

DDP (Delivered Duty Paid): Delivery duty paid – opportunities and risks for procurement

DDP (Delivered Duty Paid) is a delivery term from the Incoterms rules under which the seller delivers the goods to the named destination, handles import customs clearance and bears all costs and risks up to arrival. For buyers, DDP means maximum convenience, but also reduced control over transport, customs handling and the supply chain. The term is particularly important in international procurement of supplied parts, components and manufacturing services. Whether DDP is the right choice depends on export expertise, customs structure and the procurement function's risk appetite.

Key facts

- DDP obliges the seller to bear all costs and risks up to the named destination, including transport, customs duty, import VAT handling and import charges.
- The rule is one of the Incoterms 2020 published by the International Chamber of Commerce (ICC) and is one of only two rules under which the seller handles import customs clearance.
- The buyer assumes no transport obligation, but in practice often bears implicit additional costs that the seller builds into the price.
- Typical problems include customs incidents without powers of attorney, missing freight forwarder customs clearance and issues with import VAT handling that depends on input tax deduction.
- DDP requires the seller to be registrable for tax purposes in the importing country or to use a fiscal representative or a customs warehouse settlement procedure.
- In practice, DDP is recommended above all for suppliers with their own import infrastructure, for urgent orders and for low volumes.

Definition: DDP (Delivered Duty Paid)

Under Incoterms 2020, DDP is the rule with the most extensive seller obligations. The seller delivers the goods at the named destination, handles import clearance, pays duties and import charges and bears the transport risk up to hand-over ready for unloading. The buyer only has to support the unloading at the destination and take receipt of the goods.

Position within the Incoterms system

The Incoterms distinguish between rules for any mode of transport (EXW, FCA, CPT, CIP, DAP, DDP) and those only for sea and waterway transport (FAS, FOB, CFR, CIF). DDP belongs to the first group and is the only rule – apart from its DEQ predecessors – under which the seller bears the import charges. In contrast to DAP, where the buyer bears the import charges, DDP includes customs clearance. It is therefore the culmination of seller obligations. The price in a DDP quotation typically includes freight, insurance, duties and the supplier's risk premium.

Distinction from DAP, FCA and EXW

Under DAP, the seller delivers to the destination but without customs clearance – the buyer pays the import charges. Under FCA, the seller hands the goods over at the exporter's premises to the carrier engaged by the buyer. Under EXW (Ex Works), the buyer collects the goods ex works and handles the entire export process. Choosing between these terms is a make-or-buy decision for the supply chain: those with in-house customs and logistics expertise can often save costs and gain greater data control with FCA or EXW. Those without this expertise are frequently safer with DDP.

Cost structure and pricing under DDP

In DDP quotations, the all-in price includes all logistics and customs-related costs. This simplifies price comparison but makes the cost structure opaque. Buyers should therefore request a cost-plus breakdown showing freight, insurance, duty and handling costs separately. Only then can it be assessed whether the DDP quotation is genuinely advantageous or whether an alternative term with self-managed transport would be more economical.

Import VAT and input tax deduction

A frequently overlooked point is the tax treatment of import VAT. The seller must be able to register for tax purposes in the importing country or choose a tax-compliant procedure. In practice, suppliers often use settlement via a customs warehouse or the procedure with a fiscal representative. Crucial for the buyer: the input tax deduction requires the invoice to show VAT correctly. The details are country-specific and should be reviewed with the tax department or an adviser before concluding the contract.

Risk premium and pricing transparency

When quoting DDP, suppliers typically build in a risk premium for currency fluctuations, duty changes and transport disruptions. In practice, this premium is often in the low to mid single-digit percentage range. Buyers should therefore agree duty adjustment or price indexation clauses in long-term framework agreements. A transparent cost-plus breakdown creates clarity here and forms a basis for negotiation. For high volumes, the premium can often be reduced if the buyer provides freight data and duty rates themselves.

Process flow and interfaces in DDP business

Despite the seller's obligations, the buyer remains responsible for planning, scheduling and monitoring. The purchase order should contain the DDP term with a named destination and a precise address – imprecise destinations are a common source of error. The inbound concepts and the goods receipt lead-time standard at the plant must match the delivery terms.

Ordering process and mandatory fields

DDP purchase orders require relevant mandatory fields in the order entry screen: Incoterm with version (Incoterms 2020), named place with a precise address, the commodity code (HS code) of the goods, country of origin and, where applicable, customs preference information. Missing or incorrect HS codes lead to customs claims and delays. For automatic replenishment and material requirements planning (MRP), lead times must realistically reflect customs and border clearance times, otherwise misplanning will occur.

Supply chain monitoring

Although the buyer has no transport mandate under DDP, they have a legitimate interest in shipment data. Modern practice: the seller shares tracking data or grants access to the carrier for status enquiries. For critical components, an agreement on shipment notifications is advisable so that production control and capacity planning can react early. A disrupted supply chain is also a risk for the buyer under DDP – the risk is contractually borne by the seller, but the consequence (production standstill) hits the buyer's own plant.

Key KPIs and evaluation of DDP deliveries

Even under DDP, supplier performance can be measured objectively. The classic logistics KPIs still apply: delivery reliability, inbound quality and goods receipt lead times. In addition, the total cost view comes into play, since the DDP price includes all logistics costs. The evaluation should feed into supplier evaluation and spend analysis.

Delivery reliability and inbound quality

Delivery reliability (OTIF – On Time In Full) should also be measured regularly for DDP, typically with target values above 95 per cent. Inbound delivery quality covers documentation quality (invoice, delivery note, customs paper conformity) and the physical condition of the goods. Poor inbound quality causes costs in goods receipt that are not visible in the DDP price. These hidden costs must be included in the Total Cost of Ownership (TCO) analysis.

Cost comparison with alternative terms

To assess the merits of DDP, a comparison with an alternative term scenario (e.g. FCA with self-managed customs clearance) should be carried out periodically. A spend analysis broken down by term shows for which product groups DDP is economical. In practice the pattern is often: for low volumes and small consignments DDP is efficient, whereas for container-sized or regular deliveries self-managed customs clearance with a freight forwarder can be cheaper. An urgent order under DDP can also be more expensive than a planned FCA delivery scheduled with appropriate lead time.

Risks and controls under DDP

DDP shifts risks to the seller but creates new control needs for the buyer. The main risks are tax complications, lack of transport transparency, dependency on the seller's logistics and hidden costs. A structured risk assessment is part of supplier risk management.

Tax and customs law risks

If the seller fails to handle the import process correctly, the buyer can run into difficulties: claims from customs authorities, objections during tax audits or problems with input tax deduction. The legal situation is country-specific and should be examined case by case. Controls include regular review of import settlements, agreed obligations to provide information and the retention of customs clearance evidence. A recognised supplier identification instrument such as the DUNS number facilitates master data management but does not replace a tax review.

Dependency and supplier risk

Under DDP, the buyer depends on the seller's logistics. With sole-source suppliers or critical components, this dependency can be problematic. Supplier risk can be reduced through: dual sourcing

with different terms, monitoring the market for alternative suppliers, and integration into a procurement organisation with clear responsibility for international sourcing. Where delivery scope is large and of strategic importance, segmenting the market in procurement can also help distinguish between DDP-suitable and FCA-suitable suppliers.

Current developments: DDP in the context of digital supply chains

The digitalisation of customs and logistics processes is changing the practical handling of DDP. Electronic customs clearance, digital freight files and data exchange platforms reduce the former transparency disadvantages. At the same time, regulatory pressure is increasing through supply chain laws and carbon reporting obligations, which require transparency across the entire supply chain even for direct deliveries under DDP.

Digital customs processing and data transparency

In the EU and among key trading partners, customs processing is becoming increasingly electronic. For DDP business this means: the seller can provide data digitally which the buyer can use for their own evidence obligations. Master data governance helps keep customs and logistics data (HS codes, origin details, terms) consistent in ERP systems. Without well-maintained master data, automatic replenishment and customs forecasts are prone to error.

Supply chain transparency and sustainability

Reporting obligations on emissions, social standards and the supply chain generally also apply to the buyer, regardless of the chosen Incoterm. Under DDP the seller is responsible for the transport route, but the buyer needs the data for their reporting. Practical tip: agree obligations to provide information on mode of transport, route and carbon footprint in framework agreements. Second-life use and return logistics are also gaining in importance – anyone combining DDP with take-back obligations should regulate this precisely in the contract.

Typical metrics

Delivery reliability (OTIF): > 95 %

Target value for DDP suppliers; below 90 % indicates logistical problems on the seller's side

Inbound delivery quality: > 98 %

Proportion of defect-free deliveries including documentation and customs papers

DDP risk premium: typically 2–8 % of the goods value

Calculation surcharge applied by the seller for freight, customs and currency risks

Goods receipt lead time: < 1 day for DDP with customs release

Shorter lead times, as customs clearance has already been completed by the seller

Practical example

A German mid-sized machinery manufacturer initially sourced special castings from a supplier in Asia under FCA. In-house customs clearance proved inefficient for small consignments, and several urgent orders failed due to missing customs powers of attorney. Procurement switched to DDP for the small-parts segment with a contractually agreed cost-plus surcharge invoice, while retaining FCA with self-managed customs clearance for strategic large parts.

- Carry out an FCA vs DDP cost comparison by product group and differentiate the term strategically
- Mandatorily define required fields for Incoterm, destination, HS code and country of origin in the order entry screen
- Contractually agree obligations to provide tracking data and customs evidence
- Include DDP suppliers in supplier evaluation covering OTIF and inbound delivery quality

Conclusion

DDP is a powerful term for buyers who do not want to handle transport and customs clearance themselves. Its advantages come into play especially with small to medium volumes, a lack of in-house customs expertise, and reliable suppliers with logistics infrastructure. The downside is lower cost transparency and dependency on the seller's logistics, which can be managed through cost-plus breakdowns, tracking agreements and structured supplier evaluation. There is no one-size-fits-all term choice: the right answer depends on product group, volume, tax situation and in-house supply chain expertise. Those who use DDP strategically and monitor it systematically gain flexibility without unnecessary costs.

Frequently asked questions

What does DDP mean in procurement?

DDP (Delivered Duty Paid) is an Incoterms rule under which the seller delivers the goods to the named destination and bears all costs, including transport, insurance, customs duty and import charges. The buyer only has to take receipt of the goods. The DDP price therefore includes all logistics and customs-related items.

Who pays import VAT under DDP?

Formally, the seller is responsible for import charges including import VAT. In practice, import VAT is handled depending on the seller's procedure, for example via fiscal representatives or customs warehouse procedures. How the buyer's input tax deduction works depends on the specific handling method and should be examined on a case-by-case basis from a tax perspective.

What is the difference between DDP and DAP?

Under both rules, the seller delivers to the named destination and bears the transport risk. The key difference: under DDP the seller also handles import customs clearance and pays the import charges, whereas under DAP the buyer pays the import charges. DDP is therefore more convenient for the buyer, but usually more expensive.

When is DDP sensible for procurement?

In practice, DDP makes sense for small and medium-sized consignments, when in-house customs and logistics expertise is lacking, for urgent orders with short response times, and for suppliers with their own import infrastructure in the destination country. For large, regular volumes and with existing freight forwarder relationships, self-managed customs clearance under FCA or EXW can be more economical.

Is DDP risky for the seller?

Yes, for the seller DDP is the riskiest Incoterms rule, because the seller bears transport, customs clearance, import charges and delivery delays up to the destination. Many exporters therefore refuse DDP or build in a significant risk premium. Buyers should take this into account in price negotiations.

What information belongs in a DDP purchase order?

The purchase order should include the Incoterm with version (Incoterms 2020), the named destination with a precise address, the commodity code (HS code), the country of origin and, where preferential treatment applies, the relevant supporting documents. If this information is missing, customs claims, delays and problems with input tax deduction may result.