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The Real Cost of Shipping: A Ship Manager's Perspective

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CONTENTS

The increasing costs of running ships:

- Edward's presentation gives a good overall statistical view
- A word about currencies and costs in an international industry
- A word about crewing

Optimize your ship manager

- Larger & smaller fleet sizes
- Wider & narrower scope of services
- Specific clients for specific managers

The costs behind the ship manager's fee

- Where are ship managers located ?
- What are the ship manager's internal costs ?

Surviving on a low level of fees

- The options we chose
- The services we offer
- A final word on running costs

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US$ INDUCED COST INCREASES

- Since 2000 – 2001, the US currency has depreciated considerably against most other major currencies.
- Many suppliers have changed from the US$ to the EUR for most European suppliers and to the RMB for most Chinese suppliers.
- The prices of most goods that remain quoted in US$ have shot up. Crew salaries, lubricating oil and P&I premiums are among these.

Yearly averages	2001	2002	2003	2004	2005	2006	2007	End 2007	Annual change
Euro-US$	0.8958	0.9450	1.1309	1.2438	1.2448	1.2561	1.3704	1.4572	+10%
Euro-Yen	108.04	118.06	130.97	134.36	1.37	146.10	161.24	165.07	
Euro-GBP	0.6237	0.6284	0.6919	0.6780	0.6839	0.6818	0.6846	0.7345	
Euro CHF	1.5104	1.4672	1.3463	1.5441	1.5483	1.5731	1.6428	1.6561	
RMB-US$	0.1208	0.1208	0.1208	0.1208	1.2082	1.2391	1.2810		+3%
US$ RMB	8.2800	8.2800	8.2800	8.2800	8.0700	7.8100	7.5500	7.1900	-3%

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OTHER INFLATIONARY PRESSURES

- Prices have generally increased faster than the US$ has declined: over the past year there has been 3.2% inflation in the Euro Zone
- In fact, IACS Classification societies and other suppliers of services and consumables have upped their prices sharply, even when quoted in Euro.
- The price of Luboils increased by almost 20% per annum between 2004 and 2007:

Year	USD / liter
2005	2.35
2005	2.54
2006	3.42
2007	4.08

- Over the past 16 years, the average P&I supplementary calls were 10.37% p.a.e.
- On top of all this, the massive injection of liquidities into the world financial system over the past three months will have to find goods to match, and unless Governments soak-up liquidity - which seems unlikely - there will be a price bubble.

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PREMIUMS AND FEES

- The only items that have not inflated so dramatically are:

A). Hull premiums for renewed ships: about 3% p.a. over the past 16 years - but now on a roller coaster course

and, of course:

B). Ship management fee: a very soft increase in US$ terms.

- When I was at Acomarit in the late 1970's, a normal basic ship management fee for a handy bulker (no add-on) was in the range US$ 6'000 - 8'000.
- Nowadays, under similar circumstances, you would pay between US$ 10'000 and 15'000 per ship per month, i.e. a 2.5% annual increase in constant US$ terms.

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CREWING

Crewing is our largest activity:

- **Crew wages & travel are paid in US$ to non-US residents, and for many of them it represents a devaluation of their salary.**
- **In fact salaries remained quite low over the 15 year period prior to 2006-2007, when overall payrolls shot up by 25% - 30%, mostly among top officers.**
- **In the past, shipowners in the UK, Germany and a few other Northern countries used to train their crews.**
- **Today, whilst an accountant in Mauritius or the Philippines has his training paid for, most sea-going officers must pay for their own schooling.**
- **As a result, virtually no young Europeans are interested in taking up this profession.**

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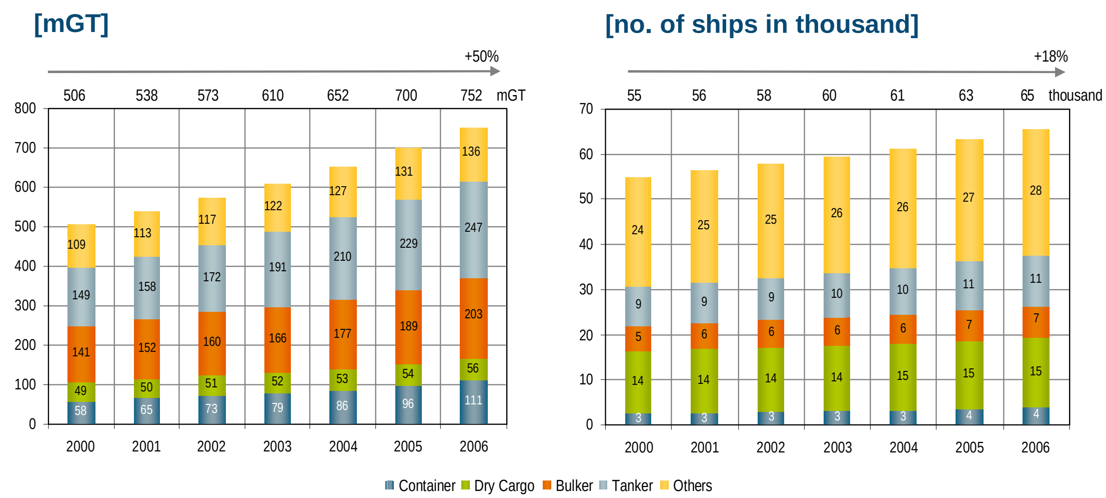
INCREASING NUMBER OF SHIPS

- **The number of ships in service is increasing.**
- **From 2005-2006 to 2007, the number of ships in service increased from 90’000 to 96’000 (UNCTAD, for ships over 100 GRT)**

▶ Approx. 80 % of global Ships in Operation is covered by the four major ship types [GT]
▶ Tanker account for 33 %, Bulker for 27 %, Container for 15 % of world fleet [GT]
▶ Container segment has grown significantly faster than all other shiptypes [GT]



QUALIFICATIONS AND SALARIES

Fewer qualified crews + higher demand = price increases:

- **Many shipowners who had cashed in in 2004- 2005 and had major building programs attracted good Filipinos with wages on average 50% above the norm for qualified officers.**
- **Crew costs will rise further: ITF, not to be lefty behind, announced last week that their wage scale (TCC agreement) has been increased by 9% for 2008.**
- **In the short term, it is cheaper to offer increased salaries and to poach than to train crews. Nowadays, few if any shipowners pay for crew training as it is difficult to retain your crews when another owner offers a 50% salary increase without you knowing about it.**
- **We are fortunate to have a roster of about 800 crew, many of whom remain with us for several years - some have been with us for 15 years or more.**
- **We have an office in Manila and recruit worldwide – in Asia (Vietnam), South America and West Africa and - more recently- China, where we have been pleasantly surprised.**

OPTIMIZE YOUR SHIP MANAGER

- There exist a wide range of ship managers catering to specific clients needs - e.g. larger or small fleet sizes - offering a range of services
- The larger ship managers have become large in an industry that does not generally make profits and the smaller clients should try to avoid certain large managers as they risk being “bullied”, albeit politely.
- Similarly, the smaller managers should avoid certain large shipowners as they will tend to “squeeze” the small manager as soon as they represent a significant share of his activity.
- Bankers tend to go to the larger managers for internal security reasons, but they are rarely large shipowners and have little control - if any - over the large manager. We have seen some dramatic situations arising over the years.
- The relationship between shipowner and ship manager is like a marriage: trust is essential and the two must communicate effectively; some of the larger owners have in-house technical staff to liaise with the manager.

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WHERE ARE SHIP MANAGERS ?

Most Ship Managers are located in expensive cities !

- **“Independent” third party ship managers are mostly located in Hong Kong, Singapore, Glasgow, Monte Carlo, London, Norway in the Geneva region.**
- **“Captive” managers tend to be located in Athens, Italy, USA, India, Germany, Cyprus and Japan (I am not talking about recruiting agencies).**
- **So independent ship management companies are mostly located in places where there is an open international culture, good telecommunications, no social unrest, good travel facilities and English speaking staff are readily available.**
- **It also shows that ship management companies are located in expensive service centres rather than in low cost cities.**

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MANAGEMENT COSTS

Activity	Vessels per manager	Cost US$ per annum	Cost US$ per vessel pa
Crewing	15	100'000	6'670
Crew a/c	15	60'000	4'000
R&M- ops	4	100'000	25'000
R&M a/c	6	60'000	10'000
Purchasing	10	60'000	6'000
Clerk	10	40'000	4'000
Reception	10	40'000	4'000
Management	10	150'000	15'000
Mgt assistant	10	50'000	5'000
Safety	10	100'000	10'000
Marketing	10	60'000	6'000
Rent	10	100'000	10'000
Other charges	10	30'000	3'000
Total		950'000	108'670

PROFITABILITY

So how much does ship management cost ? In most cases, more than the management fee !

- **The above table shows that annual ship management costs work out at well over US$ 100'000 per vessel per annum, whereas the average standard ship management fee currently runs at about US$ 96'000 per vessel per annum**
- **Where is the mistake ?**
- **Of course, ship managers will try to charge for extra days, ISM & ISPS and other "add-ons".**
- **And ship management is a thrilling, but also nerve-racking 365/365 job, with lots of traveling at short notice.**
- **But unless you have the might of the "big ones" - or a large number of very sensible customers - and unless you are very cynical, there is simply lots of work, lots of stress and virtually no profit.**

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SURVIVING ON LOW FEES

In 2005 we realized that we could not survive on ship management fees alone and decided to do things differently, opting to:

- **Select areas of work that benefit from synergies**
- **Reduce the number of ships under technical management (Crew R&M, ISM and accounting) because this activity is uneconomical and can have dramatic consequences when some clients are bad payers**
- **Expand the range and scope of services offered into commercial activities, thus opening the horizon to projects**
- **Maintain a solid crewing activity to keep our large group of sea-going staff as this is the most important part of ship management**
- **Maintain a solid technical consulting basis to support consultancies and projects**
- **Develop projects: Money can be made from projects which need ship management.**

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CURRENT SERVICES

- **Quality technical management - Crewing, R&M, ISM, Insurance, claims handling, accounting and full support - to a smaller number of selected clients.**
- **Crewing - with our own offices in Manila and Dalien and agents in Vietnam, India, Ukraine, Poland - to a smaller number of selected clients.**
- **Supervision for Owners bareboating out their ships**
- **Supervision for Owners delegating technical management**
- **Full management, including all commercial and financial functions.**
- **Bareboat and Time charter management for companies taking a vessel on long term charter and applying her to shorter contracts.**
- **Project management, i.e. sourcing vessels / newbuildings, newbuilding supervision, conversion and modifications, chartering, financing and sale / re-financing / sale & lease-back.**

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RUNNING COSTS

- Although in the longer term and with a larger fleet, running costs appear to be increasing at about 5% p.a., the increases is not regular - as entered into the financial forecasts - but fluctuates with unforeseen events.
- Running costs are lower for sisterships and for clients paying promptly.
- Sisterships and stability are a major source of economies of scale - each change in management implies a (costly) learning curve.
- Running costs tend to be high during the first 12-18 months then to reduce and stabilise as parties on board and ashore get to know the most suitable crew, suppliers, insurers trades and other activities around the ship.
- As an example, we had two 6’000 dwt container feeder ships that kept the same running costs of US$ 2’500 pd (+/- 5%) from 1993 until 2005 with 357 days per annum on hire (inclusive of drydocking periods). By 2005 the ships were 33 years old and were beached as no charterers wanted them.

PROJECTS

Finally, on the project side we see significant potential in China:

- **We have recently sourced in China, supervised the construction of two newbuildings in China, modified the ships and improved the construction quality, chartered them out and sold them to groups of investors.**

- **There is still considerable potential for profitable new-building business in China – although not in Korea or Japan - but a solid team on the spot is essential, failing which you may end up in serious trouble.**

Thank You !