



The Bottom Line

Business advisers and auditors to the shipping industry

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Crunch time for shipping?

Problems always come up on the blind side. Everyone in shipping has spent two years with their fingers crossed, hoping the bulk markets could keep up their bull run. All the optimistic eyes were on Chinese and Indian demand, while the pessimists looked at massive order books for new tonnage and shook their heads at the folly of shipowners. The shipowners simply smiled and carried on salting away cash. Then out of the blue came a problem with US housing debt, and suddenly money for shipping is going to cost more. Is it crunch time for shipping?

No, it isn't. The credit squeeze on the banks will make money to finance new ships more expensive. It will make banks more choosy about who they lend to and stricter on their terms of lending. It will cut the number of banks in shipping, cut the number of syndicated deals and crush any prospect of clever banks dreaming up new ways to slice and dice shipping debt. 2008 will begin with shipowners actually having to ask banks for money and having to justify why their project for a newbuilding deserves the bank's backing. But this new atmosphere in the ship finance market will not be a crunch. Rather, it will be a welcome return to sanity.

Shipping as a whole is still behaving as if the market cycle has been magically abolished, even though tanker rates have already come off the boil, LNG carriers and container ships are going to lay up, and everyone can see massive newbuilding delivery schedules for the next two years. Five golden years of Chinese demand, helped along by port congestion and growing demand from India, have ensured that we enter 2008 with record dry bulk rates. And dry bulk is wagging shipping's tail, attracting banks, money and some owners who should know better.

What's coming for 2008? We cannot be sure of the market, but we can be sure of rising costs. Finance costs are rising as bank credit becomes harder to tap. P&I calls are soaring as clubs find investment income less healthy and calls expensive. Crew costs are set to climb even faster, as the world supply of skilled seafarers tightens further. The cost of crewing is not just the wages, it is the costs of mistakes, delays and damages from unskilled crews and the costs of training and retention to minimise those damaging costs. Wise owners are investing in skilled manpower, knowing that this will see them more able to attract business and finance, whatever the markets do. And a massive change in air emissions regulation is pending, which will certainly push up shipping's costs further.



"Expect to pay more for money, more for crews, more for fuel, more for insurance, and more for regulatory compliance."

Public equity? The death of the US economy has been exaggerated, and the devalued dollar is likely to save it from a real crash. It may well drive a US export boom, helping balance container shipping trade flows. There is still cash there looking for a home, and despite the shelving of some shipping IPOs, shipping can still look attractive in a market where other options, especially those linked to domestic economies, look less attractive. So there will still be public deals, just as there will be bank deals, but on a more selective, and more sustainable, basis.

So for 2008 expect to pay more for money, more for crews, more for fuel, more for insurance, and more for regulatory compliance. And keep on keeping your fingers crossed that demand led by China and a recovering US will sustain the market.



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VAT changes

A ruling by the European Court of Justice (ECJ) reminds businesses to take care when supplying goods to other member states.

To zero-rate supplies of goods to other member states, UK businesses must obtain the overseas customer's VAT number for inclusion on the invoice, and hold documentary evidence of the goods being shipped to the other member state. The ECJ case, involving Teleos plc, looked at a situation where goods were supplied 'ex works', i.e. collected by the customer from the factory gate for subsequent shipping. Although the customer did provide documentary evidence of shipping, this was later found to have been falsified.

So how far must suppliers go to meet the zero-rating requirements? The ECJ ruled that they should take every reasonable measure in their power to ensure they are not involved in a supply that would lead to VAT evasion. In other words, don't just rely on documentary evidence, but look for any aspects of the transaction that arouse suspicion.

Meanwhile significant changes have been introduced to the UK's VAT invoicing rules, including the requirement for invoices to show a "sequential number based on one or more series which uniquely identifies the document", rather than just an "identifying number". In addition, businesses making exempt supplies to business customers in other EU member states will in future need to issue VAT invoices. This was not previously required.

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Hadley Shipping grows on strength of dry bulk trades

Paul Trudgeon is Finance Director at Hadley Shipping, which can probably be described as one of the last remaining true British tramp shipping companies, having been actively involved in shipping since 1926.



Paul Trudgeon

But, back in 1989, Paul joined Moore Stephens and worked there with the shipping team for approximately six years, under Paul Powell and Chris Chasty. Paul explains that, towards the end of his time at Moore Stephens, he got to travel quite extensively, mostly to the Russian Far East, and to some of the more remote spots in Central Russia. He adds, not too seriously, "When they asked me to go back to those places the following year, I decided it was time to move on".

And Paul did move on, in 1995. Initially, he moved out of shipping to work for a stockbroker, and then came back into the industry, firstly with a UK-based short sea shipowner and, eventually, with Hadley Shipping, which he joined in 2001.

Paul explains, "Hadley Shipping is a tramp ship operator. Among other things, it owns four panamax bulkers and has a 25 per cent share in a Ministry of Defence ro-ro project. It may be regarded as a comparatively small shipping company in terms of numbers of personnel, but this size brings its own advantages in terms of

decision-making processes and we are always looking for opportunities to expand and develop. Two of the four vessels we own have been purchased in the last two years - one a resale newbuilding bought within ten minutes of it being offered to us, and the other only two years old."

Paul works closely with the Moore Stephens shipping team on audit and taxation issues for Hadley. He says, "When you are a shipowner looking for an accountant, you want somebody who knows about ships and shipping. Moore Stephens is the number one firm in that respect, and always come up trumps for us. In addition to general auditing and taxation work, they have helped us with a group restructuring and, of course, with our tonnage tax entry."

Asked if he would ever consider going back into practice, Paul says, "Never. When I see the regulatory and other issues involved these days, I realise when I am well off. It is more exciting where I am, at the coal face".

Paul's wife, Andrea, who was once Chris Chasty's secretary, wouldn't go back either, although Paul occasionally threatens Chris with it.

Running costs under spotlight

Operating costs don't seem quite so important when freight rates are booming. But even against a background of strong earnings, 2007's increases in crew costs and P&I calls are giving owners cause for concern.



At the end of October, Moore Stephens hosted a Ship Operating Costs seminar, bringing together Belinda Adye, a partner at Marsoft, Ray McNamara, VShips' technical director and Richard Greiner, the Moore Stephens' partner responsible for the OpCost

benchmarking tool, as speakers to an invited audience of owners and operators.

The seminar heard from Belinda about how the market was due to develop, then Richard showed how OpCost benchmarked actual operating costs for a wide-ranging fleet each year. He was able to show how costs have changed over the seven years since OpCost was launched, broken down by both ship type and by cost area.

Ray focused on a number of specific cost areas including lube oils and coatings, then showed how manning is one of the biggest ongoing costs and also most likely to see significant rises due to supply constraints. He explained the importance of management continuity in keeping costs under control.

For a copy of the presentations contact Richard Greiner.

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P&I calls up

The hefty increases in general calls announced by almost all of the P&I Clubs towards the close of 2007 will not have come as a surprise to even the worst-informed observer of the shipping markets.



Michael Butler

In mutual liability insurance, claims equal premium increases. And the 2006 year of account continues to look like the worst year on record in terms of International Group pool claims. All the clubs in the International Group - for the first time ever - have made at least one claim on the pool. It remains to be seen

whether or not 2006 was a rogue year. But even rogue years have to be paid for, and that is one of the main reasons why owners are faced with big increases at the February 2008 renewal.

P&I may have moved from a genuine arrears-calling system to a more upfront operation driven by the demands of regulators, rating agencies and other stakeholders. But there is still a major element within it of paying for the past.

There are other compelling arguments for significant premium increases in 2008. Strong freight markets and a buoyant shipping industry, for example, do not usually equate to lower P&I premiums. The more ships there are trading, the greater the scope for a potential increase in casualties. More ships usually means more claims.

Neither has the recent credit crunch - with its adverse effect on investment returns - worked in favour of the owners and their clubs

The double-digit increases announced for 2008 have not gone down well with shipowners. But, in terms of helping to spread the impact of such volatile costs, P&I continues to show that nobody does it better.

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Outsourcing helps shipping grow

Shipping is a fast moving global industry that demands an absolute focus on the core business. Yet at the same time it is cashflow-sensitive and highly regulated, often in more than one country, which demands solid back-office functions to ensure that accounting and compliance keep pace with the business.

How can shipping company executives manage the contradiction of needing to pay close attention to both driving the business and managing the detail of accounting, payroll, compliance and IT functions? Outsourcing is one answer which delivers professional support and flexible resources while cutting management headaches associated with directly employing staff.

One recent example of a company which benefits from Moore Stephens' shipping and outsourcing expertise is Global Ship Lease Inc, which owns and

operates container ships. Moore Stephens provides a competitive package which delivers a full accounting service, preparation of management accounts for monthly internal reporting and preparation of quarterly and annual financial statements.

Moore Stephens delivers a menu of outsourced services to a wide range of shipping and other businesses. If you would like more time to focus on your business rather than your support systems, call us.

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Speaking out

Moore Stephens' partners are speaking out in support of what the UK can offer international shipping.

In November, Philip Parr, senior tax partner, spoke on the UK tonnage tax regime to an audience in Oslo. The event was organised by Maritime London, and Philip emphasised that the UK regime was stable and that unlike some governments closer to his audience, the UK government was committed to tonnage tax and not likely to raise sudden large demands for back taxes.

Duncan Gregory, corporate finance partner, will be speaking on the subject of London's AIM and its benefits for shipping to the second China Shipping, Ports and Logistics conference, which is being held in London in February. Duncan will explain the aspects of AIM which make it attractive to shipping as a market for international companies to raise equity.



International success

Success breeds success. And global businesses need global partners and providers. Moore Stephens International has been strategically growing its global network to ensure it is of a size to service its growing clients. And that is paying off. Fee income has more than doubled in three years, up 106 per cent since 2004.

2007 fee income for Moore Stephens International was up 22 per cent on the previous year to US\$1.89bn. Growth was strongest in Europe, up 30 per cent. But anywhere in the world, the Moore Stephens International network now has a significant presence, with 621 offices of member and correspondent firms in 95 countries, deploying 19,279 staff. At your service.



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January 2008

Profile: Duncan Gregory



Duncan Gregory hides a dark secret. When he sheds his corporate finance guise he reveals a heavy metal fan, who loves nothing better than thrashing his guitar. But that's in his free time, which when the economy is booming is a little unpredictable.

"We have had a really busy year in corporate finance," says Duncan.

"That's great, because I enjoy the sense of achievement when you successfully complete a transaction. Our job in

part is to help businesses lift themselves to the next stage, raise funds or to help shareholders realise value. When deals are successful, everyone gets a real boost."

Promoted to partner in Moore Stephens' London corporate finance department last year, Duncan has been with Moore Stephens for three years now. "I did mathematics at university and wanted to be involved with businesses as a career and I was always fascinated by deals and listings," he explains. "I saw accountancy as a good business qualification and I joined another firm, qualified there and as soon as I could I moved into their corporate finance department. When I had built up some excellent experience I thought it was time to move, and I could see that Moore Stephens was growing its corporate finance function. So I came here and I'm glad I did."

According to Duncan, most of his work has an advisory flavour, which can involve advising businesses on flotations or sales or acquisitions, and fund raising.

"We work closely with the shipping team," he explains.

"Shipping has its own special needs, and the projects and companies we look at tend to be asset-heavy. The shipping team are experts in their field, we know corporate finance well, so we help each other. We worked together with AIM-listed Global Oceanic Carriers last year and also worked with a family company planning a large listing. We have also carried out a significant number of valuations in the shipping field, which suggests quite a high level of corporate finance-related activity in the sector."

According to Duncan, no two days or two deals are the same. "Every project is different and at any time we have a number of projects at different stages," he says. "That makes it exciting, but also unpredictable, which can play havoc with your private life, but at the same time the job is never boring."

When Duncan is neither working nor smashing his guitar around, he likes to travel and is just back from a trip to Colombia. "Fantastic, very interesting," is his verdict on Colombia. Which also seems to be what he thinks of his job.

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Vladivostok vibes

Lilia Petrova takes great delight in her job title, which is Technical Manager. "I suppose they expect me to arrive with some tools," she says.



Lilia Petrova

In fact she arrived in London a year ago on a short secondment to Moore Stephens London, and is still enjoying life here so much she has no exact plan of when she will return to her native Vladivostok.

"I was born in Vladivostok and studied economic

relations there," she explains. "I worked for the local government investment support services before I joined Moore Stephens in 1998. That was interesting and I was happy to take the opportunity to come here for training and to work with Russian clients on

international matters. I really enjoy the mix of client work I get now. I work across all areas of Moore Stephens' business, as they have a lot of clients in Russia. They have many shipping clients there so I often work with the shipping team."

Ask Lilia what she likes about London and she smiles. "In Russia both work and everyday life are stressful," she says. "But here all the stress is at work, and life outside is easier."