



SHIP SALE AND PURCHASE

INTRODUCTORY REMARKS

Many of the candidates taking the Ship Sale and Purchase examination this year demonstrated a sound knowledge of the subject, resulting in some first class essays.

Candidates who got top marks were those that were able to incorporate other general knowledge into their answers, like current market information and trends in shipping which shows the importance of being up to date in the markets and current shipping trends. It was therefore good to note that there was an improvement in this area from previous years. It was also pleasing to note evidence of serious revision particularly on the Norwegian Saleform 1993 (NSF 93) reflected in excellent marks obtained for the NSF-related questions. Again, those who failed could only manage short, vague answers that showed a lack of understanding of the whole subject. It cannot be emphasised enough that in order to pass these examinations thorough preparation and revision is needed.

1. For shipowners in the dry cargo market, the Handymax Bulk Carrier is a flexible ship to have in their fleet. Answer all of the following:

- (a) Draw a fully labelled profile and cross-section diagram of a typical Handymax Bulk Carrier including bulk space. Include written dimensions.**
- (b) Describe the most common bulk cargoes that can be carried by a Handymax.**
- (c) Selecting three of your chosen cargoes, show their trading routes, loading and discharge ports on the world map provided.**

This year's ship type question produced a wide range of marks. At the top end of the scale, some excellent drawings were produced of the handymax bulk carrier and its cargo hold with many using a double page of the examination booklet to show the ship and its dimensions to full effect. Many gave good descriptions of the ship covering the fact that having its own cargo handling gear on board makes the handymax suitable to enter ports that have limited shore-based loading and discharging facilities. The range of cargoes was well covered by most. However, the third part of the question was poorly answered, this concerned the use of the world map. Many candidates just put lines around the map to show their chosen trade routes but with no reference to names of countries, or any loading or discharging ports. Improvements are needed in this area; candidates must be made aware that geography plays an important part in the Institute's examinations.

2. For the legal transfer of title of a second-hand ship to take place, correct documentation has to be presented by both seller and buyer. Describe each document that will be produced by both parties to complete the sale. (Select your own ship type for this transaction).

Well answered by the majority of the candidates who selected this popular question. Good knowledge was shown on the content of Clause 8 of the Norwegian Saleform 1993 (NSF 93), as was the wide range of additional documentation that is required from both the Seller and Buyer during the sale and purchase transaction. Board Resolutions, Powers of Attorney and the fact that these documents need to be notarially attested and legalised by appropriate Consuls were all covered well. The question asked the candidates to select a ship type of their choice; many duly did this but then failed to make any further reference to this ship type in their essays. This omission led to their description of the Trading Certificates having no bearing whatsoever to the ship selected in their opening paragraph. This question required knowledge on the full range of documents that ships need to trade, for example it was necessary to make mention of the ships' Minimum Mandatory Safe Manning Certificate and its International Load-Line Certificate. Those candidates that did not answer the full question, describing Clause 8 but not addressing the documents the Buyers were required to provide, failed to obtain better marks. This was a frequent omission. Essays that simply stated 'lots of documents are required' but with no actual mention of the documents scored marks at the low end of the scale.

3. The Inspections Clause in the Norwegian Saleform 1993 Memorandum of Agreement provides the buyer with two alternatives for inspecting a ship before agreeing to the purchase. Give a full explanation of the content of this clause covering in depth the two options.

The 'Inspections Clause' in the Norwegian Saleform 1993 (NSF 93) is represented by Clause 4 and gives the Buyer two options of inspecting the ship before agreeing to purchase. The choice of options is in part dependent on the Sellers' position and on the current state of the sale and purchase market for that particular type of ship. Those candidates who had done their revision gained marks by making reference to Line 40 of Clause 4 and by giving examples of what 'opening up' refers to, such as cylinders and tanks. Additionally, candidates who were able to describe the issues surrounding the practical problems Buyers face inspecting ships were rewarded with extra marks. Those who failed this question had jumped in without taking the time and effort to carefully read the actual content of the question. A three page essay on Clause 6 - 'Dry Docking/Divers Inspection' was not the answer to this question and showed a lack of revision on the Norwegian Saleform.



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4. Explain the importance to shipowners of all of the following terms:

- (a) Buyer Beware
- (b) Mortgagees' Interest Insurance Policy
- (c) Valuation Certificate
- (d) Port State Control

A popular four-part question that was generally well answered by the majority. This question was looking for candidates to give a detailed explanation on the importance to shipowners of various aspects. The first part covered Buyer Beware which comes from the Latin 'caveat emptor'. The fundamental point is that it is the Buyers' sole responsibility to make their own due diligent inspections of both the ship's records and the ship itself before committing to the purchase. The shipowner must be aware of 'what is not said' by the Seller of the ship in question. A Mortgagees' Interest Insurance Policy acts as a form of additional security to the Bank or the Lender in order for them to protect their financial loan to the shipowner. The shipowners will have to pay the policy premium themselves but the Bank would be the Beneficiary of the Policy. The third part of the question covered the issuing of a Valuation Certificate. This gives shipowners a market indication as to the value of their asset, their ship. It was important to mention that a Valuation Certificate must state the date of the valuation and the period of time that the valuation is valid for. The last part of the question on Port State Control was well answered by many. Port State Control acts on behalf of their Government to improve maritime safety and the protection of the marine environment through the adoption of various IMO International Conventions and Protocols. It was pleasing to note that many essays made reference to the fact that the United Kingdom belongs to the Paris Memorandum of Understanding (MOU) on Port State Control.

5. With continuing low freight rates and an oversupply of ships, shipowners are placing a growing number of ships for sale on the demolition market. Prepare a draft offer for the sale of a ship for demolition to be sent from a scrap buyer to a shipowner setting out the full terms and conditions for the purchase of the ship for scrap. (Use imaginary companies and ship type of your choice).

Quite well answered by those who attempted this question. Most got the right frame work needed for the format of a demolition offer. Many produced realistic draft offers using imaginary companies and a ship type of their choice. They put themselves 'into the shoes' of the scrap buyer so their terms and conditions reflected the needs and requirements of a ship demolition Buyer. Those with low marks made no mention of commission, did not refer to the fact that it is an 'outright sale - with no inspection' and did not cover any terms and conditions concerning the delivery and beaching procedure when the ship reached its final destination.

6. Using the Norwegian Saleform 1993 explain:

- (a) The content of the clause 'Buyers' representatives'.
- (b) How can sellers further protect their interest under this clause? Draft a suitable amendment to reflect this increased protection.
- (c) What might buyers try to negotiate in order to gain more favourable terms in respect of their representatives?

A knowledge of the Norwegian Saleform 1993 (NSF 93) was required to be able to address this three-part question on Clause 15 - 'Buyers' representatives'. It is only after the Agreement has been signed by both Seller and Buyer and the deposit has been paid that the Buyer has the right to place his representatives on board the ship. These representatives are on board for the sole purpose of familiarisation and in the capacity of observers only, they cannot interfere in any respect with the operation of the ship. The second part of this question called for the drafting of an amendment. It must be noted that many candidates failed to do this and thus lost marks accordingly. When the question asks 'draft an amendment' an explanation is not sufficient. For the final part, Buyers may try to obtain terms more favourable to them by requesting more than the permitted 'two' representatives to be on board in order for more of their crew to become familiar with the ship before the Buyer takes delivery.

7. With continuing new orders for LNG Carriers and the development of the global gas market, address all of the following:

- (a) What factors have led to this increase in world demand for natural gas?
- (b) Which countries are producers of LNG?
- (c) How is natural gas prepared for transportation and describe the main characteristics of LNG Carriers.

A fairly popular question that was quite well answered by a number of candidates, with several showing some excellent up-to-date knowledge on this specialised area of shipping. It was pleasing to note that many candidates not only knew about LNG Carriers themselves but also had a very good awareness on LNG developments around the world. The areas where natural gas has been found were well covered with mention of countries like Qatar, Algeria, Canada, Russia and the USA to name a few. The last part of this question resulted in several very clear descriptions of an LNG Carrier, with the best essays giving details on the two basic designs - these being 'Membrane' Type and 'Moss' Type (spherical).



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8. Eco-ships is a term of reference increasingly being used to describe ships that have systems or engines that are fuel-efficient or have environmental improvements. Discuss the impact of Eco-ships on the demand for new buildings, and for ships presently trading.

This question gave candidates the opportunity to show their knowledge of what is currently happening in the shipping industry. The term 'eco-ships' is being increasingly used as the maritime world calls for higher fuel efficiency, lower operating costs and better environmental performance. Shipyards are developing and installing energy efficiency technology to show improvements in all of these areas. More fuel efficient ships offer solutions not only on operating costs but for current and forthcoming CO₂ (Carbon) emissions legislation. Another new forthcoming IMO regulation that is presently being developed is the International Convention for the Control and Management of Ships' Ballast Water and Sediments. This is intended to regulate discharges of ballast water and thus reduce the risk of introducing non-native species. Environmental improvements include the production of much improved paints for anti-fouling for ships' hulls. There are many contrasting views on the whole subject of Eco-ships and this question allowed candidates to put their own views forward. There is no 'right' answer to a question like this. The best marks were obtained by those with the knowledge and the ability to put forward a well reasoned analysis and opinion, with conclusions to underline their thesis. Well structured and argued essays will always please the examiner and reward the candidate with higher marks.