

# EXAMINER'S REPORT

## NOVEMBER 2017

### LINER TRADES

#### General Comments

The November paper aimed to keep the questions more in line with current day to day events in the Liner industry which is changing at a rapid pace with carrier consolidation changing the structure of the market. The live issues are important, whether it is changing trade lanes and the structure of networks or yield management and growth of ship sizes and cascading. The liner industry is going through a period of enormous change so it is essential that students who attempt this paper need to be up to date on current trends. There is a large amount of non-textbook data in the open market/internet than can provide live detail of what is happening.

Whilst overall student numbers were lower in November it was pleasing to report again an above average pass mark was achieved against previous years much poorer results. The pass rate could of course been even higher but as is a common trend marks continue to be thrown away on a number of the questions which called for maps, drawings and examples. It was however still good to be seeing higher overall marks being achieved.

This is a standard phrase now but - 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. Well done to those students who passed there were some excellent papers written.

**Q1. 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) Bananas
- b) Clothing
- c) Waste Paper
- d) Frozen meat
- e) Grain's

This question had quite a high number of attempts and many students acquired sufficient marks to pass. This is good to see as the idea behind the question is to understand cargo and routes vital to assess trading patterns and also how to take care of certain cargoes and the correct container types. This should be a high scoring question for students as it is basic core knowledge. In this respect it was good to see a generally good and improving understanding in this area. A quick summary below highlights headline key areas on each commodity.

Bananas are shipped from humid topical areas such as South America, Central America, Africa, Philippines & Caribbean markets to consumer areas such as North America and Europe. They are a high volume cargo and are shipped in 40ft HC refrigerated containers often requiring Controlled Atmosphere technology.

Clothing primarily uses 40ft HC containers and shipped from traditional clothing producing countries areas such as Asia and South Asia. Clothing is packed into cartons however high end clothing can be shipped in hanger containers which 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.

Waste Paper is a primary export product from USA and Europe all markets moving into Asia and primarily China. It is therefore a staple export product Eastbound Europe to Asia and Westbound USA – Asia. Largely using 40ft HC dry containers [volume] and is a 50-55 million tonnes per annum trade.

Frozen meat is shipped in 20ft and 40ft refrigerated containers and is a large trade globally moving in large and growing numbers ex Brazil, Australia, New Zealand to many markets as well from USA and Europe. The demand for increasing protein consumption drives this product in advancing economies such as China but also in Africa.

Grains are a quite a wide area and students needed to take good care not confusing bulk shipping system 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 [Australia to Asia]. Care required in terms of supplying 20ft dry containers with no moisture and taint. Good ventilation.

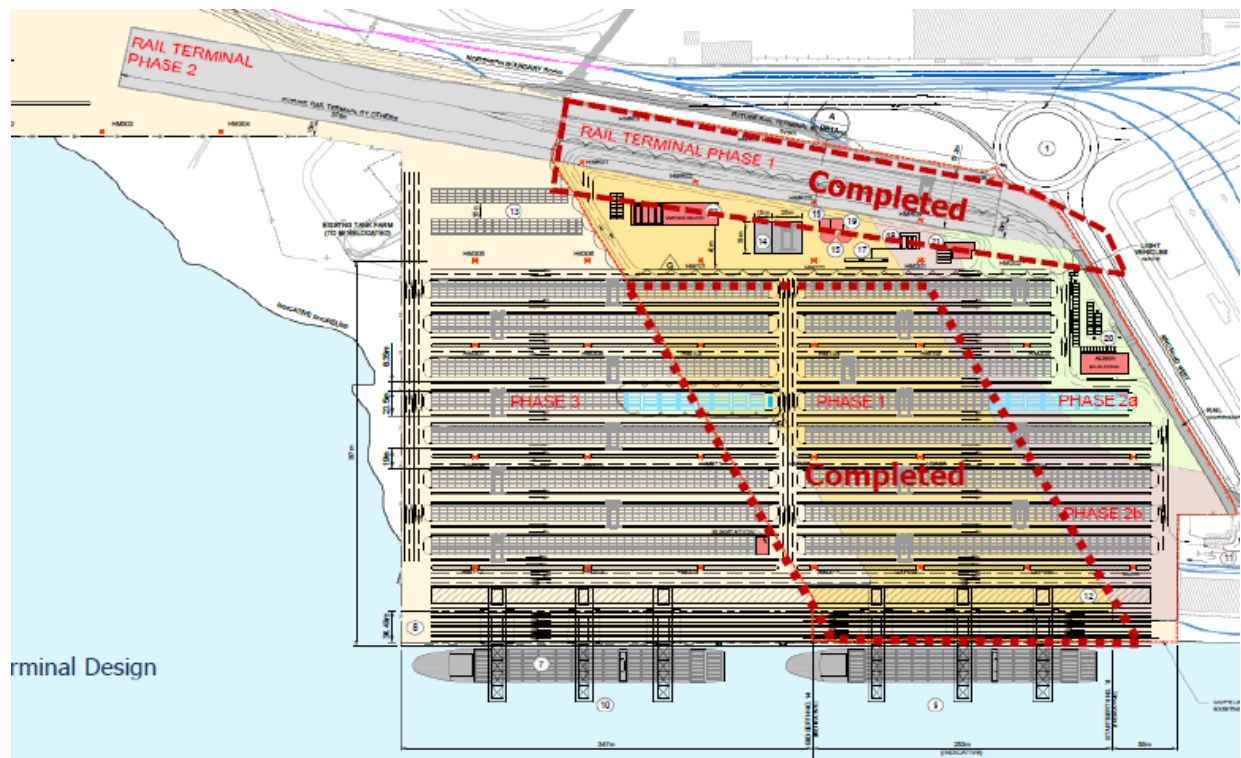
## **Q2. Answer BOTH parts of the question**

**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 attracted a fairly low number of attempts and the pass mark was fairly low as well. Diagrams in many cases were poor and showed no real clear indication of existing facility and where development would occur. We have shown a view below of current and forward plan of a small container terminal [DPW Maputo] in Mozambique



Whilst this is a detailed diagram the concept is clear in terms of showing existing terminal and future development. A simplistic version of this with notations is more than sufficient.

The narrative part of the question requires expansion beyond just listing what equipment is required but also dredging to facilitate vessels [Ro-Ro/PCC does not have deep draft], funding, marketing the port to operators note vessel size = spoke port selling to hub operators etc.

### Q3. Answer BOTH parts of the question

a) Draw a labelled profile and labelled cross section of ONE of the following

- i. Multipurpose cargo vessel
- ii. Refrigerated cargo ship
- iii. 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

A relatively high number of attempts made but the pass mark for this fundamental style of question was again low and this continues to be a source of concern on a question which should be an excellent starter question too accumulate good marks early in the exam. A good drawing with vessel specs clearly labelled can secure good marks but these continue to be of poor quality. The Institute is currently updating drawing and adding more so we can provide more examples and help in this respect.

Multipurpose vessels are increasingly becoming niche vessels across a number of trades Europe –

WAF / Europe – SAF and Asian and USA trades.

Refrigerated vessels [specialised reefer] are evolving and whilst the fleet is not growing massively they are trading strongly in numerous key areas. The key is they specialise in trades like fruit notably and hard frozen but meeting seasonal market needs etc.

Neo Panamax vessel could originally been confined to Asia – Europe but this level of vessel increasingly finds itself in Asia – WCNA / ECNA and Asia – ECSA and Middle East. Could become ideal RTW vessel in the future.

**Q4. Explain the key differences between a VSA [Vessel Sharing Agreement] and an SCA [slot charter agreement]. Using examples highlight the advantages and disadvantages of a VSA and SCA**

This question attracted a good number of attempts with a good pass mark but again disappointing that it was not higher given the fundamental subject matter in today's liner world.

VSA sharing arrangements [and in part Alliances] are the norm and take a number of forms notably in terms of ownership of a product. A VSA can involve 1 single string with several vessel providers or it could be 2 or more strings where each line runs a specific string [homogenous fleet]. They work well in terms of co-operation at an operational level but cannot involve commercial discussion.

SCA agreements are becoming a little more common now as consolidation of lines decants into a top 7. They will arise where certain carriers have greater dominance on a trade leg or for ease of operating a single string. They imply an element of weakness for the slot charterer. Operational cost via a slot fee/bunker charge with fixed slots at certain weight

**Q5. Describe FOUR of the following clauses and their importance to the carrier.**

- i. **General Average**
- ii. **Himalaya Clause**
- iii. **Freight and Lien**
- iv. **Return of Containers**
- v. **Dangerous Goods**
- vi. **Both to blame collision clause**

This question attracted a high number of attempts and a reasonable pass mark with those that did, covered the question well and some cases exceptional [although perhaps too lengthy answer]. This is an important subject area in Liner shipping and often poorly understood. In general it was pleasing to see good understanding of the subject matter.

**Q6. 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 pass mark was extremely poor only a handful of students passing this question. This is really worrying given the growing trend and potential of such services since the Panama Canal was widened. The question was in two parts namely showing an understanding and even some historical context to then illustrate advantage and disadvantages of the product:

In simple terms RTW is a growing trend with the Panama Canal widening allowing a larger ship system with associated economy of scale. Students could expand on this specific item and use some current examples. This can be Asia – USEC – Europe – Asia and also return the other way. Some high costs with 2 x canal transits so maybe via Cap 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 EUR – Asia].

**Q7. 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 three - five years?**

This question was popular but only achieved average pass mark which is also a current and critical area at present. The demise of Hanjin has triggered another round of consolidation and mergers in the global shipping market.

It was in some respects quite a ‘speculative’ question but actually now a serious game changer in the market as dominance of 6-8 carriers [groups] will emerge. We were looking for students to summarise recent events detailing each carrier development [notably COSCO/CSCL, HAPAG/UASC, COSCO/OOCL Maersk/Hamburg Sued and the Japan Lines [ONE – Ocean Network Express] and what this means. Mention of the recently structured alliances and who is in them would also have helped. Many students covered this part of the question well but dwelled too long in the area and missed opportunity to gain more marks in the more open part of the question e.g. future. At the time the question was set the below chart was relevant to the structure of the liner fleet In terms of the future there was no hard and fast answer just a well thought out possible scenarios. Some examples might be that the remaining players to adapt or die to get the scale and the scale = 1.5 to 2 million slots [minimum even on low side].

The order book is a factor. The big carriers moving to a new level of commoditisation out port pricing destroyed [for example Liverpool/Dublin = base port rate due to large carrier owned feeders etc.]. The large carriers may fight it out for new market share to fill the scale size. Shipping lines will either compete globally or become niche players. This part of the question could score high with innovative thinking. There were some good answers in this area from a number of students.

Alphaliner - Top 20 : Operated fleets September 2017											
Rnk	Operator	Total		Owned		Chartered			Orderbook		
		TEU	Ships	TEU	Ships	TEU	Ships	% Chart	TEU	Ships	% existing
1	APIM-Maersk + HSD	4 127 233	768	2 068 132	295	2 059 101	473	49.9%	283 820	26	6.9%
2	Mediterranean Shg Co	3 133 328	510	1 082 557	190	2 050 771	320	65.5%	243 730	17	7.8%
3	CMA CGM Group	2 497 101	490	914 214	117	1 582 887	373	63.4%	338 786	24	13.6%
4	COSCO Shipping Co Ltd	2 476 304	427	959 115	136	1 517 189	291	61.3%	576 439	32	32.7%
5	Hapag-Lloyd + UASC	1 491 284	211	1 005 007	114	486 277	97	32.6%	14 993	1	1.0%
6	Ocean Network Express	1 426 952	232	559 570	79	867 382	153	60.8%	235 884	16	51.0%
7	Evergreen Line	1 058 530	193	550 967	106	507 563	87	47.9%	274 334	30	25.9%
8	Yang Ming Marine	586 068	97	209 150	45	376 918	52	64.3%	70 000	5	11.9%
9	Hyundai M.M.	351 556	60	111 358	13	240 198	47	68.3%	22 020	2	6.3%
10	PIL	381 174	138	274 263	114	106 911	24	28.0%	142 200	13	37.3%
11	Zim	366 689	75	27 800	6	338 889	69	92.4%			
12	Wan Hai Lines	219 396	86	171 403	72	47 993	14	21.9%			
13	X-Press Feeders	160 985	102	24 622	21	136 363	81	84.7%			
14	KMTC	123 733	60	60 236	29	63 497	31	51.3%			
15	IRISL Group	94 387	44	94 387	44				58 000	4	61.4%
16	SITC	97 644	73	70 687	51	26 957	22	27.6%	6 066	6	6.2%
17	Zhonggu Logistics Corp.	93 769	80	50 329	23	43 440	57	46.3%	25 180	10	26.9%
18	Antong Holdings (QASC)	89 914	88	62 747	39	27 167	49	30.2%	24 440	10	27.2%
19	Arkas Line / EMES	73 736	41	63 735	36	10 001	5	13.6%	12 400	4	16.8%
20	Simatech	71 242	23	21 892	8	49 350	15	69.3%			
Total Top 20		18 921 025	3 798	8 382 171	1 538	10 538 854	2 260	55.7%	2 328 292	200	12.3%

#### Q8. Define and explain any FOUR Incoterms 2010.

Not surprisingly the highest number of attempts and also a pleasing high pass rate. It indicated that students have learned the new terms well and understand the need for incoterms and the individual elements applicable to the term selected. The only area where students lost marks was failing to mention where risk passes and insurance obligations. Otherwise a well answered question from all students