

SWOT ANALYSIS OF A SHIPPING CLUSTER

Taking its cue from the title of Cyprus Shipping Chamber event on low- and zero-carbon fuels earlier this year, SMI decided to carry out its own SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis of the Mediterranean's island's position as a leading shipping hub ahead of this year's Maritime Cyprus event.

The strengths of Cyprus as one of the world's leading shipping hubs are well known. Home to one of the world's largest concentrations of third-party ship and crew managers, as well as one of the European Union's largest flags, the island's industry centre of Limassol (a.k.a. Lemesos) hosts a wide array of maritime services enjoying the full support of the Cypriot government and a highly proactive shipping association, the Cyprus Chamber of Shipping (CSC).

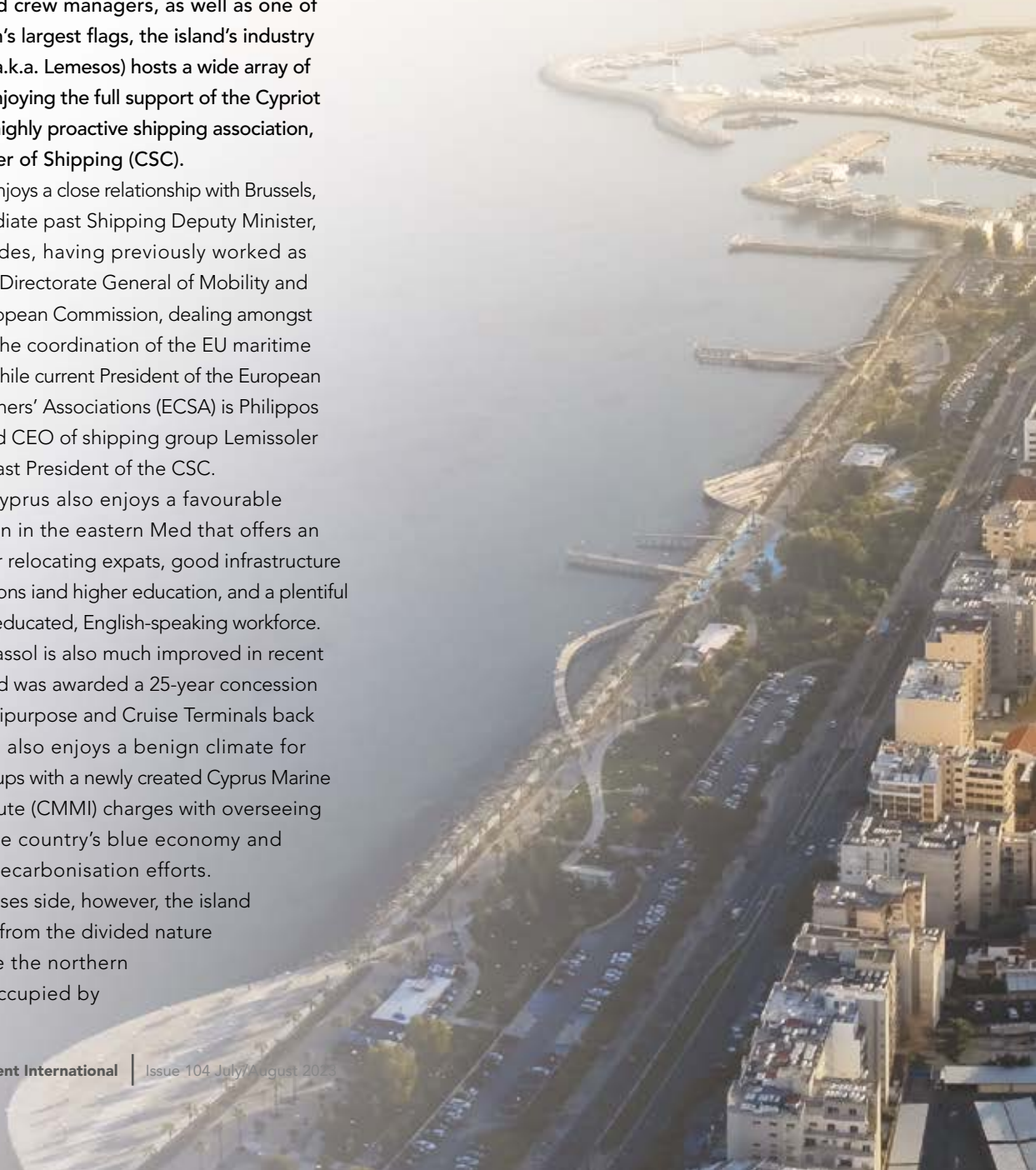
The island also enjoys a close relationship with Brussels, the country's immediate past Shipping Deputy Minister, Vasilios Demetriades, having previously worked as Policy Officer in the Directorate General of Mobility and Transport of the European Commission, dealing amongst other matters with the coordination of the EU maritime transport strategy; while current President of the European Community Shipowners' Associations (ECSA) is Philippos Philis, Chairman and CEO of shipping group Lemissoler Navigation and a past President of the CSC.

The island of Cyprus also enjoys a favourable geographic location in the eastern Med that offers an enviable lifestyle for relocating expats, good infrastructure for telecommunications and higher education, and a plentiful local supply of well-educated, English-speaking workforce.

The port of Limassol is also much improved in recent years after DP World was awarded a 25-year concession to operate the Multipurpose and Cruise Terminals back in 2016. The island also enjoys a benign climate for innovation and startups with a newly created Cyprus Marine and Maritime Institute (CMMI) charges with overseeing development of the country's blue economy and shipping-related decarbonisation efforts.

On the weaknesses side, however, the island continues to suffer from the divided nature of the island where the northern region has been occupied by

Turkey since the 1970s, with a UN-controlled buffer zone in between. Turkey continues to prevent Cyprus-flagged or -linked vessels calling its ports, as well as ships



departing from, or headed to, Cypriot ports.

Speaking at a Cyprus Marine Club event in late June, new Shipping Deputy Minister Ms. Marina Hadjimanolis outlined the government's plans and goals, focusing on collaboration, innovation, and competitiveness as key drivers, to keep Cyprus at the forefront of the global shipping landscape. These included the implementation of a 'One Stop Shipping Centre', intended to simplify procedures and ensure "a more flexible, effective, efficient and customer-oriented service", as well as the implementation of the Shipping Limited Liability

Company (S.L.L.C), which will provide additional benefits for such companies.

Other key objectives mentioned by Ms. Hadjimanolis included the completion of the digital transformation of all services of the Shipping Deputy Ministry, promoting gender equality in shipping through collaboration with the Commissioner for Gender Equality, and raising public awareness with respect to the importance of maritime-related professions.

Addressing the CSC agm the previous month, President Themis Papadopoulos, also CEO of Interorient



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Thomas A. Kazakos, Director General of the CSC



Navigation and a Vice Chairman of the International Chamber of Shipping, had emphasised the need for such a One Stop Shipping Centre and implementation of the S.L.L.C. to further develop shipping as one of the most serious economic pillars of the country. Referring to the longstanding Turkish Embargo to Cyprus ships, he asked for concrete support of the Government and Diplomats to use their influence to immediately lift what he called this "illegal restriction".

In addition, Mr Papadopoulos stated the commitment of the CSC to continue its efforts for the fast and sustainable green transition of the maritime Industry, through its active involvement in regional and international shipping organisations.

Thomas A. Kazakos, Director General of the CSC, adds that since the pandemic, "the shipping Industry's role has become more important than ever, as it is one of the stronger pillars of the Cyprus economy, which has been uninterruptedly supporting it during successive crises. We also noted with satisfaction, that in the aftermath of the recent geopolitical and financial developments, the shipping operational and taxation infrastructure in Cyprus and the Cyprus flag remained intact and very competitive.

The CSC DG believes that "a specialised 'One-Stop-Shipping-Centre' at the Shipping Deputy Ministry is now urgently needed to deal with the special requirements/issues of the shipping Industry, as well as to act promptly and effectively, in cooperation with other Government Departments, to process fast the services it will undertake." He explains that this will essentially be a 'fast-track' service for all shipping-related matters and should have direct and fast access/priority to all relevant Cypriot authorities/ministries.

Opportunities-wise, Mark O'Neil, CEO/President of Columbia Group and also President of InterManager, points to the many advantages of Cyprus as a jurisdiction for maritime companies to set up within, including its modern infrastructure, excellent schooling and education ethos, and "extremely sophisticated professional cadre – i.e. accountants, lawyers, IT consultants, which actually are of a level that rivals some of the main financial centres around the world." Geographically it's a fulcrum between Middle East and Europe, he adds, and has already built up a maritime cluster with "all of the services around the shipping space that you would have in Singapore or Athens or London. So, lots of great advantages, including a very stable political landscape where the governments are very keen to promote shipping and promote the maritime space going forward.

"The threats," he continues, "are from other maritime hubs and clusters that want to capitalize on the opportunities that come with that description. So

obviously Singapore leading the charge, Athens, London, Dubai, and some of the Middle Eastern countries who want a slice of the action and want to compete for the business that goes with it."

In short, there are "very dynamic other clusters out there that will be wanting to take business away from Cyprus," he concludes. "And Cyprus must deal with that and continue to modernize and continue to offer advantages to the players in this space" - including favourable taxation, schooling and other factors that matter to expats in order to first attract quality talent to Cyprus and then ensure it stays.

As regards his own company, Columbia has in the past year or two been transitioning itself from being solely a ship management company into an integrated maritime, logistics, leisure and renewables services platform, he relates. "One of those services, and perhaps the most important, being its technical and crewing and commercial



To mitigate the impact of the conflict, Cyprus has had to carefully navigate its diplomatic stance



management of vessels.

"This transition has resulted in a new brand, the Columbia Group, under which many verticals spread and one of the most important being ship management, but that's changed the whole perspective of the business, and also allowed us to offer our clients 24/7 turnkey solutions to their requirements wherever those requirements might be." The company's ESG report is also "perhaps one of the leading, best quality reports in the industry," he adds.

Bernhard Schulte Shipmanagement (BSM) is another company whose history is deep-rooted in Cyprus, the company having last year celebrated the 50th anniversary of its foundation in Limassol. "Cyprus benefits from its strategic location in the Eastern Mediterranean Sea, at the crossroads of the major international shipping routes

between Europe, Asia, and Africa which favours worldwide trading," points out Andreas Solomonides, newly appointed Managing Director of BSM Cyprus. "This, along with the financial incentives offered by the Cyprus Tonnage Tax System certainly attract owners to register their ships under the Cyprus flag and establish ship owning, ship management, and chartering activities on the island.

"The fact that Cyprus is an EU country, situated in a strong geopolitical location with a great reputation encourages the growth of the island nation as an attractive maritime hub. We are very optimistic about the future of Cyprus as a leading maritime cluster and its ability to adapt, evolve and thrive in this competitive environment."

One of BSM's own strengths is its access to a large talent pool of 20,000 highly trained seafarers from 80 different countries, and the company operates its own wholly owned Maritime Training Centre in Limassol, one of five worldwide. This supports seafarers' career progression and includes an innovative Liquid Cargo Simulator offering realistic training and immersive experience for seafarers working onboard gas carriers and LNG fuelled ships.

Going forward, Mr Solomonides sees compliance with the EU ETS (Emissions Trading System) as one of the main immediate challenges that will impact the company and its customers. "We are in constant discussions with our clients on

this topic," he says, "and are looking into the development of solutions to support them navigate the complexity of these upcoming requirements. We are currently investing in the development of specialist teams and IT tools required to ensure a smooth transition to EU ETS. Within our state-of-the-art Fleet Performance Centre, we intend to offer transparent live data driven IT platforms showing a vessel's consumption in relation to geolocation and time as well as the resulting EU ETS exposure."

Dieter Rohdenburg, CEO of Intership Navigation Co, part of the Hartmann Group of Germany, points out that the Cyprus maritime cluster "has developed strongly over recent years – both in terms of quantity and 'quality'. New ship owners and managers have set up shop, we have seen the first P&I Club setting up its EU HQ in Cyprus and several investment funds were licenced. "There is opportunity for further growth in the 'core function' of ship owning and management as well as in ancillary functions, some of which were lacking in the past." he believes, especially with introduction of the 'one-stop-shop' and S.L.L.C. for shipping companies.

"The only challenges I can see relate to the infrastructure in Limassol, the island's main maritime business centre. Limassol has become a victim of its own success, office space

and living quarters come at a premium and securing a place in schools for the children of expats can be challenging."

As regards the impact of



the Russian war with Ukraine on the Cypriot shipping cluster, Mr Rohdenburg believes that this has been “in line with that on other clusters – some ship owners and managers had relations with Russian companies which they had to sever ties with, others held contracts to transport cargoes to or from Russia which can no longer be performed. And, of course, Limassol saw the closure of the offices of SCF Sovcomflot due to sanctions.

“The largest impact was not on the resident industry but on the Cypriot flag,” he continues, “which has seen a considerable number of vessels leaving for other, non-European registries in order not to have to follow EU sanction requirements. This is concerning, as arguably some of these vessels will have joined the ‘dark fleet’ continuing to trade with Russia in violation of Western sanctions.”

Intership itself has started a process of fleet renewal by purchasing three modern handy bulkers earlier this year. Pelagic Partners, the Cyprus-registered alternative investment fund owned by the Hartmann and Abou Mehri families, has also expanded its fleet over the last year by investing in tankers in the MR and LR1 segments – all managed by Intership and its sister company, Donnelly Tankers – and ordering up to 6 CSOVs (Commissioning Service Operation Vessels) for offshore windfarms at Cochin

to encourage innovation.

“Perhaps one of the biggest challenges for our company, and indeed the cluster on the whole,” he continues, “is continuing to attract new talent, and not just shore-based experts from within our industry, but also outside, such as software engineers, product owners, data specialists, in marketing, environmental, and other areas. This is needed to help our industry become better at successfully innovating its way through the major transformations of decarbonisation, automation and digitalisation.

“Truth is, we are making great progress, and at least here in Cyprus, maritime is already highly regarded and considered one of the most appealing industries to work in,” Mr Neophytou believes. “We just need to speak with a louder voice to further demonstrate why maritime is an exciting career path for these professionals, highlighting the many opportunities that exist, and the long-term benefits to one’s career, and livelihood.”

Capt. Eugen Adami, Owner and Managing Director of Mastermind Ship Management Group, introduces a new element in his list of the many Opportunities that present themselves for Cyprus shipping, namely expansion of the offshore energy sector. “The discovery of significant offshore hydrocarbon reserves in the region presents a major opportunity for Cyprus to develop its offshore energy sector,” he says. “This includes exploration, production, and support services, attracting international companies and fostering economic growth.”

He also highlights maritime education and training, saying: “Cyprus has a strong maritime education system, with well-regarded universities, maritime academies and training institutions. This presents an opportunity to continue developing and expanding these programs to meet the growing demand for skilled maritime professionals globally, which are able to take on the decarbonization challenge.” Capt. Adami himself is a Principal Lecturer at Frederick University, Limassol.

The Mastermind founder, a past President of the CSC, further mentions the potential of Cyprus developing further a cruise tourism destination, especially given Limassol Port’s recent investment in modern cruise infrastructure.

As regards ‘threats’ facing Cyprus as a maritime cluster, he feels these include geopolitical tensions. “The geopolitical situation in the Eastern Mediterranean, including territorial disputes and conflicts, poses a threat to stability and can impact maritime activities in the region. Political instability and uncertainty may deter investors and disrupt trade routes. Sanctions are taking their toll on maritime companies which traditionally worked with cargoes, vessels and investments.”

Mastermind itself has taken advantage of the strong



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Shipyard in India for delivery in 2025.

Andreas Neophytou, Joint MD of Marlow Navigation, notes that Cyprus enjoys a “diversified and robust maritime cluster... [which] is a major benefit, as having all necessary providers and stakeholders locally helps foster closer, more personalised relationships, and with this comes greater flexibility and customisation in services. Similarly, the private and public sector collaborate openly and transparently, allowing for effective synergies and helping

markets of late to pay down its debts in accelerated manner and has expanded in the multi-purpose sector with acquisition of a second heavylift vessel. A fleet renewal process is underway, the company has opened a branch office in Germany, and has entered into a partnership to develop digital crewing services that it says are 'human-centred'.

Matrix Ship Management's Mike Dobson, Commercial Director, says the island's proximity to other key ship owning hubs and new emerging markets makes Cyprus "an excellent location as a maritime cluster. Greece has long been a ship owning and self-managing nation," he adds, "but we are starting to see the Greek market open up more to management."

On the 'threats' side, however, he notes "slow manual banking processes in Cyprus cause operational delays that we are not experiencing with our other international bank accounts that use more elaborate algorithms to process their payments automatically."

The Russia-Ukraine war caused "huge travel issues for a large number of our seafarers for the first few months of the conflict," he continues. "However, thankfully the majority of travel routings are [now] fully open and our crew are able to travel to work fairly unrestricted again."

Matrix Ship Management has gone through a period of significant growth over the past few years, Mr Dobson reports, and plans to continue doing so. The company is also exploring other markets with which it has not been involved previously. Also, he adds, Matrix has brought in "market-leading fleet management software and crew management software to ensure we have the data we need in a live environment and our clients' vessels are running optimally with many efficiencies gained in the process."

Costas Th. Joannides, CEO of insurance brokers Marsh Cyprus, feels that the maritime cluster in Cyprus is "booming, there is an influx of foreign investment in a variety of areas, the Government and the Deputy Ministry of Shipping are on a programme of improving the infrastructure further. The private sector despite competition is creative and collaborative, via the various Associations, when it comes to common agendas for the greater good. The outlook is very positive and I personally would like to see Cyprus to be the EU's leading maritime nation."

As an EU nation, however, Cyprus is of course following EU directions as regards sanctions, he adds. "Our company has had its fair portion of negative impact. The volume of compliance checks and procedures that have to be followed impacted our human resource capacity, which we have adjusted at a cost."

The most important development at Marsh Cyprus "is centred around digitalisation which has been fast tracked

during and post Covid-19," he continues. "As a global group of companies we have invested in technology that our clients can make use when assessing their risks. Amongst other we have developed a cyber and an ESG platform whereby clients can assess their status, take action, prior taking informed decisions on their insurance requirements."

Sylvia A. Loizides, Board Member & Head of Shipping for professional services firm KPMG in Cyprus, shares other respondents' views on the "range of promising opportunities" facing the maritime cluster on the island "that can drive economic growth and strengthen its position as a prominent maritime hub" – namely its "robust shipping industry with a favourable tax regime", "competitive ship registration process" and "maritime legal framework". Furthermore, Cyprus' commitment to maritime education and training "ensures a skilled workforce capable of handling modern shipping demands," she notes.

However, the Cyprus' maritime cluster also faces significant threats that could potentially hinder its growth and competitiveness, she continues, listing geopolitical tensions, looming environmental concerns, competition from other maritime hubs, and the general economic volatility of the shipping market.

"Addressing these threats requires a proactive approach, with Cyprus investing in enhanced maritime security measures, sustainable practices, and continued development of its infrastructure and workforce. By mitigating these challenges effectively, Cyprus can bolster its maritime cluster and secure its position as a resilient and competitive player in the global maritime industry."

On the question of the Russia-Ukraine conflict, Ms. Loizides notes that this has had "a notable impact on Cyprus, given the close ties between Cyprus and Russia. Cyprus has been historically known as a popular destination for Russian investments, with Russian businesses using the country as a gateway to the EU. However, in response to international sanctions imposed on Russia due to its actions in Ukraine, Russian investors using Cyprus structures have faced financial restrictions and increased scrutiny, affecting their business operations."

"The conflict and the subsequent imposition of international sanctions on Russia have also led to repercussions for Cyprus shipping specifically," she continues. "Russian-owned ships have been facing severe restrictions on port access, encountering also serious challenges with maritime insurance, classification and financing; crewing companies, already playing catch-up from various COVID-enforced lockdowns and staffing issues, are now having to manage a seafaring crisis (seafarers



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remain on vessels stuck in ports in and around the Black Sea, Ukrainian seafarers are being called into national service, challenges in paying Russian seafarers due to economic sanctions, etc.).

"To mitigate the impact of the conflict, Cyprus has had to carefully navigate its diplomatic stance, balancing its commitments as an EU member and its historical ties with Russia. Embracing sustainable practices and fostering

partnerships with other global players have become essential to diversify its shipping portfolio and maintain its relevance in the ever-changing geopolitical landscape."

In KPMG's own accounting and auditing sector, some of the most significant recent developments include technology integration - such as of AI, machine learning and data analytics into processes – an increased focus on sustainability reporting due to growing concerns about ESG

An insurance broker's perspective

The geopolitical turbulence of the last 18 months has taken its toll on Cyprus very early on mainly as a direct result of the various EU and US sanctions, writes Aphentrica Marine Insurance Brokers.

One of the first and probably the most significantly impacted sectors, was the Cyprus Flag, as many vessels owned by Russian interests/UBOs and/or non-Russian owned but classed under the Russian Registry and/or being insured by Russian insurers have had to be deleted from the registry. Coupled with the fact that Cyprus flagged vessels were barred from using the Black Sea Grain corridor due to the Turkish embargo, which also had an indirect impact on the registry, it is said that as a result of the removal of the Russia-flagged ships, and the change of registration by other vessels, the total strength of Cyprus-registered ships was reduced by about 1 million gross tonnes.

From a business operational point of view, as a consequence of the sanctions and the implications and difficulties in dealing with Russian interests (even if not sanctioned), many companies opted out of Russian business involvement thus losing significant income from that market share. Similarly, companies domiciled in Cyprus have had to relocate to other domiciles such as Dubai or Turkey and the combination of the two has had a serious impact on the economy as well as loss of employment for Cypriots.

Another sector which was directly impacted at the onset of the war, is of course the shipmanagement and in particular the crew management sector. It is well known that Cyprus is one of the largest shipmanagement/crew management centres in the world, with tens of thousands of Ukrainian and Russian crews under their management/employment. In addition to having to work around the primary logistics of being able to pay crew wages to the crew and their families (of both nationalities) sign offs became a huge challenge, in particular of injured or sick crewmembers, let alone the war pulling out of the crewing market a significant part of the seafarer workforce when the industry was already facing post



covid issues and crew shortages.

All of the above in combination created a domino effect that eventually filtered down to all the satellite services, e.g. insurers, brokers, suppliers etc who have all been impacted both in terms of losing business but also in terms of everyday business (sanctioned or not) becoming an administration battle in an effort to keep up and tip toe around sanctions and compliance requirements from banks.

As regards Aphentrica itself, 2023 has been a productive year of expansion and growth. Aphentrica Hellas and the Greek office are well underway to enable us to expand our reach and accessibility to our clients, while the Cyprus office was simultaneously restructured supported by a significant investment in our technology infrastructure, to improve our efficiency and enhance our service levels, so that we are ready to take the company to the next level in line with the succession strategy we set up two years ago with co-founders Marinos Vourgos and Anna Vourgos' son Alexandros joining Aphentrica.

Just a breath away from the company's 30th Anniversary, the company says it is "looking confidently into the future, ready to capitalise on our expertise and market relationships and continue this positive momentum to strive for further growth and development in the coming years, while staying focused on our core values and client-centric approach." ●

issues, driving regulatory changes as authorities worldwide update their standards to align with best international practice, and a growing emphasis on developing advanced fraud detection and prevention techniques.

"These developments are driven by the need for greater efficiency, transparency, and accountability in the accounting and auditing sector," concludes the KPMG Cyprus Head of Shipping. "Embracing technological advancements, addressing sustainability concerns, and adapting to the changing regulatory landscape are essential to staying relevant and providing value-added services to clients in the modern business environment."

Maritime and commercial procurement company GenPro is similarly upbeat about the Cyprus cluster's prospects. "We are looking at an abundance of potential and positive developments for the Cyprus maritime sector," says Managing Director Maria Theodosiou. "In line with the Deputy Shipping Ministry's efforts to achieve shipping decarbonisation by 2050, Cyprus has the potential to further develop its blue economy sustainably. Doing so creates opportunities for foreign investment on the island, promotes the creation of new maritime-related companies, and promotes the island as a competitive, sustainable, and innovative maritime hub."

In the 'threats' column, Ms. Theodosiou highlights the region's geopolitical instability and stringent international environmental regulations. Tightening emissions standards could require significant investments from shipping companies to comply, potentially increasing costs and finally affecting their operations in Cyprus, she says, since climate change can pose risks to port infrastructure and maritime operations in Cyprus like the rest of the world.

"Close collaboration between the government, industry stakeholders, and academia can further enhance the cluster's competitiveness and provide viable strategies to mitigate the risks," the MD believes.

As part of GenPro's ongoing commitment to sustainability, it has just published its first Sustainability Report in compliance with the latest Global Reporting Initiative (GRI) Universal Standards, reflecting the company's dedication to sustainable practices and transparency in our operations.

"GenPro is on track to have an entirely, measurable and verifiable, green supplier network by 2025," says Ms. Theodosiou. Furthermore, the company is currently developing its in-house customised IT platform with the aim of enhancing the efficiency and effectiveness of its processes, enabling GenPro's teams to further optimise their client's procurement processes efficiently. "We believe this initiative will further bolster our service offerings and contribute to our client's success in their own procurement endeavours," concludes the GenPro MD. ●



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