NAROTTAM MORARJEE INSTITUTE OF SHIPPING

Main + 2 No. of Supplement = 3

MUMBAI

Examination :- PGDSM - FIRST YR./ FINAL YR./ ASSOCIATESHIP / FELLOWSHIP

Month March Year 20 25 TOTAL MARKS

Subject Shipping economics & finance

3/3/25

Q	1	2	3	4	5	6	7	8	9	10	11	12	Total
M	12+4	10	10+3	10+3	+2	10+3							68

WRITE BELOW

Q2 **Balance of payment:-** Balance of payment is a concept that record all the ~~financial~~ commercial transaction of a country.

It is a concept that record all payments, import export, capital transactions and services other between a country and rest of the world.

In shipping, It includes payment for shipping services, freight charges paid, Port charges, Insurance(shipping).

BOP helps to access the economical health of country.
Also it access ~~the~~ a countrys relation with world trade.

BOP includes:-

1. Goods exported / imported
2. Service given / received
3. Foreign investment (FDI, FII & NRI)
4. Capital transaction
5. Fund received/paid (fees, NRI, tourism)

- **World scale :-** As far as the spot rate for tanker chartering is concerned, it is expressed in terms of world scale.

World scale refers to world wide tankers nominal freight and is a record of rates for tankers carring dirty or clean petroleom products world wide.

It is based on total shipping cost. It is method for negociation of tanker freight rate.

As per world scale, 100 is base and freight charges negociated between owner and charterer generally through broker.

World scale 40, a voyage fixture south arabia to rotterdam can be compared with world scale 50 ~~@~~ a voyage fixture of same ship size from south arabia to japan. And later (south arabia to japan) is more economical as it covered 50% of shipping cost.

- **Duty of An Agent :-** An agent is employed (a maritime proffessional) to take care of all the requirement of a ship during its port visit and port stay.

Following are some duties of an agent —

(1) <u>Port clearance & entry</u>:- Port agent arrange all the necessary document and procedures required for clearance and entry in port.

(2) <u>Liason between ship owner & Port authorities</u>:-

Agent is ~~a~~ main point of contact between ship owner and port authority, terminal authority and stackholders.

(3) <u>Pilotage & towage</u>:- Agent arrange for pilotage and towage which is essential for safe navigation and maneuvrability.

(4) <u>Arrangement of berth</u>:- Agent arranges for suitable berth for vessel co-ordinating with port authority.

(5) <u>Real time upate</u>:- Agent make a report of all the ~~incl~~ events during vessel port visit for his principal. also keep updated the principal of the progress of port activities.

(6) <u>Cargo hanlding</u>:- Agent may arrange for cargo loading, unloading if required.

(7) <u>Cargo Survey</u>:- He may arrange surveyors to know the cargo condition.

(8) Maintain financial account:- Agent maintain financial account to ensure all the necessary paymente are made on time.

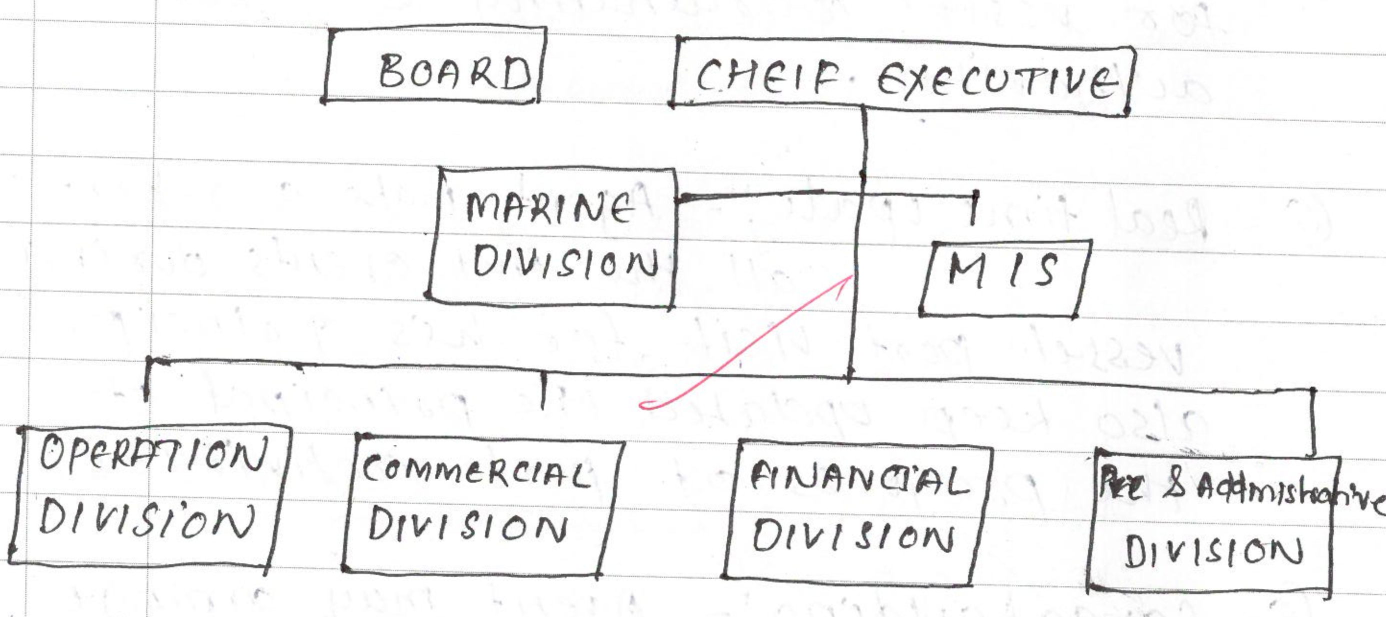
(9) Repaire and maintenance:- Agent may arrange necessary services for repair and maintenance.

(10) Crew services:- Helps in immigration, transportation, provinding ~~provision~~ medical ~~assistance~~ help if any emergency.

10

Agent local expertise is very crucial for vessels smoth operation.

Q3:- Organizational structure of port:-



MARINE DIVISION:- Marine division is regulated by port master and conservator and is responsible for all the marine aspect of port operations. This include monitoring movement of ship to and from ancorage and berth, port maintenance, Hydrografic matter, safety, fire and all engineering activities.

② Operational department:– It looks after all the operations of port including berth arrangment and ~~co-ording~~ communication between all marine services to ensure efficient operation.

③ Commercial division:– Commercial division manages the marketing revenue collection.

④ Financial Division:– Manages all the financial aspects of port.

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⑤ Personnel and Administrative department:–

This department manages all the ~~administ~~ administration of port including public relation and security. The human resoures development mangage the welfare and training of personnel.

⑥ Management information system:–

Port is a very complex unit including various of activities and

~~information~~ operations in progess. Managing such a complex unit require decision making with a short, medium and long term impact. All record of data, stored, analyzed and presented help the decision making. All this is done by M.I.S.

Q4:- **Shipping Cycle** :- Shipping cycle follow a pattern through various key stages including trough, recovery, peak and collaps.

These stages reflect the fluctuation in demand and supply, which affect freigh rate and profitability.

① **Trough** :- ~~This~~

Characteristics :- This is the lowest point of cycle with lowest shipping cost. Freight rate are very low due to reduction in trade volume and reduced shipping demand. Down turn of world ecoonomic growth. ~~Vessel~~

Cause :- Oversupply of vessel from earlier stage.

Reduced shipping demand because of economic downturn and reduced trade volume.

Effect :- Freight rates are at lowest, many shipping companies facing financial stress. Small comanies may go out of bussiness. Scrapping can ~~be~~ happen to manage finance.

② Recovery :-

Characteristics :- As the market impores, demand for shipping takes up. Freight rate increases and shipowner starts earning profit. Supply is limited.

Cause :- Due to growth in economy, shipping demand increases and trade volume also increases. Good market condition. But supply is still limited due to no new ship order in previous stage which help recover market.

Effect :- The freight rate increases, shipowne starts making profit, Ordering for new ships can be seen.

③ Peak :-

Characteristics :- Demand for shipping is high; shipowners are at their most profitable phase. Positive market condition.

Cause :- Greate economic growth is seen. Blooming trade market which causes the high demand in shipping services. But supply is constrained. The ships from previous stage are being absorbed in high demand. Demand overtake supply.

Effect:– Freight rate are their heghest. market is performing at their best. shipping companies are making profit. lots of new ship order which may lead to oversupply if the stage is for longer period.

4. Collaps!–

Characteristics!– This is where oversupply become a problem. Lots of ships in market. Freight rate reducing, supply overtakes demand.

Cause!– Because of oversupply, the market starts going down. many ship but not enough cargo. Also economic downturn and reduced demand due to oversupply Freight rate start decreasing.

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Effect!– This stage seem to lead to recession. low freight rate, not enough demand lead to scrapping to balance demand and supply. shipping companies face financial stress. old ships are scrapped to manage cash flow.

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MRS 03/03/25

WRITE BELOW

Q6:- Economic impact of piracy on commercial shipping:-

Piracy have significant commercial consiquences on world trade, security and coastal nations.

1 Following mentioned piracy impact:-

(I) Cost of piracy & Ransom:-

Ransom!:- shipping industry faces significant cost of piracy. Pirates ask large amount of money to release ship and crew. In 2017, the global cost of piracy was $1.7 Billion

Insurance premium:- High rate of piracy, causes increase in shipping insurance premium. Ship travelling through piracy-prone regions i.e. gulf of aden have to pay higher premium for insurance.

(I) Increased shipping cost:- To avoid piracy, the ship have to take long route, which causes delay and increased shipping cost, longer delivery period. Delay affect the global supply chain which reduce efficiency and shipping cost increase.

Inplementation ~~of~~ safety measures, naval gaurd, Anti piracy systems add additional cost.

③ Effect on world trade:– Piracy distrupts trade route which are essential for world trade.
Nations relrant on maritime trade have to wait which cause shortage.

Desruption in world trade causes the increase in price of material and goods cause inflation.

④ Loss of revenue for coastal nations:–

Nations prone to privacy i.e. somalia can see decrease in tourism and investement because of which ~~causes~~ nation loss the economic opporties to grow.
It also affect the reputation of nearby ports.

⑤ Security measure:– World goverment have to allocate significant safety measures i.e. naval gaurd, anti piracy patrols and military.

⑥ Long term effect of piracy:–

Prolong piracy will affect

the development of the nation.
Enonomic instability hinder development

Q1:-

	Gross freight :-	2100000
(−)	Add comm (2.5%) =	52500
(−)	Brokerage (2.5%) =	52500
	Netfreight	2047500

DOE

(−)	Port charges :-	167000
(−)	Agency fee :-	8000
(−)	Anch dues :-	2000
(−)	canal changes =	300000
(−)	Bunker (HO) =	720000
	(MDO) =	20900
	(MGO)	35000
	GOP	794600
(−)	Depreciation	59178
(−)	standing cher	180000
	NOP	555422

GOP / day = 26486
NOP / day = 18514

SHIPPING FINANCE

1) CONSORTIUM FINANCE:- Bank finance its ~~their~~ costomer based on its ~~their~~ lending policy. One bank may not be able to finance a customer. So, ~~one~~ two or

more banks come jointly to finance and provide credit service to its customer, is known as consortium financing.

Banks lends on account of –

1. Regulatory requirement
2. Risk management
3. Customer request.

When two or more bank come ~~tog~~ jointly and form a group to finance the borrower, it is called consortium financing. Depending on the agreement between member banks, banker have been selected as leader bank. Function of lead bank is –

1. To arrange the meeting between member bank.
2. To actively involve in credit appraisal, to monitor loan account, to collect legal document and to ensure right amount is credited on the asset.

In the consortium finance the bank finance through fund base and non fund base financing.

Fund base financing includes working capital finance and term based finance.

In fund base ~~finanance~~ finance bank allow custom to draw funds and use that fund for their working capital need or long term use

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MRG 03/03/25

WRITE BELOW

buying a ship.
Non fund base finace is generally through issuance of letter of credit and bank gaurantee. these are generally agaist ~~a~~ a security such as asset or ship.

9

Q3:- **IBRD:-** International bank for reconstruction and development is also known as world bank. the inital purpose of IBRD is to finance the reconstruction of nation affected by war and later finance large capital financing for economical development of developing countries. IBRD participate and finance many developmental ~~proje~~ projects.
They finance -

- Direct project finance
- non-project finance
- ~~Technical~~ technical assistance.

IBRD through it's institutions like IDA and IFC expand financing. International Development association finance long term project at consetional ~~a~~ rate. IDA finance to only government.

?

International finance corporation finance ~~p~~rivate organization through equity and credit. IBRD and its institution play a very ~~a~~ significant role in ~~shapping~~ ~~in~~ shaping international market. IBRD and other finantial institution also help nation to manage their balance of payment problem and also assist developing nations to grow economically.

Q5: **Norwegian sale form:**— Norwegian sale form refers to a standard contract form used in sale of ship. It is widely used document in shipping industry ~~for~~ to buy and sell a ship. It is associated with second hand vessel sale and outline the terms and conditions agreed upon by the parties (buyer and seller)

It is structured to specify the key notes of the transactions.

① Parties Involved:— Details of buyer and seller.

② Price:— Purchase brise agreed between parties.

③ Delivery details:— Date and place of delivery

(4) Condition of vessel :- To ensure the vessel is in ~~same~~ specified condition at the time of sale.

(5) Survey :- Clause for survey before buying.

(6) Payment :- Terms of payment, Date and method of payment.

(7) legalities :- Governing law and dispute resolution.

It is considered a tool of ensure that parties are into a legally buying agreement and to avoid conflict and misunderstanding

Q 6: Role of central bank in forex market :-

(1) As a regulator and bank of government Central bank manage all the forex operation.

(2) As a conservator of forex reserve, ~~and~~ monitor forex rate exchange movement and take proper decisions.

(3) As a bank of banker and supervisor of banking system, ensure the banks (authorized dealers) follow regulations

and direction relating to forex market operation.

(4) As a custodian of forex reserve; collect all the details of inflows and out flows of foreign currency/funds from authorized dealers and make arrangment for calculation of forex reserve position of nation.

(5) through forex dealers association of India, ~~co~~ educate and communicate to the players in the forex market. ie training,

3

Q4:- **Financial feasibility!** - Financial feasibility refers to viability of investment. Viability of investment is calculated by the cashflow generated by the project. Cashflow is prepared by mentioning all the inflows and outflows year wise.

Inflows are generally revenue and receipt of loan if the project is financed by the loan.

3

Outflows are operating expenses, standing charges (excluding depreciation), interest and loan repayment. Once a detailed repored is prepared. A sound ~~app~~ investment appraisal method is required to assess the viability/feasibility of investment.

(1) Pay back Period (2) Accounting rate of return

(1) Net present value (2) internal rate of return.