Cost, Insurance and Freight (Port): Overview (CIF)

Cost, Insurance and Freight (CIF), a commercial clause in Incoterms 2020, states that the seller is responsible for all costs up to and including delivery of the products and payment of settlement for carriage and insurance to the designated port.

The use of CIF is limited to ocean and inland waterways, and it is typically reserved for bulk cargo, non-containerized commodities, and situations in which the seller has direct access to the vessel for the purpose of loading the goods.

When a seller uses CIF in their shipping clause, they agree to bear the entire cost of exporting and transporting the products up until they are loaded onto the ship. The buyer obtains control of the shipment and is in charge of importing and transporting the items to their destination once they are securely loaded aboard the boat.

Cost, Insurance and Freight: Seller's Responsibilities

The seller manages much more than just making sure the cargo is loaded onto a container ship. Their complete obligations consist of:

1) Export packaging: Ensuring that the cargo is appropriately packaged and ready for shipment. Some exporting nations need particular markings be placed on a product's package or product itself.

2) Loading charges: Expenses incurred in transporting the cargo from the seller's warehouse to the port.

3) Delivery to port/place: All costs of transportation incurred in transferring the cargo from the seller's warehouse to the port.

4) Taxes, duty, and customs: Any duties related to the cargo's export that are related to customs. The seller shall bear all costs associated with any customs inspections and related fees.

5) Origin terminal charges: These are the loading port handling fees.

6) Loading on carriage: The costs involved in putting the goods aboard the ship.

7) Carriage charges: The price of transporting a shipment from its loading port to its final destination.

8) Insurance: According to CIF Incoterm® , the seller must have insurance coverage for the cargo up until the port of destination.

Cost, Insurance and Freight: Buyer’s Responsibilities

The seller transfers the shipment and all risks to the buyer as soon as the cargo is loaded aboard the ship. The following obligations apply to the buyer when they are in charge of the shipment:

- Destination terminal charges: These fees, also referred to as destination handling charges (DTHC), include everything from cargo transfer inside the terminal to offloading.
- Delivery to destination: Organizing the procedures for the cargo's transfer from the port to the place where it will be delivered.
- Unloading at destination: Any expenses related to loading the cargo onto the truck once it has reached the delivery location.
- Taxes, duties, and customs: Complete import requirements, including duty, taxes, and customs clearance. The buyer is in charge of fixing any issues that arise from a customs inspection or an issue with the importation.

CIF: Advantages for the Buyer

All fees for exporting the items from the country of origin are covered by the seller. CIF becomes a viable alternative when the buyer has insufficient knowledge with the origin country and lacks the relationships to help with local transportation and exportation since it enables the seller to handle most of the shipment that takes place outside of the destination country.

This may seem attractive to many people because it carries low risk for the buyer. CIF requires the seller to ensure that their goods can be properly exported if the buyer is unaware of the export regulations for the product. When transporting hazardous or dangerous commodities or making purchases in nations where the norms and regulations are not adequately documented, this can be useful.

Insurance paid for by the seller might help to minimize some of the losses in the event of a maritime problem, such as piracy, damage brought on by bad weather.

When a buyer already works with a third-party logistics provider who can manage domestic and import shipments, CIF enables the buyer to make use of their existing resources without having to hunt for new ones in the nation of origin.

CIF: Disadvantages for the Buyer

Once the items are on board the conveyance vessel, all risk is assumed. The buyer is in charge of fixing or covering losses when something goes wrong during the shipping process.

The buyers are responsible for paying all import taxes and fees. The price of insurance and shipping is included in the sale price because the seller is required to obtain insurance. When importing under CIF Incoterm® , the buyer is responsible for paying freight costs as well as insurance and customs duties and taxes on top of the product price.

The destination handling fees must be paid by the buyer, which is not a bad thing; nevertheless, if not agreed beforehand, it may result in additional hidden costs for the buyer. The destination handling fees for the buyer may occasionally be increased by shipping companies shipping on behalf of customers under CIF conditions because this is an unavoidable expense.

You can have a hard time receiving money from your insurance claim if your cargo is damaged. If your shipment is damaged, you might not learn about it until the container has been unloaded and you have given your seller the full sum due. CIF Incoterm® often describe the beneficiary as the seller. In that case, the seller completed the deal, and the seller—and not the buyer—would be responsible for paying the insurance claim.

When to Use Cost, Insurance and Freight Incoterm®

Only sea and waterway shipments should use CIF Incoterm®. CIF can be helpful for people who are just starting out with importing because it enables them to understand the importing procedure before they are required to know the export process.