



# **INTERGOVERNMENTAL STANDING COMMITTEE ON SHIPPING**

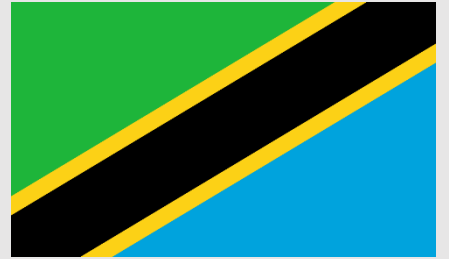
## **TECHNICAL COMMITTEE ON TRADE FACILITATION**

### **THE FLAG OF CONVENIENCE (Experiences & Lessons)**

**BY**

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# THE FLAG OF CONVENIENCE



# OUTLINE

- ❖ OVERVIEW
- ❖ SHIPS OWNERSHIP
- ❖ LEAGE OF 35 OPEN REGISTRIES
- ❖ WHY
- ❖ CRITICISM
- ❖ WAY FORWARD

# OVERVIEW

- **Flag of convenience** describes the business practice of registering merchant ships in a sovereign state different from that of the ship's owners, and flying that state's civil ensign on the ship.
- Also known as Open Registry
- began in the 1920s in the United States, when ship owners were frustrated by increased regulations and rising labor costs began to register their ships to Panama.
- In 1968, Liberia grew to surpass the United Kingdom as the world's largest shipping register.

# Ships Ownership

Country/territory of ownership	Number of Vessels			Dead Weight Tonnage ('000,000)				
	National flag	Foreign flag	Total	National flag	Foreign flag	Total	Foreign flag as a % of total	Total as a % of world
<b>Total top 35 ship-owning countries</b>	18,410	23,950	42,360	471	1,171	1,642	71.32%	94.69%
<b>All others</b>	2,962	2,486	5,448	35	51	86	59.70%	5.01%
<b>Unknown country of ownership</b>			717			5		0.30%
<b>WORLD TOTAL</b>			48,525			1,734		100.00%

# Ships ownership (Top 10 as of Jan. 2015)

## Number of Vessels

Rank	Country/ Territory of ownership	National Flag	Foreign Flag	Total	Foreign as % of Total
1	Greece	796	3,221	4,017	80.2
2	Japan	769	3,217	3,986	80.7
3	China	2,970	1,996	4,966	40.2
4	Germany	283	3,249	3,532	92.0
5	Singapore	1,336	1,020	2,356	43.3
6	Republic of Korea	775	843	1,618	52.1
7	Hong Kong, China	727	531	1,258	42.2
8	United States	789	1,183	1,972	60.0
9	United Kingdom	477	750	1,227	61.1
10	Norway	848	1,009	1,857	54.3

Source: UNCTAD Review of Maritime Transport 2015

# EXAMPLES OF AFRICA COUNTRIES OWNERSHIP

- ANGOLA – 164 CYPRUS, 74 LIBERIA, 32 MALTA, 554 PANAMA, 4374 IN TOP 20 AND 1,024 IN OTHER FLAGS **(5,402)**
- NIGERIA – 2 IN CYPRUS, 350 IN LIBERIA, 275 MARSHALL ISLAND, 516 IN PANAMA, 2,962 IN OTHER FLAGS **(4,105)**
- SOUTH AFRICA – 389 CHINA HONG KONG, 47 LIBERIA, 1 MALTA, 444 ISLE OF MAN, 33 PANAMA, 569 SINGAPOLE, 18 UK **(1,057)**
- KENYA – 20 IN MARSHALL ISLAND, 5 IN PANAMA AND 19 IN OTHER FLAG **(43)**
- TANZANIA – 1 IN PANAMA AND 33 IN OTHER FLAGS **(34)**

## The 35 flags of registration with the largest registered fleet, as 1 January 2015 (dwt)

Rank	Flag of Registration	Number of vessels	Share of world total vessel	Deadweight tonnage (000 dwt)	Share of world (dwt)
1.	Panama	8 351	9.33	352 192	20.13
<b>2</b>	<b>Liberia</b>	<b>3 143</b>	<b>3.51</b>	<b>203 832</b>	<b>11.65</b>
3	Marshall Islands	2 580	2.88	175 345	10.02
4	Hong Kong (China)	2 425	2.71	150 801	8.62
5	Singapore	3 689	4.12	115 022	6.58
6	Malta	1 895	2.12	82 002	4.69
7	Greece	1 484	1.66	78 728	4.5
8	Bahamas	1 421	1.59	75 779	4.33
9	China	3 941	4.41	75 676	4.33
10	Cyprus	1 629	1.82	33 664	1.92
11	Isle of Man	1 079	1.21	23 008	1.32
12	Japan	5 224	5.84	22 419	1.28
13	Norway	1 558	1.74	20 738	1.19
14	Italy	1 418	1.58	17 555	1
15	United Kingdom	1 865	2.08	17 103	0.98
16	Republic of Korea	673	0.75	16 825	0.96
17	Denmark	7 373	8.24	16 656	0.95



## The 35 flags of registration with the largest registered fleet, as 1 January 2015 (dwt)

RANK	Flag of Registration	Number of vessels	Share of world total vessel	Deadweight tonnage (000 dwt)	Share of world (dwt)
19	India	1 174	1.31	15 551	0.89
20	Antigua and Barbuda	650	0.73	12 753	0.73
21	Germany	3 561	3.98	12 693	0.73
22	United States	1 613	1.8	12 683	0.73
<b>23</b>	<b>United Republic of Tanzania</b>	<b>1 313</b>	<b>1.47</b>	<b>11 703</b>	<b>0.67</b>
24	Bermuda	1 245	1.39	11 511	0.66
25	Malaysia	1 777	1.99	9 232	0.53
26	Turkey	2 471	2.76	8 820	0.5
27	Netherlands	1 412	1.58	8 651	0.49
28	Belgium	756	0.85	8 609	0.49
29	Viet Nam	674	0.75	7 351	0.42
30	Russian Federation	963	1.08	7 221	0.41
31	France	670	0.75	6 882	0.39
32	Philippines	646	0.72	6 850	0.39
33	Kuwait	765	0.86	5 440	0.31
34	Thailand	749	0.84	5 070	0.29
35	Taiwan Province of China	586	0.66	4 829	0.28
	<b>Top 35 total</b>	<b>72 377</b>	<b>80.9</b>	<b>1 648 937</b>	<b>94.27</b>

# Why ship owners go for open Registries?

AS OF JANUARY 2014 73% OF WORLD'S MERCHANT SHIPS WERE UNDER OPEN REGISTRY

- a) There is no restriction of Owners or Crew Nationality required.
- b) Large Network also provided for the Surveyors on any Port through Recognized Organizations.
- c) Registration Fees are cheap and competitive.
- d) Less but essential paper working.
- e) Annual taxes are low and some Flags there are no annual Taxes on first year of registration.

# Why ship owners go for open Registries? Cont.

- f) There are no hidden Fees to be asked later, many of them also don't require legal Fees for Lawyers, but some Flags requires it as an essential.
- g) The benefits to set up offshore *International Business Company (I.B.C.)* to save the Taxes.
- h) Mostly the Ships is Registered within 24 hours if all submitted documents are in order and verified from the respective Authorities.
- i) Mostly Shipping Consultant offers one stop service for Registration, Classification, Radio accounting, Dry Docking even Ship sale and purchases.
- j) Open 24 hour a day, 7 days a week, 365 days a year, and on-line basis

# BENEFITS DERIVED FROM OPEN REGISTRIES

Developed Countries (Ship Owners)
Avoid expensive labor due to strict labor laws in their country
Avoid taxes which is higher compared to those in open registry governments
Avoids strict safety regulations which adds to operating costs
Increase profit through reduced operating cost by cutting on labor rates, taxes, and fees

Developing Countries (Operators of Open registries)
Job creation that is seafarers employment on ships owned by owners from developed countries
Increase tax base which is lower through incentives given compared to those in developed governments
Safety issues are relaxed to attract more ships to register
Gains on revenue through small taxes from registration and employment of seafarers.

# CRITISM

- Anonymous ownership of fishing vessels and
- Poor regulatory enforcement resulting in
  - Environmental damages,
  - Crimes,
  - Terrorism and
  - Ill treatment of sailors.
- Cambodia's Ship Registry was shut down in 2002 by Prime Minister Hun Sen when their ship was caught for smuggling cocaine. In 1982, Honduras closed its ship registry due to rampant smuggling which gave the county a "black eye". When the Marshallese registered Deepwater Horizon blew up in the Gulf of Mexico in 2010, the Marshall Islands got world media attention that they did not need.

# WAY FORWARD

- HOW IMPORTANT ARE OPEN REGISTRIES TO OUR REGIONAL ECONOMY?
- HOW BEST CAN OPEN REGISTRIES BE OPERATED IN THE REGION?

**THANK YOU FOR YOUR ATTENTION**

**GOD BLESS YOU ALL**