



# SHIP MANAGEMENT SURVEY

## January – June 2014

### 1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS<sup>1</sup>

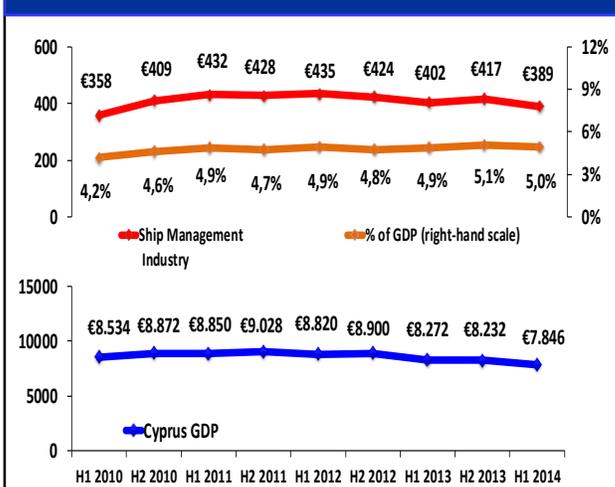
Ship management revenues fell to €389 million during the first half of 2014 (2014 H1), down from €417 million during the second half of 2013 (2013 H2). During the same period there was also a reduction in shipping flows (transactions) to Cyprus. Despite this reduction, most country contributions remained the same with Germany, Vietnam and Russia leading the ranking list. A small number of companies accounted for a relatively large share of the industry’s revenues, signifying the presence of a small number of large companies with international operations.

Unlike previous periods, ship management revenues dropped to €389 million during 2014 H1 (**Chart 1**). This is the lowest level recorded since 2010. Nevertheless, the size of the industry (in terms of turnover) as a percentage of GDP remained at 5%, due to a parallel reduction in the half-yearly GDP.

**Chart 2** shows the industry’s revenues broken down by country of payment. Germany remained the most

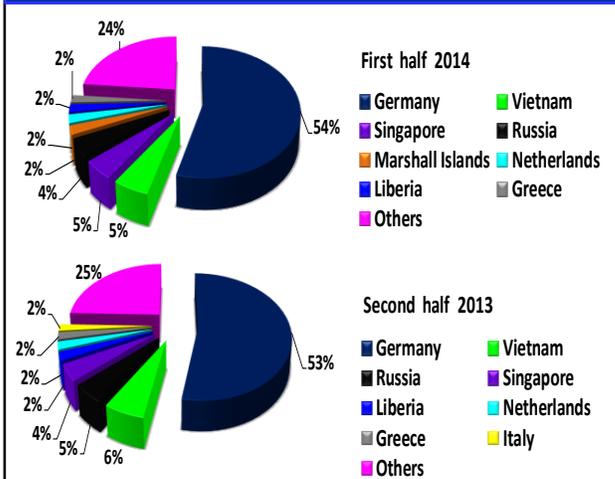
<sup>1</sup> The survey is conducted by the CBC’s Statistics Department and concentrates primarily on transactions between resident ship management companies and non-resident owners/shipping related entities. Please refer to the **Appendix** for more details.

CHART 1 Ship management revenues



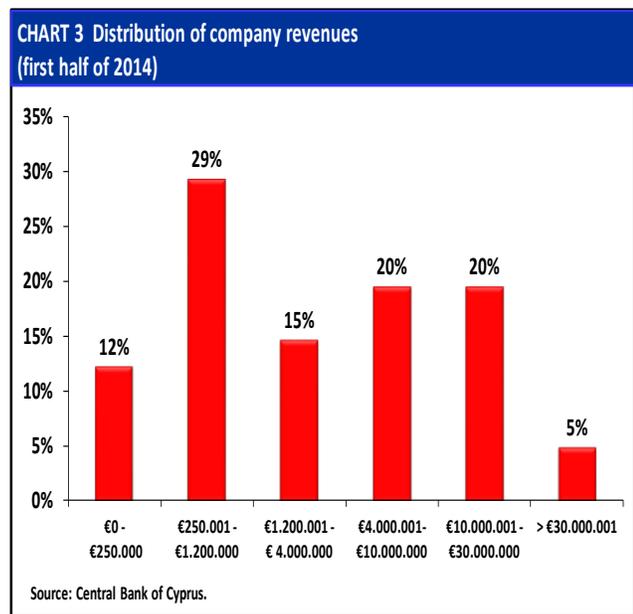
Sources: Central Bank of Cyprus and Cystat.

CHART 2 Market share by country of payment



Source: Central Bank of Cyprus.

important source of revenues with a share of 54% during 2014 H1. Significant revenues were also derived from Russia, the Netherlands, Greece, Liberia, Singapore and Vietnam.

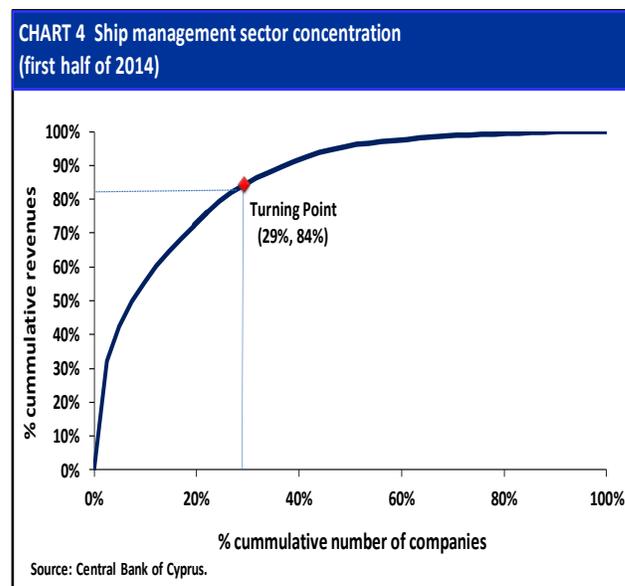


A more detailed assessment of the distribution of revenues in the industry is depicted in **Chart 3**. It classifies companies by size of revenues (based on their revenues for the period 01/01/2014 to 30/06/2014) and reports the percentage of companies belonging to each segment.

The horizontal axis segments the range of revenues into six distinct groups and the vertical axis measures the percentage of companies belonging to each group. The results suggest that 35% of the companies generated (half-yearly) revenues within the range of €1,2 million - €10 million, 25% in excess of €10 million and 41% less than €1,2 million.

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 29% level corresponds to the top 29% of companies in the industry in terms of half-yearly revenues). The

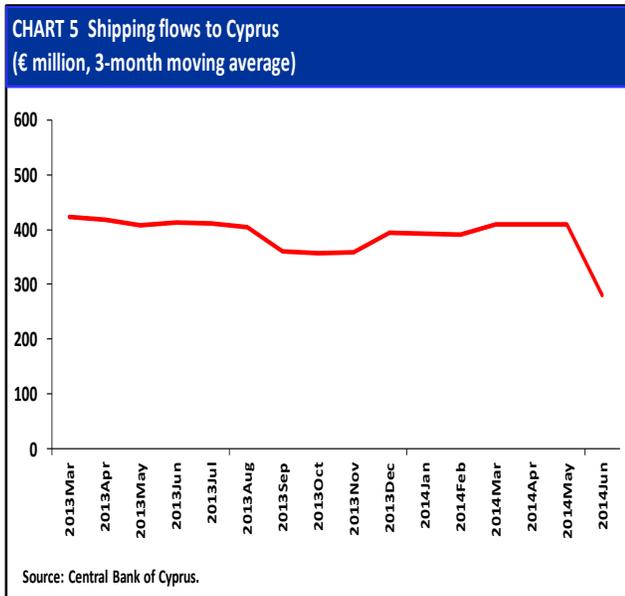
vertical axis measures the respective (cumulative) percentage revenue contribution of these companies. Of particular interest is the turning point<sup>2</sup> on the chart. The top 29% of the companies accounted for 84% of the industry's revenues, signifying the presence of a small number of large companies.



**Chart 5** illustrates historical time series information on the level of inward transactions (flows) that were received by the industry since March 2013. These transactions concern aggregated 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

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

features of the data such as the long-run trend, short-run deviations from the trend and the volatility of revenues in shipping.



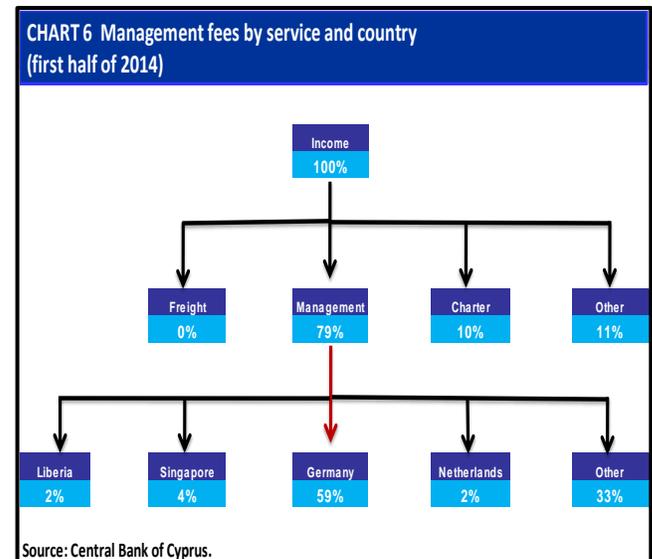
Since the raw data consisted of highly volatile transaction records, a three-month moving average was applied, enabling us to identify the key characteristics of the series. The resulting smoothed time series suggests that shipping revenues remained relatively stable during the period from March 2013 to May 2014. In contrast, a significant reduction was recorded in June 2014.

## 2. SHIP MANAGEMENT SERVICES

**Management services (that consist primarily of full, crew and technical ship management services) constitute the majority of the industry’s revenues. Full management services remained the most important segment for five consecutive six-monthly periods. In the case of crew management services, Germany provides more than half of the segment’s revenues.**

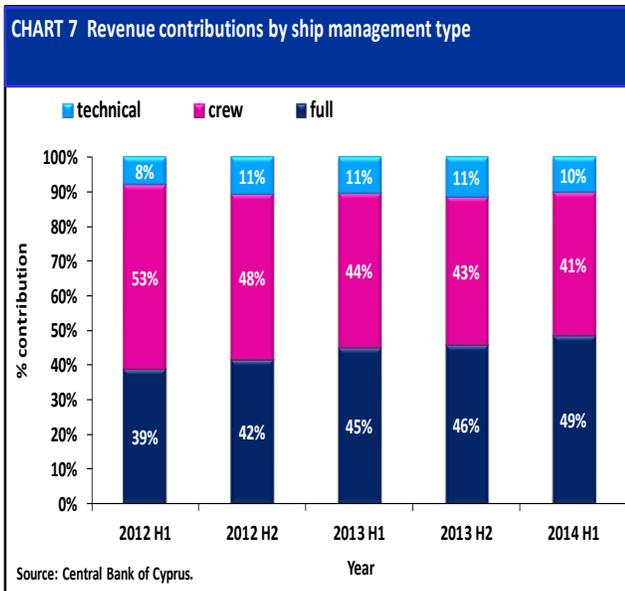
In **Chart 6** a tree diagram is used to present analytically the revenues of the industry by type of

service and country. The upper level of the tree diagram lists the most important types of services offered by the industry. There were no revenues from the provision of freight services during 2014 H1 and the provision of chartering services was limited. This was also the case during 2013 H2. In contrast, ship management services accounted for 79% of the industry’s revenues.

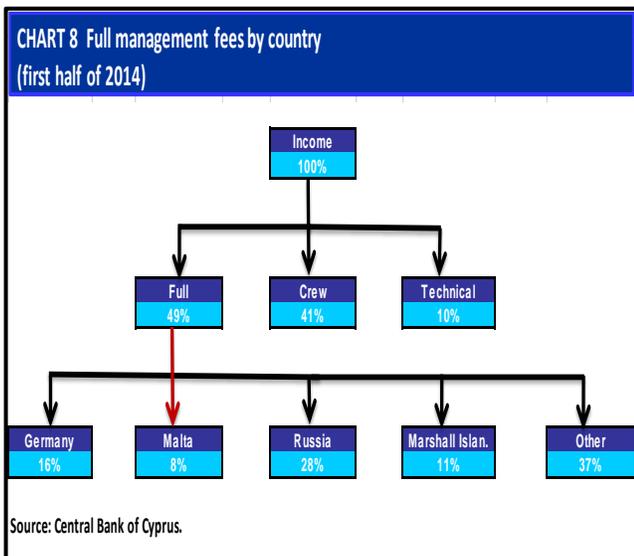


The bottom level of the tree diagram splits the ship management revenues by country. When compared with the previous period, Germany’s contribution increased slightly to 59% (it was 57% during 2013 H2). The contributions by the other countries were significantly lower.

**Chart 7** illustrates ship management revenues by type of ship management service offered, namely technical, crew and full management services. The contribution of only crew management services dropped for the fifth consecutive half-yearly period from 43% to 41%. In contrast, the contribution of full management services increased to 49%, thus remaining higher than the contribution of crew management services for the third consecutive period. This change began in 2012.

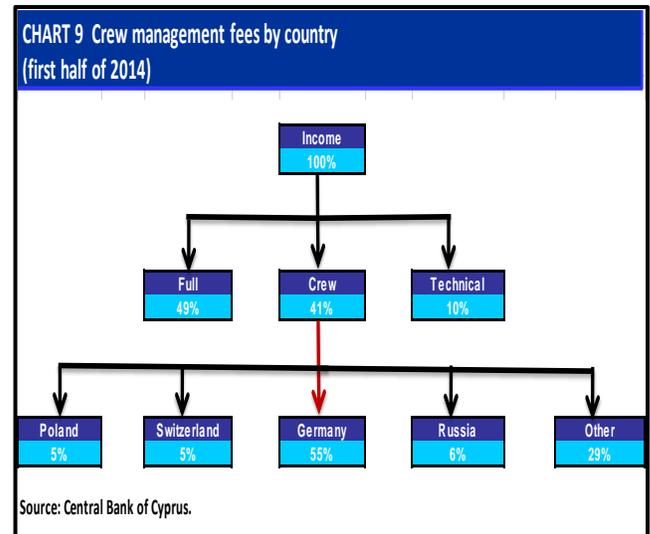


The results presented in **Chart 7** emphasize the industry’s specialisation in the provision of crew management services. Since full management contracts encompass both technical and crew management services, the total amount of revenues derived from crew operations increased.



**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 small, just

16%. It has, however, increased when compared to its contribution during the previous 6-months (12%). Other notable contributions in this segment include Russia (28%) and the Marshall Islands (11%). This is not the case for the crew management services segment where Germany clearly stands out with a 55% share in revenues.



### 3. COUNTRY PORTFOLIOS

Of the ship owning companies using the industry’s ship management services, only 14% use the Cyprus flag. The top 11% of ship management companies account for 45% of the industry’s revenues, and provide most of their services to German ship owners. All these companies handle portfolios consisting of more than 40 ship owning companies. Currently, there are considerable opportunities for expanding the industry’s exports of ship management services to Singapore and the Marshall Islands. A competitive presence in more shipping markets should be a long-term strategic objective for the industry.

In **Chart 10**, the ship management revenues are analysed based on the flag registration of the ships under management. The share of revenues earned from the provision of services to ships carrying the

Cyprus flag remained above the 10% threshold and close to the levels of previous periods.

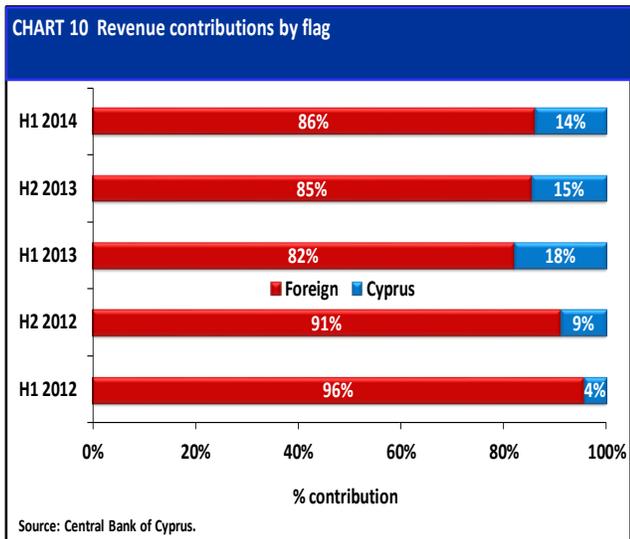


Chart 11 splits the revenues earned by country of residence of the beneficial ship owners whose ships are managed by Cypriot companies. The results bare a strong resemblance (and the share movements are similar) to those of Chart 2. Germany is again the most important source of revenues, with even a marginal increase in its contribution.

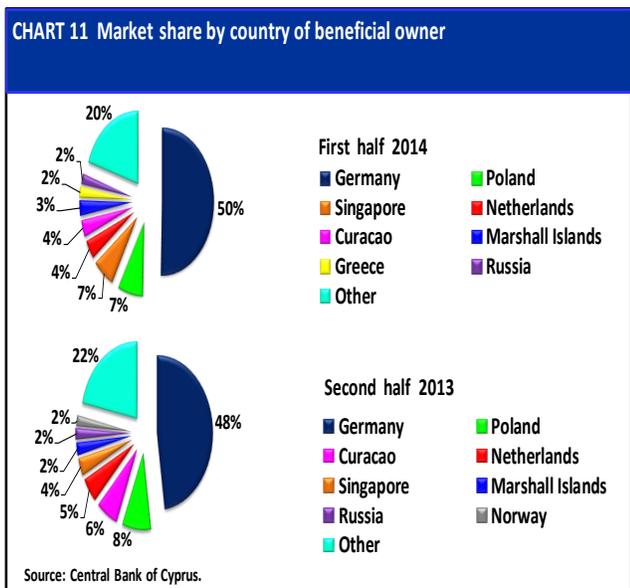
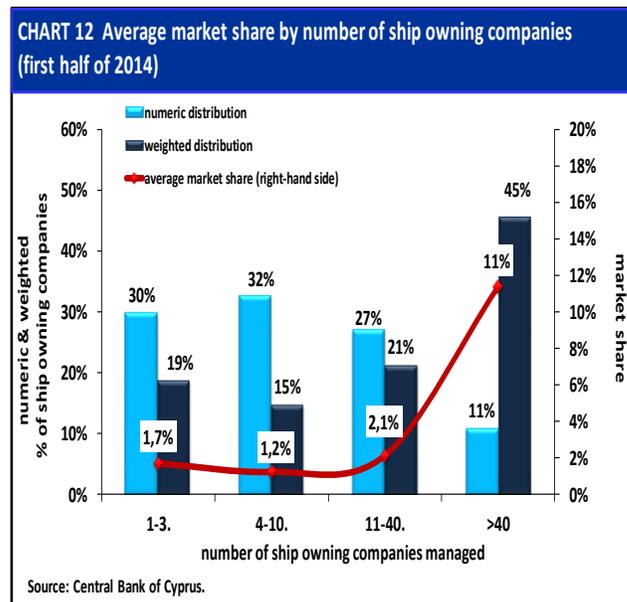


Chart 12 examines graphically the relationship between portfolio size (number of ship owning companies managed) and market share (in ship management revenues) during the first half of 2014.

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 ship owning companies
- (ii) between 4 and 10 ship owning companies
- (iii) between 11 and 40 ship owning companies and
- (iv) more than 40 ship owning companies

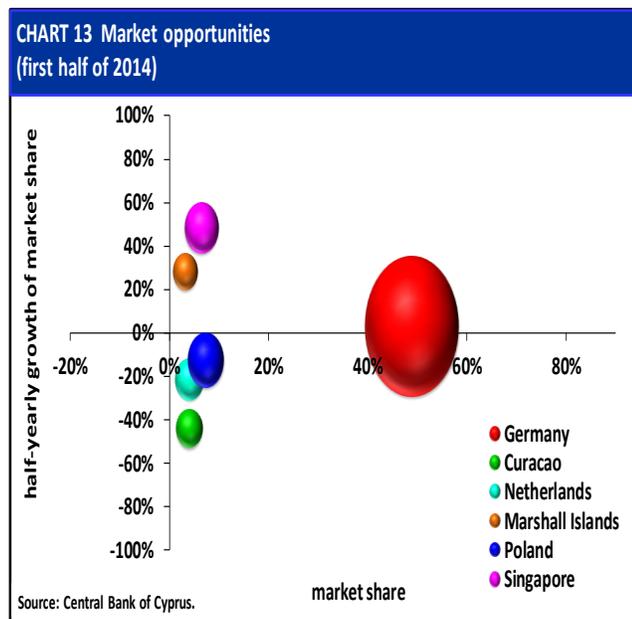
The vertical axis on the left-hand side of the chart, measures the numeric and weighted distribution of each group of companies. The right-hand vertical axis measures the average market share in each group.



The results suggest that the companies in the first group (managing between 1-3 ship owning companies) accounted for 30% of the total population of ship management companies and generated 19% of the industry’s revenues. The respective revenue contribution figure for this group during the previous six-monthly period was 15%.

The average company market share in this group during 2014 H1 was 1,7%. Similarly, the companies in the second group accounted for 32% of the population of ship management companies, generated 15% of the industry’s revenues and scored an average share of 1,2%.

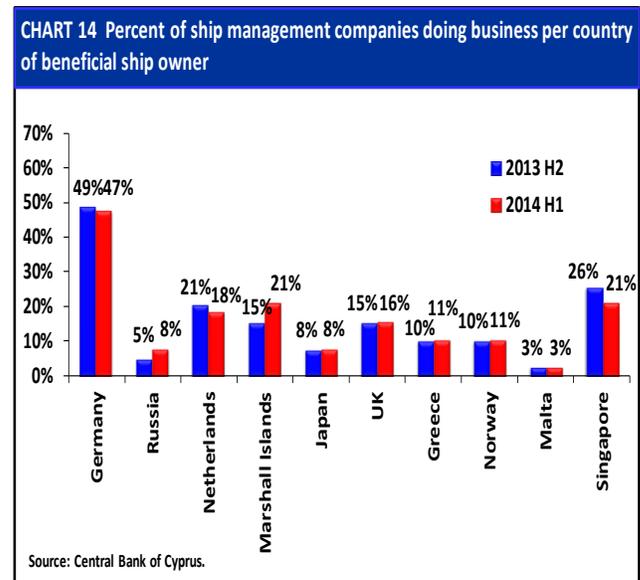
The last two segments suggest that 38% (27% + 11%) of the companies handled more than ten ship owning companies during the period under consideration, but strong market share performance is achieved with the handling of more than 40 ship owning companies. Only 11% of the companies managed to pool a base of more than 40 ship owning client companies and shared 45% of the industry’s revenues. The average market share in this latter group was 11%. The increasing average market share curve suggests a positive relationship between client portfolio size and market share performance.



**Chart 13** examines the relationship between market share and revenue growth by country. It is important for the industry to identify rising shipping markets with opportunities for higher revenues. 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.

Germany, which is associated with the highest share in revenues, does not exhibit any further growth in recent years. In the case of Poland, the Netherlands and Curacao, shares in revenues have actually declined. Currently, considerable opportunities for additional revenues exist in Singapore and the Marshall Islands. Unlike previous years, Russia does not exhibit at this stage considerable opportunities for higher revenues.



Competitive presence and international diversification in the provision of ship management services is an important consideration and a laudable objective for the industry. **Chart 14** provides useful insights on this. Each country bar designates the percentage of companies registered in Cyprus that have offered services in the specific country. Nearly half of the ship management companies in Cyprus (49%) are providing services to

German ship owners, in line with previous results concerning Germany’s contribution to the revenues of the industry.

Competitive presence is particularly low in the other countries, suggesting considerable opportunities for international expansion. Change is likely to be incremental, but will nevertheless provide important diversification benefits in the long run. Only in the case of the Marshall Islands is there a noticeable increase in participation. In contrast, declines are observed in the participation levels of Singapore and the Netherlands

**4. SHIP MANAGEMENT EXPENSES**

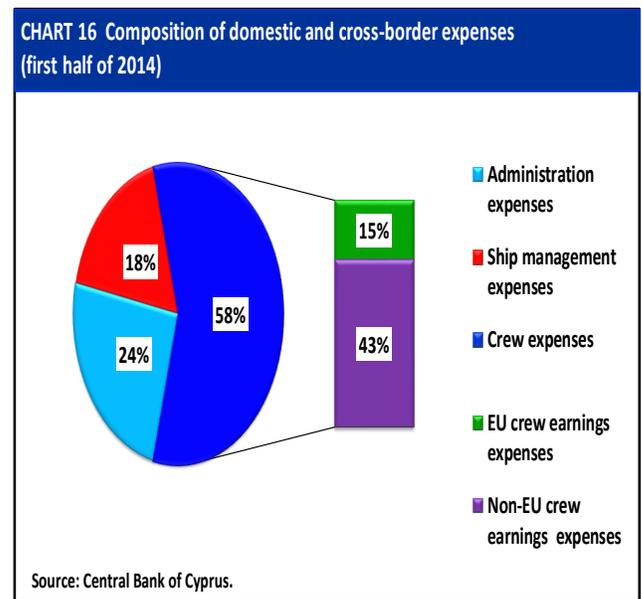
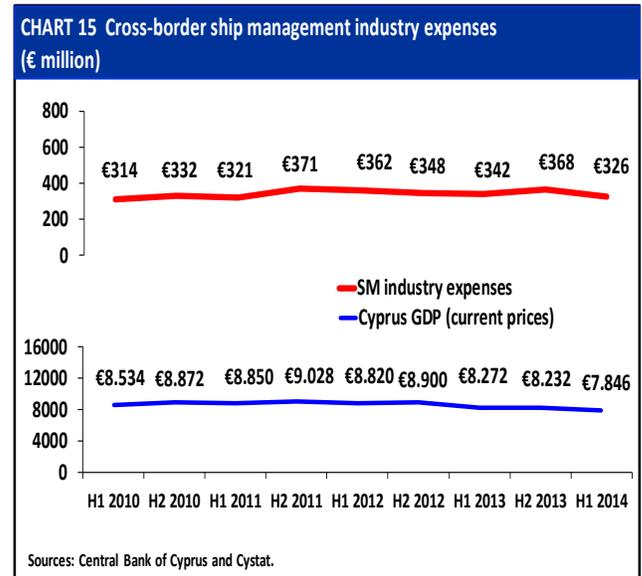
Ship management expenses decreased in line with the reduction in the revenues of the industry. These expenses consist mainly of crew wages (58%) paid to staff employed on board, administration expenses (24%), which are mostly paid in Cyprus, and ship management expenses (18%). Of the crew wages paid to staff employed on board, only 15% correspond to EU citizens.

The cross-border expenses<sup>3</sup> of the industry decreased to €326 million (Chart 15), in line with the reduction in the revenues and the half yearly GDP of the country depicted in Chart 1. Similar levels of expenses were also recorded during the two semi-annual periods of 2010 and during the first half of 2011. In shipping, as in other industries, cost efficiency is becoming increasingly important in times of economic slowdown.

Chart 16 provides an analytical decomposition of the industry’s expenses, including amounts paid in Cyprus that concern mostly administrative expenses.

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

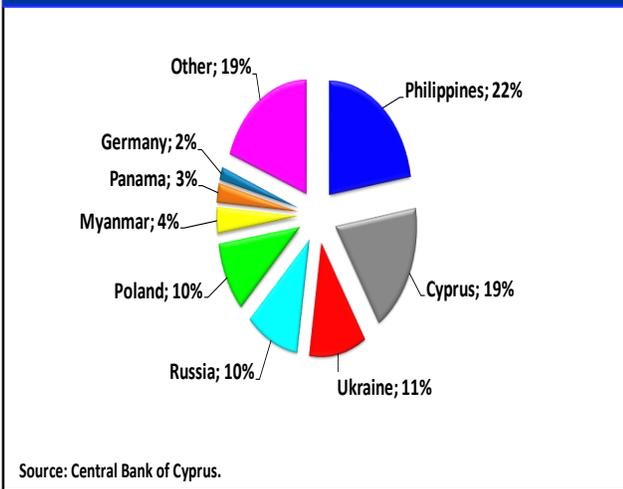
In contrast, the amounts in Chart 15 do not include any expenses paid in Cyprus. The majority of the industry’s expenses for 2014 H1 concerned crew earnings, which accounted for 58% of the total amount. Of these, 43% were paid to non-EU citizens and 15% to EU citizens.



The total expenses of the industry are broken down by country in Chart 17. 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 these expenses were directed to the Philippines (22%), Ukraine (11%) and Poland (10%) and concerned primarily crew wages paid to staff employed on board.

CHART 17 Breakdown of expenses by country of payment (first half of 2014)



#### APPENDIX: SHIP MANAGEMENT SURVEY

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