



SHIP MANAGEMENT SURVEY

July – December 2017

INTRODUCTION

The *Ship Management Survey* is conducted by the Statistics Department of the Central Bank of Cyprus and concentrates primarily on transactions between resident ship management companies and non-resident ship owning/shipping related entities¹.

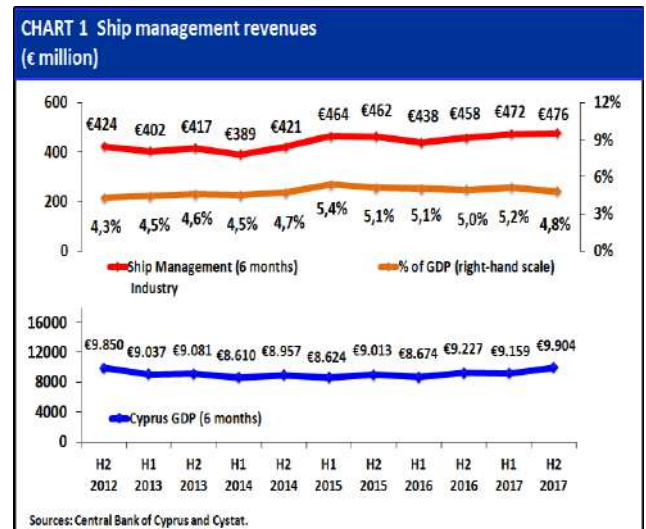
1. SHIP MANAGEMENT REVENUES FROM NON-RESIDENTS

The revenues of the ship management industry in Cyprus increased marginally during the second half of 2017 (2017H2), closing at €476 million (**Chart 1**). In terms of turnover, this corresponds to 4,8% of Cyprus's GDP for the period under review, which is lower than the percentage recorded during 2017H1 (5,2%). The reduction is due to the higher increase in the GDP of the country.

In **Chart 2**, revenues are decomposed by country of payment. The share of revenues originating from Germany, Russia and Singapore declined by approximately 2% between 2017H1 and 2017H2. Nevertheless, these countries remain the highest contributors in terms of revenue shares.

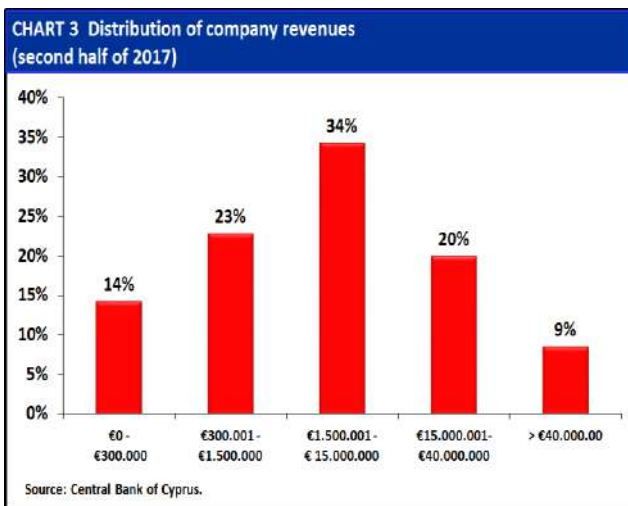
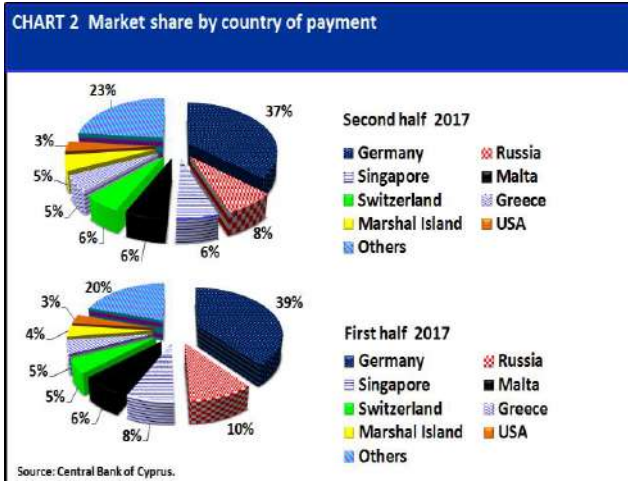
Following a series of alliances, merges, acquisitions and bankruptcies, the premier trading routes (e.g. US-Asia) in the global shipping industry are now dominated by a few major companies with aggressive

market share strategies. According to various shipping forecast reports, this industry consolidation is expected to provide major players with important efficiency gains, such as those associated with superior computer based fleet management systems and automated container terminals.



Currently, freight rates (as indicated, for example, by the Baltic Dry Index) and brokerage fees are rising following an expansion in manufacturing activity in China, Japan, the US and the Eurozone countries. This trend is also enforced by the restructuring of ship building and ship scrapping activities, which are eliminating oversupply from the market.

¹ Please refer to the Appendix for more details



In **Chart 3**, the ship management companies are classified into non-overlapping revenue segments, as depicted on the horizontal axis. The vertical axis measures the percentage of companies belonging to each segment size. During the period under examination, 29% of the companies managed to generate revenues in excess of €15 million each.

The level of concentration in the ship management industry is depicted in **Chart 4**, whereby the

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

companies are ranked in terms of their revenue size. The horizontal axis depicts, in percentage terms, the largest companies while the vertical axis measures the respective (cumulative) percentage revenue contribution of the companies. The turning point² indicates the presence of a small number of large companies that dominate the industry. The results suggest that the top 29% of the companies accounted for 84% of the industry's revenues, which is 5% lower than the level recorded during 2017H1 (89%).

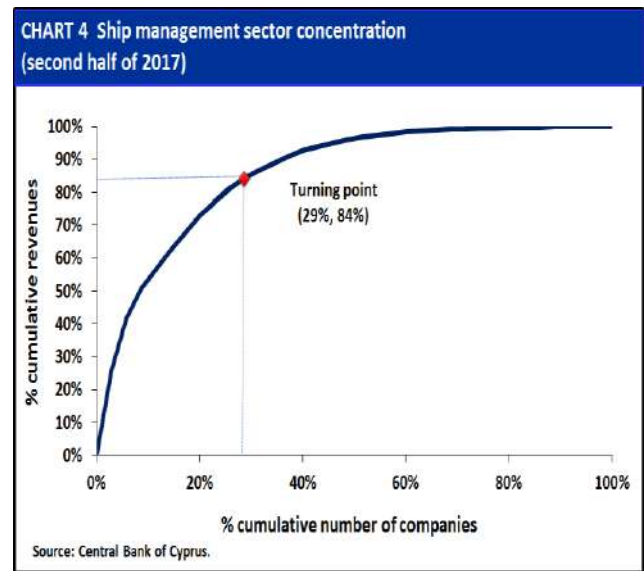
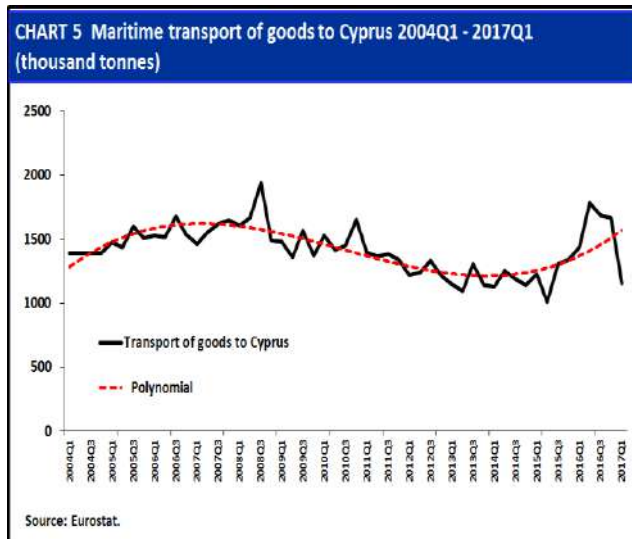


Chart 5 provides time series observations concerning the total volume of maritime transport of goods to Cyprus (in thousand tonnes). The series covers the period 2004Q1 -2017Q1 and is used as a proxy for the number of commercial ships approaching the ports of Cyprus. It provides an indication of the level of expected demand for services provided locally. The chart also includes a smoothing estimate (dashed line) generated using statistical methods that better reflect the underlying core trend in the series³.

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

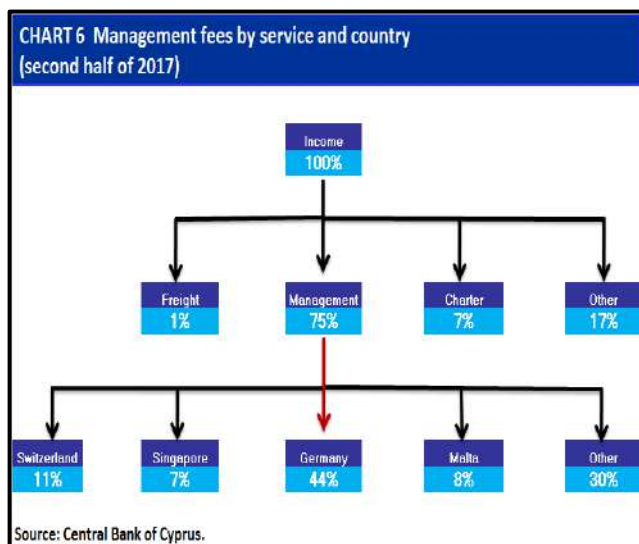
³For a discussion of trend estimation methods in shipping, see Michis, A.A. and Nason, G.P. "Case study: shipping trend estimation and prediction via multiscale variance

Despite a noticeable decrease in the last period of the chart (2017Q1), the total tonnage volume remains above the level recorded in 2015Q2.



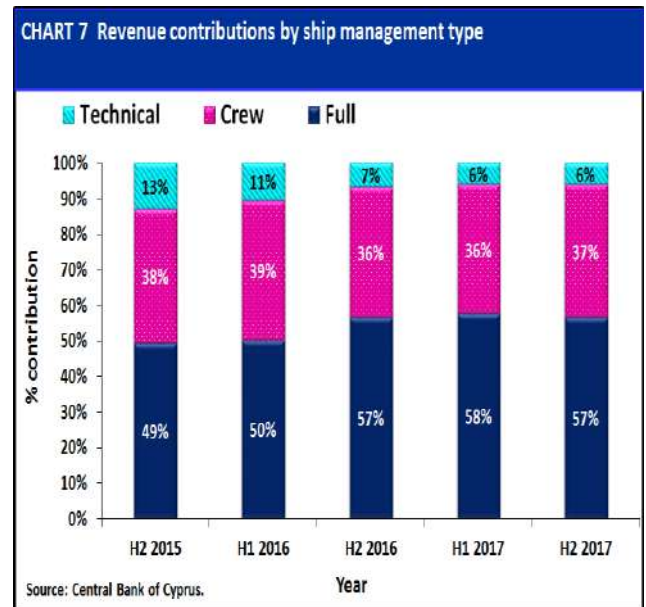
2. SHIP MANAGEMENT SERVICES

Chart 6 provides a tree diagram of the industry's revenues with analysis by type of ship management service and country of payment.



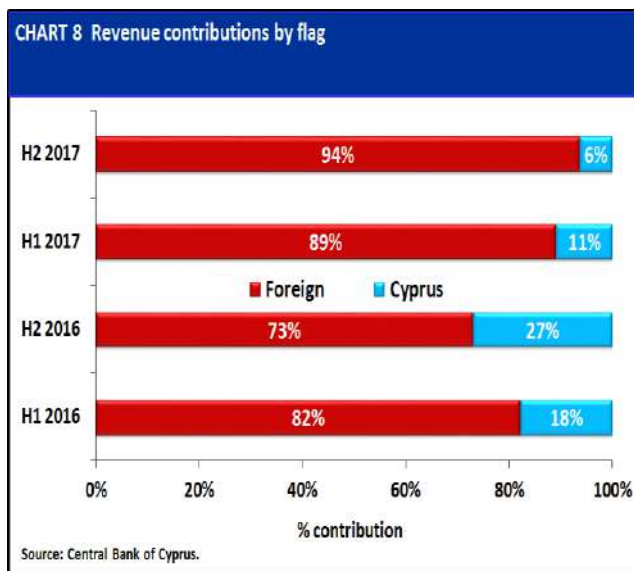
stabilisation", *Journal of Applied Statistics* 44 (15): 2672-2684,2017. <http://www.tandfonline.com/doi/full/10.1080/02664763.2016.1260096>

Ship management services encompass crew, technical and full management operations. During 2017H2, these services accounted for 75% of the industry's revenues, which is 2% higher than the share reported for 2017H1. The second level of the tree diagram splits the ship management revenues by source country, with Germany leading the ranking accounting for 44% of the revenues.



The revenue contributions associated with the three main types of ship management operations (full, technical and crew management) are depicted in Chart 7. The share contributions have remained relatively stable during the last three periods, following a noticeable increase in revenues related with full management contracts (consisting of both technical and crew management services) in 2016H2. In 2017H2, technical management operations remained stable at 6%, crew management operations increased to 37% and full management operations dropped marginally to 57%.

The industry’s revenues based on flag registration are decomposed in **Chart 8**. Flags associated with open registries provide ship owners with considerable advantages in terms of the legal and regulatory framework surrounding ship operations (e.g. crew recruitment, crew training and safety) and exert considerable influence on the cost of ship management operations. The provision of services to ships carrying the Cyprus flag decreased further to 6% of the total revenues in 2017H2. It corresponded to 11% of the total revenues in 2017H1 and 27% of the total revenues in 2016H2.



3. COUNTRY PORTFOLIOS

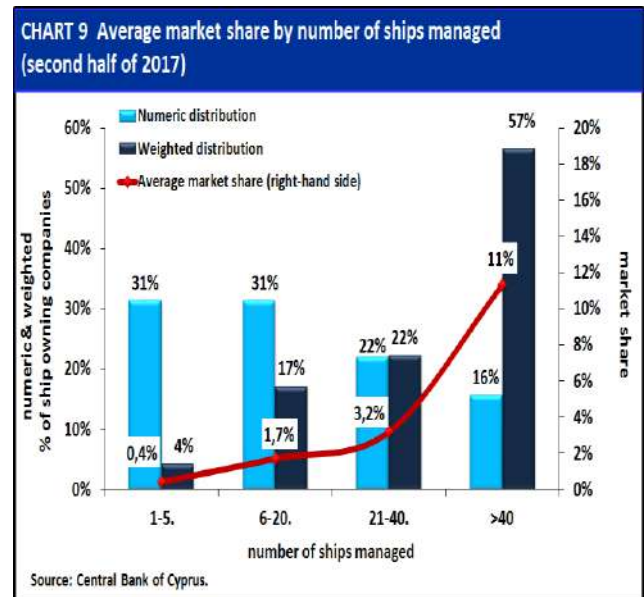
Chart 9 examines the relationship between the number of ships managed and the market share of ship management revenues during 2017H2. The horizontal axis is segmented into four different size ranges (groups) in ascending order. Specifically, ship management companies that manage:

- (i) between 1 and 5 ships
- (ii) between 6 and 20 ships
- (iii) between 21 and 40 ships
- (iv) more than 40 ships.

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

During the period under review, companies managing between 1 and 5 ships accounted for 31% of ship management companies but generated only 4% of the industry’s revenues. The average company market share in this group was 0,4%. Companies managing between 6 and 20 ships accounted for 31% of ship management companies, generated 17% of the industry’s revenues and scored an average share of 1,7%.

The last two segments (21-40 and >40) correspond to companies with a higher number of managed ships per period. Specifically, 22% of these companies managed between 21 and 40 ships during 2017H1 and claimed 22% of the industry’s revenues. A large number of ships (in excess of 40) were managed by only 16% of the companies but accounted for 57% of the total revenues. The average market share in this group was 11%.



The recovery process in the maritime sector (following several years of overcapacity) is progressing further as suggested by the consolidation and ship scrapping trends that are currently active in the shipping industry. Other noticeable trends include:

- A preference for short-term spot business instead of time charters, which are mainly used in long-term contracts. As a result, charter rates remain considerably low for ship owners servicing the repayment of their vessels.
- An increased demand for large oil tankers and gas carriers (LNG).
- Reduced state support of ship owning companies in response to the overcapacity observed in previous years, with state subsidies for demolishing old vessels being a notable exception.

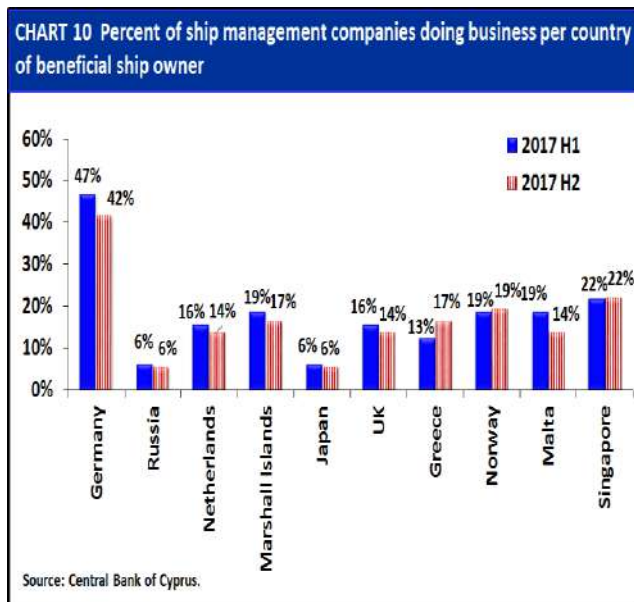


Chart 10 illustrates the geographic coverage of the services provided by the local industry. It includes information concerning the number of ship management companies that provide services in countries with competitive shipping registries and a previous record of cooperation with the local ship

management industry. Each country bar in the chart designates the percentage of Cyprus registered ship management companies providing services in that specific country. For comparison purposes, the results of the last two periods are included in the chart.

The percentage of companies offering services to German ship owners dropped from 47% to 42% during 2017H2. In contrast, increases were recorded for services offered to companies from Greece (from 13% to 17%). The industry will need to expand the provision of its services to more countries in the future, aiming for increased revenues and improved diversification of risk. China is a noticeable case in this respect, since it is currently a strong performer in exports and trade transactions while at the same time increasing its control of container shipping lines and overseas ports.

4. SHIP MANAGEMENT EXPENSES

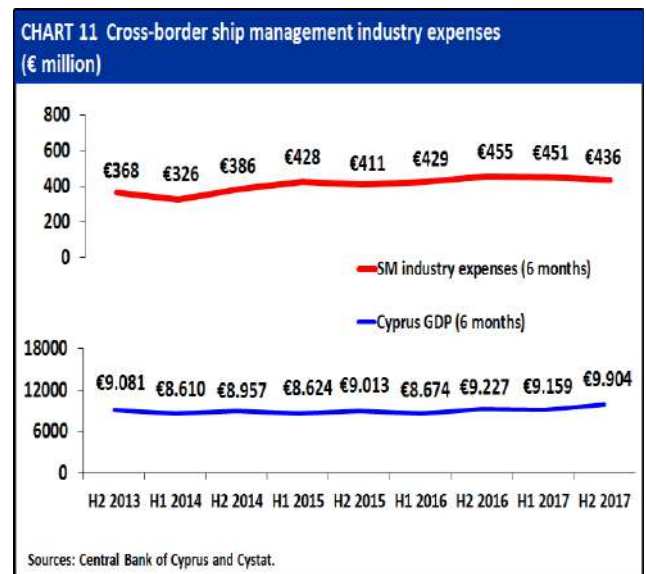
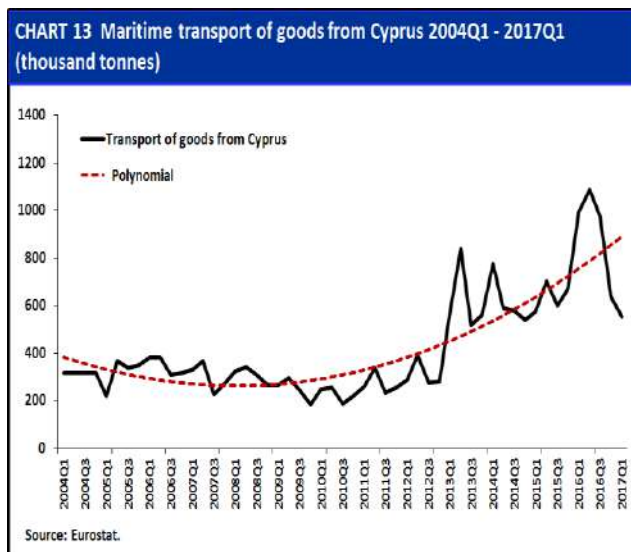
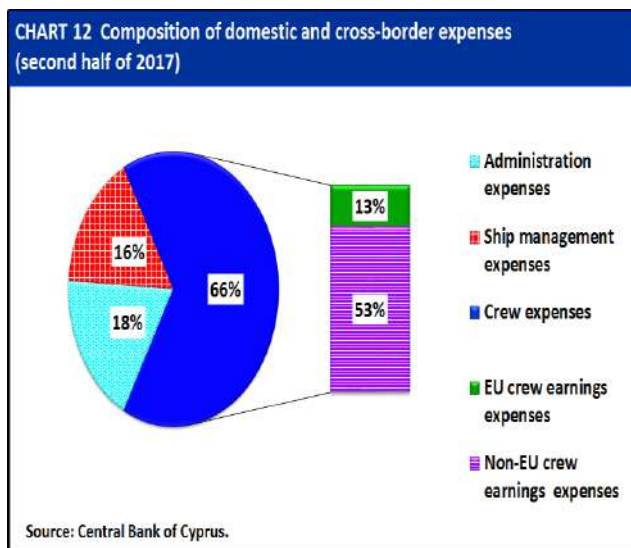


Chart 11 provides information regarding the level of cross-border expenses associated with the operations of the ship management industry in Cyprus. Industry expenses dropped from €451 million in 2017H1, to €436 million in 2017H2. Currently, the

level of expenses is higher than the level observed prior to 2014. This however is partly justified by a parallel increase in revenues, as depicted by the corresponding trend in **Chart 1**.

Chart 12 depicts the main categories of expenses alongside their percentage contributions. Crew expenses in 2017H2 accounted for 66% of the total amount (it was 64% in 2017H1), with the majority of these payments going to non-EU seafarers (51%). Administration expenses accounted for 18% and ship management expenses (e.g. spare parts, lubricants, dry-docking, etc.) for 16% of the total amount.

Chart 13 supplements the analysis in **Chart 5**, with time series observations concerning the maritime transport of goods departing from Cyprus. It is used as a proxy for the number of ships departing from Cyprus’s ports and their associated ship management expenses. The transported volume decreased further for a second consecutive period, following the large decline observed in 2017H1. Nevertheless, the current volume is still considerably higher than the levels observed prior to 2013.



APPENDIX: SHIP MANAGEMENT SURVEY

The *Ship Management Survey* is conducted biannually by the External & General Economic Statistics Section of the CBC's 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 Cyprus GDP (not in value added terms but as turnover).
- Level of concentration in the industry.
- The size of client portfolios of ship management companies.
- Percentage of resident ship management companies which operate in different countries (analytically by country).
- Magnitude of total expenses in the industry.