

Incoterms and one of the most used delivery methods of Incoterms: “FOB”

July 30, 2019 / Contributed by Ezgi ZEYBEK, GRATA International in Turkey

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What is the meaning of “INCOTERMS”?

Incoterms (International Commercial Terms) are the rules that determine the distribution of responsibilities and costs between the parties during the transportation and delivery of goods within the purchase and sale relationship, regulated by ICC (International Chamber of Commerce). They were first published in 1936 under the name of “INCOTERMS” and they were revised in 1963, 1967, 1976, 1980, 1990 and 2000 depending on changing conditions. The current version of Incoterms 2010 is in effect since January 1, 2011. It should be mentioned that the rules of Incoterms 2010 are also suitable for both national and international sales contract.

Incoterms 2000 contains 13 delivery methods, but this number was reduced in 2010 version from 13 to 11. DAF, DES, DDU and DEQ as 4 delivery methods were repealed whereas DAP and DAT were entered into force as 2 new delivery methods. In addition to these differences, a binary separation was applied in 2010 version of Incoterms instead of the system of gathering under 4 groups. This separation is as follows;

The carriage methods used for all types of transport : EXW (Ex Works), FCA (Free Carrier), CPT (Carriage Paid to), CIP (Carriage and Insured paid to), DAT (Delivered at Terminal), DAP (Delivered at Place), DDP (Delivered Duty Paid)

The carriage methods used for sea and inland waters transport: FAS (Free Alongside Ship), FOB (Free on Board), CFR (Cost and Freight), CIF (Cost, Insurance and Freight)

When the delivery is specified in any type of document like commercial invoice; the name of the place where the responsibility will be transferred must be written right beside the code letters of delivery method. This delivery place may be a city or harbour for example “Ex Works Ankara, FOB İstanbul/Haydarpaşa etc...) These terms show that which party of the sale contract is responsible for which part of the transportation of goods.

The explanation of “FOB”

As mentioned above, FOB-Free on Board is one of the 11 delivery methods of Incoterms 2010 and this method may only be used for sea and inland waters transport. It means that the seller delivers the good to buyer when the goods cross the ship’s deck in port of loading. The seller

loads the goods to the ship provided by the buyer in agreed place and time. Until the loading of the goods to the ship, the responsibility of goods is on seller but after loading, the risk passes from the seller to the buyer. It means that the buyer takes over all of the costs and damages of the goods after loading.

The seller must prepare the goods which are the subject of sale in accordance with the sale contract and load the goods to the ship provided by the buyer in agreed place and time. He or she prepares the necessary documents which the buyer uses in his or her own country and completes customs clearance for export. He or she must notify the loading of the goods to the buyer. The risk is on seller until the goods cross the deck of ship.

The buyer pays the price of goods to the seller in accordance with the sale contract. He or she completes the customs clearance, prepares the documents and pays for custom duty for import. The buyer makes a carriage contract with a carrier for carriage of goods and pays for carriage. The risks are on buyer after the goods cross the deck of ship, so the buyer is responsible for all costs and damages of the goods.

Comments

As mentioned above, all delivery methods of Incoterms including FOB provides ease and certainty for both part of the sale contract. Both seller and buyer realize their responsibilities and risks when they decide a delivery method. Both seller and buyer have a possibility to choose a delivery method according to their work force, commercial environment and trust relationships. Incoterms arrange all of them and being legally binding makes them useful and reliable. Because of all these, Incoterms contribute to both national and international commerce by developing the sector of transportation.