



ANDREAS NEOCLEOUS & CO LLC
Advocates & Legal Consultants

SHIPPING IN CYPRUS

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Contents

| | |
|---|-------|
| Our shipping department | 7-9 |
| Shipping services | 7 |
| Key shipping personnel | 8 |
| Cyprus's advantages as a shipping centre | 11-13 |
| Taxation of shipping activities | 12 |
| International relations | 12 |
| Low costs | 13 |
| Professional services | 13 |
| The European shipping market | 14-15 |
| Maritime cabotage | 14 |
| The Marco Polo II programme | 14 |
| Protection of competition | 16 |
| The ISM Code and the ISPS Code | 17 |
| Registration of Cyprus ships | 18-21 |
| Ownership structures | 18 |
| Cargo vessels of 500 gross tonnes and over and tug boats | 18 |
| Cargo vessels of less than 500 gross tonnes | 19 |
| Passenger vessels | 19 |
| Coastal passenger vessels, small passenger vessels and landing craft | 19 |
| Pleasure craft | 19 |
| Fishing vessels | 20 |
| Ships engaged in activities not previously mentioned and non self-propelled vessels | 20 |
| Dynamically supported craft | 21 |
| Registration procedures | 22-27 |
| Provisional registration | 22 |
| Permanent registration | 23 |
| Parallel registration | 24 |
| Deletion from the Register | 27 |
| Ship mortgages | 28-29 |
| Registration of mortgages | 28 |
| Advantages of Cyprus mortgages | 29 |
| Crew | 30-31 |



| | |
|---|---------|
| Principal fees and taxes | 32 - 34 |
| Registration fees | 32 |
| Annual tonnage tax | 32 |
| Reduction of tonnage tax | 32 |
| Fees for the registration, transfer or discharge of mortgages | 33 |
| Fees for the transfer or transmission of vessels | 33 |
| Taxation of Cyprus ship management companies | 33 |
| Future prospects | 35 |



Our shipping department

Andreas Neocleous & Co LLC is among the largest and most respected law firms in southern Europe and the Middle East. Throughout our history of almost fifty years, our philosophy has been to recognise each client, whether individual or corporate, local or international, as unique, with particular business concerns. We offer a broad range of services individually tailored to the requirements of each client and we exercise a personal commitment to all of them. Our aims are to understand their objectives quickly, to protect their interests and to deliver effective solutions by means of clear and practical legal advice and action, based on expertise and experience.

Andreas Neocleous & Co LLC is well known in the fields of admiralty and maritime law and is a leading provider of legal services to the shipping industry in Cyprus.

Our shipping department is based at our Limassol headquarters. Our specialist team's extensive experience in the shipping industry, combined with our international network of offices, as well as an established network of contacts with leading maritime lawyers in many countries, enable us to offer a complete service in every type of shipping matter in different jurisdictions.

Our shipping services

We can assist our clients with any shipping-related issue, including:

- Bills of lading and cargo claims (loss or damage)
- Charterparty disputes
- Collision disputes
- Salvage and oil pollution claims, including transshipment and towage agreements
- Ship building and related contracts
- Mortgages (creation, enforcement, transfer and deletion)
- Ship arrest and release
- Personal injury claims relating to crew
- Insurance (marine, hull, P&I and cargo) and claims
- Sale and purchase of ships
- Ship finance
- ISM and ISPS Code compliance
- Compliance with EU and domestic competition law
- Registration and choice of flag
- Execution of judgments against shipping and aviation companies worldwide
- Freezing orders in aid of domestic or foreign proceedings
- Arbitration
- Related company law and tax matters



Our shipping team has extensive experience in dealing with aviation matters as well as legal and corporate issues connected with the offshore oil and gas industry. We can undertake the incorporation of shipping, shipmanagement, aviation and energy-related companies as well as advising on all aspects of their operations.

Key shipping personnel



Andreas Neocleous, the Chairman of our firm, has many years' experience in shipping law and is vice-chairman of the Mediterranean Maritime Arbitration Association.

The head of the shipping department is:



Panayiotis Neocleous, born 1971, Limassol, Cyprus. Panayiotis graduated from Bristol University in 1994 and is a barrister of the Inner Temple. He was admitted to the Cyprus Bar in 1995. He is a member of the International Bar Association and the Mediterranean Maritime Arbitration Association. Panayiotis is a partner of the firm and head of its dispute resolution department. Apart from admiralty and shipping law, his main areas of practice are company law and international trade law.

He is the author of the Cyprus chapters of the “Encyclopaedia of International Commercial Litigation”; and “International Agency and Distribution Law” published by Sweet & Maxwell (2003).

He is also the author of articles including “Maritime Liens and Ranking of Priorities According to Cyprus Law” in *International Journal of Shipping Law* (1999); and co-author of “The New Era of EC Competition Law in the Shipping Industry”, ICCLR 2009, 20(1); “Black Boxes and the Proposed EU Fundamental Principles on the Investigation of Accidents in the Maritime Industry” ICCLR 2007, 18(5), “Legal Aspects of the ISM Code”, ICCLR 2006 17(7), “Cyprus: Commercial Shipping”, ICCLR 2005 16(11), “Cyprus: Forum Non Conveniens in the European Era”, ICCLR 2005 16 (8), “Cyprus: Company law - corporate governance” ICCLR 2005 16(6). He is a co-author of “Neocleous’s Introduction to Cyprus Law” published by Andreas Neocleous & Co (2009).

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Other key shipping department personnel include:



Constantinos Stamatiou, born 1977, in Limassol, Cyprus. Costas graduated in law from Cardiff University in 2001. He was awarded an LL.M in Legal Aspects of Marine Affairs from Cardiff University in 2002 and an LL.M in European Law from Bristol University in 2003. He was admitted to the Cyprus Bar in 2004. His main areas of practice are admiralty and shipping, international trade, company law and associated litigation.

Costas is author of “Establishing the Boundaries: Cyprus offshore oil, gas and shipping industries”, published in Lloyd’s List Cyprus, September 2005; “The Shortsea Shipping Market of the Future”, Lloyd’s List Cyprus, September 2006; “The Marco Polo Programme & Cyprus: Financing the Motorways of the Seas”, ICCLR 2006, 17(8), N68. His university theses were on the subjects of “Carrier’s Liability: A comparative study of the CMI/UNCITRAL Draft Instrument on Transport law, the Hague, Hague-Visby and Hamburg Rules”, Cardiff, 2002 and “Aspects of EC Competition Law in Maritime Transport”, Bristol, 2003.

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Maria Ioannou, born 1977, in Athens, Greece. Maria graduated from Warwick University in 1998 and is a barrister of the Inner Temple. She was admitted to the Cyprus Bar in 2000 and is a partner in the firm. Her main area of practice is general litigation and she is a co-author of the Cyprus chapter in the “Encyclopaedia of International Commercial Litigation”. Maria is a co-author of the second edition of “Neocleous’s Introduction to Cyprus Law”.

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Marina Joud, born in Limassol, Cyprus. Marina graduated in law from the Democritus University of Thrace, in Komotini, Greece in 2005 and was awarded a Master's degree in EU Law by the University of Manchester in 2006. Marina joined Andreas Neocleous & Co in 2006 and was admitted to the Cyprus Bar in 2007. Her main areas of practice are shipping, litigation, contract law, international trade and torts.

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Vassilis Psyrras is the newest member of our shipping department. Vassilis graduated from the University of Piraeus in 2003 with a BSc in Maritime Studies and in 2009 he completed his legal studies at the College of Law, London obtaining both the GDL/CPE and Solicitor-Legal Practice Course certificates. Vassilis has seagoing experience with Dorian Hellas SA and also worked ashore for 4 years with Naftotrade Shipping and Commercial SA where he was actively involved with safety matters (including ISM Code compliance) as well

as operations (including insurance and claims handling).

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Cyprus's advantages as a shipping centre

Cyprus is a well-established shipping centre in a strategic geographical location at the crossroads of prosperous financial regions of three continents and next to the Suez Canal. The independence of Cyprus in 1960 heralded a new era of prosperity which saw an upsurge in the island's economy and the modernisation of its infrastructure. This has continued through EU membership in 2004. On 1 January 2008 Cyprus joined the Eurozone and adopted the euro as its currency.

The role of the island as an international business, financial and shipping centre has evolved considerably, stimulated by increased trade, a growth in offshore activities and the aggressive expansion of the Cyprus economy.

Cyprus is nowadays considered as one of the most favourable jurisdictions in the European Union, indeed the whole world, in which to do business.

The island is a low tax jurisdiction, not a tax haven, and its legal, fiscal and regulatory regimes are aligned with the EU's *acquis communautaire*. Cyprus is a signatory to a large number of international conventions and treaties, including an extensive network of tax treaties.

The legal system is based on the English common law system, and the adoption of modern shipping legislation, closely modelled on its English counterpart, has paved the way for the Cyprus flag to become the well-respected flag that it is today, flown by vessels from almost every nation. The Constitution of Cyprus and the EC Treaty safeguard the rule of law, political stability, human rights and the ability to challenge the legality of administrative decisions.

The framework of the policy and conduct of government ministries, departments and organisations such as the Department of Merchant Shipping maintains the respectable and responsible reputation of the Republic of Cyprus whilst at the same time allowing activities to be conducted in an environment as free from onerous and bureaucratic delays and restrictions as possible.

The accession of Cyprus to the European Union and the harmonisation of the island's legislation with the EU's *acquis communautaire* have strengthened the Cyprus-registered fleet in terms of quality. This is evidenced by the inclusion of the Cyprus flag in the White List of the Paris Memorandum of Understanding on Port State Control Organisation. At the same time, Cyprus-registered vessels enjoy the benefits of flying the flag of an EU member state which remains highly competitive.

Furthermore, Cyprus has an excellent, modern infrastructure, with frequent direct air connections with European countries, Russia and the Middle East. Telecommunications are advanced and inexpensive. All the ancillary businesses and services, public and private, that



shipowners, banks, investors and individuals require are available in Cyprus at the highest international standards.

Many specialised ship management companies are located in Cyprus, along with companies engaged in chartering, crewing, ship broking, surveying, insurance and salvage. Membership of numerous international organisations enables the island to influence decisions relating to shipping matters at the highest level and helps Cyprus to maintain strong and friendly links with almost all foreign powers. As a result, vessels flying the Cyprus flag receive a warm welcome in ports of call the world over.

Taxation of shipping activities: Cyprus's favourable tax treatment of shipping activities has been a major factor in its development as an international shipping centre. Tax incentives and exemptions are available to both residents and non-residents of Cyprus, and may constitute a major factor in successful tax planning, particularly through the use of the extensive network of tax treaties. Virtually all the treaties provide, directly or indirectly, that shipping profits are taxable only in the place of residence or effective management, irrespective of whether or not a permanent establishment exists in the other treaty country.

The tax environment provides that:

- Ship management companies are exempt from income tax and enjoy a different and more favourable tax regime altogether;
- No tax is payable either on profits from the operation of Cyprus-registered vessels, or on dividends received from a ship owning company;
- No capital gains tax is payable on the sale or transfer of a Cyprus-registered vessel or the shares of a ship owning company;
- No stamp duty is payable on ship mortgage deeds or other security documents;
- Emoluments of seamen employed on board Cyprus-registered vessels are exempt from tax;
- No estate duty or inheritance tax is levied following the death of a shareholder.

International relations: As well as being a member of the European Union, the Republic of Cyprus is also a member of numerous international associations, including the United Nations, the Council of Europe, the Commonwealth and the Group of Non-Aligned Countries. Furthermore, Cyprus is an active member of the International Maritime Organisation, the International Labour Organization, the International Telecommunication Union and the United Nations Conference on Trade and Development. Its membership of the European Union implies the active participation of the island in the European Maritime Safety Agency as well in the shaping of the EU's transport policy in general.

It is expected that the eventual ratification and enforcement of the EU Customs Union Protocol by Turkey as an applicant country will remove all current obstacles faced by Cyprus-registered ships to trading in Turkish ports. The European Commission Ship



Owners' Association fully supports such a development.

Cyprus has also ratified many international conventions, thereby achieving further enhancement of the island's high standing in the shipping community. Furthermore, as well as bilateral tax treaties, Cyprus has also entered into bilateral agreements with many countries tailored specifically to merchant shipping matters.

Every effort is made by the Cyprus government to ensure that strong bonds of cooperation and friendship are maintained and encouraged with all international organisations and among all their respective members, and at the same time to safeguard the interests and reputation of the Cyprus shipping industry.

Low costs: The low costs found throughout all sectors of the economy in Cyprus extend to the costs of incorporating shipping companies, as well as the levies payable by shipping companies for the registration and retention of vessels under the Cyprus flag. Cyprus has adopted a tonnage tax system which is very favourable to ship owners. The relevant calculation formula takes into consideration the age and tonnage of the vessel. Both the initial registration fee and the annual tonnage tax are reasonable, and considerably lower than those of other comparable jurisdictions. Furthermore, the laws provide for a reduction or a refund of tax in certain circumstances, such as when a vessel is out of commission for a specified period.

Professional services: All the professional services required to support successful shipping operations are available in Cyprus and offer high standards of service. There are numerous highly qualified accountants and lawyers, with extensive experience in the shipping arena, yet the fees for their services are usually low in comparison with other western jurisdictions. These professionals may also act as directors, trustees or secretaries of shipping companies.



The European shipping market

Two decades ago, EC Regulation 4055/86 established the freedom of EU nationals to provide maritime transport services of goods and passengers between Member States and between Member States and third countries with only very minor limitations still remaining.

Maritime cabotage: EC Regulation 3577/92 granted Community shipowners operating ships registered in one Member State and flying the flag of that Member State and complying with all the conditions for carrying out cabotage within that Member State the freedom to provide maritime transport services within another Member State (maritime cabotage).

Regulation 3577/92 defines “Community shipowner” as:

- a national of a Member State established in a Member State and pursuing shipping activities;
- a shipping company established in a Member State whose principal place of business and seat of effective control are located in a Member State; and
- a national of a Member State established outside the Community or a shipping company established outside the Community and controlled by EU nationals, as long as their ships are registered in a Member State and fly its flag.

Maritime services falling within the scope of the Regulation include: mainland cabotage, island cabotage, offshore supply services and cruising.

Even though the Regulation has been in force since January 1993, it is only relatively recently that the derogations granted to Greece and other Member States have ended and Community shipowners have finally become free to provide maritime transport services wholly within the territory of another Member State.

For mainland cabotage and for cruise ships manning issues are the responsibility of the vessel’s flag state, except for small ships of less than 650 gross tonnes.

For vessels providing island cabotage services, manning issues are generally the responsibility of the host Member State. In the case of cargo vessels of more than 650 gross tonnes carrying out island cabotage services when the relevant island cabotage leg precedes or follows a voyage to or from a different Member State there is an exception and manning issues remain under the jurisdiction of the flag state.

Article 4 of Regulation 3577/92 allows the host Member State to conclude public service contracts or impose public service obligations for the provision of regular island cabotage services, provided that such actions are taken on a non-discriminatory basis.

The Marco Polo II programme: EC Regulation 1692/2006 is the latest financing instrument through which the European Commission may grant financial assistance for projects related to the logistics market which contribute to reducing congestion in the road



freight transport system or improving the environmental performance of the transport system by optimising transport to and from intermodal transport chains, in the territories of the Member States.

The Marco Polo II programme applies to projects involving at least:

- the territories of two Member States, or
- the territory of one Member State and a “close third country”.

It therefore covers a wide geographical area that extends beyond the Member States of the European Union to take in EU applicant countries, EFTA and EEA countries, neighbouring eastern European countries such as Russia and Ukraine, the Balkans and the entire Mediterranean region. The close proximity of Cyprus to Egypt, Israel, Lebanon and Syria makes the island an ideal port of call on short sea shipping routes between these countries and beyond and destinations such as Greece and Italy. The involvement of Cyprus in such routes may open the possibility of receiving financial aid through the Marco Polo II programmes and make them more widely used.

As a general rule, eligible applicants for financial assistance through the Marco Polo II programme comprise consortia of undertakings, established either in at least two Member States, or in at least one Member State and one close third country.

Depending on the classification of the proposed action, a number of criteria and conditions apply for the granting of financial assistance under the Marco Polo programme. The classification of the proposed project also determines the overall scale of the financial assistance available.

Moreover, even if the proposed projects are not in the immediate vicinity of Cyprus, prospective investors and shipowners engaged in short sea shipping or any other shipping activity in combination with the provisions of EC Regulation 3577/92 can take advantage of the very favourable tonnage tax system applicable to Cyprus registered ships by registering their vessels in Cyprus.

The duration of the Marco Polo II programme is from January 2007 until December 2013, and the European Commission has already proposed a series of amendments to EC Regulation 1692/2006 in order to increase its effectiveness and attract more participants to the programme, including:

- facilitating participation by small enterprises and allowing single undertakings to apply for funding;
- lowering the eligibility thresholds of proposed projects;
- raising funding intensity by emphasising the transport element of the projects; and
- simplifying procedures.

If adopted, the proposed amendments will further enhance the role and usefulness of Cyprus and its favourable shipping regime.



Protection of competition

The EC Treaty provisions on the protection of competition are directly applicable in Cyprus. In addition, the Cyprus Protection of Competition Law of 2008 prohibits, in the same way as the EC Treaty, any agreement having as its object or effect the elimination, restriction or distortion of competition or the abuse of a dominant position.

On a Community level Regulation (EEC) No 4056/86, which provided for a liner shipping conference block exemption from the prohibition of Article 81(1) of the Treaty, was repealed in 2006 by Regulation No. 1419/2006, following a review by the European Commission.

The effect of EC Regulation 1419/2006 is that the EC antitrust rules are no longer restricted to scheduled liner services but are fully applicable to the entire maritime industry including tramp shipping and cabotage services. It is therefore highly advisable for EU shipping entities as well as foreign entities trading with the EU or whose ships visit EU ports to ensure that their practices do not restrict competition within the meaning of Article 81 (1) of the EC Treaty and that they do not abuse any their dominant market position within the meaning of Article 82 of the EC Treaty.

Certain pooling arrangements may be caught by the new regime but where it can be demonstrated that the benefits of a particular practice outweigh any detrimental effects within the meaning of Article 81(3) of the EC Treaty, the practice may be deemed to be in conformity with the competition rules.

The European Commission published guidelines on the application of Article 81EC to maritime transport services in 2008. In 2009, it provided further guidance on state aid to shipmanagement companies with specific reference to Cyprus, in the island's capacity as the one of the world's largest shipmanagement centres. This guidance reinforces the attractiveness of Cyprus as a shipping and shipmanagement centre since the EU Commission has effectively granted its official consent to retaining a favourable tax regime for shipmanagement companies based in Cyprus.



The ISM Code and the ISPS Code

The incorporation of the International Safety Management (ISM) Code on the Safe Operation of Ships and for Pollution Prevention and the International Ship and Port Security (ISPS) Code in the International Convention on the Safety of Life at Sea (SOLAS) makes the two codes enforceable via port state control.

Furthermore, the ISM Code and the ISPS Code have been incorporated into EU law by EC Regulation 336/2006 and EC Regulation 725/2004 respectively and so are directly applicable in all EU Member States. Cyprus has also transposed EC Directive 2005/65 on the enhancement of port security into its national law.

The object of the ISM Code is to ensure safety at sea, the prevention of human injury and loss of life, and avoidance of damage to the environment and property. Under the ISM Code, the company that undertakes the operation of the ship must develop and maintain a Safety Management System and, among other things, issue detailed manuals that cover a wide variety of matters. The company must possess a valid Document of Compliance and the ship a valid Safety Management Certificate.

The purpose of the ISPS Code is to enhance the maritime security of ships and port facilities. It is therefore mandatory for Cyprus-registered ships to have approved security plans and to abide by them. Upon compliance of a ship with the ISPS Code, the relevant International Ship Security Certificates are issued.



Registration of Cyprus ships

Ownership structures

A vessel may be registered in Cyprus if more than 50% of the shares in it are owned by a citizen of Cyprus or of another EU Member State or if all of the shares are owned by:

- a company registered in Cyprus, regardless of the nationality of shareholders in the company;
- a company registered in another EU Member State, provided either that the company has appointed a representative in Cyprus or that the safety of the ship (ISM Code compliance) is fully entrusted to a company whose principal place of business is in the EU and which is certified as compliant with the ISM Code.; or
- a company registered outside the EU controlled by citizens of Cyprus or of another EU Member State, provided either that the company has appointed a representative in Cyprus or that the safety of the ship is fully entrusted to a Cyprus or EU ship management company having its place of business in Cyprus.

A key factor affecting registration under the Cyprus flag is the age of the vessel. This is calculated by deducting the year in which its keel was laid from the year in which the application for registration was filed with the Registrar of Cyprus Ships (the Registrar).

All vessels must comply with the provisions of the Merchant Shipping legislation and the Circulars issued by the Department of Merchant Shipping.

Any special surveys required must be carried out at the owner's expense by surveyors approved by the Department of Merchant Shipping. The government has also authorised several internationally-recognised classification societies to conduct audits and issue certain certificates on its behalf.

Cargo vessels of 500 gross tonnes and over and tug boats

Cargo vessels of any type of 500 gross tonnes or more aged between 15 and 20 years may be registered subject to a satisfactory entry inspection.

If they are above 20, but not more than 25 years of age, they may be registered subject to a satisfactory entry inspection and subject to being under the management for ISM Code compliance purposes of a ship management company whose principal place of business is in the EU and which is certified as compliant with the ISM Code.

Vessels over 25 years of age are accepted for registration only if they meet the Department of Merchant Shipping's criteria for being treated as a special case and comply with conditions including passing an entry inspection and annual inspections.

The same rules apply to tug boats with an engine power equal to or greater than 1500KW, or



with an appropriate certificate of bollard pull of 20 tons or more.

Cargo vessels of less than 500 gross tonnes

Cargo vessels of less than 500 tonnes and not exceeding 20 years of age may be registered without any additional conditions.

If they are above 20, but not more than 25 years of age, they may be registered subject to passing an entry inspection.

Vessels over 25 years of age are accepted for registration only if they meet the Department of Merchant Shipping's criteria for being treated as a special case and comply with conditions including passing an entry inspection and annual inspections.

Passenger vessels

Passenger vessels not exceeding 30 years of age may be registered subject to passing an entry inspection and subsequent annual inspections.

Passenger vessels over 30 but not more than 40 years old may be registered provided they are operated by a shipmanagement company having its principal place of business in the EU, which is adequately staffed with qualified personnel and which is certified as compliant with the ISM Code, and provided they undergo an inspection of the hull, machinery and general condition of the vessel in addition to the standard entry inspection, as well as annual inspections thereafter.

In addition, at least 2 cadets who are EU citizens and registered with the District Labour Office or with the Department of Merchant Shipping must be engaged for sea training for a period of up to 6 months in any one year.

Passenger vessels over 40 years old are not accepted for registration, but may be accepted for re-registration if they meet the Department of Merchant Shipping's criteria for being treated as a special case and comply with conditions including passing an entry inspection and annual inspections. One of the criteria is that they must be engaged in a service which serves the Cyprus trade and must call at a port in Cyprus at least twice per month or at least 24 times per year.

Coastal passenger vessels, small passenger vessels and landing craft

Engine propelled vessels in this category up to 25 years of age and sailing vessels (with or without auxiliary propulsion engine) and landing craft, irrespective of age, may be registered provided they are operated by a shipmanagement company having its principal place of business in the EU, and which is adequately staffed with qualified personnel and certified as compliant with the ISM Code.

Pleasure craft

Yachts or other types of vessels, irrespective of size, used exclusively for recreation and not



engaged in any commercial operations may be registered without any additional conditions if they do not exceed 25 years of age.

Above this age limit they may be registered subject to a satisfactory entry inspection provided they are operated by a Cyprus or EU ship management company having its place of business in Cyprus, and which is sufficiently staffed with qualified personnel and certified as compliant with the ISM Code.

Pleasure craft with a length up to 24 metres must comply with the provisions of the Basic Requirements (Recreational Craft) Regulations of 2003 (P.I 307/2003) which transposes EC Directive 94/25 into Cyprus law. Pleasure craft over 24 metres must hold a valid classification certificate from a recognised society.

Fishing vessels

These are defined as vessels employed in fishing operations or for the processing, storage, carriage or transhipment of fish as well as any operations ancillary thereto. Vessels transporting fish or fish products as part of a general cargo do not fall within this definition and are treated as cargo vessels.

Fishing vessels over the age of 25 years are not accepted for registration in Cyprus. Fishing vessels less than 25 years old may be registered only if they satisfactorily complete an entry inspection and hold a fishing licence issued by the Department of Fisheries and Marine Research.

In order to obtain a licence the owner of the vessel must submit a written declaration stating its intention to comply at all times with the prevailing domestic and EU legislation in respect of fishing, the preservation of certain marine life, the prohibition of certain fishing equipment and any relevant international agreements concluded by the EU. It is a criminal offence under the Fisheries Law, Cap. 135 to employ a Cyprus-flag fishing vessel in fishing operations without a licence.

Fishing vessels of 24 metres or more in length must be certified in accordance with the requirements of the Torremolinos Protocol or the Code of Safety of Special Purpose Ships (IMO Resolution A.534 (16) as amended) or the Safety of Life at Sea 1974 Convention, as amended, unless they are covered by the scope of the Merchant Shipping (Harmonised Safety Regime for Fishing Vessels of 24 metres and over) Law (L.56(I)/2002) as amended. They must also comply with the EC Directive 92/48 regarding minimum hygiene rules applicable to fishery products.

Ships engaged in activities not previously mentioned and non self-propelled vessels

This category includes offshore supply vessels, floating cranes, dredgers, barges, launches, support craft, research ships, certain tugboats and mobile offshore drilling units. Ships under



this category up to 25 years of age may be registered without any additional conditions. Above this age limit they may be registered subject to a satisfactory entry inspection provided they are operated by a ship management company having its primary place of business in the EU, and which is certified as compliant with the ISM Code.

In addition, offshore supply vessels must comply with the relevant provisions of:

1. the Guidelines for the Design and Construction of Offshore Supply Vessels (IMO Resolution MSC 235(82) as amended);
2. the Guidelines for the Transportation and Handling of Limited Amounts of Hazardous and Noxious Substances in Bulk by Offshore Support Vessels (IMO Resolution A.673(16) as amended); and
3. the Code of Safe Practice for the Carriage of Cargoes and Persons by Offshore Supply Vessels (OSV Code – IMO Resolution A.863(20) as amended).

Self-propelled Mobile Offshore Drilling Units are required to comply with and be surveyed and certified in accordance with the Code for the Construction and Equipment of Mobile Offshore Drilling Units (IMO Resolution A.414(XI) and A.649(16), as amended).

Dynamically supported craft

Any dynamically supported craft carrying more than 12 passengers will be considered as a passenger vessel. Where such craft is engaged in international voyages the requirements for passenger vessels as mentioned above will apply. Where such craft is engaged on coastal trips the requirements coastal, small passenger vessels and landing crafts mentioned above will apply.

Vessels constructed before 1 January 1996 which qualify, irrespective of their type, to be considered as dynamically supported craft must comply with the requirements of the Code of Safety for Dynamically Supported Craft (IMO Assembly Resolution A.373 (XI)).

Vessels meeting the definition of high speed craft set out in Regulation X/1.2 of SOLAS, 1974, as amended, must comply with the provisions of Regulation IX/2.1.1 or IX/2.1.2.



Registration procedures

Provisional registration

Provisional registration lasts for six months and may be effected by a Cyprus consul if the vessel is not physically present in a Cyprus port. The vessel need not even call at the port of registration provided that all the papers are in order. However, a ship must be in a port at the time of provisional registration in order to be surveyed and certified on behalf of the Cyprus authorities.

The initial provisional registration may be extended by three months but unless permanent registration is effected during that period the vessel will lose her Cyprus nationality.

Applications must be submitted on behalf of the owner to the Minister of Communications and Works through the Registrar of Cyprus Ships. Applications must contain the following information:

- current and proposed name of the vessel;
- flag which the vessel currently flies;
- name of the legal or natural person applying for registration;
- particulars of the vessel (type, year of build, date keel was laid, gross and net tonnage);
- name of the current and proposed classification society with which the vessel is and will be entered;
- intended trading area;
- location of the vessel at the time of her provisional registration, if known. This must be communicated to the Registrar prior to provisional registration;
- name of the consular office where owners wish to effect provisional registration; and
- names and addresses of the shareholders and directors of the company in whose ownership the vessel will be registered.

The Registrar will then instruct the consular officer to proceed with the provisional registration of the vessel, provided the following documents have also been deposited with him:

- true copy of the certificate of incorporation, and Memorandum and Articles of Association of the company together with details of its directors, secretary, shareholders and registered office (appropriate substitute documents may be accepted in respect of companies incorporated overseas);
- resolution of the directors of the company to acquire the vessel and register her in the Register and to appoint one or several attorneys to attend to the registration at the relevant consular office;
- power of attorney empowering those concerned to attend to the registration;
- builder's certificate or bill of sale, duly executed;
- certificate of deletion from the previous registry (where applicable) or certificate of



- ownership and encumbrances from the vessel's current registry, attesting that the vessel is free from encumbrances and may be transferred to another registry;
- confirmation that the vessel remains in class and is in possession of valid trading certificates;
 - confirmation that the radio maritime accounts will be settled by a recognised accounting authority;
 - declaration of appointment of authorised representative in the case of a corporation established outside Cyprus;
 - customs clearance certificate where applicable;
 - Continuous Synopsis Record;
 - ISPS form C1, for vessels to which the ISPS Code applies;
 - ISM forms 01, 02 and 03 for vessels to which the ISM Code applies;
 - form MS10 -Memorandum as to the Registration of Managing Owner/Ship's Husband;
 - form MS2 or MS3 - Declaration of Ownership on behalf of a Body Corporate;
 - form MS 34 - Application for Licence to Install a Wireless Telephony and/or Telegraphy Station on board a Vessel Registered under the Flag of the Republic of Cyprus; and
 - form MS45 - Search and Rescue Particulars.

If the owner is an individual rather than a corporation, the first category of documents above is replaced with equivalent evidence of identity.

The Declaration of Conformity, EC Type Examination Certificate from Notifying Body and Owner's Manual must also be submitted for pleasure craft up to 24 metres. For fishing vessels the Department of Fisheries licence is required.

Once the registration has been approved and the relevant fees and tonnage tax for the initial six month period have been paid, the Registrar will instruct the relevant Cyprus consul to effect provisional registration by issuing a Provisional Certificate of the Cyprus Registry (form MS 5) which is valid for 6 months from the date of issue, together with the provisional radio licence. The Registrar will then advise the classification society that it may proceed with the survey and certification of the vessel on behalf of the Republic of Cyprus.

Permanent registration

Permanent registration of a provisionally-registered vessel must be completed within nine months (including the three-month extension) from the date of her provisional registration. It is not necessary for the vessel to be present in a Cyprus port at the time of permanent registration.



The following additional documents must be lodged with the Registrar:

- certificate of Survey (Form MS 1 or MS 1A);
- application for permanent registration;
- copy of the contract signed by the vessel's international radio accounting authority;
- Safety Management Certificate (SMC) where applicable;
- for yachts, confirmation by the Customs Department of the payment of any applicable VAT;
- International Load Lines Certificate, where the relevant convention applies;
- Cargo Ship Safety Equipment Certificate, where the relevant convention applies;
- Cargo Ship Safety Construction Certificate, where the relevant convention applies;
- Cargo Ship Safety Radio Certificate, where the relevant convention applies;
- International Oil Pollution Prevention Certificate;
- International Air Pollution Prevention Certificate;
- International Sewage Pollution Prevention Certificate;
- International Anti-fouling System Certificate;
- International Passenger Safety Certificate;
- International Tonnage Certificate (Form MS12 or MS 12A or MS12B or MS 12C);
- International Ship Security Certificate;
- For vessels whose keel was laid before 1 October 1994, confirmation from the classification society that the ship is free from halon;
- Entry Inspection Report from the Department of Merchant Shipping and satisfaction of any other conditions contained in the Government Policy on the Registration of Vessels in the Cyprus Register of Ships (where applicable); and
- duly verified Ship's Carving and Marking Note (Form MS 32).

Once the tonnage certificate and certificate of survey have been received, the Registrar will allot the vessel an official number and issue a carving and marking note which must be signed either by a surveyor of her classification society or by a Cyprus government surveyor.

Permanent registration under the Cyprus flag is complete once the Registrar, upon receipt of the carving and marking note, issues the Certificate of Cyprus Registry (form MS 4 or MS 4B). No additional fee is payable.

Parallel registration

An amendment to the Merchant Shipping (Registration of Ships, Sales and Mortgages) Law allows for the parallel-in and parallel-out registration of bareboat-chartered vessels, offering interesting opportunities for leaseback, hire purchase and finance arrangements.

*Parallel-in registration*

This form of registration allows a foreign-registered vessel on bareboat charter to a Cyprus shipping company to be registered in parallel under the Cyprus flag, for a renewable period of up to two years. Under this type of registration, the deletion of the vessel from the foreign registry is not required, but the foreign nationality of the vessel is suspended. This is only possible where the law of the country of foreign registration allows for parallel registration.

The application for parallel-in registration of a vessel is made by the appointed representative of the bareboat charterer, who must be a person (legal or physical) qualified under Cyprus merchant shipping law to own a Cyprus vessel. The following documents must be deposited with the Registrar:

- Memorandum and Articles of Association and all corporate certificates of the bareboat charterer;
- resolutions of the directors of the company (bareboat charterer) resolving to bareboat charter the vessel and register her in parallel in Cyprus;
- power of attorney, duly executed authorising the a third party if necessary to attend to matters related to the parallel-in registration;
- appointment of an authorised representative in the case of a corporation established outside Cyprus;
- certificate of measurement of the vessel;
- certified copy of the charterparty;
- certified written consent of the owner;
- certified written consent, and certificate of ownership and mortgages or other encumbrances, from the maritime authorities of the country of foreign registration;
- certified written consent of the mortgagees, if any;
- crew list;
- application for license to install and work wireless telephony/telephony station (form MS 34);
- Search and Rescue Particulars (form MS 45);
- Confirmation of class from a recognised classification authority;
- confirmation from a radio accounting authority that the ship's radio-maritime accounts will be settled;
- confirmation from the master or a recognised classification society as to the marking of the vessel; and
- all other documents required for permanent registration under the Cyprus flag.

After receipt of all the documents set out above and provided the appropriate fees have been paid, the Registrar of Cyprus Ships will proceed with the parallel-in registration of the vessel and the issue of the Certificate of Cyprus Registry (form MS 4A).



During the period of parallel-in registration, the vessel is required to fly the Cyprus flag to the exclusion of all others and will be subject to Cyprus law and regulations. Furthermore she must be marked with her name and Cyprus port of registry.

Parallel-out registration

Cyprus-registered vessels may be bareboat-chartered to a foreign company or individual and registered in parallel in a foreign register for the duration of the charterparty. Parallel-out registration is possible only if the law of the country of foreign registration allows the parallel registration of vessels of another registry, under conditions similar to those for the parallel-in registration of vessels in the Cyprus Register.

This is possible for vessels which are provisionally or permanently registered in Cyprus, subject to the approval of the Minister of Communications and Works. The application for parallel-out registration is effected by the owner submitting the specified documents to the Registrar.

The documents required consist of the following:

- application for parallel-out registration filed by a local lawyer on the behalf of the owner;
- resolutions of the directors of the shipowning company resolving to bareboat charter the vessel;
- power of attorney, duly executed, authorising a third party where necessary to sign the bareboat charter party on behalf of the owners;
- certified copy of the bareboat charterparty;
- certified written consent of the bareboat charterer as to the parallel-out registration;
- original Certificate of Cyprus Registry;
- written consent of the foreign registry confirming that the law of the country allows the parallel-out registration of a Cyprus vessel;
- certificate of parallel registration from the foreign registry;
- certified written consent of the mortgagees, if any;
- confirmation from a recognised radio traffic accounting authority that it will continue to settle the vessel's radio-maritime accounts; and
- joint declaration by the shipowner and the bareboat charterer undertaking that the laws of Cyprus will be fully respected during the vessel's parallel registration in the foreign registry.

Following approval by the Minister of Communications and Works, parallel-out registration may be effective for no longer than three years.

Parallel-out registered vessels must fly the flag of the foreign registry in which they have been newly registered and bear the name of the port of the foreign registry on the stern.

Transfers of ownership and matters relating to mortgages on parallel-out registered vessels



remain under the exclusive jurisdiction of Cyprus law and no action in relation to these matters may be brought through the foreign registry.

The status of vessels registered parallel-out is maintained during the charterparty, for a period of no more than three years unless it is renewed, as long as the approval of the Minister and consent of the foreign registry remain current.

Deletion from the Register

A vessel may be deleted from the Register upon the submission of an application by the owner.

Where 50% or more of the shares in a registered vessel are sold or transferred to an entity not entitled to own them, the vessel must be removed from the Register.

A vessel must also be deleted when it has been declared a total loss or constructive total loss.

Once any registered mortgages and encumbrances are discharged and all pending matters with the Registry are settled, a deletion certificate or a closed transcript of registry is issued.



Ship mortgages

A vessel registered in Cyprus may be mortgaged at the time of her provisional registration or at any time thereafter. The mortgage may be registered either in Cyprus with the Registrar or abroad at a Cyprus consulate.

The procedures involved are closely modelled on the equivalent British system. Form B(I) in the First Schedule to the Merchant Shipping (Registration of Ships, Sales and Mortgages) Laws 1963-2004 is used for the registration of a mortgage to secure a principal amount plus interest only, while Form B(II) is used in respect of a mortgage for a current account.

The instrument of mortgage must be supported by a deed of covenants entered into by the parties covering, *inter alia*, the following issues:

- mode of payment of interest and repayment of the principal debt;
- insurance policies and renewals and application of policy money;
- limitation on employment of the vessel;
- definition of default upon which statutory or other powers may be exercised;
- powers exercisable by the mortgagee, including power to take possession of the vessel, assume management and sell her by private treaty, provided certain conditions laid down in the above law have been fulfilled; and
- any other matter ancillary or incidental to the mortgage.

The deed of covenants is attached to the mortgage instrument, and is recorded at the same time as the registration of the mortgage is effected with the Registrar.

Registration of mortgages

On receipt of instructions from the Registrar, a Cyprus consul abroad may effect registration. This eliminates the requirement to deal directly with the Registrar and may be advantageous where the relevant parties are overseas.

If the vessel in respect of which the mortgage was made is owned by a Cyprus company, the mortgage must also be registered with the Registrar of Companies within 21 days of its creation in order to protect the rights of the mortgagee against the liquidator and creditors of the company in the event of liquidation.

Where the mortgage is created and the deed executed outside Cyprus over property situated abroad, the period for registration is extended to 42 days to allow for postage. Mortgages have priority over one another according to the date, and time if need be, of registration recorded by the Registrar or the date accepted by a Cyprus consul as the case may be.

The amount secured by a mortgage may be designated in any currency.



Advantages of Cyprus mortgages

The most obvious advantages of Cyprus mortgages are as follows:

- Mortgagees' rights are well protected, so that if the owner is in default, the mortgagee has an absolute right to dispose of the vessel or any part thereof over which he has a mortgage or he may institute an action for its enforcement in the Cyprus courts. Once default is proved, actions for the sale of vessels have invariably been successful in foreign courts.
- For convenience and security, details of all registered mortgages are kept by the Registrar in Limassol, the Ministry of Communications and Works in Nicosia, the Cyprus High Commission in London and the Cyprus Embassy in Athens.
- The Registrar and all other Cyprus authorities have demonstrated that they are prepared to go to great lengths to ensure that the rights and interests of mortgagees are protected and enforced.
- All procedural and administrative measures connected with the registration, transfer and discharge of mortgages have been designed so as to be as effective and convenient as possible.
- Registration of mortgages can be effected abroad without any delay since the date of delivery of the mortgage to the Cyprus consul is the date of registration.
- The status of a mortgage on a provisionally registered vessel is not affected by its permanent registration.
- Mortgage documents are exempt from stamp duty.
- Mortgages on Cyprus vessels are widely recognised by international banking institutions which are usually willing to grant loans on the strength of such mortgages.



Crew

Ships flying the Cyprus flag have every opportunity to employ foreign crew. Following the accession of Cyprus to the European Union, the Merchant Shipping (Masters and Seamen) Law of 1963 as amended no longer requires a minimum Cyprus crew content.

The composition and quality of the crew must nevertheless be of such a standard as to secure the safe manning of the vessel and compliance with the STCW Code (adopted by the Convention on Standards of Training, Certification and Watchkeeping for Seafarers). The Cyprus authorities require all crew members to possess valid certificates of competence appropriate to their rank or position issued by the Cyprus authorities or the authorities of one of the many countries whose certificates are recognised for the purpose, namely:

| | | | | |
|----------------|-----------|------------|--------------------|----------------|
| Argentina | Denmark | Indonesia | Myanmar | Singapore |
| Australia | Egypt* | Iran | Netherlands | Slovakia |
| Bangladesh * | Estonia | Ireland | New Zealand | Slovenia |
| Belgium | Finland | Israel* | Nigeria* | South Africa |
| Brazil | France | Italy | Norway | South Korea |
| Bulgaria | Georgia | Jamaica | Pakistan | Spain |
| Canada | Germany | Japan* | Peru | Sri Lanka* |
| Cape Verde* | Ghana* | Latvia | Philippines | Sweden |
| Chile | Greece | Lithuania | Poland | Turkey |
| China | Hong Kong | Malta | Portugal | Ukraine |
| Croatia | Hungary | Mexico | Romania | United Kingdom |
| Cuba | Iceland | Morocco* | Russian Federation | United States |
| Czech Republic | India | Montenegro | Serbia | Vietnam |

* Countries which are in the process of being assessed by European Commission

The Merchant Shipping (Safe Manning, Hours of Work and Watchkeeping) Law 2000, as amended, requires the company managing the vessel to ensure that crew members have the relevant certificates of competency, have received survival training and are kept properly informed about emergency and security and environmental protection procedures. There must be an understandable common language through which the crew can communicate.

Under this law, crew members engaged in watch-keeping must generally have a minimum



of 10 hours' rest per day, of which 6 hours must be continuous, but this rule may be departed from in cases of emergency. As to the rest of the crew, it must be ensured that they should not work longer than is consistent with the safety of the vessel or the good performance of their duties, except in cases of emergency. The law further requires that an adequate watch is kept both for the navigation of the vessel as well as for the engine room, and a safe manning certificate must be maintained for each vessel. Safe manning requirements vary in accordance with the gross tonnage of the vessel and the kilowatt rating of its main engine.

The Merchant Shipping (Organisation of Working Time of Seafarers) Law 2003 requires among other things the drafting of a timetable showing the minimum hours of rest and the working shifts of the crew. This law also enables the shipowner to enter into collective agreements regulating the rights of the seamen provided these are approved and are reasonable as regards the health and safety of the seamen.

A collective agreement exists between the two main Cyprus trade unions and the Association of Cyprus Ship Owners, which is re-negotiated annually. This agreement is usually not mandatory.

Further laws have been adopted to regulate the registration of seafarers and the issuance of medical certificates. Furthermore, other regulations which have been widely adopted by the world shipping community have also been endorsed by Cyprus. The Department of Merchant Shipping has also issued Circular 20/2005 which in effect is a Cyprus Code on safe working practices for seafarers. The circular constitutes a guide as to the obligations of ship-owners and Masters to prevent occupational accidents onboard Cyprus-flag sea-going vessels.



Principal fees and taxes

The Merchant Shipping (Fees and Taxing Provisions) Laws of 1992 to 2007 regulate the tax and official fees aspects related to ships and shipmanagement companies. Fees are converted from the old Cyprus pound amounts, which accounts for the odd amounts.

Registration fees

For passenger vessels the registration fee is €0.256290 for each gross tonne, subject to a minimum fee of € 427.15.

Fees for the registration of all other vessels are calculated on the basis of gross tonnage, as follows:

- €0.170860 per gross tonne up to 5,000 tonnes;
- €0.136688 for each additional tonne up to 10,000;
- €0.068344 per gross tonne above 10,000 tonnes.

The minimum registration fee is € 213.58 and the maximum is € 5.125.80.

Annual tonnage tax

For vessels other than passenger vessels, the tonnage tax is calculated as: (Basic Charge + Gross Tonnage Increment) x Age Multiplier. The basic charge is € 170.86 and the gross tonnage increment is calculated as follows:

- €0.444236 per gross tonne up to 1,600 tonnes;
- €0.273376 for each additional tonne between 1,600 and 10,000;
- €0.102516 for each additional tonne between 10,000 and 50,000;
- €0.068344 for each additional tonne in excess of 50,000.

For vessels up to ten years old, the age multiplier is 0.75, effectively giving a discount to newer vessels. The age multiplier is 1 for vessels between ten and twenty years old and 1.3 for vessels older than twenty years.

For passenger ships, the annual tonnage tax payable is calculated in the same way, but is double that payable for other vessels.

Reduction of tonnage tax

The Merchant Shipping (Fees and Taxing Provisions) Laws 1992-2007 provide for a reduction and refund of the tonnage tax in the following circumstances:

- Where the vessel is laid up for more than 3 consecutive months, the tonnage tax for that period is reduced by 75%;
- Where technical and crew management are carried out by a Cyprus or EU shipmanagement company operating in Cyprus which is adequately staffed in terms of numbers and qualifications of personnel, the tonnage tax is reduced by 30%.



Fees for the registration, transfer or discharge of mortgages

Fees for the registration or transfer of mortgages are € 0.034172 for each gross tonne up to 10,000 tonnes and € 0.017086 for each additional gross tonne over 10,000 tonnes, subject to a minimum of €51.26. No specific fees are payable for the discharge of mortgages. The fee payable for the transmission of a mortgage is €85.43.

Fees for the transfer or transmission of vessels

For the transfer of ownership of a vessel to another Cyprus company, the fees payable are €0.03 for every gross tonne up to 10,000 tonnes and €0.02 for each additional gross tonne over 10,000 tonnes. No fees are payable for deletion from the Register, but all fees and taxes due or in arrears at the time of the vessel's deletion must be paid.

Taxation of Cyprus ship management companies

Ship management services such as crewing, technical and commercial management are exempt from taxation under the Income Tax Laws. Instead, shipmanagement companies maintaining an adequately staffed (in terms of numbers and qualifications of personnel) office in Cyprus and providing shipmanagement services to the vessels they manage for a period longer than one month have the option either to be taxed at a rate of 4¼% on profits or to pay a special tax based on the shipmanagement services which they have rendered.

The special tax is 25% of the amount calculated pursuant to Schedule B of the Merchant Shipping (Fees and Taxation Provisions) Laws 1992-2007 vis-à-vis the annual tonnage tax payable by Cyprus flagged vessels, taking into consideration the tonnage and age of the vessel, and is applicable to both Cyprus and foreign vessels managed by a Cyprus or EU ship management company.

The special tax is not applicable if Cyprus vessels have claimed the 30% reduction of the annual tonnage tax available where the technical and crew management are undertaken entirely by a Cyprus ship management company.

The special tax option is also unavailable in respect of a Community vessel whose technical and crewing management is entrusted in full to a Cyprus or Community shipmanagement company operating through an adequately staffed (in terms of numbers and qualification) office in Cyprus.

The option chosen must be notified to the Department of Merchant Shipping with a copy to the Commissioner of Income Tax. For a specific fiscal year, the notice must be sent at least 30 days before the beginning of the relevant fiscal year and continues in force until it is withdrawn in the same way. Once exercised, the option remains in force until it is withdrawn by a written notice. A written notice of withdrawal which is given during any year becomes effective at the end of that year and the new method of taxation applies with effect from 1 January of the following year.



In its 2009 review of the EU's guidelines on State aid to maritime transport the European Commission decided that outsourcing part of a ship operation should not be fiscally disadvantageous, and that crew management and technical management of ships should be eligible for state aid in the form of favourable taxation treatment when they are separately supplied, subject to the following conditions:

- ship management must be carried out in the territory of one or more Member States and employees must mainly be Community nationals.
- at least two thirds of the tonnage of the managed ships must be managed from the territory of the Community.
- all ships and crews under management must comply with international standards and Community law requirements, particularly in relation to security, safety, training and certification of seafarers, environmental performance and on-board working conditions.

The following further requirements apply to crew managers:

- all seafarers working aboard managed ships must be educated, trained and hold a certificate of competency in accordance with the Convention of the International Maritime Organisation on Standards of Training, Certification and Watchkeeping for Seafarers, 1978, as amended (STCW), and must have successfully completed personal safety training aboard.
- crew managers must fully comply with the STCW and Community law requirements regarding responsibilities of companies.
- the provisions of the 2006 ILO Maritime Labour Convention ("MLC"), must be fully implemented by the seafarers' employer, be it the shipowner or the shipmanagement company, particularly with regard to the seafarer's employment agreement, ship's loss or foundering medical care, shipowner's liability including payment of wages in case of accident or sickness, and repatriation.
- international standards regarding hours of work and hours of rest provided for by the MLC must be fully complied with.
- crew managers must also provide financial security to assure compensation in the event of the death or long-term disability of seafarers due to an occupational injury, illness or hazard.

Subject to meeting the relevant requirements set out above, shipmanagement companies operating in Cyprus are entitled to benefit from the favourable tonnage tax regime or a preferential tax rate of 4¼ per cent, whether they provide full or partial management services.

The Merchant Shipping (Fees and Taxing Provisions) Law of 1992 as amended and the Income Tax Laws expressly provide that dividends and income derived from shipmanagement services are exempt from income tax.



Future prospects

Cyprus is rightly regarded as one of the leading international maritime centres worldwide. It is the third largest ship management centre in the world and currently ranks ninth on the list of leading maritime nations with a merchant fleet exceeding 26 million gross tonnes.

The long-standing policy of the Cyprus government has been the continuous improvement of the already high quality infrastructure and the incentives available to both residents and non-residents alike. The current regime guarantees the prosperity and growth of the Cyprus shipping industry. The immediate objective with regard to merchant shipping is to continue enhancing the quality of vessels flying the Cyprus flag, as well as the quality of their crews and operators. In this respect, it is anticipated that additional incentives will be introduced in order to attract the registration of environmentally friendly vessels in the Cyprus Register of Ships.

Furthermore, with the expansion of the offshore oil and gas industries around Cyprus, the Cyprus Register is expected to see an increase in vessels related to such activities. Cyprus has adopted the Hydrocarbons (Prospection, Exploration and Production) Law 4(I) of 2007 to regulate the exploitation of its offshore hydrocarbon reserves in conformity with EC Directive 94/22.

The Cyprus authorities have become increasingly pro-active in their promotion of the shipping industry. Their efforts have turned the Cyprus flag from one of convenience to one of choice.

