

LIGHTHOUSE

A Monthly Technical Magazine

Private Circulation Only

R.I. INSTITUTE OF NAUTICAL SCIENCES

TVR Nagar, Aruppukottai Road, Madurai - 625 022.

Published by Marine Engineers and Navigators Association (MARENA)

Voyage - 24

February- 2024

CALL - 2

Minimum Quantity Commitment (MQC) and Liquidated Damages in Container Shipping: Concept and Relevance



Gabriel Poobalaroyan-Senior Faculty

Generally, in the container shipping industry, shippers and cargo owners work with [container carriers](#) either through long-term contracts or on an ad hoc basis. The former involves signing contracts for a longer time frame (typical duration being one year, but sometimes could be shorter or multi-year contracts as well), while in the latter instance, shippers play the spot market.

While spot rates are generally preferred when markets are bearish, and so shippers try to play the spot market in the anticipation that freight rates fall further in the future (closer to the cargo readiness date), entering into a contractual agreement is a feasible option for shippers with a regular flow of volumes and when markets are stable or where supply chain reliability and availability of space and

equipment is prioritised over freight rates (unless the difference between spot and contract rates is excessively high).

The very essence of a contract between a carrier and a shipper is the agreement to carry a certain volume of cargo at agreed freight rates. This specified quantity of cargo constitutes the shipper's commitment to the carrier in



TEAM MARENA

PATRON

Dr. R. Lakshmipathy - President-RLINS

PRESIDENT-MARENA

Capt. **Gnana Edison Raj** Principal, RLINS

SECRETARY

Dr. M. Kumarasamy

SECRETARY (CADET)

Madan Kanagaraj, GME

TREASURER (CADET)

Vinay Kumar Taranath Shettigar, GME

MARENA CO-ORDINATORS (CADETS)

Karthik Raj

Vallikumar Alagan

TEAM LIGHTHOUSE

EDITOR IN CHIEF

Mr. **M. Muthukumar**, Senior Faculty

EDITOR

Mr. **V.V. Sundaram**

ASSOCIATE EDITORS

1. Mr. **S. Thiagarajan**

2. Mr. **G. Balasubramanian**

EDITOR (CADET)

Madan Kanagaraj, GME

ASSISTANT EDITORS (CADETS)

Sreesha Udupa, GME

Lohit Ishwar Moger, GME

Dikshith Gajarajan, G.P Rating

PHOTOGRAPHER (CADETS)

Ankit Kumar - G.P Rating

REPORTERS

Santhosh Nirbhavane - G.P Rating

Arjun Kumar - G.P Rating

LIGHTHOUSE

A Monthly Technical Magazine

Published by Marine Engineers and Navigators Association [MARENA]

R.L. Institute of Nautical Sciences, Madurai.

voyage-24 | CALL 2 | FEB' 2024

return for competitive contract rates (which are lower than the prevailing spot rates) and is known as the Minimum Quantity Commitment (MQC).

The MQC clause in the contract thus specifies the minimum quantity of cargo (or the number of containers) that the shipper is obligated to transport with the carrier during the duration of the contract in return for the lower contractual freight rates.

Entering into a contractual agreement with an MQC is beneficial to the shipper in the following ways:

1) Guaranteed space and equipment: The entire premise of entering a contract with MQCs is to ensure that the carrier promises space to carry the committed volumes. This provides shippers with certainty regarding the availability of space on vessels and equipment.

2) Stability in freight rates: As rates are negotiated for the entire duration of the contract (and can not be revised, except in the case of force majeure events or contingencies), shippers are assured of stability in freight rates, resulting in relatively steady overall transport costs. This enables shippers to budget supply chain costs accurately and price their merchandise accordingly.

3) Limited exposure to increases in accessorial and surcharges: Contractual agreements generally specify the quantum of surcharges, such as the Bunker Adjustment Factor (BAF) or Terminal Handling Charge (THC), which limits the shipper's exposure in case of a rise in the carrier's costs related to the activities that the surcharges pertain to. For example, in the case of Terminal Handling Charges (THC), where carriers sometimes mark up the quantum, the carrier might agree to a lower THC in the contract.

Similarly, BAF levels fluctuate depending on oil/bunker prices, which generally move upwards (except during times of recession), wherefore most contracts specify that the BAF levied will be revised in case oil prices move beyond a certain range. This implies that the carrier will absorb minor increases in bunker costs (while also retaining the option of correcting the quantum of the BAF if excessive price movements result in an inordinately higher increase in bunker costs), which, to a great extent, insulates the shipper from BAF increases.

4) Optimising inventory management: With guaranteed space, shippers have confidence regarding the volume, frequency, and speed at which they will be able to deliver raw materials, components, and finished goods to their manufacturing plants or consumer markets. As a result

CONTENTS

1	Minimum Quantity Commitment (MQC) and Liquidated Damages in Container Shipping: Concept and Relevance	1
2	Faculty Development Programme in RLINS	5
3	January exports rise by 3% despite Red Sea crisis Trade Deficit narrows marginally	6
4	PM Modi inaugurates various Green Waterway Initiatives in Varanasi	7

thereof, shippers can plan their inventory levels, reorder levels, and minimum reorder quantities accordingly to avoid storing surplus inventory or ordering more (or earlier) than is necessary to replenish stocks. This lowers inventory holding costs and improves cash flows while also minimising risks of obsolescence and damage to stock. This also helps shippers in striking the right balance between the JIT (Just in Time) and JIC (Just in Case) methods of inventory management.

5) Supply chain reliability: All of the above factors greatly aid end-to-end supply chain planning, with minimal disruptions and a lower probability of errors. Shippers have more control over their supply chains and can forecast costs and delivery schedules with greater accuracy, making the supply chain more reliable and robust. This results in overall benefits for the business and can be a source of competitive advantage.

From the Carrier's perspective

For the carrier, contractual MQC cargo represents guaranteed business and space utilisation, while the spot market represents opportunities to maximise revenues and yields.

MQC volumes thus ensure an acceptable minimum level of space utilisation and provide revenue visibility to carriers, leaving them well poised to aggressively sell their remaining open space in the spot market.

MQC volumes can also help carriers in network optimisation and CAPEX allocation.

Carriers, therefore, strive to strike a balance between

ensuring adequate cargo commitments, while leaving enough space to cater to spot cargo.

The intent is to ensure that the MQC justifies the contractual rates offered and that the aggregate revenue is of a



level sufficient enough to make it financially feasible for the carrier.

Liquidated Damages

The concept of MQCs is linked to Liquidated Damages, which is the penalty that the shipper has to pay in case of inability to deliver the committed volumes. Liquidated damages are charged as a certain pre-agreed amount per container, so the total amount the shipper is liable to pay as liquidated damages is calculated as the shortfall in MQC multiplied by the rate of liquidated damages.

The rationale behind incorporating the liquidated damages clause is to have in place a deterrent to discourage shippers from promising

unrealistically high volumes in return for lower freight rates while also compensating the carrier for the opportunity cost of the blocked space that was eventually unutilised due to the shipper's inability to deliver the committed volumes.

In practice, however, the enforcement of liquidated damages and holding the shipper accountable for missing MQCs largely depends on the extent of the shortfall, the market conditions, and the relative bargaining power of shippers vis-a-vis carriers.

Where the shortfall is not very high, or where market conditions are bearish with shippers holding the upper hand or where retaining the shipper's business is crucial for the carrier, it is likely that the carrier will overlook the shortfall.

In a buoyant bull market and high freight rate environment (such as was witnessed in post-Covid, in 2021 and 2023), carriers would be more amenable to overlooking MQC

shortfalls, as it allows them to sell the space thus freed at the higher spot market rates and maximise revenue (as had the shipper delivered the MQC volumes, the carrier would have been legally obligated to carry them at the agreed freight rates, thus decreasing space available for higher-yielding spot cargo).

Factors to consider while determining MQC's

It is important for both the shipper and the carrier to ensure that the MQCs agreed upon are realistic. Contractual freight rates are offered by the carrier depending on the volumes committed by the shipper (amongst other factors) and, therefore, place a legal obligation upon both the shipper (to ensure that the volumes materialise) and the carrier (to ensure adequate space and equipment to cater to the MQC volumes).

Some important factors to consider while determining the MQC are explained below:

1) Overall business or volumes controlled by the Shipper: The shipper needs to evaluate his production capacity and export potential before he can commit to an MQC with the carrier. The volume has to be large enough to induce the Carrier to offer lucrative rates, while the Shipper could look to spread his volumes amongst two or more carriers in order to avoid risks arising from excessive reliance on one carrier.

2) Capacity and Trade lanes or Port corridors involved: The carrier needs to analyse their shipping network and available capacity before agreeing to the MQC volumes. This is both to ensure that the carrier has the capacity to cater

to the MQCs and also to ensure that the freight rates are priced with the market conditions, equipment availability, and supply-demand imbalance in mind.

3) Market Outlook: Depending on whether freight rates are expected to fall or rise during the duration of the contract period, carriers and shippers will try to minimise risks. If freight rates are forecast to increase, shippers will attempt to set a higher MQC to ensure that a greater proportion of their cargo moves at the pre-agreed contract rates. On the contrary, if rates are expected to fall, then shippers will try to lower their commitment (sufficient to ensure adequate inventory levels) in the hope of later capitalising on lower spot rates prevailing closer to the cargo readiness date.

Carriers will likewise take into consideration freight rate forecasts and overall business outlook while accepting MQCs and try to negotiate rates and contract duration accordingly.

To illustrate with an example, when [freight rates](#) were at record high levels post-COVID, carriers such as Maersk adopted an innovative approach to maximising long-term profitability by compelling shippers to sign long-term contracts (with duration ranging from two to three years). The underlying logic was that the contractual rates offered, though lower than the existing spot rates, were higher than the average contractual rates.

This meant that the carrier would benefit from higher contract rates even when the spot freight market

eventually reverted to normalcy. The success of this strategy can be gauged from the fact that this strategy enabled Maersk Line to shore up their revenues even in H2 2022 and 2023, when [spot rates](#) had started returning to their historical average levels.

4) Seasonality and Peak season: Demand spikes during peak season (such as Christmas or prior to Chinese New Year), and on account of commodity-specific seasonality (such as grapes or mangoes) needs to be taken into account while deciding MQC volumes. Both shippers and carriers need to understand the implications and constraints that these periodic demand spikes entail and evaluate feasibility prior to committing.

Conclusion

It is thus obvious that MQCs are an important aspect of the contractual agreement between carriers and shippers, which enable carriers to quote freight rates commensurate with the volumes committed, while shippers can, in turn, rest assured about space and equipment availability for the MQC volumes.

The sanctity of the MQC volumes is sometimes disregarded due to commercial pressures and extant market conditions, but they remain an integral part of contractual terms and conditions.

Courtesy: Marine insight



Ability is what you're capable of doing. Motivation determines what you do. Attitude determines how well you do it.

Faculty Development Programme in RLINS

Faculty Development Programme was organized in RLINS under the title “Soft Skills & Industry Awareness in the college AV room for four days from 14/02/2024 to 16/02/2024 and 19/02/2024. On 14th February, the resource person Dr.M.Subramanian, Head, Department of MBA, SLCS handled the session from 2.30 pm to 4.30 pm on “Empowering Modern Educators with Tech Skills”. He elaborately discussed on the role of a teacher in the class and various methods of Teaching Learning Process. He also insisted upon using modern tools of education with the interactive session.

Dr.M.Kumarasamy, Vice-Principal, RLINS delved deep in the subject “Renewable Energy” elucidating upon the necessity of adopting renewable sources of energy in future which is the only option to safeguard the mother earth. The session helped the audience to understand its intricacies and its importance in the modern world.

On the same day Mr.Chandran Murthi, PRO, conducted an ice breaking session highlighting the importance of team building. He explained the concept of team building and coordination with the simple technique of arranging small nails in the fish bone model. It was very interesting and all the members took active part in it.

On 16/02/2024, Prof. S. Thiagarajan, Faculty and Co-ordinator & Academics Training Cell handled the session on Induction Programme for Practical Trainers on Student Centric Learning System”. He presented this concept with an interesting PPT and contributed well on the topic.

Prof. M.Muthu kumar, Chief Engineer, made the session lively during the presentation on the topic “Latest Technical Developments in Shipping Industries”. He touched upon the latest developments in the shipping industry with his vast experience in the shipping industry. The audience observed the latest trends in this field.



Dr.M. Subramanian, Head, Department of MBA, SLCS handling the session



Prof. S. Thiagarajan, Faculty and Co-ordinator & Academics Training Cell briefing on “Student Centric Learning”



Prof. M.Muthu kumar, Chief Engineer, explaining the concept “Auxiliary Systems”



Mr.Chandran Murthi, PRO, highlighting the importance of “Team Building”



Dr. M.Kumarasamy, Vice-Principal, RLINS, Interacting with the audience on “Renewable Energy”

January exports rise by 3% despite Red Sea crisis Trade Deficit narrows marginally



Vinay Kumar Taranath Shettigar - GME



Responding to January, 2024 trade data especially exports which rose by 3 percent US\$ 36.92 billion, Mr Israr Ahmed, President (Ociate), FIEO said that the increase in exports despite the Red Sea crisis posing challenge on the logistics front, goes to show not only the resilience of the sector but also of the exporting community, who have continuously been braving such odds since Russia-Ukraine war. The exporters have consistently been performing, driving the growth of exports, and also adding to the growth momentum of the economy.

Mr Ahmed added that though the Imports rose by about 3 per cent year-on-year to US\$ 54.41 billion in January this year, the trade deficit in January, 2024 stood at US\$ 17.49 billion. Main growth drivers of merchandise exports during the month included Petroleum Products, Engineering Goods, Iron Ore, Electronic Goods,

Drugs & Pharmaceuticals, which is itself is a good sign as most of these sectors are labour-intensive sectors giving boost to employment creation in the country, said Mr Israr Ahmed.

FIEO Chief further added that though during April-January this financial year, exports marginally dipped by 4.89 per cent to US\$ 353.92 billion our Imports dependence reduced by 6.71 per cent to US\$ 561.12 billion. Mr Ahmed further reiterated that recent tensions in West Asia especially the threat for consignments routing through the Red Sea has further added to woes of the exporting community, as the freight rates have gone up unimaginably high, with further burden of various surcharge, pushing Indian exporters to hold back around 25% of the outbound shipments transiting through the Red Sea, which added to the sense of scepticism and nervousness among the

businesses and markets across the world. Mr Israr Ahmed also raised concern that much will depend on the new agreement to be signed with buyers during the new fiscal as the exporters have been absorbing the burden of increased freight cost as per the old agreement. FIEO President therefore reiterated that the need of the hour is to address the Red Sea crisis challenges by ensuring availability of marine insurance, regular supply of containers, and reasonable increase in freight charges. The sector also needs easy & low cost of credit, marketing support, besides conclusion of some of the key FTAs with UK, Oman and EU soon. However, Mr Ahmed is optimistic that the FY 2023-24 export volume will cross last year's figures.

Courtesy : Indian Shipping News

To know, is to know that you know nothing. That is the meaning of true knowledge

PM Modi inaugurates various Green Waterway Initiatives in Varanasi

 M. Muthukumar-Senior Faculty



PM Modi inaugurates various Green Waterway Initiatives in Varanasi, marks milestone in Clean Energy and Tourism. Under the visionary leadership of the Prime Minister Shri Narendra Modi and the able guidance of Union Minister of Ports, Shipping, and Waterways, Shri Sarbananda Sonowal, India achieved a new milestone in clean energy and responsible tourism today. During an event in Varanasi in Uttar Pradesh, Prime Minister Shri Narendra Modi dedicated to the nation two hybrid electric catamaran vessels – MV Guh and MV Nishadraj- built by Cochin Shipyard Limited (CSL) through Inland Waterways Authority of India (IWAI) under the Ministry of Ports, Shipping and Waterways (MoPSW).

MV Guh will sail on the River Saryu in Ayodhya, and

MV Nishadraj on the River Ganga in Varanasi. These state-of-the-art vessels, with a seating capacity of 50 passengers each, are powered by fast-charging batteries and are designed to reduce carbon emissions by 400 MT annually. These green vessels will promote religious tourism in the state.

Indigenously built by Cochin Shipyard Limited, they will now be operated by the Uttar Pradesh government. Urban water transport in India is gaining momentum as a sustainable solution for easing congestion and reducing pollution in metropolitan areas. With initiatives like the development of waterways and introduction of modern vessels, cities are embracing water transport to enhance connectivity and promote eco-friendly commuting options.

With these deployments, the Government of India also aims to foster the confidence of the stakeholders in the maritime sector and usher them towards transitioning to greener and cleaner fuels as emphasized under the Harit Nauka- Inland Vessels Green Transition Guidelines, published on 8th January 2024.

The Harit Nauka Guidelines shows MoPSW's commitment to transform the maritime landscape by adopting green vessels & establish operation -alization of green ecosystem. It also aims to embrace low/zero emission sources of fuel and attain 100% green vessels in the Indian waters by 2047.

Along with this, Prime Minister Shri Narendra Modi inaugurated four community jetties on the ghats of Varanasi

and laid the foundation stone for 13 community jetties along National Waterway 1 (NW 1) in Varanasi and National Waterway 110 in Mathura and Prayagraj in Uttar Pradesh.

The Jal Marg Vikas Project (JMVP) being implemented by the Inland Waterways Authority of India aims to improve the navigability of the 1390 km stretch of NW1 from Varanasi in Uttar Pradesh to Haldia in West Bengal. Sixty community jetties are being developed under JMVP to improve the socio-economic condition of people living along Nw1 (the Ganga-Bhagirathi-Hooghly river system). These community jetties aim to provide local farmers, traders, industries ease of access to nearby markets, thereby offering better opportunities for trade and employment, promoting tourism, and improving hinterland connectivity. Besides this, a Quick Pontoon Opening Mechanism System (QPOMS) was also inaugurated. The QPOMS will help in reducing the time for the manual

dismantling and reassembly of the kul pontoon bridges across NW-1 in a quick and efficient manner, thus reducing the overall inconvenience and delays to vessel as well as vehicular traffic.

The installation of the QPOM will thus help in cutting down the overall logistics cost and reducing time from six hours to 30 minutes. With the launch of these innovative projects and infrastructure, the nation takes a significant step towards harnessing clean energy, promoting responsible tourism, and enhancing connectivity across its waterways. The collaborative efforts between the government, stakeholders, and local communities exemplify a shared vision for a greener future for all.

MoPSW aims to boost the share of Inland Water Transport (IWT) to 5% by 2030 as part of the Maritime India Vision (MIV), signaling a comprehensive effort towards fostering maritime sector growth and connectivity enhancement.

Under the Maritime Amrit Kaal Vision 2047, 46 initiatives have been outlined, with key measures aimed at enhancing the modal share of coastal shipping and inland water transport. These initiatives include the creation of port-based agglomeration centers and coastal berths near production/demand centers along the coast. Additionally, there are plans for road, rail, and inland waterway connectivity and expansion projects, as well as efforts to reduce port dues and terminal charges.

Fiscal incentives, such as allowing input tax credit on bunker fuel and spares purchased from various states, along with the reduction of GST for multi modal transportation, are also proposed. Operationalizing 50 waterways by 2047 and introducing low-draft vessel designs, possibly in combination with tug-barge configurations, are among the strategies aimed at furthering these goals.

Courtesy : Indian Shipping News



*Enjoy world Travel with International Pay Scale
A rewarding career in the Merchant Navy*

4 MONTH ELECTROTECHNICAL OFFICER'S COURSE (ETO) -

With Low Voltage

Entry Standard : Diploma (Degree in EEE ECE Electronics and Instrumentational) Medical Fitness as per DGS norms

1 YEAR GRADUATE MARINE ENGINEERING (GME) For

Graduate Mechanical Engineers

Entry Standard : Graduation in Mechanical Engineering Marine Engineering or Naval Architecture

For details visit : www.rlins.edu.in email:admission@rlins.in/rlins@rlins.in

Admission Co-ordinator : +91 98940 07317 / 73391 32159 / 94890 07317

R.L. INSTITUTE OF NAUTICAL SCIENCES

(Approved by Directorate General of Shipping, Ministry of Shipping Govt. of India)



(An ISO 9001 : 2015 Certified organisation)

T.V.R. Nagar, Aruppukkottai Road,

MADURAI-625 022

Phone : 7397788618

email : admission@rlins.in/rlins@rlins.in



Premium Maritime Institute Since 1999



GP Rating

(6 Months Residential)

Eligibility : Pass with aggregate 40% marks in 10th Standard from recognized Board with Science, Mathematics as subject and with minimum 40% marks in English subject.

Age Limit : On the date of commencement of course Minimum age 17½ Years Maximum age 25Years

Frequency : 2 Batches every year-January and July

Medical fitness : As per DGS norms.

Career Path

- 6 Months Pre-Sea Training Approved by (D.G. Shipping Govt. of India)
- Sail as AB for 12 to 18 Months on board ship get Watch keeping Bosun
- After 12 Months of training on board ship get Watch keeping certificate (DG Shipping)
- After 36 Months of Sea time appear for 2nd mate NCV/MEO Class IV NCV. Then sail as a III officer/IV-Engineer