THE INSTITUTE OF CHARTERED SHIPBROKERS

November 2022 Examiner's Report

Logistics and Multimodal Transport

Examiner's Report for Publication

Question 1

The answer should cover the definition of an NVOCC, their role in the logistics and multimodal transport sector and their relationship in the market to the vessel operating lines. Specific points to be mentioned:

- Explain the term 'Non Vessel operating (common/container) carrier'
- An NVOCC purchases space on vessels from liner service operators
- Provides door to door multi modal service as a principal (contrast with forwarding agent)
- Offers both FCL and LCL ('Groupage') services
- Provides additional added value services – some NVOCCs will manage complete supply chains

Clear descriptions of the range of services provided by NVOCCs should be given

The following are points which should be included when discussing the advantages and disadvantages of using NVOCCs rather than booking with the ocean carrier direct.

Advantages:

- NVOCC acts as a principal
- Flexibility – NVOCCs have contracts with many ocean carriers but are not tied down with assets. It means they can offer more sailings a week on a given trade than ocean carriers
- Consolidate volumes from different customers to offer highly competitive freight rates
- Experience and strength in handling LCL consignments for which ocean carriers no longer provide a comprehensive service.
- Offer full range of integrated door-to-door services, including value-added consolidation, warehousing, cross docking, packaging and labelling, last mile delivery, documentation, management of returns
- Can offer range of logistics solutions to their customers – important as increasing number of beneficial cargo owners have downsized their transport and logistics divisions
- Generally NVOCCs have better IT and customer service and support systems than carriers
- Unified documentation for complete operation

Disadvantages:

- Often NVOCCs do not own container equipment, which could be a problem in tight supply situations.
- Ocean carriers are less likely to offer space to NVOCCs if their space is full with their own shipper clients' cargo

- Ocean carriers offer better rates/terms for Beneficial Cargo Owners (BCOs) shipping large volumes/service contracts
- Consolidation and rationalisation have led to individual carriers shrinking their networks – less choice for shippers/consignees
- NVOCCs will take their own profit margin, so may be more expensive than dealing with the carrier direct
- Dealing with a 'middle man' is not always efficient – can be better from a service perspective to deal with the carrier direct
- If NVOCC becomes bankrupt, there is a risk that your cargo will be held by the actual carrier as security for freight

Question 2

Note: for maximum marks, answers must explain each term, how it improves efficiency and give at least one example for each term

Consolidation

- Grouping together LCL shipments ordered by a single importer from different suppliers into FCL container loads in the origin country
- FCL container can then be delivered directly at destination as required by the importer (either to Distribution Centre, or direct to point of use)
- Reduces shipping costs by maximising container utilisation, and can avoid the need to break down containerload at destination before delivery to the importer
- Importer can control supply chain either by buying on ex works terms, or FCA (where supplier delivers goods to the consolidation point); importer then controls shipment from there to destination
- Consolidation can also refer to a service offered by NVOCCs where they consolidate LCL consignments from different shippers, and then deconsolidate at their destination depot and deliver individual consignments loose to the receivers; while this achieves benefits of better container utilisation there is no benefit from FCL delivery at destination; most container carriers no longer offer LCL/LCL services

Cross Docking

- Goods bypass the storage area in warehouses and DCs, and move directly from receipt to despatch (although temporary storage may be provided)
- Inbound loads from different suppliers/origin points are sorted into loads according to destination requirements (e.g. for local DCs or for final point of use/sale)
- Load size for inland distribution is optimised e.g. goods which arrive in 40ft containers can be broken into smaller loads, or in USA can be cross docked to larger inland intermodal units
- Reduces requirement for warehousing and associated costs etc.
- Reduces through transport costs by optimising load sizes

Supply Chain Resilience

- Being able to respond quickly to operational disruption, and having flexible contingency plans
- Aim to anticipate disruptions and if possible avoid them altogether
- Diversifying suppliers and manufacturing partners
- Implementing capacity and inventory buffers

- Utilising multiple carriers/routes/modes
- Moves from ‘just in time’ to ‘just in case’
- Main benefit is risk reduction; can also improve efficiency and productivity

Question 3

The answer should include a description of what is meant by a contract and a spot rate, including the detailed terms which may be applied under the agreement, as well as the price. It is important that specific examples are given.

Contract Rate

- Applies to specific cargo/commodity from a named shipper
- Valid for a fixed period of time and/or for a defined volume of cargo
- May include space guarantee by the carrier and/or penalties for the shipper if the contracted volume is not shipped
- Provides for a fixed/known freight rate for the duration of contract (though may be subject to changes in surcharges, and changes in non sea freight items)

Spot Rate

- Applies to a specific movement of cargo – normally on a defined voyage, or for a short period of time with clear expiry date
- Generally does not provide any guarantee of space, until actual booking made
- Price will be defined, including applicable surcharges
- Spot rates are likely to be frequently changed by the carrier in response to variations in supply/demand; spot rates will therefore generally have a short validity period for acceptance

The student should then discuss the reasons why a shipper may choose to ship cargo under a contract or a spot rate. Considerations other than just securing the cheapest price should be included.

- Contract rate is suitable if the shipper has definite requirement for cargo movement over an extended period of time, and has reasonably certain cargo volumes
- Shipper may need forward guarantee of space which will only be available with a contract
- Spot rates are suitable for ad hoc movements, where the shipper has no forward plan for cargo movements
- Shipper may have a view on whether freight rate will go up or down; if expecting a fall, then use spot rates to benefit from lower rates for later shipments; if expecting rates to rise, then a fixed contract rate will provide protection from increases
- May also be influenced by the shipper’s terms of sale – for example, if the shipper sells at a CIF price fixed for one year, the shipper will want a fixed contract freight rate to avoid being exposed to rate fluctuations which could result in selling the goods at a loss

Question 4

The impact of the following factors should be described for each of the three modes stated in the question when moving the cargo from the deep sea port to the final destination:

- Cost
- Impact on Transit Time (including connectivity at the deep sea port)
- Reliability (including effect of weather, congestion)
- Capacity availability (e.g. shortage of drivers)

- Environmental impact (e.g. carbon footprint)
- Restrictions for various cargo types (e.g. heavy/out of gauge/hazardous cargo)
- Need for 'final mile' road move if rail or short sea feeder are used

The advantages and disadvantages of using each mode should be considered specifically in the context of the operation described in the question, together with specific examples of where these modes could be used.

Note that the reference to the importer buying on FCA terms is to make it clear that the importer has the cost, risk and responsibility for the import delivery arrangements.

Question 5

Answers should provide a full description of the three main roles of a bill of lading:

- Receipt for shipment
- Evidence of contract
- Document of Title/Negotiable document

The specific roles which the bill of lading fulfils for the three named parties should then be highlighted, for example:

Shipper

- Evidence of quantity/condition of goods accepted by carrier (required by letter of credit, or in case of a claim) as well as the contractual terms
- Ability to sell goods to third party by negotiating the document
- Can ensure title not passed to buyer until the goods have been paid for
- Able to conduct transaction with buyer via documentary credit

Transport Operator

- Provides detail of contractual terms, including limitation of liability and other protections for the carrier
- Avoids dispute over quantity/condition of goods
- Ensures goods released to correct party through surrender of B/L at destination

Confirming Bank

- Ensures that seller complies with the provisions of the letter of credit, including
    - Bill of lading description of goods
    - Condition of goods (clean bill of lading)
    - Date shipped on board complies with letter of credit
- Provides some security in case funds not transferred by advising bank

Question 6

(a) Students should describe the different types of businesses acquired by different lines, and the rationale for acquisition, for example:

- Container terminals – gives greater control over costs, capacity and service delivery at key locations
- Existing 3PL/NVOCCs – provide full range of logistics services without the need to develop them 'in house'
- Air Cargo/Airlines – provides the ability to offer air freight capacity as a carrier, as well as sea freight capacity
- Warehousing Companies – ability to provide capacity for logistics customers in key areas/locations without the need to rent capacity
- Companies with last mile delivery capability - providing ability to offer complete delivery package to B2C clients
- Customs agents/brokers – needed to be able to offer clearance services as well as expert advice on customs issues as part of a logistics package
- Companies offering digital solutions/capability – comprehensive information packages including integration of data with third parties is now an important element of supply chain management
- Companies providing inland transport services – road or rail – improves capability and control on the inland sector
- Companies with particular geographical focus or product sector focus – acquiring specialist/local companies can increase a line';s global and sector coverage

Specific examples of acquisitions should be quoted to support each business type.

(b)

Advantages of contracting with a line with full logistics capability

- Capacity on the main leg (sea or air) can be guaranteed as part of a logistics package; a 3PL which is not part of a carrier business will be dependent on procuring capacity from a 3rd party
- A single party will be providing service with less need for sub contracting – better control/communications/information flow
- Global carriers more likely to have scale benefits on inland transport (volumes from both liner and logistics customers)

Advantages of contracting with non carrier 3PL

- 3PL will be better able to select carriers according to best fit for the business (including using multiple carriers)
- 3PL more likely to be service focused (liner companies have historically been asset focused, concentrating on maximising utilisation of assets)
- 3PL more likely to have developed value added capabilities as part of their core product, while lines are buying companies to 'fill in the gaps' – result may not be well integrated

Question 7

(a)
Students should first identify different regulations which may cause delays and explain the reasons for the delays.

There are a variety of regulations which may cause delays, which can be grouped as follows:

- Customs regulations and clearance
- Health and veterinary regulations and associated checks
- Security related regulations
- Physical checks on cargo, for example hazardous cargo labelling, weight restrictions

There are a number of specific regulations which can fall under each of the above headings, and examples of these should be given, and the problems which may be encountered which can cause delays.

(b)

Students should give clear definitions of a customs union and a free trade area, and highlight the similarities and differences between the two.

Customs unions and free trade areas can reduce/eliminate delays in a number of ways including:

- limit or remove the need for customs inspections
- no duties to be assessed and paid
- unified regulations covering for example, product standards can remove further inspection requirements
- removing the requirement for veterinary/health inspections at the border for refrigerated/perishable cargo avoids the risk of delay/product deterioration and removes the need for specialist inspection facilities

Question 8

This question is intended to test students' knowledge of contracts of sale and of carriage, and the use of INCOTERMS in contracts of sale.

Contracts of Sale

The underlying purpose of the contract of sale should be described, focusing particularly on its role when trading goods between buyers and sellers in different countries, and when transport is required from the point of origin/manufacture to that of use/consumption.

The main details to be found in such a contract should be mentioned, including:

- Defining the parties (buyer and seller)
- Full description of the goods
- The amount to be paid (cost/currency)
- How and when payment is to be made (mention methods of payment, including Letters of Credit)
- Who pays for the different stages of the through transport movement
- When does property pass from seller to buyer
- When does risk of damage/loss pass, and are there any obligations to provide insurance
- Applicable law/procedure for resolving disputes

Several of the terms which are required for such a contract are covered by specifying an applicable INCOTERM. The second part of the question asks the student to explain the reason for inserting an INCOTERM in the contract, and what is covered by an INCOTERM.

Contracts of Carriage

The purpose is to define the terms of the agreement between carrier and shipper for the transportation of goods from place of acceptance to place of delivery.

It specifically covers:

- The parties (shipper, consignee, other interested parties)
- Goods being transported (and condition on receipt)
- Places of receipt and of delivery
- Freight to be paid, by whom and when
- Rights, duties and liabilities of the parties (including any applicable international convention)
- Negotiability of the document

Purpose of including an INCOTERM in a Contract of Sale

An INCOTERM provides standard terms in a contract of sale which are widely used/accepted, and therefore gives a high degree of legal certainty in their interpretation. The origin of INCOTERMS and the number of different terms should be briefly explained

The following specific terms of a contract of sale are described by reference to an Incoterm:

- Which party is responsibility for organising and paying for each leg of the transport movement
- Which party is responsible for export/import clearance and customs duties
- When the risk of damage/loss passes from seller to buyer
- In certain Incoterms, the responsibility for the seller to take out insurance for the benefit of the buyer