Fuel surcharges will cost consumers

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New Zealand consumers can soon expect to feel the full impacts of emergency bunker surcharges (EBSs) being pursued by shipping operators and the rising cost of fuel in general, compounded by the Government's pending regional fuel tax and fuel excise.

As has been widely speculated overseas, the political unrest caused by United States President Donald Trump's plans to reimpose sanctions on Iran are causing global oil prices to rise along with other flow-on cost effects.

As reported in last week's *Shipping Gazette*™, the carrier announcements followed the price of IFO 380 bunker fuel in Rotterdam reaching US$443 per tonne and Brent crude oil about US$80 a barrel — the highest since 2014. Albeit, at the time of writing this week, the respective prices had dipped slightly to US$427.50 and US$75.01.

Speaking on behalf of local road transport operators, Road Transport Forum (RTF) chief executive Ken Shirley said since February to May this year, the average price of diesel had risen from $1.40 to over $1.60 per litre.

"It is difficult to predict how much higher this could go over the next few months but the Auckland regional fuel tax — which will theoretically increase the price by 11.5 cents a litre in Auckland, although realistically will be spread around the country — is a significant extra increase," he told the *Shipping Gazette*™.

"RTF also notes the Government's intention to impose a three-four cents per litre increase on general fuel excise every year for the next three years. This will, we assume, come with a commensurate road user charges increase.

"The reality is that with transporters operating on such slim margins, they must pass these extra costs on — where it will end up with consumers — who will end up paying more for the products on the shelves."

New Zealand Shippers' Council chairperson Mike Knowles said it was difficult to provide accurate predictions as to what flow-on cost increases consumers might expect to incur, given all factors. However, he was unequivocal in his criticism of the EBS action being taken by the global carriers.

"Overall we agree with the substance of the Global Shippers' Forum statement released last week, that the imposition of emergency surcharges has no place in a modern liner shipping market, where costs and prices should be mutually-agreed between customers and suppliers, preferably in mutually-agreed service contracts," he stated.

"In our view, the industry can start to manage this better if shippers/exporters under term contracts seek to have better clarity as to base freight rates and the underlying fuel component, and then build in bunker adjustment factor (BAF) formulas that are fair and equitable to both parties.

"Shipping lines need to be prepared to take the risk on the timing and speed of fuel price increases if shippers are prepared to take the risk on paying extra through an agreed mechanism, if fuel prices increase (or decrease as the case may be).

"There will always be the non-contract business that the carriers can levy their EBAFs etc. However, contract business should be treated differently — it's a relationship issue at the end of the day."

Asked if New Zealand's coastal shipping operators were likely to follow the EBS action of international carriers, New Zealand Shipping Federation executive director Annabel Young responded: "I think that the short answer is that they have hedging contracts in respect of their fuel purchases. Back to back with that, they already have a fuel adjustment factor in their standard contracts for when the fuel price exceeds their hedged position."