

**Basic Motives For Escapes From Turkish Merchant Fleet to Foreign Flags
(Türk Deniz Ticaret Filosunda Yabancı Bayrağa Kaçışın Temel Nedenleri)**

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Özet

Özellikle son on yılda sahibi Türk olan gemilerin yabancı bayrak altında çalıştırılmaları giderek artmıştır. 1999 yılında Türk Uluslararası Gemi Sicili'nin oluşturulması bu kaçışı durduramamıştır. 2007 yılı başlarında Türk Deniz Ticaret Filosu'nun durumuna bakıldığında gemilerin büyük bir kısmının yabancı bayrak altında çalıştırıldıkları veya Türk uluslararası gemi siciline kayıtlı oldukları görülmektedir. Türk ulusal siciline kayıtlı gemilerin büyük çoğunluğu kabotaj hattında çalışmaktadır. Araştırmanın amacı Türk armatörlerinin yabancı bayrağa kaçış nedenlerini sorgulamaktır. Bu amaçla yabancı bayrak altında gemi çalıştıran belli başlı armatörlere yönelik anket çalışması gerçekleştirilmiştir. Çalışma sonunda Türk armatörlerinin yabancı bayrak altında gemi çalışmalarının birinci nedeninin yabancı bayrağın sağladığı kolaylıklar, ikinci nedeninin ise yabancı bayrağın sağladığı finansal avantajlar olduğu görülmüştür. Literatür taraması sonucunda elde edilen bulgular da diğer ülke armatörlerinin yabancı bayrak tercih nedenleriyle, Türk armatörlerinin yabancı bayrak tercih nedenleri arasında paralellik olduğunu göstermektedir.

Anahtar Kelimeler: Kolay bayrak, Açık sicil, Türk Deniz Ticaret Filosu

Abstract

It is observed that most of the ships owned by Turkish shipping companies have escaped from Turkish merchant fleet to foreign flags. Such escapes seem to have increased even more particularly in the recent decade. In order to prevent the escapes, the Turkish International Ship Registry (TISR) was established in 1999, but even so the wants to escape kept going on. An overall picture of Turkish merchant fleet taken in 2007 reveals that most of the fleet have been flying foreign flags or registered with the TISR, and also that most of those in Turkish National Registry have been operated on the cabotage lines. The

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purpose of this research is to examine the actual reasons that force the Turkish shipowners to prefer foreign flags. To reach this aim, a questionnaire is conducted through the leading Turkish shipowners. The results of the questionnaire reveal that the very first and predominant motive attracting the shipowners is the easiness and the second one is certain financial facilities provided by foreign flags. The results of the relevant literature review also reveal that the basic factors that cause the owners in many other countries to prefer foreign flags are similar to those attracting the Turkish shipowners to foreign flags.

Key words: Flags of Convenience, Open registers, Turkish Merchant Fleet.

1. Introduction

The prevailing peculiarities of the shipping industry could be highlighted into two: the most convenient to be globalized and the most open to competition. It is composed of a great variety of interest groups. Shipowners, one of these groups, are mostly interested in increasing their market shares and keeping up their competitive positions. To reach these aims, they seek the means of paying less for labor, and taxes and having to comply with fewer rules. States, another one of the interest groups, mainly aim at having flag states related controls carried out properly and increasing the revenues through tax collections. International shipping organizations, still another interest group, primarily try to get the international regulations to be the properly implemented so as to prevent environmental pollution and provide safety in shipping activities.

There are two ways for a ship to fly the flag of a nationality other than that of her owner: either through a system called 'open registers' wherein the state of the flag does not enforce any means of difficulties for those ships to fly their flags but who in return gain certain revenues through relatively reasonable fees for registry and annual tonnage taxes or through a means called 'international registers' wherein some states let some ships from other states fly their flags in return for certain serious advantages from taxes but keeping the registry requirements relatively strict. In order to maximize their profits, exploit the cheaper labor and lower tax advantages, and avoid flag state controls as much as possible, shipowners would rather that their ships fly the flags of those states who provide such facilities and easiness. The flags of those nations ensuring these facilities are called Flags of Convenience (FOCs). Some of the states whose flags are in this category confine the advantages offered within the limits of bureaucratic and financial issues while applying strict rules in permitting the ships of other states to fly their flags due to the international pressures about the compliance with the requirements for environment and safety concerns. On the other hand, however, some of the newly emerging states of FOCs still provide generous advantages in registry and finance-related issues, regardless of the ages of the ships demanding FOCs.

2. Historical Background of FOCs

The practice of FOCs dates back to 16 th. century. By the 20th. century, in order to overcome certain political and economic difficulties encountered, many of UK, Italian, Greek, Irish, and US shipowners have operated their ships with the flags of various other nations [1]. Sometime between the two World Wars, in the early 1920s, a treaty was signed between the USA and Panama which provided 'exempting the revenues on shipping from taxes' which resulted in a rise in ship crew wages. This forced some of the US shipowners to operate their ships under Panaman flags. During this period, Spain actually was the first European state which let their ships fly Panaman flag, which would enable their shipowners to cope with high operating costs. Still, the concept FOCs was first worded in 1948, when 'International Transport Workers' Federation' (ITF) arranged a campaign through the 'World Congress' in Oslo against FOCs [2].

In the 1970s, shipping industry experienced certain unpredicted changes. In paralel with the developments in the international trade, new build ship orders increased, and the ship sizes got enlarged in view of providing economies of scale. Considering the profits to be gained in the near future, the shipowners started to realize their orders by means of loans. In the meantime, the state subsidies in shipbuilding increased so as to strengthen the national fleets. By the early 1980s the surplus of ships in the world merchant fleet had increased, freight rates had fallen down and thus many shipowners had failed to pay back the loans received. The results of such developments was that most of the ships changed their owners, being acquired by certain banking and finance companies. Besides, most of the companies in the oil and steel industries who had operated their own fleets had to sell their ships so as to reduce their running costs and had to meet their needs for ships from certain ship management companies with whom the banking and finance companies who couldn't operate the ships they owned also cooperated. On the other hand, the ship management companies, in order to minimize their operational costs, started getting their ships to fly the flags of those states who had not been so strict in complying with the international rules. Such practice would also make it easy for these companies to pay less for labor. And these developments eventually turned the nature of shipping into getting 'globalized' which previously had been recognized as 'internationalized'[3].

3. Legal Background and International Recognition of FOCs

According to the definition recognized by ITF, 'a FOCs ship is one that flies the flag of a country other than the country of ownership'. Relatively low registry fees, low or no taxes, and the convenience of providing low-waged crew seem to have encouraged shipowners to have their ships fly the FOCs [4].

According to Article 91 of United Nation Convention on the Law of the Sea, 1982 (UNCLOS, 1982), 'there has got to be a real link between the ship

and the flag state' [5]. Despite this, still, FOCs have kept their sound and predominant place in international shipping.

In 1959 at the first General Assembly of the Inter-Governmental Maritime Consultative Organization (IMCO) there appeared a discrepancy on the selection of eight states to be designated to Maritime Safety Committee (MSC). In accordance with the foundation principles of this organization, the eight members from those states whose merchant fleets were the biggest in tonnage were elected from such states as the USA, the UK, Norway, Japan, Italy, the Netherlands, France, and West Germany. Liberia, who had the third biggest tonnage in the world merchant fleet and the Panama, who had the eighth biggest, objected to the election, claiming that they should have been elected instead of France and West Germany respectively. The European shipowners claimed that the objection was unacceptable as there was no real link between the ships of the Liberian and Panama fleet and their flag states, while the USA and India favored Liberia's and Panama's objections. The issue then was taken up to the International Court of Justice, while five of the court members voted against the Liberia's and Panama's objections, nine voted in favor of them, and hence the FOCs were recognized in terms of international laws [6].

According to Desombre, the powerful states involved in the international shipping can prevent FOCs if they want to. Such states, however, favor such practises, while raising the environment and safety limits to certain extents, as the benefits of lesser costly shipping would reflect to their citizens as well. Besides, the citizens of these powerful states are not so willing to pay more to prevent any environmental hazards likely to harm them in any far future [7].

4. FOCs at Present

ITF has recognized 32 states acting as FOCs. Among this number of states are there not only open registers but also international registers [8]. United Nations Conference on Trade and Development's (UNCTAD) report for 2006 taking into account the ships of and over 1000 grt reveals that 414 896 000 dwt of the whole 960 000 000 dwt of the world merchant fleet was the total fleet of the FOCs covering 12 states, and almost 184 821 000 dwt of the whole world merchant fleet constituted the fleet of international registers. Besides, only 5 % of the ships registered with the FOCs were owned by the states of these flags.

Table 1 illustrates the total dwt of the ships registered with the open and international ship registers as per 1 January 2006.

Table 1.
Open and International Ship Registers, Jan.01,2006

Ship registers	dwt (1.000)
Six major open registers	391 172
Six minor open registers	23 724

Eight international registers	184 821
Total	599 717

Source: UNCTAD,2006.p. 34-36 compiled by author.

The data analysed on 1 January 2006, makes it clear that Panama, Liberia and Bahamas had the first three biggest shares in dwt of the total tonnage of the FOCs; Singapore, Hong Kong, and the Marshall Islands captured the first three biggest shares in the tonnage of the international registers [9]. Regardless of the flags flown, and considering only the ownerships, the first five biggest shares in the world Merchant fleet belong to Japan, Greece, Germany, China, and the USA, as can be seen in Table 2 [10].

The data covering 2006 also reveal that 85 % of Japanese fleet flying foreign flags preferred Panama's flag; the Greek shipowners operating their ships under open registers preferred Malta's and Cyprus'; the 31 % of the German shipowners whose ships fly foreign flags preferred Liberia's, 12 % chose the Marshall Islands', 11.6 % chose Antigua and Barbuda's, and 8.7 % preferred Cyprus'; the 31.5 % of the US shipowners whose ships fly foreign flags preferred the Marshall Islands' and 19.3 % of them preferred the Bahamas' flag [11]. The percentages mentioned stand for the values for the leading countries of flags of convenience; for the others, however, no specific rates are included.

Table 2.
Merchant Fleets of Top Five Countries in Terms of the Nationality of the Owner, Oct.01,2006

Owner state	GT (1000)	% of Foreign flag* GT (1000)
Japan	94 576	87.61
Greece	89 386	64
Germany	54 966	79.75
China	41 567	47.57
USA	32 286	73.34
Total	312 781	
World total	672 547	

Source: Danish Shipping Figures, November, 2006, p.6-7. * Percentages were calculated by author.

4.1. The Performance of the Open Register States at Port State Controls

According to the updated list issued by Paris Port State Control Organization as per October 2006 demonstrating the performances of flags, one of leading open registers, Liberia, takes place in white list, and another well known open register flag, Panama, takes place in the grey list [12]. Table 3 illustrates the achievement of 12 open register and eight international registers listed in the UNCTAD 2006 report.

Particularly the performance of Liberia, who is placed in the white list, is striking. Having signed contracts with certain internationally recognized security experts to train the security inspectors employed at their fleet, Liberia considers doing the same thing for such issues as International Safety Management Code as well as the other quality-related issues [13]. Another striking achievement is observed with Malta and Cyprus, both of whom have

Table 3.

Performance of Open Registers and International Registers at Paris MOU Zone (October, 2006)

Performance	Open registers	International registers*
Black List	St. Vincent & the Grenadines.	
Grey List	Panama, Vanuatu	
White List	Liberia, Bahamas, Malta, Cyprus, Bermuda, Antigua.&Barbuda Cayman Islands, Luxembourg Gibraltar	Singapore, NIS, Hong Kong, Marshall Islands, Netherlands Antilles, Isle of Man

Source: UNCDAT, 2006. Review of Maritime Transport; p.36. Paris MOU. 2006 Black- Grey-White Lists.

* French Antarctic Territory and Danish International Ship Registry were not shown separately on Paris Mou List.

increased their performance following their joining the European Union (EU) and eventually risen up to the white list.

5. The Attitudes of Nations Towards Flags of Convenience

One of the factors affecting the attitudes of nations towards flags of convenience seem to be the manning costs. Hence, taking a look at the recent market of world seafarers manpower could help to get certain ideas about this issue. The “Seafarers Manpower Report” issued in 2005 through a cooperation between BIMCO/ISF (The Baltic International Maritime Council/ International Shipping Federation) and Warwick University reveals the following items of significance: The shortage in the world for qualified officers being 10 000 which corresponds to 2 % of all the officers employed; the redundancy in the crew being recorded as 135 000. As far as the wages are concerned, considering the monthly pay for an Indian Chief Officer 100 as a basis; a Norwegian Chief Officer’s being 191, a Chinese Chief Officer’s 68. Likewise a Norwegian able seamen’s monthly pay is 269 whereas a Chinese able seamen’s is 81, considering the monthly pay for an Indian able seamen, 100 as a basis. As the report reveals, there exist considerable differences in the wages based on the nationalities [14].

Taking into account the wages, taxes, and certain other costs incurred to meet the requirements of the relevant international conventions as well as to survive against the severe competition in the world shipping industry, a thorough analysis of the shipping policies employed by nations points to the fact that while some nations take certain measures to prevent the escapes from their merchant fleet to foreign flags and to promote their competitive powers, some other nations prefer liberalization and encourage their shipowners to enjoy benefits of flag of convenience.

The attitudes of certain nations as well as international unions of great significance and prominent roles in the overall international politics could be highlighted as follows:

- European Union: Published two Community guidelines on State aid to maritime transport, in 1989 and 1997, aiming to prevent the escapes to flags of convenience, which accelerated in the merchant fleets of the member states particularly in 1970s and 1980s. The second of these guidelines, published in 1997, introduced second registers and “tonnage taxation system”. This guideline, of 1997, enforced the shipping companies 60 % of whose ships fly the flags of member states to pay tonnage taxes, regardless of their profits. Despite having slowed down the escapes to foreign flags to a certain extent, the measures such as financial facilities, promoting maritime education and training, and encouraging to employ the EU member state citizens on board the ships could not bring firm and effective solution to the problem. The failure in this issue can clearly be seen through the figures in Table 2 revealing the number of the ships from merchant fleets of two important member states, Germany and Greece, flying foreign flags [15].

- The USA: As the overall policy adopted by USA, like many other developed countries, focused more on the free movements of goods through the globalized merchant trade than the tonnages of their merchant fleets, its tonnage which used to fly the home flag got reduced more and more, and despite cabotage protection provided through the Jones Act, the American shipowners started to prefer to operate their ships with foreign flags [16].

- Canada: Shipping activities in Canada have been liberalized and no state incentives are provided for this sector [17].

- China : Certain incentives are provided with the aim of improving the merchant fleet. The delivery terms CIF is practiced in export, and FOB in imports; and certain measures are practiced to encourage their international maritime transports to be carried out with their national flag [18].

6. An Evolution on Turkish Merchant Fleet: The Past and Present

The critical decision made by the Turkish government on January 24, 1980 to restructure the Turkish economy introduced liberalization to the foreign trade, which increased the Turkish foreign trade volume, and this increase was reflected to the tonnage of the Turkish Merchant Fleet. As a consequence of this

favorable reflection, the fleet which was 1 900 000 dwt in 1980 [19] kept rising gradually and reached 7 295 000 grt by October 1, 2006, including the ships flying foreign flags, and with this rise, it was placed on the 18th row in the world merchant fleet [20]. The similar increase was observed with the ratio of the ships in the Turkish Merchant fleet flying foreign flags. In the recent ten years, this ratio which was 1.18 % in 1997 rose up to 33.98 % by January 1, 2006 [21]. Table 4 illustrates the dwt figures and the increase of the foreign flags ratio in the Turkish Merchant fleet in the recent ten years.

Table 4.

Turkish Merchant Fleet Between Jan.01,1997 and Jan.01,2006 (Vessel 1000grt and Over)

Year	Rank	National flag (dwt)	Foreign flag (dwt)	Total (dwt)	% of Foreign flag
1997	19	8 997 546	107 859	9 105 405	1.18
1998	19	9 045 847	365 870	9 411 717	3.89
1999	18	8 595 095	706 575	9 301 670	7.60
2000	18	8 793 721	843 505	9 637 226	8.75
2001	18	7 767 491	1 062 064	8 829 555	12.03
2002	18	7 762 415	1 516 449	9 278 864	16.34
2003	17	7 252 197	1 684 970	8 937 167	18.85
2004	19	6 471 308	2 210 446	8 681 754	25.46
2005	20	6 196 000	2 572 000	8 768 000	29.33
2006	20	6 793 000	3 497 000	10 290 000	33.98

Source: UNCTAD, Review of Maritime Transport, 1997-2006. (compiled by author)

6.1. The Legislative Steps Taken to Improve Turkish Merchant Fleet

Providing incentives to improve the Turkish Merchant Fleet dates back to 1963, when the era of planned development initiated [22]. In this part, the incentive facilitating acts up to date will be briefed.

6.1.1. The Act Aiming to Improve the Turkish Merchant Fleet

Act no 2581 was passed in 1982 [23]. With this act, the customs tax was nulled for the ships built or purchased from abroad, and the imports of any equipment used in shipbuilding at home. The application of this act brought about a considerable improvement in the Turkish Merchant Fleet, which increased from 1 900 000 dwt in 1980 up to 6 046 863 in 1984 [24]. Despite various ammendments made, this act has survived up to the present with the main body. became possible for the equipment to be used for the ships built at home and for the ships imported, provided that they are new [25].

6.1.2. The Act on The Turkish International Ship Registry

Act no 4490 was issued in the Official Gazette dated December 21, 1999 and was put into effect onward the same day [26]. The contents of significance are as follows:

- The individuals resident in Turkey, regardless of their nationality, and the companies established in Turkey in compliance with the relevant Turkish regulations can register their ships under the Turkish International Ship Registry (TISR).

- During the registry of ships, a total fee of USD 10 000 and USD 1 for each net ton is charged.

- USD 1 per each net ton shall be charged annually.

- The ships registered under the Turkish Lloyd shall pay the registry fee and the annual charges at a 50 % reduction.

- The revenues gained from the operation, sale, or transfer of the ships registered under TISR are exempted from all sorts of taxes and fees.

- The earnings of the crew employed on board the ships being operated under the TISR are exempted from any means of taxes or fees.

- On board a ship whose owner is a foreigner the master is to be Turkish.

- On board a ship whose owner is a Turkish the master and 51 % of the crew is also to be Turkish.

- The social insurance premium deduction for the Turkish crew is to be met by shipowner. If the foreign crew are under the umbrella of any social insurance organization in their states, no premium deduction for their social insurance is in question.

6.1.3. The Turkish Corporate Income Tax Act

According to the most recent act put into effect in June 2006 [27], Article 5 shall involve those Turkish shipowners whose ships fly foreign flags as the head office of their companies are legally reported to be located abroad while the ship management offices are reported to be in Turkey, and as they are declared to be organizations operating one single ship each. This Article clarifies the terms that are used to exempt the revenues of certain companies from being taxed. According to the specifications of this Article, the following companies are exempted from being taxed:

The corporates or limited companies whose officially declared offices are not in Turkey provided that

- the capital of the Turkish partners amount to at least 10 % of the capital of the company abroad,

- the profits of the companies with head offices abroad are taxed at least 15 % in their home states,

- the profits of the Turkish partner, gained through the sales of the stocks abroad, provided that such profits are kept in hand for at least two years.

Nevertheless, Stopford's viewpoint running as 'in general the only companies that pay taxes are those who have some specific reasons for doing so' [28] is still true all over the world including Turkey as well.

7. The Motives Attracting Turkish Shipowners to Foreign Flags

This part of the study is devoted to a research examining the reasons why the Turkish shipowners would rather have their ships fly foreign flags than Turkish.

7.1. The Aim and Extent of the Research

The basic aim of the research is to determine the reasons forcing and encouraging Turkish shipowners to operate their ships under foreign flags. Still another aim is to list the causes in accordance with the responses gained from the participants, the leading Turkish shipowners or their representatives, and to evaluate them and comment on them, which could help solve the problem.

Having determined the prevalent causes for the escapes in the Turkish merchant fleet to foreign flags, the research also includes a thorough literature review to analyze the basic causes attracting the merchant fleets of some other leading nations to foreign flags. An eventual comparison is expected to reveal certain basic common points in such escapes and preferences. Such a comparison is thought to be important in terms of providing more meaningful evaluations.

7.2. Conceptual Model of the Research

Conceptual model of the research can be seen in Figure 1. The overall target aimed through the conceptual model is to find out the actual causes for the Turkish merchant fleet to escape to foreign flags. To reach this aim, a data collecting instrument was formed through reviewing the relevant literature and fulfilling certain face-to-face interviews. Then making use of the data collected, a questionnaire was formed and sent to sampling group. The responses received were analyzed and commented on.

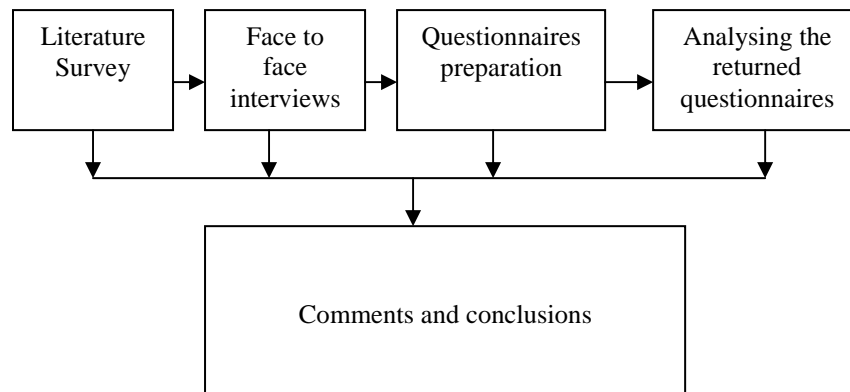


Figure 1. Model of the Study

7.3. The Methodology of the Research

The steps of the research, which is indicated above in Figure 1, comprises preparing the data collecting instrument, sample choice, and data analysis.

7.3.1. Preparing of the Data Collecting Instrument

The research was carried out through a questionnaire. Prior to preparing the questionnaire, however, the relevant literature was scrutinized, qualitative research aimed face-to-face interviews were designed and the author interviewed the top managers of the four İzmir-based ship management companies whose ships fly foreign flags. Following the completion of the questionnaire items, the fleet managers of two shipping companies were asked to evaluate and comment on the questions to be asked.

7.3.1.1. The Contents of the Questionnaire

Based on the data collected through the literature review and interviews, a questionnaire covering 15 questions was prepared with 5 Likert skalas as (1) 'I strongly disagree' and (5) 'I absolutely agree'. Through the questionnaire items, the reasons for escaping to foreign flags were questioned. The statements representing the causes for the Turkish shipowners to escape to foreign flags used in the questionnaire are as follows:

- (1) The ships flying Turkish flag are the targets for the port state controls abroad.

According to the list updated as per October 17, 2006 by The Paris Momerandum of Understanding on Port State Control (Paris MOU), the Turkish flagged ships are placed in the black list taking place among the mid risky flags, which makes the ships flying Turkish flag a target for the port state controls abroad [29].

(2) The projects for the Turkish flagged ships encounter difficulties in receiving credits.

The banks in Turkey are not readily willing to lend loans to the shipping industry. Likewise, foreign banks (banks abroad) are also reluctant to lend credits for the ships flying Turkish flag.

(3) The wages of the crew, insurance pay, and taxes for the Turkish flagged ships are too high.

(4) The number of the crew to be employed required in Turkish Manning Certificate on board the ships flying Turkish flag is too high.

(5) There are too many bureaucratic obstacles in providing foreign crew for the ships operated under TISR.

Although the ships operated under TISR are allowed to employ crew other than Turkish to a certain extent, there exists too many bureaucratic difficulties in providing visas and work permits for such crew.

(6) The Turkish flagged ships have to pay value added taxes (VAT) for the expenses incurred for repairs at shipyards.

The ships flying Turkish flag are obliged to pay high amounts of VAT for the repair for spare parts and equipment used at shipyards. Although labor expenses are exempted from this obligation, it still causes the repair expenses to increase to a great extent.

(7) Shipowners suffer from certain difficulties hindering the sales and export of their ships operated under TISR.

Although according to the act concerning TISR, the ships operated under this register are exempted from any means of fees or taxes during their sales or transfers, 0.05 % of the sale amount has got to be paid to the Exporters' Association and the permission of the Undersecretariat of Treasury and Foreign Trade has got to be received prior to any sales.

(8) The level of ship depreciation determined by the Ministry of Finance for the ships flying Turkish flag is too low.

Due to such low depreciations, shipowners are not able to make use of such an important source which otherwise could form a considerable amount of the overall expenses declared.

(9) The corporate income taxes in Turkey are too high.

The shipowners whose ships fly Turkish flag has got to pay 34 % of (effective tax ratio) his/her revenues as income tax . Although the recently adopted act for corporation taxes has decreased the effective tax ratio to be charged from 44 % to 34 % it, at the same time, has put an end to investment reduction exempts. Consequently, in case of a new investment made by the company, the effective tax to be charged has actually been decreased by 0.4 only and hence the overall tax charged has been decreased from 34.4 % to 34 % [30].

(10) Flying foreign flags provide certain advantages and bureaucratic facilities.

The ships flying foreign flags enjoy the advantages and facilities provided in such issues as renewing the certificates of ships as well as crew while the ships flying Turkish flag can not.

(11) Turkish Commercial Code enforces the stocks concerning the shipping companies to be issued to names.

According to Turkish Commercial Code, in order for the companies operating Turkish flagged ships to be regarded Turkish companies, at least 51 % of the stocks of such companies have got to belong to Turkish citizens and they also have got to be issued to names. Such a practise makes it difficult for the stocks of the shipping companies to be negotiated in the market [31].

(12) The exclusive exemption of the Turkish flagged ships from corporate income taxes based on the relevant incentive certificate has been withdrawn.

The new Turkish Corporate Income Tax Act, which was put into effect in 2006, has withdrawn the exemption through incentive certificates from being taxed [32].

(13) The ships flying Turkish flag suffer from tedious inspections by the Administration prior to leaving for abroad.

Considering the frequent failure encountered by the Turkish flagged ships at the port state controls in the Paris MOU region, the Turkish Prime Ministry Undersecretary of Maritime Affairs has started since June 2004 presurveys on these ships to determine the deficiencies and have them corrected before sailing abroad [33].

(14) There have been difficulties in finding Turkish ship engine and deck officers for the ships flying Turkish flag.

The two-year vocational higher school or four-year university graduates who eventually become deck or engine officers, often try to find jobs on land after having worked on ships for a short period. As the employment facilities on land at the shipping industry in Turkey have increased even more in recent years, it has become more difficult to find Turkish ship officers.

(15) FOCs states are not too strict in making the ships flying their flags comply with the safety-environmental protection requirements.

7.3.2. Sampling Procedure

The elements of the population of the research are the Turkish shipping companies whose ships fly foreign flags, and the sampling units being all the Turkish shipping companies who operate in Turkey ships under foreign flags. The extents of the research comprise the Turkish shipowners. The research was carried out on Feb.02, 2007 through Apr.01, 2007. Through the research, a full list of the shipping companies operating ships under foreign flags was carefully prepared to form the population, and all of the companies included in the list were reached. Therefore, the population aimed and the sampling units are equal to each other. Besides, the sampling procedure of the study, nonprobability

sampling procedure, is thought to be compliant with the concept of judgment sampling[34].

7.3.3. Data Analysis Method

The data gained through the questionnaire was evaluated by using Statistical Package for the Social Sciences (SPSS-11). The means of the responses was gained; listed in a series from the lowest mean to the highest, and supplemented by defining explanations.

General information was gathered from various sources including internet about the Turkish shipowners whose ships fly foreign flags. The information collected comprised certain key points about not only the companies but also their ships operated under foreign registers. A total of 48 companies were determined and all of them were sent the questionnaires through internet and were asked to complete them. 24 of the companies responded to the request. The questions asked in the questionnaire, in addition to the ones specified in 7.3.1.1., aimed to gather some further information about the company structure, management office; the position, sea experience, and competency of the person answering the questionnaire; the types, tonnage, age, flag, and the classification societies of the ships owned by the company.

7.4. Results of Research

While analysing the results of the research, first the profile of the sample group is studied, then the means of the responses to the questions asked through the questionnaire are considered and commented on.

7.4.1. The Profile of Companies which Operate Ships Under Foreign Flags

The total number of the ships owned by the companies that have responded is 81 and the total tonnage is 2 222 324 dwt. As the total tonnage of the ships owned by Turkish shipowners but flying foreign flags is 3 497 000 dwt according to the UNCTAD 2006 report, the samples examined are thought to be adequate in terms of tonnage [35].

As for the types of the ships included in sampling, in terms of number and tonnage, by a majority they are general cargo and dry bulk cargo carriers. This result is attributed to the fact that the questionnaires sent to the companies that own container fleets have not been responded. It is believed that the choice of foreign flags should not differ greatly based on ship types.

As can be seen in Table 5, of the shipping companies who have responded the questionnaire, 10 corporate, 14 limited, 20 have management offices in İstanbul and four in Izmir.

Table 5.
Profile of Companies.

Types of Company	Frequ.	%	Location	Frequ.	%
Corporation	10	41.7	İzmir	4	16.7
Limited company	14	58.3	İstanbul	20	83.3

The information about the questionnaire responders is briefed in table 6.

Table 6.
Profile of Responders

Function	Frequ.	%	Proficiency	Frequ.	%
Accounting manager	1	4.2	Radio officer	1	4.2
Deck superintendent	1	4.2	Unlimited chf.off.	2	8.3
Assistant manager	4	16.7	Master	3	12.5
Operation manager	8	33.3	No proficiency	7	29.2
Crewing manager	10	41.7	Unlimited master	11	45.8

An overall examination of the Turkish ships flying foreign flags reveals that particularly the well-established (institutionalized) shipping companies prefer to employ Turkish officers and crew; while some do so to a certain extent, still some totally prefer to employ personnel from abroad. Of the 81 ships owned by a total 24 responders, 32 fly Malta flag; St.Vincent and Grenadines and Marshall Islans flags take the second and third row respectively. Table 7 illustrates the nationalities of the crew and flags flown by the Turkish ships flying foreign flags.

The types and the ages of the ships involved in the resarch and owned by the companies who responded the questionnaire are indicated in table 8. As can be seen in the table, 55.6 % of the Turkish ships flying foreign flags are over 20 years of age.

The performance of the classification societies under which the Turkish ships flying foreign flags registered are as follows, according to the recent three-year performance listed in 2006 by Paris MOU: International Register of Shipping (IRS): very low; Hellenic Register of Shipping (HRS), and International Naval Survey Bureau (INSB) :low; and Turkish Lloyd (TL) : middle. The three-year performance of the other class societies under which the Turkish ships flying foreign flags are registered are high [36]. Table 9 illustrates the class societies under which the Turkish ships flying foreign flags are registered.

Table 7.
Crew Nationality and Flag of Turkish-Owned Sships

Nationality of Crew	Frequ.	%	Flag of Ships	Frequ.	%
FJO* ¹ -FC* ²	1	4.2	Comoros	1	1.2
FSO* ³	2	8.3	Jamaika	1	1.2
Turkish.owned			Slovakia	2	2.5
FCC* ⁴	2	8.3	Bahamas	2	2.5
FSO-FC	4	16.7	Georgia	3	3.7
FSO-FJO-FC	5	20.8	Liberia	5	6.2
Turkish* ⁵	10	41.7	Panama	9	11.1
			Marshall Islands		
			St. Vincent and Grenadines	12	14.8
			Malta	14	17.3
				32	39.5

*¹ Foreign junior officers.

*⁵ Turkish crew and officers

*² Foreign crew.

*³ Foreign senior officers

*⁴ Crew and officers are Turkish but they have foreign certificates of competency.

Table 8.
Types and Ages of Turkish-Owned Foreign Flag Vessels

Types of Ships	Frequ.	%	Ages of ships	Frequ.	%
Veg.O/Wine	1	1.2	0-5	23	28.4
Tanker	1	1.2	5-10	8	9.9
Ro-Ro Passanger	1	1.2	10-15	2	2.5
Multipurpose	1	1.2	15-20	3	3.7
Container	7	8.6	20-30	25	30.9
Chemical Tanker	3	3.7	30-more	20	24.7
Ro-Ro/Heavy Lift	9	11.1			
Oil Tanker	24	29.6			
Bulk Carrier	34	42.0			
General Cargo					

Table 9.
Classification Societies to which Turkish-Owned Foreign Flag Vessels are Registered

Classification Societies	Frequency	Percent
GL	1	1.2

RMRS	2	2.5
UK.Register	2	2.5
HSR	2	2.5
IRS	2	2.5
ABS	4	4.9
LR	5	6.2
TL	6	7.4
INSB	6	7.4
RINA	8	9.9
DNV	12	14.8
NK	14	17.3
BV	17	21.0

7.4.2. Comments on flagging out

The order of the responses based on the means reveals that the primary reason for Turkish shipowners whose ships fly foreign flags is the bureaucratic facilities provided by foreign flags (table 10). In practice, this is indeed meaningful and reasonable as utilizing the bureaucratic facilities takes the primary role in the choice of companies, not only in Turkey but also all over the world, that are well established with sound reputation. A specific example worth of mentioning with respect to this priority appeared during the interviews prior to forming the questionnaire: The company managers gave an interesting

Table 10.

Means of the variables

variables	n	minimum	maximum	mean	std.deviation	variance
VAR15	24	1.00	5.00	2.4167	1.41165	1.993
VAR11	24	1.00	5.00	3.1250	1.03472	0.071
VAR8	24	2.00	5.00	3.1667	0.76139	0.580
VAR4	24	1.00	5.00	3.2917	1.39811	1.955
VAR2	24	1.00	5.00	3.3750	1.20911	1.462
VAR12	24	2.00	5.00	3.3750	0.71094	0.505
VAR7	24	1.00	5.00	3.5833	0.97431	0.949
VAR9	24	1.00	5.00	3.5833	1.13890	1.297
VAR1	24	1.00	5.00	3.6250	1.13492	1.288
VAR14	24	1.00	5.00	3.6250	1.40844	1.984
VAR13	24	1.00	5.00	3.6667	1.37261	1.884
VAR6	24	2.00	5.00	3.7500	0.84699	0.717
VAR3	24	2.00	5.00	3.7917	0.93153	0.868
VAR5	24	1.00	5.00	3.9583	1.19707	1.433
VAR10	24	1.00	5.00	4.3750	0.92372	0.853
VAR15 FOCs states are not too strict about the safety-environmental protection						

VAR11 Turkish shipping companies stocks to be issued to names.
 VAR8 The level of Turkish ship depreciation is too low.
 VAR4 Turkish Manning Certificate requirement flying Turkish flag is too high.
 VAR2 Turkish flagged ships encounter difficulties in receiving credits.
 VAR12 The tax exemption of the incentive certificate has been withdrawn.
 VAR7 Owners encounter difficulties in the sales of ships operated under TISR.
 VAR9 The corporate income taxes in Turkey are too high.
 VAR1 The Turkish flagged ships are the targets for the port state controls abroad.
 VAR14 The difficulties in finding Turkish officers.
 VAR13 The Turkish flagged ships suffer from tedious inspections by the administration prior to leaving for abroad.
 VAR6 The Turkish flagged ships have to pay value added taxes (VAT) for the expenses incurred for repairs at shipyards.
 VAR3 The wages of the crew, insurance pay, and taxes for the Turkish flagged ships are too high.
 VAR5 There are too many bureaucratic obstacles in providing foreign crew for the ships operated under TISR.
 VAR10 Foreign flags provide certain advantages and bureaucratic facilities.

example for such a bureaucratic ease: the crew of the ships flying Marshall Islands' flag were not required to take visa during their call to the USA ports and such ships are allowed to carry empty containers among the USA ports.

Another interesting example given by another company manager: When the five-year period of the Standards of Training, Certification and Watchkeeping (STCW) certificate of any one of the crew working on board a Turkish ship expires, that crew has got to return to Turkey to renew the certificate. When such a need arises on a ship flying a foreign flag, on the other hand the expired certificate can be renewed through certain refreshing training provided by the master of the ship. Variables 10 and five with the two highest means are both related with the bureaucratic ease and morass.

Following the bureaucratic ease, financial issues take the second primary role in the choice of the shipowners, as can be seen with the means of variables three and six. Within the operating costs of the shipping companies, crew wages covers one of the biggest parts, with 32 % [37].

The picture observed with the Turkish ships flying foreign flags regarding this particular issue looks rather different though. The well-established and institutionalized companies, as declared during interviews, prefer to employ Turkish crew, pay them satisfactory wages, and meet the required insurance fees on the actual wages paid. Concerning the wages paid, the mid-sized

companies whose ships call the ports of developed countries and of Europe declared during the interviews that they were about to sign agreements with ITF. Thus, the crew of such companies are thought to be granted certain advantages. It is also believed that the companies granting their crew wage and insurance advantages are small-sized companies whose ships call the ports of those countries where the port state controls are not so strict and ITF is not organized.

The variable with the lowest mean is 15. Most of the shipping companies involved in this research do not agree on the idea that 'FOCs states are not so strict in the compliance of the ships under their registers with the requirements concerning safety-environment protection'. That International Maritime Organization (IMO) and the developed countries are quite sensitive in full compliance with safety and environment protection requirements has recently forced the FOCs states to raise their standards regarding these issues. A good example proving this fact is the recent three-year performance list issued by Paris MOU, where such flags as Malta, Liberia, Marshall Islands, Bermuda, Bahamas, Antigua and Barbuda, Barbados, and Cayman Islands have appeared in the white list. And except a few shipping companies whose ships do not call the ports of the developed countries including Europe and the USA, most of the Turkish shipowners seem to have chosen the registers under which they can carry on trade and the prestigious classification societies.

Although variable two concerning 'the difficulties encountered in providing loans for the project of ships flying Turkish flag' was often talked about during the interviews prior to the questionnaire formation and it often appears in the relevant literature as one of the primary causes for escaping to foreign flags, it unexpectedly gained lower score in means. This could be attributed to the fact that those well-established and well-known Turkish shipping companies do not at present encounter any serious difficulties in providing loans, and the ones that suffer such a problem are the small-scale or middle-scale shipping companies. Besides, that variable two has a high standard deviation could mean that the views on this particular issue widely differ.

Conclusion

This study aimed to examine the reasons why the Turkish shipowners prefer to have their ships fly foreign flags, which has been in an increase in the last decade. To do this the relevant literature was thoroughly examined and a questionnaire was prepared following certain interviews made by the leading shipping companies located in İzmir whose ships fly foreign flags. The overall evaluation of the results gained through the responses to the questionnaire reveals that the primary reason why the Turkish shipowners would sooner that their ships fly foreign flags is the bureaucratic facilities provided by these flags and the second basic reason is the financial advantages foreign flags grant.

Following the 1970s when oil crisis broke out, certain ease in providing cheap manpower due to the globalization movements has accelerated the decrease in the Merchant fleets of the traditional maritime nations. Making good use of this advantage of providing cheap manpower, the developing nations have promoted their Merchant fleets with various incentives; the developed nations, on the other hand, have tried to decrease their operation costs by operating their ships under foreign flags so as to keep their competitive powers.

A comparison between the data collected through the relevant literature review and the overall findings of this research reveals a similarity in the reasons why the Turkish shipowners shift to foreign flags and why many other shipowners from other nations do so. Besides, an overall analysis of the foreign flags mainly preferred, reveals that except Panama all these flags are recorded in the “white list” of the Paris MOU port state control organization. The overall picture also reveals that the shipowners who prefer to operate their ships under foreign flags are inclined to choose the flags of those nations who meet the requirements of the relevant international requirements, at the minimum rates at least, as well as the requirements favoring the environmental protection and safety and who also provide them with certain bureaucratic and financial ease enabling them to carry out their shipping activities as smoothly as possible.

The limitation of research

Due to the inadequate number of responses, categorizing the responders in terms of their institutionalized positions and comparing the views of such categories could not be managed. Hence, various statistical analysis could not be made. Instead, only a descriptive statistical method could be employed.

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