

THE INSTITUTE OF CHARTERED SHIPBROKERS

ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE (EST) 2007

EXAMINER'S REPORT

OVERALL COMMENT

This year's Economics of Sea Transport & International Trade saw record number of candidates sit the examinations, a very welcome development which reflects the growth in popularity of the subject and the Qualifying Examinations as a whole, however this growth in candidate numbers did not match the quality of work submitted. Once again a number of candidates exhibited a lack of knowledge of current shipping news and affairs. It is crucial that candidates keep abreast with developments in shipping and international trade in general as a way of scoring marks and demonstrating to examiners the vital combination of theory and practice, so essential to success in all qualifying diploma examinations.

Overall a good result for those centres worldwide whose candidates, tutors and lecturers put in a lot of hard work in preparation for the examinations.

QUESTION 1 - RATES OF EXCHANGE AND BALANCE OF TRADE.

This question required a brief explanation of what currency exchange rate movements are and what causes them together with an explanation regarding their impact on the operating results of a shipping company :-

Balance of Trade: shows how much a nation earns from the rest of the world and how it spends. Surplus means that exports exceed imports and a Deficit means that imports exceed exports.

Operating Results

Most important inputs in shipping are in USD, adverse movements of the dollar could result in reduced profits in the operating results of a shipping company.

Costs directly affected by currency rate movements would include: Bunkers, Lubricants, Crew costs, Port, Canal dues, Dock dues, virtualing and Ship-broking fees, overseas Dry docking as well as flag state requirements.

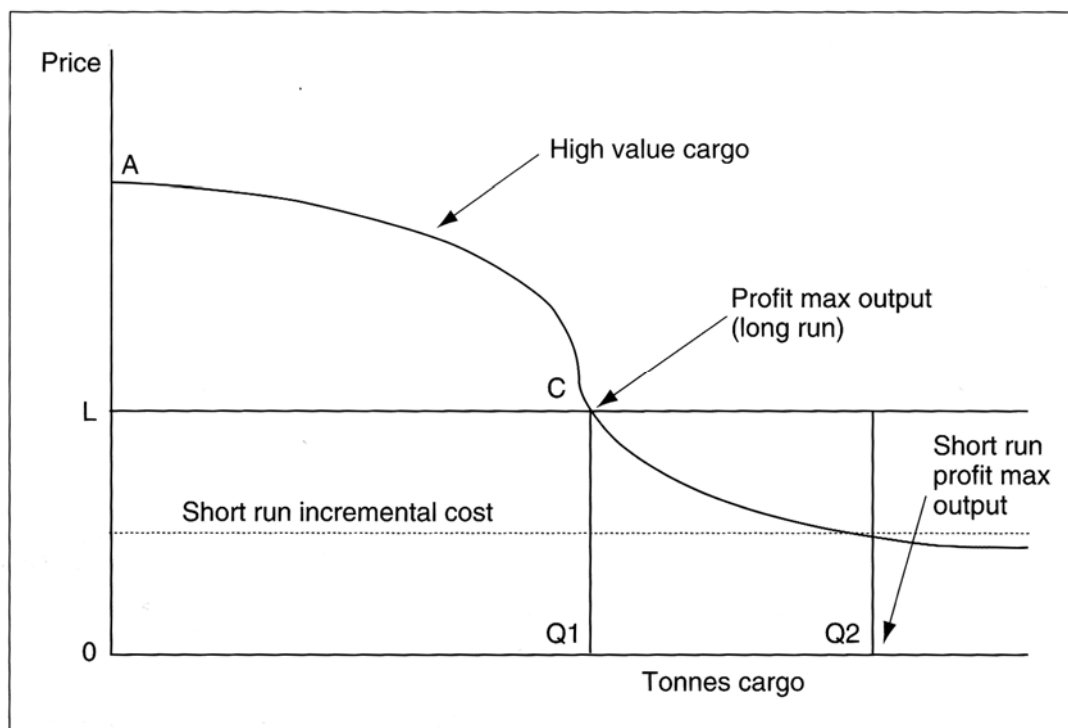
Some candidates went to great lengths explaining the Balance of Payments and paid little if no attention to the Balance of Trade which was the main elements of the question.

QUESTION 2 - LINER TRADE PROFITS

This question called for a detailed explanation of the two basic reasons for this apparent contradiction- ie Price discrimination and Conference paradox :

-Why and What is Price discrimination? - result of the competitive pressures brought on by airfreight, tramp operators, Liner companies and detailed explanation of their negative impact of revenues

-The Conference paradox: Short run profit maximization Hypothesis , Contestable market thesis, Empty Core Thesis



QUESTION 3 – ‘DUMPING’ AND ‘SUBSIDIES’

The definition of both terms ie ‘dumping’ and ‘subsidies’ were critical success elements in this questions well as reference to the ship building industry.

--Subsidy: payment by government agency to domestic producers of goods which permits producer to charge lower` prices for their products

-Dumping: the sale of products in overseas market at a price that is less than the real cost of making it effecting making even the most efficient home producer inefficient.

A sound and broad background to the protectionist attitude of some developed sea faring nations toward ship building widely considered a strategic and sensitive industry citing specific examples would provide a solid basis to answer

Explanation of the negative effect this has on the entire shipping industry and world shipping in general and recent measures particularly through OECD to regulate the shipbuilding industry would secure additional marks. Surprisingly few candidates attempted this question.

QUESTION 4 – SHIP SIZES - BIGGER NOT ALWAYS BETTER

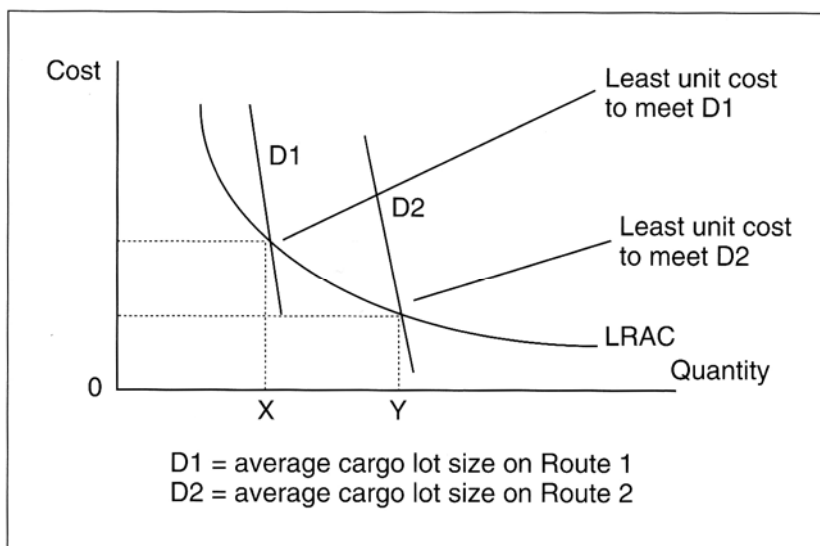
This question required a brief but concise definition of the economies of scale theory as well as the different trade: liner, tankers and break bulk.

Explanation of why bigger is generally better than small: more can be carried for less - per unit basis.

Example: bulk carrier of 30,000dwt and another of 200,000 dwt could have same;

Crew size and associated costs, management overheads, selling and administrative expenses, as far as bunkers are concerned the consumption may perhaps be double but not four times greater nor would the construction costs be 4 times greater .Example Ms Emma

Factors that determine size of vessels and restrictions that follow need to be mentioned as well as a good conclusion embracing both pros and cons of big and small. A very popular question with detailed answers supported by good graphs.



QUESTION 5 - PORT PRIVATIZATION

A topical question which should give well-read and informed candidates the opportunity to showcase their knowledge of current port management philosophies and their impact on world trade and development. A popular question with some very good answers Explain privatization in general and port privatization in particular.

Plenty of examples to choose from: Hong Kong and Singapore are the best examples, Explanation of the Anglo- Saxon port management philosophy and its influence on privatization will secure additional marks. The privatization of British Ports would be a good example.

QUESTION 6 - SUPPLY OF SHIPPING AND THE FRIEGHT MARKETS

This question is very broad and should allow candidates to writing exhaustively on the numerous factors that influence the freight market. Ideally should be divided in two- short and long term effects. A very popular question, but surprisingly the answers did not match the popularity.

Answers should include:

Short Term factors such as choke points, sabotage, speculation, wars and rumors of wars, bunker prices, lay-up, seasonal factors and overcrowding

Long Term factors

World commodity demand and increased economic activity result in increased orders, recall from lay up, maximum use of all available tonnage and re-commissioning of all available tonnage, fast steaming and modification and of course increased incentive by ship owners to supply more ships at higher freight rates

Economic performance as well as the combined effects of the above factors impact significantly on scrapping, demolition and indeed the purchase and sale of vessels

Explain how increased orders of vessels affects cost of building and orders for new buildings and their effect on freight rates.

QUESTION 7 – FREIGHT RATE LEVELS – ELASTICITY

Another popular question with a relatively good pass mark .This question is about the elasticity of tonnage supply in the face of sustained demand for the basic raw material inputs from the fast growing economies of China and India in the face of limited supply of world tonnage.

The 80 - 20 rule best explains this situation and the use of the relevant diagram would secure additional marks

A brief description of elasticity and its relevance are essential elements in the answer.

Mention of Japan and Korea and their response to this situation by switching from long term contracts of affreightment and arranging cargoes on a spot basis would secure good marks

QUESTION 8 – ‘PERFECT COMPETITION

This was a popular question and not without reason, it is straight forward and required students to identify and comment in depth on the six economic characteristics of a competitive market. Well prepared candidates secured very high grades on this question.

CONCLUSION

Success in the examinations calls for concerted hard work and thorough preparation. Candidates are reminded that completion of the syllabus, thorough preparation and the attendance of revision programmes such as Prep in the United Kingdom, as well as a keen interest in current shipping and international trade issues are vital to success and can only be ignored at one's peril. What is heartening this year was the large number of candidates that supported their answers with Graphs , this is highly commendable. Individual research into international trade and shipping issues, currency movements, commodity prices and movements, trends and freight rates should be a must for Economics for Sea Transport and International Trade students and is highly recommended.