



EXAMINER'S REPORT

NOVEMBER 2021

SHIPPING BUSINESS

General Comments

The questions in this paper were asked in such a manner as to get the student to apply the knowledge as opposed to simply giving rote answers from the textbook they had been studying. It was hoped that by asking the students to apply their knowledge to everyday shipping issues that it would give them an opportunity to not only demonstrate their knowledge of the subject, but to also demonstrate their awareness of how it impacts on the business of shipping. It is the intention to frame questions in future exams in this fashion and so we would urge students to not just memorise the facts, but think as to how current shipping events are affected.

If a question has more than one part, it means that the marks are allocated evenly across all parts of the question. So writing realms and realms for the first part and nothing or very little for the second part means you are reducing your potential marks significantly

In every exam report we say the same thing, **READ THE QUESTION!** If you write a beautiful answer that has nothing to do with what has been asked, you get no marks. It's heart breaking for the marking team to give you a zero and we can only imagine how horrible it must be for you when you realise that you didn't answer what was asked. Please take your time and carefully read each question before you start to write your answer.

Question 1

The letter of credit for the cargo is about to expire and the cargo has still to be loaded on board the ship. The charterer asks you, *the shipowner*, to sign and stamp the Bills of Lading for today's date, even though the cargo will only be loaded in two days' time. What are the dangers here and how would you respond to this request?

Factors that you would consider were as follows:

Know that this is fraud and clearly explain why it is a fraudulent act, which will result in loss of P&I cover.

Be able to explain the dangers of the cargo being damaged on the quay or on loading or being short shipped and you having issued a clean bill of lading. Appreciated the danger that the charterer could simply get the bill and his money and deliberately shortship the rest of the cargo and vanish

Mention the authorisation to sign bills of lading and that the agent has to comply with the exact wording of that request

Advise the charterer that you are unable to comply with the request and advise owners of the approach. Inform P&I of your actions and seek further advice.

Where students went wrong

Far too many students discussed the functions of a bill of lading and how letters of credit work. This was not asked.

There were only some answers that highlighted that this was a fraudulent act

No one considered the consequences of the charterer's nominated agent having authorisation to sign bills of lading and what steps may be needed to ensure they comply with the owners wishes.

Question 2

Discuss the functions, aims and origins of **FOUR** of the following:

BIMCO

International Chamber of Shipping

Intertanko

FIATA

UNCTAD

IACS

What was required

This was the only rote answer question in the paper and many students did well here by having simply memorised the various organisations and regurgitating these facts. For each of these give the full name, where applicable, date of origin, what are the main functions and aims of each organisation

Where students went wrong

Giving far too much information on one or two of these and very little on the other two, but perhaps this was simply a lack of knowledge on these that caused this.

Some students gave an essay on world shipping and the need for these bodies. Again, this was not what was asked.

A very common mistake and not just on this question is broad sweeping generalisations. Students will not get any marks for stating that X organisation carries out a wide range of duties, or that they are responsible for X and etc. Unless you detail the wide range of duties or what the etc is, we cannot award you a mark. Always assume that the person reading your paper has no idea what the subject is about and that you are in fact teaching them

Question 3

There are a number of ways in which maritime fraud can be committed. Name THREE, giving examples and the measures you could take to ensure your company does not become a victim.

We were looking for the following

Insurance fraud – scuttling ships for the insurance, over insuring vessels and cargo

Documentary fraud – the bill of lading typing up and releasing a false bill of lading

Under measuring cargo in an effort to reduce freight charges

Letters of indemnity – fraudulent attempts to issue a LOI to allow clean bills of lading to be produced for loading damaged cargo

Smuggling

Bribery – another form of fraud

Check the credentials of the customers and clients, do credit checks, credential checks within the industry, chamber of commerce, BIMCO and IMB and staff training

Where students went wrong

In this question there was no requirement for an introduction paragraph(s), so spending a lot of time writing one was wasted time.

Examples of fraud were well described, but there were a number of answers that forgot about the last part of the question and did not mention measures you could take to avoid becoming a victim.

Question 4

Identify the main functions of a Bill of Lading in the purchase, loading, sale and delivery of a cargo of steel coils. What are the usual problems associated with the movement of this product and how the Bill of Lading can support this commercial trade of goods.

Your answer needed to cover the following points

A good description of the three functions of a bill of lading including receipt for goods, evidence of the contract and document of title.

Describe the role of the bill of lading and mate's receipt, clausing bills of lading clean or dirty. The problems associated with loading damaged steel coils and rejection of a dirty bill of lading where a DLC is used. The fraudulent use of an LOI to facilitate clean bills of lading.

The role of the bill of lading as a negotiable document of title, made out to order to facilitate sale of goods in transit to destination.

The role of the bill of lading as evidence of the contract entered into between buyer and seller prior to shipment of the cargo. These terms in the bill of lading used by a third party in dealings with the shipowner.

Steel cargo is usually claused and there are acceptable levels of clausing. A pre-load surveyor should be appointed to protect owners' interests and ensure that the steel cargo is in a satisfactory condition

Where students went wrong

Too many answers focused on the movement of the cargo after it was loaded, (going into detail on the weight of each coil, how they are stowed and lashed) and the bill of lading is released. The damage done after this stage is for owners account and so not relevant to what the question was asking.

Poor knowledge of the functions of the bill of lading, when it is issued and which parties it is evidence of a contract between, is concerning as this is an important document and everyone in shipping should know its purpose and functions

Most missed the point that steel cargoes are prone to surface rust and that there are standard endorsements (RETLA) acceptable to be put on the mate's receipt that do not impact on the bill of lading's status as a clean bill.

Very few answers discussed a pre-load survey or calling in P&I for assistance.

It is important to understand the basic elements of the main commodities being shipped. Without this knowledge you are going to not only come unstuck in these exams, but more worrying is you will come seriously unstuck in your work environment. Answers stating steel is a hazardous cargo, or prone to liquefaction simply showed that students have no knowledge of the main commodities being traded.

Question 5

Public Limited companies are obliged by law to publish annual accounts of the company's financial position. What are these financial statements and what are their functions?

This question wanted you to discuss the following documents

Profit and loss account – mention that it is a record of the company's trading activities over the past year. That it shows total income, overhead expenses and either the total profit or loss. That the before tax figure is useful in comparing how the company has done compared with the previous year

Balance sheet – It is a snap shot of what the company has in terms of assets and liabilities as at that date. Be able to define what are assets (fixed and current) and what are liabilities (loan capital, creditors, pending legal disputes)

Cash flow statement – financial statement reflecting cash generated and used by the company. Know that creditors should be higher than debtors and the potential dangers of a negative or poor cash flow

Where students went wrong

Generally, a well answered question, but some answers wandered into discussing the differences between private companies, partnerships and public companies. This was not what was asked and so consequently no marks could be awarded.

Question 6

Coal is a major commodity traded around the globe. Discuss the types of vessels used to transport this cargo and the hazardous and precautions to be taken.

Using the world map provided, show load ports in Australia and TWO possible discharge ports, considering the current trade embargo on Australian coal.

Your answer should have covered the following

Description of Capesize, Panamax and handysize vessel and why each would be used
Hazards of coal loading, water, spontaneous combustion, degradation, monitoring of water discharged when pumping of bilges

Weather conditions – willy willies, monsoons

Piracy, HRA

Routes from the correct side of Australia to India and Europe. Know that very little coal is moving to China

Where students went wrong

Geography! It is expected that students know the world map and the main trade routes. Too many answers had coal moving from the Australian west coast or had coal ports that are on the east coast moved to the west coast

Students also needed to give the ship's dimensions and the reason for using her. Too many answers just stated panamax or capesize with no indication of how big the ship is

There was a lot of detail on the potential hazards of the cargo, but few answers discussed the hazards on the voyage.

Question 7

Discuss the role of a ship management company and the challenges that they have faced over the last 18 months due to the impact of COVID 19.

Your answer needed to cover the following points

Know that this can be an in-house department or an external company. Name the different departments and the challenges they have had in fulfilling their functions due to Covid regulations

Technical management – problems with getting senior shore personnel onto vessels in all ports

Operations department – responsible for the employment of the ship and needing to know the restrictions of its trading environment. Authorise brokers to make firm offers.

Need to take into account that ports they will call at may have had a high Covid wave that could impact on next port of call. Also, insurance falls under the ops department it may be impacted by the decision to call in high risk areas

Process implemented on board to reduce the risk of transmission of Covid from shore personnel to ship's crew

Administrative department responsible for the accounting, do the cost analysis between actual and voyage estimates. Would need to take into account the impact of Covid protocols into the calculations and results

Crew management – how crew changes were impacted by Covid. Dealing with crew stuck on ships, dealing with crew stuck at home. How to continue with training in a lockdown situation. Protocol to be followed when crew changes are allowed to ensure no one boarding the ship is infected. How to arrange to vaccinate crew on board

Where students went wrong

Too many answers focused wholly on the crew issue. You needed to discuss all of the departments and how they were impacted

Question 8

A seller of goods will wish to ship CIF whilst a buyer will wish to buy FOB. Explain BOTH of these terms, the reason for this statement and what the advantages and disadvantages are to each party.

We were looking for the following

Explain the two terms and what they mean, when property and risk and handed over and who is in control

The seller would want to control the shipment as well as the cashflow. This is better for the country they are resident in as they gain the foreign exchange revenue

The buyer similarly will want to control the shipment and not lose the foreign exchange revenues

Where students went wrong

Confusing the role of the buyer and the seller.

No mention of the fact that the insurance on CIF contracts is assignable.

Making your job easier is not seen as an advantage, but mentioning things like foreign exchange, and freight rates are important advantages. Basically, if you control the ship, you control when the shipment will take place