

# INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2008 EXAMINATIONS

TUESDAY 22 APRIL – MORNING

## ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE

**Time allowed – Three hours**

**Answer any FIVE questions – All questions carry equal marks**

1. What impact has the weakening of the US Dollar in 2007 had on the global economy in general and shipping in particular? How can the shipping industry mitigate the effects of adverse exchange rate fluctuations on their profits?
2. Towards the last quarter of 2007 the crude oil prices rose to unprecedented levels approaching \$100 per barrel. Discuss the impact that a sustained rise in crude oil prices is likely to have on shipping and the global economy in both the long and short term.
3. With the use of diagrams show how an understanding of the relative price elasticities of demand and supply for shipping tonnage affects a ship owner's decision on freight rates.
4. Cost management is key to business success and shipping is no exception. Identify the cost elements that ship owners are able to control and how their cost base may be reduced. Graphs recommended.
5. Discuss in detail the structure of the tanker market and briefly comment on the emergence of the Bio Fuel sector.
6. 'Liner Conferences have outlived their usefulness and should be consigned to the pages of history'. Assess the validity of this statement basing your views on recent developments in EU and other international legislation.
7. The last decade has seen massive investment in port expansion, development and privatisation in response to increased global trade. Identify and discuss the elements that port management need to consider in order to secure a port's regional and global competitiveness.
8. What advice would you give to a country suffering from a persistent balance of payment deficit?

# **THE INSTITUTE OF CHARTERED SHIPBROKERS**

## **ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE (EST)**

**2008**

### **EXAMINER'S REPORT**

#### **OVERALL COMMENT**

It is pleasing to report that the number of candidates that sat this year's Economics for Sea Transport and International Trade examinations is higher than last year setting yet another record.. It was heartening therefore, to see many candidates pass with good grades. Equally pleasing was the extensive use of current news in shipping, foreign currency markets and world trade issues, by candidates in support of their answers . This is a very positive development and a sure sign that candidates read and take examiner's reports and comments seriously.

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#### **QUESTION 1.- WEAKENING OF THE DOLLAR**

This question was the most popular and not without reason. It is topical and afforded candidates an opportunity to display their knowledge of the global effects of the weakening of the world's trading currency

Clearly the weakening dollar has the immediate impact of raising the price of crude oil and other commodities which in turn affects global economic activity, as well as the reduction of the purchasing power of shipowners, traders and brokers. The way to prevent exchange rate exposure is to keep a portfolio of different currencies and the use of different hedging methods.

Examples abound here for example Chinese ship yards have recently quoted in US dollars and euros for new buildings as way of hedging against losses due to the weakening of the dollar

This question was very well tackled by candidates and supported by current and relevant examples

#### **QUESTION 2. CRUDE OIL PRICES**

Another very popular question and again not without reason, a broad and topical question which gave scope to candidates to show off their knowledge of the crude oil market and it's impact on global economic activity.

The rise of crude oil in the last quarter of 2007 was unprecedented. This question was very well tackled and supported by excellent examples

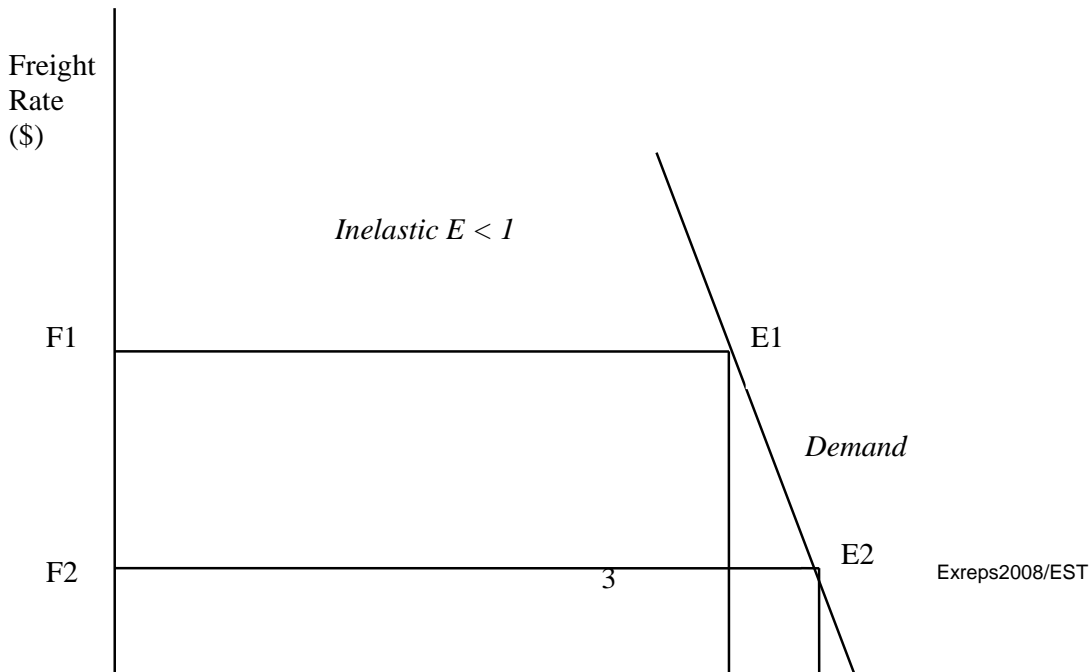
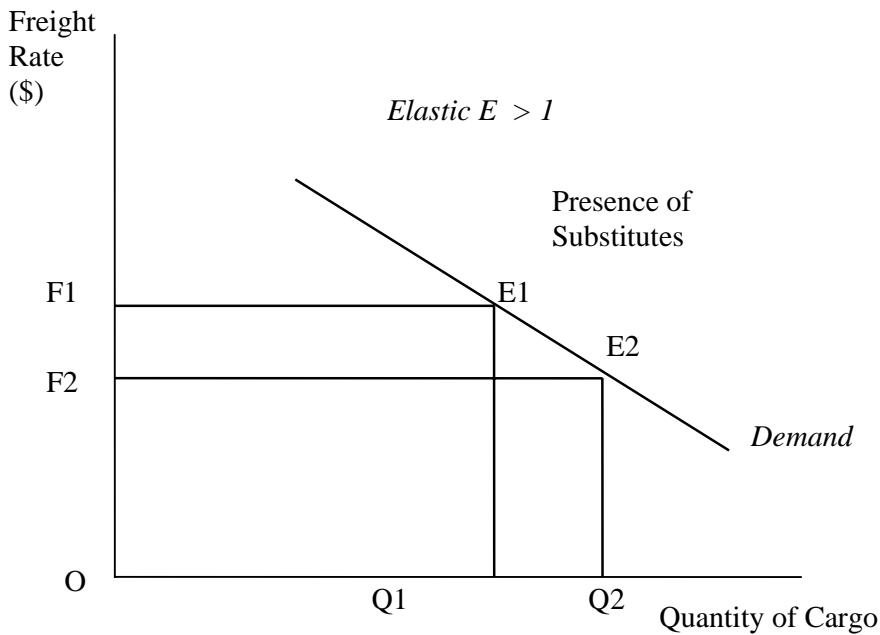
Issues that needed to be raised were: slowing down of consumer spending as petrol prices impact the motorist, higher production costs impacting on manufacturing and reduction on spending on goods and services, fears of falling industrial output and a recession, rise of bunker prices and an increase in freight rates, governments and stakeholders efforts aimed at securing more sustainable energy sources and the adoption of measures to reduce their countries vulnerability

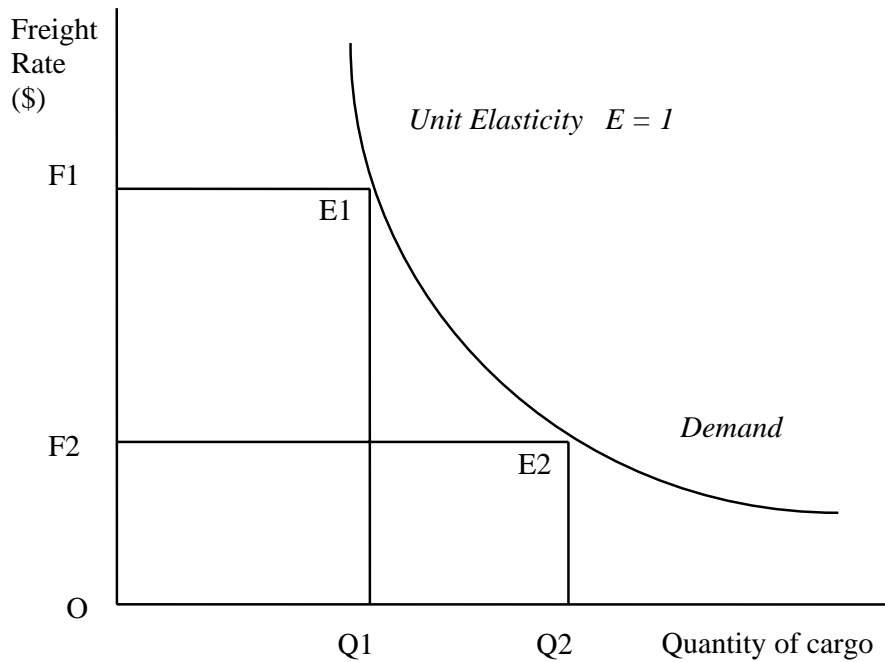
**QUESTION 3. ELASTICITY OF SUPPLY AND DEMAND**

This was a popular question and produced some very good answers supported by very detailed and relevant diagrams

The question was about Elasticity and called for the use of diagrams to explain the concept.

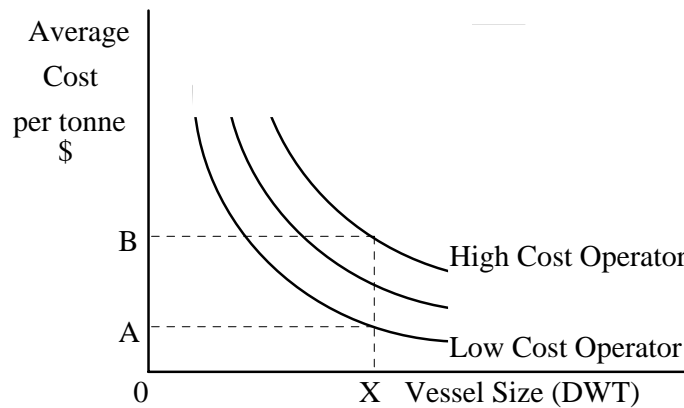
Candidates who attempted this question scored high marks:





**QUESTION 4 COST MANAGEMENT**

A popular and a straight forward question, which is about the importance of cost management and the identification of the main cost components that shipowners could keep control of in order to operate a profitable business. Good answers were supported by relevant diagrams.



Costs typical divided into: Capital, Direct Operating costs, Voyage Related Costs

Classes of Direct and Voyage costs that can be controlled include the following:

1. Flag Registry – Profits, Crew costs, Tax rates
2. Voyage related costs: fuel costs, canal and port dues, cargo handling costs and crew provisions

## **QUESTION 5. TANKER MARKET AND THE BIO FUEL SECTOR**

This question drew a wide range of answers. Candidates needed to identify different sectors of the tanker market including the crude oil sector, other specialist sectors such as LNG, LPG and chemicals tankers, vegetable oils and fats and Bio fuel markets.

Candidates also needed to identify and explain the competitive elements of the market : maximisation of profits, large number of buyers and sellers, homogeneous, complete freedom of entry and exist from the market and full information on market conditions What was gratifying was the enthusiastic and extensive coverage of the BioFuel sector, including the factors behind the growth and development of the industry, such as environmental concerns and the world's over-dependence on fossil fuels and the urgent need to address this unhealthy situation.

## **QUESTIONS 6 LINER CONFERENCES .**

This question was about the repeal of the Liner Conference Regulation for Liner Shipping Conference (Council Regulation 4056/86 ) and gave candidates the opportunity to talk about the likely effects of this move particularly in the EU and the Liner Industry in general.

Surprisingly this question was not a popular question, candidates that scored high marks supported their answers with sound theory and current knowledge and understanding of liner conferences and the economics and legislature that supported their existence especially in the EU. It was good to see examples drawn from non EU regions, reflecting the very healthy development regarding candidate knowledge of current shipping news and current affairs referred to earlier in the report.

## **QUESTION 7. PORT EXPANSION AND PRIVATISATION**

This question required candidates to apply theory to practice, by firstly defining privatisation, the reasons why many ports are now privatised and the evidence of improved performance and expansion as well as the successful marketing of specific ports in the world including reference to other port management practices. Important elements that needed to be mentioned include:

Port Handling Equipment ,Machinery and Support Services ,Marketing and Strategic positioning

## **QUESTION 8. BALANCE OF PAYMENT**

This question required candidates to define a balance of payment deficit and explain how a deficit comes about and the measures needed to correct the situation such as:

Monetary policy, Fiscal policy, devaluation,, Exchange controls, increased value addition and the establishment of an export oriented free trade economic system.

## **CONCLUSION**

Generally, a very good result in all areas of the examination: theory, practice, layout and handwriting.