

MT2002- Shipping Economics

➤ 1a)

It is a cooperation arrangement that liners join force to share the management of shipping services and container ship deployment. Member companies continue to run their own commercial operations. An example of the global alliance is Ocean 3.

The main economic benefit of such alliance includes:

1. Economic of Scale: Due to larger operation scale its helps to reduce the company's per unit cost especially in the case when the company fix cost is high. With a lower cost shipping line also can be more competitive in term freight rate offer to the customer.
2. Slot Sharing: With such global alliance, partners can share ship spaces and cargoes with one another whenever there is cargo available. This is especially important when market is doing bad and company attempt to reduce cost by cutting number of the service loops offered.
3. Increase revenue: With global alliance means that company is able to expose to more customers and expand its global network with the help of the partners which lead to higher revenue and thus higher profit.

➤ 1b)

Shipping pool is a fleet of similar vessel types with different owners, in the care of central administration. The pool consist of the pool manager who helps to market the vessels as a single fleet, collects earnings which, after deducting overheads, are distributed to pool members under a weighting system. An example of the pool is IMC Transasia Pool that specializes in the operation of handysize bulk carriers and serves mainly Asia-Pacific trade routes.

The economic benefit includes: With Such a big pool, it can increase its opportunity to secure business through higher bargaining power and more efficient fleet deployment scheduling. Another main benefit is the sharing of the risk, in the pool the shipowners have different profile risk, a better performing ship in term of economic point of view can help to offset the lose of the poor preforming ship, since the total profit is share among the members of the pool. Furthermore, with such a big pool under the management of the single pool manager, it leads to economic of scale with better utilization of the resource and lower fix cost per unit. Lastly, It allows members to access to global network and information which unable the pool to better react for changing world economic condition.

➤ 2.

The biggest problem facing Asia in future will still be overcapacity. This problem is not only for Asia, but also for the world industry as a whole as shipping is international in nature.

I cant remember how I answered this questions exactly, here are only some analysis:

1. Major commodity seaborne trades:
 - ✓ Give examples
2. Balance of fleet demand and supply:
 - ✓ Read some news before the exam
 - ✓ Analyze together with the factors that affect supply and demand

3. Future challenges are closely related to the shipping cycle. Now, the shipping market is near the bottom and on the road to recovery, so... (describe the stage now and the dynamic changes)

In addition, there are other challenges from the raising possibility of Northern Sea Route, the lagging in financial sector in Asia and etc.

➤ 3a)

From the owners prospective the most important cost element is fuel cost: it can be up to 76% of the overall voyage costs, which is about 30% of the total shipping cost just by its' alone. The common grade of fuel oil includes IFO 380 that is a intermediate fuel oil with a maximum viscosity of 380 centistokes and less than 3.5% of sulphur content, with increasing more stringent environmental regulation, ship-owner need to use event a higher grade of fuel oil with much lower sulphur content which bring up the fuel cost even further. The most common market for bunker includes Singapore and Rotterdam.

There are many ways to reduce such cost which includes:

1. Improve energy efficiency through better engine design and more effective maintenance of the main engine, thus burn less fuel for the same distance travelled.
2. Slow Steaming, which is a widely used method used by the industry, lower speed of vessel ultimately means lower fuel consumption.
3. Improving hull design and smoothness: When vessel travel they will be subjects to friction in opposite direction, with better ship design such friction can be reduced thus result in lesser energy loss and lesser fuel consumption.

➤ 3b)

The ship owners can raise fund effectively through following methods:

- Private Fund: it can be earnings of other ships or investments or loan from family members, friends.
- Bank Loan: Most quick method to raise funds, quick and flexible with full ownership of the business. There are 3 types of bank loans. First is the mortgage-backed loan, which reply on ship security and borrower is a one-Ship Company registered in a legally acceptable jurisdiction, either shipowner or shipping company. The loan can be 2 to 5 years or even more than 5 years with fixed interest rate and equal capital repayment. Second one is the Corporate Loan, which is suitable for large shipping companies who can borrow as a company instead as an individual ship, loan can be split in to small packages through loan syndication by the bank or bank can sell part of the loan to another bank in term of the asset sale to reduce the exposure to the shipping risk. Third is through Shipyard Credit scheme which help to finance a new ship, shipowner can look for pre-delivery finance, down payment is needed for shipyard to purchase materials and pay salary if pre-delivery credit is arranged, the purchaser makes first payment by own fund, while bank pays the remaining stages. For post-delivery finance is drawn on the delivery of ship, government will offer credit to shipowner in the form of government guarantee, interest rate subsidy.

- Capital Market: Shipowner can raise fund through Public offering of shares, by arranging public offering of stocks to be traded in one or more stock exchanges around the world. Shipowner can also raise fund through issuing of bonds, a debt security redeemed on a specific date where issuer pays interest, the shipping company sell the bonds to financial institution and pays them interest, and the capital is repaid to the bondholders at the end of the term.
- Special Purpose Company: It serve as a means to raise finance to acquire ships, but and later lease or time charter out. It gives a chance for those who are interested in maritime industry to participate in the business, and allows the shipping company to do off balance sheet financing.

➤ 4.

Under Liner shipping, the price is depends on the following factors:

- Distance via different trade routes
- Cargo related factors example cargo weight, LCL or FCL.
- Additional charges example loading and unloading expenses at ports.
- Currency Adjustment Factor
- Bunker adjustment factor
- Based on SCFI

Under Tramp shipping, the price is depends on the following factors:

- Demand of commodities which is determined by industrial productions, energy demand, economic activities
- Supply of vessel fleets like no. of available vessels, capacity and utilization.
- Disruption at choke points, port congestion
- Bunker price
- Based Dry Index
- World Scale for oil tankers
- Negotiation power of the shipper and carrier