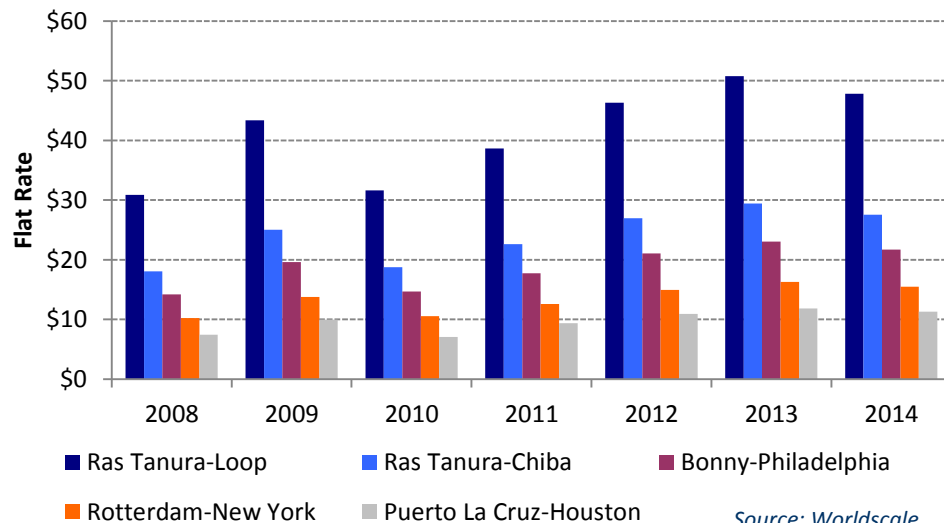


## Lower Flat Rates, Higher Worldscale Rates in 2014

**2014 flat rates released by Worldscale are lower than 2013 on most trade routes.**

The time of year has come for the Worldscale Association to publish its schedule of nominal freight rates, "flat rates", for port-to-port tanker routes. The flat rates are published on a dollar per metric ton basis reflecting the various costs associated with calling a particular combination of ports. The spot market convention of Worldscale rate is a percentage of the published flat rate that reflects prevailing market conditions of vessel supply and demand. The 2014 flat rates released this week declined year-on-year from those published in 2013. On a practical basis, the change in flat rates merely results in an adjustment of Worldscale rates in order to maintain voyage revenue parity. With this decrease in quoted flat rates, owners will be looking for higher Worldscale rates at the start of the New Year in order to keep their daily timecharter equivalents stable. Flat rates declined between 4%-6% from 2013 for the major routes as seen below, the first decline since 2010.

Historical and Current Flat Rates for Benchmark Voyages



**Owners will demand higher Worldscale rates in 2014.**

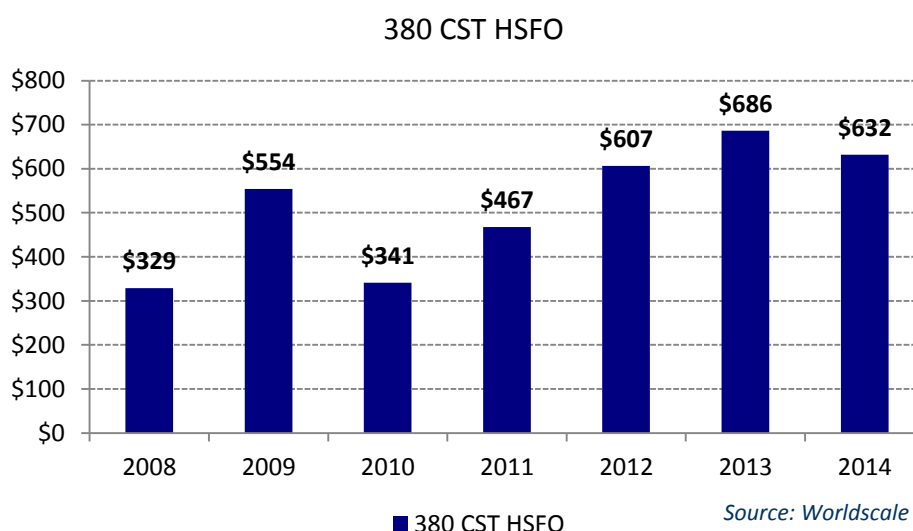
The effects of flat rate deflation are Worldscale rate inflation, shown in the following table. The majority of changes are less than five Worldscale points. As 2013 comes to an end, all parties should be aware of whether 2013 or 2014 flat rates are being quoted. A limited number of trades saw flat rate increases particularly those with shorter distances.

	AG-LOOP (280,000t)	AG-CHIBA (265,000t)	WAF-USAC (130,000t)	UKC-USAC (38,000t)	CBS-USG (70,000t)
WS Rate Basis 2013 Flat	38	60	107.5	137.5	185
WS Rate Basis 2014 Flat	40	64	114	145	194
Time Charter Equivalent	\$20,888.90	\$49,102.94	\$52,057.70	\$12,514.90	\$54,079.41

**Bunker price decline a bigger factor than port costs and canal transit increase.**

Source: Worldscale/Poten

Flat rates are determined by a number of inputs in an attempt to normalize the voyage revenue paid to shipowners. The primary driver in the annual adjustments in flat rates is the cost of bunkers; a cost that is borne by shipowners in the spot market. Worldscale calculates its bunker price basis from October 1, 2012 through September 30, 2013. During that time, bunker prices softened, resulting in a revision of Worldscale bunker price basis from \$686/MT to \$632/MT for heavy fuel oil with high sulphur content. The chart below shows the Worldscale Association's bunker prices used in flat rate calculations.



Tanker markets are closing 2013 on a relatively strong note with many vessel segments experiencing earnings levels not reported in several years, particularly VLCCs and Suezmaxes. One can be assured that owners are watching the changes to flat rates closely to ensure they do not give any ground during this relatively robust market. Market participants should be prepared to see a higher Worldscale rate environment at the start of 2014.

*Poten Tanker Market Opinions are published by the Commodity Consulting & Analytics department at Poten & Partners. For feedback on this opinion or to receive this via email every week please send an email to [tankerresearch@poten.com](mailto:tankerresearch@poten.com). For information on the services and research products offered by our Marine Projects & Consulting department or to contact our tanker brokers please visit our website at [www.poten.com](http://www.poten.com).*