

The red flag is competitive at last, writes MIKHAIL KASHUBSKY

ON December 7, the Federation Council of the Russian Federation approved unanimously a law relating to the establishment of the International Ship Register in Russia, also known as the Second Register.

The Association of Russian Shipowners has been seeking this significant piece of legislation for more than five years. Its passing was essential for creating an attractive investment climate in the Russian shipping industry.

Since Russia has substantial economic and political interests in global shipping, this can also be an attempt by the government to return the Russian fleet back to Russia.

Russia's reputation of maritime sovereignty depends not on the length of its coast, but on the capability of its fleet. Russian exports of raw materials and natural resources are quickly expanding and larger volumes of cargo need to be delivered to overseas consumers.

The main purpose of the second register is to make substantial contribution to the national economy, including the protection of external trade from sudden fluctuations in the global freight market, economic security of export and import operations, development of other industries related to shipping, and stimulation of foreign investment.

The legislation also seeks to provide the necessary assistance to Russian

shipowners and it makes the commercial fleet stronger and more competitive in the global market.

The present state of the Russian shipping industry is critical. The number of Russian ships has decreased significantly since shortly after the collapse of the Soviet Union.

Many Russian ship owners started registering their ships in flag of convenience countries. The primary motive for leaving Russia was the high level of taxes which inhibited the ability of shipping companies to compete effectively and to expand their operations.

The maintenance fees of Russian ships are the same as for foreign ships. However, in Russian ports any services are subject to a GST-type tax, while foreign entities do not pay such tax. The higher running costs makes it difficult for Russian ships to compete.

The unsophisticated Russian banking system means that commercial bank loans for shipbuilding must be repaid within three years and at very high interest rates, compared with overseas banks giving loans for up to nine years and with more attractive interest rates.

As a result, in the last decade, the deadweight of the Russian commercial fleet has decreased from 10.6m tonnes in 1992 to 2.6m tonnes in 2004.

Today, Russia has very few specialised vessels such as container carriers, refrigerators, large capacity bulk vessels, large capacity tankers, gas carriers, and



chemical carriers that comply with international standards.

Most ships registered in Russia are small river-sea type vessels.

THE SETTING up of the second register appears to be the most practical and suitable solution for the protection of Russia's shipping industry. It does not involve any additional government spending and risks are low.

Second registers have proved successful in many countries. Norway, Great Britain, and Denmark created parallel or alternative second registers with benefits similar

to those offered under the flag of convenience and improved their positions in international maritime shipping.

The flag is an important consideration for ship owners because ships are considered property of the flag state under international law. The support and protection of the flag state is a significant factor.

New legislation establishes a more liberal taxation regime than other domestic taxation legislation. Ships in the second register get special tax treatment to reduce the financial pressure on their operations, analogous to schemes in European

countries. The taxes match those offered by flag of convenience countries.

The calculations show that the register will provide a sufficient level of economic protection and larger profit to the Russian shipowners. It could see the size of the Russian fleet increase by 750 vessels.

The second register will cost an estimated US\$50,000-US\$80,000 a year while the expected revenue from income taxes of persons working in the maritime industry (both in the sea and on the shore) is expected to be US\$14.6m in the first year.

Ships in the second register would be able to account for 183.6m tonnes of cargo in the international trade and the amount of freight revenue to the Russian shipowners may reach US\$2.3bn.

The second register is likely to attract substantial funds to Russian banks and it will also improve social conditions of Russian seamen and their family members and create new workplaces, new job titles, and new working conditions.

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