



SHIP MANAGEMENT SURVEY

July – December 2011

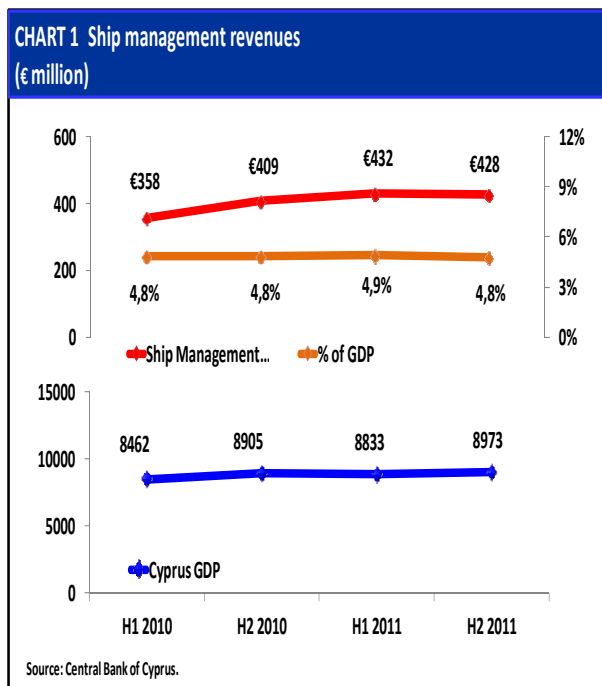
1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

During the second half of 2011, ship management revenues decreased marginally to 4,8% of Cyprus's GDP. Germany remained the main source of revenues for the sector (60%). Most companies generate revenues within the range of €1,25 million - €15 million, but there are a few very large companies with revenues exceeding €30 million half-yearly. As a result, the sector is relatively concentrated with 28% of the companies generating 84% of the total revenues. Shipping revenues have been exhibiting an upward trend since 2002.

Total ship management revenues from non-resident ship owning companies for the second half of 2011 were €428 million (in current prices), which corresponds to 4,8% of Cyprus's GDP (Chart 1). This is not value added but mainly an indicator of the size of the sector. There was a small decrease compared with the first half of 2011, when revenues were €432 million. However, despite this reduction revenues remained higher than the levels observed during the first and second half of 2010 (€358 million and €409 million, respectively). In contrast, Cyprus's GDP increased marginally during the second half of 2011 to €8.973 million. As a result, revenues as a proportion of GDP fell by 1%.

Most payments for the second half of 2010 were received from Germany, as shown in Chart 2, which is traditionally the main trading partner of industry.

There were also significant contributions from Switzerland and Vietnam. 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. As shown on page 6, in most cases these countries also represent the country of the beneficial ship owner. Future strategic objectives for the sector should include revenue growth in other important markets outside the European Union like Japan, China, Brazil, India, Russia and the USA.



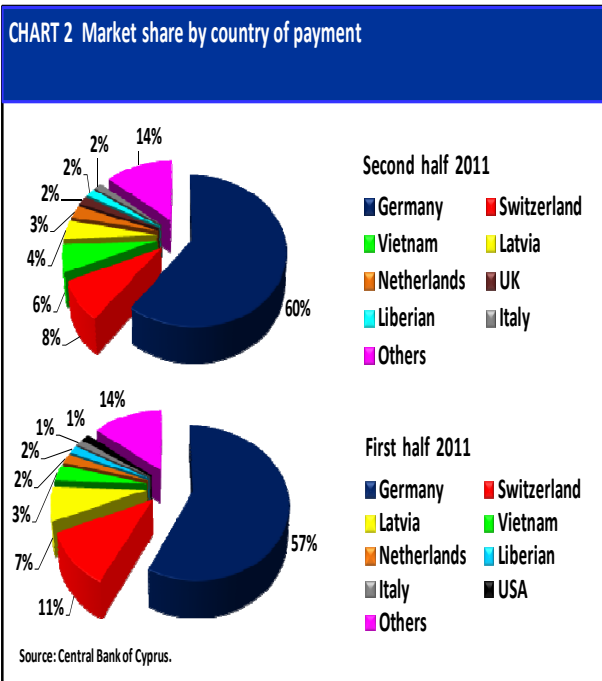
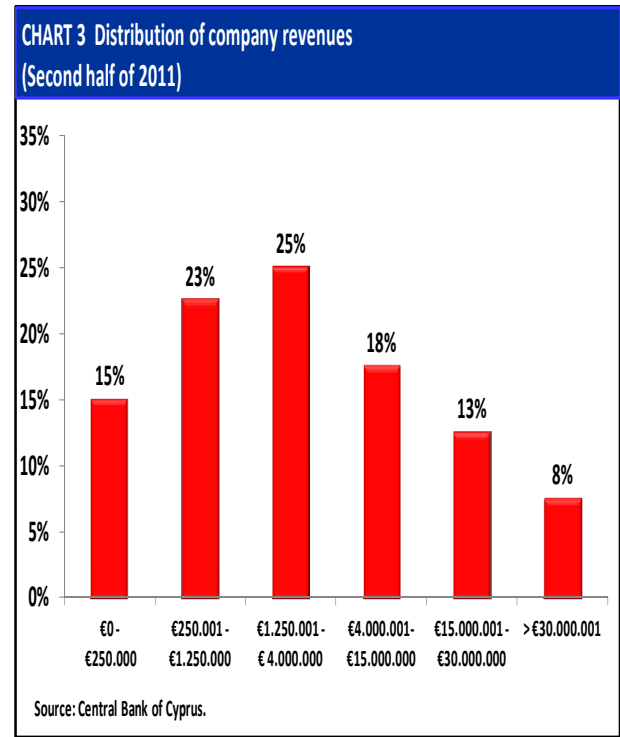


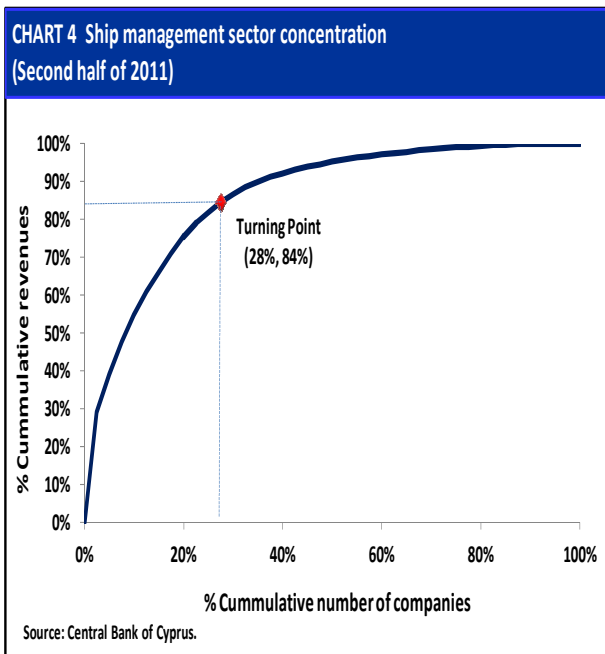
Chart 3 provides information on the distribution of revenues in the sector for the second half of 2011. The horizontal axis includes several different ranges (groups) of revenues in increasing order. Each company has been included into one of these groups. The vertical axis measures the percentage of companies belonging to each group. The chart shows that 43% of the companies have half-yearly incomes within the range of €1,25 million - €15 million. Few companies generate very large (in excess of €30 million) or very small (less than €250,000) revenues. The distribution of revenues in a sector depends on several factors many of which are historical and difficult to quantify. Possible explanations for the observed market structure in the sector include the specialisation per type of ship management service (i.e. crew management, technical management, full management), the capital structure (sources of financing), the ownership status of the companies (e.g. member of a greater group which controls companies specialising in ship owning and chartering activities) and the country of the beneficial owner. Tacit

knowledge and historical factors can also prove very important.



Closely related to the distribution of revenues, is the level of market concentration associated with it. Based on data for the second half of 2011, the ship management sector appears to be relatively concentrated with 28% of the companies accounting for 84% of the sector's revenues. This is illustrated in **Chart 4**. The horizontal axis measures, cumulatively, the percentage of companies contributing to ship management revenues, ranked by order of importance. For example, the 28% level corresponds to the top 28% 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 28% of companies contribute 84% 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.



dependent on foreign countries like Germany that were less affected by the economic crisis.

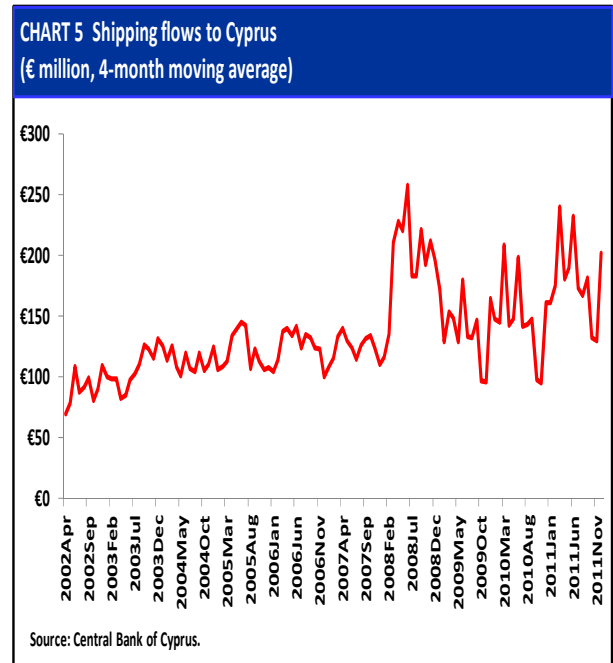


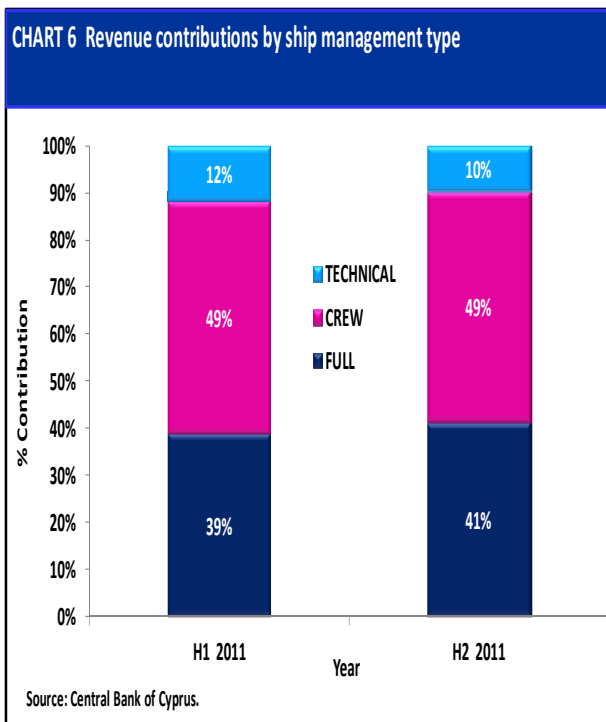
Chart 5 provides historical time series information on the level of inward transactions (flows) that were completed by the shipping sector since 2002. These transactions concern revenues from the provision of shipping services abroad (both ship management and ship owning) and are compiled from a variety of sources such as local banks. The flows are not presented in raw data format but as a 4-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, revenues increased again in 2011, since the sector is more

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 (69%). Of these, 49% concerned crew management and 41% full management. Germany contributed 74% of ship management revenues, 57% of crew management revenues and only 9% of full management revenues. The latter category is much more diversified and includes revenues from many other countries.

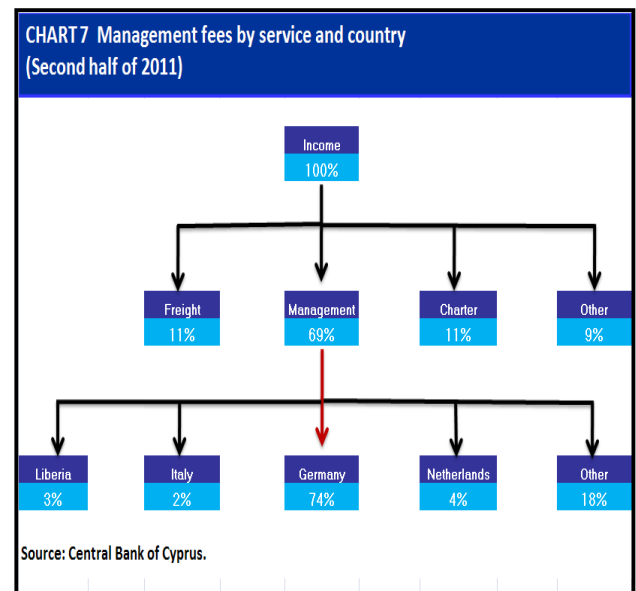
The composition of ship management revenues by type of service provided is illustrated in **Chart 6**. The first column corresponds to the period January - June 2011 and the second to the period July - December 2011. The vertical axis measures the percentage contributions of each service type that sum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



Crew management is the most frequent and important type of ship management service exported, accounting for 49% of the total revenues,

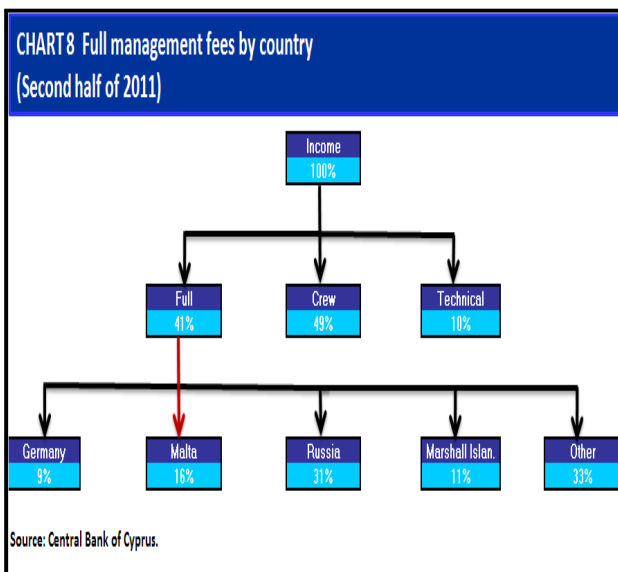
followed by full management with 41% and technical management with 10%. This distribution has remained almost unchanged from the first-half of 2011. Furthermore, it reflects the presence of several large companies engaged in the provision of crew and full management services in the sector.

In total, ship management services (crew, full and technical) correspond to 69% of the sector’s revenues, which underlines the sector’s specialisation in the provision of crew and full management services. Additional contributions are provided by freight (11%), chartering (11%) 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 ship 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.

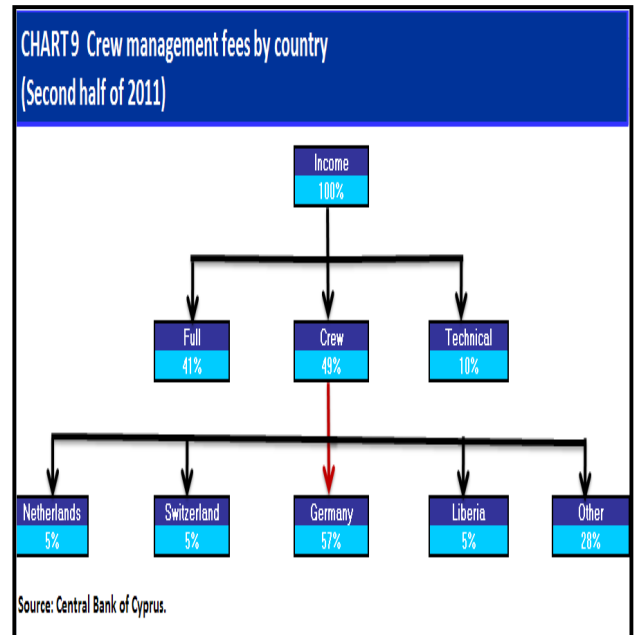


In the first level of **Chart 8**, the ship management revenues are decomposed further into percentage contributions by technical, crew and full

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 (31%) and Malta (16%) were the main contributors to the full management revenues of the sector during the second half of 2011. Only 9% of the revenues came from Germany in this case and 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 second half of 2011 came from German ship owners (57%) 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 Japan, China, India, Russia and the USA. Further research should also 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.



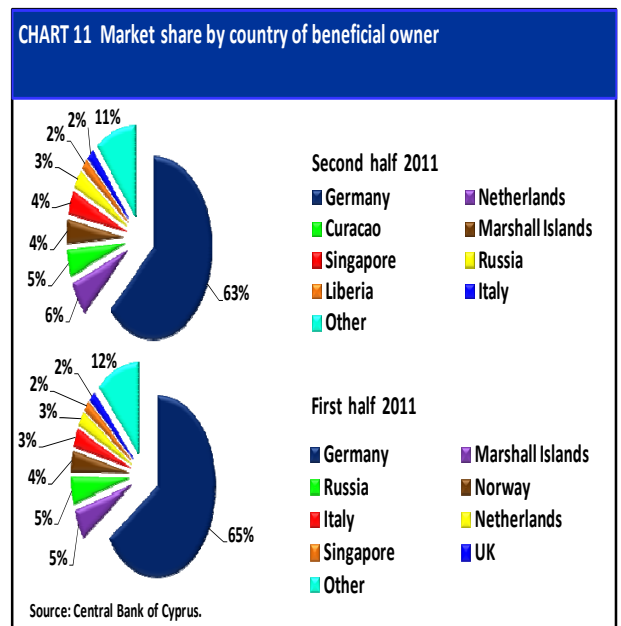
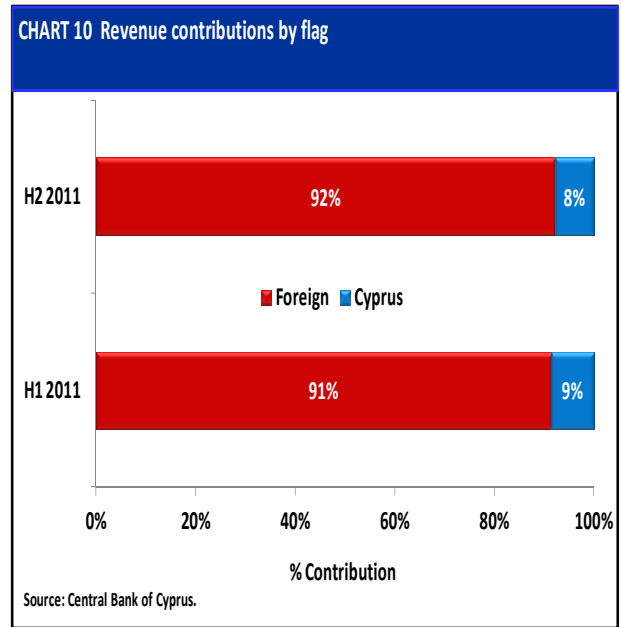
3. COUNTRY PORTFOLIOS

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 in recent years. Currently, there is limited provision of ship management services to countries like China, India, Brazil and the USA. It is, therefore, important to increase revenues from these markets. Client portfolios are positively related with market share. Market share increases considerably when more than 40 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 8% of the revenues corresponded to ships under the Cyprus flag for the second 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 ship registrations will increase further in the future, following the 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 Jan-June 2011 and July-December 2011. German ship owners are the main sources of revenues with 63% in the second half of 2011, while during the first half of 2011 their share was 65%. This result is related to the analysis in section 2 and further emphasises the lack of diversification in the sector’s revenues. Greater effort is needed in countries like Russia,

China, India, Brazil and the USA, in order to attract new ship owners and expose them to the benefits and expertise of Cyprus’s ship management sector.

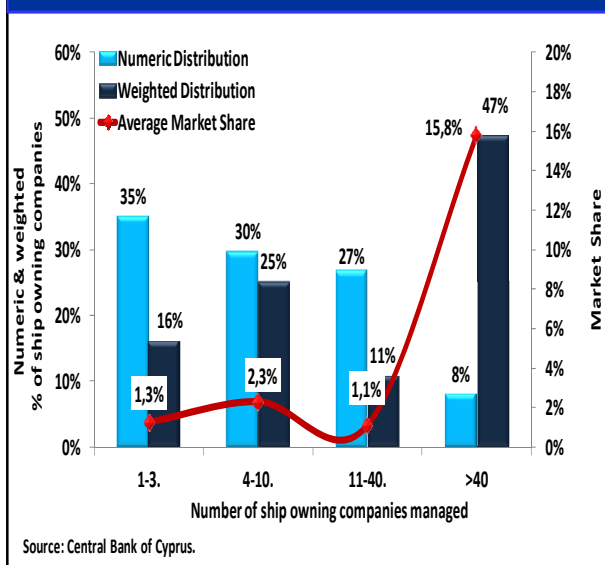


Few companies managed large portfolios of ship owning companies during the second half of 2011. This is illustrated in **Chart 12**. The horizontal axis illustrates four different portfolios that differ in size.

Ship Management Survey: July-December 2011

The first group includes ship management companies that managed between 1 and 3 ship owning clients during the second 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 40 ship owners and the fourth group represents handlers of more than 40 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 35% of the total population of ship management companies and generated 16% of the sector's revenues. The average company market share in this group was 1,3%.

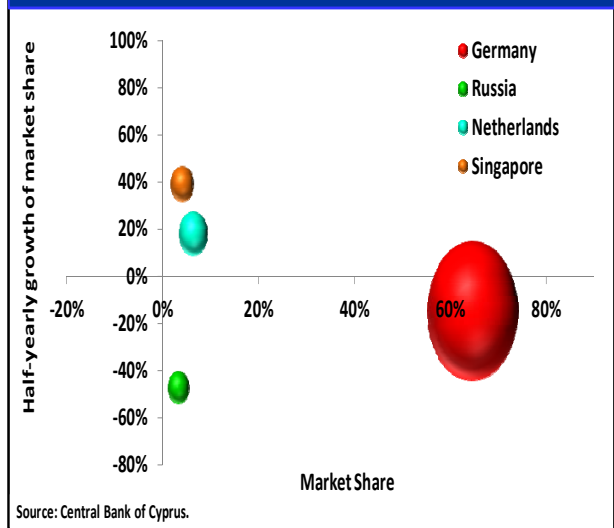
CHART 12 Average market share by number of ship owning companies (Second half of 2011)



Most of the companies managed less than 10 ship owning companies during the second half of 2011, while strong market share performance is achieved with the handling of more than 40 ship owners. Only 8% of the companies handled more than 40 clients during the second half of 2011 and shared 47% of

the sector's revenues. It can also be observed that in the first three groups weighted distribution is always lower than the respective numeric distribution of each group. This suggests that a large number of companies share a relatively lower share of the revenues compared to the fourth group (more than 40 clients). As a result, there is considerable concentration in the sector, as was demonstrated in section 1.

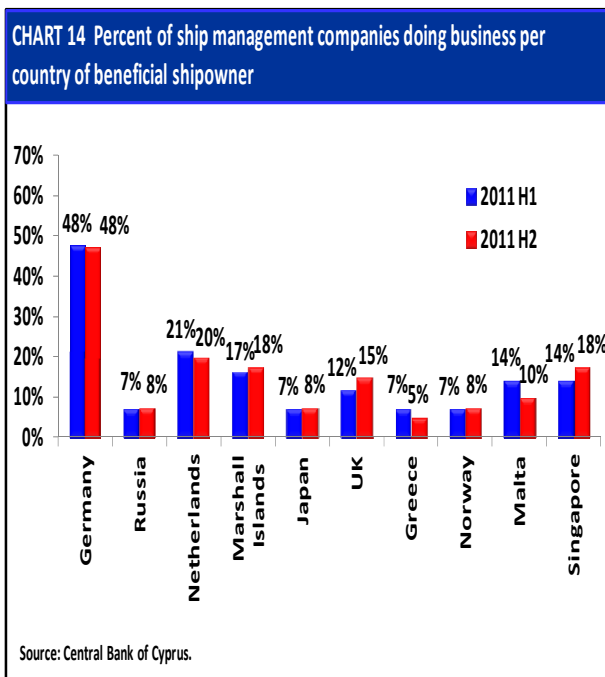
CHART 13 Market opportunities (Second half of 2011)



Growth opportunities also differ considerably by country, as shown in **Chart 13**. The horizontal axis measures the market share of revenues for each country, for the six-monthly period July-December 2011. 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 during the second half of 2011. The Netherlands and Singapore exhibited the highest growth in revenues during the same period while there was a drop in the share of revenues from Russia. However, the market shares of these three countries remain small. This chart

further highlights the need for the sector to enter new leading 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 second 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 the other countries and this situation has remained unchanged from the first half of 2011. For example, in Russia services were offered by 8% of these ship management companies, in the Netherlands the figure was 20% and in the Marshall Islands 18%. A similar situation exists with other countries and more effort should be devoted in establishing links with local ship owners.



4. SHIP MANAGEMENT EXPENSES

Despite a 16% increase in ship management expenses during the second half of 2011, revenues received from abroad remained higher for the same period. Most of the expenses (64%) concern crew earnings and were paid to staff from the Philippines, Ukraine and Poland. A considerable amount (19%) 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 increased during the second half of 2011, from €321 million to €371 million (a 16% increase). 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.

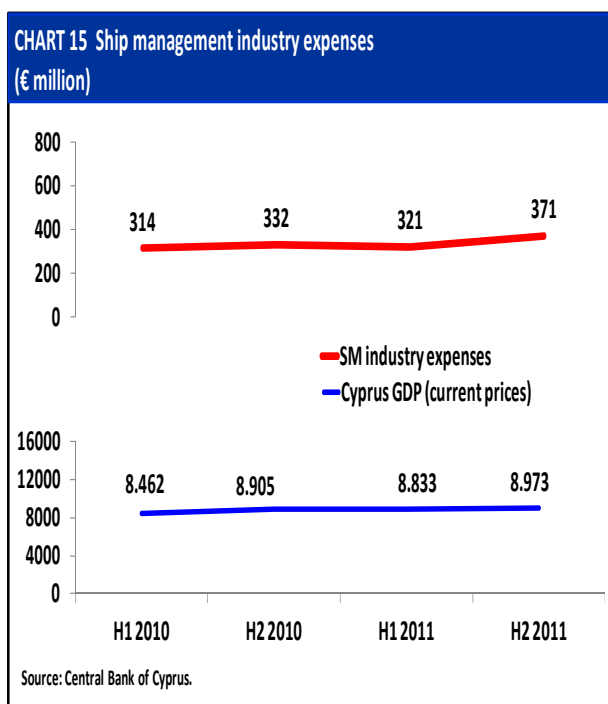
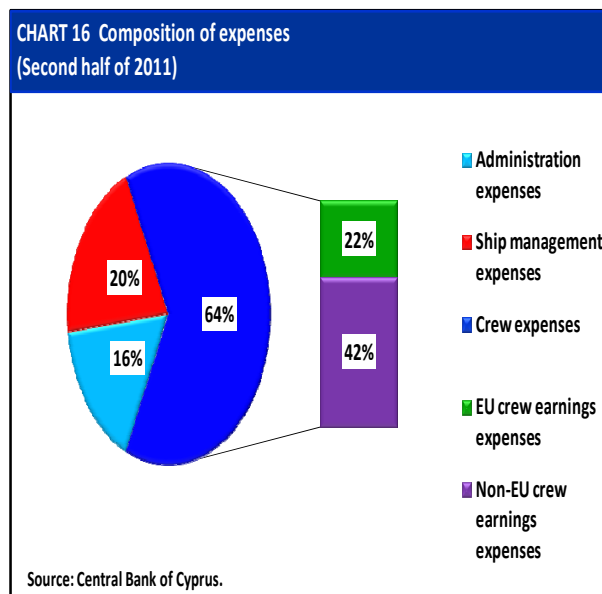
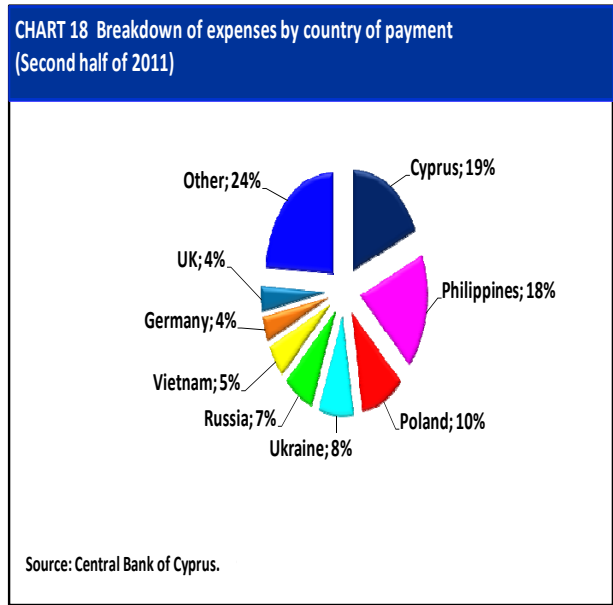
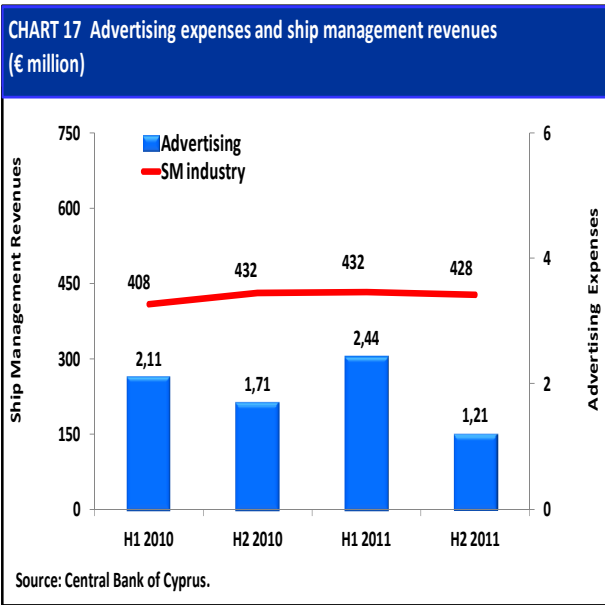


Chart 16 provides information on the (percentage) composition of expenses paid abroad by the sector. Most of the expenses concerned crew earnings and constituted 64% of total expenses. The rest of the

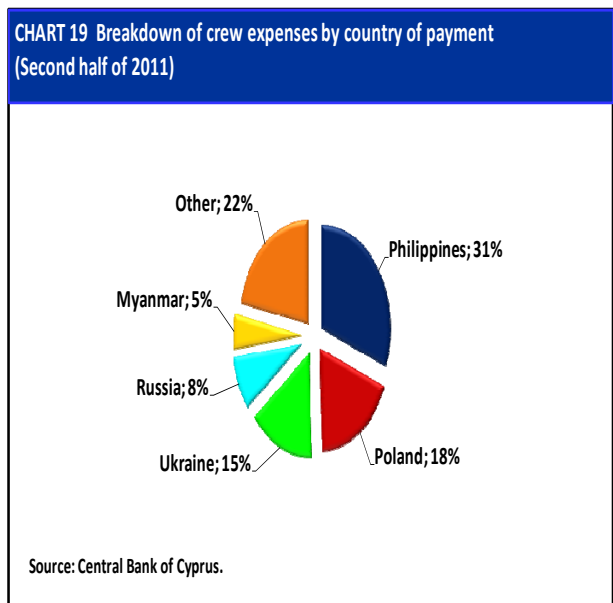
sector's expenses were directed to ship management (20%) and administration expenses (16%). These two categories are mainly paid in Cyprus where the companies have a physical presence and employ most of their labour force. Crew expenses are further analysed into payments to EU citizens (22%) and non-EU citizens (42%). The majority of crew staff employed on board by ship management companies are from Southeast Asia (e.g. Philippines), Poland and Ukraine.



Advertising expenses decreased significantly during the second half of 2011 from €2,44 million to €1,21 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. There does not appear to exist any causal relation between advertising expenses and revenues, mainly because advertising spending remains low relative to the size of revenues in the sector. It is also important to analyse other forms of promotional and advertising activities that might be unique to the sector and are usually undertaken through organised bodies (e.g. the Cyprus Shipping Chamber), networking, trade shows and lobbying.



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 second half of 2011. Most of the expenses were accounted for by Cyprus (19%) and concerned mainly administration and ship management expenses. Second were 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, Poland and Ukraine, which provide most of the crew staff.



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.