



5 Minutes for Business

September 11, 2019

The Nuts and Bolts of International Trade: Incoterms® 2020

It is easy to think international trade is all about convoluted acronyms that describe trade agreements which take a long time to negotiate. A sampling of the ones you have probably heard about recently include CPTPP, CETA and USMCA.

Indeed, the trade world is not short of acronyms, but there is another crucial one for businesses to know called Incoterms®, which stands for International Commercial Terms.

These have been used since 1936 and are developed by the International Chamber of Commerce to act as a common set of rules between exporters and importers in the course of international trade in goods. The reason they are used by buyers and sellers is that they provide a mutual understanding of who bears the costs and responsibilities at various stages of international trade transactions. Not using the appropriate Incoterms®, or at least the one you thought you were using, greatly impacts a company's bottom line.

To name a few examples, Incoterms® defines the responsibilities for paying customs duties, taking care of the paperwork to import a good into a country and bearing the risk of damage to the goods while in transit.

Let us keep with the acronym theme and use an example with the Incoterms® DDP – otherwise known as Delivered Duty Paid. Let us say President Trump wants to buy your company's new Trump-style oversized red tie. Perhaps not that unrealistically, he has used "art of the deal" tactics to get you to agree DDP 1600 Pennsylvania Ave (the address for the White House).

Under DDP, you as the exporter have just assumed a lot of risk and minimized it for President Trump. You are now responsible for all the costs until the tie is delivered to the President. This includes duties, taxes and other charges when it arrives in the United States. On top of that, you also have to worry about the logistics of getting the tie from the American port of entry right through to the White House. Great from the President's perspective, but it is a big burden if you are the exporter.

In this example, you need to understand how to navigate the U.S.' import rules because you agreed to DDP, otherwise you could be hit with unintended costs. Perhaps in hindsight you wish that you and the President agreed to EXW ("Ex Works") or FCA ("Free Carrier") since using those terms in your contract would shift the burden onto the President before the tie even left Canada. Are you confused yet?

The Incoterms® are updated every 10 years to ensure they keep current with business practices. Yesterday, the International Chamber of Commerce released Incoterms® 2020 to update the previous 2010 version. Getting up to speed is vital to ensure your company is using the right Incoterms® for your particular situation. The Canadian Chamber and Forum for International Trade Training are helping Canadian businesses to get up to speed. [Click here](#) if you would like to help your businesses navigate this acronym-saturated, but crucial, world.

For more information about Incoterms®, please contact [Mark Agnew](#), Senior Director of International Policy.