



# Freight – and charges in addition to the freight

***Is it acceptable that the freight is mentioned in the transport document presented under a documentary credit?***

***What if the transport document includes charges in addition to the freight?***



“Freight” is defined as “the compensation paid for the transportation of goods”<sup>1</sup>. I.e. the amount of money to be paid for the transportation of the goods.

The issue of the freight is an important element in the commercial agreement between the seller and the buyer, as the freight charges will impact the price of the goods shipped.

There is no requirement in the UCP 600 that the presented transport document must show “freight”. Often it does not. Of course, if it is a requirement in the documentary credit that freight must be shown in, for example, the bill of lading, then the freight must appear in the bill of lading.

In general, freight is paid either by the seller (Freight Prepaid) or by the buyer (Freight Collect). One thing that is often required by the documentary credit is where the freight is payable. A typical requirement for a bill of lading is:

*“Full set on board bills of lading issued or endorsed to Bank XX, notify applicant showing freight collect”*

The scenario where there is a requirement in the documentary credit regarding where the freight is payable, is addressed in ISBP 745 in the sections relating to the different transport documents. For example in section “E” (covering Bill of Lading), ISBP 745 paragraph E26 reads:

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<sup>1</sup> <https://www.merriam-webster.com/dictionary/freight>

**A statement appearing on a bill of lading indicating the payment of freight need not be identical to that stated in the credit, but is not to conflict with data in that document, any other stipulated document or the credit.**

**For example, when a credit requires a bill of lading to be marked “freight payable at destination”, it may be marked “freight collect”.**

There is therefore no requirement for a “mirror image”; merely that the statement in the transport document “need not be identical – but does not conflict” with the requirement in the documentary credit. The ISBP 745 paragraph mentioned above, includes an “acceptable” example. Another example, that would not be acceptable is:

**Documentary credit requirement: “Full set on board bills of lading issued or endorsed to Bank XX, notify applicant showing freight prepaid”**

**Statement in the bill of lading: “Freight to be prepaid”**

**Conclusion: This does create a conflict and renders the bill of lading discrepant.**

As indicated, there is no requirement in the UCP 600 that freight must be mentioned in the transport document presented under a documentary credit. There is however a rule in the UCP 600, that relates to “Charges Additional to Freight”. This is reflected in UCP 600 sub-article 26(c) which reads:

**A transport document may bear a reference, by stamp or otherwise, to charges additional to the freight.**

It is in other words allowed by the UCP 600 that the transport document presented under a documentary credit includes, not only the freight, but also charges additional to the freight.

There are, however, many documentary credits that effectively modifies this rule. This, for example by stating:

*“Transport document showing costs additional to freight are not acceptable.” Or*

*“UCP 600 article 26,c does not apply”*

ISBP 745 describes the practice in such situations<sup>2</sup>. The documented practice includes both an express statement in the transport document regarding charges, however, it also addresses the situation where “transport expressions” used in the transport document signifies “charges additional to freight”. Below is a commented version of ISBP 745 paragraph E27 (covering “bill of lading”):

<b>ISBP 745 paragraph E27:</b>	<b>Comments:</b>
<b>a. When a credit states that costs additional to freight are not acceptable, a bill of lading is not to indicate that costs additional to the freight have been or will be incurred.</b>	<b>This sub-paragraph sets the scene, and makes it clear that it is ONLY applicable when there is <u>an express statement in the documentary credit</u>, for example via one of the requirements indicated above.</b>

<sup>2</sup> ISBP 745 paragraphs D31, E27, F25 and G25.

<p><b>b. An indication of costs additional to freight may be made by express reference to additional costs ...</b></p>	<p>This refers to the indication in the transport document. In this scenario there is an express reference, for example:</p> <p><i>“Charges for unloading and handling at port of discharge are for the account of the consignee.”</i></p>
<p><b>...or by the use of trade terms which refer to costs associated with the loading or unloading of goods, such as, but not limited to, Free In (FI), Free Out (FO), Free In and Out (FIO) and Free In and Out Stowed (FIOS).</b></p>	<p>This refers to the situation where the presented bill of lading includes a “transport expression” that signifies “charges additional to freight”.</p> <p>The “transport expressions” mentioned in the ISBP 745 paragraph are:</p> <ul style="list-style-type: none"> <li>• Free In (FI)</li> <li>• Free Out (FO)</li> <li>• Free In and Out (FIO)</li> <li>• Free In and Out Stowed (FIOS).</li> </ul> <p>Note the words “such as” suggesting that the list is not exhaustive.</p> <p>It is important to be aware of these and other “transport expressions” that may indicate that charges in addition to the freight are payable by the consignee. As already mentioned, this is only relevant where UCP 600 article 26(c) has been excluded or modified as indicated above.</p>
<p><b>c. Reference in a bill of lading to costs which may be levied, for example, as a result of a delay in unloading the goods, or after the goods have been unloaded (demurrage costs) or costs covering the late return of containers (detention costs) is not an indication of costs additional to freight.</b></p>	<p>This last sub-paragraph of the ISBP 745 paragraph refers to what is generally known as “demurrage” or “detention”, i.e., a fee payable to the shipping line if the container is not unloaded or picked up by the consignee before the agreed period of time.</p> <p>Such charges would <u>not</u> be considered “additional costs”. The reasoning for this is that the consignee (buyer) is able to control these costs. That is, these charges will only be applicable if the container is not picked up / returned in due time.</p>

I hope this information is helpful to you, and will help avoid discrepancies and refusals. In any case, if you have Trade Finance related questions, do not hesitate to reach out to your local Trade Finance department.

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