

INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2009 EXAMINATIONS

THURSDAY 23 APRIL – AFTERNOON

SHIP SALE AND PURCHASE

Time allowed – Three hours

Answer any FIVE questions – All questions carry equal marks

1. With the world fleet for Aframax tankers increasing, a Ship Sale and Purchase Broker must be fully conversant with this type of ship. Selecting **either** a clean or dirty product trading Aframax, answer **all** of the following:-
 - a) Give a written description of the ship including how the Aframax got its name.
 - b) Illustrate with a detailed drawing of the ship showing dimensions.
 - c) Comment on the range of products that your chosen tanker would carry.
 - d) On the world map provided show the trading routes for these products.
2. Your Principal is shortly due to take delivery of a newbuilding, a Panamax Bulk Carrier which has successfully completed her sea-trials. Describe the range of documents that have to be prepared and are required, both on board and on shore, so that, on the day of handover from the shipyard to your Principal, the ship will immediately be allowed to start her commercial life.
3. Having signed the Norwegian Saleform 1993, the Sellers have agreed to sell and the Buyers have agreed to buy. However, Buyers or Sellers can default on each other. When this occurs, the NSF 1993 provides two Clauses to deal with this situation. Explain in detail these two Clauses

4. You are working as an exclusive Broker for a London-based Indian scrap merchant. A ship of great interest has just come on to the demolition market. Using a ship type of your choice, prepare a draft demolition offer setting out the full terms and conditions for the purchase of this ship for scrap.
5. A Tanker shipowner has approached a commercial Bank for a loan against a ship's mortgage in order to purchase a second-hand Suezmax Tanker. Assess what information the Bank is likely to request from the shipowner before considering this loan.
6. Once a second-hand ship sale has been concluded and the NSF 1993 has been agreed, signed and the deposit paid by the Buyer, there will be a period of time before the delivery date to the new owner. Fully discuss the content of the 'Notices, time and place of delivery' Clause that covers this period of time in the buying/selling process.
7. Give a detailed explanation of **all** of the following terms:-
 - a) Guarantee Period
 - b) Flag of Convenience
 - c) Power of Attorney
 - d) Breaking-up Conditions Insurance Policy
8. Examine the impact of a global recession on the newbuild, second-hand and demolition markets.

THE INSTITUTE OF CHARTERED SHIPBROKERS

SHIP SALE & PURCHASE (SSP)

2009

EXAMINER'S REPORT

OVERALL COMMENTS

Good presentation and a detailed knowledge of the ship sale and purchase market shone through this year. Those candidates that really knew the Norwegian Saleform 1993 (NSF 1993) excelled in this year's examination. It was very clear-cut between those who had taken the time and effort to revise the NSF in depth and those who had just glanced over the surface. The essays gaining the high marks were those who explained in detail the content of the Clauses, using not only the printed words of the NSF but by also using their own words. This shows real understanding of the NSF rather than just remembering the wording of the Clauses from rote revision.

QUESTION 1 - AFRAMAX TANKER'

The candidates who selected this question gave a very good account of their knowledge on ship types. Much improved ship drawings resulted in an excellent pass rate. Most answers gave a detailed description and drawing of the ship - an Aframax tanker in this case, a cross-section of a tank with reference to the pipe-line systems. The Aframax tanker is known by this name due to the 'AFRA' - Average Freight Rate Assessment' - not from trading with Africa as mentioned by some!. The use of the world map provided in this years ICS examinations could have been used to better effect. Many candidates just put lines around the world map to show the trading routes with no reference to names of countries, never mind any mention of any loading or discharging Ports.

QUESTION 2 - 'DOCUMENTS REQUIRED FOR A NEWBUILDING

Several essays only made reference to the Documentation Clause in the Norwegian Saleform 1993 (NSF 1993). This was the classic case of candidates "reading what they wanted to read" for the question. The transaction was the delivery of a newbuilding from the shipyard to the Buyer/Shipowner and the question asked for the full range of documents that had to be prepared so that on handover of the ship, a Panamax Bulk Carrier in order for it to start to trade immediately. The Document of Title in this case is the Builder's Certificate. The best essays related the documents to the Panamax newbuilding by explaining for example the Panama Canal Certificate and the Grain and Bale Cubic Capacity Plans.

QUESTION 3 - BUYERS' AND SELLERS' DEFAULT CLAUSES.

Perhaps due to a lack of revision on the NSF 1993, many candidates got very mixed-up with the content of each Clause and started to bring the wording of other unrelated Clauses into their essays. Many who attempted this question, thinking perhaps that they could generalise on defaults had no real idea on the actual content and mechanisms of these two important Clauses and how they interrelate to Clauses No. 2, 3, 5 and 8 and therefore could not discuss Buyers' and Sellers' defaults in the kind of depth that was required in order to gain a pass in this question.

QUESTION 4 - PREPARE A DRAFT DEMOLITION OFFER

This was not a popular question but quite well answered by those who attempted it. The best essays related their draft offer to the ship type they had selected and put themselves 'into the shoes' of the Indian Scrap Merchant so their terms and conditions reflected the needs and requirements of a ship demolition Buyer. The offer needed to be detailed with each term and condition explained. Candidates who simply wrote "All terms and conditions as per BIMCO 'DEMOLISHCON' with no explanation of what they actually are - cannot expect to gain marks.

QUESTION 5 - BANK LOAN TO PURCHASE A SECOND-HAND TANKER

A fairly popular question that produced some reasonable essays. Most candidates who selected it, covered the information required by the Bank before committing funds to the Buyer quite well. The essay needed to look not only at the Shipowner/Buyer but at the ship itself, a point missed by some. The Bank is investing in the ship so for example they would request a Valuation Certificate for this Suezmax Tanker as part of their financial assessment. The ship's proposed future employment would also be of high priority to the Bank - a long-term Time Charter would be ideal. Does this Tanker already have 'Oil Majors' approval via their vetting process? Under which Flag State will the tanker trade? Is the tanker 'black-listed' for any reason? Is the tanker due for its Special Survey? These are just some of the many questions that will influence the Bank's decision to lend the funds to the Buyer.

QUESTION 6 - NOTICES, TIME AND PLACE OF DELIVERY CLAUSE

The second most popular question but poorly answered by some candidates. Many short vague essays showed a lack of knowledge on the content of Clause 5 of the NSF 1993. Those that knew and understood the complexity of this Clause gained high marks. The answer required an explanation of all four parts of this Clause and in particular the importance of Line 61 - Date of cancelling and its relationship with, not only Part C of Clause 5 but also with Clause 6b) (iii) and Clause 14. Please also see the comments under Overall Impression at the beginning of this Report.

QUESTION 7 EXPLANATION OF VARIOUS TERMS

Generally well answered by the majority and pleasing to note that most candidates attempted all four parts of this question. Guarantee Period related to Newbuildings, usually for the period of one year after the date of delivery. The shipyard will normally place on board a Guarantee Ship Engineer to address any problems on board. Flags of Convenience commonly referred to as 'Open Registries' were covered quite well. A Power of Attorney must be backed up by a company Board Resolution and must be duly notarially attested and legalised or in some cases apostilled. The last part of this question covered the Breaking-Up Conditions Insurance Policy, this applies to a ship on her way to the demolition yard/beach.

QUESTION 8 - THE IMPACT OF A GLOBAL RECESSION ON THE SSP MARKETS

This popular question gave the candidates the opportunity to demonstrate and express their present day market knowledge on what can happen to the newbuild, second-hand and demolition markets during a global recession - the likes of which we are now seeing. The highest marks went to those candidates who showed an in depth understanding about the effects and consequences to each sector in the SSP markets. This knowledge being gained from reading the many articles appearing on a daily basis in the shipping press. However, candidates must be aware of using up too much time on this kind of question at the detriment of the other four questions they need to answer in order to achieve a pass mark.

CONCLUSION

Candidates taking the ICS examinations must make the best use of the three hours provided by trying to give equal time to each of the five questions that need to be answered - some time management is called for in view of the comments made under Question 8. The reading of shipping trade journals and the many free Internet sites to keep up to date with market developments is an important part of the study process. As in previous years the serious revision of the Norwegian Saleform cannot be emphasised enough and has been highlighted in this Report.