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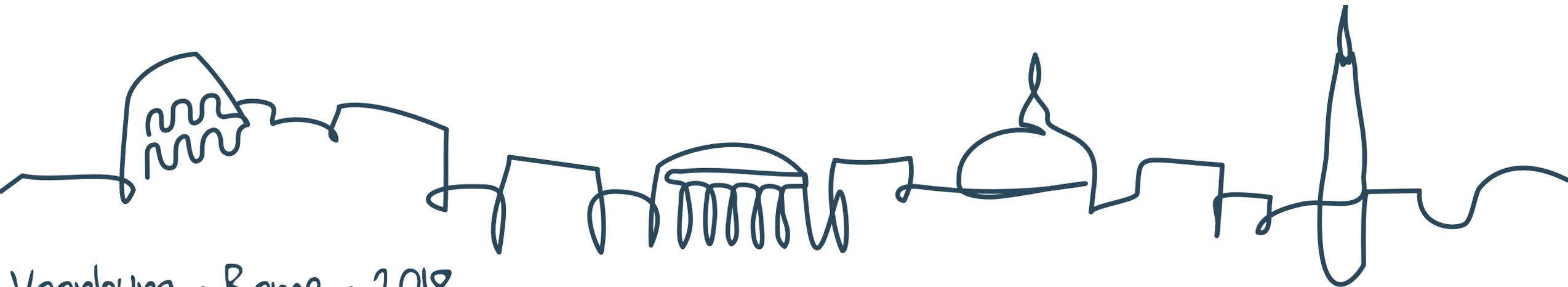
ROME

24 | 28
SEPTEMBER
2018

SPPI perspective of broker activity in sea transport

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Istat – Italy



Voorburg · Rome · 2018



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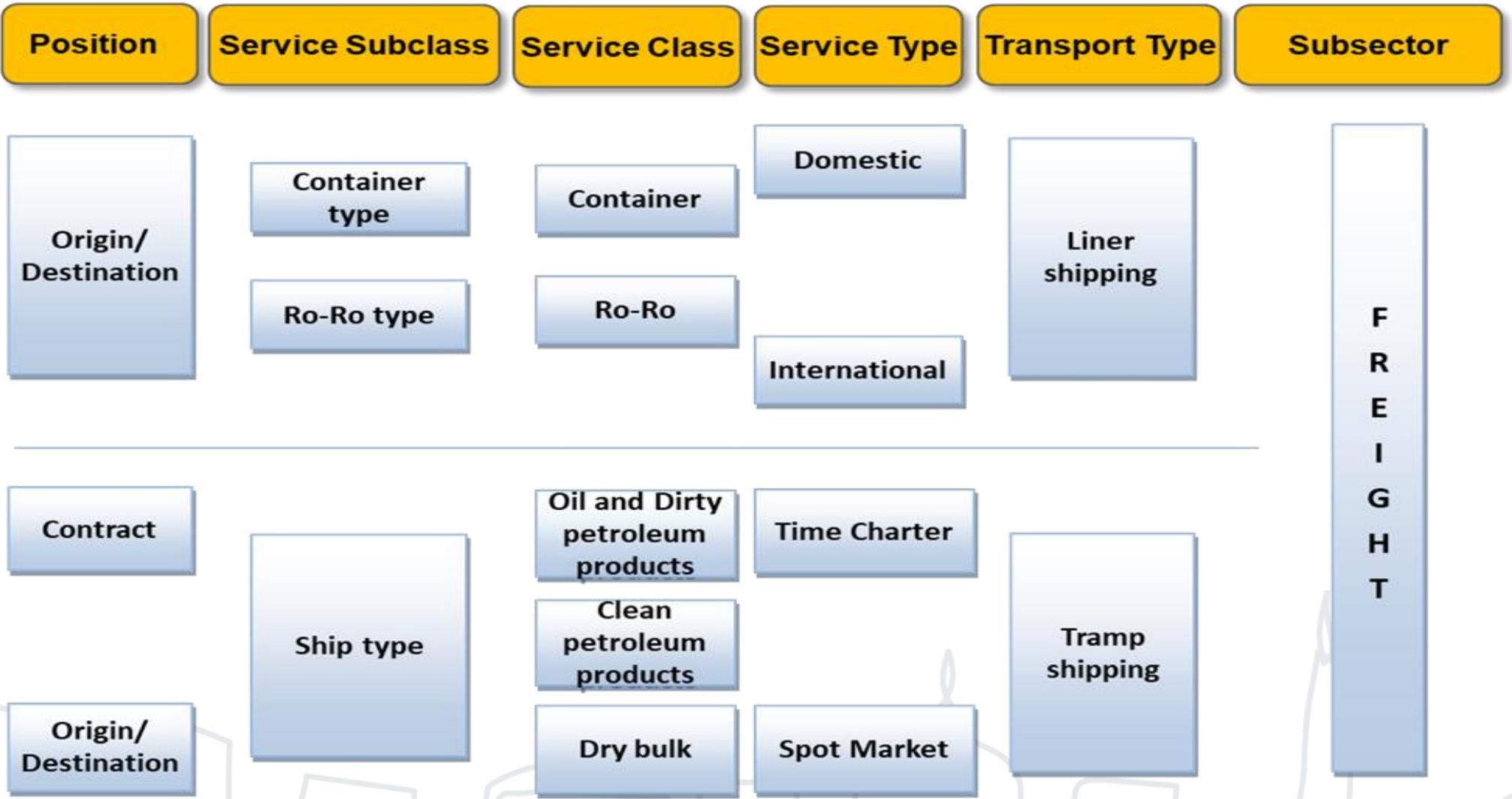
The Italian sea freight transport producer price survey: WHAT , WHO , WHY

Three questions:

- What does Istat collect?
- Who are the Italian sea transport operators?
- Why does Istat collect prices from brokers?



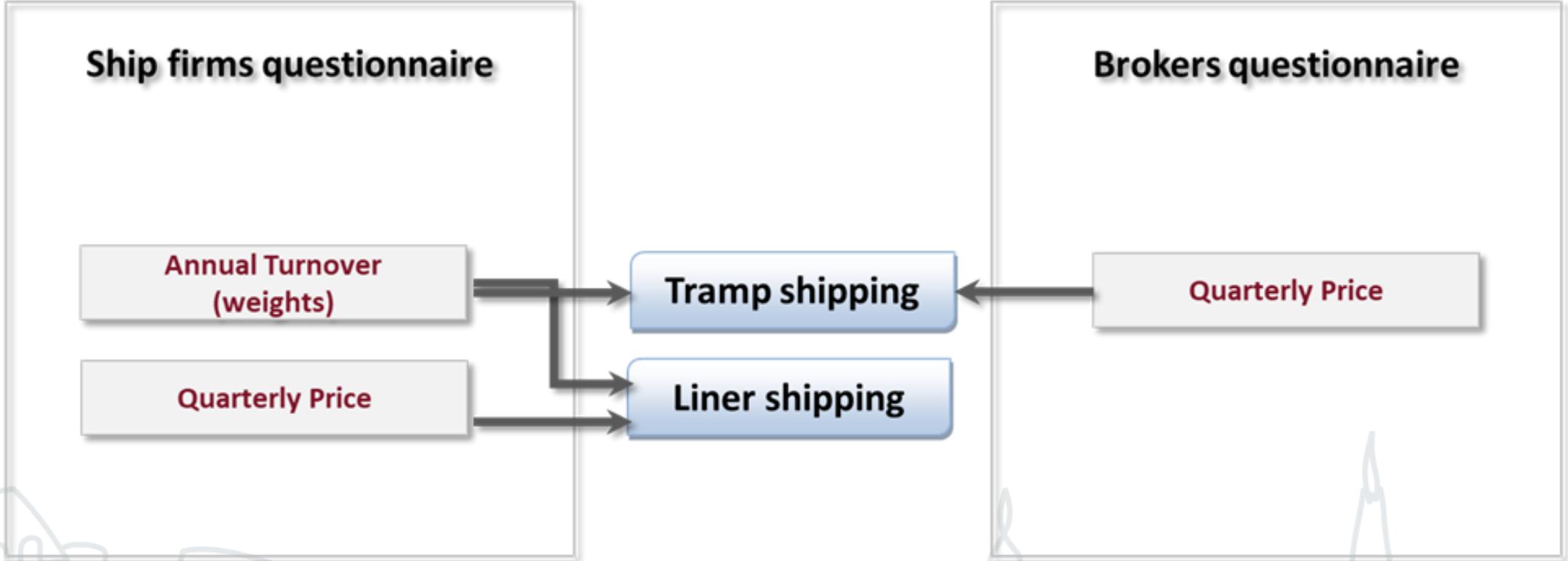
WHAT: the basket





WHAT: the survey

Transport Type





WHAT: the survey

- **liner shipping service** is scheduled and occurs when a ship carries cargo between fixed ports. It is offered at regular interval and operates even if a ship is not fully loaded. It requires that vessels are well equipped to deal with causes of potential delay, such as bad weather, and have better sea-keeping qualities
- **tramp shipping or chartering service** is not scheduled and the vessel is chartered, with or without crew, for a given voyage (spot charter or spot market) or for a period of time (time charter) and it goes wherever a cargo takes it



WHAT: the survey

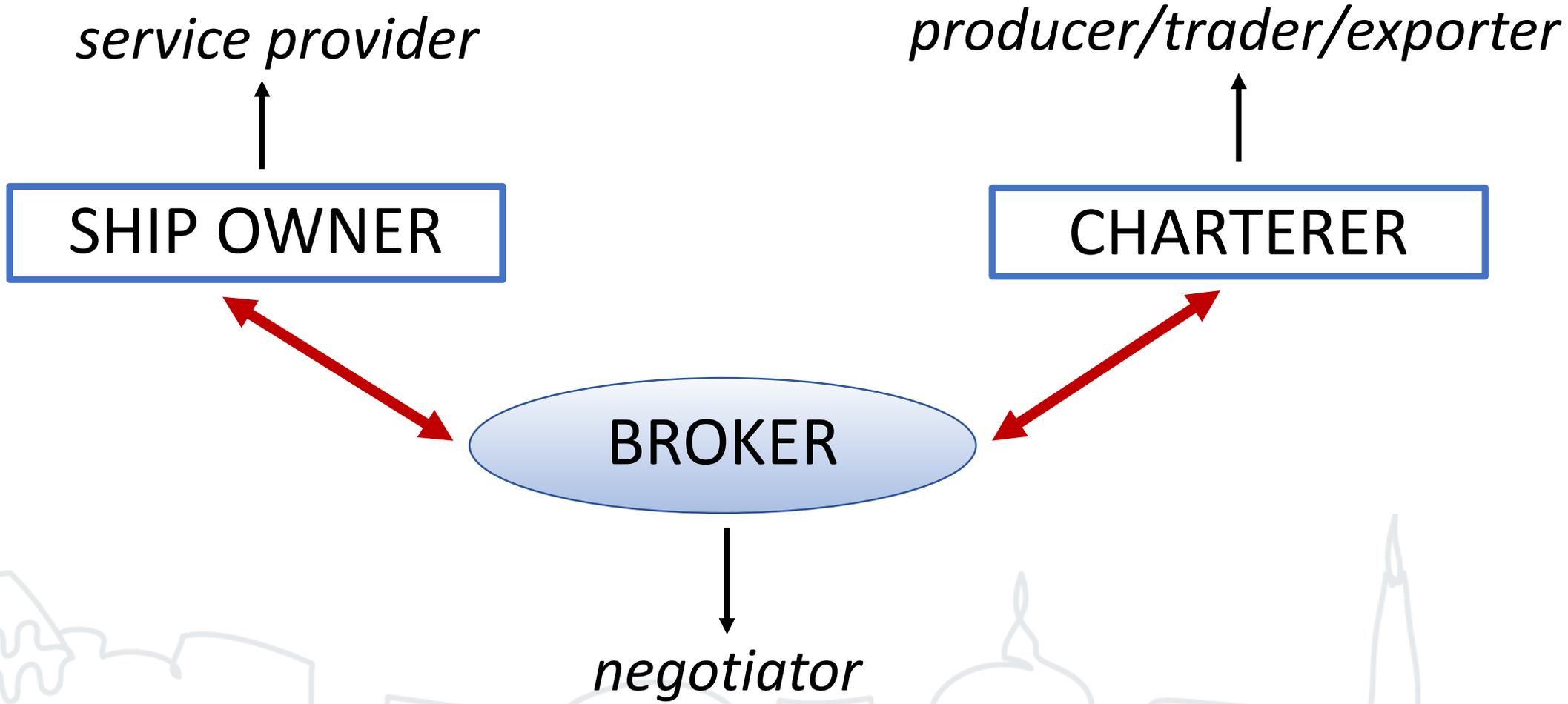
- **differences between liner and tramp shipping** are also in the type of contract of carriage and Bill of Lading used, that determines the relationship between the ship owner and the charterer

liner: the ship owner acts as per terms and conditions contained in the Bill of Lading and similar pre-printed documents. He does not negotiate with the shipper on this issue

tramp: the trader charters and pays a negotiated rate for the whole ship, for a voyage or for a period of time, with crew or not; therefore he stipulates an agreement with the ship owner



WHO: the sea transport operators





The Brokers

They are called:

shipbrokers when they work for ship owners

- they take care of the hiring of ships either in time charter or in spot market tramp
- sometimes they can work for a liner company when it doesn't want to employ all its ships in the liner trade
- according to the position of the ship, the shipbroker looks for a suitable cargo and makes sure the ship never sails without a cargo



The Brokers

They are called:

chartering brokers/freight brokers/cargo brokers
when they work for charterers

- they are the counterparts of shipbrokers
- their main aim is finding an appropriate ship for the goods that have to be transported



The Brokers

- **intermediaries** whose activity consists in a "pure mediation" aimed at a contract agreement between two parties: the ship owner (who manages the ship) and the charterer (who manages the shipment), that can be a producer company or a retailer one
- enter the Italian national register of sea intermediaries in order to conduct their own activities and they cannot range over other fields
- have a bank guaranty as a cover for their mistakes
- many of them subscribe to trade associations but registration is not mandatory



The Brokers

- for their work they receive a fee: a percentage of the transport price and it can depend on the size of the chartered vessel or the type of shipment (liquid or dry)
- ship owners or charterers have to provide for the broker's fee accordingly to their relationships with him
- sometimes when two brokers provide shipment to a single ship owner then their fee decreases and the total fee divides into two parts
- usually a sea transport brokerage occurs between one charterer and one ship owner, only if the negotiation falls the broker asks to another owner



Sea transport trading

(i) the charterer asks the broker to find a ship according to the type of commodity he has to transport;

(ii) the broker looks for the ship owners that have their own ships closest to the port of shipment and propose them a transport;

(iii) with the broker's help, the ship owners fix their own prices according to the charterer requests;

(iv) the broker proposes many offers to the charterer and the dealing begins having the goal of reaching the best agreement for both the parties. In this case, the client of the broker is the charterer and vice versa



Sea transport trading

- sea transport brokerage refers to tankers or dry cargo involved in a spot market transport contract or a time charter one and for both trading is similar
- differences: time charter complexity is higher owing to the presence of more clauses accordingly to the life span of the contract. The charterer pays all the variable expenses or costs of the ship (fuel, port and light dues, tugs and pilot dues, canal dues, agency fees and handling costs). The fixed costs or running costs of the ship (crew's wages, ship's stores, insurance, costs for administration and others) are paid by the ship owner, who has different legal responsibilities respect to a spot market transport.



Spot market trading

- trading competition is higher and the brokerage activity is frenetic and faster
- coincident needs of a ship owner and a charterer: the first needs to move the ship the second the shipment; since it is a single transport, the broker has more chance of finding vessels for chartering
- looking for all the ships that, in a window of time, are in a specific geographic area managing to cover the charterer's requirements. The broker locates the nearest ships to the shipment port and identifies, among all the owners, the one that asks for the cheaper price: negotiation starts with a firm offer



Time charter trading

- depends on the ship owner's availability to give his ship to a client for a fixed period of time
- if the market dynamic is unfavourable, the owner may have no interest in hiring his ship for one or more years against a low income. As a result, time charter contracts are rarely used especially when the market is increasing. On the contrary, a ship owner is more willing to charter his vessel for a fixed period of time when the market is downhill to ensure a better transport price compared with a future changeable price



Prices determining criteria

Prices levels for tramp sea transport are determined according to some shipping and trade indices

For example:

the Baltic Dry Index (BDI) is a daily index created by the London-based Baltic Exchange that measures change in the cost of transporting various raw materials. The index is a composite measure calculated by assessing multiple shipping rates across multiple routes for each of the sizes of dry bulk carriers or merchant ships (Capesize/Panamax/Supramax)



The Baltic Dry Index

It is used all over the world as a proxy for dry bulk shipping stocks as well as a general shipping market bellwether and it is based on reports coming from contracts obtained by a panel of brokers around the world.

Several variables affect the indices, for example: fuel prices, transport seasonality, international political events, weather, etc.

The price level proposed by the broker, on behalf of the ship owner, takes into account these variables too. The charterer makes his own offer and the negotiation begins.



Pros and cons

Pros:

- representing in the best way possible the sea market behaviour coming from the Italian ship owners (that declare that they even do not know the trading price of their vessels)
- some of the Italian brokers seem to be in favour if Istat decides to use international maritime indices instead of a direct survey
- large amount of information from international indices



Pros and cons

Cons:

- the continuous burden on a small sample of brokers
- the decreasing of information coming from the Italian ship owners due to the market crisis
- large amount of information from international indices could be less representative of the Italian ship owner market because they base on international contracts
- international indices have a not negligible cost that could arise a budget problem
- appropriate quality adjustment methods needed



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Thank you!

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