

## FOB

The term 'FOB' means *Free on Board*. FOB is commonly used in pricing to establish the point at which title to purchased materials passes to the owner. FOB is relevant to, for example, responsibility for insurance coverage, taxes, transportation costs, etc.

### Selection of FOB Terminology

It is important that the purchaser is fully aware of the correct definitions relating to FOB points. The following examples are provided to assist in the proper selection of FOB and freight terms.

**Note that in applying these examples, the terms '*origin*' and '*destination*' would usually be replaced with specific geographic locations.**

#### ***FOB Origin, Freight Collect***

The buyer owns the goods in transit, bears and pays the freight costs, and files any transportation claims.

#### ***FOB Origin, Freight Prepaid***

The buyer owns the goods in transit and files any transportation claims. The seller bears and pays the freight charges.

#### ***FOB Origin, Freight Prepaid and Charged***

The buyer owns the goods in transit, bears the freight charges, and files any transportation claims. The seller initially pays the freight charges, and invoices the buyer.

#### ***FOB Destination, Freight Collect***

The buyer bears and pays the freight charges. The seller owns the goods in transit and files any transportation claims.

#### ***FOB Destination, Freight Prepaid***

The seller bears and pays the freight charges, owns the goods in transit, and files any transportation claims.

## Determining FOB Points - Costs/Benefits to GNWT

FOB points and freight cost responsibilities must be determined in each instance by using sound judgment based on procurement principles and policy. The purchaser is responsible for ensuring that the best value is obtained for the Government.

Specifying **FOB Destination** in contracts provides the following **benefits** to the Government:

- risk to the Government of damage and loss in transit is minimized
- local and Northern suppliers have an advantage because they are more familiar with transportation links to the community and may have low cost, bulk arrangements with transportation companies

Conversely, using **FOB Origin** may hinder the Northern or local suppliers' ability to do business with the Government, particularly if southern suppliers are involved.

