Shipbuilding Contracts
Current Trends
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Main commercial points

- Contract Form
- Design and standard of construction
- Buyer’s representatives
- Sub-contractors
- Modifications
- Payment
- Purchase price deductions
- Guarantee and warranty of quality
- Insurance
- Trials
- Delivery
- Termination
Shipbuilding Contract

• Standard Forms – common examples
  – SAJ (The Shipbuilders' Association of Japan)
  – AWES (Association of West European Shipbuilders)
  – BIMCO NEWBUILDCON

• Complex Provisions

• English law
Importance of Design

Key Part of Construction Process

- Third Party or Buyer supplied
- Allocation of Responsibility
- IACS Common Structural Rules (CSR)
- Intellectual Property Protection
Payment

- Payment by instalments
- Primary source of finance for Builder
- Instalments to match defined milestones in construction process
  - Signature and issue of refund guarantee
  - Steel cutting
  - Keel laying
  - Launching
  - Delivery instalment
- Secured by Refund Guarantee
Refund Guarantees… (1)

• What are they?
  – Guarantee of repayment of pre-delivery instalments for buyer
  – Not a guarantee of yard’s performance

• Who are the refund guarantors?
  – Banks
  – Export-import banks
  – Insurance companies
  – Importance of credit rating

• Why important?
  – Security
  – Financiers will require these
Deductions from the purchase price

Liquidated damages

- Defects in speed, fuel consumption, cargo capacity and deadweight
- Delay in delivery - grace period
- Right of set off, counter-claim and deduction
- Certainty of recovery for buyer
- Risk management – avoids unlimited liabilities
- If terminate lose right to liquidated damages
- LNG; cool down, boil off provisions
- Steel price adjustment
Buyer’s representatives

- Buyer will have the right to send its own reps to Yard to supervise both construction and the conduct of shop tests and trials.

- Balance between avoiding unnecessary interference and delay and ensuring compliance by the builder to build to the specifications and plans.

- Possible modifications to scope of the works, changes to delivery date and contract price.

- Practical matters (visas etc) to be negotiated and expressly provided for.
Current Trends.. (1)

• Growth in Newbuilding Orders

• Shortage of slots

• Shortage of Key Equipment

• Limited availability of Refund Guarantees particularly in China and Korea
Current Trends.. (2)

- Emergence of China in Shipbuilding
- Speculative Buyers – increased use of Options
- Resale Contracts
  - Novation
  - NSF Sale
  - Assignment of Warranties
Current Trends.. (3)

- Adjustment clauses hedging for
  - Steel prices
  - Currency Risk

- Effect of Credit Crunch on Buyer’s finance
The Future For India

• Development of Indian Shipbuilding
  – Number of new yards
  – Subsidies
  – Availability of quality workforce
  – Offshore industry
  – shiprepair
  – Growth potential
Plain sailing....