EXAMINER'S REPORT NOVEMBER 2019

LOGISTICS AND MULTI-MODAL TRANSPORT

General Comments:

Students must prepare well on topics which are fundamental to the subject, and clearly set out in the syllabus, read the questions properly to ensure complete answers, without using lengthy text which is not relevant to the question asked.

Q1. Explain the role which distribution centres have for a company importing consumer goods into a country of your choice.
Discuss, using examples, the advantages and disadvantages of operating with a single distribution centre, or several smaller distribution centres.

The first part of this question asked the student to describe the role of distribution centres in the supply chain of an importer of consumer goods.
An explanation of the following functions of a distribution centre should be included in the answer:

- A location for keeping stock, strategically placed for delivery to the point of sale/consumption
- Warehousing activities to ensure safe and secure storage of stock including records at SKU level, and access to stock as required
- Used for assembly of loads of goods from different origins for delivery to final location (e.g. retail outlet), optimising load sizes/types of product to individual destinations
- Labelling/pricing/retail packaging for the specific destination market(s)
- Management of returns, environmentally appropriate disposal of packaging, unusable stock etc.
- Ensure stock availability at short notice to deal with variable/unexpected demand

The second part of the question covered the advantages of single centre vs. using multiple centres in a particular country.

The following should be included in the answer:

Advantages of a single centre:

- Reduces total stock holding/warehousing costs (capital, systems, overheads etc.) due to economies of scale

- Stock can be diverted to different retail outlets to respond to short term changes in demand
- Requirements for retail packaging, pricing etc. can be centralised at a single location
- Returns can be handled through a standard processing centre
- Multiple centres increase overall costs/complexities of operation

Advantages of multiple centres:

- Orders can be responded to more swiftly as DCs are closer to end user
- Shorter distances for retail delivery – reduce overall transport costs
- Individual centres being smaller will be more customer focused/designed to meet specific requirements
- In case of operational problems with a single centre all deliveries are affected; with multiple centres there are alternatives in case of problems with one of the centres

It is important to use specific supply chain examples in the answer, and therefore the particular points made should be appropriate to the example(s) chosen.

Q2. Explain in detail FOUR of the following terms/abbreviations, and their significance in multimodal transport.

i. **NVOCC**
ii. **FMC**
iii. **ADR code**
iv. **Hague-Visby Rules**
v. **UCP600**
vi. **CMR**

For each term or abbreviation, the student should cover the following:

- The meaning of the term/abbreviation
- Its context/origin
- A detailed description of what it represents
- Its significance in multimodal transport and the supply chain

The following are specific points to which the student should refer for each of the six parts of the question:

(a) NVOCC

- Non Vessel Operating Container (or Common) Carrier
- What role do they play in supply chain/through transport
- Act as principal not agent (explain relationship with ocean carrier – also contrast with forwarding agents)
- Brief description of main services provided; this should include LCL/Groupage, FCLs, Calling forward/Consolidation, Documentation, Value Added Services, Supply Chain Management
- Benefits which NVOCCs bring to their customers
- Examples of NVOCCs

(b) FMC

- Federal Maritime Commission
- USA Regulatory Body set up in 1961 to oversee overseas shipping
- Enforcement of provisions of the various US Shipping Acts

- Objective is fair and efficient shipping for benefit of US exporters/importers and consumers; protection from unfair competition
- Scrutinises agreements between shipping lines, which need to be filed with and approved by FMC (mainly conference, VSA and Alliance agreements)
- Monitors shipping tariffs, and confidential service contracts which have to be filed with the FMC
- Key regulator for multimodal operators with services to/from USA

(c) ADR Code

- European Agreement concerning the International Carriage of Dangerous Goods by Road
- Produced by UNECE (United Nations Economic Commission for Europe) in 1957, entered into force 1968
- Allows the international carriage by road of almost all dangerous goods, so facilitating multimodal services
- Annex A covers the classification of dangerous goods, documentary and packaging requirements
- Annex B covers the construction and operation of vehicles to transport hazardous cargoes (including crew and equipment requirements)
- ADR is consistent with regulations for international carriage of hazardous cargo by sea (IMDG Code), air and rail
- Classes as per IMDG Code

(d) Hague-Visby Rules

- Brief explanation of the purpose of a cargo liability convention (for carriers and shippers)
- Why Hague-Visby Rules evolved from Hague Rules
- Key provisions of the rules particularly the changes from Hague Rules and the reasons for those changes
- Date of adoption/entry into force (including SDR Protocol)
- The convention used for the majority of multimodal movements by sea

(e) UCP600

- Stands for Uniform Customs and Practice for Document Credits
- Set of rules for Documentary Credits issued by ICC
- UCP600 is latest version (applicable 1.1.2007)
- Needs to be stipulated in contracts
- Contains 39 articles
- List some key provisions of UCP600 (types of documents covered, credit must be irrevocable etc.)
- Used extensively for multimodal shipments on letters of credit –important that operators understand how these rules impact on bills of lading (clean/dirty etc)

(f) CMR

- State name in full (Convention on the Contract for the International Carriage of Goods by Road), how it was developed and by who, and when it entered into force
- What journeys are covered – relevance to multimodal transport
- Requirement for consignment note – key details
- Main liabilities and exclusions

Q3. Answer ALL parts of the question.
Explain the main differences between each of the following:

a) **A bill of lading and a waybill**
b) **A straight bill of lading and a 'to order' bill of lading**
c) **A through transport bill of lading and a combined transport bill of lading.**

In each case, give examples of how you would use these different documents.

In each of the three parts of the question, students were expected to give explanations of the differences between the two documents mentioned, and additionally to provide examples of the different commercial uses of the documents.

Part (a): Bill of lading and Waybill
Main differences

- Bill of lading is a document of title, while a waybill is not
- A Waybill cannot be a negotiable document
- Bill of Lading has to be presented to secure release of cargo, while cargo under a waybill will be released to the named consignee with only proof of identity required
- Under a waybill, the shipper cannot stop the release of the cargo to the named consignee
- Cargo liability conventions may not apply automatically to a waybill (but can be specifically incorporated).

Examples of use:

- A bill of lading is likely to be required if a letter of credit is involved
- A bill of lading is required if goods are to be sold while in transit and the document negotiated to the buyer
- Waybill is suited for short transit trades (avoids delay to cargo awaiting documents)
- Waybill suited for 'in house' shipments or when there is a high degree of trust between seller and buyer (e.g. open account business)
- Although both documents can be used for any mode, waybills are more commonly used for non maritime modes e.g. air freight

Part (b): A straight bill of lading and a 'to order' bill of lading
Main differences

- A straight bill of lading has a named consignee and usually no notify party
- A 'to order' bill of lading will state 'to order' or 'to order of (named party) on the face of the bill of lading
- A straight b/l cannot be negotiated – but is still a document of title, and requires to be surrendered at destination
- A to order b/l can be negotiated

It is important that the student explains what is meant by a document of title, and what is the process and effect of negotiating a document of title when it is made out 'to order'.

Examples of use:

- A straight bill of lading is suitable when the consignee is known, and there is no requirement to be able to sell the goods by transfer of documents while the goods are in transit

- A ‘to order’ bill of lading is required when the goods are likely to be traded, and/or the seller wishes to keep their options open to sell the goods after shipment

Part c): A through transport (TT) bill of lading and a combined transport (CT) bill of lading
Main differences:

- A CT bill of lading requires the carrier to take responsibility/liability as principal from place of acceptance to place of delivery, even if the actual carrier is different for some part of the through transport; in that case the actual carrier is a sub contractor of the contractual carrier
- A through transport bill of lading is issued when the ocean carrier arranges the pre or oncarriage on behalf of the shipper as agent only
- Under a CT bill of lading, the shipper only deals with the issuer of the bill of lading in the event of a claim; under a TT bill of lading, the shipper will have to deal with the actual carrier for the pre or on-carriage

Examples of use:

- A carrier will issue a CT bill of lading when it is confident that it is able to control the complete movement even if it does not undertake the full door to door transport itself; it is more likely to issue a TT bill of lading when for example the control of the shipment is handed to a second carrier for the oncarriage
- A shipper is likely to prefer a CT bill of lading so it only has to deal with one contracting party; it may however accept a TT bill of lading to avoid the need to make its own separate arrangements with different carriers

Q4. Answer BOTH parts of the question.

a) Explain the origin and development of INCOTERMS, and the role which they play in international commerce

b) b) Describe how the responsibilities and risks are divided between buyer and seller for both INCOTERMS 2010;

i. FCA

ii. CIF

Part (a)
In explaining the origin and development of INCOTERMS, and the role which they play in international commerce, the following aspects should be covered:

- First introduction of Incoterms, and role of International Chamber of Commerce (ICC)
- Process of regular updates – current version is 2010 with 2020 just published
- Purpose is to provide standard terms which are generally accepted in contracts of sale
- Which terms of the contract of sale are covered by Incoterms, and which are not covered
- Requirement for the Incoterm to be specifically incorporated in the contract
- Number of Incoterms; split into E,F,C,D terms – certain terms for maritime transport only

Part (b)
The answer should provide a detailed description of Incoterms FCA and CIF.

For each Incoterm, the description needs to include:

- Which party is responsible for organising and paying for each stage of the through transport movement
- Which party is responsible for export/import clearance and duty payment
- At which point risk passes from seller to buyer
- (For CIF) the obligation on the seller to take out insurance for the buyer's benefit

Q5. You are a retailer of consumer goods, based in UK, importing clothing from a supplier in Turkey.

Describe using examples the different modes of transport and routes you could use to transport your goods from the supplier to your distribution centre in the UK, together with the advantages and disadvantages of each mode/route. Use the world map provided to support your answer.

Answers should cover the four modes: air, sea, road, and rail which can be used for the main leg from Turkey to UK.

Students should incorporate in their answer a number of different factors which may determine which is the appropriate mode to use, for example:

- Door to door cost
- Door to door transit time
- Frequency of service
- Reliability, and the reasons for potential delays
- Weight/volume of goods
- Urgency of the shipment
- Environmental impact (particularly CO_2 footprint)

For each of the four modes, the answer should include:

- A description of the geographical route taken, interchange points etc.
- Relative cost and speed vs other modes
- Service related factors
- Environmental factors
- Particular suitability for shipments of clothing (e.g. clothing is generally light cargo, need to avoid creasing, speed needed for high end fashion clothing etc.)

Comparisons should be made as to the suitability of the four modes for the specific movement of clothing from Turkey to UK.

Q6. Discuss the advantages and disadvantages of transport systems being in public or private ownership, with specific examples from two different modes of transport or modal interfaces.

In answering this question, students needed to:

- Show a clear understanding of what is meant by ownership in public and private sectors
- Describe both the advantages and disadvantages of each type of ownership

- Ensure that examples were taken from at least two different modes (or type of modal interface)

The following aspects of public/private ownership should be addressed in the answer:

Advantages of Ownership in Public Sector

- Public sector can take a long term view of investment in strategic assets (e.g. ports)
- Objectives will be aligned to national interests (e.g. facilitating the country's trading activity, which promotes growth/prosperity), and the well being of the people, rather than pursuing profits
- Governments may have more ready access to capital for development of infrastructure (though this is not always the case)
- Public sector can set prices as a 'fair' level, and ensure equal access for all users
- Profits generated can be reinvested

Disadvantages of Ownership in the Public Sector

- Competition for scarce financial resources with other government investment – transport sector is often a low priority
- Decisions can be politically influenced, and not in the best interest of trade/transport
- With no 'profit' objective or viable competition, public sector organisations can be highly inefficient, and poorly managed
- In some countries, public sector organisations are associated with corruption

Advantages of Ownership in Private Sector

- Ready access to sources of capital (particularly with large multinationals)
- High quality management and best practice (both nationally and where relevant internationally)
- Competition in the private sector drives efficiency, and therefore better service/prices for customers
- Business customers can usually negotiate a tailored package to meet their requirements

Disadvantages of Ownership in Private Sector

- Private sector often has short term objectives rather than long term vision
- Private sector ownership in an activity where there is no competition creates a monopoly operator, which can increase prices unreasonably, and hide inefficiencies (in these circumstances, there may be a need for a government authority which regulates prices)
- Financial benefits go disproportionately to the shareholders, rather than national interests, or to customers

Q7. Container operators need effective systems to manage their inventory of containers and to ensure that they can both minimise their costs and provide a high quality service to their customers.

Describe the key business functions carried out by a container management system and highlight the benefits which they bring to the operators' business.

The main business functions associated with managing a fleet of containers are:

- Ensuring the operator has a fleet of containers (of different sizes and types) to meet its business needs
- Determining and procuring the optimum mix of owned and leased containers
- Tracking the location and status of all its containers to ensure proper records of the company's assets, and to provide a 'real time' database of its fleet for forward planning purposes; this should also provide information on containers delayed by customers so that detention/demurrage charges can be calculated
- Managing the leased containers in its fleet in accordance with the terms of the lease agreements, including the correct payment of daily hire rates, and that pick up and drop off of containers comply with the terms of the agreement
- Managing the maintenance and repair of containers in accordance with regulatory requirements (CSC Convention and national laws) and company standards, including scrapping/selling containers as required
- Planning the level of container stocks at every location in order to meet customer requirements, and implementing plans to adjust empty container stocks as needed, through leasing, cabotage, imbalance movements etc.

In answering this question students should provide for each function:

- A description of the business function involved
- The systems needed to support the function
- An indication of how these systems benefit the operator's business

Q8. Answer ALL parts of the question.
Explain why a multi-modal operator might charge different freight rates for door to door FCL shipments in the following circumstances. Support your answer with examples.

a) The same cargo, but shipped from A to B, compared with a shipment from B to A
b) The same cargo, but shipped on a direct port to port service, compared with a transhipment service
c) The same cargo between the same two points, but shipped by two different shippers.

There is not necessarily a single 'correct' answer to each part of this question. Commercial circumstances may differ in particular trades, and it was therefore important that the student linked their answer to particular examples. The following are however the general principles which are likely to determine the reasons for different freight rates in the circumstances set out in the question.

Part (a): The same cargo shipped in different directions

- Differences in supply vs demand on the different trade legs
- Dominant vs non dominant legs in many trades
- Availability of capacity (vessel or aircraft space)
- Differences in the level of competition on the different legs
- Container availability (surpluses/deficits)

Part (b): The same cargo, shipped on a direct port to port service, compared with a transhipment service

- Longer transit time for transhipment service (not always the case)
- Perceived risk of delay/short shipment with transhipment service
- Costs of the two services will differ; while the transhipment service will have the added cost of transhipment handling and feeding the cargo, a line may offer the transhipment service instead of a direct service to reduce its costs by gaining economies of scale on the main leg of the journey
- Competitive factors – number of direct vs transhipment services offered by competitors

Part (c): The same cargo between the same two points, but shipped by two different shippers

- Different volumes of cargo
- Contract or spot business
- Different shippers may have a different importance as a customer to the carrier(e.g. multi-trade support)
- Regularity/reliability of shipments
- Prices offered by competition