

THE INSTITUTE OF CHARTERED SHIPBROKERS

May 2023 ICS Examiner's Report

Economics of Sea Transport & International Trade (EST)

General comments

It is my privilege to present the May 2023 Economics of Sea Transport & International Trade Examiner's Report. Once again, the pass rate is well above average, and consistent with the year on year trend.

It is heartening to report an increasing of number of essays submitted, as is now the norm, had an introduction, a well- structured body, with arguments anchored on sound theory and practice and, supported by examples from industry, with a brief and sound conclusion. It is highly recommended that candidates present their essays following the standard format described above.

Candidates are once again, reminded that additional marks are earned by those candidates that make appropriate and relevant use of maps, as well as graphs and diagrams. To secure a pass , candidates are required to demonstrate an understanding of the key concepts and terminologies in the course, such as for example, opportunity cost, supply and demand model, absolute advantage, protectionism, utility, economies of scale, marginal costs, break even analysis, elasticity , intra and inter industry trade, and balance of trade deficit.

It should also be made clear to candidates that additional marks, are awarded when they provide relevant and appropriate definition of key term and concepts, used in their answers.

Q 1. Examine the critical role that deep sea trades play in world economic development.

This question required candidates to examine the critically role of shipping in world economic development.

Adam Smith father of modern economics saw shipping as one of the stepping stones to economic growth .In the Wealth of nations Smith argued that central economic force in a capitalist society is the division of labour, and the extent to which this can be practised depends crucially upon the size of the market. A business working in a country/town without links to the outside world can never, achieve high levels of efficiency because it's very small market will limit the degree of specialization.

Mention of Key factors:

- vital role in world trade, which is the backbone of the world economy.
- without ships and the transportation services these ships provide, the world would not be as prosperous as it is today and many countries would not be able to participate in world trade.
- Seaborne trade accounts for the bulk of international movements, about 75% of world trade volume is carried by sea.
- best guides to changes and trends in the economy of the world or individual countries are GDP and GNP.
- total volume of trade has more than doubled in the last 20 years 1995-2015 from 5, 191 million – 10,956 million tonnes.
- the spectacular growth in world trade has generated a corresponding growth in the demand for transportation services.
- dry bulk cargo ships deliver cargoes in raw or semi-raw condition from production to processing facilities, along with containerization and advances in cargo handling and shipboard technology, have reduced crew sizes and long-shore labour requirements as well as per-unit cost of ocean cargo transport.
- the emergence of large tanker vessels (e.g., greater than 200,000 deadweight tons) and drove down the per-unit cost of intercontinental energy transportation.

Economists define economic development as activities that result in increased average per capita incomes:

- Capital investment in high wage industries resulting from investment (e.g., transportation improvements) that improves the competitiveness of a region.
- Development of new territory that is separate from similar, existing developed areas
- Development/investment in specific built-up areas (e.g., central business districts, along light rail corridors); or Specific developments (e.g., a new paper mill, a new microchip plant) at specific sites.

Conclusion: Shipping, therefore still remains to be the most cost effect means of the bulk transportation of vital raw materials, commodities and foodstuffs, and a prime mover of world economic growth and development.

Q2. Within the dry bulk market, describe ALL the following:

- a) Coal Market
- b) The main importing and exporting countries of coal
- c) Major factors that impact the coal market in the short and long term.

This was a very popular question and required candidates to provide a brief description of the coal market; major factors impacting the market in the short and long term and the identification of main importing and exporting countries.

Major factors including:

- Current market trends, issues, and developments.
- coal is still a major component of Southeast Energy mix.
- Energy Security and Geopolitical tensions, third world development, and climate change concerns.

Q3. Explain why, the understanding of the supply demand model is critical to ship management success. Use diagram to support your answer.

Interestingly, this as a very popular question and produced some very good answers. The best answers include the mention of the following:

- supply and demand is perhaps one of the most fundamental concepts of economics and the backbone of a market economy.
- demand refers to how much (quantity) of a product or service is desired by buyers , the quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and the quantity demanded is known as the demand relationship.
- the quantity supplied refers to the amount of a certain good produced of certain good producers are willing to supply receiving a certain price. The correlation between price and how much of a good or service supplied to the market is known as the supply relationship.

Price is therefore, a reflection of the interaction between supply and demand.

Basic Diagram

Q4. Critically analyse the liner trade, commenting on the types of ships and routes used with the associated fixed, variable, and capital costs.

This question required candidates to critically analyse the liner trade paying particular attention to key aspects of the trade including:

- Definition of the Liner service
- ship characteristics
- service schedule

- capacity utilization
- ship costs
- port charges and canal tolls
- deployment and mix of container size and type in the trade
- container costs, covering capital costs, maintenance and repair, terminal handling costs and administrative costs.

Q5. Discuss the main factors which affect the global supply of ships.

This was a very popular question, and produced some very good answers, which included:

- global tonnage supply
- new deliveries
- being scrapped or billed for scrapping
- choke points
- bunker prices
- world commodity demand
- levels of industrial production
- seasonal pressures and market speculation
- choice of relevant flag
- geopolitical events

Q6. Examine the critical role of ports in the global transport system.

This was a straight forward question. Candidates were required to include the undermentioned in their critique:

- Ports are the third component in the transport system and provide a crucial interface between land and sea.
- Ports have several important functions which are crucial to the efficiency of the ships which trade between them.

Provide secure location where ships berth:

- improved cargo handling facilities.
- different facilities for different cargoes.
- storage facilities for in and outbound cargo.
- fully integrated land transport systems with port.
- integral parts of international supply chains.
- industrial manufacturing facilities – export processing zones.
- increased role in globalization and increased trade liberalization.

Q7. Define All of the following topics:

- a) Macroeconomics
- b) Absolute Advantage
- c) Economies of Scale

d) Price Discrimination

This was a popular question and required candidates to provide concise definitions to all given topics:

a) Macro Economics

- a branch of economics that studies how an overall economy—the market systems that operate on a large scale—behaves, economy-wide phenomena such as inflation, price levels, rate of economic growth, national income, gross domestic product (GDP), and changes in unemployment

b) Absolute Advantage

- In economics, the theory of absolute advantage is the ability of a party to produce a good or service more efficiently than its competitors. The Scottish economist Adam Smith first described the principle of absolute advantage in the context of international trade in 1776, using labour as the only input.

c) Economies of scale

- Economies of scale are cost advantages reaped by companies when production becomes efficient. Companies can achieve economies of scale by increasing production and lowering costs. This happens because costs are spread over a larger number of goods. Costs can be both fixed and variable

d) Price Discrimination:

- Flexible pricing offering benefits to both supplier and liner company The liner company charges different freight rates for different commodities, low rates for low-value commodities and higher rate to high value cargoes. Commodity price discrimination is widely practised by liner companies though this is more difficult since containerisation has standardised the physical cargo

Q8 Answer BOTH parts of the question.

Exchange rates between countries adjust continuously , with the aid of a diagram, explain:

- a) How these adjustments occur
- b) Their impact on the shipping industry

This was a two part question that required candidates to answer both parts, explaining with the aid of a diagram, how exchange rates adjustments occur and their impact on the shipping industry. Surprisingly, few candidates, attempted this question!

Key factors that candidates were required to mention including:

Definition:

- Exchange rate - Is the price of a nation's currency. The more competitive an economy the more its products are sought as well as its currency and its strength and convertibility.
- the rate of exchange between international currencies affects the prices of exports and imports and hence the current account on the balance of payments and has a direct effect on the economic performance of a country.

- trade, purchase of goods by one country requires payment in country of origin(of the good) in the currency of that country.
- purchaser has to provide funds which calls for the purchase of currency of supplying country, as more and more goods are purchased, so supply of currency decreases in value. Normally, this is balanced by exports (of a good) from buying country. Imbalances result in exchange rate adjustments. Level of overseas investment, such as FDI as well as increased level of productivity and competitiveness between countries / comparative advantage.

However, other factors do influence exchange rates between countries such as: Speculation, sanctions, embargoes, tariffs, public perceptions, confidence in the economy.

Impact on shipping Industry

- Most operating inputs in shipping are in USD, adverse movements of the dollar could result in reduced profits in the operating results of a shipping company

- Costs directly affected by currency rate movements include:

Bunkers, lubricants, crew costs, canal dues, dock dues, virtualing, Shipbroking fees, overseas dry docking, as well as flag requirements

Suitable diagram