

The Charter Fixing Negotiation Procedure with Asymmetric Impatience in a Game Theory Framework: Case Studies in Coal and Ore Transactions*

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Abstract

In determining voyage charter rate, normally, the charterage is determined through the general process of negotiation with the power of the demand and supply in the market including various factors. This paper assumes that the ship-owner cannot make the contract with charterer after the end of pre-chartering, the delay cost per day from ship-owner will be incurred. This case can be applied to charterer as well. The purpose of this paper is to propose an equilibrium charterage which includes the delay loss cost per day in bargaining with asymmetric impatience both for the charterer and the ship-owner. This paper uses Nash equilibrium theory, which aims at reducing the negotiation time, The equilibrium charterage found in Rubinstein theorem, which is made with each discount factor in surplus. In summary, this paper analyzes the delay loss cost per ton and per day between the charterer and the ship-owner, by determining the equilibrium charterage in bargaining with asymmetric impatience. The result can be contributed to suggest the equilibrium charterage with surplus payoffs as the ratio of both of the charterer's and the ship-owner's delay loss cost per ton in the current market.

Key words : Equilibrium charterage, Rubinstein theorem in charter, delay cost per day, Charterage with game theory

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I. Introduction

This paper, based on the scientific method, proposes charterage between the charterer and the ship-owner in voyage charter. The practical method of negotiation normally used by two parties, in most case, is very interesting because we will be able to find the specific scientific behavior in this negotiation process. The purpose of this paper is to propose a freight rate which will be inclusive of the delay loss cost per day, for both the charterer and the ship-owner. This method uses Nash equilibrium theory which reduces the loss cost of time, as well as gives a reasonable contract for both the charterer and the ship-owner in voyage charter. The factor for determining price in the shipping market is dependent upon the theory of demand and supply. In most cases, about 70% - 80% of the vessels in tramp service will have already been contracted for long-term basis. But in the spot market, 20% - 30% of vessels are contracted in advance to avoid ballast within 30 days.

According to a telephone survey that we conducted from May 5th to 6th in 2009 for fifteen ship broking companies, the ship-owner tries to find the cargo of charterer through his broker in advance before the pre-chartering contract of ship ends, but in the procedure of negotiation, ship-owner can not make chartering contract with charterer because of the differences of negotiation condition. If the ship-owner cannot make the contract with charterer after the end of pre-chartering, the delay cost per day from ship-owner will be incurred.

This case can be applied to charterer as well. From the above case, the delay loss cost can be incurred on both side of the ship-owner and charterer while they negotiate after pre-chartering contract of ship ends.

This paper deals with the above case which sometimes occurs in chartering.

The ship-owner/charterer proposes to the charterer the freight rate which is made on the basis of the charter base with the market price at that time. The price of the freight in this case is, therefore, determined through the general method of negotiation with counter offer. However, this method of negotiation should be compared and contracted with the scientific method, that is, negotiation with equilibrium freight. This research looks at and covers the

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