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Platts container rates

What are Platts Container Rates (PCRs)?

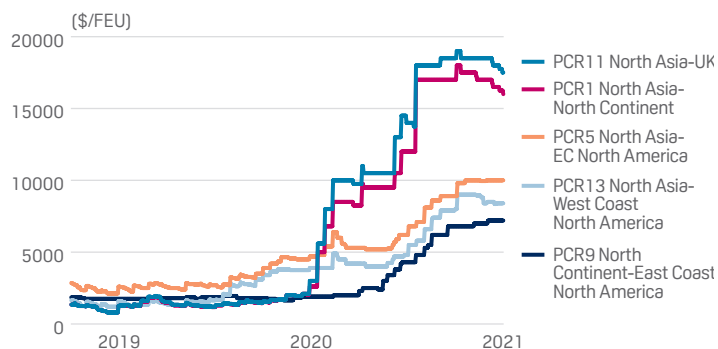
- A suite of daily rate assessments that reflect market-value FAK rates on key container trade lanes
- Expressed in \$/FEU or \$/TEU to standardize market transactions
- Fully transparent methodology
- Allow for simpler contract negotiations and index-linked agreements against an independent benchmark
- Integrated with Platts Bunker Charges to provide full-range flexibility
- Global reach of routes to allow easy adoption across all contracts
- Assessed by an independent price reporting agency with extensive pricing experience, and existing benchmarks in other commodities

The Platts Container Rates, or PCRs, are independent spot freight rate assessments providing the container market with better tools for managing exposure to volatility in container freight.

PCRs can bring clarity and ease to contract negotiations around the world, enabling rates to be tied to an independent benchmark, removing negotiation stresses. They are independent, fully transparent benchmarks that level the playing field for shippers, carriers, and logistics providers alike.

With market dynamics shifting significantly around the world amid the coronavirus pandemic, bringing simplicity and essential information to allow market participants to make informed decisions has never been so important.

CONTAINER RATES



Source: S&P Global Platts

Tying prices to a benchmarked, independent assessment allows both parties to conduct transactions fairly.

The ongoing volatility in the container freight markets has in some ways outpaced the current annual contract system, resulting in many shippers dipping into the spot freight market at significantly higher premiums to their negotiated rates. As delays around the world continue to ebb and flow, freight rates have struggled to offer many market participants the flexibility to use bespoke solutions to solve their logistics issues.

Platts Container Rates

With container freight rates undergoing significant volatility, contracts are coming under more intense scrutiny. A lack of standardization and transparency has been causing headaches for shippers, logistics providers, freight forwarders, and carriers alike. Shippers and logistics companies often face a multitude of indications and formulas, with quotes for the same routes sometimes being vastly different.

Index-linked container pricing can remove some of the burden from frustrating negotiations, and ease potentially strained relationships as a result, by offering a transparent and independent solution to container freight pricing.

The Platts Container Rates are assessed on an FAK (Freight All Kinds) basis and reflect both TEU (twenty-foot) and FEU (forty-foot) sized containers for ease of adoption into contracts depending on specific and bespoke needs.

Platts Container Rates, first developed in 2017, and all routes subsequently added, are based on the Platts methodological approach to assessing spot freight rates which has been market-tested over the years. The historical freight rate data series allows easy comparison with rates along major trade lanes, providing further clarity and confidence in the PCRs. All PCRs are assessed in line with the Platts Global Freight Methodology to ensure standardization across the world.

PLATTS CONTAINER RATE INCLUSIONS, EXCLUSIONS

Include	Exclude
Peak Season Surcharge (PSS)	Premium Container Rates
Bunker Adjustment Factor (BAF)	Terminal Handling Costs (THC)
Low Sulphur Surcharge (LSS)	International Security Port Surcharge (ISPS)
General Rate Increases (GRI)	Import/Export Service Fees
Emergency Rate Restoration (ERR)	Overweight Surcharge (OWS)
Equipment Imbalance Surcharge (EIS)	Destination Delivery Charge (DDC)
Equipment Repositioning Surcharge (ERS)	Detention and Demurrage

In contrast to the current annual contract model, Platts Container Rates allow industry players to easily track and price container freight costs in contracts.

The objective and transparent daily updates provide a robust means of tracking container freight cost fluctuations over the course of the contract, minimizing the need for renegotiation as rates change.

PCRs are produced by S&P Global Platts editors around the world, who engage with market participants daily to assess the price of freight on any particular trade lane for that day.

The final product is a daily \$/FEU or \$/TEU container freight rate for each of the key trade lanes, on both headhaul and backhaul routes, based on standardized and transparent methodologies which are visible to all the parties involved.

PCRs in contracts

The Platts Container Rate 13 index reflects the cost to transport a forty-foot container eastbound on the North Asia to West Coast North America lane.

As an example, let us take a shipper that moves 16,000 FEUs per annum on this route, using five carriers, nominating volume as follows:

- Carrier 1: 4,000 FEU
- Carrier 2: 5,500 FEU
- Carrier 3: 2,000 FEU
- Carrier 4: 2,500 FEU
- Carrier 5: 2,000 FEU

Each of the carriers has their own bespoke charges, floating bunker charges and minimum quantity allocations.

If the current carrier system is used, the contracts for rates could look as follows:

Current Freight Contracts

- Carrier 1: 4,000 FEU annual contract = negotiated container base freight rate + BAF 1 + additional charges, to be revised March 1
- Carrier 2: 5,500 FEU annual contract = negotiated container base freight rate+ BAF2 + additional charges, to be revised February 14
- Carrier 3: 2,000 FEU annual contract = negotiated container base freight rate+ BAF3 + additional charges, to be revised April 1
- Carrier 4: 2,500 FEU annual contract = negotiated container base freight rate+ BAF4 + additional charges, to be revised April 31
- Carrier 5: 2,000 FEU annual contract = negotiated container base freight rate+ BAF5 + additional charges, to be revised March 1

Ensuring that the negotiated container base freight rate always reflects the current market can be challenging, especially considering different volumes, loading ports, review periods, and additional charges and premiums. Lengthy negotiations, as well as loss of productivity that is associated with the extra work and a potential loss in revenue, could also result in a suboptimal situation for one or both counterparties.

Should this shipper move to the PCR index, their contracts would be concluded against it with premiums or discounts agreed between counterparties, depending on negotiations and specific circumstances, simplifying contracts.

For example, if the loading and discharge port or specific costs on a contract differ from Platts assumptions (different bunker consumption, transloaded cargo etc.), one can clearly show that to the counterparty against the Platts methodology, and negotiate a premium, or a discount.

Using the same example, their contracts could now look as follows:

PCR Contracts

- Carrier 1: 4,000 FEU container contract = PCR13, to be revised March 1
- Carrier 2: 5,500 FEU container contract = PCR13 + \$100, to be revised February 14
- Carrier 3: 2,000 FEU container contract = PCR13 + 20%, to be revised April 1
- Carrier 4: 2,500 FEU container contract = PCR13, to be revised April 31
- Carrier 5: 2,000 FEU container contract = PCR13 - \$50, to be revised March 1

Moreover, as PCRs are daily indexes, market participants can use bespoke data periods for their contract baseline, for example, rolling quarterly or monthly averages, any other custom date sets or shipped volume limits. This gives both sides the flexibility to incorporate the real-time daily index feed into their contracts in the manner that best suits them.

PCR13 NORTH ASIA-WEST COAST NORTH AMERICA



Source: S&P Global Platts

In conjunction with PCRs, Platts publishes daily Platts Bunker Charge (PBC) assessments that are independent and fully transparent tools for negotiating bunker charges in container freight contracts. Platts also publishes a Platts Bunker Excluded Container Rate (PBX) for use in contracts in which bunker adjustments are negotiated outside of all-inclusive freight rates, or when counterparties prefer to monitor the freight rate element independently of bunker price movements. PBCs and PBXs are published on the same schedule as PCRs. PBXs are calculated by subtracting the relevant Platts Bunker Charge from the daily container rate assessment.

What is S&P Global Platts?

S&P Global Platts is the commodity arm of S&P Global. Platts is an independent provider of energy and commodities information, and is the primary source of benchmark price assessments in the physical commodity markets along with in-depth analytics. For over 100 years, Platts has brought clarity and transparency to the commodities markets.

Platts provides real-time news, market reports, analytics, price assessments and fundamental data for market participants across the world. Platts provides key pricing information across the oil, natural gas, LNG, electric power, petrochemicals, metals, agriculture and shipping markets.

Platts is the leading provider of bunker fuel benchmarks. These fuel price assessments are used in the lion's share of marine contracts across the world. Platts publishes 0.5% marine fuel assessments for ports across the world, along with associated forward curves. Futures contracts based on Platts assessments are listed by the Intercontinental Exchange (ICE) and the CME Group.

For more information, please visit our website at www.spglobal.com/platts, or reach out to the team via email at containers@spglobal.com.

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Contact Platts support:

E-mail: support@platts.com; Americas: +1-800-752-8878; Europe & Middle East: +44-20-7176-6111; Asia Pacific: +65-6530-6430

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