



HM Government

UK TRANSITION



Trader Support Service

TSS How-To Guides

How to use Incoterms[®]

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The UK has left the EU, and the transition period after EU exit ended on 31 December 2020. Knowing the essentials about Incoterms® and goods movement will help ensure your business continues to trade seamlessly between Great Britain and Northern Ireland.



In every trade transaction there is a supplier/sender and a buyer/receiver of goods who will need to agree terms to arrange who pays for the goods to be delivered, insures the goods during transportation and is responsible for any associated administration.

Incoterms® are an internationally-recognised format for commercial terms agreed between buyer and seller. You may already be using Incoterms® if you move goods between Great Britain and Northern Ireland.

1. What are Incoterms®?

International Commercial Terms – or Incoterms® for short – are standardised arrangements for trade transactions that are contained in your sales contract and commercial invoice.

Incoterms® are published by the International Chamber of Commerce and updated every decade, with the most recent version released in 2020.

They are used by traders around the world because they provide a user-friendly definition of who is responsible for which element of any trade transaction. When agreeing a sales contract with a sender/supplier or receiver/buyer, you will negotiate which Incoterm® to use in your transaction terms (*see below*).

DID YOU KNOW...

The first set of Incoterms® was published in 1923 in the aftermath of World War 1 when there was no unified global system for trading terms.



2. Why you need to know about Incoterms®

You may already use Incoterms® when moving goods between GB and NI establishing who is responsible for the transportation of the goods and insuring them.

Goods movements between GB and NI now require declarations to HMRC.

Your use of Incoterms® also needs to cover who is responsible for completing import declarations. If goods are 'at risk' of moving through NI into Ireland – which remains a member of the EU – tariffs may also need to be paid.

The Incoterms® agreed between sender/seller and receiver/buyer will determine who is responsible for making the declaration (*see box, right*).

This could be the haulier or broker filling in the declaration on the trader's behalf, with the support of the free-to-use digital Trader Support Service if they so choose.

3. Larger firms: who needs to know about Incoterms®

Incoterms® are of relevance to multiple parts of an organisation and can help to keep everyone on the same page, if properly understood.

- **The import department** will use Incoterms® to provide correct instructions to a carrier moving goods on the company's behalf
- **Sales departments** will include Incoterms® on quotations to customers to indicate the type of sale and how goods will be delivered
- **Procurement** will use a specific Incoterm® in contracts to establish cost/risk responsibilities
- **Accounting** will accept or reject freight invoices based on the Incoterms® attached to a purchase order

QUICK QUIZ

Q: Why do I need to use Incoterms®?

A: Incoterms® are internationally recognised and ensure the receiver/buyer and sender/seller are on the same page when agreeing trade terms – wherever they may be located

WHAT IS...

Import declarations are required to move goods and to inform Customs authorities of goods movements. They are usually lodged by a business or an agent acting on its behalf.

- **Finance** will look at the Incoterms® included on a purchase order to assess what additional costs need to be included in the 'Landed Cost' – i.e. the total cost of purchasing goods and transporting them from the country of origin to the country in which they will be sold

4. The 11 Incoterms®

There are 11 three-letter Incoterms® (see *table below*) which each set out the sender/seller or receiver/buyer's obligations, risks and costs for the delivery of goods. Seven of these terms apply for any mode of transport, while four apply for goods moved by sea.

| | |
|---|-----------------------------------|
| <h2>Buyer and seller agree Incoterms®</h2> | ExWorks (EXW) |
| <ul style="list-style-type: none"> • Stands for 'International Commercial Terms' • Updated every 10 years with the most recent update made this year • Incoterms® negotiated denote who has ownership of transport journey • Most often used Incoterms® for GB:NI Trade: Delivered Duty Paid (DDP) Ex Works (EXW) | Free Carrier (FCA) |
| | Free Alongside Ship (FSA) |
| | Free on Board (FOB) |
| | Cost, Insurance & Freight (CIF) |
| | Carrier & Insurance Paid To (CIP) |
| | Cost & Freight (CFR) |
| | Cost Paid To (CPT) |
| | Delivery at Place unloaded (DPU) |
| | Delivery at Place (DAP) |
| | Delivery Duty Paid (DDP) |



5. Which Incoterms® will you use from GB to NI?

If you are sending or receiving goods from GB to NI, you are most likely to use the Incoterms® Delivery Duty Paid (DDP) or ExWorks (EXW).

- Under **DDP**, the sender in GB arranges transport and for declarations to be completed, paying any duty that may apply (if goods are 'at risk')
- Under **EXW**, the receiver in NI will arrange transport and for declarations to be completed, paying any duty that may apply (if goods are 'at risk')

You will notice DDP and EXW are opposite arrangements. They are also the simplest terms to use and put the least burden on the smaller firm which may be less familiar with moving freight and customs processes.





6. Negotiating Incoterms®

When negotiating a sales contract, the sender and receiver need to agree which Incoterm® will be used. The most appropriate term will depend on the size of the firms involved and their experience handling freight movements.

For instance, if you are a larger company in GB sending goods to a smaller NI buyer, you will probably have more experience handling goods movements procedures and will have access to more cost-effective transport.

In this situation the parties may decide to use DDP, and the sender/supplier would take on the responsibility for delivering the goods, ensuring declarations are completed.

Conversely, if you are a large NI buyer receiving goods from a small firm in GB, you will likely have greater capacity to handle this freight movement.

In this instance, you may want to use EXW as this term denotes that the receiver is taking on more of the risks, costs and obligations.

When two smaller and less experienced firms trade with each other, it is less clear who should take on more responsibility. In this scenario, you will need to negotiate with your counterpart which term you will use, with your forwarder able to advise.

7. I need to know more ...

The NI Customs & Trade Academy (NICTA) is now providing traders that have registered with TSS with short courses on all aspects of GB:NI trade now that the transition period has finished. .

In case you have not registered for TSS, you can do so [here](#). The courses provided by the TSS online training portal NICTA are free of charge and can be accessed [here](#).

For more TSS How-To Guides please see [here](#).

QUICK QUIZ

Q: I'm a small firm in Belfast purchasing beauty products from Liverpool. Which Incoterm® is most appropriate?

A: You should consider asking to use DDP as the GB supplier will then be responsible for the delivery of the goods, associated costs and administration.