

February 2020

Platts bunker charges

The Platts Bunker Charges, or PBCs, are independent indexes providing the container market with better tools for managing exposure to volatility in bunker prices and container freight.

PBCs act as a replacement for the current Bunker Adjustment Factor (BAF) system, along with any other Low Sulphur Surcharge (LSS) and Marine Fuel Recovery (MFR) mechanisms.

It is an independent and fully transparent benchmark, which levels the playing field for shippers, carriers and logistics providers when it comes to negotiating bunker charges in container freight.

The IMO 2020 regulation and the introduction of 0.5% marine fuels has highlighted once again that the current, fractured system, with a plethora of BAF formulas and surcharges, is inadequate for volatile markets.

The fluctuating spread between high sulfur fuel oil and 0.5% marine fuel was expected remain fickle as the market moves towards 2020. Q4 2019 will see increased spot activity around 0.5% marine fuel, changing the price differentials again and exposing players to increased volatility and financial risks.

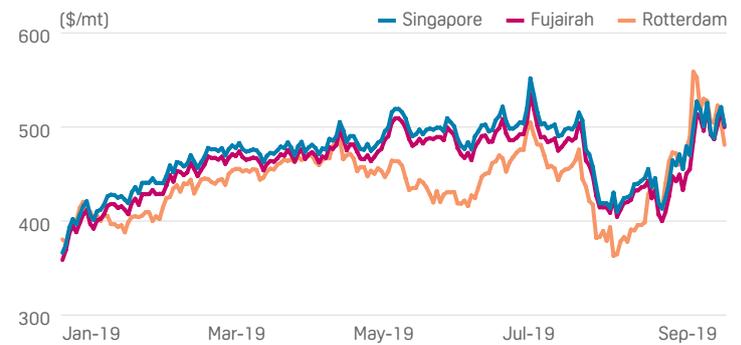
PBC vs BAF

The biggest problem with BAFs, especially with the upcoming lower global sulfur cap, is a near complete lack of standardization and transparency in the underlying formulas.

What are the Platts Bunker Charges (PBCs)?

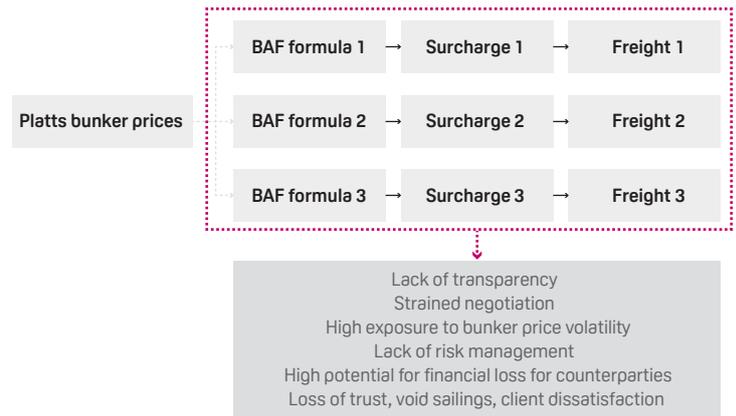
- Independent daily indexes which reflect bunker charges on key container trade lanes
- Expressed in \$/FEU, standardizing bunker surcharge calculations
- Allow easier contract negotiations against an independent benchmark
- Fully transparent formulas and assumptions
- Fed directly by Platts bunker prices on 3.5% HSF0, 0.5% marine fuel and MGO
- Ready for IMO 2020: Only compliant fuels used from November 1, 2019
- Currently available for free at: <https://containers.plattslabs.com>

MARINE FUEL 0.5%



Source: S&P Global Platts

BAF SYSTEM



Source: S&P Global Platts

Shippers and logistics companies, therefore, face a multitude of indications and formulas, with quotes for the same routes sometimes being vastly different.

The fuels used as a reference, the ports chosen, the length of review period for bunker prices, capacity utilization and other elements may vary significantly.

For 2019-2020, carriers have also come up with new names for their BAFs, creating more abbreviations for shippers to get to grips with.

Also, carriers often have additional emergency and low sulfur surcharges (EFS) in addition to the BAFs. All of that is on top of the general freight element.

To top it all off, freight contracts for 2019-2020 also tend to include hardship clauses which allow further review of

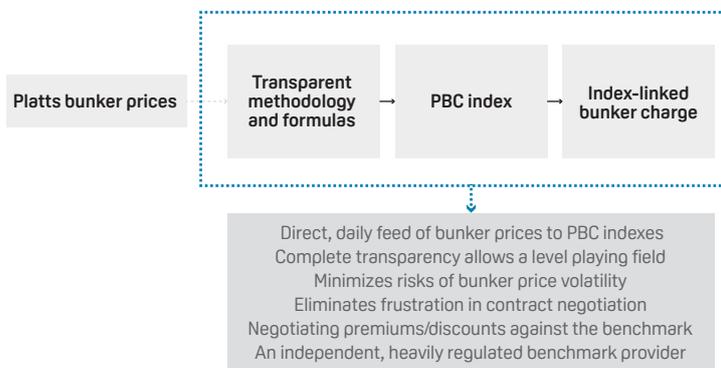
bunker charge mechanisms in Q4 2019, when adoption of new 0.5% fuels was expected to rise quickly.

Naturally, big shippers and Non Vessel-Owning Common Carriers (NVOCCs) responded with BAFs of their own, pushing for their adoption in contracts.

As a result of those factors, negotiations have been frustrating, often leading to strained relationships and some counterparties ending up with a contract which includes bunker charges they do not quite understand or agree with.

In contrast to BAFs, Platts Bunker Charges allow industry players to easily factor fuel costs into freight contracts, while protecting themselves from adverse bunker price movements.

PLATTS BUNKER CHARGES



Source: S&P Global Platts

PBCs are produced by feeding daily Platts bunker prices including high sulfur fuel, marine gasoil and, from November 1, 0.5% marine fuels into transparent bunker charge formulas.

These fuels in the PBC calculations are broken down to reflect the actual use of each fuel, depending on distances travelled in ECA and non-ECA zones.

That produces a daily \$/FEU bunker charge numbers for each of the key trade lanes, based on standardized and transparent formulas, which are visible to all the parties involved.

This eliminates frustration from dealing with numerous formulas and surcharges, while allowing participants to easily benchmark counterparties.

PBCs in contracts

As an example, let us take the PBC 13 index, which reflects head-haul bunker charge on the North Asia to West Coast North America route.

In this case study, a shipper moves 20,000 FEUs per annum on this route, using five carriers, nominating volume as follows:

Carrier 1: 5,000 FEU
Carrier 2: 6,500 FEU
Carrier 3: 3,000 FEU
Carrier 4: 2,500 FEU
Carrier 5: 3,000 FEU

Each of the carriers has their own BAF formula, Low Sulfur Surcharge and a revision clause for 2020.

If the BAF system is used, the contracts for bunker charges would look as follows:

BAF Contracts

- Carrier 1: 5,000 FEU bunker charge = BAF 1 + LSS1, to be revised November 1
- Carrier 2: 6,500 FEU bunker charge = BAF2 + LSS2, to be revised December 1
- Carrier 3: 3,000 FEU bunker charge = BAF3 + LSS3, to be revised November 14
- Carrier 4: 2,500 FEU bunker charge = BAF4 + LSS4, to be revised October 31
- Carrier 5: 3,000 FEU bunker charge = BAF5 + LSS5, to be revised December 1

Considering different volume, BAFs, review periods and surcharges, benchmarking carriers and ensuring that the bunker charge always reflects the real situation in the marine fuels market becomes extremely problematic.

Strained negotiations are likely to result in a bad deal for one or both counterparties.

With the PBC index, the contracts are easier and clearer. All are concluded against the same index with premiums or discounts agreed between counterparties, depending on negotiating power and specific circumstances.

For example, if capacity utilization or bunker consumption for specific carrier differ from Platts assumptions (different volume allocation, bunker consumption, using scrubbers etc.), they can easily show that to shipper using Platts transparent formula and negotiate a premium.

The contracts then look as follows:

PBC Contracts

- Carrier 1: 5,000 FEU bunker charge = PBC13
- Carrier 2: 6,500 FEU bunker charge = PBC13 + 20\$

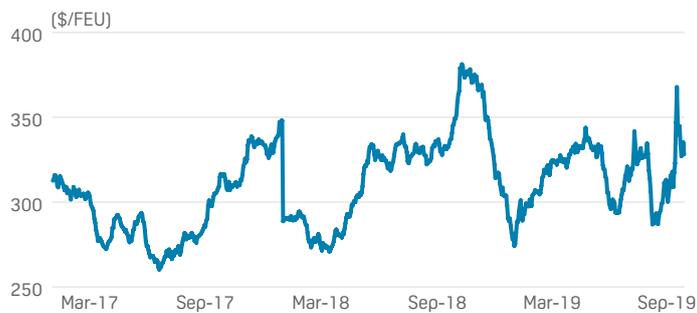
- Carrier 3: 3,000 FEU bunker charge = PBC13 + 30%
- Carrier 4: 2,500 FEU bunker charge = PBC13
- Carrier 5: 3,000 FEU bunker charge = PBC13 - \$5

Platts Bunker Charges will include only compliant fuels from November 1. There is no need for a Low Sulfur Surcharge. Contract reviews pre-IMO 2020 for existing PBC users may still apply, but for all the new applications in contracts, they would not be necessary.

It works exactly the same way for carriers and logistics companies, creating a level playing field for the whole market.

Also, given PBCs are daily indexes, players can use bespoke data periods for their contract baseline, including rolling

PLATTS BUNKER CHARGE 13 NORTH ASIA-WEST COAST NORTH AMERICA



Source: S&P Global Platts

quarterly or monthly averages, any other custom date sets or even attach their bunker charges to the daily PBC number.

What is S&P Global Platts?

S&P Global Platts is the commodity arm of the parent company S&P Global. Platts is a 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 prices are used in the lion's share of marine contracts across the world. Platts have also recently launched 0.5% marine fuel assessments at ports across the world, with futures on the key ports which have associated future contracts with the Intercontinental Exchange (ICE) and with the CME Group.

For more information, please visit <https://containers.plattslabs.com>, or email George Griffiths (Editor, Global Container Market) at George.griffiths@spglobal.com, Peter Norfolk (Director, Global Freight) at peter.norfolk@spglobal.com, or support@platts.com.

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