

THE INSTITUTE OF CHARTERED SHIPBROKERS

November 2024 ICS Examiner's Report

Economics of Sea Transport & International Trade (EST)

General comments

I am very pleased to present the November 2024 Economics of Sea Transport & International Trade Examiner's Report., which is consistent with above average year on year results in recent years.

I am happy to report that an overwhelming 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 and sound conclusions.

It is highly recommended that candidates present their essays following the standard format described above. This level of professionalism must be maintained.

Candidates are once reminded that additional marks are earned by those candidates that make appropriate and relevant use of maps, definitions of key terms and concepts as well as the use of 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, economies of scale, opportunity cost, supply and demand model, absolute advantage, utility, marginal costs, protectionism, break even analysis, intra and inter industry trade, and balance of trade deficit and tariffs.

Q 1. Compare and contrast the advantages of private and public ownership.

A popular question.

The best answers stated that All ports claim that one of their main concerns is the promotion of national interest, and explained the extent to which this idea underlies management pricing and investment in ports,

- examined the two main principles or doctrines on which port development tends to be based:

1. Anglo-Saxon or Peninsular doctrine
2. The European doctrine.

Anglo–Saxon Doctrine states:

-the port should stand on its own feet, not incur losses and aim to make a profit.

European doctrine states:

- as part of the social structure of the whole region the value of the port should be assessed not solely on the accounts of the port but in terms of the progress of the industry, transport, and trade of the port region or hinterland.

- further explained, that while implicit in both principles are the requirement to cover costs and be efficient, the extent to which this will be the aim will depend on the context within which pricing investment decisions have to be made.

- that the aim of both managements will either be:

a) to run efficient port whose assets, assist regional development

b) have a policy for tariffs and investment geared to generating profits.

- highlighted Professor Goss conclusion, that ownership was not the key issue, management competence , investment and cultural factors were of far more significance.

Brief Conclusion

Q2. Explain ALL of the following topics:

a) Shipping cycles

b) Competitive market basic - factors

c)Theory of comparative Advantage

d) Long run cost

This was a straightforward question and required candidates to explain all the topics

Q3. Explain the term derived demand in the context of shipping.

A very popular question, the best answers explained that:

Freight shipping is an intermediate part of a process of production and the demand for shipping, like the demand for raw materials or intermediate goods, is a derived demand. The demand is derived from the consumers' demand for the final product.

- and explained that ' Derived demand' has a particular set of rules relating to its elasticity.

Rule 1 There are few, if any substitutes for shipping. The argument here is that most products in international trade require transportation by sea, for which there is not a close substitute

Rule 2 Although there may be alternative sources of the product, these too will normally require transportation by sea. Again, in the case of there being no substitutes. For example coffee from Africa could be an alternative to coffee from South America, from the point of view of the European

consumer all require sea transport. Gain, it is again a case of there being consumer

Rule 3 Freight rates are a small proportion of final costs.

Rule 4 the elasticity of demand for the final product will be an important factor in the elasticity of the derived demand for shipping. The lower or higher price of elasticity of the final product the lower or higher will be the price of elasticity for shipping. Since many goods transported by sea have a low elasticity, this will be reflected in the low elasticity of demand for shipping.

Brief Conclusion

Q4. Explain how the 'Equilibrium Freight Rate' is determined. Use a diagram to support your answer.

This question required candidates to explain that:

The market is defined as the interaction of supply and demand, which both together determines the equilibrium freight rate and quantities sold at that rate.

Key factors:

Volume of world's trade driven by overall economic activity growth and changing degrees of openness towards trade by individual nations

Prevailing conditions:

1. Freight rates should be sensitive to short run market conditions, reflecting both present and expected future situations

2. there will be a strong positive co-relation between demand growth and new orders, provided that the present stock of vessels is highly utilised with low levels of lay-up

3. positive correlation between freight rates and new orders

4. exceptional events will generate significant increases in rates.

A graph/diagram

Brief Conclusion

Q5. Explain the concept of 'Utility' as it applies to the shipping industry.

This was a popular question and required candidates to:

Define and explain the concept of Utility:

- that resources are used in production to create what economists call utility. It is the power of goods or services to give pleasure, satisfaction or what is termed 'real need'.

Shipping and the maritime industry as a whole is an important element in the process of creating utility. Utility is created in a number of ways:

- Place utility: the accessibility of goods at a certain such as table grapes shipped from Namibia to a supermarket in London.
- Time utility: the accessibility of goods at a certain time, for example , heating oil from West Africa to storage tank of a small house in Norway in mid- winter.
- Other forms of utility are also contributed to by shipping or transport, such as the act of providing a service ie mediation, such as insurance, agency etc.
- Import and export of goods or the act of exchange.

Examples throughout and a concise conclusion.

Q6. Discuss barriers to entry which may occur in the liner trades.

This question requires candidates to discuss the

- oligopolistic market structure of liner shipping, how it is characterised by the existence of few sellers and inter –firm rivalry

Other characteristics of an oligopolistic industry include high entry barriers of newcomers due to huge capital investment:

- fleet size
- extensive global presence and alliances
- marketing &logistics, port and allied cargo handling and through transport infrastructure
- restrictive and exclusive operating systems
- little difference in service
- the decisions of one firm influence, and are influenced by, the decisions of other big firms, a game dominated by the big boys!
- Existence, emergence, and evolution of global &strategic alliances running highly competitive regular and reliable sailings.

Brief and concise conclusion

Q7. Examine the economic impacts of tariffs. Use a graph to support your answer.

This was a well answered question and supported by good graphs.

The best answers defined tariffs , gave examples and examined their economic impact with the support of graphs.

Tariff:

Definition: a tax duty on an import imposed by the government of the importing country. Tariffs may be levied in two basic ways; on an ad valorem or specific duty basis. Also called import duty, a traditional means of restricting imports. These taxes raise the price of imported goods in the levying countries domestic market above those in international markets. By imposing what is in effect an import tax, the government raises the domestic price level of a product, stimulates domestic production, reduces or eliminates imports and of course raise revenue

Implications:

Consumers: - does this mean that the economy is better off being protected? NO!

Consumers are worse off than they were in free trade position, since they now must pay higher prices and buy less of the product being protected.

Producers:

It may appear that producers are "better off" when tariff is imposed since they expand production, but this is in fact a false impression. Comparative advantage assumes full employment so one can argue that since resources have been redeployed in the protected sector, output in another sector would have fallen, resulting in economic inefficiency.

Conclude that: there is a loss to both consumers and the economy as resources are redeployed in an inefficient manner. These aspects render support to the argument that free trade is superior to no trade.

Q8. Answer BOTH parts of the question of the question.

This was a very popular and well answered question, supported by very well labelled maps

Within the dry bulk cargo market are the following four major cargoes.

- i. Iron ore
- ii. Grain
- iii. Thermal coal
- iv. Bauxite

For **EACH** cargo:

a) give details of what they use for, the typical cargo size or range, and the types of vessel that would be used for their carriage.

b) using the world map provided at the centre of your answer booklet show and label on the map for each cargo a typical load port and country and a typical discharge port and country and the cargo route between them. Use different ports for all these.

Well prepared candidates were able to demonstrate their knowledge of maritime geography and score very high marks!