



EXAMINER'S REPORT NOVEMBER 2019

SHIPPING BUSINESS

General comments

A high number of the papers received this exam session decided that it was a good idea to give their answers in bullet point. This is not a good idea, unless you are on the last question and only have 5 minutes left to try and get as many marks as possible. The reason it is not recommended as a method of writing the entire exam is that bullet points tend to be one fact points. you will at best get one mark for the point, but only if the way you have stated it makes rational sense.

There was also a tendency to rote learn and regurgitate this information as an answer. The exams are designed to test your understanding of the knowledge you have gained and to see if you are able to apply it to a work placed scenario. Simply reciting facts does not demonstrate an understanding of the topic.

Students were guilty of assuming the examiner knew what they were referring to. We cannot mark what you do not say. Please avoid using words or phrases such as etc, various stakeholders, and so forth, or as per my previous answer. You need to give all of the details if you are to get the marks.

Q1. Describe vertical and horizontal integration in business, and discuss the advantages and disadvantages of each of these.

This was a two part question that first asked you to give a definition of vertical integration –

Vertical integration is a strategy where a firm acquires business operations within the same production vertical e.g. BP. It can be forward or backward in nature. Firms expand into upstream or downstream activities, which are at different stages of production.

And a definition of horizontal integration.

Horizontal integration is the acquisition of a business operating at the same level of the value chain in a similar e.g. Unilever.

Students then had to explain the advantages of each.

Vertical integration can help companies reduce costs and improve efficiencies by decreasing transportation expenses and reducing turnaround time.

Horizontal integration - Companies may choose to undergo horizontal integration in order to

increase their size, diversify product or services offerings, achieve economies of scale, or reduce competition. They may also wish to gain access to new customers or markets, including overseas.

Horizontal integration - the ability to produce more revenue together compared to if they were to compete independently. In addition to this, a newly merged company can cut down on costs by sharing technology, marketing, research and development (R&D), production, and distribution.

Then students had to discuss the disadvantages of each.

Vertical integration – lower costs and efficiencies may be achieved if the company relies on the established expertise and economies of scale of other vendors rather than trying to become vertically integrated.

Horizontal Integration - even though a horizontal integration may make sense from a business standpoint, there are downsides to horizontal integration for the market, especially when they succeed. By merging two companies that operate in the same supply chain together, it can cut down on competition, thereby reducing the choices available to consumers. And if that happens, it may lead to a monopoly, where one company plays a dominant force, controlling the availability, prices, and supply of products and services.

In order to prevent monopolies, horizontal integrations are subject to anti-trust laws in the United States and the Enterprise Act 2002 in the UK. These laws are in place to protect consumers from a merged entity if it has too much influence and a high market concentration

Marks were also given for examples and mentioning a conglomerate integration involving the merging of two firms making different products. For example, a shipping company merging with a food processor.

Where students went wrong

Very few answers looked at the advantages and disadvantages from a broader perspective than just how they impacted on the company.

Q2. Discuss the relevance of quality management systems in the maritime industry (eg.ISO9001) and potential problems that may occur in implementation?

You needed to give a definition of a quality management system and to know that it is a documented process that records the company's administrative functions, processes and operational procedures.

It demonstrates quality; it tries to ensure that the same level of service is given every time. Anyone coming into the company should be able to comply with the requirements by reading the ISO manual.

It is independently audited usually by classification societies

It is an adaptive system designed for continuous improvement

Problems are cost, resistance to change, staff buy in, the negative impact of losing the accreditation

Where students went wrong

Not a lot of answers spoke about the advantages to new employees trying to learn the ropes being able to use the ISO manual as a good reference point on what the company expected.

Another point that was missed is that it is a growing and adaptive document that must evolve as the company does. What is acceptable practice today may not work in tomorrow's market and so it is important to have an ISO system that is adaptive

A danger of having an ISO system is that if it is not properly managed a company could well lose its accreditation and the negative impact of that on the market will be detrimental to the company

Q3. The IMO has five main conventions. Using ONE of these, discuss its origins, and the effects of its implementation.

In order to answer this question, you needed knowledge of the IMO and the conventions
Mention it is part of the UN established in 1948, operational in 1959 and is a specialised agency with responsibility for the safety and security and the prevention of marine pollution.

The governing body being the Assembly, then the Council of 40, and the five committees, Maritime Safety, Marine Environment Protection, The Legal Committee, the Technical Co-operation committee and the Facilitation committee.

The second part of the question wanted you to discuss one of the following conventions – SOLAS, MARPOL, IMS, ISPS and STCW, giving an explanation of why it was agreed and the effect of its implementation.

Where students went wrong

If you are asked to give 1 example do not give three or five. All you are doing is wasting time that could be spent on another question. The examiner will only mark the first example you discuss, not the others.

A lot of answers did not appreciate that it is the flag state that needs to implement these rules. They accredited powers to the IMO which they do not have.

If you use the Titanic as an example, you had to explain how a ship that sank in 1911 had a role to play in an organisation that was only established in 1948. Otherwise it just appeared that you had either no idea as to when the Titanic sank, or when the IMO was founded.

Q4. On boarding the vessel shortly after its arrival at your port, you find the representative from the ITF is on board. What is the ITF and what is its functions?

This question was asking you to demonstrate knowledge of an organisation that has an important role still to play in ship and crew welfare.

The first thing required was to know what the acronym ITF stands for - International Transport Workers' Federation.

You then needed to give an explanation of its founding and aims, including when it was founded.
The International Transport Workers' Federation is a democratic global union federation of transport workers' trade unions, founded in 1896. Headquarters are in London, members: 19.7 million, 677 affiliated unions.

The aims of the ITF are as follows:

1. Promote respect for trade union and human rights worldwide.
2. To work for peace based on social justice and economic progress.

3. To help its affiliated unions defend the interests of their members.
4. To provide research and information services to its affiliates.
5. To provide general assistance to transport workers in difficulties.

Plan of action to ensure owners adhere to a defined minimum condition for all seafarers. Stuttgart Congress.

Problems with open registries and trying to force owners away from using them. 1971 Vienna conference standard agreement drawn up. Contribution to the ITF fund that goes towards seafarer welfare.

Where students went wrong

First and foremost, no one is simply permitted to walk on board a ship and start asking questions. There is the ISPS code to consider as well as the fact that the ship is the crews' home. It is only good manners to ask permission before coming on board.

A large number of answers did not know what the initials ITF stood for and a number confused the ITF's role with that of Port State Control.

There was also a tendency to talk about truck and train drivers and other related industries and whilst the information was correct, it is not relevant to an exam paper on shipping business.

Q5. Explain how currency fluctuation and freight rate fluctuations can impact the vessel and cargo owner, and how they can protect themselves?

This question asked you to explain first currency fluctuation and then freight market fluctuations and to give measures that could be used to mitigate against these fluctuations.

Foreign exchange fluctuations. Neither party can accurately predict what the rate of exchange between the two currencies will be and so they need to look at taking some form of forward cover. Explanation of forward exchange contract, foreign currency options. Know that Spot contracts or spot exchange rate is not a form of protection.

Freight rate changes – freight futures contract, charterers buy if they think the freight rate may rise, owners sell if they think the freight rate may fall.

FFA – trading a specified time or voyage charter rate for a forward position. BDI and other indices are used for settlement agreements. FFABA – Know that if either the owner or the charterer gains in the one market they will lose in the other. The concept being that if the freight market rises the owners benefit and pay in when the contract ends. Should the freight market fall the charterers will compensate owners.

Forward Freight Agreements (FFAs) provide a means of hedging exposure to freight market risk through the trading of specified time charter and voyage rates for forward positions. Settlement is effected against the relevant route assessment.

Forward Freight Agreements brokered by the FFA Broker's Association (FFABA) are 'over the counter' (OTC) products made on a principal-to-principal basis. As such, they are a flexible product and not traded on any Exchange. Contracts traded will normally be based on the terms and conditions of the FFABA standard contracts amended as agreed between the principals.

The main terms of an agreement will cover:

- (a) The agreed route.

(b) The day, month and year of settlement.

(c) Contract quantity.

(d) The contract rate at which differences will be settled.

Settlement is between counter parties in cash within five days following the settlement date.

Commissions will be agreed between principal and broker.

Where students went wrong

COA's protect one party or the other from fluctuations in the freight market, but they cannot protect both as either the owner or the charterer is going to be wishing they did not commit to the contract depending on whether the freight rate rises or falls.

If you mentioned spot market, you had to give the reasons as to why this is a risk not just state it as an option.

Q6. What are the origins of the Baltic Exchange, why is it important and what services does it offer?

It is important that people in the industry are able to discuss with confidence, the organisations that play a role in the business that we are all involved in. A number of questions in the exam paper called on you to demonstrate that you are familiar with these institutions and the role they play.

The Baltic Exchange was founded in 1823; mention Virginia and Maryland Coffee House, Virginia and Baltic 1744 merged with London Shipping Exchange 1900 and parent company the Singapore Exchange.

It is the only independent source of maritime market information for trading and settlement of physical and derivative contracts.

An explanation of the services offered by the Baltic Exchange include an Independent source of maritime market info, freight indices using Freight Futures Agreements via electronic trading. The Baltic Dry Index incorporating ship sizes Capes, Panamax and Handysize. Also add that it has a Board (12 + 3 Directors) and over 600 members. It maintains an ethical code, Our Word Our Bond with learning and training programmes.

Mention that Singapore is looking to become a maritime financial hub and that the Singapore Exchange sees an opportunity to expand its derivatives trade.

Where students went wrong

Very few mentioned Singapore and the new parent company of the Exchange.

Q7. A time charter party has key clauses that must be agreed. Briefly explain what a time charter party is. Discuss FIVE of these clauses and why they are important.

Explanation of what a time charter party is - taking vessel on hire from a point of delivery, usually within agreed laydays for a set period or for a specific trip on payment of hire in advance by the time charterer to the vessel owner.

A reasonable explanation of clauses including the following: vessel description, period of hire, hire rate and frequency of payment, payment details, speed and consumption, delivery at a named location, delivery within an agreed laycan/ at the first location, amount of hire payable, payment terms, excluded products, trading limits, bunkers on delivery/redelivery, owner's duties, charterer's

duties.

Where students went wrong

The question asked for an explanation of five clauses, any five would have gotten you the marks and yet students tended to look to discuss obscure or difficult clauses. Why make it difficult for yourself, stick to the basics.

Students giving explanations of voyage and bareboat charters simply wasted their time as this was not asked. Also giving explanations of more than the five clauses did not gain you any additional marks.

Q8. Answer BOTH parts of the question.

- a) Explain the hazards associated with carriage of grain.
- b) Describe the types of ships grain is carried in and show THREE possible load and discharge ports, any hazards, and the routes the ship would follow. Use the world map provided to support your answer.

What the examiners were looking for:

- (a) Hazards associated with the carriage of grain, shifting with the need for self-trimming ships, gas emission from microbial action requiring ventilation, pests, heating requiring monitoring temperatures at sea, excessive moisture content resulting in swelling, mould and sprouting. Add a stowage factor for a product type e.g. wheat 1.30 cubic metres per metric ton. Mention Solas 1974 and Grain Carriage Regulations.
- (b) Specialist bulk carriers with self-trimming holds upto Kamsarmax, post panamax are used.
- (c) Load ports include –

Australia - Brisbane, Newcastle, Sydney, Port Kembla, Melbourne, Adelaide, Port Lincoln, Esperance, Albany, Freemantle and Geraldton.

South America – Bahia Blanca, Necoshea, Buenos Aires, Rio Grande, Santos, Paranagua, Rio De Janeiro, Rosario, San Martin and San Lorenzo.

Russia – Novorossisk,

Ukraine - Odessa,

USA – Corpus Christi Houston, New Orleans, Seattle, Portland, Puget Sound

Canada – Vancouver, Prince Rupert, Duluth , Thunder Bay, Port Cartier, Quebec

Europe - Southampton, Tilbury, Rouen. Nantes, Antwerp, Rotterdam, Hamburg etc.

Identify main routes ports and countries of load discharge – USA/Canada/UK/Cont Med/Far East. Australia Far East/Med. ECSA/UK/Cont/Med Far East and identify Hazards.

Where students went wrong

The description of the vessel cannot just be a bulk carrier. You needed to give details of what type of bulk carrier and the specifications of the ship you discussed. If you draw the ship you also need to give the main dimensions of the ship and label the drawing.

It is important to know where ports are and when discussing routing you cannot give your answer as South America to China, you need to know the ports major commodities are exported from and which countries import them and through which ports

Map drawing – lines should not cross over land and the route should go all the way from port to port. A vague line in the middle of an ocean does not convey an understanding of the routes.

With the hazards, it should include not just the hazards of the cargo, but also the routes you are going on. If you mention weather, give the type of weather and give the seasons or months when the phenomenon is experienced.