



EXAMINER'S REPORT JULY 2020

LOGISTICS AND MULTI-MODAL TRANSPORT

1. 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) **Rotterdam Rules**

- Explanation of the role of the Rotterdam Rules as a cargo liability convention (analogous to Hague Visby, Hamburg Rules)
- Reason for the development of Rotterdam Rules
- Main changes from previous conventions
- Current situation re: ratification/entry into force
- Why the Rotterdam Rules are relevant to multimodal transport

(b) **THC**

Stands for Terminal Handling Charge

Charge made in a Liner tariff or contract, which covers the movement of the container on or off a vessel and may cover movement(s) within the terminal

Set by the carrier and paid by the customer (historically set by conferences)

Normally in local currency per container (explain when different rates apply)

Can also refer to the charge raised by the container terminal on the container line in accordance with their contract

An important cost/revenue item in a multimodal shipment

(c) **Letter of Credit**

A letter from a bank guaranteeing the payment from a buyer to a seller under a contract of sale

Purpose is to facilitate international trade, giving assurance that the seller will be paid, and the buyer will receive the goods

Provide a brief explanation of the mechanism, and particularly the role of documents (including the bill of lading) in the process

Types of letter of credit, e.g. – confirmed, irrevocable

Role of UCP 600

Importance of letters of credit to facilitate multimodal transport movements

(d) **WTO**

Stands for World Trade Organization

An intergovernmental organisation to facilitate and develop trade (which also encourages multimodal transport shipments)

Based in Geneva (established 1995) – the successor of GATT

Supports and oversees international trade agreements

Provides a forum for negotiations on trade agreements

Handles disputes between countries over trade (e.g. tariffs etc.)

Provides support and technical assistance for developing countries

Publishes trade statistics.

(e) JIT

- Just in Time
- Ensures the supply of the right goods at right time/right place and at lowest cost
- System of Supply Chain Management which has low or nil inventory stock at point of use/consumption
- Objective is to reduce total supply chain costs by minimising inventory holding costs (cost of warehousing + inventory financing cost + cost of loss/damage/obsolescence)
- Relies heavily on quality of forecasting, and speed/reliability of transport
- Importance of IT systems with real time supply chain visibility
- Has helped to increase the efficiency of global supply chains

(f) Waybill

- Role as a contract of carriage (alternative to a bill of lading)
- Commonly used for sea or air transport as main leg
- Receipt for goods
- Evidence of contract
- NOT a document of title (therefore cannot be negotiated, or used as security)
- Not required to be surrendered when goods are collected – discuss the implications
- Commonly used in short transit trades, where there is a risk of goods being delayed with conventional documentation
- Discuss commercial situations in multimodal transport when waybill may be preferred to a bill of lading

2. Five conventions should be covered by students in answering this question. Rotterdam Rules do not fall within its scope as it is not yet in force. Answers should mention the circumstances in which liability can be limited, as well as the specific financial limits which are as follows:

Hague Rules

- Maximum liability for loss/damage = £100 per package
- Increased by UK Gold Clause Agreement to £200 in 1950, then to £400
- English Courts in *The Rosa S* [1988] stated it should be the equivalent to the gold value of £100 in 1924 – which is substantially higher
- No liability for delay

Hague-Visby Rules

- Maximum liability for loss/damage = SDR666.67 per package or SDR2 per kilo, whichever is the higher (explain what is an SDR)
- In the 1968 Brussels Protocol, the limits were set in Poincare Francs but changed to SDR by 1979 Protocol, which is applied by most countries which signed up to the Hague-Visby Rules
- No liability for delay

Hamburg Rules

- Maximum liability for loss/damage = SDR835 per package or SDR2.5 per kilo, whichever is the higher
- Carrier is liable for loss due to delay in delivery up to 2.5 times the freight paid for the goods delayed (but not exceeding the total freight paid under the contract of carriage)
- Time limit for delivery to be agreed, but in absence of agreement, the test is a 'reasonable period of time'.

Warsaw/Montreal Conventions

- The Warsaw Convention has been replaced by the Montreal Convention (1999) though some countries still apply the Warsaw Convention
- Warsaw Convention – maximum liability for loss/damage = Poincare Francs250 per kilo, or SDR19 per kilo

Montreal Convention maximum liability for loss/damage is updated periodically by ICAO - initially set at SDR17 per kilo, but increased to SDR19 per kilo in 2009, and to SDR22 per kilo in 2019

- No liability for delay

CMR Convention

Max for loss/damage = SDR8.33 per kilo

- Liability for loss due to delay in delivery up to the total freight paid

Time limit for delivery to be agreed, but in absence of agreement, a 'reasonable period of time'

3. (a)

The answer should provide a description of each of the price components for an FCL door to door shipment. For each component, the description should include the basis applied for calculation/application. It is important that the student refers to an example from a specific trade lane, and the description should be relevant to that trade – for example, Piracy Surcharges are not relevant if the trade route does not travel through an area where these are currently imposed.

The components described should include:

- Sea Freight (also Feeder Additional)
- Surcharges (example – CAF, BAF Congestion, Peak Season)
- Terminal Handling Charges
- Inland Transport (also drop off, pick up, 'turn in' charges)
- Demurrage/Detention
- Documentation/Bill of Lading Fee
- Customs clearance charges

(b)

The answer should include a description of what is meant by a contract and a spot rate, including the terms which may be applied under the agreement, as well as the price. It is important that specific examples are given.

Contract Rate

- Applicable to specific cargo/commodity from a named shipper
- Valid for a fixed period of time and/or for a defined volume of cargo
- May include space guarantee by the carrier and/or penalties for the shipper if the contracted volume is not shipped
- Provides for a fixed/known freight rate for the duration of contract (though may be subject

to changes in surcharges, and non sea freight items)

Spot Rate

- Applies to a specific movement of cargo – normally on a defined voyage, or for a short period of time with clear expiry date
- Generally does not provide any guarantee of space, until actual booking made
- Price will be defined, including applicable surcharges
- Price is likely to be frequently changed by the carrier in response to variations in supply/demand; spot rates will therefore generally have a short validity period for acceptance

The student should then discuss the reasons why a shipper may choose to ship cargo under a contract or a spot rate. Considerations other than just securing the cheapest price should be included.

- Contract rate is suitable if the shipper has definite requirement for cargo movement over an extended period of time, and has reasonably certain cargo volumes
- Shipper may need forward guarantee of space which will only be available with a contract
- Spot rates are suitable for ad hoc movements, where the shipper has no forward plan for cargo movements
- Shipper may have a view on whether freight rate will go up or down; if expecting a fall, then use spot rates to benefit from lower rates for later shipments; if expecting rates to rise, then a fixed contract rate will provide protection from increases.

4. In the first part of the question, the student was expected to describe the variety of different roles which ports and terminals play in multi modal transport. Some of these are straightforward, for example, loading and discharging vessels, and transferring cargo/containers to landside transport (road, rail, barge). Other roles needed a wider consideration of the needs of multi modal transport, for example:

- Transshipment hubs
- Facilities for the statutory clearances of cargo (customs, health etc.)
- Freeport areas to encourage trade, and/or distribution centre area for handling/processing inward cargo.

The second part of the question asked the student to consider how to make the port more attractive to lines and to cargo interests. Relevant points should include ways in which ports can carry out their basic functions more efficiently/cost effectively, as well as additional 'optional' facilities which could provide added value. These include:

For the lines:

- 24 hour access to the port (adequate draught etc.)
- Berth availability
- High productivity and reliability (sufficient cranes/yard area etc.)
- Competitive handling rates (particularly for transshipment cargo)
- Free storage for empty containers
- Bunkering facilities (competitive bunker price)
- Efficient processing and inspection facilities for statutory clearances
- Reefer plugs where needed

For the shippers/consignees:

- Community port system to facilitate clearances and cargo release

- Warehousing facilities nearby (port centric distribution)
- Adequate gate capacity to avoid congestion/delays – vehicle booking system if needed
- 24 hour landside access
- Optional service to meet requirement to provide VGM (Verified Gross Mass)
- Rail linkage to ICDs with daily trains

Answers would be enhanced by examples of these facilities at particular ports with which the student is familiar

5. Students should start their answer by introducing the concept of the multimodal door to door transport system.

The system should then be broken down into key components, using the headings provided in the question. There are numerous components which could be mentioned but it was important to mention specific cases, for example:

Physical assets:

- Transport vehicles/systems - ships/planes/trains + rail systems/road transport
- Means of unitisation – e.g. containers, pallets, trailers
- Modal transfer – e.g. ports, ICDs, cranes, fork lifts, other equipment
- Means of storage – e.g. warehouses + handling/storage equipment

Human Resources

- Office staff (give examples of different functions) and port/terminal/sea staff
- Planning and Management functions

It is important to stress the importance of education and training, employment standards, health and safety, communication, international nature of employment, 24/7 operations requiring shift work

Data Management

- Systems to control through transport movement (documentation, operations, statutory requirements)
- Global systems (value of internet) – information systems (schedules, quotations etc.)
- Planning systems
- Decision making tools.

For the second part of the question there is no single 'right' answer. An effective supply chain will provide goods at the right place at the right time at the right cost, therefore the answer should show **how** different components can ensure that a supply chain has the required service features (speed, frequency, reliability), excellent visibility of the goods in transit, and of course an acceptable cost. There are numerous different ways to illustrate this, and it is important that specific examples are provided.

6. This question was intended to test students' knowledge of contracts of sale and of carriage, and the use of INCOTERMS in contracts of sale.

Contracts of Sales

The underlying purpose of the contract of sale should be described, focusing particularly on its role when trading goods between buyers and sellers in different countries, and when transport is required from the point of origin/manufacture to that of use/consumption.

The main details to be found in such a contract should be mentioned, including:

- Defining the parties (buyer and seller)
- Full description of the goods
- The amount to be paid (cost/currency)
- How and when payment is to be made (mention methods of payment, including Letters of Credit)
- Who pays for the different stages of the through transport movement
- When does property pass from seller to buyer
- When does risk of damage/loss pass, and are there any obligations to provide insurance
- Applicable law/procedure for resolving disputes

Several of these terms which are required for such a contract are covered by specifying an applicable INCOTERM. The second part of the question requires the student to explain the reason for inserting an INCOTERM in the contract, and what is covered by an INCOTERM.

Contracts of Carriage

Purpose is to define the terms of the agreement between carrier and shipper for the transportation of goods from place of acceptance to place of delivery.

It specifically covers:

- The parties (shipper, consignee, other interested parties)
- Goods being transported (and condition on receipt)
- Places of receipt and of delivery
- Freight to be paid/by whom/when
- Rights, duties and liabilities of the parties (including any applicable international convention)
- Negotiability of the document

Purpose of including an INCOTERM in a Contract of Sale

An INCOTERM provides standard terms in a contract of sale which are generally known/accepted, and therefore gives a high degree of legal certainty in their interpretation. The origin of INCOTERMS and the number of different terms should be briefly explained

The following specific terms of a contract of sale are described by reference to an Incoterm:

- Which party is responsible for organising and paying for each leg of the transport movement
- Which party is responsible for export/import clearance and customs duties
- When the risk of damage/loss passes from seller to buyer
- In certain Incoterms, the responsibility for the seller to take out insurance for the benefit of the buyer

7. The impact of the following factors should be described for each of the three modes stated in the question when used for the feeder movement to the deep sea port.

- Cost
- Impact on Transit Time (incl. connectivity with deep sea carrier at port)
- Reliability (incl. effect of congestion)
- Capacity availability (e.g. shortage of drivers)
- Environmental impact (e.g. carbon footprint)
- Restrictions for various cargo types (e.g. heavy/out of gauge/hazardous cargo)

The advantages and disadvantages of using each mode should be considered specifically in the context of the operation described in the question, and it was important to use specific examples of where these modes could be used.

8. The answer should cover the definition of NVOCC, their role in the logistics and multimodal transport sector and how the market has changed to favour their role. Specific points to be mentioned:

- Explain the term 'Non Vessel operating (common) carrier'
- An NVOCC purchases space on vessels from liner service operators
- Provides door to door multi modal service as a principal (contrast with forwarding agent)
- Offers both FCL and LCL ('Groupage') services
- Provides additional added value services – some NVOCCs will manage complete supply chains

The following are points which should be included when discussing the advantages and disadvantages of using NVOCCs rather than booking with the ocean carrier direct.

Advantages:

- NVOCC acts as a principal
- Flexibility – NVOCCs have contracts with many ocean carriers but are not tied down with assets. It means they can offer more sailings a week on a given trade than ocean carriers
- Consolidate volumes from different customers to offer highly competitive freight rates
- Experience and strength in handling LCL consignments for which ocean carriers no longer provide a comprehensive service.
- Offer full range of integrated door-to-door services, including value-added storage, consolidation and stripping activities, documentation
- Can offer range of logistics solutions to their customers – important as increasing number of beneficial cargo owners have downsized their transport and logistics divisions
- Generally NVOCCs have better IT and customer service and support systems
- Single documentation for the whole move

Disadvantages:

- Generally NVOCCs do not own container equipment, which could be a problem in tight supply chain situations.
- Ocean carriers are less likely to offer space to NVOCCs if they are busy with their own clients (though this is less of a problem than it used to be)
- Ocean carriers offer better rates/terms for BCOs shipping large volumes/service contracts
- Consolidation and rationalisation have led to individual carriers shrinking their networks –

less choice for shippers/consignees

- NVOCCs will take their own profit margin, so may be more expensive than dealing with the carrier direct
- Dealing with a 'middle man' is not always efficient – can be better from a service perspective to deal with the carrier direct
- If NVOCC becomes bankrupt, there is a risk that your cargo will be held by the actual carrier as security for freight