

Free on Board (Port): Overview (FOB)

Free on Board (FOB) is an Incoterm® that specifies that the seller is responsible for all costs involved with loading the cargo onto the ship. When the goods are secured on board the ship, the risk is transferred to the buyer, who is then in charge of the remaining portions of the shipment.

The buyer is responsible for processing after the delivery point. Based on what the two parties have decided, responsibility for risk and insurance is defined. Only transport by sea or interior waterways is covered by FOB. As a result, the location is always a port. If the principal conveyance is by air, ground, or rail, it does not apply.

Since the seller is in charge of the items up until they are loaded onto the vessel, he must make sure goods get there. FOB is typically only used in a few situations with containers at minor ports because most products are now delivered to container yards rather than directly to a single vessel. Both sides agree on the location of the products' delivery before shipment.

Free on Board: Seller's Responsibilities

The full list of the seller's obligations can be found below:

1) Warehouse: The seller's warehouse, as used in the FOB Incoterm®, refers to the location where the seller keeps his or her products to complete the export process. In this case, the seller is responsible for paying for product maintenance. In the process, the warehouse is also referred to as the location of origin, where both parties decided to enter a contract.

2) Transportation: Inland transportation from the warehouse to the arrival port is part of the trade transit for the seller.

3) Documents: The following documentation must be provided by the seller to the buyer:

- Commercial invoice
- Bill of Lading
- Packing list
- Insurance certificate
- Export licence
- Custom clearance

4) In a FOB agreement, the seller is responsible for exporting goods from the point of origin to the port of delivery. Additionally, since the seller's obligation extends solely to the port, their focus is on the export customs. Seller will be responsible for handling all export customs processes and associated fees.

5) Freight:

- Seller is responsible for expenses of storing the goods in the warehouse.
- Payment to the freight forwarding agent.
- Charges to be paid at the terminal
- Fees associated with loading goods at the port
- Freight payment from FOB origin, or the location agreed upon by the parties, till the port

Basically, all fees paid FOB from the point of origin until the goods are loaded at the port.

6) Insurance: Normally, the seller is not obligated to provide insurance to the buyer. However, it can be decided as a matter of concern for the seller up until the terminal as a matter of discipline. Moreover, at the buyer's request, the seller may offer to help the buyer with insurance and customs arrangements.

Free on Board: Buyer's Responsibilities

The buyer has the obligations listed below to complete the logistical process:

1) Warehouse: For a buyer, a warehouse is the location where the items will be kept following the entire import-export transaction. Since the buyer will transport the products from the port in his country to the warehouse, it is his job to unload the cargo there.

2) Transportation: The buyer is responsible for all transportation costs after the seller loads the goods at the port. The seller therefore handles the ocean freight transit, the unloading of products, and the inland transfer from the buyer's port to his location.

3) Documents: The buyer will need those documents in order to import goods into the port of his country because the seller will show verification of all export clearance procedures to the buyer.

4) Custom Clearance: Since the seller will have already handled the export processes, the buyer will be responsible for FOB import customs. Even then, the buyer will still need the seller to provide proof of export customs to complete the shipment process.

5) Freight: The buyer will be responsible for paying marine freight, transportation from the port of arrival to the final destination, the cost of goods insurance, as well as any charges associated with loading and unloading the products from the port of arrival to the final destination.

Free on Board: Advantages for the Buyer

Since each party's responsibilities provide them the most control while the shipment is in their jurisdiction, FOB shipping is quite popular among buyers and sellers. When using FOB Incoterms®, the buyer benefits from having the most control over logistics and shipping costs, which gives them the freedom to select the shipping options.

With FOB, the purchaser can choose the freight forwarder for the complete cargo, instead of depending on the supplier to handle some or all of the freighting. To reduce back and forth and the possibility of confusion between two shipping companies, the buyer only needs to rely on one company for the duration of the transportation process.

FOB Incoterm® is also the most economical choice because it provides the buyer the freedom to compare shipping costs. The risk is transferred when the items are safely put onto the shipping vessel, however the buyer's forwarder is in charge of all aspects of the transportation process. Once the package has left the seller's warehouse, the buyer is in charge of the goods and has better control over the delivery's success.

Sellers value FOB Incoterms® because they can consider the sale closed as soon as the consignment leaves their factory.

Free on Board: Disadvantages for the Buyer

For most buyers, FOB has minimal to no drawbacks. The process may appear more difficult for newer importers or importers who have always made purchases under Incoterms®, where the seller arranges the freight expenses. However, the management and considerable cost reductions quickly surpass this drawback.

When to Use FOB Incoterm®

Most bulk goods that will be transported by sea qualify as valid FOB agreements. Assuming that the shipment can be sent by any method of transportation, as is frequently the case with buyers and sellers, FOB is misunderstood. Only exports by sea and inland waterways are feasible by FOB, according to the ICC. FCA is an Incoterm® that can be used for all modes of transportation when shipping by land rather than sea, therefore buyers and sellers may want to use it.

Even if the buyer acquires ownership of the cargo once it is put onto a truck at the seller's warehouse, the seller is still in charge of making sure the consignment sails safely beyond the ship's rails.