performance; effects of sanctions; imposition of tariffs; export or import prohibitions; force majeure or hardship; intellectual property rights, or the method or law of dispute resolution in case of a breach; or the transfer of property, title or ownership of the goods sold.

Incoterms instead represent sales terms, shipping terms, cost terms, delivery terms and pricing terms. The ICC defines delivery as “a place or port/airport where risks and costs pass from the seller to the buyer.” Much of Incoterms deals with delivery regulation—and exporters and creditors must think about which are the best Incoterms to implement that will help them get paid.

“Exporters are strongly advised to choose the correct Incoterm that will sync well with the various contracts that may be involved in their transactions,” Thomas said. “This whole idea of syncing—making sure that everything works together—and you’re contemplating more than just ‘my Incoterm to get what I want.’”

—Christie Citranglo, editorial associate