Incoterms: Regulating delivery terms in international procurement with confidence

Incoterms are the terms issued by the International Chamber of Commerce (ICC) governing delivery obligations, cost transfer and risk transfer in international trade in goods. For technical buyers and suppliers in the DACH region, they are a central contractual instrument that clearly allocates responsibilities along the supply chain. Anyone applying Incoterms incorrectly risks unnecessary freight costs, customs risks and disputes over transport damage. The current version, Incoterms 2020, has applied since 1 January 2020 and contains eleven terms in two groups.

As of October 2026 · amplifa-marketplace.ai/en/glossary/inkoterms

Key facts at a glance

01 The Incoterms are issued by the International Chamber of Commerce (ICC) and have been available since 2020 in the version Incoterms 2020.

02 There are eleven terms, divided into seven for any mode of transport (EXW, FCA, CPT, CIP, DAP, DPU, DDP) and four terms only for sea and inland waterway transport (FAS, FOB, CFR, CIF).

03 Incoterms govern three things: allocation of transport costs, transfer of risk and obligations for loading, documents, customs clearance and insurance.

04 Incoterms explicitly do NOT govern transfer of ownership (retention of title), payment terms or warranty issues – separate contract clauses are required for these.

05 Every term stated should be written out in full in the contract, e.g. 'FCA works Hamburg, Incoterms 2020', to provide legal certainty.

06 Since 2020, CIP requires a higher level of insurance cover (Institute Cargo Clauses A), while CIF remains at the lower level.

Definition: Incoterms

The Incoterms (International Commercial Terms) are standardised trade terms that stipulate which contractual party provides which transport services, which costs they bear and from which point the transport risk passes from the seller to the buyer. They were developed by the International Chamber of Commerce and are referenced worldwide in purchase contracts, framework agreements and order acknowledgements. Buyers also encounter the term in the spelling 'Incoterms', which the ICC itself uses.

What Incoterms govern – and what they do not

The terms allocate who organises and pays for loading, main carriage, export and import clearance, insurance and unloading, and at which point risk transfers. However, they deliberately do not govern transfer of title to the goods, payment terms (e.g. 2/10 net 30), warranty, returns or liability issues such as liquidated damages. Buyers must secure these points via the procurement policy and separate contract clauses. In practice, the biggest error is attributing contractual functions to the Incoterm that it simply does not cover.

The eleven terms at a glance

The group for any mode of transport comprises EXW (Ex Works), FCA (Free Carrier), CPT (Carriage Paid To), CIP (Carriage and Insurance Paid To), DAP (Delivered at Place), DPU (Delivered at Place Unloaded) and DDP (Delivered Duty Paid). For sea and inland waterway transport, FAS (Free Alongside Ship), FOB (Free on Board), CFR (Cost and Freight) and CIF (Cost, Insurance and Freight) apply. For technical industrial goods, which frequently travel by road, rail or air freight, FCA, CIP, DAP and DDP are the most practically relevant terms. Containerised goods should generally no longer be handled via FOB or CFR, as the container is handed over at the terminal and classical ship's-rail concepts do not fit.

Methods and approach: applying Incoterms correctly in the procurement process

For delivery terms to take effect, they must be consistently and uniformly maintained across all procurement documents – from the enquiry through the framework agreement to the supplier's order acknowledgement. Deviations between the purchase order and the order acknowledgement are a frequent source of disputes and should be systematically checked in the ordering process.

Choosing the term along the supply chain

The choice of term typically follows the question of who wants transport control. In low-cost country sourcing, many buyers choose FCA or FOB in order to control freight themselves and evaluate their own freight rates and carrier performance. Those who do not want to build up logistics expertise use CIP or DAP and leave the handling to the seller. DDP sounds convenient but carries risks: the seller must handle import clearance in the recipient country, which can be tax-wise and practically problematic if they are not established there.

Integration into contracts and master data

Incoterms belong as a mandatory field in the enquiry, quotation, purchase order and supplier portal. In catalogue management and product costing, the term point must be cleanly allocated, as delivery, customs and insurance costs significantly influence the costing. Framework agreements should contain a table of terms per supply plant and product group, and be checked for currency (Incoterms 2020 instead of 2010) at every contract renewal. The classification rate of articles by transport-relevant attributes facilitates systematic allocation of the term.

Coordination with customs and the forwarder

Before concluding, the buyer should align the choice of term with the customs officer and the forwarder: export clearance, proof of origin, customs value and Incoterm must fit together, otherwise correction notifications or delays threaten. Under consignment arrangements such as a consignment warehouse, risk transfer often only occurs on withdrawal – this requires clearly supplemented contract wording, as the standard Incoterm alone does not map the model.

Key KPIs and impact on procurement metrics

Incoterms have a direct impact on measurable procurement and logistics metrics. Those who choose terms deliberately can specifically steer delivery performance and cost position and gain transparency via carrier reporting.

Delivery and transport metrics

Key metrics are delivery reliability (OTIF – on time in full), the transport cost ratio (transport costs as a percentage of goods receipt value) and the claim ratio for transport damage. Under CPT and CIP, the seller bears the freight risk to the agreed place, which is reflected in their delivery performance and potential SCAR processes (Supplier Corrective Action Request). Under FCA and EXW, transport responsibility lies with the buyer, so carrier performance and freight cost controlling fall within the buyer's remit.

Cost-benefit analysis of the choice of term

A structured cost-benefit analysis compares term variants across the total cost of ownership: freight costs, insurance, customs clearance, processing effort and capital tied up in transit. In practice, it frequently emerges that FCA with own freight control is cheaper at high transport volumes, while for small orders DDP prices minimise comparison effort. Buyers should also bear in mind the link with payment terms: under CIF/CFR, the seller's claim arises already at the port of shipment, increasing capital tied up in transit.

Risks and controls: typical sources of error with Incoterms

Most disputes do not arise from unsuitable terms but from imprecise application: missing place details, outdated version, deviating acknowledgements from the supplier or misunderstandings over unloading

and loading costs. Systematic controls in the ordering and goods receipt process minimise these risks.

Common sources of error

Classic errors include: stating the term without place and year version ('FCA' instead of 'FCA works, Incoterms 2020'), using EXW for export business despite the seller's customs obligation, DDP without examining the tax implications, and confusing risk transfer with cost transfer – for example under FCA, where the costs of loading are allocated to the buyer or the seller depending on the agreed place variant. The belief that the Incoterm determines transfer of ownership also leads to incorrect valuations on delivery schedules and consignment stocks.

Controls and governance

Effective controls are: a binding Incoterm requirement per product group and country of delivery in the procurement policy, automated comparison of purchase order and order acknowledgement in the supplier portal, a four-eyes principle for deviating terms and documentation in the supplier status at onboarding. In complaints and delivery chases, damage settlement should be conducted on the basis of the risk transfer point, and the findings should feed into the AVL evaluation (Approved Vendor List). Tax questions – such as the VAT treatment of DDP deliveries or transfer prices in group procurement – must be examined on a case-by-case basis with tax and customs experts.

Link with liquidated damages and sustainability obligations

In delay and damage provisions, liquidated damages clauses apply independently of the Incoterm; nevertheless, risk transfer influences when delivery delay is certified. In the context of the Corporate Sustainability Due Diligence Directive (CSDDD) and the CO2e accounting of transports (Scope 3 emissions), the choice of term shifts responsibility for transport emissions between the parties – an increasingly important evaluation aspect in supplier selection.

Current developments: Incoterms 2020 and digitalisation

Since 2020, Incoterms 2020 have applied, in particular renaming DAT to DPU (Delivered at Place Unloaded), increasing the insurance obligation under CIP and clarifying the loading and transport obligations under FCA (including an 'on board' option for sellers with sea freight). Version 2020 is now the market standard; contracts with Incoterms 2010 should be consistently migrated.

Digital exchange of term data

Digital procurement platforms and supplier portals are increasingly capturing Incoterms as structured master data, for example for automatic freight surcharges, landed cost calculations and customs notifications. EDI and API connections transmit term, place and version in machine-readable form, reducing error rates in operational business. Anyone onboarding suppliers digitally should have the term mandatory field validated from the outset.

Impact of trade conflicts and supply chain laws

Trade restrictions, customs changes and supply chain due diligence obligations increase the workload on customs and compliance issues along the transport chain. Terms such as DDP, which assign import handling to the seller, are increasingly being questioned under complex customs regimes. At the same time, the influence of sustainability requirements on transport decisions is growing – lower-emission modes of transport and consolidated consignments are being weighted more heavily in the choice of term and carrier.

Typical metrics

Metric	Typical value
Delivery reliability (OTIF)	typically > 95% *depending on the Incoterm, transport responsibility lies with the seller or the buyer*
Transport cost ratio	often 2–5% of goods receipt value *heavily dependent on the term chosen, goods value and mode of transport*
Transport damage claim ratio	typically < 0.5% of consignments *settlement depends on the risk transfer point of the term*
Deviation rate purchase order vs. order acknowledgement	Target: < 1% *systematically check deviating Incoterms in acknowledgements*

Practical example

A medium-sized mechanical engineering company sourced assemblies from a new supplier in Eastern Europe, initially on DDP terms. The seller's additional costs for import clearance and freight pushed prices up at n+, and the supplier engaged changing sub-forwarders with poor tracking quality. Following a cost-benefit analysis, the buyer switched to FCA loading plant with its own freight control via a framework forwarding network, made the term a mandatory field in the supplier portal and agreed uniform loading and documentation obligations with the supplier.

- Anchor an Incoterm requirement per product group in the procurement policy
- Make the term and year version a mandatory field in the enquiry, purchase order and supplier portal
- Evaluate transport costs and OTIF before/after the changeover per term on a monthly basis
- Systematically check terms and version (2020) at every Contract Renewal

Conclusion

For technical procurement, Incoterms are not a formality but a controllable lever for costs, risks and delivery performance. What matters is consistent application: the term with place and year version, consistent across all documents, aligned with customs, forwarders and contracts. Buyers should make the choice of term deliberately per product group and country of delivery rather than leaving it to the seller. Supplementary contract clauses for ownership, payment, warranty and delay are essential, as the terms do not cover these. Maintaining this discipline avoids disputes and secures cost and risk transparency along the entire supply chain.

Frequently asked questions

? What does the Incoterm FCA mean?

FCA (Free Carrier) means that the seller packs the goods, clears them for export and hands them over to the carrier nominated by the buyer at the agreed place (e.g. their works or a terminal). From that point, risk and costs pass to the buyer. FCA is suitable for all modes of transport and is the recommended alternative to EXW when the seller is to handle loading.

? Which Incoterms version is currently valid?

The version currently in force is Incoterms 2020 issued by the International Chamber of Commerce, effective since 1 January 2020. It comprises eleven terms and, among other things, renamed DAT to DPU and increased the insurance obligation under CIP. Contracts should always state the version, as the terms only apply in the referenced version.

? What is the difference between DAP and DDP?

Under DAP, the seller makes the goods available ready for unloading at the destination; import clearance and import-related costs are borne by the buyer. Under DDP, the seller also covers import clearance and import VAT, which is practically and tax-wise demanding if they are not established in the recipient country. For buyers, DDP is convenient but often conceals costs and compliance risks.

? Do Incoterms govern transfer of ownership?

No, the Incoterms explicitly do not govern transfer of title. Transfer of ownership is governed by the applicable national sales law and should be separately agreed contractually, for example via a retention of title clause. The terms also do not cover payment terms, warranty or consequences of default.

? Which Incoterm is suitable for air freight?

For air freight, the general terms EXW, FCA, CPT, CIP, DAP, DPU and DDP are suitable, as they apply to any mode of transport. The sea freight terms FAS, FOB, CFR and CIF are unsuitable for air freight. In practice, FCA where the buyer controls the freight, and CIP or DAP where the seller handles it, are the most common options.

? What does CPT mean in procurement?

CPT (Carriage Paid To) means that the seller pays for and organises the main carriage to the agreed destination. However, risk passes on handover to the first carrier, not at the destination. For buyers, this means: in the event of transport damage during the main leg, the claim must be settled via the buyer's transit insurance.

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