

SUNDAY SPOTLIGHT

SEAINTEL MARITIME ANALYSIS

PACIFIC BAF IS A COMPETITIVE ADVANTAGE FOR LARGE CARRIERS

1 April BAF to USWC neither fully implemented nor fully compensatory for all

The fact that oil prices are volatile is no surprise, and as a consequence the industry practice has been the carriers' introduction of a variable Bunker Adjustment Factor (BAF). The stated intention from the carriers is for the BAF to compensate for changes in bunker fuel charges. If this is the objective, the BAF announced as per 1 April 2011 on the Transpacific Eastbound services should have been 29 USD/FFE higher across the board.

Such compensation can of course be calculated in a multitude of ways, however on the Transpacific Eastbound market, virtually all market participants use the BAF formula derived by the Transpacific

TSA BAF compensation to the US West Coast is the scope for our investigation. A similar investigation on the Asia to Europe service has not been done, as no standard compensation formula exists across the different carriers. This lack of consistency is a consequence of the EU abolition of the competition exemption rules in 2008.

We have also clearly shown that although the formula results in a slight under-compensation across the board, this overall number hides the fact that the large TSA carriers are quite precisely compensated for oil price increases where the smaller non-TSA carriers are severely under-

1 APRIL BAF IS LESS
THEN COMPENSATORY
BUT PROVIDES LARGE
CARRIERS A COMPETITIVE
ADVANTAGE

TRANSPACIFIC CHALLENGES

This week saw The Containership Company be the first casualty amongst the carriers in what has been a slow, but inexorable, market decline since mid-2010. As SeaIntel Sunday Spotlight outlined 2 weeks ago, the rate decline has indeed been extremely severe. This is coupled with a rapid increase in oil prices. Bunker is now up 40% in just 4 months. As we show this week, it is a toxic cocktail for all smaller carriers on the Transpacific, as the TSA BAF formula is compensatory for the larger carriers, but not for the smaller carriers. Not to mention that the BAF increase was not fully implemented a week

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