

Ocean Charter Service

Chapter 11

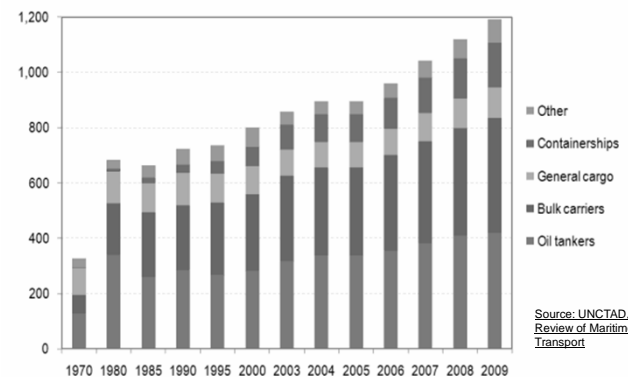
Learning Objectives

- Reasons for Charter Market
- Fixture Types and Terminology
- Lay Days
- Choose and Calculate a Charter

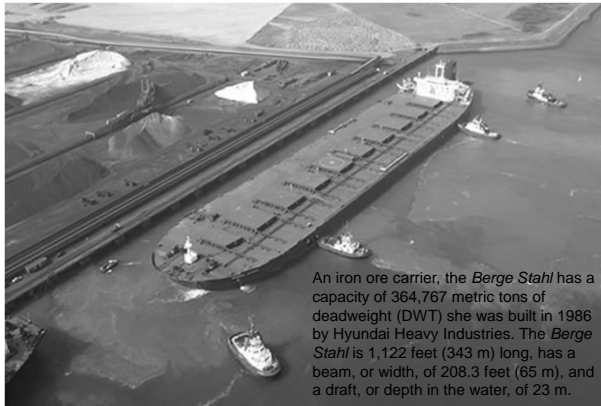
Discussion Questions

- Why charter a ship instead of owning it?
- Why charter a ship instead of using liner service?
- What types of organizations charter ships?
- What is the relationship between commodity prices and charter shipping?

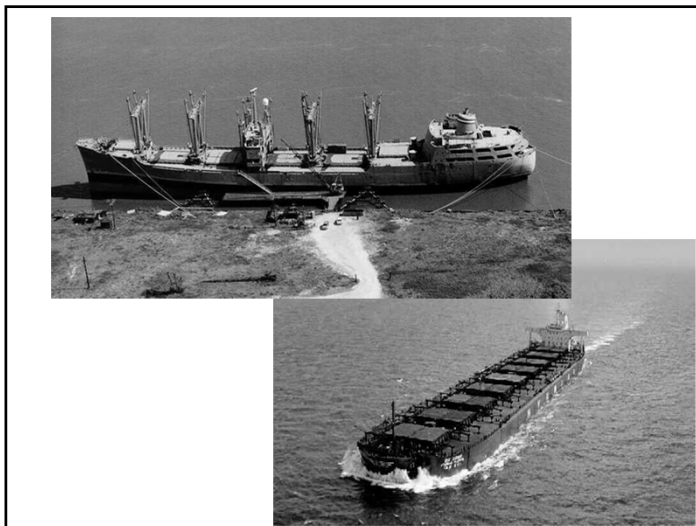
World Tonnage by Cargo Vessel Type, 1970-2009 (in millions dwt)



Bulk Carrier - *Berge Stahl*



An iron ore carrier, the *Berge Stahl* has a capacity of 364,767 metric tons of deadweight (DWT) she was built in 1986 by Hyundai Heavy Industries. The *Berge Stahl* is 1,122 feet (343 m) long, has a beam, or width, of 208.3 feet (65 m), and a draft, or depth in the water, of 23 m.



Key Terminology

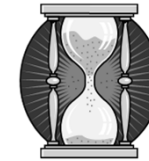
- **Charter Fixture** - a completed contract or agreement between a ship owner and another party to rent or lease all or some part of the vessel
- **Fixing** - the act of closing the agreement
- **Tramp** - irregular-route charter carriers
- **Spread** - difference in price of commodities between two locations

Basic Charter Types

- **Time Charter** - for a stipulated period of time at an agreed rate per vessel DWT per month.
- **Voyage Charter** - for the transport of the charterer's goods on a single voyage from one port to another, at an agreed rate per ton of cargo.
- **Bareboat (Demise) Charter** - transfer of everything but the title to the vessel; no crew, fuel, or stores available.
- **Contract of Affreightment** - commitment of service but not on a specific vessel

Lay Days

- To account for the time involved in loading and discharging cargo
- An incentive not to delay
- Types:
 - Running days, working days, weather days
- Must have knowledge of the port conditions, holidays, work habits, culture, etc. before making a lay day commitment



Lay Day Process

- **Laytime:**
 - Arrived Ship,
 - Notice of Readiness
 - Time Allowed
- **Demurrage** - the penalty assessed against a charterer for failure to meet the lay time specified.
- **Dispatch** - the bonus paid to the charterer for loading/discharging the vessel within a shorter period of time.



The Charter Market

- **Primary commodities moved**
 - oil, iron ore, coal, grain, etc.
 - bulk, low value – high density
- **Key service characteristics**
 - **COST** of service
 - equipment availability
 - speed is not usually a major factor



The Charter Market

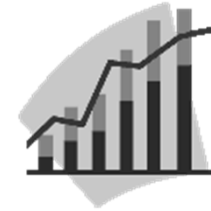
- **Market structure**

- rates set by market forces
- rates tend to fluctuate rapidly and violently
- very competitive
 - key information is widely available
 - brokers and agents
 - central freight agencies
 - fixtures are regularly published
- various schemes and agreements have failed to stabilize prices over the years

The Charter Market

- What influences charter rates?

- port considerations
- commodity production and movement
- cost increases (fuel, insurance, port charges...)
- political events
- climatologically factors
- fluctuation of fleet size



The Charter Market

- How can you hedge against rate fluctuation?

- long term contract of affreightment
- time charter
- buy or sell a vessel
- Baltic International Freight Futures Index
 - BFI is a basket of charter freight rates. It reflects the daily movement in prices across a selection of 11 dry cargo spot voyage and time charter routes.
 - BFFIX is a futures contract sold or bought to offset exposure to price changes in the charter market



The Charter Market

- **Key Players**

- ship owners and charterer (shipper)
- ship brokers
 - representatives of owners and charterers who negotiate the terms and cost of fixtures
- tracking services
 - monitor fixtures and report them to customers
- classification agencies
 - provide information on ship ownership and construction of hull and machinery

Charter Sample Problem

- Oil prices on commodity market
 - \$20 per barrel sold in 10,000 barrel lots
- Potential sale in Australia
 - \$350,000 for 10,000 barrels
- What's the max you can spend on a charter?



Charter Sample Problem

- Timber prices in Japan (origin)
 - \$45 per metric ton
- Potential sale in China
 - 40,000 metric tons
 - \$49 per metric ton
 - 14 day voyage/load/unload
- What ships in the time voyage ship fixture breakdown could you use?



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