

Fuel Surcharge (FSC) Impacts

The rapidly changing marketplace and how it impacts your business

April 4, 2022

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Agenda

- **The Macroeconomic Fuel Environment**
- **Fuel Surcharge 101**
- **Recent Carrier Changes**
- **Mitigation Options**

Fuel Surcharge 101: Most carriers use the U.S. Energy Information Administration (EIA) weekly retail fuel prices to establish their fuel surcharges.

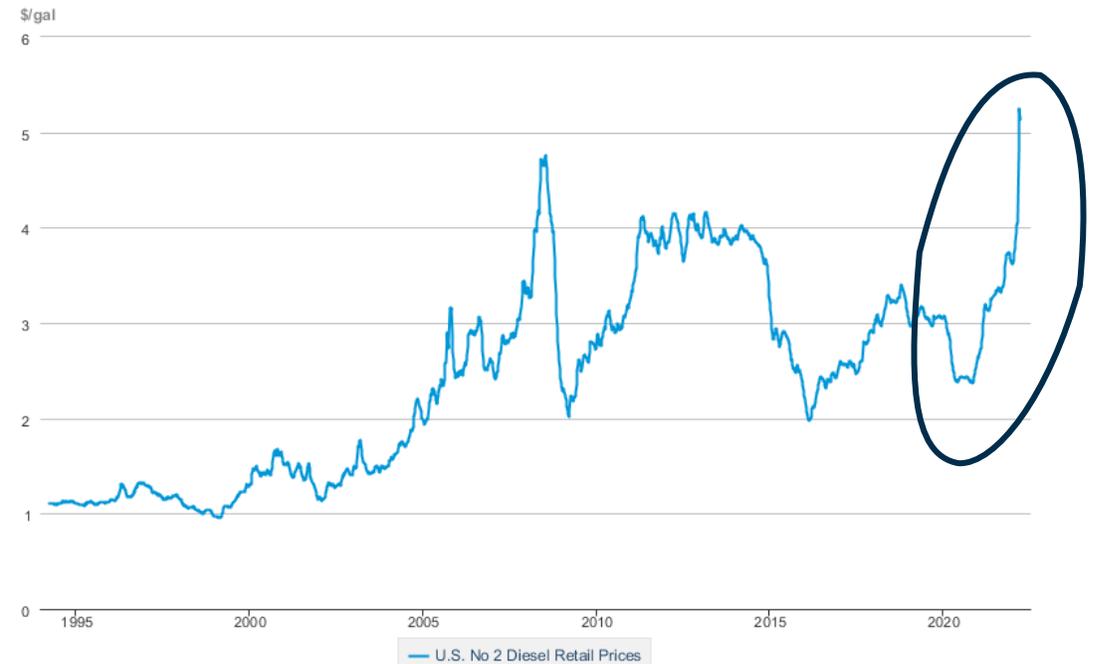
- **Ground Parcel and most Freight services** utilize the On-Highway Diesel per gallon fuel rates
- **Air/Express services** utilize the spot prices for U.S. Gulf Coast Jet Fuel
- The EIA website has a wealth of information including graphing of historical fuel data

Download Series History		Definitions, Sources & Notes							
Show Data By:		Graph	02/14/22	02/21/22	02/28/22	03/07/22	03/14/22	03/21/22	View History
<input checked="" type="radio"/> Product	<input type="radio"/> Area	Clear							
Gasoline - All Grades	<input type="checkbox"/>		3.581	3.624	3.701	4.196	4.414	4.343	1993-2022
All Grades - Conventional Areas	<input type="checkbox"/>		3.441	3.480	3.554	4.031	4.252	4.165	1994-2022
All Grades - Reformulated Areas	<input type="checkbox"/>		3.859	3.911	3.994	4.527	4.737	4.697	1994-2022
Regular	<input type="checkbox"/>		3.487	3.530	3.608	4.102	4.315	4.239	1990-2022
Conventional Areas	<input type="checkbox"/>		3.372	3.410	3.486	3.963	4.180	4.091	1990-2022
Reformulated Areas	<input type="checkbox"/>		3.738	3.790	3.874	4.407	4.610	4.562	1994-2022
Midgrade	<input type="checkbox"/>		3.908	3.954	4.025	4.524	4.765	4.719	1994-2022
Conventional Areas	<input type="checkbox"/>		3.710	3.752	3.814	4.292	4.538	4.462	1994-2022
Reformulated Areas	<input type="checkbox"/>		4.204	4.256	4.341	4.872	5.106	5.107	1994-2022
Premium	<input type="checkbox"/>		4.180	4.221	4.296	4.798	5.038	4.992	1994-2022
Conventional Areas	<input type="checkbox"/>		4.009	4.045	4.114	4.592	4.833	4.759	1994-2022
Reformulated Areas	<input type="checkbox"/>		4.384	4.430	4.513	5.044	5.284	5.269	1994-2022
Diesel (On-Highway) - All Types	<input type="checkbox"/>		4.019	4.055	4.104	4.849	5.250	5.134	1994-2022
Ultra Low Sulfur (15 ppm and Under)	<input type="checkbox"/>		4.019	4.055	4.104	4.849	5.250	5.134	2007-2022
Low Sulfur (Above 15 ppm to 500 ppm)	<input type="checkbox"/>								2007-2008

Fuel Surcharge 101: Ground Parcel and Freight services utilize the EIA weekly per gallon prices for On-Highway Diesel

- The most recent on highway diesel fuel price was \$5.185 and was as low as \$3.615 per gallon in December 2021.
- From 2015 to 2020 diesel fuel prices remained in a stable range.
- Since 2020, however, prices have steadily increased.
- Recent Ground Parcel FSC percentages range from 16-20%.
- Recent LTL Freight FSC percentages range from 35-45%.

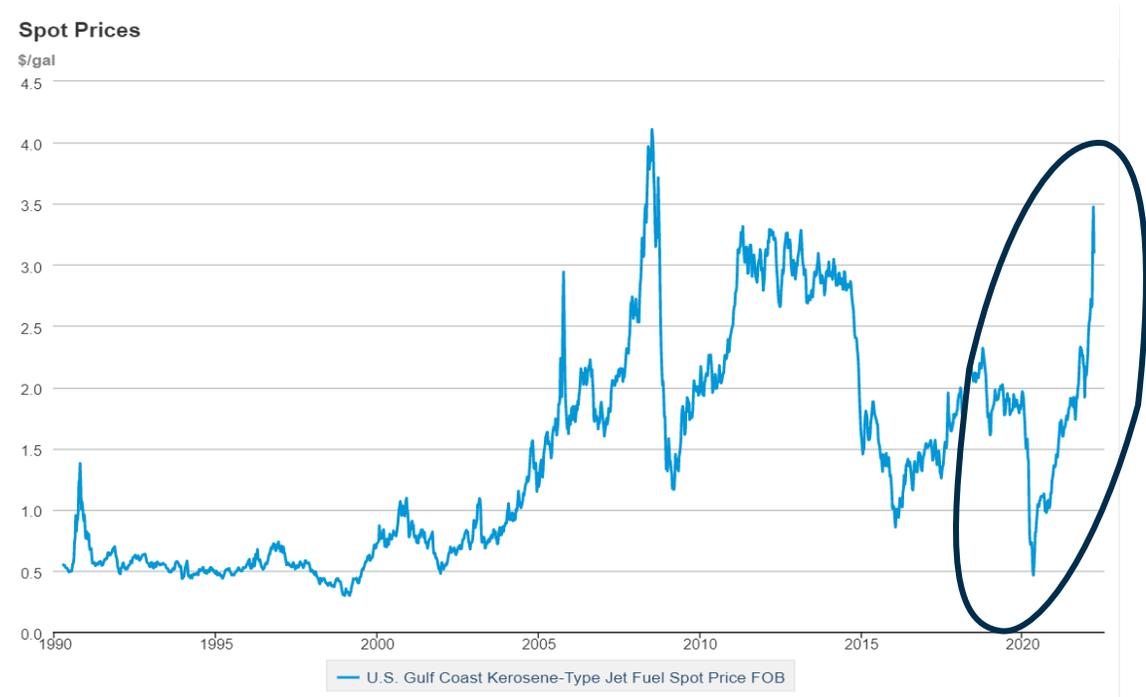
Weekly Retail Gasoline and Diesel Prices



Source: U.S. Energy Information Administration

Fuel Surcharge 101: Air/Express services utilize the EIA weekly per gallon spot prices for U.S. Gulf Coast Kerosene-type Jet Fuel.

- The most recent jet fuel price was \$3.769 and was as low as \$1.918 per gallon in December 2021.
- Like Ground Parcel and Freight, from 2015 to 2020 jet fuel prices remained in a stable range.
- Since bottoming out in 2020, however, prices have steadily increased.
- Recent Air/Express FSC rates have ranged from 18-22% or more



Fuel Surcharge 101: Both Ground and Air/Express services will use the published fuel table and per gallon fuel price to establish the fuel surcharge

FedEx Ground

Effective Nov. 1, 2021 - April 3, 2022 (prices per gallon of diesel fuel)		
At Least	But Less Than	Surcharge
\$3.82	\$3.91	12.50%
\$3.91	\$4.00	12.75%
\$4.00	\$4.09	13.00%
\$4.09	\$4.18	13.25%
\$4.18	\$4.27	13.50%
\$4.27	\$4.36	13.75%
\$4.36	\$4.45	14.00%
\$4.45	\$4.54	14.25%
\$4.54	\$4.63	14.50%
\$4.63	\$4.72	14.75%
\$4.72	\$4.81	15.00%
\$4.81	\$4.90	15.25%
\$4.90	\$4.99	15.50%
\$4.99	\$5.08	15.75%
\$5.08	\$5.17	16.00%
\$5.17	\$5.26	16.25%
\$5.26	\$5.35	16.50%
\$5.35	\$5.44	16.75%
\$5.44	\$5.53	17.00%
\$5.53	\$5.62	17.25%
\$5.62	\$5.71	17.50%
\$5.71	\$5.80	17.75%
\$5.80	\$5.89	18.00%

- The table on the left represents the FedEx Ground fuel surcharge table, effective from Nov. 1, 2021 to Apr. 3, 2022.
- The highlighted row represents the fuel surcharge of 16.25% for packages shipped during the week of March 21st based on the On-Highway Diesel per gallon fuel price from the prior week (\$5.25).
- A shipper's net Ground spend is multiplied by the fuel surcharge rate to determine the additional cost of fuel.

Fuel Surcharge 101: The FSC applies not only to base freight charges, but many accessorials/surcharges as well

FedEx

- For **FedEx Express** shipments, the related fuel surcharge is assessed on the net package rate plus the following applicable surcharges: additional handling, additional handling – non-stackable, broker select option fee, courier pickup, delivery area surcharge, delivery reattempt, extended service area delivery, extended service area pickup, FedEx® Collect on Delivery, FedEx® Delivery Signature Options, metro service area delivery, metro service area pickup, oversize, peak – additional handling, peak — oversize, residential delivery, residential pickup, return on-call pickup, FedEx ExpressTag®, Saturday delivery and Saturday pickup, and any temporary surcharge(s) currently in effect. This list may be amended or augmented without notice. For FedEx Express shipments where a weight-based calculation is used, the related fuel surcharge is assessed on the billable weight of the shipment. Billable weight may include additional deficit weight when applicable.
- For **FedEx Ground** shipments, the related fuel surcharge is assessed on the net package rate plus the following applicable surcharges: additional handling, call tag, delivery area surcharge, FedEx® Delivery Signature Options, FedEx Ground® C.O.D., FedEx Ground® Electronic C.O.D., FedEx Home Delivery® Convenient Delivery Options, Northern Canada surcharge, on-call pickup, oversize, peak – additional handling, peak — ground unauthorized, peak — oversize, unauthorized, residential delivery, return on-call pickup and any temporary surcharge(s) currently in effect. This list may be amended or augmented without notice.

UPS

Fuel surcharges apply to domestic and international transportation charges, and to the following accessorial charges:

- Delivery Charges
- Pickup Charges
- Remote/Extended Delivery and Pickup Charges
- Residential Surcharge
- Return Services w/ Pickup
- Saturday Delivery and Pickup
- Signature Required Services
- Additional Handling, Large Package and Over Maximum Limits
- Oversize Pallet Handling Surcharge
- Peak/Demand Surcharges

Recent Carrier Changes: What are the major levers carriers can pull to change the fuel surcharge?

- Fuel surcharge update frequency
 - Both FedEx and UPS are leveraging the EIA index from prior 1 week. The shorter lag benefits the carriers when the fuel prices are going up.
- Fuel surcharge calculation base
 - Carriers have the option to include more assessorial charges into the fuel surcharge calculation. As witnessed in prior years, the list of fuel-eligible surcharges has grown significantly.
- Potential higher General Rate Increase (GRI)
 - Carriers could inflate the GRI and offset it by a FSC reduction.

Recent Carrier Changes: In the last two weeks UPS and FedEx have made changes to their FSC practices that have negative implications to shippers.

- Both carriers increased their FSC tables in November 2021; FedEx by 1.75% and UPS by 1.00%
- **UPS** reduced the lag time in its FSC changes from two weeks to one week to allow it to capture fuel increase more rapidly
- **FedEx** announced an increase, effective April 4, 2022, adding 1.75% to the FSC table.

Recent Carrier Changes: FedEx FSC changes will increase the fuel cost of Ground and Express for shippers by 9+%; the UPS table lags by 2.75%

FedEx Ground

Effective Nov. 1, 2021–April 3, 2022
(prices per gallon of diesel fuel)

At Least	But Less Than	Surcharge
\$4.45	\$4.54	14.25%
\$4.54	\$4.63	14.50%
\$4.63	\$4.72	14.75%
\$4.72	\$4.81	15.00%
\$5.08	\$5.17	16.00%
\$5.17	\$5.26	16.25%
\$5.26	\$5.35	16.50%
\$5.35	\$5.44	16.75%
\$5.44	\$5.53	17.00%
\$5.53	\$5.62	17.25%
\$5.62	\$5.71	17.50%
\$5.71	\$5.80	17.75%
\$5.80	\$5.89	18.00%

Effective April 4, 2022
(prices per gallon of diesel fuel)

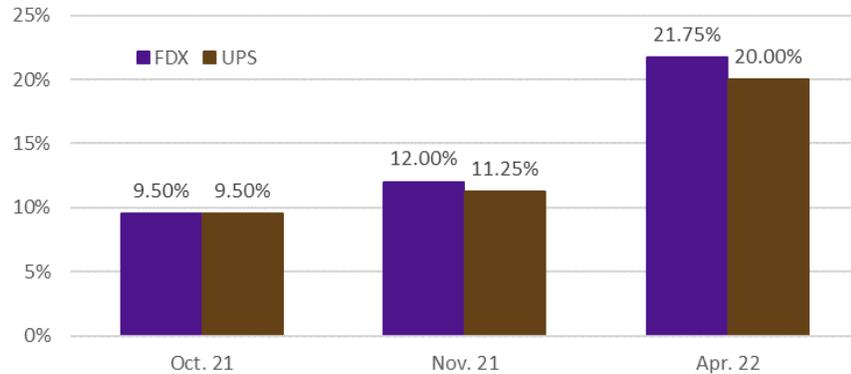
At Least	But Less Than	Surcharge
\$4.45	\$4.54	16.00%
\$4.54	\$4.63	16.25%
\$4.63	\$4.72	16.50%
\$4.72	\$4.81	16.75%
\$5.08	\$5.17	17.75%
\$5.17	\$5.26	18.00%
\$5.26	\$5.35	18.25%
\$5.35	\$5.44	18.50%
\$5.44	\$5.53	18.75%
\$5.53	\$5.62	19.00%
\$5.62	\$5.71	19.25%
\$5.71	\$5.80	19.50%
\$5.80	\$5.89	19.75%

UPS Ground

At Least	But Less Than	Surcharge
\$4.94	\$5.06	14.75%
\$5.06	\$5.18	15.00%
\$5.18	\$5.30	15.25%
\$5.30	\$5.42	15.50%
\$5.78	\$5.90	16.50%
\$5.90	\$6.02	16.75%
\$6.02	\$6.14	17.00%
\$6.14	\$6.26	17.25%
\$6.26	\$6.38	17.50%
\$6.38	\$6.50	17.75%
\$6.50	\$6.62	18.00%
\$6.62	\$6.74	18.25%
\$6.74	\$6.86	18.50%

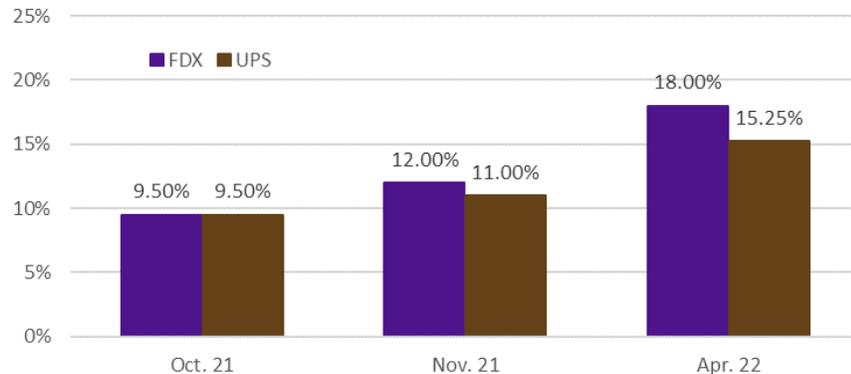
Recent Carrier Changes: With the announced changes, fuel surcharges have increased by 60% to 129% for FDX and UPS.

FDX and UPS Fuel Surcharge - Air



- Fuel surcharge for Air shipments more than doubled for both carriers, comparing today's levels to Oct. 2021.
 - USGC Kerosene-type jet fuel price index increased by 81%.

FDX and UPS Fuel Surcharge - Ground



- Fuel surcharge for Ground shipments went up by 89% and 60% for FDX and UPS respectively.
 - On-Highway diesel fuel price index increased by 52%.

Recent Carrier Changes: The FedEx FSC changes will increase the fuel cost per shipment by 1.5%; comparable UPS shipments are currently less expensive.

Ground Zone 4, 5-pound package

	FDX			UPS
	March 21st	April 4th	Increase	
Published Rate	\$13.70	\$13.70		\$13.70
Fuel	\$2.23	\$2.47	\$0.24	\$2.09
Residential Delivery	\$5.20	\$5.20		\$4.85
Fuel	\$0.85	\$0.94	\$0.09	\$0.74
Total	\$21.97	\$22.30	\$0.33	\$21.38

Next Day Air Zone 4, 5-pound package

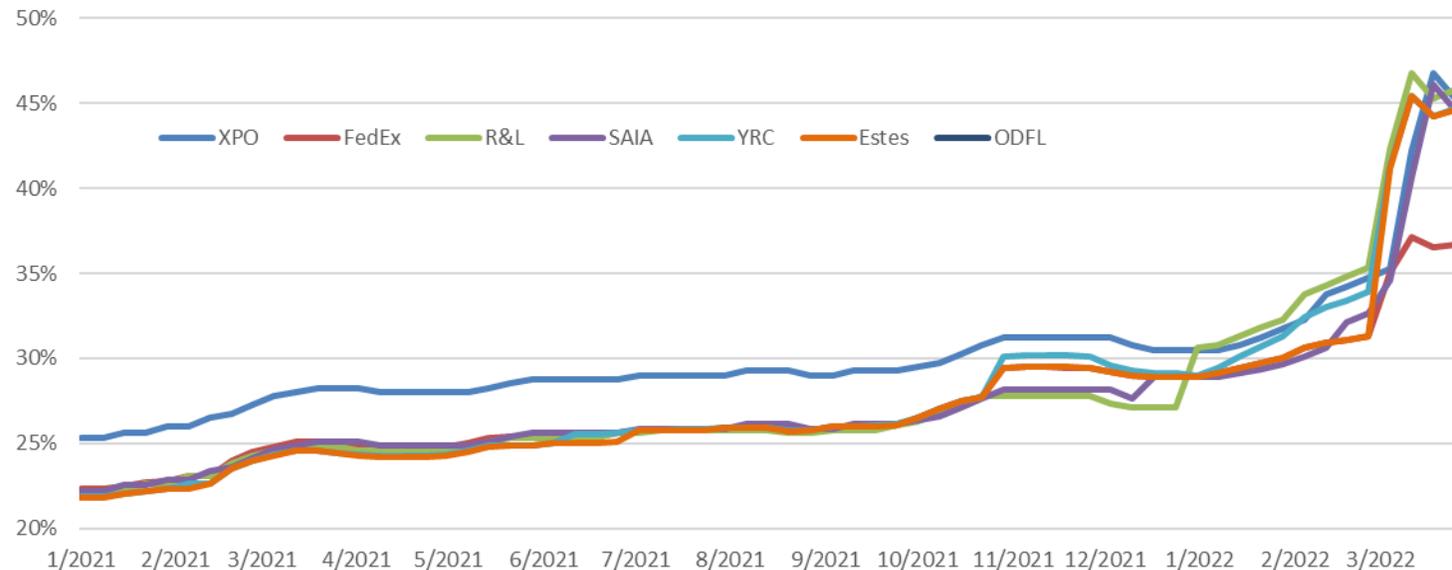
	FDX			UPS
	March 21st	April 4th	Increase	
Published Rate	\$85.03	\$85.03		\$85.89
Fuel	\$15.73	\$17.22	\$1.49	\$15.89
Residential Delivery	\$5.30	\$5.30		\$5.35
Fuel	\$0.98	\$1.07	\$0.09	\$0.99
Total	\$107.04	\$108.62	\$1.58	\$108.12

- FedEx fuel increase causes total cost of shipment to go up by 1.5% starting 4/4/2022.
- Same package shipped by UPS will be cheaper in both examples.

LTL fuel surcharge has been on the rise since Jan. 2021; frequent changes occurred across carriers resulting in convergence of fuel surcharge at similar levels.

- XPO has the highest fuel surcharge among major LTL carriers.
- However, as fuel prices increases, carriers have made adjustments to “catch up”.
- Additional adjustments are expected for fuel surcharge to align among major carriers.

Major LTL Carrier Fuel Surcharge History



Mitigation Options: While no shipper can completely mitigate rising fuel costs, multiple options exist to reduce the cost of fuel

- Shippers can consider **passing through** some or all of the fuel costs to their customers
- **Negotiating more favorable incentives** on core services used, as well as the FSC itself will lower fuel costs
- Completing a **service level optimization** analysis can reveal opportunities to use less expensive services
- A **comprehensive network optimization** study can identify ways to reduce the zone of shipments
- Completing a full **request for proposal (RFP)** to multiple carriers will allow shippers to understand how competitive carriers are willing to be regarding fuel surcharge incentives
- Ensure that your carrier invoices are accurate by **auditing 100%** of your shipments

- Email additional questions to:
 - Mingshu Bates (mbates@afs.net) or Scott Lord (slord@afs.net)

Thank You

