



# The Bottom Line

Business advisers and auditors to the shipping industry

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## Managing uncertainty

The only certain thing about shipping is uncertainty. Shipping is the business most exposed to the merciless and often unforeseen swings of the global market. Currency shifts, volatile earnings, unexpected weather, unstable regional economies, wars, energy crises - these are the daily background to the business of ship operation.



The good news is that shipping has learnt how to manage much of that uncertainty. The bad news is that when times have been good for a while, owners forget what they have learnt in the bad times.

This is such a time. Shipping as a whole has enjoyed a longer than normal holiday from plunging freight rates. Demand has been relatively steady, most sectors have seen good rates for a couple of years and there has been no great crisis in supply or manning or new regulation. Even the wars and pestilence afflicting the planet have played well for shipping, generating trade and raising rates. But it won't always be like this.

As we write, the main currency of shipping, the US dollar, is under severe pressure while energy costs look set to stay high. The US consumer is hard pressed and China is no longer so set on breaking growth records. Many sectors will shortly have to face up to the overhang of new ships set for delivery. So what will this mean for rates? Can they withstand the pressure and continue to maintain the higher levels of the past two or three years or, as in previous cycles, will rates tumble across the board? For many owners, this decision is too hard to call and many are waiting to see before making long-term commitments. Add the ever-growing desire of the EU to regulate shipping, and the activities of ever-bolder environmental pressure groups that are already actively impeding normal scrapping, and there is good cause to take a few minutes to think about managing uncertainty.

What might be forgotten? First, the need to keep the ship battened down and watertight. Companies with good cash income relax, and small costs grow quickly into big ones. So look carefully at running costs at all levels, and don't commit to anything that will be hard to service if markets move the wrong way. Check the security of your income. Are the companies paying you strong, and are they ready for a downturn?

Second, apply a sceptical scrutiny to all new projects. The time for new projects is when the market is bottoming out, so that the upswing pays for them. This is not that time, and any assumptions must be based on long-term historic performance in any given area, not recent figures. The world may change, but it hasn't recently, despite what some project-hungry people will tell you.

*Shipping as a whole has enjoyed a longer than normal holiday from plunging freight rates.*

Third, take a long hard look at your systems and corporate governance. Do you really know what is happening in the company? Will you be aware quickly if you spring a leak? Is information, income and technology as secure as it should be? Get yourself an internal audit and an IT security and system risk health check.

Fourth, have a good check through your crisis management plans and your insurance. Crises never come alone. Just when finance and earnings get tough, that's when ships begin to sink, charterers default and your best managers jump ship with all their knowledge. Be ready.

On a sunny day, it seems silly to check that the umbrella hasn't been eaten by moths, but when it starts to rain, it is too late.



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### Moore Stephens in UAE

Moore Stephens is active in the UAE, supplying corporate governance, audit, consultancy and tax support to a number of maritime businesses.

Gulf Energy Maritime, a joint venture between Emirates National Oil Company LLC (Dubai), International Petroleum Investment Company (Abu Dhabi), and Oman Oil Company, has invested more than \$1 billion in a fleet of newbuild and second hand vessels and has turned to Moore Stephens for corporate governance and internal audit support.

E-Ships in Abu Dhabi plans an IPO later this year, which is scheduled to raise in excess of \$300m to fuel future growth plans. E-Ships has used Moore Stephens to provide corporate governance advice pre-listing.

Dubai-based Balaji Shipping, a freight forwarding and shipping company that is part of the Transworld group, has appointed Moore Stephens as auditor.

Oil transportation company Navichart is based in Dubai and is audited by Moore Stephens. Meanwhile Moore Stephens has provided salary and compensation benchmarking to UAE-based businesses to help them reward and retain staff correctly. Moore Stephens has both local and global knowledge of costs and compensation and so can help Dubai-based companies maximise returns.

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## Navichart benefits from Dubai base

Ask Valeri Babak why he chooses Dubai as a business base and his first reply is very simple, "After a lifetime in Russia and Sweden, I need the sun to recharge my batteries."

But as chartering manager of Navichart, Valeri has a lot more reasons for being in Dubai than simply to enjoy the weather. "We are an international company, working for Russian oil majors and international traders," he explains. "Here in Dubai we have a safe environment, good infrastructure and communications, friendly people and a perfect location for dealing globally."

Navichart and Valeri have been in Dubai for two years. From there, Navichart provides logistics services for oil and products transportation from the Russian rivers' system to the international market. Last year, it handled around five million tonnes of oil and products moving from inland ports to St Petersburg and Port Kavkaz, on the Kerch Strait between the Azov Sea and the Black Sea. "We moved about 2m tonnes in the north and 3m in the south," says Valeri. "This is a niche business. We live on our expertise, and Russia is a changing environment so we have to keep on our toes to provide the big companies with something they can value. The big companies have a tendency to try and hire young cheap people and forget they need expertise, especially when at any time you can have new ports or railway services or other competition for moving your goods. For me, that's another good reason for being here in Dubai, it is such a dynamic and fast moving environment. You can do things and see the result of what you do, and 170 nationalities live and work in peace here. There is a real buzz about it, and that's important to us. Living and working here makes people happy and alive."



Valeri graduated from the Higher Marine Academy in Odessa and began his career as a deck officer sailing on tankers out of Baltic Sea ports. He moved on to work ashore for the river-sea tanker operator Volgatanker and then when the Soviet Union collapsed he moved to Navitank in Sweden. Today, he is working for a major charterer of inland waters tanker tonnage in Russia, with goods moving throughout the river network and linking to the global energy market. Moore Stephens provides Navichart with auditing services. And Valeri values the expertise they bring to that. "These are real professionals," he says. "They really help us to improve our performance and ask us real questions that keep us aware. When I need good advice I know where to ask, I feel secure having Moore Stephens to work with."

## Middle East hot spot

Think of the Middle East and you think hot spots. Tension hot spots like Iraq and Iran. Or, financial and business hot spots. That's when you think of Dubai.



Dubai has always been a mercantile centre, but only recently has it transformed itself into an attractive place to set up and run a maritime business. But it has been a remarkable success, and is poised to grow further. The establishment of free zones has

been the key to attracting inward investment. The Dubai Maritime City is still embryonic, but other specialist free zones are booming. Dubai is a friendly environment in which to live and work, it is an efficient place to be based and the financial advantages of the free zones help companies succeed.

Well placed as a hub between Asia and Europe, Dubai has great air and telecoms services and is working hard to attract more shipping business. Already the first global sharia-compliant shipping fund has been established there, a joint venture between UK-based Tufton and a local bank. Moore Stephens is already there too, supporting both local and inward shipping investment.

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## Moore news

### Moore clients

Moore Stephens PC in New York has been appointed as auditors to New York Stock Exchange-listed Arlington Tankers. Bermuda-based Arlington Tankers owns eight very modern double hull tankers.

Rio Tinto Shipping, the ship chartering and owning division of mining conglomerate Rio Tinto, has appointed Moore Stephens to provide accounting and tax compliance support for its UK tonnage tax vessels. David Anstis is the engagement partner.

### AIMing high



London's Alternative Investment Market is looking like an increasingly attractive place for shipping companies to access public equity.

Although only one shipping company has listed on AIM so far, Moore Stephens is working with

a number of others who expect to come to the market this year. Moore Stephens has extensive experience as reporting accountants to companies listing on AIM, and with shipping, and sees the capital spread and structure of the market as being attractive to shipping IPOs. Typical company market capitalisation is between £20m and £200m, so shipping companies can appear as significant players, but there is sufficient capital in the market to support much bigger players, where for instance one of Moore Stephens' non-shipping clients has a listing valued at £1.4 billion. The availability of capital, the lower costs of listing and the lighter and more flexible regulatory environment as compared with US listing is proving interesting to shipping. For details of AIM and how it can help your shipping company attract equity, contact Phil Cowan at [phil.cowan@moorestephens.com](mailto:phil.cowan@moorestephens.com).

### International celebrations



Left to right: Andrew Gallagher, Patricia Osborne, Peter Brigham and Phillip Evans

Moore Stephens Services SAM has celebrated its 50th year of working in Monaco. The Monte Carlo office has now grown to forty people, serving a strong community of shipping families. The anniversary was marked with a party at the new Bay Hotel, and a visit to the historic Grand Prix. Local partners, Peter Brigham, Patricia Osborne, Phillip Evans and Andrew Gallagher hosted the event, while Julian Wilkinson and Geoff Woodhouse represented Moore Stephens London.

And Moore Stephens Antwerp recently demonstrated its maritime credentials hosting around 300 guests from the local business community at a reception held in the port of Antwerp. The venue was a vessel named "Ark". Richard Moore and Richard Greiner attended from Moore Stephens London.

### Tonnage tax window

The UK tonnage tax regime is providing owners with significant benefits. Existing UK owners can now elect to join the tonnage tax regime until December 2006, enjoying a new window of election, and foreign owners setting up in the UK can enter the regime within twelve months of setting up in the UK. For advice on tonnage tax, its benefits and assistance with election, contact [sue.bill@moorestephens.com](mailto:sue.bill@moorestephens.com).

### IoM course

Moore Stephens has been sharing its expertise on the first ever IMarEST-accredited Ship Superintendents Course. Held in May at various venues on the Isle of Man, the course was a joint venture between the Isle of Man Marine Administration and the Isle of Man International Business School.

Aimed at equipping newly appointed and aspiring ship superintendents with managerial skills, the wide-ranging course is also due to be accredited by the Nautical Institute. It covered moving from ship to shore, managing safety, reporting lines, compliance issues, cost control, budgeting and asset management, quality assurance, documentation, dry-docking costs and media and emergency response.

Richard Greiner, from Moore Stephens' London-based shipping team, provided modules on cost control and budgeting. Richard drew on his experience with shipping accounting and the industry running cost benchmarking standards available through the Moore Stephens OpCost report. The participants, mostly ex-seagoing engineers working for Isle of Man-based management companies, came from five different countries and were employed by Dohle, Dorchester, Lauritzen and other ship management companies.

## Offshore but still full of interest

HM Revenue & Customs could soon know about far more offshore bank accounts. It has recently forced Barclays Bank to disclose the names of individuals holding accounts in certain offshore locations but having UK addresses, where that information is held by the bank in the UK.

UK domiciled residents need to beware. Any of those who have not been paying tax on their interest received could be in for a nasty surprise. Overseas income and gains are taxable in the UK. If amounts have been under-reported seek advice about approaching HMRC - any penalties are likely to be much less for voluntary disclosure.

For UK residents who are not domiciled here, offshore income and gains are generally not taxable unless brought to the UK. For them the issue is one of privacy.

HMRC may now have details of offshore accounts that are outside the scope of tax. Without the recent ruling in their favour, HMRC would quite correctly never have had knowledge of these accounts.

It is likely that the HMRC will require others besides Barclays to provide similar information. Institutions will need to look very carefully at what information they hold in the UK regarding offshore accounts.



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### Quote

*"There are two sorts of forecasters: those who don't know, and those who don't know they don't know."*

**J K Galbraith, celebrated economist who died recently, leaving a legacy of clear thinking which many of today's economists and shipping pundits could benefit from reading.**

## Profile: Andrew Gallagher



Andrew Gallagher radiates enthusiasm. He likes his job, he likes where he lives and he likes his life, and it shows. "Monaco is a great place to live and work," he says. "It's like a village, very safe, and you can be very close to clients and friends. Yet it is so easy to get up to the mountains to ski, or to travel. Plus the weather is good, and the client base here is made up of very interesting people."

Andrew is a Londoner by birth, and he joined Moore Stephens as a trainee in 1988. He has spent the last eleven years in Monaco and

two years ago was made partner. "I'm an audit and business consultancy partner, and many of my clients are in shipping, or are shipping families," he says. "That's the best bit of this job, the people we deal with are real characters. They are entrepreneurial and can be colourful; shipping is not a business for the faint-hearted."

As well as interesting clients, Andrew finds himself working with good colleagues. "This is a young, dynamic office, with an excellent atmosphere," he says. "If it wasn't for the increasing paperwork and regulatory burden that all accountants have to cope with, every day would be a pleasure to go to work."

How did he get into shipping? "When I began audit work in London I was put onto some shipping assignments, and when I qualified I really wanted to travel. So when the chance came of spending a year in Monaco I jumped at it; it seemed just right, combining shipping and travel. Then I met my wife here, and now eleven years on I'm settled here and we have two lovely daughters," explains Andrew. What next? "We have been growing rapidly here in Monaco and many of our clients are growing quickly too. So it is a great opportunity for us to grow with them. And that is both a personal challenge to keep improving service as our clients get bigger and need more, and a pleasure to see them and us successful."

Not a man in a hurry to come back to London, obviously.

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## Tour Pour La Mer

Moore Stephens' shipping team worked hard, in more ways than one, to support the inaugural Tour Pour La Mer.

The TPLM was a 200km cycle ride from historic Greenwich to Le Touquet, aimed at raising funds for the Mission to Seafarers and the Sea Alarm Foundation. Moore Stephens sponsored the ride rucksacks, which proved very popular, and its team was led by senior shipping partner, Chris Chasty.

In a fetching yellow helmet Chasty and his supporting partner Mike Simms made the 82 mile London - Dover run in broiling sunshine, just in time to catch the late ferry. More sprightly David Anstis and two late entries, Jonathan Chidley and Johan Auran, made the coast a little earlier. Along with the other 260 riders from all sectors of shipping, the whole team was lined up the next morning for the French leg. Both Chasty and Simms were seen to take the short cut home, in time to watch the FA cup final.

Including the surplus from the rucksack sponsorship and the individual team members' fundraising efforts,



Left to right: David Anstis, Mike Simms, Johan Auran, Chris Chasty and Jonathan Chidley

thanks to the generosity of friends, families, staff and clients Moore Stephens has raised £12,000 for the two charities, one that looks after seafarers, the other that looks after the sea itself. And despite David Anstis managing to knock bits off their bicycles while driving home through the Blackwall Tunnel, the team will be signing up for the next TPLM.

We believe the information in Bottom Line to be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein.

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