



The Modern Freight Procurement Model

Indexed Contracts + CFF Hedging

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The Problem with Fixed-Rate Contracts

Annual tenders create misaligned incentives between shippers and carriers

When Spot Rises Above Contract

- Carriers prioritise higher-paying spot cargo — your containers get rolled or bumped
- GRIs (General Rate Increases) and PSS are imposed mid-contract, inflating your effective rate
- Service quality degrades — you pay the "contract rate" but don't get the capacity you need

When Spot Falls Below Contract

- You are overpaying versus the market — competitors on spot get cheaper freight
- MQC (Minimum Quantity Commitment) clauses lock you into volumes at above-market prices
- Renegotiation leverage is limited once the contract is signed

Fixed contracts create a zero-sum game. The industry needs a model where both sides win.



What Is an Indexed Contract?

A floating-rate physical contract tied to a neutral benchmark

How It Works

- Instead of fixing a rate at tender, you agree to pay: XSI®-C spot rate + an agreed spread
- The spread compensates the carrier for service guarantees, equipment, and capacity commitment
- Rate adjusts automatically with the market — no GRI disputes, no mid-contract renegotiations

Benefits for Both Sides

- Carrier: no incentive to default — they always earn a fair market rate plus their spread
- Shipper: guaranteed capacity and service regardless of spot market conditions
- Both: reduced admin burden — no more quarterly rate reviews or emergency surcharge negotiations

Indexed contracts solve the service problem. But they leave budget uncertainty on the table.



Why Indexed Alone Is Not Enough

Service is secured, but your budget is still floating with the market

The Remaining Gap

- An indexed contract means your freight bill changes every shipment — your CFO cannot budget accurately
- If rates spike 300% like in 2021, your indexed contract faithfully passes the full cost through to you
- Procurement solved the carrier relationship — but treasury still has an open rate exposure

The Analogy

- An indexed freight contract is like a floating-rate loan — you get flexibility but carry rate risk
- Adding a CFF hedge is like buying an interest rate swap — you convert floating to fixed
- You keep the carrier relationship benefits while adding financial certainty

Indexed + hedged is the best of both worlds: service reliability from the carrier, budget certainty from the futures market.



The Hybrid Solution in Practice

Step-by-step: how indexed physical + CFF financial hedge works together

Step 1: Sign an Indexed Physical Contract

- Agree with your carrier: you pay XSI®-C + \$200/FEU spread for guaranteed weekly space

Step 2: Buy CFF Futures to Lock the Rate

- Buy FENE futures at \$3,000/FEU for each month you want to hedge
- Your effective locked-in rate = \$3,000 (futures) + \$200 (spread) = \$3,200/FEU

Step 3: As Rates Move, the Hedge Offsets

- If XSI®-C rises to \$5,000: you pay carrier \$5,200 but gain \$2,000 on futures = net \$3,200
- If XSI®-C falls to \$1,500: you pay carrier \$1,700 but lose \$1,500 on futures = net \$3,200

**Result: guaranteed capacity from the carrier + guaranteed cost for the CFO.
Both sides aligned.**



Who Benefits?

The indexed + hedged model creates a triple win for the freight ecosystem

Shippers & Importers

- Budget certainty: locked-in freight costs for accurate financial planning
- Service reliability: indexed contract removes the carrier's incentive to default or roll your cargo

Freight Forwarders & NVOCCs

- Margin protection: lock the buy-side cost while offering fixed-price quotes to customers
- Competitive edge: offer longer-term fixed pricing with confidence, winning more business

Ocean Carriers

- Revenue stability: indexed contracts reduce contract abandonment and booking volatility
- Sell-side hedging: carriers can sell futures to lock in forward revenue at attractive levels

The indexed + hedged model aligns incentives across the entire supply chain.



Making the Transition

How to shift from fixed-rate tenders to indexed + hedged procurement

Phase 1: Pilot with One Route

- Start with your highest-volume route (likely FENE) and one carrier willing to offer indexed terms
- Hedge 3–6 months of volume to test the workflow with your treasury and broker

Phase 2: Expand Across Routes

- Roll the model to additional routes and carrier contracts during the next tender cycle
- Build internal capability: procurement manages physical contracts, treasury manages hedging

Phase 3: Strategic Hedging Program

- Formalise a hedging policy with board approval, risk limits, and reporting cadence
- Use the forward curve as a strategic tool for annual budgeting and supplier negotiations

Euronext and its broker network can support you at every phase of this transition.



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