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Voyage Chartering Masterclass

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Commercial & Operational Considerations



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Freight Rates & Market Factors

Defining Freight Rates

Freight rates are the fees charged by a shipowner to transport cargo between specified ports. They are usually expressed in currency per metric ton of cargo, per container unit, or as a lump-sum amount for specific voyages.

In case of a voyage charter, the shipowner agrees to transport cargo for a specific journey at a set rate.

Type of Freight Rates

Spot Rates: Short-term rates determined by current market conditions. Spot rates can be highly volatile and are influenced by immediate supply and demand changes.

Long-term Contract Rates: These rates are agreed upon for longer periods (e.g., six months to several years) and tend to be more stable. Contract rates offer certainty but may be less flexible than spot rates during significant market shifts.

Index linked Contract Rates: A hybrid version where one or more of the component may be linked to a benchmark index e.g. Bunkers or Time Charter Equivalent Rate.

Be careful what you agree!

Factors affecting Freight Rates

Supply and Demand Dynamics:

Tonnage Supply: The availability of vessels impacts freight rates. When there is an oversupply of ships, freight rates generally decrease. Conversely, a shortage of available vessels can drive rates up.

Cargo Demand: The demand for transportation of specific cargoes affects rates. High demand for commodities such as oil, coal, or grains can push freight rates higher.

Bunker Fuel Prices:

Fuel costs are a significant operating expense for shipowners. High fuel prices can increase freight rates as shipowners seek to cover costs. Conversely, low fuel prices can allow for more competitive rates.

Factors affecting Freight Rates

Economic Conditions:

Global Economy: Economic growth and trade volumes drive demand for shipping. Strong economies typically see higher import and export activities, leading to increased demand for shipping services.

Recessions: Economic downturns reduce trade volumes and shipping demand, leading to lower freight rates.

Seasonality:

Certain cargoes, such as grains or coal, have peak shipping seasons that can affect freight rates. For example, the demand for bulk carriers often rises during the harvest season in major grain-exporting countries.

Factors affecting Freight Rates

Geopolitical Events & Regulatory Changes:

Wars, political instability, or sanctions can disrupt shipping routes, restrict access to certain ports, or increase the risk of piracy. These factors can lead to higher rates due to longer routes or increased insurance premiums.

Environmental Regulations: Compliance with International Maritime Organization (IMO) standards, such as emissions regulations (e.g., IMO 2020), affects operating costs. These changes can increase freight rates as owners pass costs to charterers.

Safety and Security Standards: New regulations regarding vessel safety or crew welfare may impact operational costs and influence freight rates.

Factors affecting Freight Rates

Port Congestion:

Delays at ports due to congestion reduce the effective availability of vessels, which can temporarily drive up freight rates.

Fleet Age and Efficiency:

The efficiency and age of the fleet play a role in competitiveness. Modern, fuel-efficient vessels may offer more attractive rates compared to older ships with higher operating costs.

Freight Rate Indices:

Baltic Indices : Comprehensive Sector & Sub-Sector indices track freight rate movements in their respective sectors and sub-sectors.

Impact of External Disruptions

Pandemics and Health Crises: Events such as the COVID-19 pandemic highlighted the impact of global health crises on freight rates, as lockdowns and supply chain disruptions led to imbalances in the availability of vessels and cargo demand.

Technological Advancements: Innovations in ship design, digitalization, and operational efficiencies contribute to cost management and can affect freight rate competitiveness.

Environmental Concerns and Sustainable Practices: The push for sustainable shipping practices can affect rates as shipowners may need to invest in eco-friendly technologies or carbon offset programs, influencing cost structures.

Strategies for managing Freight Volatility

Hedging Freight Rates: Charterers and shipowners use forward freight agreements (FFAs) to lock in rates and manage financial exposure to market fluctuations.

Long-term Contracts: Engaging in longer-term contracts can provide stability and predictability in rates.

Fleet Optimization: Shipowners can mitigate cost impacts by optimizing fleet deployment and improving vessel fuel efficiency.

Freight Rates: Conclusion

Freight rates are influenced by a multitude of factors, both controllable and uncontrollable, making the market highly dynamic. Understanding the interplay between economic conditions, regulatory changes, and operational considerations is essential for shipowners, charterers, and stakeholders to navigate this complex environment effectively. Staying informed and adopting strategies for rate management can help mitigate risks associated with freight rate volatility.



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Laycan & Cancelling Date

What is Laycan?

Laycan is a portmanteau of “laydays” and “cancelling date.”

Laydays refer to the period during which the vessel must arrive and be ready to load cargo at the designated port.

The cancelling date is the last date by which the vessel must present itself as ready for loading. If the vessel fails to arrive by this date, the charterer has the right to cancel the charter party agreement.

Purpose & Importance of Laycan

Scheduling and Planning: Laycan provides both shipowners and charterers with a timeframe for planning and logistics. For the shipowner, it helps manage vessel schedules and ensures a steady flow of contracts. For the charterer, it offers assurance that the vessel will be available when needed.

Operational Efficiency: Adhering to the laycan ensures that operations align with supply chain demands and prevents costly delays.

Risk Management: The establishment of a laycan reduces the risk of demurrage (charges incurred for delays) by clearly specifying when a vessel must be ready.

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Cancelling Date

The cancelling date acts as a contractual safeguard for the charterer. If a vessel fails to arrive at the loading port by the cancelling date, the charterer has the option to either:

Cancel the Charter: The charterer can terminate the agreement without penalty, freeing them to seek another vessel to avoid disruption.

Waive the Right: The charterer may choose to waive their right to cancel if they still wish to use the delayed vessel, often negotiated with revised terms such as reduced rates or compensation for delays.

Commercial Implications

Flexibility and Negotiation: The laycan period can be used as a negotiation tool. A longer laycan allows the shipowner more flexibility, while a narrower laycan puts more pressure on the shipowner to meet tight schedules.

Cost Management: Missing the cancelling date can lead to financial losses for both parties. For shipowners, the vessel may remain idle and incur costs without generating revenue. For charterers, delays can disrupt their logistics, potentially leading to missed sales, storage fees, or contractual penalties with third parties.

Cargo Readiness: Laycan ensures that cargo preparations align with the vessel's arrival, minimizing waiting time and costs associated with storage or cargo readiness.

Legal Implications

Contractual Rights: The laycan period and cancelling date are typically specified in the charter party agreement. Failure to comply with these terms can constitute a breach of contract.

Readiness: The vessel must meet specific conditions to be considered "ready" by the cancelling date. This includes being fully operational, properly manned, and equipped to load the agreed cargo.

Notice of Readiness (NOR): The shipowner must issue a valid NOR within the laycan period, signaling that the vessel is ready to load. If the NOR is not tendered by the cancelling date, the charterer can exercise the right to cancel the contract.

Factors influencing Laycan Adjustments

Delays in Previous Voyages: Delays caused by weather, port congestion, or mechanical issues may require renegotiating laycan terms to accommodate new schedules.

Force Majeure Events: Natural disasters, strikes, or political instability can impact a vessel's ability to arrive within the laycan period, leading to potential renegotiation or invoking force majeure clauses.

Market Conditions: During periods of high demand, charterers may insist on stricter laycan windows, while in a weak market, shipowners might push for more lenient terms.

Managing Laycans

Effective Communication: Maintain transparent and regular communication between the shipowner and charterer to manage expectations and any potential scheduling changes.

Contingency Planning: Both parties should have contingency plans for delays to mitigate potential losses.

Clear Contract Terms: Charter parties should include well-defined clauses regarding laycan, cancelling, and any penalties or consequences related to non-compliance.

Monitoring Systems: Utilize tracking technology and real-time updates to manage and adjust schedules as necessary to stay within the laycan period.

Single Voyage Clause: Ensuring that missing laycan on individual shipments does not impact the contract as a whole

Conclusion: Laycan

Laycan and cancelling dates are critical components of voyage chartering that ensure coordinated planning and execution of shipping operations. They provide a framework that balances the interests of both shipowners and charterers, promoting operational efficiency and reducing the risk of disputes. Careful management and adherence to these terms are essential for maintaining reliable and legally sound charter agreements.



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Laytime and Demurrage Calculations

Laytime

Only in case of Voyage Charters

Total time permitted for load and discharge operations under the CP

Penalty for using extra time over and above the permitted time = Demurrage

Reward for completing the operations before the permitted time = Despatch

Despatch = $\frac{1}{2}$ the rate of Demurrage

ONCE ON DEMURRAGE, ALWAYS ON DEMURRAGE

Laytime Allowed

Total cargo quantity / CP load / discharge rate

- Total cargo qty divided by the load /discharge rate stated in the CP
- e.g. BL Qty 40000 mt. Load rate 8000 mt PWWD . Laytime allowed = 5 days
- If the load /discharge rate is per hook . Then rate per hook X no of hooks that can be worked. BL Qty 40000 mt. Load rate 2000 mt per workable hook PWWD. If only 3 hooks can be worked. Load rate is 6000 mt Laytime allowed which would be 6.67 days

BL quantity is used. Not ships figures.

Laytime Allowed in case of Dead Freight

What quantity of cargo is used for laytime if deadfreight is incurred?

- As per CP 50,000 mt 10 % MOLOO.
- Master requested to load 53500 mt of cargo
- Shipper could only load 52450 mt
- Dead freight : 1050 mt
- Owner invoices charterers : Frt 52450 mt @ xx frt. 1050 mt at dead frt @ xx frt
- Laytime calculations basis : **53500 mt**

When charterers pay freight for any quantity, they buy the “laytime” too for that quantity.

Steps to calculate Laytime

1. Study the CP provisions regarding laytime
2. Study the Statement of Facts (SOF)
3. Calculate the laytime allowed
4. When does the laytime commence
5. What are the interruptions to laytime
6. When does the laytime cease to count
7. Calculate the demurrage or despatch

Laytime: CP Provisions

NOR tendering – When is it a valid NOR?

Port or Berth CP

WIPON, WIBON, WECCON, WIFPON

Congestion and time counting

Turn time – Even If Used or Unless Used

Commencement of Laytime

Terms of Laytime – SHEX/FHEX, SHINC/FHINC

Interruptions to Laytime – Vessel related, shore related or natural causes

Laytime: Notice of Readiness

The Notice of Readiness (NOR) is the document used by the Ship Master, to notify his ship readiness, in every respect, to load and/or unload the goods during the period of his charter.

NOR is an extremely important document as it triggers the commencement of laytime.

When three conditions are met, the vessel becomes an 'arrived ship':

- Vessel shall finish her passage to the port and tender herself ready
- She then must be in fact ready operationally, compliance wise
- Available to the charterers at the place nominated in the charter party

Laytime: Notice of Readiness

Use of AIS (Automatic identification system) & NOR Tendering

NOR tendering as per CP terms

- Do not tender before laycan. Or during non-tendering time

Acceptance of NOR is a formality if tendered accordance to CP (but watch out for CP clauses)

WWWW Clause effect

Laytime: Statement of Facts

Complete account of all the relevant events during the load or discharge operations

Exact time of arrival of vessel, NOR tendering and acceptance, berthing, commencement of operations and completion of operations and formalities

Details of the stoppages, holidays and other relevant times

Comments from Shippers/Receivers, Vessel and Agents

SOF must be signed by all relevant parties

Laytime: Calculate the Time Allowed

Define – SHEX/SHINC, FHEX/FHINC

Calculate

- Based on the tonnage loaded
- Based on B/L or Freight paid quantity – Dead Freight?
- Based on hatches or workable hatches

Non-fixed laytime

- CQD / FAC / COP
- Risk is solely on Owners
- Detention – Non-Readiness of Documentation

Laytime: Load & Discharge Terms

SHINC

- Sundays & Holidays Inclusive

SHEX UU/ SHEX EIU

- Sundays & Holidays excluded unless used
- Sundays & Holidays excluded even if used

SHEX UU IUATUTC

- Sundays & Holidays excluded, unless used. If used actual time used to count

End of Laytime

- Delays due to documentation

Laytime: Commencement

Arrival of the Vessel

- Port or Berth CP
- An arrived Ship
- Tendering NOR – Written/Email/Telex/Phone
- Office Hours or ATDNSHINC/ATDNFHINC

Readiness to Load or discharge

- Tendering and Acceptance of NOR
- Hold inspection – Consequences of Failure
- Who is authorised to issue Hold Cleanliness Certificate

Laytime: Commencement

Contractual Pre-Conditions prior commencement

Congestion – WWWW

Turn Time

Commencement of Laytime MAY NOT be the same as commencement of Cargo Operations

Arrival before commencement of Laydays – CP Provisions

Laytime: Port vs Berth Charter Party

The characteristics of a port charterparty are these. First, the contractual destination of the chartered ship is a named port. Secondly, the ship, in order to qualify as having arrived at the port, and therefore entitled to give notice of readiness to discharge, must satisfy two conditions. The first condition is that, if she cannot immediately proceed to a berth, she has reached a position within the port where waiting ships usually lie. The second condition is that she is at the immediate and effective disposition of the charterers.

By contrast, the characteristics of a berth charterparty are these. First, the contractual destination of the chartered ship is a berth designated by the charterers within a named port. Secondly, the ship, in order to qualify as an arrived ship, and therefore entitled to give notice of readiness to discharge, must (unless the charterparty otherwise provides) have reached the berth and be ready to begin discharging.

Laytime: Interruptions

Weekends and Holidays

- SHEX/FHEX or SHINC/FHINC?
- EIU or UU / IUATUTC

Shifting between berths

- CP Provisions
- 1st shifting and subsequent shiftings

Bad Weather

- WWD or WP (See GENCON 2022 – Only actual time lost is NOT TO BE COUNTED)
- Of 24 consecutive hours
- Once on Demurrage, Always on Demurrage

Breakdowns – Vessel Related and Shore Related

Laytime: Demurrage/Despatch

Demurrage

- Fixed or Index Linked or Index + fixed amount
- Once on demurrage, Always on demurrage

Despatch

- ½ demurrage rate
- All time Saved and Working time saved

Reversible or Non-Reversible Laytime

Additional Damages and Detention – Owners have to establish a “separate” loss beyond the one contemplated & covered by Laytime aspects.

Laytime: All Time Saved

- MV 'Nord Angel' completes loading 1200 hours on a Friday, her Charter Party being 'per weather working day of 24 consecutive hours, Saturdays, Sundays, and Holidays excepted, even if used'. Thus laytime would be suspended in normal circumstances from Friday 2400 hours through Monday 0001 hours.
- At 1200 hours on Friday, there are 3 days of laytime remaining, and based on the term 'all time saved', figures must be based on the hypothetical case that 'if the vessel had not completed loading on Friday 1200 hours, when would the laytime have been fully used'?
- Despatch would thus be calculated as follows:

	All Time Saved
Friday	1200/2400 Hours (0.5 days of Laytime)
Saturday	0000/2400 Hours (Excluded Period)
Sunday	0000/2400 Hours (Excluded Period)
Monday	0000/2400 Hours (1 day of Laytime)
Tuesday	0000/2400 Hours (1 day of Laytime)
Wednesday	0000/1200 Hours (0.5 days of Laytime)
ALL TIME SAVED	05 Days

- The weekend has been 'saved' by the Charterers. In effect they have 'saved' the Shipowner 5 days, and under 'all time saved' terms, they are entitled for 5 days despatch.

Laytime: Working Time Saved

- Using the same example but on the basis of 'working time' or 'laytime saved', only the 3 remaining days of laytime would apply as despatch i.e. once the laytime physically comes to an end, the exceptions do not apply. 'Working time saved' and 'laytime saved' are the same when laytime is described as 'a day of 24 consecutive hours'.

	Laytime Saved
Friday	1200/2400 Hours (0.5 days of Laytime)
Saturday	0000/2400 Hours (1 day of Laytime)
Sunday	0000/2400 Hours (1 day of Laytime)
Monday	0000/1200 Hours (0.5 days of Laytime)
LAYTIME SAVED	03 days

- Thus, the formula in case of Laytime saved or Working Time saved is clear:

$$\text{Laytime/Working Time saved} = \text{Laytime Allowed} - \text{Laytime Used}$$



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Vessel Inspection & Vetting Process

Need for Vessel Inspection & Vetting

Vessel Inspection: A thorough assessment of a ship's physical condition, equipment, and operational practices. Inspections may be conducted by port state control (PSC), classification societies, insurance providers, or independent inspectors.

Vetting: A more comprehensive review carried out by charterers, oil majors, and trading companies to evaluate a vessel's suitability for transporting their cargo. Vetting often incorporates the results of past inspections and evaluates the safety record, crew competence, and compliance with international regulations.

Purpose of Vessel Inspection & Vetting

Safety: Ensures the vessel is fit for operation without posing hazards to the crew, cargo, or environment.

Regulatory Compliance: Confirms that the vessel meets international and local maritime laws.

Risk Mitigation: Reduces potential liabilities for charterers and shipowners by ensuring that only well-maintained and compliant ships are used.

Key Elements of Vessel Inspection

Physical Condition: Inspection of the hull, decks, machinery, and cargo spaces for structural integrity and operational readiness.

Safety Equipment: Verification of fire-fighting systems, life-saving equipment, and emergency response tools.

Navigation and Communication Systems: Check to ensure these systems meet SOLAS (Safety of Life at Sea) and other international standards.

Pollution Control Measures: Evaluation of systems like ballast water management and fuel handling to ensure environmental compliance.

Crew Competence: Assessment of the crew's training, certifications, and operational knowledge.

Common Vessel Inspection Types

Port State Control (PSC): Conducted by the maritime authorities of a country when a vessel enters their waters.

Flag State Inspection: Performed by the country where the vessel is registered.

Classification Society Surveys: Periodic checks to maintain the ship's classification status.

Vetting Processes

Oil Major Vetting: Oil and gas companies often perform stringent vetting on tankers to ensure safety and compliance with their standards.

RightShip Vetting: Used widely in dry bulk shipping, this system assigns ratings to vessels based on safety performance, age, and history.

Inspection Reports: Vetting companies use inspection reports from organizations like SIRE (Ship Inspection Report Programme) and CDI (Chemical Distribution Institute) to gather data on a vessel's condition.

Vetting Criteria

Safety Record: Includes incidents, accidents, or pollution violations.

Inspection History: Past inspection reports that highlight deficiencies or good practices.

Age and Maintenance: Older vessels may undergo stricter vetting due to higher risk.

Crew Experience: The qualifications and experience of the crew are critical in vetting assessments.

Steps in Vetting Process

1. **Pre-Vetting Preparation:** Shipowners prepare documentation, including maintenance records, safety management systems, and crew certifications. Regular self-inspections to address any minor issues before the official vetting.
2. **Submission of Documents:** Required documents are submitted to the vetting organization or charterer, such as certificates of class, insurance, and previous inspection reports.
3. **Physical Inspection:** An inspector boards the vessel and evaluates the areas specified in the vetting requirements. This can include a detailed walkthrough of safety, operational, and environmental equipment.
4. **Reporting and Analysis:** The inspection report is reviewed by the vetting entity, which may include oil majors or shipping companies.
5. **Approval or Rejection:** If the vessel meets the standards, it is cleared for charter. If not, it may be rejected or flagged for necessary improvements.

Challenges in Vessel Inspection & Vetting

Complex Requirements: Different charterers and countries have varying vetting criteria, making compliance challenging.

Costs and Downtime: Preparing for and undergoing inspections can be timeconsuming and expensive, impacting the vessel's operational schedule.

Strict Standards: Higher expectations from oil majors and large cargo owners often result in the rejection of vessels with minor deficiencies.

Best Practices in Vessel Inspection & Vetting

Proactive Maintenance: Regular maintenance and self-inspection help reduce the likelihood of failing a vetting process.

Crew Training: Continuous training for the crew on safety procedures, emergency response, and equipment operation.

Up-to-date Documentation: Ensure that all certificates and records are current and accurately maintained.

Compliance Management Systems: Implement comprehensive compliance systems that align with international regulations and specific charterer requirements.

Collaboration with Experienced Inspectors: Engage professionals who are familiar with the standards required by top charterers and vetting organizations.

Commercial Aspects: Vessel Inspection & Vetting

Who will carry out the vessel inspections?

When & Where will these inspections be carried out? What happens in case of delays?

What happens in case the vessel fails the inspection? Time Lost vs Invalid NOR Clause

How to resolve any disputes in terms of vessel's readiness?

In case of failure, what about re-inspection? Clock restarts from vessel "readiness" or "passing the reinspection"?

What is the vetting criteria applied? Ensure it is back-to-back!

Conclusion: Vessel Inspection & Vetting

Vessel inspection and vetting processes are essential for ensuring that ships meet safety, operational, and environmental standards. By maintaining high standards of vessel maintenance, crew training, and compliance with international laws, shipowners can improve their vetting outcomes, maintain competitive standing in the market, and build strong relationships with charterers.