

## MY WEIRD PROMPTS

Podcast Transcript

### EPISODE #306

# The Secret Language of Trade: A Guide to Incoterms

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## EPISODE SYNOPSIS

In this episode, Herman and Corn dive deep into the "secret language of the world"—Incoterms—and why these standardized protocols are essential for anyone in B2B purchasing or international commerce. They trace the history of these rules from the chaos of the early 20th century to the modern 2020 standards, breaking down the critical differences between risk and cost across the spectrum of terms like EXW, FCA, and the often-misunderstood FOB. Whether you are navigating the complexities of maritime insurance or trying to decide who pays for the forklift at the loading dock, this discussion provides a comprehensive roadmap for securing your supply chain and avoiding legal pitfalls in a global market.

## DANIEL'S PROMPT

### Daniel

"I'd like to talk about Incoterms. When did they come about, and what are the key terms that someone in B2B purchasing should know about and what do they mean?"

# TRANSCRIPT

## Corn

Alright, we are back for episode three hundred and one. I cannot believe we actually hit the three hundred mark last week. It feels like we were just talking about those trusted platform module chips, and now we are onto a whole new century of episodes.

## Herman

Herman Poppleberry here, and I am still riding that high from the milestone. But you know, life in Jerusalem does not slow down, and neither does our housemate Daniel. He was telling me over breakfast that he has been thinking about his time in the freight industry again.

## Corn

It is funny how those brief career detours stay with you. Daniel sent us a really interesting prompt today about the backbone of global trade. He wants to talk about Incoterms. Specifically, where they came from and what someone in business to business purchasing actually needs to know about them.

## Herman

Oh, I love this topic. It sounds dry on the surface, like looking at a spreadsheet of shipping rates, but Incoterms are actually the secret language of the world. If you do not speak it, you are basically flying blind in the world of international commerce. They are the protocols that keep the global supply chain from collapsing into a pile of lawsuits.

## Corn

It is like the grammar of a contract, right? Without it, you are just throwing words at a wall and hoping the cargo shows up at the right port without a massive bill attached to it. So, let us start at the beginning for those who might not be in the logistics world. What exactly is an Incoterm?

### Herman

So, Incoterm is actually a trademarked acronym. It stands for International Commercial Terms. They are a set of rules published by the International Chamber of Commerce, or the I C C. Their whole purpose is to clearly define the responsibilities of sellers and buyers for the delivery of goods under sales contracts.

### Corn

And when we say responsibilities, we are not just talking about who pays the shipping bill. We are talking about the moment the risk transfers from one person to another. That is a huge distinction that I think people miss.

### Herman

Exactly. It is about three big things. Costs, risks, and obligations. Who pays for the freight? Who is responsible if the ship sinks or the container falls off a crane? And who handles the customs paperwork? If you do not have a standardized way to say that, every single contract would need fifty pages of fine print just to explain how a box gets from point A to point B.

### Corn

Daniel asked about the history of this. I imagine this was born out of some serious chaos. I mean, shipping has been around since we were carving canoes out of logs, but when did we actually sit down and say, okay, we need a manual for this?

### Herman

It was exactly as Daniel suspected. It was born out of a messy, chaotic situation. Before the I C C stepped in, different countries had their own interpretations of trade terms. You might use a term in London that meant something completely different in New York or Marseille. By the early nineteen hundreds, as global trade started to explode, the legal disputes were becoming a nightmare.

### Corn

I can only imagine. One guy thinks he is done once the goods are on the dock, the other guy thinks he is getting them delivered to his warehouse, and meanwhile, the goods are sitting in the rain getting ruined while they argue about it.

### Herman

That is exactly what happened. So, in one thousand nine hundred twenty-three, the I C C commissioned a study to look at the trade terms used in thirteen different countries. They realized the discrepancies were massive. It took them another thirteen years of debating and drafting, but in one thousand nine hundred thirty-six, they published the first set of Incoterms. There were only six terms back then.

### Corn

One thousand nine hundred thirty-six. That is a long time ago. I assume they have changed a bit since then.

### Herman

Oh, definitely. They have updated them about every ten years to keep up with how we actually move stuff. Think about it. In nineteen thirty-six, there were no shipping containers. Everything was break bulk, which meant people were literally carrying sacks and crates onto ships by hand.

### Corn

Right, and now we have massive automated ports and air freight that can move things across the globe in less than twenty-four hours.

### Herman

Exactly. We had major updates in nineteen fifty-three, nineteen sixty-seven, nineteen seventy-six, and so on. The current version we use is Incoterms twenty-twenty. That is the gold standard right now. And it is important for our listeners to realize that even though we are in January of twenty-twenty-six, the twenty-twenty rules are still the active ones. They do not expire every year; the I C C usually works on a decadal cycle.

### Corn

So if I am in business to business purchasing today, I am looking at the twenty-twenty rules. Now, there is a lot of alphabet soup here. Three letter acronyms everywhere. E X W, F O B, D D P. It can be overwhelming. If I am a buyer, where do I even start?

### Herman

Well, the best way to visualize it is as a spectrum. On one far end, the seller does almost nothing. On the other far end, the seller does absolutely everything. Let us start with the one that is the easiest for the seller but the hardest for the buyer. That is E X W, or Ex Works.

### Corn

Ex Works. That sounds like the seller is basically saying, here is the stuff, it is sitting on my loading dock, good luck getting it home.

### Herman

That is exactly what it is. Under Ex Works, the seller's only responsibility is to make the goods available at their own premises. They do not even have to load them onto the truck. The buyer is responsible for everything from that moment on. They pay for the truck, they handle the export customs, they pay for the ocean or air freight, and they handle the import at the other end.

### Corn

That sounds like a lot of risk for the buyer. Why would anyone agree to that?

### Herman

Usually, it is because the buyer has a really sophisticated logistics network and they think they can do it cheaper than the seller. Or maybe the seller is a very small company that just does not want to deal with the headache of international shipping. But for a lot of buyers, Ex Works is a trap because you are responsible for export formalities in a foreign country where you might not even have a legal presence. You are essentially acting as the exporter in a country where you do not live.

### Corn

That makes sense. It is like trying to file taxes in a country where you do not speak the language. So, what is the next step up on that spectrum?

### Herman

The next big one, and probably one of the most common, is F C A, or Free Carrier. This is a lot more flexible. Under F C A, the seller is responsible for delivering the goods to a carrier named by the buyer. Crucially, the seller also handles the export clearance.

### Corn

Okay, so the seller at least gets the goods out of their own country legally. That seems like a big relief for the buyer.

### Herman

It is. And F C A is great because it can be used for any mode of transport. You can use it for air, rail, road, or sea. This is actually what the I C C recommends instead of the famous F O B for most modern shipments. In the twenty-twenty update, they even added a provision for F C A that allows the buyer to instruct the carrier to issue a Bill of Lading with an on-board notation to the seller, which helps with getting paid via letters of credit.

### Corn

Wait, you mentioned F O B. That is Free On Board, right? That is the one everyone knows. Why is that not the go to anymore?

### Herman

This is a classic point of confusion. F O B is only for sea or inland waterway transport. You cannot technically have an F O B air shipment, even though people say it all the time. Under F O B, the seller's responsibility ends only when the goods are actually on board the vessel.

### Corn

Ah, I see. So if the crane drops the container while it is hanging over the ship, but before it touches the deck, who is responsible?

### Herman

Under the old rules, it was the ship's rail. If it crossed the rail, it was the buyer's problem. But in the newer versions, it is when it is placed on board. It is a subtle but important distinction. But here is the problem with F O B for container shipments. Most of the time, a seller delivers a container to a terminal, not directly onto a ship. It might sit in the terminal for three days before it gets loaded.

### Corn

And if something happens in those three days, there is a legal gray area because the goods are not on board yet.

### Herman

Precisely. That is why for containerized cargo, we always tell people to use F C A instead of F O B. It protects the seller because their risk ends when they hand it over to the terminal, and it is clearer for the buyer.

### Corn

That is a great tip. I bet a lot of business to business buyers are still writing F O B on their contracts out of habit.

### Herman

Oh, absolutely. It is a hard habit to break. Now, let us move into the middle of the spectrum. These are the C terms. C F R, C I F, C P T, and C I P. This is where it gets a little tricky because the point where the cost transfers is different from the point where the risk transfers.

### Corn

Wait, that sounds like a contradiction. How can I be paying for the shipping but not be responsible for the risk?

### Herman

It sounds weird, but it is actually very common. Let us take C I F, which is Cost, Insurance, and Freight. This is another maritime only term. The seller pays for the freight and the insurance to get the goods to the destination port. However, the risk actually transfers to the buyer the moment the goods are on board the ship at the starting port.

### Corn

So, if I am the buyer, I am paying for the goods, the seller is paying to ship them, but if the ship hits an iceberg in the middle of the ocean, it is my problem?

### Herman

Yes, but because it is C I F, the seller was required to buy insurance on your behalf. So you would make a claim against that insurance. The reason this exists is to give the buyer peace of mind that the goods are paid for and insured all the way to their home port, but the seller does not want to be responsible for what happens in the middle of the Atlantic.

### Corn

That is fascinating. It is like a handoff that happens in slow motion. What about the non maritime version of that?

### Herman

That would be C I P, or Carriage and Insurance Paid To. It is basically the same thing but for any mode of transport. One big change in the twenty-twenty rules was that for C I P, the seller is now required to buy a much higher level of insurance coverage than they used to. They have to buy what is called Clause A coverage, which is basically all risk. For C I F, they only have to buy Clause C, which is the bare minimum.

### Corn

That seems like a win for the buyer.

### Herman

It definitely is. It reflects the reality that most manufactured goods today are high value and people want better protection.

### Corn

Okay, so we have covered the seller doing a little, and the seller doing a medium amount. Now we get to the heavy hitters. The D terms. This is where the seller is basically doing the heavy lifting, right?

### Herman

Exactly. These are the arrival terms. The first one is D A P, or Delivered At Place. The seller takes on all the costs and risks to get the goods to a specific location, like the buyer's warehouse. But, and this is a big but, the buyer is responsible for unloading the truck and handling the import customs.

### Corn

So the truck shows up at my door, and I have to have the forklift ready and the customs cleared, or that truck is just going to sit there and charge me a fortune in waiting fees.

### Herman

You got it. And then there is the one that changed names in twenty-twenty. It used to be called D A T, for Delivered At Terminal. Now it is D P U, which stands for Delivered at Place Unloaded.

### Corn

Why the name change? Was it just to make it more confusing?

### Herman

Actually, it was to make it more flexible. D A T implied it had to be a maritime terminal or a bus station or something. D P U means it can be any place, but the seller is the one who has to unload the goods. It is the only Incoterm where the seller is responsible for unloading.

### Corn

I can see how that would be useful if you are buying something massive, like a piece of industrial machinery, and you do not have the equipment to get it off the truck yourself. You want the seller to bring their own crane and finish the job.

### Herman

Exactly. It is a very specific niche, but it is important to have a term for it. And finally, we reach the ultimate service level. D D P. Delivered Duty Paid.

### Corn

This is the dream for a buyer, right? It is like ordering something on Amazon. It just shows up at your door, everything is paid for, no surprises.

### Herman

On the surface, yes. The seller handles everything. Freight, insurance, export customs, and even the import duties and taxes in the buyer's country. For a buyer, it is the lowest risk option. But for a seller, it is a nightmare. They are responsible for following tax laws and customs regulations in a country where they might not even be registered.

### Corn

I have heard of shipments getting stuck for months because a seller tried to do D D P but did not realize they needed a specific tax I D in the destination country.

### Herman

That happens all the time. In fact, many freight forwarders will advise their clients to avoid D D P if they can, simply because the potential for a bureaucratic disaster is so high. As a buyer, you might think you are getting a great deal, but if your goods are seized by customs because the seller messed up the paperwork, you are still the one without the product you need for your business. Also, Herman's pro-tip: Incoterms do not cover the transfer of title or ownership. That is a separate clause in your contract!

**Corn**

That is a huge point. So you could technically be responsible for the risk of the goods even if you do not legally own them yet?

**Herman**

Exactly. Incoterms are about delivery, not ownership.

**Corn**

So, looking at this from a business to business purchasing perspective, there is no one size fits all answer. It really depends on your company's capabilities.

**Herman**

Exactly. If you have a great logistics team in house, you probably want more control, so you might go with F C A or E X W. You can negotiate your own rates and you know exactly where your stuff is. If you are a smaller operation and you just want the goods to show up, you might lean toward the C terms or D A P.

**Corn**

One thing that always strikes me is the importance of the named place. You cannot just say F O B. You have to say F O B, Port of Shanghai, Incoterms twenty-twenty.

**Herman**

Oh, Corn, you are hitting on the number one mistake people make. If you do not specify the exact point, the whole term becomes useless. I once saw a contract that just said D A P London. London is a big place! Does that mean a specific warehouse in Croydon? Does it mean a terminal at Heathrow? If the truck goes to the wrong place, who pays for the extra fifty miles?

**Corn**

It is like giving someone directions but only telling them the city and not the street address. You are just asking for trouble.

### Herman

And you have to specify the year. If you do not write Incoterms twenty-twenty, you might be accidentally using the rules from nineteen ninety, which have different definitions for some of these terms. Most courts will default to the most recent version, but you do not want to leave that up to a judge.

### Corn

So, for someone starting out in business to business purchasing, what are the top three things they should keep in mind when they are looking at these terms in a quote?

### Herman

First, understand where the risk transfers. Not just the cost, the risk. If that container falls into the ocean, do you still have to pay the seller? Under most terms, the answer is yes.

### Corn

That is a scary thought. You are paying for a pile of wet electronics at the bottom of the sea.

### Herman

Exactly. That leads to my second point. Insurance. If the term does not explicitly require the seller to buy it, like C I F or C I P do, then you as the buyer absolutely must buy it yourself. Never assume the other guy has you covered.

### Corn

And third?

### Herman

Match the term to the transport. Do not use F O B for air freight. Do not use F A S, which is Free Alongside Ship, for a truck delivery. Use F C A for almost everything that involves containers or multiple modes of transport. It is the most robust and modern term we have.

### Corn

This is making me think back to our episode on the agentic mesh, episode two hundred eighteen. We talked about how A I agents might eventually handle these negotiations. I imagine an A I would be much better at picking the right Incoterm than a human who is just copying and pasting from an old contract.

### Herman

Oh, absolutely. An A I would look at the specific port, the current customs backlog, the insurance rates, and the buyer's tax status and say, actually, for this specific shipment, you should use C P T instead of D A P. It would take all that complexity and optimize it. But until we have that, we have to rely on our own knowledge.

### Corn

It is also interesting to think about the environmental impact. We talked about supply chains in episode two hundred ninety-seven. Does the choice of Incoterm affect the carbon footprint?

### Herman

Indirectly, yes. If a buyer uses a term like Ex Works, they might consolidate their shipments from five different sellers into one big container, which is much more efficient. If every seller is doing their own D P shipment, you might have five half empty trucks driving to the same destination.

### Corn

That is a great second order effect I had not thought of. Efficiency often follows control. If you control the logistics, you can make them greener.

### Herman

Exactly. Now, I want to go back to something Daniel mentioned in his prompt about the box. He talked about the beautiful story of consolidation and standardization. Incoterms are the linguistic version of the shipping container. The container standardized the physical dimensions of trade, and Incoterms standardized the legal dimensions.

### **Corn**

That is a perfect analogy. Without the box, you cannot have the crane. Without the Incoterm, you cannot have the contract.

### **Herman**

And just like the box, they are constantly evolving. There is already talk about what the twenty-three rules might look like. People are asking if we need terms that specifically address digital goods or carbon credits.

### **Corn**

That would be a huge shift. How do you define delivery for a piece of software that is being hosted on a server in three different countries simultaneously?

### **Herman**

Right? Does the risk transfer when the download starts or when it finishes? It sounds silly, but when you are talking about a million dollar enterprise software license, those seconds matter.

### **Corn**

This has been a really deep dive into something that most people probably ignore until it goes wrong. But for our listeners in the business world, this is survival gear.

### **Herman**

It really is. And I think it is a great reminder that the world works because of these invisible standards. Whether it is the T P M chips we talked about in episode three hundred or the C two P A standards from episode two hundred ninety-eight, we are constantly building these layers of trust so that we can interact with people on the other side of the planet.

### **Corn**

It is about reducing friction. The less time we spend arguing about who pays for the crane, the more time we can spend actually building things and creating value.

### Herman

Well said. I think we have given Daniel and our listeners a pretty solid foundation here. From the nineteen thirty-six originals to the twenty-twenty updates, Incoterms are the silent partners in every international deal.

### Corn

Definitely. And before we wrap up, I want to take a second to talk to our listeners. We have been doing this for over three hundred episodes now, and the reason we keep going is because of the incredible engagement we get from you all. If you are finding these deep dives helpful, please take a moment to leave us a review on your podcast app or on Spotify.

### Herman

It really does help. It lets the algorithms know that people actually want to hear about the history of international trade terms and technical hardware security. It helps us reach more curious minds like yours.

### Corn

And if you have a question that pops into your head at an inconvenient moment, just like Daniel does, you can send it to us through the contact form at our website, [myweirdprompts.com](https://myweirdprompts.com). You can also find our full archive and RSS feed there.

### Herman

I am already looking forward to whatever Daniel throws at us next week. Maybe something about the thermodynamics of air conditioning or the history of the paperclip?

### Corn

Knowing him, it will be something we never saw coming. But that is the fun of it.

**Herman**

Absolutely. Well, this has been My Weird Prompts. I am Herman Poppleberry.

**Corn**

And I am Corn. Thanks for diving down the rabbit hole with us. We will see you in the next one.

**Herman**

Until next time, keep asking those weird questions.

**Corn**

Take care, everyone. Bye!