



EXAMINER'S REPORT

NOVEMBER 2017

LOGISTICS AND MULTIMODAL TRANSPORT

Q1. You are a customer of a container line, which has asked you to use its ecommerce systems, so that all the information flows between you and the container line will be exchanged electronically. What are the advantages and disadvantages for you in what they propose? Use examples to support your answer.

This question gave students the opportunity to discuss a wide range of ways in which e Commerce systems can be applied to the business transacted between a container line and its customers.

The question asked for examples of such transactions, however just listing a number of ways in which e commerce is regularly used would not be sufficient to secure a pass, unless the advantages and disadvantages to the customer of using such systems were also presented.

The advantages to the customer of electronic exchange of information come in a number of different ways, including:

- Increased accuracy of data, which should reduce instances of delayed/lost shipments, and the need to have documentation corrected
- Reduced clerical workload, which reduces cost
- Speed of transactions, which can improve cash flow, for example by getting documents through banks more quickly
- Availability of tracking data, essential to updating supply chain systems
- Automated exception reports which give the customer opportunities to highlight delays, and take corrective action
- 24/7 access to on line data can provide the customer with data needed urgently, even outside office hours

Potential disadvantages of electronic exchange of information include:

- Does the customer still have to input the information to the line's system? – if so, the line benefits rather than the customer from reduced clerical work load.
- The customer needs to invest in systems, and in some countries, there may be problems with reliable internet access
- The line's system may not be accurate and up to date, or sufficiently flexible to cover exactly what the customer requires
- Investment may be needed by the customer in data exchange software/links.
- Use of purpose built data links may tie the customer to one carrier – it is then less easy to switch carriers for better rates/service, though the role of electronic portals as a solution to this problem should be mentioned.

Q2. Answer BOTH parts of the question. a) Describe the various roles which sea ports and their container terminals play in multi modal transport. b) How can a port/terminal make itself more attractive to shipping lines, and to shippers/consignees?

In the first part of the question, the student was expected to describe the variety of different roles which ports and terminals play in multi modal transport. Some of these were straightforward, for example, loading and discharging vessels, and transferring cargo/containers to landside transport (road, rail, and barge). Other roles needed a wider consideration of the needs of multi modal transport, for example:

- Transshipment hubs
- Facilities for the statutory clearances of cargo (customs, health etc.)
- Freeport areas to encourage trade, and/or distribution centres for handling/processing inward cargo.

The second part of the question asked the student to consider how to make the port more attractive to shipping lines and to cargo interests. Relevant points should include ways in which ports can carry out their basic functions more efficiently/cost effectively, as well as additional 'value added' facilities which could be provided. These include:

For the lines:

- 24 hour access to the port (adequate draught etc.)
- Berth availability
- High productivity and reliability (sufficient cranes/yard area etc.)
- Competitive handling rates (particularly for transshipment cargo)
- Free storage for empty containers
- Bunkering facilities (competitive bunker price)
- Efficient processing and inspection facilities for statutory clearances
- Reefer plugs where needed

For the shippers/consignees:

- Community port system to facilitate clearances and cargo release
- Warehousing facilities nearby (port centric distribution)
- Adequate gate capacity to avoid congestion/delays – vehicle booking system if needed
- 24 hour landside access
- Optional service to meet the requirement to provide VGM (Verified Gross Mass)
- Rail linkage to ICDs with daily trains

Answers would be enhanced by examples of these facilities at particular ports with which the student is familiar.

Q3. Explain, with examples, the role of distribution centres in the supply chain, and the advantages and disadvantages of holding stock in them.

This question asked the student to consider the role which distribution centres play in a supply chain, and the advantages and disadvantages of holding stock in them.

It was important to use specific supply chain examples, and answers to the question should be given in the context of the examples chosen. The student would be expected to cover the following aspects:

Role of distribution centres

- Location for holding/warehousing stock, strategically placed for delivery to the point of sale/consumption
- Assembling loads comprising goods from different overseas origins for delivery to final location (e.g. retail outlet) – also referred to as cross docking
- Labelling/pricing/retail packaging can be carried out
- Managing returns

Advantages of Distribution Centres

- Stock is available to meet fluctuating demand
- Stock can be diverted to different locations according to demand
- Cross docking reduces costs of distribution by optimising load sizes
- Retail pricing/packageing etc. can be carried out at a central point in country of sale

Disadvantages of Distribution Centres

- Stockholding cost (cost of finance)
- Cost of warehouse – premises/equipment/staff
- May add to overall transport costs
- Risk of loss/damage/obsolescence

Q4. Answer BOTH parts of the question. a) Explain the role of a contract of sale when trading goods internationally and the main terms likely to be included in the contract. b) What is the purpose of including one of the INCOTERMS in the contract? Include THREE examples of INCOTERMS 2010 and their effect on the contract terms in your explanation.

This question is designed to test students' knowledge of contracts of sale, and particularly the use of INCOTERMS in those contracts.

Firstly, the underlying purpose of the contract of sale should be described, focusing particularly on its role when trading goods between buyers and sellers in different countries, and when transport is required from the point of origin to that of consumption.

The main details to be found in such a contract should be set out, including:

- Defining the parties (buyer and seller)
- Full description of the goods
- The amount to be paid (cost/currency)
- How and when payment is to be made (mention different methods of payment, including Letters of Credit)
- Who pays for the different stages of the through transport

- When does property pass from seller to buyer
- When does risk of damage/loss pass, and are there any obligations to provide insurance
- Applicable law/procedure for resolving disputes

Several of the terms required for such a contract are covered by specifying an applicable INCOTERM. The second part of the question requires the student to explain the reason for inserting an INCOTERM in the contract, and what is covered by an INCOTERM:

- At what point in the transport chain the responsibility/risk passes from seller to buyer
- Which transport costs are paid by the seller, and which by the buyer
- Who has responsibility for clearing goods/paying duty etc.
- Specific requirements to obtain insurance

The student should then select three specific INCOTERMS, and describe the content of each chosen INCOTERM.

Q6. Answer BOTH parts of the question. An importer in Europe buys consumer goods from China. a) What choices of mode and route are available to the importer? What factors are important when deciding which mode and route to use? b) If this importer decides to send its goods by sea, how should it decide which alliance, and which shipping line to carry the goods?

The route specified in the question (China to Europe) gave students the opportunity to consider the following modes for the main leg of the journey:

- Air
- Sea
- Sea/Air
- Rail

While Sea/Air has declined in importance in recent years, the use of rail services across Central Asia has been increasing dramatically in the last few years, driven by various Chinese strategic initiatives ('One Belt, One Road').

Students were expected to give a brief description of how these various modes operate between China and Europe, and then discuss the various factors which determine how a choice is to be made between modes. These factors include:

- Door to door cost (may depend on exact origin/destination in China/Europe)
- Type of goods (e.g. weight/hazard/perishability)
- Value of goods/urgency
- Supply chain requirements for speed, reliability, frequency

The second part of the question expected students to consider how to differentiate between the different Alliances and Lines which offer services by sea from China to Europe. It was important to be able to separate those factors which are determined by the Alliance, and those controlled by the Line. For example, Alliances are not permitted to set freight rates, which will be set by individual Lines, even if operating within an Alliance.

The main differentiating factors are:

Choice of Alliance:

- Ports of call, frequency, transit times, reliability

Choice of Line:

- Freight rate, customer service levels, IT systems, inland operations, space availability, container availability

Q7. The order book for new container ships is at its lowest level for around 20 years. Discuss the factors which have caused this, and what the implications over the next five years may be for the lines and for their customers

In this question, students were asked to put forward explanations for the current relatively low order book for container vessels (as a percentages of the current fleet), and how this may affect developments over the next five years.

The main requirement in answering this question was to put forward explanations which were relevant and properly argued. The following would have contributed to a good answer, though students could also introduce their own ideas.

Factors to explain current order book level:

- Supply growth has exceeded demand growth for several years
- Slow economic growth post global financial crisis – likely to continue at low rate
- Poor financial performance by lines – no cash available
- Financing is more difficult – banks less likely to lend
- Lines are focused more on consolidation than expansion
- Maximum ship size has stabilised at around 22,000 TEU, so less pressure to build ever bigger ships

Implications for the next five years:

- Supply vs. demand may come back into balance – leading to capacity shortages, which in turn will increase freight rates
- Customers will focus on securing space, and longer term contract freight rates, rather than playing the market to get cheaper rates
- Recovery in the charter market will benefit non operating owners
- Lines will compete on service rather than on price
- Container shipping may become a more attractive investment
- Fewer consolidation deals among lines – better profitability will enable weaker lines to survive
- Possible however that aggressive expansion by one or more line(s) will drive the market down again

Q8. Answer BOTH parts of the question When quoting a price for door to door transport, many multi-modal operators provide an itemised breakdown into a number of individual elements making up the total price. a) For a door to door movement of a 20ft FCL of general cargo using a

deep sea container service between TWO countries of your choice, what elements would you expect to see included in the total price (actual dollar amounts are not expected)? b) What are the advantages and disadvantages of itemised pricing, instead of a single 'all in' price, for the operator, and for the customer?

The first part of the question required a description of the various elements which make up the total price for a door to door transport movement. This should include:

- Sea Freight (FAK or Commodity Tariff)
- Surcharges (examples – CAF, BAF, Congestion, Piracy)
- Additional for special cargo/containers (e.g. Hazardous, Open Top, OOG)
- Terminal Handling Charges
- Inland Transport (including pick up/drop off charges)
- Demurrage/Detention
- Documentation/ Bill of Lading Fee

The student was asked to choose a route between two countries, and provide the list of elements specific to that route.

The second part of the question asked the student to consider the advantages and disadvantages of all in vs itemised pricing both from the operator and the customer's perspective. It was important to give a fully balanced perspective, with reasons favouring the different systems or otherwise. Just asserting the merits of one system would not justify a pass mark on this part of the question.