



CAF

CAF – Abbreviation for “Currency Adjustment Factor.” A charge, expressed as a percentage of a base rate that is applied to compensate ocean carriers of currency fluctuations.

The Currency Adjustment Factor is a surcharge that carriers charge NVOCCs, freight forwarders or shippers as a way to offset any current or potential changes to currency fluctuations that may change freight rates. In short, they are a way for carriers to hedge their risks against exchange rates.

Just like BAF, these surcharges could have a significant effect on your freight rates, and consequently, your bottom line. This type of rate adjustment surcharge typically takes place between the U.S. and Pacific Rim countries but can occur in other territories.

How to Calculate CAF

The calculation of CAF is not uniform across carriers, though it is generally calculated similarly. Below is an example of a regular CAF calculation, which is found by dividing the ocean factor by the percentage change or estimated change in currency fluctuations.

1. Ocean Freight Rate. = \$1,500
2. Currency Adjustment Factor of 5% = $\$1500 \div 100 \times 5$ = \$75
3. Adjusted Ocean Freight Rate. = $\$1,500 + \75 = \$1,575

Example of a CAF

Let’s say, for example, that you’re importing products from Japan to the U.S. through Long Beach, CA. After deciding your ocean freight rate to be \$2,400, your carrier discovers that the U.S. dollar has lost 10% of its exchange rate with the Japanese Yen. At this point, you will now need to pay a CAF surcharge of 10% of your initial ocean freight rate. As such, you’ll be expected to pay a further \$240, bringing your total freight rate costs up to \$2,840.

As long as you gate in your freight before new CAF surcharges can be announced, you shouldn't see any changes to your ocean freight rate. However, from when you make your ocean freight booking to when your cargo is gated in, you might be open to receiving further CAF surcharges, depending on how volatile the exchange rate market is at the time.

How Can You Offset CAF Surcharges?

To limit the effect of CAF surcharges, you may want to negotiate for an all-inclusive contract that limits your ocean freight rates to one price. With this contract, you'll not be subject to varying CAF surcharges, thus offsetting any potential costs associated with large fluctuations in exchange rates. Like almost everything in the shipping industry, there are possibilities open to you to negotiate. Of course, your negotiation power depends entirely on your company's size and how much you ship with a freight forwarder or a carrier.

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