

# EXAMINER'S REPORT

## Shipping Business

May 2023

**Q1. There are a number of container hub ports around the world vying for the majority of a country or even a continent's shipping capacity.**

**Using the World Map in the centre of your answer booklet clearly identify by marking the position and name of the following ports:**

1. New York/New Jersey USA
2. Algeciras Spain
3. Los Angeles USA
4. Salalah Oman
5. Port Louis Mauritius
6. Tianjin China
7. Jebel Ali UAE
8. Hamburg Germany
9. Colombo Sri Lanka
10. Mumbai India
11. Tilbury United Kingdom
12. Port Klang Malaysia
13. Shanghai China
14. Seattle USA
15. Tanger-Med Morocco
16. Busan Korea
17. Port Hedland Australia
18. Colón Panama
19. Santos Brazil

## 20. Saigon Vietnam

Students are advised to carefully read the latest examiner report as it is an extremely useful preparation tool.

**Question 2. Discuss the functions of a ship management company, and the advantages to an owner of using a third-party ship management company to manage their ships**

What was required

Name and describe the functions: full management, technical management, operations, administration, crew, procurement, insurance, bunkering.

Benefits are economies of scale - stores, bunkers, insurance can all be obtained at lower prices

Single owners find it difficult and expensive to obtain Hull and Machinery insurance and P&I cover.

DOC, ISM and new fuel regulations require specialist knowledge. For an owner of one or two ships they may not have the expertise in house and to get it will be expensive. High quality of staff who are experts in their field are more readily available in larger companies.

Crew management service – no need to have a large number of staff to man your ships, much easier to use a crew company.

### **Where students went wrong**

Sadly, there were quite a number of students who had no idea as to what a ship manager functions are. A lot of answers confused them with a ship agents' functions.

There were also a number of answers that described a company internal structures, such as the HR department and the accounts department and confused these with the crew function and administration function that the company offers to clients as a service.

This was a two-part question so you needed to give the reasons for using a ship management company. This seemed to be a stumbling block for many, with only one reason being suggested and quite often as an afterthought tagged on at the end of the answer.

**Question 3 You have just purchased a cargo of 20,000 metric tons of steel products for shipment from Hamburg, Germany to Kobe, Japan under a documentary letter of credit.**

- a) Describe the role of the bill of lading under the processing of the letter of credit.**
- b) Explain three measures put in place under a letter of credit to prevent fraud.**

We were looking for the following

- a) A reasonable definition of a documentary letter of credit agreed under the purchase contract and implemented by the buyer to use the third party, the bank to facilitate vetting of an approved list of prepared documents to allow payment for the cargo of 20,000 metric tons of steel products. Describe the buyer, issuing bank, the seller, the advising bank, the validity of the letter of credit, value and use of UCP 600 rules. Describe the confirming of the letter of credit, specific loading dates, loading cargo, issuing bills of lading, permission from vessel owners for release, submission to the advising bank, payment, transfer of bills of lading to the buyer, submission to the port of discharge as title to goods. Add a well laid out diagram of the process of the bill of lading through a DLC.
- b) Describe the vetting of the Issuing/advising banks, the use of an irrevocable letter of credit, the use of clean bills of lading prohibiting dirty bills of lading under the letter of credit, avoidance of fraudulent indemnities authorising clean bills of lading for loading damaged goods, the vetting process of loading documents prior to submission to the issuing bank to ensure accuracy, the work of IMB in defeating fraud and enforcement of the Bribery Act 2010 in the purchase contract terms.

**Where students went wrong**

Simply giving the functions of a bill of lading did not earn you enough marks. You had to apply your knowledge of their functions to the role they play in the letter of credit process.

Not knowing the functions of a bill of lading and with which parties it is evidence of a contract between. The contract between buyer and seller involves the INCOTERMS. The bill of lading is between shipper and ship. Part b) of the answer required **three measures** put in place under a letter of credit to prevent fraud. Those answers that provided fewer measures or who missed this part of the question lost valuable marks.

#### **Question 4.**

**(a) Describe the different types charter used in maritime transport**

**(b) what are the commercial reasons for using these different charterparties?**

Your answer should have covered the following

##### Part A

A reasonable explanation of the voyage, consecutive, time charter, trip time charter, contract of affreightment and bareboat charter party.

##### Part B

This may include for a voyage charter the movement of one or more cargoes from port(s) of loading to port(s) of discharge. Contributing factors may include a falling market and customer demand.

A contract of affreightment is often used to cover a large quantity of cargo where a preferred freight rate is agreed. This establishes a management of contracts of a fixed period of time, which benefits the charterer if the market does not fall further.

A time or trip time charter party may be required because of a range of forward cargo purchases that allow a low-cost hire to fit in with existing owned or spot tonnage needs. Alternatively, and more often the cargoes as yet have not been sold making planning more difficult as no discharge ports are yet available.

A bareboat employment is a more unique venture by the demise charterer, who has a good portfolio and strong market position which can accommodate a long term 15/20 year venture involving a lower hire rate. This type of charter often involves the use of a ship management company who engages in a total management agreement, with the principal, for the ship.

### **Where students went wrong**

Some students thought that the question called for them to name various charter party contracts and so went into detail on a NYPE or GENCON charter party.

A great deal of effort went into part A, but then virtually nothing was discussed on Part B. Perhaps this was because of a lack of knowledge in how to answer this part of the question. It called for students to think about their reasons as opposed to simply listing what constitutes a time charter or voyage charter.

**Question 5. An existing client is planning to export a container of pharmaceuticals to their long-established customer in Mombasa, Kenya from their factory near London, UK. They want to use either FCA or DDP INCOTERMS TERMS. Explain both options and which one you would suggest be used for this shipment and the reason for your choice.**

What we were looking for

You needed to explain why the two terms selected are preferred. For FCA the seller delivers the goods, cleared for export, to the carrier selected by the buyer. The buyer prefers to have control of transport where cost savings can be achieved. The seller loads the goods if the carrier pickup is at the seller's premises. From that point, the buyer bears the costs and risks

of moving the goods to destination. The buyer arranges transport and insurance. Property and risk pass on loading to the first carrier which will benefit the seller.

When using DDP the seller delivers the goods -cleared for import to the buyer at Mombasa. The seller has control of the cost of transport where again savings may be achieved. The seller bears all costs and risks of moving the goods to destination, including the payment of customs duties and taxes. The seller arranges insurance. DDP offers the seller an opportunity to increase price to compensate for the risks delivering goods to the customer in Mombasa. The property and risk will pass when the goods are delivered to destination which benefits the buyer. Other forms of incoterm may be acceptable provided an appropriate explanation is given. Look for the rationale behind the choice and it needs to be correct.

### **Where students went wrong**

Not knowing the incoterms and confusing them with charter party relationships was one of the more disappointing areas of poor knowledge.

Answers where it was stated the receiver was responsible for the clearances and payment of duties, clearly did not know that DDP stands for delivery duty paid.

Some students failed to answer the second part of the question asking you to select one option and the reason for your choice. It is important that before you answer a question, you look at how the question is framed and what exactly it is asking from you. Just because the questions does not state part a, part b, etc does not mean that it is not a multi part question.

**Question 6.** Choose four of the below organisations and discuss their role and function

Lloyds agent

IACS

ICC IMB

UNCTAD

FIATA

Your answer should have covered the following

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 Nation Council for Trade and Development – part of the UN, setup non mandatory minimum standards for ships 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

Total

**Where students went wrong**

For the most part students who chose this question knew the answers to the ones they selected, but there were quite a number of answers that confused a Lloyds agent function with either a ship's agent or the classification society.

This was a four-part question, so you needed to give five points for each answer in order to gain full marks. Too many answers wrote a page on one of them and then very little on the other three.

UNCTAD being founded in 1834 by the United Nations being one such example. If you are going to give dates, make sure you know the actual date.

**Question 7 companies produce annual accounts of the company's financial position.**

**Describe these financial statements and explain their functions**

What were we looking for?

Profit and loss account – mention that it is a record of the company's trading activities over the past year. That it shows total income, overhead expenses and either the total profit or loss. That the before tax figure is useful in comparing how the company has done compared with the previous year

Balance sheet – It is a snap shot of what the company has in terms of assets and liabilities as at that date. Be able to define what are assets (fixed and current) and what are liabilities (loan capital, creditors, pending legal disputes)



Cash flow statement – financial statement reflecting cash generated and used by the company. Know that creditors should be higher than debtors and the potential dangers of a negative or poor cash flow.

### **Where students went wrong**

A few answers forgot about cash flow in their enthusiasm to show how much they knew about profit and loss accounts and the balance sheet.

**Question 8.** There are a number of ways in which a company can protect itself from foreign exchange fluctuations. Explain how each of these works? Which one would you use and why?

We were looking for the following

Spot market – buy and sell one currency in exchange for another at the prevailing rates

FFA- buy and sell 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

### **Where students went wrong**

Most of the students who attempted this question knew the subject and answered it well. Perhaps the only caution we can offer is that in some cases way too much was written on

one aspect and not enough or nothing on the others. Admittedly the question did not state how many options there are, but if you had done your studying, you would have known in advance that there were four options to discuss.