

Selecting Flag State

Shipping is a capital intensive Industry. It is also highly competitive with a global base and also highly speculative because of the cyclic nature of the Industry. One of the challenges of ship owning is the ability to raise the large amounts of capital necessary to purchase ships. A ship owner is hence left with the task of identifying a Flag Administration which gives him maximum benefits through capital allowances.

He also looks for the best equation between his capital allowances and taxation. Hence in registering his ship, a Shipowner often looks for the benefits from taxation of the ship's operating profits as against the capital allowances available. If his Cost of Capital is offset against the Tax benefits then his effective cost of the vessel can be competitively reduced. Tax regimes that facilitate such transactions are, therefore, inherently attractive to ship owners.

As a Superintendent, you should understand this basic reason of selecting a Flag Administration for registration of a ship.

The other consideration that plays a role in determining the registration of ships is the fees paid to the administration towards registration. Ideally, Flag states should enforce standards of design, maintenance and operation that would ensure a very high standard of safety at sea. Flag states should ratify conventions adopted by international organizations such as International Maritime Organization (IMO), translate them into national law, and then apply the law on ships flying its flag.

Unfortunately in some cases, the flag states levy such low fees that they are unable to provide sufficient infrastructure for the implementation of these conventions and regulations.

Some flag states use Recognized Organizations (RO) for implementation of these conventions. If the RO's belong to standard associations like IACS, they are governed by strict rules. Whereas the non IACS member RO's are governed under the flag state rules as well as their own.

In some cases, the flag states do not insist on the rigorous implementation of international safety conventions. These are sometimes used by some ship owners and operators as a low cost way of providing shipping services. This leads to an unfortunate conflict between the commercial motive and quality and safety. This puts the burden on the ship manager to adhere to some quality and safety standards.

The conflict is further fuelled by the fact that some charterers and operators look for such cheaper tonnage without much bothering about the safety of the vessel.

As the superintendent, you should recognize these facts and understand the limitations of the flag state administration. Most flag states have IACS members as their RO's and it is best to select an IACS member class rather than others.

In 2003, the UN General Assembly extended an invitation to the IMO and other organizations to examine the role of the flag state in exercising effective control over ships flying their flag. In June 2004, the IMO's response to the invitation admitted that additional work needs to be done on strengthening flag State implementation of existing international rules.

Statistics for the period 1999-2003 indicate that the 35 most important maritime countries (in terms of tonnage) accounted for 94 per cent of the world's fleet. In 2003, 76.4 per cent of that was flagged out to the six major open-registry countries that are Panama, Liberia, Bahamas, Malta, Cyprus and Bermuda.