

February 2019

Platts inclusion of CIF Rotterdam cargoes in Dated Brent – FAQ

General overview

In a subscriber note published February 25, 2019, S&P Global Platts announced the inclusion of competitive offers of the five crude grades on a costs, insurance and freight (CIF) Rotterdam basis in the free-on-board (FOB) Dated Brent benchmark assessment, effective October 1, 2019 for cargoes loading in November. Dated Brent has traditionally reflected indications published on an FOB basis but this enhancement will see offers of oil delivered into the refining hub of Rotterdam taking precedence when competitive versus an FOB bid.

Why is Platts including delivered oil in a free-on-board (FOB) benchmark?

As overall production on the five grades in Dated Brent – Brent, Forties, Oseberg, Ekofisk and Troll – continues to tighten, the inclusion of grades on a delivered basis, which may have already loaded, ensures that these cargoes continue to play the fullest possible role in establishing the value of North Sea crude. In this way Platts is able to incorporate more data in the benchmark assessment.

How will Platts include a CIF offer in the FOB assessment?

If a firm CIF Rotterdam offer for one of the five North Sea grades reflected in the Dated Brent assessment after adjusting for freight, port fees and sailing time, is more competitive than a comparable bid for those grades on an FOB basis, then the CIF Rotterdam offer would take precedence in the final assessment of Dated Brent on the loading dates in question. This would mean that Dated Brent would represent the most competitive of the five BFOE grades on an FOB or CIF Rotterdam basis, where relevant.

How will the freight adjustment factor work?

The freight adjustment factor is designed to allow CIF and FOB cargoes to play an equivalent role in the Dated Brent benchmark. A CIF offer differs from FOB in that it includes transportation time, freight costs, and different types of optionality. All three of these elements are accounted for when calculating an equivalent FOB value. First, the CIF offer delivery dates are transposed back to equivalent FOB loading dates, based on the typical voyage time. In order to reach an FOB equivalent value, freight costs must be subtracted. However, these freight costs are weighted by a freight adjustment factor, to account for any differences in optionality between a FOB and a CIF offer. Following

feedback on the factor to be applied, Platts will phase in the level of freight adjustment over the course of three months until it reaches 80%. From October 1 2019, a factor of 40% will be applied to November-loading CIF equivalent cargoes in the Dated Brent assessment, rising to 60% for December-loading cargoes, and 80% for January-loading cargoes onwards. These percentages will be applied to the sum of the cargo's freight rate from its respective terminal to Rotterdam and associated port fees.

What other shipping terms govern the CIF assessments?

Platts has published CIF Rotterdam assessments of all five of the Dated Brent grades since 2017, and has an established methodology in place. A CIF seller should nominate the performing vessel seven calendar days ahead of the agreed three-day laycan. Should a seller be unable to perform on the original named vessel then a substitute vessel meeting or exceeding all parameters and options of the original ship should be put forward. The CIF assessment reflects basis Rotterdam delivery with typical Charter Party (CP) options. These will include relevant and typical demand outlets in northern Europe. All CP options should be passed from a seller to the buyer in the form that they exist in the original CP contract. Requests from a buyer in the MOC process for additional CP options should be passed by the seller to the vessel owner without delay upon request. If the request is made before the vessel to be nominated is fixed, the seller is not obligated to fix a vessel with any non-standard options not included in the original bid or offer. However, any requests should be passed on by the seller to the ship owner at the earliest possible opportunity.

Can previously-loaded oil be offered in the MOC for inclusion in Dated Brent?

Yes. As per the current CIF Rotterdam methodology for North Sea grades Platts would reflect the delivery of pre-loaded oil that has not gone back into land-based storage, provided it meets all other Platts guidelines and the seller covers any reasonable additional costs incurred by the buyer. However, oil sourced from land-based storage other than the original loading terminal will not be included.

How will Quality Premiums be applied under the new methodology?

The Quality Premium currently plays two roles in the Platts Dated Brent assessment, and neither will change

under the new methodology. First, a Cash BFOE buyer who is nominated a cargo of Ekofisk, Oseberg or Troll loading in a given month pays the seller the Quality Premium for that month. Since the new methodology does not affect the Cash BFOE nomination procedure, this aspect of the Quality Premium will not change. Secondly, when calculating the final Dated Brent assessment, the relevant QP is subtracted from the Ekofisk, Oseberg and Troll assessments before they are compared with Brent and Forties. The most competitive of these five grades, following QP-adjustment, becomes the Dated Brent value for that part of the assessment. Since QP-adjustment takes place after the physical assessments for Ekofisk, Oseberg and Troll are produced, this process will remain the same under the new methodology.

Will Dated Brent remain a global benchmark?

North Sea grades have long been delivered around the world as well as in their North European base. Platts continues to see Dated Brent as reflective of the value of North Sea light sweet crude oil, wherever it is

sent subsequent to trade. This change will enable the benchmark to reflect the value of this crude on a delivered basis as well as the current loading basis, leading to more data points in the assessment and enhance its role as a global benchmark.

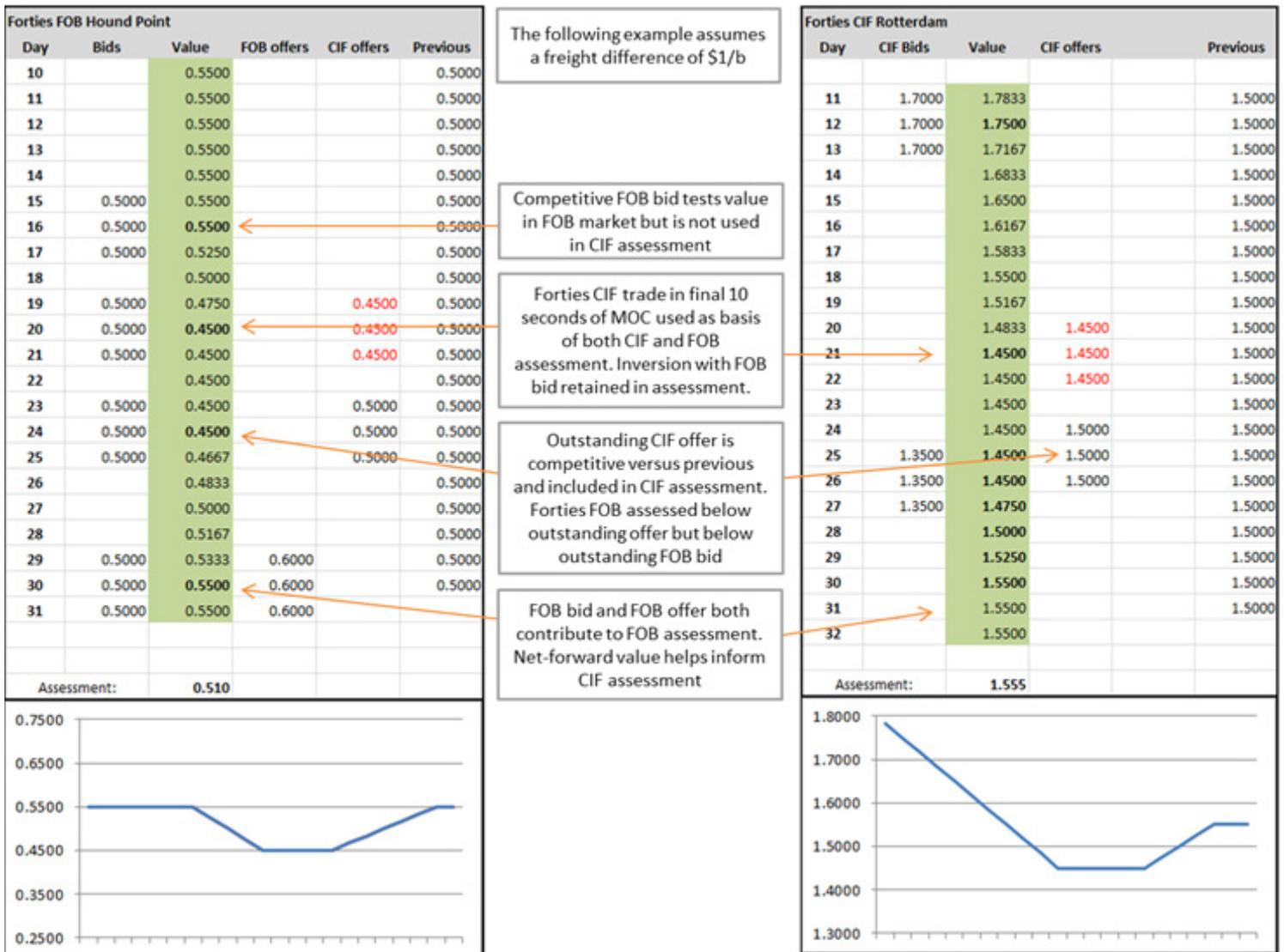
How does this change affect the Brent futures markets?

Platts believes this change to Dated Brent will not have an impact on Brent futures or the cash BFOE forward contract. These contracts trade and settle ahead of cargoes being converted into physical oil that loads at terminals.

Is this change designed as a first step towards bringing in WTI Midland or other non-North Sea grades?

Platts does not have any immediate plans to bring further grades into the North Sea crude oil basket. Platts continues to observe possible candidates for inclusion that could further enhance Dated Brent. The inclusion of grades delivered on a CIF Rotterdam basis into the benchmark is an enabling step for other grades to be added, whether within or outside the region.

Assessment illustration



Will Platts include Norway's Johan Sverdrup into Dated Brent?

The Johan Sverdrup field in the North Sea is projected to come on-stream by the end of 2019. Platts will only consider for assessment oil that is being regularly produced and traded but will observe this and other new grades and assess their suitability.

Why are you launching during the transition to the IMO's MARPOL 2020, rather than earlier or later?

The International Maritime Organization's tighter limit on marine fuel sulfur from January 1, 2020 has long been

expected and planned for by the oil and shipping industries. Any changes to sulfur spreads in both crude and refined products will be accommodated in the market and reflected in price assessments. Platts has strict standards on implementing changes to its benchmark assessments. In order for market participants to prepare for the change, Platts feels that a period of six months is appropriate. This change will be implemented six months after the introduction of the Quality Premium on Troll, allowing the market to observe the latest evolution Platts made to increase the amount of oil delivered into the benchmark before seeing CIF cargoes included in Dated Brent.

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For more information, please visit us online or speak to one of our sales specialists:

NORTH AMERICA

+1-800-PLATTS8 (toll-free)

+1-212-904-3070 (direct)

EMEA

+44-(0)20-7176-6111

LATIN AMERICA

+55-11-3818-4100

ASIA-PACIFIC

+65-6530-6430

RUSSIA

+7-495-783-4141