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MOORE STEPHENS

Winter 2015

Bottom Line

Shipping

PRECISE. PROVEN. PERFORMANCE.

Shipping needs can-do attitude in 2015

Shipping confidence started 2014 on a six-year high and ended it on a two-year low. It is difficult to predict with any certainty what the next 12 months will bring, beyond further uncertainty. To paraphrase an old adage, shipping goes into 2015 needing to accept the things it cannot change, to change the things it can change, and to make sure it understands the difference between the two.

Top of the list of things which shipping cannot change is the relentless march of regulation. In 2015 this will assume still more onerous proportions with the inception of new regulations governing Emissions Control Areas, and a further step towards ratification of the BWT Convention.

Overtonnaging is top of the list of things which shipping can change. Accelerated scrapping is needed, together with an acknowledgement that there are already too many ships on the market and that, absent some form of rationalisation, freight rates will not pay the bills.
One area where shipping can demonstrate that it knows the difference between what it can and cannot change is in its attitude to private equity. Does private equity not know what the rest of us know, or does it know something the rest of us do not? Rather than bemoaning the short-term commitment of private equity, shipping should be looking to tick the boxes which attract such investors.

Operating costs will go up in 2015, along with the cost of regulation, while it would be no surprise if oil prices were to go up faster than freight rates over the course of the year. Environmentalists will be happier with shipping. There will be increased interest in risk management, without which there will be still more newbuilding disputes of the type currently sitting on the desks of arbitrators, and more companies following the unhappy route into bankruptcy taken by OW Bunker (see page 2).

Shipping embarks on a new year with confidence in a fragile state. The industry is volatile, and will be looking for improved political stability and a stronger global economy. But it should not underestimate its proven ability to endure throughout crises. The biggest danger may lie not in setting the targets too high and falling short, but in setting the targets too low and achieving them.

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Inside

Risk management essential for shipping

The recent bankruptcy filing of Denmark's OW Bunker A/S has set alarm bells ringing in the shipping industry. At the time of writing, the underlying reasons for the company's collapse are still being analysed. Clearly, the recent fall in oil prices is likely to have played a part, but references to major risk management and fraud losses, and to unrecoverable credit, have been common throughout all reports so far.

OW Bunker, a market leader, was listed on the Copenhagen stock exchange in March 2014, and set out detailed risk management procedures in its initial IPO. The fate of the company and the alleged reasons behind its collapse provide a timely reminder to companies in the shipping industry of the potential consequences of failing to adhere to an effective risk management policy.

The communication of risks and their mitigating actions is an important part of the process of embedding risk management into the everyday activities of a company. Sound corporate governance and a proper management structure and technical support systems are central to the ability to identify, control and ultimately mitigate risk in a transparent way.

Shipping is an industry which can benefit greatly from reducing its exposure to risk, not least because it is a significant user of outsourced services and is vulnerable to the risk of fraud on a number of levels. Moore Stephens is carrying out a survey designed to evaluate the level and quality of risk management procedures in the shipping industry and will be publishing the results shortly.

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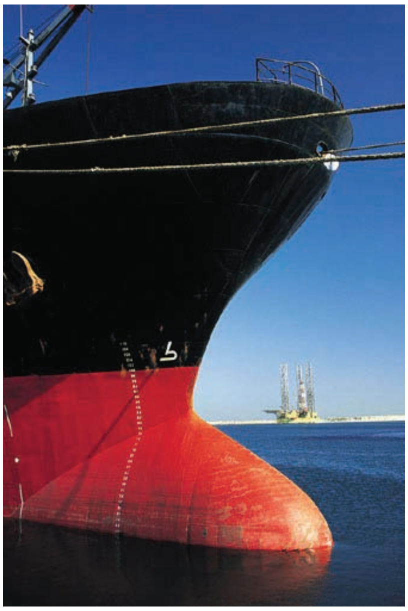

OpCost expanded to include offshore

Moore Stephens' unique ship operating costs benchmarking tool, OpCost, continues to grow in outreach and sophistication. Reflecting our strong presence in the offshore maritime sector, OpCost 2014 includes, for the first time, vessel data on Platform Supply Vessels (PSV) and Anchor Handling Tug Supply (AHTS) vessels, which may be of value for budget planning and transfer pricing studies.

In addition, unique data from our Future Operating Costs survey is now available alongside existing OpCost data. This gives subscribers the opportunity to benchmark their vessels against current and forecast operating costs.

www.opcostonline.com

Chinese freight tax

The Chinese government has issued a notice in respect of Chinese 'freight tax' which took effect from 1 August 2014 and which applies Chinese Enterprise Income Tax (EIT) to non-resident international transportation enterprises engaged in activities regarded as 'international traffic' under Chinese law.

A number of details relating to the new rules are not yet clear, but shipowners and charterers who own or operate ships that visit Chinese ports should consider how the new rules apply to them. Where it is clear that treaty relief is available, it is important to submit the relevant documentation to the Chinese tax authorities on a timely basis. The rules should also be considered when negotiating withholding tax clauses in charter agreements.

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Draft guidance raises issues

In recently published draft revised guidance, HMRC says it does not regard as binding the 2013 decision in *Euroceanica (UK) Limited v HMRC*. As a result, further tax could be payable on interest arising on security deposits relating to loans secured for the purchase of tonnage tax ships. This is difficult to justify.

HMRC have also concluded that the transfer pricing rules must apply where a UK company lends funds to a connected UK tonnage tax company.

Moore Stephens is making representation to HMRC on these issues, which contrast with other helpful changes in the guidance which demonstrate a willingness to be more flexible in certain circumstances.

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UK Autumn Statement update

The UK Chancellor's Autumn Statement 2014 included an increase in the remittance basis charge for some non-UK domiciled individuals and a new charge for individuals who have been UK-resident for 17 out of the last 20 years. The Chancellor also introduced measures to minimise aggressive tax planning by multi-national enterprises.

There were, however, some helpful measures for the shipping and offshore sectors Among other initiatives, for the oil and gas sector it introduced a 2% reduction in the rate of the Supplementary Charge, and an allowance to support the development of high-pressure, high-temperature projects. Meanwhile, an exemption from withholding tax on interest on qualifying private placements could make it easier for companies to raise finance without incurring withholding tax liabilities of up to 20% on interest payments.

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Shipping confidence slips

The average confidence level expressed by respondents to our latest quarterly Shipping Confidence Survey for the quarter ended November 2014 hit a two-year low of 5.7 out of 10.0, compared to 6.1 for the previous quarter.

The likelihood of respondents making a major investment over the next year was down on the previous survey from 5.4 to 5.3 out of 10.0. Demand trends, competition and finance costs were the top three factors likely to influence performance most significantly over the coming year, while 40% of respondents expected finance costs to increase.

There was a fall in the numbers expecting higher freight rates in the tanker, dry bulk and container ship trades.

Read the full survey report at:
www.moorestephens.co.uk/confidence

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Shipping events

Moore Stephens is hosting a regular series of workshops as part of its commitment to keeping its shipping clients fully informed of industry developments.

In January, Cassie Forman, Director in our Shipping Group, will overview the impact for shipping entities of the current UK GAAP being replaced by four new standards.

February's workshop will see shipping tax specialist Sue Bill consider some corporate tax issues relevant for shipping groups (other than tonnage tax) such as transfer pricing. In addition Robert Facer, VAT specialist, will overview current UK VAT requirements and opportunities.

For details of these and other events visit:
www.moorestephens.co.uk/shippingevents

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Profile: Chris Beveridge

When Chris Beveridge was at school, he would have dismissed as sheer madness any suggestion that he would earn his living from accountancy. Yet that is what he does today in his role as a senior manager with Moore Stephens.

Chris's first job was a back-office role with a high street bank. The money was rubbish, but it was local. He then posted 300 job applications and was offered one job with an accountancy firm, which is enough for anybody. Having qualified, he moved to Moore Stephens seven years ago, specialising in IT, in which role he has advised a number of shipping companies.

Chris has just returned from a one-year secondment with a major international bank, working with their corporate restructuring team on shipping deals. "That experience was invaluable," says Chris. "It gave me an understanding of a very different sort of working environment, and helped further strengthen the knowledge of shipping which I had already built up. So when I came back to Moore Stephens it made sense for me, and for the firm, to specialise in shipping."

Chris has just been appointed as one of three managers within a new projects team. He says, "The team will specialise in advisory work relating to individual projects in the shipping, energy and offshore sectors, and will add real value to the firm's service offering."

Apart from spending time with his wife and young son, sport is the main passion in Chris's life. He is a fervent Tottenham Hotspur fan. You would expect nothing less from somebody born in Enfield and now living in Hertfordshire. Chris is a season-ticket-holder at the club, which means he is free to play a good standard of football himself on Saturday afternoons with a team in the Southern Amateur League, without missing a kick at White Hart Lane. He is rarely available on Thursday evenings, however.

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The devil's dictionary: U is for ULCC

The latest in a series looking at classic and alternative definitions of shipping and accountancy terms.

Textbook definition

ULCC is an abbreviation for Ultra-Large Crude Carrier.

The alternative definition

ULCCs are not beautiful. But they are big. The transportation of oil by sea has come a long way since 1850, when paraffin was transported in earthenware pots from Upper Burma to the stoves of Victorian London. Ten years later, oil was shipped from Pennsylvania in wooden barrels which weighed a ton, cost a fortune, leaked profusely and could only be used once. The idea to pump oil directly into the holds of huge vessels came later, when it was realised that ships had the edge over barrels because they could usually be used more than once.

From there it was only a small step to the Seawise Giant, a ULCC so big it couldn't fit into the English Channel.

Since then, everything has been dictated by the size of the Suez Canal, which has remained completely unchanged apart from several extensive enlargements. The rest is history. ULCC transportation costs still only account for two cents a gallon of the cost of petrol at the pump. The rest is tax.

Size isn't everything.

For more information please go to:
www.moorestephens.co.uk
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