

EXAMINER'S REPORT

Shipping Business

November 2022

Q1. Crude oil is shipped from the ports in list and discharged in the port listed in B.

Using the World Map in the centre of your answer booklet clearly identify by marking the position and name of the following ports:

A.

1. Luanda, Angola
2. Mina Al Ahmadi, Kuwait,
3. Mumbai
4. Das Island UAE,
5. Offshore Kharg Island, Iran.
6. Bonny Nigeria
7. LOOP USA
8. Fujairah UAE

B. Discharge ports in the Far East

9. Durban, South Africa
10. Fos France
11. Qingdao China
12. Chennai India
13. Shanghai China
14. Rotterdam
15. Busan

Add the following Seas/Gulfs/Straits

1. Red Sea

2. South China Sea
3. Yellow Sea
4. Gulf of Aden
5. Malacca Strait

A fairly straightforward question and if you knew your geography, you got full marks.

Where students went wrong

Not reading or paying attention to the last Examiner's report.

How to clearly mark your answers on the world map. Firstly, the question guides you to using the map in the middle of the answer book as it is bigger and so easier to mark the various locations. Secondly, maybe look to using the numbers as they are given in the question and put the number at the location and reflect the port it refers to on a separate page or at the bottom of the map.

Do not put in unnecessary information. All you do is take up time. We will not give you a mark for knowing where the Atlantic Ocean is, if we have not asked it in the question.

Question 2. What are the benefits and drawbacks of Public and private companies compared with partnerships and sole traders? Comment on the advantages and disadvantages of each type of business organisation?

What was required

Describe what a sole trader is and the advantages and disadvantages of this type of company

Describe a partnership and the advantages and disadvantages of this type of company

Describe a Private limited company and the advantages and disadvantages of this type of company

Describe a public limited company and the advantages and disadvantages of this type of company

Conclude by comparing the first two against the latter two and make a call on what you think are the advantages and disadvantages

Where students went wrong

A number of candidates confused a public listed company with a state-owned company. There were some answers where the candidate felt that if you were sole trader, you could not appoint any staff. This is not correct

Failing to read what the question was asking. You were not asked to compare all four against each other, or to compare sole trader against a partnership and private listed companies against public listed companies

There was a focus on bigger companies not giving as good a customer service as smaller companies. This may well be true, but that has nothing to do with the setting up of the company. That has more to do with customer service and sadly small companies can be just as poor at looking after customers.

Drawing a table. A number of questions were answered in this format. If the question does not ask you to draw a table, why do so? Please read what you are being asked and answer accordingly

Question 3 A company has purchased a bulk shipment of grain from Rio de Janeiro. As this is a new seller:

- a) Discuss the best method of finance for this purchase.
- b) Discuss issues that may arise during the payment process.
- c) Recommend an appropriate incoterm to be used for the payment including when risk and title pass.

We were looking for the following

Know that there are a number of options for funding cargo purchase including cash in advance, open account, letter of credit and bill of exchange. A new seller especially in a risk area will require proof of shipment therefore cash in advance will not be acceptable.

Part B wanted you to discuss issues that may arise, below are some of the problems you should have considered

Incorrectly prepared documents

Company or bank failure

Missing cargo

Lack of checks on documents

Letter of credit must cover the entire cargo

Levels of regulation

Risks associated with a recession including bankruptcy.

There may be a delay in establishing a title to goods where delay is experienced delivering documents to the bank.

Part C Acceptable forms of Incoterm may be considered for a bulk shipment.

FOB, Fob with stowed and trimmed, Fob with services are acceptable incoterms where risk and title pass cross the ships rail. Additional stowage and freight services performed by the Seller for Buyer's account. Other Incoterms considered provided fully explained.

Where students went wrong

This is a new relationship, so why would either party want to take a risk of funding the full voyage? A shipper is not likely to agree to send goods across the world and only get paid for his goods and the voyage when he delivers to the buyer's warehouse. Similarly, no buyer is going to pay all that money and then have to pick up his goods at the sellers warehouse.

Part B asked you to discuss issues. Most students only gave one example

Part C, again, it is a new buyer so as the seller you would not want to take on the responsibility of a CIF shipment, rather put the cargo on board and leave the responsibility to the buyer.

Marks were however awarded if you gave a valid argument as to why you opted for CIF

Question 4. Discuss four ways in which a company can protect itself from foreign exchange fluctuations.

Your answer should have covered the following

Spot contract – use the spot exchange rate prevailing at the day of the agreement

FFA- buy and sell future freight contracts. BIFFEX established 1985, not sufficient interest so closed now arranged through FFABA, reduces exposure to large fluctuations in freight. Know that it is not restricted to shipowners and charterers.

Forward exchange contracts – allows for the purchase or sale of one currency against another at some fixed time ahead. Explain why it is useful – the fact that it offers flexibility and what variants there are

Foreign currency option – give the definition, but also state clearly that the difference is that you are not obliged to declare the option, you can simply let it lapse

Where students went wrong

Many answers felt that the best way around this problem was to pay in the currency of the seller. They felt that the company could have an endless supply of whatever currency was required and so it would simply be a case of using that currency to pay. What they failed to realise is that that currency had to have been bought at some stage, carried a present value and has a future value, all of which would be affected by movement in foreign exchange markets

Question 5. Discuss the advantages and disadvantages to both the owner and the charterers in appointing of the Charterer's nominated agent. How should the nomination be stated in the charter party and legally who does the agent represent

The vital point here is that there is a benefit to using the charterers nominated agent and you should know what these benefits are.

Advantages – agent who is an expert and a specialist in the cargo being handled

Avoid demurrage costs, , protect trade secrets and avoid the charterers competitor's agent being appointed

Charterer is kept updated and has an agent keeping an eye on the charterers interests

Disadvantages – small agency may struggle with cash flow and not pay the port costs

No knowledge of agent and yet must remit a large amount of funds to them

Potential conflict of interests where the owner feels the agent is favouring the charterers interests, example statement of facts

Owners to appoint agents nominated by the charterers at the port of---- --

The agent represents the owner

Where students went wrong

I am curious as to where most of the students who wrote this paper are from, as nearly everyone seemed concerned that the charterers agent would be a scam artist and try to commit fraud.

A lot of answers went on to give the functions of an agent in general. This was not what was asked nor was it pertinent to the question

There was a lot of guessing as to what the correct phrase should look like and many became rather complicated

Finally, students need to appreciate that the agent's principal is the owner. Those students who thought putting the agent represents the principal, without stating who the principal is, did not get a mark. Nice try though.

Question 6. There are various reasons countries look to limit their imports or exports. Discuss and give an example of each situation, the reasons for this action and the advantages and disadvantages of such action.

Your answer should have covered the following

Know that countries may introduce duties on certain products to protect local manufacturers.

This can be done via customs tariffs or licensing restrictions. Advantage is meant to be to the small local company in that it gets time to build its market.

Disadvantage is that it costs consumers more and local company just raises the price.

Countries may also restrict the export of strategic materials for national security or to increase the price.

Advantage is short term gain of securing needed commodities, possibly for creating local industries to produce finished product.

Disadvantage is you could lose export market to competitors and need to sell at cheaper prices in order to regain market share

Where students went wrong

There were some really good examples given here about countries restricting grain exports and other commodities in order to protect local prices.

A lot of answers got stuck on the Ukraine war and political sanctions against Russia. Whilst it is topical, it was not what the question was about and certainly your answer should not just have focused on this one example

Question 7 There are four Incoterms relating specifically to sea and inland waterways. Name these and give an explanation of how they work and at what point risk and property pass

What were we looking for?

The examples being looked for were those relating specifically to sea and inland waterways and if you did not give the below four, then you did not get the marks

FAS – Free alongside ship, buyer nominates the load port and possibly the berth, to which the goods have to be delivered and the date. The buyer arranges for the ship. The seller has the obligation to get the goods alongside the ship as requested. Risk and property pass at this point and the buyer has to pay for the goods

FOB – Free on Board, the seller has to bring the goods to the named port and load them onto the ship. Once on board they become the property of the buyer. Buyer must name the port and the ship.

Risk passes when the goods cross the ship's rail. The buyer must also pay at this time. Property is sometimes delayed to the transfer of the bill of lading.

There are a number of variants, FOB stowed, FOB Stowed and trimmed, FOB with services (space on ship)

CIF – Cost insurance Freight, seller delivers the goods to a named discharge port. Seller must get the ship, arrange assignable insurance and pay the freight. Mention price of goods is higher than if FOB and why. Obligations of seller to include tender invoice, bill of lading, and the assignable insurance policy, Buyer to accept documents. If cargo lost the transfer of documents still means transfer of property

CFR- Cost and Freight – variation of CIF where the buyer arranges his own insurance and the seller pays for the freight. Property still passes with the documents. Buyer responsible for risk when goods are loaded on the ship

Where students went wrong

Very few students knew that with CIF it is assignable insurance or why with CFR the seller does not arrange the insurance on behalf of the buyer.

There is a general lack of understanding as to when property passes, with a lot of answers stating it passed when risk passed. You do not own something until you have paid for it.

Question 8. The IMO plays an important role in shipping. Discuss the origins of the organisation, and its current structure. Comment on three important conventions for which it is responsible

We were looking for the following

Mention it is part of the UN and is a specialised agency with responsibility for the safety and security and the prevention of marine pollution

The governing body being the Assembly, then the Council of 40, and the five committees, Maritime Safety, Marine Environment Protection, The Legal Committee, the Technical Co-operation committee and the Facilitation committee

The three conventions – SOLAS, MARPOL and STCW

Where students went wrong

Students either knew this or they didn't and it was very clear where the answer was simply guess work in the hope of gaining a mark or two. The organisations that play a role in shipping are important and it is a good idea to know who they are, when they were founded, why they were founded and what is the structure of the organisation