

Survey on terminal handling charges and currency and bunker adjustment factors

A project done for the European Liner Affairs Association



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Index

1.0	Introduction	02
2.0	Overview of responses given	03
3.0	Conclusions	05
Appendix	Questionnaire	06

1.0 Introduction

This report reflects the outcome of a series of interviews held on behalf of the European Liner Affairs Association during the month of October 2005. The objective of these interviews was to review the mechanism of terminal handling charges with a number of pre-selected terminal operators and shippers / consignees on one hand and to review the system of adjustment factors for currency and bunker costs with a number of cargo owners on the other hand. The interviews were done by means of a fixed questionnaire that was made available beforehand to the people interviewed.

The role MEL played was twofold. Firstly it acted as a neutral institute that arranged and carried out the interviews. Secondly MEL has reported the findings back also in a neutral way.

This evaluation report consists of three parts. The first part is an aggregate overview of the responses given by company. This overview is followed by a set of conclusions that can be drawn from these responses. The last part of the report is the transcripts of the telephone interviews.

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2.0 Overview of responses given.

Terminal operators

Question	Operator A	Operator B	Operator C	Operator D	Operator E	Operator F
Do you think that you face a competitive disadvantage as a result of the level of terminal handling costs charged by carriers?	✓		✓	✓	✓	
Instead of negotiations with carriers and alliances on terminal handling charges would you like to agree these charges directly with cargo owners?	✓	✓	✓			
Do you think that this will not lead to extra costs of for the cargo owners?	✓	✓	✓			
Will you use the level of terminal handling costs charged to route cargo to your terminal or port?			✓		✓	
Do you understand the multi-trade THC structure of carriers?		✓				✓
Do you see the differences between terminal contracts and THC charged out to the market as extra income for the line?	✓	✓	✓	✓		✓
Would you charge one flat THC rate to the cargo owner irrespective of the destination of his cargo?			✓			
Would you like to discuss free time and storage related issues with the cargo owner instead of the carrier?	✓		✓	✓		

✓ reflects a positive reply on the question asked.

Shippers and consignees

Question	Shipper A	Shipper B	Shipper C	Shipper D	Shipper E	Shipper F	Shipper G	Shipper H	Shipper I
Do you know how BAF and CAF surcharges are calculated?	✓	✓		✓				✓	
Do you see a correlation between these surcharges and currency and fuel price fluctuations?		✓						✓	
Do you think carriers are allowed to protect themselves against these fluctuations through BAF's and CAF's?		✓			✓			✓	
Do you pay these surcharges?	✓	✓	✓	✓	✓			✓	✓
Are you in favour of BAF and CAF framework agreed between shippers' councils and carriers?		✓			✓			✓	✓
Are you concerned that in the post-conference era carriers will implement individual surcharges, which will lead to a fragmented approach as far as BAF's and CAF's are concerned?					✓			✓	
Would you like to negotiate the cost of a terminal handling charge directly with the terminal operator?		✓	✓		✓				
Do you understand the multi-trade terminal handling charging structure?									
Terminal handling charges should be an integral part of the sea freight and not quoted separately.	✓	✓	✓			✓	✓		
Would you like to discuss free time and storage issues directly with a terminal operator?			✓			✓			✓

✓ reflects a positive reply on the question asked.

3.0 Conclusions

Terminal operators

Terminal operators have limited knowledge of the terminal handling charges carriers invoice to their customers, despite the fact that this is “freely” available information. They are concerned that “overcharging” by carriers affects their competitive position and they more or less collectively see terminal handling charges as an additional source of income for carriers. Three out of the six terminal operators have an interest to open a dialogue with cargo owners on terminal handling charges and yard related costs. One operator thought such a scenario could improve the income of the terminal considerably. An increase in number of necessary contacts with customers was not perceived as a big problem when cargo owners instead of carriers are invoiced. More and more terminal operators see their hinterland as an area where more contacts with cargo owners should be established.

Shippers and consignees

- Terminal handling charges

Shippers and consignees are not interested in negotiating handling charges with terminal operators directly. Yard and storage related costs score slightly better. The composition of a THC, as charged by the carrier, was often considered as not transparent and, from a multi-trade perspective, cargo interests do not understand the difference in THC’s for the various trade lanes. There is a renewed interest to include the THC in the ocean freight. Freight forwarders support this, from a commission perspective, while more and more exporters prefer to start working on a “gate-in / gate-out” basis.

- Currency and bunker adjustment factors.

During the interviews it transpired that there is hardly any knowledge about how CAF and BAF surcharges are calculated. The general perception, especially from non-forwarder accounts, is that there is hardly any correlation with the underlying costs and that the surcharges are meant as an additional money maker for the lines. Forwarders, as intermediates, face fewer problems with these surcharges. A common complaint from their side was that these surcharges should be subject to a commission as well. The lack of transparency was often cited by cargo owners as one of the major obstacles. Like in other industries, cargo owners believe that carriers should hedge against currency and bunker risks and should not transfer these risks to the cargo owners. There is not much support for a mutually agreed calculation mechanism for bunkers and currencies between carriers and shippers’ councils. The post-conference era regarding surcharges was frequently mentioned. Several parties interviewed had serious concerns on what they mentioned as ‘a fragmented approach’ towards adjustment factors and the risk that carriers will launch individual surcharges. It is this fear that led the parties interviewed realize that the current surcharge system, although far from perfect, offers a least a degree of stability.

Appendix 1 Questionnaire

Terminal handling charges Shippers and consignees.

1. A terminal handling charge covers the cost for receipt/delivery and loading/unloading of a container on board a seagoing vessel and does not differentiate between the pre- and on carrying mode of transportation like truck, barge, rail and feeder.
 - ***What is the percentage of terminal handling charges in your overall freight bill and how constant has this percentage been over time?***
 - ***Are there big differences in terminal handling charges in the various ports you are using? If so, how could this be explained?***
 - ***What could be done to see a continuation of the stability of terminal handling charges in the future?***

2. Ocean rate quotations made by carriers are always subject to terminal handling charges at both origin and destination.
 - ***Could you give me some reasons why terminal handling charges should not be included in rate quotations but kept separate? How do you look at the advantage of having a terminal handling charged in local currency?***

3. Shippers and consignees cannot “negotiate” the level of terminal handling charges with carriers. There is no incentive in terms of volume, mode of transportation and the moment of delivery / pick-up. Terminal operators find these three items important to optimize their operations and would like to influence them and perhaps give incentives to these parties that can assist them in this optimisation process.
 - ***Would you be interested to start negotiating terminal handling charges directly with terminal operators?***
 - ***Do you believe you have enough volume to justify this extra effort and would you be able to achieve better rates through this?***
 - ***Have you ever discussed this possibility with terminal operators and if so what was their reaction?***

4. As mentioned earlier, carriers collect terminal handling charges to offset the stevedoring costs they make in a particular port. If the current practice could be changed into a new charging mechanism, which one would have your preference?
 - ***Carriers quoting on a free in and out basis and stevedoring companies charging shipper/consignees directly for delivering and receiving containers.***
 - ***Shippers and consignees entering in direct contracts with terminal operators. These contracts will then also cover items like free time and demurrage / detention.***
 - ***Terminal handling charges to become an integral part of the sea freight.***

5. Terminal handling charges are differentiated by trade lane even when the different vessels call at the same terminal and operate under the same terminal contract. An example of this is the difference between Terminal handling charges applicable for cargo destined for the USA and for Asia.
 - ***Do you ship with different carriers and do they belong to different alliances as well? Are the terminal handling charges differentiated among carriers you used in the past? If so, could you explain the reasons why?***

6. Carriers active on a particular trade lane charge the same amount for terminal handling charges in a particular port even when they vary in size (throughput) and have different terminal contracts.
 - ***How do you perceive the fact that carriers charge the same terminal handling charges on a particular trade lane? Is there a differentiation between the different alliances / carriers?***

 - ***Should free time and demurrage / detention related cost be an issue to be discussed between terminal operators and carriers or between shippers/consignees and terminal operators? What would have your preference?***

Terminal handling charges Terminal operators.

1. A terminal handling charge is levied by an ocean carrier to its customers to cover the cost for the receipt/delivery and loading/unloading of a container on board a seagoing vessel and does not differentiate between the pre- and on carrying mode of transportation like truck, barge, rail and feeder.
 - ***Does the level of terminal handling costs charged by ocean carriers to their customers affect the competitive position of your terminal(s)?***
 - ***Do you have insight into these terminal handling charges and if so would you charge more or less if shippers were able to negotiate directly with you?***
 - ***Do you enter in terminal contracts on a per alliance basis or do you differentiate between alliance members and/or alliances themselves?***
 - ***How do you use the level of terminal handling charges as a mechanism to reach your corporate objectives?***

2. Given the fact that your contract partners are either individual carriers and or alliances:
 - ***Would you be interested to engage in terminal handling negotiations with shippers/consignees small and large alike?***
 - ***How would you rate the importance of “volume” provided by carriers (and the economies of scale thereof), versus the need for flexibility of operations that could result from direct negotiations with shippers?***
 - ***By how much, if at all, would such direct negotiations with shipper increase your operating costs? And if they do, would you be able to pass on these costs in view of competition?***

3. Carriers differentiate terminal handling charges by trade lane even when their vessels call at the same terminal and operate under the same terminal contract. An example of this is the difference between Terminal handling charges applicable for cargo destined for the USA and for Asia.
 - ***Do you follow the same degree of differentiation in your contracts with carriers / alliances? If so, what are the reasons for this?***
 - ***Do you believe that this differentiation may be reason for shippers / consignees to route their cargo over cheaper ports i.e. ports where carriers charge a lower THC?***

- ***How would you stimulate both carriers and their customers to use modes of transport that fit better in your operations? How can you influence and achieve this?***
- ***What would happen if some part of the cost for terminal handling is charged to carriers and the other part to shippers and consignees directly? How would you manage this from an administration and contract point of view?***

Bunker and currency adjustment factors

1. Carriers have the ability to charge additional costs to customers to compensate for fluctuations in bunkers costs and currency variations.
 - ***Do you know how these surcharges are calculated by carriers and how close they correlate with actual bunker fuel increases and currency fluctuations?***

2. It is often argued by shipper councils that currency and bunker charging mechanisms are not transparent and that the liner industry “abuses” it to increase revenue using rising bunker costs and currency adjustments as a justification.
 - ***How in your view could carriers be protected from bunker and currency fluctuations, so that their costs do not increase unpredictably and they are therefore able to offer you a competitive and predictable service?***

3. Adjustment factors for bunkers and currencies are set by conferences with in many instances outsiders following. Member lines may have completely different policies on hedging against these risks.
 - ***If CAF’s and BAF’s were to be differentiated by carrier, how would you cope with the resulting rate instability in terms of commitments to your own clients (consumers)? Would not such an instability have an impact final consumer prices, trade, and, at the end of the day, on your own bottom line?***
 - ***Have you ever, as a shipper or consignee, researched on the importance of rate stability among your own customers? Would you be interested in such a survey among consumer organisations?***

4. More and more shippers/consignees are looking for fixed “all in” rates for a specific contract period stating that they do not have the ability to charge their customers for these fluctuations in view of agreed contract terms.
 - ***What do you recommend the position of the liner industry should be in this?***

5. When a commonly agreed formula between shippers’ councils and carriers to calculate BAF and CAF would be established and published on a monthly basis:
 - ***Would this be a workable approach in your views? If so, please explain.***
 - ***What would be your preferred timing period for establishing above, immediately or should a phase out period apply?***