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Karen V. Gregory, Secretary
Federal Maritime Commission
800 North Capitol Street, N.W. Room 1046
Washington, D.C. 20573-0001

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Comments of Cargill, Incorporated in response to FMC Docket number 12-07, Notice of Inquiry: Solicitation of Views on Requests To Develop and Release Container Freight Rate Indices for U.S. Agricultural Exports Based on a Sampling of Service Contracts Filed With the FMC.

Cargill, Incorporated respectfully submits these comments in response to the FMC's request for comments on the establishment of agricultural freight rate indices based on contracts filed with the FMC, and more specifically these four questions:

Question One: Whether and to what extent the shipping public would find targeted U.S. export rate indices beneficial

Cargill believes that rate indices that accurately reflect the true nature of freight costs provide immense benefit to both carriers and shippers. These indices may be used in at least three beneficial ways:

1. Contracts may be adjusted based on changes in an index over time. This would significantly reduce or eliminate the current practice prevalent among both shippers and carriers to "break contract" and ask for a rate increase (on the part of carriers) or decrease (on the part of shippers) when market conditions are favorable for such an action. While accurate data are lacking, anecdotal news reports suggest that the breaking of contracts is the rule rather than the exception. Many shippers, including Cargill, have been refused carriage if an increase was not accepted, or have had allocation of equipment or vessel space severely restricted even though a valid contract was in place. This lack of integrity in contracts destroys trust, puts those shippers and carriers that do honor their agreements at a disadvantage, and prevents accurate planning of costs for both parties. An accurate index would provide a mechanism to adjust contracts to maintain market competitiveness in a more objective manner.
2. Accurate indices provide a basis for hedging forward freight costs for both carriers and shippers. Once accepted as a trustworthy index by the market, stakeholders can buy or sell forward "paper" freight obligations meant to offset any increases or decreases in rates paid on "physical" shipments.
3. The trading of forward freight agreements in turn generates a forward price curve that better enables shippers and carriers to assess expected future prices and plan accordingly.

Question two: Whether the Commission should extract rate information from service contracts or whether suitable alternatives exist;

We support the extraction of rate information - in index form rather than raw rates - from service contracts filed with the FMC. This would ensure the veracity of the data. Existing indices in trades contemplated by this action are comprised of 3rd party surveys of freight forwarders and NVOCCs. Neither the consistency nor the accuracy of this approach can be independently verified. It's important to note, however, that the rates obtained by the FMC from filed contracts should be net of any volume incentive discounts or similar refund or rebate schemes.

Question three: The positive and negative influences on the export commodities and ocean transportation marketplaces of the greater transparency such indices might provide; and

Cargill believes the influence of rate transparency is positive on balance. The indices contemplated here will focus on rates related to the trading of fungible commodities. Such business is by definition highly substitutable and in practice trades on very thin margins. Furthermore freight cost is typically 40% or more of the landed cost of the goods at destination. The traders of these commodities are able to hedge their product price risk, but the inability to hedge the freight portion of their price leaves them heavily exposed to the significant volatility of the freight market. The ability to hedge freight price risk should increase US export competitiveness because it reduces a significant element of risk for the US commodity exporter. Carriers that use swaps to hedge their forward freight exposure also benefit by greatly enhancing the certainty of their revenue.

Question four: Whether these indices, if developed, should be commodity specific for different prescribed routes or whether more broadly based indices would meet U.S. exporters' needs.

We support the establishment of commodity specific routes because all other things held equal, the cost of freight from a given origin to a given destination can vary widely based on the supply of empty containers at a given location. For example Los Angeles, which due to its enormous population base has an excess supply of empty containers year round, has a less volatile price profile than Chicago, which sees a seasonal excess of containers through the summer months and then a deficit through the winter months as imports decline and agricultural imports increase. We have tracked and compared Cargill's rates for Bulk Agricultural Products from Chicago to Kaohsiung with rates reported by the World Container Index. The correlation of Cargill's rate with WCI's West Coast rate is 60%, while the correlation with the East Coast is only 42%. These correlations are not close enough to make the WCI indices useful for either index-linked contracting or hedging.

If an FMC index were very broadly based, it's unlikely the correlation to individual rates will be strong enough for an index-linked contract or hedging. A natural question then is the converse: "what is the usefulness of a narrowly-defined index to the broader trade"? There are several indices available, including indices provided by the carriers and discussion agreements, for shippers to use as the basis for index-linked contracting. Shippers interested in index-linked contracting need to evaluate the relevance of available indices to their own freight costs and select the index or indices with the best correlation(s). It's entirely possible that that are no good correlations and index-linking is not a sound option for that shipper. That said, one thing is certain: if there are no indices available that correlate well to actual freight costs, the innovation of index-linked contracts will fail. It is better, in Cargill's opinion, to have a select few trustworthy narrow indices that work and benefit a significant share of the shipping public than a broad-based index that doesn't correlate well to origin-specific rates and offers no benefit at all.

Thank you for the opportunity to express our views.

Respectfully submitted,

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