THE PLATTS INDEX AND OUR PRICING BASIS

THE PLATTS INDEX

The price of a barrel of Brent crude oil drives the direction of the marine gas oil market, however the correlation between the two is a loose one. While the prices of crude oil and marine gas oil are closely linked, we cannot predict what will happen to our fuel price on a day-to-day basis by watching oil go up and down; we have analysed the statistics and shown that the price of crude oil can rise on a day that marine gas oil falls, and vice versa.

This is because the price of fuel reflects not just the fluctuating replacement cost of oil, but also the complex costs of production and supply – the refining process, transportation, insurance, the availability of storage, and so on. The fluctuating price of marine gas oil also reflects changing levels of demand, as well as demand for all the other petroleum products manufactured at the same time by the refineries.

Although the prices of crude oil and marine gas oil don't rise and fall at exactly the same time, or by exactly the same amount, the general trend over time is very similar; any change in the supply of crude oil will eventually impact the supply (and therefore the price) of marine fuel. However, there is inevitably a time lag, which can be distorted by many other factors, some of which are specific to that particular product. For this reason, Platts – an internationally recognised source of benchmark commodity pricing – publishes over 60 different benchmark product prices every day (of which FOB Gasoil is just one), and we base our prices on Platts.

To explain it in a different way, consider the price of food. If you go into a restaurant and order Beef Bourguignon, the price you pay reflects the current market cost of beef, plus the cost of other ingredients like the wine for the sauce, the herbs, vegetables and oil, the chef's wages and the restaurant's overheads. The price of your meal will also be influenced by how many other nearby restaurants are serving Beef Bourguignon. If the beef farming industry falls into a crisis, there will be less beef available and the cost of it could double. Therefore, the restaurant will have to increase the price of your meal – although not necessarily straight away because they might have some beef stored in the freezer – and the price wouldn't necessarily double because the cost of the other ingredients, staff and overheads would probably stay roughly the same. It is not a perfect analogy, but it illustrates the point.

Fuel buyers are advised to keep a watchful eye on the price of crude oil, as it does indicate general trends in the fuel market. However, it is important to request up to date pricing when bunkers are needed, regardless of what a barrel of crude oil costs that day.

FOB OR CIF FORMULA PRICING

In order to fairly compare prices from different marine fuel suppliers, it is important for ship owners and operators to understand the difference between a FOB-based and a CIF-based price formula. FOB and CIF are published benchmarks used by the shipping industry to set daily prices.

The difference between FOB and CIF lies in who takes responsibility for what, and at what point ownership of the product shifts from supplier to buyer. The terms were created in 1936, when the International Chamber of Commerce established a system of 13 international commerce terms (INCOTERMS). They serve as contract models that are commonly understood across boundaries and in all languages.

FOB means **"free on board"**. In this case, the supplier pays the cost of delivering a product to a port near its origin, and then hands responsibility to the buyer who takes responsibility for its onward journey.

CIF means **"carriage, insurance and freight"**. When a CIF agreement is used, the supplier pays for delivery of the product to the port … AND pays the cost of shipping to another port close to its final destination … AND pays for insurance while the goods are in transit. Ownership is transferred to the buyer when the goods arrive at their destination port.

Platts publishes index prices on the basis of both FOB and CIF and the difference will be the same as the difference between the two prices we offer to our customers. So, whether you buy from us on a FOB or CIF basis, the overall cost of fuel will be approximately the same – there is no significant saving to be gained by basing pricing on one over the other. As a supplier, we have more control over FOB-based pricing, allowing us to provide customers with the lowest formula prices possible – so we tend to favour FOB-based pricing.