
UNIT 12 TRAMP CHARTERING PRACTICES

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12.0 OBJECTIVES

After studying this unit you should be able to:

- explain the nature of tramp trade
- describe various forms of tramp chartering
- list the responsibilities of shipowners and charterers
- define contract of affreightment
- explain the nature of charter party and its main clauses.

12.1 INTRODUCTION

You have learnt that when goods of homogeneous variety are transported in large quantities the shipper usually charters the whole ship or a substantial part thereof. The shipowners who provide the bulk carriers are considered as engaged in tramp trade. A tramp may be chartered in various ways and responsibilities of the shipowners and the charterers vary according to the form it takes. In this unit you will learn about the types of tramp chartering, responsibilities of tramp owners and charterers, contract of affreightment in the form of charter party, and the implied undertakings by shipowners and charterers.

12.2 WHAT IS TRAMP TRADE ?

Tramp trade deals with the bulk carriers which carry cargoes of homogeneous variety in large quantities from either one port to another or between a few ports. When a tramp is engaged for the carriage of cargo it is said to be under charter, as either the whole or the bulk of its space is hired by one charterer. Unlike the liner trade, tramp trade does not have any fixed ports of loading and discharge. There is no periodicity of shipments and tramps are engaged on terms and conditions including freight rate/hire charges, mutually agreed between the shipowners and the charterers. Tramp owners are always looking for ports where profitable cargo is likely to be found while charterers are looking for tramps which are available for hiring at competitive rates. Freight rate/hire charge in tramp trade is generally

decided by the laws of supply and demand of tonnage/cargoes and various other technical and commercial factors. Thus, tramp engagement is accomplished without any given set of conditions and rules.

12.3 TYPES OF TRAMP CHARTERING

A tramp may be chartered in a number of ways. Three most important forms of engagement are :

- 1 Voyage Charter
 - 2 Time Charter
 - 3 Bareboat Charter or Charter by Demise
- Let us now discuss these forms one by one.

12.3.1 Voyage Charter

Under the voyage charter engagement, a ship is engaged for either a single voyage or for consecutive/round voyages for shipment of an agreed quantity of cargo. The shipowners undertake to provide the vessel to the charterers for carriage of agreed cargo from one or two agreed ports to be discharged at the named port or ports within a certain range at rates and conditions mutually agreed in advance. The ship may be put at the charterers' disposal either by letting out its full capacity or a part of it. Sometimes, however, the ship's capacity may be let out to more than one charterers, in which case the shipowners enter into different agreements with the individual charterers. The shipowners, under voyage charter, direct the Master of the vessel to report at the named port for loading within a specified time period after the signing of the agreement or at or before an agreed date as stipulated in the agreement. If the vessel does not report for loading accordingly, the charterers may throw up the contract i.e., cancel it or alternatively claim damages for any consequential loss.

For engaging a tramp on voyage basis, the charterers are to pay a certain amount known as freight. Freight can be computed either on a lumpsum basis or on per ton basis. Thus, where freight payable is computed on the actual quantity of cargo loaded, freight is calculated on per ton basis. Alternatively, a lumpsum freight may be charged. In the first case, for any capacity which remains unused, the charterers may be required to pay a certain sum to the shipowners (dead freight) or alternatively the unused capacity may be hired out to another charterer at the shipowner's option. Under the arrangement where a lumpsum freight is charged on the total capacity of the ship, the shipowners will charge freight for full capacity, and if the charterers fail to load the ship upto its capacity, they may have the option to hire out unused space to others. In voyage charter, the shipowners are not only to meet all expenses of running the ship such as officer and crew wages, stores, provisions, insurance, depreciation, etc., but also the operating expenses like fuel cost, port charges, light dues, etc. The shipowners recoup their expense and earn profits from the freight paid by the charterers.

Though charterers pay only freight but, in certain cases, they may also be required to bear stevedoring expenses, wholly or partly. Stevedoring expenses include the loading, trimming or spouting and discharging expenses. The chartering agreement provides for the extent to which the charter rates cover these costs. Thus, charter rates can take any of the four following forms :

- 1 **Liner Rates** : Stevedoring expenses are borne by the shipowners who recover the same in the agreed freight. Thus, freight charged is inclusive of stevedoring expenses. These rates are also known as Gross Rates.
- 2 **Free In and Out (FIO)** : The agreed freight rates do not include stevedoring expenses, which will be separately charged from the charterers. These rates are also known as rates on "Free Terms".
- 3 **Free In and Gross Out** : In this case, loading expenses are excluded from the agreed rates while the discharging expenses are included in the rates.
- 4 **Gross In and Free Out** : In this case, loading expenses are included in the agreed rates

whereas discharging expenses are not included in the agreed freight rates.

Choice of shipowners in employment : Tramp shipowners are not subject to any rigid discipline in employment of their ships and their decision to let the ships on the voyage basis will depend upon a number of factors. The ship may be offered either on a single voyage or on consecutive or round voyage basis in carrying different cargoes in different areas of operation on terms and conditions best suited to them. Thus, the employment of a ship in voyage charter will be influenced by a number of factors which, include the following:

- 1 **Future trend in freight market :** Since freight in the tramp market is not stable but is subject to changes depending on the demand and supply for space which are influenced by the level and nature of international trade in commodities in foreseeable future, the shipowners' commitment is affected by their perceptions of the freight trade. Thus, if present market conditions are depressed and freight rates have fallen, but there is a favourable expectation of the future conditions, shipowners will go in for the single voyage fixation. This is because a long-term commitment may be less beneficial to them and they may wait for favourable market conditions to emerge. The opposite will happen when the present market conditions are bouyant but there is an expectation of fall in the rates in the future. In such a situation, consecutive voyage fixation will be favoured.
- 2 **Specificity of the vessel:** Individual tramp ships are designed for operation in specific trades. For example, an ore carrying ship will be designed differently from a grain carrying ship. Similarly, an oil tanker is more suitable and efficient to carry liquid cargo. However, the degree of specificity varies and certain ships may be employed in trades other than their normal trade, with little or no changes. In cases where the degree of specificity is marginal, the shipowners may continuously jump from one trade to another in order to get benefit from the buoyant market conditions. However, a ship with a higher degree of specificity will be continuously employed in that trade even if freight rate market is depressed while other freight market is buoyant. But if the average cost of making changes in the vessel is less than expected in other trades, the shipowners may shift over to these trades. As a general rule, more specifically designed the ship the less will be its chances of jumping from one trade to another. For example, an oil tanker will not be used for carrying dry bulk cargo even if the tanker market is very depressed.
- 3 **Weather conditions:** These conditions have direct bearing on the expenses to be incurred by the shipowners under voyage charter. Unfavourable weather conditions will push up the operational expenses. For example, by committing a ship for a transatlantic trading during winter months, the bunker (oil) expenses will go up because the speed of the carrier will be allowed down, consumption of oil will go up while insurance premium will rise as the vessel will be exposed to heavy weather damage. Similarly, after discharging the cargo, immediate and sufficient tonnage may not be available for the return voyage and it may have to make a ballast trip (ballast is the heavy material in the form of sand, water or oil to keep the ship in balance) in transit. In such a situation, single voyage charter may not be acceptable and the vessel may be committed for a round voyage but only at high freight rate.

12.3.2 Time Charter

Under the time charter engagement, a ship is hired for a fixed period of time for operation within the defined territories or between safe ports. Although the ship is operated at the command of the charterers, it cannot be taken outside the agreed territories or agreed ports to protect the interests of the shipowners. **It may be noted that time period is the essence of the agreement but the engagement also provides for the voyage territories.**

Under the time charter engagement, shipowners have the responsibility to deliver the vessel at the agreed port within the specified time period in such a condition that it is in every way fitted and equipped for the contemplated employment. The charterers, in turn, are to redeliver the vessel at the agreed port in the same condition in which it was taken in charge, excepting normal wear and tear.

The entire capacity of the ship is hired and shipowners receive charter hire for the time duration for which it has been hired. The charter hire is generally payable in advance at certain agreed intervals. The quantity of cargo carried has no bearing upon the charter hire and even if no voyage is made because of the charterers' fault, the shipowners are entitled to the hire.

In a time charter engagement, the responsibility of scheduling the ship's employment and meeting port expenses, canal dues, fuel cost, cargo expenses, etc. remain with charterers. However, running expenses of the vessel like officers and crew wages, stores, provisions, insurance, etc., have to be met by the shipowners. Another feature of the time charter engagement is that the charterers can either operate themselves or sub-let the vessel on voyage charter depending upon their requirements provided the latter action is not specifically prohibited in the agreement between the shipowners and the charterers. If the market improves after the vessel is taken on time charter and the charterers sub-let it, the charterer, may earn more money than what is payable to the shipowners by way of charterer hire. Sometimes ships are time chartered on a long-term basis. Such long-term charters are entered into in order to protect the charterers from the vagaries of fluctuation in the freight market.

From the shipowners' point of view, ships may be chartered on time basis rather than on voyage basis at a time when voyage expenses are unpredictable or rising due to port congestions, dock strikes and fluctuations in the fuel costs. This is because the shipowners are to bear these costs in case of voyage charter and it may be difficult to compensate these costs when hire charges are being calculated. Similarly, shipowners are inclined to employ ships for a longer period to cover fluctuations in the open market rates provided a fair margin of profit is obtainable. The owners may hire out the ships to regular liner companies which find it necessary and economical due to shortage of funds to buy ships to supplement their fleet by chartering good class tramp ships. Of course, only those ships will be chartered which necessitate minimum expenditure to modify for operation in the liner trades.

Expenditure-wise, the charterers have greater responsibility under the time charter as compared to voyage charter. However under time charter, the shipowners undertake that the ship is in seaworthy condition at the commencement of the period of hire and that they will exercise due diligence or reasonable care to maintain it in seaworthy condition. This implies that the shipowners are responsible for keeping the ship in a thoroughly efficient state as regards hull, machinery and equipment during the period of the charter agreement.

12.3.3 Bareboat Charter

Under this arrangement, the shipowners let out the bare ship for a period of time. The difference between the time charter and bareboat charter lies in the fact that in the latter case the ship in the bare form lies at the disposal of the charterers who have the full right and responsibility of operating the ship. The shipowners have the minimum responsibility and act as if they are dead and have no concern about the ways the ship will be used. Also known as 'Demise Charter', the charterers in this case become the disponent owners and are responsible for manning as well as operating the ship as if they are the owners of the ship. Since the ship is at the disposal of charterers, they have the right to appoint the Master and the Chief Engineer, however, subject to the approval of the owners. They bear all costs and expenses, incidental, to use and operation of the ship. For the time period, the shipowners are paid a fixed sum calculated at a certain rate per ton of deadweight on summer free board per calendar month payable in advance.

12.4 DISTRIBUTION OF RESPONSIBILITIES AND ITEMS OF COST

The distribution of various responsibilities and items of cost between shipowners and charterers under different types of charters can be summarised as follows :

Ship fixed for Voyage Charter	Shiplot on Time Charter	ShipLet on Bare boat Charter
1 Responsibilities		
Master appointed by owners	Master appointed by owners	Master appointed by charterers
Owners act as carriers	Owners do not act as carrier	Owners do not act as carriers
Full or part cargo	Entire ship's capacity	Entire ship's capacity
Freight depends upon quantity of cargo	Charter hire depends upon duration of charter	Charter hire depends upon duration of charter
2 Expenses Borne by Owners		
Wages, Provisions, Maintenance & Repairs	Wages, Provisions, Maintenance & Repairs	Depreciation, Insurance (unless otherwise agreed)
Stores, Supplies & Equipment, Lubricating Oil Water, Insurance Survey, Overhead Charges, Depreciation, Fuel, Port Charges, Stevedoring Charges, Cleaning of Holds, Dunnage, Ballast (if any), Commission & Brokerage, Claims.	Stores, Supplies & Equipment, Lubricating Oil, Water, Survey, Overhead Charges, Depreciation, Brokerage, if any Part of Claim*	Survey, Brokerage, if any
3 Expenses Borne by Charterers		
No expenses, unless according to Charter Party Stevedoring expenses are partly or wholly for charterers' account*	Fuel, Port Charges, Stevedoring Charges, Cleaning of Holds, Dunnage, Ballast (if any), water, Commission (on cargo only) Brokerage, Part of Claims*	Wages, Provisions, Maintenance & Repairs, Stores, Supplies & Equipment, Lubricating Oil, Water, Insurance (unless otherwise agreed), Survey, Overhead Charges, Fuel, Port Charges, Dunnage Ballast, if any Commission (on cargo only), Brokerage Claim

* Dependent Upon conditions of Charter Party

Check Your Progress A

1) Define tramp trade.

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2) How is time charter different from bareboat charter?

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- 3) State whether the following statements are True or False.
- i) Under voyage charter, a ship is engaged only for a single voyage.
 - ii) Stevedoring charges are borne by the shipowners.
 - iii) Under time charter, ship can be taken to any port.
 - iv) Expenditure-wise, the charterers have greater responsibilities under the time charter as compared to the voyage charter.
 - v) Bareboat charter is also known as charter by demise.

12.5 CHARTER PARTY AND ITS MAIN CLAUSES

Normally oral agreements are binding on the shipowners and the charterers who negotiate and fix vessels. But it is commercially prudent and a legally desirable to produce documentary evidence at the time of dispute between the two parties. Since the terms and conditions for the tramp fixation are not legally given under natural laws the world over unlike a liner bill of lading, it is a universal practice that these terms and conditions are reduced in writing at the conclusion of the negotiations. Thus, in order to obviate any misunderstanding of the agreed terms and conditions and also for producing the same as evidence, if required, both parties usually enter into written agreement called 'Charter Party'.

Charter Party is a contract of carriage of goods in the case of employment of a tramp. Simply stated, it means that the charter party will clearly and unambiguously set out the rights and responsibilities of the shipowners and the charterers and any subsequent dispute between them will be settled in a court of law or any agreed forum with reference to the agreed terms and conditions as embodied in the charter party. However, to facilitate the contract conclusion, the parties may use the standard charter party forms. The forms have been in use of a longtime and formulated by associations and organisations with interest in tramp trade. In addition to the standard charter party forms, a number of private in-house CPs are also in use. Both standard forms and private CPs are supplemented by additional/Rider's clauses.

12.5.1 Main Voyage Charter Party Clauses

The main voyage charter party clauses can be summarised as follows :

Description of the vessel : This includes the name of the vessel, its cargo carrying capacity, its cargo handling gear and other properties including layout of cargo holds, their number and capacity etc.

Description of ports and places : Charter party mention the ports of loading and discharging and the shipowner is obliged to send the vessel to these ports. It is also the obligation of the charterer to ensure that these are safe ports. Safety of the port implies that there is no danger to the vessel at these ports. In some charter parties, berths are also named where loading and discharging operations are to be performed.

Loading and cancelling time : Charter party clearly indicates the date by which the vessel is to report for loading so that the charterer may take timely arrangements for bringing the cargo. However, if the ship does not report for loading by the agreed date, the charterer can cancel the contract after giving notice of an agreed period after the expiry of the cancellation date.

Cargo to be carried : Charter party must state the nature and quantity of cargo to be carried. The disclosure of the nature of the cargo by the charterer will enable the shipowner to know about the degree of risk to the vessel, while the quantity of cargo to be carried enables the shipowner to calculate his freight earnings.

Notice of Readiness (NOR) : NOR means notice to the charterer, shipper, receiver or any

other person as required under the charter party about the arrival of the vessel at the agreed port/berth and its readiness to load/discharge. This notice is necessary for alerting a charterer or any other named party to make arrangements for loading/discharging of cargo and commencing and completing the loading and discharging within a stipulated time period. NOR can be given only after the vessel is actually ready in all respects to load/discharge. Generally, NOR is to be given during office hours.

Laytime : After the expiry of NOR, laytime is to start. It is the time period agreed between shipowner and charterer during which the vessel is available for loading/discharging without extra payment by the charterer. If he exceeds the laytime, he is to pay compensation known as Demurrage to the shipowner but if loading/discharging is completed before the expiry of laytime, the charterer becomes eligible for receiving a reward from the shipowner known as Despatch Money. There are different ways of calculating the laytime which is generally in terms of number of 'WEATHER WORKING DAYS, SUNDAYS HOLIDAYS EXCLUDED'. The charter party also mentions the rate at which demurrage and despatch money are to be calculated. Generally, rate of demurrage is twice that of despatch money. For example, if despatch rate is \$ 10 of one hour saved, demurrage rate would be \$ 20 of one hour exceeded.

Freight and other expenses : As explained earlier, the arrangement regarding freight could be either on a lump basis or based on actual quantity loaded, within the agreed maxima/minima. Similarly, payable freight may include partly or wholly the stevedoring expenses.

Shipowner's Liability : As per usual practice, charter party incorporates clauses limiting the shipowner's liability, and the issuance of bill of lading is made subject to the law incorporating the Hague or similar Rules. By this process the shipowner is entitled to limit his liability as provided in the law incorporating these Rules.

Arbitration : The charter party also provides for arbitration in case of differences and disputes between the parties. The relevant clauses mention the place, institution and manner of conducting the arbitration proceedings.

12.5.2 Main Time Charter Party Clauses

Time charters for dry bulk are fixed mainly on either the New York Produce Exchange Time Charter, the Baltime or Linertime documents. Tankers are generally fixed on forms evolved by major oil companies. The main clauses for time charter can be summarised as follows :

Description of vessel : Besides providing general description including the name of the vessel, Charter Party incorporates specific information such as general arrangement plan, speed and bunker consumption, constant weights (tonnage allowance in respect of stores, provisions, spare parts etc.), gross and net tonnage, draft and cubic capacity, country of registry etc.

Description of trade : Charter Party mentions either specific ports or range of ports within which the vessel is to be operated. Similarly, it must describe the cargo to be carried. Generally, charter party mentions that the vessel is to carry any lawful merchandise with the exception of agreed list of commodities.

Description of period : Charter Party provides for the time period for which the vessel has been chartered. This is because the shipowner is required to deliver the vessel at the beginning of the hire time whereas the charterer is to re-deliver the vessel to the shipowner at the expiry of the charter period.

Delivery and re-delivery surveys : Surveys are required to be made to establish the conditions of the vessel and holds/tanks as well as quantity of bunkers (fuel oil) on board. This is because the shipowner is to deliver the vessel in seaworthy condition while charterer is to re-deliver it to the shipowner in the same condition as was taken charge of, excluding normal wear and tear.

Liabilities of charterers and shipowners : Shipowners are liable to the charterers for failure to properly and carefully carry, keep and care for the cargo as well as for lack of reasonable care in providing the seaworthy vessel. The charterers are responsible for any loss or

damage to the goods if they are issuing the bills of lading to the third parties as well as any loss to the shipowner due to any act of the charterer or anyone working on his behalf.

Payment of hire charges : Hire charges are usually payable in advance every fifteen/thirty days, either on a set day every month or at the commencement of the calendar month. These may be calculated either as a certain sum per day or expressed as an amount per month.

Check Your Progress B

- 1 What is Charter Party?
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- 2 What do you mean by laytime and despatch money?
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- 3 Fill in the blanks.
 - i) Safety of port implies that there is no danger to the at these ports.
 - ii) NOR means notice to the
 - iii) Payable freight may include partly or wholly the expenses.
 - iv) In case of Time Charter the hire charges are usually payable in advance every days.
 - v) Charter Party provides for in case of differences and disputes between the parties.

12.6 LET US SUM UP

Tramp trade deals with bulk carriers which carry cargoes of homogeneous variety in large quantities from either one port to another or between few ports. Tramp can be chartered in a number of ways, most important being on voyage, time and demise basis.

Charter on voyage basis is either for a single voyage, round or consecutive voyages. For this purpose, charterer pays freight either in the form of a lumpsum amount or as calculated on the basis of actual quantity loaded. Shipowner, in turn, pays all other expenses. Freight may or may not include wholly/partly stevedoring expenses. Freight market being highly competitive, voyage freight rates are influenced by a number of factors including future trend in freight market, specifically that of the vessel and the weather conditions.

Time Charter engagement is for a fixed time period for ship operation within safe ports or territories. The entire capacity of the ship is hired and the shipowners received charter hire for the duration of the contract. Quantity of cargo carried has no bearing upon charter hire. The responsibility of scheduling the ship's employment and meeting the port expenses, canal dues, fuel cost, cargo expenses etc., remain with the charterer. Running expenses of the vessel have to be met by the shipowner.

Bareboat or Demise Charter means that the shipowner lets out the bare ship which will be at the disposal of the charterer who has the full right and responsibility of operating the ship. During the contract period the charterer becomes the disponent owner and is responsible for: manning and operating the vessel.

In case of employment of a tramp, Charter Party is a contract of carriage of goods and it contains all the relevant terms and conditions. The liability of shipowner is absolute though, in practice, it is limited through specific agreement. Unless otherwise stipulated in the charter party, claimable loss is the actual loss as well as the consequential loss. Generally, liability is restricted to a notional amount under the Clause Paramount.

Charter Party contains detailed terms and conditions that are concluded on the basis of standard chartered party forms duly supplemented, in case of private CPs, by additional clauses. The main clauses usually relate to description of the vessel, description of the ports of loading and discharging, loading and cancelling time, nature and value of cargo to be carried, notice of readiness, laytime, freight and other expenses, liabilities of the charterer and the shipowner, payment of hire charges, arbitration etc.

12.7 KEY WORDS

Bareboat Charter : Letting out the bare ship for a period of time with full rights and responsibilities of operating the ship with the charterer.

Bill of Lading : Document issued by the carrier, or by someone on his behalf, which is in the form of (i) a receipt of goods, (ii) an evidence of the contract of affreightment, and (iii) a title to goods.

Charter Party : Document of agreement made between a charterer and a shipowner containing all terms and conditions of carriage/charter.

Customary Despatch : It means that the charterer must load and /or despatch as fast as possible in the circumstances prevailing at the hire of loading or discharging.

Despatch Money : It means the money payable of by the owner if the ship completes loading or discharging before the laytime has expired.

Free In and Gross Out : Freight rates inclusive of discharging expenses but exclusive of loading expenses.

Free In and Out : Freight rates exclusive of stevedoring expenses. Also known as 'Free Terms'.

Gross In and Free Out : Freight rates inclusive of loading expenses charges but exclusive discharging expenses.

Laytime : The time period agreed between shipowner and charter during which the vessel is available for loading/discharging without extra payment by the charterer.

Time Charter : Engagement of a ship for a fixed period of time for operation within the defined territories or between safe ports.

Notice of Readiness (NOR) : A notice to the charterer, shipper, receiver or any other person as required under the charter party about arrival of the vessel at the agreed port/berth and its readiness to load/discharge.

Voyage Charter : Engagement of a ship for either a single voyage or for consecutive/round voyages for shipment of an agreed quantity of cargo.

12.8 ANSWERS TO CHECK YOUR PROGRESS

- A 3 (i) False (ii) True (iii) False (iv) True (v) True
B 3 (i) vessel (ii) charterer (iii) stevedoring (iv) fifteen/thirty
(v) arbitration

12.9 TERMINAL QUESTIONS

- 1 What are the various ways in which a tramp may be chartered? Explain fully.
- 2 Describe the responsibilities of shipowners and the charterers under different forms of chartering arrangements.
- 3 Discuss the main clauses of voyage charter party and time charter party.