FOB DEFINITION

SHIPPING
TERMS OF SALE

When you sell goods, it's important to know whether your buyer will be taking responsibility for the product as well. This is determined by the designation Free on Board, or FOB in a shipping contract.

The FOB term is used to indicate who will take responsibility for paying freight charges, at what point in time the title of an item becomes transferred from seller to buyer, and a set physical location.

MODIFIERS

The FOB location terms, Origin and Destination are qualified by modifiers that determine how the payment for transportation charges will be made. Modifiers denote nothing about title of goods or filing claims. The most common modifiers are Collect, Prepaid & Add, and Prepaid & Allow.

Collect — The carrier collects the transportation charges from the buyer.

Prepaid & Add — Seller prepays for 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.

FOB ORIGIN

THE BUYER ASSUMES

- Title and control of the goods the moment the carrier signs the bill of lading.
- Risk of transportation and is entitled to route the shipment.
- Responsibility for filing claims for loss or damage.

Definition: Title to the merchandise passes at time and place of pick-up.

FOB DESTINATION

THE SELLER ASSUMES

- Title and control of goods until they are delivered and the contract of carriage has been completed.
- Selection of the carrier and is responsible for the risk of transportation.
- Responsibility for filing claims for loss or damage.

Definition: Title to the merchandise passes at time and place of delivery.

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.

PAYMENT TERM VARIATIONS

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 Origin, Freight Collected & Allowed	Buyer pays freight charges and deducts the amount from Seller's invoice.
FOB Origin, 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. Most commonly listed as: prepaid (to a stated location), collect beyond, third party, or pre–pay and add.
Prepaid	The shipper owns the freight payment responsibility.
Collect	The consignee owns the freight payment responsibility.
Prepaid /Collect Beyond	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.