

Singapore Management University

Institutional Knowledge at Singapore Management University

Research Collection School Of Economics

School of Economics

5-1994

Policies to promote shipping registration in Singapore

Sock Yong PHANG

Singapore Management University, syphang@smu.edu.sg

Rex S. TOH

Follow this and additional works at: https://ink.library.smu.edu.sg/soe_research



Part of the [Asian Studies Commons](#), [Economics Commons](#), and the [Transportation Commons](#)

Citation

PHANG, Sock Yong and TOH, Rex S.. Policies to promote shipping registration in Singapore. (1994).

Journal of Transport, Economics and Policy. 28, (2), 215-219.

Available at: https://ink.library.smu.edu.sg/soe_research/2016

This Journal Article is brought to you for free and open access by the School of Economics at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Research Collection School Of Economics by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email cherylds@smu.edu.sg.

Policies to Promote Shipping Registration in Singapore

By Sock-Yong Phang and Rex S. Toh*

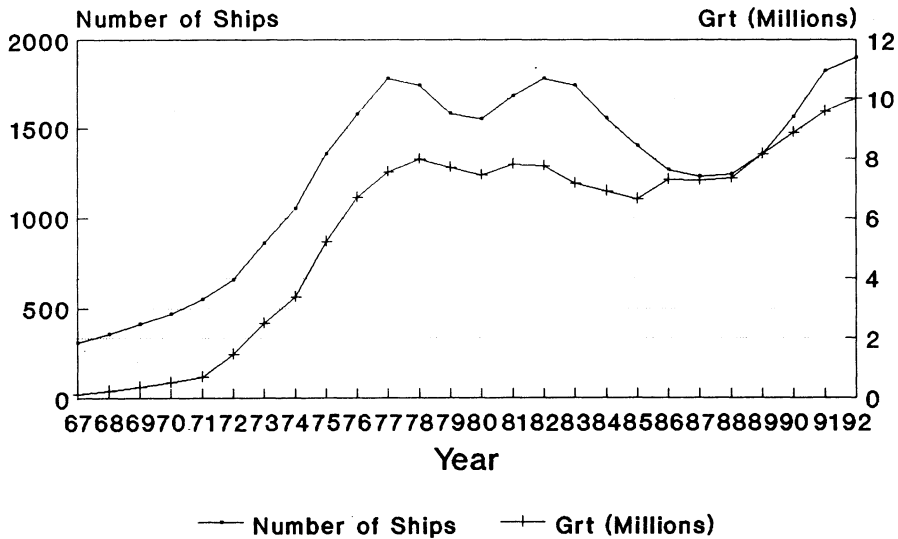
1. Introduction

Countries which have pursued an aggressive policy to promote ship registration under their respective flags have, in the past, been pejoratively referred to as “flag of *convenience*” or “FOC” countries. The primary motivation underlying such a policy, as is the case for countries such as Panama and Liberia, is usually to generate revenue from ship registration and annual tonnage fees. The ship registries may also create employment opportunities for nationals of the flag states. This article traces the development of ship registration policies in Singapore and examines the underlying motivation behind changes in policies over the last three decades.

Singapore has served as an entrepôt in the trade of Southeast Asia since it was founded as a British free port in 1819. It gained complete independence as a Republic in 1965. Since 1987, it has been the world’s busiest port in terms of tonnage of cargo handled; it was also the world’s busiest container port in 1990 and 1991. (In 1992, Singapore was less successful than Hong Kong by 0.15 million TEUs.) Despite Singapore’s small size (with a population of three million in a land area of 633 square km), its shipping fleet ranks eleventh among the merchant fleets of the world in terms of gross tonnage.

For the better part of the 1970s, Singapore was categorised as a flag of convenience country as it pursued an FOC policy which emphasised the quantitative growth of its merchant fleet. Beginning in 1979, it tightened maritime standards as well as ownership disclosure rules, and required a foreign shipowner to incorporate a company in Singapore. It is regarded today as a “quasi-flag of convenience” — a term associated favourably with countries offering tax incentives to shipowners and which have, at the same time, succeeded in establishing not only a genuine link between flag and ship, but also a reputation for competent administration of international maritime standards. The objective of recent tax policy in the form of the Approved International Shipping Enterprise Scheme (introduced in 1991) is to provide incentives for international shipping companies to use Singapore as their base of operations. This is to facilitate the development of Singapore as an international maritime centre.

* Sock-Yong Phang is in the Department of Economics and Statistics, National University of Singapore; Rex S. Toh is in the Albers School of Business and Economics, Seattle University.



— Number of Ships —+ Grt (Millions)
Figure 1
Ships Registered in Singapore 1967 to 1992

2. Flag of Convenience: 1969 to 1981

Singapore was, until 1966, an English port of registry. In 1966, one year after independence, Singapore introduced the Merchant Shipping (Amendment) Act under which only vessels owned by Singapore citizens or companies could register under its flag, marking the birth of the Singapore Registry of Ships.

However, in 1969, in the midst of high unemployment and following the announcement of the withdrawal of British troops from Singapore, the government announced the opening up of the shipping registry to ships of any origin and owned by any national, person, or company, thus establishing Singapore as a flag of convenience. The primary motivation for the opening up of the shipping registry was to create more employment opportunities for Singapore seafarers. The registration fee was set at S\$2.50 per net ton (subject to a minimum of S\$1,250) and the annual tonnage tax was set at S\$0.20 per net ton (subject to a minimum of S\$100), and has remained unchanged since then. Profits from shipping income derived from the operation of the vessels are exempt from corporate income tax. Also, the crew serving on Singapore-registered vessels are exempt from paying personal income tax. Conditions for registration were deliberately made as liberal as those existing in Liberia and Panama in order to compete with the established flags of convenience. Moreover, vessels with crew comprising at least 25 per cent Singaporeans enjoy a 50 per cent refund on the annual tonnage tax.

As a result of the newly-created favourable conditions, the number of ships registered under the Singapore flag increased from 466 in 1970 to 1,742 in 1978, while the gross tonnage increased from 424,000 gross tons to 7,959,000 gross tons over the same period (see Figure 1). Unfortunately, the larger part of fleet expansion was not only due to new

tonnage but also to older tonnage taking advantage of the lack of a minimum age requirement for ship registration. Thus, casualty rates for the Singapore fleet were among the highest in the world during the 1970s.

In the 1970s, there was growing international opposition to flags of convenience from developing and developed countries as well as maritime unions. Frequent boycotts of FOC ships by members of the International Transport Workers Federation at ports of call delayed the sailing schedules of many Singapore-flagged ships. By the late 1970s, unemployment was no longer a problem in Singapore (it was instead facing a serious labour shortage). Tired of the “odium” associated with being an FOC country and faced with the possibility that Singapore-flagged ships could be used for purposes of spying during the Cold War period, the government decided to abandon the FOC arrangement.

3. Quasi-FOC Arrangement

Beginning in April 1979, more stringent requirements were introduced in stages. Regulations came into effect relating to ownership, ownership disclosure, particulars of managers of ships, as well as the age of ships. A foreign-owned ship had to have a minimum tonnage of 1,600 gross registered tons (GRT) and be under 15 years old in order to qualify for registration. The age limit for the registration of locally-owned vessels was reduced from a maximum of 22 years in 1981 to a maximum of 15 years in 1984. (Ships already on the register were exempt from the requirement.) A corporate owner must also have a minimum paid-up capital of 10 per cent of the value of the first ship registered on or after 20 April 1979, subject to a minimum of S\$50,000.

In 1981 the administrative requirements initiated in 1979 were extended, and legislation was introduced to put an end to the FOC system of registration which had operated since 1969. Under the Merchant Shipping (Registration of Ships) Regulations of 1981, registration was limited to ships owned by Singapore citizens, permanent residents and companies incorporated in Singapore. Moreover, disclosure of the name, address and nationality of every shareholder, and the number of shares held, is required.

Safety regulations relating to crew qualifications, ship inspections and seaworthiness were tightened in 1981 when Singapore acceded to the 1974 International Convention for the Safety of Life at Sea (SOLAS Convention). Evidence of seaworthiness in the form of certificates issued by authorised classification societies are required to be produced at the time of registration, when the annual tonnage tax is paid, and whenever called for by the Registrar. Profits derived from the operation of a Singapore ship, however, continued to enjoy exemption from corporate income tax, and seafarer incomes are not subject to income tax. Registration fees as well as other pecuniary incentives which were in place since 1969 have remained unchanged.

Since 1981, as a result of the above amendments, Singapore has been regarded as a quasi-FOC rather than a FOC registry. The tightening-up of regulations resulted in an immediate drop in the number of ships registered under the Singapore flag (see Figure 1), as well as a significant improvement in the age distribution of the fleet. The average age of the Singapore fleet dropped from 13 years in 1981 to 11 years in 1986. The safety record

as measured by the loss ratio has improved since 1981, and has remained below the world average. The average loss ratio of the Singapore fleet between 1985 and 1989 was 0.1 per cent, compared to the world average of 0.28 per cent.

As more shipping registries were opened up by other countries in the 1980s, Singapore has responded with financial incentives aimed at encouraging shipowners to register and operate their fleets in Singapore, without compromising on safety and other regulations.

From 1988, the ship registration fee has been capped at a maximum of S\$100,000 to encourage larger ships to register in Singapore. Since 1989, a discount in registration fees is offered to shipowners for bulk transfer of ships to the Singapore Registry. An owner transferring at least five ships or at least three ships of total weight exceeding 40,000 net registered tons enjoys an 80 per cent reduction in registration fees.

4. Towards an International Maritime Centre

With the legislative changes introduced in 1981, foreign shipowners with ships flagged in Singapore are required to incorporate a company in Singapore. However, many of these shipping companies are merely operational arms of holding companies located outside Singapore. To encourage major international shipowners (particularly those based in Hong Kong) to use Singapore as their base of operations, the government introduced a new tax exemption scheme known as the Approved International Shipping Enterprise (AIS) Scheme in 1991. Under the scheme, in addition to the previous exemption of profits and income from the operation of Singapore-flagged ships, a company which has been granted AIS status also enjoys tax exemption for the operation of non-Singapore-flagged ships outside Singapore. The AIS scheme is designed to attract established international shipping companies with worldwide networks. These targeted companies are likely to have a sizeable fleet flagged elsewhere and will be able to enjoy tax exemptions for non-Singapore-flagged ships without having to incur the expense of flag changes. However, profits accruing to the AIS-designated shipowners from the uplift of freight in Singapore by its non-Singapore-flagged ships is subject to the corporate profit tax of 27 per cent.

In addition, an AIS-designated shipowner enjoys tax exemption on qualifying dividends from approved subsidiaries and associated companies overseas as well as revenues from pool operations outside Singapore. More importantly for local shipowners, profits from charter-hires of non-Singapore-flagged ships outside Singapore which were previously taxable are now tax exempt under the AIS scheme.

To qualify for AIS status, the company must be a resident shipping company, be a significant owner and operator of a fleet of ships with a directly attributable business spending in Singapore of at least S\$4 million per year, and have at least 10 per cent of its fleet or one vessel (whichever is the greater) registered under the Singapore flag. The AIS status is granted for an initial period of 10 years and may be further extended thereafter.

By December 1992, 15 companies (operating a total of 87 vessels from Singapore) have been awarded AIS status. These shipping companies consist of four from Singapore, five from Hong Kong, three from China, two from the Association of Southeast Asian Nations (ASEAN), and one from Europe.

The traditional motives of an FOC country for desiring a large shipping fleet (centring mainly on revenue generation and employment creation for seafarers) do not now apply in the case of Singapore. Revenue from shipping registration in 1991 was a mere S\$2.8 million, with the Marine Department reporting an operating surplus of only S\$0.35 million. In contrast, government revenue for 1991 was S\$19.6 billion and the budget surplus was S\$5.7 billion. While employment creation was the original motive for the opening up of the registry in 1969, the Singapore economy has been facing a labour shortage for most of the last two decades, thus necessitating the importation of a sizeable foreign workforce. As is to be expected, employment of Singaporeans in the local shipping industry declined from 8,873 in 1976 to 2,913 in 1989.

The rationale for desiring a large merchant fleet now lies elsewhere, such as employment and business opportunities in ship management, banking, shipbuilding and repairing, the supply of victuals and bunkers, and the provision of marine insurance, surveying, and arbitration services, congruent with Singapore's status as the world's busiest port. The development of Singapore as a major international maritime centre providing a full range of marine-related services is dependent on attracting a sizeable pool of shipowners with operations based in Singapore. The recent shipping policies in Singapore are targeted towards the achievement of this goal.

References

- Chew, T. K. (1991): "Singapore: Tax Incentives for Shipping Enterprise". *Asian-Pacific Tax and Investment Research Centre Bulletin*, 9, pp.392-96.
- Chia, L. S. (1991): "The Development of Marine Transport". In Lienbach, T. R. and L. S. Chia (eds.): *South-East Asian Transport*. Oxford University Press, Singapore.
- Singapore Marine Department (1992): *A Guide to the Registration of Ships in Singapore*.
- Singapore Marine Department (various years): *Annual Report*.
- Singapore Trade Development Board (undated): *Approved International Shipping Enterprise (AIS) Scheme*.
- Toh, R. S. and H. Susilowidjojo (1987): "Flags of Convenience Shipping in the 1980s: The American Perspective". *Transportation Journal*, 26, pp.34-42.