1. (a) Discuss the various types of surcharges that are usually levied on the basic freight rates.

Ans : Surcharges due to adjustment of fuel costs are called bunker surcharge (BS) or bunker adjustment factor (BAF). They are usually applied as a sum per container. A surcharge due to currency fluctuations is called currency adjustment factor (CAF), expressed as a percentage of the freight sum. BS or BAF is applied to the basic freight rate, and CAF to the resulting sum. Contracts may also provide for surcharges when other costs change, such as port usage charges or tolls on seaways and canals. Shipping lines may also levy special increases on freight from or to ports where congestion causes excessive delays to vessels. 'All in' rates of freight are also available, particularly to large shippers and receivers. These remain fixed for specific periods during which no BAF or CAF surcharges can be applied.

War risk is another potential cause for surcharging freights as ship owners pass on higher insurance premiums for vessels operating on difficult or dangerous trade routes. Such unforeseen costs are a result of force majeure and may be passed on to shippers or receivers, usually at a flat rate per container. See 05.07 for more on this.

Freight charges are of great importance to producing countries, because for the roaster the real cost of coffee is the price 'landed roasting plant’. If coffees bought from country A and from country B are used for the same purpose, the two qualities are substitutional and should therefore be priced the same.

If for example the freight from country A is 1 ct/lb higher than freight from B, then A’s asking price must be 1 ct/lb lower to match the landed cost. And if freight rates from country B decrease then the FOB price or differential for that coffee will eventually rise accordingly.

Freight rates fluctuate all the time, and are also negotiable. It is very likely that different companies will apply different rates during the same time period, making it pointless to list actual rates in this guide. It is much more important to have a good grasp of the general principles governing freights. Freight rates are often governed by factors more numerous and complex than, for example, the distances involved. Currently the dominant practice is for shippers and receivers to negotiate individual freight agreements with shipping lines, sometimes on a worldwide basis. As a result actual freight rates for many receivers are not general knowledge with many bills of lading simply stating 'freight as per agreement’ or 'freight payable at destination’.

It remains advisable however for industry bodies, both in exporting as well as importing countries, to meet on a regular basis with individual shipping lines that are important in the transport of coffee to review issues of mutual interest. These include shifts in coffee production and demand, port developments in origin and at destination, technical and physical issues (such as hygiene and food safety), and other topics relating to coffee logistics and levels of service.

Freight portals on the Internet can match available cargo with available space, and vice versa. Trucking and freight rates can be sought and offered so large shippers and receivers can relatively easily ask transporters and shipping lines to tender for certain land and sea cargoes. These are fast moving developments that enable large users of sea and land transportation to strike competitive deals.

And, increasing security concerns place more and more emphasis on the creation of an audit trail by the tracing a large part of all containerized cargo. As a result the importance and range of functions of freight portals is growing, also as part of the general move towards seamless electronic documentation and information sharing in transport and the commodity trade in general. Coffee is no exception to this.

(b) How is the time charter different from bare boat charter?

Ans : A time charter refers to a ship that has been hired by a person for carrying out a trade for a specific period of time. Although the vessel belongs to the person who bought it, the other factors are determined by the hirer. These include where the vessel must sail to and the associated port usage charges. The charterer is responsible for all expenses associated with the operation of the charter such as crew, port, and fuel. This charter is also called demise charter, and is primarily used for bulk carriers and tankers.

2. What is economic exposure? Explain the method of market initiative as a hedging technique of economic exposure.

Ans : Economic Exposure is the term used to define the risk posed by foreign exchange rate fluctuations with adverse effects on a company’s financial stability.

When a company invests or operates in more than one country, its cash flow and/or profit margins are affected by variations in the exchange rates applied to its main operational currency and to the local currencies in all of the countries where it operates.

Significant exposure coefficients estimated in a series of bivariate models may be insignificant in a combined multivariate model. Conversely, insignificant coefficients from bivariate models may be significant in a multivariate model. The signs of significant relations may even be reversed in moving from a bivariate to a multivariate model. The implication of this latter observation is that firms engaging in hedging practices based on bivariate exposure estimates may actually exacerbate their aggregate exposure.