



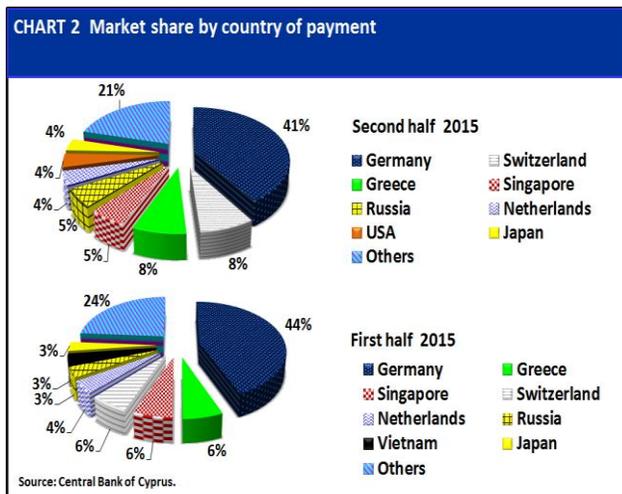
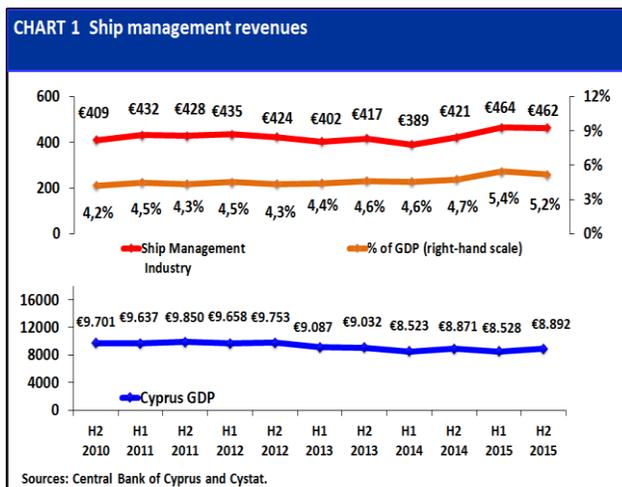
SHIP MANAGEMENT SURVEY*

July – December 2015

1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

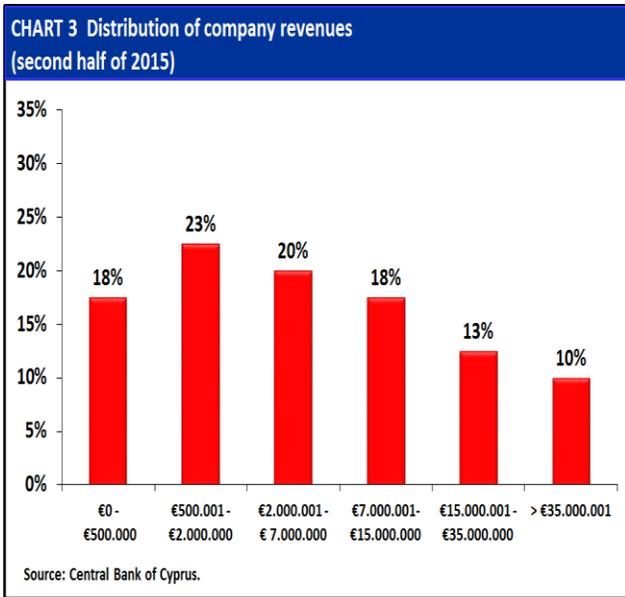
Ship management revenues dropped marginally to €462 million, following a decline in global shipping markets. Germany's share of revenues declined further to 41%. The ship management industry is highly concentrated since it is characterised by the presence of a small number of large companies. Specifically, the top 27% of companies accounted for 84% of the industry's revenues and the top 10% of companies managed to exceed the €35 million threshold.

Ship management revenues decreased by only 0,43% during the second half of 2015 (**Chart 1**), which, as turnover (not value added), corresponds to 5,2% of Cyprus's GDP. This is the second highest level of revenues reported since 2010¹. It highlights a relatively stable performance of the local industry, notwithstanding the continuous decline in global shipping markets. The decomposition of these revenues in **Chart 2**, highlights the importance of German ship owners for the local industry. Germany with 41% and Switzerland with 8%, were the major revenue sources during the second half of 2015.



* This survey is conducted by the Central Bank of Cyprus'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 GDP figures have been revised and therefore might differ from previous editions of the report.



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. As can be observed, 41% of the companies managed to generate revenues in excess of €7 million. Of these companies, only 10% managed to exceed the €35 million threshold. When examined across periods, the distribution of sizes in the industry exhibits only slow and gradual changes with no major structural changes in recent years. Such changes would tend to occur in the case of major new market entries.

The size distribution of firms is further examined in **Chart 4**, which depicts the level of concentration in the ship management industry. The ranked cumulative percentage of companies contributing to ship management revenues is measured on the horizontal axis (e.g. the 27% level corresponds to the

top 27% of companies in the industry in terms of six-monthly revenues). The vertical axis measures the respective (cumulative) percentage revenue contribution of these companies. The turning point² indicates the presence of a small number of large companies in the industry. Specifically, the top 27% of the companies accounted for 84% of the industry's revenues.

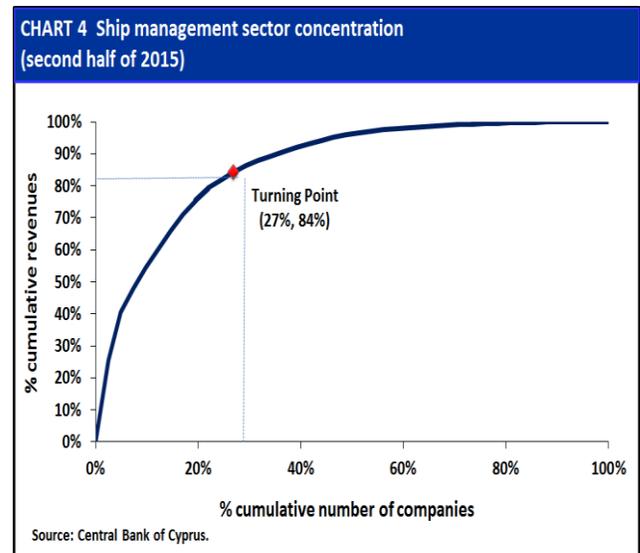
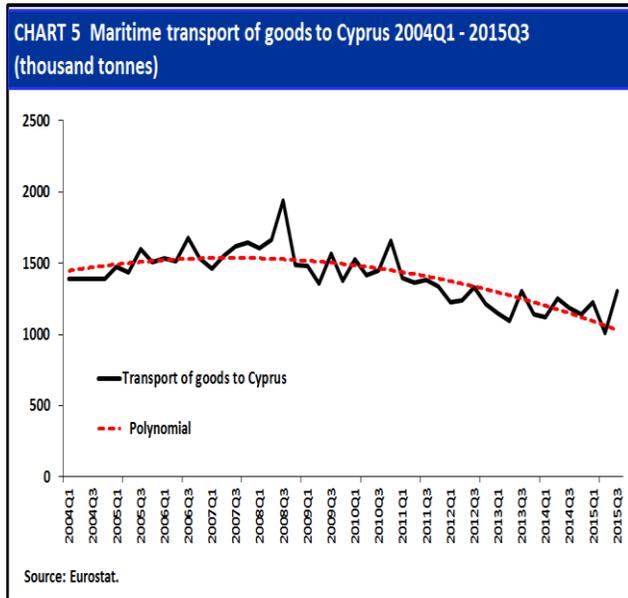


Chart 5 provides historical time series information regarding the total volume (in thousand tonnes) of maritime transport of goods to Cyprus. The dataset covers the period from 2004 Q1 until 2015 Q3 and it can be used as a proxy for the number of commercial ships approaching the ports of Cyprus and which can potentially use the services of the local ship management industry. The chart also includes a polynomial smoothing estimate (dashed line) that better reflects the underlying, core trend in the series. Since 2010, there has been a gradual decline in the total volume of maritime transport of goods to

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.

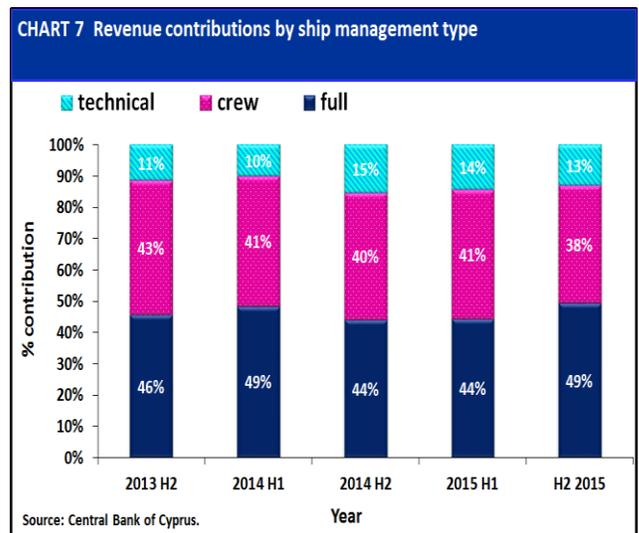
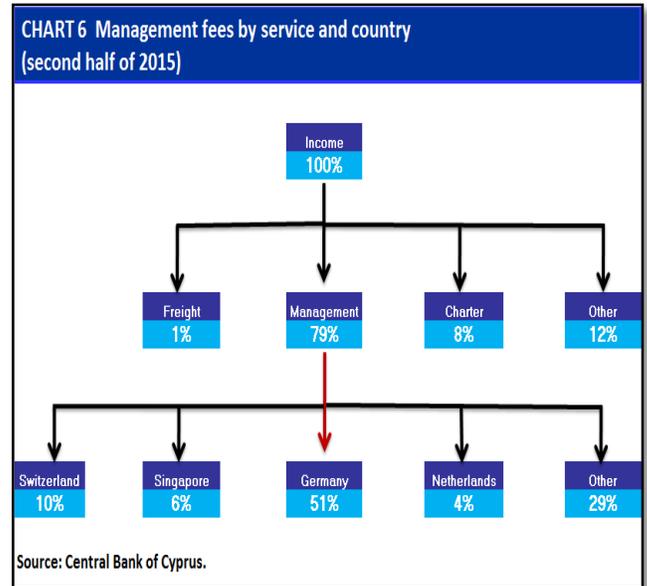
Cyprus, which also extends to the first two quarters of 2015.



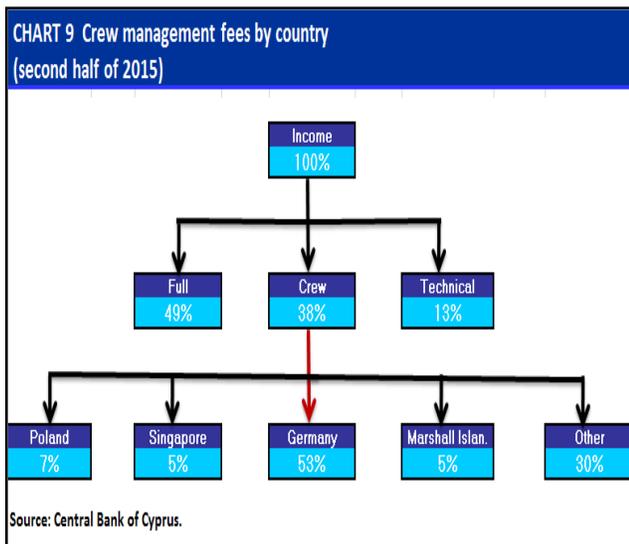
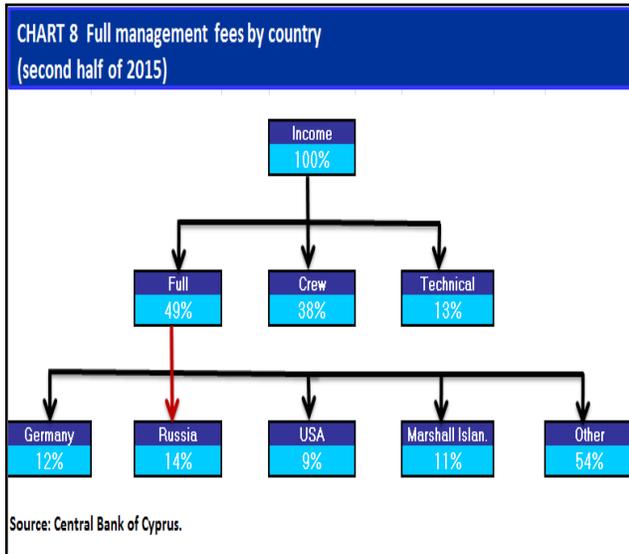
2. SHIP MANAGEMENT SERVICES

When considered together, crew, technical and full management services accounted for 79% of the industry’s revenues. The highest contribution was associated with full management contracts. Full management services were uniformly provided to ship owners from a range of countries. In contrast, the provision of crew management services was mainly accounted for by ship owners from Germany and, to a lesser extent, Switzerland and Singapore.

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 (crew, technical and full management) accounted for 79% of the industry’s revenues. The second level of the tree diagram splits the ship management revenues by source country. Similarly with previous periods, Germany, Switzerland, Singapore and the Netherlands remain the industry’s major business sources.



The revenue shares associated with the three main types of ship management services are depicted in **Chart 7**, beginning with the second half of 2013. Full management services (encompassing both technical and crew management contracts) increased to 49% of revenues during the second half of 2015. This was also the case during the first half of 2014. In contrast, the share of crew management services dropped from 41%, during the first half of 2015, to 38% during the second half of 2015.



In **Charts 8** and **9** the revenues derived from the provision of full management and crew management services are decomposed by country. Full management services (**Chart 8**) are uniformly provided to ship owners from a range of countries, most notably Germany, Russia, USA and the Marshall Islands. In contrast, the provision of crew management services is mainly undertaken by ship owners from Germany (53%), Poland (7%), Singapore (5%) and the Marshall Islands (5%) (**Chart 9**).

3. COUNTRY PORTFOLIOS

During the second half of 2015 there was an increase in the provision of services to ships carrying the Cyprus flag. Companies with portfolios consisting of more than 40 ship owning companies generated 46% of the industry's revenues and scored an average share of 12%. In contrast, companies managing small portfolios of clients (less than 10) generated only 28% of the industry's revenues. During the second half of 2015, noticeable increases in revenues were recorded for Curacao, Norway and Greece.

Flags associated with open registries provide ship owners with considerable advantages in terms of the legal framework surrounding ship operations, such as crew recruitment, training and safety of the seafarers and environmental protection policies. These advantages are directly related and have implications for ship management operations. 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 increased from 15% during the first half of 2015 to 22% during the second half of 2015.

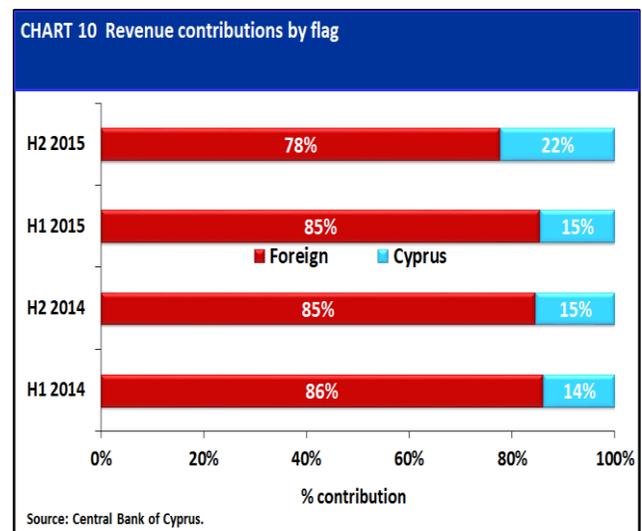


Chart 11 splits the revenues earned by country of residence of the beneficial ship owners whose ships are managed by resident ship management companies – not by country of payment as in **Chart 2**. This analysis is useful in order to understand the geographical pattern of demand and differences in the pricing policies of the firms across countries. Most country shares remained stable during the last two periods, with the exceptions of Greece, Norway and Poland.

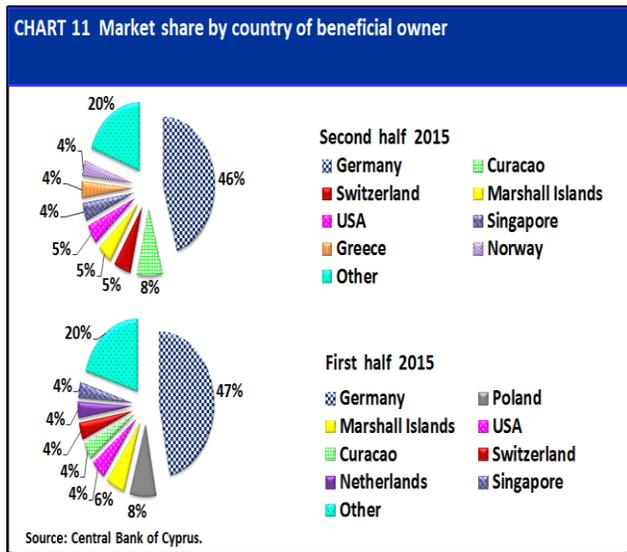
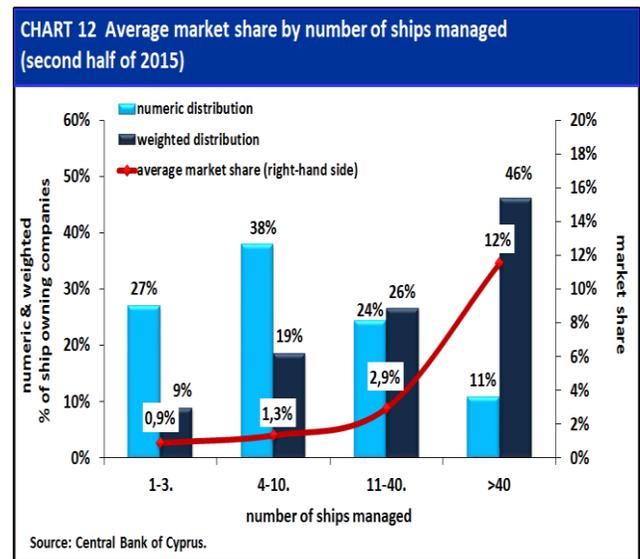


Chart 12 examines graphically the relationship between portfolio size (number of ships managed) and market share (in ship management revenues) during the second half of 2015. The horizontal axis is segmented into four different size ranges (groups) in increasing order. Specifically, ship management companies that managed:

- (i) between 1 and 3 ships
- (ii) between 4 and 10 ships
- (iii) between 11 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 1-3 ships accounted for 27% of the total population of ship management companies and generated 9% of the industry’s revenues. The average company market share in this group, for the period under consideration, was 0,9%. Companies managing between 4-10 ships accounted for 38% of the population of ship management companies, generated 19% of the industry’s revenues and scored an average share of 1,3%.



The last two segments (11-40 and >40) correspond to companies with considerably higher levels of revenues that also manage a higher number of ships per period. Specifically, 24% of these companies managed between 11-40 ships during the first half of 2015 and claimed 26% of the industry’s revenues. The average market share in this group was 2,9%. Higher numbers of ships were managed by only 11% of the companies, which accounted for 46% of the total revenues.

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 second half of 2015, considerable increases were recorded for Curacao, Norway and Greece, even though these countries are associated with relatively small shares.

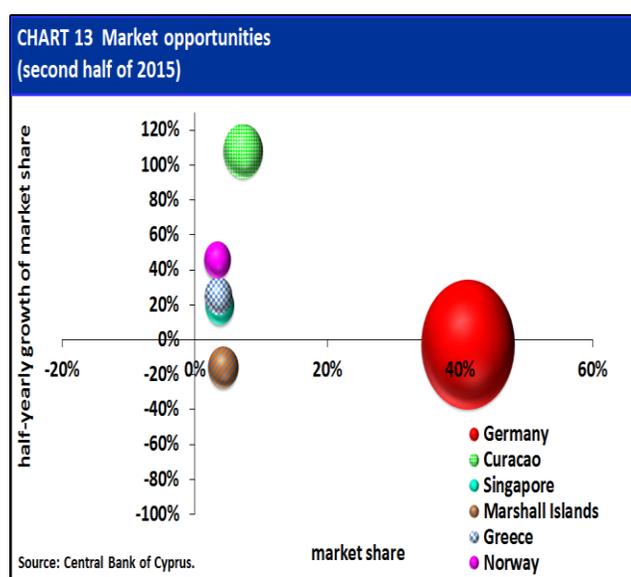
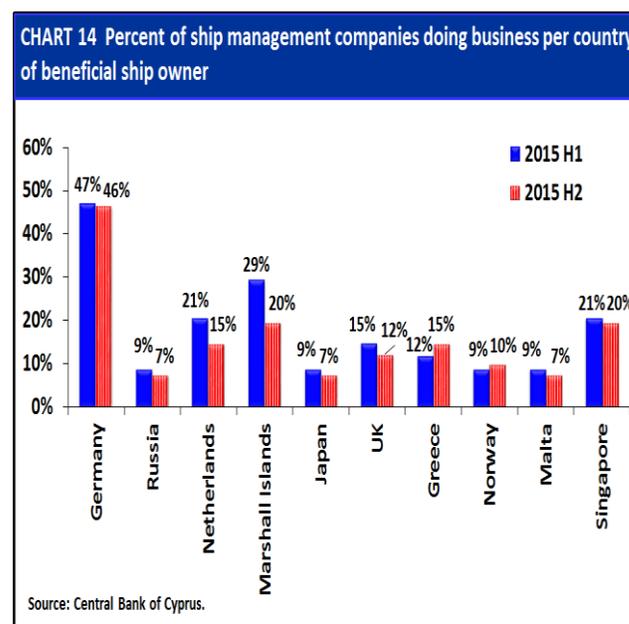


Chart 14 illustrates the geographic expansion of the industry. It includes information concerning the number of ship management companies that provide services in countries with competitive shipping registries and a previous record of cooperation with the local ship management industry. Each country bar designates the percentage of ship management companies registered in Cyprus that have offered services in that specific country. To facilitate comparisons, the chart includes the results of the last two periods.

There is a large percentage of companies offering services to German ship owners (46%). Other

noticeable countries include the Marshall Islands (20%), Singapore (20%) and the Netherlands (15%). There was a decline in the percentage of companies that provided services in the Marshall Islands and the Netherlands since the associated percentages during the previous period were 29% and 21%, respectively. 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.



4. SHIP MANAGEMENT EXPENSES AND FEES

Industry expenses dropped to €411 million during the second half of 2015, in line with the decrease in revenues. Most of these expenses concerned crew wages (62%) paid to non-EU seafarers, primarily from the Philippines and Ukraine. With regard to the expenses paid in Cyprus, these consisted mainly of crew and travelling expenses, and accounted for 45% of the total amount. Most fluctuations in ship management fees originated from changes in the countries of the ships' beneficial owners and the flag states of the ships under management.

Chart 15 provides information regarding the level of cross-border expenses³ associated with the operations of the ship management industry. Cumulative industry expenses decreased to €411 million during the second half of 2015, in line with the decrease in revenues reported in **Chart 1**. It suggests a relatively stable profitability for the industry during the period under consideration.

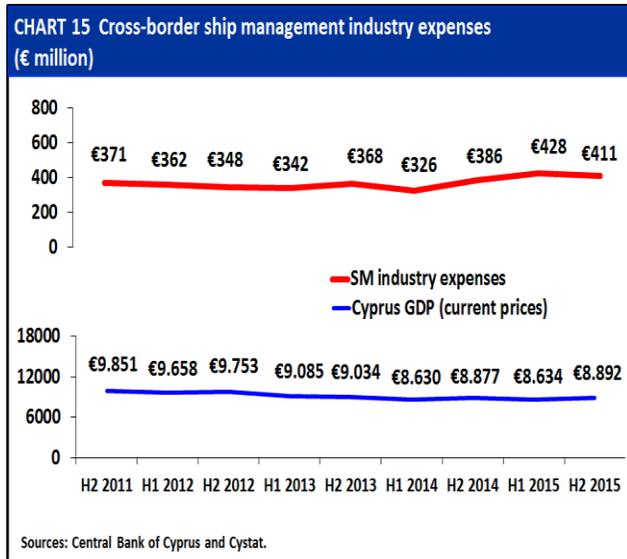
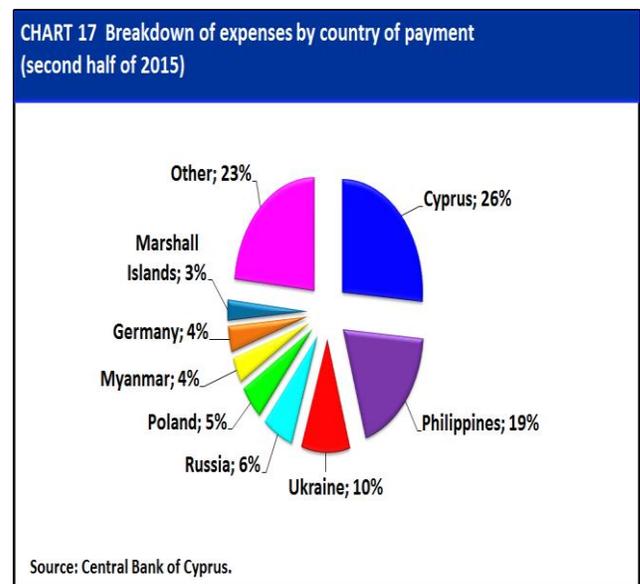
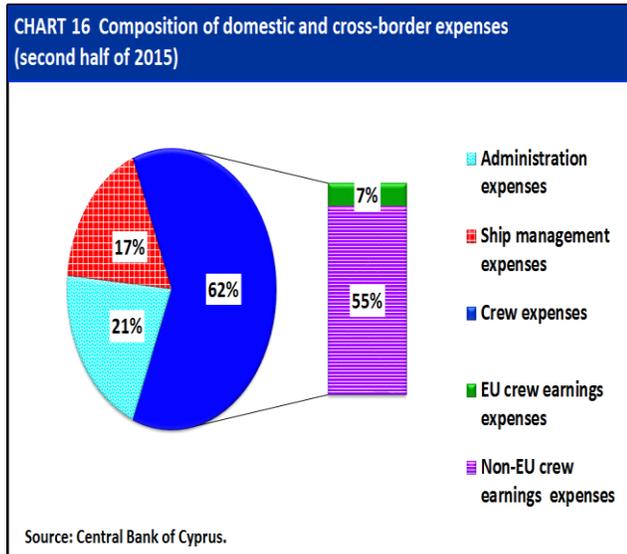


Chart 16 depicts the main categories of expenses alongside their percentage contributions. The largest category, crew expenses, accounted for 62% of the total amount, administration expenses for 21% and ship management expenses (e.g. spare parts, lubricants, dry-docking, etc) for 17%. Crew expenses consisted mostly of payments to seafarers from countries outside the European Union (55%).



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. The main categories of expenses paid by the ship management companies in Cyprus are presented in **Chart 18**. Crew and travelling expenses rose to 45% and salaries to 29% of the total amount of expenses incurred during the second half of 2015.

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

CHART 18 Breakdown of expenses paid in Cyprus (second half of 2015)

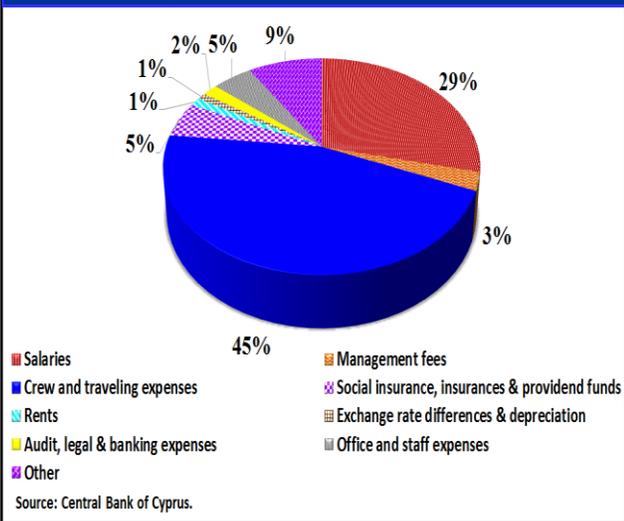


CHART 19 Maritime transport of goods from Cyprus 2004Q1 - 2015Q3 (thousand tonnes)

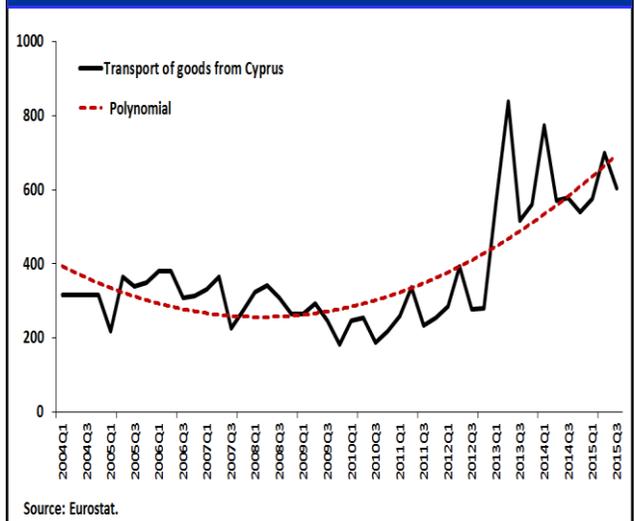
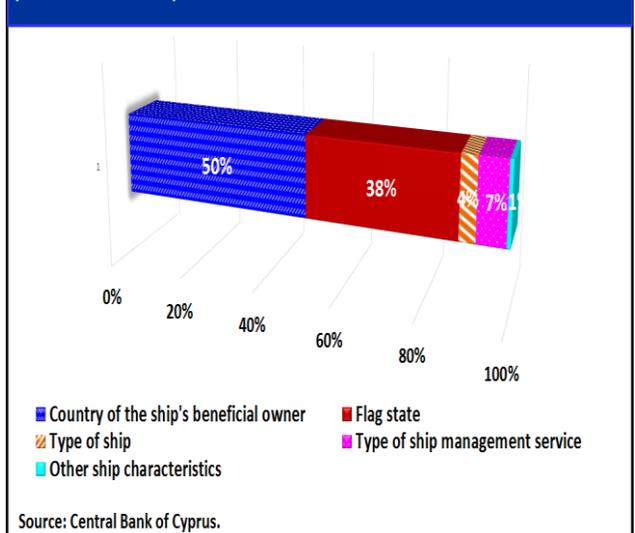


Chart 19 supplements the analysis provided in **Chart 5**, with historical time series information concerning the maritime transport of goods departing from Cyprus. It can be used as a proxy for the number of ships departing Cyprus’s ports and their associated ship management expenses. The increase in the transport volume departing from Cyprus, which began in 2013, extends well into the first three quarters of 2015. 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.

Chart 20 provides information regarding the determinants of fluctuations in ship management fees in the local market. This analysis was performed using a standardised hedonic regression model. During the period under consideration, the fees charged by the ship management industry were mainly influenced by the following factors:

- (i) nationality of ship’s beneficial owner
- (ii) flag state of the ship
- (iii) type of ship management service provided
- (iv) type of ship managed

CHART 20 Determinants of ship management fees (second half of 2015)



APPENDIX: SHIP MANAGEMENT SURVEY

The Ship Management Survey is conducted biannually by the External & General Economic Statistics Section of the 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.