

**CIF | Cost, Insurance and Freight
(named port of destination)
Incoterms® 2020 [UPDATED]**



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The CIF rule is identical to CFR except in one aspect. Even though the risk transfers to the seller upon loading the goods on board the vessel, in CIF the seller is obliged to take out the minimum level of insurance cover for the buyer's risk.

This will be at Institute Cargo Clauses (C) or similar. The seller must give the buyer the insurance policy or a certificate under a policy – this document usually evidences the seller as the party being insured so it must then blank endorse the document on the back to allow the buyer to claim should it so require.

CIF Seller and Buyer Obligations

CIF A1 / B1: GENERAL OBLIGATIONS

A1 (General Obligations)

In each of the eleven rules the seller must provide the goods and their commercial invoice as required by the contract of sale and any other evidence of conformity such as an analysis certificate or weighbridge document etc that might be relevant and specified in the contract.

Each of the rules also provides that any document can be in paper or electronic form as agreed to in the contract, or if the contract makes no mention of this then as is customary. The rules do not define what "electronic form" is, it can be anything from a pdf file to blockchain or some format yet to be developed in the future.

B1 (General obligations)

In each of the rules the buyer must pay the price for the goods as stated in the contract of sale.

The rules do not refer to when the payment is to be made (before shipment, immediately after shipment, thirty days after shipment, half now half later, or whatever) or how it is to be paid (prepayment, against an email of copy documents, on presentation of documents to a bank under a letter of credit, or other arrangement). These matters should be specified in the contract.

CIF A2 / B2: DELIVERY

A2 (Delivery)

The seller delivers by placing the goods on board the vessel on the agreed date, or within the agreed period, or if there is no such time notified then at the end of that period, and in the manner customary at the port.

Most importantly, delivery occurs when the seller loads the goods onto the vessel, not when the vessel reaches the destination port.

B2 (Delivery)

The buyer must not only take delivery of the goods when the seller has delivered them on board the vessel but also receive them from the carrier at the named destination port.

Most importantly, delivery occurs when the goods are released from the seller's direct control, not when the goods reach the destination.

The main difference in wording to FOB is simply that with CFR and CIF reference to the vessel being nominated by the buyer is absent as is reference to the buyer nominating a loading point within the load port. The contract for carriage and cost implications are dealt with in other articles.

The ship's rail matter is the same as explained above with FOB.

CIF A3 / B3: TRANSFER OF RISK

A3 (Transfer of risk)

In all the rules the seller bears all risks of loss or damage to the goods until they have been delivered in accordance with A2 described above. The exception is loss or damage in circumstances described in B3 below, which varies dependent on the buyer's role in B2

B3 (Transfer of risk)

The buyer bears all risks of loss or damage to the goods once the seller has delivered them as described in A2.

If the buyer fails to inform the seller about the destination port or the point within that destination port, then the seller is unable to deliver under A2 and the buyer bears the risk of loss or damage to the goods from the agreed date or at the end of the agreed period.

CIF A4 / B4: CARRIAGE

A4 (Carriage)

The seller must arrange, or procure in case of a string-sale, a contract, for the carriage of the goods from the agreed point of delivery in A2 to the named port of destination or, if agreed, to any point (quay or wharf) in that port.

The contract of carriage must be made on usual terms which are appropriate to the type of goods and by a vessel normally used for transporting the type of goods, by the usual route (often agreed in the contract of sale) at the seller's cost.

B4 (Carriage)

The seller has no obligation to the buyer to arrange a contract of carriage.

CIF A5 / B5: INSURANCE

A5 (Insurance)

The seller must arrange a contract of insurance at its own cost to cover the buyer's risks. This cover must be of the level provided by LMA/IUA Institute Cargo Clauses (C) or similar clauses under other insurance regimes. This type of cover is the minimum available for defined risks only. Anything which is not defined is not covered.

If the buyer requests, the seller must also arrange, at the buyer's cost, additional cover under the LMA/IUA Institute War Clauses (Cargo) and Institute Strikes Clauses (Cargo) or similar unless such cover is already included.

The amount of the insurance must be at least 110 percent of the invoice value and in the currency of that invoice and contract. It must cover the goods for at least the duration from the point of delivery described in A2 above to the named port of destination.

The seller must provide the buyer a separate contract or a certificate under an existing policy giving the details of the shipment to enable the buyer, or anyone else having an insurable interest in the goods, to claim from the insurer. This document usually shows the seller as the insured and is then endorsed by the seller on the back of the original/s in blank or with a specific endorsement.

The seller must also provide the buyer, at the buyer's request, risk and expense, with information that the buyer needs to arrange any additional insurance.

B5 (Insurance)

Despite the buyer having the risk of loss or damage to the goods from the delivery point, the buyer does not have an obligation to the seller to ensure the goods. However, the buyer must provide the seller, if it requests, with any information it needs to arrange any additional insurance requested by the buyer under A5.

CIF A6 / B6: DELIVERY / TRANSPORT / DOCUMENT

A6 (Delivery / Transport document)

The seller, at its own cost, must provide the buyer with the usual transport document covering transport to the agreed port of destination.

The transport document must cover the contracted goods within the agreed period for shipment. If it is agreed then this document must enable the buyer to claim the goods from the carrier at the named place of destination, and in a string sale enable the buyer to sell the goods in transit to a subsequent buyer by transferring that document.

B6 (Delivery / Transport Document)

The buyer must accept the transport document provided by the seller if it is conformity with the contract between them.

CIF A7 / B7: EXPORT / IMPORT CLEARANCE

A7 (Export / Import clearance)

Where applicable, the seller must at its own risk and expense carry out all export clearance formalities required by the country of export, such as licences or permits; security clearance for export; pre-shipment inspection; and any other authorisations or approvals.

The seller has no obligation to arrange any transit/import clearances. However if the buyer requests, at its own risk and cost, the seller must assist in obtaining any documents and/or information which relate to formalities required by the country of transit or import such as permits or licences; security clearance for transit/import; pre-shipment inspection required by the transit/import authorities; and any other official authorisations or approvals.

B7 (Export / Import clearance)

Where applicable, the buyer must assist the seller at the seller's request, risk and cost, in obtaining any documents and/or information needed for all export-related formalities required by the country of export.

Where applicable, the buyer must carry out and pay for all formalities required by any country of transit and the country of import. These include licences and permits required for transit; import licences and permits required for import; import clearance; security clearance for transit and import; pre-shipment inspection; and any other official authorisations and approvals. They are the buyer's responsibility because they occur after delivery by the seller.

At first glance it might seem strange that both seller and buyer have responsibility for pre-shipment inspections. To clarify, the seller is responsible if it is a requirement of the country of export, and the buyer is responsible if it is a requirement of the country of transit/import.

CIF A8 / B8: CHECKING / PACKAGING / MARKING

A8 (Checking / Packaging / Marking)

In all rules the seller must pay the costs of any checking operations which are necessary for delivering the goods, such as checking quality, measuring the goods and/or packaging, weighing, counting the goods and/or packaging.

The seller must also package the goods, at its own cost, unless it is usual for the trade of the goods that they are sold unpackaged, such as in the case of bulk goods. The seller must also take into account the transport of the goods and package them appropriately, unless the parties have agreed in their contract that the goods be packaged and/or marked in a specific manner.

B8 (Checking / Packaging / Marking)

In all rules there is no obligation from the buyer to the seller as regards packaging and marking. There can in practice however be agreed exceptions, such as when the buyer provides the seller with labels, logos, or similar.

CIF A9 / B9: ALLOCATION OF COSTS

A9 (Allocation of costs)

The seller must pay all costs until the goods have been delivered under A2, on board the vessel, except any costs the buyer must pay as stated in B9.

The seller must pay the costs of loading the goods on board the vessel, the freight costs and any transport-related security costs.

If the contract of carriage includes transit costs, and/or unloading at the discharge port then these costs are for the seller.

The seller has to pay any costs involved in providing the usual proof that the goods have been delivered, so if the contract between the parties states that proof as being a bill of lading then any document fee is for the seller.

In the case only of CIF, the seller pays the cost of insurance covering the buyer's risk.

The seller pays any costs, export duties and taxes, where applicable, related to export clearance.

If the buyer is requested by the seller to provide information or documents to assist the seller in their export formalities, then the seller must pay the buyer for these costs.

B9 (Allocation of costs)

The buyer must pay the seller all costs relating to the goods from when they have been delivered, other than those payable by the seller.

If the seller has been requested by the buyer to provide assistance in obtaining information or documents needed for the buyer to effect insurance (only in the case of CFR), and transit and import clearance then the buyer must reimburse the seller's costs.

Where applicable, the buyer pays any duties, taxes and other costs for transit or import clearance.

Additionally, and provided the seller has advised that the goods have been clearly identified as the goods under the contract, the buyer pays any additional costs incurred if the buyer fails to give notice, if the parties have agreed in the contract that the buyer is entitled to determine the time for shipping the goods and/or the point of receiving the goods in the port of destination.

CIF A10 / B10: NOTICES

A10 (Notices)

The seller must give the buyer notice that the goods have been delivered, meaning loaded on board the vessel. The seller must also give the buyer any notice required by the buyer so that the buyer can receive the goods. What that notice is will be agreed in the sales contract and might well also refer to conditions contained in a charter party contract of carriage if relevant.

B10 (Notices)

If the parties agree in the contract that the buyer is entitled to determine the time for the seller to ship the goods, and possibly more importantly, the point within the named port of destination where it will receive the goods, the buyer must give the seller sufficient notice. The contract will usually detail how much notice is to be given.

Cost, Insurance & Freight: Advantages and Disadvantages

This rule too dates back to the early days of international shipping and is largely unchanged since then.

The difference between CIF and CFR is that while the risk of loss or damage at delivery becomes the buyer's, the seller is obliged to take out insurance for that risk and provide the buyer with a document which allows the buyer to claim against that insurance. This typically will be an original insurance policy covering just that transaction or a certificate issued by the insurer under the seller's existing open marine policy. Both of these will normally show the seller as the "insured" or "assured" and will require the seller to endorse the document on the reverse such that the buyer or any bona fides holder with an insurable interest in the goods at the time of loss or damage occurred can claim.

The advantage to the seller is that it can often obtain cheap insurance and then build a larger amount into its selling price.

The advantage to the buyer is that it does not have to worry about declaring the shipment to its own insurer.

The disadvantage to the buyer can be that the insurer may well not be too enthusiastic about meeting any claim.

Note that some countries do not permit CIF imports, requiring the buyer to insure with an insurer in its own country.

With letters of credit, just as for FOB and CFR, the banks seem to have no problem, except they sometimes make a complete mess of the insurance clause. Examples are requiring presentation of a policy but not a certificate of marine insurance; inserting nonsense words and requirements because "that is how they have always done it". A seller would be prudent to state in the contract not just they will provide an insurance document but state specific wording such as "One original insurance policy or certificate of marine insurance, for 110 percent of the invoice value, blank endorsed, covering Institute Cargo Clauses (C), Institute War Clauses (Cargo) and Institute Strikes Clauses (Cargo)." Anything more than that in an LC is just superfluous and often meaningless.

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Refer to ICC publication no. 723E for the text*

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STRATEGIC PARTNERS



MEMBER ASSOCIATIONS



CONTACT

MAGAZINE AND ADVERTISING

talks@tradefinanceglobal.com

EDITORIAL AND PUBLISHING

media@tradefinanceglobal.com

TRADE TEAM

trade.team@tradefinanceglobal.com

ENQUIRIES

info@tradefinanceglobal.com

TELEPHONE

+44 (0) 20 3865 3705

WEBSITE

www.tradefinanceglobal.com





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The Commentary on the Incoterms® 2020 rules is authored by Bob Ronai CDCS, a member of the ICC's Incoterms® 2020 Drafting Group, in partnership with Trade Finance Global (TFG).

This 94 page e-book is designed to provide an Article by Article overview and commentary of the Incoterms® rules, in plain simple English.

- Written by a Member of the ICC Incoterms® 2020 Drafting Group
- Introduction to why Incoterms® 2020 Rules were written and the process
- Article-by-article (A1-A10 and B1-B10) explanation of the rules
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- Includes updates on EXW, FCA, CPT, CIP, DAP, DPU, DDP, FAS, FOB, CFR and CIF
- Advantages and disadvantages of each Incoterms® Rule and how they might work with a Letter of Credit
- Conclusions and top tips for using Incoterms® 2020 Rules

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