

# Ocean Carriers Case Study

**Background**  
 Ocean carriers to meet the demand for global trade and support economic growth have invested in a growing fleet of new vessels.  
 However, the industry is facing a number of challenges.  
**Problems**  
 - High operating costs  
 - High volatility in freight rates  
 - High risk of piracy

Do you expect daily spot hire rates to increase or decrease next year?



What factors drive average daily hire rates?

- Market supply and demand
- Supply fleet size, numbers of shipped vessels, number of new vessels
- Demand from one vessel & cost shipment, world economy, trade patterns

How would you characterize the long-term prospects of capsize-dry-bulk industry?

- Higher demand for new vessels, higher operating costs, higher risk of piracy, higher volatility in freight rates, higher risk of piracy



Should Ms. Lam purchase the \$33 M capsize?

- Ms. Lam should not purchase the capsize because the operating costs are too high and the risk of piracy is too high.

- Ms. Lam should purchase the capsize because the operating costs are not too high and the risk of piracy is not too high.

What do you think of the company's policy of not operating ships over 15 years old?

- Ocean Carriers will incur a loss in the next 5 years with the policy of not operating ships over 15 years old.
- Regardless of whether operations are based in the US or Hong Kong
- To generate this is a bad policy

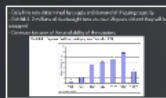
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 Michelle Liu  
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# Ocean Carriers Case Study

**Background**  
 Ocean carriers in the world are divided into five main groups, with the largest being the container and bulk carriers. The other four are oil tankers, roll-on/roll-off (RO-RO) carriers, and cruise ships.  
 Container vessels are used to transport goods in containers. They are the most common type of vessel in the world and are used to transport a wide variety of goods, from raw materials to finished products.

**Problems**  
 1. Freight rates for container vessels have risen significantly over the past few years.  
 2. The industry is facing a shortage of skilled seafarers.

Do you expect daily spot hire rates to increase or decrease next year?



What factors drive average daily hire rates?

- Market supply and demand
- Supply fleet size, numbers of scrapped vessels, number of new vessels
- Demand from core vessel & local shipment, world economy, trade policies

How would you characterize the long-term prospects of capsize-dry-bulk industry?

- High per unit value, low tonnage vessels  
 - Relatively stable market with low volatility  
 - High 2018 freight rates due to tight supply and demand  
 - Demand for replacement vessels of the right tonnage, tonnage



Should Ms. Linn purchase the \$33 M capsize?

- Ms. Linn should not purchase the capsize as the purchase price is too high compared to the long-term earning potential. She should consider other options.

- The capsize is a high-risk investment. She should consider other options.

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- To generate a risk a bad policy.

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# Background

- Ocean Carriers is known as a shipping company who owns and operates capsized carrier that carries dry bulk around the globe
- It mainly transports iron ore and coal
- Customers charter the ship by paying the daily hire rate

# Problem

In early beginning of 2003, Ocean Carriers' ships could not meet the demand of charter

## Assumption 1

Ocean Carriers was a US firm and needed to pay 35% taxes

## Assumption 2

Company was based in Hong Kong and exempted from taxation on profits

# **Assumption 1**

Ocean Carriers was a US firm and needed to pay 35% taxes

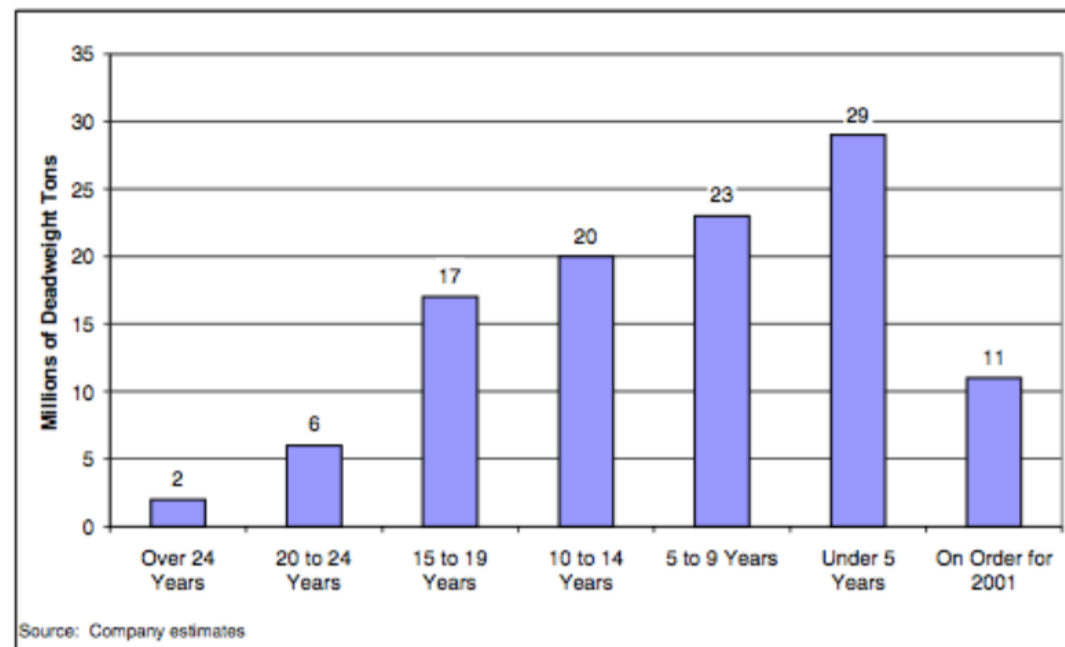
## **Assumption 2**

Company was based in Hong Kong  
and exempted from taxation on  
profits

Do you expect daily spot hire rates to increase or decrease next year?

- Daily hire rate determined by supply and demand of shipping capacity
- Exhibit 2: 2 millions of deadweight tons are over 24 years old and they will be scrapped
- Decrease because of the availability of the capsizes

**Exhibit 2** Capesize fleet by age category as of December 2000



What factors drive average daily hire rates?