

# Examiner's Report

## April 2016

### Introduction to Shipping

#### General comment

This year we looked towards asking questions that not only tested students' knowledge of the subject, but also were geared towards establishing whether the candidate was familiar with the current shipping market and world trade and it was noticeable that whilst some papers gave full and knowledgeable answers, some were unable to show their knowledge in these areas. It is important that you keep up to date with current events if you are to be a shipping professional.

It is better to use the graph paper for diagrams and ship drawings and rulers must be used for any drawings.

#### Question 1

**The rising demand by households of LPG and the desire to find and use cleaner fuels in the form of LNG has seen a rise in the building of ships to carry these cargos.**

**Choosing either an LNG or LPG vessel, explain how these ships work and how the cargo is stored, loaded and transported. Use the world map provided to support your answer.**

The LNG market is currently very topical and we are seeing vessels being built as LNG bunker vessels, we have FRSU vessels cropping up as alternative energy options and as a shipping market it is still doing fairly well, unlike the bulk and liner side of our industry.

Students were asked to choose one, (not both), draw the ship and give details of how they worked. So for LPG the drawing should be drawn using a ruler, should have shown the tanks and that they were insulated, the vessel has a double bottom, ventilation system, and students were also given marks for putting in bulbous bow, rudder and propeller and accommodation.

For an LNG ship mention of Moss system or membrane, aluminium tanks, outer steel shell, tanks connected to hull, but not part of it, all gained you the marks needed.

Some students did not answer the full question, some gave good drawings, but did not explain how the system works, or went into detail in how carriage is affected, but didn't bother with a good map or mention of ports and so lost the possibility of scoring additional marks.

Many drawings of the ships showed a lack of care, not using a ruler, not knowing where the accommodation goes and incorrect rudder and propeller configurations. Time spent practising how to draw a ship gives the opportunity for higher marks.

This question was the second least popular question, which is surprising in view of the amount of activity in this market.

**Question 2**

**Why would a country wish to have a national fleet and how should they go about encouraging ship owners to register their ships in that country? What are the national flag's responsibilities?**

The second most popular question.

This question was not about flags of convenience, in fact it was about the opposite. What students needed to talk about was why a country would wish to have a national fleet, so mention of prestige, foreign currency earnings, saving of foreign exchange, creating employment and strategic needs were what was looked for.

Many students answered this question, but in their answers did not cover what the country needed to do in order to encourage ship owners to register including tonnage tax, cabotage and second registries. Mention of flags of convenience and the problems they create as competition to national flags could have been mentioned in this context. Pitfalls such as not complying with IMO regulations or having poor administrative systems needed to be weighed up in the answer against the attraction of lowering costs so as to have a national fleet. Increased cost associated with cabotage and mention of systems such as the Jones Act, would have gained marks.

**Question 3**

**Shipping is a derived demand. In the context of how world trade develops and exists, discuss derived demand, absolute and comparative advantage. Use diagrams and examples to support your answer.**

By far the most popular question and the second highest average pass mark. This was an economics question asking students to demonstrate an understanding of derived demand. Students were then required to describe and give examples of comparative and absolute advantage but some students lost marks by discussing production possibility frontiers, intratrade and taste. Answers were better where students concentrated on obvious commodities and countries to emphasise their knowledge of the topic. Good answers made mention of the factors of production and which ones were applicable to their examples of both absolute and comparative advantage.

**Question 4**

**The liner trade is steady growing with bigger and bigger ships coming into the market. Shipping lines, in order to compete and stay in the market have had to come up with ways to stay competitive.**

**Explain conferences, consortium agreements, alliances and NVOCs in the liner trade and what are the advantages and disadvantages of each.**

The least popular question, though there were lots of opportunities for students to score marks if we look at the development and expansion of liner trade and the development of container ships and the various alliances that have cropped up over the last year.

All that was required was an explanation of each of the options, along with the advantage and disadvantage of each. Students who did well made mention of the 2M, who they are, what CMA-CGM did in response, how consortium agreements are fluid and the difference between NVOCC and NVOCC.

**Question 5**

**What is a contract and what is required to have a legally binding contract? If you are not party to a contract, but have been adversely affected, how are you protected?**

This was the third most popular question and it did achieve the highest average mark and the number of students who achieved a pass mark.

What was asked for in the question was to give the components of a contract, (offer, acceptance, consideration and legality). Some answers did not include an explanation of what constitutes a contract, or if they did they did not think they needed to explain it to the examiner. Students should remember that examiners can only award marks for what is included in the answer.

The second part of the question expected students to explain protection under various torts and a duty of care. Mentioning the Himalaya, Captain Dickinson and Mrs Alder as examples got you marks.

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#### Question 6

Answer **BOTH** parts of the question.

a) You have recently opened up your own agency company, what options are there as to the type of company you could open, which type you would choose and why?

b) Bearing in mind that the accounting side of the business is vitally important, explain the controls that you would put in place to ensure that your new venture survives.

This question tripped quite a few students up. Examiners do not ask questions that are not part of the syllabus. For this question students needed to show their knowledge about company structure and which would be best suited to a new venture of opening an **AGENCY COMPANY**.

The options here were sole trader, limited companies, partnerships etc. There was no right or wrong here in what option students decided upon, but what was marked was their displayed understanding of the advantages and drawbacks of each.

The second part of the question, when answered, was generally well done with most students appreciating that a company would watch cash flow, budgets, management accounting and debtors and creditors

#### Question 7

Answer **BOTH** parts of the question.

You have inherited a ship and the rules of the inheritance state that you are unable to sell the ship. You can charter it out and you can seek assistance in operating it. What options are available for:

a) chartering the vessel, or

b) operating the vessel.

This question gave the students a certain amount of creativity in what option to decide in operating their inheritance. It was important to demonstrate knowledge of the different options, so with chartering, would they look to time charter, voyage charter or demise charter? A breakdown of the responsibilities of the owner and the charterer for each of these gained the full ten marks.

The second part of the question required students to discuss using a ship management company. However, there was a high number of students who did not answer this part of the question. The functions these companies offer and which could be used and those which may be undertaken in house had to be considered. Key parts of the answer included mentioning economies of scale, high levels of skills, knowledge of market, technical ability were looked for.

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#### Question 8

**Recent law amendments in the USA now mean that it is legal to export crude oil from America. Using the world map provided, show the load ports and discharge ports that could be used to receive this cargo. Describe the type of vessel used and the routing.**

This is a topical question with the USA only recently lifting the ban on the export of crude oil. This will have a serious impact on the tanker industry and we have already seen the effects of the overproduction of fuel on world trade with Nigeria losing the USA as an export market, and along with Venezuela, Angola and several other countries now struggling as a result of the slump in the oil price. A good answer to this question was one that was up to date with the oil market and was aware of the options available to the USA for export.

There was a number of students who correctly identified Corpus Christi and marks were given for mention of the US Gulf or LOOP, but only a few answers mentioned Alaska. Very few students showed their knowledge of discharge ports and there were quite a few answers that stated the USA was importing fuel and so answered on imports not exports.

The correct ship type to match the routing given was needed and in most cases students did this very well.