



Examiners Report

Ship Sale & Purchase

May 2019

General Comments

When answering questions, all students should ask of them “What is the examiner looking for?”

The examiner does not expect the student to necessarily be a Ship Sale and Purchase broker, but does expect the student to know and understand the basics, and be able to communicate that knowledge to others. The syllabus should be used as a checklist for learning and revision: all the questions can only be based on the syllabus.

Attention should continue to be paid to the structure of the essay and answering the question the examiner has asked, and not just repeating material learnt off by heart. As in all disciplines of shipping, the ability to communicate – in this case in writing - is paramount. The best way of preparing for the examinations is therefore not just trying to memorise the subject matter but by practising writing essays, using reports like these as a guide.

Question 1.

Buyers and sellers have entered into an agreement for the sale of a secondhand vessel, agreed and signed a Memorandum of Agreement, and the buyers have lodged the deposit. The Agreement includes buyers’ option to arrange for an underwater inspection by divers prior to the delivery of the vessel.

Using a Saleform of your choice, describe the obligations of both buyers and sellers if the buyers choose to exercise this option.

This question tested the knowledge of Saleforms, and required a straightforward description of the relevant clause, for example Clause 6 in SALEFORM 2012.

It was pleasing to note that there is less confusion than in the past concerning the pre-purchase inspection (e.g. Clause 4 of SALEFORM 2012) and Clause 6. When this mistake was made, the student was not awarded a pass, as the purposes of the two clauses are completely different.

The description of the clause should have included, for both NSF 1993 and NSF 2012 as an example, the following:

- The sellers have to make the vessel available for inspection at an anchorage or berth where the conditions are suitable for inspection, if not they have to move it to where it can be inspected
- If the underwater parts are free of damage that results in a condition of class/recommendation then buyers pay, otherwise sellers pay for class attendance, the cost of the inspection

- If a condition of class is imposed then the sellers have to repair the vessel either afloat or in dry-dock at their cost and expense
- If a condition of class is imposed and the vessel has to be dry-docked the sellers take her there at their cost and expense, then the cancelling date is to be extended for a maximum of 14 days
- Sellers to pay of the cost of drawing the tail shaft if class requires it, otherwise if buyers ask for it and no condition is imposed, they pay, but if a condition of class is imposed then the sellers pay
- Expenses of putting the vessel in and out of dry-dock, dry-dock due and the cost of repairs to rectify the condition(s) of class to be for sellers account – everything else for the buyers
- Buyers have the right to paint and scrape the underwater parts whilst vessel is in dry-dock at their cost and expense, but if their works exceed the time taken for Sellers to complete their works, they pay for the extra time
- In such a case the sellers have the right to tender Notice of Readiness whilst the vessel is still in dry-dock

For NSF 2012 in particular:

- If a condition of class is imposed but only requires the repairs at the next schedule dry-docking the sellers can deliver the vessel to the buyers with recommendations against compensation for the direct cost of labour, to be determined by the average of two quotes from ship repairers close to the port of delivery from both buyers and sellers
- Sellers not to tender Notice of Readiness before the inspection has taken place

This was a lot of information to communicate concisely in one essay, but those that presented a well planned and structured essay obtained the best marks.

Question 2.

The IMO has ratified new rules on compliant fuels which are due to come into force on 1st January 2020. Discuss the possible effects on the sale and purchase market both before and after the implementation date.

This question was testing both the knowledge of Article 16 of the MARPOL convention and the possible effects on the sale and purchase market.

Many students were able to outline the regulations, i.e.

- Burning of fuel with a sulphur content in excess of 0.5% is prohibited unless the sulphur is cleaned from the exhaust using scrubbers
- This means using Very Low Sulphur Fuel Oil or Marine Gas oil without scrubbers
- Or using scrubbers for fuel containing higher sulphur content

But were unable, except in a few cases, to comment on the possible effects. These could have included:

- Scrapping of older, high consuming ships
- A higher price to be paid for ships with scrubbers fitted
- An increase of ships ordered with scrubbers fitted (and thus increasing supply and reducing the price further of unfitted ships)
- As the effects have yet to happen, there is 'no right answer' to this question but it does mean that an essay that did not address the effects on the S&P market cannot pass. Those that achieved highest marks were able to discuss in full, with justification, what they thought might happen.

Question 3.

Identify and briefly explain the documents that buyers should expect from the sellers on delivery of a secondhand product tanker, both at the documentary closing meeting and on board the vessel.

This fairly simple question did not need much elaboration, just an identification and brief explanation of the documents needed both at the documentary closing and on board on delivery of a product tanker. These should have included:

- Bill of Sale
- Power of Attorney
- Board of Directors Minutes
- Transcript of registry
- Class Maintenance Certificate
- Certificate of Deletion (and/or Letter of Understanding)
- Commercial Invoice
- Commercial Invoice for bunkers and lubs
- Letter guaranteeing no blacklisting
- Letter indicating gasfree for man entry or another appropriate document indicating that the vessel is a product tanker
- All plans, drawings and manuals
- Other certificates on board unless seller has to retain (e.g. certificate of registry) in which case buyers can take copies

Question 4.

Answer ALL parts of the question;

- a) **Provide a detailed written description of a Suezmax tanker as would appear on a typical secondhand sale and purchase circular stating size, dimensions, machinery and other significant equipment and features.**
- b) **Draw a profile and a cross-section of the vessel showing the layout of the vessel clearly, labelling the dimensions and other significant parts of the vessel.**
- c) **On the world map provided show THREE typical trade routes for the vessel.**

This was a simple ship type question. For part a) a simple description as follows would have obtained full marks:

MT "Suzemax Trader"
Panamax Flag
159,000 DWT ON 17.05M DFT
BLT 02/03 HYUNDAI HI (ULSAN)

NV SS 9/2022 DD 1/2020 CAP 1

274.48M LOA 48.04M BEAM

TANKS 12 LIQUID 98% 167,931 CUM

3 GRADES , IGS, COW, COILED, SBT

B. & W. 6S70MC-C7.1 25,353 BHP

PUMPS: 3 X 4,000 M3/H

For part b) a simple drawing showing the layout of the vessel both in profile and cross section was required. Marks were frequently lost when the dimensions of the vessel were not labelled as required.

Relevant trade routes needed to be shown with loading ports and discharge ports in the correct place on the world map, and the most logical route chosen. Marks were lost most frequent when the geography was incorrect, or the trade routes did not accurately show the passage of ship by sea.

Question 5.

Evaluate the different choices investors have when raising money to invest in ship owning. It could be stated in conclusion, therefore, that shipping is a major factor in creating utility, in other words creating the entire amount of satisfaction obtained from consuming various amounts of a commodity in a given period and price.

Students were required to evaluate, rather than just list with a simple definition of the methods. The methods included:

- cash/own resources
- tradition mortgage bank financing
- investors
- joint ventures
- credit lines
- IPOs
- Bonds
- BBHP
- Export credit (for newbuildings)
- Private Equity Funds
- Hedge Funds
- Seller's credit (especially for newbuildings)

The evaluation expected was to show how effective they are and when they are used in particular situations.

Question 6.

Answer ALL parts of the question;

- a) What factors does a broker take into consideration when valuing a vessel?**
- b) How do brokers protect themselves when issuing a valuation certificate?**
- c) Who would require a vessel valuation certificate and why?**

This question required the student to first know what a valuation certificate is, i.e. a certificate produced by a broker for a fee stating their opinion of the market value of a vessel on a certain date.

Further, dealing with each part:

- a) It is paper valuation based on the market conditions, so the valuation will be based on last done market sales of similar vessels, vessels currently in the market, as well as knowing the differences in specification of different types of vessel (as well as where and when built) as well as the class survey status.

- b) An awareness of disclaimer clauses. An example of a disclaimer clause is:
 1. *The vessel has not been seen or inspected, but it is assumed that the vessel is in good working order, seaworthy and fully in class, with all surveys up to date and with no outstanding conditions of class;*
 2. *The technical information provided is accurate;*
 3. *The valuation has been reached on a "willing seller/willing buyer", charterfree, basis, and is our opinion of the approximate current market price on the date given, and should not be taken as a statement of fact.*
 4. *This valuation has been provided solely for the private use of the addressee named above, and is not for publication or circulation without our prior written permission.*

- c) Those who could require a valuation certificate could include:
 - lawyers for arbitration/court hearings
 - insurers (both P&I and H&M)
 - tax authorities
 - accountants and auditors
 - financial institutions
 - inheritance/divorce proceedings

Question 7.

Using a shipbuilding country of your choice, explain the usual downpayments made by buyers under newbuilding contracts and analyse why the timing and proportions may vary under different market conditions.

This question was in effect testing the knowledge of students in two distinct ways.

In the first part the student had to identify a suitable country and the standard down payments:

- a) Contract signing
- b) Steel cutting
- c) Keel Laying
- d) Launching
- e) Delivery

This varies from country to country, although the above is fairly standard for China, South Korea and elsewhere. The explanation didn't need to be in much depth, but should have been enough to illustrate why and what the payments are for.

The second part of the question is market related, and expected the student to show an understanding of how the proportions and timing of each payment can change depending on the market conditions at the time, including:

- The freight market of the sector being considered
- The size of the orderbook
- The availability of newbuilding berths
- Overall demand for newbuilding berths
- Availability of full refund guarantee cover for pre-delivery instalments

The payments will vary in timing and proportion, for example from 5 x 20% in a stable market, to 10/10/10/10/60% when shipyards are trying to attract customers, to 30/30/20/20/10% when buyers are trying to find berths and willing to offer more up front. The timing can be brought forward or delayed due to the:

- Size of the orderbook
- Time of delivery
- Cash flow of the yard
- Construction schedule

Highest marks were given to those students who could appreciate the position of both the buyers and the sellers.

Question 8.

For a ship type of your choice, describe and explain the importance of the information that a buyer should reasonably expect to receive from the sellers via their broker about a vessel that has been circulated openly in the market for sale, prior to inspecting the vessel or its class records.

This question was designed to examine the ability of the student to identify what information is normally provided by Sellers or their brokers when a vessel is openly in the market for sale. This included (but is not limited to):

- a) full description
- b) plans (GA, capacity, Midship section)
- c) class survey status
- d) list of machinery type and makers (deck and engine)
- e) trading history (eg. last 10 cargoes and voyages)
- f) photos
- g) t/c description
- h) itinerary for inspection

Those able to identify and justify additional information needed for specific types of vessels scored the highest marks.