

EXAMINER'S REPORT

Shipping Business

May 2024

General comment

It is fundamental for students to read the question before starting your answer. This session exam paper went one further, with a lot of students not bothering to read the instructions on the front page of the answer booklets. Students failed to fill in on the front of the answer book, the numbers of the questions they had answered; the next question was often started straight below the last one, the only indication being a small number at the start of the next sentence; not bothering to fill in the number in the block provided at the top of each page. Writing an essay on the graph paper pages also seems quite fashionably. Whilst none of this cost you any marks, you should consider that how your present material, is a form of self-marketing. A neat, completed submission, in the format requested, suggests to the recipient that this is how you will approach any task.

A number of students firm believers in a picture paints a thousand words and so drew all sorts of diagrams. The problem with this is that if you do not explain what your diagram is about and its relevance, then it is hard to award marks for it.

Q1. Answer all parts of the question

- a) Discuss the reasons why ships are currently avoiding using the Panama and Suez Canals**

- b) Using the world map provided in the Centre of your answer book, show the routes from New York to Hong Kong using each of these canals, naming the oceans, seas, straits and important geographical features on the routes
- c) Using the world map provided in the centre of your answer book, show the routes from New York to Hong Kong using the Alternative routes to each of these canals, naming the oceans, seas, straits and important geographical features on the routes

What we were looking for

a) Draft restrictions in the Panama Canal are due to a drought and possibly the effect of climate change and El Nino which has led to a restricted draft of 14.5 M (47.5 ft) and reduced transits from 36 to 24 pd with less cargo. Attacks on shipping from Drones operated by Houthi rebels in Yemen and the ever-present threat from Somali pirates has meant owners are avoiding the Suez Canal and using the Cape of Good Hope.

Map showing New York, Panama Canal, Suez Canal, CoGH, Cape Horn and Hong Kong.

Marks for map Each route B1, B2, C1, C2. shown correctly is 1 mark.

Each of the underlined below ½ mark

b) **Using Suez.** New York, North Atlantic, Gibraltar Strait, Mediterranean Sea, Suez Canal, Red Sea, Straits of Bab el Mandab, Yemen, Somalia, Gulf of Aden, Arabian Sea, Indian Ocean, Malacca Strait, Singapore, South China Sea, Hong Kong.

Using Panama, New York, North Atlantic, Windward Passage (Cuba-Haiti), Caribbean Sea, Panama Canal, Pacific Ocean, Luzon Strait, South China Sea, Hong Kong.

c) **Using Cape of Good Hope.)** New York, North Atlantic, South Atlantic, Cape of Good Hope, Indian Ocean, Malacca Strait, Singapore, South China Sea, Hong Kong.

Using Cape Horn (Magellan Strait). New York, North Atlantic, Brazil Coast at Recife, South Atlantic, Bahia Grande Argentina, Straits of Magellan (Cape Horn) Pacific Ocean, Luzon Strait, South China Sea, Hong Kong.

Where students went wrong

The focus of the question was the word CURRENTLY, so explaining the high costs of canals or the Ever Given blocking the Suez, were not what was wanted. We were looking for answers that showed us you are abreast of current affairs and what is affecting shipping.

Not many answers about the Panama Canal considered the fact that ships now needed to sail **with** a reduced draft, which of course means less revenue as less cargo can be carried.

There was as always, some interesting geography, but on the whole a marked improvement from past papers. We would suggest that the map in the middle of the answer booklet is used as this allows you to use just the one map for the full question and gives you a lot more space to write **Better answers included oceans, seas, the Malacca Strait, Sunda Strait and the Strait of Magellan.**

Q2 Describe the responsibilities and risks for buyers and sellers when trading a cargo using **ONE** of the following Incoterms:

- a) FOB
- b) FCA

What we were looking for

A – FOB

The seller is responsible for delivering the goods onboard the vessel. Incoterm 2020 provision relate to sea and inland waterways, which the seller may only use at the load port. Typically, five bulk cargoes amongst many others are sold Fob including– coal, grain, iron ore, fertilizer and petroleum products including crude oil.

The seller is responsible for all the costs and risk of moving goods up to the loading of the cargo. They may use road or rail transport, conveyors, grabs, pipelines and shore storage to deliver the goods.

Example – grain is often loaded by conveyor and spout trimmed.

The seller must arrange all the required export documentation. This involves agents drawing up bills of lading on behalf of owners. Forwarding agents and/ or sellers arrange, amongst others, the commercial invoice, export licences, required certs of weight, quality and origin.

Seller Risks – Risk is with the seller up to passing the ship's rail. Sellers are at risk for buyer non-performance/insolvency and not payment for cargo.

The buyer must nominate the port of loading and arrange the performing vessel with eta

The buyer will pay for the cargo, ocean freight and arrange cargo insurance for the marine passage. The seller must provide information to permit insurance to be raised failing which risk remains with them.

Buyer Risks – Buyer assumes all risk on cargo passing the ship's rail at the load port. Buyers are at risk of seller non-performance/ bankruptcy and failure to supply the cargo.

Or B – FCA Free Carrier Named Point

FCA is part of 7 Incoterms that apply to any mode of transport.

The seller is responsible for delivery of the goods to the buyer at the seller's premises or to the buyer at another named place. If the seller is delivering the goods to the buyer at another named location, including a CFS (Container Freight Station) or Container Yard, the seller is responsible for making the goods ready for unloading, but not unloading the goods at the destination point. When using the FCA incoterm, the point at which the seller is delivering the goods to the buyer must be named: e.g., "FCA, Name of Origin CFS."

The seller is responsible for clearing the goods for export. FCA can be used for all modes of transport, including LCL (Less than Container Load), FCL, and air consignments.

The seller must arrange all the required export documentation and export clearance. An addition to FCA was introduced by Incoterms® 2020. Many sellers were incorrectly using FOB when they would prefer to use FCA because that banks require an onboard Bill of Lading to be presented if payment needed to be done using a Letter of Credit. The new FCA provision makes it possible for the carrier to issue to the seller a transport document stating that the goods have been loaded if the parties have so agreed. This Bill of Lading with an onboard notation can be issued by the carrier under the instruction of the buyer and at the buyers cost and risk.

Seller Risks – Risk is with the seller until the goods have been loaded onto the first means of transport or named point. The seller is exposed to the risk of buyer non-performance/insolvency and not paying for the agreed cargo.

The buyer and sellers must agree to contract a specific place where cargo is to be loaded onto the first means of transport or named point.

The buyer will pay for the cargo, arrange and pay for the transport, ocean freight and arrange cargo insurance for the marine passage.

Buyers Risk – The buyer assumes responsibility for the cargo when loaded onto the first means of transport or named point. Buyers are at risk of seller non-performance/ bankruptcy and supplier's failure to provide the cargo or utilise transport arranged by the buyer.

Where students went wrong

A number of answers thought FOB stood for Freight on board and other were confused as to whether it was risk or property or both that took place upon the loading of the cargo. A lot of students suggested that when the cargo passed across the ship's rail risk passed from shipper to receiver. **The updated INCOTERMS have amended this to cargo loaded, however we did award a mark if you stated over the rail. Some students however, misread the question and included an answer for both FCA and FOB terms which wasted valuable time and did not attract extra marks.**

Q3 Describe the services available to a shipowner contracting with a ship management company using a Shipman agreement and the benefits achieved.

What we were looking for:

Describe the main tasks performed including commercial operation, crewing, technical and storing function, accounting and insurance services.

Benefits – available large discounted service agreements, talented staff that benefit services in accounting, crewing, technical upkeep, insurance and commercial operation. Particularly useful to a small owner avoiding need for a large expensive inhouse management team.

Marks were also awarded if you commented on Total ship management (TSM) and Hybrid ship management system

Where students went wrong

There are still a number of students out there who confuse a ship manager function with that of a ship's agent.

Students got caught up on one function, especially crew and this was then the only function that they discussed. If you know there are a number of different functions that you need to discuss, divide the number of functions into 20 marks so that you get an idea of just how much information you need to give for each function. Two pages on one will still only get you 4 or 5 marks.

A lot of answers covered described the services, but then forgot to carry on and mention the benefits

Q4. Describe FOUR different ways in which to charter a vessel used in maritime transport.

What we were looking for

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

Voyage charter **is** the movement of one or more cargoes from named port(s) of loading to named port(s) of discharge. Owner responsible for port costs, bunkers and the management of the ship. Charterers to pay the freight and if they take too long to load or discharge the cargo, demurrage is applicable

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 is a fixture based on time with a daily hire rate. The charterer is responsible for the commercial operation of the ship whilst the owner is responsible for the crew and ensuring the ship is in a seaworthy condition with all her certification and insurance in place. Offers charterer far more flexibility at a lower price, but it does come with more risk. He needs to find cargoes and cover the cost of the hire regardless as to how the market is

A bareboat employment is a 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

Many answers failed to mention that a voyage charter is between named ports and an agreed tonnage. Without this information how would an owner know what freight rate to charge?

Quite a few answers never discussed the method of payment or the responsibilities of each party.

Entering your ships into a pool is not a form of chartering

Q5. Answer BOTH parts of the question

- a) **Discuss the main functions of a bill of lading.**
- b) **Explain the concept of a “clean Bill of Lading” and its significance to both buyer and seller in international trade.**

What we were looking for

Part A

Receipt of cargo onboard the ship, condition of cargo, mates receipt, clean bill of lading/dirty bill of lading

The role of the bill of lading as evidence of the contract entered into between the shipper and the carrier prior to shipment of the cargo. The contract is 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. It is a negotiable document.

Part B

Discuss the functions of letters of credit and the fact that a claused BL will result in the deal falling through. Must mention banks require a clean bill before they will honour the letter of credit.

Where students went wrong

Terminology let some students down. They confused shipper with shipowner. There was also some confusion as to what the bill was a receipt of and who were the two parties it was referring to.

A number of answers did not link the bill of lading's role in the execution of letters of credit.

Q6. Discuss the origins, purpose and structure for EACH of the following:

1. **FONASBA**
2. **International Chamber of Shipping**
3. **IACS**
4. **BIMCO**

What we were looking for

1. FONASBA – The Federation of National Associations of Shipbrokers and Agents, founded in 1969 by major European shipbrokers and agent associations.
Gives support to its members when the basis and general interests of the shipbrokers and agent professions are questioned.
It encourages fair and equitable professional practices. It supports its members and co-ordinates efforts to improve shipping contracts, revision of charter parties and other shipping documentation.
Represented in 49 countries and represented by 43 national associations with a further 6 countries represented by associate of candidate members, Secretariat based in London, has consultative representation at the UN Committee for trade and development where it provides a voice for its members.
2. International Chamber of Shipping established 1921 and took its current title in 1948. It consists of national ship owners and covers over 80% of the world fleet. Members include Hellenic

Chamber of Shipping, Cyprus Shipping, Japanese Shipowners Assoc. China Ocean Shipping and UK Chamber of Shipping. It is concerned with technical, legal, employment and trade policy issues that impact on international ship operations. **The International Chamber of Shipping is an international, independent, not-for-profit London-based trade association. It is managed by its secretariat for the benefit of national shipowner associations and their members.** It is involved with many intergovernmental bodies, IMO, ILO, WTO and UNCTAD. Plays an important role in the development and implementation of international conventions such as SOLAS, STCW. International shipping federation joined it in 2011

3. International Association of Classification Societies. they help to promote consistency, rules and standards of classification, design, construction and through life compliance of member societies

They promote a code of ethics to which it expects members to adhere and promotes transparency within the system of classification. To become and maintain membership classification societies must satisfy the criteria on quality, systems, and procedures.

Members are ABS, BV, CCS, CRSA, DNV, IRS, KR, LR, NK, PRS, RINA & Turk Loydu

4. Baltic and International Maritime Council founded in 1905 by a group of shipowners engaged principally in trade in the Baltic and White seas.

Objective is to facilitate commercial operations of its members by developing standard contracts and clauses as well as providing high quality information and education. Its members can access its material and information online. BIMCO is headquartered in Copenhagen. It has an international membership of 2300 organisations representing shipowners and operators, brokers, agents, maritime lawyers and P&I clubs

Where students went wrong

Generally, a well answered question with students knowing exactly what each organisation origins, purpose and structure was. The main errors here were with students who clearly did not know this information and used the question as their last question and guessed at an answer.

There was also the usual pattern of writing reams on one of the four and very little on the others. In a question such as this you need to remember that each part is worth equal marks. In this case five marks each. So, two pages on FONASBA, still only got you five marks.

Q7. In order to avoid fraudulent insurance claims describe the documentation the insurance company insist on receiving and briefly explain the purpose and function of each of them

What we were looking for

Description of documents required – claim form, commercial invoice, insurance certificate, bill of lading, consignment note, delivery note, claim sent to carrier with correspondence, repair estimate and survey report.

A fair explanation for each of the following:

- Written claim – this will usually be a claims form issued by insurers detailing the deductible that will apply before a claim becomes valid. This minimum value will also include the need for a survey of the damaged goods.
- Commercial invoice including insured value, weight and product description.
- Insurance certificate. A transferrable marine insurance certificate valid at the time of loss.
- Bill of lading or consignment note. The bill of lading will describe amongst others the name of the shipper, vessel, freight payment, load port, cargo weight and description, discharge port and notify party. If goods are loaded in a dirty bill of lading then the document will be claused. This will prevent the bill of lading being used under a DLC. Other provisions may include an original or duplicate copy along with details of owners of the goods and evidence of the contract of purchase or sale.
- Extra marks for students who mention the Hague Visby Rules 1968 and the need for the carrier to produce a bill of lading to check apparent good order when goods are shipped.
- A delivery note should either be a receipt for road or rail delivery and show that the goods have been received or rejected with the nature of the damage involved.
- Correspondence with shipowner or carriers should include protest holding carrier liable for loss
- Repair estimates will include restoring costs or replacement costs and commercial value.
- Surveyor's report will include the place of inspection the quantity and description of damage, photographs of damage, if goods of no commercial value, if there is a recycling cost and in case of bulk cargo samples for testing at laboratories of insurers/parties request.

Where students went wrong

The crux of the question was describe the documentation and explain the purpose and function of each of them. Far too many students read fraudulent and went off on a tangent on how shipowners and shippers try to cheat the insurers.

Q8. Discuss possible ways in which a company can protect itself from foreign exchange fluctuations.

What we were looking for

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

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 are the variants.

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

FFA are not a way to manage foreign exchange exposure. It is financial derivative that can be used to hedge against fluctuating freight rates and perhaps if you are willing to gamble a bit, it might help offset the loss you take if the exchange rate goes against you, but that is not its function. Betting on a horse might also help you in this regard.

Not many answers distinguished between a spot market rate and a spot contract

S.B. Q.1. 2024 M.



INSTITUTE OF CHARTERED SHIPBROKERS

Your Examination Number Subject Question Number

