

Ship Registration System of Bangladesh: An Assessment

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Abstract

Registration offers a flag to a vessel providing access to high sea and ports worldwide. Many countries pursued aggressive registration policy allowing non-citizens with flexible tax and fee structure resulting in a significant amount of revenue earning by becoming the desired destination for ship registration worldwide. Despite ample opportunities, Bangladesh could not tap the potentials of ship registry to boost up her economic growth through fleet expansion. This paper aims at identifying challenges of ship registration in Bangladesh and put forward strategies for their mitigation to get optimum output in the registration market. This study revealed a complicated ship registration process in Bangladesh relying on national register with nationality as a determining factor for registry resulting in sluggish growth of ship registration. The underlying causes are the rigid legal frame, inadequate institutional architecture, huge tax burden, insufficient incentive. Therefore, this study recommends flexibility in a legal frame to introduce hybrid registries, reformation of Mercantile Marine Office, automation of registration process, rationalisation of the tax regime and investment facilitation through incentives.

Keywords: Ship Registration, National Register, Hybrid Registries, Tax Regime.

Introduction

Shipping has been the backbone of international trade since time immemorial. With the progression of seaborne trade, ship registration has become one of the prerequisites of the ship's operation. Like every person or enterprise, nationality is attributed to a vessel flying the flag of a state.

Ship registration ensures freedom of navigation on the high seas, through territorial

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waters and to enter ports. It brings a vessel within the legal regime on national law and international convention (UK Chamber of Shipping, 2012). Registration process generates revenue, annual tonnage fees and also creates employment opportunities for nationals (Phang and Toh, 1994).

In general, ships are registered in any of the forms among closed, open and hybrid registration (Rogers, 2010). At the beginning of 2019, there are 96,295 vessels trading in the global merchant fleet with a combination of a total of 1.97 billion deadweight tonnage (DWT). More than 70% of the commercial fleet is registered under the Flag of Convenience (FOC) commonly known as the open registry. In terms of tonnage, more than 40% of world fleet registered in three major open registry flags: Panama, Liberia and Marshall Island. These countries are mostly small island developing States, such as the Marshall Islands and the least developed countries, such as Liberia (UNCTAD, 2019).

Panama and Liberia possess aggressive policy to promote ship registration applying FOC. Revenue generated from Liberian International Ship and Corporate Registry (LISCR), the world's 2nd largest open registry, was accounted for 25% of the Liberian national income (Sharife, 2011). Since Panama Flag runs over 19% of total tonnage in the world today, compared to only 13% belongs to Liberia; the income from open registry services of Panama is even much larger (ISL, 2017). In 1969, even in Asia, the establishment of Singapore as a flag of convenience state solved employment for Singaporean nationals. Recruiting Singaporean crew in Singapore registered vessel enjoys a significant refund in annual tonnage tax (Phang and Toh, 1994). Furthermore, financial incentives plus Singapore's reputation as a politically stable and a worldwide network of consular services contributed to her exceptional growth as a shipping registry. Shipping tonnage has grown from 0.02 million gross tons in 1966 when the registry was first established to 88 million gross tons in 2016 (Phang and Toh 1993).

Bangladesh is historically a maritime nation having 710 km coastline along the Bay of Bengal (Shemon, 2017). After the maritime boundary settlement with Myanmar (March 14, 2012) and India (July 07, 2014), the country focuses on prospects of the Blue Economy and aspires to be a middle-income country by 2021 and developed economy by 2041. (CRI, 2014) It can be mentioned that Bangladesh has already fulfilled the criteria of a developing country. Bangladesh is being included in the 'white list' of the International Maritime Organisation (STCW, 2018). The state holds the availability of potential seafarers and its immense population to produce within the shipping market. Presently, Bangladesh applies a national registration system. As a state party of the United Nations Convention on the Law of the Sea 1982 (UNCLOS III), countries adopted 'Merchant Shipping Ordinance, 1983. This ordinance defines the process and conditions of ship registration under the Bangladesh flag. The country also enacted 'Bangladesh Flag (protection) Ordinance, 1982 (Alam and Zakaria, 2016). With existing law and policy, only 46 ships have been registered under the Bangladesh flag (GSO, Bangladesh 2019). In contrary, flags like Panama, Liberia and Singapore had registries of 7860, 3496 and 3433 vessels respectively in 2019 (UNCTAD, 2019). These ships are not sufficient for existing trade and finance. Moreover, Bangladesh, with a large coastline, enough

manpower, enlisted in IMO white list and its upward trade growth, has the potential to expand market and beneficiary in the ship registry industry. Though the country has a huge potentiality, due to the national ship registration policy, Bangladesh flag can't capture the opportunities of expanding her fleet compared to other flag registers.

With this backdrop, the purpose of this paper is to assess the existing ship registry policy of Bangladesh with a view to recommending a way out for its improvement.

This research analyses the ship registration policy in Bangladesh. The data were collected from both primary and secondary sources for this assessment process. The primary data were collected through interviews with the officials of Mercantile Marine Office (MMO), Government Shipping Office (GSO), Department of Shipping (DoS), shipping companies, people engaged in Maritime Education and Training (MET), some other resource persons related to this sector in Bangladesh. The secondary data were obtained from official websites, annual reports, published books, journals and articles, shipping statistics, and market review. In addition, various shipping laws and amendments of Bangladesh have been discussed throughout the research. The statistical data is presented by diagrams, charts, table etc.

Overview

Shipping is a global platform, volatile, capital intensive and complex in nature. Bangladesh is not apart from it. Since the liberation war, the number of vessels under the Bangladesh flag travelled in a small circle. In the last decade, several business groups uphold Bangladesh flags in the ocean through their own cargo. A number of Bangladeshi business groups (Basundhara, Kabir, Meghna, Crown, Akij etc.) mostly possess bulk carrier based on their industrial cargo (cement clinker, steel billet, sugar etc.). After the freight market recession in 2008, the growth of the Bangladesh flagged fleet was expanding. In 2014, there were 72 vessels in the Bangladesh flagged fleet. But the expansion did not sustain for long and now, Bangladesh flag register has been surviving with only 46 ships (Figure 1) Out of 46 vessels, there are 40 bulk carriers, 06 tankers (GSO, 2019).

It is evident that the Bangladesh flag register could not advance much. According to Chowdhury, president of Bangladesh Oceangoing Shipowners' Association (BOGSOA) "if a businessman buys a vessel worth USD 20 million, he needs to pay another USD 7.0 million as taxes, which is a big burden for the industry." (Islam, 2018) Owners highlighted the high import cost of vessels, high operating costs and the presence of withholding tax as the main reasons for the lack of investment (Parvez, 2018). In the meantime, most of the vessels of Bangladesh Shipping Corporation (BSC) were more than 25 years old. Due to high maintenance and operation cost, BSC scrapped those vessels at different times. Concurrently, BSC failed to invest in procuring new vessel at that moment. It is a matter of hope that BSC has already procured 6 new vessels of different types and a new procurement plan of 24 vessels is under process (BSC website). At the same time, the legal framework of vessel registration does not permit a foreign investor to hold more than 49% of the total share. Also due to complex and paper-based registration process, ship owners face difficulty and time-consuming in registering ships under the Bangladesh

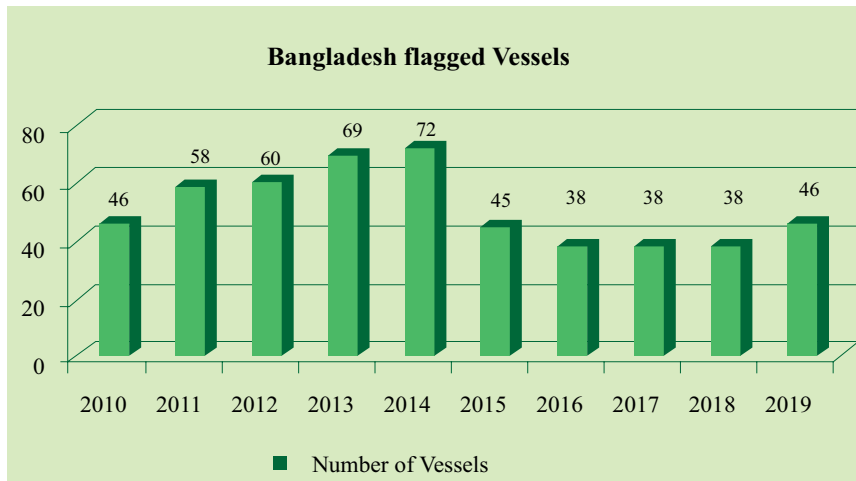


Figure 1: Statistics of Bangladesh flag registered vessels
(Source: Authors, based on the data from MMD and GSO)

flag. This study has brought out relevant issues involved in vessel registration under the Bangladesh flag. These are discussed subsequently.

Issues Involved in Vessel Registration in Bangladesh

The major issues involved in vessel registration under Bangladesh flag are Legal Frame, The registration process, Tax and Fee, Incentive and Investment. These are subsequently discussed below: -

Legal Frame

Article 91 of the United Nations Convention on the Law of the Sea (UNCLOS) reads:

“Every 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. 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.

Every state shall issue to ships to which it has granted the right to fly its flag documents to that effect.”

The oceangoing vessels in Bangladesh are registered, surveyed, inspected under the guidelines of the Bangladesh Merchant Shipping Ordinance, 1983(BMSO). According to BMSO, Director General (DG) of Department of Shipping (DoS) is the Registrar General of Bangladesh ships. Presently, Principal Officer is in charge of Mercantile Marine Office (MMO), at Chattogram port and acts as the Registrar of Bangladesh ships. Part II of this ordinance discusses ‘Registration and Nationality’ applied to all seagoing Bangladesh ships exceeding fifteen tons net and fitted with mechanical means of propulsion, but shall not apply to ships registered under any law for the time being in force for the registration

of inland ships plying on inland water.

Under clause 3 of chapter 1 defines Bangladesh ships and the condition of her ownership.

“Bangladesh ship” means a ship belonging to a statutory corporation or a ship acquired and owned by a foreign national or company and leased out to the government or a citizen of Bangladesh or a Bangladeshi company under such an agreement that the ownership of the ship shall be transferred after a specified period of time to the government or such citizen or company in accordance with the terms of the agreement or a ship owned wholly by persons each of whom is:

(a) A citizen of Bangladesh, or

(b) A company which fulfils the following conditions, namely:

(i) The principal place of business of the company is in Bangladesh,

(ii) shares representing more than 50% of the share capital of the company or shares carrying more than 50% of the total voting power of the company are held by citizens of Bangladesh,

(iii) The majority of the directors of the company are citizens of Bangladesh,

(iv) Either the Chairman or the Managing Director of the Board of Directors of the company is a citizen of Bangladesh.

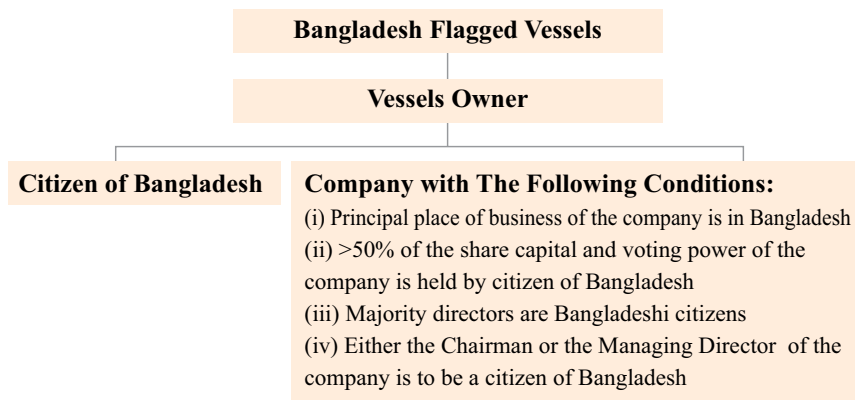


Figure 2: Conditions of Bangladesh flagged vessels' ownership

(Source: Authors, based on data from BMSO, 1983)

Under clause 17 of chapter 1 defines foreign going ship and clause 44 defines the sea-going vessel.

“Foreign going ship” means a ship employed in trading between any port or place in Bangladesh and any other port or place outside Bangladesh, but does not include a coasting ship or a home trade ship.

“Seagoing”, in relation to a vessel, means a vessel proceeding to the sea beyond such limits as may be specified by the government by notification in the official gazette.

Bangladeshi flag vessel registration requires to fulfil the following conditions:

- a)** Vessel age should not be over 25 years (if the vessel is imported) (Import policy order, 2015-2018)
- b)** Vessel to be verified under Bangladesh recognised classification society
- c)** Vessel to be surveyed by a Surveyor or by any Surveyor of a Classification Society duly authorised by the Government of Bangladesh and complied with maritime legislation such as IMO convention, SOLAS, MARPOL etc.
- d)** The vessel should specify the ship’s tonnage and build, deliver certificate and such other descriptive identity ascertained in the prescribed manner to register.

The Registration Process of Bangladesh

The Registration Process is the significant aspect of a ship by which she is documented and provided with the nationality of a state. The nationality permits a ship to trade and navigate worldwide as it is the evidence of ownership of the vessel. Documentation is a complex procedure with so many steps under a flag state by which it exercises regulatory control over the vessel. Flag state requires inspecting it periodically. This involves certification of the equipment, the crew of a vessel and complete documentation. In Bangladesh, a vessel is surveyed by a flag state surveyor in most cases, otherwise, it endorses the document surveyed by the assigned classification society inspector.

Registering a vessel under Bangladesh flag requires to submit an application by the shipowner authorised agent to the Principal Officer, MMO in the prescribed form for provisional registration with appropriate documents. On perusal of documents submitted with the application, Principal Officer will issue provisional Continuous Synopsis Record (CSR), provisional Safety Equipment Certificate (SEC), and provisional Safety Radio Certificate (SRC). Subsequently, vessel owners/agents will obtain Call Sign, Radio Station License from (BTRC) with the submission of necessary documents provided by MMO. Upon collection of call sign and radio station license, Bangladesh Telecommunications Company Ltd. (BTCL) will issue Maritime Mobile Service Identity (MMSI) number and Department of Shipping will issue Minimum Safe Manning Document (MSMD). The Principal Officer will issue the provisional Certificate on receipt of necessary MMSI and station license documents from the applicant. After issuance of the provisional certificate, flag state surveyor or approved classification society surveyor will inspect the vessel physically and conduct a survey in compliance with maritime legislation including ratified IMO convention. Upon satisfactory report of the surveyor, full submission of all documents, payment of tax to National Board of Revenue (NBR), registration and others fees, the vessel will be provided final registration by Register of the Bangladesh Ships. On completion of the registration under Bangladesh flag, the Registrar shall grant a certificate of registry in the prescribed form containing the particulars of the respective ship as entered in the register book and the name of her maiden master.

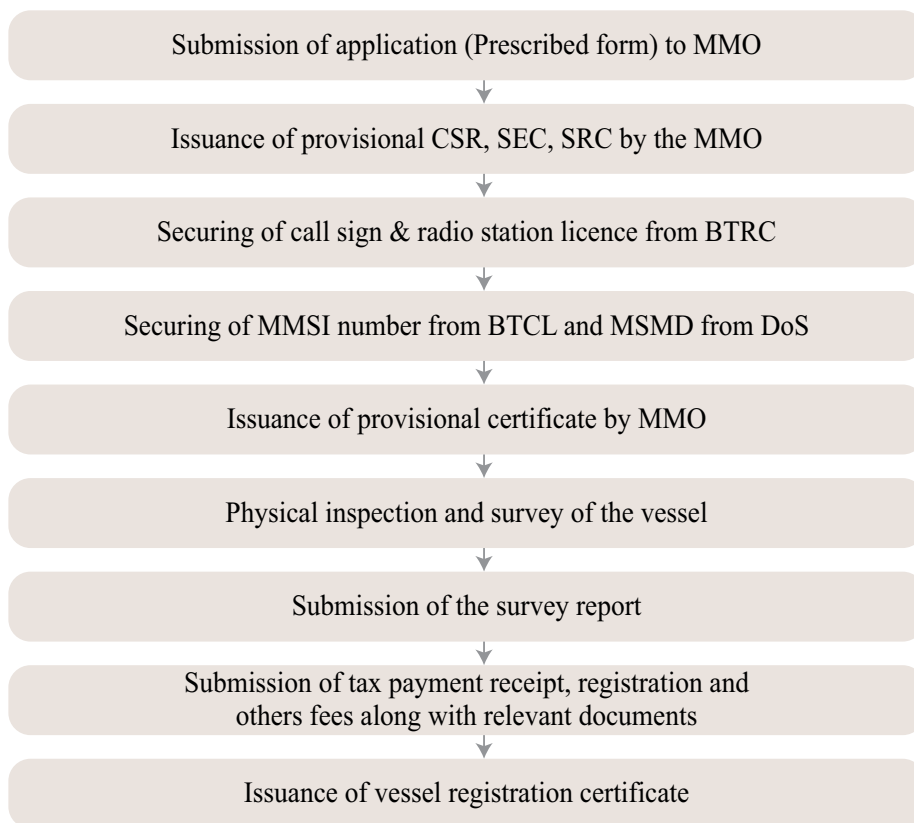


Figure 3: Vessel registration process under Bangladesh Flag

Source: Authors, based on data from MMO, Chattogram

Tax and Fee

Taxation and other charges are the most vital factors for shipowners in choosing a flag. Top-ranked ship registers choose their flags in a flexible tax regime that offers competitive registration fee. In Bangladesh, ship owners are subject to several taxations from vessel import to profit gain. A tax regime that exists now in Bangladesh is as follows:

Import Duty

Chapter 89 of the Bangladesh Customs Tariff (BCT) states that cruise ships, excursion boats and similar vessels principally designed for the transport of persons, ferry-boats of all kinds, tankers, refrigerated vessels, other vessels for the transport of goods and other vessels for the transport of both persons and goods including warships and lifeboats other than rowing boats are subject to import duty on the particular description are follows:

- a) 25% import duty for vessels with a capacity not exceeding 3,000 DWT for registration in Bangladesh operating in oceans for at least 3 consecutive years
- b) 10% import duty for vessels with a capacity exceeding 3,000 DWT but not

exceeding 5000 DWT for registration in Bangladesh operating in the oceans for at least 3 consecutive years

c) 0% import duty for vessels with a capacity exceeding 5000 DWT for registration in Bangladesh operating in the oceans for at least 3 consecutive years (BCT, 2017-18)

Value Added Tax (VAT)

VAT at 15% is payable in case of import of ocean-going vessels as per Value Added Tax Act, 1991. It needs to be mentioned that exemption from payment of VAT is available if the vessel fulfils the following criteria:

a) Vessels should be more than 5,000 DWT and a vessel has to be registered in Bangladesh

b) Vessels should not be older than 22 years and must be used for carrying freights for at least five years, during which the vessels cannot be sold or transferred

c) Double hull/ double bottom vessel

d) Every year submission of Proceed Realisation Certificate (PRC) from bank to the local VAT office as a proof of their foreign currency earnings

e) 70% manpower for the vessels should be hired from Bangladeshi citizens (Shaheen, 2019)

Income Tax at Source

According to Section 53AA of Income Tax Ordinance, 1984 embodied in Income Tax Manual, 1984, a resident engaged in shipping business is subject to income tax at source. Section 53AA requires the commissioner of customs or any other authority duly authorised in this behalf, to collect tax at the 5% of total freight received or receivable in or out of Bangladesh before granting port clearance to a ship owned or chartered by a resident assessee. In case of services rendered between two or more foreign countries income tax at source would be 3% of total freight received or receivable.

Corporate Tax

Para (Kha) of Finance act, 2017 stated that as a non-listed company, shipping companies are subject to 35% tax on company income.

Advance Income Tax (AIT) From Dividend

Above all, according to section 54 of Income Tax Ordinance, 1984, shipowners' income is subject to payment of 10% Advance Income Tax (AIT) from the dividend in addition to VAT, others tax and fees.

Other Fees

In the Bangladesh flag register, there are several fees applicable for registering a vessel such as registration fee, certification fee, VAT, maritime training fee, registration

Table 1: List of taxes of ship operation in Bangladesh

Level of Tax	Type of Tax	Description	Statutory Rate
Import	Import Duty (3.3.1)	All kinds of vessel	0-25%
	VAT (3.3.2)	Imported vessel	15%
	AIT	Imported vessel	5%
Operation	Income tax at source (3.3.3)	Total freight received or receivable from a vessel	5% (for in or out of Bangladesh) 3% (for two or more foreign countries)
Profit	Corporate Tax (3.3.4)	Company income	35%
	Advance Income Tax (AIT) from dividend (3.3.5)	Based on vessel owner/director's income	10%

Source: Authors, based on different tax regulation of Bangladesh

supervision fee and other fees. Most of the vessel fee is based on the GT except the supervision fee which is based on contracted price.

Table 2: Comparison of registration fees between Bangladesh and Panama.

VESSEL SPECIFICATIONS			
Building year		2006	
Type		Bulk Carrier	
Gross Tonnage (GRT)		32,379	
Net Tonnage (NRT)		19,353	
Vessel (Contracted price)		TK.924,000,000 (assumption)	
Cost of Registration (Bangladesh)		Cost of Registration (Panama)	
Type of Fee	BDT.	Type of Fee	US\$
Provisional Registration (for collecting MMSI, Call Sign and Station Licence)	4000	Registry fee (\$ 0.10 per GRT up to a max fee of \$ 6,500)	\$6500
Provisional CSR (for collecting MMSI, Call Sign and Station Licence)	4000	Annual Tax (\$0.10 per NRT)	\$1935
Provisional SEC (for collecting MMSI, Call Sign and Station Licence)	4000	Annual Consular fee (More than 15,000 GRT)	\$3000
Provisional SRC (for collecting MMSI, Call Sign and Station Licence)	4000	Annual Inspection fee (More than 15,000 GRT)	\$1200
Final Registration (More than 15000 GT)	175000	Annual Investigation fee (More than 10,000 GRT)	\$500
VAT 15% (On Final Registration)	26250	+3% of net tonnage	\$581
Maritime Tanning (Gross ton×1.2)	38855	Sub-Total (Second-hand vessel)	\$13716/ TK.1152144
Carving and Marking Note	1000	-A discount of 60% for a new building	-\$8229.60
Registration Cover Fee	1000	Total (USD 1 =BDT 84)	\$5486.40/ BDT.460858
Registration Supervision Fee (0.1% on contracted price)	924000		
Total	BDT. 1182105		

Source: Authors, based on the data from MMO, Chattogram (Bangladesh Part), Consulate General of Panama in New York and Toronto (Panama part)

Incentive

The incentive scheme is the driver for most of the flag registers. Incentive modules have been developed on the basis of different aspects. Included in incentive mechanism are refund, discount/rebate, reimbursement on fee and tax etc. For instance, the Singapore Registry of Ships (SRS) facilitates the shipowner with Block Transfer Scheme (BTS), Green Ship Programme (GSP) and Annual Administrative Fee (AAF) scheme. Currently, incentive and discount schemes are widely practised at the world ship registry market. Eligibility for incentives is determined on the basis of:

- a) Age of vessel
- b) Multiple vessels registered
- c) A large volume of gross tonnage registered
- d) Port state control performance
- e) Recruiting citizen of flag state on board
- f) Vessel practising green ship movement

Presently, the vessels registered under the Bangladesh flag register do not enjoy any incentive. However, the underlying reason for registering a vessel in Bangladesh is the Flag Vessel (Protection) Ordinance, 1982. Clause 3 of the ordinance states that at least 40% (at present 50% proposed) of the sea-borne cargoes relating to the foreign trade of Bangladesh shall be carried by Bangladesh flag vessel.

Investment

Investment in the vessel of a country is one of the major influencing substances of expanding fleet under any flag register. In Bangladesh, two types of vessel owning company exist at present such as state-owned and private-owned. Bangladesh Shipping Corporation (BSC) is the only state-owned shipping company. Since 2018, BSC was the owner of only 2 ships. In ship acquisition, BSC got loan assistance from different friendly countries. Of late, with the financial assistance from China EXIM Bank, BSC will get USD184.5 million for procuring 6 new vessels from China. These include three bulk carriers and three tankers, each having 39000 DWT capacity.

On the other hand, several business groups from different shipping companies are the private entities of Bangladesh flag vessel. No other significant foreign investment has found in vessel owning under the Bangladesh flag. List of the business group owned vessel in Bangladesh flag are as follows:

- a) Kabir Group of Industries
- b) Bashundhara Group
- c) Akij Group
- d) Chowdhury Group (Crown Navigation)
- e) MJL Bangladesh Limited
- f) Meghna Group of Industries

g) BSA Group

Impact of Prevailing Registration System in Bangladesh

Impact of present ship registration in Bangladesh includes reduction of vessel number, uncaptured freight, unemployment of seaman, revenue earning. These are subsequently discussed.

Number of Ship

Bangladesh is a maritime nation with a long historical background on shipping. As a maritime nation, a number of ocean-going vessels are always standing below a hundred. Moreover, state-owned BSC is only having eight ships. The prominent business groups including Abul Khair Group closed their ship operation with five ships in 2016. Meanwhile, the neighbouring country like India is having with 5.34% growth in term of DWT on the period of 2016–2017 (UNCTAD, 2017). Meanwhile, the growth of the Bangladesh flag vessel is not significant. The more alarming news is that existing ship-owners are presently registering their fleet under foreign flag mostly in open register. From several interviews with Bangladeshi shipping experts, it was found that business group like Meghna group, registered almost all of their vessel in the Marshall Islands, Akij Group owns 10 ships, out of these, 2 ships are registered in Panama flag. Also, another business giant, Basundhara group is having half of their vessels flying Tuvalu flag.

Freight

In the fiscal year (FY) of 2016-2017, the total import-export volume handled by both Chattogram and Mongla port was around 81 million metric tons. In the same FY, more than 3,700 vessels handled by both the ports. Meanwhile, the country's foreign trade volume was USD 77,000 million. As freight charge, the country spent a minimum USD 7,700 million at the average 10% rate for carrying goods. (Uddin, 2018) Given the provision of 40% (at present 50% proposed) of international seaborne cargos for Bangladesh-flagged vessel, local oceangoing vessels could not tap the opportunity of the market due to a dearth of vessels. The number of Bangladesh-flagged oceangoing vessels sharply declined to 38 in 2017 from 72 in 2014 (MMD, 2017). The national flag-carrying vessels operated by local oceangoing ship operators earned only on an average USD 150 million a year by carrying less than 5 per cent of the total export-import goods, claimed BOGSOA vice-president. According to local vessel operators, the rest of the freight charge, generated from the country's booming exports and imports, goes to foreign vessel operators in the absence of investment in the sector (Uddin, 2018).

Recruitment

Due to her geographical location, Bangladesh has ample opportunities to increase its share in the maritime labour market. A healthy national fleet is of utmost importance for the seafarers' employment perspective (Kabir, 2014). A total of approximately 10,205 registered officers and 3,849 registered ratings are there in Bangladesh. It was observed that Bangladeshi seafarers had the opportunity to serve in the national flag vessels

which could equip them with sufficient skills and experience to be employed in foreign companies where the remuneration is much higher compared to the Bangladeshi flag vessel. Due to shrinking fleet of Bangladeshi flag vessel, Bangladeshi seafarers face the high unemployment rate and the placement of the fresh cadet is obstructed (GSO, 2018)

Revenue Earning

Taxation, registration and other fees are the key drivers for any state to allow a vessel flying the national flag of that state. Tax and fee structures have a significant impact on the revenue earning of flag States. Ship-owners will be interested to register a ship in Bangladesh once they find a flexible tax regime compared with other flag registers. What prompts ship-owners to consider vessel registration in a state is the cost-benefit ratio. A country to be considered for registration must be contemplated in the light of ship-owners' benefits from competition amongst registers. Open registers offer flexibility in terms of tax and fees. Rochdale Report figured out that registry fee and an annual fee, based on tonnage, are normally the charges claimed on most open registers (Rogers, 2010). The open register has experienced exponential growth in fleet size and registered tonnage thereby contributing a sizable amount of revenue to the country's economy. For instance, in Panama, 20% of its GDP accounts for the maritime sector. (Icaza et al., 2012). Liberian shipping registry accounts for 30% to 70% of Liberia's government revenue (Sharife, 2011). Due to taxation at several stages and registration complexity, local entrepreneurs do not find this area worthy of investment. In Bangladesh, the Board of Revenue received only BDT 160 crore from the sector in last 3 years while MMO collected revenue without tax nearly BDT 30 crore from all types of vessels including foreign going vessels in FY 2017-18. It appears that there remains ample scope to substantially increase revenue earning from the sector if there are flexible tax and fee structures.

Challenges of Present Ship Registration System in Bangladesh

The challenges militating against prevailing ship registration for enhanced capacity building in Bangladesh include the rigid legal frame and institutional architecture, complicated registration process, huge tax, inadequate incentive and insufficient investment. These are subsequently discussed at some length.

Rigid Legal Frame and Intuitional Architecture

According to BMSO, ship acquired and owned by a foreign national or company requires to be leased out to the government or a Bangladeshi citizen/company with an agreement to transfer the ownership of the ship after a specified period of time to the government/Bangladeshi citizen or company. Within this regulation, the Bangladesh flag register allows a maximum of 49% of the foreign share for owning a vessel. Moreover, the Chairman/Managing Director, majority of director of the shipping company must be the citizen of Bangladesh. With this provision, the foreign investors will be deprived of taking a decision as there is inadequate voting power. Besides, there is no prominent shipping company in Bangladesh who is a competitor of reputed shipping company like Maersk, MSC, COSCO, NYK etc. As a result, within this regulation, vessel registration under the

Bangladesh flag will not be attractive to the foreign investor. MMO is the only authority for the purpose of oceangoing vessel registration in Bangladesh. Presently, the number of employees at MMO are eight in total including three surveyors. It is quite difficult to survey all the vessels under the Bangladesh flag with these limited surveyors. For a vessel positioned in a foreign port poses a huge challenge to conduct a survey within scheduled time resulting in undue delay at the port without commercial operation. For these, owners have to bear additional fixed operation cost for that inordinate delay. Therefore, rigid legal frame and intuitional architecture is indeed an impediment to the fleet expansion of the Bangladesh flag register, thereby impinging negatively on her capacity building.

Complicated Registration Process

For registering a vessel, ship-owner/appointed agent has to face several offices in Bangladesh such as MMO, BTRC, BTCL, NBR etc. There is no automation and simplified service for registering a vessel. Paper-based documentation and process to complete vessel registration. Moreover, there is no simplified guideline/booklet provided in MMO official website. There is no other maritime consular office or authorised agent/inspector overseas to conduct a survey and other processes. Several prominent vessel registers like Panama, Liberia, and Singapore simplified their process and provides guideline in their website. According to the Singapore Registry of Ships (SRS) website, the procedure for registering a ship with the SRS is quick and easy, requiring only 5 major steps (Figure 4). Furthermore, significant investment in advanced information technologies makes the renowned ship register a unique value-added partner for quality ship-owners and ship managers. The top registers also set up a worldwide network and maintain full-service regional offices strategically located in the major maritime centres of the world.



Figure 4: Summary of the steps for registering a vessel in Singapore

Source: Authors, based on the data from MPA, Singapore

Huge Tax

Huge tax burden poses a challenge for the shipping companies in Bangladesh. At present, taxation at three levels is required for a ship to operate in Bangladesh. For registering a vessel and make it operational, owners have to pay tax during vessel import, vessel operation and on the profit generated from shipping operation. Local industry experts highlight that importing a vessel, the buyer has to pay 5% AIT, 15% VAT and some other taxes, which altogether stands at nearly 27% immediate tax incidence on this high-capital-intensive business. Owners are also subject to payment of tax on freight received from shipping operation. Additionally, they are required to pay 35% corporate tax and personal income tax respectively on the profit earned. For example, if a shipping company makes a net profit of BDT 10 lacs in a year, it can retain only BDT 6.5 lacs to be distributed among directors (owners) after deducting corporate tax of 35%. Again, the individual owner is liable to pay 10% individual income tax from the profit which amounts to BDT 65,000. In the end, ship-owner retains BDT 5, 85,000 only although net profit was BDT 10 lacs. In the open registries, when non-nationals owners are allowed to fly the flag of the state registered usually exempted from payment of any tax. The main source of government revenue for shipping is not the tax on import, income tax or corporate tax but the ship registry fees, annual tonnage tax and other fees (Stephens, 2001). Another distinctive feature of the open registry is that the access to the registry is quite easy. The ship-owner has to pay a registration fee and subsequently annual fee, based on tonnage for the duration that the vessel is entered into the register. Moreover, a shipowner may also request the flag-state authorities a guarantee from future taxation relief or tax exemption (Balyk and Lyudmyla, 2006).

Table 3: Sampling of zero tax regime of some of the popular open registers

Country \ Tax	Income tax	Capital gains tax	Inheritance tax
Panama	Exempt	Exempt	Exempt
Marshall Islands	Exempt	Exempt	Exempt
Cyprus	Exempt	Exempt	Exempt
Malta	Exempt	Exempt	Exempt

Source: (Reus Diaz, 2012)

Inadequate Incentive

The incentive package is another driver of a flag state to attract the ship owners for the registry. Incentives such as a discount on vessel registration fee and refund on tonnage tax for the observance of good practice in safety management and pollution prevention prompt owners to register more vessels which opens up opportunities for employment of the citizen of flag register. Increased number of registration upswing the flag state image in addition to revenue increase and employment generation. For instance, initially in 1969, Singapore registry provided 50% refund on the annual tonnage tax while recruiting at

least 25% Singaporeans on board. By these, Singapore solves the unemployment problem within five years. Singapore economy had been facing a labour shortage for most of the last four decades and required the importation of sizeable foreign workforce (Phang and Toh, 1994). With the Green Ship Programme (GSP), Singapore-flagged ships encourage to reduce carbon dioxide and Sulphur oxides (SO_x) emissions. Vessels that adopt green technology and use liquefied natural gas (LNG) as alternative fuel enjoy a reduction of initial registration fees up to 75% and a rebate on the annual tonnage tax up to 50% (MPA, 2018). Panamanian Law 57/2008 on the merchant marine establishes a set of discounts that can be granted to vessels that are newly built, vessels registered in the Merchant Marine within five years from the date of the laying down of the keel. These incentives are also directed to vessels that have not been detained for any Port State Control (PSC) inspection within a span of 24 months. Such policies can improve the performance of the Panamanian flagged fleet and reduce the number of detained individual ships (Piniella et al., 2016). Incentives that exists in Bangladesh is not enough to encourage ship-owners to register their vessel in Bangladesh. In the recession period of 2015-2016, Bangladeshi owners demolish most of the vessels due to low freight rate. Even when the recession is over, several shipping companies still registered their vessel in oversea due to high tax. As a result, sharp declination of vessels was observed during 2016-2017. In this backdrop, the incentive scheme can be an option for promoting Bangladesh flag register. However, the government of Bangladesh exempted VAT for more than 5000 DWT while import a vessel. With this provision, 'MT. Omera Legacy', a 107,091 DWT vessel got VAT emption on import.

Insufficient Investment

Investment on the vessels can enlarge the fleet of a flag state. Most of the successful flag register are promoting by major vessel owning nation. Greek ship-owners boost Marshall Island registry. Republic of the Marshall Islands' ship registry (RMI) enjoys a considerable growth fleet with an average annual growth rate of 11.9 % since 2013. At the start of 2017, the Greek-owned fleet consists of 856 RMI flagged vessels totalling 63 million DWT. Besides Greece, mainly the U.S. (23 million DWT), Korean (21 million DWT) and German (12 million DWT) ship-owners use the flag of the Marshall Islands (ISL, 2017). In the Bangladesh flag register, most of the vessels are bulk carriers (mainly operated by industrial shipping). Due to flag registration policy, no foreign shipping company registered any vessel in Bangladesh. Also, no significant foreign investment found in ship owning (except BSC). Due to the high-interest rate, local banks could not support the ship-owner effectively. As a result, the country could not tap the opportunity of the Bangladesh flag registry. Bangladesh flag registry could not collect a significant amount of revenue from the registry market. Furthermore, more than 95% of the freight transferred to overseas.

Findings

The journey of shipping in Bangladesh can be traced back in ancient times. After 1971, Bangladesh flag is patronised by state-owned BSC. Gradually, private ship-owners

entered the market in different phases. The study finds

- MMO of the DoS remains as the only authority dealing with vessel registration.
- To be eligible as a Bangladesh-flagged ship, it must comply with some conditions so as to empower Bangladeshi citizens with more than 50% of voting power in decision making.
- Foreign citizens are also allowed to hold share on vessel ownership or solely own a vessel which is a subject to the fulfilment of stringent conditions to hold permanent ownership.
- It is worth to mention that existing manual registration process is mostly based on papers involving several steps at different offices instead of Information Technology (IT) based automated service.
- Owners are required to pay both taxes and fees separately to different authorities at different stages in the absence of a one-stop service.
- Most of the taxes and fees are based on the ship's price rather than based on GT and NT.
- The incentive provided by the Bangladesh flag register is not sufficient to drive investment in ship owning resulting in insufficient vessels to cater to the demand and compelling reliance on the foreign-flagged vessel.
- Increased reliance on foreign-flagged vessels is a roadblock to revenue growth and the scope for recruitment in the sector.

Policy Implications

Flexible Legal Frame and Institutional Capacity Building

Vessel registration plays a pivotal role in the documentation of a vessel. It also contributes to revenue earning, employment generation and economic activities of a state. Ship-owners tend to avoid the complexity of the national legislative process. In order to achieve the required growth in Bangladesh-flagged vessels, there should be a smoother registration policy suitable for both citizen and non-citizen of Bangladesh. Alongside the existing registration system in Bangladesh, a second register need to be introduced to attract non-Bangladeshi citizens to register their vessels in Bangladesh in order to earn more revenue and employment generation. To operationalise the second register in Bangladesh, owners of the foreign vessels need to set up their corporate offices in Bangladesh. Again, in the existing registration system, the provision should be to increase the share of non-citizens from 49% to 70% or 80% so as to attract more foreign investment in the sector while keeping ownership of Bangladeshi nationals. Additionally, this will help to develop expertise in ship management and chartering companies. As a result, Bangladesh will be able to retain freight money and bring foreign cargo freight in the country.

To cater to hybrid registration that consists of both closed and open registration and the consequent increase of Bangladesh-flagged vessel, existing institutional architecture needs

to be reformed. Besides, the expansion of MMO with skilled manpower is a prerequisite. Establishment of maritime consular offices in major reputed port cities (For example, Singapore, Fujairah, Rotterdam, Hong Kong, Japan, Durban, Santos, Vancouver etc.) will facilitate vessel registration service and survey facility in overseas. Vessel inspection services may be outsourced from qualified surveyors abroad enlisted with MMO.

Automation of the Registration Process

A vessel owner/ operator has to keep himself busy with vessel operation, chartering, crewing, port dealing etc. in addition to keep registration to a flag state. Procrastination in registration caused by a complex procedure frustrates a vessel owner to register a vessel in any flag state. Simplification of the procedure together with automation of the registration process may prompt vessel owners for registry in any flag state. Application (in a prescribed form) for registration should be made available on the website of MMO so that a vessel owner or operator may submit an online application. Upon receiving the application, MMO will ask for necessary documents which the vessel owner is required to submit via email to all offices concerned including disclosure of the name, address and nationality of every shareholder, and the number of shares held. Then the applicant is required to pay due taxes and fees. To give comfort to vessel owners or operators, one-stop service needs to be introduced to procure Call Sign, MMSI, and Station License, thereby making issuance of provisional registry certificate possible within 3-4 days. For conduction of the survey, MMO will ask for a convenient port and date. Then survey can be conducted by own nautical surveyor or authorised flag state inspector. Upon a satisfactory report from the surveyor, Register of Bangladesh-flagged ships will provide a vessel registration certificate. The whole of the registration process and required documents should be available on the official website to guide those interested for vessel registration.

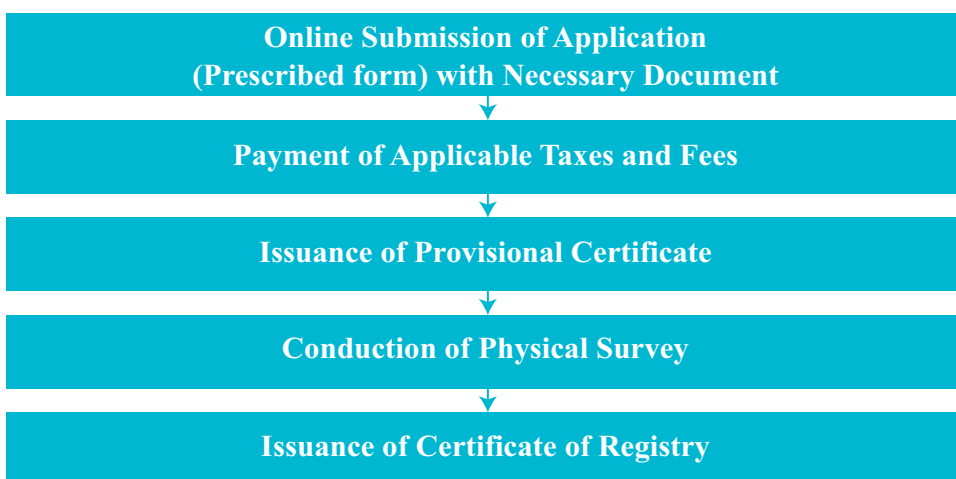


Figure 5: Simplified registration process (proposed)

Source: Compiled by the authors

Easing Tax Structure and Fees

Ship-owners always prefer flag state where they get more flexibility and economic gains. In Bangladesh, tax is determined on the basis of imported price and fees are based on both vessel size and import price. Had the taxes and fees were determined solely on the basis of vessel size or tonnage instead of the imported price that would be more transparent and straighter forward. Again, taxes and fees are required to pay at different stages which could be a one-off event so that one may compare applicable taxes and fees with ship registers of other flag states. Taxes and fees in connection with vessel registration and operation should be made available on the website to the convenience of stakeholders. Panama model offers a good example to be followed where all the taxes and fees such as registration fee, annual tax, annual consular fee, annual inspection fee, annual investigation fee are based on GRT and NRT. Except for registry fee, all the recurring taxes and fees need to be paid every year to continue vessel operation.

Table 4: Proposed taxes and fees structure for vessel operation.

Taxes and Fees for Vessel Operation		
Serial No	Type of Fees	Statutory Rate
1.	Registry fee	(USD 0.10 per GRT up to a maximum fee of USD 6,500)
2.	Annual Tax	(USD 0.10 per NRT)
3.	Annual Consular fee	(More than 15,000 GRT, USD 3000)
4.	Annual Inspection fee	(More than 15,000 GRT, USD 1200)
5.	Annual Investigation fee	(More than 10,000 GRT, USD 500)
6.	+Net Tonnage	USD 0.03 per NRT
	Sub-Total	*****

Source: Authors, based on the data from consulate Panama

Incentive Mechanism

Incentive scheme encourages ship-owners in order to promote good safety management, recruitment and business expansion. Most of the ship-owners trade on a reputation for quality. The registration of ships under a flag (such as those on the Paris MoU and Tokyo MoU “white list”) that is recognised as upholding safety standards and being well run is an important element of a quality reputation. To ensure this, the Bangladesh flag register can introduce a set of discount schemes as follows:

- a) For new-built vessel, a discount of 60% on the total registration fee for the first year as a new-built vessel has the low port state control (PSC) detention rate.
- b) If a shipping company wants to register fleets with 5–50 vessels may receive discounts from 20% up to 65% on registry fees.

c) Vessel with comprising of at least 75% Bangladeshi seafarer may enjoy a 50% refund on the annual tonnage tax.

d) These incentives are also directed to vessels that have not been detained for any PSC inspection within a 24 months period.

Aforementioned incentives can improve the performance of the Bangladesh flagged fleet and reduce the number of detained individual ships as well as increase flag image.

Investment Facilitation

Effective investment facilitation on vessel purchase can enlarge the growth in a number of vessels and registered tonnage. Bilateral agreement and ship financing are of utmost importance to attract effective investment.

Bangladesh flag register can sign bilateral agreements with major ship owning nations (i.e. Greece, Japan, China, Germany, Republic of Korea etc.) by providing special services and economic benefits. Agreements may also be signed with reputed and giant shipping companies (i.e. Maersk, Mediterranean Shipping Company, CMA-CGM, Hapag Lloyd, Evergreen, Overseas Container Line, Hamburg-Süd, Yang Ming, United Arab Shipping Company, Nippon Yusen Kaisha etc.) with the provision of quality services.

The bank that finances the purchase of a ship may stipulate a group of acceptable flags under one of which it must be registered. Clearly, it will wish to ensure that the ship against which the mortgage is secured, operated and maintained with a high standard is registered in a jurisdiction where it is confident that a mortgage governed by the laws of that jurisdiction is good security and thus it can enforce payment. For the purpose of ship financing, agreements can be signed with highly ranked worldwide credit institutions so that the market finds ample support in the Bangladesh flag register through the ship mortgage. Moreover, the government may consider loans on softer terms through local banks and financial institutions in order to encourage entrepreneurs of the shipping sector.

Conclusion

Ship registration is evidenced to the world by the flying of the flag and ship's papers (documentation). The flag of a vessel is also the visible evidence of nationality. (Rogers, 2010) Nowadays, the shipping market focuses not only its prime job of cargo carriage but also emphasises from a commercial and strategic view. Ship-owner tends to transfer their vessel registration in a state where they get flexibly and commercially rewarding. With this in mind, major vessel registers arrange business-friendly policy and flexible fee structure to attract ship-owners, thereby, holding a remarkable share of vessel registry market in terms of vessel number and deadweight tonnage. Since independence, an insignificant number of vessels travelled under the Bangladesh flag. Moreover, it could not seize the opportunity of their local seaborne cargo share as the majority of the freights are transferred to foreign vessel operator depriving the country of revenue earnings, employment generation and business opportunities. The limited capacity of MMO, high taxes at several stages, complexity in the registration process and inadequate policy

support have reduced the number of Bangladesh-flagged vessels. Reforming institutional architecture, simplifying the registration process, investment-friendly tax regime and providing policy support can go a long way to boost the shipping sector with a reasonable number of Bangladesh-flagged vessels.

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