

ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE

General comments

Although 2015 saw fewer candidates sit for EST examinations, candidates continue to produce well structured answers supported by good sound theory and practice, graphs/diagrams and maps, building on previous years. Some of the industry examples used by candidates in support of their economic theory were outstanding and should be emulated by all candidates. The ability to apply/ relate economic theory to practical day to day shipping practice is evidence of true professionalism.

The jotting down of main points at the start of answers is a continuing feature which is encouraging and highly recommended and, has previously noted, may possibly explain the continued improvement in quality, length and depth of answers as the practice gives candidates a focus and all the other added advantages.

Candidates are once again advised to develop the habit of using graphs and maps to support their arguments, even where there is no specific requirement to do so, as this help drive home a point, where words may have failed.

Question One

This was the most popular question with some very well structured answers. The question was about Derived demand and the set of rules(four) that relate to its' elasticity, commonly referred as the Marshall Rules. Candidates that scored highly explained the meaning of the term derived demand and then went to discuss the relationship between economic activity and the level of international seaborne trade. The best answers were those that explained what derived demand means and provided a thorough explanation of the four Marshall Rules.

Question Two

This question was about the impact of production levels changes (increase or decrease) eg oil, electricity, grain and other products on the demand for shipping tonnage. This was one of the most popular questions and very well answered by those candidates that recognised that the question was not about derived demand, BUT demand for shipping tonnage resulting from locational shifts and changes in production levels. Those candidates who saw demand for shipping went straight into derived demand and its' rules relating to its' elasticity unfortunately lost marks. An objective lesson in reading questions carefully.

The question required candidates to explain with examples how shifts in production – moving trade, swing from one country to another to the level of freight sources impact the demand for shipping tonnage.

Question Three

A very popular question and not without reason, given the strategic importance of oil to the world economy. Well answered with some interesting arguments and observations by keen students of the economics of sea transport and international trade. This question required candidates to explain the reasons for the 30% decline of crude oil prices and the effect on shipping. Reasons include: US formerly top importer of oil and gas cut down on imports as a result of increased domestic shale gas and oil production. US expected to become major producer and exporter of hydrocarbons, weak eurozone and world economy, slow growth in China, India and Japan, increased and sustained crude oil production from Libya, strong US dollar and Saudi Arabia's refusal to cut production and supply of crude oil. Effect on shipping: reduced costs of shipping as bunkers are a major component of costs. A good thing. Reduced oil prices could boost world economic growth and more trade another positive. More money in the pockets of consumers would mean more consumer spending another boost for trade; domestic and global.

Negative side: Low crude prices could have negative effect on spending power of the major oil producing countries meaning less seaborne trade and therefore less shipping.

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Question Four

This question required candidates to explain how Foreign Direct Investment which is the flow of physical and monetary capital into a country and in this instance - the manufacturing would impact the balance of payment of a country. The definition of both FDI and Balance of Payment would be a good starting point. FDI allows increased technology transfer, increased productivity, exports/international, increased inflow of foreign exchange and an improved BOP balance for a nation. Increased value addition of raw material products means greater retention of wealth in a country and more foreign exchange with which to buy what a nation cannot produce. The overall effect is the establishment of an export oriented economy, being part of a liberalised global regime, a healthy balance of payment and a strong economy.

Question Five

This was one of the most popular questions and very well answered. The question required candidates to explain the principle of Economies of Scale and to discuss its application to the shipping industry citing relevant industry examples. Most answers provided definitions of the principle as well as enumerating the two types: internal and external with a further categorisation of internal economies of scale namely: managerial, commercial, financial risk bearing and technical. Candidates who had prepared well illustrated their answers with not just one graph, but a few and supported by sound economic theory. The best answers started with a definition of the concept and went on to apply it to specific industry examples including bulk carrier of 30,000 dwt and another of 200,000 dwt could have same; crew size and associated costs, management and other overheads, selling and administrative, bunkers may be double but not four times greater nor would construction costs be 4 times greater applied the theory to specific shipping industry; more being carried for less- per unit basis. In the field of shipbuilding – the ability to purchase large quantities of steel, to series design and build ships.

Question Six

Not a popular question, but provided some of the best answers. The question required candidates to explain subsidies, using examples in the context of ship building and demolition. The best answers started with a definition of the term and a brief account of the reasoning behind the provision of subsidies by governments citing South Korea, China and Japan. Examples of subsidies included new builds finance, cheap and demolitions at national shipyards and demolition sites, ship construction, cheap post delivery financing, COA from local steel mills subsidy price for ship buyers, preferential interest rates to national shipbuilders, creation of investment funds and the injection of easy entry access capital. Real life examples from some of the papers made very interesting reading are great for illustrating a comprehensive answer.

Question Seven

Candidates were required to discuss the structure of the world tanker market with specific references to common cargoes, namely crude, petroleum products derived from organic chemicals, sulphuric acid and phosphorus acids from inorganic chemicals. Further candidates were to identify the main producers and exporters and importers (all countries). Though part three of the question specially asked candidates to describe the factor the factors affecting the current market some answers were short on detail. This was surprising, given the huge interest and press coverage of this topical issue in the press. Candidates who scored highly gave equal weight to all the parts of the question and used the world map to illustrate their answers.



Question Eight

Surprisingly this question was unpopular and was not very well answered. The question was about the barriers that prospective entrants to the Liner Industry may face. The best answers were centred around the 'oligopolistic' market structure of liner shipping typified by existence of a few sellers and inter firm rivalry. Other features include huge capital investment, fleet size, extensive global presence, marketing, Logistics and allied through transport infrastructure, presence of conferences especially the closed type, market dominance and the rise of global and strategic alliances offering fast, reliable regular and competitive rates.