



EXAMINER'S REPORT

MAY 2022

SHIPPING BUSINESS

Question 1

1. Answer **ALL** parts of the question.

a) Using the world map provided, clearly identify, mark and name the following.

- Two major CRUDE OIL loading ports.
- Two major COAL loading ports.
- Two major IRON ORE loading ports.
- Two major GRAIN loading ports.
- Two major CONTAINER hub ports.

b) Clearly show and name the following important shipping areas on the world map provided.

- Panama Canal
- Suez Canal
- St Lawrence Seaway
- Malacca Strait
- Turkish Straits
- South China Sea
- Red Sea
- Cape of Good Hope
- Persian Gulf
- Straits of Gibraltar

Where students went wrong

Writing the name of the answer on the map, but not indicating exactly where it was. Some answers felt that it was necessary to give more information than what was asked for and so they filled in oceans, seas, continents and even currents on the map. This made it more difficult to see the answer to what was asked in the question. Always make sure you address what is asked in the question first; then add any additional information.

The question asked for major ports and whilst we were lenient on what constitutes a major port, we did not accept all ports mentioned. If your port handles a couple of hundred thousand tons, it is not really a major port for that commodity.

Question 2

A manufacturer wishes to export a consignment of pharmaceuticals from Brussels, Belgium to Dakar in Senegal using DPU terms. Identify when risk and ownership passes using this form of INCOTERM with the reasons why the consignment would be sent by sea freight.

What was required

A definition of DPU (Delivered at Place Unloaded)

Under DPU the seller is responsible for arranging carriage and for delivering the goods, unloaded from the arriving means of transport, at the named place of destination. Risk transfers from seller to buyer when the goods have been unloaded. Property will pass when payment has been made as per contract. The buyer is responsible for import clearance and any applicable local taxes or import duties. A useful rule, well suited to container operations where the seller bears responsibility for the main carriage.

a) Type of Goods

This may be a large consignment that can more easily be sent by sea freight in a container.

b) Geography

Origin and destination determine distance and therefore type of transportation required. Related factors include transport infrastructure, safety, security, weather conditions, etc.

c) Time element

Except for emergencies or where there is a priority to deliver supplies within the shortest possible time, procurement should be made to allow dispatch by the most economical/ rational means. It is therefore of great importance that the logistical programme is planned with shipping in mind to avoid expensive rush shipments or purchasing from a source that is not especially rational when shipping time is factored in.

d) Cost

This will be an important factor when considering the urgency and need for the consignment. If there is sufficient time, then sea freight would be a cheaper option.

e) Safety

The cargo may be high value where security may be an issue. In this case alternative transport arrangements may be needed.

Where students went wrong

Where ownership and risk passed seemed to be a difficult concept. A large number of answers felt that risk passed on shipping and property on arrival at discharge point. Who was responsible for what was also a stumbling block, with some answers unsure who was responsible for customs clearance and local taxes.

The second part of this question was to some extent ignored or only given the briefest of attention. You will see from the above that there were a number of aspects for why this method may be used.

Question 3

The major shipping lines are encroaching on the role of the freight forwarder. Discuss the reasons behind them doing this, stating the advantages and disadvantages to the shipping lines, the clearing and forwarding agents, the shipper and the receiver.

This was a question where we were looking for students' knowledge of what is happening in the market. If you had been reading any of the maritime news articles, you would have read about MSC purchasing Bollore's Africa Logistics, CMA-CGM buying CEVA and Maersk acquiring LF Logistics, Pilot Freight Services and Senator International.

You needed to know that this is a version of vertical integration, the lines are buying the services below them and integrating it into their operation, examples such as MSC buying Bollore Africa operations, Maersk buying CH Robinson

They are striving towards becoming 4PL companies (controlling the supply chain overseeing warehouses, shipping, forwarding and agency). This is as a direct consequence of the pandemic and the current disruption to the supply chain.

Lines seeking to become one stop shops for logistics, so they can control how cargo is moved.

Shipping lines are making massive profits at the moment and are using this to expand their control of the supply chain, to control efficiency and streamline operations.

Dangers are:

- That the global supply chain will become controlled by a few companies.
- Clients have less choice and prices could rise
- Current container shortage may lead to clients not getting space
- Client would have to deal directly with each shipping line

Forwarders have on the ground expertise and by removing them there is a danger of costs in fact increasing. They not only arrange shipping, but also trucking and warehousing. These will become additional profit centres for ten major lines and so will add to cost. Forwarders are however dependent on the carriers.

Advantages to shippers and receivers is they only need to make one call and can secure contracts with the line which will hopefully allow them to control their costs.

Disadvantages are that if they are small players they will lose out or have to pay premiums to secure space.

There may be less options on routing and ability to negotiate at load and discharge port for trucking and warehousing. Also, if there is no clearing agent there might be delays with unusual cargoes resulting in additional costs that the lines will not be interested in.

Where students went wrong

Students dedicated too much of their time discussing the functions of a freight forwarder and the functions of a liner agent

Question 4

The cargo has been loaded on board the ship and the bill of lading has been released to the voyage charterer, who has promptly disappeared without paying the freight. What are the implications here for you as the ship owner, what can you now do and what precautions should you have taken to avoid this happening?

The following points needed to be covered in the answer:

- Know that the ship owner is obligated to deliver the cargo to discharge port as per the terms of the bill of Lading.
- Advise cargo interest both charterer and buyer of intention to exercise lien.
- They can apply a lien on the cargo even when it is discharged ashore. The provision for this must be in the charter party and a lien clause in the bill of lading.
- Know that this is not always enforceable, it depends on the country of discharge laws
- Contact your P&I and seek legal assistance.
- Owner should have checked up front that charterer was a first-class charterer.
- Bill of lading should not have been released until payment of freight had been received

Where students went wrong

Discussing the three functions of a bill of lading was not asked and was only of use if you then discussed who had ownership of the cargo and your duty to that party.

Far too many answers said discharge or even sell the cargo and find another cargo. This simply showed a lack of understanding of what the owners' duties are in meeting his/her obligations under the bill of lading.

A number of answers suggested arbitration or going to court. Sadly, you cannot enter into arbitration with someone who has disappeared. Long term you may find them and get them into a court of law, but it does not help you with the immediate problem.

Question 5.

Using the world map provided draw a voyage routing from Durban, South Africa to Yokohama, Japan for a reefer ship, marking on the map the following: ocean names, the voyage route, hazards, weather conditions, and SECA areas that must be complied with. Give the vessel description and cargo stowage options.

This question wanted you to firstly know the geography of the two ports, be aware of what weather conditions might be encountered. Extra marks were awarded if the answer knew the time of the stated weather and if in fact it would be a factor during the period that the cargo is shipped.

The typed of ship used for this commodity required a detailed description of the ship and the fact that it has reefer chambers below deck and the capacity for reefer containers on deck

A knowledge of the fact that this cargo is stowed on pallets and put into the stow using forklifts

A knowledge of geography was required in knowing that the ship would cross from summer to tropical and back to summer loadlines. Piracy is a factor in the Malacca Straits. Comments on SECA requirements and regulations also gained you marks

Where students went wrong

Lack of knowledge of geography was probably the main problem with Durban being shown as far away as in South America and Yokohama being in Korea.

In the early 2000s there was massive piracy activity off the Somalian coast. The last attack was back in 2013 and it has been relatively quiet since then. Trying to route your vessel via Somalia to Japan in order to include the Somalia pirates in your answer was not a good idea.

No knowledge of the particulars of reefer ships. Whilst not one of the major ship types, reefer shipping is a big industry across the globe and students of shipping should at least have a rudimentary idea as to their size, cargo gear, how the cargo is stowed and the trade routes.

Question 6.

Discuss the history of the ITF and their role in assisting crews during the COVID pandemic.

Answers should have covered the following:

- Formed in the late 19th century. Its present membership exceeds 400 trade unions in nearly 100 countries.
- It was founded before the use of open registries when ships were still registered in the country where the ship owner resided and were crewed by that country's nationals.
- ITF views open registries as an attempt to undermine trade unions and against the standards for the working and safety of seafarers.
- Stuttgart Congress – defined minimum conditions that owners must comply with. 1971 congress in Vienna standard agreement to be used by all ships not covered by the agreement between the ITF and ship owner.
- Boycotts and blacklisting of ships or using transport union connections to strike against owners who would not sign up and attempts to push for first world crews are seen by owners in a bad light.
- Protecting crew who have been treated badly or not received wages are seen as benefits of having the ITF represented in most ports.
- The crew Enhanced Quarantine International Programme is an approved international network of quarantine facilities to ensure seafarers can safely join ships CrewEquip.
- Lobbying to have seafarers declared as keyworkers.

Where students went wrong

Answers were good with respect to the history of the ITF, but then fell away on what was their role in assisting crews during COVID.

This question was an opportunity for students to show off their knowledge of how Covid affected our industry. It is important to keep up with what is happening in the world and how it is affecting shipping as it is the intention of the examiners to test you on this knowledge.

Question 7.

- a) Describe the three ways in which an agency relationship can be created and give an example for each**
- b) Having created an agency relationship explain the rights and duties of the agent and the principal**

What were we looking for?

The legal role of an agent and that relationship with the principal is vitally important and we expect students to have a good understanding of this as it affects your working life regardless as to whether you are an owner, a charterer, a broker or an agent.

- a) By express agreement – having a written or verbal communication from the owner or to them by you stating you are appointed. By implication or conduct – acting on their behalf with their knowledge and looking after their interests. By necessity – where it is impossible to obtain the principals' confirmation, but whereby necessity and in order to protect their interests an agent is appointed.
- b) State the duties of the agent – exercise due diligence, apply special knowledge, render account, do not make secret profit and the duties of the principal – pay the agent, protect the agent against liabilities.

Where students went wrong

This question was not about the functions of a ship's agent.

While answers discussed how a charterer appoints an agent or how an owner appoints a charterer's nominated agent.

Question 8.

What is the role of the S&P shipbroker and what skills does the broker require?

We were looking for the following

Acting as an agent to a principal, the seller or buyer, or both to facilitate the sale of ships on payment of a commission.

Specialist knowledge of newbuilding, second hand and demolition markets.

A large database of information regularly updated.

A well-founded list of contacts.

A detailed knowledge of documentary processes in the transaction including the Norwegian SALEFORM 2012, Nippon Sale Form 1999 or Singapore Ship Sale Form 2011 contracting the deal.

A neutral role acting impartially between the parties, offering mediation facilities in event of dispute.

Follow an ethical practice acting within authority of principal(s) and avoiding actions which bring the S&P broker into disrepute.

Ability to provide accurate valuations.

Where students went wrong

Most students who picked this question knew a fair bit about the topic and so answered it well.

The main danger was on focusing on only one aspect of the question and not covering the other specialised areas of the S&P broker functions.