FEDERAL MARITIME COMMISSION
[Docket No. 12-07]

FMC Export Index—Response to Notice of Inquiry for Solicitation of Views on Requests to Develop and Release Container Freight Rate Indices for U.S. Agricultural Exports Based on a Sampling of Service Contracts Filed with the FMC

Comments from the

U.S. DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE

August 8, 2012

The U.S. Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) hereby submits its comments in response to the Federal Maritime Commission (FMC) Notice of Inquiry Docket No. 12-07 dated May 21, 2012. AMS appreciates the opportunity to provide comments. As a government agency, AMS will not comment on the impact of a new export index (index) on specific companies, but will instead provide our views of the utility of the index for the agricultural export community overall.

I. Authority, Identity, and Interest

The Secretary of Agriculture is charged with the responsibility under the Agricultural Marketing Act of 1946 to represent the interests of agricultural producers and shippers in improving transportation services and facilities by, among other things, initiating, participating and commenting in regulatory proceedings of Federal and State transportation regulatory bodies with respect to rates, charges, tariffs, practices and services. The mission of the Transportation Services Division (TSD) of USDA's AMS is to provide insightful agricultural transportation information and analysis to help move agricultural products to market, through: market reports, regulatory representation, economic analysis, technical assistance, responding to inquiries, and outreach to stakeholders. It is through TSD's analysis of the new index and reporting in the existing market reports that an agricultural export rate index would be the most beneficial to AMS and by extension the agricultural export community that uses our reports.

II. Benefits of an Agricultural Export Rate Index

The agricultural community uses the ocean transportation network extensively to serve its global customers. An estimated 55 percent of waterborne agricultural exports ($50.3 billion) were moved via containers to their foreign destinations in 2011, and 62 percent of imports ($54.4 billion) in 2010. In fiscal 2012, U.S. agriculture is expected to contribute $27 billion to the U.S. balance of trade, with exports forecasted to reach $134.5 billion and imports expected to reach $107.5 billion. Every $1 billion in farm exports supports roughly 8,400 jobs in this country, or over 1.1 million U.S. jobs for the amount of agricultural exports forecasted in 2012.

Clearly, agricultural exports are important to our country and to our economy. Because the transportation component is a major part of the total cost of exported U.S. agricultural products, transportation rates and costs are significant in determining the competitiveness of our exports in international markets. AMS appreciates and supports the Federal Maritime Commission's efforts to find ways within its authority to assist U.S. agricultural exporters.

Since containerized freight rates are kept confidential under the Ocean Shipping Reform Act of 1998, it is difficult for agricultural shippers to analyze rates for specific commodities and trade routes. Some private consulting firms collect information and publish indices on average ocean container rates for generic commodities and only a few trade routes. This rate information is helpful in providing an overall trend of container rates, but does not show specific fluctuations or impacts on individual commodities or commodity groups, such as agricultural products. Additionally, as the Commission noted in its notice of inquiry, many of these indices are focused primarily on the U.S. import leg.

AMS supports new data resources that will facilitate the orderly marketing of agricultural products and believes the development of an agricultural export rate index would greatly benefit agricultural exporters.   For example, many agricultural exporters already manage commodity price risk and small profit margins due to the competitive nature of the agricultural products in international markets. Often commercial sale arrangements are made as much as 6 months in advance between U.S. exporters and foreign buyers. However, under current service contract arrangements with ocean container carriers, where freight rates are subject to unexpected rate increases or fuel cost adjustments, the exporters' profit at the time of shipment is exposed without a risk management mechanism in place. Ocean freight rate indices dedicated specifically to agricultural commodities will allow exporters to manage the risk of ocean freight rate volatility and better plan overall transportation costs. Ocean carriers will also likely benefit from a more efficient pricing process.

The FMC recently made allowance for shippers and carriers to use established rate indices in their service contracts to provide flexibility and more certainty, allowing contract rates to follow the identified index over the period of contract. An index based on specific agricultural commodities would more directly reflect the current cost fluctuations and the supply and demand fundamentals of the agricultural export market.

Therefore, AMS believes the freight rate indices for agricultural exports that has been proposed by FMC could be a very useful tool in providing more transparency in the market for agricultural exporters using containers and could help agricultural exporters manage transportation costs and reduce risk. We applaud the FMC in exploring creative ways within its authority to support this important sector of our country's economy.

III. Conclusion

AMS appreciates the opportunity to comment on the FMC's Notice of Inquiry and supports the development of an agricultural export rate index. Most established ocean container freight rate indices focus on import traffic into the United States, generic commodities, and few trade lanes; therefore, an agricultural export rate index would greatly benefit the export community and provide a tool with which to make more educated business decisions.