

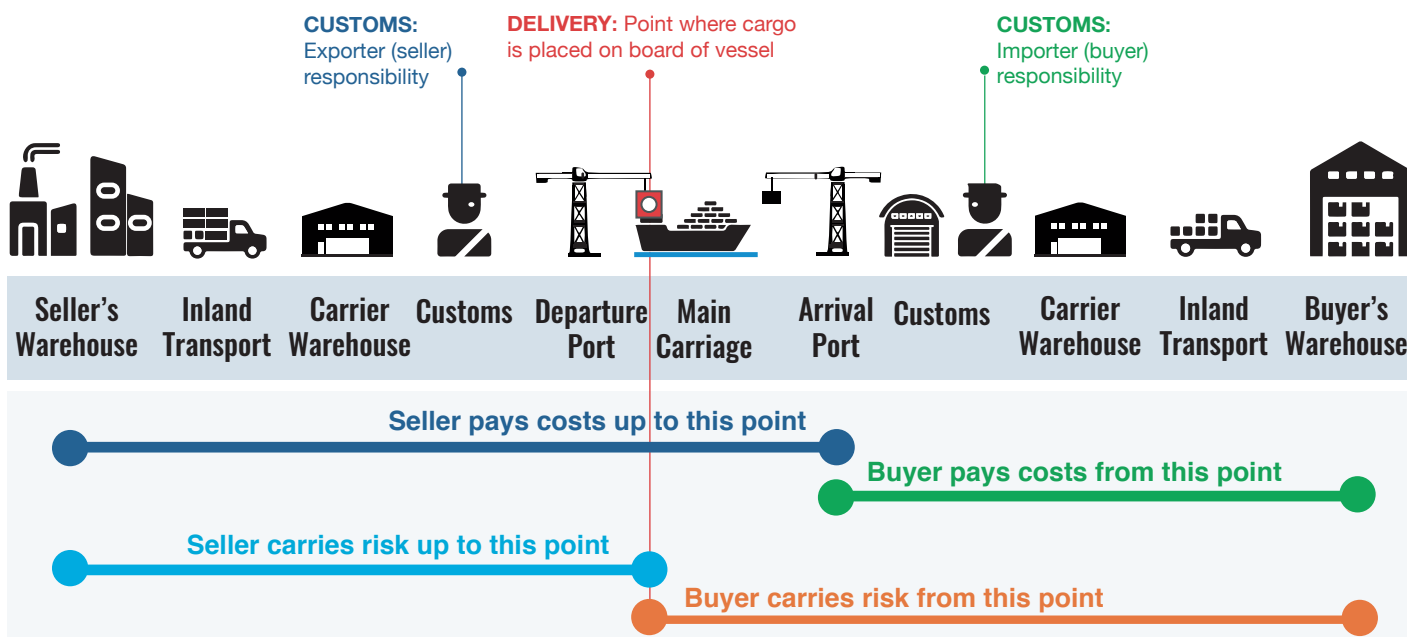
TRADE FORWARD
SOUTHERN AFRICA

KNOWLEDGE GUIDE SERIES

Better understanding the INCOTERMS 2020: CFR



Incoterms 2020: Cost and Freight (CFR)



CFR: Cost and Freight

CFR (Cost and Freight) With this option, the seller pays for the transport of the goods up to the port of destination specified, including for the main carriage. This means that the seller is liable for the cost of export clearance and associated formalities, the costs of loading goods onto the collecting vehicle, as well as terminal handling charges. At that point, the responsibility passes to the buyer. However, the transfer of risk takes place prior to the main carriage, and happens when the seller places the goods aboard the vessel.

This means that while the exporter pays for the main carriage, the exporter is not liable for any risks after loading the goods on the vessel. The importer should bear this in mind when obtaining insurance cover, which should then also include cover for the main international journey. Unloading charges at the port of destination are the responsibility of the importer, unless otherwise agreed between the parties. Since **CFR** is used for maritime shipping, if the parties prefer delivery at the buyer's warehouse, a D term should be used.

• Seller's obligations: CFR (Named Destination Port) 2020

- Commercial invoice, export documentation
- Inland freight to the port of export / main carrier
- All risks until delivery (when loaded on board)
- Insurance: no formal obligation, unless contracted
- Export clearance and customs expenses at origin
- Carrier costs for international journey
- Terminal handling charges in export country
- Cost allocation: all costs to point of delivery

• Buyer's obligations: CFR 2020

- Payment of goods as specified in sales contract
- Take delivery once goods placed on board carrier
- Carry all risks from point of delivery (on board)
- Freight costs from named arrival/destination port
- Unloading charges, discharge and onward carriage
- Insurance: no obligation (but carriage at own risk)

Considerations for using CFR

CFR can be used when the main carriage is by sea.

Since risk transfers from the seller to the buyer when the cargo is loaded on board the vessel, the risk is relatively low for the seller. In many respects **CFR** is similar to the **FOB** terms, although **CFR** is less suitable for containerised cargo and more relevant for bulk non-containerised cargo where the seller arranges the carriage.

While risk passes at the time when the seller places the cargo on board the main carrier, the buyer does not have to worry about arranging the international carriage.

The buyer only arranges for offloading and transportation within the destination country and domestically to the buyer's premises; the main part of the costs are controlled by the seller, which increases the risk of more costly transportation options being used than might have been the case with the buyer, or even overcharging. The buyer does need to ensure that the risk from the point of delivery onwards (including the international carriage) is sufficiently insured at own cost.

Key elements of CFR 2020

Duties and customs clearance

The seller is responsible for the payment of the export clearance formalities, while the buyer is responsible for import duties and taxes in the destination country.

Main carriage (maritime)

Responsibility for costs (but not risk) lies with the seller.

Responsibility for insurance

Under **CFR**, insurance cover is not compulsory, however since the seller remains liable until the point of delivery (onboard the main carrier), it is common practice for the seller to obtain insurance up until where risk passes, which is prior to the seller's cost responsibility for carriage up to the destination port.

Loading of cargo

The seller is responsible for the cost of loading the cargo onboard the main carrier, but the buyer is responsible for the unloading at destination.

Delivery and risk transfer

Delivery and risk transfer happens when the seller places the cargo on board the main carrier at the start of its maritime journey.