



# ICS Examiners Report

Liner Trades May 2018

## **Overall Comments**

The May paper aimed to keep questions in line with current day to day events in the Liner industry which continues to evolve at a rapid pace with carrier consolidation and changing the structure of the market. Keeping pace with these live issues are important and whilst the fundamentals of liner shipping industry through the syllabus remain similar what sets students apart in this exam are those that answer the paper with an ability to look beyond simple rote learning.

In this respect the overall quality of answers was very encouraging; and some excellent answers were given in several papers.

Whether it is changing trade lanes and the structure of networks or yield management and growth of ship sizes and cascading, the liner industry continues to evolve with often the main players continuing to make fundamental errors in supply/demand etc. 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.

## **Q1. – A]. Draw a labelled profile and labelled cross section of ONE of the following vessels**

- i) 2000-3000 Teu container ship
- ii) Pure Car Carrier [PCC] 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.**

Students lost marks for poor drawings or use of world map to illustrate trade lanes. This question should present a great opportunity in any exam to obtain high marks. There were some good summaries which were great to mark.

In overall summary:

- 2000-3000 Teu container vessels are largest fleet segment by number [60% of all vessels] and trade in every sector ranging from larger feeder vessels to main trade use in smaller volume trades. They are the work horses of container shipping and present ample trading areas to write about.
- PCC or RoRo vessels trade in several key lanes but notably those with predominantly key car production routes from manufacturing centres with many trade routes to cover
- 8000-9000 Teu vessels are cascaded units from Asia – Europe trade and now trading on a whole range of liner trades [Asia to WAF/SAF/ECSA]. On North Atlantic and Asia – USWC/USEC etc. Whilst providing good opportunity for carriers they have in many instances over tonnage many trade routes which the container volumes do not have to sustain them and therefore affect the supply/demand

## **Q2. Over the last 2 years there has been significant consolidation in the liner industry by mergers and takeovers. Explain the background and summary of these changes and how the scale of services looks today. In addition, quite a number of key changes have only been approved 'with conditions' by many competition authorities. Highlight some examples of where this has happened and why?**

This is a key area in liner shipping development currently, and those that attempted this question scored good marks.

Students should have a good understanding of chronological events which took place [APM-HSD] – COSCO/CSCL – CMA/CGM-APL [OOCL pending at the time] – Ocean Network Express - HAPAG/UASC – Hanjin etc. They should be able to provide some detail in respect of the consolidation and how this has reduced choice and potentially polarised the market.

As the market size of the Top 7-8 carriers has grown this has come with less choice even though some carriers have kept brand identity alive for example HSD still maintaining brand. Several services had to be withdrawn by Maersk [market dominance in ECSA]. Other examples in China and over-lap with Japanese lines and Car carriers / Containers]. COSCO also at the time of the question were awaiting approval from authorities for OOCL takeover.

There is no question that abuses of dominance could occur as the carrier choice selection reduces. This was an open expansive part of the question which could have picked up good marks.

**Q3. The recent rising cost of bunker fuel in the 2nd half of 2017 does change present carriers with new concerns in terms of voyage costs. Choose TWO separate trades and using a world map to support your answer illustrate the full detail of these trades and where you would bunker your vessels also describing the benefits of these locations**

We were looking for a good clear world map showing both trades fully labelling all ports of call and options for bunker calls. The narrative on each trade should clearly illustrate reasons for the call for bunkers. Comments such as many liner routes today having large consumption due to vessel size and this can impact cargo carrying capacity as well as draft and canal considerations. Sacrificing cargo on a non-dominant leg to secure cheaper fuel might also be considered.

There is also a wide range of prices and structures globally. Students mentioning low sulphur fuels and restricted areas received further marks on this question. This question should have presented good marks for students but in many cases the opportunity due to the way the question was answered was missed.

**Q4. You are approached by a container liner shipping company to become their 'sole agency' in your country. Prepare a proposal with organization chart showing details of your proposed company structure and key functions / responsibilities.**

This style question showed that students had a good understanding of the subject. Even more important was a student not confusing a liner agent structure with that of agency to look after just vessel agency.

The organisation charts was generally well drawn and clear with good definitions of functions. Mentioning FONASBA was also helpful in gaining further marks.

Marks were lost was due to the proposal which should have itemised what the departments will do but as a minimum [inward/outward freight – marine team for handling in/out operation of vessel in conjunction with port – finance – sales/marketing structure and equipment control]. Many answers did not write in the style of a proposal.

**Q5. Yield Management is a key principle in liner shipping today. Define the principles of yield management. Using a trade lane of your choice, show the individual elements of revenue and cost and how these are calculated for yield. Use examples to support your answer.**

This question fared well which was really pleasing given that in many liner companies the yield management part of the company can be considered one of the most important in terms of maximising returns.

Good summary definitions of the principles of yield management were required and essential with this. It was therefore important to detail the 5 key elements being [A] door to door or port to port revenue or total revenue [B] cost of moving the loaded container through variable costs such as handling, container costs etc [C] Imbalance costs [D] System cost [E] Admin cost. A-C is critical for establishing contribution to fixed costs.

From this the two examples of where yield management can be effectively employed should be more straightforward and can be applied across several trades. Students gave some good answers to this part.

**Q6. E-Commerce and carriers websites have become a very important platform for carriers and their customers in recent years. Describe from both carrier and cargo owner's perspective why E-Commerce is important and explain how it is used to result in positive benefits**

It is almost impossible to deal with a liner company today without dealing through their websites. This is also an area for good research info for students as many carriers post a significant amount of information on this medium

Students needed to illustrate the importance of this in today's commercial world – the sheer size of business to cover volume of transactions, scale efficiency and need to use back offices to get down head count. Carriers are using increasingly sophisticated platforms to process so many transactions [customer, ports, agents, vessel planning etc, yield management, booking and allocation control, container management]. Customers require this also for documentation accuracy and single platforms like Intra. This was a vast subject area and open question and provided ample opportunity for students to really expand on a critical area of the liner business.

**Q7. Container vessels and Specialised Reefer vessels compete for trade in refrigerated cargo with container vessels continuing to carry a larger and increasing share of this growing global business. Discuss the structure of this global trade and advantages and disadvantages of using each mode of transport using some key trade lanes as examples. Give an overview of the likely developments in this trade sector over the next five to six years.**

This question fared well given the vast subject area and volume of refrigerated freight moving around the globe. Whilst only 5% of container trade by volume it is substantial by contribution and is growing at a rapid pace yearly.

Students should have been able to give an overview of the global trade and size with key routes [long thin traditional routes] such as ECSA trades and Africa and Oceania Trades. This should have been contrasted with the massive growth in protein trades such as intra-Asia / Asia Europe etc. There are numerous advantages and disadvantages on both modes. Containers are not always the best in shorter key markets [for example Canary Islands tomato trade or Morocco citrus as well as specialised contracts like Kiwi Fruit from New Zealand to Europe]. Specialised reefer vessels provide focus and close customer service on key specific markets like this. The container advantages are numerous and driven by the sheer economies of scale and the ability for the container to penetrate every single market however small and provide a multitude of container temperature protocols at different temperature regimes.

Development over next 5 years is likely to see a further demise of specialised tonnage [no new building] so all trade growth accrues to container operators. With larger and larger ship systems in containers and drive into reefer expertise this will likely continue to force reefer into container [modal split next 5 years likely 80-85% container vessels. Service will however will likely be poorer vs. specialised ship systems

**Q8. Describe the elements that make up a freight tariff and what tools you would use to construct a tariff in a new market. In an environment where revenue is not sufficient to cover costs suggest ways in which you would be able to deal with this.**

This question is a subject area regarding fundamental liner structure and linked to the subject on yield is key to the liner business.

We were looking for students to display a good knowledge on all the revenue elements of a tariff. In today's markets it is often the non-Sea freight elements that can make or break trade results. Students as a minimum needed to cover, THC – Inland Haulage – Landside tariffs incl. Detention and Demurrage – Bunker Surcharges – Currency etc.

The question was a standard revenue short fall and a cost driven approach. Vessel routing, void weeks, roll over pools, slow steaming, scrapping, idling, smart operations etc. Students did not discuss beyond the tariff structure for this question and it was in their best interest to outline the cost driven approach to the business.