

### SHIPPERS SAVED 3.5 BILLION USD IN 2011

Carriers need to increase BAF revenues by 5.7 billion USD in 2012 compared to 2010 to mitigate oil exposure.

BAF – Bunker Adjustment Factor – has been introduced by the carriers in order to eliminate the risk exposure they have vis-à-vis movements in the bunker fuel cost.

This week we analyze BAF from two different angles.

The first angle is the approach as to whether BAF is de-facto aligned with bunker fuel developments. The answer is both yes and no – changes do seem aligned with bunker fuel changes, however most carriers are not willing to openly show how their formulas actually work. Additionally, it appears that the level of BAF is higher than warranted by fuel costs alone.

The second angle is whether carriers actually obtain the BAF compensation – in other words, whether the concept

The answer to this question is clearly no, and the root in understanding this lies in the shippers' ability (and willingness) to not deliver the volumes promised.

Finally, we will take a look at the indications for BAF in 2012.

#### Methodology

We have chosen to focus on the BAF for Asia to North Europe, Mediterranean, US West Coast and US East Coast. Further detailed analysis could be performed on numerous additional trades, however, we have evaluated that the trends found on these main trades are of sufficient interest to warrant their own analysis, and that the conclusions are likely equally valid for other trades.

We have obtained historical BAF data series for 13 of the main carriers, upon which we

### NEGOTIATION TACTICS OR REALITY?

Hapag Lloyd set the stage at the end of this week, announcing a 750 USD/TEU rate increase on Asia-Europe. This is more than a doubling of rates in a trade with overcapacity. This could be seen as negotiation tactics. Anchor the price negotiation around a very high number, and then aim at achieving something less. In this case, the increase will only stick if all the other carriers take this as a sign to do the same. The other option is that the G6 alliance will be announcing capacity reductions at a scale warranting a stronger supply/demand situation. If it is the latter, then (part of) the increases might actually stick in Q2 and Q3 2011. If it is the former, and it is successful, then we will likely see shippers