Baltic Exchange

THE BALTIC EXCHANGE
Index Linked Agreements

September 2026

INDEPENDENT & TRUSTED

- The Baltic Exchange is wholly owned by the **Singapore Exchange (SGX)** since November 2016.

- The Baltic Exchange is the world's leading source of independent freight market data. Our information is used by shipbrokers, owners & operators, traders, financiers and charterers as a reliable and independent view of the dry bulk, tanker, gas, container and air freight markets.

- “Our Word Our Bond” is at the heart of what the Baltic Exchange and its global membership stands for. This ethos is embedded in the Baltic Code.



BALTIC EXCHANGE



Members include shipowners, shipbrokers, charterers and freight traders, as well as finance, insurance, legal and other business services.

GLOBAL PRESENCE

282
years as a business

5000
members, across

41
years
publishing indices

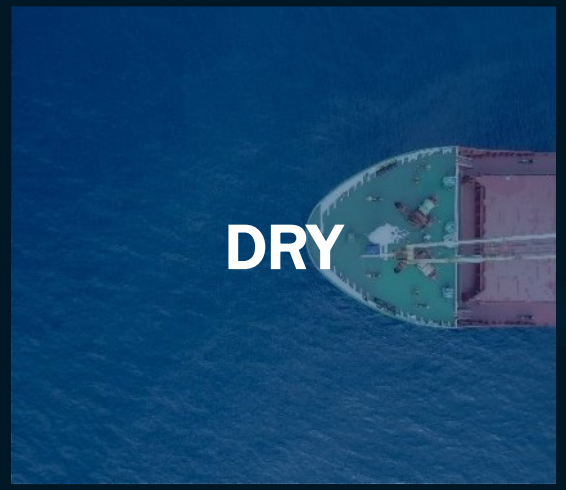
FREIGHT

6
market sectors

44
global panelist companies

230+
indices

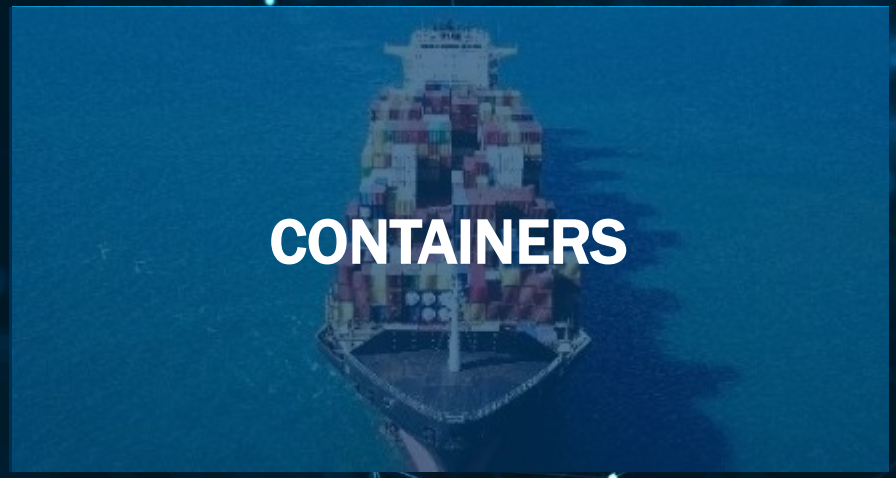
1030+
Daily data points











Baltic Exchange

@BalticExchange

Why use BAI Spot?

Panelist driven• Audited • Transparent
Current • Independent

- BAI also has the advantage for users of being a macro index. It focuses on three individual origin airports, where the price of freight is determined, to various regions rather than specific destination airports within that same region. What this means is an increase in the number of available relevant and expert panelists. Restricting the scope to one origin and one destination airport can drastically reduce the number of companies able and willing to enter into a contract.

- The BAI Spot is published daily at 17:00 Singapore time.

Baltic Air Spot Indices

- Indices are published daily covering three destinations
  - Originating from Hong Kong, Shanghai, Seoul, and India
  - to Central Europe (including FRA and AMS), East Coast US (including JFK, and including ORD for Seoul origin), West Coast US (including LAX)
- Cargo size – 1000kg, no special handling
- Shipment(s) to be uplifted within 3-7 days of booking
  - 3-4 days for India
- All-in pricing including fuel surcharges and security surcharges
  - Indices are derived from at least seven market expert submissions including airlines and forwarders

Freight Contract Negotiations

Index linkage gives counterparties an agreed process for responding to price changes.

The commercial challenge

Lengthy price negotiations can divert attention from service and relationship development.

As spot prices move away from a fixed contract rate, pressure to reopen commercial terms can increase.

The purpose of index linkage

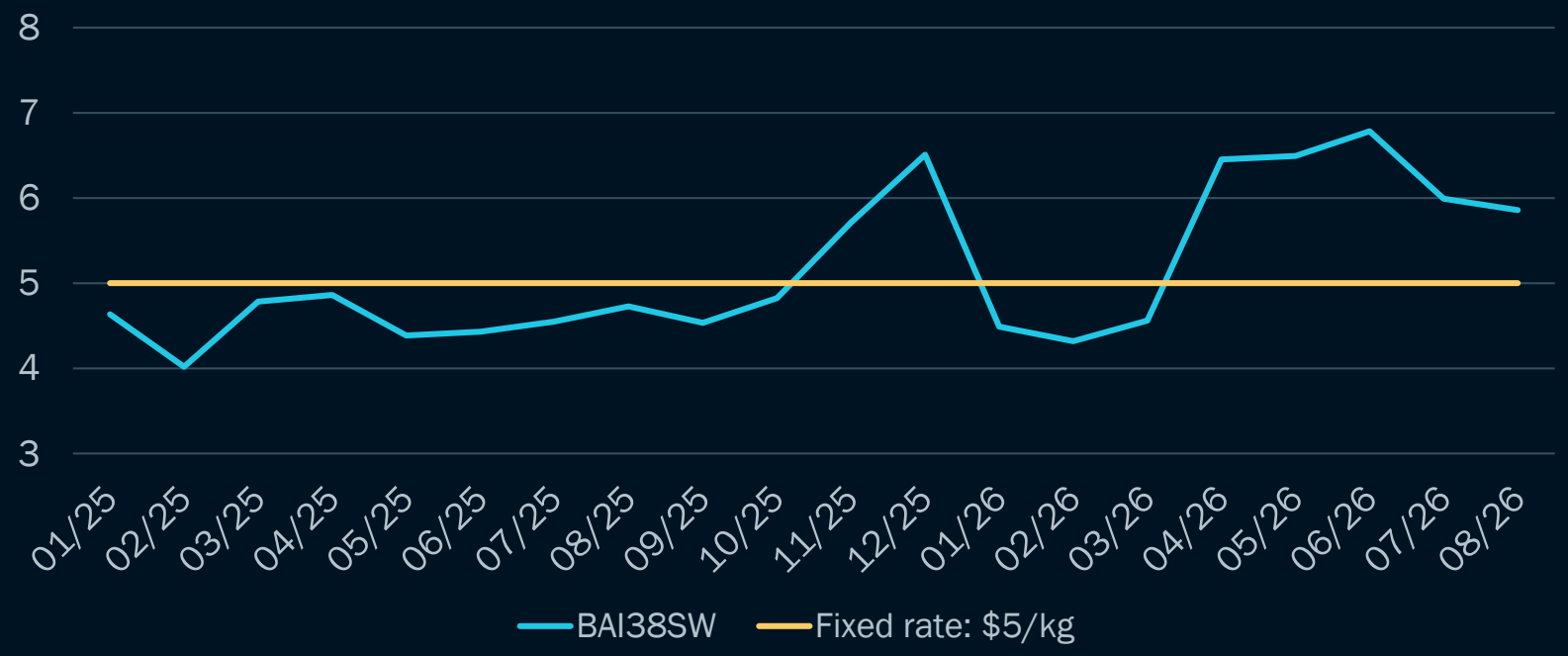
A published benchmark and an agreed formula allow the rate to adjust through the contract period.

This can reduce repeated repricing discussions and let both parties focus on capacity, volume and service commitments.

A pricing mechanism supports the agreement. Performance still depends on the commitments and terms the parties accept.

Fixed rates and changing market conditions

BAI38SW: Hong Kong – US West Coast (including LAX).



An agreed response

A fixed rate provides price certainty.

Index linkage allows the contract rate to respond as the freight market changes.

Monthly averages, Jan 2025–Aug 2026. Supplied Excel. Fixed $5/kg rate is illustrative.

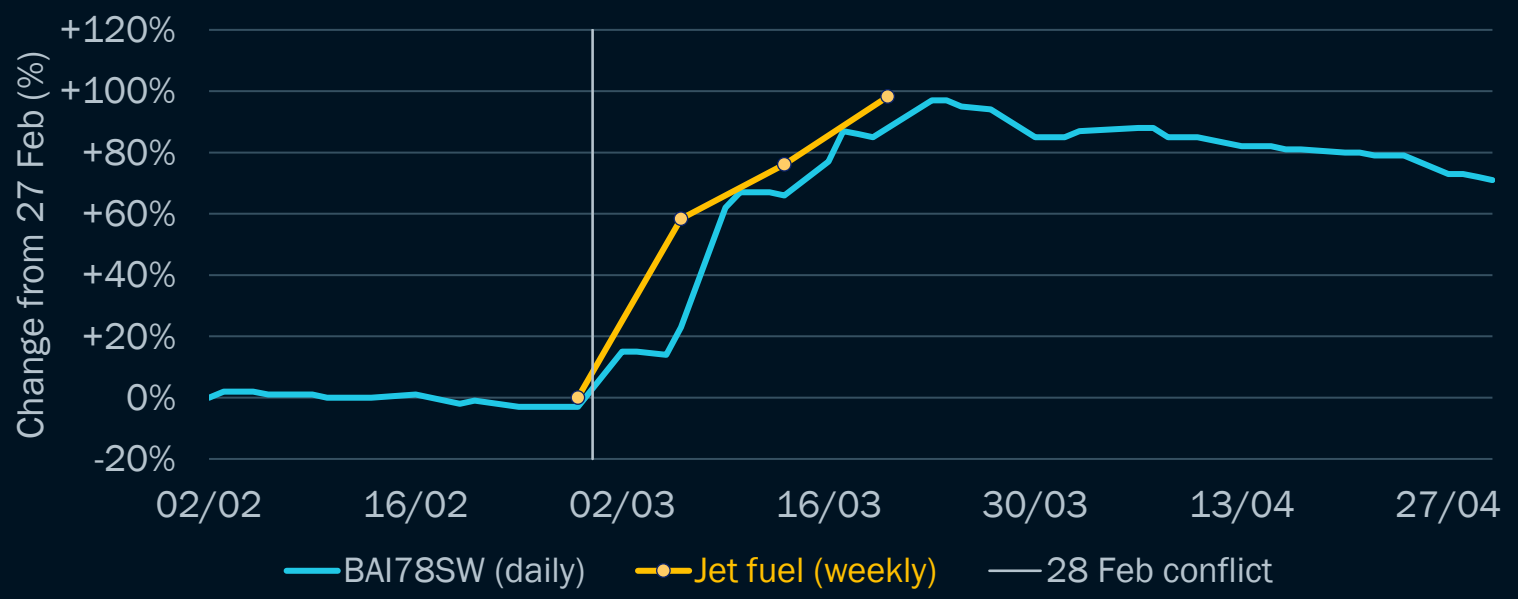
What is wrong with period / annually fixed price negotiations?

The practical difficulty is that a fixed annual rate can cease to reflect the prevailing market.

- Seasonal peaks and lulls, geopolitical changes and tensions, fuel, security, and currency costs may continue to fluctuate throughout the contract period, these material rises or falls, changes the true cost of transporting cargo.
- When the difference becomes material, the parties may have incentives to renegotiate price, capacity or volume commitments.

India air freight during the Iran war

BAI78SW: India – US West Coast (including LAX), February–April 2026.



28 February: US–Israeli strikes on Iran

0% = 27 Feb level: BAI78SW $3.49/kg. Jet fuel $99.40/bbl (weekly average).

Fuel line: weeks ending 6–27 Mar. IATA/Platts via CILTHK and Air India.

BAI78SW +102.3%

$3.49 to $7.06/kg
27 Feb–23 Mar

Jet fuel +96.4%

$99.40 to $195.19/bbl
Weeks ending
27 Feb–27 Mar

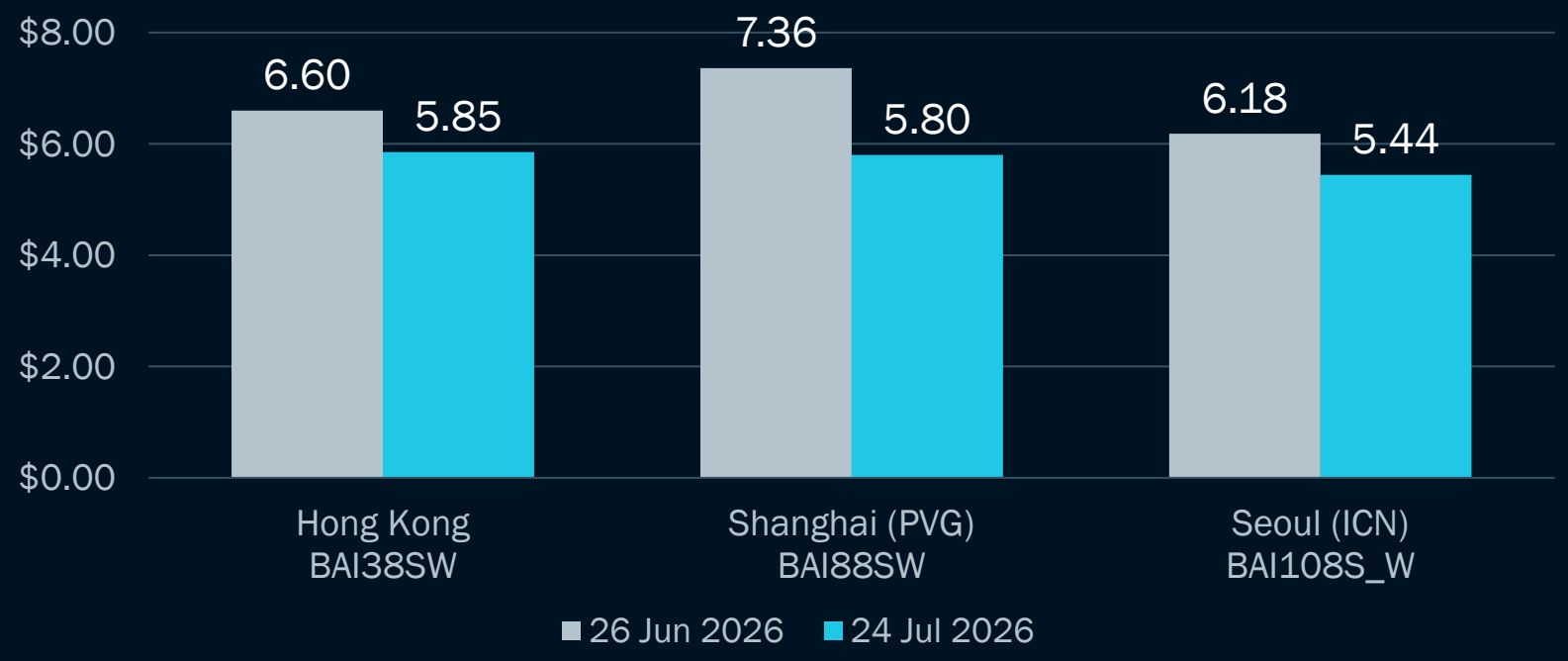
Fuel costs rise.
Capacity tightens.
BAI Spot responds.

Jet fuel costs are built into **BAI Spot.**

Expert panellists submit all-in rates for loading within 3–7 days, with jet fuel costs incorporated. **Removing** the need for a separate jet fuel cost adjustment.

July: higher fuel, softer freight rates

BAI Spot to the US West Coast (including LAX), 26 June–24 July 2026.



Spot-rate falls: BAI38SW −11.4% BAI88SW −21.2% BAI108S_W −12.0%

TAC: summer market

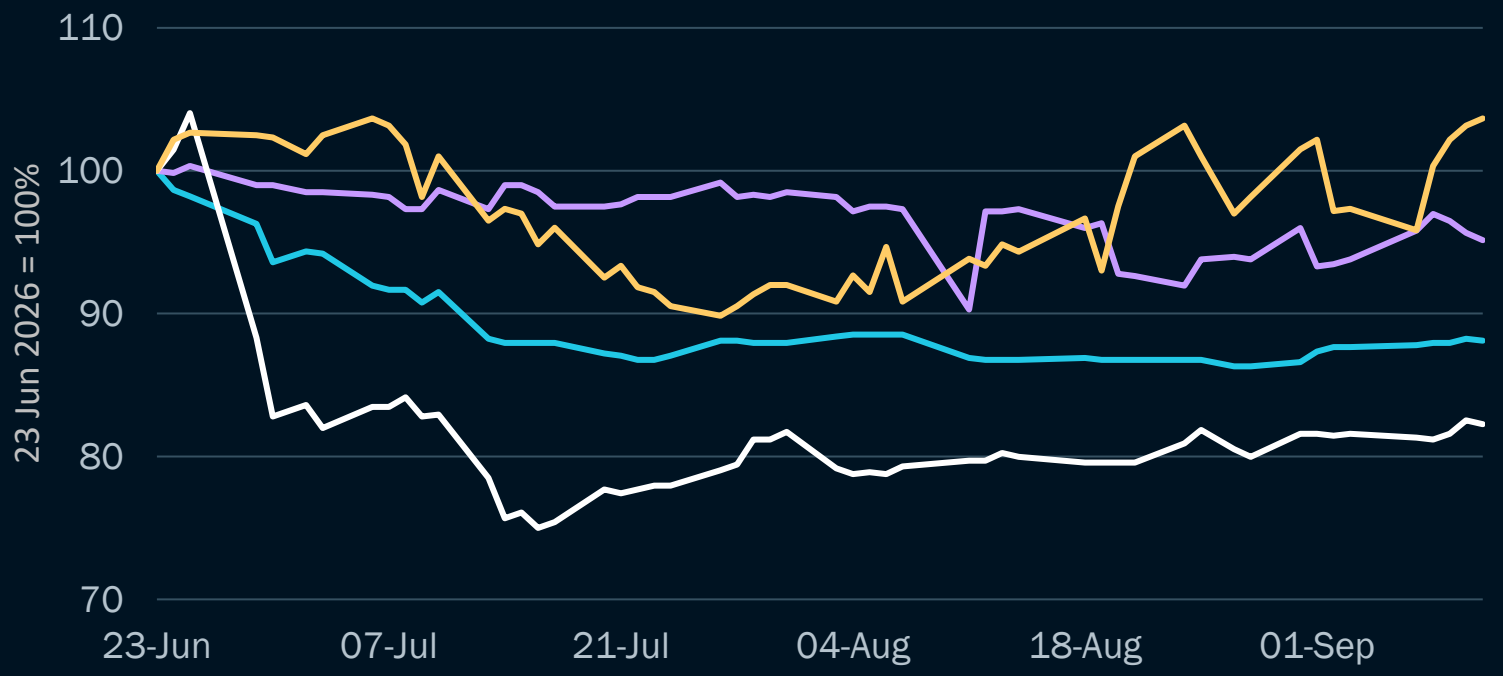
Fuel rose for four weeks to 24 July.

Summer passenger flights can add cargo space while increasing fuel demand.

Seasonally weaker cargo demand can outweigh fuel-cost pressure.

BAI Spot routes: comparable market movements

US West Coast (including LAX). Each route rebased to 100 on 23 June 2026.



Change to 11 September

BAI108S_W +3.7%
Seoul (ICN)

BAI78SW −4.9%
India

BAI38SW −11.9%
Hong Kong

BAI88SW −17.7%
Shanghai (PVG)

Seoul recovered above its June starting level as the other three routes remained lower.

.

A daily benchmark for all-in freight pricing

BAI Spot provides a current, independent assessment of the spot air cargo market.

Current market conditions

Daily spot assessments give members and data subscribers a timely benchmark for pricing new business and adjusting index-linked contracts.

An all-in freight price

BAI Spot measures the freight rate, which includes fuel and security surcharges under the applicable route specification.

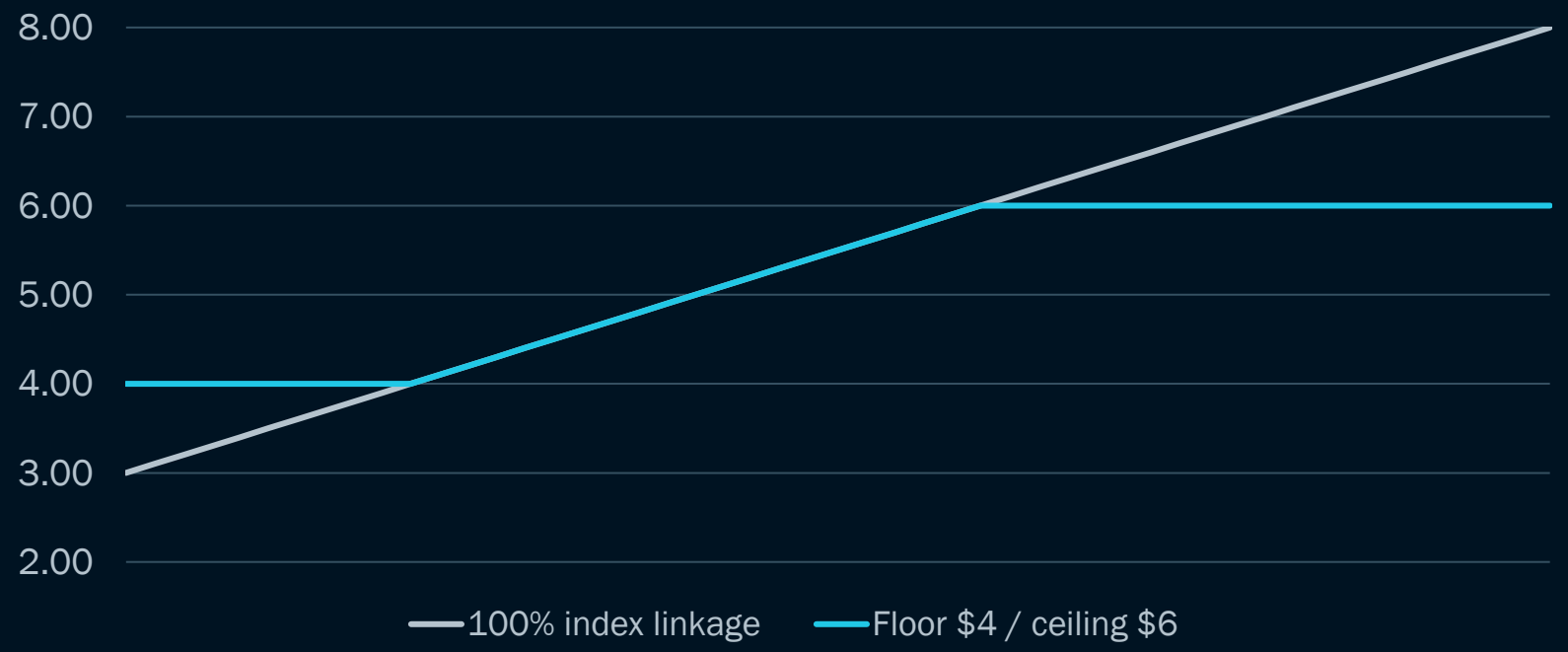
Contract Considerations

- Scope of tariff to be index-linked
- Contract period
- Choice of index
- Starting rate
- Contract rate adjustment mechanism
- Carrier service commitment
- Shipper volume commitments



Floors and ceilings

An agreed minimum and maximum contain the contract rate while retaining index linkage between them.



Starting point $5

Below $4, the floor limits further savings for the buyer.

Above $6, the ceiling limits further increases for the seller.

R = min($6, max($4, I))

Illustrative terms. Parties can agree a floor, a ceiling, both or neither. Symmetric limits do not establish equal risk.

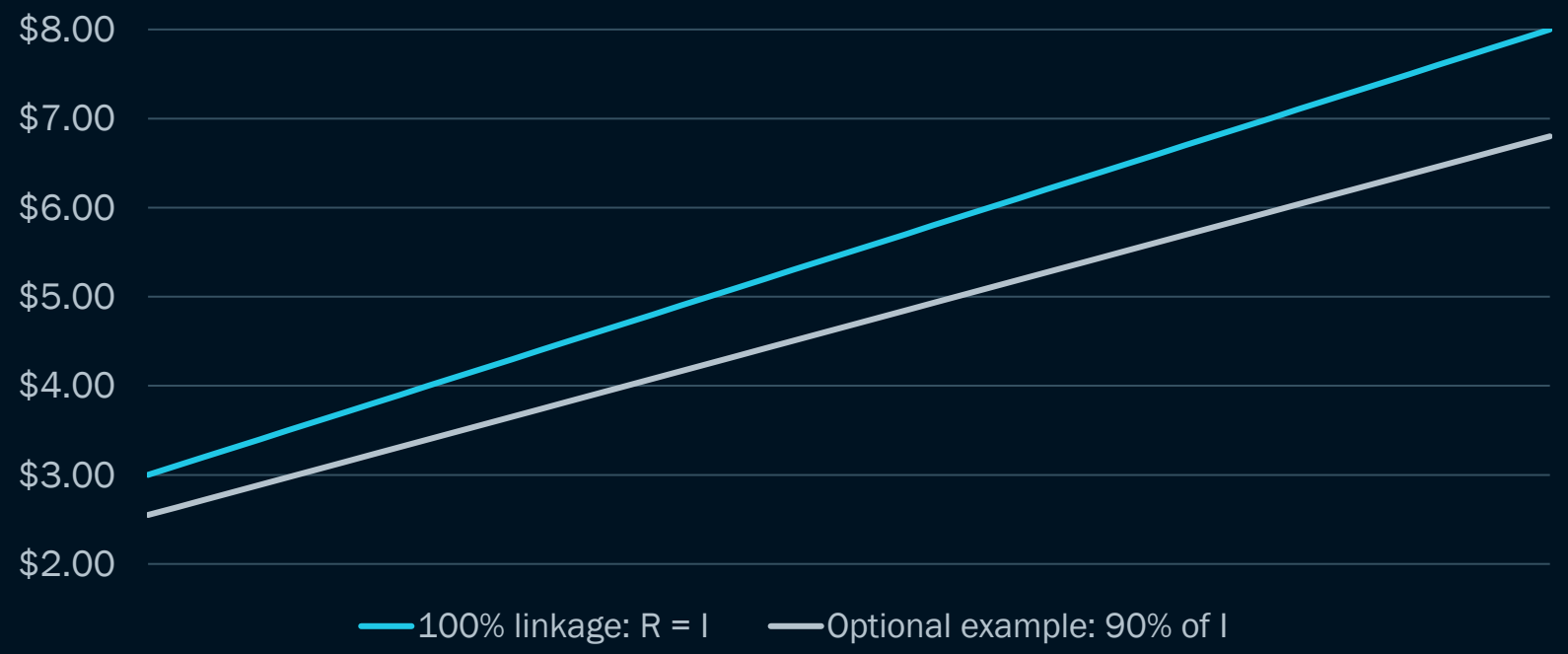
Price Mechanism

It is usual to follow the index with a percentage premium or discount. If a fixed price differential is taken, the effect of the dollar amount is either unduly influential when the index is low or has little bearing when the index level is high. A percentage difference is therefore a fairer tracker of the index in a contract.

It is also possible, if really needed, to include a particular route factor to the mechanism and this will need to be calculated using the TAC index as a guide.

Index linkage

The default example follows the index in full. A premium or discount is a separate commercial choice.



At 100% linkage

Index $5.00: rate $5.00
Index $6.00: rate $6.00

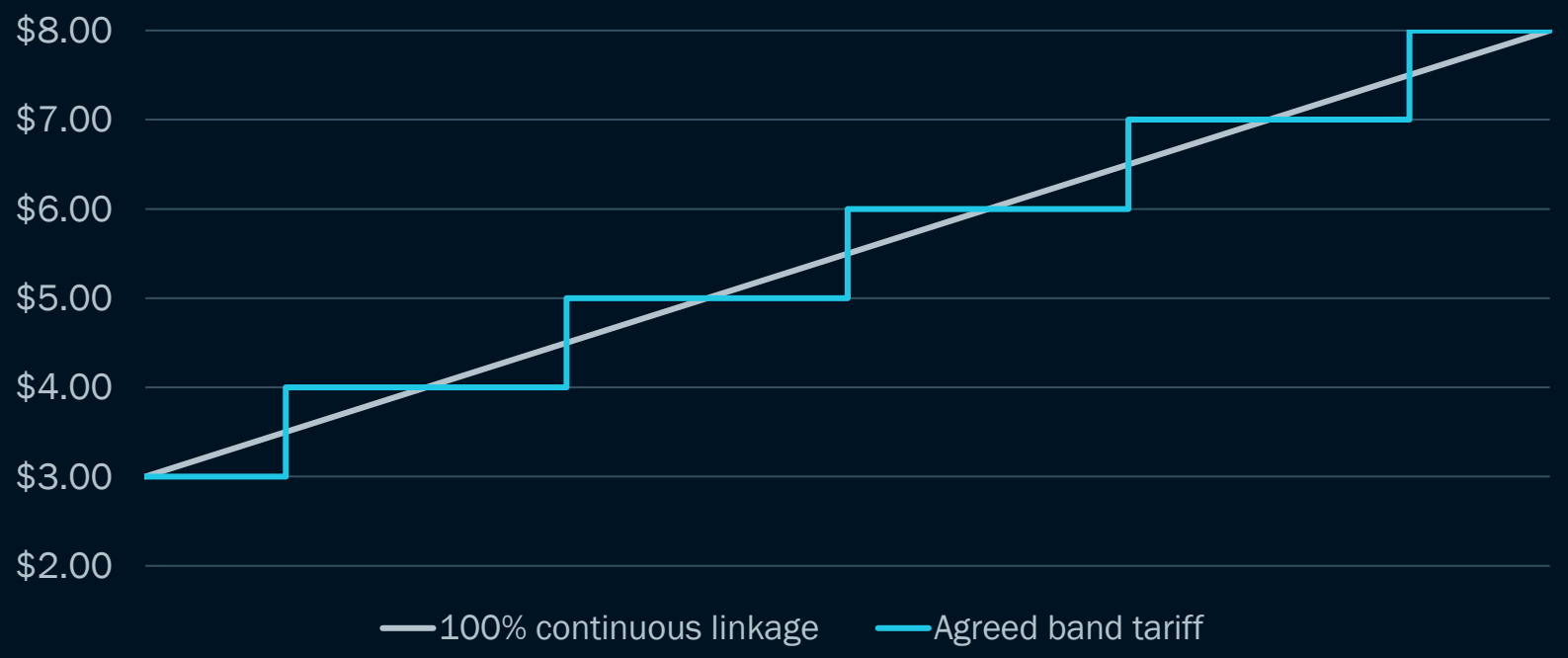
A negotiated 10% discount would instead set the rate at $5.40 when the index is $6.00.

Default: R = I Optional example: R = 0.90 × I

R = contract rate. I = agreed index observation or average. A discount is not assumed in subsequent examples.

Price bands

Each index range maps to a pre-agreed tariff, which stays fixed until the relevant band changes.



Around the $5 tariff

Index $4.50–<$5.50: contract rate stays $5.

At index $5.50: rate moves to $6.

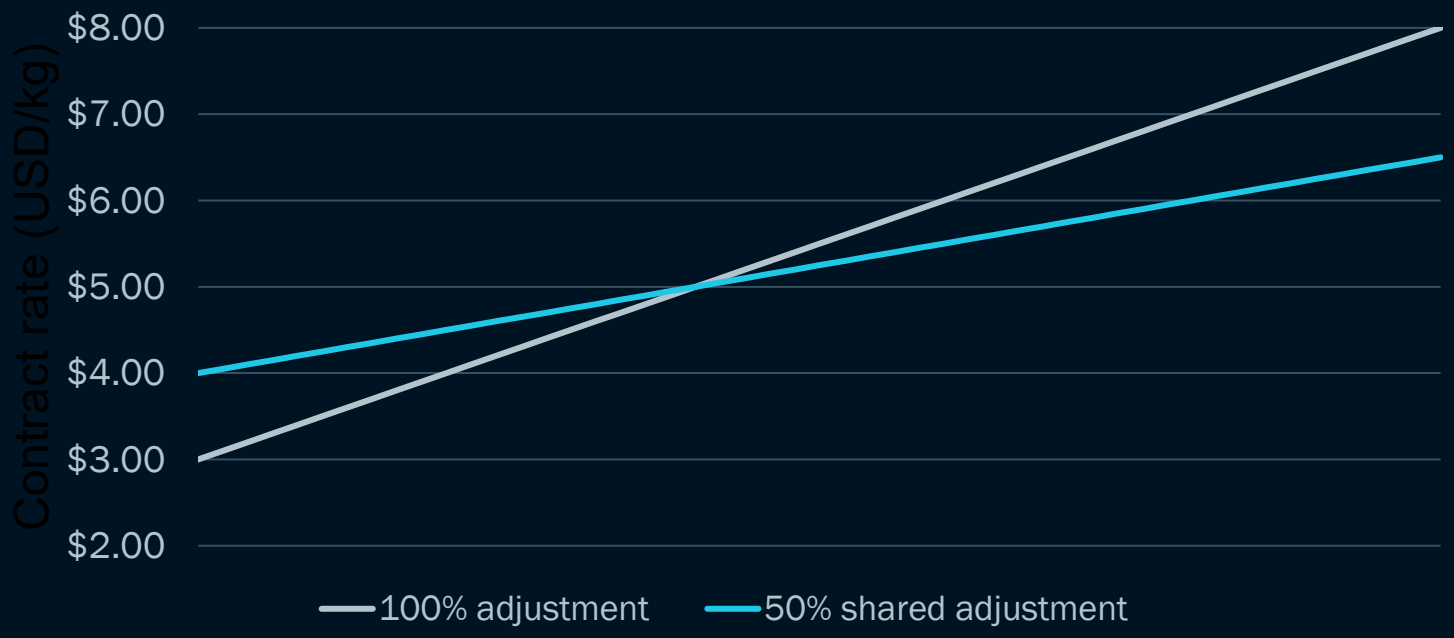
Parties can agree a trigger duration before a change.

R = agreed tariff for the band containing I

Illustrative $1/kg bands. Lower boundary inclusive, upper boundary exclusive. Immediate triggers shown here.

Shared market adjustment

The parties agree a starting contract rate, then share subsequent index increases and decreases.



Contract starts at $5/kg

Starting index also $5/kg.
Both remain the fixed baseline.

Index falls 20% to $4:
shared rate becomes $4.50.

Index rises 20% to $6:
shared rate becomes $5.50.

$$R = \$5 \times [1 + 50\% \times (I / \$5 - 1)]$$

10,000 kg shipment: $45,000 / $55,000 at index $4 / $6, versus $40,000 / $60,000 with 100% adjustment.

Frequency of renegotiation

The index-linked contract evolved to counter the need for frequent renegotiation. They are designed to increase efficiency of contracting and procurement teams so that their time can be better spent on improving the service relationship between parties.

Any clauses included in an index-linked contract that provide the ability to adjust the mechanism, are more there for comfort; to reassure both parties to the contract. It would be sensible to check how the contract is running every six months or so (depending on the agreed contract length, if any) and if all is acceptable, let it continue to run.

It would be unusual to include a break clause if there is an ability to adjust the mechanism within the contract and both sides are committed to the fulfilment of the contract.

Frequency of settlement

The frequency of shipment should be the determining factor on when settlement should occur.

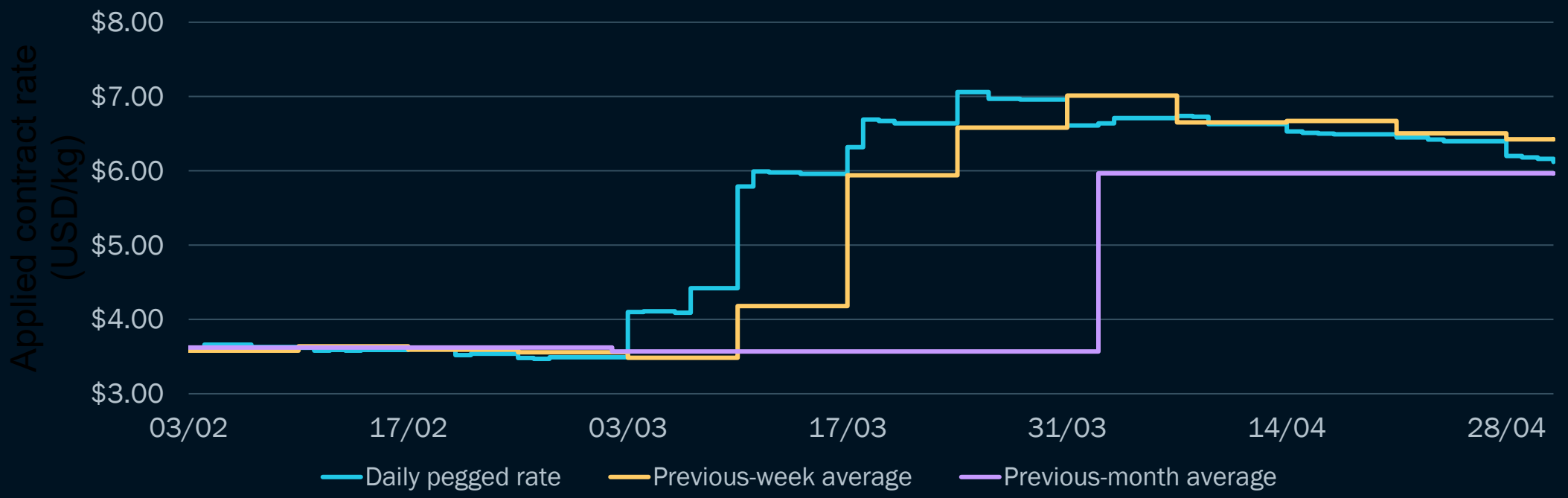
The settlement period should allow enough time for averaging to occur but not be too long a period so that there is a significant gap between invoices.

We would suggest the following as a guide:

Frequency of Shipment	Settlement
Weekly	Every 2 weeks
Monthly	Every 6-8 weeks
Quarterly	Every 16 weeks

Daily, weekly or monthly index linkage

BAI78SW: India – US West Coast (including LAX). All examples use 100% of the chosen observation.



Daily pegging responds sooner. Prior-period averages smooth moves and fix the rate for longer.

Illustrative application of the same daily BAI Spot data. Weekly and monthly rates reset using the completed previous period.

Deadfreight

If the contract price is resolved by the use of an index-linked contract, then volume commitment can become the pain point instead.

A solution is of course to include a deadfreight clause in the contract, but these have also been traditionally hard to enforce in fixed rate contracts.

Here, the deadfreight can also be index-linked at a percentage level agreeable to both parties. The notice period is still a point to be agreed by the seller and buyer – this issue cannot be fixed with an index-linked contract. However, the goodwill that is usually created by eliminating the need for frequent renegotiations of a fixed rate contract, should free up more time to concentrate on service commitments on both sides.

Index-linked agreements with BAI Spot

A DAILY FREIGHT BENCHMARK.

AN AGREED APPROACH TO PRICE CHANGES.

The relevant route provides the market benchmark.
The contract establishes how and when the rate adjusts.
Service and volume commitments complete the agreement.


ENABLING RISK MANAGEMENT
THROUGH TRUSTED
BENCHMARKS
OUR WORD OUR BOND