10 THINGS YOU NEED TO KNOW ABOUT INCOTERMS® 2020

A SPECIAL NOTE TO COMPANIES WITH EUROPEAN OPERATIONS.
Regardless of the type of agreement concluded between the EU and the UK after Brexit, a customs declaration will still be required on exports from or imports to the UK. A correct Incoterm is one of the requirements for lodging a customs declaration and care should be taken to become familiar with Incoterms® 2020 by those who desire to remain compliant. As part of their Brexit preparation, companies should look at Incoterms agreed to and ensure that they are not taking responsibility for customs duty or VAT, or submitting the customs declarations in the country of destination.

THESE TERMS SMOOTH THE WAY FOR INTERNATIONAL TRANSACTIONS
1. The Incoterms rules are the world’s essential terms of trade for the sale of goods. Whether you are filing a purchase order, packaging and labeling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms rules are there to guide you. As Incoterms 2010 are being replaced with Incoterms 2020 in the near future, it is important to consider the effects of the change.

What are Incoterms?
Incoterms (International Commercial Terms) are published by the International Chamber of Commerce (ICC). They are a set of trade rules widely used in international commercial transactions that provide specific guidance to individuals participating in the import and export of global trade. Presented as a set of three-letter acronyms, they define the tasks, costs and risks associated with the delivery of goods from a buyer to a seller.

Incoterms® is an acronym standing for international commercial terms. “Incoterms” is a trademark of International Chamber of Commerce, registered in several countries.
2. Why are Incoterms important?
The use of Incoterms is encouraged by governments, trade councils, courts, international lawyers and other international practitioners. Incoterms eliminate inconsistencies in language by giving all parties the same definition of specific terms in a sales contract. Consequently, the risk of problems during a transaction is reduced since all parties clearly understand their responsibilities under the given agreement. It is important to know the various Incoterms when you negotiate your cross-border contracts, sales and purchases to manage risks appropriately and avoid cost surprises.

3. How are Incoterms used?
While Incoterms are only relevant for sales contracts, the agreement between parties to use certain Incoterms affects other contracts. For example, a seller who has agreed to a Free Onboard Shipping Point (FOB) Incoterm is obligated to choose sea transportation in order to present an ocean bill of lading to the buyer. Failure to understand the correct definition of each Incoterm can lead to problems throughout the supply chain. The use of an incorrect Incoterm may affect the payment for goods and delivery schedules or cause conflicts between seller and buyer responsibilities such as who is responsible for customs declarations and duty payments.

4. Why are Incoterms 2010 changing?
The ICC published the first set of rules in 1936. Since their inception, the rules have been revised every 10 years or so to reflect changes in trade practices, ensure their relevance and help companies maintain compliance.

5. What is new in Incoterms 2020?
Incoterms 2020 rules take account of the increased attention to security in the movement of goods and the need for flexibility in insurance coverage. They also respond to the call by banks for an on-board bill of lading in certain financed sales under the Financial Conduct Authority (FCA) rule. The revised rules include a simpler and clearer presentation with revised language, broader introduction and explanatory notes. A key initiative behind this revision was to focus on how it could be enhanced to steer users toward the correct Incoterm rule for their sales contract.

The key differences between Incoterms 2010 and Incoterms 2020 include:
- Bills of lading with an on-board notation and the FCA Incoterms Rule — Under the new rules, a buyer and a seller can agree that the buyer will instruct its carrier to issue an on-board bill of lading to the seller after the loading of the goods.
- Costs, where they are listed — All costs are presented in one location within Incoterms.
- Added provisions — allow different levels of insurance coverage for Cost Insurance and Freight (CIF) and Carriage and Insurance Paid To (CIP).
- Arranging for carriage with seller’s or buyer’s own means of transport — Previously, only third-party carriers were anticipated in Free Carrier (FCA), Delivered at Place (DAP), Delivered at Place Unloaded (DPU) and Delivered Duty Paid (DDP) arrangements.
- Change in the three-letter initials for DAT — (Delivered at Terminal) to DPU (Delivered to Place Unloaded) — recognizing that the destination could be any place, not just a “terminal.”
- Allocation of security-related obligations — added within carriage obligations and costs.
- Explanatory Notes for Users — replaces former guidance to more accurately steer the user to the appropriate Incoterm rule for a particular transaction.

6. When will Incoterms 2020 become available?
Incoterms 2020 were released on Sept. 10, 2019.
7. Where can I obtain a copy of Incoterms 2020?

Incoterms 2020 can be obtained from these sources:
- USCIB Bookstore: https://www.uscib.org/international-business-bookstore/
- ICC Bookstore: https://2go.iccwbo.org/explore-our-products/books.html

8. When do Incoterms 2020 become effective?


9. Can I still use Incoterms 2010 after the new rules become effective?

According to the International Chamber of Commerce, all contracts made under Incoterms 2010 remain valid even after 2020. The ICC recommends using Incoterms 2020 from January 2020 onward. Parties to a sales contract can agree to use any version of Incoterms after 2020. It is important, however, to clearly specify the chosen version of Incoterms being used (i.e., Incoterms 2020, Incoterms 2010, or any earlier version).

10. How should I prepare for the new rules?

It is important to identify what Incoterms your company typically uses today, and then determine if you are using the right Incoterms in the future. Take some time to consider the impact of changes introduced by Incoterms 2020, and then update your contracts accordingly.

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READY TO HELP

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