

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

<u>FOB Origin</u>	Unless qualified in the FOB clause, the buyer is responsible for freight charges.
<u>FOB Origin, Freight Collect</u>	Buyer pays and bears freight charges.
<u>FOB Origin, Freight Prepaid</u>	Seller pays and bears freight charges.
<u>FOB Origin, Freight Prepaid & Add</u>	Seller pays and invoices buyer for freight charges.

DESTINATION

<u>FOB Destination</u>	Unless qualified in the FOB clause, the seller is responsible for freight charges.
<u>FOB Destination, Freight Collect</u>	Buyer pays and bears the freight charges.
<u>FOB Destination, Freight Prepaid</u>	Seller pays and bears the freight charges.
<u>FOB Destination, Freight Collect & Allowed</u>	Buyer pays freight charges and deducts the amount from seller's invoice.
<u>FOB Destination, Freight Prepaid & Add</u>	Seller pays the freight and adds the freight charges to its invoice to the buyer.

ANOTHER ILLUSTRATION OF THE 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)