

# Examiners' Report NOVEMBER 2015 Liner Trades

## General comments

The November paper produced a much improved overall pass mark in this subject but was perhaps helped by the paper having more textbook structure. This is not to take away the higher pass mark achievement which was really encouraging and there were a number of questions which continued to touch on some of the key factors affecting the industry today. The common themes being over capacity and how carriers deal with this through various measures and these areas will continue to be common ground in an industry which is facing massive changes and many which are altering the basic structures of entire carrier networks.

The common error of marks being lost needlessly where many were available for good drawings or maps continue and this is something we must urge students to focus on as an important part of the syllabus. In summary however whilst a number of common errors like this occurred there was a trend towards much improved papers and some really well thought through answers including some with some innovative thoughts.

It is hoped that this augurs well for future papers and we continue to see improving pass marks.

**Question 1**

**Q1. Answer both parts of the question**

**[A] Outline the main the differences between a Bill of lading and a Sea Way bill and explain the advantages and disadvantages of both**

**[B] Define what a Switch Bill of Lading is and when and why is it used as well as outlining the key processes involved in its use and where this is likely to be used.**

This was the most popular question on the paper for students and also a reasonably high pass mark. The first part of the question was well answered as it required a good basic understanding of the various forms of the bill of lading. It was still surprising to hear many students implying that a Sea Way bill was not advantageous when in fact it should be promoted and used more often to avoid conflict and cost which can arise through a negotiable document.

The pass mark would have been a lot higher if the second part of the question was understood and for many students this was not the case. A switch Bill of Lading is a second bill of lading that may be issued in exchange for the first set originally issued. There are numerous reasons for this and there are high risks for fraudulent or dubious practice. This is not to say that it is inherently fraudulent but that the potential for fraudulent practice is there and some container lines are very restrictive in acceptance of this process.

**Question 2**

**Q2 – Define and comment on any four of the following abbreviations and their role within the liner industry:**

**i] NVOCC**

**ii] P&I**

**iii] ITF**

**iv] ISM Code**

**v] BIMCO**

**vi] UNCTAD**

This type and style of question is often asked and also usually attracts a high number of students attempting the question and this paper was no different with a high percentage but also only about half of the questions reaching a pass mark. This type of question can often be left late in the exam creating a situation where a student runs out of time or sometimes too early with much being written about each part of the question in the early part of the exam

and eroding time.

Those students finding a good balance of taking some time to answer each part of the question but with sensible feedback on what was required usually did well correctly naming the organisation and covering what they do and how they fit in also. Although the pass mark was not as high as we would like [usually a time issue], those that were answered covered the subject well.

### Question 3

#### **Q3. Answer both parts of the question**

**Incoterms 2010 is an essential shipment term in International Sale Contracts with FOB & CIF being amongst the most popular.**

**A] Explain and contrast these two terms with regard to a FCL container shipment from both a sellers and buyers point of view.**

**B] Explain two terms from the list below:**

**i) DDP**

**ii) CPT**

**iii) DAP**

**iv) EXW**

This also had a high number of students attempting the question and this was also coupled with a very high pass mark which was really pleasing to see but also given that this is a fundamental part of the liner shipping business it is expected.

With Incoterms 2010 being relatively new students particularly in the second part of the question answered these terms well. At the outset it is important to understand that these terms of sale are also important for a carrier as well as the buyer and seller to understand correctly the risks applicable in the process. Understanding the terms in respect of the negotiating part of the shipping contract etc. is essential when dealing with a buyer or seller in the shipping contract.

This question however wanted to see a good understanding of what is involved in each part of the terms of sale and notably where risk passed from one party to the other [very important]. In this respect it was really pleasing to see a very high level of understanding in this specific area.

**Question 4**

**Q4 – Draw a profile and cross-section of one of the following types of vessel and highlight within the drawing the main features of the vessel. Using the world map provided describe two trade routes where the chosen vessel would operate and the main types of cargo carried.**

**A - 2000-3000 Teu Containership**

**B -Conbulker**

**C - 4000-5099 Teu Containership**

This question also attracted a relatively high number of answers and although a straightforward question the pass mark was low. The three vessels listed should be well known to students as workhorses in numerous trading areas. 2000-3000 teu vessels are increasingly being used as feeder vessels across a wide number of networks whilst the 4000-5099 teu ship is a standard Panamax unit used in smaller trade lanes across the globe. The Conbulker is a little more specialised but used across numerous trade lanes.

Unfortunately most drawings we were poor and did not establish clearly the type of vessel and basic measurements [LOA, Beam, DWT, draft]. Trading areas were often not clear and maps also lost marks as poorly drawn. It was also surprising how many students still believe that the Panamax vessel size is still used on the Europe – Asia Trade given this trade only uses ULVCs today and this is well publicised.

This is a question which should be straightforward for students as vessels and trade lanes are key components of the syllabus. Many marks were lost simply due to poor application. There were some good answers but generally this was a poorly answered question.

**Question 5**

**Q5. Answer both parts of the question**

**Container vessel owners have to ensure that revenue raised is greater than the operating costs incurred.**

**[A] Explain in detail what these vessel operating costs are and the revenue sources which should cover these costs.**

**[B] Discuss how costs can be reduced in situations where revenue does not cover costs**

# Examiners' Report

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### Liner Trades

This was also a question that was attempted by a high number of students and encouragingly it was quite well answered. Part A simply was looking for a good understanding of the key components of vessel costs - the key components being ship costs, fuel, port charges – i.e. fixed costs and variable costs like containers etc.]. Also balancing this with what revenue components are such as freight charges [all types] and THCs, surcharges and inland tariffs. This was generally answered well but the main errors occurred where students left out key components in what should be a straightforward revenue and cost comparison in the fundamentals of carrier P&L.

Part B was simply looking for an understanding of cost cutting that can take place such as slow steaming, ship idling, partnerships like VSA, scrapping, scale, port rationalisation. Whilst some items were covered it was again surprising how much was missed on a subject which is key to the industry today and covered in shipping press constantly.

#### Question 6

**Q6 – A key discharge and load port in a liner trade network is suffering from draught restrictions due to poor maintenance and this would result in carriers having to significantly cut cargo volumes seriously impacting the profitability of the trade. Discuss possible solutions available to carriers to deal with this problem.**

This essay question was not answered by a high percentage of students yet it is a critical area today notably due to the rapid increase in ship sizes, although this does not necessarily mean it is confined to this alone and often existing ports with smaller ship systems can and do face this problem due to a lack of dredging etc.

Whilst indeed many students were correct in saying a short term solution would be to hub and spoke to lighten the vessel etc. and engage with port management meetings the key part of the question centred on short term quick solutions. It was clearly stated this was a key port and transshipment operation may not necessarily be viable [high costs].

There are in fact a number of areas to look at and after outlining the fundamental issues surrounding a situation such as loss of revenue, discussions with the port etc. a summary expanding on key areas such as below would have scored good marks.

1. Change account mix to lighter cargo
2. Surcharge heavy cargo [20fts]
3. Hub and spoke to lighten the vessel prior to arrival
4. Change port rotations

5. Change vessel configuration
6. Pendulum product
7. Bunkers / Ballast
8. Negotiate LOI with port
9. Tidal berthing and un-berthing

Some of these items were covered but often only to a limited extent. This is a pity given the high incidence of ports not being able to handle larger and deeper draft vessels.

#### **Question 7**

##### **Q7. Answer both parts of the question**

**Container Equipment Management remains a key area in liner shipping and notably one where strong focus on cost management is important.**

**A] Explain in detail how carriers can manage their equipment costs through various means of fleet optimisation at every level.**

**B] Explain the importance of interchange and the grey box concept and give two examples where this could be employed structurally.**

This question was only answered by a few students indicating it was an area of some uncertainty. This is a pity as notably in part [B] interchange and the grey box concept is an area that could grow in the future as carriers collectively seek ways to reduce costs. It is regretted that this second part of the question was not fully answered by the students who attempted it.

For Part A this would be looking for students to expand beyond the usual owned vs. leasing argument only and think about depot and M&R management. It is important to tightly manage a container fleet at sea and on land and in the case of the latter talking about demurrage and detention rules and revenue is a good area. Pick up and drop off policy notably inland and deposits for long inland moves to protect and indemnify the fleet. Off hiring locations and timing is also a key area.

This was not an easy question but a student confident in this area could score high. In this respect although there were a low number of attempts, the answers that passed this question were answered well.

**Question 8**

**Q8. Answer both parts of the question**

**Marine Insurance is an important part of liner shipping and notably when claims and liabilities arise, which if not handled correctly can be costly.**

**A] Contrast the role and cover provided by Hull and Machinery insurers, Cargo Insurers and P&I Clubs.**

**B] Explain the difference between an actual insurance claim and a 'commercial' claim and why the latter might arise on specific cargo claim**

This was also a question that was not attempted by many students and also had a low pass mark mainly due to the second part of the question being poorly answered. The first part of the question was answered reasonably well and displayed a good understanding of the three types of insurance and how this is constructed.

Part B is a fairly 'open' part of the question in that it requires a quick assessment early in the process on whether this is a cargo damage [insurance] process or one where for example there is a perceived loss in cargo value due to late arrival of cargo etc. damaged cargo such as reefer cargo . This situation is presented to liner executives daily and can form airfreight settlements, or rebates built into future business. The subject area is vast. Creative answers would have gained marks.