



2014 ICS Examiner's Report

LINER TRADES (LT)

General Comments

This year's paper covered subjects from the syllabus combining both course book-style questions as well as real examples of issues facing the liner industry. The latter style of questions surrounding issues facing liner shipping in its current phase of over-tonnaging and fast change, with resulting stresses, are considered essential and need to be studied beyond just the textbook. The questions presented an ideal opportunity for students to display a good understanding of the challenges facing the liner industry as well as covering tried and tested course book areas.

The overall proportion of passes, although marginally improved on 2013, was still low and highlighted again that many students, while covering course book answers reasonably well, lost many marks on practical areas of liner shipping which continues to be of concern. The summary below by question will hopefully give students pointers for the future on this exciting, fast growing and evolving industry. Another area which is often repeated is that many students failed to read the question carefully and rushed into answers without thinking through what was required. Often answers were lengthy but failed to cover the key areas of the question. There were however some papers, which did pass well and produced some excellent answers.

Question 1

This question was one of the least popular on the paper and had the lowest pass mark overall. This is of concern as it covered key trades in container shipping and all should be well known. Many students did not read the question and there were many papers showing these routes as bulk shipping trades with associated commentary to back this up. While maps in many cases were reasonable there were also poor examples as well in an area where good marks could be secured. Answers in the narrative section were mixed and data use was extremely poor. There were very few cargo or trade statistics provided. Ships' sizes were often not specified and incredibly there was confusion over the size and type of vessel that could transit the Panama Canal. Also little information was given by the students on the characteristics and growth prospects of the various trade lanes, supply and demand balance, types of cargo carried, typical voyage conditions and so on. Significantly only a handful of those students answering the Asia – USEC trade correctly highlighted use of two routes, namely via Panama and via Suez, the latter growing fast due to being able to use a larger and cheaper ship system.

Those students who passed this question did well and showed a good understanding of the trade routes that they answered. It is important to again reiterate that within the syllabus, students do need to learn about a number of key routes and not the obvious main trades such as Europe – Far East and Transpacific routes. There is much data available on the internet from numerous sources on this subject. This is a key area of the liner trades syllabus.

Question 2

This question was poorly answered, yet is a subject area which covers a key cargo area in liner shipping. Many students answered the question discussing refrigerated cargo as if it was a relatively new and high risk product or concept when it actually represents over 100 million tonnes of seaborne cargo. An overview of the global trade and size with key routes such as ECSA-Asia/Europe and RSA-Europe, contrasted with massive growth in protein trades intra Asia / Asia Europe was important but rarely covered. Container vessels handle over 70% of this trade and this is forecasted to rise to 78% of this by 2016.

In discussing advantages and disadvantages of both modes there were many good answers, but again when discussing containers the level of risk seemed to be more of a feature when in fact the growth in containerships in recent years has actually helped grow refrigerated trade as more and more market access is available. While conventional trade is in decline it still competes favourably against containers in more specialised single port to port routes.

The coverage of development over the next 5 years was relatively poor but should have focused on further demise of specialised tonnage with no new buildings on the orderbooks, so all trade growth accrues to containers. Larger and larger ship systems in containers and drive into reefer expertise will continue to force reefer cargo into containers. The modal split in the next 5 years is likely to be 80% container vessels = 8 million teus etc.

Question 3

This was a popular question allowing students to display a good knowledge of hazardous cargo. The pass mark for this question was the highest on the entire paper and this question was relatively easy for those students who had maintained a good understanding of this area by reading the course book carefully. As such the basic understanding of most of the classes was well covered and scored high marks.

In spite of a high pass mark the majority of answers failed to elaborate on the background developments leading up to the formulation of the IMDG code and the critical roles played by the IMO, SOLAS and MARPOL. Many failed to grasp issues such as segregation and separation, which the question asked students to specifically address for two of the classes.

Question 4

This was a question that was avoided by many students and is clearly an area which presented some difficulty with a low pass mark. The style of question was open-ended and descriptive as students were asked to outline and identify the main characteristics and differences between consortium, vessel sharing agreements and alliances. While most students appeared to understand the basic characteristics of each type of agreement and gave some examples of carriers involved, there were some serious gaps as well on how these have evolved.

When it came to further elaboration and the likely future shape of the industry, answers were poorly executed and yet almost daily the move towards increasing consolidation via global alliances and partially vessel sharing agreements is highly visible in the shipping press. Interestingly a number of students rightly covered the potential of the P3 alliance which was topical at the time of the exam but has since been shelved due to regulatory block from China but immediately re-hashed to 2M, Maersk and MSC, an equally formidable alliance and highlights the singular drive towards cost reductions. Of concern was that many students felt that consortia would grow and alliances would decline!

Question 5

This question was the most popular on the paper with a relatively high percentage of students passing and some expansive answers. However the question also highlighted the gap between course book answers and those that require thought beyond course book in a practical arena. There were excellent answers with good marks scored when breaking down the advantage and disadvantages of both owning and leasing as well as the types of agreement available. It should be recorded that there were also answers in this part which expanded beyond the basics of the question and provided some excellent thought processes. In this respect they rightly drew the conclusion that both owned and leased are ultimately required and the finesse is on how best to manage this with some good examples.

The second part of the question was not answered so well and yet all 4 types of equipment are covered in the course book as well as being used extensively across the globe. While most students were able to give an idea of the cargoes that each piece of equipment could carry, very few could list dimensions and capacities and many marks were lost here. In some cases students lost time after spending too long on the first part of the question.

Question 6

This was a popular question in an area that increasingly represents a significant and growing area of liner operations. There were some good summaries of the reasons for growth and why they are important with examples being:

- Hub and spoke due to larger ship systems
- Need to reduce voyage times by reducing port coverage
- Wider network application with trunk lines
- Draught in some ports
- System costs

There were some good answers in this area.

The second part of the question [which required a map] seemed rushed in many cases, with maps showing the transshipment centres poorly annotated and the description on transshipment hubs on the whole poorly written.

Some candidates also had problems identifying what were hubs and gateway ports and did not address the fundamental aspect of this part of the question of how their selected hubs fitted into the global trading scene.

Question 7

This was the least-popular question for students yet for those students who attempted this question the pass rate was quite high and there were also some excellent well thought out answers.

The first part of the question called for some detail and process mapping of milestones involved and here some students listed the process in a diagram which in many cases was clear and well understood as well as this being probably the best way of handling this question. Those students who did well on the first part of this question usually also covered the second part well given the good understanding displayed in the first part of the question.

There were unfortunately very poor answers showing little or no understanding of the subject and yet this is the lifeblood of international transactions and trade. Overall on average a well answered paper for those who attempted it.

Question 8

This question also attracting a low percentage of attempts in a tricky area and the pass mark was relatively low, yet it was a relatively straightforward question. Perhaps mention of the word Incoterms was a deciding factor for students failing to attempt this yet this question was not about the wider explanation of all terms but a specific case, and how each party would deal with it.

In basic terms whilst the request is not illegal it poses potential problems for insurance and liability of shipments in the case of a claim. This applies equally to the seller, or shipper and the carrier. Suitable alternative terms would be FOB or Ex Works where the buyer or freight payer would rightly take ownership of the cargo and insurance from on board or even at the supplier's premises. Incoterms have been well thought through by the ICC to facilitate trade in the right way and are tried and tested. As such the Incoterm is clear for each mode of transport and should not be tampered with.