ICS Examiners Report

Liner Trades May 2017

Overall Comments

As with previous exams the May paper aimed to follow a standard trend of both textbook style questions as well as live examples of issues facing the industry. The live issues are important, the liner industry is going through a period of enormous change and consolidation so it is essential that students who attempt this paper need to be up to date on current trends. There is sufficient non textbook data in the open market/internet than can provide live detail of what is happening.

Given this backdrop it was therefore really pleasing to report that this paper was passed by a much higher percentage of students than we have seen in many years. It was frustrating in another sense that the pass rate could have been even higher but for marks almost being thrown away on questions like Q1, 2 and 4 where these called for maps, drawings and examples. Nevertheless it was good to be marking a much more superior class of paper on a general basis.

We can only again reiterate that the revamped textbook of the Liner Trades 2015 is essential reading for students that want to pass this exam as well as keeping up to date through various research and media platforms on developments. This latter area is even more important for those students not involved in the industry day to day. Overall however the pass mark improvement was 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.

Q1.
A. Draw a labelled profile and labelled cross- section of ONE of the following vessels

- Multipurpose cargo vessel
- Refrigerated cargo vessel
- Neo Panamax container ship over 10,000 teus

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 the most popular question answered and yet scored a relatively low pass mark compared to other parts of this exam. As is standard of this type of question it asked for profile and cross-sectional drawings of either a multipurpose, refrigerated cargo ship or Panamax container ship of over 10,000 TEU. While specific dimensions were not asked for in the question length, beam, draught and an idea of deadweight were expected as part of the annotation. In several cases the students did not provide these details and neither did they draw trade lanes and highlight ports on the map. Quite often the description of two trade lanes and types of cargo for the vessel class selected was also poor.

A significant problem with the question related to the Panamax vessel as while it was clear that one of 10,000 TEU needed to be described, many students drew an old Panamax ship [4000-5000 TEU] and gave the old dimensions, but often with the trade lanes depicting the new larger vessel class. These answers were failed. This sort of question should as a matter of course be a good pass for all students given the detail provided in the text book. Students need to practice drawing more and also ensure that they read the question carefully before diving into an answer.

Q2. NVOCC and specialised logistics operators are becoming increasingly significant in the liner shipping industry. Explain why this is happening and what are the advantages and disadvantages to exporters and importers? Support your answer with TWO trade or commodity examples.

Whilst a relatively lower number of attempts were made on this question those that did attempt this often passed. Most students correctly defined and described the activities and roles of NVOCC's very well, but did not make enough of the advantages and disadvantages they offered beneficial cargo owners and lost marks as a consequence.

The main area of failure on this question was the limited use of examples with several student failing to select the two trades and/or cargoes that were really needed to secure a pass. There were still some excellent answers and this sector is increasingly taking over shipment management at various levels from basic forwarding right through to contract management. Students should have displayed a good understanding of the role and value add at this brings.

This is a large area but the field is large enough to provide two good examples door to door of what an NVO or logs provider can do. For example reefer cargo management or retail specialised

Q3. Your company operates a large fleet of both owned and chartered container vessels on various routes around the world. Draw an organisation chart and explain the roles and responsibilities of the key departments and divisions.

There was a fairly high number of attempts for this question and the students that decided to answer this question generally did it very well with the organisation chart well drawn and the roles, responsibilities and functions of executives/departments well understood and described. This question whilst classic textbook did secure a very high pass rate

Q4. The Transatlantic container trade is oldest containerised trade in the world and is defined as a 'mature' trade.

Describe the characteristics of the trade such as volumes, main ports of call, service structures/vessel sizes and the main commodities moving. Use the map provided to support your answer and discuss the likely future developments of this trade in the next 3 years.

This question surprisingly attracted the lowest number of attempts but those students who answered the question did not do too badly. It was however quite disappointing while many students did give an idea of the volumes of cargo moving east and westbound – although not always correctly – service strings were not described in much detail, neither were the different trading sectors of the market or the size and type of vessels deployed. The use of the enclosed maps was "hit and miss". With some students not labelling ports or putting them in the wrong place. But it was the lack of discussion on possible developments in the trade over the next three years where information and thinking was lacking, although some student did give some interesting views, mainly related to the potential changes that might come about as a result of the new locks on the Panama Canal

The key areas to cover were - Trade size 3.1 million teus Westbound and 2.1 million teus EB North Europe. Geographic locations Montreal via SL seaway, N. Atlantic and S. Atlantic ports plus gulf ports [US & Mexico]. T/S at Freeport etc. Feeders into Caribbean, Central America also via Miami. Average vessel size 4500 teus [some larger units 8000 teus]. Bayonne Bridge development will allow larger vessels into NY. Cargo types wide and varied both directions [wines and spirits, auto, chemicals, forest products etc. i.e. mature trade both ways. RTW / Transhipments / Canal development through SAM WC and USWC etc.

The future of the trade due to Canal and connecting services. This is important it could affect trade deployment such as large vessels being used to connect via Panama to WCSA [already happening] as well as USWC all water. This can affect vessel sizes and potentially damage pricing.

Q5. Supply and Demand is used to describe various trades and their profitability or loss. Give some examples of trades highlighting these dynamics and what causes this. Also explain what carriers can do to manage both positive and negative aspects that can arise from this.

A reasonable number of attempts were made to this question but the pass mark was on the low side. Overall, the supply/demand balance was understood although in many cases students related this to seasonal factor rather than the unmitigated oversupply of some tonnage on certain trades. Slightly frustrating was the lack of figures in the essays with little on either cargo flows, slot capacity deployed, freight rates and liner companies' profitability. The use of statistics would have helped many students secure a higher mark. The actions that carriers could adopt to deal with the issue were not so well described with yield management programmes referred to in only a very few cases and joint ventures/alliances not mentioned in the detail we were expecting.

A great example of a fast Supply and Demand fix is what happened on the Asia – ECSA trade and string removal to correct the imbalance that took spot rates from US$ 100 per Teu to US$ 2500 per teu in 6 weeks last year. Hub and Spoke and Trunk line/Pendulums also help. This is a vast subject and correct S&D balance is one of the only significant ways that carriers will be able to run a trade profitably. As a general comment, the answers suggested that students had not read too much about this subject, despite it being widely reported in the press and in statements issued by carriers to support their membership of new alliances and the overall consolidation that has taken place in the liner shipping industry over the past 18 month/two years.

Q6. You are a carrier entering a revised or new Alliance or Joint Venture service.

Describe the differences between an Alliance and Joint Venture service network and their strengths and weaknesses. Separately discuss the key elements of the new product given that each carrier often has different requirements for the service when looking at changed services.

This question had a high number of attempts yet seemed to confuse some students. In general though, the difference between alliances and Joint Ventures were explained and then described quite accurately. However, in many cases the advantages and disadvantages of the two concepts were not elaborated on in enough detail and few examples were offered. In fact it was unfortunate that many students that did not give membership details of the new alliances, for instance. Some even got the details wrong. As a general comment, far more was written on alliances than on joint venture agreements and few practical examples of the latter were given.

This is quite a critical area in the syllabus and understanding greater details of Alliances, Vessel Sharing Agreements and Slot Charter Agreements is very important as key structures of how ship systems and strings are constructed

Q7. Describe four of the following clauses in detail and their importance to the carrier.

General Average
Himalaya Clause
Freight and Lien
Return of Containers
Dangerous Goods
Both to blame collision clause

This question attracted the 2nd highest number of attempts and also scored a very high pass rate. Again this is a text book style question but the differentiation came with not only understanding clauses but how these practically work. Therefore providing a student had some good knowledge and understanding of the terms, then it was a straightforward way of earning marks and so the pass rate should have come as no surprise.

As usual, there were cases where students failed to select four terms to describe and in many cases it seemed to be opted as a penultimate of final answer in the paper and was, therefore rushed, even though students had firm knowledge of the terms. This therefore is a good example that it is always a good idea to read through the whole exam paper first before deciding on what questions to answer so selection on which ones will be best answered can be decided.

Q8. In the last few years transhipment and relay hubs continue to grow in importance. Describe the key reasons why they are important and separately list <u>three</u> transhipment hub ports and how they fit into global trading patterns notably with larger Alliance structures.

It was really pleasing on this question to see a high number of attempts and also a very high pass rate for those who attempted this question.

The key points for this question were a summary of key reasons for hubs.

- Hub and spoke due to larger ship systems and alliances
- Need to reduce voyage times by reducing port coverage
- RTW developments
- Wider network application with trunk lines e.g. Asia – WAF T/S in RSA to open up Asia – RSA trade
- Double dips. Transatlantic / Transpac hub over Central American systems
- Draft in some ports
- Highlight of exposure and danger of hub with reduced number of carriers

Some examples of Hubs

- Salalah, Singapore, Tanjung Pelepas, Hong Kong, Jebel Ali, Nqgura, Valencia, Algeciras, Freeport, Manzanillo, Colombo, Lome, Port Louis

Whilst it was a very straightforward question and while most candidates alluded to big ships and hence limited draught in some regional ports, the need for scale economies and better transit times as the main reasons driving the growth in transhipment hubs, little was made of market development opportunities and network realignment and improvement opportunities. When it came to selecting three transhipment ports, several students then lacked the knowledge to explain details, investments, roles performed etc and there were some strange choices. Nevertheless it was really pleasing to see such a good pass mark on a non-textbook style question.