

# Examiner's Report

## April 2016

### Liner Trades

#### General comment

The Liner Trades exam, in line with the Institute's syllabus, combined both textbook style questions as well as real examples of issues facing the liner industry. The latter is changing at a rapid pace and continues to be essential that students learn both textbook and practical aspects of both trade developments and the commercial aspects facing liner shipping which is going through its most turbulent time since the start of containerisation. This makes the subject exciting but also important for students to stay up to date with events.

The overall proportion of passes were just about in line with the November 2015 Liner Trades exam and therefore better than in recent years but still with room for much better results.

The revamp of the Liner Trades textbook since 2015, which seeks to demonstrate a lot more guidance on the practical aspects of the industry, is essential reading especially for those not involved in the industry day to day.

Students should take time to read questions rather than diving headlong into a question and sometimes straying completely from the question being asked. Students should also practice ship drawings, maps, etc. to gain valuable marks.

There were many papers that did really well with the subject and demonstrated the students' excellent grasp of this industry. Some excellent thought processes were also shown and some thought provoking ideas on some of the questions that asked for a future view of trading environments.

**Question 1**

**Answer BOTH parts of the question**

**The expansion of the Suez and Panama Canals, the latter of which will complete in 2016, is encouraging trade and ensuring that highly competitive options exist for containership operators.**

**a] Describe the advantages and disadvantages of the canals when they are fully operating at their new design levels**

**b] Explain the development and likely structure of future services using the expanded canals and assess their impact on trading patterns.**

This was the most popular question on the paper . However, many concentrated on the first part of the question and did not answer the second part.

- Suez Canal = two lanes reducing transit times from 18 hours to 11 hours, waiting time expected to reduce to 3 hours. No impact on trades other than making them more attractive in schedule reliability. Actually the benefits are nothing spectacular vs. cost of operation.

- Panama Canal – New Canal Max = 366M LOA / 49M Beam and 15.2M draft will allow 12-13,000 teus capacity vessels to transit changing the ship system structure.

In the second part, the key elements would have been the game changer from the Panama upsize and notably the effect on trades into USA but notably the Asia – US East Coast. There are numerous aspects to this being US West Coast trade, diversion of services from SUEZ, Cape of Good Hope diversions and size of US East Coast ports. The really interesting development and being exercised right now is the return of Round the World Services

**Question 2**

**Choose any TWO of the following cargoes.**

**Identify at least two 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] Cotton**
- b] Frozen Poultry**
- c] Hanging Garments**
- d] Wine**
- e] Grains**

These are key commodities in liner trades and many marks were lost simply because students did not show their understanding of some of the products and equipment types used. Some of the marks lost come from only mentioning one trade lane [25% marks lost]. Some key points about the cargo is listed below:

- a) Cotton moves from a variety of countries and trading patterns change in line with use in manufacturing areas, it remains a high volume commodity in 40ft HC equipment moving ex West Africa, Australia, Brazil, Zimbabwe. Major buyers in China, Bangladesh, India and Indonesia.
- b) Frozen poultry uses 40ft refrigerated containers and is a large trade globally moving in large and growing numbers ex Brazil as well from USA and Europe to many markets. The demand for protein consumption drives this product in countries such as China but also in Africa.
- c) Hanging Garments primarily use 40ft HC containers and are used notably ex Asia and South Asia from traditional garment producing countries. Containers are equipped with a frame and railing and reduce labour cost by not having to pack garments so they can be moved direct from container into shop floor.
- d) Wine moves on a number of new world wine routes [ANZ / RSA / USA / Chile etc.] using 20ft and 40ft dry containers as well as tank containers and increasing use of Flexi-tank bags in 20ft containers and also 20ft and 40ft refrigerated containers for high value product to protect quality
- e) Grains are quite a wide area and students will need to take good care not confusing bulk with container. Many grains notably rice, move in containers where markets are smaller and specialised. A lot of rice moves to Africa in containers from various supplying markets [Thailand, India, Pakistan and USA]. Likewise a lot of wheat and maize can move in containers from supplying markets. Care required in terms of supplying 20ft dry containers with no moisture and taint. Good ventilation should also be considered.

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#### Question 3

**Describe the process which takes place during the transportation of a FCL container from the first cargo booking, collection at the merchant's premises, ship loading until ultimate delivery to the consignee. Identify all of the parties involved in each sector of the journey, the physical activity and the associated documentation or communication involved. Use a flow chart to support your answer.**

This was also a quite popular question and had the 2<sup>nd</sup> highest pass mark of all questions and it was answered well given it is the basic process in the movement of a container door to door. The best description of this was the use a flow chart. Many students covered this well and displayed a good understanding of the subject matter. Marks were mainly lost on this question due to poor flow charts and missing many of the practitioners involved.

#### Question 4

**Answer BOTH parts of the question**

**Whilst much attention remains in the large containership market the sub 3,000 teu container fleet is substantial in size and robust in its activity. It comprises three distinct sizes of vessel in sub Panamax and Handysize capability and they are used in most trading areas of the world.**

**a] Draw a profile and cross-section of one of these types of vessel and include within the drawing the main features of the vessel and its dimensions.**

**b] Describe TWO trading areas where this vessel would operate and the likely developments which could affect its deployment in the next few years.**

This question was not popular, although this sector is actually one of the more robust and exciting parts of liner shipping. It is not all about big 18,000 teu container ships and above. The Sub Panamax fleet at over 3000 vessels equals 60% of the entire container vessel fleet and students should be aware of this.

Therefore at the outset, understanding the fleet profile is helpful in answering the question and this is where most students failed. Diving into talking about Panamax vessels [and above] as well as deep sea trades automatically caused a fail on this question. Poor quality of drawings was another reason students failed this question. A good drawing is expected.

As highlighted in the question there are three types of vessel [strong clue for Sub Panamax also mentioned below 3000 teus]. These are 2,700 Teu or 2,000 teu and Handysize 1,700. Many use gear, making them versatile units in most ports. They have heavy use in Intra-Asia trade as well as many Asia feeder networks. Also heavily used intra Europe both for feeders and stand- alone trades [North Europe – East Med etc.]. Short route services into numerous markets where volumes can sustain this type of vessel [South East Asia – East Africa / Gulf etc.]. Likely developments depend to large extent to the cascade of Panamax post canal widening and what happens to excess vessels. Generally a reasonable future awaits this class of vessel though.

**Question 5**

**The recent consolidation of carriers will create four mega operators with a large combined market share in excess of 40%. Further consolidation is likely as remaining carriers seek ways to compete with such large dominance.**

**Explain the likely scenarios in terms of alliance structures on the main east-west trades and highlight where this may disrupt existing structures and where this may prove a problem for competition authorities and shipper bodies and why. Also describe what other likely consolidation could take place and where this is likely and why.**

This was the least answered question and perhaps understandably given its open style and the huge uncertainty surrounding the subject matter. Those students who passed this question did so with a high mark and gave some thought provoking answers.

At the time of setting this question it was felt this was quite a 'speculative' question but also a game changer in the market as dominance of perhaps 6-7 carriers [groups] may emerge controlling 60-70% of the shipboard slots in the world and therefore limited choice and dominance abuse. It will not cure the problem of excess capacity and with global container trade stagnant it is an even worse situation.

This will potentially remove 1 Alliance structure from the existing CKYHE / G6 / O3 / 2M Alliances [in the event post question this is exactly what has happened]. There may be too great dominance in Trans-Pacific trade and others. It might also result in 1 or 2 of existing Alliances being severely weakened. There are numerous scenarios in play.

Potential consolidation of the 3 Japan lines into 1 single super Japan line. The German lines Hapag / Hamburg Sued might consolidate [we did not see UASC at the time]. Also there may be a consolidation via Korean carriers. These can all provide a lifeline in one direction but increasingly less choice for customers globally and will create a nightmare for competition authorities on how to police.

In the end this question was not about right or wrong predicting exactly what would happen, but demonstrating some good through process into the likely scenarios.

**Question 6**

**Answer BOTH parts of the question**

**a] Write a voyage estimate for a single round voyage of your choice highlighting all the key revenue and costs.**

**b] When a voyage estimate shows a loss explain how carriers might be able to improve the result and by what means.**

This was the least popular question on the Liner Trades exam. This is very concerning given it could be argued it is the reason for running a liner service [to make a profit hopefully] and therefore a rather important part of the whole subject. Those that passed did pass well with an excellent understanding of the subject matter.

For the voyage estimate many students got this wrong by showing a standard bulk voyage costing or by only revenue or no costs. The costing should show TEUS loaded for the dominant and non-dominant legs and revenue earned for all parts of this [ocean freight, THC's, Bunker surcharges, inlands etc.]. Variable costs to show Inland transport, terminal costs, feeder costs and agency other fixed costs, containers, operating costs [ship], bunkers, port charges, insurance, agency and admin = net profit.

For the second part this should contain standard cost saving measures whether GRI / revenue mix [yield] management, slow steaming adding vessel but lower fuel cost, idling, void weeks etc.

**Question 7**

**Answer BOTH parts of the question**

**Your company manages a port which currently only handles Ro-Ro and car carrier services. To grow the port, you want to expand into handling container ships [vessel size 1,000-2,500 teu].**

**a] Draw a diagram of existing port facilities and show where expansion of container operations would be detailing the revised configuration of the port and its equipment requirements.**

**b] Briefly explain the factors you will have to consider with this project, the type of equipment and facilities required in developing this port.**

This was again not such a popular question yet with some thought and a good drawing there were good marks available and those that attempted the question generally scored well. As with ship drawings, maps etc. this is where significant marks are lost by simply not taking the time to think through and plan with a resultant good drawing. Getting the first part right usually results in a much better answer to the second [the first part answers and usually complements the second part]. There were some good diagrams and with it thought process to the question. The single largest failure was that this is a relatively simple transition given vessel size and it is more about covering the basic elements of an upgrade but importantly making it attractive to potential users by selling it.

**Question 8**

**Liner bills of lading are important contracts of carriage in international trade.**

**Describe FOUR of the following seven clauses in detail and why they are of importance to those parties dealing with bills of lading especially the carrier.**

- i) Himalaya Clause;**
- ii) Lien;**
- iii) Paramount Clause;**
- iv) General Average and Salvage;**
- v) The Scope of Voyage;**
- vi) Government Directions, War, Epidemics, Ice, Strike etc.**
- vii) The amended Jason Clause.**

This question attracted a high number of attempts and most of those that answered the question passed or came close to passing. This is core basic understanding of a number of bill of lading clauses and therefore pretty much a textbook question. The style of answers generally displayed a textbook answer but there were some very pleasing answers where students most definitely thought beyond this and used some quick examples which made detail of the clause more meaningful and would also help better understand the clause to a lay person and so this was great to read.