

# Incoterms Common Mistakes

Here are some of the most common mistakes made by importers and exporters of Incoterms:

1. **Use of a traditional “sea and inland waterway only” rule such as FOB or CIF for containerised goods, instead of the “all transport modes” rule e.g. FCA or CIP.** This exposes the exporter to unnecessary risks. A dramatic recent example was the Japanese tsunami in March 2011, which wrecked the Sendai container terminal. Many hundreds of consignments awaiting despatch were damaged. Exporters who were using the wrong rule found themselves responsible for losses that could have been avoided!
2. **Making assumptions about passing of title to the goods, based on the Incoterms rule in use.** The Incoterms rules are silent on when title passes from seller to buyer; this needs to be defined separately in the sales contract.
3. **Failure to specify the port/place with sufficient precision, e.g. “FCA Chicago”,** which could refer to many places within a wide area.
4. **Attempting to use DDP without thinking** through whether the seller can undertake all the necessary formalities in the buyer’s country, e.g. paying GST or VAT.
5. **Attempting to use EXW without thinking through the implications of the buyer being required to complete export procedures** – in many countries it will be necessary for the exporter to communicate with the authorities in a number of different ways.
6. **Use of CIP or CIF without checking whether the level of insurance in force matches the requirements of the commercial contract** – these Incoterms rules only require a minimal level of cover, which may be inadequate.
7. **Where there is more than one carrier, failure to think through the implications of the risk transferring on taking in charge by the first carrier** – from the buyer’s perspective, this may turn out to be a small haulage company in another country, so redress may be difficult in the event of loss or damage.
8. **Failure to establish how terminal handling charges (THC) are going to be treated at the point of arrival.** Carriers’ practices vary a good deal here. Some carriers absorb THC’s and include them in their freight charges; however others do not.
9. **Where payment is with a letter of credit or a documentary collection,** failure to align the Incoterms rule with the security requirements or the requirements of the banks.
10. **When DAT or DAP is used with a “post-clearance” delivery point,** failure to think through the liaison required between the carrier and the customs authorities – can lead to delays and extra costs.