

FREIGHT RISK MANAGEMENT

BAF, CAF and fixed contract rates prove unreliable as risk management tools

Carriers' and shippers' are highly exposed to risks associated with drastic changes in oil prices, currency changes, as well as changes in the basic market rates.

Oil and currency derivatives have been widely available in the market for several decades, and have a very significant market size and liquidity.

Container freight derivatives have been available for more than 18 months in the market. However, apart from a speculative market in Shanghai, these tools have not yet seen carriers or shippers using them as a substantial part of a risk management strategy

Since their launch, we have witnessed much public debate concerning these tools. From

Carriers have been very vocal in opposing the use of freight derivatives. Brokers of the contracts have been very vocal in promoting the use of the contracts. Shippers have been largely silent on the matter.

Of course, this view is somewhat polarized – certainly we have seen a few, smaller carriers actively promote the use of derivatives contracts over the past 18 months. We have also heard a few shippers raise their voice in the debate – both for and against the contracts, but by and large, the public debate has indeed been quite polarized.

In this week's issue of the SeaIntel Sunday Spotlight, we take a neutral analytical look at risk management as it pertains to freight rate risks. We will look at the current modus

YAS – Yet Another Surcharge

A number of carriers have in 2012 announced new "emergency bunker surcharges" – or other terms to that effect. In reality, the standard BAF tracks bunker prices extremely well and hence should cover the added fuel costs. However, carriers have simply not been able to collect the BAF. CMA CGM states it quite directly: *"The tendency to quote "All in Rates including surcharges such as BAF, [...] has left carriers without any proper coverage of these costs."* We are therefore in the peculiar situation, that carriers admit they cannot collect on a surcharge – and instead of enforcing said surcharge, they simply introduce Yet Another Surcharge. We cannot help wonder, whether it wouldn't be simpler to start collecting