



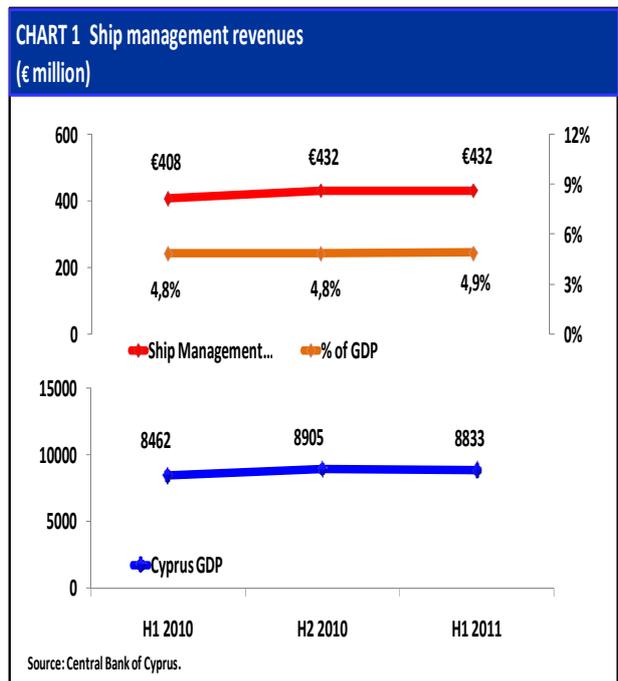
SHIP MANAGEMENT SURVEY

January – June 2011

1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

During the first half of 2011, ship management revenues increased marginally to 4,9% of Cyprus's GDP, despite the economic crisis. The majority of revenues came from Germany (57%). Most companies in the sector generate revenues within the range of €1 million - €10 million, but there are a few very large companies with revenues exceeding €27 million half-yearly. As a result, the sector is relatively concentrated with 24% of the companies generating 83% of the sector's total revenues. Shipping revenues have been exhibiting an upward trend since 2002 (with strong seasonal and cyclical characteristics) and indications for the second half of 2011 are that they will continue on their upward path.

Total ship management revenues from non-resident ship owning companies for the first half of 2011 were €431 million (in current prices), which corresponds to 4,9% of Cyprus's GDP (**Chart 1**). This is not value added but mainly an indicator of the size of the sector. There was a marginal increase in revenues during the first half of 2011 from €431 million to €432 million. Despite the economic crisis, the ship management sector continued its stable performance in 2011, since it depends more on foreign than domestic income. It is expected that revenues will increase further during the second half of 2011.



Most revenues for the second half of 2010 were received from Germany, as demonstrated in **chart 2**, which is traditionally the main trading partner of the industry. There were also significant contributions from Switzerland and Latvia. Nevertheless, these figures do not represent the countries of the beneficial ship owners whose ships are managed by companies based in Cyprus. They merely represent the countries from where the payments were transferred to Cyprus. However, as will be shown on page 6, in most cases these countries also represent the country of the beneficial ship owner. As a future strategic objective, it is important for the shipping

sector in Cyprus to generate revenues from other countries in order to further diversify the client portfolio and to become less dependent on German exports and growth.

beneficial owner. Tacit knowledge and historical factors can also prove very important.

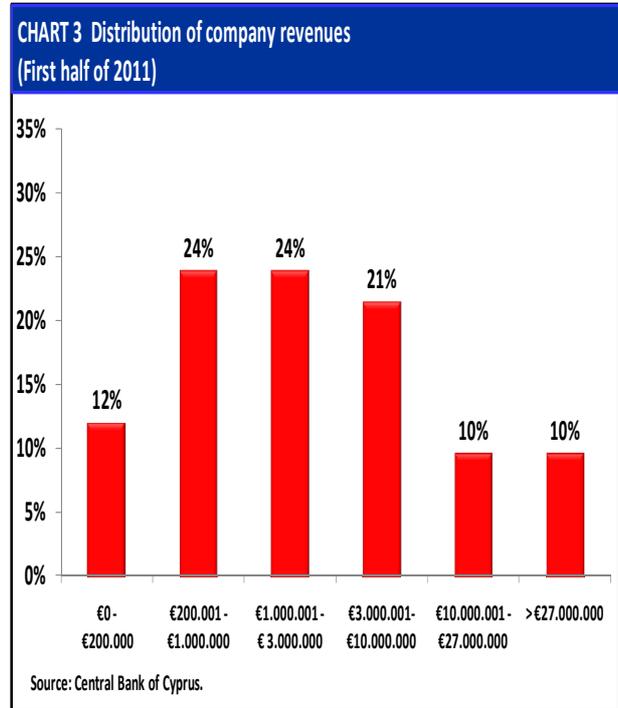
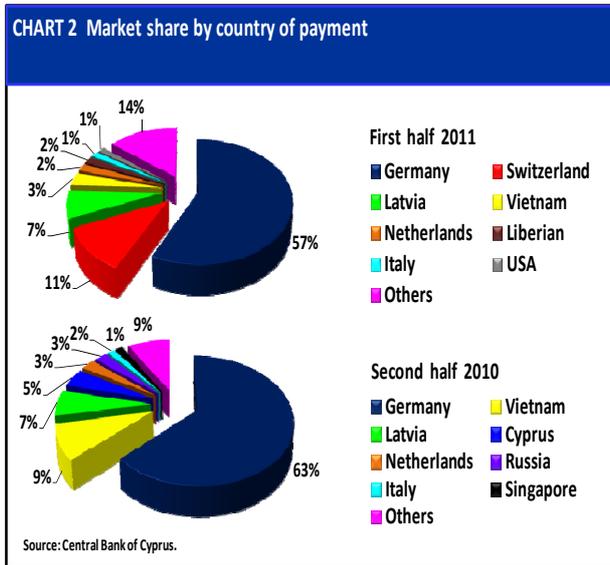


Chart 3 provides information on the distribution of revenues in the sector for the first half of 2011. The horizontal axis includes several different ranges (groups) of revenues in increasing order. Each company has been included into one of these groups. The vertical axis measures the percentage of companies belonging to each group. It can be observed that 45% of the companies have half-yearly incomes within the range of €1 million - €10 million. Few companies generate very large (in excess of €27 million) or very small (less than €200,000) revenues. It would be worth investigating the factors affecting the distribution of revenues in the sector. Possible explanations include the specialization per type of ship management service (i.e. crew management, technical management, full management), the capital structure (sources of financing) and ownership status of the companies (e.g. member of a greater group which controls companies specializing in ship owning and chartering activities) and the country of the

Closely related to the distribution of revenues, is the level of market concentration associated with it. Based on data for the first half of 2011, the ship management sector appears to be relatively concentrated with 24% of the companies accounting for 83% of the sector's revenues. This is illustrated in Chart 4. The horizontal axis measures, cumulatively, the percentage of companies contributing to the ship management revenues, ranked by order of importance. For example, the 24% level corresponds to the top 24% of companies in the sector in terms of half-yearly revenues. The vertical axis measures the respective percentage revenue contribution of these companies. Therefore, based on the chart, the top 24% of companies contribute 83% of the total revenues in the sector. The turning point in the chart indicates the level at which a decline is observed in the marginal contribution of companies to the sector's revenues. 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 sector.

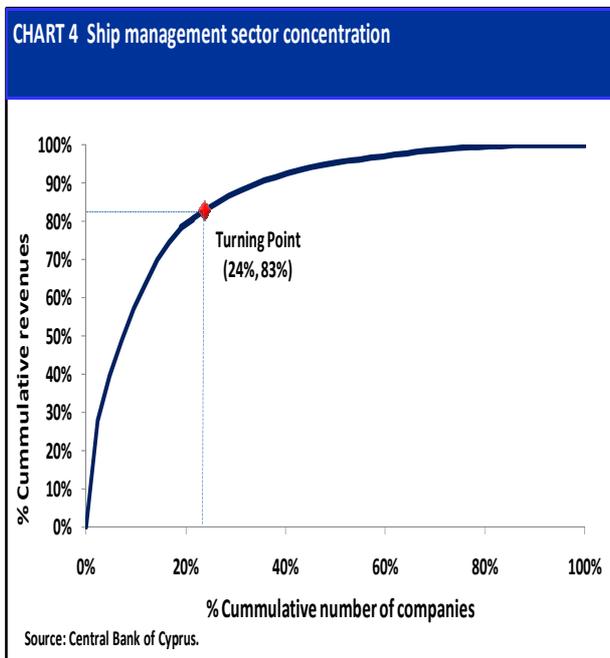
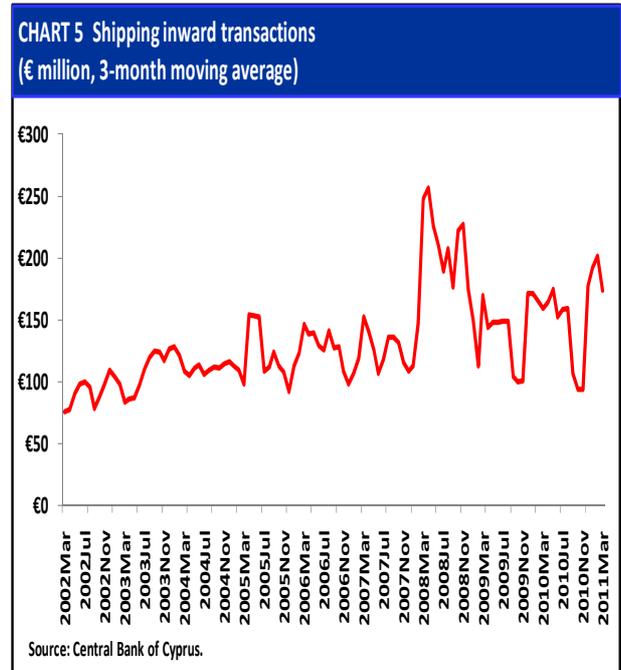


Chart 5 provides historical time series information on the level of inward transactions (flows) that were completed by the shipping sector since 2002. These transactions concern revenues from the provision of shipping services abroad (both ship management and ship owning) and are compiled from a variety of sources such as local banks. The flows are not presented in raw data format but as a 3-month moving average, which enables us to identify the main trend underlying the series.

Chart 5 shows that the revenues are characterised by an upward trend as well as seasonal and cyclical factors. Such information can be used for forecasting purposes. Another interesting fact revealed by the series is the large increase in revenues in 2008 and their subsequent decline in 2009 and 2010, following the beginning of the global financial crisis. Despite this decline, the general upward trend of revenues reveals that the shipping

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sector remains strong and has the potential for further development in the years to come, especially with the introduction of the new Cyprus tonnage tax system approved by the EU in March 2010 and enacted by Cyprus's parliament in April 2010.

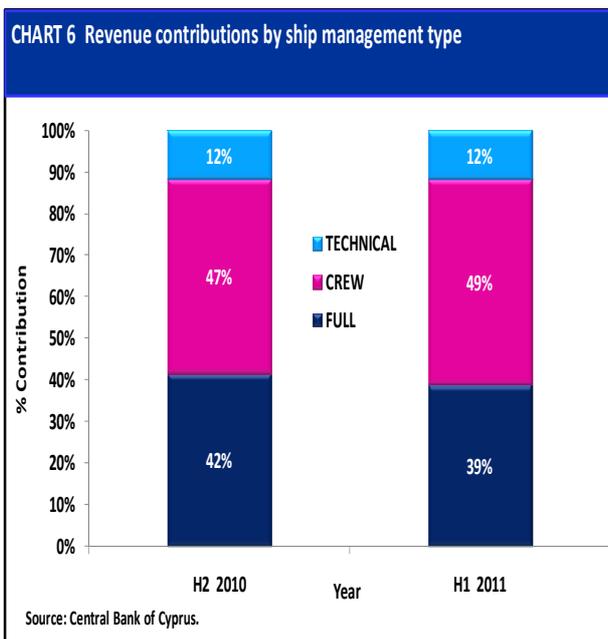


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2. SHIP MANAGEMENT SERVICES

Most of the ship management sector's revenues during the period under review were derived from the provision of core ship management services (66%). Of these, 49% concerned crew management and 39% full management. Germany contributed 74% of revenues from ship management services, 58% in the case of crew management and only 10% in the case of full management. The latter category is much more diversified and includes revenues from many other countries.

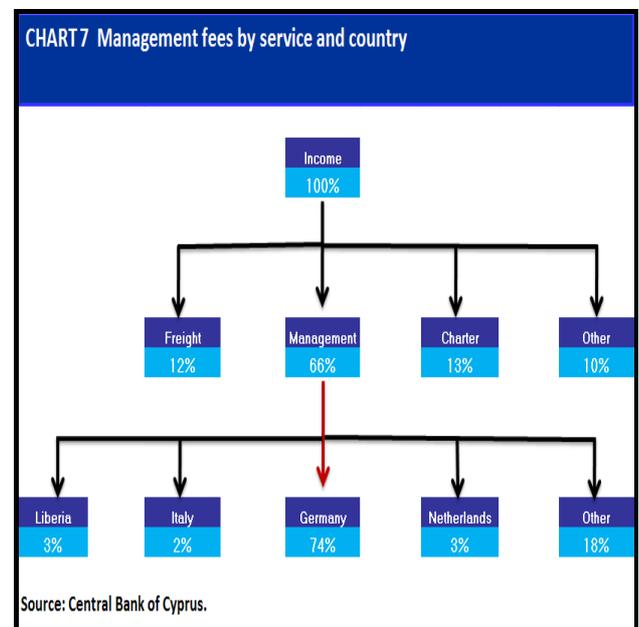
The composition of ship management revenues by type of service provided is illustrated in **Chart 6**. The first column corresponds to the period July - December 2010 and the second to the period January - June 2011. The vertical axis measures the percentage contributions of each service type that sum up to 100%.



Crew management is the most frequent and important type of ship management service exported, accounting for 49% of the total revenues, followed by full management with 39% and technical management with 12%. This distribution

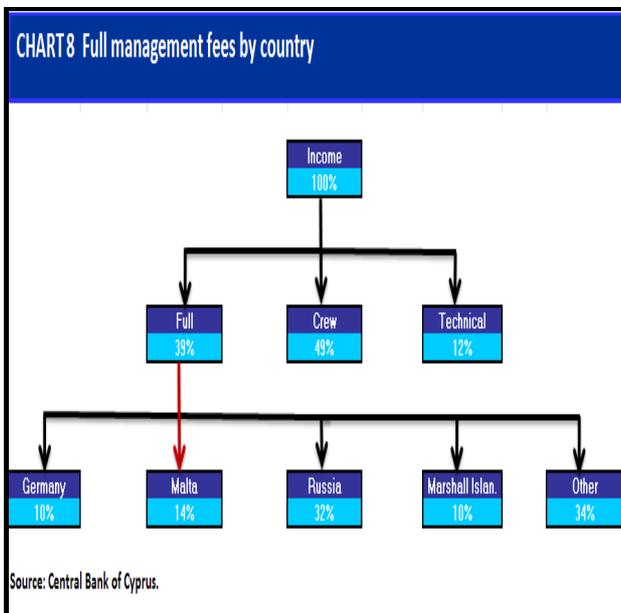
has remained almost unchanged from the second half of 2010. Furthermore, it reflects the presence of several large international companies engaged in the provision of crew and full management services in the sector.

In total, ship management services (crew, full and technical management) correspond to 66% of the sector's revenues, which underlines the sector's specialization in the provision of crew and full management services. Additional contributions are provided by freight (12%), chartering (13%) and other services (i.e. finance, logistics) as depicted in **Chart 7**. The second level of the tree diagram provides further analysis by country within the management segment of the first level. The majority of ship management revenues came from Germany (74%). It is expected that chartering revenues will increase further with the registration of new companies in Cyprus, following recent changes in the Cyprus tax system.

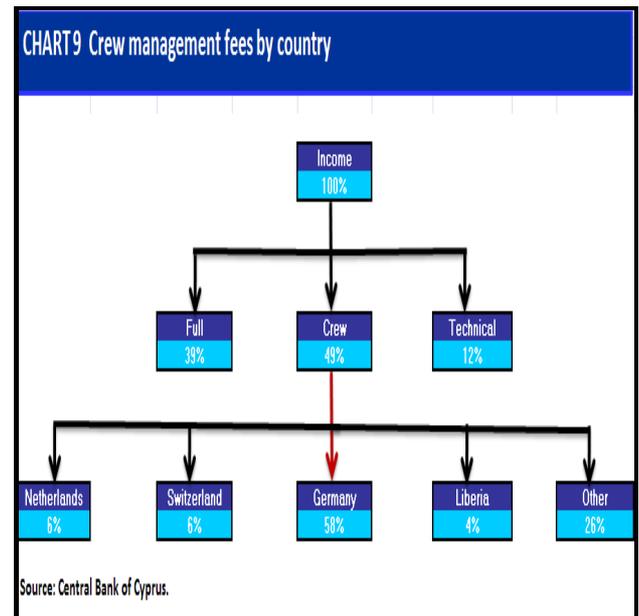


In the first level of **Chart 8**, the ship management revenues are decomposed further into percentage contributions by technical, crew and full

management revenues. The later category covers the provision of both crew and technical management under a single contract. The second level of the tree diagram further decomposes full management revenues by country of payment. Russia (32%) and Malta (14%) were the main contributors to the full management revenues of the sector during the first half of 2011. Only 10% of the revenues came from Germany in this case. There is sufficient diversification of the country portfolio for long-term income stability.



A different picture is observed for crew management revenues in **Chart 9**. Most crew management revenues for the first half of 2011 came from German ship owners (58%) and the rest of the revenues were accounted for by many countries with relatively small contributions. The companies' client portfolios need to be diversified by exploring other promising markets such as Russia, UK, Italy and Denmark. Further research needs to investigate whether the two main types of ship management services (full and crew) can be offered to more ship owning companies in each country and how to increase market shares.



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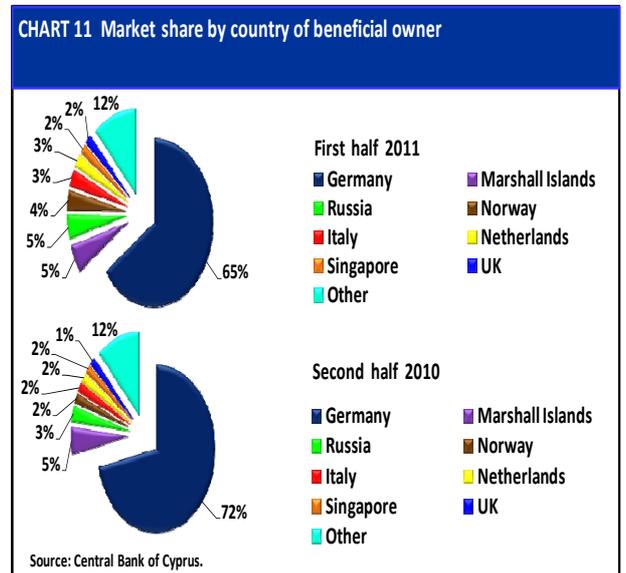
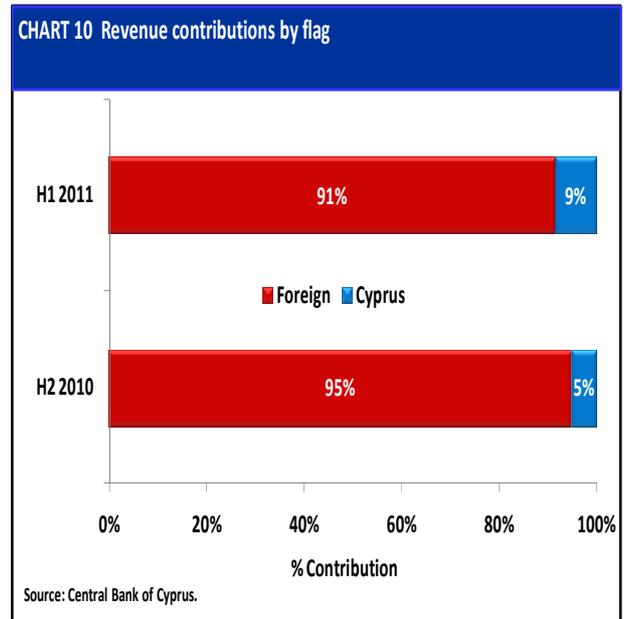
3. COUNTRY PORTFOLIOS

Ship management services are offered almost exclusively to ships with foreign flags. Given the size of Cyprus's shipping registry, it is important to increase the sector's share in this segment. Even though Germany is the most important market for the Cyprus ship management sector, it has remained static. It is, therefore, important to increase revenues from new markets. Currently, there is limited provision of ship management services to countries like Russia, the Netherlands and the UK. Client portfolios are positively related with market share. Market share increases considerably when more than 41 ship owning companies are included in a company's portfolio.

Most of the sector's revenues come from the management of ships under foreign flags. As shown in **Chart 10**, only 9% of the revenues corresponded to ships under the Cyprus flag for the first half of 2011. Thus, there is potential for expansion since Cyprus's shipping registry is of considerable size and it is well developed with an international reputation for the benefits it offers. Ship management companies need to offer their services to more ship owning companies carrying the Cyprus flag, especially since these companies maintain links and interact with the local shipping sector. It is also expected that the registrations of ships will increase further in the future, following recent policy changes in taxation and flag benefits adopted by the government of Cyprus.

Chart 11 shows the market share per country of beneficial ship owner for the periods July-December 2010 and January-June 2011. German ship owners are the main sources of revenues with 65% in the first half of 2011, while during the second half of 2010 their share increased to 72%. This result is related to the analysis in section 2 and further emphasizes the lack of diversification in the sector's revenues. Greater effort is needed in countries like

Russia, Italy, Norway and the Netherlands, in order to attract ship owners and expose them to the benefits and expertise of Cyprus's ship management sector.

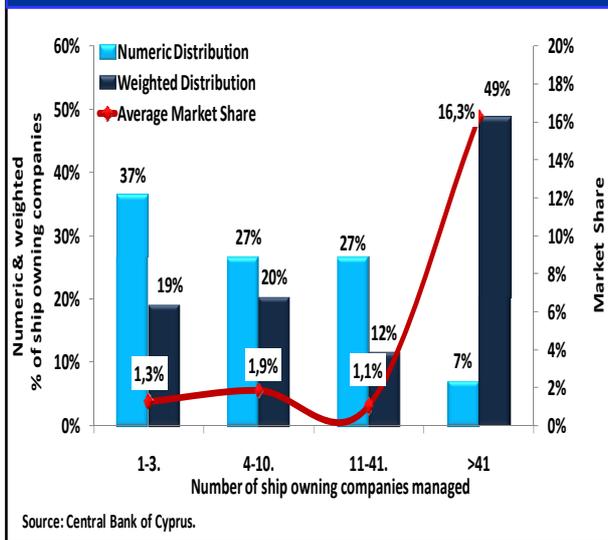


Few companies managed large portfolios of ship owning companies during the first half of 2011. This is illustrated in **Chart 12**. The horizontal axis illustrates four different portfolios that differ in size.

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The first group includes ship management companies that managed between 1 and 3 ship owning clients during the first half of 2011. The second group includes handlers of between 4 and 10 ship owners, the third group refers to handlers of between 11 and 41 ship owners and the fourth group represents handlers who manage more than 41 ship owners. 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. For example, the companies in the first group accounted for 37% of the total population of ship management companies and generated 19% of the sector's revenues. The average company market share in this group was 1,3%.

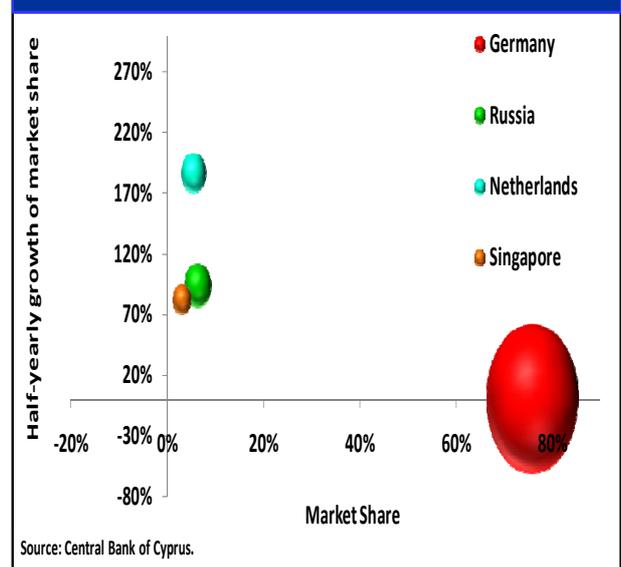
CHART 12 Average market share by number of ship owning companies



Most of the companies managed less than 10 ship owning companies during the first half of 2011, while strong market share performance is achieved with the handling of more than 41 ship owners. Only 7% of the companies handled more than 41 clients during the first half of 2011 and shared 49% of the

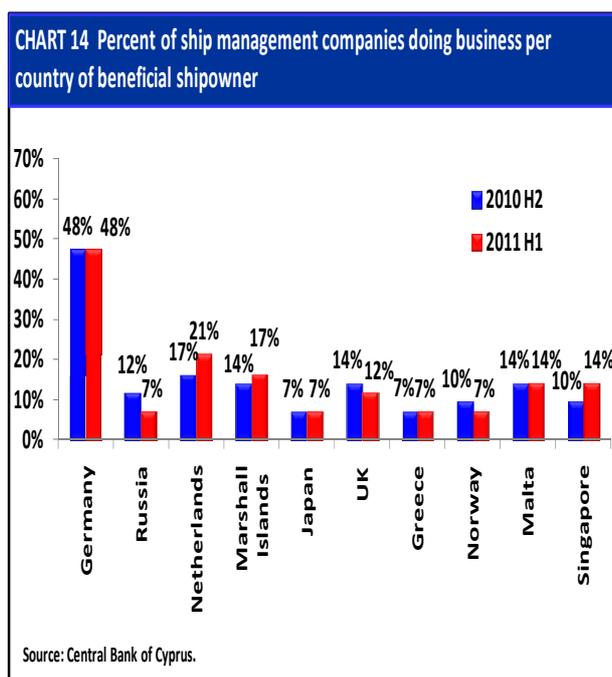
sector's revenues. Market share performance also varies considerably with the size of the portfolio: when the size of the portfolio is between 4 and 10 clients, the market share does not exceed 2%. When the size of the portfolio exceeds 41 clients the average share increases considerably to 16,3%. As a result, there is considerable concentration in the sector, as was demonstrated in section 1.

CHART 13 Market opportunities



Growth opportunities also differ considerably by country, as shown in **Chart 13**. The horizontal axis measures the market share of revenues for each country. The vertical axis measures the percentage change (half-yearly growth) in the share of each country. Furthermore, the size of each bubble in the chart is proportional to the size of revenues from each country. Germany is by far the most important market but has remained static. Netherlands, Russia, and Singapore exhibited the highest growth in revenues during the first half of 2011. However, their market shares are still small. This chart further highlights the need for the sector to enter new markets.

Chart 14 provides useful information regarding competitive presence in each country, by listing the percentage of Cypriot companies that offered services in each country during the first half of 2011. Many companies offered ship management services in Germany, indicating strong competition for the handling of German ship owning companies. Specifically, 48% of the companies in Cyprus offered their services in Germany during the period under examination. Competition is still relatively low in other countries. For example, in Russia services were offered by 7% of these ship management companies. In the Netherlands the figure was 21% and in the Marshall Islands 17%. A similar situation exists with other countries and more effort should be devoted in establishing links with local ship owners.



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4. SHIP MANAGEMENT EXPENSES

During the first half of 2011, ship management expenses decreased by 3%. Revenues received from abroad were higher than expenses paid abroad. Most of the expenses (47%) concern crew earnings and were paid to staff from the Philippines, Ukraine and Poland. A considerable amount (20%) of the sector's total expenses was paid in Cyprus and concerned mostly administration and ship management expenses.

As shown in **Chart 15**, total expenses paid by the ship management companies in Cyprus decreased during the first half of 2011, from €332,31 million to €321,23 million. These figures do not include expenses paid in Cyprus and are compatible with the revenues in **Chart 1**, which do not include revenues received from companies based in Cyprus.

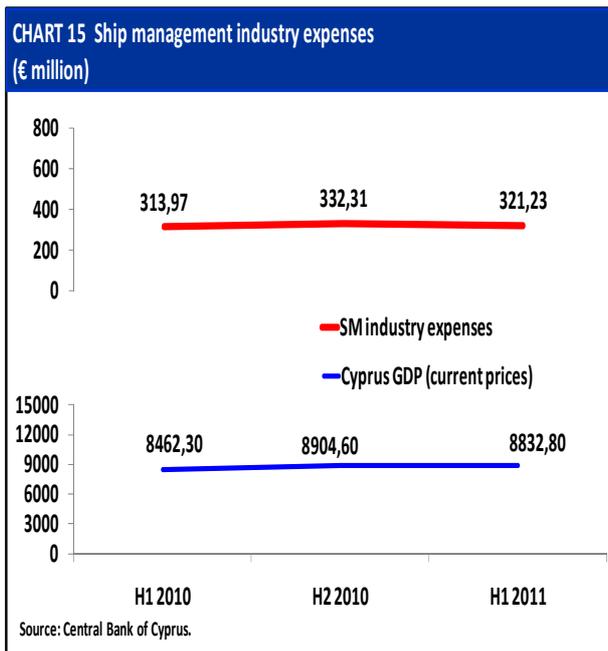
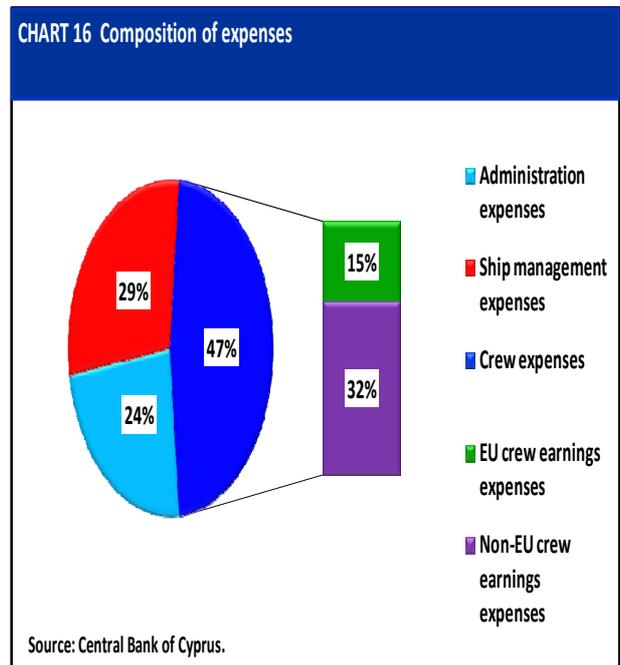


Chart 16 provides information on the (percentage) composition of expenses paid abroad by the sector. Most of the expenses concern crew earnings and constituted 47% of total expenses. The rest of the sector's expenses were directed to ship

management (29%) and administration expenses (24%). These two categories are mainly paid in Cyprus where the companies have a physical presence and employ most of their labour force. Crew expenses are further analysed into payments to EU citizens (15%) and non-EU citizens (32%). The majority of crew staff employed on board by ship management companies are from Southeast Asia (e.g. Philippines), Poland and Ukraine.



Advertising expenses increased during the first half of 2011 from €1,71 million to €2,44 million. The left-hand axis in **Chart 17** indicates the level of ship management revenues and the right-hand axis the level of advertising expenses. It is not possible at this stage to assess the impact of advertising expenses on revenues because they remain low relative to the size of revenues in the sector. It is also important to analyze other forms of promotional and advertising effort that might be unique to the sector and are usually undertaken through organized bodies (e.g. the Cyprus Shipping Chamber), networking, trade shows and lobbying.

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CHART 17 Advertising expenses and ship management revenues (€ million)

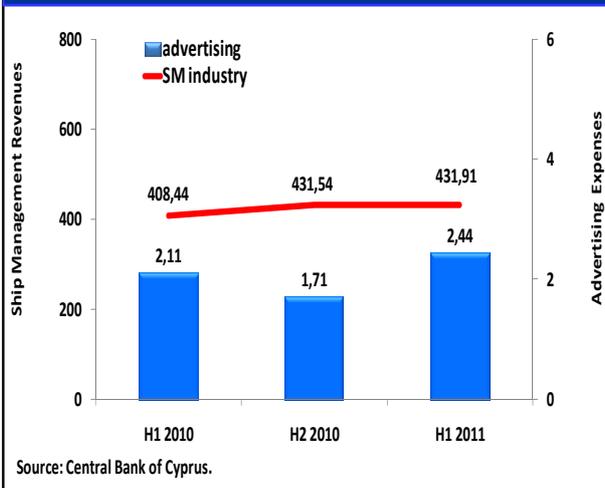
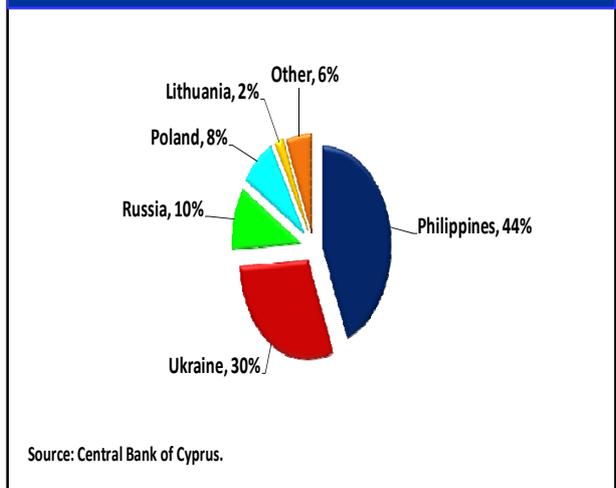
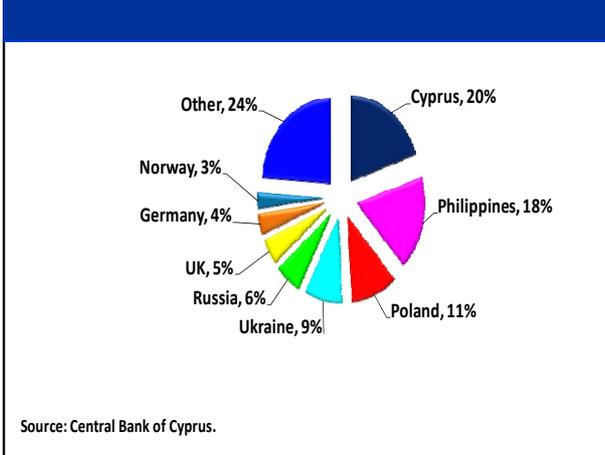


CHART 19 Breakdown of crew expenses by country of payment



The decomposition of total expenses by country is an important consideration for balance of payments statistics. **Chart 18** shows the main countries to which most payment flows were directed during the first half of 2011. Most of the expenses accounted for by Cyprus (20%) and concerned mostly administration and ship management expenses. Second was the Philippines (18%) with crew expenses. **Chart 19** concentrates only on crew expenses. As the chart shows, most of these expenses went to the Philippines, Ukraine and Poland, which provide most of the crew staff.

CHART 18 Breakdown of expenses by country of payment



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APPENDIX: SHIP MANAGEMENT SURVEY

The Ship Management Survey is conducted biannually by the Central Bank's Balance of Payments Section. 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 sector as a percentage of the Cyprus GDP.
- Level of concentration in the sector.
- 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 sector.
- Identification of countries which offer market opportunities for further revenue growth.