



## SHIP MANAGEMENT SURVEY

January – June 2018

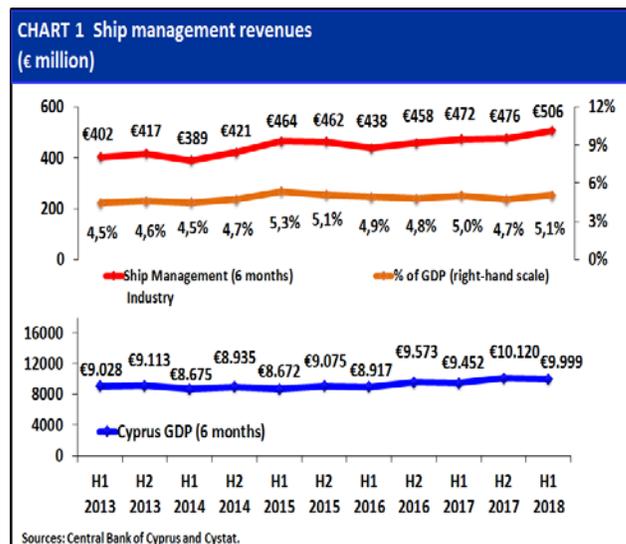
### INTRODUCTION

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 entities<sup>1</sup>.

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

Industry revenues increased during the first half of 2018 (2018H1), reaching €506 million or 5,1% of Cyprus's GDP (**Chart 1**), which is the highest level recorded since 2013. This percentage, which is higher than the respective percentage recorded during 2017H2 (4,7%), is partly due to the lower level of GDP recorded in 2018H1 (provisional estimate).

The global ship building industry is currently recovering from the strong downturn experienced during the financial crisis, as demonstrated by the gradual rise in vessel prices and the increase in order inquiries. This is particularly true for LNG carriers and large container ships but less so for tankers. However, impediments towards a full recovery still exist mainly in the form of rising bunker prices and the reduction in global trade growth (that tends to be related with container demand) during the fourth quarter of 2017.

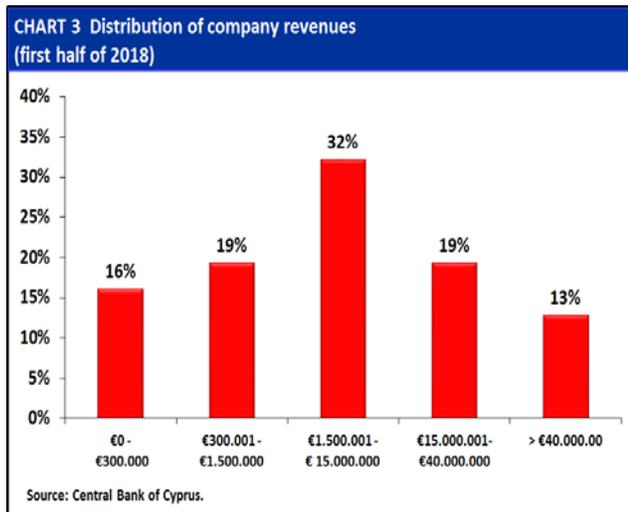
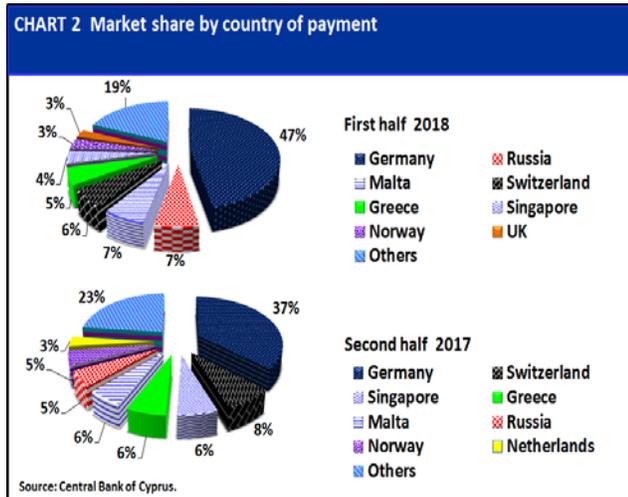


Furthermore, even though the Baltic Dry Index (an indicator for the cost of transporting goods such as iron ore, steel, grain and cement) increased considerably in 2017, a more detailed analysis of the relevant data suggests that the increase was mainly for “spot orders” and not for “time charters”. Spot orders are primarily used for one-off shipments and cannot be projected as future earnings. In contrast, “time charters” agreements are for vessels which are employed over longer periods of time.

In **Chart 2** revenues are decomposed by country of payment. The share of revenues originating from Germany increased from 37% in 2017H2 to 47% in

<sup>1</sup> Please refer to the Appendix for more details

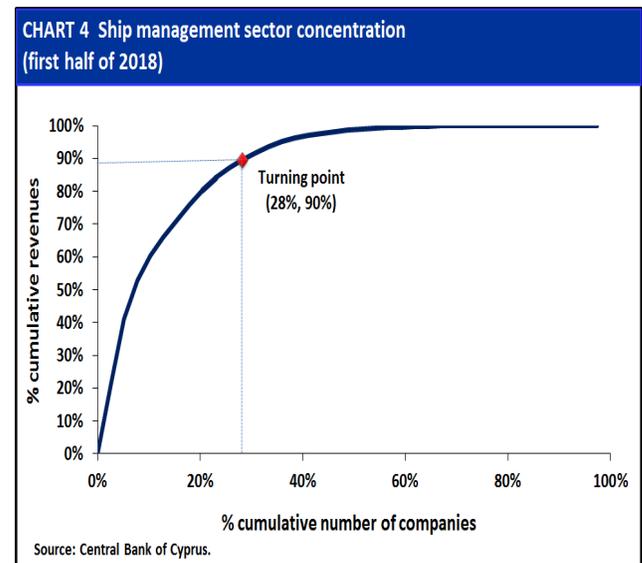
2018H1. At the same time, there was a decline in the shares of Norway and Singapore.



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. As can be observed, during the period under review, 32% of the companies managed to generate revenues in excess of €15 million each.

<sup>2</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

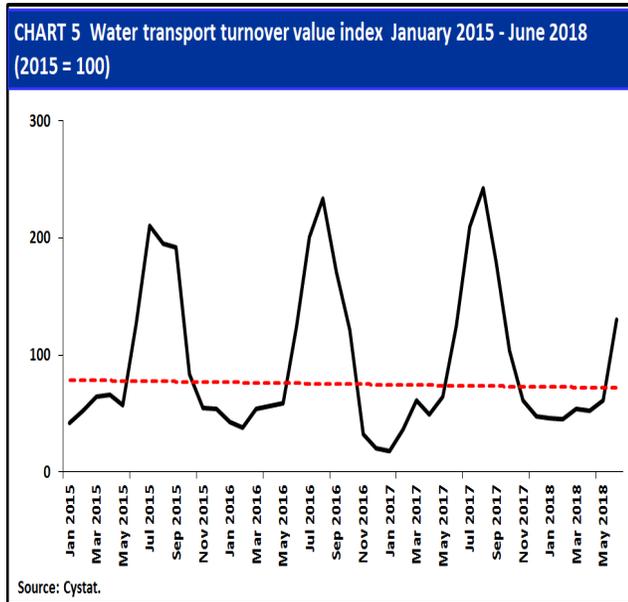
The level of concentration in the ship management industry is depicted in **Chart 4**, whereby the companies are ranked in terms of their revenue size. The horizontal axis depicts, in percentage terms, the largest companies while the vertical axis measures the respective (cumulative) percentage revenue contribution of the companies. The turning point<sup>2</sup> indicates the presence of a small number of large companies that dominate the industry. The results suggest that the top 28% of the companies accounted for 90% of the industry's revenues, which is six percentage points higher than the level recorded during 2017H2.



**Chart 5** depicts Cyprus's water transport turnover value index that is compiled based on the NACE Rev. 2 classification system. The index covers the period Jan 2015 – Jun 2018 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

number of companies beyond the turning point provides less than a 1% increase in the cumulative revenues of the industry.

reflect the underlying core trend in the series<sup>3</sup>. The index is characterised by strong seasonality and a stable trend, indicating that the industry needs new opportunities for expansion.

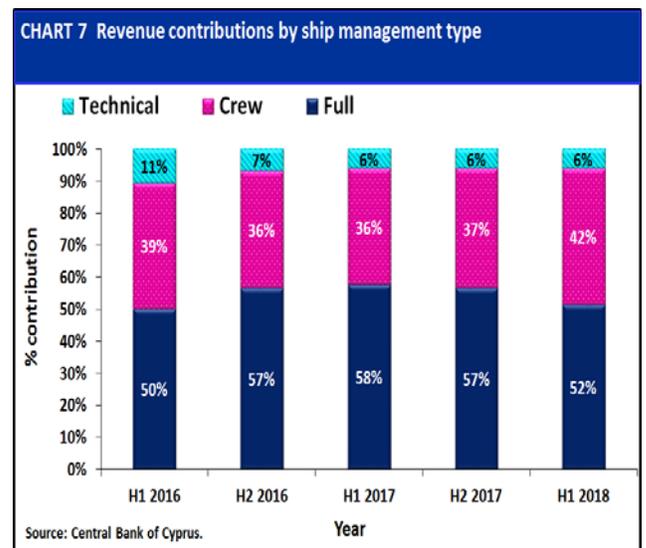
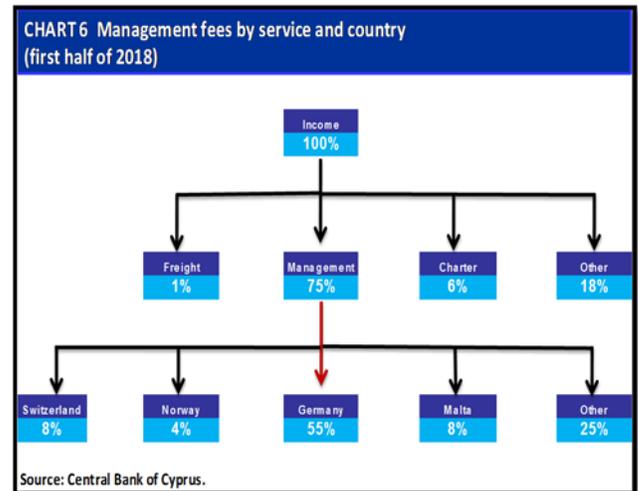


## 2. SHIP MANAGEMENT SERVICES

**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 75% of the industry’s revenues during the period under review. 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.

The allocation of revenues between the three main types of ship management operations is depicted in **Chart 7**. Crew management services increased in importance, from 37% of the total amount of ship management revenues in 2017H2 to 42% in 2018H1.

However, the majority of revenues are still associated with full management operations (52%).

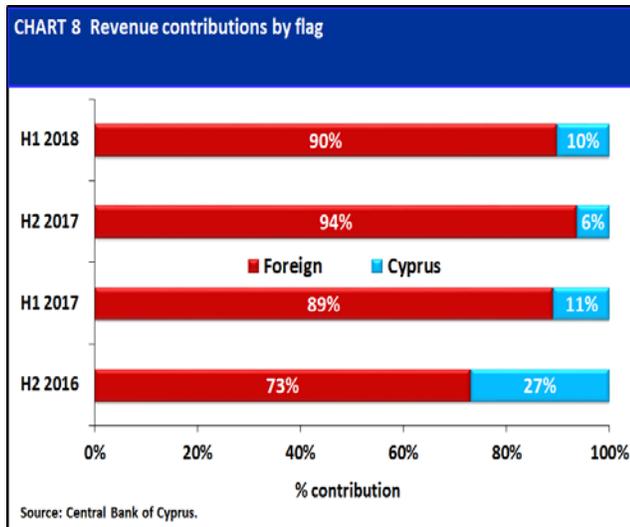


A decomposition of the industry’s revenues by flag registration is provided in **Chart 8**. The choice of flag is a strategic decision in ship owning operations, particularly in the case of open registries that provide ship owners with considerable advantages in terms of the legal and regulatory framework surrounding ship operations. The ship management industry in Cyprus

<sup>3</sup>For 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>

is primarily focused on ships carrying foreign flags, which corresponded to 90% of the revenues during 2018H1.



### 3. COUNTRY PORTFOLIOS

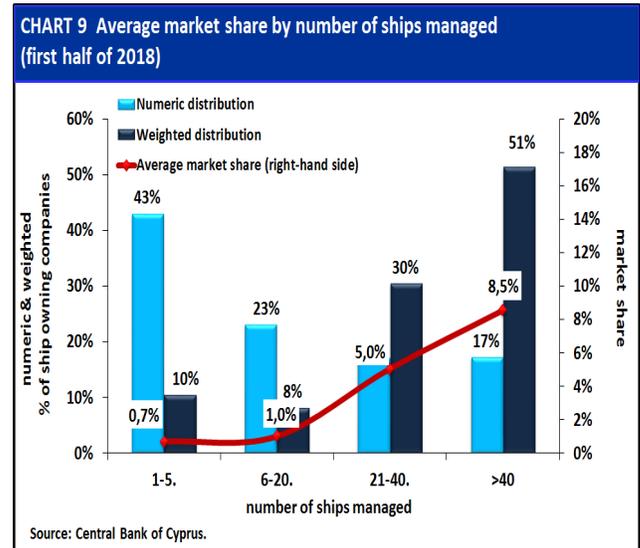
**Chart 9** examines the relationship between the number of ships managed and the market share of ship management revenues during 2018H1. The horizontal axis is segmented into four different size ranges (groups) in ascending order. Specifically, ship management companies that manage:

- (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 43% of ship management companies but generated only 10% of the industry’s revenues. The average company market share in this group was 0,7%. Companies managing between 6 and 20 ships accounted for 23% of ship management companies,

generated 8% of the industry’s revenues and scored an average share of 1%.

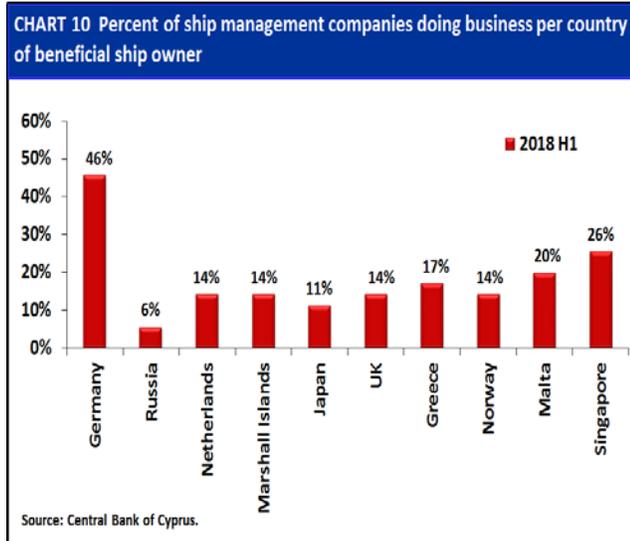


The last two segments (21-40 and >40) correspond to companies with a higher number of managed ships per period. Specifically, 5% of these companies managed between 21 and 40 ships during 2018H1 and claimed 30% of the industry’s revenues. A large number of ships (in excess of 40) were managed by only 17% of the companies but accounted for 51% of the total revenues. The average market share in this group was 8,5%.

**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.

A large number of companies maintains business links with ship owners in Germany (46%). With the exception of Singapore (26%) and Malta (20%), the

level of participation in all other countries remains below the 20% threshold. Strategically, the industry may need to place additional emphasis on increasing the level of participation in more countries, particularly those associated with large fleets.

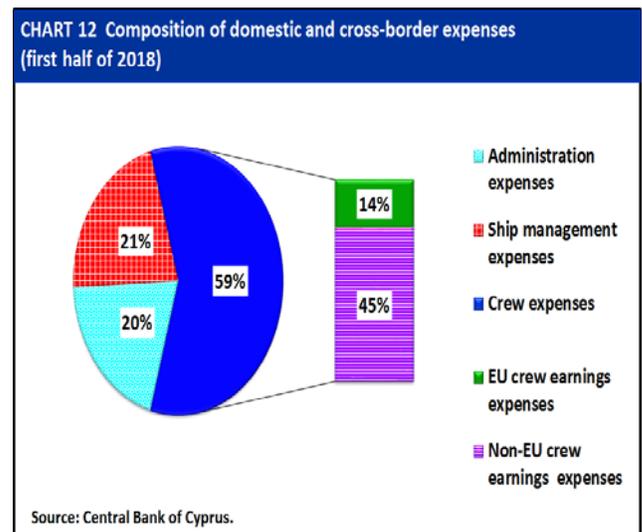
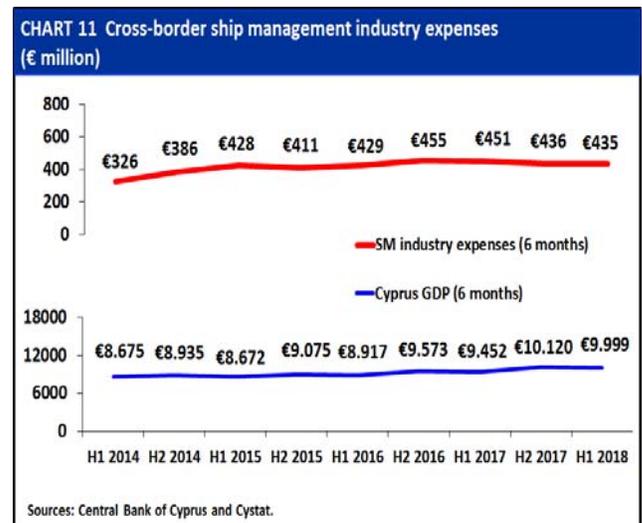


#### 4. SHIP MANAGEMENT EXPENSES

**Chart 11** provides information regarding the level of cross-border expenses associated with the operations of the ship management industry in Cyprus. Industry expenses remained relatively stable at €435 million in 2018H1 (compared with €436 million in 2017H2). Stabilization of expenses are expected to improve the financial health of the companies, in light of the uncertainty that is still surrounding the shipping sector globally. Recent sources of uncertainty include the rise of protectionism in global trade and the rising cost of oil.

The main categories of expenses incurred in the industry are depicted in **Chart 12**. The majority of these concern crew expenses, which accounted for 59% of the total amount in 2018H1. Most of these payments were directed to non-EU seafarers (45%). Administration expenses accounted for 20% and ship management expenses (e.g. spare parts, lubricants, dry-docking, etc.) for 21% of the total amount.

The cost and sources of fuels will be a major consideration for the shipping industry in the years to come. Following the adoption of new international regulations concerning sulphur emissions (as in the case of carbon intensive fuel oil), the maritime sector will need to seek alternative forms of fuels for use in vessels, like for e.g. liquefied natural gas. Furthermore, it will be necessary to invest in research associated with the development of new propulsion technologies and emission cleaning systems. However, both high quality marine fuels and investment in R&D will require the deployment of considerable financial resources in the future.



## APPENDIX: SHIP MANAGEMENT SURVEY

The *Ship Management Survey* (SMS), which was launched in March 2009, is conducted bi-annually 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.