



Examiners Report

Shipping Business

May 2019

General Comments

It is always a good idea to go through past exam papers and examiner reports so that you familiarise yourself with the style of questions and the expectation of the examiner.

When first reading the question, take your time to establish what it is that the examiner is asking you. If you are unsure as to what is being asked, then break the question down and underline the pertinent points

An answer that is a page or less will not get you a pass mark. You need to structure your answers and plan them prior to putting pen to paper.

A common mistake is assuming the examiner knows what you are talking about. We can only give you marks for what you put in writing, so using generalisations such as named place to named place, instead of stating actual ports, or using etc, or words such as stakeholders, instead of listing the parties involved, will not earn you any marks. Similarly using personal experiences are okay, but only if they are relevant to the question.

Question 1.

You have just purchased 20 metric tons of Chinese engine parts to be sent by one TEU for delivery in Birmingham.

- a) Discuss appropriate finance terms to be agreed with your seller and;**
- b) Choose an appropriate Incoterm to be used for this purchase contract.**

What was required:

Discuss payment methods which are suitable for a new seller, including Bill of Exchange and Documentary Letter of Credit. Explain why cash in advance and open account are unworkable for a new supplier. The examiner was looking for an awareness of the potential risks for both parties and how you would best avoid them.

Identify one of the seven any mode Incoterms that might suit your trade including DDP and FCA. One providing the seller control of transport and the other the buyer. Other forms of Incoterms were considered, provided a suitable explanation was given.

Here the idea was to not take on unnecessary risk. You are not familiar with the company or the port operations in China, so do not take on the responsibility. In a similar way the exporter has no idea as to where you are or the requirements at the discharge port and so would prefer not to have to arrange delivery to your factory.

Where students went wrong

This was a two part question and so you needed to answer both parts. Some students forgot that the shipment was only one full container and were looking to charter ships or opted for LCL shipments.

Question 2.

A seller of goods will wish to ship CIF whilst a buyer will wish to buy FOB. Explain both of these terms, the reason for this statement and what the advantages and disadvantages are to each party.

This question was about control of not just the shipment, but also the cash flow. If you are the party deciding on the ship, you are the party who is dictating as to when the cargo needs to be ready. You are also in control of the tonnage to be shipped and the freight revenue passes through your bank.

The question was not asking you to describe Incoterms or the history behind them. You did need to have a good understanding of the two terms and what they mean, when property and risk are handed over and who is in control.

The seller would want to control the shipment as well as the cash flow. This is better for the country he is resident in as they gain the foreign exchange revenue

The buyer similarly will want to control the shipment and not lose the foreign exchange revenues.

Where students went wrong.

Not many students appreciated there was an advantage to the country in terms of foreign exchange that depended on the terms of the booking. Likewise, the control of the ship means control of the cargo

Question 3.

A liner ship's agent not only has to deal with the ship's port call, but has other liner agency specific functions to undertake. Discuss these functions.

What was required:

Give an explanation of the other liner functions required, i.e.: outward cargo marketing, outward cargo documentation, dealing with outward cargo, dealing with inward cargo, dealing with the Principal

Outward cargo functions – marketing, taking bookings, releasing of the empties, opening stacks, possibly arrange transport for the container from the depot to the client and then to the terminal. LCL containers may also be part of the function

Outward cargo documentation – mates' receipts, bills of lading, manifest, stow plans, freight payments, hazardous cargo documentation

Inward cargo, receipt of manifest, surrendering of bills of lading, delivery orders, arrival notification, box turn in, freight payments, cargo release, merchant haulage, carrier haulage, cargo claims are all part of this function

Dealing with the principal- reconciling financial accounts, such as port account, stevedoring, tally, crane hire, trucking and depot handling fees. The return of any excess funds

Where students went wrong

This is about liner trade and so it was surprising how many students wrote about tendering notice of readiness. Students also spent far too much time on explaining the general functions of a tramp agent. This was not asked.

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Question 4.

Answer BOTH parts of the question.

a) The buying and selling of a ship requires both parties to reach agreement on a wide range of matters, which are covered in the MOA. Give an example of a commonly used MOA and explain five clauses that will be covered.

b) A large number of documents must also be exchanged, identify five of these and their functions.

What was required:

The examiner was looking for the student to choose from quite a wide range of possible clauses and certificates.

(a) Explain any 5 functions from the Saleform 2012

Price, deposit, payment, inspection, time and place of delivery notices, divers inspection /drydocking, documentation, spares bunkers and other items, encumbrances, taxes, condition on delivery, buyers default, sellers default, buyers representative, law and arbitration.

(b) 5 of the following should be mentioned, certificate of registry, loadline certificate, deratification certificate, safety construction, safety radio, safety equipment, and classification, certificate, ship plans, bill of sale, declaration of ownership, articles of association, and certificate of incorporation

Where students went wrong

Only answering one part of the question or in not giving an explanation of the documents listed. Some students could not resist the temptation to give more than five examples. This was wasted effort as you are only marked on what is required

Question 5.

The tanker chartering market can be classified into four distinct sectors, Identify the four sectors, and describe the types of vessels used in each sector.

What was required:

Discuss the markets:

Crude oil, VLCC and ULCC ships moving large quantities of crude oil to refineries, mention that these vessels appear to have reached their maximum size and reasons for this

Petroleum products, moving refined products from the refinery to coastal ports, range of products, know that the structure of refining is changing with mega refineries being built close to source and consequently product tankers are becoming bigger in an effort to ensure economies of scale

Chemical sector, wine, fruit juice and sophisticated by products of the refining process, including solvents. Ammonia, feedstock chemicals for plastics. Ships have multiple tanks and pumping arrangements, need for absolute cleanliness. Most of this fleet are handy sized vessels

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LNG and LPG – identify the difference between the two and the types of products; discuss the difference in the types of carriers and their construction

Where students went wrong

The question did not ask for you to draw routes on the world map, nor were you asked to draw the ships, but if you are going to draw a ship, please use a ruler and a pencil. It is imperative that you have some knowledge of these types of ships and how they work. What was particularly worrying is how few students understand LNG and LPG vessels. With LNG being considered the fuel of the future, it would behove our industry to know more about the ships that will carry this cargo.

Question 6.

The possibility to commit fraud with a bill of lading at both the load port and the discharge port is high. What precautions would you take with a bill of lading at a) load port and b) discharge port to minimise this risk

What was required:

This was a two part question, which required knowledge of the checks that are needed to avoid fraud in the tramp and liner industry. You were required to demonstrate an understanding of the role of the shipper, the charterers, the ship owner and the crew.

- a) Check the description of the bill of lading against the original booking note.

Ensure that the cargo has been loaded on the ship and that the description, numbers and mass are as per the mates' receipt. Check with the owner and the shipper that the details on the bill of lading are correct and that they are happy for you to release the bill prior to you doing so. Obtain this confirmation in writing and in turn advise them in writing when you have released the bill back to the shipper or his agent. Ensure you use the proper lines stationery and that the clauses are reflected on the back of the bill. Do not agree to letters of indemnity in exchange for clean bills of lading. Send the discharge port agent copies of the original bill so they have a counter check

- b) Check the credentials of the person presenting the original bill of lading. Make sure that the bill of lading details are accurate and in accordance with the copy bill and manifest you have received from the load port. If it is a house bill, then check with the owner that they have agreed to the issue of house bills and the cargo to be released against same. If in doubt use the services of IMB to check as to the authenticity of the documentation

For both load and discharge ports your staff's integrity must be impeccable and so good staff vetting and employment policies should be in place as should anti-corruption and bribery policies.

Where students went wrong

Not understanding the process from where a bill of lading is derived. The starting point is the mate's receipt and the counter check at the discharge port is the manifest. Very few answers mentioned the role of these documents.

Answers failed to establish the checks needed prior to the release of the bill of lading to the shipper or the process prior to releasing the cargo. There was also not a lot of comment on staff training or the ethics instilled in members of the Institute - Our Word Our Bond

Question 7

There has been a steady decline in the amount of cargo shipped on multipurpose vessels. Discuss the types of vessels used, their specialised features, the types of cargo these ships are used for and the packaging options available to ensure quick loading and safe handling.

What was required:

Be able to identify these ships and describe their construction and special features such as deep tanks, tweendecks, heavy lift cranes, Gemini cranes, Stulken derricks, relatively shallow draft and narrow beam and small in size in order to cater for more ports and be self sufficient. Mention general cargo examples, bagged sugar, paper reels, steel rebar, sections, plates, ingots, project cargoes, and the types of packaging such as mini bulk bags, palletisation and shrink wrapping.

Where students went wrong

Generally, there was a poor knowledge of these types of ships and perhaps this is indicative of their steady decline in numbers and the container industry taking more and more of this type of business.

The second part of the question was virtually missed altogether

Question 8.

A client is seeking your advice as to what is the best option with regards to opening a new company. Write a business letter to the client highlighting the advantages and disadvantages of a sole trader and a private limited company

What was required:

The Layout of a business letter in acceptable format.

The advantages of a sole trader are that there are no real formal procedures to open such a company. You are required to register the company and apply for the necessary license in order to conduct your business. The capital investment can be minimal, and you can avoid the expense of employing staff. This means that all profit you earn is yours. The accounting side of the business is not onerous, you need to pay your tax, but the details of your business remain confidential.

The disadvantages of this type of company is that if it is just you then you are constantly working, cannot take leave and are in danger of losing the business if you fall ill. You are constantly at risk should the venture fail. It is also hard to expand your business without losing your independence

If you go for the option of a private limited company then you have shareholders to whom you are answerable to. The company has to be audited annually and these reports sent to the shareholders.

The advantage is that should the company fail then you are only exposed to the value of your shares. They cannot come after your personal assets. There is also far more scope to develop and expand the company

Where students went wrong

Very few students knew how to draft a business letter. There were marks award just for getting this correct and so easy marks in a lot of cases were given up.

The question was focused on just the two options, so giving details of other types of businesses was wasted time as it was not asked.