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Tankers chartering

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Tankers

Tanker stocks fall after VLCC spot rates dive as analysts wait on a larger volume push from Opec+

Frontline and Scorpio fall 3-5% in New York

Frontline's VLCC Front Coral. (Photo: Frontline)

Jonas Walsgård
TradeWinds correspondent

Published 11 minutes ago

Tanker equities plunged on Tuesday after VLCC rates dropped sharply.

VLCC spot rates were quoted at \$66,595 per day, \$6,668 lower than on Monday.

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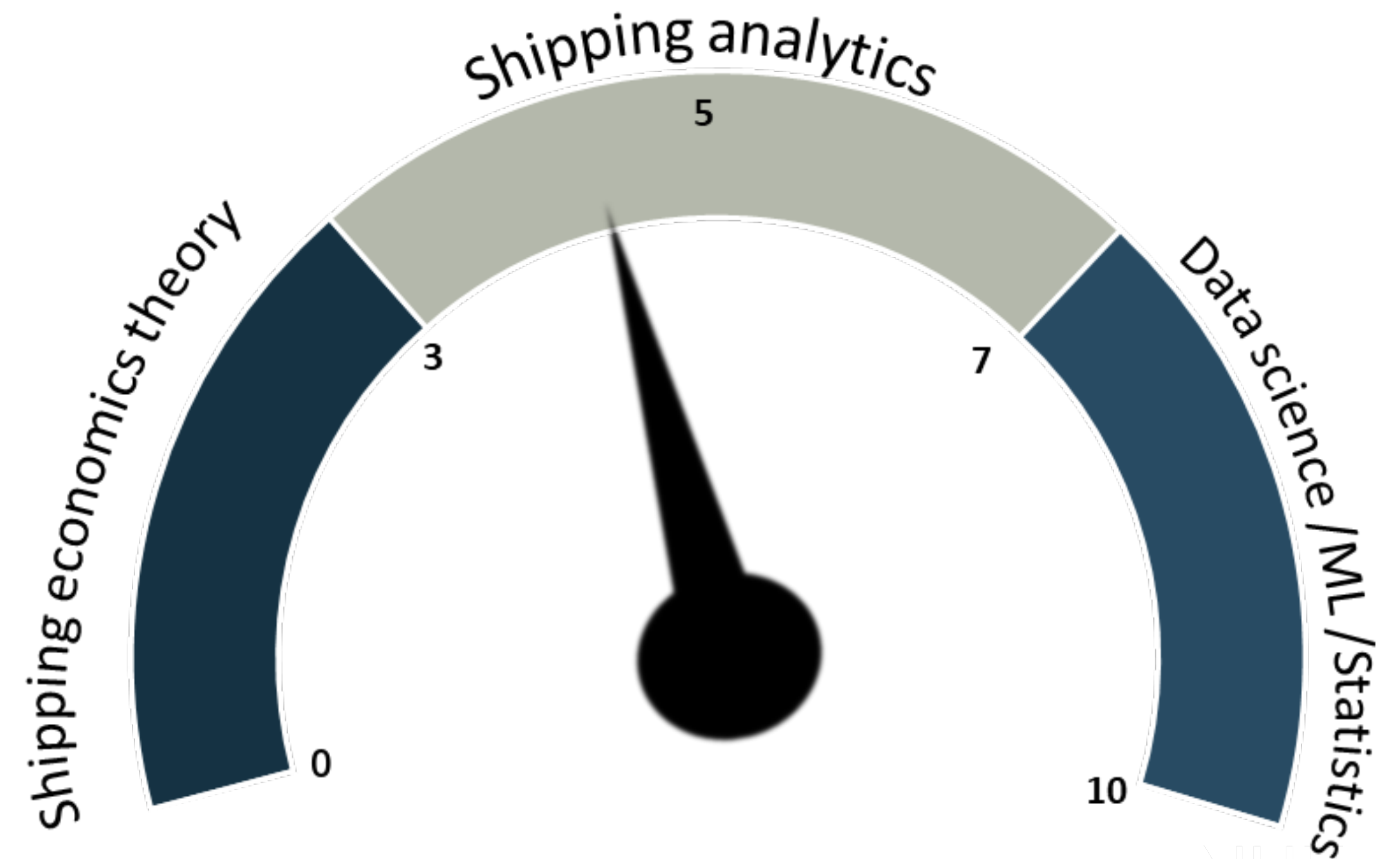
This lecture

Before break (45 min)

- Intro – (15 min)
- **Structure of the tankers market**
- **Chartering practice**

After break (45 min)

- **Worldscale**
- **Voyage estimations and transport specific factors**



Learning outcomes

This lecture will help with the following learning outcomes:

Knowledge

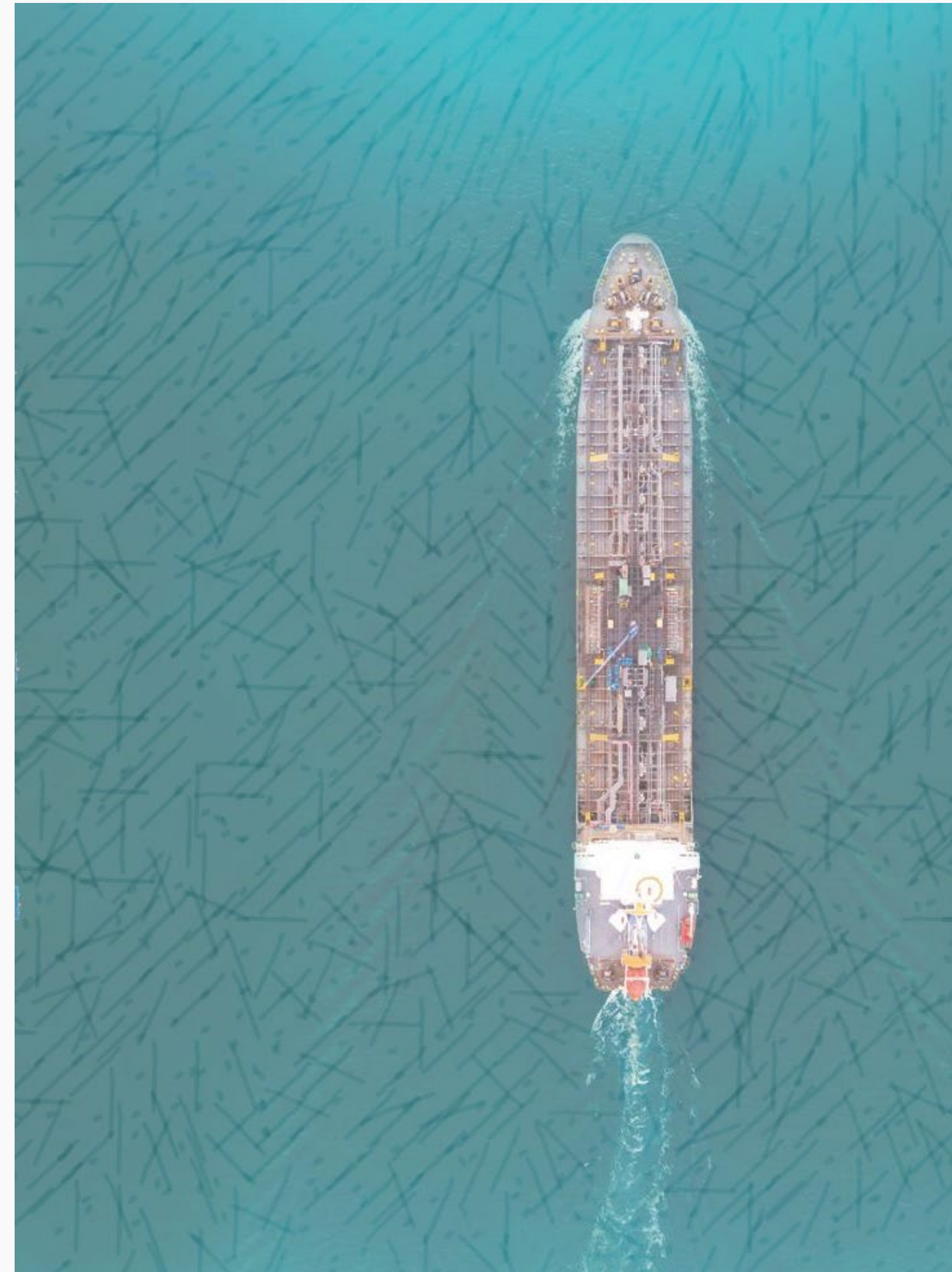
- understands the economic mechanisms driving the international shipping markets

Skills

- can communicate with industry practitioners using correct terminology
- can apply economic theory to varied strategic issues and practical problems facing shipping companies
- considers the economic, political, and ethical issues relevant to the shipping industries

Competency

- exchanges opinions and experiences with others with a background in the field



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Structure of the tanker market

- Main players are the oil majors + governments (charterers) and tanker owners
- Oil companies are more interested in the business of oil
- On a lesser extend on the transportation business, leading to:
 - Less own tonnage from oil majors than before
 - Long Time Charters

Price of crude has boosted the oil majors

Share prices rebased



Source: S&P Capital IQ
© FT

Amoco Cadiz



Source: Marine Insight

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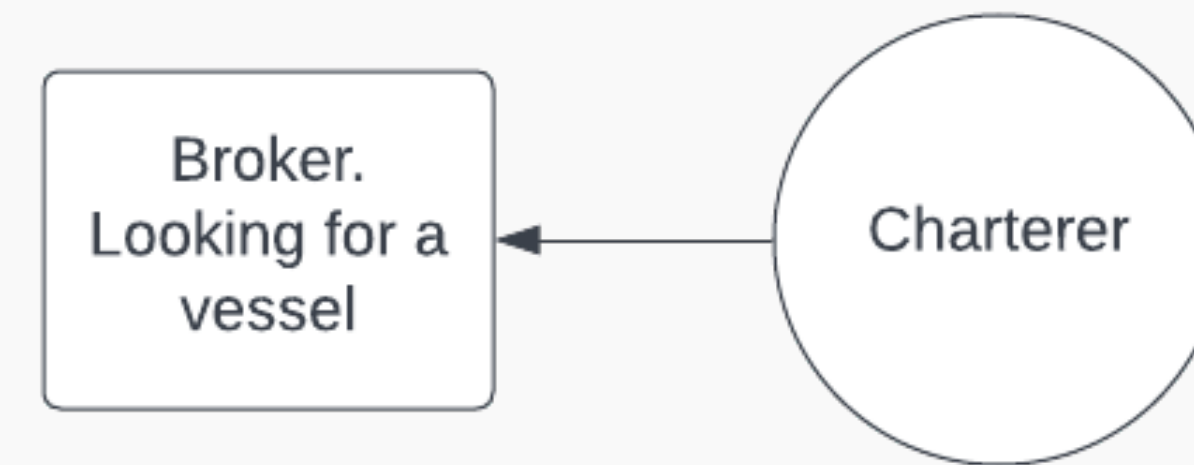
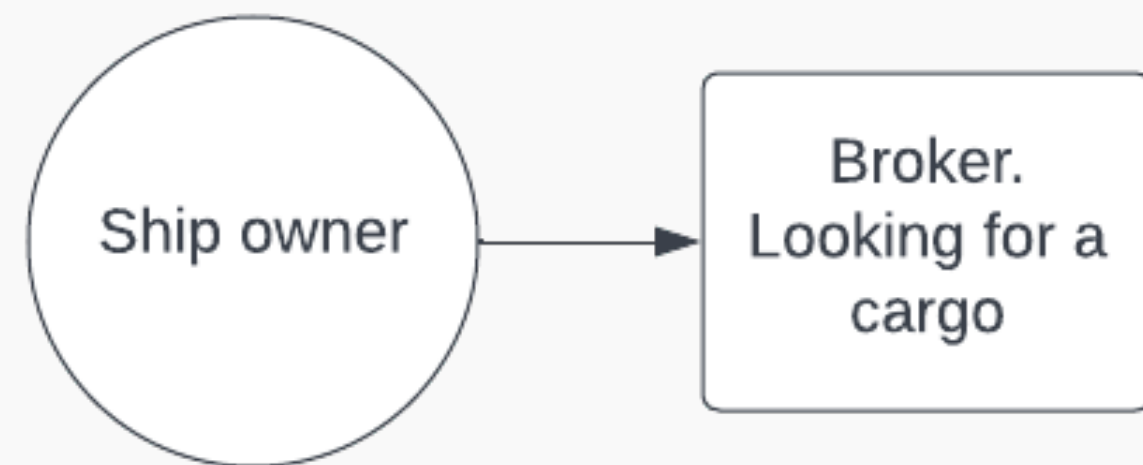
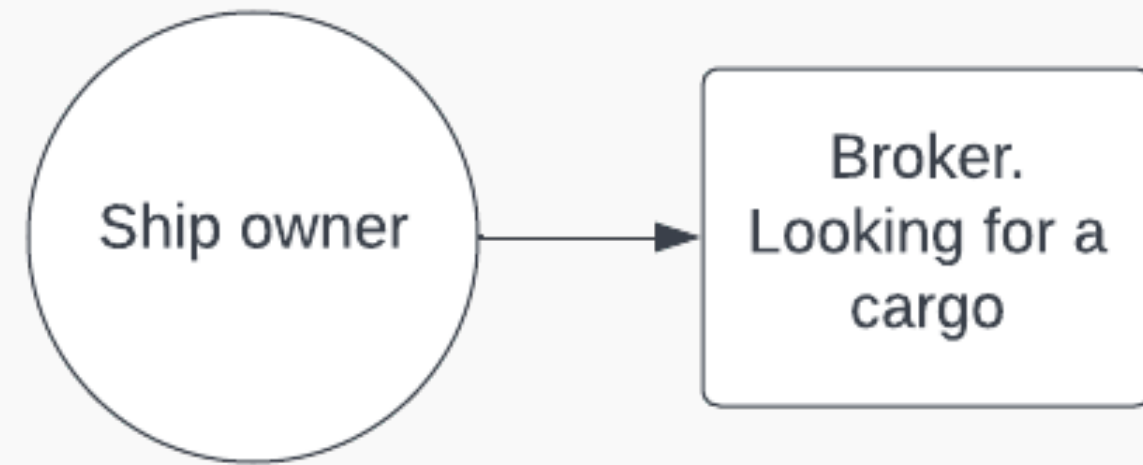


Structure of the tanker market (2)

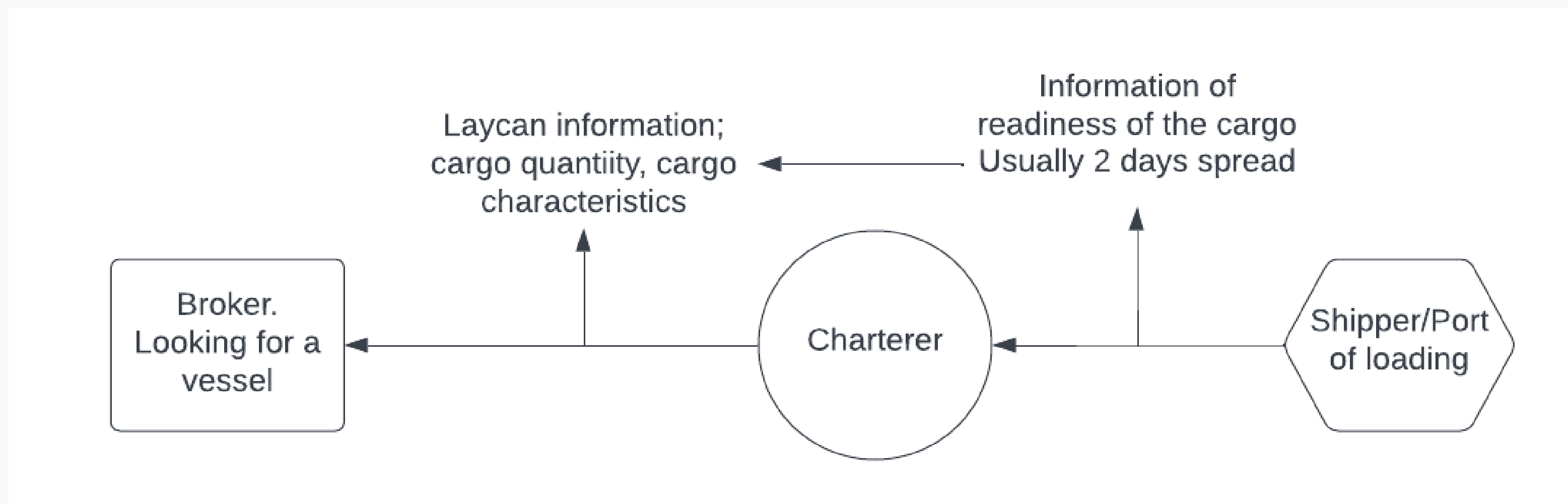
- High bargaining power on the oil majors, leads to higher standards implementation e.g. Ship Inspection Report Programme (SIRE) by OCIMF
- SIRE inspections, usually called vetting inspection are carried out by the oil majors or a surveyor hired by them
- One requirement from oil majors to charter out a vessel is based on vetting inspection status/ranking and its comparison with other vessels
- A strategy of cheap transport at the expense of maintenance, manning, etc. might limit a vessel option to trade or earn important contracts



Chartering practice (1). Entering the market



Chartering practice (1). Entering the market



The broker or panel brokers present a request for quote with the information on hand.

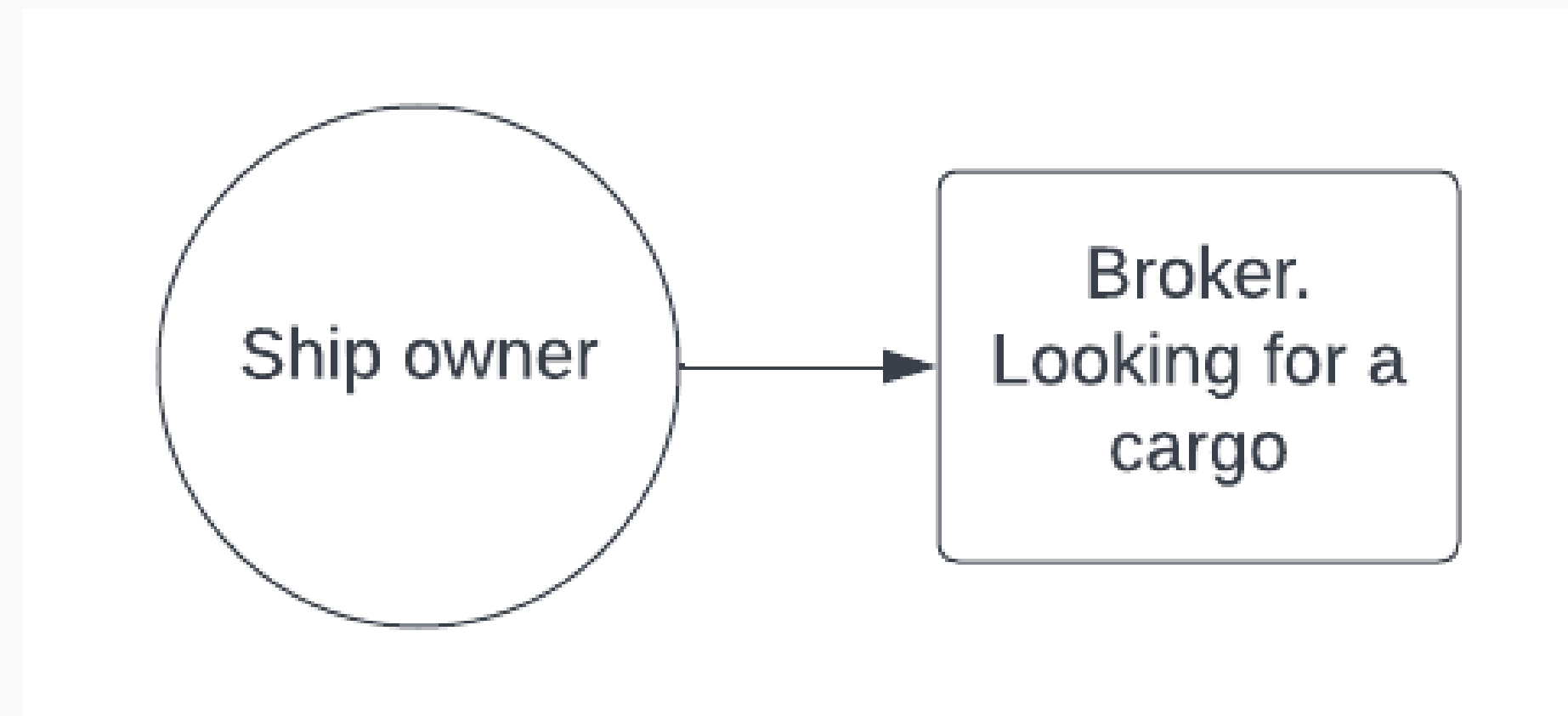
“VLCC ME Gulf/US Gulf 13/15 SEP ACCT Valero”

- 1) VLCC vessel
- 2) Loading ME Gulf
- 3) Discharging US Gulf
- 4) Laycan 13 to 15 September
- 5) Charterer: Valero

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Chartering practice (2). A shipowner interest



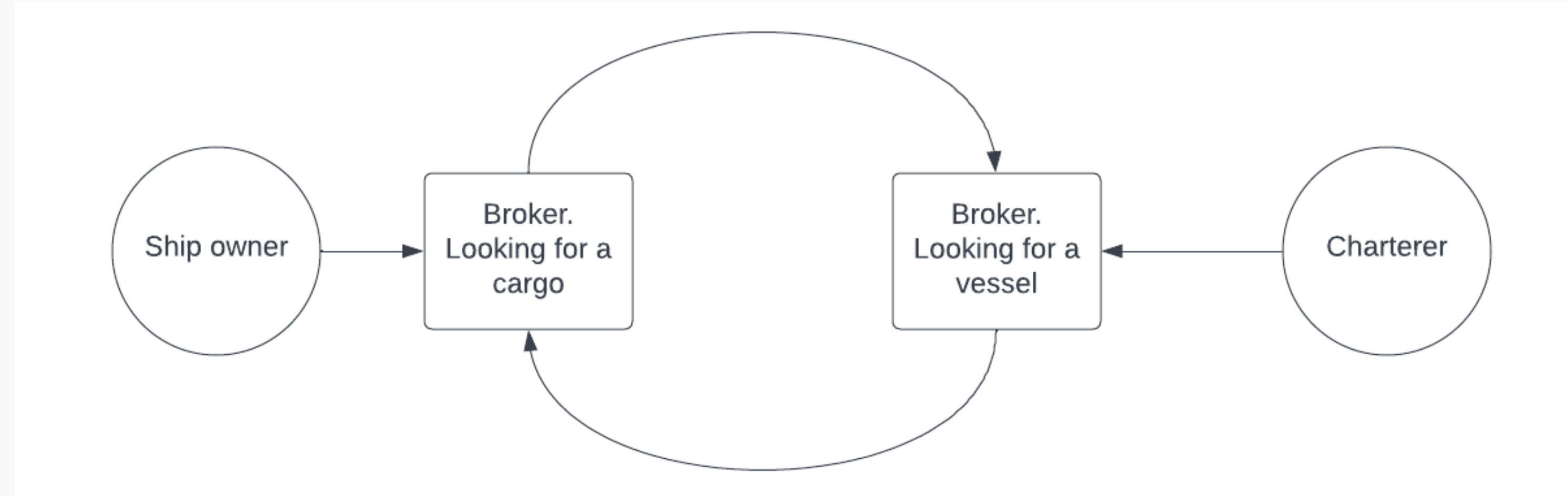
The broker ask for the quote and ask for the following information:

- 1) Cargo size
- 2) Description of cargo
- 3) Grades and breakdown of cargo (1 cargo or various parcels)
- 4) Load port range (suspected from request for quote)
- 5) Discharge port range (also suspected)
- 6) Restriction in trading/voyage
- 7) Approximate rates and commissions
- 8) Whether this a firm cargo and ready to work

From Panayides (2018)

Chartering practice (3)

A shipowner presents a firm offer and negotiations starts



- Brokers work as agents to the principal. Therefore, they need to be explicit to not be found liable for breach of implied warranty.
- The charterer's either
 - 1) Decline and offer
 - 2) Accept/Except (Subject to)
 - 3) Repeat last/Except
- As calculations need to be fast, then a quick calculation method is needed.
 - Worldscale is the preferred system for tankers calculations
- Time bar given by presenting the offer
- Negotiations should not be taken simultaneously with different players

Chartering practice (3)

A shipowner presents a firm offer and negotiations starts

Firm offer must include:

Ship specifications

- Charterer's/broker's name and time/date of the offer
- Name of ship
- Year of build
- Flag
- Class
- SDWT on summer draft/summer deadweight
- LOA—length overall
- BM—beam
- IGS/COW/SBT/COILED/COATED (inert gas system, crude oil washing system, segregated ballast tanks, whether tanks are coiled and appropriately coated)
- Cargo capacity at 98 percent
- Derricks/cranes
- TPC – tons per centimeter of immersion
- SCNRT
- Last three cargoes/charterers



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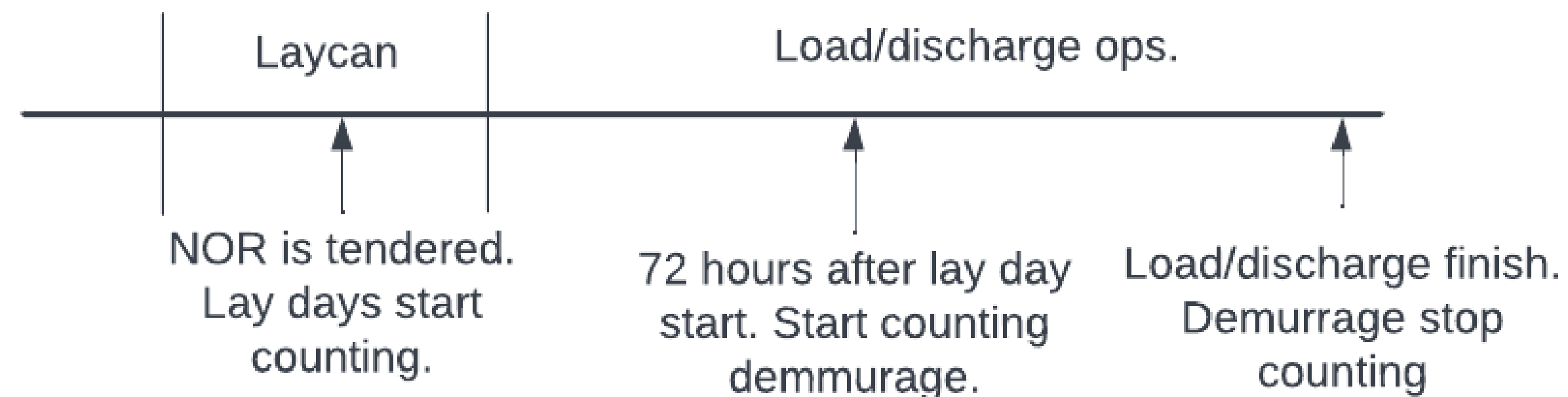
Chartering practice (3)

A shipowner presents a firm offer and negotiations starts

Firm offer must include:

Fixture specifications

- Cargo description “300,000 mt 5% MOLOO 1–2 grades WVNS crude oil, heat.”
- Load range – ME Gulf
- Discharge range – US Gulf
- Lay days–72 running hours is the industry norm
 - Lay days start counting after the vessel tenders its Notice of Readiness (NOR)
 - Time passing the lay days is then payable to owner in form of demurrage (USD/day) pro-rata.
 - Demurrage rate is agreed on the fixture negotiations



WVNS- Within the vessel's natural segregations

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Chartering practice (3)

A shipowner presents a firm offer and negotiations starts

Firm offer must include:

Fixture specifications

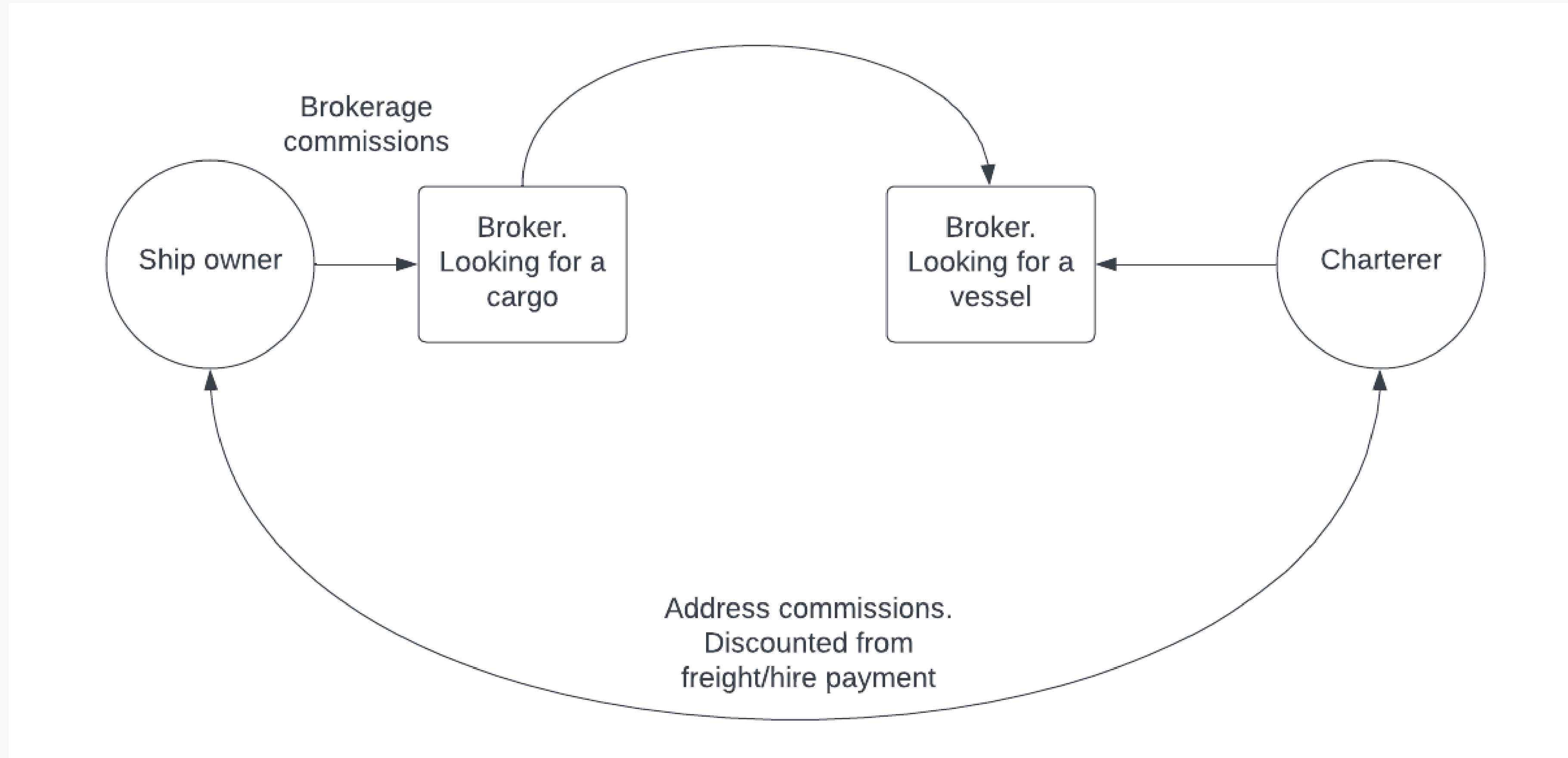
- Freight (WS or \$/tonnes) or Hire (\$/day) agreed
- Charter
- Brokers commissions and address commissions
- Subjects (conditions pending after all points of the negotiations are agreed)
 - Example: Subject Board Approval, Subject Details; Subject Stem (Vessel presented by the charterers to the shippers for their approval), etc.
 - No fixture is concluded until subjects are lifted, except as per US law. A subject detail does not limit a fixture to be valid.

!!! Fixture—Successful conclusion of the negotiations between shipowner and charterer, generally through shipbrokers, resulting in the charter of a ship. (Panayides, 2018)

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Chartering practice (4) Commissions payable



BREAK

Worldscale basis

- WS 100 or Flat rate is the freight basis
Distance based on round trip voyage (load port, discharging port, load port)
- The standard vessel is:
 - 75 k DWT vessel,
 - sailing at 14.5 kts on 55mt fuel oil of 380 cst per day and 100mt diesel oil per round voyage and 5 mt per every port call.
 - Should earn a fixed hire element of **\$12,000**
- Bunker prices are the average of the previous year beginning Oct 1 and Finishing Sept 31

How is displayed by WS:

Montreal/London \$11.36 pmt 6301 miles



Source:mfame

Worldscale use

You negotiate a WS 60 loading at Ras Tanura and discharging at Mumbai. The flat rate is \$7.13 (WS 100) and the cargo qty is of 75,000 DWT. Example From Panayides (2018)

Step 1) Transform the freight rate to WS 60

$$\$7.13 \times 60/100 = \$4.278 \text{ \$/tonnes}$$

Step 2) Calculate Total freight

$$75,000 \text{ tonnes} \times \$4.278 = \$320,850$$

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Worldscale use

Some options might have several routes:

Mina Abdullah/Rotterdam \$20.00 S - 15,020

Mina Abdullah/Rotterdam \$11.72 C - 26.412

Task

- What do they mean?
- What would be the preferred way for a VLCC vessel based on these options?

C – via Cape of Good Hope, laden and in ballast

CS – via Cape of Good Hope, laden, Suez Canal in ballast

S – via Suez Canal, laden and in ballast

P – via Panama Canal, laden and in ballast

CP – via Cape of Good Hope, laden, Panama Canal in ballast

H – via Cape Horn, laden and in ballast

CH – via Cape of Good Hope, laden and in ballast, and Cape Horn, laden and in ballast

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Worldscale use. Variable differentials

- Fluctuating rate applying to the port charges based on cargo carried (product or crude) or whether the vessel is loading or discharging
- Is added or subtracted from the flat rate (WS 100)

Example:

Loadport: Al Basrah

Discharge: Jamnagar SPM

Quantity: 100,000 DWT

Freight: WS200

WS 100. \$12.55 \$/tonne

Stated by WS:

“0.35 to be added to WS published rate when cargo is loaded or discharged from Al Basrah”

Step 1) Add VD to flat rate

$\$12.55 \text{ \$/tonnes} + \$0.35 = \12.90

Step 2) Transform to rate for WS 200

$\$12.90 \times 200/100 = \25.80

Step 3) Get freight as before

$100,000 \times 25.80 = \$2,580,000$

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Worldscale use. Fixed differentials

- Charges levied irrespective of the amount of cargo loaded.

Example

Loadport: Ras Tanura

Discharge: Rotterdam

Quantity: 150,000 DWT

Gross tonnage: 66,000

Freight: WS75

WS 100. \$13.28 \$/tonne

Stated by WS:

“Rotterdam discharge add \$0.119 per gt; Ras Tanura load add \$0.43 per mt”

Step 1) Get adjusted WS 75 and freight

$$150,000 \times \$13.28 \times (75/100) = \$1,494,000$$

Step 2) Fixed differentials

$$\text{Ras Tanura} : \$0.43 \times 150,000 = \$64,500$$

$$\text{Rotterdam} : \$0.119 \times 66,000 = \$7,854$$

Step 3) Get gross freight

$$1,494,000 + 64,500 + 7,854 = \$1,566,354.00$$

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Worldscale use. Canal differentials

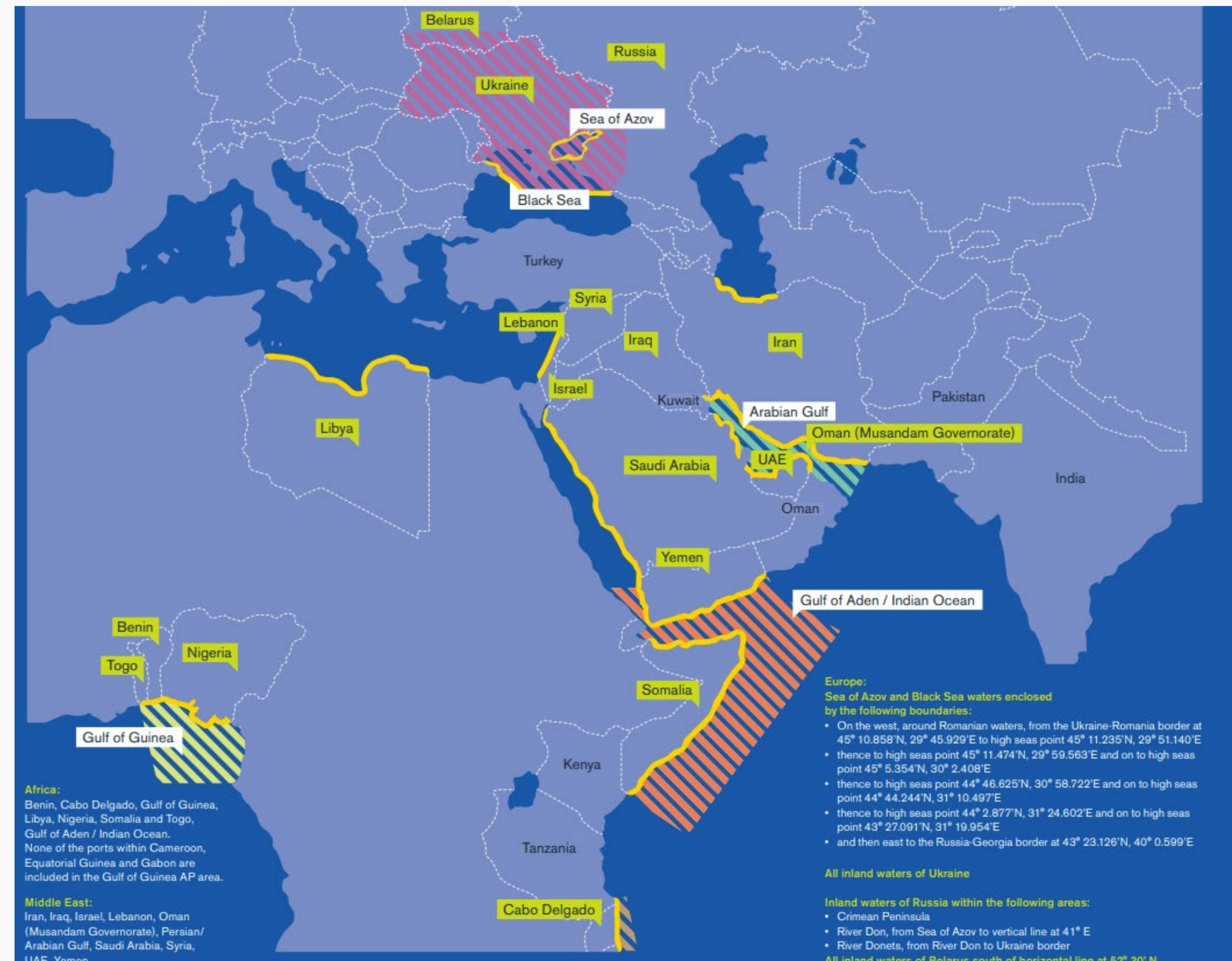
- Similar to fixed differentials is added to the freight profit by a multiplier to either the Suez Canal Net Register Tonnage (SCNRT) or Panama Canal .
- If the same vessel was 56,000 SCNRT and the canal differential is \$4.80.
- Remember that the right quote is of **Ras Tanura/Rotterdam \$13.28 CS 20,716 miles (Load Ras Tanura, discharge Rotterdam. WS 100 of \$13.28 Laden through Cape of Good Hope and Ballast through Suez. 20,716 miles roundtrip)**
 - **Step 1)** $56,000 \times 4.80 = \$268,800$
 - **Step 2)** Add Freight + Fixed Differentials + Canal differentials = Gross freight
From the previous slides calculations (WS 75) $1,566,354.00 + 268,800 = \$1,835,154$

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War risk areas

- Loss of ship due to warlike action is covered under Hull & Machinery insurance, except on areas designated like war risk area
- An extra insurance is needed if within (voyage cost)
- Chevron War Risk clause: First 14 days insurance covered by the owner, thereafter under the charterers account



Source:ukwarrisk



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References

Panayides, P. M. (2018). *Principles of chartering: Third edition*. Createspace Independent Publishing Platform.



Choose your Oral exam day

Date selection for the oral exam/presentation Shipping Economics and Analytics 2025

This is a short survey such as to find your preferences regarding the date you would prefer to have your oral presentation. You can choose among 3 options and the preferences are going to be assessed via First In First Out criteria until we fill in 5 slots for each of the three options.

1. What is your group number?

Enter your answer

2. Rank your preference for the day that you would like to present. First choice on top, last choice on bottom.

October 27th (Monday)

October 29st (Wednesday)

[No Title]

November 3rd (Monday)

November 5th (Wednesday)

3. Is there any day (s) where your group can't make it?

October 27th (Monday)

October 29st (Wednesday)

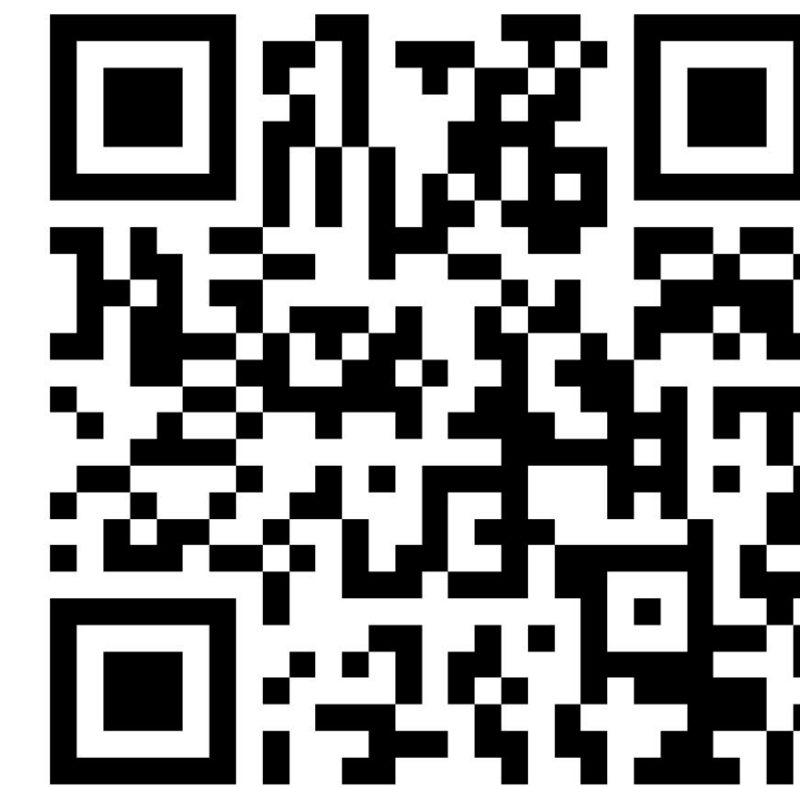
November 3rd (Monday)

November 5th (Wednesday)

All are options for us

+ Add new question

Date selection for the oral exam/presentation Shipping Economics and Analytics 2025



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