

Examiners' Report

November 2016

Liner Trades

General Comments

Overall Comments

As with previous papers the November paper followed the syllabus combining both textbook style questions as well real examples of issues facing the liner industry. The latter continues to change at a rapid pace and it remains essential that students learn both textbook and practical aspects of both trade developments and the commercial aspects facing liner shipping which continues to go 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 showed an increase on previous exams which was encouraging although weak areas persist in respect of poor drawings, maps and understanding of live issues affecting liner shipping.

The revamp of the Liner Trades textbook since 2015 is useful reading for students wishing to pass this exam as well as keeping up to date through various research and media platforms on developments. This latter are is even more important for those students not involved in the industry day to day.

The pass mark is up however which is great and always satisfying for an examiner and within this there were some really good answers notably on the non-textbook questions which is pleasing.

Question 1

Define the principles of yield management. Using a trade lane of your choice, detail the individual elements of revenue and cost, and how these are calculated for yield. Use examples to support your answer.

This was the least popular question on the paper and it also had a low pass mark. This is concerning when yield management is one of the most important tools that can be used in today's poor markets.

In this respect it was essential that in opening answer to the question the basic principles of what yield management is was important but unfortunately few students answered. With the definition outlined the key elements in assessing yield on business should have been listed which are:

- [A] Door to door or port to port revenue or total revenue
- [B] Cost of moving the loaded container
- [C] Imbalance costs
- [D] System cost
- [E] Admin cost. A-C are critical for establishing contribution to fixed costs

In this area there were some reasonable answers itemising the key elements however this often devolved into an overall P&L assessment which is not what Yield Management is about. Given the lack of understanding of the principles.

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Question 2

What is a Round the World (RTW) operation in liner shipping? Describe a specific trade route to support your answer and analyse the advantages and disadvantages of serving a market in this way.

This question had a high number of attempts but the worst pass mark of the exam which was very concerning given how topical this subject will be as a result of the Panama Canal widening which will allow the economies of scale to expand many liner networks to this type of operation. Many students were able to mention the Canal being a factor and also some historical detail about RTW services [US Lines and Evergreen which ultimately failed due to size limitations]. After this point many students simply did not get into a live trade and likely scenario as well as the various advantages and disadvantages.

An example and really a key live one could be Asia – USEC – Europe – Asia and also return the other way. Some high costs with 2 x canal transits so maybe via Cape of Good Hope is an option. There are numerous permutations but ship size is the key factor. We were looking for students to display a good understanding of the operation.

The advantages are economies of scale using the same slots a number of times and even hub and spoke at key T/S nodes to maximise the cargo off take. Even local wayport feeding double dipping slots further can maximise returns. In past there were negatives against the operation due to exposure on imbalance etc. but given the size of most global carrier and alliance networks this can be used to support the RTW. The disadvantages can be if it only operates one way lessening the advantages and exposure on non-dominant trade sectors [say Europe to Asia].

We would urge students to research this area more in coming years as it is likely to be more common beyond standard end to end and pendulums.

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Question 3

Describe the main characteristics of **FOUR** of the following container types, identifying at least **TWO** main commodities for which each type may be used and the characteristics of those cargoes.

- i) Flat Rack
- ii) Tanktainer
- iii) Bulk Container
- iv) Open Top
- v) Reefer
- vi) High Cube

This was the most popular question on the paper with most students attempting this 'text book' style question. It was pleasing to see a very high pass mark for this question with most students displaying a very good understanding of this equipment and cargo which was very pleasing in terms of understanding of uses for less common but important equipment [in terms of monetary returns]. Good performance from all students.

Question 4

Use an end to end trade of your choice to explain the container imbalance between the dominant leg / non-dominant leg and the challenges this presents. Describe how carriers can minimise the effects of the imbalance.

This question attracted less attempts and also achieved a relatively low pass mark. There were some decent passes but most were marginal in what is a difficult area for a liner operator. Currently in today's markets which are under constant pricing pressure often the non-dominant leg can be the difference between a trade making a profit or losing money. There were some excellent examples given by some students and some where one would least expect them such as short sea feeding but still very relevant and some thought provoking answers.

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. Examples are:

- 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
- Cost involved

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

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- 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.

These are some examples and a number were used but it was only a limited number of students that grasped the problem on this question

Question 5

a. Draw a labelled profile and labelled cross-section of ONE of the following vessels

- i) Handysize 1700 teu container vessel**
- ii) Ro-Ro vessel**
- iii) 8000-9000 teu container ship**

b. Describe TWO main trade routes for this vessel, including the main types of cargo carried on each route. Use the world map provided to support your answer.

This was quite a popular question and should be given the potential to earn good marks as the subject matter is basic course work. It was therefore pleasing to see improved drawings of vessels and some excellent ones as well. Maps in a number of cases were well done and trade narrative also ok but often heavily sacrificed no doubt due to time spent on ship drawing. Overall a much higher pass mark than usual but marks continue to be lost through simple fundamental mistakes such as not labelling the vessels key data [size, LOA, Breadth, DWT etc.] and showing no ports on a world map. Overall however encouraging to see the improvements on this one.

Question 6

Describe the main events that have affected the structure of the global container market over the last twelve months. What further changes would you expect to see over the next 3-5 years?

Surprisingly this question was attempted by quite a high number of students. Surprising mainly because it is an open question and required good up to date knowledge of the current market changes. The open nature of the question did have many students focusing on quite a number of key events over the year such as Panama, Suez and VGM etc. and whilst these all picked up marks many students failed to get into the real events covered by the mass of mergers and acquisitions. Some students however did cover some good examples and knowledge of events and scored well with one or two outstanding papers right up to date.

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As stated this was in some respects quite a 'speculative' question and not black and white as there are still many question marks about the future. However this is now a serious game changer in the market as dominance of 6-8 carrier [groups] will emerge. Students should have summarised recent events detailing each carrier development [notably CMA-CGM/APL, COSCO/CSCL, HAPAG/UASC [even Hanjin by the time of the exam] as well as the Japan Lines announced merger just before the exam. Mention of the recently structured alliances and who is in them would also have helped and often this was covered.

The future may require remaining players to adapt or die to get the scale and the scale needs to be minimum 1.5 to 2 million slots. The order book is a factor. The big carriers moving to a new level of commoditisation out port pricing destroyed and now same as base port due to large carrier feeders etc.]. The large carriers will fight it out for new market share to fill the scale size and this will present further challenges. There were many other permutations and some good theories. Some good answers in what is a highly charged area at present.

Question 7

A refrigerated container packed with grapefruit was shipped on a direct service on a port to port basis at plus 7 degree Celsius for the duration of the voyage. The container was off power during the voyage for 2 days before the crew were able to repair the unit. On arrival at the port of discharge some of the fruit was found to be damaged.

Describe what action the consignee would need to take and what evidence and documents would they need to provide to their insurers and carrier for their claim. What defences and liabilities does the carrier have and what investigations should they undertake?

This was received a low number of attempts and yet those that did answer this did quite well and show a good understanding of the subject matter. The key elements to look for in such a question is the position of both parties' involved and likely outcomes [the outcome is not guaranteed as there are numerous factors which could play out].

Consignee - Would conduct survey [joint survey best] and immediately place the carrier on notice for damages. Also notify their insurers depending on partial / full loss what would happen to the goods? Consignee may be able to part sale or even in full at reduced price. Depending on variable outcome would then depend on level of claim to carrier. Original sale documents and price would be required combined with final sale price etc. to determine claim. If it as total loss then copy of destruction certificate. Ideally would have had own temperature recorders [temp tails] in container to use as evidence of off power [carriers rarely supply temperature downloads].

Carrier – Important to also employ a surveyor. Notify P&I club. Engage internal insurance and claims department. Arrange download of container temperature records for the voyage [this records every 1 hour]. Vents closed or open? Secure report from ships command. I&C department engage with consignee

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insurance or direct where applicable and aim to mitigate losses for carrier. Where there is some uncertainty on veracity of the claim [maybe fruit was warm loaded etc.] may result in 'offer' being made to settle. This ultimately may be accepted or dispute could arise. Don't forget time bar aspects and also ultimately a 'settlement' via a commercial route [rebate against a fixed volume of future cargo etc.].

Above are just some of the examples that should be used and many students covered a lot these and answered this question well.

Question 8

Define and explain any FOUR Incoterms 2010.

Like Q3 which was also text book this question attracted a high number of attempts and the pass mark was high. It was encouraging to see the level of understanding of this subject matter which is critical to know in liner shipping for all practitioners involved in the chain. Very positive answers and some exceptional ones.