

USE OR HIRE OF ANY SHIP

Section 4 (1) (h) of the Admiralty Act (2017) deals with the above subject maritime claims, loss or damage to or in connection with any goods;

Chartering is an activity within the shipping industry. In some cases a charterer may own cargo and employ a shipbroker to find a ship to deliver the cargo for a certain price, called freight rate. Freight rates may be on a per-ton basis over a certain route or alternatively may be expressed in terms of a total sum - normally in U.S. dollars - per day for the agreed duration of the charter. A charterer may also be a party without a cargo who takes a vessel on charter for a specified period from the owner and then trades the ship to carry cargoes at a profit above the hire rate, or even makes a profit in a rising market by re-letting the ship out to other charterers. Depending on the type of ship and the type of charter, normally a standard contract form called a charter party is used to record the exact rate, duration and terms agreed between the shipowner and the charterer.

The chartering of a ship, in its simplest terms, is a rental agreement in which a charterer agrees to hire a ship from its owner. Typically it is the charterer who will be the owner of the cargo, which he needs to move to some other part of the world, and unless he has ships of his own, he will depend on others to move the cargo for him. The hire money for this transaction is known as “freight” and is the reward to the shipowner for the use of his vessel.

It is, of course a good deal more complicated than this in practice. The type of charter varies considerably. The cargo owner may wish to hire the ship to move his cargo from A to B and no more, and will hire the ship on the “spot” market for a single voyage charter. The market may however be tight, with few ships and the price will be accordingly high, so the cargo owner may elect

to take a ship for a longer period, giving him in this time charter, at least the security of a known price for subsequent voyages. Indeed, he may have a long term demand for tonnage, over many years, so he may virtually take over the ship from its owner, subsequently arranging its crewing, management and maintenance in a bareboat charter. And there are derivations of all these types of charter to suit the trades and the demands of the market, which is what shipping remains.

Like any market, prices, indicated as the freight levels that will be paid and earned, depend entirely on supply and demand. A shortage of ships and freights will be high; a seller's market that will keep shipowners happy and cargo owners shrouded in gloom. But if there are too many ships chasing too little cargo, the boot is on the other foot, and the shipowner will be hard pressed to earn sufficient freight to pay for his running and capital costs. And the market is known for its volatility, subject to seasonal fluctuations and influenced by so many external factors, such as a hard winter that uses up oil stocks, or political uncertainty, or poor harvests.

The market is also relatively inelastic, with the passage of years being required to contract for and build a new ship, which once delivered, will be around for 20 to 30 years. Shipping is a service industry and one of "derived" demand, with owners (other than those moving passengers) unable to do much to actively promote greater use of their ships.

So the balance of supply and demand, and the fluctuations in freight rates form a fascinating and dynamic backdrop to the charter market which was once more "physical" than it is today, with bourses like the Baltic Exchange, where brokers representing owners met those with cargo interests, every day of the week. Today these chartering transactions take place globally, over screens, facilitated by the internet and brilliant communications we all take for granted. Even the charter parties - the contracts which are used for the hire of

ships are, undertaken in electronic form. But that is the modern charter market.

Charter types

- a. A voyage charter is the hiring of a vessel and crew for a voyage between a load port and a discharge port. The charterer pays the vessel owner on a per-ton or lump-sum basis. The owner pays the port costs (excluding stevedoring), fuel costs and crew costs. The payment for the use of the vessel is known as freight. A voyage charter specifies a period, known as laytime, for loading and unloading the cargo. If laytime is exceeded, the charterer must pay demurrage. If laytime is saved, the charter party may require the shipowner to pay despatch to the charterer.
- b. A Contract of Affreightment is a contract similar to a voyage charter, but ship-owner undertakes to carry number of cargoes within a specified period of time on a specified route. Agreed frequency of cargoes may require more than one ship.
- c. A time charter is the hiring of a vessel for a specific period of time; the owner still manages the vessel but the charterer selects the ports and directs the vessel where to go. The charterer pays for all fuel the vessel consumes, port charges, commissions, and a daily hire to the owner of the vessel.
- d. A trip time charter is a comparatively short time charter agreed for a specified route only (as opposed to the standard time charter where charterer is free to employ the vessel within agreed trading areas).
- e. A bareboat charter or demise charter is an arrangement for the hiring of a vessel whereby no administration or technical maintenance is included as part of the agreement. The charterer obtains possession

and full control of the vessel along with the legal and financial responsibility for it. The charterer pays for all operating expenses, including fuel, crew, port expenses and P&I and hull insurance. In commercial demise chartering, a subtype of bareboat chartering, the charter period may last for many years and may end with the charterer acquiring title (ownership) of the ship. In this case, a demise charter is a form of hire-purchase from the owners, who may well have been the shipbuilders. Demise chartering is common for tankers and bulk-carriers.