



Karen V. Gregory
Secretary
Federal Maritime Commission
800 North Capitol Street NW.
Room 1046
Washington
DC 20573-0001

Re: 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.

June 6th 2012

Dear Ms Gregory,

Please find comments from Drewry related to the FMC's Notice of Inquiry dated May 24th 2012 about the above-mentioned subject.

Introduction on our company: Drewry is a London-based company specialised in shipping, which provides market reports and advisory services to exporters, importers, carriers, ports, governments, investors and others worldwide. We do not buy or sell shipping services, but Drewry provides container freight rate benchmarks or indices to several hundred exporters and imports around the world, including US exporters. Drewry also has a 50/50 joint venture with Cleartrade Exchange, a Singapore-based regulated exchange venue, called World Container Index, which provides container freight rate indices on 13 routes.

Question 1. Is there anything that prevents private index developers and publishers from developing indices of the kind being sought by U.S. agricultural exporters?

For third parties, gathering representative container freight rates for specific commodities is much more difficult than gathering representative Freight All Kinds container freight rates, due to the lower number of market participants and the more specialised nature of the market data. The service contract data filed with the FMC is the best source of data for representative container freight rates for specific commodities exported from the US (other than waste paper and other commodities exempt from tariff filing). Drewry believes that the FMC should work with the private sector to develop joint indices, so that joint indices are created and generate enough liquidity for a derivatives market to develop.

Question 2. Has your company used or considered using any existing freight rate index to adjust rates in its export service contracts or to hedge freight rate risk? If so, what is your company's view on the products it used or considered?

Drewry provides container freight rate benchmarks or indices to several hundred exporters and imports around the world, including US exporters. Drewry was told by several US exporters that they are using Drewry's existing container freight rate indices for index-linked contracts. However, Drewry was also told by several other US exporters that existing container freight rate indices (Freight All Kinds) are too general and



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not suitable for specific commodities such as agricultural products when it comes to index-linked contracts or hedging.

Question 3. Would it be appropriate to use service contract data filed confidentially with the Commission to develop indices of the kind being sought by U.S. agricultural exporters (assuming the data is aggregated so as to protect the identity of individual shippers and ocean carriers before being released to the public in the form of an average rate or index)?

Drewry thinks that the contract data filed with the FMC will provide the base for one or more robust indices. The FMC should only share volume and rate details to assist with index building, but should not share carrier and shipper/receiver information. Drewry thinks that, if aggregated, the indices will not breach confidentiality.

Question 4. Should these indices be optimized for use in service contracts, for use in financial hedging instruments, or both?

The indices should be capable of being used for both index-linked contracts and financial hedging. US agricultural exporters we have spoken to are unhappy that they cannot hedge freight costs for exports shipped in containers, whereas they can do that for exports shipped in bulk.

Question 5. What kind of competitive issues would the public release of a broadly based or route and commodity specific rate index create for U.S. export shippers or ocean carriers?

New commodity-specific indices will introduce more transparency in the market, particularly for medium or small US exporters, who currently have access to less information on pricing trends. The introduction of more transparency in the market is not a new issue. This has already happened following the introduction of existing general (Freight All Kinds) container freight rate indices (for containers) and following the dry bulk shipping indices. These changes have not created any significant competitive issues.

Question 6. If developed using service contract data filed with the Commission, should a U.S. export rate index be route and commodity specific or should it be more broadly based? If the former type of rate index would be more useful to your business, explain what type of commodity, specific route, publication frequency, or other index-related factors are most needed.

New commodity-specific, route-specific container freight rate indices will basically assist index-linked service contracts. However, for derivative trading, the key is liquidity and volume- thus for this it is likely that only a couple of export routes will eventually be successful. It is therefore important that there is sufficient data/analysis done to determine the co-relationship between commodity export routes and the "main" derivative index routes, so that exporters/markets can use these main index routes for hedging (after understanding the "basis" risks).

Drewry was told by several US exporters that they need new commodity-specific, route-specific container freight rate indices.

Question 7. Should either or both parties to a service contract have the option of not having their contract rates incorporated into an index?

If the index is aggregated and the individual rates in service contracts are not disclosed, then there is no risk for the parties to any service contract. The FMC should only share volume and rate details to assist with index building, but should not share carrier and shipper/receiver information. Drewry believes that the more

rates are included in the calculation of the index, the more value it will have to US exporters and to the market in general. If either or both parties to a service contract have the option of not having their contract rates incorporated into an index, then there is a risk that the index will become unrepresentative and prevent the potential benefits of financial hedging.

Question 8. If made available by the Commission, how would an export rate index affect your company's export sales?

We cannot comment on this.

Question 9. If made available by the Commission, how likely is your company to use an export rate index in its service contracts to adjust rates?

Drewry would use the index or recommend its use when advising exporters.

Question 10. Has your company or related subsidiary traded in freight derivatives? If so, describe that experience and the outcomes obtained?

Drewry's joint venture Word Container Index has recently listed its US (Freight All Kinds) export index (Los Angeles-Shanghai) with a clearing house, for the purpose of trading in freight derivatives. It is too early to assess the results, but we expect that this will provide the ability of fixing freight rates to US exporters a year ahead or longer.

Question 11. If a U.S. export rate index is made available by the Commission, how likely is your company to trade in a derivatives market based on that index?

Drewry would provide advice to shippers who want to trade in a derivatives market based on that index.

Question 12. What impact would trading in a freight derivative market based on a U.S. export rate index have on the physical U.S. export container market?

It is difficult to say. However, Drewry expects that trading in freight rate derivatives will grow only slowly, over a number of years, and will represent only a minority of transactions in the overall container shipping market for the route or routes concerned. The volume of the derivatives market in the next 5 to 10 years is likely to be much lower than the volume of the physical market.

We are available to clarify or expand on any of the comments above as required.

Yours sincerely

Philip Damas
Director