ICS Examinations November 2023: EXAMINER'S REPORT

Subject: LINER TRADES

Q1. E-Commerce, Digitisation, and container carrier's websites have become a very important platform for carriers and their customers in recent years. Also, the increasing use by carriers of sophisticated systems to manage their business. Describe from both carrier and cargo owner's perspective why all these platforms are so important and explain how they are used to result in positive benefits.

Why it is important in today's commercial world – size of business to cover volume of transactions, scale efficiency and need to use back offices to get down head count. Carriers are using increasingly sophisticated platforms to process so many transactions [customer, ports, agents, vessel planning etc, yield management, booking and allocation control, container management]. Expansive summary. Customers required for documentation accuracy and single platforms like intra. This is a vast area and open question, but students should be able to highlight a wide range of areas.

Q2. Whilst containerised trade cargo volume is showing little growth in 2023 and with changes in trade the supply/demand structure has remained under pressure. This is expected to continue until at least the end of 2024. Explain why this has happened and suggest examples of actions carriers will need to take to correct this.

This essentially comes in two parts and is large subject with a lot of room to score good marks. The student needs to highlight the global demand reduction notably in the East West trades into USA and with this oversupply in these markets as well as the cascade effect this causes. New building is excessive and with this over supply. See Drewry:

Adjusted global containership fleet and orderbook (000 teu)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total global fleet (year start)	**20,808**	**22,012**	**22,954**	**23,632**	**24,704**	**25,751**	**27,652**	**29,185**	**30,748**	**31,334**
Scheduled delivery at year start*	1,681	1,128	1,139	1,180	977	2,501	3,888	3,481	1,837	1,402
Less slippage to following years	357	2	271	94	-88	400	1,555	1,218	551	280
Delivery Total (end year)	**1,324**	**1,126**	**868**	**1,086**	**1,065**	**2,101**	**2,333**	**2,263**	**1,286**	**1,122**
% of scheduled orderbook delivered	78.7%	99.9%	76.2%	92.0%	109.0%	84.0%	60.0%	65.0%	70.0%	80.0%
Scrapping	117	183	188	12	16	200	800	700	700	700
Misc. (reclassification, conversions etc.	3	2	2	3	2	0	0	0	0	0
Net addition	1,204	942	678	1,072	1,047	1,901	1,533	1,563	586	422
Total global fleet (year end)	**22,012**	**22,954**	**23,632**	**24,704**	**25,751**	**27,652**	**29,185**	**30,748**	**31,334**	**31,756**
Fleet growth	**5.8%**	**4.3%**	**3.0%**	**4.5%**	**4.2%**	**7.4%**	**5.5%**	**5.4%**	**1.9%**	**1.3%**
Proj. additional orders for delivery in given year ('000 teu)						**0**	**0**	**115**	**115**	**700**

Source: Drewry Maritime Research

The backdrop a severe reduction in trade volume on the East-West Trades [notably Asia-Europe and Transpacific]. Carriers were slow to react and as a result utilisations have fallen rapidly causing a collapse in spot market rates on EW trades which also cascaded into North/South Trades. The SCFI Index already back to pre-pandemic levels. Whilst new builds were still slow carriers chased utilisation. With trade demand reduction came a decongestion of all major port bottlenecks [like LAX] and China on/off covid policy slowed demand. Students should also mention the Russia/Ukraine war as another factor and the post covid high inflation rates in EU/USA etc which also hit demand. The initial post covid phase can therefore be defined as demand [or lack of it] driven.

This can be summarised by students as the usual fixing methods [although this one is enormous]. Noting the enormous orderbook for delivery 2023 and 2024 summarised as:

- Mass Void sailings
- String Removal and cold lay ups
- Super slow steaming [already global service speeds reduced to 13.9 knot]
- Service routings via COGH to avoid Suez passage [saves 2 vessels and money]
- Significant Scrapping
- CII [Carbon Intensity Indicator] impact

Q3. Answer ALL parts of the question.

Describe as fully as possible the characteristics including dimensions, tonnages, of ONE of the following vessels.

2000/3000 TEU Containership or a handy size 1200 TEU short sea feeder

a) Draw a profile and cross section of the vessel.

b) Label the significant parts of the vessel.

c) Give details of one trade the vessel operates in, where it will load, carry and discharge its cargo.

Use the world map provided to support your answer.

A good drawing of the selected vessel is required including clear lines and measurements.

Trade routes are extensive for all class of vessels.

2000-3000 TEU vessel – represent the largest fleet by vessel numbers and trade in every sector ranging from larger feeder vessels to main trade use in smaller volume trades. They remain the workhorses in container shipping due to their versatility and relatively reasonable slot costs for their use.

1200 TEU Handysize vessels are used extensively in short sea feeding but even longer haul trades to suit the market size and cost base.

Refer to shop drawings and trade route maps in the coursebook.

Q4. When a carrier enters a new trade lane there are many factors to consider when setting the pricing policy that will apply to this market. Discuss the important factors from both a revenue and cost view that are considered when framing a liner carriers pricing policy for a new trade.

The cost factors to consider whilst more fixed still must be looked at before framing the new product.

- How many vessels will be required and their size and service speed.
- Partnership / VSA size and costing
- Port calls for optimum service offering.
- Determining trade size and likely market share to determine a lot of the above
- Bunker ports
- Equipment provision and flow planning challenges

For revenue this is a critical area and due to competition law research, that is compliant is required to attempt to determine a tariff that will be acceptable to clients to avoid revenue erosion etc. There are various means to determine this.

- Market research from customers through carrier's salesforce
- Internet research of other carrier's websites to establish ancillary charges [THC's, Surcharges like CAF/BAF], War Risk, congestion surcharges, special equipment charges.
- Market research through customs database to establish commodities moving and volumes of trade.
- Trade may be reefer heavy that requires different pricing structure.
- As a new entrant care required to balance market share with pricing demand.

Q5. Choose any <u>TWO</u> of the following cargoes. Identify at least <u>TWO</u> major trades on which they are shipped detailing the main ports of loading and discharge. Explain the types of container equipment used and any special requirements or precautions that need to be taken to protect the cargo.

A] Blueberries
B] Grains
C] Coffee
D] Fishmeal
E] Citrus

A] Require 40ft Hi cube reefer containers and often controlled atmosphere units. This is a growing trade with large volumes being exported from South Africa, Peru, Chile, and numerous other markets. Growing volumes to Europe – USA and Asia.

B] Export of grains is both bulk and container depending on markets but heavily used in containers recently. Rice moves in 20ft containers with big demand into Africa and Europe/USA. Origin markets India, Thailand Pakistan, and USA. Wheat and Maize also move in containers ex Australia and USA and significant movements of soyabeans moving ex Latin America to China etc. Good vent units and food grade preparation required.

C] Coffee is largely shipped in 20ft containers with vents [important from hot regions such as Brazil, Vietnam / East Africa etc] and trades on an LCL/FCL contract making the importance of cargo checking procedures to avoid claims.

D] Requires either 20ft or 40ft containers often with Haz class 9 label depending on the market. Origin markets Chile, Peru and general southern hemisphere to China, Europe etc. Very high demand stock feed for fish farming

E] Citrus is global and many trades with major suppliers being Turkey, Egypt, South Africa, China, Argentina. Demand global and often moves counter seasonal to the supply markets. Only uses 40ft reefer containers under temperature controls and sometimes require cold treatment regime.

Q6. Answer both parts of the question.

[A] Explain the purpose of a letter of indemnity in respect of missing bills of lading and suggest suitable wording in the form of a letter.

[B] Explain why such an indemnity is commercially acceptable and valid compared to indemnity being offered for clean instead of claused bills or pre/post-dated bills etc.

[A] - A suitable wording for an indemnity issued in respect of missing bills of lading is required and should resemble International P&I clubs recommended wording. We are looking for:

- A good, structured letter
- Good understanding of exactly what consequences the carrier is indemnified against.
- The merchant also undertakes to deliver bills if found.
- LOI are not issued by banks, they are undertakings signed by the merchant, which the bank joins to provide financial security.
- LOI for missing/delayed B/Ls are legitimate commercial documents.

[B] - This should be contrasted with indemnities offered for clean or incorrectly dated bills which are in effect conspiracies to defraud and as such unenforceable in law.

Q7 – In several trades both large container liner services and those of con-bulker services [Containers and Bulk] operate in direct competition with each other.

[A] Outline a specific trade of your choice where such services compete against each other and the specific strengths and weaknesses of these two services. use the world map provided to support your answer.

[B] Outline the likely development of a con-bulker service over the coming years in the context of the sheer weight of competition.

For [A] there are numerous trades which have a good co-existence of such services exist. It usually applies where a trade has good volumes of project and OOG cargo in both directions as well as traditional neo bulk [not container friendly]. Bulk vessels compete well due to their flexibility. Trade examples can be Europe- Far East, USA-South Africa / Europe – South Africa, Europe-West Africa and Specialised paper and steel services globally,

For [B] the development is likely to be solid and survival as these ships and services have carved a small niche in the market which serves a specific need in the market. No liner container service only can compete due the ship system being flexible and customer service being focused rather than transactional.

Q8. Many trades have a high level of container imbalance because of dominant leg vs. non-dominant leg of the services being quite different in make-up. Use an end-to-end trade of your choice to describe this imbalance and the sort of challenges this presents. Suggest ways in which carriers might act to minimise the effects of imbalance.

A good knowledge of a typical trade with imbalance should be used which demonstrates the problem well and highlights the sort of challenges due to vastly different factors. For example, a trade like Asia – ECSA has 1.2 million dominant FMCG etc. and a growing 600,000 non-dominant base cargo. Other trades like Europe-Asia or Asia-SAF or Asia-East Africa. We should be looking for:

- Ship system and good trade size with good understanding
- Seasonality
- Box type differences/challenges
- Cargo Weight challenges
- Off hire / on hire
- Match back of empty equipment and cost involved.

Ways which carriers can deal with the problem and minimise cost:

- Cargo mix changes [both ways for container type and cargo weights]
- Marginal pricing non dominant
- Off Hire / On hire
- Negative Yield vs. Empty
- Ship System change
- Non-operating reefers etc.