

Incoterms DDP: using the "Delivered Duty Paid" delivery basis correctly in procurement

DDP (Delivered Duty Paid) is a delivery term under the Incoterms under which the seller delivers the goods to the agreed destination and bears transport, export and import clearance as well as duties and import VAT. For buyers, DDP means maximum cost transparency up to goods receipt, but it carries tax and customs pitfalls. This glossary article explains the structure, application, risks and controls of the term in industrial procurement.

Key facts

- DDP is the only Incoterms term under which the seller also bears import clearance as well as duties and import charges.
- Scope: All Incoterms 2020 terms, including DDP, are suitable for all modes of transport provided the chosen transport route fits.
- Under DDP, risk passes only at the named destination, not at the border or the port of shipment.
- Under DDP, the buyer typically treats the price as the purchase price without a separate duty and freight mark-up; import VAT must be examined separately for tax purposes.
- In practice, DDP is frequently used for express deliveries, prototypes and low-value shipments, less often for high regular purchasing volumes.
- From a tax perspective, DDP can be problematic for the seller if he must be tax-registered in the country of import; the design should always be examined on a case-by-case basis.

Definition: Incoterms DDP

DDP is one of the eleven terms of the Incoterms 2020 of the International Chamber of Commerce (ICC) and describes the broadest performance obligation of the seller: he delivers "imported and duty paid" to the named destination.

Core obligations of the seller

The seller organises and pays for the main carriage, bears export clearance, import clearance, duties, import VAT and, where applicable, other charges, and delivers ready for use at the destination. He bears the risk until the goods are placed at the destination. Insurance is not mandatory, but in practice the seller usually covers the transport chain.

- Main carriage and, where applicable, pre/on-carriage
- Export and import formalities
- Duties, import VAT and other charges
- Placing of the goods at the named place

Core obligations of the buyer

The buyer takes receipt of the goods at the destination and, from the point of risk transfer, bears the

further costs such as storage, internal transport or disposal. On request, he must obtain information and documents for import clearance for the seller insofar as this relates to his role as importer – which is formally limited under DDP, since the seller is the importer.

Distinction from DAP, CIF and EXW

Under DAP, the seller bears transport and risk to the destination, but not import clearance and import charges. CIF covers only sea transport to the port of shipment. Under EXW, responsibility lies largely with the buyer. DDP is thus the term with the greatest seller obligation and, at the same time, the smallest buyer responsibility.

Methods and approach: anchoring DDP in the procurement process

DDP should not be a default value in order forms, but a deliberate choice depending on goods value, country combination and tax situation.

Criteria for choosing DDP

DDP is typically suitable for shipments of low to medium goods value, urgent spare parts, prototypes during series start-up (SOP) or deliveries to countries where the buyer does not want to hold an import licence or EORI registration. For high regular purchasing volumes, the disadvantages often prevail: the seller prices duty and tax risks in as a risk mark-up, and import VAT may not be deductible as input tax for the buyer if he is not the importer himself.

- Assess goods value and shipment frequency
- Clarify the seller's tax registration in the country of import
- Compare alternatives such as DAP or FCA commercially
- Document the agreement in contract management and in the order confirmation requirement

Name the destination precisely

The term only takes effect through the precisely named place, e.g. "DDP Sampletown plant, ramp 3, Incoterms 2020". Imprecise details such as only the destination country frequently lead in practice to disputes over unloading costs, terminal charges or the last mile. At the same time, logistics processes such as a dock appointment can also be bindingly agreed.

Contractual embedding

Incoterms regulate only delivery and cost allocation, not transfer of ownership, payment terms, warranty or default. These points belong in the purchase contract and contract management. The delivery term should also be consistent with framework agreements, call-offs and the ordering process so that no discrepancy arises between the order document and standard terms.

Key KPIs for the DDP delivery basis

Even though the seller bears the transport and duty costs, the logistics services remain measurable and must be included in supplier performance evaluation.

Delivery and schedule reliability

Since DDP is frequently used in spare-parts and express business, on-time delivery at goods receipt is the key criterion. Delays caused by customs delays on the seller's side formally concern the seller, but

operationally they affect production just as much as under other terms.

- On-time delivery at the destination
- Delivery reliability in terms of quantity and item

Cost and duty indicators

Even under DDP, it is worth tracking the implicit costs: the freight share of the DDP price can be validated using reference rates (e.g. air freight cost components). In addition, duty and tax shares of the price should be checked periodically so that persistently excessive prices are not paid following customs changes or exchange rate fluctuations.

Quality at goods receipt

Incoming goods inspection with quality checks remains the buyer's responsibility regardless of the delivery term. The defect rate at goods receipt, complaint rates and achievement of the supplier quality target feed into the evaluation of A-rated suppliers.

Risks and controls under DDP

DDP seemingly shifts all risks to the seller, but creates its own risks for the buyer, above all of a tax and pricing nature.

Tax and customs risks

The central point of criticism: under DDP, the seller becomes the importer and may need to be tax-registered or represented in the country of import. In practice, many sellers in fact still require processing via the buyer or a broker, which results in a de facto reinterpretation as DAP. Since import VAT under DDP is advance-paid by the seller and included in the price, the buyer may lose the input tax deduction – a point to be examined on a case-by-case basis with tax advisers.

- Clarify the seller's registration obligation in the country of import
- Check the deductibility of advance-paid import VAT as input tax
- Check the correctness of ad valorem duty and preference status (keyword certificate of origin; conflict minerals as a flanking compliance topic)

Price and cost risks

The seller includes transport, duty and tax costs including a risk mark-up in the DDP price. Inflation and exchange rate risks as well as geopolitical risk in transit countries therefore flow directly into the purchase price. Without a breakdown, the buyer loses cost transparency and comparability in a reverse auction or tender. Price adjustment clauses for freight, duty and exchange rate components are therefore advisable and should be maintained in contract management.

Delivery and process risks

Delays in import clearance due to documentation deficiencies on the seller's side can block production. A dynamic safety stock for critical items or a second-source strategy mitigate this risk. Transparency on shipment status (tracking through to placement at the destination) should be contractually agreed. Hedging structures such as forwards & swaps concern the seller under DDP, but can indirectly influence his price stability.

Current developments: DDP in the context of Incoterms 2020

The Incoterms 2020 changed DDP little in substance but tightened the context: security requirements, digitalisation of customs processing and trade conflicts increase the complexity of import handling.

Data volumes and digital customs processing

Electronic customs systems, advance notifications and growing data volumes increase the workload of import clearance for the seller. Companies that consolidate procurement data in a data lake can analyse DDP prices better and validate duty and freight shares. Supplier enablement measures help to connect sellers to digital delivery notifications and document processes.

Compliance and sustainability

Sanctions, export controls and provenance documentation (for example in the context of conflict minerals) primarily concern the seller under DDP, but require sufficient verification and documentation processes from the buyer. Sustainability requirements along the supply chain also tighten the requirements for data and evidence, which under DDP fall within the seller's area of responsibility.

Market practice

In practice, buyers frequently observe that DDP prices are significantly higher than the self-costed alternatives FCA or DAP over long transport routes. As a result, many procurement organisations restrict DDP to exceptional cases and steer the main carriage via their own freight accounts or contract logistics providers. Material requirements planning (MRP) and inventory management benefit from more reliable delivery times when transport control lies with the buyer.

Typical metrics

On-time delivery (DDP shipments): > 95 %

Share of punctual deliveries at the named destination, typical guideline value

Freight share of the DDP price: often 2–10 %

Depending on goods value and mode of transport; validate against reference rates

Duty/tax share of the price: variable

Check periodically against actual rates to avoid excessive risk mark-ups

Incoming goods defect rate: < 1 %

To be recorded independently of the delivery term and included in supplier evaluation

Practical example

A medium-sized mechanical engineering company urgently procured spare parts for a customer installation on a DDP basis ex works from the seller's overseas plant. The seller organised air freight, customs clearance and delivery to the factory premises; however, the costs included a risk mark-up, and the advance-paid import VAT was not deductible as input tax for the buyer. After an internal analysis, the buyer switched regular series orders to FCA and used DDP only for urgent orders below a defined goods value.

- Define the delivery term differently by goods value and urgency
- Validate duty and tax components in the DDP price periodically
- Cost out an alternative delivery basis with your own freight account

- Examine the tax treatment of import VAT with tax advisers

Conclusion

DDP is the most buyer-friendly Incoterms term and is suitable for defined use cases such as urgent orders or low shipment values. For regular and high purchasing volumes, the disadvantages often prevail in practice: loss of cost transparency, risk mark-ups in the price and tax disadvantages regarding import VAT. Strategic use requires the alignment of delivery term, contract management, tax and logistics. Buyers should not set DDP as a standard, but choose it on justified grounds depending on goods value, country and tax situation.

Frequently asked questions

What does DDP mean under Incoterms?

DDP (Delivered Duty Paid) is a delivery term of the Incoterms 2020 issued by the ICC. The seller delivers the goods cleared for import and duty paid at the named destination and bears transport, export and import clearance as well as duties and import charges. It is the term with the most extensive seller obligations.

Who bears the import VAT under DDP?

Formally the seller, since under DDP he is the importer. This advance payment of tax is typically included in the purchase price, which means the buyer may lose the right to deduct input tax. The tax treatment should be examined on a case-by-case basis with tax advisers.

What is the difference between DDP and DAP?

Under DAP, the seller delivers to the destination, but import clearance, duties and import VAT are borne by the buyer. Under DDP, the seller also assumes these import services. In practice, DDP is therefore often effectively reinterpreted as DAP when the seller is not registered in the country of import.

When should buyers agree DDP?

DDP is suitable for urgent shipments, spare parts, prototypes and low goods values, as well as when the buyer does not want to handle import processing. For high regular purchasing volumes, FCA or DAP are often cheaper and more tax-efficient. The decision should be documented in contract management by country and product group.

Who bears the risk under DDP?

The seller bears the transport risk until the goods are placed at the named destination. Only on delivery does the risk pass to the buyer. Transport insurance is not mandatory under the Incoterms, but in practice it is usually taken out by the seller.

Is DDP suitable for all modes of transport?

Yes, DDP can be used multimodally and is not tied to a mode of transport. What matters is the exact naming of the destination, including the place of delivery, in order to avoid disputes over unloading or terminal costs. The Incoterms version (e.g. "Incoterms 2020") should also be stated.