International
Chamber of Shipping
Shaping the Future of Shipping

Key Issues

In Defence of Open Registers

In the 21st century there is nothing inherently unusual about an international ship registration system. According to the United Nations Conference on Trade and Development (UNCTAD), 60% of shipping activity now serves the maritime trade of emerging economies, which also now own nearly half of the world's tonnage.

However, so called open registers, where the majority of the ships using a flag are beneficially owned in a different country, have recently come under renewed attack, despite being responsible for the highest levels of compliance by the ships they control with respect to safety and environment performance.

In January 2018, the Tax Committee of the Organization for Economic Co-operation and Development (OECD) requested several major open registers to provide additional information about their shipping tax regimes, despite already having given them a clean bill of health as part of the work OECD is doing on Base Erosion and Profit Shifting (BEPS), which refers to tax avoidance strategies that may exploit gaps in tax regimes to artificially shift profits to low tax locations. None of these open registers from which the OECD has sought additional information appear on the black list of offshore tax jurisdictions which the EU decided to publish at the end of 2017.

Shipowners using open registers may not pay conventional corporation tax. But this is the same in many other jurisdictions, including within Europe, where shipowners of course pay significant tonnage taxes, even in years when they are making a loss.

Those investors that inject billions of dollars into shipping, with all the attendant risks of volatile and cyclical markets, are frequently drawn from more than one country, simply because shipping projects are so big. So it makes sense to utilise offshore centres, with their high levels of service and maritime expertise, to keep capital movements as simple as possible when they are already extremely complicated.

That said, many OECD flags apply similar tax regimes, and successful flags such as the United Kingdom, for example, have few beneficial shipowners that are actually domiciled in the UK.

Open registers were also unfairly criticised for supposedly asserting undue influence at IMO, in a report published in October 2017 by an NGO calling itself 'InfluenceMap', which appears to be supported by environmental NGOs. The specific charge was that open registers were somehow seeking to undermine the successful development of the ambitious CO_2 reduction strategy which was adopted by IMO in April 2018. It is therefore ironic that one of the world's largest open registers, the Marshall Islands, has been one of the most vociferous advocates of ambitious CO_2 reduction targets, while flag states such as Bahamas and Liberia have worked hard to overcome the concerns of traditional maritime nations such as China, India and Brazil.

The fact that the world's largest flag states, which are responsible for the successful implementation of IMO rules across the majority of the world fleet and are now staffed by expert officials that choose to take an active part in IMO discussions seems a strange thing to criticise. The eight largest open registers now administer almost two thirds of the world fleet, and all of these feature on the 'white lists' of quality low-risk flags published by the Paris and Tokyo MOUs on Port State Control. All of these open registers have also undergone voluntary audits under the IMO Member State Audit Scheme, and they have all ratified every principal maritime Convention currently in force governing safety, pollution prevention and seafarers' employment standards; whereas many of these instruments have still not been ratified by a number of OECD nations.

Meanwhile, the International Transport Workers' Federation (ITF), which represents seafarers' unions, maintains its high profile campaign against so called 'flags of convenience', a term not recognised by IMO. ITF is probably the most powerful global trade union ever, and has a direct impact on the pay and working conditions of almost two million seafarers worldwide. Ironically this is partly because shipowners pay ITF around US $30 million a year for the privilege of using open registers without having their ships boycotted by ITF's stevedore affiliates.

While ICS continues to question the relevance today of ITF's 'FOC' Campaign, ICS respects ITF as a responsible and influential social partner, and co-operates on many issues precisely because the huge resources it derives from the use of open registers allow it to wield such influence.