

## **Multinational Management in Shipping : Flag of Convenience**

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## I. Introduction

Shipping policies are, in most countries, the outcome of reconciliation of a multitude of public policy, social, economic, defence and other interests. Shipping is considered, by many today, to be an effective instrument of public policy and not just a transportation business in which efficient performance of its function is the prime concern. On the other hand, it is recognized to be a major economic factor influencing the effectiveness of foreign trade.

Shipping policies include economic and operational regulation, manpower use and ownership restrictions, cargo and transport access limitation, direct and indirect government aid or subsidies, technological regulation, and more. They also include measures designed to enhance national prestige, visibility, and defensive capability.

Today a very significant proportion of the cost of ocean shipping is consumed by various measures dictated by shipping policy which in many countries detract from efficient operation of shipping. Shipping is subject to both national and international policy and the two sometimes conflict with, or at least contradict, each other. This is often the result of unambiguous measure of performance<sup>1)</sup>.

Over the past fifty years, the share of the World's shipping fleet operating under open registry has grown from 4 % to almost half of the total tonnage. While there has been strong opposition based on the costs of maritime disasters and opposition both from the traditional maritime nations, which have suffered erosion of their fleets, and from labour unions, which point to worker exploitation, the shipping companies have found the greater operational and financial flexibility which accompanies open registry

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1) Mary R. Brooks & et al. (2002), Maritime Transport Cheltenham, UK., p.386.

to be a considerable attraction<sup>2</sup>).

The paper consists of seven sections. Section 1 explains the background and of the study. Section 2 reviews the characteristics and definition of FOC. Section 3 is to identify ship register categories and their competitive conditions. Section 4 tackles the emerging forces of globalisation-the advent of FOC. Section 5 deals with legal maritime framework. Section 6 tackles the current structure and characteristics of FOC vessels. Some concluding comments follow in the last section.

## II. The characteristics and definition of flag of convenience

A ship may be beneficially owned in one country, directly owned by a company resident in another country, registered in the flag of a third country and accordingly subject to its rules, managed by a company in a fourth country and even sub-chartered to the interests of yet another country<sup>3</sup> . This complicated method of managing shipping is possible through the use of flags of convenience. Flag of convenience shipping is responsive to free market requirements, in some cases, flag of convenience facilities are representative of the freedom of shipping. From the point of view of the expansion of the international system, flags of convenience were preferable to various alternative policies which could have been considered by some developed countries in the post period. In particular given the inherent competitive weakness of national-flag shipping in the USA, either widespread cargo reservation or massive subsidies, would have been the alternatives to an FOC policy for sustaining an interest in international

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2) *ibid.*, p.347

3) Committee of Inquiry into Shipping Report (Rochdale Report, 1970), Cmnd 4337, London, paras 5-6.

shipping. Liberian or Panamanian registry firms received substantial indirect, promotional benefits, including tax breaks and avoidance of costs associated with government regulation<sup>4)</sup> .

Flagging out - the change of a vessel's registry from a national flag to a flag of convenience - has become a widespread phenomenon, and now affects the merchant fleets of more or less all traditional maritime nations. Flags of convenience - usually Liberian or Panamanian, but also, more recently, Costa Rican and Cypriot - enable an owner to escape national regulation, especially with respect to hiring nationals as crew, conforming to minimum wage laws, observing safety regulations and in some instances, pollution the high seas with dirty discharges. Ship under flags of convenience have increased greatly as a percentage of world deadweight tonnage from 2 percent in 1939 to 3.8 percent in 1948, 18.8 percent in 1970, 31.1 percent in 1980, 34.1 percent in 1990 and 47.2 percent in 2003. <sup>5)</sup> (Table 1).

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4) Cafruny, A.W.(1987), *Ruling the Waves-The Political Economy of International Shipping*, University of

5) UNCTAD (2003), *Review of maritime transport, 2003*, New York, UN.

Table1.

Distribution of world tonnage(dwt) by groups of countries of registration.

1980, 1990, 2003

*(beginning-of-year figures)*

Flag of registration by group of countries	Tonnage and percentage shares in million of dwt		
	1980	1990	2003
world total	682.8	658.4	844.2
	100.0	100.0	100.0
Developed market-economy countries	350.1	219.0	217.1
	51.3	33.3	25.7
Major open-registry countries	212.6	224.6	398.5
	31.1	34.1	47.2
Countries of Central and Eastern Europe (including former USSR)	37.8	44.3	15.9
	5.5	6.7	1.9
Socialist countries of Asia	10.9	22.1	28.3
	1.6	3.4	3.4
Developing countries	68.4	139.7	171.3
	10.0	21.2	20.3
<i>of which:</i>			
Africa	7.2	7.3	5.3
Americas	21.8	25.5	35.6
Asia	39.1	89.5	126.9
Europe	0.2	13.8	1.3
Oceania	0.1	3.6	2.0
Other, unallocated	3.0	8.7	13.1
	0.4	1.3	1.5

Source: UNCTAD, Review of maritime transport, 2003, New York; UN; 2003

On the other hand, Table 2 shows the growth rate in fleet numbers for the seven fastest growing new FOCs in the period 1997-1999. Even though some of these registers started from a very small base size, the rates of growth have still been quite extraordinary given the world average over the same period. There is clearly a reason for this growth, and it would appear that the owners who are flagging to these registers are those that find even the limited regulatory burden of the established FOCs too burdensome<sup>6</sup>).

6) Tony Alderton & Nik Winchester (2002), Flag states and safety: 1997-1999,

Table 2.

The Growth rate in vessel number of the seven fastest growing new FOCs.

Flag	Growth rate fleet numbers 1997-1999(%)
Bolivia	5900
Cambodia	140
Belize	79
Equatorial Guinea	14
Netherlands Antilles	14
Sri Lanka	5
Vanuatu	4
World	1.5

Source : Tony Alderton & Nik Winchester (2002), *Flag states and safety: 1997-1999*, Maritime Policy and Management Vol.29, No.2, p.158

Flags of convenience are the national flags of those States with whom shipping firms register their vessels with a view to minimising their private cost by avoiding ;

- (1) the economic and other regulations and ;
- (2) the conditions and terms of employment of factor of production that would have been applicable if their vessel were registered in the countries of their national origin.

The following common features of these flags are identified in the Rochdale report.

1. The country of registry allows ownership and/or control of its merchant vessels by non-citizens ;
2. Access to the registry is easy. A ship may usually be registered at a

consul's office abroad ;

3. Taxes on the income from the ship are not levied locally or are low. A registry fee and an annual fee based in tonnage, are normally the only charges made. A guarantee or acceptable understanding regarding future freedom of taxation may also be given ;
4. The country of registry is a small power with no national requirement under any foreseeable circumstance for all the shipping registered, but receipts from very small charges in a large tonnage may produce a substantial effect on its national income and balance of payments ;
5. Manning of ships by non-nationals is freely permitted ; and
6. The country of registry has neither the power nor the administrative machinery effective to impose any government or international regulations ; nor has the country the wish or the power to control the companies themselves.

### III. Register categories and their competitive conditions

The ship's management depends on the legal, safety, technological, taxation and social provisions of the nation in which it is registered. Therefore worldwide competition between the numerous registers concerning the provisions they offer is critical both for the shipping business, for the seafarers' employment and welfare.

#### 1. The national registers

As defined by the national law and international conventions, every register is national. However, a register is named "national" when it registers exclusively the national ships and also when the whole national set

of laws applies to those ships. Every traditional maritime nation has a "national" register, i.e., the European countries, U.S.A., Canada, Japan, Australia, New Zealand etc. Due to the high standards of those nations in industrial safety, social welfare, labour earnings, taxation and to their complete conformity to the international conventions, the management of the national registered ships, subject to a consistent technical, social and administrative control, is generally good, but their running costs are high. Due to high costs, the national registration is more and more limited to the coastal sailing in territorial waters whereas the ocean ship owners incline to transfer to more liberal registers.

## 2. The international registers

When the old maritime nations' ship-owners suffered a rapid increase of their charges, the young states born from the independence of the colonies needed resources of all kinds. Both met on the opportunity to make a good bargain by creating new but flexible registers that would be open to foreign owners. This way the "FOC" were born.

A FOC register offers mainly an easy and flexible registration, very low or non-existent taxes. It also offers light fees, no restrictions on the nationality of the crew, and comparability, social welfare, and any other matters relating to shipping.

## 3. The second national registers

When numerous shipowners flagged out their vessels, for enjoying a cheaper and more flexible ship management against the national register's stiffness, the national maritime countries loosed their maritime know-how and the mastership of their own fleet and of their whole maritime sector.

As the national cohesion did not allow infinite waivers to the national



laws, for the only benefit of the national shipping, the old maritime countries' governments were brought to research a solution: they created a second national register.

The objective of such a register is to provide, the possibility to fight with national deep-sea ship owners against the flag of convenience owners.. Its provisions are lightened compared to those of the actual national register. More than the ability to flag the national ensign, the national nature of the second register can be found in the design, technical and safety provisions which are generally in accordance to most international conventions adopted by the flag state.

The main difference between the second and national register of a country lies in the taxation system and in its manning provisions. Instead of the compulsory number of nationals, the ship may also embark foreign seafarers. Systematically and for a strategic purpose the captain, often part of the officers, have to be nationals. Nevertheless, ratings may be foreign and their wages and social welfare are rated at their own country's rules if any.

Examples of second national registers are the French T.A.A.F (Territory Australes Autonomous Territory - i.e., Kerguelen) in 1986 which was the first "second national register" to be created, followed by this the Norwegian(N.I.S), the Danish(D.I.S), the German(I.S.R), the Portuguese(Maderia), the Luxembourg for Belgium, the Spanish Canaries Islands, etc.

#### IV. The emerging forces of globalisation-the advent of Flags of Convenience

There has long been a tradition that the law of the sea has been grounded in the notion of the freedom of the high seas. This freedom has, historically, three underlying principles: a ship of any nation can navigate the oceans freely: the ship's national state has exclusive dominion over the

ship: Freedom is thus the guiding principle of the law of the sea, but it is a principle strongly mediated by nationality.

FOCs began as farback as the 16th century when the English used them to get around Spanish blockades. In the 1920s when alcohol was forbidden in the US, ships used a Panama registration approved of the use of FOCs. The US wanted to allow FOCs and pushed for non-discrimination in which a state must allow ships regardless of the flag. European states disagreed, and in the 1958 Convention on the High Seas they were able to include a provision in which there must be a "genuine link" between the owners of the ship and the nation of registry. By the 1970s the European states were finding it hard to abide by their own rules and their shipowners transferred ownership to FOCs. Ironically, it was India and Brazil leading the objection to FOCs since the 1970s. The European Commission calculated that tax breaks and lower labor costs can save a ship owner about \$1 million a year per ship.

The concern is that there are some important safety, environmental protection, and labor standard issues that are being evaded with FOCs. The countries that offer themselves as FOCs are often not at all interested in the maritime industry other than to earn some money. Some of the most common flags on ships are countries that are very small and not involved with maritime shipping.

Liberia is a common example because it is the second largest fleet, and the country has experienced some dramatic political problems, leading some to question whether they should be allowed to offer a registry. Liberia's registry costs about \$1,000 per ship. The company that operates the registry, a law firm named by International Registries, Inc, near Washington DC, also offers Liberia as a tax haven for companies to avoid taxes. This corporate registry service brings in about \$40 million per year (\$1,000 per company), as compared to the \$2 million a year from ship registries<sup>7)</sup>.

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7) Douglan Long (2004), *International Logistics*, Kluwer Academic Publishers, pp.163-164.

In 1974 the ITF<sup>8)</sup> defined an FOC quite simply as being: 'where beneficial ownership and control of a vessel is found to be elsewhere than in the country of the flag the vessel is flying'. In 1982, the United Nations Convention on the Law of the Sea (UNCLOS) was established, and article 91 also gives great weight to the idea of a 'genuine link' between the ship and the flag of the vessel and states that:

Every States 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. Ships have the nationality of the State whose flag they are entitled to fly. There must exist a genuine link between the State and the ship<sup>9)</sup>.

The *raison d'être* behind the existence of these registers is the offering of a regulatory free environment for the ship owner. The very success of the flag depends on the continued and anticipated maintenance of this environment<sup>10)</sup>.

Of the many reasons for the unusual growth of flags of convenience the principal one is economic. Not only registration and annual tonnage fees are low, taxes on profit light, but the owners have much lower operating costs, particularly those related to crews. For many owners from the high-cost countries flags of convenience are the only solution of their financial

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8) According to the ITF, FOCs enable shipowners to minimize their operational costs by avoidance of strictly applied safety and environmental standards. FOCs allow some companies to 'escape from... some ship safety an on-board health and social requirements'. What is equally clear from the foregoing, however, is that there are substantial differences between FOCs themselves, and it is likely that these differences are a product of varying regulatory standards. There can be three sets of broad cost factors that influence flagging out decisions:

- .Crewing costs
- .Operating costs and
- .Fiscal costs.

9) UN, United Nations Convention on the Law of the Sea, <http://www.un.org/-Depts/los/unclos>, 2004.

10) Tony Alderton & Nik Winchester (2002), Flag states and safety: 1997-1999, Maritime Policy and Management Vol.29, No.2, pp.151-162.

problems. A spectacular outflow of shipping tonnage from such flags as USA, German, Swedish, Dutch or Norwegian was due to this reason. Whatever the arguments raised against the flags of convenience, such as for instance low safety standards, inadequate crew, etc, the main reason for their existence and expansion is purely economic. One thing, however, deserves to mention, namely the paradoxical nature of the whole controversy over the FOC. Being a pure product of shipping liberalism (or perhaps anarchy?) the concept of open registries is attacked by the proponents of a free and fair competition in shipping. The reason for this apparent paradox is the threat by convenience operators not only to the weak fleets of developing countries, but also to the established traditional maritime operators. And this is, in our opinion, the very essence of the whole controversy over the open registries issue<sup>11</sup>).

## V. The Genuine link concept

Ship management was particularly brought into the spotlight by Sletmo. He expressed the idea that shipping is undergoing a fundamental restructuring and reorganizing with a division of labour taking place not only between countries -as was the case with the process of flagging out- but also between a variety of firms in different aspects of shipping<sup>12</sup>). Professional ship management companies having developed expertise in operating efficiently with low cost labour while drawing on western technology and capital contribute to the development of new, more efficient factor markets to such a degree that they are instrumental in creating a new form of organization of shipping, its globalisation. In fact, this

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11) Chrzanowski I., *Shipping economics*, London: Fairplay Press, 1985, p.128.

12) Kyriaki Mitroussi (2003), *Third party ship management: the case of separation of ownership and management in the shipping context*, *Maritime Policy and Management*, Vol.30, No.1 pp.77-90.

organisational change of global nature for which ship management companies are seen as catalyst is described as 'the fourth wave of maritime transport'<sup>13)</sup>.

There are three bases for international maritime law. First, ship registration conveys nationality to a ship and brings it within the regime of the national law of the country of registration. Article 6 of the Convention of the High Seas (1958) specifically states that ships shall sail under the flag of one country only and shall be subject to that flag's exclusive jurisdiction. Second, a ship must obey international laws embodied in conventions that have been ratified by the flag state and that have come into force. Third, a ship may also be subject to the laws of the country in whose territory waters or port it is currently operating. But the "law of the flag" often has supremacy over the "law of the port of call". Because the country of registry and the law of the flag affect ship operating economics in a major way, the choice of register is crucial to shipowners<sup>14)</sup>.

In 1986, the opponents of flag of convenience got UNCTAD to pass the United Nations Convention on Conditions for Registration of Ships. As expressed in Article 1, the Convention sought to "strengthen the genuine link between a State ship and its flag in order to give more effective control in administration, technical, economic, and social matters". It also initially defined in Article 8,9, and 10 in the three essential elements of a genuine link.<sup>15)</sup>

After a long battle in which European nations as well as developing

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13) Sletmo, G.K. (1989), Shipping's fourth wave: ship management and Vernon's trade cycles, *Maritime Policy & Management*, Vol 16, pp.293-303.

14) Toh, R.S. & Phang, S.Y. (1993), Quasi-flag of convenience shipping the wave of the future, *Transportation Journal*, Vol.33, pp.31-35.

15) First, it provided that the shipowning company should establish its principal place of business in the flag countr, otherwise the company must have a representative who is citizen of the flag country or is domiciled there to be available for legal proceedings. Second, nationals of the flag state should participate in the ownership of ship registered there, to an extent that the flag state can effectively exercise its jurisdiction and control. Third, a reasonable number of crew members should be nationals of or domiciled in the country of registry, ith the level of participation dependent on the availability of qualified seafarers and consistent with the sound and economical operation of the ship.

countries were against FOCs and the US was the main supporter, the late 1980s saw a switch in emphasis, with FOCs receiving more widespread support. The United Nations Convention on Conditions for Registration of Ship was adopted on 7 February 1986 in the presence of some 110 states, The Convention virtually legalised FOCs. The heart of the Convention is in Articles 8, 9 and 10 which provide for participation by nationals of the flag state in the ownership, manning and management of ships, thus establishing the link between a ship and flag state. Many countries wanted to ensure a "genuine link" thus weakening the FOCs. However, the Convention ultimately proved to be a victory for flags of convenience. On manning, only a "satisfactory part" of the vessel's crew are supposed to be citizens of flag state. Owners are also to take account of "sound and economically viable operation" of vessel, this stipulation allowing them to continue current practices.

Thus a decade of work in the UNCTAD led not to a "phasing out" of open registries as many developing countries had hoped, but rather, to ratification of the status quo. Following the ratification there are strong indications that the traditional division between open and closed registries will become less clear, with the decision of the Philippines, Sri Lanka, Nigeria, as well as other developing countries to open their registries to foreign operators, subject to commitments in the use of a substantial proportion of nationals on board, and under fairly stringent conditions of transparency and accountability in line with Articles 6 and 7 of the new convention<sup>16</sup>).

One decisive factor for FOCs consolidation was the adoption of the UN Convention on Conditions for Registration of Ships, by the Conference of the same name on 8 February 1986 in Geneva. The Conference itself was the result of a long debate promoted in UNCTAD in order to eradicate FOCs. Nevertheless, the Convention did not yield the desired effects, since it

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16) MyongSop Pak, *Participation of Developing Countries in World Shipping*, University of Liverpool, 1991, pp.71-77.

never entered into force. Its main purpose was to guarantee that all registers abide by its articles, highlighting the need of countries to keep efficient and competent maritime administrations and ship operators identification, through a "genuine link" (the term initially planned, "economic genuine link", was refused).

It is clear that by increasing ownership transparency, safety and security would improve. It is necessary that the "genuine link" concept, mentioned in article 91 of the Convention on the Law of Sea, be effective. As the 1986 UN Convention on Conditions for Registration of Ship has not come into force<sup>17)</sup>, efforts should be made to review the Convention in order to make the conditions of entry into force more widely acceptable or, if this prove impracticable, consideration should be given to the development of an entirely new international treaty addressing the conditions of registration of ships. It would then be possible to ensure that all Flag States have a competent and adequate maritime administration and that a "genuine link" exists between register and ship. It would also make it difficult for substandard Flag State to continue in Business<sup>18)</sup>.

## VI. The Characteristics of FOC vessels in the 21st Century<sup>19)</sup>

As Rochdale Report points out, it is not an easy task to give a straightforward definition of FOC, "although economic, employment, easy access to register and fiscal policy factors will be essential elements". There is no doubt that the lack of a genuine link between shipowner and the flag, as well as their different nationality will be unequivocal signs of FOC.

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17) OECD, Ownership and control of ships, Maritime Transport Committee, 2003.

18) Francisco J. Montero Llacer (2003), Open Registers: past, present and future, Marine Policy 27, pp.513-523.

19) UNCTAD (2003), Review of maritime transport, 2003, New York, UN, pp.32-40

Indeed, as we have been analysing throughout this paper so far, advantages yielded by lower costs, freedom to use foreign labour, together with low taxes, have been essential pillars for consolidation of this system. Currently, the situation is changing and safety matters are and will carry on being the cornerstone of registers in the near future.

The determining criterion when choosing an FOC is not flagging cost. Generally, FOCs charge similar fees according to the tonnage to be registered. Today's practice entails the use of other factors, including the development of new selection methods as suggested by Haralambides and Yang<sup>20</sup>.

Crew costs constitute one of the components with more repercussion for shipping business, representing an important percentage of total operation costs. European and American experts agree with this statement. Annual crew costs, such as those from a typical North European closed register, can be double or even four times those of a FOC, depending on crew selection.

The future of FOCs will be tied to factors such as: keeping a genuine link, abiding by safety, security and pollution prevention regulations, crew training and qualification compliance with international commitments, fleet age and technical feature, recognised classification societies, and so on. There are other factors such as traditionally low costs and reduced fees, 24-hour quality service, simple procedures, suitable maritime mortgages, freedom to choose crew nationality, and a professional and competent maritime administration with an effective maritime policy.

As it has been stated above, registering a ship in a State different to the owner's own is a practice which goes back several centuries and, for a long time, maritime transport has been making use of that system in order to overcome certain restriction.

Unfortunately, many owners make the decision to flag out to FOCs on

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20) Haralambides HE, Yang J.(2003) A fuzzy set theory approach to flagging out: towards a new Chinese shipping policy, *Marine Policy* 2003, Vol.27 pp.13-22.



the basis of expected savings to be made in respect of reduced operating, ship maintenance, and crewing costs. It is remarkable that five countries of nationality own more than 50 % of the world tonnage for years: Greece, Japan, Norway, the USA and China<sup>21)</sup> with a very high percentage thereof belonging to FOCs: 70% of Greece, 86% of Japan, 76% of USA. Apart from the aforementioned data, it is also true that nearly 54% of total tonnage in 2002 flagged with FOCs. Thus, it is not difficult to ascertain the system's strength<sup>22)</sup>.

On the other hand, despite conventional thinking, ships registered under national flags are not necessarily younger than FOC vessel, and this is particularly true for such countries as Japan, USA, China and Korea. At the beginning of 2000, ships under national registers had an average age of 17.6 years compared to 15 years of FOC vessel. Only ships registered under the flags of Germany and Switzerland were, primarily as a result of taxation rules, on average much younger than their flagged out counterparts.

International registers such as UK's Isle of Man, France's Kerguelen Islands, Norway's NIS, Germany's GIS and Denmark's DIS are often seen as placed in that 'grey area' and administrative links are direct and tight, and open registers where they are very weak, seen in this way, they can serve the dual purpose of retaining some control over the national shipping industry and, at the same time, satisfying the need for a more competitive environment on the part of shipowners<sup>23)</sup>.

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21) Chinese flagging out started in the 1950s. Flagging out took massive dimensions and momentum with the opening up of the country in the 1980s, especially since China's tax reform in 1994.

22) Francisco J. Montero Llacer, *op.cit.*, pp.520-522.

23) Haralambides HE, Yang J.(2003) A fuzzy set theory approach to flagging out: towards a new Chinese shipping policy, *Marine Policy* 2003, Vol.27 pp.15-16.

## VII. Concluding Remarks

Multinational management in shipping such as flags of convenience and more freedom to the shipping companies to buy and sell where and when they want, to choose flag, crews and officers out of economic considerations, and so giving them better chance to survive and to prosper. Therefore, FOCs tend to neutralise one of the potential benefits of developing countries in world shipping, that of access to cheap labour. In this way they tend to reduce the value of a national fleet in developing countries, which may have to compete with FOC fleets not with a high cost developed country fleet. It does seem that in-so-much-as crew costs remain the crucial determinant of competitiveness of international shipping, the phenomenon of open registration will continue to provide commercial attraction in both high-cost traditional shipping nations and developing countries without well-trained and low cost crews.

In many countries, the national register drain is continuing, and this development is assuming alarming dimensions with painful consequences. To maintain a large and strong national fleet, most governments of traditional maritime countries have modified their policies moving closer to the situation created by the legislation of open registers. The FOC legislation is often used as a benchmark against which to measure the effects of policies of traditional maritime countries<sup>24</sup>). In this way, 'policy competition' is being developed between traditional maritime countries and open registers.

Usually, policy competition for attracting and retaining national fleets falls into two main categories: one is an 'incentive-based' approach, aiming to

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24) Bergantino AS, O'sullivan P. (1999) Flagging out and international registers: main development and policy issue, *International Journal of Transport Economics*, Vol.26, pp.446-71

influence flag choice directly by such things as a flag preference/discrimination (influencing cargo reservation), exclusion of foreign flags(cabotage, bilateralism, multilateralism), port surcharge/discriminatory fees, and maritime subsidies such as operating and building subsidies, investment/modernisation grants and tax benefit.

The other category consists of a 'rule-based' approach, having a more indirect impact on flag choice by affecting the regulatory and operating environment of shipowner. Examples comprise various special regimes with particular rules and regulations putting national fleets on more equal footing with those of other countries'

Whilst Kindleberger<sup>25)</sup> view the FOC system as a transitional phenomenon, the reality is that the gradual flagging out process shows no sign of abating.

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25) Kindleberger C.P.(1985), Multinational ownership of shipping activities, *The World Economy*, Vol.8, pp.250-251.

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## ABSTRACT

### Multinational Management in Shipping : Flag of Convenience

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Over the past fifty years, the share of the World's shipping fleet operating under open registry has grown from 4 % to almost half of the total tonnage. While there has been strong opposition based on the costs of maritime disasters and opposition both from the traditional maritime nations, which have suffered erosion of their fleets, and from labour unions, which point to worker exploitation, the shipping companies have found the greater operational and financial flexibility which accompanies open registry to be a considerable attraction

The paper consists of seven sections. Section 1 explains the background and of the study. Section 2 reviews the characteristics and definition of FOC. Section 3 is to identify ship register categories and their competitive conditions. Section 4 tackles the emerging forces of globalisation-the advent of FOC. Section 5 deals with legal maritime framework. Section 6 tackles the current structure and characteristics of FOC vessels. Some concluding comments follow in the last section.

Key words : Flag of Convenience(FOC), Shipping, Open Registry, Genuine Link
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