Oail comments

Results in this subject were somewhat disappointing this year after two successive years of encouragingly good papers.

This seems to stem from a lack of understanding of some elements of core knowledge, including international terms of sale, which gives the examiners cause for concern. It also appears that many candidates find it hard to relate their theoretical knowledge of the principles of shipping business to the real world of international seaborne trade.

Question 1 - Documentary Letters of Credit Why international traders might choose not to use the DLC, and alternative settlement terms available to them.

To answer this question satisfactorily, candidates needed firstly to appreciate that the Documentary Letter of Credit system can only be used for documentary transactions, and that many terms of sale are therefore completely unsuitable for such a system. Most recognised the common problems associated with DLCs, including the time involved in establishing them, the costs and their inherent lack of flexibility, but many failed to explain why (for example) time constraints, the relationship between the parties or simply the terms of sale themselves might rule out using a Letter of Credit.
A few candidates failed to attempt the second part of the question, but the majority went on to identify at least one or two of the alternatives to Letters of Credit. Many answers wasted valuable time by including a detailed explanation of the operation of the Letter of Credit system, which was not necessary to answer the question.

Question 2 - The way in which the second-hand tonnage market operates and the role of the S&P broker in the second-hand market

The majority of candidates had a reasonable grasp of the way in which the market for second-hand ships operates, including the factors affecting market activity and prices, and were able to explain the process of offer, negotiation and sale. The principal cause of failure in attempting this question was the lack of reference to the brokers’ role in the process. In fact sonic answers barely mentioned the brokers at all. Others began with the best of intentions but lost sight of the question part way through and thereby deprived themselves of valuable marks. It was abundantly clear from some answers that the writer had no knowledge of the Sale and Purchase market at all, and their reasons for choosing this question remain a mystery.

Question 3 - Why should an exporter choose to sell on CIF terms. When DES offers a far more straightforward alternative?
This was a straightforward question, which required candidates to show a clear understanding of both terms of sale from the seller's point of view and then to examine the different circumstances which would influence the selection of one or the other. Unfortunately almost half those attempting this question did not know the basic details of DES (Delivered Ex Ship) terms. This is, as the question states, a straightforward term and there is no excuse for confusing it with EXW or DDP or FCA as many clearly did. Even some of the better answers assumed that the seller was responsible for discharging at the port of destination, presumably confusing it with DEQ.

As a result of this lack of knowledge, approximately 40% candidates were unable to answer the question satisfactorily. The fact that CIF is an appropriate term for use with a documentary sale whereas DES is not was completely ignored in many answers. Those who were working from a sound knowledge base not only cited this fact but went on to examine the other factors which might influence the choice of terms.

Question 4 - Account for the steady increase in size and capacity of container vessels and consider factors likely to limit this trend in the fixture.

Some very good answers were forthcoming with students not only demonstrating a sound knowledge of the trends in container vessels, but also discussing intelligently the various geographical, commercial, economic and technical factors which tend to curb the increase in capacity of container ships.

Many of the best answers used graphs to illustrate the economies of scale, and quoted examples of port and canal limitations on vessel sizes. Some candidates got into difficulties confusing cause and effect, but for the most part this question was well answered.

Question 5 - The implementation and enforcement of IMO conventions

Another perfectly straightforward question which produced some well-informed and competent essays. Those who did not achieve pass marks for this question either did not understand the way in which the IMO works, or failed to address the processes by which the conventions are ultimately enforced, which was an important and integral part of the question.

The best answers not only quoted good examples of both conventions and codes, but discussed the difficulty of obtaining consensus on some of the more controversial topics and the varying effectiveness of enforcing convention requirements worldwide. The IMO is such an influential and important organisation in the shipping world that all candidates preparing for this examination should be well aware of its structure and activities. Disappointingly there were many answers which showed a dismal lack of knowledge of even the basic facts about the IMO and its work.

Question 6 - Dry Cargo brokers: How do they stay in touch with the market?
Although most of those attempting this question were aware of the role of the diy cargo broker, many showed a lack of understanding of the variety of information sources upon which brokers depend and how they gain access to them. Too many answers repeatedly stated that “a good broker should know...” and “the broker must be aware of...” but failed to explain how he got to know or be aware of significant information.

There were some exceptionally good answers which not only displayed a sound understanding of the way in which brokers work but also addressed the ethical problems which brokers sometimes face in disclosing or obtaining sensitive information.

Question 7- The range of risks faced by a charterer buying on FOB terms, and the means by which he can protect himself or limit his exposure.

This question was designed to test the candidates understanding not only of FOB terms but of the problems confronting a buyer who is chartering tonnage to load his goods. Too many candidates confined themselves to discussing only the physical risk to the goods during loading and the sea passage, and ignored the other problems such as chartering suitable vessels, the possibility of demurrage at both ends of the voyage, the liabilities to the ship assumed by charterers, potential fluctuations in freight and currency markets and so on.

Most of those who obtained low marks in this question did not appear to associate the terms of sale with the transport process.

Question 8- The reasons for the existence of BIMCO and the benefits of membership

Most candidates who had some knowledge of BIMCO and its activities were able to answer this question satisfactorily, though there were a high number of unsuccessful answers which revealed very little knowledge of BIMCO or confused it with either the Baltic Exchange or the IMO.

BIMCO is a high profile and active organisation of considerable significance in the shipping world, and aspiring shipping professionals in any area of the business should know enough to be able to tackle this type of question.

Conclusion

The main cause of failure among this year's candidates was an imperfect knowledge of some of the most important topics of this subject, such as the more significant and influential organisations in shipping international terms of sale and their significance in international transport, and the work of brokers in different fields of shipping.

There is no substitute for a sound knowledge of these topics.

On the positive side it was noted that generally presentation was good, handwriting legible and graphs and diagrams well used by students.