



Baltic
Exchange

Guide to

Baltic Code 2020

& An Introductory Guide to
Modern Shipping

Introduction

This document is primarily designed to be a Guide to the New Baltic Code and provides a framework for how the New Baltic Code is applicable to, and can be utilised by, the maritime markets.

It includes the introductory guide to modern shipping and terminology which many new Baltic Exchange Members have found useful.

Capitalised terms used herein and otherwise not defined have the meaning given to them in the New Baltic Code.

The Role and Organisation of the Baltic Exchange

The Baltic is the world's oldest shipping market. It traces its name to the Virginia and Baltick Coffee House, established in 1744. At this time, it was used mainly by merchants who had a major trade in tallow from the Baltic seaboard. The Baltic Exchange was reorganised into its modern corporate form at the time of the construction of the original Baltic Exchange building in St Mary Axe which opened in 1903. After this building was destroyed by an IRA bomb in 1992, the Baltic Exchange moved into its current headquarters at 38 St Mary Axe. The Baltic developed into the world's most prestigious and only international, self-regulated market for matching ships and cargoes and buying and selling ships. Although in the light of modern business practice and international communications, a trading floor is no longer necessary, the Baltic's global Members continue to operate as a shipping marketplace and to apply the highest standards of ethics.

A large part of the world's ship chartering and Sale & Purchase business is negotiated at some stage by Members of the Baltic. The Baltic publishes numerous daily indices which are representative of the state of the markets. As well as providing guidance to brokers, these form the settlement mechanisms in the Forward Freight Agreement (FFA) market which is used for risk management.

The Baltic Exchange Expert Witness Association (BEWA) is a body of experienced professionals which can provide independent judgments on a wide range of maritime related disputes.

At the time of writing Baltic Members represent worldwide shipping-related interests through over 650 companies. Members include shipowners and charterers, ship operators and traders, physical and derivative brokers, and related maritime services companies. More than 3,000 individuals represent these companies globally.

In November 2016 the Baltic Exchange was acquired by the Singapore Exchange Limited (SGX). It is headquartered at 38 St Mary Axe in London and has offices/representation in Singapore, Shanghai, Athens and USA.

Membership

Membership of the Baltic Exchange is available in one of four categories:

- Principals who trade on their own account. They either own or control ships or have cargoes to move;
- Brokers, who act as intermediaries between shipowners and cargo interests, and do not trade on their own behalf;
- Freight derivative Trading Members who may be in either of the above categories but are also participants in the FFA market;
- Non-Market Members who, whilst not trading in the Baltic Exchange market, wish to be associated with this hub of international shipping. They include maritime services including; lawyers, arbitrators, ship financiers, insurers and other maritime institutions and associations.

The Baltic categorises its Members so that all those in the market know the status of those with whom they trade. For example, Members who will be acting as an intermediary only, and will not trade on their own behalf, sign an undertaking to trade in the market only as a broker. Those who are principals may act both on their own behalf, and as brokers.

Those acting as brokers can represent:

- Shipowners, sometimes exclusively, in which case they are referred to as “owners’ brokers”;
- Charterers, sometimes exclusively, in which case they are referred to as “charterers’ brokers”;
- Either shipowners or charterers on a non-exclusive basis, when they are referred to as “competitive brokers”;
- FFA traders on an exclusive or non-exclusive basis, in which case they are referred to as “FFA brokers”.

Each company elected as a Member is required to demonstrate to the satisfaction of the Baltic Membership Council (BMC) - and at any time subsequently that they are of sufficient financial standing to carry out with confidence the business in which they are engaged. At the time of their election to membership, the BMC considers the reputation and standing in the market of the company and individual prospective Members and usually consults the existing membership before approving the new Member.

Governance



The Baltic Exchange Council (BEC)

The Baltic Exchange is governed by the Baltic Exchange Council (BEC) which provides oversight of its strategy for membership services, social responsibility, and its relationship with its Members, governments, regulatory bodies and the global shipping community.

The BEC is composed of 12 persons . Five are nominated by the BEC, two by the Baltic Membership Council (BMC) and two by the directors of Baltic Exchange Ltd (BEL). Such nominations are vetted by the incumbent BEC and approved by BEL.

The Chairman of the BIC and BMC and the CEO of the Baltic are Ex officio members of the BEC. The BEC elects its Chairman and Vice Chairman from among its Member Representatives.

The Baltic Index Council (BIC)

The BIC provides effective scrutiny of the Baltic’s index production and particularly its subsidiary, Baltic Exchange Information Services Limited (BEISL) on all aspects of its benchmark determination process in accordance with the applicable law, regulation and guidelines including (without limitation), the EU Benchmarks Regulation¹ and the Baltic’s Guide to Market Benchmarks (available on www.balticexchange.com).

The BIC comprises five representatives of the appropriate segments of the market (including at least a dry bulk, a wet bulk and a freight derivatives broker panellist – the participants of the BIC are referred to as the “Market Representatives” and one director of the Board of the Baltic or of one of the Baltic’s subsidiaries. Market Representatives are nominated by Members of the Baltic Exchange, vetted by the incumbent BIC and approved by the Baltic.

¹ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014

The Chairman of the BIC Governance Council is one of the Market Representatives, nominated by the incumbent BIC.

The Chairman is expected to have an intimate understanding of the physical and financial shipping markets as well as a deep understanding of the Baltic itself.

The Chief Executive Officer of the Baltic is invited to attend all meetings of the BIC but does not have a vote on any decisions taken by the BIC.

The Baltic Membership Council (BMC)

The BMC considers new membership applications, sports associations and social activities. It may co-opt Members who are not BMC participants to provide additional expertise and shipping experience in support of its work.

The BMC has disciplinary powers of censure, suspension and expulsion over Members and is responsible for maintaining proper, ethical standards in trading. Should a Member dispute such a decision by the BMC, they have the right to appeal to the BEC.

Advisory Councils

Advisory Councils provide forums through which the Baltic can engage with its membership operating in different geographic locations and market sectors. They serve as a conduit through which the Baltic can discuss the development of the Baltic indices and receive feedback to proposed changes and new products.

At the time of writing, four such Advisory Councils have been formed:

- The Baltic European Advisory Council – dry (BEAC-dry)
- The Baltic European Advisory Council – wet (BEAC-wet)
- The Baltic Asia Advisory Council – dry (BAAC-dry)
- The Baltic Asia Advisory Council – wet (BAAC-wet)

Each Advisory Council is comprised of not more than 12 persons representing a cross-section of all stakeholders involved in the relevant market(s) including brokers, shipowning, cargo and freight derivatives interests and representatives from panellist companies.

Administration and Management of the Baltic Exchange

The Board appoints a Chief Executive to manage the membership administration, organisation of the Baltic Exchange and its staff, the club facilities and the other services for Members and facilities for non-Members.

The Baltic derives its income from membership subscriptions, the sale of its market data, transaction revenue from the provision of its data for the clearing of FFAs, rents for offices in its building at 38 St Mary Axe and its catering/function facilities for Members.

A Guide to the New Baltic Code (2020)

“Our Word Our Bond” is at the heart of what the Baltic Exchange and its global membership stands for. It provides the basis for ethical conduct and integrity for Member companies and their employees. Adherence to the Baltic Code is one way that many shipping companies differentiate themselves from those who are not Baltic Exchange Members and it is referenced widely in arbitration cases and provides a basis for how many organisations govern themselves.

The Baltic Code has been invaluable in providing informal regulation to practitioners. Previous versions of the Baltic Code have been confined to only two pages and provided a short overview of Ethics and Market Practice. Providing guidance that was both specific to the shipping (chartering) market and too general for the more complex markets of today. It formed part of a larger document which provided detail about the practicalities of chartering a vessel and explanatory information about the wider shipping markets. This information has been updated and retained as part of this Guide.

In 2018, the Bank of England gave its support to Codes of Conduct produced by unregulated markets. As both a response to this, and in recognition of the compliance and operational challenges created by constantly evolving legal, regulatory and policy developments in all jurisdictions where Baltic Exchange Members operate or do business, the Baltic decided that a review of the Baltic Code was necessary. The result is the New Baltic Code (2020).

The objectives of the New Baltic Code are to:

1. Preserve confidence in and the integrity of physical freight and freight derivative markets.
2. Establish and execute ethical business practices and eliminate unacceptable practices in these markets.
3. Ensure the role of the Baltic Exchange remains at the centre of these markets.

Underpinning this was an intention to develop a universally accepted set of principles and good practices that will be applicable not only to Members but also to any physical freight and freight derivatives market participants.

The Code is built around five key principles:

1. Integrity of Markets
2. Fairness and Competition
3. Ethical Business
4. Good Market Conduct
5. Robust and Credible Benchmarks

It is envisaged that this Guide to the New Baltic Code will be a “living document”, and that it will be updated regularly as the underlying tenets are applied in the context of the shipping markets. It will be reviewed regularly by the Baltic Membership Council and, where necessary, by the Members themselves (if substantive changes are required).

All Members are required to conduct themselves and their businesses in line with the New Baltic Code. Any breaches of the New Baltic Code will be brought before the Membership Council for review and ultimately before the Baltic Exchange Council. Any member deemed to be in breach of the Code may ultimately be expelled from Membership.

The New Baltic Code (2020)

1. Integrity of Markets

Market Participants shall act to uphold the integrity of the physical freight and freight derivatives markets and avoid any action or omission that may adversely affect these markets or bring the Baltic Exchange and its membership into disrepute.

Examples of Good Practices would include, but not be limited to:

- Chartering, Sale & Purchase and derivative negotiations should only be conducted when in possession of clear written authorisation from the principal to do so.
- Prior to quoting business from a principal previously unknown to them, a broker should take reasonable steps to obtain the background and establish the reputation of the principal concerned. However, where this has not been possible, the situation should be clearly communicated to any counterparty.
- Strictly maintaining established channels of communication – with the retention of clear records.
- Where possible all verbal communication and/or agreements should be re-confirmed in writing.
- Adherence to reply times when in negotiation or for offers and subjects to be lifted. Negotiations should include the times for such in 24-hour clock format, calendar date and timezone.
- Clear communication of all contractual terms of any agreement when business is concluded on Subjects such Subjects should be clearly defined to both parties.
- Ensuring that all employees, contractors or agents have appropriate experience and skills relevant to the tasks assigned, as well as knowledge of the market and any industry standards.
- Protecting any confidential information of the counterparty/counterparties when required to do so – unless disclosure of such is required under any law or jurisdiction where the Market Participants' business is conducted.
- Ensuring that appropriate insurance cover is in place to cover all relevant business activities. Brokers, for example, should ensure that sufficient Errors and Omissions cover is in place.
- All parties must ensure there is absolute clarity regarding the payment of broker commissions. In the event it is anticipated that commissions will be deducted from hire and paid to the broker by the charterer, then this must be expressly stated in both recap and Charterparty. Any subsequent change must be similarly documented.

Examples of Unacceptable Practices would include but not be limited to:

- Acting without authorisation by a principal in respect of any transaction, such as offering named tonnage against tenders without the authority of owners or disponent owners.
- Misrepresentation of any intentions, capabilities or commercial situation.

- Offsetting other claims against hire or freight payments without permission to do so.
- Acting without any required authorisations, licences or consents as may be applicable in a jurisdiction where business is being conducted or in relation to particular business practice.
- Knowingly dealing with counterparties and clients in respect of which there is certainty or reasonable expectation to know that they engage in unethical or unlawful practices.
- Holding two offers or considering two ships or cargoes at the same time without prompt communication of acceptance to the selected bidder.
- An owner or owner's broker may only offer their vessel 'firm' for one cargo at a time. Similarly, a charterer or charterer's broker may only offer his/her cargo 'firm' to one vessel at a time.
- A principal may receive multiple firm offers for a vessel or cargo but must always make it clear at the time if he is already out firm elsewhere.
- An unsolicited offer or proposal does not necessarily establish the channel of negotiation.
- Seeking prices and information from brokers and demonstrating either an expressed or implied intention to trade with that broker, while negotiating transactions directly with the shipowner or charterer and eventually confirming the transaction bilaterally with that shipowner or charterer.
- Abusing the use of subjects in a contract agreement (see definition of "Subjects" under the section of "An Introductory Guide to Modern Shipping"). For example, a vessel must not be held on "subjects" for the purpose of determining market direction. Failing a vessel on "subjects" for such spurious reasons is unacceptable. Equally, it is unacceptable to attempt to manipulate prices in the FFA market through the abuse of "subjects" in the physical market.
- Redelivery of a vessel from timecharter at any time prior to the expiration of the minimum period, unless mutually agreed in advance with the owner.
- Failure to nominate cargoes or vessels under a Contract of Affreightment.
- Withholding payment of undisputed sums, including commission to brokers, on any earnings received.

2. Fairness and Competition

Market Participants shall treat their customers fairly, compete fairly and avoid anti-competitive agreements and practices.

Examples of Good Practices would include, but not be limited to:

- Ensuring that meetings with competitors are governed by pre-agreed agendas and recorded by written minutes; promptly leaving any meeting at which competitors attempt to discuss commercially sensitive issues and requesting that this be noted in the minutes.
- Determining commercial conduct independently of competitors and not discussing tender responses or negotiation strategies with competitors.
- Ensuring that any decision to refuse to supply a counterparty is based on objectively justifiable criteria.
- Seeking legal advice before entering into any agreements with competitors which could lead to a lessening of competition.
- Independently determining the content of all benchmark submissions, without reference to, or coordination with, the submissions of competitors.

Examples of Unacceptable Practices would include, but not be limited to:

- Attempting to fix or co-ordinate with competitor(s) the prices or terms on which goods or services are being supplied.
- Attempting to carve out a market by agreeing with competitor(s) non-competition in respect of a certain product, in a particular territory or in respect of particular types of customers.
- Exchanging with competitors, confidential information which is competitively sensitive, such as price information, business plans or cost figures.
- Applying excessive and/or discriminatory pricing on customers (such as charging different customers different prices for the same product or service).
- Imposing exclusionary practices aimed at restricting competition from competitors, such as excessive loyalty discounts, bundling, long term or exclusive purchasing obligations.
- Practicing predatory pricing (i.e. prices below cost) beyond acceptable practices (such as repositioning voyages) or refusing to grant a potential competitor access to infrastructure facilities, input or IP rights that are essential to its ability to compete.

3. Ethical Business Practice

Market Participants shall do business in an ethical manner, always eschew corrupt practices and comply with any and all applicable laws including those related (but not limited) to money laundering, sanctions and tax evasion.

Examples of Good Practices would include, but not be limited to:

- Knowing and complying with applicable laws, regulations and other good practice rules applicable to their business activities, regardless of the jurisdiction and the type of counterparty with which they deal.
- Demonstrating and promoting the highest standards of integrity, respect for counterparties, and honesty in all their business engagements.
- Using clear and unambiguous language to set out contractual terms governing business agreements, including the jurisdiction and choice of law clauses.
- Entering into in good faith, adhering to and honouring in a timely manner, all contractual arrangements.
- Seeking to promptly and amicably resolve any contractual dispute that may arise in connection with a business activity, relying on Alternative Dispute Resolution (ADR) mechanisms when and where practicable.
- Ensuring establishment and maintenance of proportionate policies, systems and controls to ensure compliance with the relevant anti-bribery and corruption, anti-money laundering and trade restriction measures.
- Improper use of the term “exclusive” when representing cargoes or vessels – or the use of exclusive accounts to gain the support for non-exclusive/competitive accounts. For example, brokers must not imply that they hold a ship cargo firm or exclusively when they do not, in order to secure a response from another party.

Examples of Unacceptable Practices would include, but not be limited to:

- Knowingly or recklessly not complying with applicable laws and regulations, or otherwise showing disregard of good market practices and/or any other local rules or custom.
- Entering into contractual agreements in bad faith and/or deliberately failing to perform their contractual obligations.
- Solely relying on oral agreements as the basis for contractual agreements with counterparties and/or using vague or unclear drafting to express written contract provisions.
- Demonstrating poor standards of compliance with the applicable anti-bribery and corruption, anti-money laundering and trade control measures, including the lack of appropriate policies, systems and procedures.
- Knowingly or recklessly entering into business arrangements with counterparties who are in violation of any applicable anti-bribery and corruption, anti-money laundering and/or trade control measures.

- Where a principal operates a company (whether wholly, partially or separately owned), great care must be taken in considering the company name. Where the name is similar to that of the parent company, market participants are likely to associate the goodwill of the parent with the subsidiary or separate company. In these circumstances, whatever the precise legal position, it is unacceptable if the 'subsidiary' fails to meet its obligations while the parent is in a position to meet those obligations or pay appropriate damages.
- Improper use of the term "exclusive" when representing cargoes or vessels – or the use of exclusive accounts to gain the support for non-exclusive/competitive accounts. For example, brokers must not imply that they hold a ship cargo firm or exclusively when they do not, in order to secure a response from another party.

4. Good Market Conduct

Market Participants shall comply with applicable laws in respect of their activities in the freight and freight derivatives markets, maintain authorisations and permissions to undertake regulated activities and devote due skill, oversight and resources to these activities.

Examples of Good Practices would include, but not be limited to:

- Complying with the applicable environmental, health and safety, employment and other laws and regulations which govern conduct in physical freight and/or Sale & Purchase markets.
- Having clear, comprehensive and up-to-date policies and procedures for directors and employees that undertake regulated activities.
- Ensuring documented compliance with the conditions on any exemption to authorisation being relied upon and having, where required, notified the competent regulator on the use of an exemption to authorisation.
- Ensuring that directors, employees and contractors undertaking regulated activities are knowledgeable, skilled, familiar with applicable laws and regulation and, where required, registered and approved to undertake regulated activities by a regulator.
- Supervising all regulated activities undertaken on their behalf and regularly checking that delegates take all required actions to ensure the delegator's compliance with regulatory requirements.
- Having in place procedures to identify inside information relating to any financial instrument subject to transaction or provision of investment services and ensuring that they do not trade on the basis of and unlawfully disclose inside information to another person.
- Having procedures to monitor positions and the positions of affiliates in any commodity derivative subject to a position limit.

Examples of Unacceptable Practices would include, but not be limited to:

- Knowingly or recklessly violating compliance with the relevant environmental, health and safety or employment laws and regulations.
- Not documenting regulated activities and not prescribing restrictions on the types of financial instruments traded by directors and employees or the size of positions in financial instruments that may be held at any time.
- Not documenting compliance with the conditions of an exemption to authorisation which are being relied upon.
- Not checking regularly that a delegate reporting derivative transactions does so accurately, consistently and within the prescribed timeframe.
- Not setting or applying rules as regards information provided by directors or employees to third parties administering a benchmark.

- Not being able to access aggregate, group-level information on the size of positions held in financial or commodity derivative contracts subject to position limits.
- Not having documented procedures for surveilling trading activity for suspicious orders or transactions in financial instruments and/or for investigating and reporting suspicious orders and transactions to the competent authority.

5. Robust and Credible Benchmarks

Any person contributing data to the Baltic Exchange for administration of its benchmarks shall always comply with applicable law. Market Participants using these products shall comply with applicable laws and terms and conditions under which the Baltic Exchange provides these products and at all times recognise the rights of the Baltic Exchange in respect of these products.

The Baltic Exchange seeks to ensure the accuracy, robustness and integrity of benchmarks and of the benchmark determination process in order to safeguard market confidence. To achieve this, the Baltic Exchange has in place well defined governance arrangements, procedures regarding an independent oversight function, transparency regarding a benchmarks purpose and methodology alongside a control and accountability framework, all of which ensures the provision of benchmarks and the benchmark determination process is accurate and reliable.

As a part of this remit, the Baltic Exchange's subsidiary, Baltic Exchange Information Services Limited (BEISL), is or will be regulated as an authorised benchmark administrator pursuant to the Benchmarks Regulation. It is therefore of the utmost importance that the Baltic Exchange and Members contributing data comply in all respects with the Benchmarks Regulation. The Baltic Exchange Guide to Market Benchmarks will ensure compliance with the Benchmarks Regulation by setting out the rules governing the production of the Baltic Exchange's benchmarks, including the procedures governing the manner that assessments are made and provided by panellists.

Robust and reliable benchmarks are critical to the proper functioning of many aspects of the freight market and benefit Members and non-Member Market Participants alike, from the settlement of freight contracts to the pricing and settlement of FFA and other derivative products. In addition to the Baltic Exchange and its panellists, Market Participants have a role to play in ensuring the integrity of benchmarks. Market Participants must therefore exercise vigilance in providing information to the Baltic Exchange or to any Baltic Exchange panellist, so as to avoid any distortion of the benchmark production process, where with or without intention to do so. Market Participants are also encouraged to immediately contact the Baltic Exchange upon becoming aware of any fact or information which impacts any Baltic Exchange benchmark.

In recognition of the critical role played by the Baltic Exchange in the safe and reliable production of benchmarks and data products (including by exercising effective oversight and monitoring of the benchmark production process, establishing and maintaining critical infrastructure to ensure the timely production and delivery of benchmarks), and to ensure continuity and sustainability in the Baltic Exchange's execution of such role, the Baltic Exchange charges licence fees for the use of its benchmarks and data products. Members and Market Participants making use of the Baltic Exchange benchmarks and other data products should do so only under a valid licence and in accordance with the terms governing such licence issued by the Baltic Exchange from time to time.

Examples of Good Practices would include, but not be limited to:

- Ensuring that licences to use benchmarks are up to date and fully paid when applicable, and that the use of benchmarks is compliant with the licence terms as set out in the data policy available on the Baltic website.
- Only using benchmarks which are fully compliant with the applicable legislation and regulations and in accordance with the Baltic Exchange Guide to Market Benchmarks.

Examples of Unacceptable Practices would include, but not be limited to:

- Colluding and/or sharing information about the relevant market data which is intended for submission to a benchmark administrator.
- Influencing the value of benchmark by manipulating the quality or frequency of information provided.
- Unlawfully distributing Baltic or other benchmarks to third parties.
- Attempting to construct illicit indices or other products which infringe the intellectual property of benchmark administrator.
- Distributing research, which reproduces or includes licenced data, without appropriate permissions.

The Baltic Exchange publishes daily assessments for the dry bulk and tanker freight markets which are widely used by shipowners, traders and charterers. On occasion Baltic data is referenced inside contracts. When used in this way, counterparties are required to have a valid Baltic Data licence for the entire duration of the contract. This includes, but is not limited to, Time and Voyage Charterparties, Contracts of Affreightment and FFA agreements that are not given up for clearing. Both counterparties are required to have a valid Baltic Data licence.

Baltic Data is based on assessments made by Panellist Brokers. One of the ways to obtain a Baltic Data licence is to nominate a Baltic Panellist Broker in the contract. Further information and full terms and conditions can be found at:
www.balticexchange.com/data-policy/

An Introductory Guide to Modern Shipping

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A. Market Practice and Terminology

This section sets out information which shipping market participants are expected to understand. In the past this part of the document was used as the basis of a test for new Members to ensure they were appropriately knowledgeable. The test is no longer required, but the information is retained as many still find it a useful reference. It represents an introductory overview of the aspects covered and the reader should not consider it comprehensive.

The Baltic encourages all its Members to study for exams with the Institute of Chartered Shipbrokers with a view to becoming a Member of the Institute. The Baltic Exchange also runs a number of educational courses and activities including practical shipping modules as part of the Baltic Academy and advanced learning in cooperation with CASS Business School.

Main Types of Vessels and Trades

Modern cargo vessels range from small coasters to very large bulk carriers and ultra large tankers, but generally fall into a number of types. The use of the terms below evolves quickly and they are not precisely defined. Where terms are defined below this is intended to reflect current market practice rather than to impose a definition on the market. For the purpose of its information production the Baltic does operate specific definitions in order to provide clarity, which are set out overleaf. However, this does not imply that these broader definitions are erroneous, but that they are indicative only.

Bulk Carriers (Dry Cargo)

All these vessels are single deckers with a varying number of holds for the carriage of bulk cargoes such as grain, ore, coal, steel etc.

Handysize

About 20/35,000 dwt, four holds/hatches or five holds/hatches. Geared with 25-35 ton cranes

Handymax

About 36/49,000 dwt, five holds/hatches. Geared with 25-35 ton cranes

Supramax/Ultramax

About 50/66,000 dwt, geared with 25-40 ton cranes which are usually fitted with own grabs

Panamax/Kamsarmax

About 65/82,500 dwt, seven holds/hatches. Usually gearless (although some 65/68,000 dwt vessels have gear – some of these fall into the Ultramax category above)

Post Panamax/Mini Cape

About 87/120,000 dwt, seven holds/hatches. Gearless

Capesize

About 120/200,000 dwt, nine holds/hatches. Gearless

Very large Ore Carrier, also Valemax, Chinamax

About 220/400,000 dwt, nine holds/hatches. Gearless

There are also numerous specialised vessels, which include the following:

Specialist Vessels**OO**

A vessel which is adapted to carry both oil and ore

OBO

A general purpose vessel which is adapted to carry oil, general bulk products and ore

Tweendecker/Multi-purpose (MPP)

A vessel able to trade with one or more decks for the carriage of general cargo including bagged and/or mixed general cargoes and containers.

Reefer

A refrigerated ship for meat, fish, fruit and vegetables, etc.

RO/RO (Roll on/Roll off), PCC (Pure Car Carrier), PCTC (Pure Car/Truck Carrier)

Roll-on roll-off vessels with ramps suitable for wheeled and tracked cargoes.

Containerships

Vessels carrying general and high value cargoes in containers (commonly referred to as boxes), some of which may be refrigerated. Capacity is expressed as the equivalent number of TEUs (twenty foot equivalent units) or FEUs (forty foot of equivalent units).

Tankers (oil and oil products carriers and chemical vessels)

These vessels are designed to carry cargoes including crude oil, refined dirty products, refined clean products, chemicals and gas, and generally fall into the following groups:

Handysize

About 10/37,000 dwt

MR (Medium Range)

About 37/55,000 dwt

Panamax

About 60/80,000 dwt (also called an **LR1** if coated tanks for refined products)

Aframax

About 90/120,000 dwt (also called an **LR2** if coated tanks for refined products)

Suezmax

About 120/160,000 dwt

VLCC (Very Large Crude Carrier)

About 240/320,000 dwt

Gas Carriers

Liquefied Petroleum Gas (LPG)

(Very Large Gas Carrier (VLGC – fully-refrigerated)

>60,000 cbm

Large Gas Carrier (LGC – fully-refrigerated)

40,000-59,999 cbm

Medium Gas Carrier (fully-refrigerated)

25,000-39,999 cbm

Handysize Gas Carrier (can be semi or fully-refrigerated)

15,000-24,999 cbm

Small Gas Carriers (semi-refrigerated, pressurised)

5,000-14,999 cbm

Small Gas Carrier (pressurised)

<4,999 cbm

Liquefied Natural Gas (LNG)

Q-Max LNG

>220,000 cbm

Q-Flex LNG

209,000-219,000 cbm

Upper Conventional LNG

145,000-208,999 cbm

Lower Conventional LNG

90,000-144,999 cbm

Med Max LNG

36,000-89,999 cbm

Small Scale LNG

<36,000 cbm

Trades

A large variety of cargoes are carried on bulk carriers, but as a rule, the larger the vessel, the fewer commodities are commonly loaded.

For example, Capesize ships carry mostly iron ore, coal, bauxite and sometimes grain. Panamax sizes, in addition to these cargoes are also sometimes employed for the carriage of metcoke, petcoke, fertilisers, sulphur, salt, bauxite, alumina and steel slabs.

The smaller Handysize to Supramax sizes, in addition to the above, are also often employed in carrying cargoes such as steel products, scrap and sugar.

The largest trade routes for the major bulk cargoes are commonly:

Iron Ore

Australia to the Far East and to Europe

India to the Far East

South Africa to the Far East and to Europe

Brazil to the Far East, Europe and to Argentina

Chile to the Far East

Norway to Europe

Black Sea to the Far East

Coal

Australia to the Far East and Europe, with some cargoes also to Brazil and Argentina

Australia to India and South Africa to India

Indonesia to the Far East and to Europe

South Africa to the Far East and to Europe

Colombia to Europe

USA East Coast to the Far East and to Europe

West Coast of Canada to Far East

Wheat

North America to Far East, Middle East and Europe

Australia to the Far East and Middle East

East Coast South America to the Far East and Europe with some cargoes also to the Middle East

UK/Continent to the Middle East, North Africa

Black Sea to the Middle East

Soya Beans

USA (Gulf/Mississippi) to Far East, Middle East and Europe

US West Coast to Far East

Brazil to Far East and Europe

Argentina to Far East and Europe

Tanker Trades and Flows**Crude Oil**

Middle East to Far East, North West Europe, USA, Indian sub-Continent, South Africa, Brazil, Red Sea, Mediterranean and Australasia

Red Sea to Far East, USA, North West Europe and Mediterranean

West Africa to Far East, North West Europe, Mediterranean, Indian sub-Continent, USA and South America

North Africa to Mediterranean, North West, USA and Far East

North Sea to USA and Far East

Baltic Sea to UK/Continent, Mediterranean, USA and Far East

Black Sea to UK/Continent, Mediterranean, USA and Far East

East Coast Mexico to USA, Europe and South America

Caribbean to USA, Europe, South America, Indian sub-Continent and Far East

South America to USA, Europe and Far East

Indonesia/Malaysia to Far East and Australasia

US Gulf to China

US Gulf to Mediterranean

Dirty Products

Middle East to Far East

North West Europe to Far East and USA

Mexico and Caribbean to USA, North West Europe and Far East

Baltic Sea to UK/Continent, Mediterranean, USA and Far East

Singapore to Far East

Inter-regional trade within Europe/Mediterranean

Inter-regional trade within South East Asia and Far East

Clean Products

Middle East to USA, Mediterranean, Europe and Far East

North West Europe to USA, Mediterranean, West Africa and Far East

Mediterranean to North West Europe, USA and Far East

US Gulf to South America and Europe

Caribbean to USA and Europe

Indian sub-Continent to USA, Mediterranean, Europe and Far East

North East Asia to US West Coast and West Coast South America

Singapore to Worldwide destinations

Inter-regional trade within Europe/Mediterranean

Inter-regional trade within Middle East and Indian sub-Continent

Inter-regional trade within South East Asia and Far East

B. Chartering

The Main Components of a Vessel's Costs

The cost of running a vessel can broadly be divided into two parts. There are routine costs which accrue on a daily basis and which are not affected by the specific voyage on which the vessel is engaged. Then there are costs which are specific to the individual voyage.

The following may be considered the main routine costs incurred in running a ship:

1. Capital cost of the ship, which will normally be expressed as a depreciation cost (the capital cost divided by the number of years the ship is expected to trade, minus its expected demolition value at the end of its working life) plus the funding cost of the capital, which may in part be in the form of a bank loan (mortgage).
2. Crew wages, overtime, pension contributions, insurance, travelling costs.
3. Victualling.
4. Insurance (Hull and Machinery and Protection and Indemnity).
5. Tonnage tax and management fees.
6. Deck and engine room stores and spares, lubricating oil.
7. A suitable daily allowance to cover periodic costs such as dry-docking, special surveys, running repairs.

The Main Components of a Voyage Cost

The following may be considered the main costs which are specific to a voyage. Bunkers (fuel), port disbursements, stevedoring/load/discharge costs if payable by shipowner, canal dues. Additionally, there may be other expenses, such as war risk insurance premium, over-age insurance, freight tax, local taxes and/or dues, income tax and despatch money etc.

Main Charterparty types

A Charterparty is a contract of agreed terms and conditions between the shipowner, disponent owner (the person who controls the ship by virtue of an existing Charterparty with the shipowner or other disponent owner) or operator and the charterer, for the carriage of goods or hire of the vessel in return for payment of an agreed freight or rate of hire.

Charter parties fall into three main categories – voyage, timecharter and bareboat:

1. Voyage Charters

- a) The charterer employs the vessel for a specific voyage or voyages, with cargo which is customarily loaded and discharged at their expense within a specified time (see Laytime) in return for freight calculated on an agreed rate

per ton of cargo or as a lump sum. The owner pays for fuel and operating expenses, and (generally) port disbursements, of the vessel.

b) Contract of Affreightment (COA)

This form of contract is an agreement by an owner or operator to lift an agreed number of cargoes of a certain size over a period of time.

2. Timecharters

The charterer has the use of the ship for a specific trip or a period of time. Charterers may direct the vessel within the trading limits agreed, and, in normal circumstances, the Master must obey these orders.

Whilst the timecharterer has the commercial control, the owner retains responsibility for the vessel and the Master and crew remain in their employment. The hire, usually calculated per day, is paid in advance at regular, agreed intervals, normally semi-monthly or monthly.

Whilst on timecharter, the timecharterer usually pays for all port charges including their own agency fees, canal dues, pilotage, and generally (if not covered elsewhere) cargo insurance.

Normally, the charterer pays for the fuel on board at the time he accepts delivery and for fuel supplied while the vessel is on hire. When the vessel is redelivered the owner pays for bunkers remaining on board. The prices applicable on delivery and redelivery and the respective quantities are normally agreed by negotiation.

The owner pays for the operating expenses of the vessel.

If the ship breaks down or, as a result of the shipowner's fault, the charterer does not have the use of the vessel, the vessel goes 'off-hire' for that period subject to any terms in the Charterparty.

Timecharterers may be owners who want to temporarily augment their own fleet, charterers who have a variety of commitments to meet, charterers who believe term chartering will hedge the market, operators who foresee a profit by taking voyage contracts from charterers and timechartering vessels themselves to cover those contracts.

3. Bareboat Charters (Charterparties by demise).

The registered owner passes over to the demise charterer the complete control and management of the ship. The demise charterer becomes, for all effective purposes, the owner during the period of the contract. The Master and crew are their employees and may be appointed by him.

Law of Contract

Almost all Charterparties, and many other contracts agreed in international trade, are concluded under English law (sometimes more precisely expressed as the Laws of England and Wales). There may also be a specific statement that disputes will be referred to the English courts (see also Arbitration) without which other courts may hear cases albeit applying English law. All comments on legal matters herein assume the choice of English law and are general statements which cannot be taken as advice for a specific situation. Specific legal advice should only come from practising lawyers.

Generally, the parties to a Charterparty have freedom to contract on such terms as they may agree during negotiation. The aim should be clarity of expression and the avoidance of ambiguity and inconsistency of clauses. If disputes arise, which eventually come before the Court or an arbitral tribunal for determination, the judgment or award will normally reflect the presumed intent of the parties. The case (or unwritten) law thus made (unwritten in the sense that it is not an Act made by Parliament) represents the common law which develops according to the changing needs of commerce. One may contract out of common law but not out of statute law. From time to time an accumulation of common law has been codified into Acts of Parliament; the Merchant Shipping Acts, the Marine Insurance Act and the Arbitration Act are examples.

The terms of a contract may be:

- a condition, the breach of which entitles an aggrieved party to elect to be released from further performance and claim damages for any loss suffered, or maintain the contract and sue for damages; or
- a warranty, the breach of which carries only the entitlement to sue for damages

(Note: The term 'warranty' used in connection with marine insurance has the same meaning as 'condition' in other contracts.)

Bills of Lading

A Bill of Lading has the following functions:

- It is a receipt for the goods, signed by the Master or agent on behalf of the carrier, with admission as to condition and quantity of the goods.
- It is a document of title to the goods, by which the property in the goods may be transferred.
- It is prima facie evidence of the terms and conditions of carriage.
- The Charterparty is the contract between the charterer and the owner. However, the lawful holder of a Bill of Lading has vested in them all rights and liabilities under the contract of carriage as if such holder had been a party to the contract of carriage.

Usually, the Bill of Lading contains a suitable clause to incorporate the terms of the Charterparty pursuant to which it is issued. If, however, it is the parties' intent that disputes arising under the Bill of Lading should be resolved in accordance with the terms of the arbitration clause that has been written into the charter, explicit reference to this needs to be made on the Bill of Lading. Should that Bill of Lading purport to involve the shipowner in a liability greater than agreed in the Charterparty, it is considered that the charterer indemnifies the shipowner to the extent of this greater liability towards the cargo. If charterers are also the Bill of Lading holder then it is the Charterparty and not the Bill of Lading that is the contract of carriage.

Letters of Indemnity (LOI)

Discharge or delivery of cargo at a discharge port without the production of the original Bills of Lading has become commonplace over recent years. While this is certainly not an ideal scenario, the charterer presents to the shipowner a Letter of Indemnity (LOI), the wording of which is typically provided by the owner's P&I Club, and the letter is then signed by the charterer.

The purpose of the LOI is to indemnify the owner against claims arising from the delivery of the cargo without presentation of the original Bills of Lading which demonstrate title to the cargo. It is also sometimes necessary for owners to be prepared to consider accepting an LOI for the change of destination to a port other than that specified in the original Bills of Lading. It is recommended that an LOI covering any other situation should be resisted because it could be concealing a fraudulent act.

A situation may arise in connection with the signing of Bills of Lading where the shipper desires to obtain a condition expressed in the sale of goods contract, but where the condition of the goods shipped is not such as would strictly warrant a clean Bill of Lading being issued.

A Bill of Lading is intended to express 'the apparent order and condition of the goods and the date of shipment' and a representation so made which is knowingly false has all the elements of fraud. Consequently, an LOI from shipper to shipowner in exchange for a clean or incorrectly dated Bill of Lading in such circumstances is not legally enforceable. Such action is defined as an unacceptable practice under the Baltic Code.

Role of the Ship's Master

The burden of responsibility resting upon the Master is reduced for routine matters in modern times with improved communication between the ship and the owner.

However, the Master retains the duty of care for the safety of the ship and of the cargo placed in their charge. He cannot delegate this responsibility. In the exercise of their duty he has powers to bind the shipowner and cargo-owner by their actions in case of need. The Master is the agent of the shipowner. Thus, the shipowner is bound by acts of the Master, which are within the authority of a Master; and third parties with whom the Master deals are entitled to be guided accordingly unless they are aware that the Master's authority has been limited.

If the Master signs Bills of Lading which are incorrectly dated or knowingly false in any other respect, or for goods which are not on board, or if he unjustifiably deviates from the ordinary course of the voyage, he may incur personal liability.

A Master must be very careful about the description and condition of cargo and where a Charterparty calls for the release of 'freight prepaid' Bills of Lading. Before releasing such bills, their agents must have the owner's confirmation that they have received the freight. If signed Bills of Lading stamped 'freight prepaid' are released, the Master has an obligation, having signed the Bills of Lading, to deliver the cargo whether freight is paid or not.

C. Chartering Negotiations

General Principles

Negotiating must be conducted with care and accuracy. There must be complete agreement on all the terms and details between the two principals for an enforceable contract to come into being.

It has for many years been the custom for brokers to record the progress and details of negotiations in a "day book". This can provide a check-list as to the agreed position and outstanding issues and can later, in the event of a dispute, be used to safeguard their own and their principal's position. However, in the modern office environment there is less reliance on paper documents and copies of emails, instant messaging exchanges and the like may represent an equivalent of a day book. It is essential that such correspondence is recorded and retained for a reasonable period of time, at least until the Charterparty has ended and all matters have been finalised.

If agreement is reached a recapitulation (recap) should be exchanged between all parties summarising the final agreement.

Verbal communications outside chartering negotiations, when a broker must act, for example passing on orders to ships, should be re-confirmed in writing back to the instructing company.

A broker authorised to sign a Charterparty on behalf of their principal should indicate the source of authority for example by telephone, facsimile or email authority of [the principal's name] 'As Agents only'. When signing on behalf of a principal the basic rule is that with a signature qualified in this way a broker will not be held personally liable for the performance of the contract. If the name of the principal is not disclosed, then even the qualification of "as Agents only" would not absolve the broker from liability for the performance of the contract.

Firm Offers

A 'fixture' is arrived at by the exchange of 'firm offers' between brokers acting on behalf of their principals, an owner and a charterer, and when concluded, (that is all terms and details agreed and subjects, if any, lifted), it is an enforceable contract.

A 'firm offer' should be limited as to time and be definite as to terms. Opening 'firm offers' are normally based on the main terms and such offers are made subject to agreement of further terms and conditions of the charter and in many cases contain a variety of 'subjects' (i.e. matters needing resolution before the charter can be agreed).

When a fixture is concluded on main terms with 'subjects', it is up to the brokers to ensure that both principals lift 'subjects' as soon as possible. It is important to note that no fixture has been concluded until all 'subjects' have been lifted.

A 'firm offer' or 'firm counter offer' can be declined by the recipient. They are then free to work their vessel or cargo elsewhere. This is a very important point for a broker to bear in mind. If a firm counter is made, however minor the change in terms,

the simple act of countering allows the opposite negotiating party the opportunity to decline and withdraw from the negotiation without further discussion or recourse. No firm offer may be made by a broker without authority from a principal.

Subject Details

Negotiations on Charterparty details are similar to those on main terms but rarely include time limits for reply. Brokers exchange offers, and counter offers on behalf of their principals until both parties are in agreement on all details that will eventually form the Charterparty. It is important that brokers ensure that their principals are kept fully advised on the status of outstanding 'subjects' when confirming that details are in order.

Court decisions in the USA have determined that a binding fixture had resulted when the main terms had been agreed despite the fact that it was still 'subject to details'. The USA Courts' view is not generally shared by the market in terms of practice in London and a judgement of the Commercial Court in London under English Law has affirmed that at that stage there is no binding contract. It should therefore be noted that if a firm negotiation is taking place under which any eventual contract would be governed by US law, such negotiation cannot fail on Charterparty details. Under New York law if the parties are unable to reach an agreement on the Charterparty details, a tribunal will rule on the outstanding points.

Briefly therefore, a broker should be aware that in the English Courts the expression "subject details" prevents a binding contract being in place until the subject is removed, and that this is not the position in the US.

Subject Stem

This subject is to give charterers time to put the vessel to their shippers to confirm that they can accept the vessel to load the agreed quantity of cargo on the agreed laydays. 'Subject Stem' is only to be used to determine availability of cargo. As a matter of interest STEM originally stood for 'Subject To Enough Merchandise' being available.

Subject Shipper's or Subject Receiver's Approval

This subject is used when the shippers or receivers of the cargo must give their approval of the vessel.

Subject Head Charterer's Approval

This subject will normally indicate that the cargo in question is a relet or sublet and charterers must get approval of the vessel from their head charterers. Most contract voyage charters have a relet or sublet clause in them.

Subject Board Approval

This subject is used when the Board of Directors of either principal must approve the final fixture but should be viewed with caution as such approval can be refused without a specific reason being given. This subject would normally only be used for long term period fixtures.

Subject Charterer's Reconfirmation

This subject can be used by charterers to hold a vessel while waiting to judge the market direction and sometimes to see if cheaper tonnage becomes available. This is a very onerous subject for an owner as the charterer simply does not need to give any explanation as to why a business is failed. It is recommended that any subject should be more specific in nature to reflect the actual situation.

Time Limits on Offers and Subjects

When exchanging offers, it should be understood by both parties that the reply time stipulated is either being set by the party making the offer (who would therefore have the authority to conclude a fixture if an acceptance is made to them within time), or the reply time is with another broker or the principal.

Therefore, if the authority is perhaps held overseas, and there could be communication difficulties or time differences, allowances should be made, otherwise the reply or acceptance could be 'out of time', with the risk that one party believes they have fixed because they have replied within time, but in fact the other party who had the authority to make the offer has not been contacted.

It is also important that precise reply times are given on offers and the lifting of subjects, rather than generalities such as 'one business day', 'close of business' or '24 hours after fixing'. State, for example, reply 0900 (local time) London or perhaps 0900 (local time) Tokyo, and make it clear whether the reply is to be made to a broker or the principal.

At no time should a reply time be expressed as 'reply in (10) minutes' or similar limit which is unclear as to the actual expiry time. All time limits should be set for a reasonable time.

Abuse of Subjects

This is an important area which is covered in the Guide to the Baltic Code section.

Voyage Estimate - Dry Cargo or Tanker

The ability to carry out an accurate voyage calculation is an important skill for a broker. Voyage estimates allow comparison between one piece of voyage business with another, as well as with a voyage performed under timecharter. In this way, the broker can advise their principal of market alternatives.

There are many formats for a voyage calculation, including software packages.

The below is just one example, basis Free-in Free-out (FIO) terms and full laytime which is used for both dry cargo and tanker business and shows the timecharter US \$ per day earnings from a given voyage US \$ per ton of freight.

Vessel's name	BPI	Ballast speed	14	Draft restriction
Year of build	TBC	IFO consumption	34	n/a
Deadweight	76600	Laden speed	14	Winter allowance
Draft	14.14	IFO consumption	36	n/a
TPC	66	MDO at sea	0	Cargo lift
Grain cubic	90700	MDO in port	0.1	65000
Bunkers/Constants	2000	IFO in port	3	
IFO price	609	Speed allowance (B)	0.98	7% sea margin
MDO price	911	Speed allowance (L)	0.98	7% sea margin

	Distance (m)	Sea Days	Port Days	Port Costs (\$)
Rotterdam				
Santos	5412	17.32	9.625	65000
Singapore (bunkers)	8956	28.66	0.5	3500
Qingdao	2458	7.87	9.63	60000
Totals	16826	53.85	19.75	128500

Ballast days	17.32
Laden days	36.53
Port days	19.75
Total days	73.60
IFO at Sea (mt)	1159439
MDO at Sea (mt)	0
IFO in Port (mt)	36083
MDO in Port (mt)	1799
Port costs (\$)	128500
Misc. (\$)	15000
Total Expenses (\$)	1340821

Cargo lift	Gross freight pmt (\$)	Commission	Total net freight (mt)	Equivalent net t/c (\$)
65000	40.00	5%	2470000	15343

Result is a net Timecharter of \$15,343 per day over 73.60 days.

The following formats are a useful, but not comprehensive, checklist when making or receiving an offer for a dry bulk ship.

Firm Offer - Voyage

For reply by.....

For account of [name and domicile]..... as charterers

Name of ship:

Name of ship: see description as per Baltic Exchange Dry Cargo Questionnaire
Baltic 99

(B99). This questionnaire or any other which is used should be considered supplementary and subsidiary to the owner's description of the vessel.

Cargo quantity:

Cargo description:

Rate of freight: Where and how paid: to:

FIOS/FIOT/FIO SPOUT TRIMMED:

Loading port(s)/Discharging port(s):

Laydays/cancelling:

Position and expected date of readiness to load:

Loading rate/Discharging rate or days permitted:

Demurrage/Despatch:

Dues/taxes (for account of):

Owners/Charterers to appoint/nominate Agents both ends (Delete as applicable):

Extra Insurance (for account of):

Total commission including address:

Form of Charterparty: Gencon, C (ore)7, Norgrain or BFC etc.

Subject further terms and conditions and any other subjects required.

Most trades today are on FIO (Free in/out) terms or more fully FIOST (Free in/out stowed or TRIMMED) with the occasional trade still using gross terms, and some charterers still fix cargoes on Custom of Port (COP), Customary Quick Dispatch (CQD) or liner terms.

Firm Offer - Timecharter

Firm for reply by

For account of[name and domicile]..... as charterers

Description of vessel: as per Baltic Exchange Dry Cargo Questionnaire Baltic 99.

This questionnaire or any other which is used should be considered supplementary and subsidiary to the owner's description of the vessel.

Delivery port/area:

Redelivery port/area:

Laydays/cancelling Date:

Position and expected date of readiness to deliver:

Duration of timecharter or description of trip:

Trading limits permitted:

Cargo exclusions/permitted cargoes:

Rate of hire: (per day) When/how payable:

Bunker quantities/prices on delivery/redelivery. When payable/deductible:

Total commission including address:

Form of Charterparty: BALTIME, NYPE etc.

Subject further terms and conditions and any other subjects required.

Terminology and Abbreviations

Berth/anchorage

In most cases the place within a port where the vessel is to load or discharge. If the word BERTH is not used, but the specific place is (or is to be) identified by its name this definition shall still apply.

Clear days

Consecutive days commencing at 0001 hours on the day following that day on which a notice is given and ending at 2400 hours in the last day of the number of days stipulated.

Day

A period of 24 consecutive hours running from 0001 hours to 2400 hours. Any part of a day shall be counted pro rata.

Demurrage

An agreed amount payable to the owner in respect of delay to the vessel beyond the laytime, for which the owner is not responsible. Demurrage shall not be subject to exceptions which apply to Laytime unless specifically stated in the Charterparty.

Despatch Money or Despatch

An agreed amount payable by the owner if the vessel completes loading or discharging before the laytime has expired.

Despatch on all time saved (ATS)

Despatch money shall be payable for the time from the completion of loading or discharging to the expiry of the laytime including periods excepted from the laytime.

Despatch on (all) working time saved (WTS) or on (all) laytime saved (LTS)

Despatch money shall be payable for the time from the completion of loading or discharging to the expiry of the laytime excluding any periods excepted from the laytime.

Excepted or excluded

The days specified do not count as laytime even if loading or discharging is carried out on them.

Holiday

A day of rest other than the normal weekday(s), or part thereof, when by local law or practice the relevant work during what would otherwise be ordinary working hours is not normally carried out.

Laytime

The period of time agreed between the parties during which the owner will make and keep the vessel available for loading or discharging without payment additional to the freight.

Notice of readiness (NOR)

The notice to charterer, shipper, receiver or other person as required by the Charterparty that the vessel has arrived at the port or berth, as the case may be, and is ready to load or discharge. Alternatively, the notice may be specified to relate to the vessel arriving at/off the port or berth.

Port

An area, within which vessels load or discharge cargo whether at berths, anchorages, buoys, or the like, and shall in most cases also include the usual places where the vessels wait for their turn or are ordered or obliged to wait for their turn no matter the distance from that area. If the word PORT is not used, but the port is (or is to be) identified by its name, this definition shall still apply.

Reachable on her arrival or always accessible

Means that the charterer undertakes that an available and accessible loading or discharging berth will be provided to the vessel on her arrival at or off the port which she can reach safely without delay proceeding normally. Where the charterer undertakes that the berth will be ALWAYS ACCESSIBLE, the charterer additionally undertakes that the vessel will be able to arrive and depart safely from the berth without delay at any time before, during or on completion of loading or discharging.

Reversible laytime

An option given to the charterer to add together the time allowed for loading and discharging. Where the option is exercised the effect is the same as a total time being specified to cover both operations.

Running days or consecutive days

Days which follow one immediately after the other

Strike

A concerted industrial action by workmen causing a complete stoppage of their work which directly interferes with the working of the vessel. Refusal to work overtime, go-slow or working to rule and comparable actions not causing a complete stoppage shall not be considered a strike. A strike shall be understood to exclude its consequences when it has ended, such as congestion in the port or effects upon the means of transportation bringing or taking the cargo to or from the port.

Time lost waiting for berth to count as loading or discharging time or as laytime

If no loading or discharging berth is available and the vessel is unable to tender notice of readiness at the waiting-place then any time lost to the vessel is counted as if laytime were running, or as time on demurrage if laytime has expired. Such time ceases to count once the berth becomes available. When the vessel reaches a place where she is able to tender notice of readiness, laytime or time on demurrage resumes after such tender and, in respect of laytime, on expiry of any notice time provided in the Charterparty.

To average laytime

Separate calculations are to be made for loading and discharging and any time saved in one operation is to be set off against any excess time used in the other.

Unless sooner commenced (USC)

If laytime has not commenced but loading or discharging is carried out, time used shall count against laytime.

Unless used (UU)

If laytime has commenced but loading or discharging is carried out during periods excepted from it, such time shall count.

Vessel being in free pratique and/or having been entered at the Custom house

The completion of these formalities shall not be a condition precedent to tendering notice of readiness, unless the Charterparty expressly requires their completion before notice is tendered. If it does not, any time lost by reason of delay on the part of the vessel in the completion of either of these formalities shall not count as laytime or time on demurrage.

Weather permitting (WP)

Any time when weather prevents the loading or discharging of the vessel or would have prevented work if the vessel is still waiting for her turn, shall not count as laytime.

Weather working day (WWD)

A working day or part of a working day during which it is or, if the vessel is still waiting for her turn, it would be possible to load/discharge the cargo without interference due to the weather. If such interference occurs (or would have occurred if work had been in progress), there shall be excluded from the laytime a period calculated by reference to the ratio which the duration of the interference bears to the time which would have or could have been worked but for the interference.

Weather working day of 24 consecutive hours

A working day of 24 consecutive hours except for any time when weather prevents the loading or discharging of the vessel or would have prevented it had work been in progress, whether the vessel is in berth or still waiting for her turn.

Weather working day of 24 hours

A period of 24 hours made up of one or more working days during which it is or, if the vessel is still waiting for her turn, it would be possible to load/discharge the cargo without interference due to the weather. If such interference occurs (or would have occurred if work had been in progress), there shall be excluded from laytime the actual period of such interference.

Working days (WD)

Days not expressly excluded from laytime.

Whether in berth or not (WIBON) or berth or no berth

If the designated loading or discharging berth is not available on her arrival, the vessel on reaching any usual waiting place within the port, shall be entitled to tender notice of readiness from it and laytime shall commence as provided under the Charterparty.

Warranty of Authority

A shipbroker negotiating as intermediary between shipowner and charterer is deemed to warrant that he has the full authority of a principal to contract on the terms of an offer which he transmits. If for some reason it transpires that he did not have the necessary full authority he may be liable in an action brought by the person who receives the offer and accepts it. In this and other matters where disputes arise, a broker should avoid any statement which may be interpreted to accept liability or error before proper legal or insurer advice has been sought.

When dealing with a new connection, Members are recommended to check the Warnings and Postings issued on www.balticexchange.com and contact the Baltic Exchange which maintains an extensive internal database on complaints raised by Members over several years.

Members should ensure that they do not quote any business on behalf of a person, persons or company that has been posted on the Baltic but should of course not breach any existing charters or contracts.

The onward transmission to non-Members of any postings issued by the Baltic and received by Members is strictly prohibited as this could lead to action for defamation against both the Member and the Baltic.

Commission (Brokerage)

Unless otherwise expressly agreed, commission is payable only on freight or hire earned and paid. It is customary in a voyage charter for this to be extended by agreement to allow commission to be payable on dead freight and/or demurrage and detention (waiting time) if any. On timecharter similarly it can be extended to a ballast bonus.

In chartering it is the usual (though not invariable) practice for a commission clause to appear in the Charterparty and the commission is payable by the shipowner to the brokers named as having earned it in each individual fixture.

The Contracts (Rights of Third Parties) Act 1999 has changed the way in which shipbrokers can take legal proceedings to enforce their right to commission. The Act applies to contracts entered into after 11 May 1999.

The Act provides a mechanism by which a third party named in a contract but who is not actually a party to the contract, may enforce their rights. Thus, it can be used by a shipbroker to enforce payment of a commission specified in a Charterparty to which he is not a signatory.

Commissions deducted at source

Unless otherwise agreed in writing and included in the fixture recap, Charterparty or addendum, the owner is responsible for paying all commissions. If, however, during the negotiation or subsequent to the fixture, all parties agree, in writing, that a broker's commission will be deducted by and paid by the charterer and providing the commission is actually deducted, it will be the charterer and not the owner who is responsible for payment of the commission so deducted. If there is no written agreement, the charterer is required to pay the owner gross values, less any address commission only.

Brokers' commissions on direct continuations

Members should note that the occasional practice of owners or charterers avoiding the payment of commission due to brokers on direct continuations of time-Charterparties or contracts of affreightment in which a broker or brokers were originally involved or covered for commission, is considered to be unacceptable by the Baltic Exchange. To avoid any dispute and possible legal consequences, it is recommended that brokers endeavour to have included in the original time-Charterparty or contract of affreightment a clause specifying that they will receive not only a commission on any hire or freight paid, but also upon any continuation of the charter or contract.

D. Tanker chartering

Negotiations

Whilst negotiations involving the fixtures of tankers are very similar to those in the dry cargo market, negotiations do tend to be less protracted. The main elements of the fixture are still the same - rate, size, laydays, demurrage and loading/discharge areas. All the major charterers have their standard forms to fix on, such as Shellvoy/BPvoy/ Exxonmobilvoy, with the most common non-oil company charters being the ASBATANKVOY.

Worldscale

Most oil industry fixtures are concluded under the auspices of the New Worldwide Tanker Nominal Freight Scale, known as Worldscale. This publication is jointly sponsored and issued by the Worldscale Association (London) Limited and Worldscale Association (NYC) Inc. and it is virtually impossible to trade tankers without having access to this information.

The Worldscale organisations issue an annually revised Scale of Rates and Differentials on 1 January each year covering almost every possible tanker voyage. The figures published are based on a standard sized vessel described in the Schedule and market levels of freight are expressed in terms of a percentage of the nominal printed freight rate.

Thus, Worldscale 100 means the rate for the voyage in question as calculated and issued by the Associations whilst Worldscale 175 means 175 per cent of that rate and Worldscale 75 means 75 per cent of that rate.

Worldscale rates are modelled on a notional tanker of 75,000 metric tons with an average service speed of 14.5 knots on 55 metric tons of bunker consumption for steaming and a fixed port time of four days and aim to produce a universally comparable return for each round trip, with bunker prices based on the monthly average from the previous period of 1 October to 30 September. Port costs, canal transits and other direct costs are taken into account and continually monitored for each new publication, and amendments to flat rates can be made during the year if considered by the Associations to have considerable effect.

Worldscale also encompasses demurrage and various other costs. Ships of different size ranges have differing demurrage rates. These are increased or decreased in line with the negotiated Worldscale freight rate, but today owners and charterers are tending to trade on a daily lumpsum dollar demurrage rate. Demurrage commences on the expiry of 72 hours SHINC total laytime which is allowed for loading and discharging purposes, but despatch money is not paid in the tanker industry.

Laydays and cancelling are generally very narrow, being probably no more than two or three days, but many principals are now insisting on a ship arriving at load port with only a 24 hour spread due to the limited availability of stems. Where a full cargo is not available, charterers usually ask owners to guarantee a minimum quantity, having the option to lift to a full cargo. This extra cargo is classified as 'overage' and

freight for that extra portion of oil tends to be paid at 50 per cent of the Charterparty rate. Freight on voyage charters is payable upon completion of discharge although charterers with an unproven track record would probably have to concede a freight remittance before breaking bulk or even arrange a bank guarantee, which is little different from dry cargo.

Timecharter

Timecharter for tankers is similar to dry cargo with either specific trips or for a period of time. Period charter can be used by oil companies/traders to hedge their long term contracts in what can sometimes be a very volatile market. As with voyage most of the major oil companies have their standard Charterparties such as Shelltime and Exxontime, and the hire is usually agreed at a daily rate expressed in US Dollars, the same as in dry cargo. Worldscale is not commonly used in timecharters but is sometimes utilised when the timecharter rate is directly linked to the market indices (TD3/TC2 etc.).

E. Disputes

General Principles

A broker should be familiar with the various types of dispute resolution so as to be in a position to advise a principal accordingly. An arbitration hearing or mediation may take place some months or even years after the event and this emphasises the importance of having on file documents and electronic records relating to a fixture. A broker who has written contemporaneous evidence of events is at an immediate advantage.

When a dispute arises, there is a variety of means available to resolve it. Some of those means are mutually exclusive, at least until each has run its course.

Protection of Baltic Exchange Members

Baltic Exchange Members may approach the Baltic Exchange for assistance with disputes involving unpaid fees, commissions or hire. Any Member requesting such assistance must provide clear documentary evidence of the unpaid debt owed, and of prior efforts made by the Member to recover such debt. The Baltic Exchange may, at its sole discretion and with the assistance of the Membership Council, consent to provide assistance in cases where there is a clear and undisputed debt owed. The Baltic will NOT accept a case if there is any ongoing litigation, arbitration or other legal proceedings between the parties. If a case is accepted, the Baltic Exchange will contact the parties for information and establish the facts of the case. If, following such queries, it is determined that the counter-party disputes the existence or quantum of the debt, the Baltic Exchange will not act further, and will encourage parties to resolve such dispute between themselves.

If the dispute is between Members, the Membership Council may ultimately suspend or expel a Member whose behaviour is considered a breach of the Baltic Code or the Baltic Rules. For Members and non-Members of the Baltic the ultimate sanction is a posting on the Baltic website which is a warning to Members of the risks of doing business with the counterparty concerned.

The Baltic may also assist with disputes brought to it by a Member company where the counterparty is not a Member. In these cases, upon successful resolution of the dispute, a charge of 15% of the recovered money (capped at £15,000) is charged by the Baltic.

Maritime Arbitration

It is common for Charterparties to specify that in the event of a dispute then the matter will be referred to arbitration. Such a clause does not prevent attempts to resolve the dispute by negotiation or mediation. Indeed, even after the arbitration clause has been invoked negotiation towards a settlement is customary.

The form of the arbitration clause in the Charterparty is subject to the agreement of the parties and printed clauses are frequently amended to comply with their wishes, particularly as to the composition of the tribunal and the forum. However, a Charterparty clause is not essential to invoke arbitration; written evidence that the

parties have agreed to submit disputes to arbitration is all that is required. It is open to either party to invoke the arbitration procedure.

In addition to the comments on choice of law made earlier, in the case of arbitration it is useful to make use of a standard arbitration clause which can clarify many issues, including the location of the arbitration and the process for appointing the tribunal. It is also in the contracting parties' interests that the procedure for the conduct of the arbitration be set out in the relevant arbitration clause.

BIMCO and the LMAA have produced a printed comprehensive arbitration clause, the Singapore Chamber of Maritime Arbitration (SCMA) and BIMCO have also produced an arbitration clause. These can be included in Charterparties.

In appointing an arbitrator, a party is choosing a judge who, either in their capacity of sole arbitrator or together with their co-arbitrator(s), will decide the matter fairly and impartially without unnecessary delay or expense to the best of their or their ability either on the basis of written evidence and submissions made by each of the parties or pursuant to an oral attended hearing. Depending upon the form of the arbitration clause, if the arbitrators appointed by each side cannot agree then either an umpire or a third arbitrator can be appointed.

If a formal hearing is required, submissions may be made by the parties themselves or through representatives, for example, solicitors and perhaps counsel. The tribunal's award is final unless challenged on the grounds of serious irregularity affecting the tribunal, the proceedings or the award. The tribunal's award is also final as to the facts of the case, as well as to law unless appealed to the Courts under the very restrictive conditions of the Arbitration Act 1996. Such leave to appeal shall only be given if the court is inter-alia satisfied that on the basis of findings of fact in the tribunal's award, the decision of the tribunal is obviously wrong in law OR that the question that has arisen is one of general public importance AND the decision of the tribunal is at least open to serious doubt.

If a Charterparty does not contain an arbitration clause then it is open to the parties subsequently (ad-hoc) to agree a suitable wording should a dispute arise (e.g. the BIMCO/LMAA Arbitration Clause or the BIMCO/SCMA Arbitration Clause). The parties may also agree to vary the wording of an existing clause, for example, to appoint a sole arbitrator in place of three arbitrators or to appoint a third arbitrator instead of an umpire.

"The LMAA Terms", last revised in 2017, provide, in a clear and convenient form, guidelines aimed at making for greater efficiency and despatch in the conduct of London arbitration. The LMAA also publishes a "Small Claims Procedure and Commentary", last revised in 2017, which was introduced to provide a simplified, quick and inexpensive procedure for the resolution of small claims. Additionally, "The LMAA Intermediate Claims Procedure" was last updated in 2017 for the expedited and less costly resolution of medium size claims. The LMAA and the SCMA also publish a Small Claims guidance.

Relevant documentation and guidance provided by the LMAA and the SCMA can be found on their respective websites, www.lmaa.org.uk and www.scma.org.sg

Small Claims

The LMAA Small Claims Procedures are designed to provide a simplified, quick and inexpensive procedure for the resolution of small claims. It is usual for the Charterparty to specify the value of claims which can be resolved via these procedures.

Sale & Purchase

General Principles

The Baltic is the world's leading Sale & Purchase market. It is active both in fields of new buildings and second hand tonnage and features strongly in demolition sales.

The second-hand market is particularly significant in terms of value and turnover. A large percentage of this business is transacted via Baltic brokers.

It is a general practice in the buying and selling of ships that owners will instruct brokers to place vessels on the market whilst the vessels are engaged in their normal trades. It is therefore an important part of the transactions that inspections and eventually deliveries under a sale contract are co-ordinated with the employment of the vessel.

A standard form of contract - the Norwegian Sale Form - is used in over 80% of transacted business. The latest edition, which was revised in 2012, has also been approved by BIMCO and incorporates further amendments to previous forms particularly with respect to terms applicable to delivery. Many Japanese owners use the Nippon Saleform.

Although contrary to the printed Norwegian Sale Form, it is now more usual that vessels are inspected before being negotiated for sale as the value is very much dependent on a vessel's physical condition. An important part of the purchase is also an inspection of classification records which will show the history of the vessel since it was delivered.

The Sale Form deals mainly with price, terms of payment, where and when the vessel is to be delivered, and the seller's obligation towards the status of class certificates, etc. Sale & Purchase also covers the contracting of new ship construction, and a broker's role in this market lies in obtaining the best available shipyard price, payment terms and specification for all types of vessels.

The scrapping of vessels at the end of their commercial life is dealt with by brokers who offer the ships for recycling.

Sale & Purchase brokers provide a service to the industry in estimating ships' values, and this is often formally done by way of certificates of valuation which are widely used by owners for insurance and banking requirements.

The Baltic Exchange offers an Escrow service for its Members whereby the deposit is held by it until the sale is completed and authorisation is given to release the money. For this it undertakes extensive Anti-Money Laundering and Client Due Diligence checks.

Vessel Quality Management

There are many regulations covering many aspects of the business of shipping. The main international regulator for ocean-based activity is the International Maritime Organization (IMO), which is the London-based UN agency concerned with maritime matters. It is responsible for among many others the SOLAS (Safety of Life at Sea) regulations as well as the MARPOL (Marine Pollution) rules governing environmental matters.

Vessel inspections for compliance with all applicable regulations are managed under a series of Memorandums of Understanding (MOUs) which operate on a regional basis and allow for what is known as Port State Control inspections and detentions. In Northern Europe for example the Paris MOU is the relevant agreement. Modelled on the Paris MOU, several other regional MOUs have been signed, including the Tokyo MOU (Pacific Ocean), Acuerdo Latino or Acuerdo de Viña del Mar (South and Central America), the Caribbean MOU, the Mediterranean MOU, the Indian Ocean MOU, the Abuja MOU (West and Central Atlantic Africa), the Black Sea MOU, and the Riyadh MOU (Middle East Gulf).

In addition to the over-riding authority of the IMO in setting rules for ocean transportation, each ship must be registered with a particular national regulator (the flag state). It then flies the flag of that state and is regulated by the authority within that state when it comes to a wide variety of vessel management issues, the most important of which is vessel safety. In the past ships were registered with the flag of the state where they were owned. Subsequently it became the practice sometimes to "flag out" and be registered with other states. In recent years and in view of the Port State Control system, flagging to what is known to be a quality flag has generated significant commercial advantages, so it is incorrect to consider choice of a "foreign" flag as implying a desire to save money at the expense of quality or safety. Nonetheless there are quality league tables for different flags, recording for example the number of detentions worldwide of ships according to flag.

Classification Societies

Although the flag state has overarching responsibility for the quality of vessels, much of the work is delegated to classification societies which survey ships and ensure their compliance with all relevant construction and maintenance requirements.

There are many ship classification societies throughout the world centred in the traditional maritime countries but the best known are the twelve belonging to IACS, the International Association of Classification Societies.

- American Bureau of Shipping (ABS)
- Bureau Veritas (BV)
- China Classification Society (CCS)
- Croatian Register of Shipping (CRS)
- Det Norske Veritas Germanischer Lloyd (DNV GL)
- Indian Register of Shipping (IRS)
- Korean Register of Shipping (KR)
- Lloyd's Register of Shipping (LR)
- Nippon Kaiji Kyokai (NK)
- Polish Register of Shipping (PRS)
- Registro Italiano Navale (RINA) (Italy)
- Russian Maritime Register of Shipping (RS)

F. Insurance

A typical voyage will require many insurances. The ship's hull and machinery will need to be insured, as will the cargo being transported and the crew on board.

The vessel's hull and machinery are often insured in Lloyd's of London, or one or more of the large commercial insurance companies and is the responsibility of the shipowner. This is also the case with cargo insurance which is the responsibility of the charterer. Owners must belong to a P&I Club, which will cover the ship for its liability for cargo and will usually provide insurance for crew, death and bodily injury.

Charterers will have potential liabilities to third parties including the owner, and these are often also covered via membership of a P&I Club.

Other insurance includes War Risks Insurance, relevant when entering areas of high risk.

The Protection and Indemnity (P&I) Clubs

The present P&I Clubs are the descendants of the many small hull insurance Clubs that were formed by British shipowners in the 18th century. These Clubs were essentially unincorporated associations or co-operatives of shipowners who came together to share with each other their hull risks on a mutual basis, each being at the same time an insured and an insurer of others. This is still the basic concept of the present P&I Clubs, even though they are now incorporated so that in law it is the Club and not the individual members who provide the insurance.

The International Group of P&I Clubs is comprised of:

- American Steamship Owners Mutual Protection and Indemnity Association
- Skuld
- Gard
- The Swedish Club
- The Britannia Steam Ship Insurance Association
- The Japan Shipowners' Mutual
- The London Steam-Shipowners
- The North of England
- The Shipowners' Mutual
- The Standard Club
- Steamship Mutual
- The West of England Shipowners Mutual
- United Kingdom Mutual

A mutual provides risk pooling, information and representation for its members. Some Clubs also offer fixed premium P&I cover which is designed to protect smaller and medium-sized vessels.

The full range of risks covered by the P&I Clubs include crew, stevedore and third party death and injury and other crew liabilities, collision liabilities, damage to docks, pollution, removal of wreck (all of which are 'protection' risks), loss of or damage to

cargo, ship's proportion of General Average, customs penalties and many types of fine (indemnity risks).

Freight, Demurrage and Defence Clubs are also run by some of the major P&I Clubs. These insure the legal and other costs of dealing with disputes that are otherwise uninsured. Typical claims are for freight, demurrage, collections of debt and the like. New building contracts or Sale & Purchase disputes are amongst the most expensive claims handled by Defence Clubs, who also give legal and commercial advice to their members.

General Average

There is a General Average act when, and only when, an extraordinary sacrifice or expenditure is intentionally and reasonably made or incurred for the common safety or the purpose of preserving from peril the property involved in a common maritime adventure.

A sacrifice is the loss of or damage to physical property, for instance jettison of cargo. An expenditure is a disbursement of money, for instance salvage costs or expenses entering and while at a port of refuge.

Contracts of carriage, Charterparties and Bills of Lading, almost invariably specify that general averages shall be adjusted according to the York-Antwerp Rules (the most recent version of which is the 2016 Rules).

Ship, cargo and freight contribute to the general average and expenditures in proportion to their values at the end of the voyage.

The shipowner has a lien on the cargo at destination and therefore requires cargo interests to sign an average bond and their insurers an average guarantee before release of the cargo to consignees.

G. Baltic Exchange Benchmarks, Information and the Freight Derivatives Market

The fixture lists, benchmarks, assessments and market reports issued by the Baltic are proprietary information, and any circulation of these without permission or authority, could lead to legal action being taken.

Each working day the Baltic Exchange collates freight market information and publishes a range of benchmarks and route information. The procedures, together with a good deal of useful background information, are contained in The Guide to Market Benchmarks (see below) which is reviewed periodically as set out in the Guide to Market Benchmarks and available to Members on www.balticexchange.com. All users of the data should familiarise themselves with the latest edition of the Guide to Market Benchmarks so that they are fully conversant with Baltic freight market information. The Guide to Market Benchmarks covers the benchmarks, route definitions, the reporting companies and their procedures.

Baltic Exchange panellists

The Baltic relies upon its panellists for their daily input of assessments which create the Baltic Indices. A full explanation of the role of the panellists and the process for the compilation and publication of the indices can be found in the Guide to Market Benchmarks. Panel companies are independent shipbroking companies whose staff act as intermediaries for their clients in the market. More than 30 global companies provide their assessments on over 60 separate timecharter and voyage routes. This information is published by the Baltic Exchange and used by shipowners, charterers and physical and FFA traders as an integral part of their business for the settlement of physical and derivative contracts as well as for general benchmarking. As such Baltic panellists are an essential part of the price discovery process that underpins Baltic index production and all market participants should understand that the indices produced by the Baltic Exchange rely upon panellist's input for their continued accuracy and quality,

A separate Guide exists with guidelines for the Baltic Forward Assessment (BFA) panellists. This too is available on the website.

In outline, the published information comprises:

- **The Baltic Dry Index (BDI)**

The BDI is a weighted average of the following timecharter average assessments: Baltic Exchange Capesize Index (40%), Baltic Exchange Panamax Index (30%) and Baltic Exchange Supramax Index (30%).

These timecharter averages are all calculated from the average rates on major timecharter routes, as assessed by a panel of competitive brokers who are Members of the Baltic Exchange. The BDI provides a good general indicator of movement in the dry bulk market and continues the established time series of the Baltic Freight Index (BFI), which was introduced in 1985.

Additionally, the Baltic publishes the Baltic Exchange Handysize Index and a number of voyage routes representing major trades in the Panamax and Capesize markets.

- **The Baltic Exchange International Tanker Routes (BITR)**

BITR is comprised of average rates, usually expressed in Worldscale, on major oil routes, both dirty and clean, as assessed by a panel of competitive brokers who are Members of the Baltic Exchange.

- **The Baltic Exchange Dirty Tanker Index (BDTI)**

The BDTI is derived from and summarises the rates on the crude oil and dirty products routes.

- **The Baltic Exchange Clean Tanker Index (BCTI)**

The BCTI is derived from and summarises rates on the clean products routes. Timecharter Equivalent rates (TCEs) are published for all BITR routes.

- **The Baltic Liquefied Petroleum Gas Route (BLPG)**

BLPG is a single route assessment, assessed by a panel of brokers.

- **The Baltic Liquefied Natural Gas Route (BLNG)**

BLNG is a single route assessment, assessed by a panel of brokers.

- **The Baltic Exchange Sale & Purchase Assessments (BSPA)**

BSPA is comprised of weekly averages of the value of six vessel types as assessed by a panel of brokers.

- **The Baltic Exchange Ship Recycling Assessments (BSRA)**

BSRA is comprised of weekly averages of the demolition value of wet and dry vessels for delivery Sub-Continent of Asia.

- **The Baltic Exchange Forward Assessment (BFA)***

The BFA are an estimated mid-price based on assessments provided by a panel of FFA brokers, covering both the dry and tanker markets.

- **The Baltic Exchange Options Assessment BOA***

The BOA are daily assessments of implied volatility for an at-the-money option in the dry bulk options market submitted by a panel of FFA brokers.

**Not governed by the Baltic Exchange Guide to Market Benchmarks*

Broker Commissions

In respect of FFA trades, a Baltic Member should be paid a commission for every trade settled on the basis of the Baltic's assessments and indices.

Forward Freight Agreements

Forward Freight Agreements (FFAs) provide a means of managing exposure to freight market risk through the trading of specified timecharter and voyage rates for forward positions. An FFA is a swap agreement between two principals where agreement is struck for the value of the contract on an agreed future date.

Settlement is effected by payment or receipt of cash covering the difference between the agreed rate and the settlement rate at the expiry of the contract.

Settlement is effected against the relevant route assessment or an average of a series of route assessments such as the Capesize 5 timecharter average (5TC). The custom is also for settlement to be against the average of a number of days (usually a month). Forward Freight Agreements brokered by members of the FFA Brokers' Association (FFABA) are 'over the counter' (OTC) products made on a principal-to-principal basis. By and large all trades are conducted in standard form and this has enabled trades to be passed to clearing houses in order to minimise credit risk.

Without clearing trades are conducted on a bilateral basis, with each party extending credit to the other for the term of the agreement. When a trade is cleared it is passed to the clearing house which then becomes the counterparty to each of the original parties to the transaction.

Clearing services are currently provided by EEX (London), Nasdaq (New York), SGX (Singapore), CME (New York) and ICE (London).

A cleared trade is executed according to the terms and rules of the relevant clearing house, so the FFABA contract formerly used in bilateral transactions now has little relevance.

Forward Freight Agreement Brokers' Association (FFABA)

The Forward Freight Agreement Brokers' Association (FFABA) was formed in 1997 by Members of the Baltic Exchange and acts within the framework of the Baltic Exchange and is serviced by the management of the Baltic. Since 2006, separate Associations have existed for the wet and dry markets, each with its own Chair. Members engaged in the trading of freight derivatives are obliged to conform to the current Rules of the FFABA as promulgated and published from time to time by the FFABA. A copy of The Baltic Exchange Guide to Market Practice for members of the FFABA is on www.balticexchange.com. It is expected that any member engaged in the trading of freight derivatives will also conform to the Baltic Code.

The FFABA seeks to promote trading of Forward Freight Agreements (FFAs) with high standards of conduct amongst market participants. However, it is recognised that members of the FFABA who act as brokers cannot be responsible for the performance of a contract.

Membership of the Association is open to brokers acting as intermediaries.

Members of the FFABA must:

- Be Members of the Baltic Exchange.
- Be regulated by The Financial Conduct Authority (FCA) if resident in the UK or if not resident in the UK, by an equivalent body if required by the authorities in the jurisdiction.
- Have demonstrated they are active in promoting the use of Forward Freight Agreements.
- Contribute to the Baltic Forward Curve Assessment (BFA) if required to do so by the Baltic Exchange.

Staff of members of the FFABA should also have a reasonable knowledge of:

- Routes as defined by the Baltic Exchange in relation to the indices listed above
- All FFABA standard contracts.

Members of the Association are expected to conform with this guidance and to notices made from time to time by the FFABA.

Contract Negotiations and Market Practice

As with charter market negotiations, the broking of FFAs must be conducted and recorded with care and attention to detail.

Clear distinction must be made between market guidance given by brokers, indications from principals, and firm offers. Firm offers should always be made with a time limit. The practice of withdrawing offers during the period of validity is strongly discouraged and any such instances should be reported to the FFABA.

Verbal communications are contractually binding and should follow the high standards of integrity enshrined in the Baltic Code. The Baltic Exchange motto, Our Word Our Bond, applies to the derivatives market as well as the physical market.

In addition to the maintenance of accurate written records, brokers are also encouraged to record telephone conversations. To the extent it is practical and reasonable, clients should be informed that conversations may be recorded.

Unless otherwise agreed, the Seller's Broker will be responsible for recapping the terms of agreement in writing as soon as possible after the contract is concluded.

Brokers shall not divulge the identity of their principals unless there is specific authority from the principal concerned. No contract shall be concluded without the express acceptance of both counterparties.

The broker should ensure that the rate of commission payable by the principal(s) is agreed prior to concluding the contract.

Proprietary trading - if an FFABA broker acting as an intermediary has any direct interest as principal in a transaction, it must be divulged to both counterparties during contract negotiation.

Recognising that FFAs are settled based on rates provided by the Baltic Exchange, it is expected that all transactions will be negotiated with a Baltic Member broker specialising in FFAs and that an appropriate commission will be paid.

Traded Options

Options on FFAs are regularly traded. They are traded as an option on the FFA (rather than directly on the relevant index) and exercise automatically at expiry when in the money. Since the FFA is based on an average rate, they may be known as an Asian style option with European exercise.

H. Associated shipping organisations

BEWA (The Baltic Expert Witness Association)

BEWA is a professional body of maritime experts drawn from across the spectrum of global shipping and is based at the Baltic Exchange. All members of BEWA adhere to the Baltic Exchange Code. Full details of BEWA can be found on the Baltic website.

www.balticexpertwitness.com

BIMCO (The Baltic and International Maritime Council)

BIMCO is an organisation of shipowners, brokers, agents, P&I Clubs and other companies with an interest in shipping, with approximately 2,550 members in 123 countries. It is BIMCO's aim to unite shipowners and to defend the interests of international shipping at large. Members may draw on BIMCO for information and guidance on matters relating to port calls, document-related problems, technical issues and other practical shipping matters. Members may also access BIMCO's On-Line Service for information. BIMCO is the acknowledged centre for the development of shipping documents, such as clauses for Charterparties, Bills of Lading and other forms.

www.bimco.org

FONASBA (The Federation of National Associations of Ship Brokers and Agents)

FONASBA was formed in April 1969 the organisation promotes fair and equitable practices and ensures that the needs of its members are understood at international, regional and individual national level across the maritime industry.

FONASBA maintains a close watch on all developments of interest and concern to the ship broking and ship agency professions and takes appropriate action to ensure that those interests are protected.

www.fonasba.com

ICS (The Institute of Chartered Shipbrokers)

The Institute of Chartered Shipbrokers is the professional body for all members of the commercial shipping industry worldwide.

The Institute was founded in 1911 and awarded a Royal Charter in 1920. It sets and examines the syllabus for membership, providing the shipping industry with highly qualified professionals.

The ICS brokers is the only internationally recognised professional body in the commercial maritime arena and it represents shipbrokers, ship managers and agents throughout the world. It has 25 branches in key locations and 4,000 individual members and fellows.

Members of the Institute are committed to maintaining the highest professional standards across the shipping industry and, as part of a professional body,

members enjoy the benefits of an enhanced career in the shipping industry.

www.ics.org.uk

INTERCARGO (The International Association of Dry Cargo Shipowners) - London

INTERCARGO was established in 1980 with the objective of giving a voice to shipowners, managers and operators of dry cargo vessels and represent better this shipping sector.

INTERCARGO works closely with the other international maritime associations – BIMCO, INTERTANKO and the International Chamber of Shipping who, together with INTERCARGO, comprise the Round Table of International Shipping Associations. The aim of the Round Table is to maximise the benefit to members and to avoid costly and inefficient duplication of activity.

INTERCARGO Members commit to a safe, efficient, high quality and environmentally-friendly dry cargo shipping industry. INTERCARGO considers that free and fair competition in the shipping industry is of fundamental importance and this serves as its prime principle. INTERCARGO aims to create strategies to enhance the interests of its members for the benefit of the dry cargo shipping as a whole.

www.intercargo.org

INTERTANKO (The International Association of Independent Tanker Owners) - Oslo

INTERTANKO is a trade association that has served as the voice for independent tanker owners since 1970, representing the interests of its members at national, regional and international levels.

The organisation champions an industry dedicated to support global energy networks by delivering safe, efficient and environmentally sound transport services.

INTERTANKO actively works on a wide range of operational, technical, legal and commercial issues affecting tanker owners and operators around the world. It draws on regular and direct contact with its members and other industry stakeholders to develop and disseminate information and best practice, essential to the tanker industry.

www.intertanko.com

IUA (International Underwriting Association)

The IUA was formed in 1998 and is the focal representative and market organisation for non-Lloyd's international and wholesale insurance and reinsurance companies operating in the London Market. It seeks to promote and enhance the business environment for international insurance and reinsurance companies operating in or through London.

www.iua.co.uk

IMO – (International Maritime Organization)

The IMO is the United Nations specialised agency with responsibility for the safety and security of shipping and the prevention of marine pollution by ships. It is the only UN agency based in London. It was established in 1948.

It is the global standard-setting authority for the safety, security and environmental performance of international shipping. Its main role is to create a regulatory framework for the shipping industry that is fair and effective, universally adopted and universally implemented.

www.imo.org

Lloyd's of London

Lloyd's is the most famous insurance market in the world. It is made up of syndicates or groups of underwriters backed by the personal wealth of individuals or 'names' and limited companies who have become specialists in various types of risks, marine and non-marine. There is competition between groups but the importance of the market as a cohesive whole is recognised. Edward Lloyd opened their coffee house in the 1680s; today the Corporation occupies sites on each side of Lime Street in the City of London. The market is known as the Room and insurance may only be placed through brokers who make up roughly half of the people likely to be engaged in the daily business at any one time.

www.lloyds.com

LMAA (The London Maritime Arbitrators Association)

The London Maritime Arbitrators Association is an association of maritime arbitrators. The Association was founded in the Queen's Room of the old Baltic Exchange in 1960 but London maritime arbitration's roots and traditions stretch back over 300 years. Members are drawn from the commercial, nautical, technical, insurance and legal branches of the shipping community and, in particular, from the Bar, solicitors and the P and I Clubs.

www.lmaa.london

National Shipping Organisations

Most countries have a representative body for their owners - for example, the Union of Greek Shipowners. In the United Kingdom, the Chamber of Shipping is the representative body of the British shipowners on issues affecting the interests of its members. The Greek shipping community in London is focused on the Greek Shipping Co-operation Committee set up in 1935 and now located at the Baltic Exchange. The International Chamber of Shipping (ICS) is the international trade association for merchant shipowners and operators. There are also regional bodies such as the European Community Shipowners Association (ECSA) and the Asian Shipowners' Association, and the Council of European and Japanese National Shipowners' Associations (CENSA).

SCMA (Singapore Chamber of Maritime Arbitration)

The SCMA was originally established in November 2004 and was under management by the Singapore International Arbitration Centre (SIAC). Acting on industry feedback, the SCMA was reconstituted in May 2009 as a company limited by guarantee started functioning independently.

The aim of the SCMA is to provide a framework for maritime arbitration which is responsive to the needs of the maritime community. The SCMA has members drawn from all sectors of the maritime community and from all countries. There is no distinction in the class of membership or their entitlements - all sectors of the maritime community are treated equally as all sectors are users of SCMA.

A General Committee drawn from the membership provides the direction and development of the SCMA. The members of the General Committee come from various sectors of the international maritime community, including shipowners, ship charterers, cargo owners, shipyards, lawyers and arbitrators.

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