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# Introduction of Taiwan Maritime Policy

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Yi-Chih Yang  
Associate Professor,  
Department of Shipping and Transportation  
Management,  
National Kaoshiung Marine University, Taiwan

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# Content

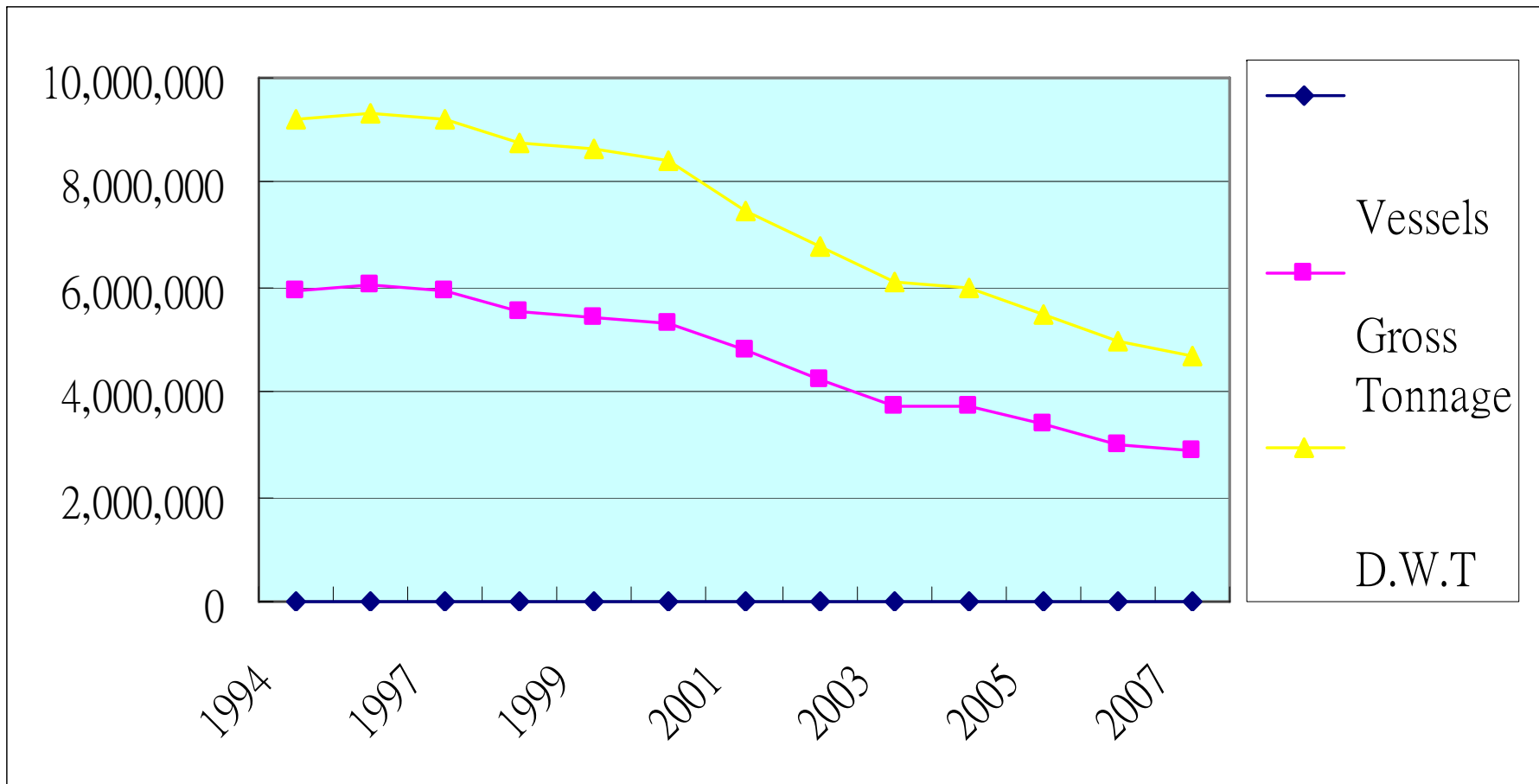
- Development of Taiwan National Fleet
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  - Current Status of Taiwan Shipping Companies' Flagging out
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# 1. Development of Taiwan National Fleet

- The vessel numbers of Taiwan National Fleet were increasing from 254 vessels of 1990 to 262 Vessels of 2007, but Gross Tonnage of national fleet was decreasing from 5.92 millions tons of 1999 to 2.85 millions tons of 2007.
  - Meanwhile, DWT of national fleet was also slowing down from 9.15 million tons of 1990 to 4.67 million tons of 2007. It's very clear that the tonnage reduction of national fleet became a serious issue in the recent years
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# National fleet statistics



# National fleet statistics

Unit: 10,000 Tones

Year	Vessel	Gross Tonnage	D.W.T
1996	284	6,066,699	9,326,984
1997	285	5,958,906	9,192,129
1998	285	5,539,486	8,771,344
1999	290	5,445,290	8,630,749
2000	288	5,336,130	8,391,652
2001	280	4,790,827	7,472,055
2002	272	4,234,610	6,789,778
2003	267	3,735,336	6,091,323
2004	272	3,707,115	5,998,972
2005	270	3,374,761	5,484,290
2006	258	3,005,203	4,962,058
2007	262	2,855,041	4,672,289

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## 2. Review of Taiwan Maritime Policy

- To encourage development of national fleet  
Taiwan government has enforced a series of shipping policies such as cargo reservation system, national fleet built by domestic scheme, and cooperative development scheme, it enable to increase national fleet numbers from over 5millions DWT in 1950s to 10 millions DWT in 1980s.
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- As tonnage growth of national fleet was not enough to match with rapid growth of import and export trade since 1970s, hence the situation between ship and cargo became unbalanced. Taiwan government made an effort to plan shipping development policy concerning to deregulate the entering barrier of investment from only public shipping enterprise to public and private shipping. Ministry of Transportation and Communication (so called MOTC) had enacted “cooperative development plan for foreign trade, shipping and shipbuilding industries” and laid out fundamental policy guidelines of cargo reservation system in 1977.
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- Under this scheme three shipbuilding programs were established the developing foundation of national fleet for the future, whereas this scheme was abolished in 1988.
  - After government cancelled cooperative development plan without further substantial incentives for ship carriers, it made our domestic companies start to transfer their vessels into FOC for lessening operating cost and heavy taxes to keep the competitive advantage in the world.
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# Evolution of Taiwan Maritime Policy

Period	Content	Effect
1936	Ship building promotion act being published.	
1953-69	To set up annual ship building schemes based on first of 4 year economic construction plan	To meet with demand of foreign trade and national defense, Total amount of new ships were 51 vessels and 35,2000 dwts during this period.
1960	Investment promotion act published	Corporate tax exemption for 5 years
1971-72	Re-new commercial ship projects based on Fifth of 4 year economic construction plan	The re-new commercial ship project was frustrated by sharp depression of international shipping tariff and diversity of internal financial system.
1973	Sixth re-new commercial ship project	The shipbuilding project of 1.4 million dwts being cancelled.
1977	Trade, maritime, shipbuilding cooperative enforcement project enacted.	To match with Post-Industrial trend, it resulted in extension need of foreign trade.
1977-85	Third ship building scheme	Total construction new ship numbers were 54 vessels and 296000DWT, additional plans had 30 vessels and 620000DWT. It seems to have a good result.
1981	Shipping act published	The aim was to promote industrial development and prosper national economic.
1983	Over 200 vessels of National fleet	
1985	To ratify the executive regulation for vessel construction loan of Chinese shipbuilding company	To revitalize national fleet construction projects by loan incentives

1986	To set up a long term plan for extension and re-new national fleets	To promote building new ship and ease restriction of buying second-hand ship, it was estimated for 12 million dwts of total national fleet amount, including 2millions of secondhand ship and 10 millions of new ship.
1987	According to the shipping liberty policy to abolish trade, maritime, shipbuilding cooperative enforcement project	National fleet extension project was frustrated by staggering economic growth.
1990	Investment promotion act abolished	National fleet extension project was frustrated by staggering economic growth.
1991	Enforcement act for upgrading industry enacted	No any substantial incentive schemes
1992	Long-term extension and re-new plan of national fleet was cancelled in accordance with maritime liberty policy.	The extension of national commercial fleet facing with slowdown growth and failure fate
1992	Over 1000 dwts of National commercial fleet.	To reach golden era in the tonnages development of national fleet.
1994	Promotion act for private sector participating in traffic construction	Excluding shipping industry, only anti-pollution and technological instrument being included in the act.
1994	To establish draft of shipping promotion scheme	Middle term project was to facilitate shipbuilding industry.
1995-1999	Revising shipping act and other related acts	Following liberty and internationalization policy to deregulate operating restriction.
2001	The meeting of national fleet promotion policy being held.	National fleet developing promotion projects being laid out.

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## 3. Main Issues of Taiwan Shipping

### Companies preferring flag out

- Dr. Boczek (1962) had clarified the meaning of FOC at his paper titled flag of convenience-an international legal study, argued that A “flag of convenience” can be defined as the flag of any country allowing the registration of foreign-owned and foreign-controlled Vessels under conditions which for whatever the reasons are convenient and opportune for the persons who are registering the vessels (Chen and Chang, 1997)[3].
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1. Higher business income taxes
  2. Hiring national seafarer with high cost
  3. Necessity of dual class inspection certificates
  4. Responsibility of Defense mobilization
  5. Restriction of Mainland China shipping route
  6. Maritime general cooperative
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- Maritime general cooperative organization argued (1999):
    1. Paid much taxes to government
    2. Need to hire domestic seafarer with high cost
    3. Need to have dual class inspection certificates due to our certificate document being not recognized by some countries. It adds shipowner's operating cost in vessel inspection.
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4. National fleets were not allowed to anchor on any commercial ports of Mainland China according to legal restriction of Across Taiwan Strait people relationship act.
  5. National general mobilization act stipulated national vessel was belonged to one of main traffic means at the emergency time, hence Many international banks usually refusing to provide our domestic carriers some capital loan or increase debt interest.
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- To sum up, main reason of Taiwan national fleet's flagging out issue can be concluded :  
(1) tax burden (2) hiring domestic seafarer with high cost (3) state fleets are prohibited to call on Mainland China's port (4) necessity of national defense mobilization (5) requirement of dual class inspection certificates.
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- Sei hei Chen(1999), who is a vice administrative executive of MOTC, figured out that disadvantage conditions for national fleet are:
    - Higher business income taxes
    - Hiring national seafarer with high cost
    - Necessity of dual class inspection certificates
    - Responsibility of Defense mobilization
    - Restriction of Mainland China shipping route
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## 4. Current Status of Taiwan Shipping Companies' Flagging out

- As of January 1st, 2002, 13,342 merchant ships with 467.3 million dwt equal to 63.1 per cent of the total tonnage were not registered in the country of domicile of the owner but flagged-out. For comparison, as January 1st, 1998, the foreign flag share stood at only 57.9 per cent. Thus, foreign flag registered ships represent an increasing amount of the total merchant fleet.
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- According to “National fleet statistics of major shipping countries in 1999” published by ISL-Bremen showed that flagging out rate of Taiwanese national fleet was 56.9%, but flagging out problems are not serious as other countries, such as 82.5% of Hong Kong, 79% of Japan, 75.7% of U.S.A, 72.4% of Korea, 71.3% of U.K.(Table 3).
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- Nevertheless, Table 6 illustrated that total vessel number of FOC owned by Taiwanese domestic company in 1999 was 176 vessels, Evergreen was 42 vessels, percentage of FOC ownership was 65%; Wan-Han was 23 vessels and 60.3%; Unigory was 22 vessels and 55%; Chen lien was 18 vessels and 94%; First Steamship was 11 vessels and 69%; Yang Ming was 11 vessels and 40%(see table 4).
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# Top Ten Ranking Countries of Domicile

		National Flag		Foreign Flag		Total Fleet Controlled			Foreign Flag		
Rank	Country Name	Mill dwt	Average Years	Mill dwt	Average Years	Mill dwt			Dwt-% share		
						2002	2001	1998	2002	2001	1998
1	Greece	45.6	18.0	99.6	20.1	145.2	142.2	121.3	68.6	70.2	65.1
2	Japan	14.3	10.8	87.0	8.6	98.0	98.0	89.0	88.7	84.5	77.3
3	Norway	27.4	16.5	33.8	17.3	57.4	57.4	52.0	58.9	52.9	44.7
4	China	21.0	22.2	19.9	13.9	41.6	39.9	37.3	47.8	45.6	43.0
5	US	9.4	25.0	29.6	16.1	39.9	41.6	42.8	74.1	78.0	72.8
6	Germany	7.3	9.1	30.3	10.7	35.5	32.5	21.2	84.5	76.3	65.0
7	Hong Kong	11.0	10.8	25.4	13.7	32.5	35.5	33.6	78.1	75.4	82.7
8	Korea	7.6	17.0	17.9	11.5	25.4	25.4	24.7	70.4	71.0	62.1
9	Taiwan	6.7	14.1	15.1	12.1	19.8	18.6	16.0	76.1	60.5	51.1
10	UK	7.8	14.4	10.5	15.2	18.6	17.7	21.2	56.1	58.7	70.2
	Total	158.0	15.8	368.6	13.9	513.9	508.8	459.1	71.7	69.8	65.0

# Ownership of FOC tonnage in 1999

Company	Vessels	DWT(10,000 Tonnages)	Percentage of FOC
Evergreen	42	212.3	65%
Wan Hai	23	52.9	60%
Uniglory	22	42.4	55%
Cheng Lie	18	32.4	94%
First Steamship	11	153.2	69%
Yang Ming	11	39.4	40%

Source: derived from internal report of MOTC.

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## 5. Main reason of Taiwan national fleet's flagging out

- (1) tax burden
  - (2) hiring domestic seafarer with high cost
  - (3) state fleets are prohibited to call on Mainland China's port
  - (4) necessity of national defense mobilization
  - (5) requirement of dual class inspection certificates.
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- Chen (2000) revealed the main factors of national fleet transferred into FOC stated as a following [6]:
    - Tax factor
    - Operating cost factor
    - Capital raising factor
    - Operating navigation route and regional factors: including political factor, national defense needs, domestic river sailing, Cabot age and cargo, reserved system, operating route and regional factor, administrative efficiency factor and other factors.
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- Maritime general cooperative organization argued (1999):
  - Paid much taxes to government
  - Need to hire domestic seafarer with high cost
  - Need to have dual class inspection certificates due to our certificate document being not recognized by some countries. It adds shipowner's operating cost in vessel inspection.
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- National fleets were not allowed to anchor on any commercial ports of Mainland China according to legal restriction of Across Taiwan Strait people relationship act.
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## 6. Alternatives for Taiwan Shipping Companies' flagging out

- Tax exemption schemes
  - According to the “industry promotion act” stated that investment project of capital amount must be over 2 billion NT dollars to buy vessels, it can acquire 5 years with tax exemption incentives. However, such high entering barriers hinder shipping industry to enjoy this benefit. MOTC has planned to look for another tax incentive measures by revising shipping industry act and industry promotion act. Moreover, MOTC is trying to negotiate with Ministry of Finance to relieve the operating burden of shipping company through inter-government 's agreement on maritime earning tax exemption.
  - Seafarer employment schemes
  - Due to labor shortage in shipping industry, shipping companies are so hard to find out good and sufficient seafarer human resource. MOTC has suggested “seafarer replacement military service enforcement scheme” and talked with ministry of internal to study the feasibility of this schemes at present. MOTC would be continued to implement training programs based on the regulations of STCW to educate qualified people.
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- Ship and cargo cooperating scheme
  - Government procurement act approved, Taiwanese government has to amend current shipping guideline of government institutes and public companies' import cargoes being designated to national fleet. However, domestic carriers strongly support the ship and cargo cooperation scheme as the only way to curb serious issues of national fleet's flagging out. Finally, Taiwanese government is expected to modify the exiting system through negotiation with domestic shipping carriers.
    - Shipping subsidy scheme
    - The budget of shipbuilding loan reinforcement guideline has been cancelled by Legislative Yuan (so called Parliament), shipping interested group suggested our government to set up "operating funds of shipping and port industries" to facilitate the development of shipping related industries, MOTC is seeking for various source to raises this fund , such as Traffic construction fund or national budget.
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- Direct link between Taiwan and Mainland China
  - National unification guideline and Across Taiwan strait people relationship act regulated that it was not allowed national fleet to sail directly in and out any ports between Taiwan and Mainland China, hence it made our national carriers lost a great deal of business with Chinese Shippers, besides, the regulation of offshore shipping center stipulated that the ship sailing between Kaohsiung (Taiwan) and Fuzhou and Xiamen(Mainland China) was only available for FOC, it encouraged our domestic carriers to transfer their vessel to FOC if they are willing to operate across Taiwan Strait route. To deal with seriously flagging out issues of national fleet seriously, MOTC continues to negotiate with Mainland China committee in Taipei on studying feasibility of direct link between Taiwan and Mainland China.
  - Dual class inspection certificates
  - Because Taiwan is not a member of U.N., ship class inspection certificates issued by ship class association are not recognized by other countries, domestic ship is required for another second vessel inspection certificates except Taiwanese inspection certificates, it added our carrier's dual inspection
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- expense. MOTC would take an active action to negotiate with other countries to accept vessel inspection certificates published by Taiwan.
    - National mobilization subsidy schemes
  - Under existing national general mobilization act, National vessel is the major transportation means at the emergency time. Because of the regulation, foreign banks often refuse to accept domestic carrier capital loans or intend to increase loan interest. To deal with this problem, Taiwanese government should introduce “sea lifting program” adopted by U.S.A which the ministry of defense set up sea lifting budget for national fleet.
  - After highlighting shipping policy of our government on FOC issues and seafarer shortage issues, it seems to be affirmed the significant inter-relationship between shipping competitiveness and shipping aids. Nevertheless, whether both of them existed a positive relationship or not, it will be needed to be proved by academic approaches.
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