



SHIP MANAGEMENT SURVEY

Jan – Jun 2019

INTRODUCTION

The *Ship Management Survey* (SMS) is conducted by the Statistics Department of the Central Bank of Cyprus and concentrates primarily on transactions between resident ship management companies and ship owning/shipping related entities¹.

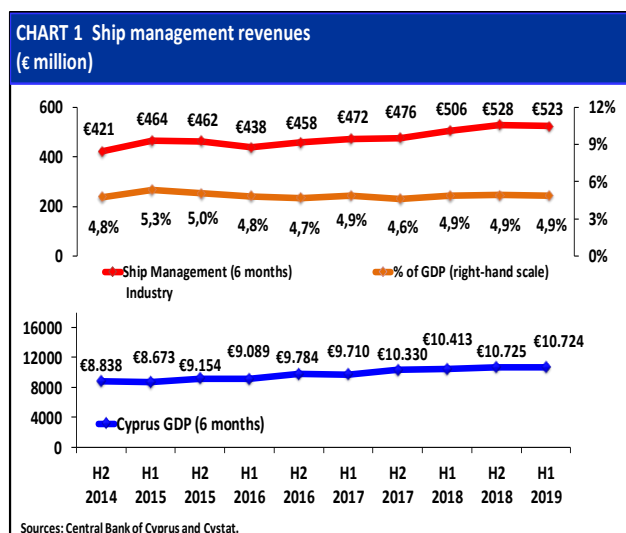
1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

Cyprus's ship management revenues declined slightly by 0,95% during the first half of 2019 (2019H1), closing at €523 million (**Chart 1**) and corresponded to 4,9% of Cyprus's GDP (as turnover), which was also the case in the previous two periods.

As noted in previous editions of this report, the shipping industry is currently in a transition state, particularly in light of the new environmental standards and regulations that will be enforced by the International Maritime Organization (IMO) in 2020. The ship management industry needs to plan in advance before the enforcement of these regulations, in order to minimise any negative effects on profitability during the transition process.

The most important new regulation put forward by the IMO concerns the switch to low - sulphur fuels, which might lead to increases in the prices of these

types of fuels (e.g. marine gas oil) in the short term.

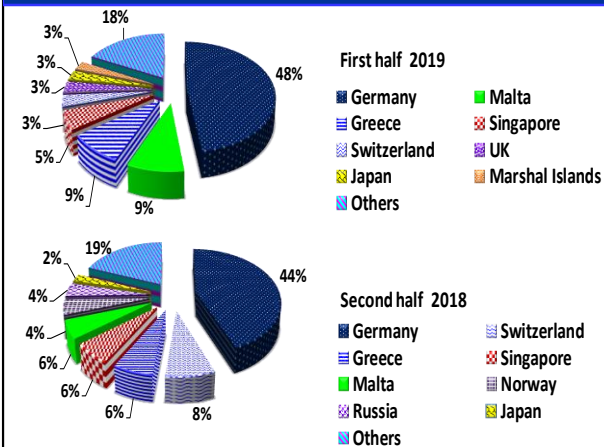


Another regulation currently being discussed by the IMO concerns the imposition of a speed limit on commercial vessels to reduce emissions. The maritime sector is already familiar with reduced speeds due to the adoption of “low steaming” in vessel navigation, following the reduction in international trade in the wake of the financial crisis. This also had the effect of reducing gas emissions since vessels burned less fuel in the process, which was well received by regulators. However, as global demand recovered, vessels gradually began increasing speeds again. The imposition of speed

¹ Please refer to the Appendix for more details.

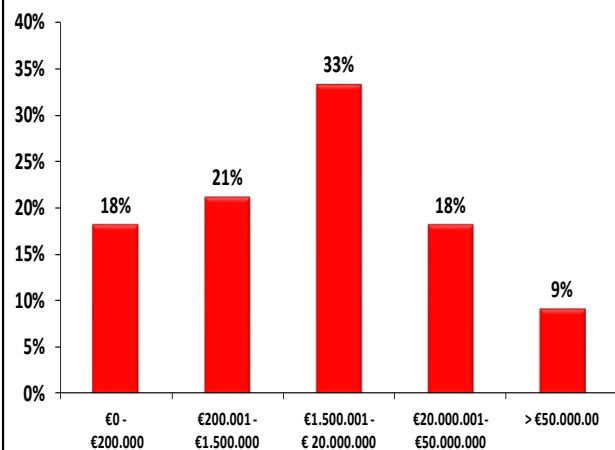
limits by the IMO will likely introduce new impediments in the recovery process and needs to be evaluated in advance by the maritime sector, to avoid lengthy disruptions to the sailing schedules of vessels.

CHART 2 Market share by country of payment



Source: Central Bank of Cyprus.

CHART 3 Distribution of company revenues (first half of 2019)



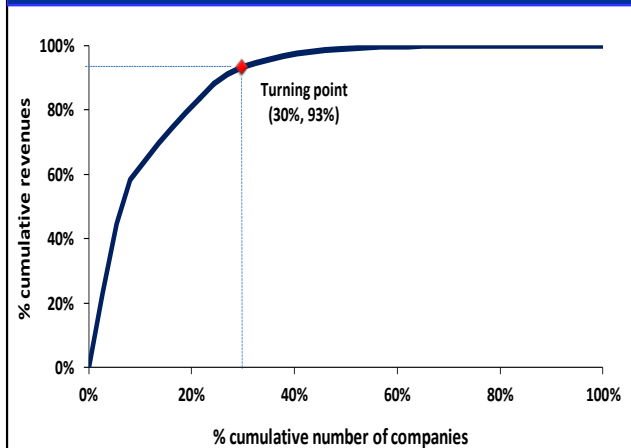
Source: Central Bank of Cyprus.

In **Chart 2** the industry’s revenues are decomposed by country of payment. Germany’s contribution to the industry’s revenues increased from 44% in 2018H2 to 48% in 2019H1. Other noticeable country contributions during the same period include Greece (9%), Malta (9%) and Singapore (5%).

In **Chart 3**, the ship management companies are classified into non-overlapping revenue segments, as depicted on the horizontal axis. The vertical axis measures the percentage of companies belonging to each segment size. During the period under review, 33% of the companies managed to generate revenues in the range of €1.5 million - €20 million each, with an additional 27% of the companies exceeding the €20 million benchmark.

The level of concentration in the ship management industry is depicted in **Chart 4**, where the companies are ranked in terms of their revenue size. The horizontal axis depicts, in percentage terms, the largest companies while the vertical axis measures the respective (cumulative) percentage revenue contribution of the companies. The turning point indicates the presence of a small number of large companies that dominate the industry. Specifically, the top 30% of the companies accounted for 93% of the industry’s revenues.

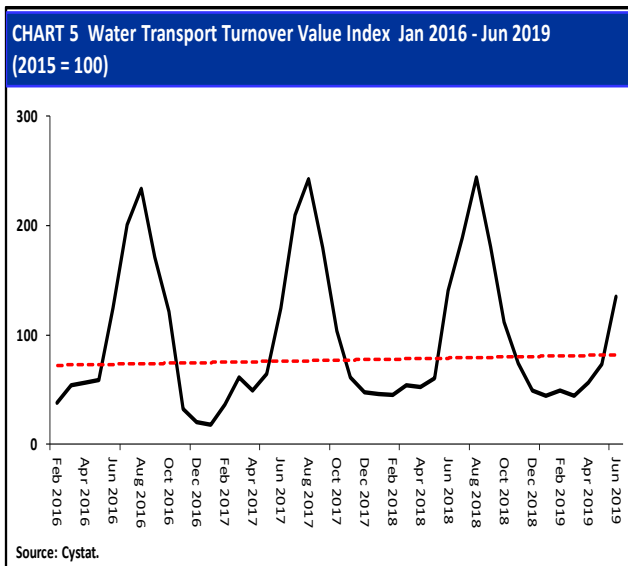
CHART 4 Ship management sector concentration (first half of 2019)



Source: Central Bank of Cyprus.

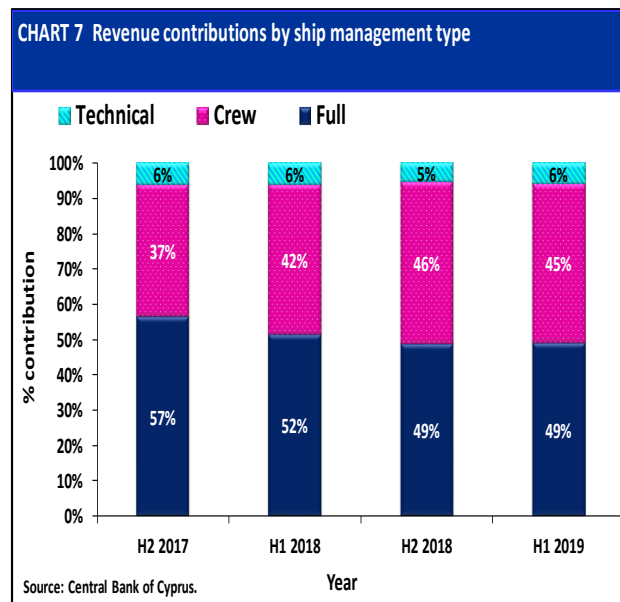
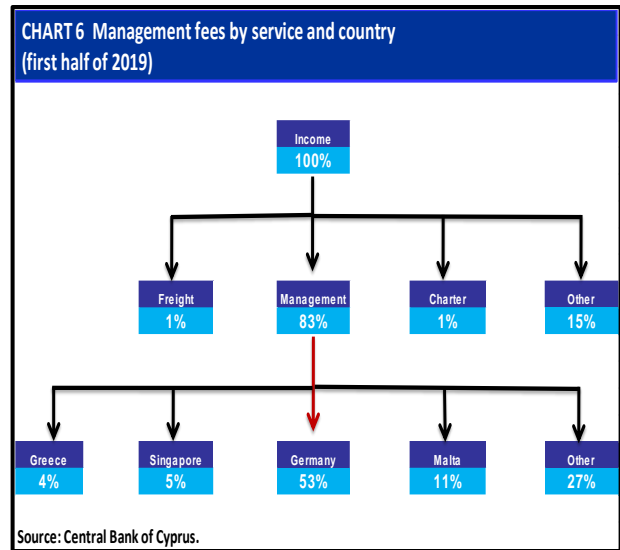
Chart 5 depicts Cyprus’s water transport turnover value index that is compiled using the NACE Rev. 2 classification system. The index covers the period Feb 2016 – Jun 2019 and, among other activities (e.g. towing or pushing boats and cruises), it includes the transport of passengers or freight over water. The

chart also includes a smoothing estimate (dashed line) generated using statistical methods that better reflect the underlying core trend in the series². The index is characterised by strong seasonality and a relatively stable trend, which highlights the need to penetrate new markets and improving customer acquisition for additional revenues.



2. SHIP MANAGEMENT SERVICES

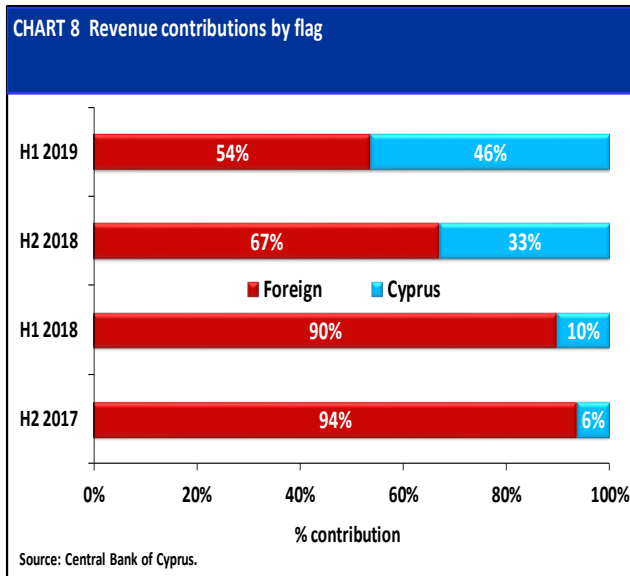
Chart 6 provides a tree diagram of the industry's revenues, with analysis by type of ship management service and country of payment. Ship management services encompass crew, technical and full management operations, and accounted for 83% of the industry's revenues during the period under review, which is 9% higher when compared with the previous period. The main source countries associated with these ship management revenues are provided in the second level of the tree diagram. Germany remains the most important source with a contribution of 53%, followed by Malta with 11%.



The three main types of ship management operations and their contributions are depicted in **Chart 7**. Crew management services decreased slightly to 46% of the total amount of ship management revenues in 2019H1, while full-management contracts remained stable at 49%.

²For a discussion of trend estimation methods in shipping, see Michis, A.A. and Nason, G.P. "Case study: shipping trend estimation and prediction via multiscale variance

stabilisation", *Journal of Applied Statistics* 44 (15): 2672-2684, 2017. <http://www.tandfonline.com/doi/full/10.1080/02664763.2016.1260096>



In **Chart 8** the industry’s revenues are decomposed by flag registration. The choice of flag is a strategic decision in ship owning operations, particularly in the case of open registries that provide ship owners with considerable advantages in terms of the legal and regulatory framework surrounding ship operations. The share of revenues collected from the provision of ship management services to ships carrying Cyprus’s flag, increased further to 46% of the total revenues during 2019H1. The flag contributions during the last two periods (2019H1 and 2018H2) mark a significant change in the structure of revenues when compared with the contributions in 2018H1.

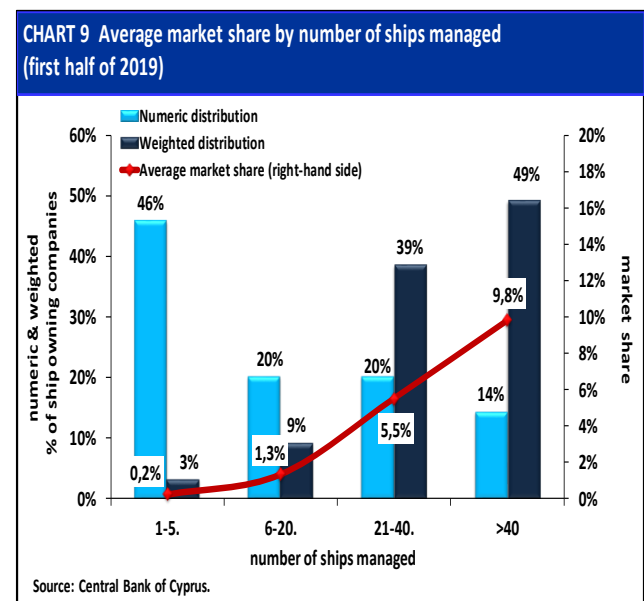
3. COUNTRY PORTFOLIOS

Chart 9 examines the relationship between the number of ships managed and the market share of ship management revenues during 2019H1. The horizontal axis is segmented into four different size ranges (groups) in ascending order. Specifically, ship management companies that manage:

- (i) between 1 and 5 ships
- (ii) between 6 and 20 ships
- (iii) between 21 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 5 ships accounted for 46% of ship management companies but generated only 3% of the industry’s revenues. The average company market share in this group was 0,2%. Companies managing between 6 and 20 ships accounted for 20% of ship management companies, generated 9% of the industry’s revenues and scored an average share of 1,3%.

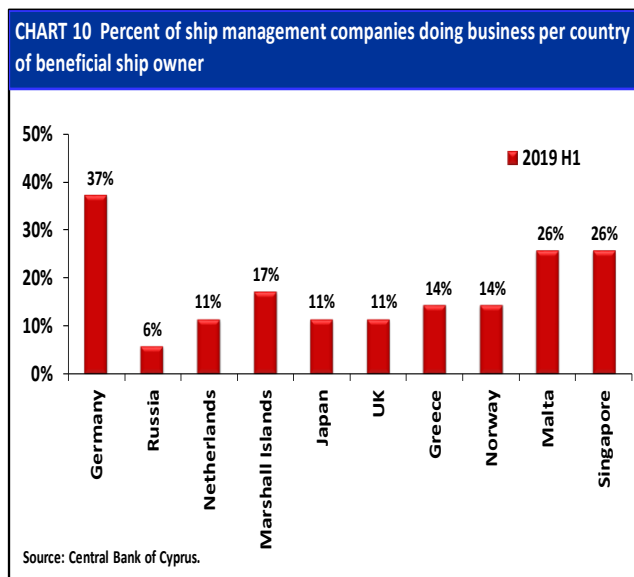


The last two segments (21-40 and >40) correspond to companies with a higher number of managed ships per period. Specifically, 20% of these companies managed between 21 and 40 ships during 2019H1 and claimed 39% of the industry’s revenues. A large number of ships (in excess of 40) were managed by only 14% of the companies but accounted for 49% of the total revenues. The average market share in this group was 9,8%.

Chart 10 illustrates the geographic coverage of the services provided by the local industry. It includes

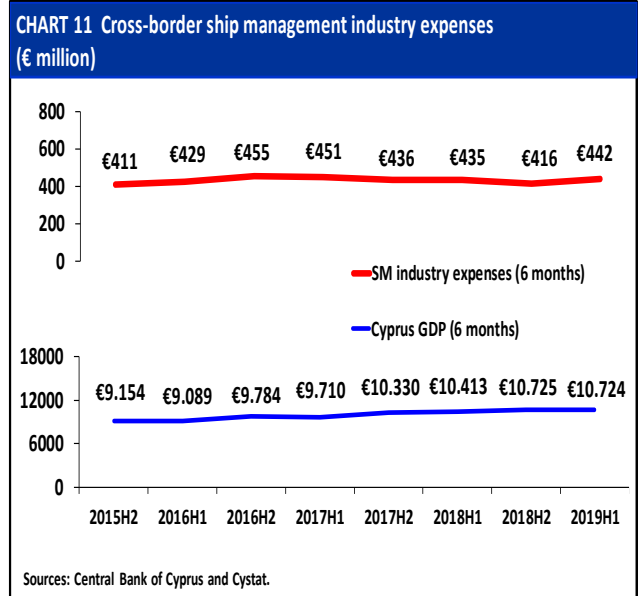
information concerning the number of ship management companies that provide services in countries with competitive shipping registries and a previous record of cooperation with the local ship management industry. Each country bar in the chart designates the percentage of Cyprus registered ship management companies providing services in that specific country.

Similarly with previous periods, a large number of companies maintain business links with ship owners in Germany (37%). With the exception of Malta (26%) and Singapore (26%), the level of participation in all other countries remains below the 20% threshold. Strategically, the industry should aim to increase its network of operations to more countries that are traditionally linked with a sizeable maritime transport industry.

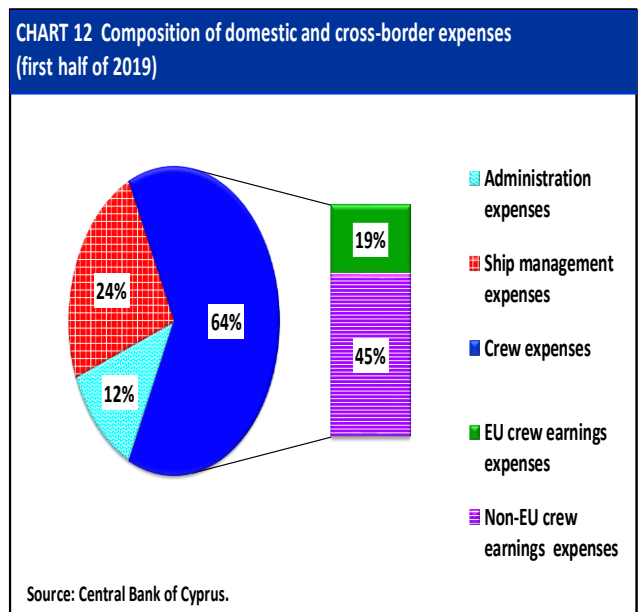


4. SHIP MANAGEMENT EXPENSES

Chart 11 provides information regarding the level of cross-border expenses associated with the operations of the ship management industry in Cyprus. Industry expenses increased to €442 million in 2019H1.



The main categories of expenses incurred in the industry are depicted in **Chart 12**. The majority of these concern crew expenses, which accounted for 64% of the total amount in 2019H1. Most of these payments were directed to non-EU seafarers (45%). Administration expenses accounted for 12% and ship management expenses (e.g. spare parts, lubricants, dry-docking, etc.) for 24% of the total amount.



The cost and revenue management process in maritime operations is likely to face additional challenges in the future, in light of recent events that influence the prices of inputs and the transport routes associated with the maritime sector.

In addition to the possibility of rising fuel prices that can be triggered by the switch to low-sulphur fuels, additional risks include the trade tensions between USA and China and the political tensions between Iran and the west in the Strait of Hormuz. This strait, is the passage point for a large percentage of the world's crude oil and liquefied natural gas supplies and the recent tensions have created uncertainty in the energy markets.

Furthermore, the USA - China trade tensions have impacted on the stockpiling of American importers who use sea transport services. When stockpiling exists, it is hard to distinguish the real drivers of a possible decline in transport demand in subsequent periods, which increases the level of uncertainty in maritime markets further.

APPENDIX: SHIP MANAGEMENT SURVEY

The *Ship Management Survey* (SMS), which was launched in March 2009, is conducted biannually by the External, Economic and Government Finance Section of the CBC's Statistics Department and is addressed to resident ship management companies who provide relevant services to ship owning companies, both resident and non-resident.

Through the SMS, the CBC collects data from a representative sample of financial transactions, which, *inter alia*, include:

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.

Moreover, the SMS includes additional variables, which enable the carrying out of economic analysis as regards the following:

- Size of the ship management industry as a percentage of Cyprus GDP (not in value added terms but as turnover).

- Level of concentration in the industry.
- The size of client portfolios of ship management companies.
- Percentage of resident ship management companies which operate in different countries (analytically by country).
- Magnitude of total expenses in the industry.