

Understanding Incoterms

UK Exporters need to understand changes in Incoterms® 2020 or risk disruption.

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THE UK's exporters will have a lot to learn over the next few months! Not only will businesses need to stay abreast of the potential impacts of Brexit, but they will also need to get to grips with the International Chamber of Commerce's (ICC) new set of international commercial terms – widely known by the trademark of 'Incoterms®'.

Incoterms® comprise some of the most widely used, but most misunderstood aspects within international trade; they can impact on a number of areas of a company's operations, including sales, accounts, shipping, operations, compliance and customer service. According to the ICC website, these terms form the world's 'essential terms of trade for the sale of goods' and are used in everything from the initial quote to the purchase orders, packaging and labelling, certificates of origins and to 'define the risk and responsibility of a shipment between the buyer and seller'.

They are a 'global harmonized shipping system' and are therefore used for the trading of goods all over the world. If used correctly, they enable businesses to avoid uncertainty, minimise delay and facilitate smooth operations, transport and payment. If you agree to use a term without understanding the full implications for your business, this can result in unexpected costs, obligations and delays.

THE SAME PAGE

Incoterms® ultimately help everyone involved in international trade to stay on the same page when it comes to their

risks and responsibilities concerning the movement of goods over borders.

Jeff Lewis, an export adviser and trainer for the Institute of Export & International Trade (IOE&IT), suggests that using Incoterms® helps to simplify processes around moving goods overseas for both exporters and importers.

"Using Incoterms® helps all parties to understand their risk and responsibility for a shipment; and it helps them to comply with the obligations outlined within the terms to ensure economical and efficient movement of goods.

Used correctly Incoterms® provide assurance for all parties to understand their obligations and avoid disputes, delays and unexpected costs.

"They eliminate inconsistencies in communication by giving all parties the same definition of specific terms, so they both clearly understand their responsibilities under any given contract. This results in ongoing positive and profitable business relationships."

John Lucy, Manager for International Transport & Trade Procedures at the Freight Transport Association (FTA), also suggests that understanding how to use Incoterms® correctly is essential for any exporter looking to work with a freight forwarder when moving goods overseas. He explains: "Our forwarding members tell me that they constantly experience difficulty with their customers' use of the correct Incoterm®, especially in regard to who is responsible for clearance costs, additional documentation costs, and duties or taxes. Used correctly Incoterms® provide assurance for all parties to understand their obligations and avoid disputes, delays and unexpected costs."

CHANGES AHEAD

The ICC has been writing the Incoterms® rules since 1936 and it has been updating them roughly every ten years, with the last update coming in 2010. The ICC recently announced that the next ring of changes for the rules will indeed be published in 2020. The updates will enable the rules to reflect the advances and requirements of global trade today, particularly in respect to security and ecommerce.

Exporters, importers, freight forwarders, trade financiers and many more people involved in international trade will need to update their knowledge and understanding of these new rules in order to remain on the same page as each other when using them. An incorrect or out-of-date use of them could lead to uncertainty and delays relating to the financing, shipment and payment of exports.

SUPPORT IS ON HAND

Businesses need to learn about the changes that are coming with ICC Incoterms® 2020, and they should be looking at taking training to ensure they are using them effectively and clearly in the years to come.

The Institute of Export & International Trade is delighted to be an ICC licenced training partner, authorised to provide training on ICC Incoterms® 2020. We will be providing a one-day course giving a comprehensive overview of the new 2020 version of the rules, outlining the differences from the 2010 version. The course will also enable UK businesses to be much more cost and risk aware when negotiating new business deals, whatever the future international trade environment holds for the UK after Brexit.

So please do look at the site to find more information about our courses, which are taking place across the country. For more information, visit: export.org.uk/page/Incoterms2020.

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