

INSTITUTE OF CHARTERED SHIPBROKERS

APRIL 2008 EXAMINATIONS

THURSDAY 24 APRIL – AFTERNOON

SHIP SALE & PURCHASE

Time allowed – Three hours

Answer any FIVE questions – All questions carry equal marks

1. Classification plays an important role in the buying and selling of ships. Answer **ALL** of the following:-
 - a) When a Buyer shows an interest in purchasing a ship, discuss how the ship's classification records may influence the Buyer's decision.
 - b) Describe the significance of the role that the Classification Surveyor plays under the Dry Docking Clause of the Norwegian Saleform 1993.
 - c) Name at least five of the leading Classification Societies. Apart from shipowners, comment on other parties that use the services provided by Class Societies.
2. Handymax Bulk Carriers have proved popular in the sale and purchase market of late. Give a detailed description of a Handymax, supported by fully labelled drawings. Comment on the typical trading routes and likely cargoes to be carried.
3. Producing correct documentation is essential to a successful ship sale and purchase transaction. Selecting a second-hand ship of your choice, explain in detail the documents that both the Seller and Buyer will be expected to provide from ashore and on board this type of ship. Use a Memorandum of Agreement of your choice detailing any amendments that have been made to the Documentation Clause.
4. With ever-increasing prices, the various ways of obtaining finance for the purchase of newbuildings and second-hand ships is high on the agenda of shipowners. Discuss the many types of ship finance that are available to Buyers in today's financial markets.

5. You are a Broker valuing a ship for the purposes of an arbitration. The ship in question is a 70,000 dwt Panamax Bulk Carrier built in 2000. Explain how you would prepare the valuation and the steps you would take in order to protect yourself from a legal point of view.

Giving reasons, who else might require a ship valuation?

6. Under the terms of the NSF 1993, the 'Inspections' Clause offers the Buyer two alternatives. Explain in detail the content of this Clause covering these two options.
7. Analyse the reasons why a shipowner may wish to send his ship to demolition. What information would be considered essential in order to stimulate interest from prospective Buyers. Comment on the payment methods used when selling a ship for scrap.
8. Apart from paying the full purchase price for a second-hand ship for further trading, comment on all the other possible costs that a Buyer may incur in the buying process, starting from the initial stage of showing interest in a particular ship, right through to the point when the ship is ready to commence its first voyage for the new shipowner.

THE INSTITUTE OF CHARTERED SHIPBROKERS

SHIP SALE & PURCHASE (SSP)

2008

EXAMINER'S REPORT

OVERALL COMMENT

With a continuing high number of candidates taking the Ship Sale and Purchase examination, it was encouraging to see a good level of presentation being maintained by the majority. It must be noted however that this year several candidates seemed to jump in feet first instead of taking a measured amount of time to read and understand the questions correctly; Question 6 being a particularly good example of this.

QUESTION 1 - ROLE OF CLASSIFICATION IN SHIP SALE AND PURCHASE

The most popular question in this year's paper and well answered by the majority. A three-part question covering the role that Classification plays in the buying and selling of ships. The Class records of a ship give an insight into the workings of the ship and a Buyer will be looking for various indications. For example, the date of the last Special Survey, the ship's historical background, where built, past accidents etc. During Dry Docking, it is the Class Surveyor's decisions that can result in extra costs and expenses having to be borne by both the Seller and the Buyer. The Class Surveyor therefore plays a significant role in the compliance of Clause 6 of the NSF. The question asked to name at least five of the leading Classification Societies - many only gave three and also failed to mention that these Class. Societies were all members of IACS - the International Association of Classifications Societies.

QUESTION 2 = HANDYMAX BULK CARRIER

It was pleasing to note the high pass rate by those candidates who selected this question. Some very detailed large-scale ship drawings were produced with good descriptions of the cargo handling gear that is found on this type of bulk carrier. Many candidates produced world maps to show the main trading routes and it was in the area of likely cargoes to be carried that some excellent knowledge shone through. More candidates should attempt this type of question.

QUESTION 3 - DOCUMENTS REQUIRED IN AN S&P TRANSACTION

One of the more popular questions on this year's paper giving candidates the opportunity to demonstrate their knowledge of Clause 8 of the Norwegian Saleform 1993. Many excelled by producing first class essays describing the full range of documents produced by both the Seller and the Buyer. The candidates who did not achieve high marks from this question were the ones who failed to select a ship type as requested thus they could not relate the Trading Certificates to a particular ship type. Loss of marks also resulted from a failure to mention as per the NSF that certain documents have to be notarially attested and legalised. The Notice of Readiness (NOR) produced by the Seller's Master also failed to appear in several essays.

QUESTION 4 - TYPES OF SHIP FINANCE

It was disappointing to note that this question only achieved an average pass rate. Candidates have to be more aware of what is happening in the financial markets. There was a general lack of knowledge on, for example, the German KG market which has been a popular way of financing ships in recent times. Another method of financing the purchase of a ship for trading is for the shipowner to enter into a Finance Leasing Agreement. This was not referred to by many but those who did gave a good explanation of how Finance Lease can work well for some shipowners. Many essays also failed to cover finance for newbuildings as clearly asked for in the question.

QUESTION 5 - PREPARING A SHIP VALUATION

Not a popular question but again well answered by those who selected it. An important point to mention was that the ship is not physically inspected by a Surveyor nor are the Class Records/Log Book of the ship viewed. This is a paper analysis only. Ship valuation is a matter of opinion - not of fact therefore a Broker in order to protect himself must state at the end of his valuation that "Details given in good faith but without guarantee" or words to that effect. The question asked for parties who might require a ship valuation. This was covered very well with Banks, company accountants, Underwriters, Average Adjustors, Arbitrators, Salvage Awards all being mentioned to name a few.

QUESTION 6 - THE 'INSPECTIONS CLAUSE'

Several candidates failed this question due to the fact that many jumped in without taking the time and effort to read the actual content of the question carefully. The 'Inspections Clause' in the NSF is represented by Clause 4 and gives the Buyer two options of inspecting the ship before agreeing to the purchase. The choice of options is in part dependant on the Sellers' position and on the current state of the sale and purchase market for that particular type of ship. Those who failed this question jumped to the wrong conclusion that the question was all about Clause 6 - 'Dry Docking/Divers Inspection'. This showed a total lack of detailed knowledge of the NSF.

QUESTION 7 - SELLING A SHIP FOR DEMOLITION

A three-part question on all aspects of demolition which was looking for candidates to be able to display a good all round understanding of this sector of the sale and purchase market. Sadly this was not reflected in the essays produced. Many did not answer all three parts and thus lost marks before they had started! Only a few made any reference to the fact what a forthcoming Special Survey and the high costs that this involves in dry-docking and repairs would have on the shipowners decision to send his ship for demolition. Payment methods used when selling a ship for scrap was quite well covered with most candidates able to give a reasonable explanation on the workings of a Confirmed Irrevocable Letter of Credit.

QUESTION 8 - COSTS INCURRED BY A BUYER

This question called upon the candidates' ability to be able to 'step into the shoes' of a Buyer and to write a comprehensive essay on all the possible costs that a Buyer may have to pay for in addition to the actual cost of the ship itself. These costs are varied and wide-ranging and most candidates managed to address this quite well. It was important to make mention of for example the legal costs involved, crew costs, insurance along with the purchase of bunkers and lubricating oils.

CONCLUSION

Attention to detail is called for in these examinations. Second and third parts of questions must not be overlooked. Ship Sale and Purchase is a specialised Group Two subject and candidates must note that general shipping knowledge alone will not suffice. Areas like the Norwegian Saleform need to be given serious revision time in order to obtain a pass in this subject.