



SHIP MANAGEMENT INTERNATIONAL

CYPRUS

SPECIAL REPORT



Negotiating a strong future ahead

Cyprus is undergoing an interesting period in its economic history with several potential game changers poised to kick in if the right actions are taken. At the heart of it all is resolution of the Turkish crisis which involves a ban on Cypriot flagged ships visiting Turkish ports as well as the island's emergence from its banking problems of 2013 and 2015 and the discovery of natural gas off its shores.

Yes, the Turkish situation remains unresolved and the true benefits of the estimated 30 trillion cubic feet of natural gas, valued at over \$50bn, has yet to be realised, but there are some Cyprus watchers who believe that one could almost certainly influence the other. An accord has never been closer, as the European Union eyes Cyprus as a future energy hub that would give Turkey and Europe access to gas deposits discovered in the eastern Mediterranean.

And that leaves the financial crisis. But as Dieter Rohdenburg, CEO of shipping giant Intership Navigation, claims, development of the Cypriot economy since the banking crisis in 2013 is absolutely remarkable.

"Last year saw nearly 3% growth (GDP) and similar levels are predicted for 2017. Business sentiment is high, and so is the determination of the local shipping community to strive and to grow the cluster."

This was a point echoed by Thomas Kazakos, that ebullient and charismatic champion of Cyprus shipping. In his capacity as Director General of the Cyprus Shipping Chamber, Thomas is accepting of the important role shipping continues to play in the Cypriot economy, especially when you consider the dire freight rate situation shipping has had to bear over the last eight to nine years and when compared to how other international maritime clusters have fared.

Marios Demetriades, Cyprus Minister for Transport, Communications and Works, went even further. Talking to SMI he said: "The maritime industry is essential to Cyprus, and with plans for further significant growth, maritime is an integral part of our economic future. To this end, the government has prepared a draft bill to create a shipping portfolio assigned to a deputy minister, who will be responsible to handle all issues related to shipping.

"Shipping currently contributes around 7% to Cyprus' GDP, however, with the new strategy we have put in place and

the proactive steps we are taking to grow the maritime industry in Cyprus, we are expecting this to grow to 9% over the next three years," he added.

While Cyprus as a cluster and as a flag may have grown extensively over the past 30 years, it is the interest the Government has seen from several sectors such as containers, tankers and gas carriers, where ship owners are looking for a well-established and quality flag with a strong and reliable professional services infrastructure that provides a round-the-clock service, as well as a package of favourable incentives.

Despina Panayiotou Theodosiou, Chief Executive Officer of Tototheo Maritime, added to the debate: "Cyprus offers the environment for companies to grow. It is strategically located, the infrastructure is advanced, as a member of the EU it also offers stability and safety. Furthermore, there is human talent, well-educated and skilled professionals, there is a transparent and uncomplicated legal framework as well as an attractive tax regime. All these advantages, combined with the resident shipping community, have allowed the maritime cluster to grow and shipping related services to be on an advanced level.

"Our group of companies was established and has its headquarters in

Cyprus and through the years we have developed and grown into one major maritime communication provider globally and are expanding our physical presence in other countries. Cyprus provided the perfect setting for us to grow our business and allowed us to create the resources and capacity to enter such a competitive industry.”

Mr Demetriades again: “Cyprus’ tonnage tax system” (TTS) is of significant interest for quality ships and shipping companies. Approved by the European Commission in March 2010, the simplified tonnage tax system extends the favourable benefits applicable to owners of Cyprus-flagged vessels and ship managers to owners of foreign flagged vessels and charterers. It also extends the tax benefits that previously covered only profits from the operation of vessels in shipping activities, to cover profits on the sale of vessels, interest earned on funds used other than for investment purposes, and dividends paid directly or indirectly from shipping related profits.

“Cyprus has negotiated more than 50 double tax avoidance treaties and is the only open registry in Europe to have a TTS approved by the EC, providing assurance of a stable fiscal environment for the long term. Additionally, Cyprus understands that the evolution of existing regulations and the prospect of new regulations on the horizon have a significant impact on owners and operators. Our experts play a significant role in, not only, helping owners and operators ensure compliance, but we are also actively taking part in the discussion as legislation is being

developed, allowing us to help shape the regulations,” he said.

Now more than ever before, the role of flag states as a conduit between regulators and the industry is critical. “By working in close cooperation with clients and organisations such as the Cyprus Shipping Chamber and Cyprus Union of Shipowners, the Cyprus flag conveys the thoughts and opinions of those affected, directly influencing how legislation is created and implemented. This is a great benefit to those vessels flagged with Cyprus,” said the Minister.

“We know that a personal approach and continuous flow of communication is extremely important to owners and operators. This is why the Cyprus flag has maritime offices in Piraeus, London, Hamburg, Rotterdam, and New York City, comprising a highly skilled and multilingual workforce. We pride ourselves on our accessibility and personal, consultative approach. But let’s be clear – this is far from the norm; many flags have only a skeleton staff to answer emails and issue certificates,” he said.

An estimated 4% of the world’s fleet and around 20% of global third-party ship management activities are controlled from Cyprus, and with the eleventh largest merchant fleet worldwide and the third largest in Europe, Cyprus is continually looking to drive significant growth whilst maintaining a strong focus on delivering value to shipowners and operators.

Cyprus currently flags over 1,000 oceangoing vessels with a total gross tonnage exceeding 22 million. It is the largest third-party ship management centre in Europe and one of the

largest crew management centres in the world. A large number of shipowning, ship management and shipping related companies maintain fully-fledged offices and conduct their international operations and activities from Cyprus.

Despite these positive sentiments, Ioannis Efstratiou, Acting Director at the Department of Merchant Shipping, remains realistic about the flag situation: “It seems that since last year, we have seen a slight increase in numbers but, of course, we should also take into consideration the situation as a percentage in respect of the world fleet. For the last 20 years we have seen a decrease of about 20% - not in absolute numbers but as a percentage of the world fleet; this means that the world fleet has doubled and we have stayed stable at about 22 million gross tonnes.” The main problem has been the Turkish embargo, but as Mr Efstratiou admitted, measures were being taken to try and remedy the situation.

“Since 2013, we have been taking a more proactive approach in promoting the Cyprus flag and have increased tonnage numbers by around 1.2% or 300,000gt in the year to 2016. The Cyprus flag is currently eleventh in the world but our short-term target is to return to the top 10. “We are now targeting new markets, for example in Asia, because we want to find companies and ships whose trading programmes are outside the Mediterranean because if anybody is trading within the Mediterranean, of course in the back of their mind is always the possibility of visiting Turkish ports,” he said.

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CYPRUS SHIPMANAGEMENT ROUND TABLE DEBATE

In the latest in our series of round table debates, SMI drew together leaders of the Cyprus shipping cluster to discuss key issues facing shipping. Chaired by SMI Editorial Director **Sean Moloney**, panellists included **Giles Heimann**, Corporate Director Fleet Personnel, Bernhard Schulte Shipmanagement; **Capt Eberhard Koch**, Chairman, CEO and Partner of Oesterreichischer Lloyd Shipping; **Mark O'Neil**, Future CEO of the intended Columbia Marlow merger; **Andrew Brown**, Group Technical Director, Interorient Shipmanagement; **Andreas Chrysostomou**, Independent Maritime Expert; **Capt Eugen Adami**, Immediate Past President of the Cyprus Shipping Chamber and owner and Managing Director of the Mastermind Group; **Ilias Tsakiris**, CEO American Hellenic Hull Insurance Company; and **Alexandros Josephides**, Deputy Director General of the Cyprus Shipping Chamber. Other members of the cluster who were unable to attend in person, have contributed written answers to the questions posed.

Sean Moloney

One year on from the last round table debate, the freight markets are still struggling. But there are seeds of recovery coming through. How have the last years of poor revenue for ship owners impacted on the way you manage their ships?

Giles Heimann

Continued challenges in the shipping industry have affected the way ship owners utilise the services offered by ship managers,

and they are understandably looking for higher efficiency and safety, but also at the lowest possible OpEx. I am slightly concerned by the use of the words 'seeds of recovery' – we have heard those words many times in the past couple of years – but there has been little sign of this recovery really occurring. With regards to financial matters though, interestingly enough, BSM has recently been participating in a Boston Consulting Group study where BCG compares our results with the results of other ship managers and ship owners. Judging by the results of the last survey they ran, our

operating costs are 10%-11% lower than the average of other ship managers and, more importantly, owners participating in the same survey. You can put that down, to a certain extent, to economies of scale; with a fleet of over 600 ships we have increased purchasing power and we also have the ability, with a much larger crew pool of 18,000 seafarers, to control our costs in perhaps a better way than many owners are able to do so.

Investment in IT and Big Data are very important, but they are not necessarily items that the ultimate client, the ship owner, is going to write a blank cheque for. These are things that we, as a ship management company, know we need to invest money in, because the ultimate outcome will be that our operating efficiency is improved, and we will be able to offer a better deal for our clients. We are already investing significantly in our own internal systems, ship management software and customer web access, as well as mobile applications to track and monitor all aspects of ship management, whether it is crewing, or pure operations. It is an important area we will continue to invest in, to grow and support our customers.

Capt Eberhard Koch

We are not involved in third-party management, we manage our ships in-house. But we strongly believe that lower revenues should not be any reason for lowering the maintenance and standard of our ships. We are known for delivering a very high level of maintenance and safety on our ships but my shareholders have not asked me to reduce any of my presented budgets because they know that the charterers expect even higher service in times of low revenues. Yes, we also see seeds of recovery in some segments but I am worried about bulk carriers. When it comes to containerships, due to the high level of scrapping, we are starting to see a recovery.

Sean Moloney

But how long can owners exist when you sometimes have revenues up to 30% below OpEx? Are owners altering their operating strategies to take this into account?

Capt Eberhard Koch

We have kept OpEX at a stable level over the last couple of years, while at the same time, by undertaking pre-maintenance, we are avoiding times off-hire.

Mark O'Neil

I think the question here is how have the last few years of low revenue impacted on the way we manage owners' ships. I know that everyone around the table here will say that proper safe management is proper safe management and that cannot change as a paradigm irrespective of the revenue received. The challenge for us as ship managers is, therefore, to optimise the service we provide in the circumstances, and this involves greater efficiency, greater efficacy, reducing fees and minimising costs, doing what we do better and working in partnership with ship owners and understanding their particular cash

Capt Andrei Hudzasvili

Managing Director, Cymare Shipmanagement



"The only way to manage ships when trading conditions and charter rates are so weak is to keep an extremely stringent control over operating costs to help owners remain afloat. In short, you need to stretch your budget without sacrificing vessel maintenance, quality of overall operations and your loyal, most experienced and well-paid crew and shore personnel. Some people say that shipping has faced much worse in the past, and eventually prevailed. However, the intensity of the current challenges and setbacks was never known or experienced before. The time has never been so unfavourable if not hostile to ship owners and small owners in particular. I think we have now to admit that apart from the low freight markets, shipping is in a serious crisis.

Costs have all risen consistently since 2008. So, if there are seeds for recovery coming through then they must hurry up...

"The Cyprus shipmanagement cluster has the potential to develop further but there should be a strong will between the Government and all political parties on the island to invent some essential preconditions and find an ultimate resolution of the Cyprus-Turkey issue. Up to now words speak a lot louder than actions and regrettably the recent round of negotiations and talks came to a diplomatic standstill again, so the uncertainty still remains.



Andrew Brown
Group Technical
Director, Interiorient
Shipmanagement

flow difficulties. A lot of people talk about “partnership”. Partnership is a word that is used too readily in the industry, but there are very few of us who really understand the concept and demonstrate it in their day-to-day business. As an industry sector, in order to survive and prosper, we need to make ourselves and our products compelling to ship owners; to manage vessels as well, if not better, than ship owners can; and to achieve economies of scale, which are essential. The argument behind consolidation and growth of the larger shipmanagement companies, is compelling and we are on that path.

Sean Moloney

So big is beautiful as far as shipmanagement is concerned?

Mark O’Neil

That is oversimplifying it. I think big is perhaps necessary but with the associated and necessary attention to detail and attention to the owners’ needs. Big is only beautiful if you manage to achieve that partnership element, where you can treat each client on an individual basis and according to their individual needs. Big is beautiful from the point of view of economies of scale for sure, and that has to be a compelling argument, but we have to also remember that each client is different with his own particular needs and demands.

Andrew Brown

As ship managers, we have access to a large crew resource which ship owners don’t have. We can train the crew which is important and keep the ships maintained well. I don’t see seeds of growth in many sectors and I agree the contracts we have with suppliers and with shipyards will work to improve OpEx in the end.

Ilias Tsakiris

I don’t see any optimism in the markets. Since the crisis started in 2008, we have 50% more vessels sailing around so there is overcapacity. On the other hand, we see a lot of third-party shipmanagement companies appearing. As far as insurance is concerned, and I will concur that professional ship managers are

doing an excellent job because we are seeing a decline in insurance claims, but 80% of claims are crew-related so there are certain things that the manager can’t control and these tend to be related to the people. The manager can train the crew but he can’t actually control what they do when they are on their watch. Big is beautiful as far as insurance is concerned, because the bigger the fleet then the bigger the discounts that can be secured. But our main concern as underwriters is that third-party shipmanagement has to be extremely professional. As a result of bankruptcies, we see third-party ship managers being given vessels to manage by the banks and sometimes when banks are the owners, the insurance risk could be higher.

Sean Moloney

Can I get feedback from the managers here about the need for more professionalism among third party managers and maybe bring in the element of crew competency as well?

Giles Heimann

I think there is a general level of professionalism among the major third-party ship managers, we all benchmark against each other. Because of the continual financial downturn, the interesting thing is that we are seeing a lot more ships coming under the control of banks, and the banks are looking to us to be professional and operate those vessels safely, but at the very best cost basis. So, all third-party ship managers are trying to achieve that high level of service. Some succeed, this goes back to the economies of scale argument, again where I would agree that bigger is better from that point of view. I don’t think some of the smaller shipmanagement companies can offer that same economy of scale. From the crew competency point of view, the ability for a larger group to attract a wider demographic of nationalities, is an advantage. It allows us to look at the skills and competencies of seafarers from many different countries, rather than restrict ourselves to the traditional groups, such as The Philippines

“As an industry sector, in order to survive and prosper, we need to make ourselves and our products compelling to ship owners; to manage vessels as well, if not better, than ship owners can; and to achieve economies of scale, which are essential”

Mark O’Neil, Future CEO of the intended Columbia Marlow merger

and India. Crew competency is something that has been on the agenda for many years now, but it has never been a future lack of supply of officers but a future lack of quality and competence. Again, the larger organisations have their own training facilities, and are able to invest money in developing seafarers' competencies, which again I would suggest the smaller companies are sometimes unable to do.

Mark O'Neil

I would go along with what has been said. Every manager, large or small, tries to do his or her best for their clients. When you look at crew competency, you have a number of different issues to consider and one of them is recruitment. Of course, you have to be out there in those jurisdictions that have a crew resource. Then there is training, and the bigger the manager the greater the ability to invest in training and facilities. Then there is retention. You need to be able to bring quality personnel through your operation and retain them in order to increase the experience level. There is therefore a need to invest heavily in all these areas, and this is what most managers try to do. If being bigger better lends itself to the ability to invest, then it must be more beautiful.

Andreas Chrysostomou

In response to the question about whether owners would behave differently when it comes to the management of their ships, because of the drop in freight rate income, the answer cannot be yes because of the whole regime around it – the relation to safety and security.

Further the low freight rates provide third-party ship managers the advantage of making use of the economies of scale. Or as I would call it, to do more with less. Ship managers, whether in-house or third-party, can influence profitability because if they retain the same prices as before when it comes to their management fee or their management services, it means that the gap between the profit of the owner and the manager is becoming smaller. And we know that managers cannot exist in the system, if they are running a ship more expensively than the ship owner is. So the management service is relevant because is actually cheaper. I would say that managers do have bargaining power when it comes to profitability in an environment of lower freight rates, by using their powers of economies of scale. Banks could be a very good example where this gap between the management fee and profitability is much smaller. Even the in-house manager can do more with less; synergies can exist between two or three companies with small fleets especially if they are not competitors.

Capt Eugen Adami

Of course the Cyprus Shipping Chamber (CSC) has recognised that when it comes to ship management, we are not in the shipping business but we are in the people business. And this means that our maritime infrastructure can only be sustainable in the future when we emphasise the importance of the workforce, shore-based as well as onboard our ships. The CSC has worked



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hard over the years to work with universities as well as with the Government and the Institute of Chartered Shipbrokers to help educate over 1,000 graduates to date on the Understanding of Shipping course. We have also pushed another 700 graduates through other universities. That is almost 40% of the existing workforce here in Cyprus and we could be working hard to increase this number. This means we will have highly educated European people, concentrated in the eastern Mediterranean, to strengthen the Cyprus shipping cluster when the markets take off. A domestic local workforce will be here and available. With regards to how my company has fared through these dreadful years, I can only say that we are trying to do what everybody else is doing, and that is to offer more for less cost. Economy of scale is very important, however, how are you going to translate your better buying power into a better operation onboard ship, for example lower maintenance costs and higher revenues. This only works when you include the seafarers in your company's policies. Seafarers have to take the cost-cutting decisions as their own. I operate in the break bulk, general cargo business and I depend on seafarers taking commercial decisions; seafarers who clean cargo holds, who motivate the cook etc. and this only happens when you embrace and motivate them. I believe that owners today can only operate in niche markets; when owners operate in the main upstream markets like containers and tankers, these owners must team up with professional third-party ship managers to find ways to get employment of their ships and

to benefit from economies of scale. Smaller owners are heavily penalised by the banks, and have the regulatory workload concerns as well, so it all becomes rather cumbersome for the smaller guys to pull through. When you look to the future, and in embracing new technology, we have to open up our systems to our clients and our charterers and to our future investors. We need to have a new infrastructure on the IT side which allows people to plug-in conveniently. We must accept that we must become fully transparent and consider clustering, ie to team up with other companies such as on the supply side to invest in purchasing alliances, and run these purchasing alliances with intelligent supply chain management; drill down to the individual machinery to the smallest component, find where these components are produced and share this information among members of the purchasing alliance.

Mark O'Neil

I agree with everything that has been said, but I think there is too much focus on more for less, when we should be focusing on more and better for (potentially) less. We have to do things better than we have done before and look at trying to make ourselves compelling and relevant to the market; there is no doubt that an owner who has the infrastructure available to him, will do just as well with his vessels as we would do as third party managers. We must therefore be compelling and relevant and a way to do that is to look at the services we provide, whether it is individually in the



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larger companies or in the form of an association in the case of the smaller companies. We have to look to provide other services around the basic management function. So, we are not just providing management, we have to view ourselves as maritime services providers generally. We will not survive as an industry if all that we are providing is third-party shipmanagement. Within the intended Columbia Marlow extended platform, we will provide a whole raft of services modules that involve taking responsibility for all those expensive functions that the owner does not need (or want) to bother with any more – whether it is flag administration, or insurance/ claims, recycling, or IT – in addition to the standard crewing and the technical management of the vessel. We cannot be just a third party manager any more, we must be a maritime services provider. We do not want to be stuck in the rut of previous definition of ship management. Progress is progress and we need to move forward with this.

Capt Adami

I totally agree with Mark and what I meant was more services for less cost and that is clustering and buying power.

Giles Heimann

Just picking up on the expression ‘the maritime service provider’, this is a key point. It is not just about providing a ship management or a crew management service, it is about providing all the surrounding services that go with it, such as travel, insurance, ship repair and chartering, and more. Yes, ship owners are looking to ship managers to run an efficient service. If you look at the larger ship owners, such as Maersk, who have traditionally not used third party ship managers – they have put ships under our management for benchmarking purposes and to gain the benefits of knowledge, information and best practice exchange. Ship owners and ship managers all have the same challenges and it is through sharing knowledge and information that, not only third party managers, but the owners themselves, find there are more efficient and safer ways of operating vessels.

“When you look to the future, and in embracing new technology, we have to open up our systems to our clients and our charterers and to our future investors. We need to have a new infrastructure on the IT side which allows people to plug-in conveniently”

Capt Eugen Adami, Immediate Past President, Cyprus Shipping Chamber and Owner and Managing Director, Mastermind Group

Capt Eberhard Koch

It is also worth noting that the first Cyprus Maritime Academy opened its doors in August last year and we are getting a lot of support from the Cyprus industry. Hopefully in four years’ time we will have our first Cypriot and Greek officers, educated in Cyprus. There is also cadet career funding in place so the cadet knows that after the second semester where he’ll be working after four years’ time and get financial support at the same time.

Sean Moloney

You don’t use third party ship managers but the manager of the future will be a one stop shop provider of quality services who will be going one step further to help and work with you in partnership. Could ship owners be buying into this and are you getting excited about this?



Alexandros Josephides
Deputy Director General, Cyprus Shipping Chamber

Capt Eugen Adami
Owner and Managing Director, Mastermind Group



Left to right: **Capt Eberhard Koch**, Chairman, CEO and Partner, Oesterreichischer Lloyd Shipping; **Mark O'Neil**, Future CEO of the intended Columbia Marlow merger; **Ilias Tsakiris**, CEO, American Hellenic Hull Insurance Company; and **Andreas Chrysostomou**, Independent Maritime Expert

Capt Eberhard Koch

We will always, as a company, undertake our own in-house shipmanagement; we are not looking for third party ship management. Pricewise, if you have a small fleet and you have time enough to tender your orders and get the same price as the larger managers, then you will benefit. Some owners are afraid of the numbers of ships that some of the larger managers are managing and have installed in-house fleet managers for control; yes, you must have a very close relationship with your future owners but if you have 500, 600 or 700 ships you might find it difficult in the future to keep the same relationship with the owner as in the past. And this is not what owners want. They want a close relationship.

Andrew Brown

You have got to have a close day-to-day relationship with the ship owners because more and more of them are installing their own managers, and they are watching the managers, which is unusual and costly for them but this is what is happening. Ship owners want to see what we are doing on a daily basis and what steps we're taking to overcome whatever problems may occur. They also want to analyse accounts on a daily basis to see what we are spending the money on.

Giles Heimann

IT is an area where we are seeing this type of attitude, if you like, through tools such as customer web access. We are always under the microscope and we are always being studied – are we doing things the right way; are we doing things the way owners expect us to do them?

Mark O'Neil

I think we are all in the business of relationships aren't we? Whether it is with our clients, our staff or our suppliers, and by our staff I also mean our crew. The larger you become as a manager, the challenge you have is to ensure that the relationships you have still remain strong, and that these are tailored relationships. You cannot provide a standard Columbia Marlow, BSM or VShips' approach for everyone, you have to ensure that every client gets precisely what he wants out of his relationship. The relationship needs to be tailored and personal and this is what we work so hard to ensure. IT helps, which is why

Columbia and Marlow have invested in their own IT company Blue Dynamics, in which we have 50 software programmers developing relevant programmes around our services and improving efficiencies and efficacy for us and our clients. The IT revolution is part of our lives and we all have to embrace IT developments into our systems, which is what we are doing.

Giles Heimann

I wouldn't agree that it is either easier or harder for larger ship managers to maintain good client relations than small managers, as a great deal depends on the organisation. At BSM, for example, we have individual shipmanagement centres in key parts of the world, where that client relationship is managed locally from that office. So, it is both possible and important, even though we are a large organisation, to have very good direct client relationships.

Andreas Chrysostomou

How can we, as an industry, ensure that it is not one size fits all in our solutions? We have to personalise the solutions we have on offer to meet the needs of the customer. When we have a very precise product, we can ensure, in a way, that one size fits all. But when we diversify the product to include many different things, and then go onto the issue of offering a complete package to customers, or a full maritime services product, then we should customise it and we should be very careful to maintain the correct customer/client relationship.

Capt Adami

Don't forget there is a difference between the various ship types, and there are certain ship types that are predestined to go to third party ship managers: these are the standard vessel types such as containerships and tankers. The ship owner is looking for the added value from this, especially when it comes to what the manager can do better than the owner can do himself. And the ship owner will ask himself in handing the business to a third party manager, am I losing contact with the vessel? Who will the seafarers identify with when they serve onboard my ship? Will they take my company's identity or will they take the identity of the third party ship manager? I believe that ship managers today must be good communicators;

they must be able to bring the various interests together – seafarers, the charterers and the owners; they must establish key account management so that the small ship owner finds himself identified in the big management company, and the big management company is able to make him feel accommodated within their structure. The bottom line today is do we survive or do we not survive, and after the recovery the question will be how much money do we make? For that to happen we have to work together, we have to be shoulder-to-shoulder and we have to look for the added value. Maybe that ship owner is investment driven or that other ship owner is a third-generation family ship owner, if so, then the values may be completely different but we have to adjust to these all the time. The modern ship managers do this to a greater extent – they help the ship owners get through their financial restructuring; they help them do better reporting. This is a lot of the added value that we don't talk about.

Sean Moloney

Ilias, let me bring you into this point. Are ship managers good communicators and do you welcome some of them potentially becoming insurance brokers?

Ilias Tsakiris

I agree the managers are doing a great job in protecting their clients, but it cannot all be good. What we have seen are third party managers who have excelled themselves, especially when it comes

to crew retention. The higher the retention level you have the better your operational results. For us in insurance, the professional third party managers are very useful; they have improved a lot of things when it comes to what traditional owners used to do. Third party managers are investing heavily in crew. But whether we like it or not, while crew costs represent 50% of OpEx, they still represent 80% of the claims. Talking about IT and computerisation, we have invested millions of dollars in this area because we wanted to try and identify how claims arise. To us this is the \$1 million question. Are the claims related to the engine type or the amount of hours a day being worked?; and is there a link to the training of the crew? All this data is being recorded but we are processing less and less of it because of the sheer volumes involved. So, I agree that third party ship management is essential for quality of shipping and if we are to see a drop in claims. As long as there is no conflict of interest and ship managers are regulated like the rest of the insurance industry we take no issue with them being insurance brokers.

Sean Moloney

This question that 80% of accidents are due to crew related issues is something I was reporting on 30 years ago but why are we still seeing it in today's industry?

Giles Heimann

The reality is, that over time, we are placing more and more

Dieter Rohdenburg

CEO, Intership Navigation Co

"The first months of 2017 have seen a remarkable upswing in the dry bulk markets. There are signs that this development may be sustained - provided there are no new waves of placing orders for new vessels.

"Clearly the last years of depressed markets have taught ship owners and managers to be more cost-conscious as the only way to improve the bottom line. We have used this as opportunity to improve our management systems and to increase the emphasize on safe ship operation and incident/accident prevention. This will no doubt lead to improved results in future - not only financially, but more importantly in less incidents and safer ships.

"The service of managing ships is typically outsourced by owners who do not see this as their core business. These owners typically



continue to have an active interest in the condition and performance of their vessels, but use managers as they are better geared to meet all the requirements – economic, regulatory, technical etc. Economies of scale help managers to perform their duties more efficiently than smaller owners could, and I am certain that we will see further consolidation of the industry in the near future (both by mergers of technical managers as well as owners outsourcing technical management to larger managers)."



“Investment in IT and Big Data is all very important, but they are not necessarily items that the ultimate client, the ship owner, is going to write a blank cheque for”

Giles Heimann, (pictured) Corporate Director Fleet Personnel, Bernhard Schulte Shipmanagement

responsibilities on our seafarers in terms of systems, procedures and paperwork. If you turn the clock back 25 years, when I was at sea, yes, we had procedures and systems, but they were generally simpler. Now we are putting more and more technology onboard our ships; we have reduced the number of crew that are operating the ships; the commercial pressure on vessels is greater; the nationality demographic on today's vessels is varied; and the welfare provision and social atmosphere onboard today's ship is very different than it used to be. This is particularly relevant when you look at issues such as behavioural-based safety (BBS). The cold hard reality is that whilst it is a problem that everyone in the industry is facing; there is no rapid solution. All we can do is increase levels of competence, provide as much support as possible to the seafarers, try to provide consistent management systems that work for them, rather than pieces of paper just to maintain our compliance as employers. It is a huge challenge and unfortunately human error will always be there. All the training in the world will not completely take the statistics away. All we can do is continue to try and support our crews and provide high levels of training and this, together with good BBS will hopefully control the statistics.

Sean Moloney

Mark do you have any views on this?

Mark O'Neil

I think the answer is invest, invest and invest – time, effort and money. The intended Columbia Marlow merger looks at training in a very sophisticated way. It is not just taking your raw recruit at one end and spitting out a seafarer at the other who may have done all the training requirements and ticked all the boxes. It is about the ongoing pastoral and professional management of that seafarer. Capt Adami talked about looking after the seafarers and being mindful of their concerns and welfare at home. It is not about treating them as cogs in an engine, but looking after them comprehensively and looking after their families, careers and their ongoing training requirements as well. It is vital that we not only have recruits going through the system

and all trained to the highest required standards, but that the qualified seafarers have continuous and regular ongoing training and that the senior individuals are then retained within the organisation, having loyalty to the organisation, and then passing their experience down. It is all about having the complete package. Most incidents occur not necessarily because of the guy on deck at the time, but more to do with the inadequacy of the support infrastructure behind him – is he being probably looked after and properly supported?

Sean Moloney

It begs the question, what will the future seafarer look like? Will he be holding a screwdriver and a hammer or will he be some IT savvy techno kid, totally in tune with up-to-date technology and the Internet?

Mark O'Neil

I think they are, inevitably, more tech savvy these days. The younger generation are for more tech savvy than any of us around this table will ever be. Retention rates within our intended company are around the 95% mark and words like 'family' are key. You cannot invest this money in the seafarer as an individual and then allow them to go elsewhere. Those companies that invest and retain will minimise the incidents that are happening out there.

Giles Heimann

I do agree with Mark but I want to come back to your question about what the seafarer of the future will be like. Again, we can turn the clock back 20 years, where a deck officer standing on the bridge would be using an old-fashioned ARPA, and now we're looking at digital chart systems, dynamic positioning and ECDIS. The seafarer of today has already evolved enormously, but that doesn't only come down to the jobs they are doing, such as navigating the vessel or controlling the systems onboard, suddenly we are sitting them in front of a computer and asking them to answer email on a regular basis. We are asking them to compile online reports and monitor complex technological

“As far as insurance is concerned, and I will concur that professional ship managers are doing an excellent job because we are seeing a decline in insurance claims, but 80% of claims are crew-related so there are certain things that the manager can’t control and these tend to be related to the people”

Ilias Tsakiris, CEO American Hellenic Hull Insurance Company

systems, so they will naturally evolve into becoming more technologically advanced.

Capt Eberhard Koch

Investing the time that Mark mentioned, is very important, and we strongly believe that the briefings in the office are sometimes better than a bunch of new regulations that we are sending onboard ship. Investing time from the top management is very important.

Capt Adami

When we talk about training here we are looking at it in too short a time-frame window. We are talking today, 30 years after the *Herald of Free Enterprise* disaster in Zeebrugge where 193 people lost their lives. The result of this was that the ISM Code was enacted. And now we talk about training and checklists. Now Giles said that when he was onboard ship there was a system, albeit a different system, but it was a culture: the shipping companies had a culture and that culture drove everybody else onboard to do the job correctly and we have to grow a culture. We don’t have to grow an STCW-compliant training system, we have to go back to a real shipping culture and that has to start with recognising the professionalism of the seafarer as a person. We should not criminalise these young guys and we should do exactly what Eberhard has said, and

look at how do we develop leadership in these guys and that is missing. A master of a ship is like a CEO of a business.

Mark O’Neil

We are in an environment which is becoming increasingly commoditised. A lot of the questions being posed today ignore what is happening in the wider food chain – the talk now is all about commoditised vertical structures with the supply of cargo at one end and the market at the other. The challenge for the ship owner is to adapt to that environment as well. And I completely agree with Capt Adami in keeping the culture, because we are the human element in such a commoditised chain and if we don’t look after the human element then the whole chain will break down. Within that chain, shipping must remain relevant and compelling.

Sean Moloney

Thank you gentlemen. I want to talk about Cyprus as a maritime cluster now. How positive is business here on the island, and what are the prospects in the next few years in terms of cluster growth and new opportunities?

Alexandros Josephides

We are investing strongly in developing a cluster here on the island where we can deliver the services that the businesses here require and I am personally very optimistic about our future here on the



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Mastery is a great thing to strive for.

island. Cyprus started as a cluster, composed mainly of third party shipmanagement companies but we are looking at a cluster today which is populated with ship owners, ship managers and a whole range of shipping-related services. We have seen growth and development of maritime education here on the island, something we have promoted from the beginning, so that our children can be educated in this industry and come back and work for the companies here on the island. We have approximately 50 young people a year passing through maritime academies both on the island and abroad. Hopefully when these people return as full professionals and fully trained Masters and Chief Engineers, their involvement in the island will boost the attraction of Cyprus as a place to do business. What brought people here in the first place was the overall legal and financial working environment, the supply of qualified people and the availability of professional services such as law and accountancy. We also worked very hard on our taxation system which was fully approved by the European Union in 2010. We have a maritime administration here which is very strong and very competent, and we are working with the Government to make that even more efficient, flexible and self-standing. We have banks here now developing their own shipfinance services which we didn't have in the past, and we have people investing in a floating dock to offer a ship repair services here on the island. These services coming together will only increase the attractiveness of Cyprus as a shipping centre.

Sean Moloney

Andreas, let me bring you in on this. Is the future of the cluster in global shipping assured for the future and will Cyprus continue to play a pivotal role in that?

Andreas Chrysostomou

From my experience, the Cyprus cluster can flourish. It can be everything that Alex has said, provided that there are no external threats from its own internal market. The worries are not directly related to the Cyprus Shipping Cluster but the European Cluster as a whole. Here in Cyprus two years ago we identified that the centre of our cluster was third party shipmanagement and we saw that the cluster had the potential to grow irrespective of its core by adding in all the services that Alex mentioned. Since we do not live in isolation from the European Union, the single market influence should be taken into consideration.

We also have to be very careful when it comes to tax incentives, because the others are watching us very closely. Times are changing but Cyprus has a huge understanding of how to turn threats into opportunities. Don't forget, we are the only peaceful nation at the moment in this region. People want to maintain that position in Cyprus so let's take advantage of it. The Turkish embargo is a major issue and we cannot change it alone but the Government is working very hard to re-solve the issue. The problem is can we go around it? We must find ways to resolve it.

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Mark O'Neil

Sometimes when you have been here for a while, you can close your eyes and be blind to what you have. But being new to living here, I am perhaps better able than most to see what we have. As long as a place remains compelling and relevant it will do well. If it is a good place to do business it will do well. In my experience, and I see it more clearly now, Cyprus is a good place to do business; it has all the relevant components of the cluster that we need; it has a highly educated population and an increasingly maritime-educated population; it has professional services available and has a secure and safe court system which we would expect, so it is a very good place to do business in. What surprises me though, is the commitment of the shipping industry here to Cyprus and that cuts completely across competition. There is competition in selling Cyprus as a good place to do business.

Giles Heimann

As probably the second newest person to the island here, the taxation regime on the island is advantageous. The cluster is safe and is growing and I believe there are about 140 maritime-related companies based in Cyprus. I believe that the maritime cluster's contribution to the country's GDP is around 5.5%. We are also starting to see developments like the Cyprus Maritime Academy, which BSM is supporting through provision of our owned training centre; we're starting to see more commitment to develop the maritime industry. I can even say from a personal point of view, that when I moved here two years ago, I firstly looked at all the major shipmanagement centres – Singapore, Hong Kong and Cyprus. Cyprus was the one that had the greatest interest for me because of its location, because of its connections, because of the companies that are based here, and the huge amount that Cyprus has to offer the shipping and maritime industry.

Ilias Tsakiris

When we commenced our negotiations with the American P&I as to where we should set up our insurance company, various jurisdictions were under consideration within the EU. However, the choice could not have been easier. Cyprus, by every respect, has one of the best business environments to set up any type of business. For starters, the Superintendent of Insurance demonstrated extreme professionalism and efficiency. The authorities assisted us during our licensing process by pointing to the correct steps that we had to follow since Solvency II had just been implemented. American Hellenic Hulls Board was so impressed with the level of expertise within Cyprus, and this had as a result to appoint risk managers, actuaries, internal and external auditors, and compliance officers, all from Cyprus. At this point a note of gratitude should be addressed to the Cyprus Shipping Chamber and the Minister of Transport, Communications and Works, Marios Demetriades, for their valuable assistance.

Sean Moloney

Gentlemen, thank you very much for your time today. ●