

## THE BALTIC MERCANTILE AND SHIPPING EXCHANGE

The suggestion that I should read a paper about the Baltic Exchange is one with which I am, of course, delighted to concur, although I am bound to point out that the subject is so complex that hours, if not days, would be needed to do it proper justice.

The Baltic Mercantile and Shipping Exchange is, of course, one of the great Exchanges of this City, but strangely enough it is the one which is least widely known and understood.

Lloyd's is a household word. Everyone has heard of the Stock Exchange. But – the Baltic? What goes on there? Why are its activities so important (for they are very important) to the country and to the individual citizen?

I don't have to explain that an Exchange is a place where a large number of people can congregate for purposes of trade. It is a *convenient market*.

There are Exchanges of one sort or another all over the world, but there is only one truly international Shipping Exchange. That is the first point I want to make. *The Baltic is unique*.

The second point of importance is that dealing on the Baltic is by word of mouth, and the motto of the Exchange is "Our Word Our Bond".

It is this characteristic (in many City spheres and not only in Shipping) that has built up the enormous reputation for fair dealing that this City enjoys and has made it the financial and commercial centre of the world.

Now there are four different activities on the Baltic, Shipping, Dealing in grain, Dealing in oilseeds and vegetable oils, and aircraft chartering. But before I describe them, let me give you a little historical background.

I think everyone knows that Lloyd's originated in Edward Lloyd's Coffee House in the late seventeenth century. The Baltic goes back even earlier – to the Virginia Wine House in Threadneedle Street, early in James I's reign, where merchants congregated. When coffee was introduced into the country about 1650 the Virginia became known as the Virginia and Maryland Coffee House. Quite obviously the seaborne trade with the American Colonies must have been a principal part of the business discussed there.

In 1744 the Virginia and Maryland was renamed Virginia and Baltic, and here you have the origin of the present name.

In those days, before electricity had been invented, when everyone used candles, imports of tallow from the Baltic sea were very great, and this business with the Baltic ports ranked very high in our overseas trade.

Today that is no longer so, and the Baltic Exchange deals with the seaborne trade of the whole world.

I want you clearly to understand this. The seaborne trade of the world. For example, Communist China is a very large charterer of ships, of various flags, on the Baltic here in London.

In 1810 the merchants in the Baltic Trade moved to the Antwerp Tavern, and that was renamed the Baltic Tavern.

At that time there was great speculation in commodities, and heavy losses, particularly in tallow. So for their own protection, and to regulate conduct, the frequenters of the Baltic Tavern formed, in 1823, the Baltic club of 300 subscribing members.

This, I think, can be regarded as the first conception of the Exchange as we know it today — that is to say, an association of persons contributing by subscription, and bound by written rules of conduct — and even more important, by those unwritten rules which have earned the Exchange and indeed this City the confidence of the world.

In 1857 the Baltic moved to South Sea House, and thereafter grew steadily in business and prestige. For the repeal of the Corn Laws in 1846 had brought a great expansion of trading in grain. Not only were there great imports of grain and raw materials, but also an expanding export trade in coal; and with British tramp *steamers* replacing the American sailing ships which at one time had dominated the seas, London (which in this connotation means the Baltic) became firmly established as the world's freight market.

Now I must go back for a moment to another Coffee House, the "Jerusalem". Opened in 1625 as a tavern, it was still flourishing in the XIXth century and had become the meeting place of merchants, shipowners and captains trading with the Near and Far East and Australia.

As liner trades developed in the late XIXth century the London Shipping Exchange was opened to cater for the needs of these, the habitués of the "Jerusalem".

So now there were two Exchanges, and early in this Century (inevitably, for their functions overlapped) they and their members amalgamated in new premises, under the title of the Baltic Mercantile

and Shipping Exchange, the present building being declared open by the Lord Mayor in 1903.

In 1955 the foundation stone of a new extension was well and truly laid by Sir Winston Churchill, an expert in such matters, and it was opened in the following year by H.M. The Queen, whose reference to the Duke of Edinburgh, one of our honorary members, delighted everyone. She was so pleased she said "to see the place where my husband works".

Now, although I'm sure that anyone who works in the City is interested in its historical development, I am sure you will be asking — "What do the members" (there are 2,500 of them) "actually do today?"

Well, they still drink coffee: but they also do business. How?

Let me take the shipbroking side first. There are various branches of this, and although a member may engage in more than one, I can best explain by taking them in groups.

First, there are Charterer's Brokers. They represent a merchant or business firm, here *or in any country in the world*, who has or will have cargoes to ship (not necessarily to the U.K.) and who requires tonnage to carry that commodity from A. to B; obviously as cheaply as possible.

Second, there are Owner's Brokers, who represent Shipowners, again of *any* nationality, who seek cargoes for their vessels; obviously for the highest possible return.

This is what is generally known as the Tramp Market. The uninstructed notion, prominent in children's stories, of tramp steamers desperately plodding the oceans from port to port, *looking for cargoes*, is entirely a figment of the imagination.

This may have been so before the days of wireless, when a Shipmaster in a far-distant port might well have to act on behalf of his principals, but today the entire requirements of the world's seaborne trade are transmitted to, and known on, the floor of the Baltic Exchange.

Let us take an Owner's Broker. He is instructed by his Owner to find business for a vessel ready, say, 3/4 weeks ahead in, let us say, Shanghai.

He has to work his market.

There is little prospect of business outward from China, their exports of rice and coal being insufficient for all the available tonnage; and

little from Japan, apart from the requirements of Japanese Liner Companies; so the Broker must work the Pacific Coast of North America for timber or grain, the Australian market for grain, for sugar, for zinc concentrates, or beach sands, coal or salt, the copra market from the Philippines; the South African market, maybe Mauritius sugar, as well as the possibility of a liner company requiring to hire a vessel on time charter, possibly from Bangkok.

He will know, for it is his business to know, which Charterer's Brokers represents principals shipping commodities from these areas, what competition there is likely to be from other owner's brokers who also have ships within striking distance, and what the current market rates per ton are and whether they are likely to rise or fall. And he will report to his Owner and advise him. The Owner will then decide which business to go for, bearing in mind not only the estimated profit, but also where the ship will finish the voyage; that is to say, will she *then* be on a market, or must she ballast away again.

The come offer and counter-offer, often many times repeated, and all by word of mouth, excepting for the variables which must be noted down (dates, sizes, rates, ports of loading and discharge, etc.) — and eventually a fixture, as we call it, is concluded, and a Charter Party is drawn up and signed.

But no matter that the Charter Party is not yet drawn and signed, the deal is done. By word of mouth.

It matters not that it is, for example, an American Charterer, chartering a Swedish ship to load a cargo produced by a French mining company in a Pacific Island, destined for the States — (I mention a case within my own experience) — the two brokers concerned stand by their word of mouth. And if they don't, they don't remain members of the Baltic.

I have no time to describe the various charter-markets of the world. All have different characteristics and all can vary.

When I first came into the City 40 years ago, there were many Owners who never left the Plate trade. Coals out from South Wales and home again with grain. Coal exports are now a thing of the past. So the Plate market is quite different now.

Just now I mentioned Time Charter. This is a prominent feature of the freight market today, and differs from Voyage Charter.

With Time Charter the Charterer (who may be a merchant, but who may equally well be a large liner company requiring to supplement its fleet) *hires* the vessel for one or more voyages, or for a stated period, within agreed trading limits, paying so much per ton deadweight

*monthly* for the use of the vessel. He also pays for all fuel, port charges and loading and discharging costs, the Owner remaining responsible for crewing and storing the vessel, and for keeping her in Class, seaworthy and efficient.

I mentioned that the Baltic is the only Shipping Exchange in the world; but some chartering is effected elsewhere, notably in New York. *But* they have no Exchange there. All business is conducted by interoffice telephone. This fact accounts for the existence of a class of broker on the Baltic called a cabling agent. He is a competitive broker representing neither Owner nor Charterer exclusively. His function is to transmit particulars of orders and/or ships between London and New York in the hope of business; and in this sense one might say, the New York Market is virtually an extension of the market here in London.

How is the broker rewarded for his work? For frustrated work, and there is much of this, he gets no recompense at all.

For business concluded, he receives a percentage, commonly 1½% but sometimes more, of the freight earned by the vessel.

To take *very* round figures for ease of calculation, a Charter for 10,000 tons of cargo at £5 per ton will reward the broker (each broker) with £525.

This might seem a lot, but bear in mind three things.

- (i) That broker will have been working that ship or that cargo for anything up to three weeks. He will probably have made offers in the market that fail to eventuate in business. All that work is unpaid.
- (ii) He has the responsibility of negotiating the terms of the Charter Party (a formidable legal document) and of protecting his principal from the many pitfalls that may be, and indeed are, therein contained.
- (iii) He has a great deal of work afterwards. If he is an Owner's Broker he collects the freight due to the vessel. If the Charterer's Broker, he is the channel for paying the freight.

At any time before the voyage is concluded one side may request some variation and the broker has to deal with this.

And long after the voyage is over and done with the broker may still be in correspondence about it.

So you see, he is not overpaid, and a skilled broker knowing his market can, in negotiating the rate of freight, save his principal very large sums.

I should mention Sale and Purchase. There are about 12 firms on the Baltic specialising in the Sale and Purchase of ships, both new (or even newbuilding) and secondhand. It is said that around three-quarters of the world's sale and purchase of ships is carried out by Baltic firms.

This, of course, is an extremely responsible function.

A Sale and Purchase Broker will be acquainted with the character and value of every type of ship throughout the world, and the demand for them in various quarters. When you reflect that he is dealing with a highly complicated and expensive floating object, due perhaps for Lloyd's Survey, or perhaps just through survey, maybe with unrepaired hull damage, and with an unknown underwater condition until she drydocks for inspection, you will realise the importance and value of the Sale and Purchase Broker's skill and experience.

Now the Baltic also has a mercantile side, recognised in its title, which is dealing with grain and in oils and oilseeds.

This country purchases more grain than any other country in the world, though in times of famine both India and China import vast amounts, a rough estimate for a year's imports to the U.K. being seven million tons. These are completely free from currency restriction, so that buyers have a wide choice and can purchase grain from anywhere in the world.

This fact, that we require to import so much grain, is one of the factors which give the U.K. its predominant position in the movement of grain throughout the world.

In some instances the entire exportable surpluses of grain-producing countries are handled by U.K. traders, and foreign merchants regularly deal in grain in London for shipment between foreign countries.

Hence, once again, the importance of the Baltic Exchange.

All this is only made possible by the wealth of experience of the people concerned, combined with the unique facilities which exist in the City for arranging the shipping, insurance, finance and other auxiliary services required.

So far as the traders on the Baltic are concerned, the special forms of Charter Party and terms of Bills of Lading are agreed in consultation with representative shipowner bodies; and terms of insurance with Lloyd's underwriters likewise.

This actual trading in grain is greatly assisted by the futures market. The futures market effectually facilitates distribution in both time

and space, and affords a valuable method of insurance against price fluctuations.

There has been a grain futures market on the Baltic since 1929, but since the War Government control of *wheat* in exporting countries has prevented futures trading in wheat.

The barley and maize futures markets are, however, active, a turnover of 10,000 tons a day being quite normal.

Not everyone understands that an active futures market sets *actual* grain moving *ahead* of, although in anticipation of, consumer's requirements, as well as providing for the price hedging which I mentioned just now.

Vegetable oils and oilseeds are also an important commodity market on the Baltic. These products are of great importance for (for example) margarine and cooking fats, animal feeding stuffs (cattle cake, etc) and the manufacture of paint and linoleum.

All the principal shippers, crushers and brokers are members of the Exchange, and belong also to the Trade Associations which regulate internationally accepted forms of contract.

The immediate past Chairman of the Baltic is on the oilseed side.

It may be of interest to you to know, in passing, that the Chairman serves for a period of two years, and is chosen in regular rotation from shipping, grain, oilseeds. The preponderance of the shipping side being thus accorded a proportional representation in the Chair.

The Tanker Market and the Coaster Market are very specialised and I cannot, I regret, deal with them in a short paper.

But I must mention Aircraft Chartering. Enquiries about aircraft chartering were reaching the Baltic as long ago as 1925. The first Air Charter Party (for a flight from Croydon to Cologne and return) was signed in 1928.

Ten years later the formation of an air section was planned, only to be frustrated by the War, which, however, did open people's eyes to the swift carriage of men and materials by air.

The end of the War left a pool of aircraft and trained pilots eager to operate commercially.

The Baltic took the opportunity. An Aircraft Charter Market was set up in 1948 and has flourished vigorously. Nearly 100 operating companies of all nationalities have their representative brokers on the Floor.

Shipping Companies themselves make considerable use of this market, for changing crews abroad, and for shipping urgently needed spares, especially large or awkward loads.

Well, I have tried to cover in not many minutes a subject so vast that hours would really be required.

I can only refer in passing to the Institute of Chartered Shipbrokers, a national body to which practically all Baltic brokers belong, and which shares with the Baltic the proud motto "Our Word Our Bond."

I hope I have been able to convey to you something of the enormous importance of the Baltic to the country and to our invisible exports, and most especially I hope I have conveyed to you the way in which the Baltic and its members play their part in maintaining the tremendous reputation of the City of London and its markets for honest, fair and straightforward dealing BY WORD OF MOUTH.

A.C.T.