INSTITUTE OF CHARTERED SHIPBROKERS

# Voyage Chartering Masterclass

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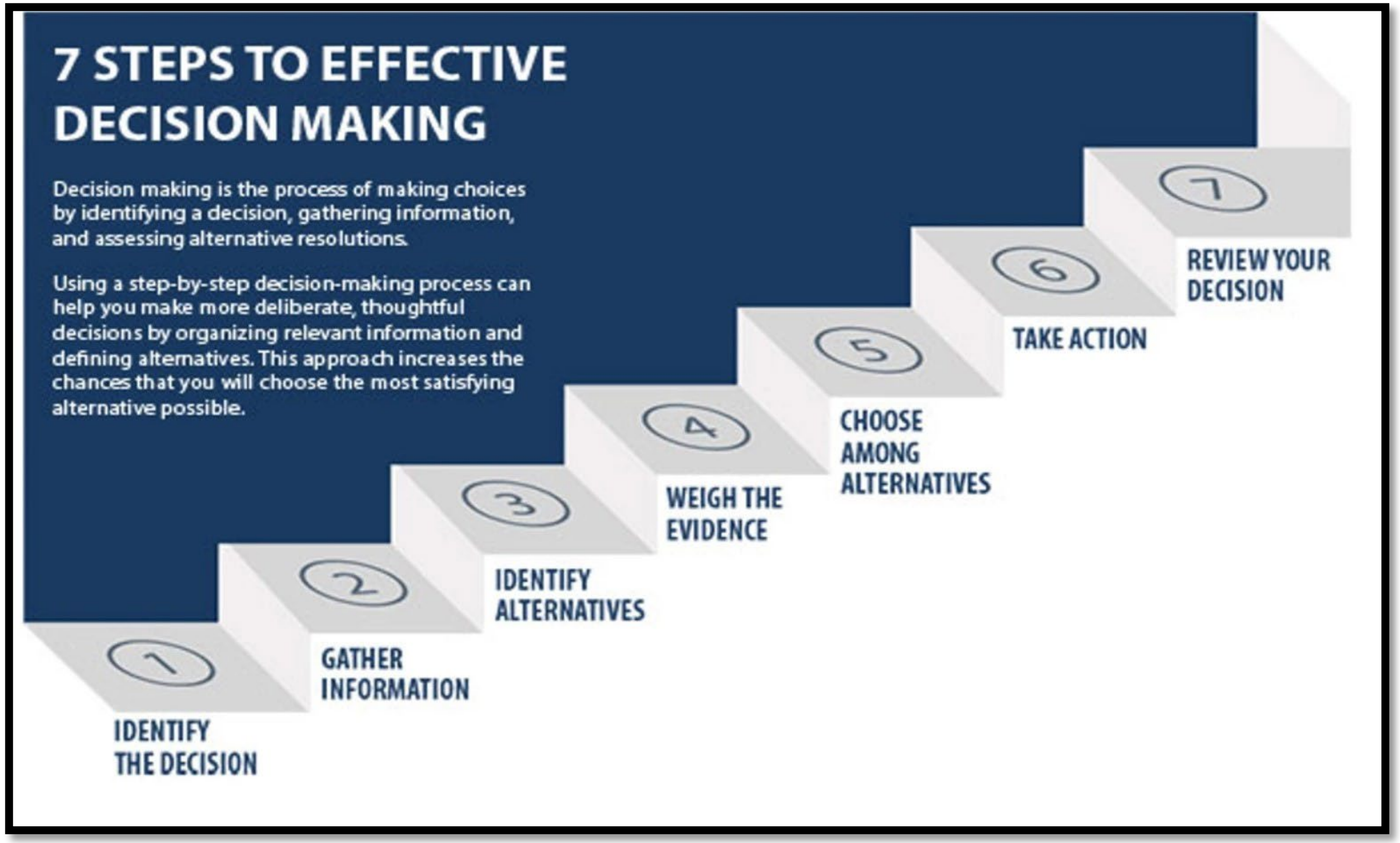
# Why Teach & Why Learn?

> Teaching is more than imparting knowledge; it is inspiring change. Learning is more than absorbing facts; it is acquiring understanding.
>
> WILLIAM ARTHUR WARD

# Decision Making – 3A Approach




Credit: UMass Dartmouth

- Step 1 requires AWARENESS
- Steps 2-5 require ASSESSMENT
- Step 6 & 7 require ACTION

- ALL Steps require Data, Technology & Transformation!

# Introduction to Voyage Chartering

# Definition & Overview of Voyage Chartering

# Chartering Strategies – Layman's Understanding

**Mr. Joe**

**Downtown Vancouver**

**Shaughnessy**

# Chartering Strategies – Layman's Understanding

Mr. Joe wants to get to Shaughnessy from Downtown Vancouver.

What are the options available to him?

- *Take the public transport & buy a ticket!*
- *Hire a Taxi or a Car with a driver!*
- *Hire or Lease a car without a driver & self-drive it!*
- *Buy a Car!*

# Chartering Strategies – Layman's Understanding

Convert this example into that of moving a cargo !

- *Take the public transport & buy a ticket!* – **Voyage Charter!**
- *Hire a Taxi or a Car with a driver!* –**Time Charter!**
- *Hire or Lease a car without a driver & self-drive it!* – **Bareboat Charter!**
- *Buy a Car!* – **Ship Owning!**

Additional aspects:

- *Joe wants to do multiple trips between Downtown Vancouver & Shaughnessy* – **Contracts of Affreightment (COAs), Consecutive Voyage Charters (CVCs)**

# Voyage Charters

*Definition:* A contract for a specific voyage or series of voyages between designated ports

*Key Features:*

- Fixed route: The charterer specifies the ports of loading and discharge
- Single or consecutive voyages: Can be for one voyage or a series of back-to-back voyages
- Charterer pays freight per ton of cargo: Payment is based on the amount of cargo transported

*Pros:*

- Flexibility for charterers with irregular shipping needs
- Minimal long-term commitment

*Cons:*

- Exposure to market volatility
- Less control over vessel operations

# Key & Ancillary Players in Voyage Chartering

# Key Players

| Ship Owner | Broker | Charterer |
| --- | --- | --- |
| • Head Owner<br>• Disponent Owner<br>• Provides the vessel & operational logistics | • Exclusive or Competitive<br>• Deal-Maker<br>• Advisor<br>• Providing data-based insights | • Shipper or End-User<br>• Trader<br>• Dealing with two “masters” – Trade (Revenue) & Shipping (Cost)! |

# Ancillary Players

- Ship Managers
- Ship Agents
- Port Authorities
- Service Providers
- Regulatory Authorities

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# Differences between Voyage Chartering & Time Chartering

# Nature of the agreement

Voyage Chartering: In a voyage charter, the shipowner agrees to transport a specific cargo between designated ports for a single voyage. The contract outlines the terms for the specific trip, including the freight rate and conditions for loading and unloading.

Time Chartering: A time charter involves hiring a vessel for a set period, during which the charterer has control over the vessel's operations, including where and when it travels, as long as it stays within agreed-upon terms. The shipowner retains responsibility for the crew and vessel maintenance.

# Payment Structure

Voyage Chartering: The payment is typically a lump sum or a per-ton freight rate, agreed upon for the specific voyage. The shipowner bears most of the operational expenses, such as fuel, port fees, and canal charges.

Time Chartering: The charterer pays a daily or monthly hire rate for the use of the vessel. The charterer assumes many of the variable operational costs, including fuel (bunkers) and port charges, while the shipowner covers maintenance and crew costs.

# Responsibility for operational costs

Voyage Chartering: The shipowner covers most operational expenses, such as fuel, port fees, and voyage-related costs. The freight rate reflects these included costs.

Time Chartering: The charterer pays for fuel, port fees, and any additional voyage expenses. This arrangement provides the charterer with greater flexibility but also higher exposure to cost fluctuations.

# Risk and Control

Voyage Chartering: The shipowner bears most of the risk related to voyage delays, including weather and port congestion. The charterer has limited control over the vessel's operations beyond specifying the cargo and ports.

Time Chartering: The charterer has more operational control over the vessel and bears the risk of delays impacting their operations. This can be beneficial if the charterer has specific logistical needs or trade routes

# Flexibility and Duration

Voyage Chartering: Suited for single, point-to-point cargo shipments. It's ideal for charterers who do not need a long-term commitment and prefer flexibility in cargo transport arrangements.

Time Chartering: Best for charterers with consistent cargo transport needs over a longer period. It allows for multiple voyages and is ideal for optimizing vessel use within the charter period.

# Cargo & Port selection

Voyage Chartering: The charter party specifies the type of cargo, loading port, and discharge port. The shipowner’s responsibility is to fulfill the contract for that particular voyage.

Time Chartering: The charterer has the freedom to choose the ports and cargoes within the contract’s agreed terms. This flexibility can be advantageous for large shipping operators or traders with varying needs.

# Profit and Earnings

Voyage Chartering: The shipowner’s earnings are fixed by the freight rate for the specific voyage. If costs exceed expectations (e.g., fuel price increases or extended port delays), the shipowner absorbs those costs, potentially reducing profitability.

Time Chartering: The shipowner receives a consistent daily hire rate, providing stable revenue. The charterer assumes the risk and reward of operating the vessel efficiently to maximize profitability.

# Laytime and Demurrage

Voyage Chartering: Laytime and demurrage clauses are essential, as they set the allowed time for loading and unloading. If this time is exceeded, the charterer must pay demurrage to the shipowner.

Time Chartering: Laytime and demurrage do not apply as the charterer has full operational control and pays for time, not the journey itself.

# Suitability

Voyage Chartering: Commonly used by smaller cargo owners or traders who need oneoff shipments without long-term vessel commitments.

Time Chartering: Preferred by larger companies or logistics providers that require consistent access to shipping capacity for extended periods.

# Examples

Voyage Chartering: A grain exporter books a vessel to transport a single shipment of wheat from the U.S. to Europe.

Time Chartering: A logistics company charters a vessel for six months to transport various goods between Asia and Europe, optimizing routes and cargo planning.

# Summary

Voyage chartering provides a one-time cargo transport service with limited operational control for the charterer and higher risk for the shipowner.

Time chartering, on the other hand, offers the charterer more flexibility and operational control, shifting some financial risks and potential gains from the shipowner to the charterer.

Each type suits different strategic needs, depending on a company's cargo volume, frequency, and cost management strategy.

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# Current State of Voyage Chartering Market

# Economic Factors

Global Demand and Trade Volumes: The voyage chartering market is largely driven by the demand for bulk commodities such as oil, grain, coal, and other raw materials. Fluctuations in global trade volumes due to economic slowdowns or growth spurts significantly impact the rates and availability of voyage charters. Current trends indicate moderate growth in trade, with some challenges due to economic uncertainties in key markets like Europe and China.

Inflation and Costs: Persistent global inflation has led to increased operational costs for shipowners, including higher fuel prices and port fees. These cost pressures are reflected in the freight rates, with shipowners seeking to pass on the expenses to charterers.

# Geopolitical Influences

Conflict and Supply Chain Disruptions: Geopolitical tensions, such as conflicts in Eastern Europe and territorial disputes in strategic shipping lanes, continue to affect the voyage chartering market. Disruptions in supply chains and rerouting of vessels to avoid conflict zones contribute to delays and increased freight rates.

Sanctions and Trade Policies: Sanctions against certain countries impact trade flows, particularly for commodities like oil and gas. This has led to shifts in chartering activity as trade routes adjust to comply with new regulations and find alternative sources or destinations. Fears of renewed tariff wars with return of Donald Trump as next US President.

Other Geopolitical Trends: These include demographic changes, impact of measures like Belt & Road Initiative, formation and expansion of alliances such as BRICS+

# Environmental Regulations

Decarbonization and Emissions Compliance: The push for greener shipping practices has brought about new regulations that impact voyage chartering. IMO’s regulations on reducing sulfur emissions and carbon intensity have driven up costs for shipowners who need to invest in cleaner fuels or energy-efficient technologies.

Fuel Costs and Alternative Energy: The transition towards low-sulfur fuel and alternative energy sources, such as LNG and biofuels, has influenced the cost structure of voyage chartering. Charterers and shipowners are factoring in these changes when negotiating terms to account for fuel price volatility.

# Freight Rates & Market Trends

Spot Market Volatility: The spot market for voyage chartering remains volatile due to unpredictable changes in demand, weather-related disruptions, and geopolitical tensions. Freight rates for certain routes, particularly those involving high-risk areas or congested ports, have seen significant surges.

Regional Variances: The market's performance varies by region. For example, while demand for dry bulk shipping from South America to Asia is steady due to grain exports, the energy market in the Middle East continues to fluctuate with oil output levels and OPEC policies.

Seasonal Effects: The winter season has traditionally driven up rates due to increased heating oil demand and weather-related challenges, making navigation more difficult and potentially delaying voyages.

# Technological Advances

Digital Chartering Platforms: The use of digital platforms for voyage chartering has increased, making the process more transparent and efficient. This shift has helped brokers and charterers optimize vessel utilization and find suitable matches more swiftly, which has improved market fluidity.

Data and Predictive Analytics: The integration of predictive analytics has enhanced the ability of shipowners and charterers to forecast demand and set competitive rates, helping reduce risks associated with market fluctuations.

# Challenges & Opportunities

Port Congestion: Ongoing congestion in major ports due to increased trade volumes and infrastructure constraints remains a challenge, impacting voyage timelines and costs.

Sustainability Initiatives: Companies are seeking ways to align with sustainability goals, such as reducing carbon footprints and investing in cleaner technologies. Voyage charterers that adapt to eco-friendly practices may find new opportunities as shippers prioritize sustainability in their supply chains.

Fleet Utilization: The balance between available tonnage and cargo demand affects freight rates and vessel earnings. High fleet utilization rates can lead to more profitable voyages for shipowners, while excess capacity may drive competition and lower rates.

# Recommendations for Stakeholders

Adaptation to Regulatory Changes: Shipowners and charterers should stay informed and adapt operations to comply with new environmental regulations. Investments in cleaner fuel and energy-saving technologies can offer a competitive edge.

Strategic Planning and Flexibility: Charterers should consider flexible strategies, such as diversifying cargo types and routes, to mitigate the impact of volatile freight rates and geopolitical risks.

Collaboration with Digital Solutions: Leveraging digital platforms and predictive analytics can improve efficiency in finding charter opportunities and negotiating favorable terms.

Monitoring Geopolitical Developments: Continuous assessment of geopolitical situations and their implications for trade routes will be crucial to maintaining smooth operations and avoiding high-risk areas.

# Conclusion

The current state of the voyage chartering market is influenced by a mix of global economic conditions, geopolitical factors, and environmental regulations.

The voyage chartering market in 2024 presents a mix of opportunities and challenges that require strategic planning, innovation, and adaptability for stakeholders to thrive in this dynamic landscape.