

INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2008 EXAMINATIONS

MONDAY 28 APRIL - MORNING

LINER TRADES

Time allowed – Three hours

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

1. Letters of credit are the ‘lifeblood’ of international trade and the different types of letters of credit are of benefit to both the buyer and seller.

Explain why you would agree or disagree with the above statement and why the documentary credit system is more popular outside the EU Single Market.

2. Incoterms 2000 continue to be essential shipment terms in International Sale Contracts with Ex Works & CIF being amongst the most popular. Explain and contrast these two terms in regards to a FCL container from a sellers **and** buyers point of view. Also explain **two** further terms from the list below.

- a) FOB
- b) DDP
- c) FCA
- d) DAF

3. Container vessels continue to increase in size with many of the larger vessels (above 6,000 TEU) being used on the three main trading routes which are the Trans-Pacific, Europe to Far East and North Atlantic. However the smaller container ships (below 2,500 TEU both geared & ungeared) continue to play an important part in smaller trades. Describe two of these smaller trades in detail including commodities & ports and explain why these smaller vessels are so important in relation to the main trading routes.

4. Define and comment on any **five** of the following abbreviations.

- a) ISM Code
- b) ITF
- c) P&I
- d) ICC
- e) MTO
- f) BIMCO
- g) FMC
- h) FONASBA

5. You are a container shipping company entering a new market and are constructing a freight tariff for that specific trade on a FAK and / or Box Rate basis. Describe and explain the pricing strategy you would use and the factors you would need to take into consideration.
6. Explain how Consortia & Alliances operate and the differences between the two. How do you see these two groupings developing over the next five years and what influence will Global Service demands from major manufacturing exporters and competition from other Carriers have on your view?
7. A 20ft General Purpose Dry Van Container stc 240 packs of green bamboo was shipped from Hong Kong to Le Havre, France on a direct service in mid-December on a port-to-port basis only. Upon discharge from its deck stow the container is found to be leaking water from the doors and the consignee / receiver is advised accordingly before delivery.

Describe what action the consignee now needs to take. What evidence and documents does he need to provide to his insurers/carrier for his claim? What defences and liabilities does the carrier have and what investigations should he undertake?

8. Describe the role of container leasing companies and the type of leases offered to carriers. What are the advantages and disadvantages between owning and leasing containers for the carrier. Describe the key features of the following equipment and types of cargo carried in each case.
 - a) Temperature Controlled Containers.
 - b) Open Top Container
 - c) Platforms
 - d) Vented Containers

THE INSTITUTE OF CHARTERED SHIPBROKERS

LINER TRADES (LT)

2008

EXAMINER'S REPORT

OVERALL COMMENT

In setting the paper this year I tried to make the questions as practical as possible and the opportunity for candidates to have some open questions where they could discuss & develop their answers to gain good marks. This was balanced against some narrow focused questions where the candidate was led to the specific issues which need to be answered which tested both the knowledge and understanding of the underlying principles i.e. question one & question seven.

QUESTION 1 – LETTERS OF CREDIT

This question was set to see if candidates understood the purpose and types of letters of credit used in international trade by both the buyer & seller. In general terms the candidate should have agreed with the statement set out in the question as letters of credit are the most common method of payment of the goods and are viewed by English judges as one of the most important instruments assisting international trade. However the candidate could disagree with the statement as long as there was good discussion and it was justified with strong points & commercial considerations.

The strength of letters of credit lies in its documentary character where the goods are represented by the bill of lading and in turn this represents a document of title which is used as a means of financing the transaction. There are various types of letters of credit which are available to the parties involved which offer various methods of payment over a period of time and offer different ways of doing export transactions. The documentary credit system does not command popularity in trade within the E.U. Single Market, partly as a result of the substantial charges involved and partly because of trade risk in the single market is relatively lower. With trade outside the single market where trade risks are considerably higher or at least perceived to be, documentary credits are more widely used. In some countries in Asia and Africa exchange control rules might require the use of letter of credits to ensure that cross border payment in any currency is better monitored by the governments concerned since payment is ultimately made by banks which are directly or indirectly regulated.

This was a popular question but poorly answered as many candidates wasted time on describing the process of a bill of lading through the bank, bills of exchange and other methods of payment, clean bills, transshipments, conspiracies of western banks to defraud consignees and claims against carriers for fraudulent bills of lading.

QUESTION 2 – INCOTERMS

This question was one of the most popular and in the main fairly good marks were achieved as it was a straight forward question explaining the differences between Ex Works and CIF terms with reference to the responsibilities of the shipper & buyer, payment of costs and when risks transferred. However many candidates failed to discuss licenses, pre-shipment inspections, notice to seller's etc which is where the extra marks laid. In the second part of the question candidates had to pick two further terms of which FOB & DDP were the most popular. One common misconception was that Incoterms are Carrier's bill of lading terms whereas they are actually sale contract terms between seller & buyer. Candidates were also confused between terms and saw DDP as the same as CIF.

QUESTION 3 – SMALLER VESSELS / TRADES

This question was a gift to all candidates and gave them the opportunity to describe any trade apart from the three mentioned in the question. As long as the candidate had the ability to discuss service structure, hub & spoke, end to end services, niche markets, distribution of cargo to and from these large trade routes, commodities, trade imbalances, transshipment & feeder service for the larger trades then good marks were possible. Common mistakes by candidates were poor trade descriptions, discussion of tramp trades & tanker markets, clearly separate routes were needed rather than variations of the same one and, of course, omitting maps of the trades they discussed. One candidate even complained that the question was too wide and there was no specific correct answer, maybe he should have been more creative in his answer rather than just stating this point and moving on to the next question.

QUESTION 4 – ORGANISATIONS / ABBREVIATIONS

This question was fairly popular with most candidates with P&I (Protection & Indemnity Club) and ITF (International Transport Workers' Federation) being the most selected. The answers ranged from a good description of all terms to a poor description of one or two abbreviations and just the organisation name written down on the remaining three.

QUESTION 5 – FREIGHT TARRIFFS

Another fairly straight forward question for candidates to gain good marks. Any pricing strategy must take into consideration the freight volumes, the balance of commodity tariffs against FAK cargo, Government influence, surcharges, Physical Pricing Factors, Geographical Factors, feeder costs, commercial factors, trade and shipping competition, stability of market, break-bulk cargo, vessel daily running costs, feeders, cost of sale & marketing, commissions, agents etc. Common mistakes that candidates made were believing container trades started in the 1860's, confusion between commodity tariffs and FAK rates plus concentrating on one or two factors rather than the whole range mentioned above.

QUESTION 6 – CONSORTIA & ALLIANCES

This is another question where the candidate could be creative in their answer, whilst appreciating how the Liner Market is still influenced by conferences to a lesser extent and independent carriers. Also future development of Consortia and Alliances are dependant on take-overs, global service requirements and the continued demand of shipping services in China & India among other factors. This was one of the least popular questions and it showed in the answers as many candidates spent most of the time discussing conferences rather than consortia & alliances. In other cases candidates were confused between alliances & consortia and their answer became interwoven with conferences and no clear distinctions made.

QUESTION 7 – CARGO CLAIMS

The aim of the question was to see if candidates were aware of the simple procedure of cargo interests notifying the carrier and cargo insurers of the damage, subsequent claim documents required and defences to the carrier. If only the candidate had kept to this then good marks were attained but many drifted in to other areas which led to wasted time. These include general average, problems with hatches (candidates were told cargo was loaded on deck), damage during inland transport at destination (candidates were told it was a port-to-port shipment), ‘Clean Bills’ issued fraudulently by carrier & shipper, cargo was allegedly dangerous goods, CMR & CIM rules, P&I surveyors involved (why would P&I clubs appoint surveyor on one container?) and why the carrier allowed for container to be moved with open doors (no mention of this in the question). Candidates obviously thought this was a trick question and threw everything into their essay rather than answering the question set.

QUESTION 8 – LEASING CONTAINERS & TYPES

This question was one of the most popular this year and was generally answered well enough to obtain good marks if the candidates answered both parts of the question. However many candidates dropped marks as they concentrated on one specific area or showed a complete lack of understanding in how leasing companies operate and the different types of leases offered. Too many candidates discussed the matter of container control / tracking and storage facilities at ports or inland depots which was not required to answer the question.

CONCLUSION

Many candidates performed very well over the range of all five questions with good marks whilst other managed to succeed by having 3 or 4 strong answers but with a weaker fifth answer. However very many of the papers this year were for the Foundation Diploma and with the old favourites of “Functions of a Bills of Lading” and “Process of Letters of Credits” not included several candidates struggled to gain marks or at times answer five questions. This may account for the lower pass mark than last year and with many papers in the 40% to 50% range. This underlines the need for candidates to study the whole course syllabus as there are ten key subjects in the course book and each year we can only ask eight questions.