



Friday October 16, 2009

## *Standardized rate system in the tanker industry*

### **WORLDSCALE**

"Worldscale" refers to the "New Worldwide Tanker Nominal Freight Scale," an index devised to allow comparison of freight rates for various size tanker routes. Worldscale is a standardized rate system in the tanker industry.

### **HISTORY:**

It was created during and after WW II, when the US and British governments had to charter out vessels that they had requisitioned during the war. They needed to establish a system that allowed for equality of returns, in terms of daily net revenue (TCE), to all the Owners whose vessels they controlled.

### **CONCEPT OF WORLD SCALE:**

The Worldscale concept works in two parts.

#### ➤ **WORLDSCALE FLAT RATE**

The first is the "flat rate" – which is a rate published by Worldscale – and represents a base rate for a voyage from point A to point B that allows for comparable returns for similar ship sizes performing near-similar voyages. Worldscale publishes these flat rates for thousands of possible voyages. The flat rate, for the most part, only changes once per year.

#### ➤ **WORLDSCALE MULTIPLIER**

But since the tanker market moves up and down on a daily basis – the flat rate, on its own, won't allow Owners and Charterers to agree on a rate that reflects the state of current market. This is where the Worldscale "multiplier" comes in. When you see a rate quoted in a market report, let's say, WS 175 – this means the rate per ton that the Owner will get paid is 175% of the flat rate – or, 1.75 times the flat rate. When the market gets hot, the Worldscale multiplier

increase. When the market goes cold, the multiplier decreases. All the while the flat rate never moves.

### **ROLE OF BUNKERS IN WS FLAT RATE CALCULATION**

The Worldscale Rate is not based on actual rates obtained in the market. Flat rates are based on dollar-per-tonne units and the association's annual revision is designed to reflect changes in costs, particularly those for ports and bunkers. The bunker price used in the Worldscale flat rate calculation is an average of the 12-month period between October 1 and September 30.

Bunker prices are the major influence on Worldscale flat rates, with the impact proportional to the amount of steaming time against days in port.

### **WS in 2009**

Worldscale flat rates on some routes were increased by as much as 40%.

The new flat rates accounted for much higher bunker costs, as achieved in many months last year 08.

### **WHAT NEXT?**

The average cost of bunkers has dropped around 39% in the leading bunkering ports of the world from last October 1, according to Platts data, leading some in the tanker industry to expect falls in 2010 Worldscale flat rates. Would the new worldscale be costly for tanker owners?

We expect the worldscale flat rates to be lower on account of declined bunkers.

*HAPPY DIWALI & HAVE A GREAT WEEKEND.*

*CTI Research and Analysis*

CTI Shipbrokers (I) Pvt. Ltd.  
Enkay Center, A Block, Udyog Vihar, Phase V,  
Gurgaon, Haryana (India).

TEL: +91 124 4646946

FAX: +91 124 4646947

E MAIL: [brokers@cti-shipbroker.com](mailto:brokers@cti-shipbroker.com)

WEB : [www.cti-shipbroker.com](http://www.cti-shipbroker.com)

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