

FOB (Free on Board)

FOB is one of the key Incoterms (International Commercial Terms) used in international trade, especially in ocean freight. It defines the point at which ownership, liability, and costs shift from the seller to the buyer. Here's a detailed breakdown of FOB:

1. Full Form and Meaning

- FOB (Free On Board) means the seller is responsible for the goods until they are loaded on board the vessel at the named port of shipment.
- Once loaded, risk and cost transfer to the buyer, who is responsible for transportation from that point onward.

2. Key Responsibilities

Seller's Responsibilities under FOB:

- Deliver goods to the port of shipment.
- Clear goods for export (including customs paperwork).
- Load goods on the vessel nominated by the buyer.
- Provide the buyer with necessary documents (e.g., bill of lading, invoice, packing list).
- Cover costs up to the loading of the goods on the ship.

Buyer's Responsibilities under FOB:

- Choose and arrange the vessel for transportation.
- Pay for freight from the port of shipment to the final destination.
- Cover insurance if desired.
- Handle import customs clearance and pay duties/taxes in the destination country.
- Bear the risk of damage or loss once the goods are on board.

3. Transfer of Risk and Cost

- Risk transfers: Once goods cross the ship's rail at the port of loading.
- Cost transfers: Same point—when goods are on board.

4. Documents Typically Involved

- Commercial invoice.
- Packing list.

- Bill of Lading (issued after goods are loaded).
- Certificate of origin.
- Export licenses or permits (if applicable).
- Inspection certificate (if agreed upon).

5. Suitable Scenarios for FOB

- Ideal for bulk shipments or containerized goods.
- Commonly used when the buyer has better control or knowledge of the main transport leg (like arranging the shipping line).
- Used mostly in sea freight only, not suitable for air or land transport.

6. Port Specification

The Incoterm should always specify the port. For example: FOB Mundra Port, India

This means the seller's responsibility ends when goods are loaded on the vessel at Mundra Port.

7. Example of FOB in Practice

You, as an exporter from India, sell spices to a buyer in Germany under FOB Nhava Sheva Port:

- You deliver the cargo to Nhava Sheva.
- You load it onto the buyer's nominated vessel.
- Once loaded, your job is done—the buyer handles everything from that point: shipping, insurance, import duties.