

**EXAMINER'S REPORT  
SHIP SALE AND PURCHASE  
MAY 2024**

**GENERAL COMMENTS**

The key to passing this examination is identify what the examiner is looking for, and then providing it in a structured and well presented way. Some questions – for example in this paper – this is fairly easy to provide as long as the information provided is accurate and relevant.

Ship type questions (like Question 2) spell out what the examiner wants, i.e. a description, some drawings of the ships, and trade routes drawn on the map. These questions can be particularly rewarding to the student if they are answered correctly.

Others ask for draft offers (like question 3) which can be presented in a format that does not need to be presented in an essay format, but in the form that they are experienced in the real world. Again these questions can produce very favourable results.

Other questions, what could be called 'essay question' require a more structured approach, and need some thought before writing begins. An essay plan would assist the student in these cases, so that they can think what the question is actually asking. 'Explain' is different to 'analyse' for example, just as 'discuss' is different from 'describe'. Paying attention to these key words, and planning an essay beforehand will assist in making sure that the essay is well structured, well written and answers the question being asked over the course of two or more pages.

A pass can rarely be given in those cases where an essay question is answered by half a page of text.

In real life, shipbrokers will have to present information and knowledge, and their understanding of a particular situation quickly, concisely and clearly so that it can then be acted on. This includes good presentation and the ability to convince the other person that you have the knowledge and the understanding required in order for you to execute the task at hand. The professional examination process is also asking the student to be able to present their knowledge and understanding quickly, concisely and clearly under time pressure. Those that obtain the highest marks in these examination have understood this, and consequently presented the examiner with accurate and relevant answers.

- 1. Give two examples of situations where "subjects" could be inserted in a full terms offer for a secondhand vessel, analysing their function and the advantages and disadvantages of their use during negotiations.**

This question was looking for both accurate knowledge of the practical use of subjects and the implications on contract effectiveness.

Of those students that came up with two sensible examples of subjects, and why they would be used, highest marks were given for context, e.g. subject inspection of the vessel, subject Board of Directors approval, showing why the subjects would be inserted.

Additional marks were awarded to those students who were able to show that they knew how and why they are used. The advantages could have included that the parties can resolve other matters whilst negotiations are taking place, or indeed after negotiations have concluded, and the disadvantages should mention that no contract exists until they are lifted, and a lot of work can be done with no final positive result.

This was not a popular question. Many candidates failed to address both parts of the question, which apart from suggesting reasonable examples, required analysis of their function as well as the advantages and disadvantages of their use.

Many concentrated on the Buyers' side only (Sellers can use them too, and often do) and on some occasions confused the terms of the contract with subjects.

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

**a) Provide a detailed description of an Ultramax bulk carrier as would appear on a typical secondhand sale and purchase circular stating size, dimensions, machinery and other significant equipment and features.**

**b) Draw a profile and cross-section of the vessel and label the dimensions and other significant parts of the vessel.**

**c) On the world map provided show THREE typical trade routes of this vessel.**

When attempting this type of question, it is worth noting the following:

- Use the world map in the centre pages of the examination book
- When drawing profiles and cross sections, use the graph paper on either side of the centre pages
- Use the whole page for your drawings, and use a pencil and a ruler
- Take care to label all the things that you have highlighted in your vessel description on the map, including the Length Overall (loa), Beam and draft
- This is not an essay question, and does not need much writing.

a) The question asked for a detailed written description of a vessel as it would appear on a sales circular, and should have therefore included dwt, dimensions, engine, holds/hatches cubic capacity, gear and class survey position as a minimum. An example is as follows:

M/V TBN  
61,750 dwt on 12.800m draft  
Built 2012, Oshima Shipbuilding Co Ltd, Japan  
NK SS due 03/2027 DD due 06/2025  
Loa 199.99m, Beam 32.26m  
5/5 ho/ha 77,000/75,500 cbm gr/bl  
Cranes 4x30T  
Man-B&W 11,150 BHP

Gens: 3 x 440 kW

- b) An acceptable ship drawing was required showing profile and cross section with all relevant spaces and equipment identified, together with the dimensions labelled.
- c) A good map would be one using three different trading routes, with three different cargoes, and three different loading and discharging ports.

To obtain the best marks, apart from following the above advice, candidates should know the ship types and sizes. This is an absolutely essential part of ship sale and purchase, and there are no excuses for a lack of knowledge.

This is a question that can award many marks to a candidate that follows the instructions in the question, but there are not many marks available for those who are unable to provide accurate details, or present badly executed drawings and maps.

**3. You have successfully arranged for your client to physically inspect an LR1 tanker and the Classification Society records online. Your client now wants to make an offer for the vessel on an outright basis. Draft a full terms offer for their approval.**

This question tested the knowledge of a full terms offer including the correct termination and language used in such an offer.

It should be noted that a draft full terms offer on an outright basis means that there are no subjects.

A good answer would be drafted in a recognisable format, and contain the following essential terms:

1. Price
2. deposit
3. payment
4. inspection declaration
5. notices (time)
6. delivery range/date and cancelling
7. underwater inspection whether diving inspection or drdocking
8. Spares, exclusions and bunkers/lubs
9. Documentation
10. Condition on delivery
11. Law/jurisdiction/arbitration
12. Type of Saleform e.g. NSF 2012

In addition, students should not that when the the vessel in question is a product tanker, e.g. that the vessels will be delivered with cargo tanks gasfree for hot works.

It is important that candidates present this as an offer, not an essay, and in terms that are recognisable to market practitioners. Good answers contained clauses and wording that would be familiar to market practitioners.

**4. Identify and briefly explain the function of the documentation that the Sellers would be reasonably required to provide at the closing meeting of the sale of a secondhand container feeder vessel.**

This was a straight forward sales documentation question, requiring an brief explanation of the function of each document. These should have included:

- a) Bill of Sale (document of title, freedom of encumbrances) duly notarily attested and legalised or apostilled
- b) Power of Attorney (identifying who is authorised to act on behalf of the sellers, and the limits of their authority) duly notarily attested and legalised or apostilled
- c) Minutes of BoD (showing that the sellers have authorised the sale in accordance to company regulations, and that they authorise the issuing of a Power of Attorney)
- d) Transcript of Registry showing freedom of encumbrances and certificate of ownership (this can be in two different documents)
- e) Certificate of Deletion and/or Letter of Undertaking (showing that no outstanding fees are payable to the Registry by the sellers)
- f) Class Maintenance Certificate (showing the vessel is in class and free of conditions of class)
- g) Commercial Invoices for the Vessel and the bunkers and lubs RoB
- h) Letter of guarantee that vessel is not blacklisted
- i) Some form of document that recognises that the vessel is a containership, e.g. Certificate/Guarantee that confirms the good order of any electric socket points for Reefer Containers or a warranty that there is a set of lashing/twist locks for a full load of containers remaining on board.

There were no marks awarded for documents not needed in the documentary closing, i.e. certificates on board (including trading certificates which are not delivery documents), plans etc. As the question asked only for documentation that sellers would reasonably provide, there were no marks awarded for candidates who mentioned buyers' documentation.

The question asked for identification **and** explanation. Too often the explanation was lacking, or the wording from Clause 8 of NSF 2012 was simply repeated. Those that achieved high marks were able to do both.

**5. Using a Saleform of your choice, describe the obligations of both Buyers and Sellers if the Buyers choose to exercise their option to arrange for an underwater inspection by divers prior to the delivery of the vessel.**

The question asked for a description of the obligations of both the Buyers and Sellers in arranging a divers' inspection.

Apart from correctly identifying of the appropriate clause, e.g Clause 6 of NSF 1993/2012 (and not confused with the pre-purchase inspection clause, i.e. Clause 4 of the same Saleforms) or equivalent elsewhere. This is a frequent error, and no marks can be awarded if there is confusion, as the purposes of the two clause are completely different and occur at different times of the sales process. The description of the clause (applicable for both NSF 1993 and NSF 2012) should include:

- The sellers have to make the vessel available for inspection at an anchorage or berth where the conditions are suitable for inspection, if not they have to move it to where it can be inspected
- If the underwater parts are free of damage that results in a condition of class/recommendation then buyers pay, otherwise sellers pay for class attendance, the cost of the inspection
- If a condition of class is imposed then the sellers have to repair the vessel either afloat or in drydock at their cost and expense
- If a condition of class is imposed and the vessel has to be drydocked the sellers take her there at their cost and expense, then the cancelling date is to be extended for a maximum of 14 days
- Sellers to pay of the cost of drawing the tailshaft if class requires it, otherwise if buyers ask for it and no condition is imposed, the Buyers pay, but if a condition of class is imposed then the sellers pay
- Expenses of putting the vessel in and out of drydock, drydock due and the cost of repairs to rectify the condition(s) of class to be for sellers account – everything else is for the for the buyers' account
- Buyers have the right to paint and scrape the underwater parts whilst vessel is in drydock at their cost and expense, but if their works exceed the time taken for Sellers to complete their works, they pay for the extra time
- In such a case the sellers have the right to tender Notice of Readiness whilst the vessel is still in drydock

Further, for NSF 2012:

- If a condition of class is imposed but only requires the repairs at the next schedule drydocking the sellers can deliver the vessel to the buyers with recommendations against compensation for the direct cost of labour, to be determined by the average of two quotes from shiprepairers close to the port of delivery from both buyers and sellers
- Sellers are not to tender NoR prior to divers inspection

A good understanding of the clause was needed to answer this question well, but a simple regurgitation of the clause is not enough. Top marks were awarded to those candidates who as well as mentioning all of the above points, were able to illustrate their answer with examples in a lucid and well-structured answer. It is worth remembering to answer the question being asked;

in this case no extra marks could be awarded to those who wrote about inspection in drydock, because this was not in the question.

**6. Shipbuilding contracts typically contain clauses that relate to liquidated damages in the event the Shipyard fails to meet their contractual requirements. Identify and explain TWO common situations where such clauses apply, and the remedies the Buyers have in each of these situations.**

Students should have identified two of the following provisions commonly used in shipbuilding contracts:

- non-permissible delays in delivery
- speed deficiency
- excess fuel consumption
- deadweight or size deficiency

A proper explanation should have included when and where the failure to meet contractual obligations occurs, and then what remedies are available to the Buyers.

For example in the case of non-permissible delays in delivery, in a typical newbuilding contract, failure to deliver the vessel as per the contract by the delivery date, then the Sellers normally have a 30 days grace period to deliver the vessel, but thereafter have to pay a pre-agreed daily amount, liquidated damages, for a period until the date – usually 180 days after – the Buyers have a right to cancel the vessel.

Additional marks were available for those candidates that were able to show awareness of the wider shipbuilding contract, and how liquidated damages not only penalise poor performance but also motivate good performance.

**7. Using a Saleform of your choice, identify the occasions when a Classification Society is involved in the sale of a secondhand ship from pre-purchase inspections until delivery of the vessel from Sellers to Buyers, explaining the role of Class on each of those occasions.**

This question was asking for an understanding of the Classification Society's role in the sale of a ship. These can be identified as follows:

- Inspection of Class records: including how Class collects and stores these records, how permission to view the records is obtained, and the relevance to the Buyers before they decide to definitely buy the ship
- Divers inspection/drydocking: including the role of class during the underwater inspection i.e.
  - Determining that the underwater parts are free of damage that results in a condition of class/recommendation
  - That Class is the sole arbiter in deciding whether a condition/recommendation is imposed

- Issuing a Class Maintenance certificate on delivery showing the vessel is free of conditions of class/recommendations on delivery unless otherwise agreed

The classification society's role at these times are different, and have different outcomes. Many candidates confused Class with Registry, and also confused pre-purchase inspection with underwater inspection.

Those that understood the role of class generally, and were able to answer the question using examples to explain it obtained the highest marks.

**8. Write a market report discussing the current situation of the newbuilding crude oil tanker market, paying particular attention to VLCCs.**

This question examined knowledge of current market conditions, and the ability to write a coherent market report.

The highest marks were awarded to those candidates with an up to date and accurate market knowledge and convincing arguments, and were able to produce a well-structured and readable report.

The best essays included discussions on:

- The long term demand for crude oil, trade routes and subsequent tonne mile demand
- The current geopolitical situation
- Demand trends and risks due to decarbonisation
- The demand for newer vessels with the ability to burn alternative fuels
- The state of the current newbuilding orderbook (full until at least 2027) and rising prices
- New technology and innovations

Some students had an in-depth knowledge of the crude oil commodities market, but without a corresponding discussion of the freight and newbuilding markets, i.e. the shipping markets, they struggled to achieve enough marks for a pass.