



## ICS Examiner's Report

### SHIP SALE AND PURCHASE 2012

#### Overall Comments

A good standard in presentation was one of the pleasing aspects of this year's Ship Sale and Purchase examination. Some very detailed essays were produced showing excellent knowledge and a real understanding of this subject.

Those who failed appeared to have done insufficient revision, reflected by some short and vague answers. Taking time to read the questions carefully before starting to write is very important, as some essays went off track and time was wasted on answering elements not required. Missing out parts of questions resulted in some candidates not gaining marks.

As can be seen from the report on Question 6, it is very important for candidates to read and be aware of the current shipping industry news, either from hard copy or from Internet sources.

#### Question 1

This question was selected by many of the candidates and most could give a good account of the four parts required. However, some answers only covered the surface and did not go into the depth and detail needed to gain good marks. Light Displacement Tonnage (LDT) indicates the amount of scrap metal the ship contains hence its importance in demolition. This figure can be found on various documents including the LDT Certificate, Builder's Capacity Plan incorporating the Deadweight Scale along with the ship's Original Trim and Stability Booklet. Knowledge on the workings of a Confirmed Irrevocable Letter of Credit was required covering how the Letter of Credit is opened and the procedure that follows.

The third part of the question covered the issuance of a Towage Approval Certificate following a pre-sailing inspection by a Warranty Surveyor or Classification Surveyor. The beaching procedure needed to be explained in detail which most candidates covered quite well by referring to the sequence of events leading up to the ship's arrival at the demolition area, giving as an example the demolition beaches of Alang, India.

### **Question 2**

Several candidates did not read the question properly before starting their essays and thus tended to go off track with their answers. The question asked for the actions to be taken by both Sellers and Buyers once the written Notice of Readiness (NOR) had been issued by the Seller to the Buyer. The issuing of the NOR is the trigger for the whole payment process to begin along with many other actions. Therefore candidates needed to have a detailed knowledge of the Clauses of the Norwegian Saleform 1993 (NSF 1993) that come into play once the NOR is issued and how these Clauses all interrelate with each other along with the more practical actions that Sellers and Buyers will be taking at this time.

The essay needed to cover for example Clause 3, Clause 5, Clause 7, Clause 8 and Clause 12. The more practical items to be addressed were for the Buyer to make crew arrangements, the purchasing of bunkers and lube oils, stores and provisions, insurance and the finalising of the Charter for the newly purchased ship to commence trading for her first voyage for the new shipowner.

### **Question 3**

Far too many candidates selected this question thinking it was an 'easy' one but they had no real idea on what 'subjects' were in ship sale and purchase and how they are used in negotiations. Some essays referred to 'Subject Stem' and 'Subject to Charter Party terms'. Some candidates wrote pages with no mention of the word 'subjects' in their entire essay. This question was about the use of 'subjects' during the negotiations, not about listing the 16 Clauses of the Norwegian Saleform. 'Subjects' that could be used in negotiations include: Subject to 'Inspection of Vessel's Classification Records', Subject to 'Inspection of the Vessel', Subject to 'Loan Approval', Subject to 'Approval of Time Charterers'. An important 'subject' that is used particularly by Buyers is 'Subject Board Approval'. The wording in an opening offer will run along the following lines: "Subject to Buyers Board Approval declarable within three (3) banking days after main terms concluded". However, it must be noted that in a fast rising market for a popular ship type, the use of subjects may become minimal as the Seller knows there is serious demand for his type of ship.

### **Question 4**

Answered by a high number of candidates, this question was about the full range of ship finance that is available to the present-day shipowner. What was required was knowledge on where shipowners go to find finance for the purchase of second-hand ships and newbuildings. Ship finance for the second-hand market can come from various sources, these to include Commercial/Investment Banks, Public Equity funds, Share Issues, IPOs, Mezzanine finance, Securitisation, Finance Lease arrangements along with Government Credit Schemes, Germany's KG market and more recently the use of Hedge Funds.

Many candidates made no reference to finance for newbuildings while some spent unnecessary time by writing about the actual payment schedule under a newbuilding contract, when the question was asking from where did the shipowner obtain the finance for his newbuilding in the first instance. One source of finance for newbuildings is for the shipyard where the ship is being built to arrange a finance package direct with the shipowner (the Buyer). The large shipbuilding yards in Japan and South Korean for example have developed this strategy over the past few years and can put forward a very attractive offer to shipowners.

### **Question 5**

For those candidates who had spent time revising the Norwegian Saleform 1993, this proved to be an excellent question for them to answer with many achieving high marks. For others, they could only produce vague general essays which clearly showed a lack of detailed knowledge on the content of Clause 13 and Clause 14 of the NSF 1993. It must be noted that this question did require a thorough knowledge of the MOU as each of the abovementioned Clauses makes reference to other Clauses within the NSF Agreement.

These other Clauses must be referred to in order to give a full explanation on how the default system works under this Agreement. To take the Buyers' default - Clause 13, the Deposit and Payment Clauses must be referred to in detail. For the Sellers' default - Clause 14, a more complicated Clause as it deals with Clause 5 and Clause 8.

### **Question 6**

It was pleasing to note the excellent pass rate for this ship type question. Some very detailed ship drawings of a Very Large Crude Carrier were produced. Knowledge on this type of tanker shone through with many commenting that the building of VLCCs was the result of the 1960s increase in oil consumption and the 1967 closure of the Suez Canal due to the war in that region. This made voyages around the Cape of Good Hope viable due to taking advantage of 'Economics of Scale' by building a tanker capable of lifting two million barrels of crude oil.

Use of the World Map to show the main trading routes could be improved - too many lines just drawn around the world.

The second part of this question asking what benefits to a shipowner would the purchase of a modern VLCC bring produced some first class answers, clearly showing that candidates are reading current shipping news articles and keeping up to date with shipping industry developments. The benefits included that newly designed VLCCs will have engines/generators that work efficiently with the low sulphur emission fuels that are now required by various Port State Authorities around the world including EU legislation. New engines are more fuel efficient thus resulting in savings on Bunker costs. New VLCCs will be better equipped to resist Piracy attacks - use of citadels etc. Candidates gained marks by referring to the forthcoming Ballast Water Management requirements as a result of the IMO's 'International Convention for the Control and Management of Ships 'Ballast Water and Sediments' by saying that a newly designed VLCC will have this new technology in place on delivery to the shipowner resulting in an attractive tanker to Charterers.

### **Question 7**

A popular question and quite well answered by the majority of candidates. However, candidates must take their time in reading what the question requires from them rather than jumping in and just writing about any documents that come to mind. Firstly, the question asked for a ship type to be selected, a point missed by quite a few candidates. It is important to select a ship type as the Trading Certificates and various other documents need to relate to the ship type selected by the candidate. For example the Grain & Bale Capacity Plans relate to a Bulk Carrier whilst a Gas-Free Certificate would be required if a Tanker had been selected. Secondly, the question asked for an explanation of the printed documents under Clause 8 - the Documentation Clause of NSF 1993, therefore each of the items from (a-f) that are contained within the printed Clause 8 needed to be referred to. Many candidates never addressed this important part of the question. Those who gained the highest marks answered the question asked and also showed their knowledge of documents by making mention of the Notice of Readiness (NOR) as called for under Clause 5.

### **Question 8**

A five part question covering various aspects of ship sale and purchase. Poor results overall as many candidates lacked knowledge which lead to mixed-up and vague answers. Ships that are required to navigate in ice must be strengthened. The degree of strengthening is dependent on the severity of the ice conditions in which the ship will be required to trade and navigate. Ice Class Notation - 'Ice Class 3' represents strengthening for ships intended to navigate in light ice conditions. Tonnage Certificates are of considerable importance to a shipowner as they affect many financial aspects of commercial ship operations, including being used by Port Authorities as a measure upon which Port Dues are calculated and based, along with the calculation of Pilotage Fees and Canal Tolls. Ships are required to be surveyed and marked with a Loadline (Plimsoll Mark) which are painted amidship on both sides of the ship. Freeboard is measured as the distance between the uppermost continuous deck, represented by the Deck Line and the Loadline assigned to that particular ship.

International Association of Classification Societies (IACS) membership gives a ship a certain status if classed by one of the thirteen (13) principal members of IACS. The Document of Title for a newbuilding is represented by a Builders's Certificate, the production of which gives good title to ownership for a newbuilding. This is issued by the shipyard under seal, which once executed transfers ownership of a ship from her builder to her purchaser, the new shipowner.