



SHIP MANAGEMENT SURVEY

January – June 2013

1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS¹

The revenues of the ship management industry in Cyprus declined further during the first six months of 2013, in line with the deterioration of the macroeconomic conditions prevailing in the country. Most ship management companies generated revenues in the range of €1,25 million - €15 million. Only a small number of these companies (15%) managed to exceed €15 million but their contribution to the industry's total revenues accounted for a significant percentage. In particular, the top 28% of ship management companies, in terms of turnover, generated 83% of the industry's revenues.

During the first half of 2013, and for the third consecutive period, there was a decline in ship management revenues, from €424 million to €402 million (**Chart 1**). Nevertheless, the size of the industry (not in value added terms but in terms of turnover) increased to 4,9% of Cyprus's GDP. The increase is attributed to the drop in GDP, following the financial deterioration in the country.

¹ The survey is conducted by the Central Bank of Cyprus's Balance of Payments Section 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.

CHART 1 Ship management revenues

(€ million)

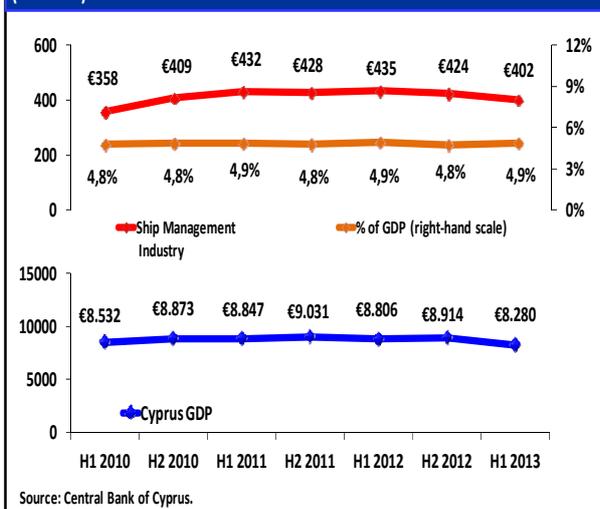
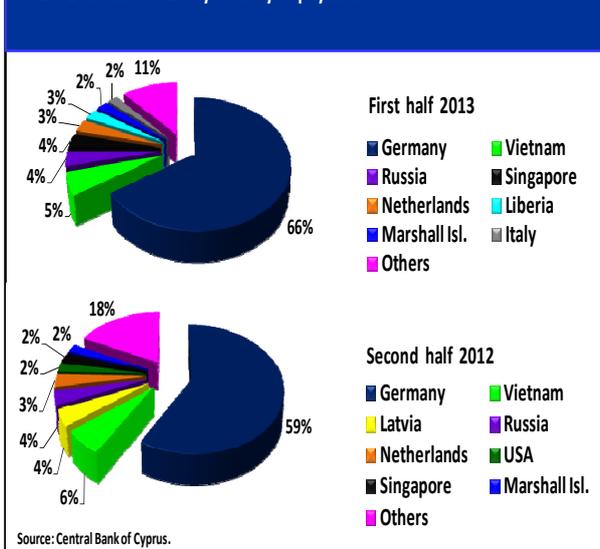


CHART 2 Market share by country of payment



The allocation of revenues by country of payment is presented in **Chart 2**. Germany continued to lead the ranking list with a 66% share in revenues. The revenue contribution of other countries was significantly lower. When compared with the results of the second half of 2012, only Vietnam and Russia continued to be among the top three countries in terms of revenue contribution.

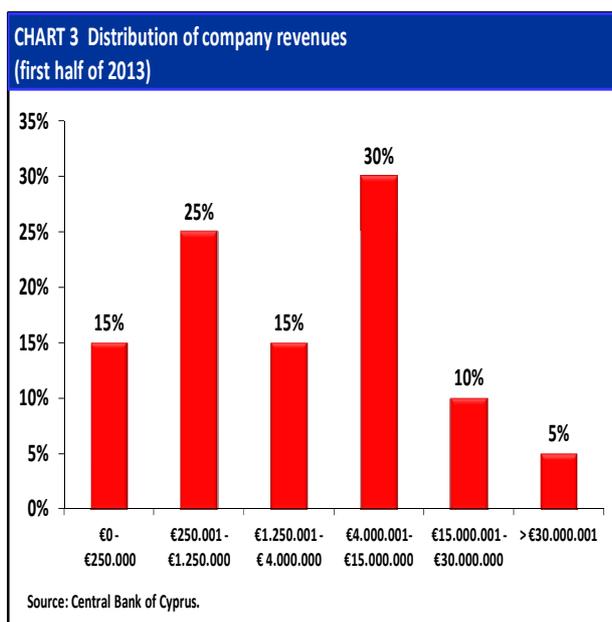
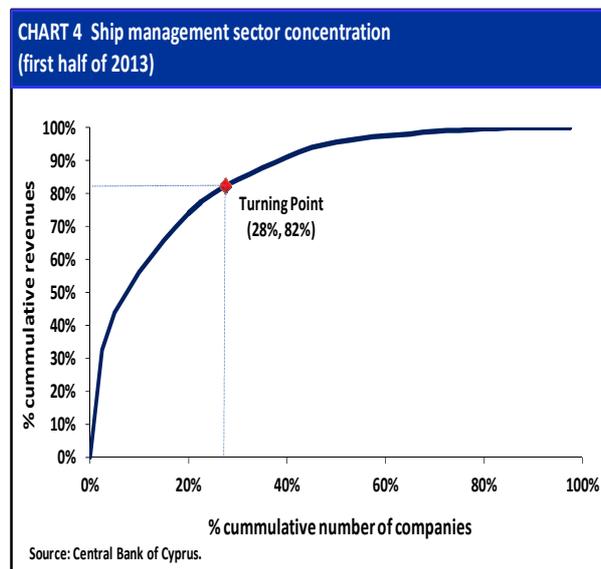


Chart 3 summarises the distribution of revenues. It classifies companies into six distinct size clusters (based on their six-monthly revenues) and reports the percentage number of companies belonging to each cluster.

The horizontal axis segments the range of revenues into six distinct revenue groups and the vertical axis measures the percentage of companies belonging to each group. The results indicate that 45% of the companies had half-yearly revenues within the range of €1,25 million - €15 million. Only 15% of the companies generated revenues in excess of €15 million.

Capital structure, foreign equity ownership, economies of scale and barriers to entry are all factors that can influence the market structure in shipping.



The level of concentration in the industry is depicted in **Chart 4**. The ranked cumulative percentage of companies contributing to ship management revenues is measured on the horizontal axis (e.g. the 28% level corresponds to the top 28% of companies in the industry in terms of half-yearly revenues).

The vertical axis measures the respective (aggregated) percentage revenue contribution of these companies.

Of particular interest is the turning point² on the chart. The top 28% of the companies accounted for

² 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 less than a 1% increase in the cumulative revenues of the industry.

82% of the industry's revenues, signifying the presence of a very small number of exceptionally large companies.

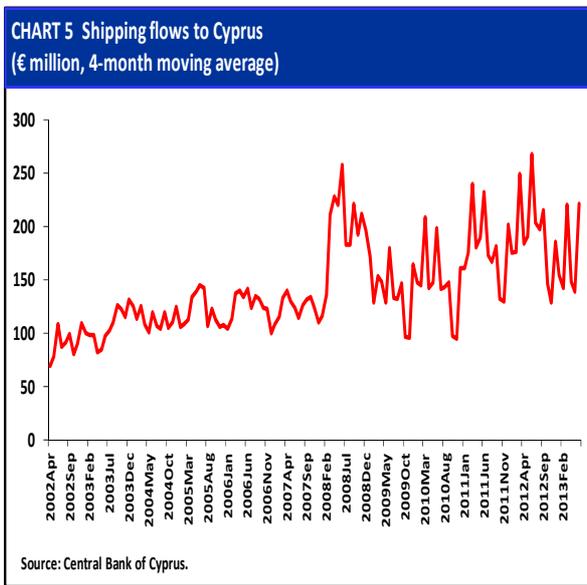


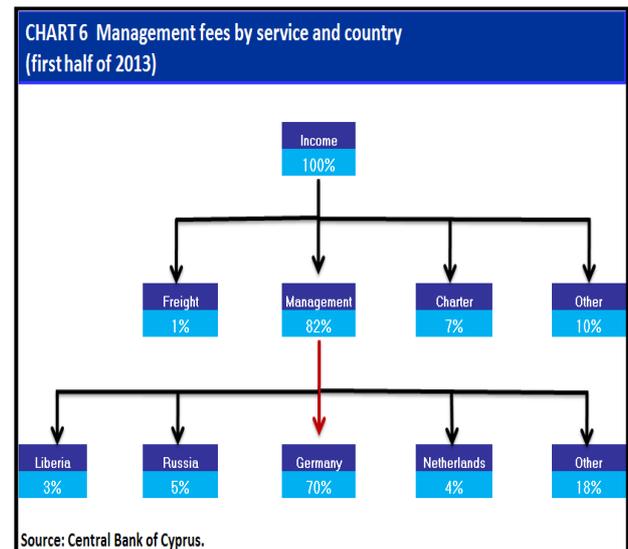
Chart 5 illustrates the time series for the level of inward transactions (flows) that were carried out by the industry since 2002. These transactions concern revenues from the provision of shipping services abroad (both ship management and ship owning) and were compiled from monthly transaction volume data collected from a variety of sources, including local banks. This time series information is useful in order to examine features such as the long-run trend, the seasonality and the volatility of revenues in shipping.

Since the raw data consisted of highly volatile daily transaction records, a four-month moving average was applied, enabling us to identify the key characteristics of the series. As can be observed, there is an increasing trend and a repetitive pattern of seasonal and cyclical characteristics since the beginning of 2009. Volatility and the level of revenues increased significantly after Cyprus joined the euro area in 2008.

2. SHIP MANAGEMENT SERVICES

Most of the exports in early 2013 concerned crew, full and technical management services. Full management revenues surpassed crew management revenues for the first time since 2011. Russia was the most important revenue source for the full management segment and Germany for the crew management segment.

Chart 6 uses a tree diagram in order to decompose the revenues of the industry by type of service and country. The first level of the tree diagram lists the most important types of services offered by the industry, namely freight, ship management and chartering services. Ship management and chartering services contributed 82% and 7% of the industry's revenues respectively during the first half of 2013.



Ship management services are further analysed by country in the second level of the tree diagram. When compared with the previous period, Germany's contribution to revenues increased from 66% to 70%. The contributions by the other countries remained significantly lower.

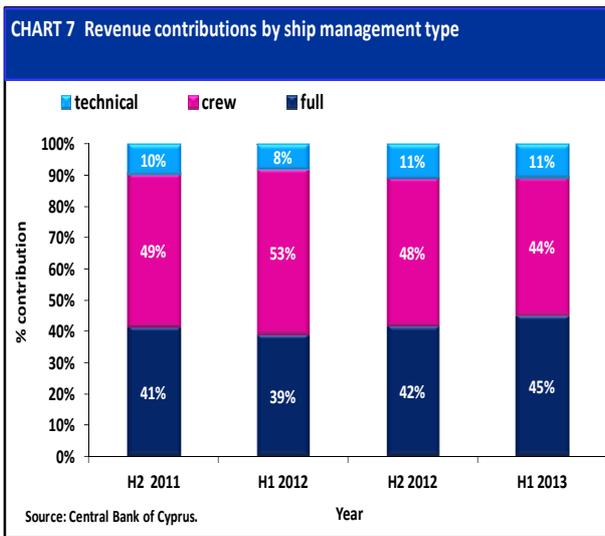
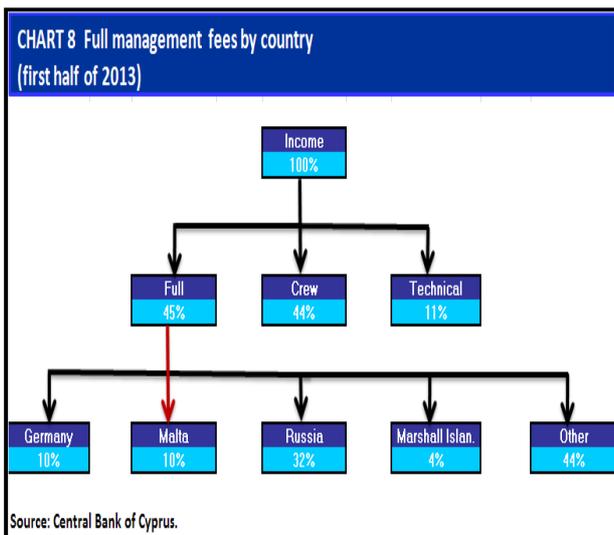
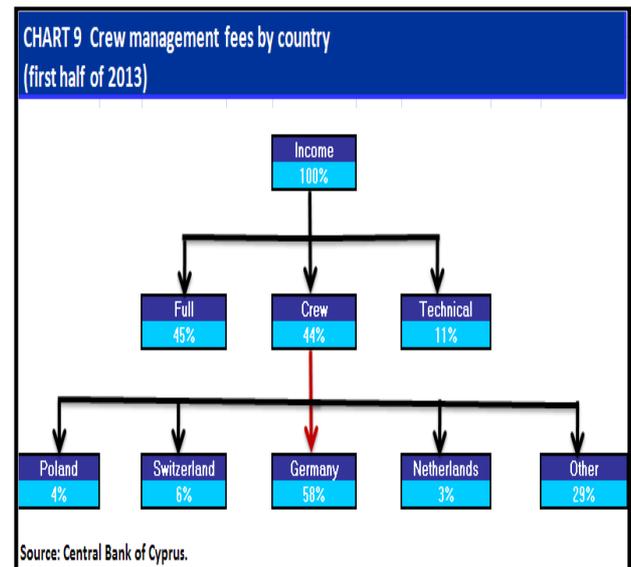


Chart 7 illustrates the ship management revenues by type of management service offered, namely, technical, crew and full management services. The contribution of crew management services dropped to 44% during the first six months of 2013. In contrast, the contribution of full management services increased to 45% and exceeded the contribution of crew management services for the first time since 2011. These results emphasize the industry’s specialisation in the provision of crew management services since full management contracts encompass crew management operations.



Charts 8 and 9 provide tree diagram decompositions of the two basic categories of ship management services – full and crew management. Germany’s share in full management contracts is low (10%). Russia leads this segment with a share of 32%. This is not the case for crew management services where Germany is the main contributor with a share of 58%. All other contributions remain below the 10% level.



3. COUNTRY PORTFOLIOS

The provision of ship management services to ship owners using the Cyprus flag increased during the first six months of 2013. Currently there are important opportunities for expanding the international coverage of the industry. Many resident companies have limited presence in countries with a high growth potential in shipping such as Russia, the Netherlands and the Marshall Islands.

In **Chart 10** the ship management revenues are analysed based on the flag registration of the ships under management. In the period under review and, for the first time during the last two years, the share of revenues earned from the provision of services to

ships carrying the Cyprus flag doubled from 9% to 18%. It is worth noting that until recently, the share of revenues from ships using foreign flags was persistently in excess of 90%.

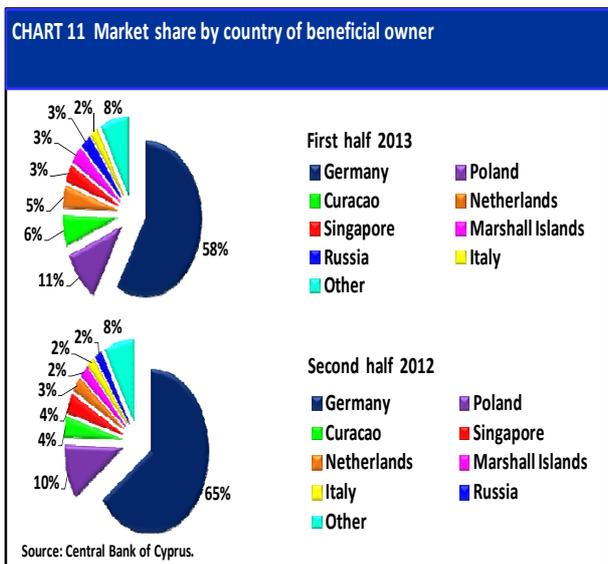
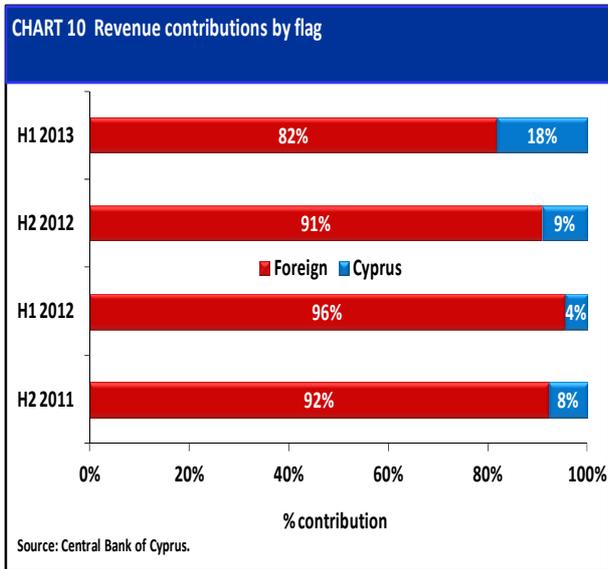


Chart 11 gives emphasis on the revenues earned by country of residence of the beneficial ship owners whose ships are managed by Cypriot companies. The results bare strong resemblance with those of Chart 2. Germany was again the major source of revenues with additional contributions from the

Netherlands, Russia, Singapore and the Marshall Islands.

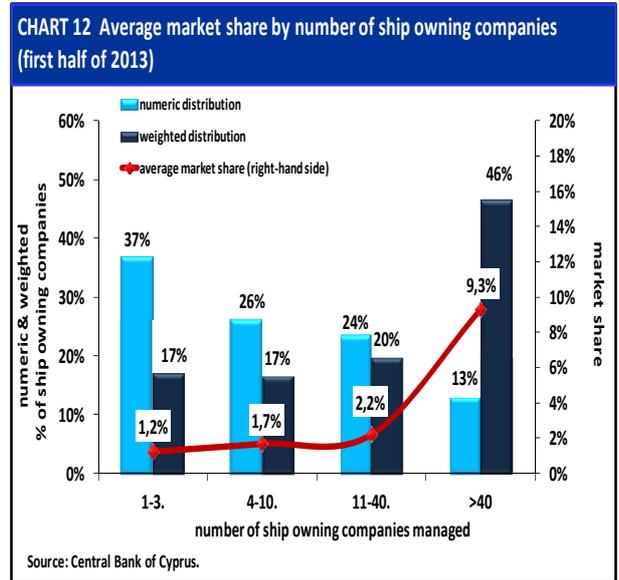


Chart 12 examines graphically the relationship between portfolio size (number of clients managed) and market share (in ship management revenues) during the first six months of 2013.

The horizontal axis is segmented into four different size ranges (groups) in increasing order. In particular, ship management companies that managed:

- (i) between 1 and 3 ship owning clients.
- (ii) between 4 and 10 ship owning clients,
- (iii) between 11 and 40 ship owning clients and
- (iv) more than 40 ship owning clients.

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.

The results suggest that the companies in the first group (managing between 1-3 ship owning clients) accounted for 37% of the total population of ship management companies and generated 17% of the

industry's revenues. The average company market share in this group was 1,2%. Similarly, the companies in the second group accounted for 26% of the population of ship management companies, generated 17% of the industry's revenues and scored an average share of 1,7%.

Only 37% of the companies handled more than 10 ship owners in early 2013, but strong market share performance is achieved with the handling of more than 40 ship owners. A limited number of companies handled more than 40 clients during this period (13%) and shared 46% of the industry's revenues (as a result the industry is relatively concentrated). The average market share among these companies was 9,3%.

Overall, there is a positive relationship between client portfolio size and market share performance.

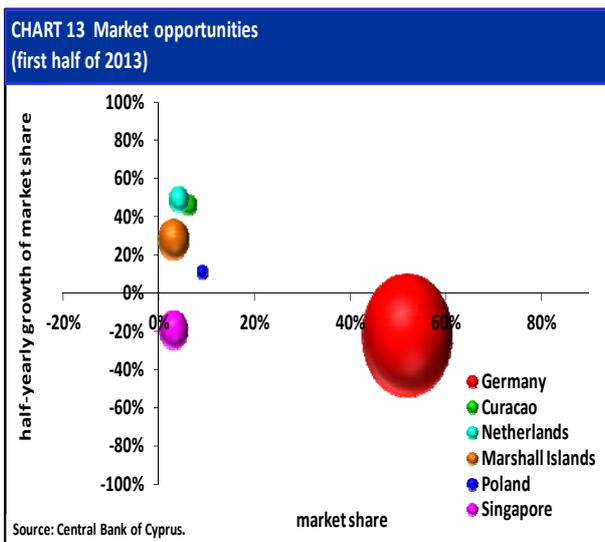
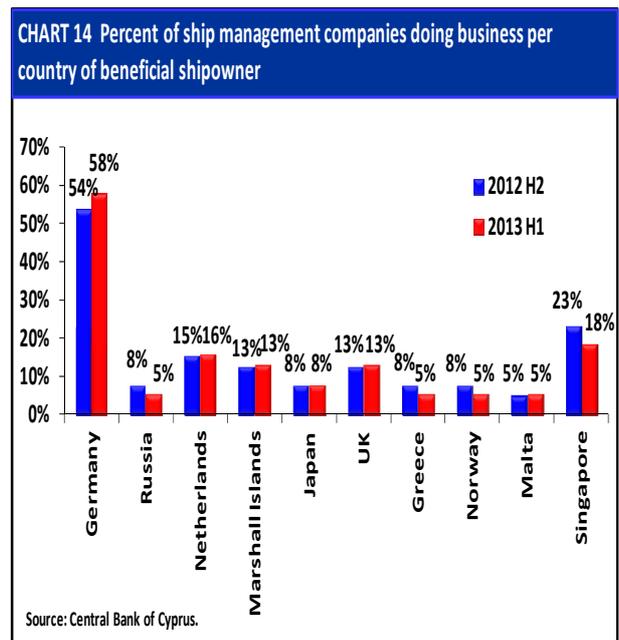


Chart 13 examines the relationship between market share and revenue growth by country.

The horizontal axis measures each country's share in revenues for the period under consideration. The vertical axis measures the percentage change (half-yearly growth) in the share of each country. The size

of each bubble is proportional to the amount of revenues extracted from each country.

As can be clearly observed, Germany, despite its large share, does not exhibit any further revenue growth. The same is true for Singapore. Considerable growth opportunities exist in the Netherlands, the Marshall Islands and Curacao.



Competitive presence and international diversification in the provision of ship management services is analysed in **Chart 14**. Each country bar designates the percentage of companies registered in Cyprus that have offered services in the specific country.

More than half of the ship management companies in Cyprus are doing business with German ship owners. Specifically, the percentage of companies that offered their services in Germany during the second half of 2013 increased to 58%. Competitive presence is particularly low in the other countries, suggesting considerable opportunities for international expansion.

4. SHIP MANAGEMENT EXPENSES

Ship management administrative expenses dropped for the third consecutive period. In contrast, there was an increase in crew expenses, resulting in a higher share contribution of this category compared with the previous period. Accordingly, most of the industry's expenses were directed to the Philippines, the main supplier of crew staff on board.

The expenses³ of the industry dropped for the third successive period (Chart 15), suggesting a shift towards cost savings and efficiency. However, despite these reductions, the current level of expenses (€342 million) remains above the levels attained in 2010.

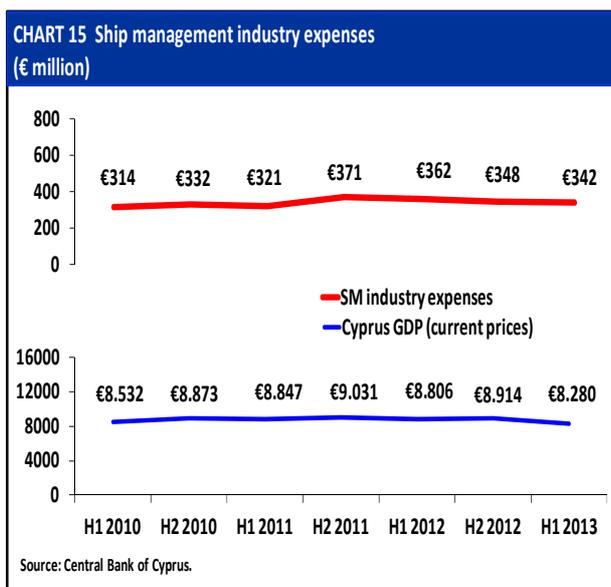
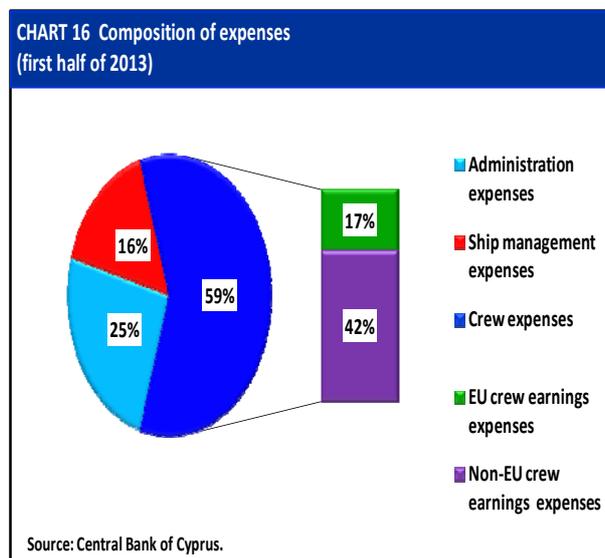


Chart 16 provides an analytical decomposition of the industry's expenses. Unlike Chart 15, the results reported in this chart include expenses paid in

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

Cyprus, which constitute the majority of administrative expenses.



Crew earnings accounted for 59% of the total amount. Of these, 42% were paid to non-EU citizens and 17% to EU citizens. Other expenses included ship management and administration expenses with 16% and 25% contribution, respectively. The share of crew expenses (59%) during the first half of 2013 was higher than the previous period (56%). Unlike the other categories, crew expenses increased during the first half of 2013.

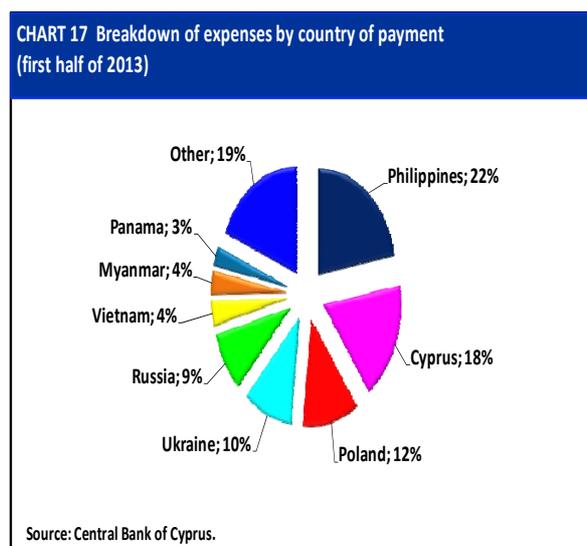
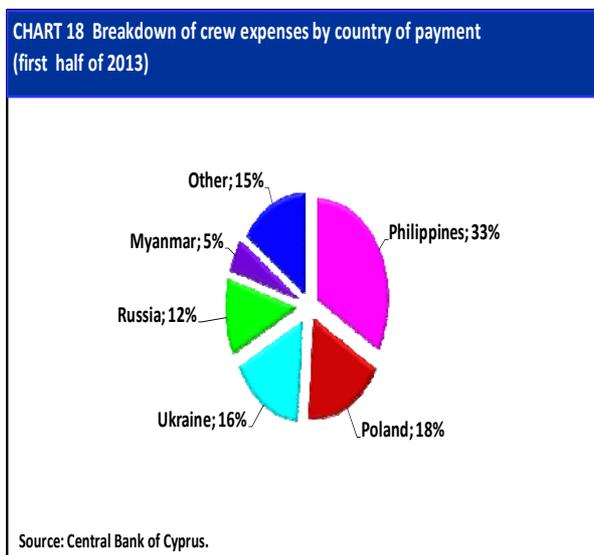


Chart 17 concentrates on country shares in total expenses. With the exception of Cyprus, expenses to all other countries represent imports of services from abroad and are used to compile Cyprus's current account in the balance of payments. Most of the expenses were directed to the Philippines (22%), Cyprus (18%), Poland (12%) and Ukraine (10%).

Since the majority of expenses concern crew earnings (see Chart 16), these are further analysed by country in **Chart 18**. Most of the crew staff employed by Cypriot companies come from the Philippines, Poland and Ukraine.



APPENDIX: SHIP MANAGEMENT SURVEY

The Ship Management Survey is conducted biannually by the Balance of Payments Section of 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.
- 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.