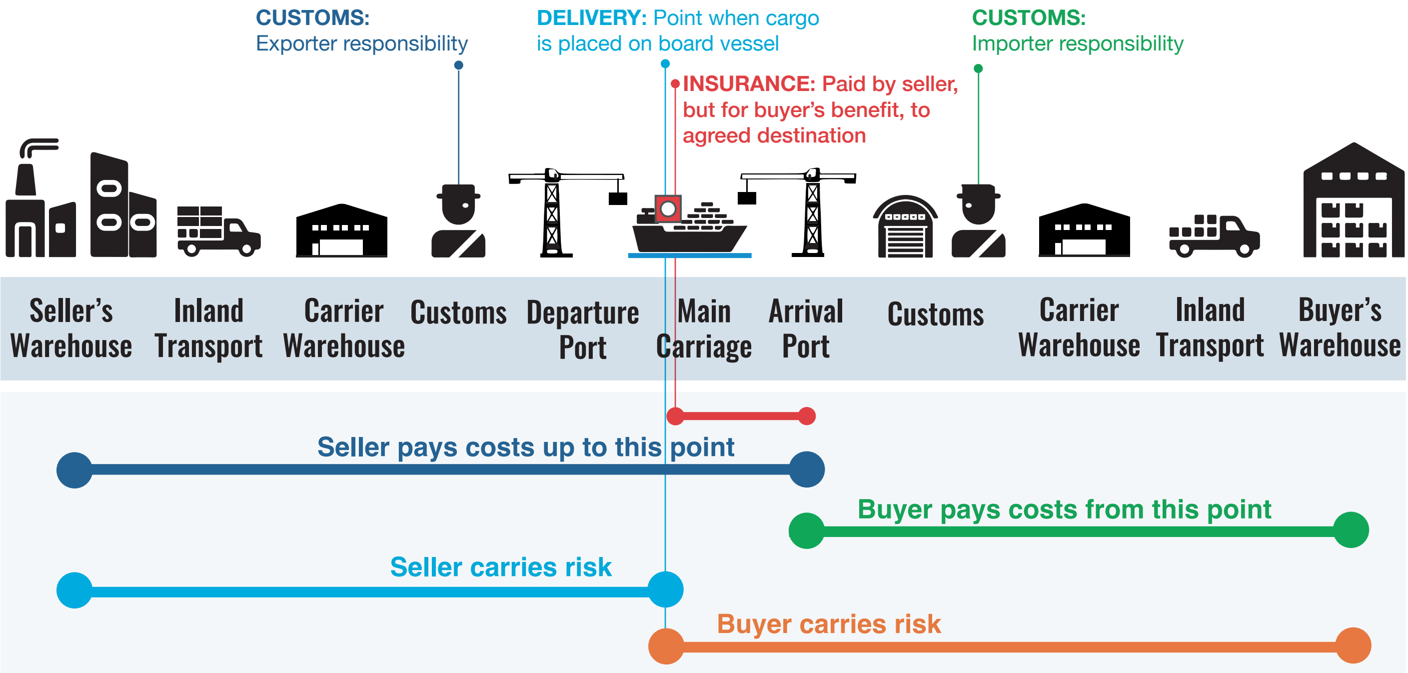
TRADE FORWARD SOUTHERN AFRICA

KNOWLEDGE GUIDE SERIES

Better understanding the INCOTERMS 2020: CIF

Incoterms 2020: Cost, Insurance and Freight (CIF)



CIF: Cost, Insurance and Freight

CIF, which stands for "***Cost, Insurance and Freight***", is an Incoterm that is exclusive to maritime shipping, where the the seller delivers the goods, cleared for export onboard the vessel at the port of departure, pays for the carriage of the goods to the named port of arrival (destination), and also obtains and pays for minimum insurance cover for the goods through their journey to the named port of destination. It is largely similar to CIP ("Cost and Insurance Paid To") which however can be used for all modes of transport.

CIF, along with CIP, are the only two Incoterms that have specific insurance cover obligations. This means that while the buyer assumes all risk once the goods are on board the vessel for the main carriage (being the "delivery point"), the buyer does not take on any cost obligations (including insurance) until the freight arrives at the named port of destination. This makes it a popular and relatively balanced Incoterm. A drawback is that, in the event of a claim, the buyer is reliant on the seller's insurer.

Seller's obligations: CIF 2020

- Commercial invoice, export documentation
- Export packaging and marking
- Pre-carriage and delivery
- Costs around documents for export clearance
- Loading charges
- Freight costs
- Cost of pre-shipment inspection
- Delivery point onboard vessel
- Costs of providing proof of delivery
- Loading charges
- Insurance cover (for CIF+10%, per Institute Cargo Clause C) for the buyer's benefit, to the named place

Buyer's obligations: CIF 2020

- Payment of goods as specified in sales contract
- Terminal handling charges at destination port
- Payment of customs duties
- Costs of import clearance and inspections
- Costs for delivery to final destination
- Any additional insurance cover requested

Considerations for using CIF

CIF should only be used for shipments using maritime transport.

CIF allows the buyer to focus on the import process, and leaves the export process and associated risk to the seller. C-group Incoterms (those beginning with a 'C') are generally preferable for more experienced sellers who may be dealing directly with shipping companies and insurance, and who are familiar with the formalities involved. For the buyer, leaving these tasks to the seller is, however, likely to result in higher costs, rather than when a dedicated freight forwarder is used who may assist with finding the most cost-effective way to ship the goods. CIF is generally considered to be unsuitable for containerised cargo (CIP is preferable).

From the seller's perspective, because the risk is transferred to the buyer once the shipment is loaded, the overall risk is relatively low.

Key elements of CIF 2020

Duties and customs clearance

The buyer is responsible for the payment of import duties and taxes, as the CIF does not impose any specifc obligations here. The seller is however required to take responsibility for export customs formalities and the costs associated with pre-shipment inspection.

Responsibility for Insurance

The seller purchases insurance for the benefit of the buyer to cover against loss of or damage to the cargo. Although the seller must purchase insurance, the buyer has ownership of the goods once loaded onto the ship and would have a claim against the seller's insurance.

Unloading of cargo

The seller must cover the costs for all charges until the cargo has reached the place of delivery in the port agreed in the sales contract.

Delivery and risk transfer

Delivery and risk transfer takes place when the seller places the cargo on the vessel.

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