

# Examiners' Report

## November 2016

### Ship Sale & Purchase

#### General Comments

There are three easy ways for students to make sure they give themselves the best chance of passing the Ship Sale and Purchase examination:

- 1) **Knowledge.** There is a saying in shipping: "Don't try and broke the broker". All the examiners are shipping professionals, and are well practiced in spotting people who don't know what they are really talking about. In real life a lack of knowledge and expertise leads to a lack of business. In this exam, it tends to lead to a lack of marks. The syllabus is where students should look to find what they need to know, but the core knowledge of the S&P broker is the ship, the contracts (i.e. Saleforms) and the markets. Without this basic knowledge, students will find it difficult to convince the examiner they have sufficient knowledge to pass the examination.
- 2) **Communication.** In shipping being able to quickly express yourself under time pressure is essential. In exams this means getting all you have to say down on paper in a form that is easy for the examiner to read and assess. Pay attention to structure, plan a little in advance what you want to say and how you are going to say it. The essay questions are designed to be answered with an essay. Half a page will not be enough to answer the question.
- 3) **Answer the question.** Apart from the above, the questions are designed to bring out knowledge in a specific way. Make sure you know what the examiner wants, and write your answer accordingly. Pay attention to key words. A question that states "analyse" is asking for something different than "explain".

The students that produced five answers that were able to satisfy all the above and add further knowledge of their own from their studies, further reading or their day to day working life achieved the highest marks.

#### Question 1

**Assess the factors that have driven the development of the concept of 'Eco Ships' (those that are both economically and environmentally efficient) and how this concept has affected the Sale and Purchase market, with particular reference to newbuildings.**

"Eco ship" has been a buzzword in shipping for some time, but the significance to the S&P market has been profound.

The question wanted an assessment of the concept. This required students to correctly identify the ECOlogical and ECONomical, factors:

- How environmental concerns, particularly for emissions of CO<sub>2</sub>, nitrous and sulphur dioxide brought in new regulations, as well as Ballast Water Treatment Systems, both domestically and internationally.
- How this coincided with a high oil price affected the price of bunkers, and the most competitive

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ships in the chartering market were those that were most economically efficient as far as speed and consumption is concerned.

The question also made particular reference to newbuildings.

Successful answers were able to identify the above issues as well as assess how shipyards developed and marketed new products to satisfy and generate new demand. This burst in new orders from 2013 to 2014 contributed to the oversupply being experienced today, particularly in the bulk carrier and container markets, drastically affecting values, and increasing scrapping.

Those who achieved the best marks were aware of the legislation affecting low sulphur fuels, emissions, Tier III rules for newbuildings and the phasing in of Ballast Water Treatment systems, as well as bringing in the cost of oil, and therefore of bunkers, in the last few years.

## Question 2

**Buyers and sellers have a signed Memorandum of Agreement, and the buyers have lodged the deposit. The Agreement includes buyer's option to arrange for an underwater inspection by divers prior to the delivery of the vessel. Using a Saleform of your choice, explain the purpose of this clause.**

Knowledge of a relevant Saleform was essential to answer this question, as well as understanding of the purpose of the clause.

Marks were awarded for:

- The correct identification of the appropriate clause, e.g. Clause 6 of NSF 1993
- That the underwater parts have to be free of damage that results in a condition of class/recommendation
- That the clause has two options: drydocking or divers inspection
- That the Classification Society is the sole arbiter, with buyers and sellers representatives in attendance as observers only
- The costs of the inspection and class attendance depends on whether a condition of class is imposed or not; if it is the sellers pay, if not the buyers pay
- Sellers have to make the vessel available in a place with conditions suitable for a divers inspection, moving it if necessary
- If a condition of class is imposed then the sellers have to repair the vessel either afloat or in drydock at their cost and expense
- If a condition of class is imposed and the vessel has to be drydocked the sellers take her there at their cost and expense, then the cancelling date is to be extended for a maximum of 14 days
- Sellers to pay of the cost of drawing the tailshaft if class requires it, otherwise if buyers ask for it and no condition is imposed, they pay, but if a condition of class is imposed then the sellers pay
- Expenses of putting the vessel in and out of drydock, drydock due and the cost of repairs to rectify

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the condition(s) of class to be for sellers account – everything else for the sellers

- Buyers have the right to paint and scrape the underwater parts whilst vessel is in drydock at their cost and expense, but if their works exceed the time taken for Sellers to complete their works, they pay for the extra time
- In such a case the sellers have the right to tender Notice of Readiness whilst the vessel is still in drydock

For those that chose NSF 2012:

- If a condition of class is imposed but only requires the repairs at the next schedule drydocking the sellers can deliver the vessel to the buyers with recommendations against compensation for the direct cost of labour, to be determined by the average of two quotes from shiprepairers close to the port of delivery from both buyers and sellers
- Sellers not to tender NoR prior to divers inspection

Some students confused this clause with the pre-purchase inspection clause, e.g. Clause 4 of NSF 1993. Those that did, sadly, could not achieve a pass. Others mixed in elements of both clauses, which also restricted their chance of passing.

The question asked for an explanation of the clause, so simply repeating the main elements of the clause was also not good enough. Top marks were awarded to those students who as well as all of the above, supported various parts of their answer with practical examples.

### Question 3

**Answer ALL parts of the question**

- a) **Provide a detailed written description of a Handysize dry bulk carrier as found in a typical sales message circulated by a seller's broker.**
- b) **Draw a labelled profile and labelled cross section of a typical Handysize dry bulk carrier.**
- c) **For three different cargoes of your choice, describe typical trading routes for this vessel, using different loading and discharge ports in each case. Use the world map provided to support your answer.**

Those that attempted the question, and had the relevant knowledge, were able to answer it satisfactorily. Not much information was required, but what was needed to be accurate.

- a) A typical handysize circular normally looks like this, although size and specification can vary:

Name  
Flag  
32,000 dwt on 10.00m draft  
Built 2005 Hakodate Japan  
NK class SS/DD passed 11/2015

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Loa 180.00m Beam 28.00m  
5/5 ho/ha 45,000/43,000 cbm gr/bl  
Cranes: 4 x 30t  
B&W 7,200 bhp

- b) The two drawings should have reflected the above information, and those that were contradictory, or inaccurate, lost marks. Marks were awarded to those that were able to show the dimensions, and the correct configuration of the holds and hatches.
- c) Geographical knowledge remains a core requirement in this subject. The question required three different trading routes, with loading and discharge ports for three different cargoes. Full marks were available to those who were able to **correctly** locate the suitable ports for the relevant cargoes, and draw a likely trade route by sea. Examples such as showing Rotterdam in France were incorrect, or loading coal in Busan were also incorrect.

### Question 4

**The documentary closing of a secondhand ship sale is an essential part of the sales process. Using a Saleform of your choice, identify and analyse the documentation that would be reasonably required by buyers from sellers at the closing meeting to transfer the title of the vessel only, making amendments and additions where necessary.**

This delivery documentation question asked the students to **identify** and **analyse** the documentation required to transfer the title of the vessel **only**. Therefore it required an understanding of which documents fill this role, and be able to analyse them. Those that achieved the best marks correctly identified the following:

- Bill of sale, notarially attested and legalised/apostilled. This is a document of title, showing freedom of encumbrances and allows the vessel to be registered under new ownership and if necessary a new registry
- Board of Director minutes or equivalent, notarially attested and legalised/apostilled. This document shows that the owners have approved the sale and for the execution of a Power of Attorney so that those appointed have the authority to execute the Bill of Sale, and sign the Protocol of Delivery
- Power of Attorney, notarially attested and legalised/apostilled. This shows that those identified in the Board of Director minutes as above have the power to act as attorneys for the Sellers and are able to execute the Bill of Sale and other necessary documents
- A certified copy of Articles of Incorporation or equivalent, notarially attested and legalised/apostilled. This proves that the Board of Director meeting has been carried out in

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accordance with the Bye-laws of the company.

In addition, the following were mentioned as being evidence that the above documents have been issued and presented correctly:

- Transcript of Registry incorporating freedom of encumbrances and certificate of ownership (two separate documents are acceptable)
- Certificate of Deletion and/or letter of undertaking to provide within a certain timescale

Choice of Saleform was crucial here, particularly for those that had memorised the relevant clause (e.g. Clause 8 of NSF 1993). Those that chose NSF 2012 found it easier because most of the documents listed above are included. In NSF 1993 they are not.

Those students that just reproduced the full list of documents without identifying which were essential for transfer of title did not pass. The question required the identification of those documents required to transfer the title only.

The quality of the analysis varied; highest marks given to those who showed their understanding as well as their knowledge in a well-structured essay.

### Question 5

**Using a Saleform of your choice, explain the sellers' obligations to buyers concerning the condition of the vessel on delivery, and suggest amendments that may further protect the sellers' interests.**

Although this was a straightforward Saleform question, many students failed to answer this satisfactorily. There is a clause in every Saleform, e.g. Clause 11 of NSF 2012, which is called **Condition on Delivery**. This Clause stipulates that:

- The vessel should be delivered as she was at time of inspection (or date of the MOA if not inspected) fair wear and tear excepted
- To be free of cargo and stowaways
- To be Class maintained and free of conditions of class
- To be free of average damage affecting class
- All class and trading certificates to be valid and unextended without condition at the time of delivery

Many students confused this clause with other clauses, for example in the case of NSF 2012:

- Clause 7 (**Spares, bunkers and other items**)
- Clause 6 (**Divers Inspection / Drydocking**)
- Clause 15 (**Buyers' Representatives**)

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Those that were able to show the relevant links with Clause 4 (Inspection) and Clause 6 (**Divers Inspection / Drydocking**) did however achieve better marks. Many students struggled with suitable wording that Sellers could make, but those that did answer this part of the question successfully suggested wording such as “as is, where is”, or “with certificates as they are at time of delivery”.

### Question 6

**Answer BOTH parts of the question**

- a) **Explain how the price of a ship sold for demolition is calculated and identify what documentation is required as proof.**
- b) **What other information would the buyers consider essential from sellers in a demolition sale, prior to offering on a full terms basis?**

This two-part question was popular, and answered satisfactorily by the majority of those attempting it.

Part a) was referring to **light displacement tonnage**, but some struggled to define it as the total weight of the vessel, excluding bunkers, lubricating oils, and other constants and material. Using the Trim and stability book or capacity plan and deadweight scale as evidence was mostly answered correctly.

Answering part b) required the candidate to put themselves in the shoes of the end user, i.e. the company that would be recycling the vessel at a demolition facility and identify what information would be essential to them. This included:

- type of vessel
- Dimensions (loa, beam, draft (including lightweight draft))
- Main engine make and type
- Generators make and type
- Makers list of machinery and equipment
- Spares (including propeller etc)
- Propeller material
- Last five cargoes
- Type/make of cargo handling equipment (pumps/gear etc)
- Special materials (stainless steel, brass coils/manifolds)

Some students incorrectly gave the details that would be included in a draft demolition offer.

**Question 7**

**Discuss the roles of newbuilding and demolition brokers, comparing and contrasting the different skills required**

This question was as much about the newbuilding and demolition markets as the brokers themselves. The examiners were looking for an understanding of the different roles along the following lines:

Comparisons:

- need to know their markets well including the pricing
- Supply/demand
- Identity, background and track record of buyers and sellers
- differences between the prices quoted and why
- the availability of berths/space
- prices for different types of vessel

Contrasts:

- one is building, the other is scrapping
- geographical location
- how a ship is paid for (lump sum in instalments for newbuilding, prompt payment for demolition)
- newbuilding marketing and negotiations take a long time, demolition marketing and negotiation is quick

Many students had other good, relevant points to make. However, in this case, those students that were able to structure their essay so that their points were made coherently and concisely were able to achieve higher marks than those that did not put much thought to the planning of what they would write.

**Question 8**

**Evaluate the different choices investors have when raising money to invest in ship owning**

This was a popular question and many students were able to identify most of the following as well as coming up with other alternatives:

- cash/own resources
- tradition mortgage bank financing
- investors
- joint ventures
- credit lines
- Initial Public Offerings
- Bonds
- Bareboat Hire Purchase
- Export credit (for newbuildings)
- Private Equity Funds

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- Hedge Funds
- Seller's credit (especially for newbuildings)

The keyword here however was **evaluate**. Those students that we able to evaluate when they are used, and how effective they are achieved the highest marks.