



SHIP MANAGEMENT SURVEY*

January – June 2015

1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

Ship management revenues increased further during the first half of 2015. The current level of €464 million is the highest recorded since 2010. Germany remains the most important country in terms of revenues, despite a reduction in its share. The relatively stable concentration levels and revenue segments of the industry reported in recent years suggest only marginal changes to the underlying population of ship management companies.

There was a noticeable increase in ship management revenues during the first half of 2015 (**Chart 1**). Total revenues for the period increased to €464 million. As a percentage (not value added), total revenues now correspond to 5,4% of Cyprus's GDP, the highest percentage reported since 2010¹. In **Chart 2**, the industry's revenues are decomposed by country of payment. Despite the fact that Germany continues to hold the lead in terms of revenue provision, its share has declined to 44%.

CHART 1 Ship management revenues

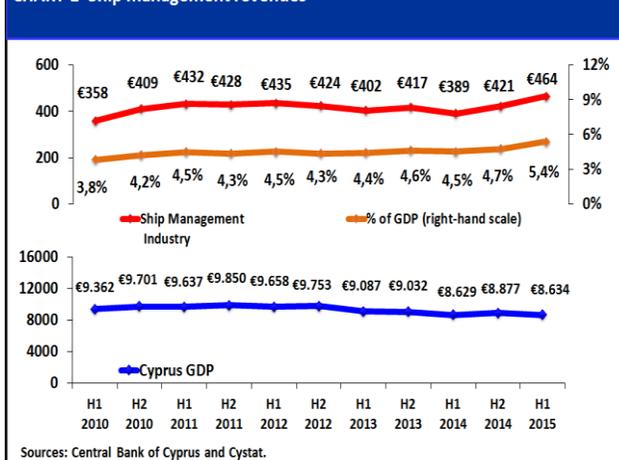
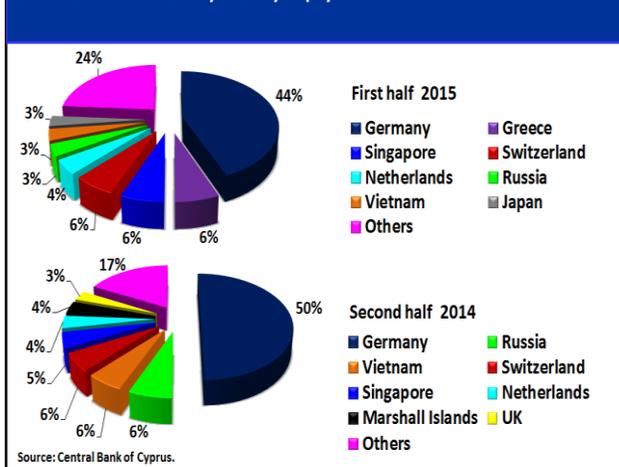


CHART 2 Market share by country of payment



* This survey is conducted by the CBC's Statistics Department and concentrates primarily on transactions between resident ship management companies and nonresident owners/shipping related entities. Please refer to the Appendix for more details.

¹ GDP figures have been revised and therefore differ from previous editions of the report.

Vietnam, Russia and the Marshall Islands also demonstrate a similar trend, but to a lesser extent, while Singapore has increased its share. Greece on the other hand appears to be gaining a significant share in the list of revenue contributing countries.

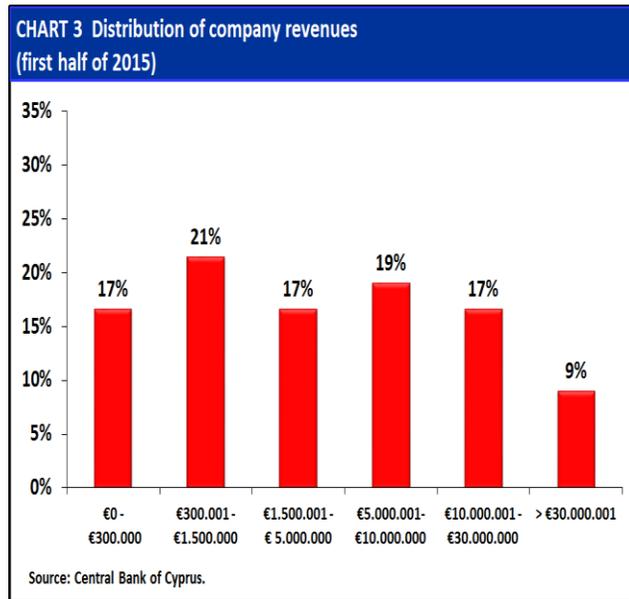


Chart 3 classifies companies into different revenue segments. Six distinct segments are depicted on the horizontal axis, while the vertical axis measures the percentage of companies belonging to each group. Each bar illustrates the percentage of companies belonging to the different revenue segments. Only 45% of the companies managed to generate revenues in excess of €5 million, and only 9% of the companies managed to exceed the €30 million threshold. The aforementioned figures are relatively stable across periods, indicating that the underlying population of ship management companies has not changed substantially in recent years.

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

The concave curve depicted in **Chart 4** quantifies 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 29% level corresponds to the top 29% 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 marked on the chart suggests that the top 29% of the companies accounted for 86% of the industry's revenues. The shape of the curve indicates the presence of a small number of large companies in the industry. This concentrated market structure has remained relatively stable in recent years.

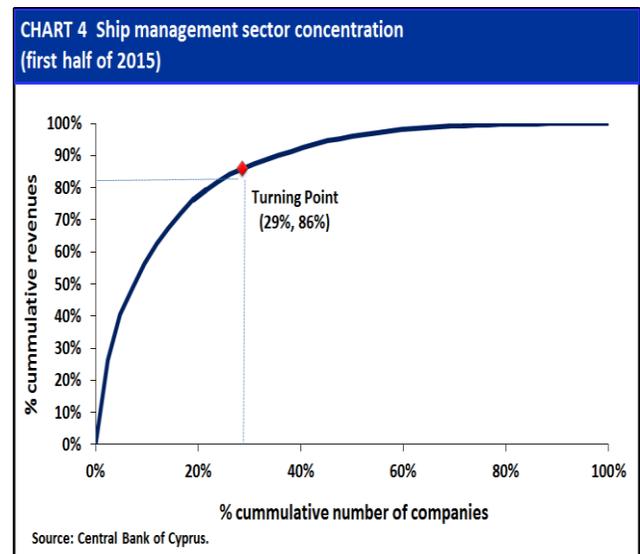
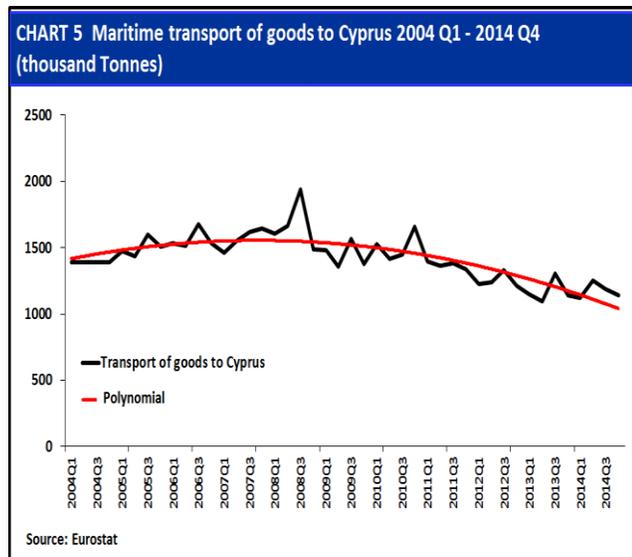


Chart 5 illustrates the total volume (in thousand tonnes) of maritime transport of goods to Cyprus during the decade 2004 - 2014. It can be used as a proxy for the number of commercial ships

less than a 1% increase in the cumulative revenues of the industry.

approaching the ports of Cyprus and can potentially use the services of the local ship management industry. The total volume of maritime transport is also complemented with a polynomial smoothing estimate (red line) that better reflects the underlying trend in the series. Since 2010, there has been a gradual decline in the total volume of maritime transport of goods to Cyprus.

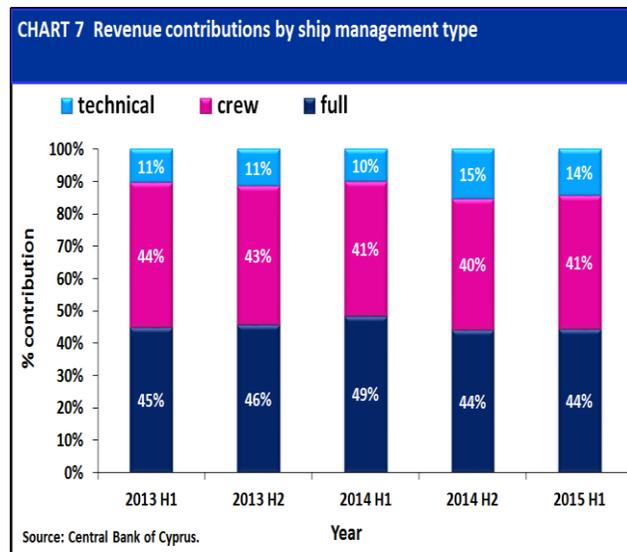
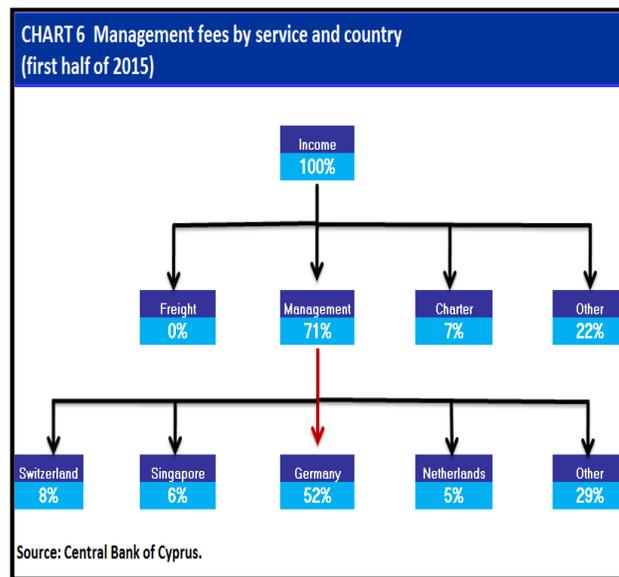


2. SHIP MANAGEMENT SERVICES

Core ship management services (crew, technical and full management) account for 71% of the industry’s revenues. Of these revenues, 41% are derived from crew management contracts and 44% from full management contracts. The provision of full management services is not dominated by one specific country, while crew management revenues flow mainly to German ship owners.

Chart 6 provides a double level breakdown of the industry’s revenues. The first level of the tree diagram provides a revenue decomposition by type of ship management service. Core ship management services (crew, technical and full management) accounted for 71% of the industry’s revenues. The

second level of the tree diagram splits the ship management revenues by source country. Germany remains the industry’s major business hub, despite small reductions in its share when compared with previous periods.



The different types of services covered by ship management operations are presented in terms of their share contribution in Chart 7: technical, crew and full management services. The share of crew

management services increased marginally during the first half of 2015, following consecutive share declines in the three previous periods. It now stands at 41%. The share of full management contracts, encompassing both technical and crew management services, has remained stable at 44%.

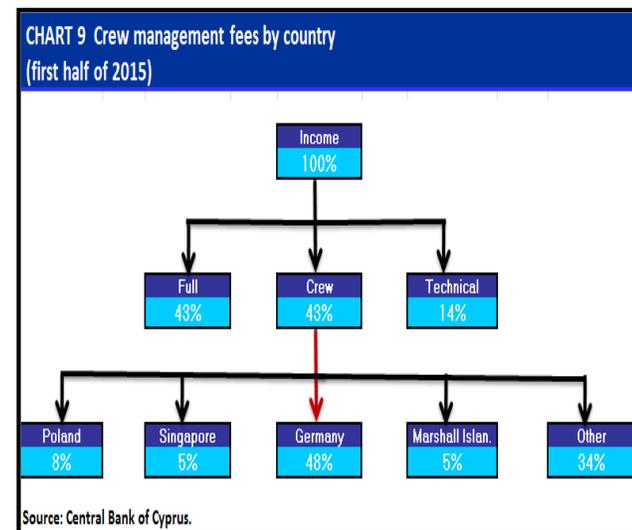
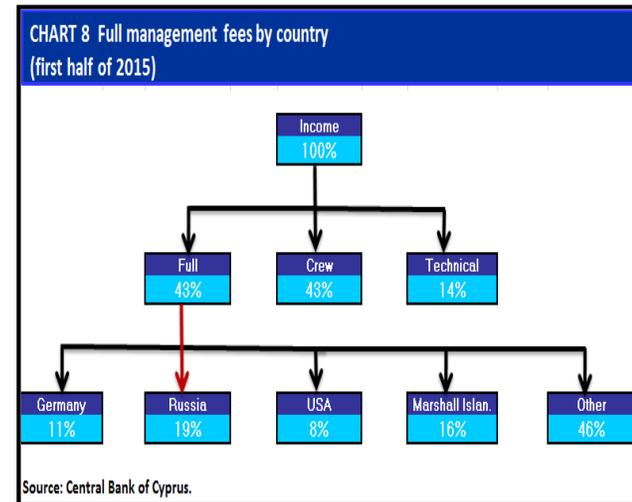
(11%) and the USA (8%). This, however, is not the case with crew management services, where Germany accounts for 48% of the total income (**Chart 9**).

3. COUNTRY PORTFOLIOS

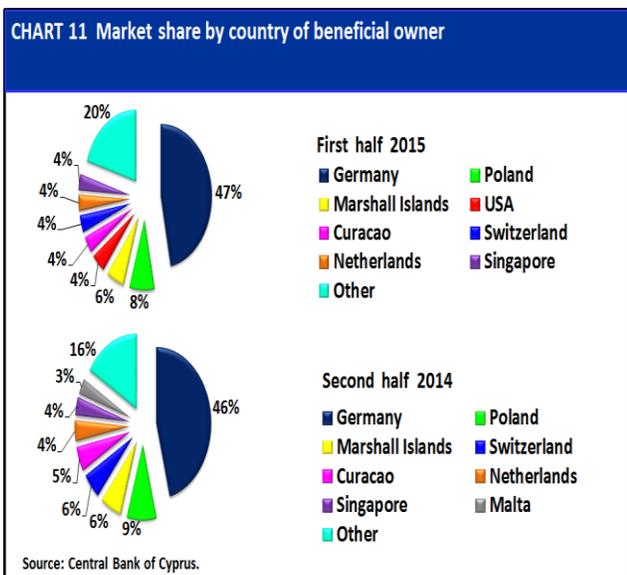
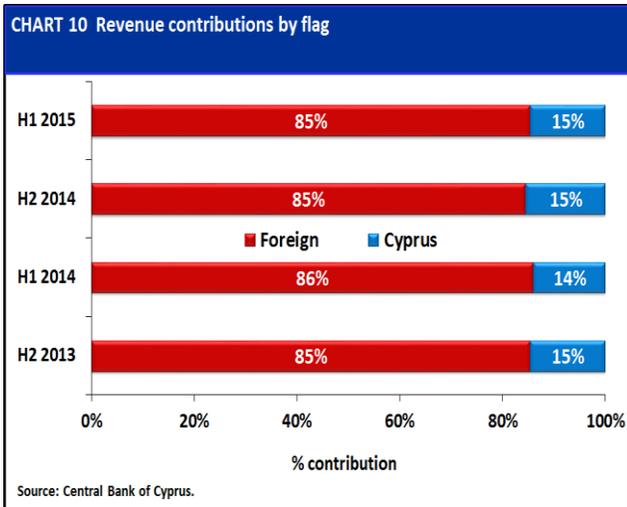
Companies with a client base consisting of 4-10 ship owning companies, accounted for 41% of the population of ship management companies, generated 11% of the industry's revenues and scored an average share of 0,8%. Companies with portfolios consisting of more than 40 ship owning companies generated 57% of the industry's revenues. The geographic competitive presence of the industry remains relatively limited and concentrated in Germany, the Netherlands and the Marshall Islands.

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. All these advantages are directly related and have implications for ship management operations. **Chart 10** splits the industry's revenues based on the flag registration of the ships. Only 15% of the ship management revenues originated from the provision of services to ships carrying the Cyprus flag and this contribution has remained relatively stable across periods.

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 pricing policies and the composition of demand in the industry. The contribution of German ship owners increased slightly to 47%. There were also significant revenues from the USA during the same period.



Revenues derived from the provision of full and crew management services are analysed by country of payment in **Charts 8** and **9**. The provision of full management services (**Chart 8**) is not dominated by one specific country. Most revenues are derived from Russia (19%), the Marshall Islands (16%), Germany



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 24% of the total population of ship management companies and generated 1% of the industry's revenues. The average company market share in this group was 0,1% for the period under consideration. Companies managing between 4-10 ships accounted for 41% of the population of ship management companies, generated 11% of the industry's revenues and scored an average share of 0,8%.

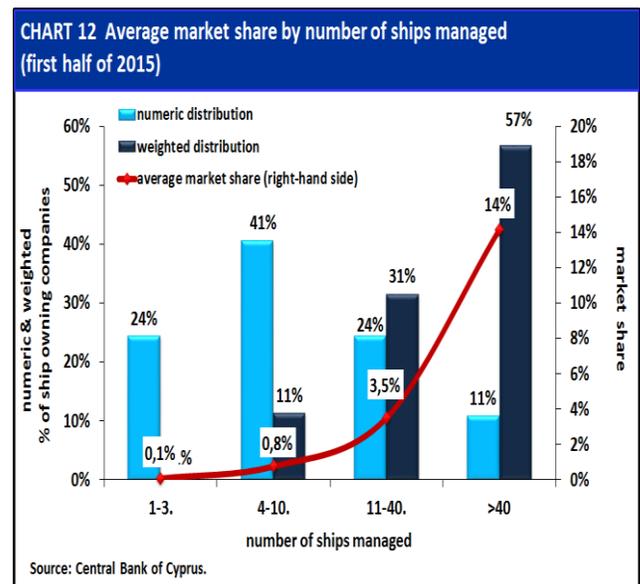
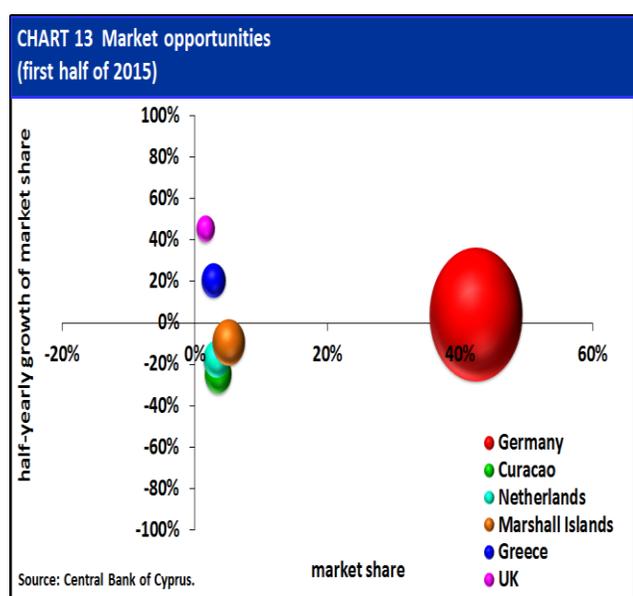


Chart 12 examines graphically the relationship between portfolio size (number of ships managed) and market share (in ship management revenues) during the first half of 2015. The horizontal axis is segmented into four different size ranges (groups) in increasing order. Specifically, ship management companies 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 last two segments (11-40 and >40) correspond to companies with considerably higher levels of revenues that, on average, 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 31% of the industry's revenues. The average market share in this group was 11%. Higher numbers of ships were managed by only 11% of the companies, which accounted for 57% 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 extracted from each country.

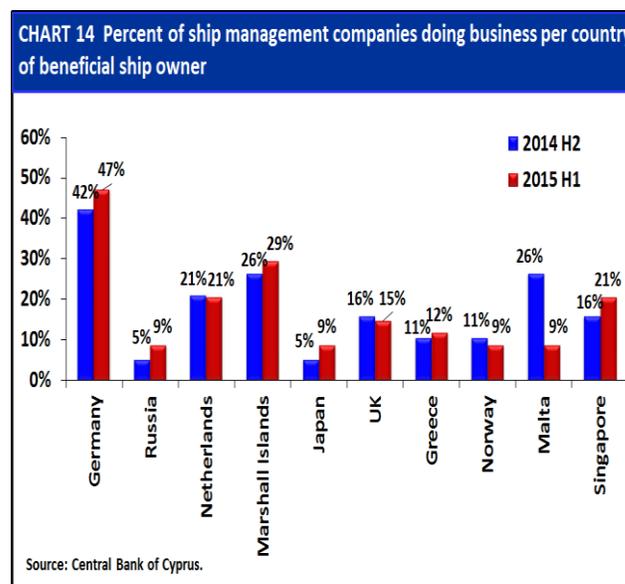


Germany is the most important country in terms of revenues but with limited movements in its share contribution. Increases were recorded for the UK and Greece, even though the shares of these two countries remain small. For all the other countries illustrated in **Chart 13**, shares have actually declined.

Chart 14 investigates the competitive geographic expansion of the industry, illustrating 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.

The chart includes the results of the last two periods in order to facilitate comparisons.

As already explained in the previous sections, there are strong links with German ship owners. In **Chart 14** this is demonstrated by the large percentage of companies offering services to German ship owners (47%). There is also some noticeable provision of ship management services in the Marshall Islands (29%), the Netherlands (21%) and Singapore (21%). At the same time, there has been a noticeable reduction of cooperation with Malta (from 26% it dropped to 9%). Few companies provide services in the other countries. International expansion to more countries will increase revenues but also help diversify the portfolio of projects in the industry.

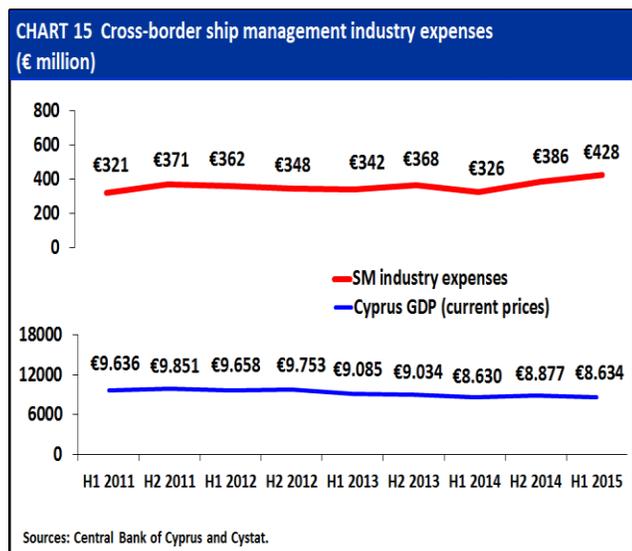


4. SHIP MANAGEMENT EXPENSES AND FEES

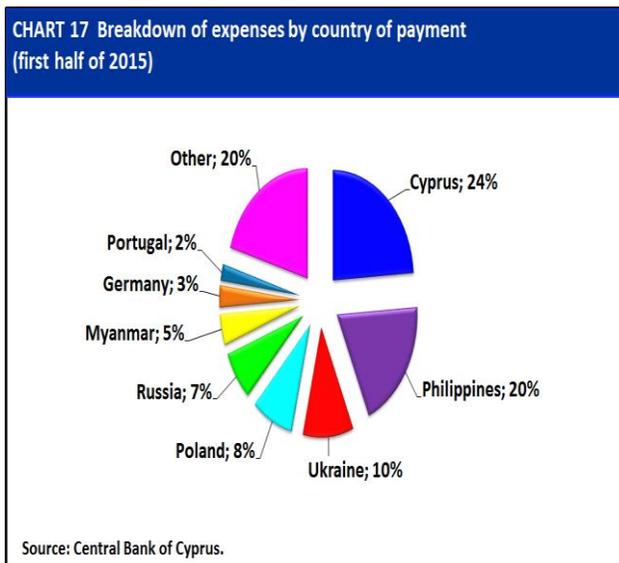
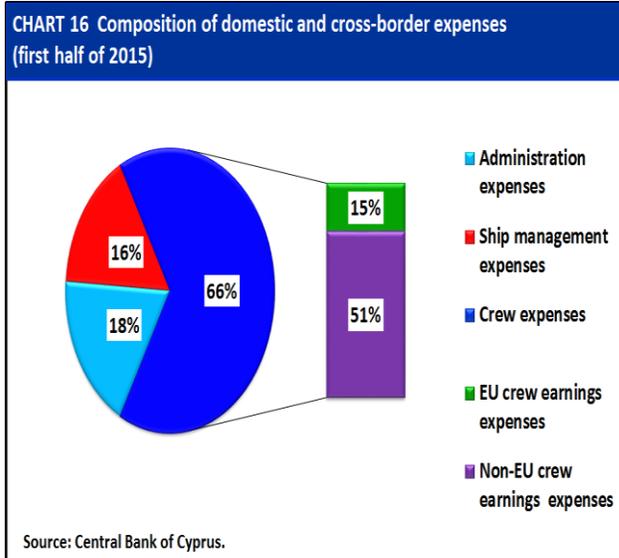
Ship management expenses increased further to €435 million during the first half of 2015. Most expenses concerned crew wages (58%) paid to non-EU seafarers, primarily from the Philippines and Ukraine. With regard to the expenses paid in Cyprus, these consisted mainly of salaries paid to staff employed ashore (32%) and crew and travelling

expenses (43%). Most fluctuations in ship management fees originated from changes in the countries of the ships' beneficial owners, the flag states of the ships and the types of ship management services provided.

Chart 15 provides information regarding the level of cross-border expenses³ associated with the operations of the ship management industry. These expenses have further increased to a total of €428 million during the first half of 2015, in line with the increase in revenues reported in **Chart 1**. As a percentage, they now correspond to 5% of the country's GDP.



The main categories of expenses and their percentage contributions are shown in **Chart 16**. Crew expenses corresponded to 66% of the total amount, administration expenses to 18% and ship management expenses (e.g. spare parts, lubricants, dry-docking, etc) to 16%. Crew expenses consisted mainly of payments to seafarers from countries outside the European Union (51%).



Following the analysis of revenues by county in **Chart 2**, a similar decomposition is provided for total expenses in **Chart 17**. 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 concerned crew

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.

wages paid to seafarers from the Philippines (20%), Ukraine (10%) and Poland (8%).

The main categories of expenses paid by the ship management companies in Cyprus are presented in **Chart 18**. Most of these expenses concerned salaries paid to staff employed ashore (32%) and crew and travelling expenses (43%). Other important categories included management fees (4%) and social insurance, insurances and provident fund contributions (7%).

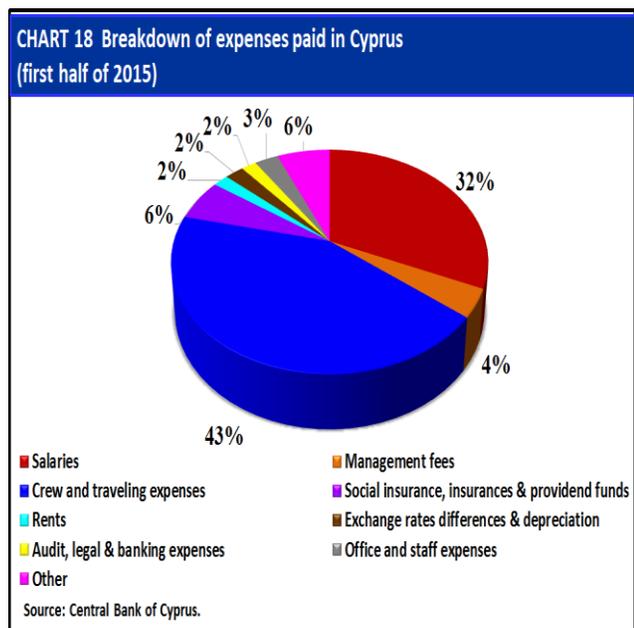
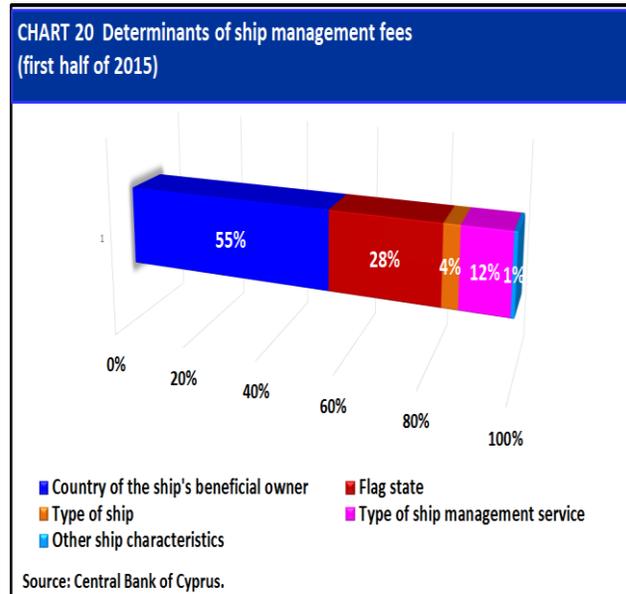
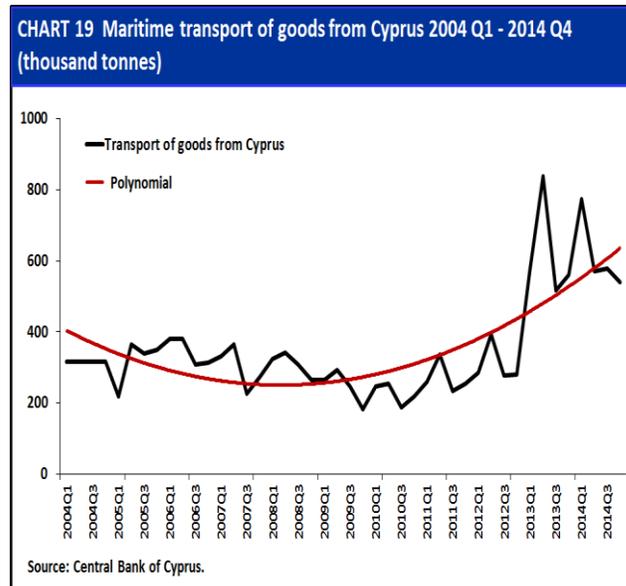


Chart 19 supplements the analysis provided in **Chart 5** with historical time series information concerning the maritime transport of goods departing from Cyprus. It can be used as a proxy for the number of ships departing Cyprus's ports and their associated ship management expenses. Since 2013, there has been a substantial increase in the transport volume departing from Cyprus, which suggests a possible increase in merchanting and other shipping related services.

Chart 20 provides information regarding the factors that caused fluctuations in the level of ship

management fees in the local market. This analysis was performed using a standardized hedonic regression model. During the period under consideration, the fees charged by the ship management industry were mainly influenced by the:

- (i) nationality of ships' beneficial owner
- (ii) flag state of the ship
- (iii) type of ship management service provided.



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.