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Application of FOB (Free on Board) Incoterms 2020 in Export Activities of Processed Coconut Products

Abstract: Export activities in Indonesia are a major factor in the country's economic growth. In 2022, Cumulatively, Indonesia's export value reached US\$291.98 billion, up 26.07 percent compared to 2021. Meanwhile, non-oil and gas exports reached US\$275.96 billion, an increase of 25.80 percent, so export activities in Indonesia are still a significant factor in the country's economic growth. To regulate export activities that use sea transportation, exporters and importers must pay attention to the trade agreement contained in the International Commercial Terms (Incoterms) 2020; one of the terms is Free on Board (FOB). This study aims to find out how the value of FOB terms is more in the export of goods, especially in processed coconut products. The research method is descriptive qualitative with a structured interview method questionnaire with a rating scale method. The results of the study show that for exporting companies engaged in processed coconut products, FOB terms are most often used with an interval value of 37/40, or in another sense, FOB terms are the most frequently used terms in processed coconut product exporting companies. The advantage of using the FOB term for exporters is that they have responsibility until the cargo arrives on the ship and do not bear shipping costs, so freight fluctuations are avoided. It is the safest for exporters because importers must first open a Letter of Credit (L/C) as collateral and basis for export activities.

Keywords: fob, free on board, incoterms 2020, export

INTRODUCTION

Indonesia, as a maritime country, has a broader sea area than the mainland, which is equal to 70%. Indonesia uses sea transportation as the primary mode of transportation in international trade activities (Rochwulaningsih et al., 2019). Nearly 90% of global trade volume is carried out using sea routes by ships to meet the domestic economy (Serlika, 2020).

Table 1. Increase in Exports

No	Component	2021	2022	Go on (%)
1	oil and gas	12247	16019	30,8
2	Non Oil and Gas	219362	275959	25,8
	Amount	231609	291979	26,1

Source: Central Bureau of Statistics, processed by the Center for Data and Information Systems of the Ministry of Trade

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Export activities in Indonesia are a significant factor in the country's economic growth in 2022. Cumulatively, the value of Indonesia's exports from January to December 2022 reached US\$291.98 billion, an increase of 26.07 percent compared to the same period in 2021. Meanwhile, non-oil and gas exports reached US \$275.96 billion, up 25.80 percent (Badan Pusat Statistik, 2023). To regulate international trade activities or what is commonly called export-import, which uses sea transportation as a mode of transportation, exporters and importers must pay attention to trade agreements in accordance with the 2020 International Commercial Terms (Incoterms), which are contained in the main document, namely the sales contract (Victor Tulus PS, 2021). In previous studies, FCA (Free Carrier) is the most appropriate incoterm for international trade in Commodity Parts Manufacturers in Thailand with the method Analytical Hierarchy (Juthathip Surakars, 2020), Activities for sending export goods in Indonesia, especially for sending goods using sea transportation modes, exporters mostly use the terms Free On Board (FOB). FOB is considered the most favorable term from the point of view of exporters and importers. For the FOB exporter, it is easier because the responsibilities and risks that are insured only arrive on the ship. After that, all responsibility is transferred to the importer until the goods arrive at the destination country (Hamdani & Haikal, 2018).

Export is an activity of removing goods from inside the customs area to exit the customs area. Export activities aim to increase state revenue, increase national company profits through market expansion and obtaining better selling prices (profit optimization), and grow the domestic industry (Barata, 2014). Ronosentono in Putri (2018) explains the 2020 International Commercial Terms (Incoterms) are international trade requirements issued by the International Chamber of Commerce (ICC) since 1980. To carry out international trade, exporters and importers must know the types of activities that must be fulfilled and determine the liability limits. The three types of activity fields are documentation, risk, and costs (Putri, 2018).

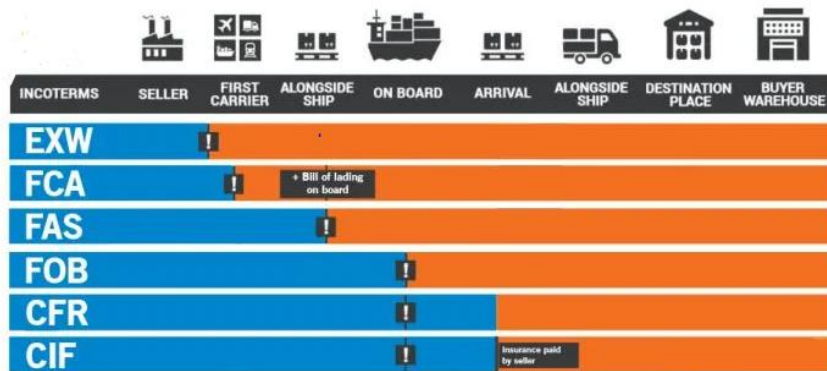


Figure 1. Incoterms 2020 by Sea
Source: www.bansard.com

The activity of shipping goods by sea has six terms as follows:

1. Ex Works (EXW). The exporter is obliged to deliver the goods when the exporter has prepared the goods by the means of transport provided by the importer. The importer bears all the associated costs and risks in taking the goods from the exporter's warehouse to the destination (Soedjono, 2006).
2. Free Carriers (FCA). The exporter is obliged to deliver the goods until the goods to be exported are loaded onto the transport truck. Importers are obligated to bear all costs and risks from when the goods are finished loading on the transport truck until the goods reach the port of destination (Istiyanto, 2022).
3. Free Along Sail (FAS). The exporter is obliged to deliver the exported goods from the warehouse until the goods are loaded onto the ship. The importer bears all costs and

risks from when the goods are loaded onto the ship until the goods arrive at the port of destination (Victor Tulus, 2021).

4. Free On Board (FOB). Exporters are obliged to hand over the exported goods from the warehouse until the goods are loaded on the ship. The importer bears the costs and risks starting from the time the goods are loaded onto the ship until the goods arrive at the port of destination (Hamdani & Haikal, 2018).
5. Cost and Freight (CFR). Exporters bear all transportation costs from the warehouse to the goods to the port of destination.
6. Cost, Insurance, and Freight (CIF). Exporters bear all the costs of transporting and insuring goods from the warehouse until the goods reach the port of destination (Ronosentono, 2009).

FOB or free on board is one of the Incoterms 2020 terms, which indicates that the buyer is responsible for bearing all costs that arise, starting from the cost of transporting the goods from the seller's warehouse until the goods arrive in the hands of the buyer. Goods that are still in transit are the rights and responsibilities of the buyer (Hamdani & Haikal, 2018), according to Figure 2. This study aims to find out how the value of FOB terms is more in the export of goods.



Figure 2. Free on Board
Source:www.sino-shipping.com

METHODS

This type of research is qualitative research using descriptive techniques and the rating scale method to determine the use of FOB terms and the application of FOB in goods export activities. Data collection techniques in this study used structured interview techniques and a rating scale questionnaire. The researcher determined precisely what data was needed, constructing questions to bring up appropriate answers and satisfying the predetermined categories (Sugiyono, 2015). The subjects or informants of this study focused on exporting companies engaged in processed coconut products, Mr.Purba Juwita of PT. Godwin Austen Indonesia as Supervisor of export documents.

Wiyani in Wiyono et al. (2017) state that the rating scale method is known to be able to process assessment data from quantitative data, which is interpreted in a qualitative sense so that researchers will choose one of the qualitative answers that have been provided (Wiyono, et al., 2017). (Sugiyono, 2017) states that the rating scale has intervals to determine how to measure a service. This study has four ratings to find out how often FOB is used in coconut-processed commodity export companies, while the rating scale intervals are:

1. Less often (KS) = 10-17.5
2. Quite often (CS) = 17.5-25
3. Often (S) = 25-32.5
4. Very often (SS) = 32.5-40

As for data collection by distributing questionnaires to respondents are as follows:

1. PT. Godwin Austen Indonesia
2. CV. Bitang Teak Furniture
3. PT. Surya Cakra Nusantara
4. PT. MOL Logistics Indonesia
5. PT. Prima International Cargo
6. PT. Paramas Pertama

RESULTS AND DISCUSSION

Free On Board (FOB) is one of the terms in Incoterms 2020. In exporting companies engaged in processed coconut products, FOB terms are most often used, which can be proven by Table 2, which explains that FOB terms have an interval value of 37/40 or, in another sense, FOB terms are terms that are very often used in coconut-processed commodity export companies.

Table 2. The 2020 Incoterms Rating Scale

No	Respondents	EXW	FCA	FAS	FOB	CFR	CIF
1	Respondent 1	1	1	1	4	1	1
2	Respondent 2	1	1	1	4	2	1
3	Respondent 3	1	1	1	4	1	1
4	Respondent 4	1	1	1	3	3	3
5	Respondent 5	2	1	1	4	2	1
6	Respondent 6	3	1	1	4	2	2
7	Respondent 7	2	4	3	4	3	4
8	Respondent 8	2	4	1	4	2	3
9	Respondent 9	31	2	2	3	2	3
10	Respondent 10	1	3	1	3	2	4
	Total	17	19	13	37	20	23
	Class	KS	CS	KS	SS	CS	CS

Exporting companies believe that in terms of FOB, goods export activities are limited to shipping via sea transportation; exporters are required to deliver the goods to the ship. Export clearance is the exporter's responsibility; the risk of loss or damage, if any, will be transferred from the exporter to the importer when the cargo is on board, and the exporter is not responsible for paying freight. Exporting companies are also of the opinion that FOB has advantages for exporters. The advantages of using FOB are:

1. In terms of FOB, the exporter has responsibility until the cargo arrives on the ship, but the exporter does not bear the shipping costs so that freight fluctuations are avoided;
2. The use of FOB terms is the safest for exporters, but with the condition that importers must first open a Letter of Credit (L/C) as collateral and basis for export activities.

The limits of responsibility that exporters and importers must carry out. Exporter obligations consist of (1) the exporter prepares and supplies goods according to the agreement; exporters carry out and supervise the packaging of goods according to the request; the exporter loads and delivers the goods to the carrier according to the agreement; exporters arrange documents and bear all the costs of permitting export goods until the goods reach the ship. While importer obligations consist of the following: the importer bears all the cost risks that arise when the goods are on board until the importer receives the goods; the importer seeks to arrange documents and import licensing fees until the goods are received; importers issue goods when imported goods have arrived at the destination country.

CONCLUSION

In exporting companies engaged in processed coconut products, FOB terms are most often used, which can be proven by Table 2, which explains that FOB terms have an interval value of 37/40 or, in other words, FOB terms are the most frequently used terms in processed coconut product exporting companies. FOB is limited to shipping via sea transportation; exporters are required to deliver their goods to the ship. The use of FOB terms is the safest for exporters, but with the condition that importers must first open a Letter of Credit (L/C) as collateral and basis for export activities.

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