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**WORLD MARITIME UNIVERSITY**

Dalian, China

**RESEARCH ON THE LEGAL SYSTEM OF  
INTERNATIONAL SHIP REGISTRY**

By

**ZHANG CHUANG**

**The People's Republic of China**

A research paper submitted to the World Maritime University in partial  
Fulfillment of the requirements for the award of the degree of

**MASTER OF SCIENCE**

**MARITIME SAFETY AND ENVIRONMENTAL MANAGEMENT**

2014

**Dedicated to**

**My dear parents**

**And**

**My beloved wife, Yi Zhuoqun**

## DECLARATION

I certify that all the material in this research paper that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this research paper reflect my own personal views, and are not necessarily endorsed by the University.

Signature: .....

Date: .....

Supervised by: Guo Ping

Professor

Dalian Maritime University

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Last but not least, I would like to dedicate this research paper to my dear parents and beloved wife Yi Zhuoqun, for their consistent encouragement and support.

Title of Research paper: **Research on the Legal System of International Ship Registry**

Degree: **MSc**

## **ABSTRACTS**

International ship registry is a new type of ship registry nowadays, which has its own system on the terms of ships registration, the collection of tax and fees of ships, the terms of equipments of seafarers, and the application of safe criteria. Thus, it is different from open registry and close registry. Constituted by governments of flag, it is carried with original system of the ship registry at the same time. Practice on conventional marine countries has proved international ship registry is a effective systems of shipping, which is useful to keep safety of life on the sea, the economic development of shipping, the protection of environment of sea, and so on.

As an important attempt on reform of ship registry and an useful supplement on traditional ships registry, international ship registry has come into force in China in 2013, but international ship registry cannot settle the exiting problem on shipping market. This article introduces the general definition of ship registry and international ship registry, and then analyzes Chinese legal systems on ship registration. Besides, this article also proposes some recommendations on improving ship registration in China.

**Key words:** International ship registry, Ship registration, Legal system

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## **ABBREVIATIONS**

|        |   |
|--------|---|
| ABS    | American bureau of shipping   |
| DNV    | Det Norske Veritas  |
| PSC    | Port state control  |
| FSC    | Flag state control  |
| STCW   | International convention on standards of training ,certification and watchkeeping for seafarers |
| SOLAS  | International convention for the safety of life at sea  |
| ILO    | International labor organization  |
| LR     | Lloyd’s register of shipping  |
| UNCTAD | United nations conference on trade and development  |
| NK     | Nippon kaiji kyokai   |
| NIS    | Norway International Ship Registry  |
| CCS    | China classification society  |
| IMO    | International maritime organization   |
| CHINA  | China maritime safety administration  |
| MSA    |   |
| WMU    | World maritime university   |
| UN     | United Nation   |
| UNCLOS | UN Convention on the Law of Sea, 1982   |

## Chapter 1

### Introduction of the ship's registry

#### *1.1 The concept of ship registry*

Ship registration means a person or incorporation which is involved in the right of a ship applies to the ship registration administration of a country for the right of a ship. The right contains the ownership and the right for ship to fly the country's flag. Ship registration is a precondition to get some rights on ship, including nationality, navigation right and ownership. Ship registration not only shows protection and affirmation of ownerships for shipowner from the registry country <sup>1</sup> but also the international recognition of the registry ship. The legal source of ship registration can be traced back to the Geneva Convention on the high seas, 1958, the United Nations Convention on Conditions for Registration of Ships, 1986<sup>2</sup>, and other resolutions and conventions involving ship registration<sup>3</sup>.

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<sup>1</sup> Nigel P Ready(1994), Ship registration, London: Lloyd's of London Press, 1994,p6.

<sup>2</sup> See article 5 of Convention on the Geneva Convention on the high seas, 1958, preface and article 2 of The United Nations Convention on conditions for registration of ships,1986

<sup>3</sup> These conventions include SOLAS 1974, COLREG 1972, MARPOL 73/78, STCW 1978 and ICLL 1966 etc.

In order to register the ship, the relevant person or incorporation shall submit some documents about the ship to the ship registration administration and then the ship registration certificate will be issued on behalf of the country if the investigation of documents fulfills the requirements of the ship registration administration. Ship registration contains ownerships registration, nationality registration and the establishment, transference or extinction of ship mortgage and bareboat chartering also shall be registered at ship registration administration<sup>4</sup>. In this paper, the nationality registration will be discussed only, so the ship registration in this paper means nationality registration. In fact, the ship nationality registration is the core part of ship registration, which is widely recognized by other countries worldwide.

### ***1.2 The legal basis of ship nationality registration***

In the past, ship nationality registration was regarded as a national compulsory obligation<sup>5</sup> while now as a right owned by shipowner<sup>6</sup>. It is the shipowner's right to choose a country for registration. Ship of a registry certificate means the ship owns nationality of the registry country and the ship has the right to fly the flag and is under the jurisdiction of the registry country and protected by law of the flag state.

Originally, nationality means a person is a citizen of a country in area of international law and is a kind of legal relationship between country and the person. The person of a certain nationality shall be under the domestic law<sup>7</sup>. From the second half of 19<sup>th</sup>

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<sup>4</sup> See article 6 of Regulation of the people's republic of China governing the registration of ships.

<sup>5</sup> Zhao Deming: International maritime law, Dalian: Dalian Maritime university Press, 1995, P.60-61.

<sup>6</sup> Christopher Julius Starforth Hill, *maritime law*, Virginia: LLP, 2003, P.10

<sup>7</sup> Zhou Gengsheng, International Law, Beijing, The Commercial Press, 1976: P248.

century because of the development of international economy, the enterprise's activity became beyond the domestic area. In order to protect domestic economy benefit and develop international commerce, the concept of nationality has expanded to juristic person, which is a standard to distinguish national juristic person and foreign juristic person<sup>8</sup>. The national concept of natural person and juristic person is the legal ground that natural person and juristic person belong to a certain country and also the basis of determining different juristic statue of them. At the same time, because of such kind of legal relationship between country and natural person and juristic person, the country has the right of jurisdiction and is obligated to protect the legal interest both in the country and outside. Thus, nationality is the bond between the international law and natural person and juristic person.

The word ship's nationality firstly appeared in the early years of the 19<sup>th</sup> century in some commercial treaties, and at that time each country could determine whether to issue the ship their nationality. The formation process of ship's nationality goes through three stages. During the first stage, the concept of ship's nationality was not clear; the commercial ship only belonged to a citizen but not a certain country. Some big marine countries set up national laws to recognize ships flying other countries' flag. The second stage was from the first years of 1720s to 1820s. With the development of ship's nationality regulation, some countries began to conclude navigation treaties between themselves and during these treaties, the ship's nationality recognition was essential clauses but sometimes these treaties were not set up on basis of justice. The third stage started from 1830s to now, each country recognizes the ship's nationality on basis of international convention and domestic laws.

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<sup>8</sup> Shao Jin, International Law, Beijing, Peking University Press and Higher Education Press, 2000: P62

Ship's nationality is a special kind of nationality, which personates the ship. The nationality certificate is legal proof of ship's nationality and legal identity that the ship affiliates to the registry country. Ship's nationality has the common characteristic of nationality, which means it is legal proof to determine the native country and different kinds of legal status and also the legal bond between ship and state jurisdiction. The flag is the external mark of nationality.

### ***1.3 The legal sense of ship registration***

#### **1.3.1 The legal source of ship registration**

Ships of no flag state will not be protected by international laws and the port will not allow these ships to come in. The requirements on ship registration are specified in some international conventions. According to the Geneva Convention on the high seas, 1958, every state has rights to own fleets flying its own flag and ships in such fleet have rights to sail on the high seas and each state shall fix the conditions for the grant of its nationality to ships, for the registration of ships in its territory, and for the right to fly its flag. Besides, there must be a genuine link between the state and the ship. There are similar requirements in article 91 of UN Convention on the Law of Sea, 1982. The UN Conventions on the Conditions for the Registration of Ships, 1986 lists many requirements about ship registration in details (although this convention has not come into force). These conventions, together with a large number of resolutions and convention from IMO, are legal basis of ship registration.

### 1.3.2 The legal right associating with ship registration

Most of time ship is treated as floating land, so the ship registration is legal basis of nationality and navigation right. Through registration, the ship can get nationality and fly the registry state's flag. Ship registration is the proof to confirm some legal relations. Registry country conducts jurisdiction, diplomatic protection on the ships flying its flag and the ship shall comply with domestic laws of the registry country.

### 1.3.3 Ship registration in public international law

Ship's nationality is the legal proof that the flag state conducts state jurisdiction, which is a kind of state power to control ships through legislation, enforcement and administration of justice. State jurisdiction means the ship and relevant stakeholders on the ship shall be obligated to obey the laws of registry country and under the control of state. Thus, because of state jurisdiction on ships, the freedom on high seas is restricted, which is useful to keep the transportation on high seas in good order.

After successful registration, the ship will be issued nationality certificate, which means the ship and its obligee has the rights to get protection from registry country, such as diplomatic protection, consular assistance and naval escort etc. ship's nationality represents the relationship between ships and nations and is the legal basis of diplomatic protection. Generally, when infringements on ships happen in a foreign country, the flag state has the rights to conduct diplomatic protection on the ship flying its flag.

According to UNCLOS, in order to preserve the good order and safeguard the safety on the sea, each ship sailing on the sea shall fly a flag and the condition that allowing



the ship to fly its flag is set up in domestic laws. Every state has the right to own fleet of its flag and ships in the fleet can sail in the high seas complying with the High Seas Freedom and are protected by international laws. Because of the wide application of this convention, ship's nationality, or the flag in other words, is the proof of legal navigation. When the ship sails in a foreign country's territorial sea, ship's nationality is the precondition of innocent passage.

#### 1.3.4 Ship registration in private international law

According to the maritime private international law, the local government of port of registry has the right of jurisdiction. The law of flag state will be the applicable law when the nationality of ship is regarded as a nexus for jurisdiction. The varieties and contents of ships shall be prescribed by laws of flag state, as well as those circumstances, such as collision, carriage contracts, the responsibilities of ship owner and general average.

#### 1.3.5 Ship registration in domestic law

According to UN Convention on the Law of Sea, 1982, and other relevant conventions<sup>9</sup>, flag state should conduct effective jurisdiction and control on the ship flying its flag in areas of administration, technology and social affairs. Once the ship has registered, it should accept administration from flag state. The flag state has the obligation to make sure that the ship fulfills requirements of relevant international convention and domestic rules on construction, survey, certification and maintenance,

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<sup>9</sup> See Article 94 of UN Convention on the Law of Sea, 1982, and Article 5 of the Geneva Convention on the high seas, 1958, and The UN Conventions on the Conditions for the Registration of ships, 1986.

as well as operation.

Ship registration not only means under jurisdiction but also the rights and favorable treatment. If the ship has registered in the state, it has the right to sail in registry country's territorial sea and inland sea freely. It also can conduct exploration under water and fish in sea area of flag state and enjoy favorable treatments on custom duty, tax and other subsidies.

#### ***1.4 Different types of ship registry***

The types of ship registration represent different marine policies and are determined by the flag state itself. On the basis of the conditions, there are three types of ship registry, including open registry, close registry, and international registry. Main differences between different types of ship registry lay in the percentage of shipowner or domestic capital on the ship and the crew's nationality.

Open registry is widely used in many small countries, such as Panama, Liberia, and Cyprus. There is not a uniform definition of open registry. In practice, countries of open registry allow foreign shipowners or ships controlled by foreigners to register their ships and the conditions of ship registry are always simple. According to registry laws in some countries of open registry, person of any nationality can apply to register their ships and very few effective regulatory measures can be conducted on ship. Thus registry country cannot supervise the ship and protect the crewmembers on board effectively and that is why ships registered in open registry countries are called Flag of Convenience.

On the contrary of open registry, the countries of close registry require that both shipowner and crews on board should be their citizens, including natural person or juristic person. Traditional advanced marine countries mostly adopted closed registry, such as America, Germany and Switzerland.

Apart from close registry and open registry, the third type of registry is called secondary registry, including offshore national registry and international ship registry. Offshore national registry is a kind of registry which is always used by countries which have colonies or annexed territory, such as Britain, French and Portugal. Port of registry in offshore registry is not inside the flag state. The main difference between offshore registry and international ship registry is the location of registry. Compared with offshore registry, port of international ship registry is in a certain port in metropolitan territory, such as Norway and China. Norway international ship registry was established in 1987 and Tianjin Donjiang Port in China start international ship registry in 2013.

## Chapter 2

### Introduction of the international ship registry

#### *2.1 The definition of international ship registry*

In recent years the main maritime countries have promulgate a large number of policies to develop shipping industries and international ship registry. As one of effective policy, international ship registry is widely used by many countries. The international ship registry is a kind of ship registry system which is similar to the open registry system, but the conditions of ship registry and management are much the same as traditional close registry.

Compared with offshore ship registry, the location of international ship registry is not in remote area but as same near as that under traditional ship registry, and the registry conditions follow different registry standard. This kind of ship registry firstly appeared in Norway, and then Denmark, Germany and Japan promulgated the same registry policy in succession<sup>10</sup>. In order to attract more ships to registered,

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<sup>10</sup> Jang Geun Min: Adoption of a secondary registry for Korean shipping, Washington: University of Washington, 1996, P. 45.

international ship registry may set up flexible registry conditions and provide many favorable measures, including flying flag without restraining by domestic restrict registry condition, freely employing crews worldwide, no limit in capital financing, as well as exempt in income tax and custom duty. The traditional close registry is valid all over the country while in certain ports shipowner can registered their ships in international ship registry to enjoy many favorable policies. In order to distinguish with traditional registry, such kind of registry is called international ship registry. Some countries of international ship registry are as follows (including the offshore registry):

**Table 1 Ports of international ship registry**

| Country     | Names of international ship registry           |
|-------------|--|
| Norway      | Norway international ship registry (NIS)       |
| Denmark     | Denmark international ship registry            |
| Japan       | Japan international ship registry              |
| German      | German international ship registry             |
| Portugal    | Portugal international ship registry           |
| Spain       | Spain international ship registry              |
| Brazil      | Brazil international ship registry             |
| Italy       | Italy international ship registry              |
| Holland     | Holland international ship registry            |
| Pharos      | Pharos international ship registry             |
| New Zealand | New Zealand international ship registry        |
| Turkey      | Turkey international ship registry             |
| China       | Tianjin Dongjiang international ship registry, |

Source: ILO, The impact on seafarers' living and working conditions of changes in structure of the shipping industry, Report JMC/29/2001/3

## ***2.2 The causes of international ship registry's emergence***

### **2.2.1 The impacts of open registry**

There are inherent defects in the open registry for international society to control and supervise the ship's construction and operation quality, which brings out a large number of sub-standard ships into the shipping market and become hidden dangers to maritime safety, marine environment and the protection of crewmembers<sup>11</sup>. Because most of countries of open registry are small and do not have enough personal forces and technical power to conduct effective management of registered ships to fulfill all requirements of international conventions and other relevant resolutions, the domestic laws about ship safety only satisfy the minimum requirements of international conventions. On March 17<sup>th</sup> of 1978, crude oil tanker Amoco Cadiz, which flied the flag of Liberia, stranded to breakage outside the coast of Bretagne and leaked up to 220,000 tons of crude oil. The polluted coast lasted 160 km long and hundreds of fish and other creatures died because of the pollution<sup>12</sup>.

Open registry intensifies the unfair competition in the international shipping market because the advantages of ship operators of open registry are based on flexible

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<sup>11</sup> Lin Zhizhong(2006), Impacts of ships of convenience flag on shipping market, Global shipping, 12(2006), P16-22.

<sup>12</sup> Introduction of serious oil pollution accident in and outside China[EB/OL].  
<http://www.osp.cn/zhongxin/index1disp.asp?nid=113>

registry conditions and many preferential policies. The reasons why states of open registry can provide such flexible conditions are at the cost of ship's safety, which is not fair for ships of close registry and a danger for maritime safety. Besides, the property of shipowner of ships of convenience flag is not in states of convenience flag and in order to comply with domestic laws of flag state and fulfill the requirements of genuine link the shipowner may open a briefcase company which has no capital and merchandising right and authorize the operation right on ships to operational owner, so it is hard to confirm the real shipowner if fraud occurs and the real shipowner would be easily to avoid being punished<sup>13</sup>

It is a great and direct shock for the countries of close registry that a large number of ships owned by citizens register in countries of open registry. Because of the development of convenience flag, the number of ships registered in countries of close registry decreased quickly and significantly, which brings serious impacts on shipping market, shipbuilding industry, ship's machinery manufacturing industry, as well as domestic employment. On the other hand, ship's buying and selling and construction can take place in any places in the world, which is a negative influence on the development of shipyard and finance industry in the shipowner's country. In addition, domestic shipping business in most of countries in the world always only are done by ships registered in their own countries, which means ships of convenience flag are not allowed to carry out domestic business.

Open registry also has negative impacts on ship operation. Because of flexible policy of countries of open registry on crew employment, employees on ships of

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<sup>13</sup> Lu Jianlu(2007), Research on the defects on ships of convenience flag and countermeasures, *Maritime technology*, 5(2007), P32-36.

convenience flag are always from developing countries for the salary is very low. Moreover, because the management on crews should satisfy requirements of domestic laws of flag state while the flag state is not powerful enough, crew infringement always happens. The ITF will inspect the ship registered in countries of open registry frequently, which will bring undue delay for ships and penalty in some cases. Besides, ships of open registry will be vulnerable to be inspected and detained in ports in advanced maritime countries by port state control officers.

### 2.2.2 Failed attempt on offshore ship registry

Offshore ship registry means that a country set up a new ship registry in a remote part of mainland or annexed territory, such as offshore island, to accept ships to register and enjoy many favorable policies while traditional close registry still apply in other parts of state. The conditions in offshore registry are much more flexible than that in traditional close registry. Offshore registry was firstly applied in England in 1978<sup>14</sup>, and then France and Portugal began to set up offshore registry in their offshore islands, such as Kerguelen Island and Wallis and Futuna Islands. But the offshore registry confines the scope of ship as small ships and the place is far away and small, so the number of ships registered in these countries does not increase markedly and fewer and fewer countries adopt such kind of registry. For instance, the total number of ships registered in offshore registry is 600 in 7 years from 1978 in England, and only 1 of 4 ships was merchant ship. In the following years, the number did not increase but the total gross tonnage of registered ships decreased<sup>15</sup>. Nowadays, more than half of ships owned by England are registered in countries of

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<sup>14</sup> Guo Hui: Analysis on application of secondary registry in china, Journal of Qingdao Ocean Shipping Mariners College, 2(2010), p 69.

<sup>15</sup> Wu Liu fang: Research on secondary registry, unpublished master thesis, 2012, P. 20.



open registry<sup>16</sup>. Besides England, offshore registry does not achieve the desired result in France and Portugal, either.

### 2.2.3 The development of international shipping industry and the change on the policy in countries of closed register

With the development of international trade, a growing number of ships are constructed to transport cargo from one side of ocean to another. In order to enjoy more favorable policies to reduce the cost of ship construction and operation, more and more shipowners register their ships in countries of open registry. In addition to this, many shipowners change their ships to countries of open registry because of unfair treatment and high tax. Nowadays, there are more than 50 countries whose ship register systems are close registry while more than 30 countries are open registry, but more than half of the load capacities of ships are registered in countries of open registry. By July 1998, the number of ships of more than 300 gross tonnage registered in countries of open registry was 17,891, the sum of gross tonnage was 311,603,000 gross tonnages, which account for 68.1%<sup>17</sup>. In 2002, 8 in 12 countries of the most total gross tonnages in the world were open registry. By 2013, the country of most gross tonnage was Panama, which had 8,580 ships of 350,506,000 gross tonnages registered in and the Panama share of world total vessels was 9.87%<sup>18</sup>. Some traditional advanced maritime countries, such as America and Germany, were not in the list. Table 2 illustrates the top 10 flags of registration with the largest registered fleets, as of 1 January, 2013.

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<sup>16</sup> Zhou Xinyi: the decline of England shipping industry and new policies , world windows, 2(2012), p. 49.

<sup>17</sup> Zhao Shuang(2007): *a study on ship's secondary registry and related legal problem*, unpublished master dissertation, Dalian Maritime University, Dalian, China.

<sup>18</sup> Review of maritime transport, 2013, p.56.

**Table 2 The top 10 flags of registration with the largest registered fleet**

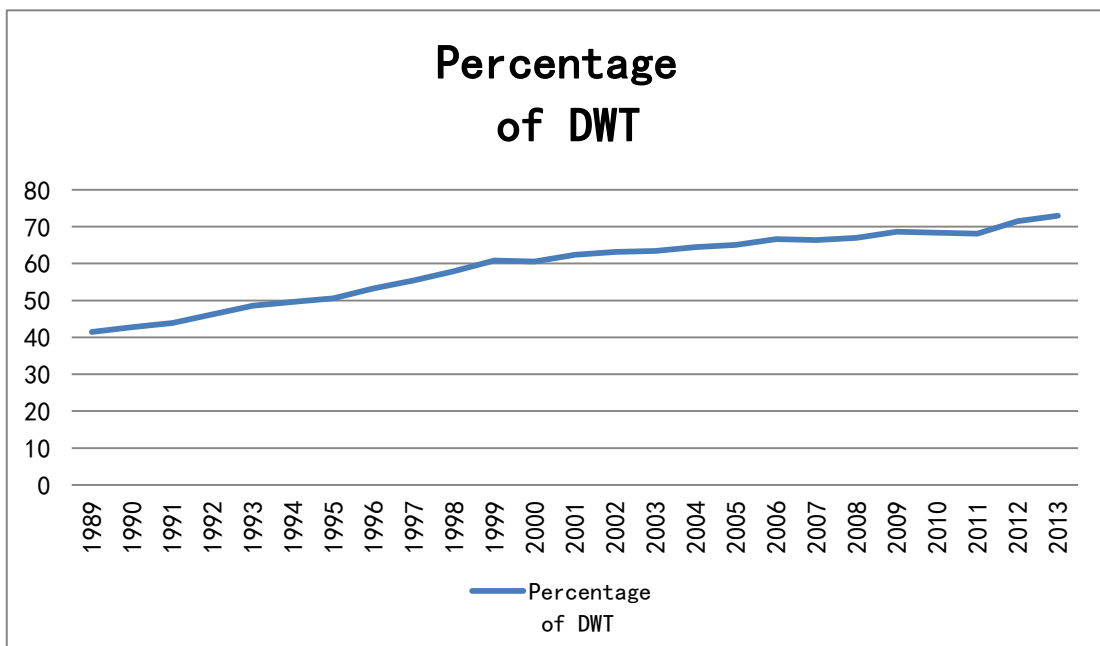
| Flag of registration | Number of vessels | Share of world total, vessels | Deadweight tonnage ( thousands DWT) | Share of world total ( percentage DWT) | National ownership (percentage) |
|----------------------|-------------------|-------------------------------|-------------------------------------|--|---------------------------------|
| Panama               | 8580              | 9.87                          | 350,506                             | 21.52                                  | 0.14                            |
| Liberia              | 3144              | 3.62                          | 198,032                             | 12.16                                  | 0.01                            |
| Marshall islands     | 2064              | 2.37                          | 140,016                             | 8.60                                   | 0.11                            |
| Hong Kong(china)     | 2221              | 2.55                          | 129,806                             | 7.97                                   | 12.16                           |
| Singapore            | 3339              | 3.84                          | 89,697                              | 5.51                                   | 36.60                           |
| Greece               | 1551              | 1.78                          | 75424                               | 4.63                                   | 92.60                           |
| Bahamas              | 1446              | 1.66                          | 73702                               | 4.52                                   | 1.18                            |
| Malta                | 1794              | 2.06                          | 68,831                              | 4.23                                   | 0.35                            |
| China                | 3727              | 4.29                          | 68,642                              | 4.21                                   | 98.18                           |

Source: Compiled by the UNCTAD secretariat, on the basis of data supplied by Clarkson Research Services.

Note: Estimate based on available information of seagoing merchant vessels of 1,000 GT and above.

According to the research data from UNCTAD, global share of foreign –flagged fleet grew from 41.5% in 1989 to 73% in 2013. Figure 1 depicted such growing trend.

**Figure 1 Global share of foreign flagged fleet (Beginning- of year figures, percentage of world total DWT)**



Source: UNCTAD, Review of Maritime Transport, various issues.

Note: Estimate based on available information of seagoing merchant vessels of 1,000 GT and above.

In order to promote domestic shipping industry and protect their own shipbuilding industry, many countries promulgate many policies to prevent ships registering in countries of open registry, such as direct or indirect financial subsidies to ships registered in their own countries. Such kind of policies failed to produce the desired effect.

### ***2.3 The advantages of international ship registry***

#### **2.3.1 The manning of seafarers on board is more flexible.**

For ships registered under close registry, the manning of seafarers are restricted seriously and the number of foreign seafarers are strictly restricted to protected the domestic seafarers. Although seafarers employment in ships under open registry is totally free, the seafarers' rights, such as wages and recreations on board, are hardly protected under the laws of countries of open registry.

While under the international ship registry system, the seafarer employment is more flexible than ships of close registry, which is very popular for shipowners. There is no nationality limitation in seafarer employment in some countries of international ship registry, for instance, ships registered in Japan international ship registry can employ persons from any country. Some countries make some nationality limitation on captains and chief engineers, such as France. According to French international ship registry law, captains of ships, no matter what the types are, registered in France should be French and there shall be 2 to 4 seafarers from France. Besides, the income standards of seafarers are deregulated in some countries of international ship registry. For example, according to German international ship registry law, foreign seafarers' income should be following the standard in seafarer's country.

#### **2.3.2 More favorable policies would be enjoyed.**

Under close ship registry, there are no favorable policies on neither tax nor registry conditions, while under open ship registry, although there are many favorable

policies in tax, duty and registry condition, because of imperfect legal systems in countries of open registry, shipowners' capital will be easily vulnerable to be defraud. In order to attract more ships to register in, countries of international ship registry always establish a large number of favorable policies on duty, tax and financing and so on. The tax preference is the first choice and most popular one and. Registration fee is very low and the import duty and added-value tax are exempt in some countries and some kinds of ships, such as VLCC and VLOC, will receive subsidy from the country. For instance, because of international ship registry, Italy reduces the tax rate from 65% to 50% for international ships registered in Italy and exempts some tax.

### 2.3.3 Registry conditions are more flexible.

The conditions of international ship registry are more flexible than those of close registry and that is why the number of ships registered in countries of international ship registry has increase so quickly in such short time. The conditions on ship registry and operation, such as shipowner's nationality, the actual control on ships, age of vessel and service area etc, are to the benefit of ship operation. Besides, the registry procedures are more simplified than close registry both on documents check and ship survey.

### 2.3.4 Less restrictions are set up on ship's ownership

Under close ship registry, it is a basic principle that ship shall be owned by country's citizen, or if the ship is owned by a enterprise, the enterprise should be control by its citizen, such as American and Japan. In some countries of close registry, ship is allowed to registered in only if the ship is totally owned by their citizen, such as

German and Switzerland. For countries of open registry, there is no restriction on the ships' ownerships. If the ship is owned by foreign citizens or enterprises, the shipowner has to find agent to represent their interests in the country of open registry. Under international ship registry, the restrictions on ship's ownership are less than that under close registry. More foreign capitals are encouraged to bring into ships, but for some countries, there are some restrictions on ship's operation. For instance, according to Norway international ship registry, there is no restriction on the domestic capital share on the ship's ownership but the ship shall be operated by companies that whose head office is in Norway.

#### 2.3.5 International ship registry meets requirements of genuine link.

According to the UNCLOS and other relevant conventions and resolutions, there must be a genuine link between the state and the ship, which means flag state must effectively exercise its jurisdiction and control in administrative, technical and social matters over ships flying its flag. There are actual genuine link between the ships and the flag state through international ship registry. According to the exiting international ship registry, there are nationality limitation on shipowners, both natural person and juristic person. The larger percentage of ship's ownership should be under control of native citizens or companies registered in native country. For example, in accordance with NIS regulation, ships registered in NIS should be owned by Norway citizen or company, and more than 60% property of whose is controlled by Norway citizen. Although the manning of seafarer is flexible than close registry, there are also minimum requirements on senior officers and captain. For instance, ships registered in Japan international ship registry shall be manned with captain and chief engineer from Japan and foreign seafarers servicing on board should pass the crew certification examination in English. Besides, a larger part of countries of

international ship registry are advanced maritime countries which have enough political and technical power and management experience to conduct more effective supervision and control on ships registered in.

#### ***2.4 The successful experience of Norway international ship registry (NIS)***

##### **2.4.1 Overview of NIS**

In July of 1987, Norway promulgated the law of international ship registry and firstly established international ship registry by law<sup>19</sup>, which brought prolonged influence on maritime policy in the world. Because of international ship registry, more and more ships owner by Norway citizens registered their ships in NIS. By October of 2004, there are 1,593 international ships that owned by Norway shipowner and 690 of them, whose total gross tonnage is 225,770,000, registered in NIS, and 680 ships of 153,470,000 gross tonnage in other open registry country. Besides 100 ships of 47,340,000 gross tonnage, which are in construction registered in NIS, and only 33 ships of 9,140,000 gross tonnage in construction registered in open registry countries.<sup>20</sup> The number of ships owned by Norway registered in NIS has been bigger than that in countries of open registry.

##### **2.4.2 The content of Norway international ship registry (NIS)**

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<sup>19</sup> Tsukada Shunzo: International ship registry of Norway, *Shipping*, 722(1987), P. 90.

<sup>20</sup> Zhao Shuang, a study on ship's secondary registry and related legal problems, 2006,P.17.

#### 2.4.2.1 General provisions on Norway international ship registry

Under Norway international ship registry, ships of power operated, including passage ship, cargo ship and drilling platform and other movable marine installations, can be registered in NIS. There is no age limitations but all ships should be surveyed by classification societies that are recognized by Norway maritime administration, such as DNV, LR, and ABS, or checked out by Norway maritime administration officers.

#### 2.4.2.2 No nationality limitations on ship's ownership

For ownership of ships, there is no nationality limitation on shipowner. If the shipowners is neither Norway citizen or company that owner by Norway citizen, the shipowner shall authorize persons who have house in Norway as his statutory agent.

#### 2.4.2.3 Manning of seafarers are more flexible

Seafarers except captain on board ships under NIS can be foreigners, and with the approval of Norway maritime committee, all post on board can be foreign seafarers. The wage of foreign seafarers on board can be paid on basis of their native wage standard instead of Norway standard and the tax and cost of social security will be exempt.

#### 2.4.2.4 Other favorable policies under NIS



In order to attract more ships to be registered in NIS, Norway governments promulgates more favorable policies on registration fees and tax. Taxation expense basing on Norway tax law will be exempt if the shipowner is a foreigner.

The attempt on international ship registry in NIS is successful and many ships owned by Norway citizens and enterprises were registered in NIS. This example shows the international ship registry is much more attractive for shipowners than open registry and close registry. Thus, in order to attract more ships to register in their own country, many countries promulgated international ship registry regulations, such as England and China. The following chapters will analyze international ship registry in China and provides some recommendations on ship registration system in China.

## Chapter 3

### Analysis on international ship registry law in China

#### *3.1 Overview of ships registry law in China*

##### 3.1.1 Introduction to Chinese laws involving ship nationality registry

The host law of ship registration in china is *the Maritime Law of the People's Republic of China* (hereinafter referred to as *the Maritime Law*) and the Maritime Traffic Safety Law of the People's Republic of China (hereinafter referred to as *the Maritime Traffic Safety Law*). According to the Maritime Law, ships registered in china have the right to fly Chinese flag and the transport administrative department of the state council is the administration of maritime shipping affairs<sup>21</sup>. There are also specific requirements about ships registration in the maritime traffic safety law. According to the maritime traffic safety law, ships shall have the certificate of registration on board.

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<sup>21</sup> See article 5 and 6 of the maritime law of the people's republic of China.

*Regulation of the people's republic of China Governing the Registration of Ships* (hereinafter referred to as *the Ship Registration Regulation*) is the most important law to regulate matters involving ships registration. It was promulgated on June 2nd, 1994 and came into force on February 1<sup>st</sup>, 1995. According to *the Ship Registration Regulation*, the registration of ships' ownership, nationality, mortgage and demise charter shall be registered and China Maritime Safety Administration (hereinafter referred to as MSA) is the administration of ship registration. In accordance with the provisions of the Ship Registration Regulation, ships only owned by Chinese citizen whose residences or principal places of business are located in Chinese territory, and enterprises with legal person status established under Chinese law and whose principal places of business are located in Chinese territory and the government shall be registered in china and fly Chinese flag. Besides, there are a lot of limitation on ship survey and the manning of crew in the Ship Registration Regulation. Thus, china is a country of close registry on basis of the Ship Registration Regulation.

Besides the Ship Registration Regulation, there are some other regulations that set requirements about ships operated in China, which means that only if ships satisfy all requirements set up in these laws the shipowner can registered his ships in China. Seafarer's wag requirements are set up in *the Regulations of People's Republic of China on Seafarers*. The age limitation is set up in *the management regulation on old ships*. Table 4 lists the primary laws and regulations about ship registration.

**Table 3 Chinese law system on ship registration**

| Legal statue | Name | Content |
|--------------|------|---------|
|--------------|------|---------|

|                           |  |  |
|---------------------------|--|--|
| Host law                  | The Maritime Law of the People's Republic of China   | Legislative basis of ship registration                         |
|                           | The Maritime traffic safety law of the People's Republic of China  | Legislative basis of ship registration                         |
| Regulations               | Regulation of the people's republic of China governing the registration of ships                                 | Registration conditions, Procedures, administration etc.       |
|                           | The Regulations of People's Republic of China on seafarers <sup>22</sup>   | Crew's wage, Manning of seafarers, Foreign seafarer management |
|                           | Regulations of the People's Republic of China Governing Survey of Ships and Offshore Installations <sup>23</sup> | Ship's survey  |
| Administrative provisions | The Management Regulation on Old Ships <sup>24</sup>   | Age of ship  |
|                           | Working Guide of Ships Registration <sup>25</sup>  | Procedures of ship registration                                |
|                           | The Rules of Minimum Safe Manning of Ships <sup>26</sup>   | Manning of crews on board                                      |

Source: Made by Author.

<sup>22</sup> Promulgated by Chinese state council on April 14<sup>th</sup>, 2007

<sup>23</sup> Promulgated by Chinese state council on February 14<sup>th</sup>, 1993.

<sup>24</sup> Promulgated by Ministry of Transport of the people's republic of china on December 4<sup>th</sup>, 2009.

<sup>25</sup> Promulgated by China MSA on July 4<sup>th</sup>, 2003

<sup>26</sup> Promulgated by Ministry of Transport of the people's republic of china on August 1<sup>st</sup>, 2004.

### 3.1.2 The content of ship nationality registration basing on the Ship Registration Regulation

#### 3.1.2.1 General provision

Any self-propelled or non-self-propelled vessels and any other mobile unit on water with the exception of life boats and life rafts equipped on board ships and boats or rafts of less than 5 meters in length are allowed to registered in china.

There is no age limitation in *the Ship Registration Regulation* but all ships shall pass the survey of CCS (international ships). Age limitations are set up in *the management regulation on old ships*. Old ships of foreign nationality are not allowed to register only if the age satisfies requirements in *the management regulation on old ships*. See table 5.

**Table 4 The limitation of age of ships in ships registration**

| Types of ships  | Age limitation on ships of foreign nationality | Age of mandatory scrapping |
|---|--|----------------------------|
| High speed passenger ship   | Less than 10 years                             | More than 25 years         |
| Ro-ro passenger ship<br>Cargo passenger ship<br>Passenger ferry<br>Passenger ship | Less than 10 years                             | More than 30 years         |
| Oil tanker  | Less than 16 years                             | More than 31 years         |

|   |                    |   |
|---|--------------------|---|
| Bulk Chemical ship<br>Liquefied gas ships |                    |   |
| Bulk carriers<br>Ore carrier              | Less than 18 years | More than 33 years<br>More than 39 years in ships only sailing in Heilongjiang river system |
| Container ships<br>Tug ships              | Less than 20 years | More than 35 years<br>More than 41 years in ships only sailing in Heilongjiang river system |

Source: Made by Author.

### 3.1.2.2 Ownerships of ships

If the shipowner is Chinese citizens, his residences or principal places of business shall be located within Chinese territory. If the ship is owned by enterprise, the enterprise shall be established under the laws of the People's Republic of China and its principal places of business are located within the territory thereof. Provided that foreign investment is involved, the proportion of registered capital contributed by Chinese investors shall not be less than 50 per cent. Service ships have to be registered in China.

### 3.1.2.3 Seafarers

According to the Ship Registration Regulation, seafarers on board Chinese ship shall be Chinese citizens. If necessary, employing foreign seafarers shall get approvals from the competent authority of transport and communications under the State Council. There is no limitation in *the Ship Registration Regulation*. According to *regulations of People's Republic of China on seafarers* and its interpretation by ministry of transport, crew's wages shall be paid no less than the minimum wage of local province where the crew employer located<sup>27</sup>.

### ***3.2 The causes of international ship registry's emergence in China***

3.2.1 Exiting Chinese ship registration system do not meet requirements of shipping industry's development

3.2.1.1 Strict restrictions on ship's ownership set up barrels for foreign capital

There are too many strict limitations on shipowners, which make fewer ships satisfy the requirements of Chinese ship registration law and sets up barriers for the development of Chinese fleet. According to *the Ship Registration Regulation*, the shipowners, which have the right to registered in China, only include Chinese citizens, Chinese government and Chinese enterprise and public institutions. In addition to this, the qualification of citizen and legal person are strictly restricted. Chinese citizen and legal person have to have residence and for ships owned by Sino-foreign joint venture enterprise, the amount of Chinese contribution has to be

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<sup>27</sup> Peng Min, The research in the system of crew's wages. Unpublished master thesis, May 2009, P. 19.

more than 50%. These conditions forbid ships owned by Chinese citizens living aboard without residence in China, enterprises whose primary business establishments are outside Chinese mainland and whose amount of contribution is less than 50% to register in China.

#### 3.2.1.2 Labor cost increase quickly.

According to *the Ship Registration Regulation*, the crew on ships of Chinese flag shall be Chinese citizens. In case it is necessary to recruit foreign seafarers, their employment shall be approved by the competent authority of transport and communications under the State Council<sup>28</sup>. These provisions prevent the foreign seafarers working on ships of Chinese flag, and conflict with provisions in conventions and resolutions from WTO and ILO<sup>29</sup>. With the development of Chinese fleet, more and more crews of high quality and low wages are needed but the talent pool for seafarers, especially for captains and senior officers of high quality, cannot meet the requirements of the shipping industry. Besides, because of the booming of Chinese economy, crew's wage has increased greatly and the average wages for Chinese crew are relatively higher comparing with crews from other developing countries, which increase the labor cost of shipowner.

#### 3.2.1.3 Sino-foreign joint venture enterprise cannot satisfy requirements on proportions of ship's ownership.

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<sup>28</sup> See article 7 of regulations of the People's Republic of China Governing the registration of ships.

<sup>29</sup> Yang Haitao, Research on the legal system of international vessel registration, P. 69.



According to *the Ship Registration Regulation*, ships owned by Sino-foreign joint ventures are not allowed to be registered in China unless the Chinese amount of contribution in the enterprise is more than 50%, which restricts the use of foreign investment and influence the positivity of foreign investment. In order to get more investment from countries of more flexible financing policy, many shipowners build their ships in foreign shipyards and raise money from foreign banks, which makes the share of ship's ownerships less than 50% and these ships have to register in countries of open registry.

#### 3.2.1.4 Ship survey is restricted only in CCS.

According to *Regulations of the People's Republic of China Governing Survey of Ships and Offshore Installations*, ships of international voyage can only be surveyed by CCS if they want to register in China<sup>30</sup>. Many international freight agents set up strict requirements in the survey of ships because the transportation of cargo needs special equipments which CCS cannot survey. For instance, in order to get more orders from British Petroleum, many ships owned by Chinese citizens and enterprises chose Lloyd to survey their ships because it was easy to pass the survey of course deviation indicator and British Petroleum's inspection. Besides, ships surveyed by CCS will be insured in a relatively higher premium rate paid and inspected more often because of many reasons, including political factors, international rating of CCS and local trade protection policies, so many ships have to

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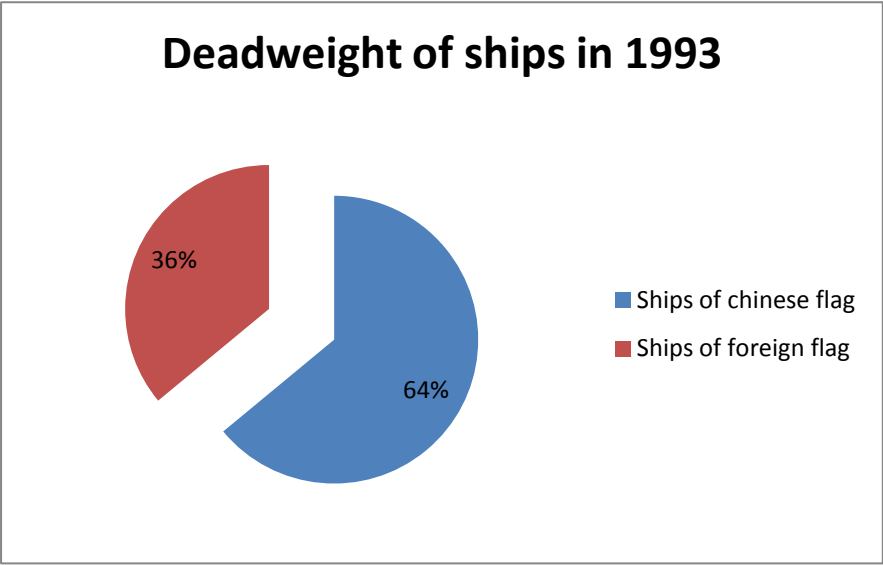
<sup>30</sup> See article 13 of *Regulations of the People's Republic of China Governing Survey of Ships and Offshore Installations*.

pass the survey of foreign classification society, such as Lloyd, ABS, and NK. Because of the bundle policy of ship registration and survey, many ships owned by Chinese citizens and enterprises have to registry in countries of open registry.

3.2.2 The number of ship owned by Chinese enterprise registered in countries of open registry increase quickly.

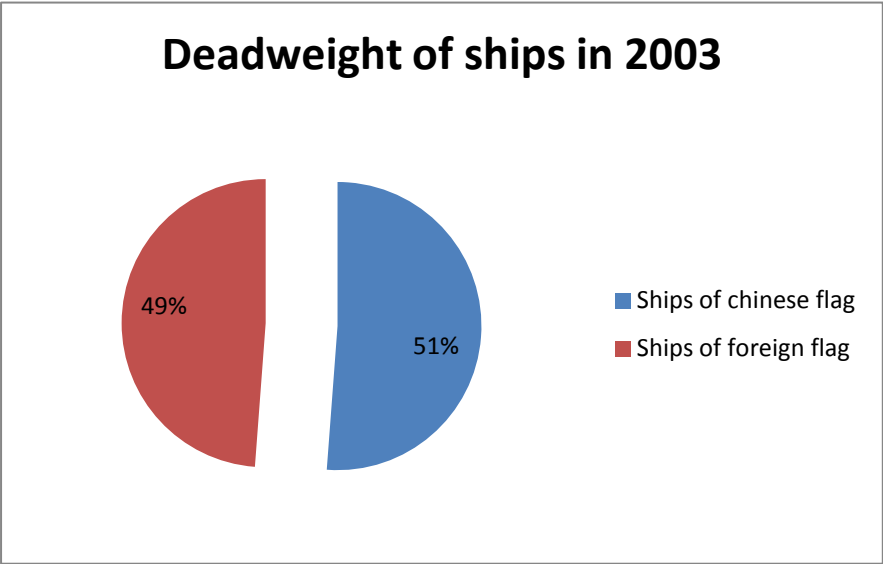
Ships owned by Chinese enterprise began to fly convenience flag from 1950s and the number of ships of convenience flag grows rapidly from 1980s. By 1993, the deadweight tonnage of ships of foreign flag was 8,726,000 dwt, which accounted for 36% of total dwt of ships owned by Chinese citizen and enterprise. By 2003, the number increased to 21,623,434 dwt and the share increased to 48.81%, while by 2013, the number increased to 123,142,833 dwt and the share was 64.79%. See figure 2, figure 3 and figure 4. Figure 5 illustrates the change in dwt of ships owned by Chinese citizen and enterprise.

**Figure 2 The share of Chinese ships of foreign flags in 1993**



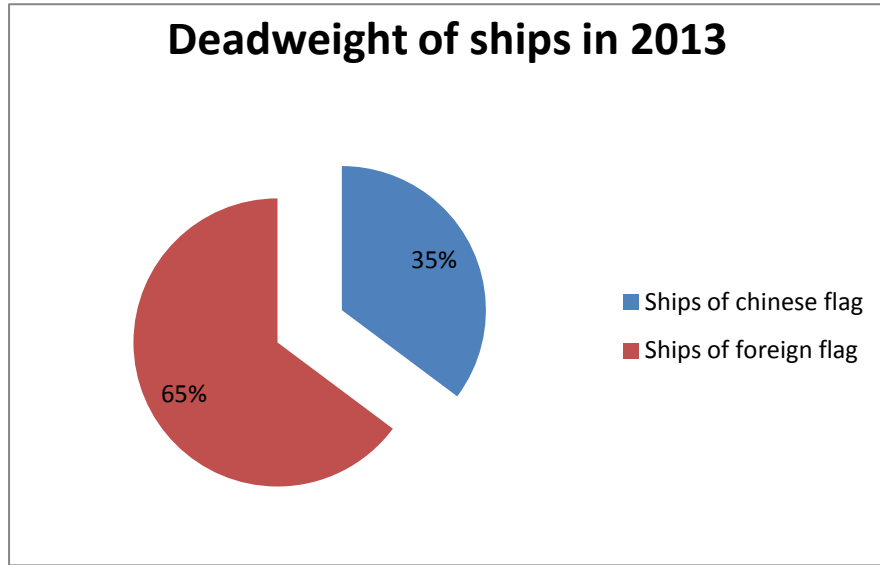
Source: UNCTAD.

**Figure 3 The share of Chinese ships of foreign flags in 2003**



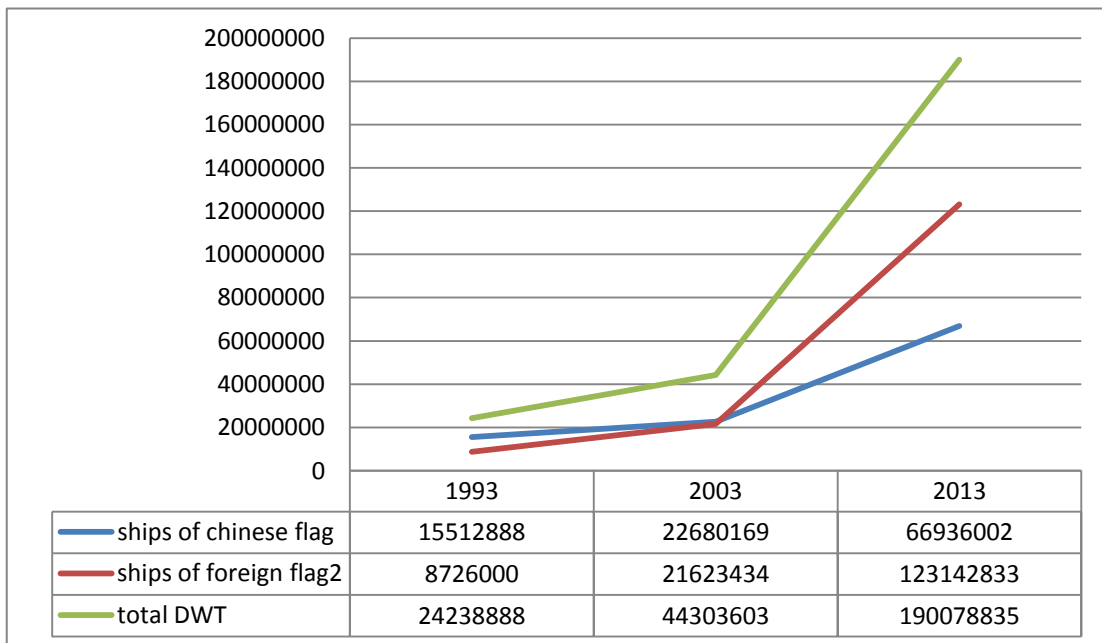
Source: UNCTAD.

**Figure 4 The share of Chinese ships of foreign flags in 2013**



Source: UNCTAD.

**Figure 5 Changes in dwt of ships owned by Chinese citizens and enterprise in last decades.**



Source: UNCTAD

Figure 5 illustrates the change of dwt of ships owned by Chinese citizens and enterprises. We can find that from 2003 to 2013, the dwt of ships of both Chinese flag and foreign flag increased more sharply and quickly than previous decades because of booming of Chinese economy in this decade. The dwt of ships of foreign flag increased more quickly than Chinese ships and the share increased from 36% to 65%. In the last three decades, the ratio between ships of foreign flag and ships of Chinese flag has increased from 0.56 to 1.84.

### ***3.3 The advantages to set up international ship registry in China***

Compared with close registry, international ship registry works in parallel with the traditional registry system and is an adequate supplement in some cases in countries of close registry, such as China. International ship registry does not mean the abolishment of existing close ship registry but accepts some certain ships or ships of certain use ( most times these ships are newly-built ships in foreign countries and ships of international voyage owned by Chinese citizen) to be registered. Besides, there are many preferential policies in international ship registry in registry conditions, tax, and manning of crewmembers on board. For instance, ships registered in international ship registry may enjoy lower tax or tax deduction and exemption and seafarers on board ships of international ship registry can be from foreign countries.

Under international ship registry, ships are controlled and inspected by both domestic administration and port state if ships call on foreign ports. Under open registry, because of loose management, flag state cannot conduct effective management on

ships, which seriously jeopardizes ship operation, seafarer's protection and marine environment protection.

International ship registry meets requirements of genuine link in the convention on the Geneva Convention on the High Seas, 1958<sup>31</sup>. The reason for the emergence of international ship registry is to prevent the ships owned by citizens registering in foreign countries. These ships are owned by the country's citizen, which is a genuine link between ships and the registry country, and the legal basis of ships. On the other hand, ships of open registry do not have real genuine link between ships and the country, which is an important reason why countries of open registry can not conduct effective management on ships of its flag.

### ***3.4 The introduction of international ship registry in China***

On May 18<sup>th</sup>, 2013, *Innovation Pilot Scheme on International Ship Registry in Tianjin Dong-jiang bonded port* (hereinafter referred to as *the innovation pilot scheme*), the first high level decree in international ship registry, was approved by the Ministry of Transport of People's Republic of China and Tianjin Dong-jiang port became the first port of international ship registry in China. This program makes certain conditions for ships that want to register in Tianjin Dong-jiang port. Besides Tianjin Dong-jiang port, there is another similar program in Yang-shan port in Shanghai. The policy is same but do not carry out.

#### **3.4.1 The content of international ship registry**

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<sup>31</sup> See article 5 of Convention on the Geneva Convention on the high seas

#### 3.4.1.1 More ships can be registered in China.

According to *the innovation pilot scheme*, Cargo ships of more than 1600 gross tonnage, unregular passenger ships, drilling platform or any other mobile unit except regular passenger ship of international voyage. Besides, the minimum age of ships is raised except for oil tanker. More details are in table 5. Age of ship is calculated from the time of construction to the year of application of registry.

**Table 5 The limitation of age of ship under international ship registry**

| Types of ships   | Age limitation for ships of foreign nationality |
|--|---|
| High speed passenger ship<br>Ro-ro passenger ship<br>Cargo passenger ship<br>Passenger ferry<br>Passenger ship | Less than 12 years                              |
| Oil tanker<br>Bulk Chemical ship<br>Liquefied gas ships  | Less than 14 years                              |
| Bulk carriers<br>Ore carrier   | Less than 20 years                              |

|                              |                    |
|------------------------------|--------------------|
| Container ships<br>Tug ships | Less than 22 years |
|------------------------------|--------------------|

#### 3.4.1.2 Policies on foreign enterprises are more flexible.

Ships owned by enterprise legal person can be registered in Dong-jiang Free Trade Port Zone. If the Enterprises have foreign capital, Chinese capital contribution shall be not less than 50%. Ships of domestic foreign-invested enterprises can also be registered in if the enterprise sets up a branch company in Dong-jiang Free Trade port.

#### 3.4.1.3 The approval of Manning of foreign seafarer becomes easier.

Ships of international ships registry shall employ Chinese crew as captain, chief engineer or other posts according to administration's requirements. If it is necessary to employ foreign seafarers, such employment shall be approved by Tianjin Maritime Safety Administration instead of ministry of transport of the people's republic of China. Above all, the share of foreign seafarers shall be less than 30%.

### ***3.5 The problems exist in international ship registry in china.***

#### 3.5.1 Ship survey limitation still exists.



According to *the Ship Registration Regulation* and *the innovation pilot scheme*, the ship has to pass the survey of CCS if it would be registered in China. The survey can only be conducted by CCS, which prevents many foreign classification societies coming to the Chinese ship survey market. Besides, because of many serious policies for ship insurance and operation on classification society, many shipowners would not registered their ships in Tianjin dong-jiang port.

### 3.5.2 Approval process did not change.

*The innovation pilot scheme* did not simply the approval process because there is no specific approval process in *the innovation pilot scheme*, which means the approval process for ships of international ship registry are the same as that in *the Ship Registration Regulation*( more than 4 months). Because the approval process for ship registration proceeds step by step, the process would not be approached if the former step is not finished. For instance, before ship registration, the shipowner will need to finish the open approval, which will cost more than 60 working days. After that, ship has to have survey and classification certificate and international oil pollution prevention plan and carbage management plan, which will take another 62 working days. By contrast, the approval process is less than 5days in countries of open registry.

### 3.5.3 No tax preference is in the innovation pilot scheme.

There is nothing on tax preference in *the innovation pilot scheme* and the tax is the most attractive part for shipowners to register their ships in Tianjin dong-jiang port. Actually the rate of duty and added-value tax on ships and import relevant equipments are relatively high and increase gradually. From 1982, the duty rate of

import ships was 9% and the added-value tax was not available. However, from 1985, the add-value tax was added and the rate was 6%, then the rate increased to 12% and 17% in 1988. After the tax reform in 1994, the total rate of duty and added-value was as high as 17%.<sup>32</sup> Ships registered in Tianjin dong-jiang port do not enjoy export rebates and free import, which accounts for a large part in vessel cost.

#### 3.5.4 Finance ratio limitation still exists.

Finance ratio is another important part that the shipowners care. According to *the innovation pilot scheme*, the Chinese capital share shall be no less than 50%. Although the scale of Chinese capital is enlarge to Chinese enterprises in foreign country and foreign enterprises in China (these enterprise need to invest in Tianjin dong-jiang free trade zone), the share of Chinese capital is big. Farther more, there is no tax preference under such international ships registry.

#### 3.5.5 Strict limitation in manning of seafarers

According to *the innovation pilot scheme*, ships under international ship registry in Tianjin dong-jiang port cannot employ foreign seafarers without approval of Tianjin Maritime Safety Administration and the total share of foreign seafarers on board shall be not more than 30%.

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<sup>32</sup> Chen jihong, Han lingbing, Research on countermeasures to improve ship registry service in shanghai international maritime center, *Scientific Development*, P, 86.

## Chapter 4

### Recommendations

#### *4.1 Simplify the approval process of ship registry*

Nowadays, the main problem that the Chinese government faces is that a huge number of ships owned by Chinese citizens or enterprises are registered in foreign countries, such as Panama and Liberia. In these countries of open registry, ship registry is a kind of commercial service instead of administrative approval, and their service concept and level is relatively higher than that in China, which makes many shipowners uncomfortable when they apply for ship registration in China. The approval process in these open registry countries is simply and the approval time period is much shorter than that in China.

In order to improve the service level of ship registry and compete with countries of open registry, China Maritime Administration, as the administration of ship registration, should improve working ways and simplify the workflow of ship registry to reduce approval time. This paper recommends to change approval mode from series mode to parallel mode. According to *Regulation of the people's republic of China governing the registration of ships*, before shipowners apply for ship's

nationality, the ship has to get ownership certificate and a large number of other certificates, for example, International Oil Pollution Prevention certificate and Tonnage certificates. Therefore, if the application mode is changed to parallel mode, which means that the ship can apply for nationality when applying for ownerships certificates and others, plenty of time will be saved.

#### ***4.2 More Classification societies shall be recognized.***

According to *Regulation of the People's Republic of China Governing the Registration of Ships*, ships that apply to register in china have to pass the survey of recognized classification society. The only recognized classification society is CCS. Because Chinese shipbuilding technology is relatively low in the world, in order to build ships of high quality, many shipowners would have their new ships built in foreign shipyard, such as Japan and Korea. Besides the high quality of shipbuilding, shipowners would enjoy more favorable financing in foreign countries and many financing associations appoint some certain classification societies to conduct survey on ships. Furthermore, survey quality is another important matter that shipowners care. The survey quality of CCS is relatively lower than some classification societies from advanced maritime countries, such as LR, NK and DNV. If the ship is surveyed by a classification society of high quality, it will not be easily to be detained in foreign ports.

Thus, more flexible policies are needed to attract shipowners to register their ships in China. China Maritime Safety Administration shall recognize more classification societies to survey ships that will be registered in China. Many ships built in foreign

shipyards and under foreign financing can be registered in China. Besides, more classification societies in domestic ship survey market will force the CCS to improve survey quality and service, which will enhance the whole safety and management level of Chinese ships.

#### ***4.3 More preferential policies on tax shall be promulgated.***

Among the influence factors on ship operation, tax is the primary factor that affects the shipowners to choose ships' nationality. As analyzed in chapter 3, the total tax rate on import ships is as high as 17%. On the contrary, import duty on ships in England and Japan is free and import duty on main equipments and accessories of ships is free in Germany and Korea. For tax on ship operation, there are business tax and income tax. And in recent years, there is no tax preference in business tax and income tax.

In order to lighten the tax burden on Chinese ships' shipowners and attract more ships to be registered in China, more tax preferential policies shall be promulgated and tax reform on both ship deal and operation shall be encouraged. For instance, reduce the business tax on ships and replace the general sale tax with tonnage tax.

#### ***4.4 Foreign finance ratio shall be enlarged.***

Chinese domestic ship financing environment seriously constrains the development of maritime economy and is an important reason why ships owned by Chinese people

register in foreign countries. Finance ways on ships in China are very rare and there are restricted constraints on foreign capital, which makes the financing cost higher than that in foreign finance market. Financial products on Chinese shipping market are loan, finance lease, stock and bond. So it is hard for shipowners to get enough money in domestic financing market, and they have to search for more help from foreign financing markets. Because of strict financing ratio on foreign capital and special requirements on classification from foreign financing association, many ships have to register in foreign countries.

Thus, it is necessary to encourage more foreign capital to invest in Chinese ships and enlarge the foreign share in ship's financing structure to more than 50%. In order to protect the safety of Chinese investments in ships, for ships whose foreign share is larger than 50%, it is useful to set up some constraining conditions. For instance, the ship is forbidden to be sold in 5 years or the Chinese enterprise has much more power in ship operation. In order to encourage many ships to register in China and support the developments of shipping market, it is necessary for Chinese government, Chinese banks and large shipping companies to set up a special foundation for shipping development. This foundation can supply capital-financing support for shipsowners.

#### ***4.5 The restriction in manning of foreign seafarer shall be eased***

According to *Regulation of the People's Republic of China Governing the Registration of Ships* and relevant regulations, there are many constraints on foreign seafarers serving on ships of Chinese flag. With the development of Chinese

economy, the income gap between seafarers and workers on land becomes narrower and narrower, so a large number of high quality seafarers leave the ship to search for jobs on land, which makes the quality of Chinese seafarers and the competitiveness in world seafarer market weaker and weaker. Besides, the Chinese seafarers' wage is not lower than foreign seafarer. Therefore, it is essential to enlarge the share of foreign seafarers and encourage more and more seafarers of higher quality to serve on Chinese ships, which not only reduce the operation cost but also help to improve the average quality of seafarers on Chinese ships and force Chinese seafarers to improve their competency.

## Chapter 5

### Conclusion

The reform on ship registration system is long and arduous. International ship registry, as a new type of ship nationality registration and an supplement to exiting ship registration system, is an important attempt to attract more ships owned by chinese citizens and enterprises to registered in China. Basing on analysis on Chinese legal system of the ship registration and international ship registry in Tianjin Dong-jiang port in this paper, it is evident that the international ship registry in China do not meet the requirements on perfect the exiting ship registration systems. Although the *Innovation pilot program on international ship registry in Tianjian Dong-jiang port* has come into force for more than 1 year, but the effects are not very clear. Until now, only 1 ships had registered in Tianjin dong-jiang port.

Therefore, new reforms on ship registration shall be encouraged more deeply and *the Ship Registration Regulation shall be revised* to adapt the development of Chinese shipping market. Not only one aspect of ship registration but the whole system shall be reexamine, including tax, duty, approval process and so on. Furthermore, more departments on ships registration shall cooperate to prompt the reform of ship registration because the tax and import duty are administrated by State taxation administration and general administration of customs.





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