

IMO 2020 **Support Services**

Drewry-ESC Toolkit v2
October 2019



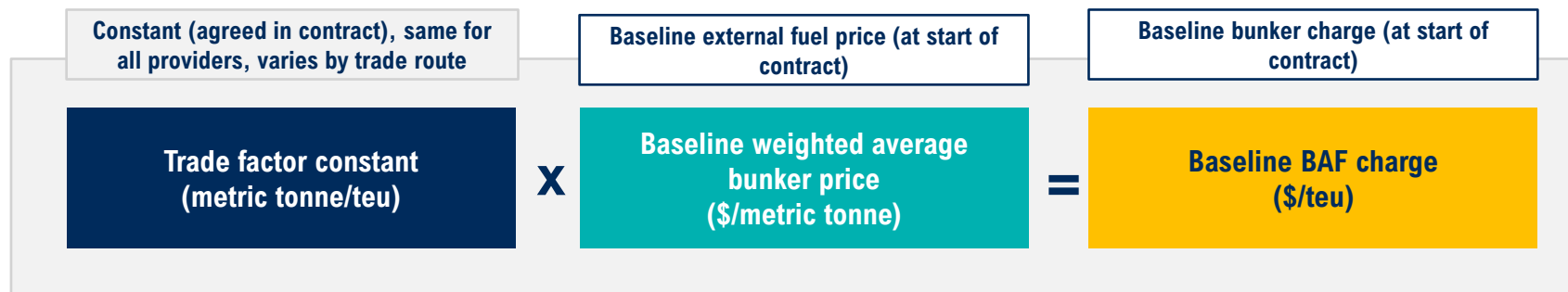
Drewry-ESC Toolkit – Aims and principles

This toolkit is intended to standardise, clarify and simplify the adjustment of Bunker Adjustment Factors (BAFs) between shippers and their carrier or forwarder providers, by streamlining the process and by agreeing common bunker price measurement periods, common BAF adjustment periods, common fuel reference prices and common indexing formulae.

This toolkit does not include contractual "baseline BAF charges" or "revised BAF charges" - which need to be agreed commercially between parties before the start of the shipping contract. The toolkit suggests a simple, clear indexing mechanism to determine changes in the BAF charges during the life of the contract.

STEP 1

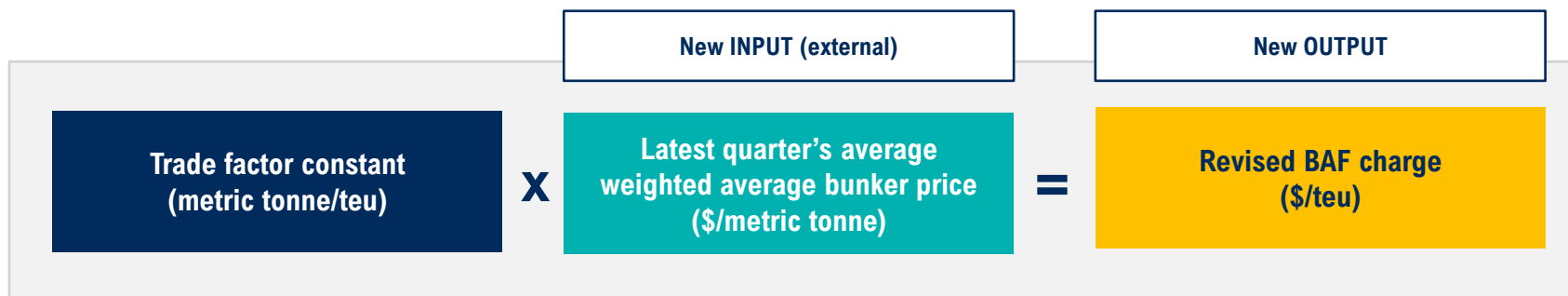
The shipper and the providers agree on the “baseline” initial bunker charges and their link to the baseline external fuel price (at the start of the contract):



Drewry-ESC Toolkit – Aims and principles

STEP 2

During the period of the contract, revised bunker charges are calculated once a quarter based on the previous quarter's average price for the external fuel reference, and apply contractually to the following quarter (with no need for negotiation)



Using this toolkit, BAF charges can be **updated once a quarter, with a lag time of 1 month** to allow parties to update their respective invoicing and purchasing systems, as these timings were found to be common best practices via a survey of ESC shippers (see QUARTERLY* SCHEDULE OF BUNKER PRICE MEASUREMENT PERIODS AND BAF ADJUSTMENT PERIODS) further on.

The toolkit uses **quarterly bunker reference prices** for each calendar quarter based on a **weighted average of prices at 3 major bunkering ports**, compiled by independent consultant Drewry using data from expert fuel information provider ShipandBunker and published at <https://www.drewry.co.uk/low-sulphur-bunker-price-tracker-table>

This is an example only. BunkerWorld is another provider of bunker reference prices.

The reference prices are the relevant prices of 2 main fuel types (**HS IFO380 until the end of 2019** and **LSF00.5S from the end of 2019**). This toolkit does not take into account in the indexation mechanism the fuel type LS0.1S, used only in certain regions since 2015. However, shippers and their providers can agree a similar indexing mechanism for LS0.1S, applicable only to lanes concerned by the LS0.1S regulation.

Drewry-ESC Toolkit – Drewry low-sulphur bunker price tracker

Drewry low-sulphur bunker price tracker

External average bunker reference price in US\$/tonne

<https://www.drewry.co.uk/low-sulphur-bunker-price-tracker-table>

Latest low-sulphur bunker price tracker

02 Oct 2019

The low-sulphur bunker fuel price tracker decreased by 3% in the 3rd quarter, from the 2nd quarter average. Anticipated future dates for the publication of data are provided within the table below:

Drewry low-sulphur bunker price tracker

	HS IFO380	LSFO0.5S	Transition period	Quarterly change
1Q 2019	\$402			
2Q 2019	\$409			2% ▲
3Q 2019	\$396		last period based on HS IFO380	-3% ▼
Oct-Nov 2019		to be published on Dec-04, 2019	first period based on LSFO0.5S	
Dec-19		to be published on Jan-06, 2020		
4Q 2019		to be published on Jan-06, 2020		
1Q 2020		to be published on Apr-06, 2020		
2Q 2020		to be published on July-03, 2020		
3Q 2020		to be published on Oct-05, 2020		
4Q 2020		to be published on Jan-11, 2021		

Notes: The average bunker price published here is the weighted average price of bunker fuel in the major ports of Singapore (50% weight), Houston (10%) and Rotterdam (40%) for the relevant period. The bunker fuel prices for each port come from local and global physical bunker suppliers, traders, and brokers, as well as market place pricing from online bunker buying platform ClearLynx.

Due to the shippers' need to introduce revised BAFs based on IMO 2020-compliant LSFO0.5S from about January 1, 2020, Drewry will publish the LSFO0.5S in early December 2019 based on available representative fuel price data at that time.

Source: [Drewry Supply Chain Advisors](#), [shipandbunker.com](#)

The shipper and the providers must agree the criteria of the **quarterly bunker reference prices:**

- The provider of bunker reference prices
- The review period eg **calendar quarter**
- The geographical mix of bunkering ports eg **Rotterdam, Singapore and Houston**
- The contribution of each bunkering port in the weighted average price eg **Rotterdam 40%, Singapore 50% Houston 10%**.

The shipper and the providers may also agree a **“trigger point”** eg if delta in bunker prices is less than 10%, then no adjustment in the BAFs.

Drewry-ESC Toolkit – Tables

1 QUARTERLY BUNKER REFERENCE PRICES PLUS INTERIM BUNKER REFERENCE PRICES FOR LSF00.5S TRANSITION

Port bunker prices in US\$/tonne

	PORT	1Q19	2Q19	3Q19	Oct-Nov 19
HS IFO380	Rotterdam	\$384	\$400	\$348	to be
LSF00.5S	Rotterdam				published
HS IFO380	Singapore	\$416	\$416	\$437	by Drewry on
LSF00.5S	Singapore				Dec-04, 2019
HS IFO380	Houston	\$401	\$408	\$380	
LSF00.5S	Houston				

Weight in the average bunker reference price

	PORT	until 3Q19	from 4Q19
HS IFO380	Rotterdam	40%	0%
LSF00.5S	Rotterdam	0%	40%
HS IFO380	Singapore	50%	0%
LSF00.5S	Singapore	0%	50%
HS IFO380	Houston	10%	0%
LSF00.5S	Houston	0%	10%

Drewry-ESC Toolkit – Tables

2

QUARTERLY* SCHEDULE OF BUNKER PRICE MEASUREMENT PERIODS AND BAF ADJUSTMENT PERIODS (EXAMPLE)

* Due to the need to introduce a revised BAF based on IMO 2020-compliant LSF00.5S from about January 1, 2020, Drewry will publish the LSF00.5S in early December 2019 based on available representative fuel price data at that time.

Bunker prices measurement period			Drewry bunker ref price publication date	Revised BAF charge applicable	
Quarter	from	to	on	from	to
1Q19	Jan-01, 2019	Mar-31, 2019	Apr-08, 2019	May-01, 2019	Jul-31, 2019
2Q19	Apr-01, 2019	Jun-30, 2019	Jul-08, 2019	Aug-01, 2019	Oct-31, 2019
3Q19	Jul-01, 2019	Sep-30, 2019	Oct-07, 2019	Nov-01, 2019	Dec-31, 2019
4Q19 1st LSF00.5S price period	approx Oct-01, 2019	Nov-29, 2019	Dec-04, 2019	Jan-01, 2020	Jan-31, 2020
4Q19 2nd LSF00.5S price period	Nov-30, 2019	Dec-31, 2019	Jan-06, 2020	Feb-01, 2020	Apr-30, 2020
1Q20	Jan-01, 2020	Mar-31, 2020	Apr-06, 2020	May-01, 2020	Jul-31, 2020
2Q20	Apr-01, 2020	Jun-30, 2020	Aug-03, 2020	Aug-01, 2020	Oct-31, 2020
3Q20	Jul-01, 2020	Sep-30, 2020	Oct-05, 2020	Nov-01, 2020	Jan-31, 2021
4Q20	Oct-01, 2020	Dec-31, 2020	Jan-11, 2021	Feb-01, 2021	Apr-30, 2021

shorter period of BAFs (one month) using new **LSF00.5S** reference price

shorter period of BAFs (2 months) using **old HS IFO380** reference price

Drewry-ESC Toolkit – Tables

3

TRADE FACTOR CONSTANT AND BASELINE BAF

Trade factor constant (estimated number of bunkers consumed per teu shipped), with illustration for intra-Asia

From / to	North/East/SE Asia	South Asia	Middle East	North Europe	Mediterranean	EC/GC North America	WC North America	Other regions...
North/East/South East Asia	0.2							
South Asia								
Middle East								
North Europe	numbers to be agreed by individual shippers with their carriers - Drewry provides independent estimates							
Mediterranean								
EC/GC North America								
WC North America								
Other regions...								

Baseline BAF if contract is based on 1Q19 bunker reference price of \$402/tonne, with illustration for intra-Asia (in \$/teu)

The formula is $\text{Baseline BAF} = \text{Trade constant} \times \text{Baseline bunker reference price}$

From / to	North/East/SE Asia	South Asia	Middle East	North Europe	Mediterranean	EC/GC North America	WC North America	Other regions...
North/East/South East Asia	\$80							
South Asia								
Middle East								
North Europe	numbers to be agreed by individual shippers with their carriers - Drewry provides independent estimates							
Mediterranean								
EC/GC North America								
WC North America								
Other regions...								

Drewry-ESC Toolkit – Tables

4

REVISED BAF DURING THE LIFE OF THE CONTRACT

The indexation formula is Revised BAF = Trade constant x Latest bunker reference price

Revised BAF for 2Q19 illustration for intra-Asia (in \$/teu)

From / to	North/East/SE Asia	South Asia	Middle East	North Europe	Mediterranean	EC/GC North America	WC North America	Other regions...
North/East/South East Asia	\$82							
South Asia								
Middle East								
North Europe	numbers to be agreed by individual shippers with their carriers							
Mediterranean								
EC/GC North America								
WC North America								
Other regions...								



European Shippers' Council

The **European Shippers' Council (ESC)** is a non-profit European organisation representing cargo owners i.e. freight transport interests of around 100.000 companies throughout Europe, whether manufacturers, retailers, wholesalers (import and export, intercontinental). Collectively they are referred to as 'shippers' as neutral user of transport (all modes: air; road, rail, waterborne). ESC was established in 1963.

