Tiffney Payton

From: Rachel Dickon on behalf of Secretary
Sent: Tuesday, July 31, 2012 10:58 AM
To: Tiffney Payton
Subject: FW: Export Index NOI
Attachments: FMC Export Index.docx

From: David Briggs [mailto:DBriggs@scoular.com]
Sent: Monday, July 30, 2012 11:23 AM
To: Secretary
Cc: Rebecca Fenneman
Subject: Export Index NOI

Karen

Good Afternoon. Please find attached our comments regarding the proposed export index.

Please let me know if there is anything else you need.

Thank you

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FMC Export Index – Response to NOI

Indexes increase transparency, allowing for hedging instruments to be linked to the indexes, which allows for participants to manage forward price risk. Today pricing is done on a contractual basis, but rates are usually subject to some sort of rate increase (GRI, bunker, etc) and rarely valid for longer than 30 days. Due to this uncertainty in price, Containerized grain shippers rarely sell deferred tonnage, and potential miss sales due to this.

Questions:

1. *Is there anything that prevents private index developers and publishers from developing indices of the kind being sought by the U.S. agricultural exporters?*
   Private index providers don't have access to contracted rates, which are spot rates due to the assessorial clauses that allow for increases and limited validity of the rates in the service contracts.
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?*
   Currently there isn't an index that correlates with rates on the main export lanes for grain. Our company will use an export index and will hedge our freight risk, once an index that correlates with the market becomes available.
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)?*
   Using service contract data is exactly what is appropriate, as long as it is aggregated and no contract counterparties are identified.
4. *Should these indices be optimized for use in service contracts, for use in financial hedging instruments, or both?* These indexes should be optimized for the use in service contracts, and for the use in financial hedging instruments.
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?* This should increase the competitiveness of US containerized exports by reducing the soft costs associated with constant renegotiation, and by providing the option to transfer forward price risk to the derivative markets.
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* The index should be route and commodity specific. 40' Grain (Corn, Soybeans, Wheat, etc) and Feed Products (Meals, Feed ingredients, DDG etc) rates from Chicago to Kaohsiung. Published weekly in all-in dollar amounts per 40'.

7. *Should either or both parties to a service contract have the option of not having their contract rates incorporated into an index?* The broader the data set the better. If you trade on that lane, that information should be included in the index.
8. *If made available by the Commission, how would an export rate index affect your company's export sales?* An export index has the potential for increasing export sales (provided the rest of the supply chain allows for the trade to happen, grain values at origin, hopper rail and truck economics, value of alternative products, competing countries delivered values, etc)
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?* It is very likely that we will use an Index linked service contract when a viable export index becomes available.
10. *Has your company or related subsidiary traded in freight derivatives? If so, describe that experience and the outcomes obtained?* We have traded freight derivatives to manage forward price risk. These instruments work as they are intended.
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?* We will trade in the derivative market based on an index that correlates with what we see in the physical market.
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?* Having a forward market should increase containerized export by allowing shippers to offer deferred delivered values. Today shippers cannot offer deferred delivered values without assuming enormous amounts of risk.