

General Comments

The April paper once again covered subjects from the syllabus combining both textbook style questions as well real examples of issues facing the liner industry. It is essential students learn from the textbook, further reading and practical aspects of both trade developments and the real issues facing liner shipping which is going through probably the most turbulent time since the start of containerisation.

There was again evidence of not taking time to read questions and students diving headlong into a question and straying completely from the question being asked. There is never any intention to trick students with any question but always the intention to provide as much clarity as possible in terms of what is being asked for. Whilst the pass mark was overall low the papers that did pass were well written and some excellent thought processes and understanding of the industry were given in answers to the questions.

Question One

The Asia to USA East Coast Trade is highly competitive given that it competes against the Asia - US West Coast [then road/rail] but also via the Panama and Suez Canal routes.

[A] Discuss the advantages and disadvantages of the three routes.

[B] Discuss the likely developments of trade on these routes in the next five years.

This was answered by quite a high number of students and produced an average to low pass mark. The single largest error rate was poor geographical understanding of what is one of the largest trade lanes in the world and the routes that are used. What was disappointing was that in answering part [A] students were told clearly the three routes from Asia to the US East Coast. To clarify this is:

- Asia to West Coast with a land bridge through to the Eastern Seaboard of the USA
- All water Asia to US East Coast via Panama Canal
- All water Asia to US East Coast via Suez Canal

The simple advantages and disadvantages would be ship system size, port and canal size restrictions, transit times and economies of scale resulting from this. The subject area is vast and many marks could be picked up by just expanding on the networks of services and the drivers. Many students got bogged down in detail of markets and many marks also were lost by not even listing the three routes [which were mentioned in the question]

Part B was often not even answered at all but often missed the Panama Canal expansion as a key point and secondly the requirement to increase container vessel size capacity in US East Coast ports. There was no hard and fast answer as in many respects exactly what carriers will do with their various services once the canal is widened is still uncertain. There was however some excellent ideas and discussion in this part of the question which in some cases were quite thought provoking.

Question Two

Choose any **three** of the following cargoes and identify at least two major trade routes on which they are shipped including the main loading and discharging ports:

- [A] Avocados
- [B] Built up Motor Vehicles
- [C] Sugar
- [D] Scrap Metal
- [E] Canned Foods

Explain the types of **container** needed and any special requirements and/or precautions taken for the protection of your three selected cargoes and containers.

This question had a high number of attempts as one would expect and the pass mark was just above average. Many marks were lost simply because of a basic lack of understanding of some of the products and equipment types used. This sort of question should score high but consistently fails to do so in spite of the vast subject matter. Some key points about the cargo is listed below:

Avocados - are shipped from Mexico, Chile, South Africa, Spain and New Zealand in large numbers. Very time sensitive and requires 40ft reefer containers and also controlled atmosphere systems are desirable which are varied from Ever Fresh to chemical controls like Maxtend. These put the fruit to sleep and extend shelf life. This is a large and growing trade.

Built up Vehicles [CBU] – globally in many areas compete with car carriers and have use 40ft HC containers often with complicated racking systems which can hold 3-4 cars. Compete with PCC vessels but have advantage in calling at smaller port systems

Sugar – Large volumes moving ex Thailand, Brazil, India etc. Use 20ft GP containers ideally with ventilation but also requires dry low moisture container floors due to nature of cargo.

Scrap metal - Is a global trade over 105 million tonnes per annum and quite a lot of this moves in containers [20ft GP's only]. Large trade into Turkey, China, India and Vietnam from Africa, USA, Europe [USA = 25% of world trade]. Key cargo care aspects are packaging [baled vs. loose the former preferred to avoid container damage], some carriers require plywood lining for protection and care must be taken to accept registered exporters avoiding oil residue [engines] etc.

Canned Foods – Wide and varied either human consumption such as canned fruit and also pet foods etc. Wide trade globally. Requires 20ft GP containers [heavy cargo] and floors must have low moisture to protect cans from rusting.

Question Three

A number of Ultra Large Container Vessels [ULVC] have been delivered in the last few years. In 2015 more of these vessels will be delivered.

[A] Describe the trade routes involved and the implications of delivery of such a large order book

[B] Describe the likely impact of this order book on other trades and where this may happen.

This was also a popular question but handled quite poorly considering the subject matter and its importance. Part A required an expansive description of the on-going roll out of large capacity in the Europe – Far East trade and what this will do with the Alliance structures. Unfortunately there were many informative 'lectures' on the history of the trade which was not required.

Part B should have covered the very real damage that this is doing to smaller trades as displaced vessels between 8 000-10 000 teus capacity are being cascaded into smaller trades and whilst initially gaining good economies of scale are actually destroying these trades due to over capacity. This question allowed for an expansive answer on this real live development but was in general poorly answered. Those that grasped the problem answered the question well and scored high marks.

Question Four

You are a carrier about to enter a Vessel Sharing Agreement [VSA] with other carriers on a trade based from Europe. Explain in detail the level of discussion that can take place in terms of operating the VSA and contrast this where it might contravene competition law. As this is a new trade route to your company, explain how you would construct your freight tariff and the components of this tariff.

This question attracted a low number of attempts which was a pity as again it covers real example of what is happening in today's more regulated framework of competition law. Some answers in fact were concerning considering the level of exposure through anti-competitive actions. It was important to answer part A well as this would allow the second part of the question to be handled well. In terms of discussions which can and cannot take place this should have been clearly defined as:

Discussion which can take place:

- Vessel provision and sizes
- Schedule construction per string
- Which vessels operate in which strings
- Frequency of sailings
- VSA shares per line [usually based on vessel provision]

Discussion which cannot take place:

- Market sizes of trading area
- Commercial information relating to customers
- Bunker surcharge construction
- THC and general tariffs

In part [B] the ability to construct a tariff is by using market feedback and websites was an important area. All elements of a basic tariff should have been covered and certainly covering as a minimum:

THC, Bunker Surcharge, currency adjustment surcharges, ISPS Charge, Special Equipment and out of gauge surcharges, forwarding agent commissions, rebate scales if required for volume customers, feeder [out port additional charge], Freight levels commodity or FAK, War Risk, port congestion surcharges, Dangerous goods surcharges and inland tariff policy.

Question Five

Whilst many liner operators have their offices globally the need for Liner Agencies still remains important in many countries.

[A] Explain the reasons why a liner company would employ an agent.

[B] Describe which contract is used and give a breakdown of the key tasks that a liner agent would be expected to perform.

This was the most popular question on the paper and there was also a very high percentage scoring a pass mark on this as well. Generally the pass mark was average but there were some really exceptional answers as well with students showing an excellent understanding of this function. Those students who scored low marks on this question did so due to confusing the role of a port agent and a liner agent [port agency is but one function of a full liner agency]. Those students who only answered the port agents role [some brilliantly] simply lost many marks as this was only one aspect of the function.

Question Six

In a number of trades both large container liner services and those of con-bulker services [Containers and Bulk] operate in direct competition with each other.

[A] Outline a specific trade of your choice where such services compete against each other and the specific strengths and weaknesses of these two services. You should use a world map to support your answer.

[B] Outline the likely development of a con-bulker service over the coming years in the context of the sheer weight of competition.

This was the least popular question with also a very low pass rate and probably demonstrates what a niche area this is for liner operators running con-bulker services [and possibly also highlights their major advantage and longer term future]

For part [A] there are numerous trades which have a good co-existence of such services operating. It usually applies where a trade has good volumes of project and OOG cargo in both directions as well as traditional neo bulk [not container friendly]. Con-Bulker vessels compete well due to their flexibility. Trade examples can be USA-South Africa / Europe – South Africa / Specialised paper and steel services globally / Europe - West Africa.

For [B] the development is likely to be solid and longer term survival as these ships and services have carved a small niche in the market which serves a specific need in the market. No liner container service only can compete due the ship system being flexible and customer service being focused rather than transactional.

Question Seven

Container Freight Rates have remained largely static to marginally declining over recent years. It is likely this will continue due to the quantity of vessels being deployed keeping supply ahead of demand. This is heavily impacting liner company profitability although some company results are significantly better than others in spite of the revenue per teu being globally similar

[A] Suggest ways in which a liner company might be able improve revenue.

[B] Suggest ways other than revenue improvements that liner companies use to combat low profits?

This was quite a popular question but with a relatively low pass mark. Again this is a real problem area for carriers and reading the question carefully was important. Part A was a revenue question and looking for some innovative approach to widening the revenue stream. Some examples were:

Developing door to door adding revenue via landside operations by various means

Correct port pair selection i.e. gaining the best revenue mix from best ports

General Rate Increases

Customer selection [BCO/FWDR/Spot/FOB vs. CIF selling]

Yield and Contribution management

This is a difficult area in such highly competitive markets but there were some good answers however many students either just focused on revenue and forgot costs [part B] or just focused on costs.

Part B was clearly the cost side of the question and the usual methods which are critical in this which is one of the most important parts of liner shipping today which is to cut costs and deliver the lowest ship system price. Alliances and VSA development [ship systems], bunker costs i.e. location and super slow steaming. Void sailings. Pendulum, double dips, scrapping and idling are just some examples but many of these were not mentioned.

Question Eight

The use of IT systems and technology have rapidly been employed in the container industry in a variety of roles and are now essential for the successful running of large container liner companies due to the sheer size of transactions taking place.

Explain in detail how the use of different IT systems has helped with this growth and outline what the benefits have been to carriers, shippers, consignees, and any other parties?

A high number of attempts were made on this question and it also had a high pass mark with students displaying a good understanding of what was required. Generally speaking if the below areas were all covered this would have resulted in a pass.



Container control

Carrier Documentation production [mention back offices/bills of lading/arrival notices/invoicing]

Ship planning

Websites

EDI to and from ports and government bodies [customs]

Management systems [contribution models]