

FOB DEFINITION | SHIPPING TERMS OF SALE



FOB, Free On Board, is a transportation term that indicates that the price for goods includes delivery at the Seller's expense to a specified point and no further. The FOB term is used with an identified physical location to determine 1) the responsibility and basis for payment of freight charges, and 2) the point at which title for the shipment passes from Seller to Buyer.

The FOB location terms, Origin and Destination, may be qualified by modifiers. The modifier determines the payment of the transportation charges. Modifiers denote nothing about the title of the goods or filing of claims. The most three common modifiers are: Collect, Prepaid & Add, and Prepaid & Allow.

Collect	The carrier collects the transportation charges from the Buyer.
Prepaid & Add	The Seller prepays the transportation charges, but adds the charges to the invoice for reimbursement from the Buyer.
Prepaid & Allow	The Seller prepays the transportation charges and they are already included in the contract price.

TITLE & CONTROL OF GOODS

FOB ORIGIN

- The Buyer assumes title and control of the goods the moment the carrier signs the bill of lading.
- The Buyer assumes risk of transportation and is entitled to route the shipment.
- The Buyer is responsible for filing claims for loss or damage.

FOB DESTINATION

- The Seller retains title and control of goods until they are delivered and the contract of carriage has been completed.
- The Seller selects the carrier and is responsible for the risk of transportation.
- The Seller is responsible for filing claims for loss or damage.

PAYMENT TERM VARIATIONS

POINT OF ORIGIN

FOB Origin

Unless qualified in the FOB clause, the buyer is responsible for freight charges.

FOB Origin Freight Collect

Buyer pays and bears freight charges.

FOB Origin, Freight Prepaid

Seller pays and bears freight charges.

FOB Origin, Freight Prepaid & Add

Seller pays and invoices Buyer for freight charges.

DESTINATION

FOB Destination

Unless qualified in the FOB clause, the Seller is responsible for freight charges.

FOB Destination, Freight Collect

Buyer pays and bears the freight charges.

FOB Destination, Freight Prepaid

Seller pays and bears the freight charges.

FOB Destination, Freight Collect & Allowed

Buyer pays freight charges and deducts the amount from Seller's invoice.

FOB Destination, Freight Prepaid & Add

Seller pays the freight and adds the freight charges to its invoice to the Buyer.

SHIPPING DEFINITIONS

Freight Terms identify the party responsible for the payment of freight and are usually expressed as: prepaid or collect with the following nuances: prepaid to a stated location and collect beyond or third party or pre-pay and add. While there are other subtleties, these examples will suffice.

Prepaid means that the shipper owns the freight payment responsibility.

Collect means that the consignee owns the freight payment responsibility.

Prepaid/Collect Beyond means that the shipper or consignor owns the prepayment portion with the balance of the freight charge being the responsibility of the consignee.

Third Party establishes that a party neither the consignor nor consignee owns the payment processing function. The legal payment obligation may or may not belong to the third party and the assignment of the legal responsibility is determined from the parties identified on the Bill of Lading Contract. Simply put, unless the payment party is a party to the Bill of Lading contract, they have no legal obligation for payment. "Third Party" is typically invoked when there is an outsourced payment service to handle the freight payment function.

Pre-pay and Add typically means that the shipper advances the freight charges to the carrier and then bills the beneficial owner of the freight for an amount approximating or equal to the actual freight charges.

Terms of Sale/Purchase identify the passage of title and are typically expressed as "FOB, stated point or place". In their most simple and usual expression they appear as FOB Origin or FOB destination.

FOB Origin means that title to the merchandise passes at time and place of pick-up.

FOB Destination means that title to the merchandise passes at time and place of delivery.

QUICK REFERENCE| MEANING OF THE TERMS OF SALE

FOB Origin

Buyer -- Pays freight charges
Buyer -- Bears freight charges
Buyer -- Owns goods in transit
Buyer -- Files claims (if any)

FOB Origin, Freight Collect

Buyer -- Pays freight charges
Buyer -- Bears freight charges
Buyer -- Owns goods in transit
Buyer -- Files claims (if any)

FOB Origin, Freight Prepaid

Seller -- Pays freight charges
Seller -- Bears freight charges
Buyer -- Owns goods in transit
Buyer -- Files claims (if any)

FOB Origin, Freight Prepaid & Add

Seller -- Pays freight charges
Buyer -- Bears freight charges
Buyer -- Owns goods in transit
Buyer -- Files claims (if any)

FOB Destination

Seller -- Pays freight charges
Seller -- Bears freight charges
Seller -- Owns goods in transit
Seller -- Files claims (if any)

FOB Destination, Freight Collect

Buyer -- Pays freight charges
Buyer -- Bears freight charges
Seller -- Owns goods in transit
Seller -- Files claims (if any)

FOB Destination, Freight Collect & Allow

Buyer -- Pays freight charges
Seller -- Bears freight charges
Seller -- Owns goods in transit
Seller -- Files claims (if any)

FOB Destination, Freight Prepaid

Seller -- Pays freight charges
Seller -- Bears freight charges
Seller -- Owns goods in transit
Seller -- Files claims (if any)