



# SHIP MANAGEMENT SURVEY

## January – June 2016

### INTRODUCTION

This survey has been carried out by the CBC’s Statistics Department and concentrates primarily on transactions between resident ship management companies and non-resident owners/shipping related entities. Please refer to the Appendix for more details.

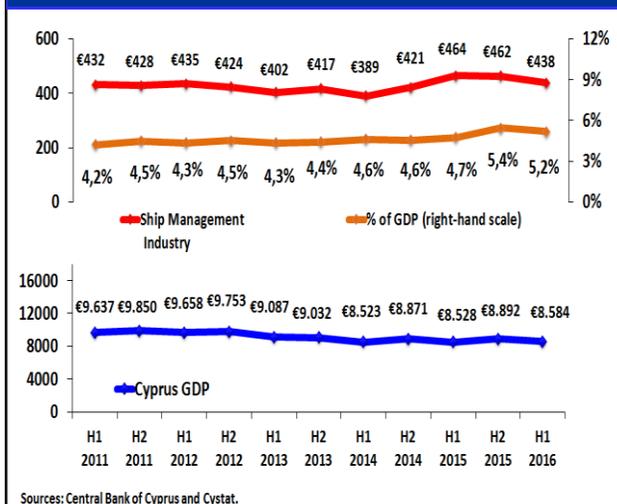
### 1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

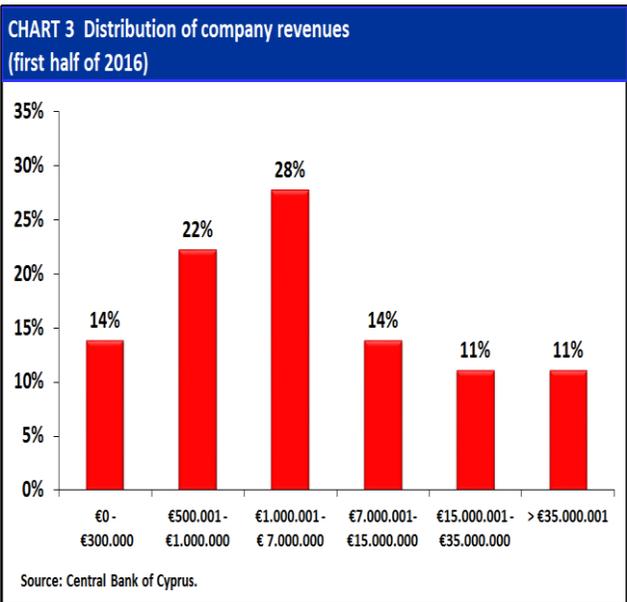
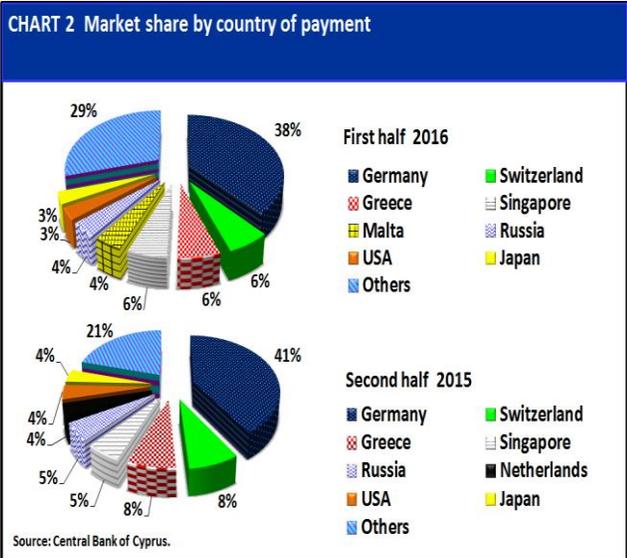
The industry’s revenues declined by 3% during the first half of 2016 (**Chart 1**), closing at €438 million. Expressed as turnover (not value added), this corresponds to 5,2% of Cyprus’s GDP, which also declined during the same period. These revenues are decomposed by country of payment in **Chart 2**. Even though Germany’s share in revenues declined further, when compared with the previous 6-month period, it continues to remain the most important source of revenue for the industry. Other notable countries include Switzerland, Greece, Singapore and Russia.

The global shipping industry is currently facing a downturn with weak demand conditions. This is par-

ticularly true for container shipping and cargo transport (bulk shipping in particular). As a result, freight rates slumped at levels close to operating costs. Several factors are responsible for the current economic climate in the industry, most notably the excess supply of ships during the previous years. Despite these developments, Cyprus’s ship management industry remains internationally diversified and robust.

CHART 1 Ship management revenues

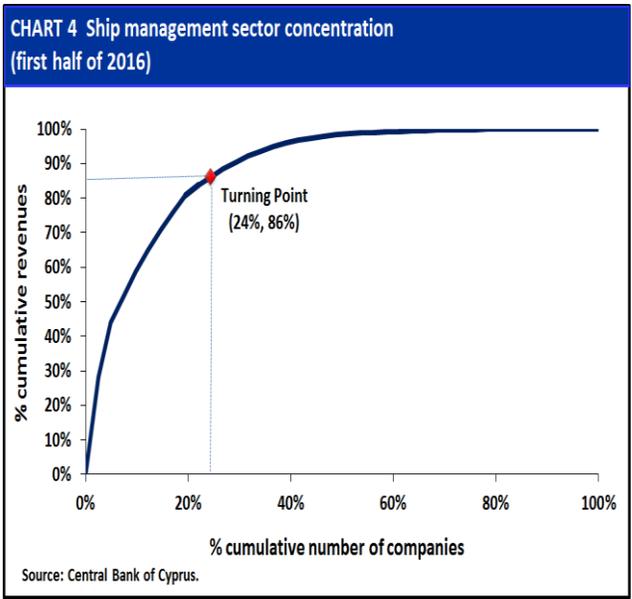




In **Chart 3**, the ship management companies are classified into non-overlapping revenue segments as depicted by the size ranges on the horizontal axis. The respective vertical axis measures the percentage of companies belonging to each segment size. Only 36%

<sup>1</sup> The turning point indicates the level at which a decline in the marginal contribution of companies to the industry’s revenues is observed. Specifically, a 1% increase in the number of companies beyond the turning point provides

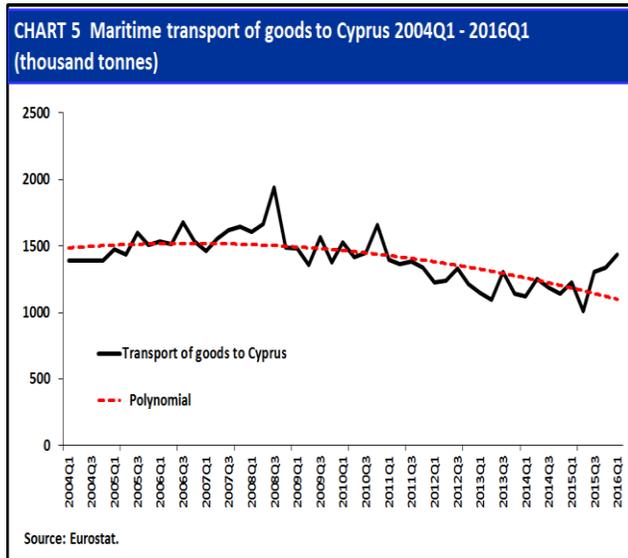
of the companies managed to generate revenues in excess of €7 million and only 11% managed to exceed the €35 million threshold. As noted, there is a decline in the revenues of the shipping industry globally, which is mainly associated with vessel overcapacity, low freight rates and the slowdown in global trade. As a consequence, average turnover declined in most shipping operations.



The level of concentration in the ship management industry is depicted in **Chart 4**. The ranked cumulative percentage of companies contributing to ship management revenues is measured on the horizontal axis. For example, the 24% level corresponds to the top 24% of companies in the industry in terms of six-month revenues. The vertical axis measures the respective (cumulative) percentage revenue contribution of these companies. The turning point<sup>1</sup> indicates the presence of a small number of large companies in the industry.

less than a 1% increase in the cumulative revenues of the industry.

Therefore, the top 24% of the companies accounted for 86% of the industry’s revenues.

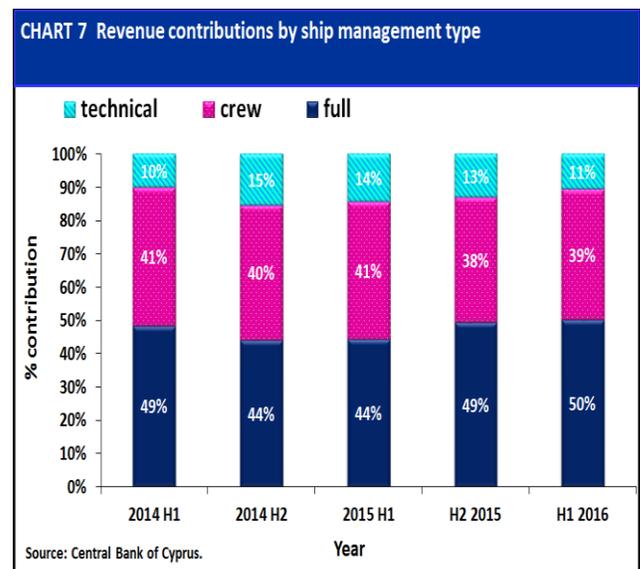
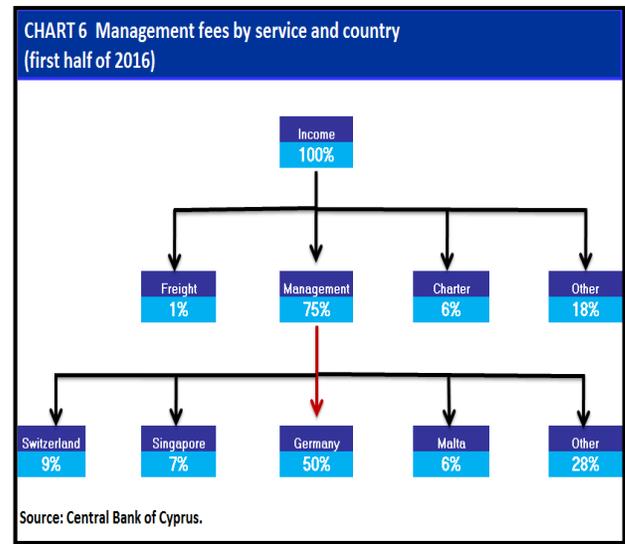


**Chart 5** provides time series information regarding the total volume (in thousand tonnes) of maritime transport of goods to Cyprus. The series covers the period from 2004Q1 until 2016Q1 and is used as a proxy for the number of commercial ships approaching the ports of Cyprus. It provides an indication of the level of expected demand for the services of the industry provided locally. The chart also includes a smoothing estimate (dashed line) that better reflects the underlying, core trend in the series<sup>2</sup>. Despite a short-term increase observed during the last three quarters, there is still a declining general trend underlining the time series that is in line with the negative prospects observed in the shipping market globally.

## 2. SHIP MANAGEMENT SERVICES

**Chart 6** provides a tree diagram of the industry’s revenues with analysis by type of ship management service and country of payment. Core ship

management services encompass crew, technical and full management operations and accounted for 75% of the industry’s revenues. The respective share during the second half of 2015, was 79%. The second level of the tree diagram splits the ship management revenues by source country. Germany remains the most important contributor in this category.

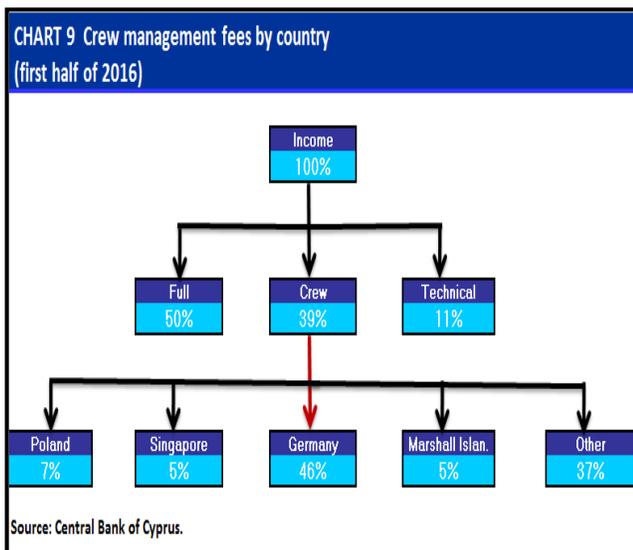
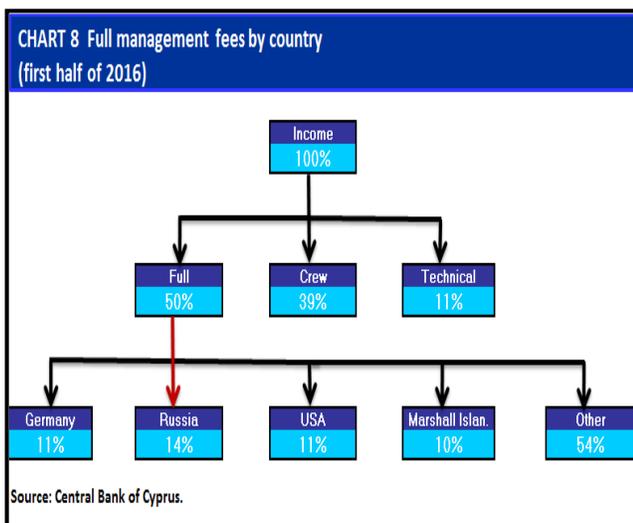


<sup>2</sup>For a discussion of trend estimation methods in shipping see, Michis, A.A. and Nason, G.P. (2015) "Estimation and Prediction of Shipping Trends with the Data-Driven Haar-

Fisz Transform", Central Bank of Cyprus Working Paper 2015-01.

The revenue shares associated with the three main types of ship management services are depicted in **Chart 7**. Full management services (encompassing both technical and crew management contracts) increased to 50% of total revenues during the first half of 2016. There was also an increase in the share of crew management services and a drop in the share of technical management services. This structure is consistent with previous periods.

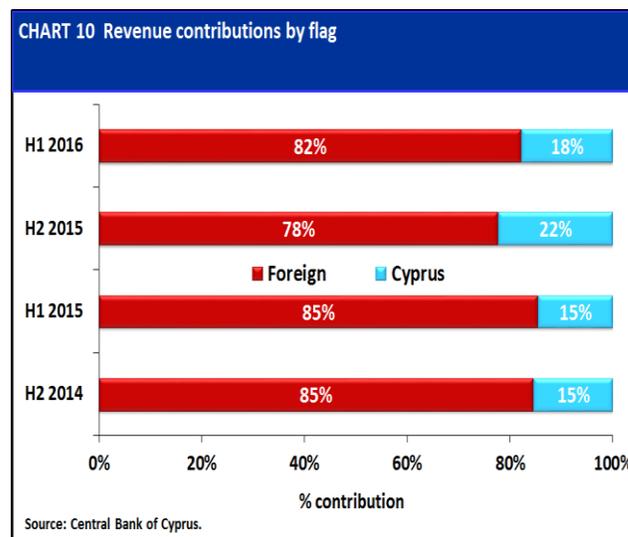
services are decomposed by country. Full management services (**Chart 8**) are provided to ship owners from a range of countries, most notably Germany (11%), Russia (14%), USA (11%) and the Marshall Islands (10%). In contrast, the provision of crew management services is mainly undertaken by ship owners from Germany (46%) (**Chart 9**). Similar contributions were also observed during the second half of 2015.



In **Charts 8** and **9**, the revenues derived from the provision of full management and crew management

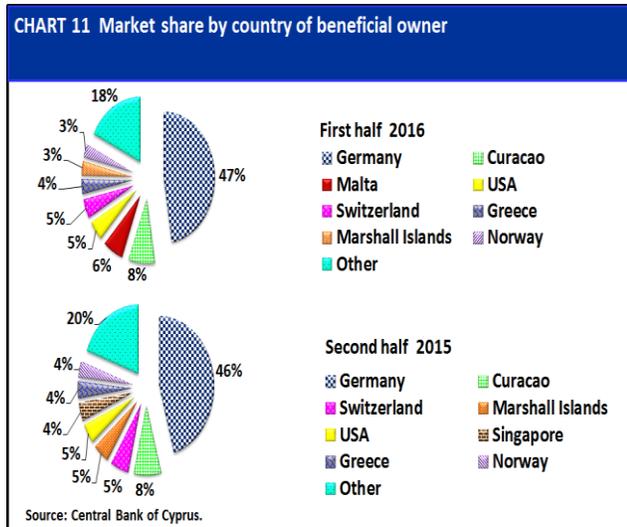
### 3. COUNTRY PORTFOLIOS

The industry's revenues based on the flag registration of the ships managed are decomposed in **Chart 10**. The provision of services to ships carrying the Cyprus flag decreased from 22% during the second half of 2015, to 18% during the first half of 2016. Flags associated with open registries, as is the case for Cyprus, provide ship owners with considerable advantages in terms of the legal framework surrounding ship operations such as crew recruitment, crew training, safety of the seafarers and environmental protection policies. These advantages are directly related and have implications for ship management operations.



**Chart 11** splits the revenues earned by country of residence of the beneficial ship owners, whose ships

are managed by resident ship management companies – not by country of payment as in **Chart 2**. This analysis is useful in order to understand the geographical pattern of demand and differences in the pricing policies of the firms across countries. With the exception of Malta, whose market share increased, most country shares remained stable during the last two periods.



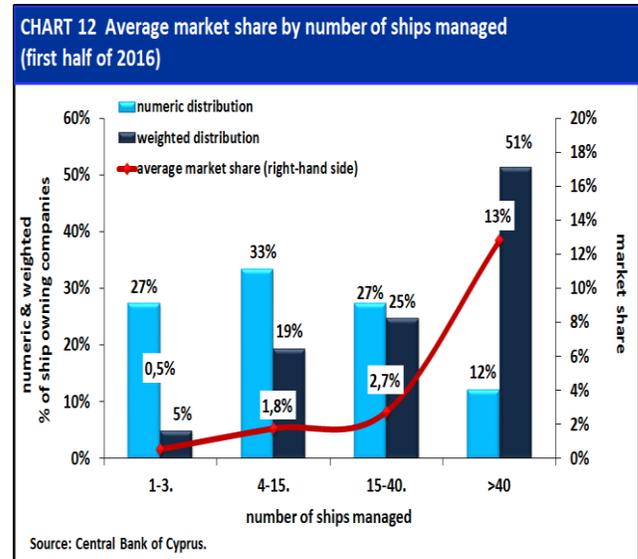
**Chart 12** examines graphically the relationship between portfolio size (number of ships managed) and market share (in ship management revenues), during the first half of 2016. The horizontal axis is segmented into four different size ranges (groups) in ascending order. Specifically, ship management companies that managed:

- (i) between 1 and 3 ships
- (ii) between 4 and 15 ships
- (iii) between 15 and 40 ships
- (iv) more than 40 ships

The vertical axis on the left-hand side of the chart, measures the numeric and weighted distribution of each group of companies. The right-hand vertical axis measures the average market share in each group.

Companies managing between 1 and 3 ships accounted for 27% of the total population of ship

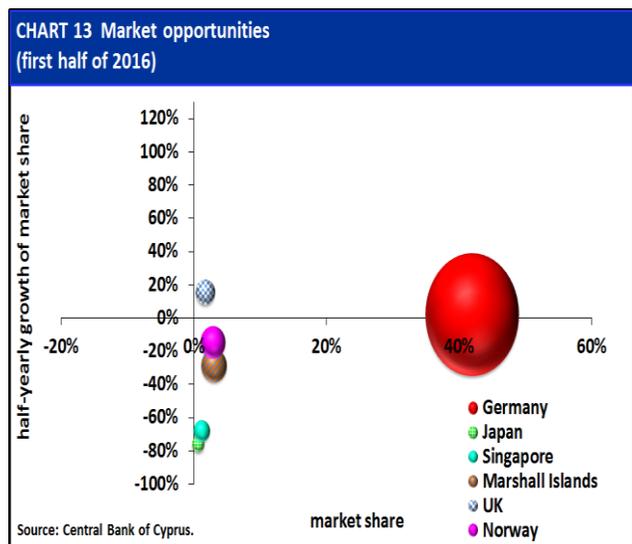
management companies and generated 5% of the industry’s revenues. The average company market share in this group, for the period under consideration, was 0,5%. Companies managing between 4 and 15 ships accounted for 33% of the population of ship management companies, generated 19% of the industry’s revenues and scored an average share of 1,8%.



The last two segments (15-40 and >40) correspond to companies with considerably higher levels of revenues and higher number of managed ships per period. Specifically, 27% of these companies managed between 15 and 40 ships during the first half of 2016 and claimed 25% of the industry’s revenues. The average market share in this group was 2,7%. Higher numbers of ships were managed by only 12% of the companies, which accounted for 51% of the total revenues.

The sluggish economic conditions in the global shipping industry and the decline in freight rates in the market for transport, have given rise to a new wave of consolidation in the industry in the form of mergers, acquisitions and alliances. At the same time, smaller firms have been forced out of the market, owing to difficulties in obtaining finance. . To some

extent, these developments could also influence the ship management industry.

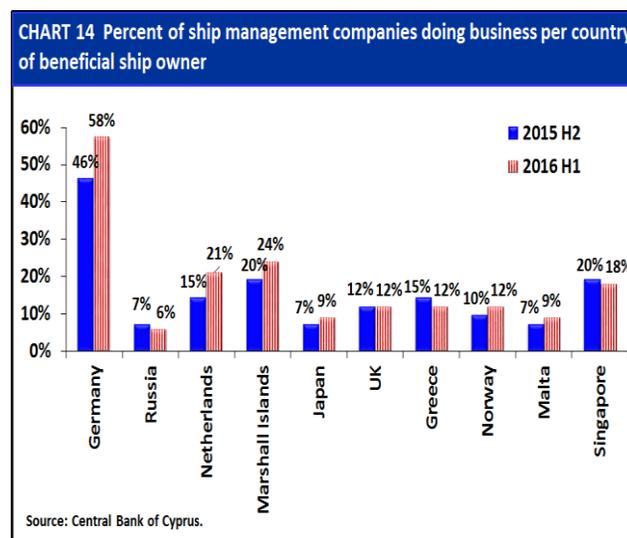


**Chart 13** examines the relationship between market share and revenue growth by country. It highlights both the countries that provide opportunities for higher revenues as well as the countries with a considerable change in terms of their revenue contribution to the industry. The horizontal axis measures each country’s share in revenues for the period under consideration. The vertical axis measures the percentage change in the share of each country. The size of each bubble is proportional to the amount of revenues derived from each country. Consistent with previous periods, the chart highlights Germany’s importance for the revenues of the industry. During the first half of 2016, considerable increases were recorded for the UK, while revenues from Norway and the Marshall Islands declined.

**Chart 14** illustrates the geographic expansion of the industry. It includes information concerning the number of ship management companies that provide services in countries with competitive shipping

<sup>3</sup> The figures reported in Chart 15 exclude expenses paid in Cyprus and are therefore comparable and consistent with the revenues reported in Chart 1.

registries and a previous record of cooperation with the local ship management industry. Each country bar designates the percentage of Cyprus registered ship management companies which have offered services in that specific country. To facilitate comparisons, the chart includes the results of the last two periods.

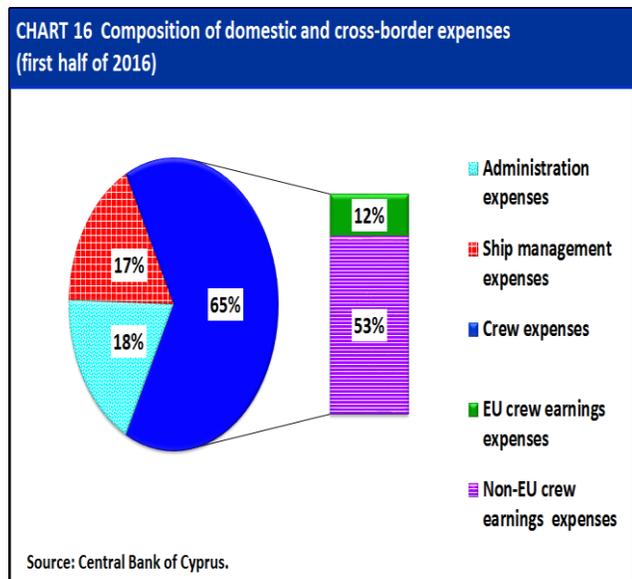
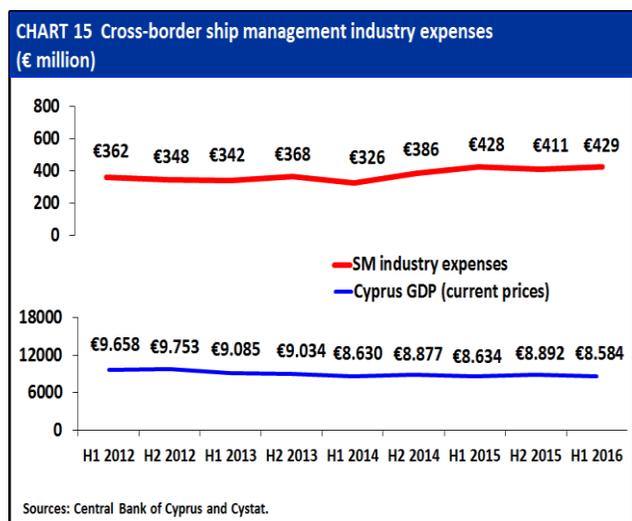


The percentage of companies offering services to German ship owners increased further to 58%. Other noticeable countries include the Marshall Islands (24%) and the Netherlands (21%). Few companies provided services in the other countries. International expansion to more countries will increase revenues but also help diversify the portfolio of projects in the industry. There are considerable opportunities in countries like Russia, Japan, the UK and Greece.

#### 4. SHIP MANAGEMENT EXPENSES AND FEES

**Chart 15** provides information regarding the level of cross-border expenses<sup>3</sup> associated with the operations of the ship management industry. Cumulative industry expenses increased to €429

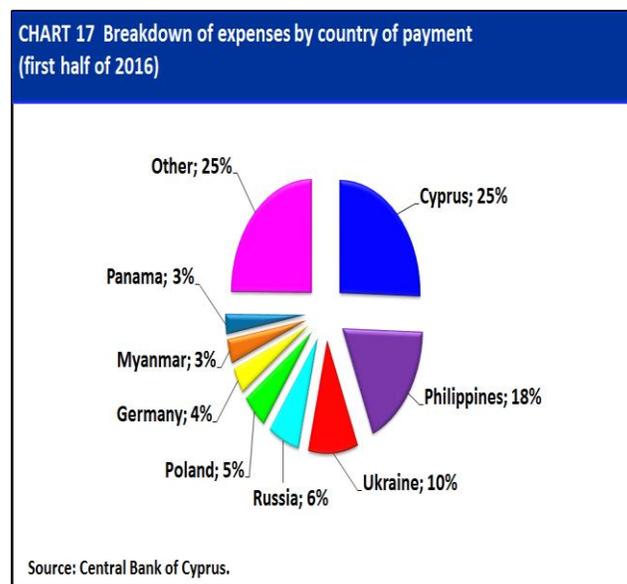
million during the first half of 2016, which is in contrast with the decrease in revenues reported in **Chart 1**. It suggests a declining profitability for the industry during the period under consideration. Given the dismal current economic conditions in the global shipping industry, ship management companies will be required to streamline their businesses too.



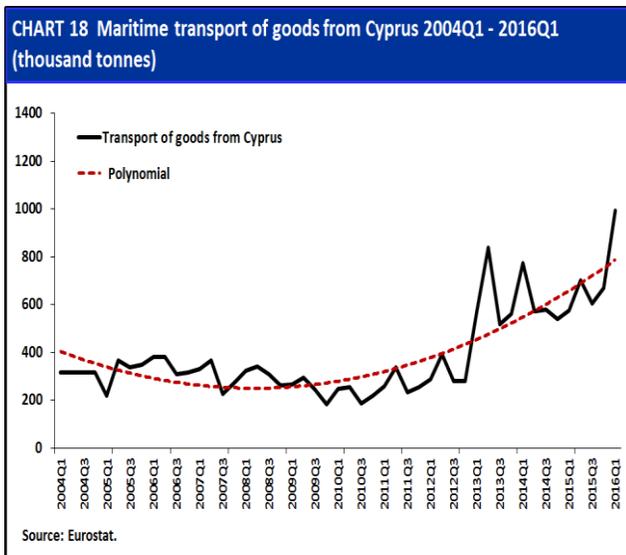
**Chart 16** depicts the main categories of expenses alongside their percentage contributions. The largest category, crew expenses, accounted for 65% of the total amount, administration expenses for 18% and

ship management expenses (e.g. spare parts, lubricants, dry-docking, etc) for 17%. Crew expenses consisted mostly of payments to seafarers from countries outside the European Union (53%).

In **Chart 17**, the total expenses of the industry are decomposed by country of payment. With the exception of Cyprus, expenses paid to all other countries represent imports of services from abroad and are used to compile Cyprus’s current account in the balance of payments. Most of these expenses were paid to the Philippines, Ukraine and Russia and concerned primarily crew wages paid to seafarers.



**Chart 18** supplements the analysis provided in **Chart 5**, with time series information concerning the maritime transport of goods departing from Cyprus. It can be used as a proxy for the number of ships departing from Cyprus’s ports and their associated ship management expenses. The increase in the transport volume departing from Cyprus, which began in 2013, extends well into 2016Q1. It suggests an increase in the provision of merchanting and transport related services, which in turn implies additional opportunities for the provision of commercial ship management services.



## APPENDIX: SHIP MANAGEMENT SURVEY

The Ship Management Survey is conducted biannually by the External & General Economic Statistics Section of the CBC's Statistics Department. The survey was launched in March 2009 and covers residents of Cyprus who provide ship management services to ship owning companies registered both in Cyprus and abroad.

The survey collects data from a representative sample of financial transactions (revenues and expenses) carried out between resident ship management companies and non-residents of Cyprus. In particular, the survey requires, among other things, the submission of:

1. Revenues by type of service provided to non-resident ship owning companies.
2. Revenues received from non-resident ship owning companies, by country from where the revenue is derived.
3. Revenues by country of flag registration of the ships whose ship management is

performed by the resident ship management companies.

4. Revenues by country of residence of the ship owner, whose ships are managed by the resident ship management companies.
5. Payments made by resident ship management companies, by country of residence of the recipient.

The results of the survey include additional economic analysis, such as:

- Size of the ship management industry as a percentage of the Cyprus GDP (not in value added terms but as turnover).
- Level of concentration in the industry.
- The size of client portfolios of the ship management companies.
- Percentage of resident ship management companies which operate in different countries (analytically by country).
- Magnitude of total expenses in the industry.
- Identification of countries which offer market opportunities for further revenue growth.