



# EXAMINER'S REPORT

## NOVEMBER 2020

### SHIPPING BUSINESS

#### Question 1

##### Answer BOTH parts of the Question

**You are a shipowner of a ship about to go on voyage chartered and the charterers are asking you to appoint their nominated agent.**

- a) Discuss what your concerns, how can you protect your interests**
- b) what are the advantages of appointing their recommended agent**

##### Factors to consider

Is the agent financially secure ;

Are they able to look after your husbandry matters;

Will they favour the charterer over you their principal;

Will they charge a fair and reasonable agency fee?

A protecting agent can be appointed to ensure that your interests are protected. A protecting agent will be able to look after your usual agency requirements and examine the proposed disbursement account for accuracy and competitiveness with regards to agency fee.

In some countries the protecting agent can be nominated as the port agent and be responsible for the port account. If this is the case, then they only need to pay the charterers nominated agents the agreed agency fee

Investigate the financial standing of the agency.

The nominated agent will be an expert at handling this particular cargo and so will ensure the vessel comes onto the correct berth, the cargo is ready for loading or discharging , the port and stevedores are all fully aware of the requirements and so there is a good chance that your ship will finish early and earn despatch or at least avoid demurrage

It will also foster good relations with the charter and encourage them to look to fix more vessels with you.

### **Where students went wrong**

In many answers students assumed that the charterer's nominated agent must be a crook and cannot be trusted. If you are chartering your ship to a company that is going to be paying you hundreds of thousands dollars in freight and you are trusting them to pay you, why would you think that when it comes to an agent, they would try to cheat you? Ship agency fees are not likely to make anyone rich overnight, so it was interesting to read that a lot of students felt the priority for the charterer was just how much of a kickback he would get from the agent. He would earn considerably more on despatch, so the importance of nominating a good agent is vital.

Checking of the agent is financially secure should have been a priority and yet very few students thought to mention this.

In general there was not a lot of thought given to the advantages and disadvantages, with very few answers discussing demurrage and despatch. Nor was there much consideration given as to their ability to look after the husbandry matters.

In some cases students went off topic considering the duties of an agent. It is important to focus on answering what the question is asking.

### **Question 2.**

**Discuss five ways in which a company can protect itself from foreign exchange fluctuations. Explain how each of these work and select one which you would use in your line of work.**

Spot market – buy and sell one currency in exchange for another at the prevailing rates. In other words, take it as it comes and hope for the best

Spot contract – use the spot exchange rate prevailing at the day of the agreement

FFA- buys and sells future freight contracts. BIFFEX established 1985, not sufficient interest so closed now arranged through FFABA, reduces exposure to large fluctuations in freight. Know that it is not restricted to shipowners and charterers.

Forward exchange contracts – allows for the purchase or sale of one currency against another at some fixed time ahead. Explain why it is useful – the fact that it offers flexibility and what variants there are

Foreign currency option – give the definition, but also state clearly that the difference is that you are not obliged to declare the option, you can simply let it lapse

The choice was entirely up to the student. The question was looking to see the rationale behind the student decision.

### **Where students went wrong**

A number of students felt that they would simply pay in the currency of the company they were dealing with. So, if it was Dollars, they would pay in Dollars and if it was in Euros, then they would pay in Euros. All of this from a source of that currency they just happened to have. Others said they would only deal with companies that traded in their currency. The question was asking how you would protect yourself from foreign exchange fluctuations, so even if you have an unlimited source of every currency, you are still subject to it increasing and decreasing in value as this is dependent on prevailing market forces

A point to consider in future questions such as this is the flexibility of an option compared to a contract

### **Question 3**

**Despatch and demurrage are important factors in any shipping contract. As the port agent what are your responsibilities to the owner and charterer in ensuring these are properly complied with and how are demurrage and despatch calculated.**

The question called on you to explain despatch and demurrage and what are their functions. Knowing that Demurrage is to compensate the owner in a voyage charter for time spent in port over what was indicated by the charterer when the load/discharge rates were given during the negotiations.

That it is not a penalty or a reward to owners, but that it is to cover the additional time in port and mention what additional costs the owner would have incurred. There is also the lost opportunity cost to the owners. Similarly why is despatch shared?

Agent needs to assist with tendering NOR, keep a record of all activities from when the ship arrives and right through to completion of cargo activities, record weather delays, stoppages, crane breakdowns, draw up an accurate statement of facts, present same to the Master, preferably give it to him on a daily basis so no surprises at the end. Draw up the laytime statement.

Know the CP terms so that you have an awareness of how long the ship has to load or discharge and assist in ensuring planning is done to meet these targets

Mention that giving input on port performance during owner's negotiations

### **Where students went wrong**

Generally poor definitions of demurrage and despatch

Notice of readiness starts the clock ticking and should have been the starting point in your discussions and yet very few papers discussed this in any real depth. The statement of facts got even less of a mention and there were quite a few papers that suggested the statement of facts was only done after the ship had sailed.

There were very few answers which spoke about how a good agent can help mitigate the chances of demurrage and the possibility of earning despatch

Whilst the question did not ask for a demurrage calculation, if you do decide to do a demurrage calculation as part of your answer, make sure that you get it right.

### **Question 4.**

#### **Discuss the four core functions of a liner agency company**

An explanation of each of the four areas:

Work on the ship;

Outward cargo;

Inward cargo;

Dealing with the Principal.

#### **Where students went wrong**

A lot of answers simply focused on the role of a port agent and did not discuss all four roles of the liner agent.

An important function is the collection of freight and ensuring that the bills of lading are not released without checking that the freight has been paid. This was not discussed in any great details.

Another important point is the contractual relationship between the principal and the agent and the remuneration of the agent. There was very little comment on this point in the relationship

Dealing with the principal seemed to be something that no one had given much thought to and the answers were somewhat vague

**Question 5. Choose four of the below organisations and discuss**

a) **what they do**

b) **why you would use their services**

**Lloyds agent**

**IACS**

**ICC International Maritime Bureau**

**UNCTAD**

**FIATA**

**OCIMF**

What was required was an explanation of each AND why you would use their services

Lloyds agent – worldwide shipping intelligence network, used to appoint surveyors to report on damage or loss. Used by Lloyds underwriters. Also used for non-maritime claims (aviation). Contribute information on their ports to the Lloyds list

IACS – know it stands for International Association of Classification Societies; they are a group of highly reputable classification societies who have passed the demanding requirements of membership. Used by charterers and potential buyers as a guide to the likely standard of the ship they are interested in. Be able to name some examples of classification societies who are members

ICC International Maritime Bureau, concerned with international fraud and formed under the International Chamber of Commerce. Has alerted the commercial world to the different types of fraudulent activity. Looks to authenticate suspect bills of lading and other documents and to offer advice and assistance in avoiding fraud

UNCTAD – United Nations Council for Trade and Development – part of the UN, set up non-mandatory minimum standards for shipping agency, maritime training programs, annual shipping review, Hamburg Rules. Tried to standardise charter parties. Attempted to regulate liner trading

FIATA – International Federation of Forwarding Agents' Association, non-government organisation representing freight forwarding firms. Active in airfreight, customs, multimodal transport and of course shipping. Produced documentation such as the non-negotiable waybill, dangerous goods declarations, multimodal transport bills

OCIMF – Oil Companies International Maritime Forum, a voluntary association of 98 oil companies who have an interest in shipment and terminal activities associated with crude oil. Its mission is to be the foremost authority on the safe and environmentally responsible operation of oil tankers. It was formed in 1970 after the Torrey Canyon disaster of 1967. It has consultative status at the IMO. Conducts SIRE surveys to address sub-standard ships and OVID inspections for offshore vessels

**Where students went wrong**

Firstly, not answering part B of the question.

A number of students got stuck on the functions and role of the ICC instead of the role of the International Maritime Bureau

The IACS is not a classification society. It is a membership organisation for classification societies.

It was disappointing that most students did not understand the role of the Lloyds agent. They were often confused with Lloyds of London and/or Lloyds List.

**Question 6.**

**The bill of lading is the most important documents in facilitating international trade. Discuss the functions of a bill of lading and the differences between a long form and a short form bill of lading.**

Give an explanation of each function:

Receipt, condition of cargo, mate's receipt, clean bill of lading/dirty bill of lading

Evidence of a contract – contract negotiated prior to shipment through booking note, charter party,

Document of title – cargo considered untouchable whilst at sea, to order bills of lading, letters of credit, endorsing the bill

Security of payment for DLOC

Long form bill of lading used in liner trade, details of contract

Short form bill of lading used in tramp trade as details reflected in Charter party

**Where students went wrong**

With the bill of lading being such a fundamental documents in shipping, it was concerning to see that whilst the majority of students know the acronym, RED, a number of students could not properly explain how this is practically applied.

Not answering the full question. It is very easy to get caught up in the first part of a question when you know it well. The problem comes that when you finish this part, you are still busy patting yourself on the back for a great answer and you go and forget that there is a part B.

The short and long form bills of lading have important functions and it worrying at just how many students failed to express this adequately in their answers.

### **Question 7.**

**Discuss five different functions that a ship management company can carry out for an owner and what is involved in each?**

The question required the student to know the different departments in a ship management company

- full management,
- technical management,
- operations management,
- administration management,
- crew management,
- Procurement, bunkering.

#### **Where students went wrong**

For some reason a large number of students felt the question was about justifying why you would use a ship management company and so spent a lot of their answer on this as opposed to what the question had asked.

Flags of convenience are a great topic and it was great to see how much knowledge students had on this topic. The problem was that the question was not about flags of convenience, so when you discuss the functions of the crewing department, rather just stick to what they do, not why you think they do it.

### **Question 8.**

**Compare and contrast the structures available for creating a shipbroking company and give the advantages and disadvantages for each. Discuss the one that is most appropriate to your region**

Describe the different options, i.e. sole trader, partnership and private company limited. Name the advantages and disadvantages of each.

The last part of the question, which option you would pick, is dependent on the student, there is no correct answer, it is more a case of marking on the reasoning and understanding shown

#### **Where students went wrong**

For the most part this was a well answered question. A number of students felt that a public listed company was an option. The question was about creating a company, so a start up. Not too many companies start up by going straight onto the stock exchange. Who would buy their shares?