

May 2021

# Platts bunker charges

## 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
- Fully transparent formulas and assumptions
- Allow simpler contract negotiations against an independent benchmark
- Fed directly by Platts bunker prices on 0.5% marine fuel and MGO
- IMO compliant fuels used since November 1, 2019

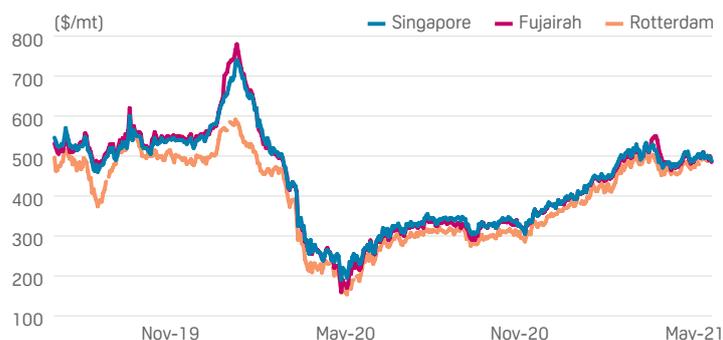
The Platts Bunker Charges, or PBCs, are independent indexes providing the container market with better tools for managing exposure to volatility in bunker prices and container freight.

PBCs act as a replacement for the current Bunker Adjustment Factor (BAF) system, alongside additional Low Sulphur Surcharge (LSS) and Marine Fuel Recovery (MFR) mechanisms. They are independent and fully transparent tools for negotiating bunker charges in container freight, which level the playing field for shippers, carriers and logistics providers alike.

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

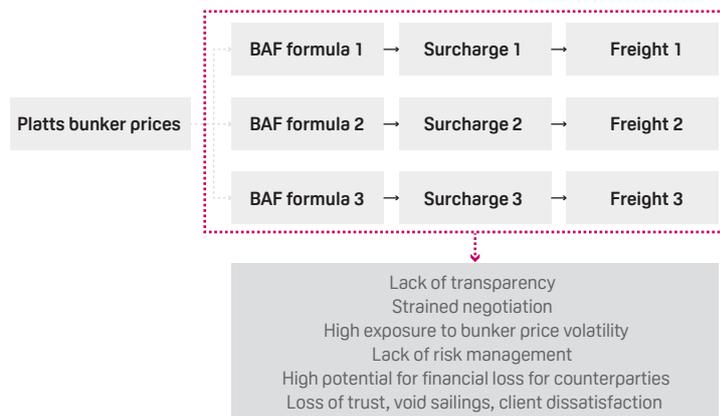
The volatility in the price of 0.5% marine fuels has had an impact on the container market and associated costs.

## MARINE FUEL 0.5%



Source: S&P Global Platts

## BAF SYSTEM



Source: S&P Global Platts

From sharp increases ahead of the IMO 2020 introduction, to significant falls resulting from the coronavirus pandemic later the same year, BAF formulas have struggled to keep pace.

## PBC vs BAF

The key issue with BAFs across the global container market is a near complete lack of standardization and transparency in the underlying formulas. Shippers and logistics companies, therefore, face a multitude of indications and formulas, with quotes for the same routes sometimes being vastly different, with little to no apparent explanation.

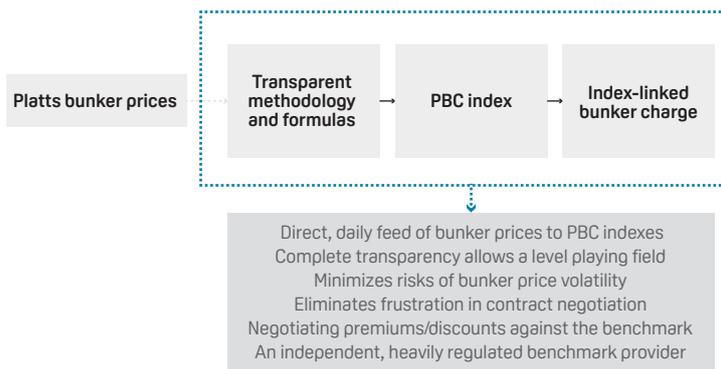
The fuels used as a reference, the ports chosen, the length of review period for bunker prices, capacity utilization and other elements may vary significantly.

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

In response to many of these confusing formulas, some shippers and Non Vessel-Owning Common Carriers (NVOCCs) built BAF mechanisms of their own, pushing for their adoption in contracts.

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

## PLATTS BUNKER CHARGES



Source: S&P Global Platts

In contrast to BAFs, Platts Bunker Charges allow industry players to easily factor fuel costs into freight contracts.

The objective and transparent daily updates provide a robust means of tracking fuel cost fluctuations.

PBCs are produced by feeding daily Platts bunker prices including 0.5% marine fuels and marine gasoil 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.

The final product is a daily \$/FEU bunker charge number for each of the key trade lanes, both headhaul and backhaul, 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

The Platts Bunker Charge 13 index reflects the headhaul bunker charge on the North Asia to West Coast North America route.

As a real-life example, let us take a shipper that 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 could 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 + LSS 5, 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 challenging. Strained negotiations could also result in a bad deal for one or both counterparties, as well as loss of productivity that is associated with the extra burden of work.

This shipper moved to the PBC index following conversations with S&P Global Platts. All their contracts are concluded against the same index with premiums or discounts agreed between counterparties, depending on negotiations and specific circumstances, simplifying their contracts further.

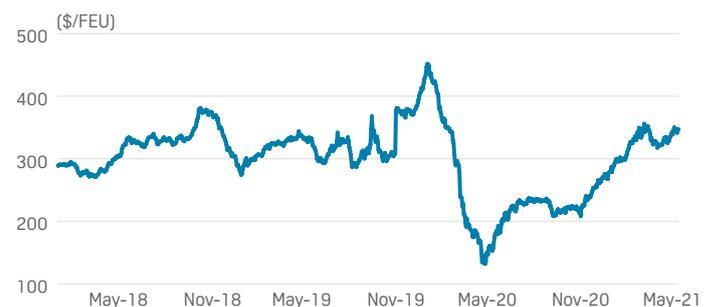
For example, if capacity utilization or bunker consumption for a specific carrier differs from Platts assumptions (different volume allocation, bunker consumption, using scrubbers etc.), one can clearly show that to the counterparty using Platts' transparent formula, and negotiate a premium.

Using the same example, their contracts could now 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 CHARGE 13 NORTH ASIA- WEST COAST NORTH AMERICA



Source: S&P Global Platts

As Platts Bunker Charges have only included IMO-compliant fuels since November 1, 2019, there is no need for a Low Sulfur Surcharge.

It works exactly the same way for carriers and logistics companies, with the same formulas being used, and serves to create a level playing field for the whole market.

As an added benefit, given PBCs are daily indexes, players can use bespoke data periods for their contract baseline, including rolling quarterly or monthly averages, any other custom date sets or even attach their bunker charges to the daily PBC number. This gives both sides the flexibility to incorporate the real-time daily index feed into their contracts in the manner that best suits them.

### Who 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 0.5% marine fuel assessments at ports across the world, with associated futures contracts listed by the Intercontinental Exchange (ICE) and CME Group.

For more information, please visit our website at [www.spglobal.com/platts](http://www.spglobal.com/platts), or reach out to the team via email at [containers@spglobal.com](mailto:containers@spglobal.com).

## S&P Global Platts

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