

Freight quotations and surcharges

BAF, THC, PSS, LSS, ETS: how to read an ocean freight quotation line by line, and who pays what?

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Online interactive version: <https://ozgurkonakci.com/en/guide/freight-surcharges/>

SHORT ANSWER

An ocean freight quotation consists of the basic freight, surcharges and local charges. Surcharges cover variable costs such as fuel (BAF, LSS), currency (CAF), seasonality (PSS), security (ISPS) and carbon (ETS); local charges are terminal handling (THC) and documentation fees at the ports of loading and discharge. The Incoterms rule in the sales contract decides who pays which line.

What is in a freight quotation?

An ocean freight quotation usually has three layers:

- 1. Basic freight (ocean freight / basic rate):** The cost of carrying the container from port to port.
- 2. Surcharges:** Lines covering variable costs such as fuel, currency, seasonality, security and environmental regulation. Their names and calculation methods vary by carrier.
- 3. Local charges:** Terminal handling, documentation, seal and release fees charged at the ports of loading and discharge.

When comparing quotations, look at the **total cost** and the validity period, not just the basic freight.

The most common surcharges

Abbreviation	Stands for	What it covers
BAF	Bunker adjustment factor	Changes in ship fuel prices
LSS	Low sulphur surcharge	Extra cost of low-sulphur fuel (IMO 2020)
EBS	Emergency bunker surcharge	Sudden rises in fuel prices
ETS	Emissions trading surcharge	The cost of the EU Emissions Trading System
CAF	Currency adjustment factor	Exchange rate movements
PSS	Peak season surcharge	Peak season demand

Abbreviation	Stands for	What it covers
GRI	General rate increase	A general freight increase (a price increase, not a surcharge)
ISPS	International Ship and Port Facility Security	Port and ship security costs
CIC	Container imbalance charge	The cost of repositioning empty containers
WRS	War risk surcharge	Risk in war or conflict areas

Why so many lines? Fuel, currency and regulatory costs change often, so carriers show them as separate, adjustable lines instead of building them into the basic freight. Two important regulatory examples:

- **IMO 2020:** Since 1 January 2020, the sulphur content of ship fuel has been capped globally at 0.50%. The extra cost of low-sulphur fuel is reflected in the LSS or the BAF.
- **EU ETS:** Shipping has been included in the EU Emissions Trading System since 2024. Carriers pass this cost on as an ETS surcharge on trades to and from the EU.

Local charges

- **OTHC / DTHC:** Terminal handling at the ports of loading and discharge.
- **Bill of lading / documentation fee:** Issuing the bill of lading.
- **Seal fee** and **telex release fee.**
- **Delivery order fee:** Issuing the release document at destination.

Who pays which line?

The Incoterms rule decides how the lines are split between seller and buyer. The amounts are **examples**, not real prices.

Line	EXW	FCA	FOB	CFR	CIF	DAP	DDP
Pre-carriage (factory → port)	Buyer	Seller	Seller	Seller	Seller	Seller	Seller
Export clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller
OTHC	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
B/L fee	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Basic ocean freight	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
BAF	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
LSS	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
ETS	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
ISPS	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller

Line	EXW	FCA	FOB	CFR	CIF	DAP	DDP
DTHC	Buyer	Buyer	Buyer	Per contract	Per contract	Seller	Seller
Delivery order fee	Buyer	Buyer	Buyer	Per contract	Per contract	Seller	Seller
Import clearance (brokerage)	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
On-carriage (port → buyer)	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Cargo insurance	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller

Reference scenario (same as the matrix in the Incoterms topic). Cargo insurance is compulsory for the seller only under CIF and CIP; under the D rules the seller carries the risk and insures in its own interest, under the other rules the buyer does. Import duties are not included in this example; under DDP they are the seller's.

In practice the lines argued over most are the terminal charges at origin and destination. Under FOB, for example, origin THC is considered the seller's, but at some ports carriers bill it to the buyer together with the freight. That is why the sales contract should state separately who bears the local charges.

Questions to ask when getting a quotation

- Is the rate **all-in**? Which surcharges are included and which are not?
- How long is the quotation **valid**? Are surcharges fixed by the sailing date or the booking date?
- What are the **local charges** at origin and destination?
- How many days of **free time** (demurrage and detention) are included?
- What is the transit time, and is there **transshipment**?

Test yourself

1. Who pays the BAF on a CFR sale? (*Answer: The seller. BAF is part of the main carriage (freight), which the seller pays under CFR.*)
2. Is a GRI a surcharge? (*Answer: No. A GRI is a general increase in the carrier's basic freight.*)
3. Who pays the destination THC (DTHC) on an FOB sale? (*Answer: The buyer. Risk and cost pass to the buyer on loading; destination charges are the buyer's.*)

Frequently asked questions

What is BAF?

BAF (bunker adjustment factor) is a surcharge that passes changes in ship fuel (bunker) prices on to the freight. Carriers usually update it periodically using a formula linked to fuel prices.

What is THC and who pays it?

THC (terminal handling charge) is charged for handling the container at the terminal (loading, discharging and moves within the terminal). Origin THC (OTHC) and destination THC (DTHC) are separate lines. Who pays is decided by the Incoterms rule: under FOB, for example, OTHC is for the seller and DTHC for the buyer.

What does an all-in rate mean?

A quotation that combines the basic freight and the stated surcharges into a single price. Always confirm in writing which lines are included; local charges and surcharges introduced later are often not included in an all-in rate.

SOURCES

IMO — 2020 global sulphur limit (maximum 0.50% in fuel oil) — <https://www.imo.org/en/mediacentre/pressbriefings/pages/34-imo-2020-sulphur-limit-.aspx>

European Commission — Reducing emissions from the shipping sector (shipping in the EU ETS) — https://climate.ec.europa.eu/areas-action/transport-decarbonisation/reducing-emissions-shipping-sector_en

ICC — Incoterms® 2020 (allocation of costs)

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