MOORE STEPHENS

Autumn 2016

Bottom Line

Shipping

PRECISE. PROVEN. PERFORMANCE.

Ship operating costs down again in 2015

Total annual operating costs in the shipping industry fell by an average of 2.4% in 2015, according to OpCost 2016, Moore Stephens' unique ship operating costs benchmarking tool.

This compares with the 0.8% average fall in costs recorded for 2014. All categories of expenditure in 2015 were down on those for the previous 12 month period.

Total operating costs for the tanker, bulker and container ship sectors were down in 2015, the financial year covered by the study. On a year-on-year basis, the tanker index was down by 4 points, or 2.2%, while the bulker index fell by 6 points, or 3.6%. The container ship index was also down by 6 points, or 3.7%. The corresponding figures in last year's OpCost study showed falls of 2 points in both the tanker and container ship index, and of 1 point in the bulker index.

There was a 1.2% overall average fall in 2015 crew costs, compared to the 2014 figure. Tankers overall experienced a fall in crew costs of 1.3% on average, compared to the 0.4% fall recorded in 2014. Crew costs were also down for bulkers and for container ships, by 1.1% and 3.3% respectively.

Expenditure on stores was down by 4.3% overall, compared to the fall of 2.4% in 2014, while there was an overall fall in repairs and maintenance costs of 4.3%, compared to the 0.6% reduction recorded for 2014. The overall drop in costs of 3.2% recorded for insurance, meanwhile, compared to the 0.4% fall recorded for 2014.

This is the fourth successive year-on-year reduction in overall ship operating costs. The reduction is three times that recorded 12 months ago, and had not been widely anticipated. It is likely to be due in part to continuing good husbandry in a difficult operating environment, and partly to an extremely difficult market and wider economic climate.

The shipping sector can draw some comfort from a fourth successive annual fall in operating costs. But it should remember that costs can move both ways. However, inflationary pressures on operating costs will remain. To be competitive, ship owners will need to continue to improve efficiency, innovate with new technology and harness the considerable benefits of 'big' data without delay.

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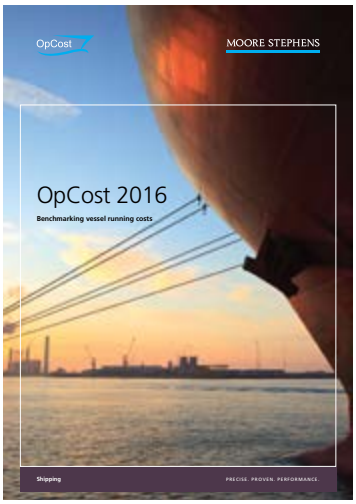
Inside



Major challenges following BWM ratification

It has been a long time coming, but recent accession by Finland has triggered the entry into force of the International Convention for the Control and Management of Ships' Ballast Water and Sediments (BWM) convention.

The convention will enter into force on 8 September 2017, by which date vessels will be required to have a ballast water management system in place, or have one retrofitted at the time of the vessel's first drydocking thereafter. However, it should be noted that discussion continues about some of the practical details of implementation.

Under the convention, ships in international trade will be required to manage their ballast water and sediments to certain standards, according to a ship-specific ballast water management plan. The ballast water performance standard will be phased in over a period of time. Most ships will need to install an onboard system to treat ballast water and eliminate unwanted organisms.

Shipowners and operators, meanwhile, still face uncertainty about which systems to install, with more than sixty type-approved versions on the market. And while many have already installed systems on their vessels, none of these has received US Coast Guard approval.

It has been argued that the entry into force of the BWM convention could have a positive effect on overtonnaging, with many older vessels deemed not to warrant the cost of upgrading. Meanwhile, the potential cost and financing challenge represented by BWM compliance is enormous, although the accounting should be more straightforward. Initial installation, including retrofit, will be treated as capital expenditure, while ongoing operation will be an operating cost. In addition, the impact on vessel impairment assessments must not be overlooked. It is essential that those affected by the new legislation understand exactly what is required of them by what date.

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Women in shipping

Respondents to the latest Moore Stephens Shipping Confidence survey were asked a stand-alone question about the biggest perceived barriers to women playing a greater role in the shipping industry. On a weighted average basis, 31% of respondents placed 'workplace attitude or corporate culture' in the top five factors in this regard. Indeed, more than 65% of respondents saw it as the number one factor. 'Travel implications in day-to-day roles', meanwhile, was a top five factor for 21% of respondents overall, while 'lack of career progression' was placed third, at 19%. One respondent said: "There are no barriers. It is up to the individual to pursue her career with determination and strength of character." Another, however, commented: "The culture in the industry is male chauvinist."

Read the full survey report here.

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Are you sailing in the right NIC waters?

The UK National Insurance Contribution (NIC) rules for mariners have always been complex – and do not appear to be getting any simpler. Factors to be considered include different rates of contributions to other employees, differentiation between mariners and other continental shelf workers, and EC legislation that can vary depending on where the mariner works/lives, etc. The rules for tax and NIC for such workers can also vary significantly, with the added complication of differing definitions being used, such as 'mariners' and 'seafarers'.

Businesses should review their existing practices to assess their exposure and make appropriate changes where necessary.

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Managing tax risk effectively

A number of initiatives worldwide are contributing to a new environment of tax transparency and information exchange between countries.

Certain 'large' UK groups/sub-groups will have to publish their tax strategy, including their approach to tax risk management and tax planning. The Finance Act 2016 now gives the UK Treasury the power to require that this includes a country-by-country report.

In a separate initiative, the Common Reporting Standard (CRS) is likely to help the UK and other tax authorities tackle tax evasion. Countries which have signed up to the CRS must obtain information from financial institutions and exchange it with other CRS signatories. All investment income will need to be reported. If this information provides HMRC with reasonable grounds to suspect tax fraud, it is likely to be able to obtain a wide range of additional information from other countries via tax treaties and conventions.

These initiatives mean that, more than ever, it is important to manage tax risk effectively, by reviewing structures and in particular transfer pricing documentation.

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Shipping relaxes its risk management awareness

Moore Stephens' second annual Shipping Risk survey revealed a lower level of satisfaction on the part of respondents that sound risk management was contributing to the success of their organisations. The average rating was 6.6 out of 10.0, compared to 6.9 last year. The rating for the extent to which risk was being managed effectively was unchanged at 7.0 out of 10.0.

Estimates of claims and provisions, and changes to legislation, were deemed the most likely factors to result in a material mis-statement in companies' period-end financial statements.

Other findings of the survey included:

- 69% felt that senior managers had a high degree of involvement in enterprise and business risk management;
- 41% noted that risk was documented by the use of spreadsheets or written reports, whilst 35% confirmed that risk was managed by means of discussion without formal documentation.

Read the full survey report here.

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Persons with Significant Control register

Companies registered in the UK and operating in the shipping industry are among those who will be affected by the introduction of the Persons with Significant Control (PSC) register.

With effect from 30 June 2016, for the first time, PSC information has been open to public online scrutiny. This information must be filed annually by companies in a confirmation statement (CS01), which replaces the former annual return (AR01).

The statutory requirement under the PSC register is for companies to identify their ultimate beneficial owners and controllers, and to ensure that details of their holdings are made public. The PSC is designed to improve transparency around the ownership and control of UK businesses and to improve the UK's reputation as a fair place to do business.

Read the detailed factsheet here.

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Profile: Nick King

Nick King is to retire shortly after 38 years at Moore Stephens, having joined the firm as a qualified chartered accountant in May 1978. This could be the first time anybody has referred to Nick as 'retiring'!

After two years of shipping audit experience, Nick, whose father owned a shipping business, moved to the Special Services Department, dealing with investigations and litigation. His first major forensic case as leader was the investigation into the bankrupt estate of Hilmar Reksten in the late 1980s, where he was the only accountant in a team of over 100 lawyers. This case required the creation of complex discounted cashflow models, a skill which Nick has developed throughout his career.

In the 1980s Nick was offered his first marine salvage case, Nagasaki Spirit, which went to The House of Lords. Thereafter, he made a name for himself as the go-to expert on accountancy issues in salvage, and was invited to become a member of the British Maritime Law Association. In the past decade, Nick has added a further specialisation in the calculation of time charter damages.

Nick says: "Finding accountancy-based solutions to commercial problems has always been my main interest. If no-one has done it before then that's even better." Nick will be greatly missed, but Moore Stephens has a long established Shipping Forensic team, led by Phil Cowan, which is well-placed to serve the needs of the client and contact base in this specialist area.

Nick's assignments for Moore Stephens took him pretty much all over the world but, happily for the firm and its clients, he kept coming back. Now he is looking forward to a busy retirement. Both he and his wife play in rock bands (Nick plays guitar and Heather plays keys and sings) and are hoping to play in the same band one day. Looking back over his long and distinguished career with Moore Stephens, Nick says: "It's been a blast."

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Those were the days: 1963

In 1963, Moore Stephens became the first international accounting network to establish a presence in Greece, with the opening of an office in Piraeus. More than 50 years later, it is widely acknowledged by the shipping community as the leading accounting services provider in Greece.

The four largest tankers in the world fleet in 1963 were of between 100,000 dwt and 149,000 dwt, while there was one cruise ship fewer after the Greek-owned Lakonia caught fire and sank off Madeira just before Christmas. The port of Rotterdam, meanwhile, was unloading its first container.

Philip Larkin said that life was never better than in 1963, between the end of the Lady Chatterley ban and the Beatles first LP. But marine insurance underwriters were still complaining that hull rates were too low. Elsewhere, 1963 saw the start of Beatlemania in the UK, where the average house price was £3,160, and a new Ford Cortina would set you back £675.

We had never had it so good.

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