



# The Bottom Line

Business advisers and auditors to the shipping industry

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## Good times roll on?

The end of 2005 was accompanied by a strange humming sound. Everyone in shipping was holding their breath. How much longer can shipowners enjoy the cheapest finance in history, while also enjoying high and relatively steady freight rates? Yards have full order books, equipment suppliers are ruddy-faced with pleasure, ports are coping with growing traffic and trade, even the salvors have stopped moaning all the time.

Old shipping hands keep shaking their heads. How can so many things be going right at the same time for so long? Even the US\$ caught the mood and rallied from mid-year, further boosting the already bulging bottom line of shipowners. What comes next?

Start with the money, because without that, nothing moves. Banks are getting edgy, and although there is a lot of cheap money available now, and owners have equity to match it, the sensible banks have begun to call the bottom of the bank cycle. When major shipping banks are lending at 85 basis points over LIBOR to second tier owners, and they are, common sense begins to seep into bank credit committees. So if you are a bank, start thinking about where else to lend. Seek out niche and emerging markets, and stop chasing the known names. If you are an owner, refinance right now, before the banks read the previous sentence.

With bank finance back under sensible control and owners comfortably refinanced, what next? Look at energy. The cost of powering ships is going to rise. And rise. Oil prices will be high for some time, and alternative energy prices, such as LNG, are off the scale. So look for ways to power ships more economically, hedge out bunker costs and prepare a long-term strategy for a world that will no longer accept ships puffing out tonnes of sulphur and carbon as they pass the coasts of Europe, the USA and other environmentally aware locations.

What about people? This is where owners and operators face their biggest squeeze. After twenty years of eating the seed corn, the world is finally running out of cheap sources of skilled seafarers. In some disciplines, such as LNG shipping, it has already run out of the qualified people required, and new entrants face costs in excess of US\$1m per ship to train the people to run them. At the same time, society is less and less willing to tolerate ships run badly. So owners need better crews, just when they cannot find them. Result? Crew costs are spiralling upwards. Hang on to your good people and train some more.



*"The sensible banks have begun to call the bottom of the bank cycle"*

Money, energy, people; what about ships? Yards are playing a waiting game, holding back on selling slots from 2008 onwards. They hope to get good prices to cover the huge losses they made over the last bump, when steel prices drove them into the red. But owners can hold their breath longer, they have the cash and don't need to move. They expect prices to fall, as no-one believes freight rates will hold up for ever. Unfortunately, history shows that when owners have money, they also have the urge to spend it. So yards with one eye open should start contracting now, quietly, at good prices to well-heeled owners. There is already some sign of that.

Finally, trade. It is still growing, and there is no reason on the horizon why it should not continue to do so. Growing trade means profitable shipping. So take a breath and enjoy working in a successful industry.

Happy New Year!



## The Bottom Line

### Pensions opportunity

There is not much good news about pensions these days. But changes to the UK pensions legislation have created a one-off opportunity for certain employees and directors in the UK to secure either a tax-free bonus or part of their annual remuneration tax-free for 2005/06.

Tax and national insurance savings of up to 54 per cent are possible by creating a special type of pension scheme between now and 5 April 2006. If you are over 50, the cash paid into the scheme can be taken out tax-free after A Day, 5 April 2006, when the new pension rules come into force.

To find out if you or your staff can make use of this one-off opportunity, contact Stephen Humphreys as soon as possible.

**stephen.humphreys**  
**@moorestephens.com**

# Making the most of risk management

Shipping needs to urgently address the issue of risk management or else risk losing high-profile, quality-driven clients.



The industry has traditionally been faced with the challenge of having to comply with maritime legislation, regulations and safety requirements. But too many shipping companies fail to recognise the crucial role that risk management has to play in their day-to-day business.

Firstly, regulators and industry watchdogs are more vigilant than ever before. Secondly, risk management awareness is essential to business success. An oil major charterer, for example, should only be looking to do business with a reputable owner or operator who can demonstrate that it has taken all reasonable steps to manage risk in a comprehensive and responsible manner. That includes, say, having in place a structured system of corporate governance which meets the requirements of the regulators, satisfies the needs of quality-driven business partners, and enables the company's shareholders to sleep well at night.

Moore Stephens has successfully helped a number of companies in the shipping industry - most recently, two major operators of bulk carriers and tankers - to identify

key corporate governance requirements, and then build them into a way of working that steers a middle course between over-compliance and the failure to manage risk.

Risk management has a dual function. It can be used to demonstrate regulatory compliance and, perhaps more importantly - it can be used as a means to help achieve strategic objectives.

Moore Stephens has developed a risk management solution which enables companies to monitor strategic objectives, measure targets, initiate any necessary action, minimise identified risks, and monitor regulatory compliance. And a fundamental benefit of the solution is that management can continually monitor its risk management processes and produce up to date reports at the touch of a button. Shipping is a high risk business, and one in which greater recourse to straightforward risk management solutions can improve profitability, efficiency and safety. Failure to take advantage of the available expertise and knowledge is increasingly becoming a matter for the regulators. Better, for all concerned, to act now.

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## US freight taxes bite

Every shipping business that is connected to US trades should file tax returns in the US, whether or not they consider they will be exempt from the US freight tax. If they don't, they may face punitive fines.



Regulations detailing filing requirements and exemptions now apply to all tax years beginning after 24 September 2004, which means any foreign owner, operator or charterer with a fiscal year end beginning after that date who had a vessel

call at a US port at any time during its fiscal year must obtain a US taxpayer identification number and file a tax return with the US Internal Revenue Service within five and a half months of their fiscal year end. Calendar year companies must, therefore, file by 15 June 2006 and report charter revenue and/or freight income for 2005.

The US freight tax is a 4 per cent tax levied on 50 per cent of the US transportation income of foreign shipowners and operators. Under section 883 of the US tax code, if the company that owns or operates the vessel and a majority of the ultimate owners of the

business are resident in a country which exempts US companies engaged in international shipping from domestic tax, then a reciprocal exemption from US freight tax is granted.

Until now, the rules have been loosely enforced, and many exempt companies have not filed tax returns. The IRS has now stated that every company with ships calling at US ports must file a tax return, and must give clear details of the residency of the owners of the company if they wish to claim an exemption. The US IRS can now match tax filings with US Coast Guard records of port calls, and non-filers face fines of US\$10,000 per month, even if the company is exempt from the tax.

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# Moore news

## Tonnage tax turnout



Recent changes to the UK tonnage tax regime, and recent guidance on leasing, have created new opportunities for shipowners to benefit from using the regime. Moore

Stephens hosted a seminar in October to highlight these changes and opportunities.

The seminar covered recent EU state aid guidelines, flagging requirements, the election window and vessel types. Expert speakers from Moore Stephens and the industry explained the benefits of tonnage tax entry, the training requirements and gave an update on the employment link. Finally, Philip Parr, Moore Stephen's shipping tax expert, discussed advance clearance, bareboat and time charter in tonnage tax, leasing, hedging and freight taxes.

The seminar was attended by a large number of shipowners, many of whom came to London especially for the event, and some of whom have subsequently taken the issue further. For copies of the presentations or advice on tonnage tax contact [richard.greiner@moorestephens.com](mailto:richard.greiner@moorestephens.com).

## Moore Middle East



Al Nisf & Partners, Kuwait's market leaders in internal auditing, IT consulting and business advisory services has become a member firm of Moore Stephens International Limited. Moore Stephens Al Nisf & Partners provides audit, tax corporate finance, risk

management, advisory, information technology and management consulting services. In five years, the firm has become the second largest public accounting firm in Kuwait with a team of 140 professionals. For support in Kuwait contact Manoj Kabra through [mkabra@msi.co.kw](mailto:mkabra@msi.co.kw)

## US support grows

Shipping is growing in importance in the USA, and so is Moore Stephens International. The Moore Stephens North America network has doubled in size in the US market by combining with the Global Alliance, a \$330 million network of eight independent firms.

## Russian knowledge



Speaking at the Mare Forum Russian Energy Shipping Conference in St Petersburg, Gavin Stoddart, head of Moore Stephens Russia, gave a clear picture of the opportunities and pitfalls facing Russian shipowners and external investors in Russia's maritime sector.

Stoddart also outlined what the Russian government had to do to stimulate shipping. A spokesman for the Russian Ministry of Transport congratulated Stoddart on his "clear and accurate summary of what we need to do and why". For copies of the presentation and advice on Russian investment in shipping contact [gavin.stoddart@moorestephens.com](mailto:gavin.stoddart@moorestephens.com)

## Russian moves

Knowing Russia and Russian shipping is a fundamental of Moore Stephens' rapid and successful growth in Russia. That growth is sucking in talent from both local sources and from London.

Latest London team members to move to Russia are Susan Barbour, who has gone to Vladivostok to support the audit team, Neil Sturgeon, who joins the corporate finance function in Moscow, and Jacqui Kingsnorth, who joins the Moscow audit team.

## Size matters

Ever wondered exactly what an aframax is? Been on the phone and needed to discuss hand sizes but couldn't remember what their tonnage might be?

Relax! Moore Stephens has just produced an updated version of its ship sizes card. In easy to use format the card lists and explains all common ship sizes and types. To get one to keep by the phone, e mail [richard.greiner@moorestephens.com](mailto:richard.greiner@moorestephens.com)

## Au revoir, Morten



Morten Bakke, shipping analyst and part-time Norwegian, is leaving Moore Stephens's shipping team to take up a post with the corporate finance section of DVB Bank. Morten has been active in producing the successful OpCost report, and the shipping team look forward to

continuing its relationship with Morten in his new role. And in any case, he still has to complete the Tour Pour la Mer as part of Moore Stephens' team (see page 4).

## Moore governance

Moore Stephens London's shipping team has been called in to provide Abu Dhabi-based E Ships with corporate governance advice. Working with Moore Stephens Dubai and Middle East Strategy Advisers, Moore Stephens are advising state-owned tanker and dry-cargo operator E Ships on a corporate governance structure suitable for a listed company, and also providing a model for the company's business structure appropriate for a listing on the newly opened Abu Dhabi stock exchange. Mike Simms is the partner responsible.



### Quote

*"It's not tourist banks who are lending at silly low rates, it is the core shipping banks,"*

– Gust Biesbroeck, Deputy Director, Global Shipping, Fortis Bank, addressing the Mare Forum Ship Finance Conference in Amsterdam, October 2005

## Profile: John Adcock



John Adcock was born in Liverpool, but has spent more than half his life in the Middle East. These days he is Chairman of Moore Stephens Middle East, and has helped oversee the development and growth of a network of member firms throughout the region.

Having qualified as an accountant, John went to the Yemen in his early twenties, where he was engaged in voluntary work for three years. He was then offered a job by

Ernst & Young, for whom he worked for fifteen years in a number of locations, including Jordan and Oman.

In 1989, John was recruited by Moore Stephens to open an office in Muscat. At the time, the only Moore Stephens member firm in the region was in Saudi Arabia. Today, however, there are eight offices regionally, and John spends a great deal of his time travelling between them, ensuring that the network's reputation for quality is maintained, and overseeing its continued growth and development.

John sees big opportunities for financial consultants in the region. He explains that a number of new stock exchanges have been launched in the last fifteen years, including those in Kuwait, Bahrain and UAR, bringing with them new opportunities for public and private offerings. "It's an exciting time," says John.

There is also a lot of regulatory work. Although financial services are not nearly as closely regulated in the Middle East as they are in, say, Europe or the US, John says they are starting to move in that direction. Moore Stephens undertakes a lot of regulatory work in the area, and recently completed a large corporate governance assignment for a major Emirates ship manager. "There are a number of big shipowners and managers here," says John, "and we are actively expanding our shipping involvement."

One of the things that John likes about working in the region is the fact that contracts are not awarded on the basis of the perceived size of the financial consultants involved. "There is much less discrimination of that sort here than in the US or the UK, for example," he says.

Meanwhile, there are lots of things that John and his wife like about living in Dubai, including the weather and the social life. When he isn't helping Moore Stephens grow and maintain its presence in the Middle East, John enjoys swimming and playing snooker. And he always keeps an eye out for Liverpool's results, having been in the Middle East now for roughly the same length of time it took Peter Crouch to score his first goal for the Reds.

### Who to contact

If you would like further information on any item in this issue of The Bottom Line, or information on our services to the shipping industry please contact:

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## Saddling up

Moore Stephens' shipping team members, Chris Chasty, David Anstis, Mike Simms and Morten Bakke are saddling up and entering shipping's great cycling charity fundraiser, Tour Pour la Mer. What's more, Moore Stephens is sponsoring the rucksacks all 300 participants will be issued with.



Tour Pour la Mer ([www.tourpourlamer.org](http://www.tourpourlamer.org)) takes place in May, when 300 people from all sectors of shipping will ride from Greenwich to

Le Touquet. Helped over the Channel by P&O Ferries, they hope to raise major sums of money for The Mission to Seafarers and the Sea Alarm Foundation. The Mission looks after seafarers; the Sea Alarm Foundation helps oiled wildlife in the event of an oil spill at sea.

Each team of four will raise a minimum of £2,000 for these causes, and the first team home will cover themselves with glory at a grand finish down the seafront of cycling-mad Le Touquet. Chris Chasty says that wherever his team come in the pack, they'll still be the leading accountants in shipping.

To donate in support of the team, contact [david.anstis@moorestephens.com](mailto:david.anstis@moorestephens.com)

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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