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Financial and Other Benefits Through Using Flag of Convenience in the World: Panama, Marshal Islands, Malta, Cyprus and The Bahamas¹

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Introduction

Registration of vessels in FOC (flag of convenience) countries has accelerated since the 1950's.² In 1988, this registration has overtaken Traditional Maritime Countries scope (TMC).³ Nowadays, most of the vessels in the world, by DWT (Deadweight Tonnage), are registered in flag of convenience countries.⁴ Israel was also influenced by the use of flag of convenience and part of the vessels under Israeli ownership were registered in these countries.⁵

The main flag of convenience countries provide various benefits for vessels registered in their maritime registries. For example, in parts of these countries tax benefits and other governmental subsidies are given.⁶ In addition, there are benefits for the

¹ This article is not to be considered as consulting, legal or other and should not be used beyond its academic purpose. Due to the scope limitation the article does not contain all the issues and complexities of the presented subjects.

² There are different definitions to the term flag of convenience and this article will not elaborate on this issue. In this article, the definition of the ITF (International Transport Workers' Federation) is used. Hereinafter is the definition and the list of flags of convenience countries of the ITF and examples of additional definitions: International Transport Workers' Federation (ITF). *Flags of convenience*; Oliver Covey, "Review of Flags of Convenience: An International Legal Study by Boleslaw Adam Boczek". *University of Chicago Law Review*, 30(191) (1962); Zoya Özcayir, "Flags of Convenience and the Need for International Co-operation". *International Maritime Law*, 7(4) (2000), pp. 111–117; *The Oxford Companion to Ships and the Sea* (2 ed.). Oxford University Press. 2006.

³ A. Bergantino, and P. Marlow, "Factors influencing the choice of flag: empirical evidence". *Maritime Policy and Management*, 25(2) (1998), p. 157.

⁴ UNCTAD. *Review of Maritime Transport 2020*. November 12, 2020, p. 44.

⁵ For further reading about Israeli seamanship and flag of convenience as well as examples of governmental activity related to the domain: Israel. Department of the Transportation, *The Israel Port Authority Statistical Yearbook Seamanship and Ports – 2020*. pp. 91, 102; the Ministry of Transportation. *The Israel Port Authority The crisis and the recovery* Last update: August 2013; The Knesset Proposal of Seamanship Law (Foreign Seacrafts Controlled by an Israeli Body), 2004; Proposal of Internal Revenue Tax (Taxing Revenue from the activity of seacrafts by tonnage), 2018. Explanations.

⁶ O. M. Merk, "Quantifying tax subsidies to shipping". *Maritime Economics & Logistics*, 22 (2020), pp. 517–535.

registration of vessels such as relatively low administrative payments and a swift registration process, simple to carry out. Additional benefits include temporary registration in lenient conditions, registration of mortgages on vessels in convenient conditions, and few limitations regarding kind, age and tonnage of the vessels. Part of the flags of convenience enable dissimulating information about the owners of the vessels and other related entities, financial and other activities.⁷

The use of flag of convenience influences in various ways the maritime sector of countries and the international system as well as the maritime environment and other factors. For instance, flags of convenience caused the reduction of the scope of the civil fleet in various countries. In addition, research showed that flags of convenience sometimes create conditions which weaken the enforcement of international treaties regarding safe activity at sea. Vessels flying certain countries' flags of convenience were inclined to environmental pollution events, problematic working conditions, regulatory breaches and low salary. Additionally, in certain cases unsafe vessels were operated, unskilled manpower was employed and the ability to compete in the maritime sector was impaired.⁸

The large-scale passage of vessels to registration in FOC made countries act in attempt to deal with this issue.⁹ Countries reacted by using several methods:¹⁰ governmental subsidies were extended along with other benefits, secondary ship registries were established with easier requirements, regulatory changes were made, services given to registered vessels were ameliorated, etc.¹¹ It should be noted that sometimes this competition led to facilitations which harmed countries.¹²

⁷ For the world classification of countries by the level of financial secrecy: Tax Justice Network. *Financial Secrecy Index – 2020 Results*. February 18, 2020.

⁸ T. Alderton, and N. Winchester, "Flag states and safety: 1997–1999", *Maritime Policy & Management*, 29 (2002), pp. 151–162; M. Luo, L. Fan, and K. X. Li, "Flag choice behaviour in the world merchant fleet". *Transportmetrica A: Transport Science*, 9(5) (2013), pp. 429–450.

⁹ Merk, "Quantifying tax subsidies to shipping".

¹⁰ Sometimes these methods were also applied as part of the competition with other, non FOC countries.

¹¹ Trying to get vessels to register anew in the national maritime registry was one of the reasons for extending benefits by the countries. cf. examples in the UE directives: EC. 2004. Community guidelines on state aid to maritime transport. *Official Journal of the European Union*, 2004/C 13/03. Brussels: European Commission.

¹² For example, the international activity for dealing with damages incurred as a result of tax competition: OECD. *Addressing Erosion and Profit Shifting*. February 12, 2013; OECD. *Action Plan on Base Erosion and Profit Shifting*. July 19, 2013.

Due to the limitation on the scope of this article, it will review and demonstrate succinctly the following subjects. First, reasons for moving registration to flags of convenience will be described. Then, I will present several case studies of Flag of Convenience in the World that are considered among the largest in the world: Panama, Marshall Islands, Malta, Cyprus and The Bahamas. In the case studies some of the benefits extended to registered vessels will be exemplified. The article will present issues in regulation related only to registration in maritime registries and will not delve into other advantages in the field of maritime law in the case studies.¹³ A few methods countries use to deal with the influence of flags of convenience on them will also be analyzed. Finally, some conclusions and suggestions that may help Israel in contemplating the possibilities of taking care of the influences of flags of convenience on the country, will be presented.

Reasons for moving to registration in FOC countries

There are various reasons for vessels' registration in FOC countries. The weight and centrality of some of the reasons changed through the years.¹⁴ Many studies note economic, political, security, regulatory and administrative reasons. Examples of economic reasons were the offering of subsidies and other benefits, manpower costs and vessels operating, regulatory costs, etc.¹⁵ Also influential were factors

¹³ For examples of maritime law legal issues analysis in case studies and other sources in this area cf.: Y. Baatz (ed.), *Maritime law*. Taylor & Francis (2020); C. Hill, *Maritime law*. Informa Law from Routledge (2017); R. Force, A. N. Yiannopoulos, and M. Davies, *Admiralty and maritime law* (Vol. 1). Beard Books (2005); Julian Clark (Contributing editor), *International Comparative Legal Guides (ICLG). Shipping Laws and Regulations*, 2021; Andrew Chamberlain, Holly Colaço and Richard Neylon (eds.), "The Shipping Law Review" *The Law Reviews*, 8 Edition, 2021; Lexology, Lawrence Rutkowski (ed.), *Ship finance*, Law Business Research, 2021; Legalease. *Legal 500. Shipping*. 2nd Edition, November 2020.

¹⁴ For example, use of tax benefits and other means by countries competing with flags of convenience led to that in recent years the importance of part of the reasons for passing, changed.: ITF, "Maritime Subsidies: Do They Provide Value for Money?", *International Transport Forum Policy Papers*, No. 70. OECD Publishing, Paris (2019), pp. 36–37.

¹⁵ For further reading of studies presenting various factors influencing the decision making regarding the passing to flags of convenience: Bergantino and Marlow, "Factors influencing the choice of flag"; H. A. Thanopoulou, "What price the flag? The terms of competitiveness in shipping", *Marine Policy*, 22(4–5) (1998), pp. 368–369; P. Marlow, and K. Mitroussi, "Shipping taxation: Perspectives and impact on flag choice", *International Journal of Shipping and Transport Logistics*, 3 (2011), p. 349; K. Mitroussi, and M. Argyrou, "Institutional performance and ship registration", *Transportation Research Part E-logistics and Transportation Review*, 85 (2016), pp. 90–106.

such as the state of the vessels, the type of ship, its age, commercial use, possibilities of dissimulating the owners or the operators of the vessels.¹⁶

Case studies

There are certain differences between main FOC as for the characteristics of registered vessels among which are the type of vessel, average age, assessed value, etc.¹⁷ The benefits and incentives given in these countries are varied and sometimes the emphases in the diverse incentives given, differ. In certain cases, there are unique incentives for a specific maritime sector, preferred geopolitical location and particular international legal arrangements. For example, the Bahamas constitute a convenience flag under which a large number of Cruise ships are registered due to benefits for this sector.¹⁸

Republic of Panama

The maritime registry in Panama is the largest vessel registry in the world today in Deadweight Tonnage.¹⁹ Panama hardly puts any limitations on the citizenship of vessel owners registered in the state.²⁰ It is possible to register a vessel with no tonnage limit and also a vessel older than 20 years under a few provisions. Furthermore, Panama allows registration of vessels of different kinds under few limitations.²¹ A Bareboat Charter may be registered as well as a ship already registered in a foreign registry.²² As a result, almost any vessel may be registered in Panama.²³

Mortgages of vessels and temporary registration of a vessel which is in a building process may be done. In addition, the registration process is quick and can be

¹⁶ Luo, Fan, and Li, "Flag choice behaviour in the world merchant fleet".

¹⁷ UNCTAD. *Review of Maritime Transport 2020*. November 12, 2020.

¹⁸ *Top 10 flag states 2019*. *Lloyd's List*, December 3, 2019.

¹⁹ F. Piniella, J. Alcaide, and E. Rodríguez-Díaz, "The Panama Ship Registry: 1917–2017", *Marine Policy*, 77 (2017), pp. 13–22.

²⁰ For reading on Panama legislation regarding vessel registration: *Panama Ship Registry*. National Legislation.

²¹ A seacraft registration requires abiding by some provisions. The definition of the term vessel in the Panama legislation is very broad. *General de Marina Mercante*. Law 57 of August 6, 2008.

²² In order to carry out the registration in the maritime registry some conditions have to be met. See the definition of the term Bareboat Charter (charter of a vessel with no crew nor fuel): *Cambridge dictionary*. *bareboat charter*. Cambridge University Press, 2020.

²³ Registration of a vessel in Panama which is also registered in another country requires meeting a number of provisions: *Consulate General of Panama in New York*. Maritime Section, 2021.

performed in a large number of missions in the world. The registration of vessels in the maritime registry allows exemptions from various taxes such as Revenue Tax on a certain international commercial activity.²⁴ In addition, Panama is considered a country which allows some financial confidentiality and weaknesses regarding control of financial activity in it were noted.²⁵ In 2021, the country appeared on a European Union list of countries that do not cooperate regarding the amending issues in the area of taxation (EU list of non-cooperative jurisdictions for tax purposes).²⁶ It is considered, according to some studies as a tax haven.²⁷

Panama offers discounts on payments related to registration of vessels, compulsory annual payments and other costs. For example, discounts are given for new vessels, vessels less than five years old and vessels which are part of a group.²⁸ Another incentive is the existence of double taxing treaties with a number of countries and agreements regarding taxation in the maritime sector with the USA, Cyprus and additional countries.²⁹ Panama has signed agreements meant to alleviate somewhat the activity of seacrafts registered under its flag with countries such as Singapore and China.³⁰

²⁴ There are a number of conditions to be met in order to get tax benefits in Panama. For reading about the tax regime in Panama in general and in the maritime sector cf.: Ernst and Young. *Worldwide Corporate Tax Guide*. 2020, pp. 1293–1308; PricewaterhouseCoopers (PWC). *Worldwide Tax Summaries*. Panama, 2021.

²⁵ For further reading on financial confidentiality and control of money laundering in Panama cf.: International Monetary Fund. *Western Hemisphere Dept. AML/CFT Issues in Panama: Background and Policies*, April 21, 2020; Tax Justice Network. *Financial Secrecy Index 2020*. Narrative Report on Panama.

²⁶ Council of the EU. *Taxation: EU list of non-cooperative jurisdictions*. October 2021.

²⁷ For further reading of studies presenting tax havens, definitions of the term as well as limitations of these studies: C. Chavagneux, R. Palan, and R. Murphy, *Tax havens: How globalization really works*. London: Cornell University Press, 2010; J. Garcia-Bernardo, J. Fichtner, F. W. Takes, and E. M. Heemskerk, *Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network*. *Scientific reports*, 7(1) (2017), 6246; T. R. Tørsløv, L. S. Wier, and G. Zucman. *The missing profits of nations* (No. w24701). National Bureau of Economic Research, 2018; R. Phillips, M. Gardner, A. Robins, and M. Surka, *Offshore Shell Games 2017*. Institute on Taxation and Economic Policy and US PIRG Education Fund, 2017; J. R. Hines Jr, "Treasure islands", *Journal of Economic Perspectives*, 24(4) (2010), pp. 103–126.

²⁸ Lexology. *Law Business Research*. Ship finance – Panama, 2021.

²⁹ Ernst and Young, *Shipping Industry Almanac*, pp. 339–355.

³⁰ Maritime and Port Authority of Singapore. *Singapore and Panama Ink MoU to Strengthen Maritime Relations*. September 19, 2019; Consulate General of Panama in HK. *Panama renews maritime transport agreement with China*. July 22, 2021.

Republic of Malta

In 2020, the maritime registry of Malta was considered the sixth largest in the world in DWT.³¹ Malta advertises as an advantage its membership in the EU, its economic stability and its being an international maritime center providing various services. In the Maltese maritime registry, there are few limitations on owners' and the vessel's crew citizenship. There is an arrangement in the for a vessel of non-EU citizens may be registered. According to the Maltese registry the costs of registration are relatively low and discounts are offered to vessels of specific kind that are under the age of ten.³² The Maltese maritime registry also claims that there are almost no limitations on the sale or transfer of shares of a company that is an owner of a Maltese ship. In addition, the maritime registry notes that there are few limitations on sale and mortgaging of vessels and some advantages regarding mortgages are offered.³³ Malta offers an incentive of tonnage tax for vessels of certain kinds and for activities of managing a ship instead of revenue tax, under certain conditions.³⁴

Malta offers incentives to ship owners and additional elements regarding registration of ships over 1,000 tons.³⁵ In addition there are a number of benefits related specifically to shipping companies.³⁶ There is also a registry of Bareboat Charter which get an array of benefits.³⁷ In the case of yachts there are benefits such as low costs of registration and tax relief.³⁸ Malta has a number of double taxing treaties and agreements with several countries. In 2020 it was ranked 18th in the world for financial confidentiality. In certain areas it provides possibilities for concealment of

³¹ UNCTAD. [Review of Maritime Transport 2020](#). November 12, 2020, p. 44.

³² Directives regarding registration of seacrafts and the 1973 Merchant Shipping Act of Malta: Transport Malta. [Malta – A Guide to Ship Registration](#); Legislation Malta. [Merchant Shipping Act](#). Chapter 234.

³³ Transport Malta. [Mortgages](#); Transport Malta. [Ship Registration](#).

³⁴ For further reading about the provisions for getting tonnage tax and the tax regime in Malta in general: PricewaterhouseCoopers (PWC). [Malta – Corporate – Taxes on corporate income](#). Last reviewed September 3, 2021; Deloitte. [International Tax](#). Malta highlights. January 2021; International Comparative Legal Guides (ICLG). [Shipping Law – Malta](#). 2021.

³⁵ Malta Ship Registry. [Ship Registration](#).

³⁶ KPMG. [Ship Registration in Malta](#). 2021.

³⁷ The registration of certain kinds of seacrafts as Bareboat Charter in Malta requires meeting a number of conditions. For more elaboration: Transport Malta. [Bareboat Charter Registration](#).

³⁸ U.S. Department of Commerce. International Trade Administration. [Malta – Country Commercial Guide](#). Last published date: October 19, 2020; Transport Malta. [Why choose the Malta Flag](#).

data on financial activity.³⁹ The state, according to a number of studies, has the characteristics of a tax haven.⁴⁰

Republic of Cyprus

In 2020, the Cyprus maritime registry was ranked 11th in DWT of vessels.⁴¹ In Cyprus various kinds of vessels can be registered.⁴² The state allows the registration of certain types of vessels whose age is over 25 years.⁴³ In addition, registration of Bareboat Charter may also be done.⁴⁴ Cyprus offers tax benefits to vessel owners, charters and ship managers. For example, ship managers can get tax benefits on crew management profits, dividends from profits, etc.⁴⁵ In the year 2019 the European Commission acted against Cyprus claiming that it enabled a significant VAT reduction for chartering yachts in contradiction to the European Commission directives.⁴⁶ Cyprus provides some degree of confidentiality as to financial activity and was ranked 27th in the world in 2020.⁴⁷ A number of studies show that the state has characteristics of a tax haven.⁴⁸

³⁹ For further reading: Moneyval. Council of Europe. *Anti-money laundering and counter-terrorist financing measures – Malta*. Fifth Round Mutual Evaluation Report. July 2019; Tax Justice Network. *Financial Secrecy Index. Malta (MT)*. Reporting Period: 2020. February 20, 2020.

⁴⁰ For further reading of studies and grading of tax havens cf. footnote 27.

⁴¹ UNCTAD. *Review of Maritime Transport 2020*. November 12, 2020, p. 44.

⁴² The carrying out of a registration is subject to meeting a number of conditions and limitations. See for example the following legislation regarding the registration of vessels in Cyprus: The Merchant Shipping (Registration of Ships, Sales and Mortgages) Laws of 1963 to 2020 (Law 45/1963 as amended).

⁴³ The registration of vessels over a certain age requires meeting conditions that Cyprus has set. Republic of Cyprus – Shipping Deputy Ministry. *Circular No.:10/2019*, paragraphs 2.2–2.4. May 23, 2019.

⁴⁴ The registration of Bareboat Charter is done subject to certain conditions. Republic of Cyprus – Shipping Deputy Ministry. *Types of Registration*.

⁴⁵ Tax benefits are given following meeting a number of conditions. Examples of legislation on the issue of taxation in the maritime sector in Cyprus and data about said tax: The Merchant Shipping (Fees and Taxing Provisions) Laws of 2010–2020 (Law 44 of 2010 as amended); The Tonnage Tax for Ship Managers (Special Provisions and Requirements) Notification of 2010 (P.I. 511/2010); PricewaterhouseCoopers (PWC). *Tax Facts & Figures 2021 – Cyprus*. January 2021, pp. 20–22.

⁴⁶ European Commission. *Commission takes further steps to end illegal tax breaks in the Italian and Cypriot yacht industries*. July 25, 2019.

⁴⁷ Tax Justice Network. *Financial Secrecy Index 2020*. Narrative Report on Cyprus.

⁴⁸ For further reading of studies and grading in the area of tax havens cf. footnote no. 27.

Cyprus offers various subsidies beyond tax benefits, related to the maritime sector.⁴⁹ The state has signed bilateral agreements with about 25 countries meant to enable a preferential treatment for vessels registered under its flag.⁵⁰

Republic of the Marshall Islands

The maritime registry of the Republic of the Marshall Islands (RMI) is the 3rd largest in the world by DWT.⁵¹ The RMI offers a number of benefits such as vessels registration with no tonnage limitation. In addition, it is possible to register a vessel the age of which is over 20 years old.⁵² According to the company running the maritime registry, the final owners' details, i.e., the Beneficial Owners, are not accessible to third parties subject to certain reservations. Another benefit is the registration of vessels in a relatively short time in various locations around the world.⁵³ There are a number of benefits for various kinds of yachts such as comfortable registration conditions, bonus in compulsory payments and easier activity conditions.⁵⁴

The Maritime Act 1990 of the RMI sets a number of conditions regarding the maritime registry.⁵⁵ According to Article 203, a few entities may register vessels such as an approved foreign maritime entity.⁵⁶ An additional benefit is that there is almost no citizenship restriction on the vessel's crew and owners. Furthermore, according to the Business Corporations Act (1990) the RMI exempts certain kinds of businesses defined as non-resident entities from various taxes such as companies and partnerships.⁵⁷ According to state publications, exemptions from revenue

⁴⁹ Ernst and Young. *Shipping Industry Almanac*, pp. 119–124.

⁵⁰ International Comparative Legal Guides (ICLG). *Cyprus: Shipping Laws and Regulations*. 2021.

⁵¹ UNCTAD. *Review of Maritime Transport 2020*. 12 November 2020, p. 44.

⁵² The RMI puts up a number of conditions for considering allowing the registration of seacrafts in these cases. For example, a bulk carrier the age of which is 15 years or over has to undergo a compulsory check prior to the registration in the maritime registry. Other seacrafts from the age of 20 also have to undergo a check prior to the registration.

⁵³ International Registries, Inc. (IRI). *Vessels Eligible for Registration in the RMI*.

⁵⁴ There are various conditions which yachts have to meet to get benefits. For example: International Registries, Inc. (IRI). *Yacht-General Information*.

⁵⁵ *The Maritime Act 1990 of the Republic of the Marshall Islands*. updated as of September 2016.

⁵⁶ Republic of the Marshall Islands. *Vessel Registration and Mortgage Recording Procedures*. MI-100. Rev. Jun, 2018, pp. 8, 11.

⁵⁷ In order to get tax exemptions some conditions and limitations have to be met. Reference to the tax exemptions can be found in a number of legislation acts of the RMI. See for example: Republic of the Marshall Islands. *Business Corporations Act 1990*. Section 12; Marshall Islands Revised Partnership Act. Title 52 – Association Law Chapter 2. Exemptions for non-resident

tax, corporate tax etc., are extended subject to a number of conditions.⁵⁸ The RMI was defined in 2019 by the EU as a state which does not cooperate in mending malfunctions in the taxation area. It was noted that there are, among other things, arrangements which enable the transfer of profits to its jurisdiction with no real economic activity.⁵⁹ According to a number of studies there existed certain aspects of a tax haven.⁶⁰

Commonwealth of The Bahamas

The maritime registry of The Bahamas was ranked in 2020 8th in the world by DWT of vessels.⁶¹ In The Bahamas there is a tax regime which extends incentives such as absence of tax on capital gains and on the revenues of companies under certain conditions. In addition, there are benefits regarding various compulsory payments.⁶² Furthermore, in The Bahamas there is the possibility for confidentiality to some degree relating to certain financial and commercial activities. It is ranked 22nd in the world in financial confidentiality.⁶³ According to a number of studies there are, aspects of a tax haven.⁶⁴

According to the BMA (Bahamas Maritime Authority) which is responsible for the maritime registries, a large array of kinds of vessels can be registered subject to

entities. Section 73; Marshall Islands Limited Partnership Act. Title 52 – Association Law Chapter 3. Section 73; Swiss Institute of Comparative Law. Legal Opinion on Maritime Registration. E-Avis ISDC 2018-15. April 6, 2018.

- ⁵⁸ Trust Company of the Marshall Islands, Inc., *Associations Law*. November 2017, pp. 5–6, 50–52.
- ⁵⁹ The RMI claims that it has set regulation meant to lessen the use of sovereignty as tax haven including in the maritime area. The RMI has been taken off the black list of the EU in 2019. Republic of the Marshall Islands. *Economic Substance Regulations*, 2018, as amended, through August 29, 2019; Council of the European Union. *The EU list of non-cooperative jurisdictions for tax purposes – Marshall Islands: final legislation and assessment under criterion 2.2 11*. October 2019; Lexology. *Law Business Research. Ship finance – Marshall Islands*. 2021, pp. 44–45.
- ⁶⁰ For further reading of studies and grading in the area of tax havens cf. footnote 27.
- ⁶¹ UNCTAD. *Review of Maritime Transport 2020*. 12 November 2020, p. 44.
- ⁶² Incentives and benefits in The Bahamas are extended subject to certain conditions. For elaboration on the tax regime: Ernst and Young. *Worldwide Corporate Tax Guide 2021*. July 2021, pp. 123–127; Bahamas Investment Authority. *Guide for Investors. Ship Registry*. 2011; Ernst and Young. *Worldwide Personal Tax and Immigration Guide 2020–2021*, pp. 108–112; Deloitte. *International Tax. Bahamas highlights*. January 2021.
- ⁶³ FATF. *Anti-money laundering and counter-terrorist financing measures – The Bahamas*. Mutual Evaluation Report. 2017, pp. 117–122; CFATF *Follow-Up Report – The Bahamas*. 2018; Tax Justice Network. *Financial Secrecy Index. Bahamas (BS)*. Reporting Period: 2020.
- ⁶⁴ For further reading of vessels and grading in the area of tax havens cf. footnote no.27.

relatively few limitations. It is claimed that the process of registration is swift and various services for vessels are offered in a number of localities around the world. Subject to certain conditions registration of Bareboat Charter vessels registered in another country's registry can be done.⁶⁵ The registration of yachts is carried out with relatively few reservations, e.g., there are no limitations on the citizenship of the vessel's crew and the owners.⁶⁶ The Bahamas have an agreement with China which allows for vessels registered there rebates on payments and additional benefits while visiting ports in China.⁶⁷

Methods used by countries for dealing with the passage of vessels to flags of convenience

Countries act in various ways in an attempt to deal with the passing of vessels registered in their jurisdiction to flags of convenience countries.⁶⁸ Such methods include subsidies, secondary registers that provide easy conditions and alleviating regulations.⁶⁹ Additional methods are the extension of a swift and alleviating service for actions related to the registry of vessels, the offering of worldwide services, use of legal and maritime status of the state for registered vessels, the use of assisting international agreements, few limitations on citizenship of the vessels' crew and owners and more.⁷⁰

⁶⁵ Bahamas Maritime Authority. [Bahamas Advantages](#).

⁶⁶ The registration shall be done following meeting some conditions. It should be noted that yachts are extended additional benefits such as few limitations on selling and mortgaging of the seacrafts. Bahamas Maritime Authority. [Benefits of registering a yacht in The Bahamas](#).

⁶⁷ Bahamas Maritime Authority. [Bahamas Preferential Maritime Agreement with China](#).

⁶⁸ For example, it was claimed that incentives extended by some of the traditional maritime countries sometimes reduced the differences between the traditional and the FOC countries. See the following research: Bergantino and Marlow, "Factors influencing the choice of flag", p. 159.

⁶⁹ Benefits meant to reinforce the maritime registry were not always successful. For example, in 2007, China started extending benefits in the framework of the STFSR (special tax-free ship registration) policy meant to get back the registration of ships that passed to flag of convenience. The plan suffered from administrative obstructions and weak benefits which made for its failure. For elaboration of the subject: Chen, J., Li, K., Liu, X., and Li, H., "The development of ship registration policy in China: Response to flags of convenience". *Marine Policy*, 83 (2017), pp. 22–28.

⁷⁰ See for example the advantages of registering vessels of various kinds in Singapore: Maritime and Port Authority of Singapore. [Benefits of SRS](#). 2021.

The USA is an example for a state which extends tax benefits to vessels registered there. E.g., operators and ship owners under USA flag who bought a ship or replaced a ship with a new one may get a deferment of revenue tax under certain conditions. According to the MARAD (Maritime Administration of the USA) the plan intends to deal with the competition difficulties created among the operators of ships under USA flag opposed to ships registered in countries with no tax. The aim of the plan is to aid the renewal of the civil fleet.⁷¹

Another example for extending benefits is Germany which offers various subsidies for ships registered in German registries such as tax benefits, reduced payments and financing of comprehensive insurance for accidents and illnesses.⁷² Another benefit is the preference in getting certain services in ports around the world stemming from agreements between Germany and about 80 other countries. Germany provides protection and aid for vessels and their crews in certain cases through its diplomatic missions.⁷³ It should be noted that Germany has also established the GIS (German International Shipping Register) that offers alleviating conditions for certain vessels. This registry was defined by the ITF as a convenience flag.⁷⁴

The establishing of Second ship registry with alleviated conditions by countries which are not FOC is another method. Countries have started to operate second registries in order to strengthen their competitiveness, inter alia, aiming at the passage of seacrafts to flags of convenience.⁷⁵ The second registries are aimed at enabling conditions that are closer to those offered in the flags of convenience registries such as the use of foreigners. In certain cases, this method proved successful regarding the problem of ships passing to registration under flags of convenience.⁷⁶ It should be noted that the extent of the success in using this tool for increasing or conserving the commercial fleet varies among countries.⁷⁷

⁷¹ U.S Maritime administration. [Capital Construction Fund](#). Last updated: July 15, 2021.

⁷² Benefits on behalf of the government of Germany are extended under certain conditions. For example: German Federal Ministry of Transport and Digital Infrastructure. [Changing to the German flag](#). Subsidies, Fees.

⁷³ German Federal Ministry of Transport and Digital Infrastructure. [Advantages of the German flag](#).

⁷⁴ International Transport Workers' Federation (ITF). [Flags of convenience](#).

⁷⁵ Yin, J., Fan, L., and Li, K. "Second ship registry in flag choice mechanism: The implications for China in promoting a maritime cluster policy". *Transportation Research Part A-policy and Practice*, 107 (2018), pp. 152–165.

⁷⁶ Thanopoulou, H. A., "What price the flag? The terms of competitiveness in shipping". *Marine Policy*, 22(4–5) (1998), 359–374, pp. 368–369.

⁷⁷ Yin, Fan and Li, "Second ship registry in flag choice mechanism".

Second international registries were established in countries such as France (FIS), Norway (NIS) and Denmark (DIS).⁷⁸ E.g., the international maritime registries of Denmark and Norway are ranked, in Deadweight Tonnage, at the 14th and 15th places respectively out of all maritime registries in the world.⁷⁹ In some cases it was claimed that the second registries became flags of convenience, such as the FIS (French International Ship Register).⁸⁰

Conclusion

The passing of vessels to registration under flags of convenience creates a challenge for countries which are negatively affected. Some of the countries chose to use different methods aiming to stop this trend and deal with its effects. Countries have used methods such as extending subsidies, regulatory alleviations, a second maritime registry, providing swift and efficient services, supporting international agreements and treaties, alleviations through legal and maritime status of the country and legal aid.

How successful were the countries' dealings with the passing of vessels to FOC? The results were mixed. Different reasons affected the results such as the kinds and characteristics of the methods used, the availability of sufficient resources and the scope of the costs of the treatment, the economic and commercial situation in the international maritime sector, etc. In certain cases, countries chose not to deal with this problem for reasons like the costs surpassing the benefits, investing resources in promoting other subjects in the maritime sector and lack of a national interest.

A number of lessons arise from the accumulated experience in the international maritime sector. Hereinafter is a list of a few points which may help decision makers in Israel when they consider the subject:

1. First it should be examined whether there are a national interest, abilities and sufficient benefits in investing resources in this endeavor. Sometimes investing in other issues within the maritime sector may be more beneficial for the country.

⁷⁸ Sources on the international maritime registry of Denmark (DIS): SSornn-Friese, H., and Iversen, M.. "The establishment of the Danish International Ship Register (DIS) and its connections to the maritime cluster". *International Journal of Maritime History*, 26(1) (2014), pp. 82–103; Danish Maritime Authority. *About the Danish ship registers*.

⁷⁹ See for example the differences between the international maritime registry of Norway (NIS) compared to its national maritime registry (NOR): Norwegian Maritime Authority. *Registration of commercial vessels in NIS/NOR. What distinguishes NIS from NOR?*

⁸⁰ International Transport Workers' Federation (ITF). *Flags of convenience*.

2. The state should set goals for adapting the right tools for the task. Not setting goals or choosing too general goals might bring about an unwanted outcome. Furthermore, incentives and benefits focused on achieving the goals directly should be chosen so that no uncalled-for results will arise or that there will be an inefficient squandering of resources. Setting goals will enable the reexamination of the success of the process and carrying out adaptations if needed.
3. Actions for the strengthening of the maritime registry should relate to characteristics of the vessels of interest for registration. The enlargement of the maritime registry for vessels which are not beneficial to the state's interest or that their benefit is marginal at best, is an unwanted result. There are known problematic cases in the world such as registration of vessels with no added value for the economy, old and polluting ships which have caused damage or registration of vessels which is temporary and unstable in the long run.
4. The state should examine the tools and their optimal characteristics for obtaining the state's goals.
5. The state should align with the efficient and innovative countries in the international maritime sector as to the quality of the services it provides to this sector. It should be noted that a positive influence stemming from improvements and the extension of benefits may be impaired due to failures of the state in this area.
6. What happens in competitive registries in the international system should be examined so that the correct and efficient treatment is chosen. It is also important to map the characteristics, such as needs and interests of the vessels which may be the target for incentives for registration in Israel.
7. It is recommended that the state sets a strategy for this issue and act accordingly. This will enable, *inter alia*, the optimal integration of methods, treatments of weaknesses and leveraging strengths. The absence of a strategy might lead to waste of resources, focusing on erroneous goals, etc.