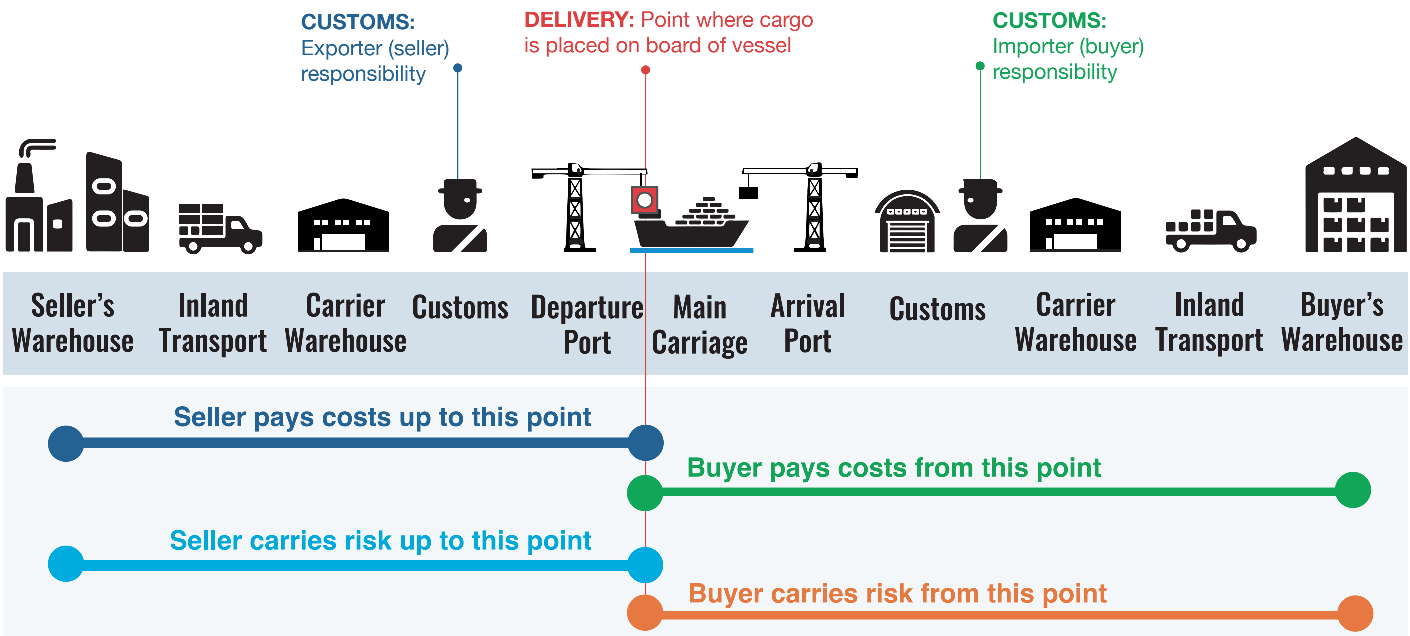
TRADE FORWARD SOUTHERN AFRICA

KNOWLEDGE GUIDE SERIES

Better understanding the INCOTERMS 2020: FOB

Incoterms 2020: Free on Board (FOB)



FOB: Free on Board

FOB (Free on Board) requires the exporter to deliver the goods aboard the vessel designated by the importer, at the agreed delivery port in the country of export. With the placing of goods onboard the vessel (the **FOB** Incoterm is only suitable for maritime transport), the exporter has fulfilled its obligation to the importer. At this point, the risks of carriage and associated costs transfer from the exporter to the importer. Prior to transfer, the seller is responsible for all charges relating to export clearance procedures and terminal handling.

FOB is traditionally the most commonly used Incoterm in international trade, with the exporter's responsibility ending when the goods are placed on board the vessal for carriage. This means that the exporter is absolved of tasks such as obtaining a competitive freight cost to quote prospective buyers on. With **FOB**, the exporter is, however, responsible for inland transit costs to the sea port, as well as export clearance and customs-related obligations, which can often be more predictable and stable than international sea freight costs.

Seller's obligations: FOB (Departure Port) 2020

- Commercial invoice, export documentation
- Inland freight to the port of export / main carrier
- Carry risks until delivery (when loaded on board)
- Insurance: no formal obligation, unless contracted
- Export clearance and customs expenses at origin
- Carrier costs: no obligation, unless agreed otherwise
- Terminal handling charges in export country
- Cost allocation: all costs to point of delivery

Buyer's obligations: FOB 2020

- Payment of goods as specified in sales contract
- Take delivery once goods placed on board carrier
- Carry all risks from point of delivery (on board)
- Carrier/freight costs from delivery point (on board)
- Unloading charges, discharge and onward carriage
- Insurance: no obligation (but carriage at own risk)
- Cost allocation: all costs from delivery point
- Import formalities and customs duties

Considerations for using FOB

FOB can be used when the main carriage is over water.

FOB should be a consideration when the buyer wishes to retain a significant degree of control from the delivery port (in the exporting country) to its own warehouse in the receiving country, including the arrangements for the vessel through its own forwarder.

While **FOB** is still used extensively, recent changes to the FCA that enable goods to be shipped with a Bill of Lading with an on-board notation (document with details showing actual loading date) potentially makes FCA more suitable than **FOB**. Under **FOB**, the seller is responsible for loading of the goods; where goods are delivered to a container terminal days in advance, as is often the case, this can lead to some risk exposure, for example around potential damages to containerised cargo that are only discovered on arrival, but which could have happened prior to loading onboard the carrier, and before the transfer of risk.

Key elements of FOB 2020

Duties and customs clearance

The buyer is responsible for the payment of import duties and taxes, while the seller meets the export clearance formalities.

Main carriage (by sea)

Responsibility for costs and risk lies with the buyer.

Responsibility for Insurance

Under FOB, insurance coverage is not compulsory. It is however common practice to obtain insurance; by agreement this may be done by the buyer, seller, or by both, either to cover the entire journey, or only to provide cover for their respective responsibilities.

Loading of cargo

The seller is responsible for the cost of loading the cargo onto the sea vessel that is undertaking the main carriage, and all prior costs.

Delivery and risk transfer

Risk transfer and delivery happens when the cargo is loaded on board the vessel (previously, when the ship's railing was crossed).

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