

# **THE INSTITUTE OF CHARTERED SHIPBROKERS**

## **May 2024 ICS Examiner's Report**

### **Economics of Sea Transport & International Trade (EST)**

#### **General comments**

Consistent with year-on-year results in recent years, the pass rate this year is well above average, and consistent with the trend in recent years.

I am happy to report that an increasing number of essays submitted 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.

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, utility, break even analysis, opportunity cost, supply and demand model, absolute advantage, utility, economies of scale, marginal costs, protectionism, intra and inter industry trade, and balance of trade deficit and, elasticity.

Additional marks are also awarded when candidates provide relevant and appropriate definition of key term and concepts, in their answers.

Q 1. With reference to the Suez Canal, examine the impact of recent geopolitical issues on global shipping.

Ideally, a brief history and strategic position of the canal would open the examination, proceed to mention among other things, that:

- the canal is (200km long) situated in Egypt completed 1869, connects the Mediterranean with the Red Sea , a dividing line between Africa and Asia, lies at the opposite end of the Red Sea and Gulf of Aden's Bab Al Mandeb strait, the shortest maritime route from Europe to Asia , allows ships to avoid the long trip around South Africa's Cape of Good Hope , and that an estimated 20,000 vessel cross every year, plays a strategic role in both trade and geopolitics:

- Israeli/Gaza Conflict and following attacks on commercial shipping in the Red Sea, container ships were diverting to take the longer Cape of Good Hope route from Asia to Europe.

- Red Sea route saves ships 10 days of transit, rerouting results in additional fuel costs, seafarers' wages, and other forms of overhead including insurance against stagnant/plummeting revenues.

- although Economists were downplaying the immediate impact of the extra costs, noting they have a small chance of being felt directly by consumer, this could mean higher costs for goods "If more ships divert over time /the longer term, or the security situation escalates.

- Brief conclusion.

Q2. Examine the critical role of ports in the global transport system.

This was a popular question, straight forward and required candidates to critically examine the role of ports in the global transport system making mention of elements such as:

- \* The world's key shipping waterways and canals occupy a vital segment of the global transport system.
- \* Reduction of nautical distances.
- \* Reduction of due charges.
- \* Impact on the economics of ship size.
- \* Influence/ impact on hinterland and port development.
- \* Ports are the third component in the global transport system and provide a crucial interface between land and sea.
  - \* – provide secure location where ships berth.
  - \* – improved cargo handling facilities.
  - \* – different facilities for different cargoes.
  - \* industrial manufacturing facilities – export processing zones and Increased role in globalization and increased trade liberalization.

Quoting examples throughout.

Brief and concise conclusion.

Q3. Identify and comment on the factors that influence an owners/ operator's choice of flag.

This was a straight forward question that required candidates to identify and comment on a ship-owners' decision to choose a flag - state that that decision is based not only on economic factors , but equally on political , strategic, defensive , legal and institutional considerations, such as:

- Costs: registration fees and annual tonnage taxation etc.
- Acceptability: not every flag is welcomed in every country.
- Commercial or socio/political reasons: why a particular flagged vessel should be used in a particular trade.

Brief and concise conclusion.

Q4. Within the grain market, identify ALL the following:

- a) Five major cargoes.
- b) Four main importing and exporting countries of these cargoes.
- ☐) Three factors that impact the market.

This was a popular question; candidates were required to identify the five major cargoes including:

Wheat, Rice, Corn, Barley, Sorghum, Oats, Rye and Soya

Grain:

Major exporters: USA, Canada, Ukraine, Australia, EU, Argentina.

Major importers: China, Egypt, Turkey, Sub Saharan Africa, Developing America, Europe, East and Western Asia.

Soya:

Major exporters: Brazil, USA, Argentina, Uruguay, Canada, and Ukraine.

Major importers: China, Mexico, Japan, Germany, Egypt and Spain.

Three factors that impact the market

- The primary factors impacting global soybean and products trade include population and income growth, driving the world's increasing demand for livestock products, as well as policies implemented by major agricultural importers and exporter, including environmental, taxes and tariffs.
- China's dominance of the soybean import market stemming from grain self-sufficiency and China's border policies favouring soybean imports, and value addition.
- swift expansion of poultry production and consumption in developing countries is a major driver behind the growing demand for feed and protein meals.
- Variable year and year production and movement, disasters, climate change induced crop failures, El Nino.
- Geopolitics Ukraine /Russia war

## Brief Conclusion

Q5. What effect do the high transport costs have on international trade and global commodity movements? Use a graph to support your answer.

Candidates were required to explain, with the use of a graph the effect that high transport costs have on international trade and global commodity movements. Graphs are typically worth 5/6 marks. The best answers argued that transport costs have the effect of raising the price of imported goods in the same way that a tariff does, further:

- presence of transport costs means that there is a potential barrier to trade.
- If high they act just as if the price of the import has been increased, so the size of and trends in transport cost influence the way the global market develops.
- High bunker costs, a result of increased oil prices impact negatively on the landed cost of imports.
- Increased transport cost would cause among other things: major slowdown in seaborne trade ;fundamental realignment in trade patterns; freight sensitive low value cargoes are first casualties; containerisation makes transport costs more vulnerable to fuel-cost swings, Result: growth in regional trade.
- Examples throughout and a concise conclusion.

Q6. Critically analyse FIVE key building blocks on which a liner service is constructed.

There are Eight Building Blocks on which a liner service is constructed, including:

- Ship characteristics: ship size, speed, fuel consumption and cargo handling efficiency.
- Service schedule: port calls, voyage distance, service interval and number of ships.
- Capacity utilization: the cargo liner challenge is to match the service to the trade as closely as possible
- Ship costs: operating expenses, capital costs and fuel costs
- Port charges and canal tolls: port charges on the ship vary from port to port and method.
- Deployment of containers: in any trade there is a mix of container type and sizes used.
- Container costs: these cover the capital costs of containers, maintenance, repair terminal handling costs, storage and repositioning
- Administration costs: cost of running the liner service

This question required candidates to identify and analyse any five of the eight building blocks.

Brief and concise conclusion

Q7. Critically examine the relationship between the tanker and the dry cargo markets.

Candidates that scored the highest grades argued that:

Although most analyses of tanker market treat it as an independent sector, examination of the movement of dry cargo and tanker rate over time reveals that they tend to move together.

-the tanker freight rate is more volatile of the two, but there is a good correspondence between peaks in one sector and peaks in the other:

Reasons:

- the correlation is related to the concept of substitution in economics. Separate markets are more closely related. The higher the degree of demand substitution between the two sectors (due to the substitution between oil and coal), the higher the level of supply substitution between them.

- Dry and Tanker share the same key drivers.

When world trade grows, it tends to create good conditions in both market segments, hence long-term link.

Example: China

- China's economic growth has generated significant increases in the demand for oil gas, coal and iron ore leading to record rates for Cape size vessels.

- Freight rate Link.

- Berth capacity being finite berth capacity
- limitation of shipbuilding capacity thus creates a potential link between freight rates.

Brief and concise conclusion.

Q8. Define and briefly explain ALL the of the following:

- a) Short Run Cost
- b) Utility
- c) Intra- Industry Trade
- d) Price Discrimination

This question was very popular, straight forward and attracted good answers.