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CYPRUS:
A GUIDE TO SHIPPING

2013

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INTRODUCTION

Cyprus is one of the main centres for shipping services in the world. It currently ranks 10th worldwide and is the biggest third party ship management centre in the EU.

Cyprus has many advantages to offer as a maritime centre. It has a well established maritime infrastructure and offers substantial tax incentives for the shipping industry. Also, it is a member of the International Maritime Organisation (the “IMO”), the Council of Europe, the Commonwealth and many other international organizations. It is a signatory to many international maritime conventions and has concluded bilateral agreements of co-operation in merchant shipping and double tax treaties with a large number of countries. A significant number of Cyprus vessels are managed by ship management companies operating from fully manned offices on the island.

Cyprus’ accession to the European Union on 1 May, 2004 has boosted the registration of vessels under the Cyprus flag.

ADMINISTRATIVE AND LEGAL FRAMEWORK

2.1 Maritime Administration

All maritime matters are under the jurisdiction of the Ministry of Communications and Works (the “Ministry”). The Ministry exercises its authority through the Department of Merchant Shipping. The Department of Merchant Shipping deals with registration of ships, administration and enforcement of merchant shipping legislation, control of shipping and enforcement of international conventions, investigation of marine casualties, resolving labour disputes on board Cypriot ships and training and certification of seafarers.

2.2 Legal Framework

Shipping legislation in Cyprus is essentially based on the British model. The Register of Cyprus Ships is regulated by the Merchant Shipping (Registration of Ships, Sales and Mortgages) Laws 1963-2005.

These correspond to the British Merchant Shipping Acts 1894-1954. The other principal merchant shipping laws are the Merchant Shipping (Masters and Seamen) Laws 1963-2002 and the Merchant Shipping (Fees and Taxing Provisions) Law of 2010.

Cyprus shipping companies are regulated by Chapter 113 of the Statute Laws of Cyprus (as amended) which is, again, modelled on the UK Companies Act, 1948.

The Merchant Shipping (Fees and Taxing Provisions) Law of 2010 (the “Tonnage Tax Law”) was enacted in 2010 and has retroactive effect from 1 January 2010. The regime introduces tax benefits for ‘qualifying’ ship owners, charterers and shipmanagers, as these are defined in the relevant law. Cyprus is a signatory and has ratified the major international conventions on maritime safety, prevention of pollution of the sea, training certification and watch keeping of seafarers and limitation of ship owner’s civil liability in case of oil pollution damage and conventions on maritime labour. It has also concluded double tax treaties and bilateral agreements with a large number of countries for the avoidance of double taxation and enhancement of co-operation in the field of merchant shipping. These agreements provide additional financial advantages, tax incentives and advantages on the engagement of foreign seafarers on board Cypriot ships.

2.3 Banking and Finance

Commercial and banking arrangements and practices in Cyprus follow the British model. There is a strong correspondence network with international banks. Cyprus also enjoys a well developed insurance industry and all types of risk are accepted, mainly through agents and intermediaries.

THE CYPRUS SHIPPING COMPANY

3.1 Legal Status

A non-Cypriot/non-EU resident wishing to register a ship under the Cyprus flag must form a Cyprus Shipping Company (the "Company"). The Company will acquire the vessel in its name. It will be registered as a private company with limited liability (by shares).

3.3 Company Formation

(A) PROCEDURE FOR INCORPORATION.

To proceed with the formation of a Cyprus shipping company, the following information is required:

- (i) the desired company name;
- (ii) the amount of authorized share capital;
- (iii) whether shareholders will subscribe to the memorandum and articles of association themselves or through nominees;
- (iv) whether shares will be held in trust for Cypriot nominees;
- (v) the name, address, nationality and occupation of beneficial shareholders;
- (vi) the name, address, nationality and occupation of directors;
- (vii) The name and address of the secretary and
- (viii) The Memorandum and Articles of Association

(B) NAME OF COMPANY.

The name must end with the word 'limited' or 'Ltd.' and must be approved by the Registrar of Companies. Broadly speaking, very general or deceptive names or names that are likely to lead to confusion with existing ones will not be approved. It usually takes 2 days to obtain approval for the Company's name but the process can be accelerated on request.

(C) REGISTERED ADDRESS.

This must be in Cyprus. Where the Company does not have offices on the island, it is usual practice for the registered address to be the address of the lawyers or accountants who act for the company on the island. The registers and minute books are kept with the secretary.

(D) SHARE CAPITAL.

The share capital may be nominal (e.g. EURO 100) or the actual amount to be deposited by the promoters for the pursuit of the venture. It may be paid up in full or by calls and this can be done in cash or for other consideration. The shares may be allotted at par value. Any class of share is acceptable (ordinary, preference and with different voting and dividend rights). All shares must be nominative. Bearer shares are unacceptable.

(E) SHAREHOLDERS.

The Company must have a minimum of one shareholder in a private company. Nationality is immaterial. The shareholder/s may all be foreigners residing outside the island. General meetings of the company may be held abroad and, as a rule written resolutions signed by all the shareholders will suffice in lieu of a meeting. Annual general meetings must be held every year, the first to be held within 18 months from incorporation.

(F) DIRECTORS.

One or more directors may be appointed. Their nationality is immaterial. There is no obligation to have local directors. Board meetings can be held in any country. Directors' resolutions may be taken either at a duly convened meeting or without a meeting provided that the resolutions are signed by all the directors. The names of the directors are submitted to the Registrar of Companies and are kept on a public record.

(G) SECRETARY.

The secretary is appointed by the directors and may be resigned by them. There are no restrictions on who may be appointed as a secretary, however, it is practical for the secretary and the directors to reside in the same country (to facilitate the holding of board meetings) and for an assistant secretary to be appointed in Cyprus to attend to the Company's annual formalities on the island. A director may also act as secretary provided he is not the sole director unless the company has one shareholder.

(H) FILINGS

Annual returns showing the names of the shareholders must be filed with the Registrar of Companies. Any charges against the company must also be filed and registered.

The Registry is a public record open to inspection.

REGISTRATION OF SHIPS

4.1 Conditions of Ownership and Types of Registration

A vessel may be registered under the Cyprus flag if more than 50% of the shares in the ship are owned by:

- Cypriot citizens, or
- by citizens of other Member States who in the instance of not being permanent residents of the Republic will have appointed an authorised representative in the Republic of Cyprus, or

100% of the shares of the ship is owned by one or more corporations, which have been established and operate under and:

- in accordance with the laws of the Republic of Cyprus and having its registered office in the Republic; or
- in accordance with the laws of any other Member State and have their registered office, central administration or principal place of business within the EEA and which have either appointed an authorised representative in Cyprus or the management of the ship is entrusted in full to a Cypriot or a Community shipmanagement company having its place of business in Cyprus, or
- outside Cyprus or outside any other Member State but controlled by Cypriot citizens or citizens of Member States and have either appointed an authorised representative in Cyprus or the management of the ship is entrusted in full to a Cypriot or a Community ship management company having its place of business in Cyprus. The corporate is deemed to be controlled by Cypriots or citizens of any other Member States when more than 50% of its shares are owned by Cypriots or citizens of any other Member States or when the majority of the Directors of the corporation are Cypriot citizens or citizens of any other Member State.

An authorised representative may be a Cypriot citizen or a citizen of any other Member State, who is resident in the Republic, or a partnership, corporation, or branch established in accordance with the laws of Cyprus, which has its place of business in the Republic and which employs permanent staff in the Republic.

This is the reason why all non-European owners who wish to register their ships under the Cyprus flag must incorporate a company in Cyprus. This Company will either acquire the ship in its name, or bareboat charter the ship.

The main types of vessel registration in Cyprus are provisional, permanent and parallel registration.

All documents which refer to Cypriot ships must be drawn up in a language comprehensible to the competent officers under the law. This provision makes the registration of vessels faster and saves on translation expenses as the documents do not have to be in Greek. In practice, most of the documents are admissible in English.

4.2 Age Limits

The age of a vessel is calculated by deducting the year when its keel was laid from the year when the application for registration of the vessel was filed with the Registrar of Cyprus Ships. The year of conversion or modification or major reconstruction and the year of completion or delivery of a vessel, are considered irrelevant and will be ignored.

4.3 Tonnage Particulars

The main provisions of the Government Policy are as follows:

A. CARGO VESSELS AND TUG BOATS

Cargo vessels are all merchant vessels of gross tonnage of 500 and over which have been constructed or adapted for the purpose of carrying cargo in any form.

Tug boats are those with an engine power equal to or greater than 1500KW, or with an appropriate certificate of bollard pull of 20 tons or more.

1. Vessels over 15 but not exceeding 20 years of age. Vessels in this category may be registered provided they undergo an entry inspection, which is completed with satisfactory results.

2. Vessels over 20 years of age but not exceeding 25 years of age. Vessels in this category may be registered provided that they undergo an entry inspection which is completed with satisfactory results, and where it is required by legislation that the vessel should comply with the ISM Code, it is operated by a shipmanagement company having its principal place of business in the EU which is certificated for compliance with the ISM Code.

Vessels over 25 years of age are not accepted for registration in the Cyprus Register of Ships.

3. Special Cases

Notwithstanding the provisions of paragraphs 1 and 2 above, the following vessels may exceptionally be accepted for registration in the Cyprus Register of Ships:

A) a vessel over 20 years of age may be registered if it belongs to a fleet, which includes at least 5 vessels under the Cyprus flag aged up to 12 years, owned directly or indirectly by the same person(s), provided:

- i. it has not been detained by port state control authorities more than once within the last 12 months prior to the date of application for registration at ports of the Paris MOU, Tokyo MOU or the US Coastguard on grounds of safety, pollution prevention or for security reasons, and
 - ii. it undergoes an entry inspection, which is completed with satisfactory results.
- B) a vessel over 25 years of age may be registered provided:
- i. the vessel will serve the Cyprus trade and will call at Cyprus ports at least twice per month or at least 24 times in any one year, and
 - ii. it has not been detained by port state control authorities more than once within the last 12 months prior to the date of application for registration at ports of the Paris MOU, Tokyo MOU or the US Coastguard on grounds of safety, pollution prevention or for security reasons, and
 - iii. it undergoes an entry inspection, which is completed with satisfactory results and is subject to subsequent annual inspections, and
 - iv. where it is required by legislation that the vessel should comply with the ISM Code, it is operated by a shipmanagement company having its principal place of business in the EU, which is certificated for compliance with the ISM Code.

B. CARGO VESSELS WITH A GROSS TONNAGE LESS THAN 500

1. Vessels not exceeding 20 years of age

A vessel in this category may be registered without any additional conditions.

2. Vessels over 20 years of age but not exceeding 25 years of age

A vessel in this category may be registered provided it undergoes an entry inspection, which is completed with satisfactory results.

3. Vessels over 25 years of age

Vessels in this category are not accepted for registration in the Cyprus Register of Ships.

4. Special Cases

Notwithstanding the provisions of paragraph 3 above, a vessel over 25 years of age may be registered provided:

- i. the vessel will serve the Cyprus trade and will call at Cyprus ports at least twice per month or at least 24 times in any one year, and
- ii. it has not been detained by port state control authorities more than once within the last 12 months prior to the date of application for registration at ports of the Paris MOU, Tokyo MOU or the US Coastguard on grounds of safety, pollution prevention or for security reasons, and
- iii. it undergoes an entry inspection, which is completed with satisfactory results and is subject to subsequent annual inspections.

C. PASSENGER VESSELS

Passenger vessels are those carrying more than 12 passengers in international voyages and include also self-propelled accommodation barges and any other structure used to accommodate persons on board.

1. Passenger vessels not exceeding 30 years of age

A vessel in this category may be registered provided it undergoes an entry inspection, which is completed with satisfactory results and is subject to subsequent annual inspections.

2. Passenger vessels over 30 years of age but not exceeding 40 years of age

A vessel in this category may be registered provided:

- a) an inspection of the hull, machinery and general condition of the vessel is completed with satisfactory results after the submission of the application for registration but prior to the registration of the vessel (provisional, direct permanent, parallel) in the Cyprus Register of Ships and
- b) it undergoes an entry inspection, which is completed with satisfactory results and is subject to subsequent annual inspections, and
- c) it is operated by a shipmanagement company having its principal place of business in the EU, which is certificated for compliance with the ISM Code, and
- d) at least 2 cadets who are EU citizens and registered with the District Labour Office or with the Department of Merchant Shipping, are engaged for sea training for a period of up to 6 months in any one year. [This requirement is not applicable in the case of accommodation barges].

3. Passenger vessels over 40 years of age

Vessels in this category are not accepted for registration in the Cyprus Register of Ships.

4. Special Cases

Notwithstanding the provisions of paragraph 3 above, a vessel over 40 years of age may exceptionally be re-registered in the Cyprus Register of Ships provided:

- i. the vessel will serve the Cyprus trade and will call at Cyprus ports at least twice per month or at least 24 times in any one year, and
- ii. it has not been detained by port state control authorities more than once within the last 12 months prior to the date of application for registration at ports of the Paris MOU, Tokyo MOU or the US Coastguard on grounds of safety, pollution prevention or for security reasons, and
- iii. it undergoes an entry inspection, which is completed with satisfactory results and is subject to subsequent annual inspections, and
- iv. it is operated by a shipmanagement company having its principal place of business in the EU, which is certificated for compliance with the ISM Code.

D. FISHING VESSELS

Fishing vessels are those vessels, which are employed in fishing operations or for the processing, storage or carriage of fish or in any operations (including transshipment of fish) ancillary thereto, but it does not include any vessel used for the transport of fish or fish products as part of a general cargo.

1. General Requirements

- a) No fishing vessel, irrespective of age or size, may be registered provisionally, permanently or parallel-in, in the Cyprus Register of Ships, unless it secures beforehand the written consent of the Director of the Department of Fisheries and Marine Research of the Ministry of Agriculture, Natural Resources and Environment.

- b) Owners of fishing vessels of any size and age must submit, as a condition for the registration of such vessels, a declaration stating that they will abide, at all times, by the prevailing government policy in respect of fishing, particularly as regards the preservation of protected species and the prohibition of the use of certain fishing equipment and adhere strictly to the relevant EU fisheries legislation and international fisheries agreements and conventions.
- c) The employment of a fishing vessel flying the Cyprus flag in fishing operations or for the processing, storage or carriage of fish or in any operations ancillary thereto without a fishing licence issued by the Department of Fisheries and Marine Research of the Ministry of Agriculture, Natural Resources and Environment, constitutes a breach of the Fisheries Law, Cap 135, as amended, as well as a breach of the conditions for its registration.
- d) Fishing vessels over 25 years of age are not accepted for registration in the Cyprus Register of Ships.

2. Special Requirements

A. Fishing vessels less than 24 metres in length

A vessel in this category over 15 years of age must undergo an entry inspection, which must be completed with satisfactory results.

B. Fishing vessels of 24 metres in length and over

- i. Fishing vessels which fall outside the scope of the Merchant Shipping (Harmonised Safety Regime for Fishing Vessels of 24 Metres in Length and Over) Law of 2002 (Law 56(I)/2002), as amended, should comply with the requirements of the Torremolinos Protocol or be certificated in accordance with the “Code of Safety for Special Purpose Ships” (IMO Assembly Resolution A.534(13) as amended by the IMO Resolution MSC.266(84)) or with the SOLAS 1974 Convention, as amended, whichever is applicable.
- ii. Fishing vessels in this category must comply with the requirements of Council Directive 92/48/EEC of 16 June 1992 laying down the minimum hygiene rules applicable to fishery products caught on board certain vessels in accordance with Article 3(1) (a) (i) of Directive 91/493/EEC.
- iii. A vessel in this category over 15 years of age must undergo an entry inspection, which must be completed with satisfactory results.

E. COASTAL / SMALL PASSENGER VESSELS AND LANDING CRAFTS

Coastal passenger vessels are those vessels carrying fare-paying passengers on coastal trips, irrespective of size.

Small passenger vessels are passenger vessels with suitable facilities for carrying up to 12 passengers in international voyages.

Landing craft are those vessels of specific design and steel construction, which are aimed primarily to carry passengers and vehicles and are capable of landing them on the beach.

- 1. A motor vessel in this category up to 25 years, propelled primarily using an internal combustion engine, or
- 2. a sailing vessel in this category (with or without an auxiliary propulsion engine not exceeding 7.5KW (10HP)) irrespective of age, or
- 3. a Landing craft, irrespective of age,

may be registered provided, where it is required by legislation that the vessel should comply with the ISM Code, it is operated by a shipmanagement company having its principal place of business in the EU, which is certificated for compliance with the ISM Code.

F. PLEASURE CRAFT

Pleasure craft are yachts or other types of vessels used exclusively for recreation and are not engaged in any commercial operations, irrespective of size.

1. Vessels not exceeding 25 years of age

A vessel in this category may be registered without any additional conditions.

2. Vessels over 25 years of age

A vessel in this category may be registered provided it undergoes an entry inspection which is completed with satisfactory results.

Note that a Pleasure craft up to 24 metres in length must comply with the provisions of the Basic Requirements (Recreational Craft) Regulations of 2003 (P.I. 307/2003), as amended, which incorporate the European Union Directive 94/25/EC and a Pleasure craft over 24 metres in length should have a valid class certificate from a recognized organization.

G. SHIPS ENGAGED IN ACTIVITIES NOT PREVIOUSLY MENTIONED AND NON SELF-PROPELLED VESSELS

For the purposes of this policy, vessels in this category include offshore supply vessels, floating cranes, dredgers, barges, launches, support craft, research ships, tugboats not falling under section A, Mobile Offshore Drilling Units, etc.

1. Vessels not exceeding 25 years of age

A vessel in this category may be registered without any additional conditions.

2. Vessels over 25 years of age

A vessel in this category may be registered provided:

A. it undergoes an entry inspection which is completed with satisfactory results, [This requirement is not applicable in the case of Mobile Offshore Drilling Units (MODU) with or without self-propulsion, where the DMS deems that, for each specific case, due to the design features of the particular vessel and the place and mode of its employment, such inspection is not necessary] and

B. where it is required by legislation that the vessel should comply with the ISM Code, it is operated by a shipmanagement company having its principal place of business in the EU, which is certificated for compliance with the ISM Code.

PROVISIONAL AND PERMANENT REGISTRATION

5.1 Provisional Registration

If at the time of registration to the Cyprus Ship Register, a vessel is situated at a port outside the Republic of Cyprus and provided that it is not already a Cypriot ship, then it will be provisionally registered first. Once the vessel is provisionally registered, the owner must proceed with the permanent registration within 9 months (including the 3 month extension period available for provisional registration).

A ship may be provisionally registered under the Cyprus flag either in Limassol by the Registrar of Cyprus Ships or at any diplomatic mission or consular post of the Republic of Cyprus abroad. The officer effecting the registration will act on the instructions issued by the Registrar of Cyprus Ships. At the time of provisional registration, the ship must be at a port so that she may be surveyed and certified on behalf of the Cyprus government. It is not necessary for the ship to be at the port as the one where the provisional registration is taking place.

A. Application for provisional registration. In applying to the Registrar for provisional registration, the following information is required:

- (i) name and flag of vessel at the time of application;
- (ii) name of the person (legal or natural) applying for the registration;
- (iii) name under which vessel will be registered;
- (iv) particulars of vessel (type, year of built, date keel was laid, gross and net tonnage);
- (v) Name of the classification society with which the ship is entered. If the new owners intend to change the classification society, this should also be stated;
- (vi) Intended trading area for the vessel;
- (vii) If known, place where the ship will be at the time of her provisional registration. In any case, this information must be communicated to the Registrar prior to the time of provisional registration;
- (viii) name of consular officer who will effect the provisional registration;
- (ix) Name and address of the shareholders and directors of the Cypriot company in whose ownership the vessel will be registered;
- (x) Declaration of Particulars of the company for ISM Code and
- (xi) Place where the vessel will be at the time of her provisional registration, if known.

B. Change of name. If the ship's name will change, there must be a period of 3 days between the day when the application is submitted and the day on which the ship may actually be registered and her name changed.

C. Supporting Documentation/Information

The following documents/information must be forwarded to the Registrar of Cyprus Ships together with the application for the provisional registration of the vessel or must reach the Registrar on a later date soon thereafter but in any case prior to the dispatch of instructions for the provisional registration of the vessel under the Cyprus flag. All documents should be duly executed where applicable.

- Memorandum and Articles of Association of the Cypriot company*;
- Certificates of Incorporation, Directors and Secretary, Shareholders and Registered Office of the Cypriot company (In the case of companies established in the EU or EEA or established outside the EU or EEA but controlled by citizens of the EU or EEA, a Notarial Certificate issued by a Notary Public or the competent authority of the relevant State can be submitted instead of the documents mentioned above.);*

- Resolutions of the Directors of the Company for the purchase of the vessel and its registration in the Cyprus Registry;
- Power of attorney authorising the person who will sign all the necessary documents on behalf and on account of the Company;
- Bill of Sale / Builder's Certificate;
- Certificate of Deletion of the vessel / Certificate of Ownership and freedom of encumbrances from the previous registry;
- Confirmation of Radio Traffic Accounting Authority**;
- Confirmation of Vessel's Classification Society (where applicable);
- Continuous Synopsis Record (C.S.R.) **;
- Declaration of ownership;
- Appointment of Authorised Representative (M.S. 57) ***;
- Registration of a Mobile Maritime Radio Station (M.S.34) and copy of Shore Based Maintenance Agreement;
- Registration of SAR Particulars (M.S.45) **;
- ISM forms (Circular 27/2006) where this is required**;
- In the case of Parallel Registration in a foreign register, a Certificate of Parallel Registration from the foreign registry;
- In the case of pleasure craft under 24 metres:
 - i. Declaration of Conformity
 - ii. EC Type Examination Certificate from a Notifying Body
 - iii. Owner's Manual

* In the case of an individual, this is replaced with the Identity Card or Passport

** Does not apply to non-convention ships

*** In the case of a corporation established in the European Union (EU) or the European Economic Area (EEA) or outside the EU and the EEA but controlled by citizens of the EU or EEA.

If the vessel falls within the ambit of the Government Policy for the Registration of vessels under the Cyprus flag then the additional requirements and/or conditions imposed therein must be satisfied prior to her registration.

If the provisional registration will take place at a diplomatic mission or consular post of the Republic of Cyprus abroad, some of the required documents can be deposited there, upon the Registrar's written instructions.

Upon receipt of the required documents, the Registrar of Cyprus Ships, or the consular officer of the Republic as the case may be, will then proceed with the provisional registration of the vessel.

D. Completion of provisional registration.

Provided that all the appropriate fees have been paid and all the necessary documents submitted, the consular officer instructed to carry out the ship's provisional registration will proceed to:

- (i) Issue a provisional certificate of the Cyprus registry. This is valid for 6 months from the date of issue;
- (ii) issue a provisional radio license, and
- (iii) Advise the vessel's classification society to proceed with the survey and certification of the vessel on behalf of the Cyprus government.

The ship must not leave the port where she is lying until she has been duly surveyed and certified.

The ship's provisional registration may be extended for another 3 months provided that the appropriate fees have been paid. The application for the extension must be submitted by a local lawyer on behalf of the ship-owner. The application must name the consular officer to whom the provisional certificate will be presented for extension. On approving the application, the Registrar of Cyprus Ships will instruct the consular officer to effect the necessary endorsement of the provisional certificate.

5.2 Permanent Registration

A. Application and documentation. To permanently register a vessel, the following documents must be submitted to the Registrar of Cyprus Ships:

- certificate of Survey (Form M.S.1) and Tonnage Certificate (form M.S.12 or M.S. 12A or M.S.12B depending on the type of vessel) from a recognized Classification Society;
- Ship's carving and Marking Note (M.S. 32);
- The International Certificates from a recognized Classification Society in accordance with the relevant international maritime conventions in force*
- Safety Management Certificate where this is required*
- Confirmation of the Customs Department on the payment of V.A.T for pleasure craft, where applicable

B. Ship's Tonnage, Carving and Marking.

The Certificate of Survey and the Cyprus Tonnage Certificate or International Tonnage Certificate may be prepared by any one of the classification societies recognised by the Cypriot government or by the Department of Merchant Shipping.

On receiving the above forms the Registrar allots to the ship her official number and issues, to the owner, the ship's carving and marking note. The owner should ensure that his ship is marked in accordance with the requirements of section 8 of the Merchant Shipping (Registration of Ships, Sales and Mortgage) Law 45/63 as amended. The owner must then instruct a surveyor of ships (surveyors of any of the recognised and authorized classification societies or of the Department of Merchant Shipping) to inspect the ship's carving and marking. On the surveyor completing the survey, the owner will return the carving and marking note to the Registrar so as to proceed with the permanent registration of the vessel.

C. Certificate of Cyprus Registry. On receipt of all the documents set out above, and provided that the appropriate fees have been paid, the Registrar will proceed with the permanent registration of the vessel and issue a certificate of Cyprus Registry.

PARALLEL REGISTRATION

6.1 Options

Cyprus law allows for parallel registration of vessels. Parallel registration is essentially a mechanism whereby the nationality of a vessel under bareboat charter is suspended for a period of time and during that period the vessel is registered under a different flag. There are two forms of parallel registration, parallel-in and parallel-out. Both these are internationally accepted forms of bareboat registration. The Registrar of Ships maintains a Special Book of Parallel Registration of the Cyprus Register.

For parallel registration to be possible, the law of the foreign registry must be compatible with Cyprus. Today it is possible to effect parallel (bareboat) registration with more than 20 other states. Parallel registration is often used in shipping transactions involving leaseback and hire-purchase financing arrangements.

The provisions regarding age limits as set out above also apply.

6.2 Parallel-in registration

Parallel-in registration allows for a foreign flag vessel on bareboat charter to a Cyprus shipping company to be registered in parallel under the Cyprus flag. Parallel registration is subject to the prior approval of the Ministry of Communications and Works. It is effective usually for a period of 2 years, this period being renewable.

The vessel is not deleted from the foreign register but, rather, that registration is suspended for the duration of the parallel-in registration. The foreign registry is operative only with respect to the ownership and encumbrance's status of the vessel.

A. Application and documentation. The bareboat charterer will apply for the parallel-in registration. The Charterer must be a person (physical or legal) who is qualified under Cyprus law to own a Cyprus ship. The following documents are required:

- (ii) the bareboat charter is terminated, or;
- (iii) the period of time for which the Ministry has approved the parallel-in registration has lapsed, or;
- (iv) If the vessel was provisionally or permanently registered, there would exist any reason for its deletion under Cyprus law.

Upon termination of the parallel-in registration, the vessel will be deleted from the Special Book of Parallel Registration of the Cyprus Register.

6.3 Parallel-out Registration

Cyprus ships may be bareboat chartered to a foreign person or company and be registered in parallel in a foreign registry for the duration of the charter. This is called parallel-out registration. As with parallel-in registration, the laws of the Cyprus and the foreign registry must be compatible. This kind of registration is available to ships whether provisionally or permanently registered on the Cyprus Registry. Again, the prior consent of the Ministry of Communications and Works is required.

Parallel-out registration allows for a ship to be mortgaged under the Cyprus flag while being registered in a foreign registry throughout the bareboat charter arrangement.

A. Application and documentation. Applications for parallel-out registration must be submitted by the owner to the Registrar of Cyprus Ships. The following documents must be submitted:

- (i) application for parallel-out registration made by a local lawyer acting on behalf of the registered owner, to the Minister of Communications and Works through the Registrar of Cyprus Ships, requesting the parallel-out registration of the vessel;
- (ii) where the owner is a company, certified copies of the resolutions of the directors of the ship owning company resolving to bareboat charter the vessel and of the power of attorney if a third person is signing the bareboat charter on behalf of the owners;
- (iii) certified copy of the bareboat charter;
- (iv) certified written consent of the bareboat charterer to the parallel-out registration;
- (v) original certificate of the Cyprus Registry;
- (vi) written consent of the foreign registry confirming that the law allows for parallel-out registration with an official translation;
- (vii) certified written consent of the mortgagees, if any;
- (viii) confirmation from a recognized radio traffic accounting authority that they will continue to settle the vessel's radio marine accounts; and
- (ix) common declaration by the ship-owner and the bareboat charterer undertaking that during the ship's parallel registration:
 - a) Cyprus law will be respected;
 - b) The vessel will continue to meet the same requirements as regards compliance with international conventions even though the foreign state may not be a contracting party to those conventions;
 - c) Any changes to the name or other particulars of the vessel will be promptly notified to the Registrar of Cyprus Ships; and
 - d) The owner ensures that a certified copy of the certificate of parallel registration issued by the foreign registry will be deposited with the Registrar of Cyprus Ships within 1 month from the ship's parallel registration.

Upon payment of all the appropriate fees and once all the necessary documents have been filed, the Registrar may allow the parallel-out registration for a period up to 3 years. This may be renewed. The Cypriot nationality of the vessel is suspended and the Cyprus certificate of registration must be delivered to the Registrar of Cyprus Ships. Unless the Minister withdraws his approval for the parallel-out registration or the foreign registry its consent, the parallel-out registration remains in force for the duration of the charter party. When the registration is terminated, the Cypriot certificate of registration is returned to the ship-owner.

B. Status of vessel. Cypriot vessels registered parallel-out must hoist the flag of the foreign registry and cannot use the Cyprus flag. The port of registry marked on the stern of the vessel must be that of the foreign registry.

Same as with parallel-in registration, transfers of ownership and any transactions affecting mortgages are governed by Cyprus law. The Registrar will notify the foreign registry of any such changes. All other matters are dealt with by the foreign registry.

6.4 Deletion

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

The vessel must be deleted from the Cyprus Registry as soon as the ownership is transferred to a person or company not entitled to own them under Cyprus law. The deletion of a ship does not require an export license.

As soon as the registered mortgages and other encumbrances are discharged and all matters pending with the Registry, including financial obligations, are settled, a deletion certificate or a closed transcript of registry is issued.

MORTGAGES

Once a ship has been registered under the Cyprus flag, a mortgage can be created thereby securing a loan or other financial obligations. Exchange control permission is not required. The mortgage can be in respect of any sum and in any currency. A mortgage can be registered either through the Registrar of Ships directly or (with the Registrar's permission) through a Cyprus consulate or embassy abroad.

Where several mortgages are registered in respect of the same ship, priority depends on the date on which each mortgage was recorded in the Register, with earlier mortgages ranking first.

Every registered mortgagee has absolute power to dispose of the ship in enforcing his rights under the mortgage. In fact, it has always been the policy of the government to protect the rights of the mortgagees and make it as easy as possible for them to enforce their security. Where there are several registered mortgagees for the same ship, a later mortgagee may not, except by an order of a court of competent jurisdiction, sell the ship or share without the concurrence of every prior mortgagee.

7.1 The Register of Cyprus Ships

Once a mortgage is created, it must be deposited (together with its respective deed of covenant) with the Registrar of Cyprus Ships or with a consular officer on the instructions of the Registrar. The mortgage is recorded thereafter in the Register as from the date and hour of its deposit and remains an encumbrance on the vessel until discharged by the mortgagees. A mortgage may be created whether the ship is provisionally or permanently registered. The creation of a mortgage under Cypriot laws is not allowed on vessels registered parallel-in in the Cyprus Register of Ships.

If the ship on which a mortgage was created belongs to a Cypriot company, the mortgage will also have to be registered with the Registrar of Companies within a maximum period of 42 days after its creation. Registration protects the mortgagee's security in the case of liquidation of the ship owning company. Transfer of a mortgage may be effected by completing the statutory form of transfer and submitting it to the Registrar of Cyprus Ships or to a consular officer. The fees payable on transfer are the same as those for the registration of the mortgage on the ship.

7.2 The Mortgage Deed

The Cyprus mortgage is in the form of a Mortgage to secure an Account Current. It must be accompanied by a deed of covenant regulating all matters relating to the mortgage such as interest, repayment, insurances, events of default etc. Mortgage deeds are exempt from stamp duty.

To discharge a mortgage, a memorandum of discharge must be duly executed by the mortgagee. It is then attested and delivered to the Registrar of Cyprus Ships or a consular officer on the instructions of the Registrar.

MANAGING OF CYPRUS SHIPS

8.1 Legislation

The master of a Cypriot ship must enter into an employment agreement with the ship-owner. Also, every seaman on board must enter into an agreement with the master. The agreements are filed with the Director of the Department of Ports.

The manning of Cyprus flag vessels is regulated in accordance with internationally accepted standards, in line with the requirements of the IMO.

There is a Collective Agreement between the Trade Union of Cyprus and the Ship-owners Association. It regulates wages, matters relating to holidays, working hours etc. Where a Cyprus ship is owned by a Cyprus majority, the Collective Agreement is recognized by the International Transport Federation. In addition, Cyprus has entered into bilateral agreements with a number of countries regulating the employment of qualified seamen on Cypriot vessels.

8.2 Certificates of Competency and Ratings

Officers and ratings serving on board Cyprus flag vessels are not required to hold certificates of competency issued by the Government of the Republic of Cyprus. However, they must hold valid and recognized certificates of competency for the post they hold on board. Officers serving on board Cyprus flag vessels are required to hold, in addition to their non-Cyprus certificate of competency, a Cyprus endorsement attesting the recognition of their certificate.

8.3 Nationality of Crew

Crew members may be of any nationality provided they are holders of certificates of competency issued by one of the countries whose certificate of competency Cyprus has recognised. Officers have to apply for endorsement of their certificates of competency.

8.4 Safe Manning Certificate

All Cyprus ships should be in possession of a valid document of safe manning specifying the number and composition of her complement. Owners of Cypriot ships should apply to the Department of Merchant Shipping requesting the issue of the document.

The owner can apply for reduced manning if the vessel is designed and constructed with unattended machinery spaces, or is provided with any other automated machinery or remote controls. These should be indicated in the application and the owner should request the vessel's classification society to advise the Department on these, including the corresponding class notation and confirm the class position of the vessel, as far as this notation is concerned.

If the vessel is to be engaged exclusively in trading in a particular geographical area and the owner seeks reduced manning on account of this, then he should indicate it by stating the ports from which the vessel will be plying or provide the geographical co-ordinates (latitude and longitude) and other appropriate information defining the geographical area in which the vessel will be sailing or submit an appropriately marked chart.

FEES AND TAXES

9.1 Registration Fees

The registration fees are as follows:

A. For vessels other than passenger vessels:

GROSS TONNAGE	GROSS TONNAGE
For each gross unit up to 5.000	0,170860
For each gross unit between 5.001-10.000	0,136688
For each gross unit over 10.000	0,068344
Minimum fee is €213,58 and the maximum fee is €5,125,80	

B. For passenger ships:

GROSS TONNAGE	GROSS TONNAGE
For each gross unit	0,256290
Minimum fee	427,15

No fee is payable for deletion of ships. However, all other statutory fees and taxes due or in arrears at the time of the vessel's deletion must be paid.

9.2 Corporation Tax

No corporation tax is payable on the profits earned or the dividends paid by a Cyprus shipping company which owns ships under the Cyprus flag and operates in international waters, or on the salaries of officers and crew of such ships.

Ship crew management businesses and charterers have the option to be taxed either at the corporate tax rate or may opt to be taxed under the tonnage tax scheme as elaborated below.

9.3 Tonnage Tax

In 2010 the Cyprus Parliament enacted The Merchant Shipping (Fees and Taxing Provisions) Law of 2010 which applies retrospectively from 1st January 2010. This legislation introduced two new Tonnage Tax (TT) schemes applicable to shipowners of non-Cyprus flag vessels and charterers. It has also extended the application of the TT regime currently enjoyed by ship owners and ship managers.

The tonnage tax is payable on 31st March each year. Late payment results in the imposition of a 10% surcharge on the chargeable and leviable amount of tonnage tax for every year of the delay or part thereof, until the final discharge of the chargeable and leviable tax. In case of a deletion of the ship from the Register of Cyprus Ships before expiration of the year of which tonnage tax has been paid for, the amount paid in excess shall be reimbursed to the ship owner or shall be credited against any other amounts due by any other ship of the same ship-owner upon his application.

The Law provides full exemption to ship owners, charterers and ship managers from all profit taxes by imposing a TT on the net tonnage of the vessels.

The Law covers “qualifying persons” performing “qualifying activities” in relation to “qualifying vessels” , as these terms are defined below.

DEFINITIONS:

Qualifying persons are tax-resident owners or charterers (bareboat, demise, time and voyage) of Cyprus ships, EU ships or fleets of ships comprising of EU and non-EU ships, and ship managers providing technical or crewing services, or both.

Qualifying activity for ship owners and charterers means maritime transport of goods or people between Cyprus ports and foreign ports/ offshore installations, or between foreign ports or offshore installations and specifically includes towage, dredging and cable laying.

Qualifying activity for ship managers, means services provided to a ship owner or bareboat charterer on the basis of a written agreement in relation to crew and/or technical management and/or both.

Qualifying vessel means a sea going vessel that has been certified in accordance with international principles and legislation of the flag country and that is registered in the register of a member country of the International Maritime Organization / the International Labour Organization. The definition includes vessels that transport humanitarian aid but excludes the following vessels:

- Fishing and fish factory vessels;
- Vessels used primarily for sport or recreation;
- Vessels constructed exclusively for inland waterway navigation;
- Harbour, estuary and river ferries and tug boats;
- Fixed offshore installations which are not used for maritime transport;
- Non self-propelled floating cranes;
- Non-ocean going tug boats;
- Stationary vessels employed for hotel and/or catering operations (floating hotels or restaurants)
- Vessels employed mainly as gambling facilities and/or casinos (floating or cruising casinos).

We note below how the Law is applied to the ship owners, charterers and ship managers, respectively, the tonnage tax rates applicable and the relevant tax exemptions:

9.4 Application of the Law to 1) ship owners, 2) charterers and 3) ship managers:

1) SHIP OWNERS:

- > Applies to any Owner of a qualifying vessel who is engaged in a qualifying activity;
- Ship owners of Cyprus flag ships fall within the scope automatically;
- Ship owners of foreign flag vessels may opt to be taxed under the TT system subject to the following requirements:
 - a. 60% of the fleet has to comprise of Community flag ships;
 - b. If the Community ships are less than 60% of the fleet in terms of tonnage, then the following need to be satisfied:
 - i) A share of the fleet must comprise of Community ships; and
 - ii) This share must not be reduced in a three-year period following the exercise of the option; and
 - iii) the commercial - strategic management must be carried out from the EU/European Economic Area;

If the conditions in b (ii) above are not satisfied but the remaining conditions of the said paragraph are satisfied, then, any additional non-Community ships acquired by the said owner, after the date of opting, will not be considered as qualifying unless the Community-flagged share of the global tonnage of all qualifying owners eligible for tonnage tax in the Republic has not decreased on average within a period of three years after the date of opting to be taxed under the TT system. If vessels are considered qualifying under this exemption, the said owner shall be subject to an increase of 10% on the total amount of tonnage tax payable for non-Community ships in his fleet.

- c. Once opting to use the TT system, you must stay within the system for a period of ten years; if you withdraw prematurely, then you will be required to pay the difference between the amount paid during the period the ship owner was under the TT system and the amount that would have been paid had it been subject to corporation tax during that period;

Tax Exemption:

- Tonnage tax rates applicable:

UNITS OF NET TONNAGE	€TT PER 100 UNITS
0-1.000	36,50
1.001-10.000	31,03
10.001-25.000	20,08
25.001-40.000	12,78
>40.000	7,30

- Exemption covers:
 - Profits from shipping operations
 - Dividends paid directly or indirectly out of profits as mentioned above, including profit from disposal of ships
 - Interest earned on funds used as working capital or for the financing / operation / maintenance of a qualifying ship, excluding interest on capital used for investments.

2) CHARTERERS:

- > Any Charterer, who is Cyprus tax resident, who charters a qualifying ship under bareboat, demise, time or voyage charter, engaged in a qualifying activity may opt to be taxed under the TT system, provided that:
 - The net tonnage of the ships under time and/or voyage charters does not exceed 75% of the total tonnage of ships chartered and owned for more than three consecutive tax periods; The total net tonnage may however exceed 75% but not 90%, for the same period of time, provided that each ship is registered in a maritime register of a Member State or its crew management and its technical management are carried out from a Member State;
 - If mixed fleet (consisting of both Community and non Community ships), at least 60% of the fleet should be Community ships; If less, a share of the fleet should be Community ships and that share should remain unchanged or increase within a period of three years from election date. If the Community share has decreased, but the remaining conditions are satisfied, then the additional non Community ships chartered in after the date of opting in, will not be considered as qualifying ships, unless the Community flag share of the global tonnage of all charterers eligible for tonnage tax in the Republic has not decreased on average within a period of three years after the date of opting; If vessels are considered qualifying under this exemption, the said charterer shall be subject to an increase of 10% on the total amount of tonnage tax payable for non-Community ships in his fleet.
 - Once opting to use the TT system, you must stay within the system for a period of ten years, if you withdraw prematurely, then you will be required to pay the difference between the amount paid during the period the ship charterer was under the TT system and the amount that would have been paid had it been subject to corporation tax during that period;

Tax Exemption:

- Tonnage tax rates applicable:

UNITS OF NET TONNAGE	€TT PER 100 UNITS
0-1.000	36,50
1.001-10.000	31,03
10.001-25.000	20,08
25.001-40.000	12,78
>40.000	7,30

- Exemption covers:
 - Profits from shipping operations
 - Dividends paid directly or indirectly out of shipping profits
 - Interest earned on funds used as working capital or for the payment of expenses arising out of the charter party, excluding interest on capital used for investments

3) SHIP MANAGERS:

- > Any ship manager, who is Cyprus tax resident, who provides crew and/or technical ship management services to a qualifying ship, engaged in a qualifying activity, may opt to be taxed under the TT system, provided the following criteria are satisfied:
 - Maintenance of fully fledged office in Cyprus; employment of at least 51% of EU/ EEA citizens; 2/3 of the management being carried out from EU/EEA territory; compliance with certain international standards (maritime security, safety, training, certification of seafarers, environmental issues, on-board working conditions, full implementation of the Maritime Labour Convention) etc; at least 60% of the fleet managed in terms of tonnage should comprise of Community ships; if less, the Community flag share should not be reduced for a period of three years from opting; If the last requirement is not satisfied, but all other requirements are satisfied, then any additional non Community flag ships managed by the said ship manager after the date of opting, will not be considered as qualifying ships, unless the Community flag share of the global tonnage of all qualifying ship managers eligible for TT in the Republic has not decreased on average within a period of three years after the date of opting. If vessels are considered qualifying under this exemption, the said manager shall be subject to an increase of 10% on the total amount of tonnage tax payable for non- Community ships in his fleet.
 - Once opting to use the TT system, you must stay within the system for a period of ten years, if you withdraw prematurely, then you will be required to pay the difference between the amount paid during the period the ship manager was under the TT system and the amount that would have been paid had it been subject to corporation tax during that period;

Tax Exemption:

- Tonnage tax rates applicable:

UNITS OF NET TONNAGE	€TT PER 400 UNITS
0-1.000	36,50
1.001-10.000	31,03
10.001-25.000	20,08
25.001-40.000	12,78
>40.000	7,30

- Exemption covers:
 - Profits from the provision of crew and/or technical ship management services to any qualifying ship
 - Dividend paid directly or indirectly from the above
 - Interest earned on funds used as working capital or for the payment of expenses arising related to the management of the ships, excluding interest on capital used for investments

9.5 Reduction of Tonnage Tax

Laid-up ships

If the ship is laid up for a period of more than 3 consecutive months the tonnage tax payable is reduced by 75 percent for the period during which the vessel is laid-up, provided that the Department of Merchant Shipping is duly notified not later than 3 months from the commencement of the lay up period or six months from the last day of the lay up period of the ship in accordance with the lay-up certificate of the ship.

9.6 Fees for Registration, Transfers and Discharge of Mortgages

For the registration or transfer of a mortgage or transfer of interest in a mortgage with the Registrar of Ships, the fees payable are calculated as follows:

GROSS TONNAGE	GROSS TONNAGE
For each gross unit up to 10.000	0,034172
For each gross unit over 10.000	0,017086
Minimum fee	51,26

No fee is payable for the discharge of mortgages.

9.6 Other Fees

	GROSS TONNAGE
Cyprus Registry Maintenance Annual Fee	300
Examination of an application for the registration of a vessel in the Register of Cyprus Ships.	34,17
Examination of an application for change of the vessel's name.	34,17
Approval of the change of the vessel's name.	136,69
Issue of a provisional certificate of registry or a certificate of registry.	17,09
Granting of ship's carving and marking note.	17,09
Issue of transcript of registry.	25,63
Radio licence installation	17,09
Radio licence renewal	17,09
Issue of Continuous Synopsis Record	34,17

There are some further minor fees payable for various other services or for the issue of certain certificates.

9.7 Fees and charges payable on provisional registration

A. On provisional registration.

The following fees and taxes are payable at the time of the provisional registration of a vessel:

- (i) registration fees;
- (ii) tonnage tax for 6 months;
- (iii) fees for obtaining a license to install and work a wireless telegraphy and/or telephony station, and;
- (iv) fee for the issue of the provisional certificate of Cyprus Registry

These should be paid not later than the date on which the provisional registration of the vessel will be effected.

B. On extension.

To extend the period of provisional registration by 3 months, the following fees and taxes are payable:

- (i) one half of the registration fees, and
- (ii) Tonnage tax for 3 months.

These should be paid prior to the expiry date of the period of provisional registration.

9.8 Fees and Taxes Payable on Permanent Registration

If the relevant registration fees have been paid at the time of the provisional registration of the vessel and the period of provisional registration has not expired, then no other fees and taxes are levied for the permanent registration of a vessel apart from:

A. Fee for the issue of the certificate of Cyprus Registry, and

B. Payment of any other statutory fees and taxes due or in arrears at the time of the permanent registration of the vessel.

If the permanent registration takes place after the provisional registration period has expired, then the fees payable on provisional registration are payable anew.

9.9 Fees and Taxes Payable on Parallel Registration

The initial registration fees for the parallel registration of a foreign vessel under the Cyprus flag (parallel-in registration) are 20% higher than those applicable to the provisional or permanent registration of the vessel. If the foreign vessel under the Cyprus flag is deleted and thereafter re-registered and the chartering is effected to the benefit of the same charterer prior to the deletion, the re-registration fees are reduced by 50%. There is no increase in the tonnage tax or other dues payable and the vessel is subject to the same financial obligations as other Cypriot vessels. A Cypriot vessel registered in parallel in a foreign register (parallel-out registration) has the same financial obligations as all other Cypriot vessels, with the exception of the fees for the issue or renewal of the radio licence. If the vessel is deleted from the Cyprus Registry prior to the termination of her status of parallel-out registration, that part of the tonnage tax which is proportional to the period from her deletion until the termination of her status of parallel registration is reimbursed upon application.

The financial obligations of vessels (Cypriot and foreign) registered in parallel are payable in advance for the entire period of the parallel (bareboat) registration.

9.10 Fees and Taxes Payable Annually

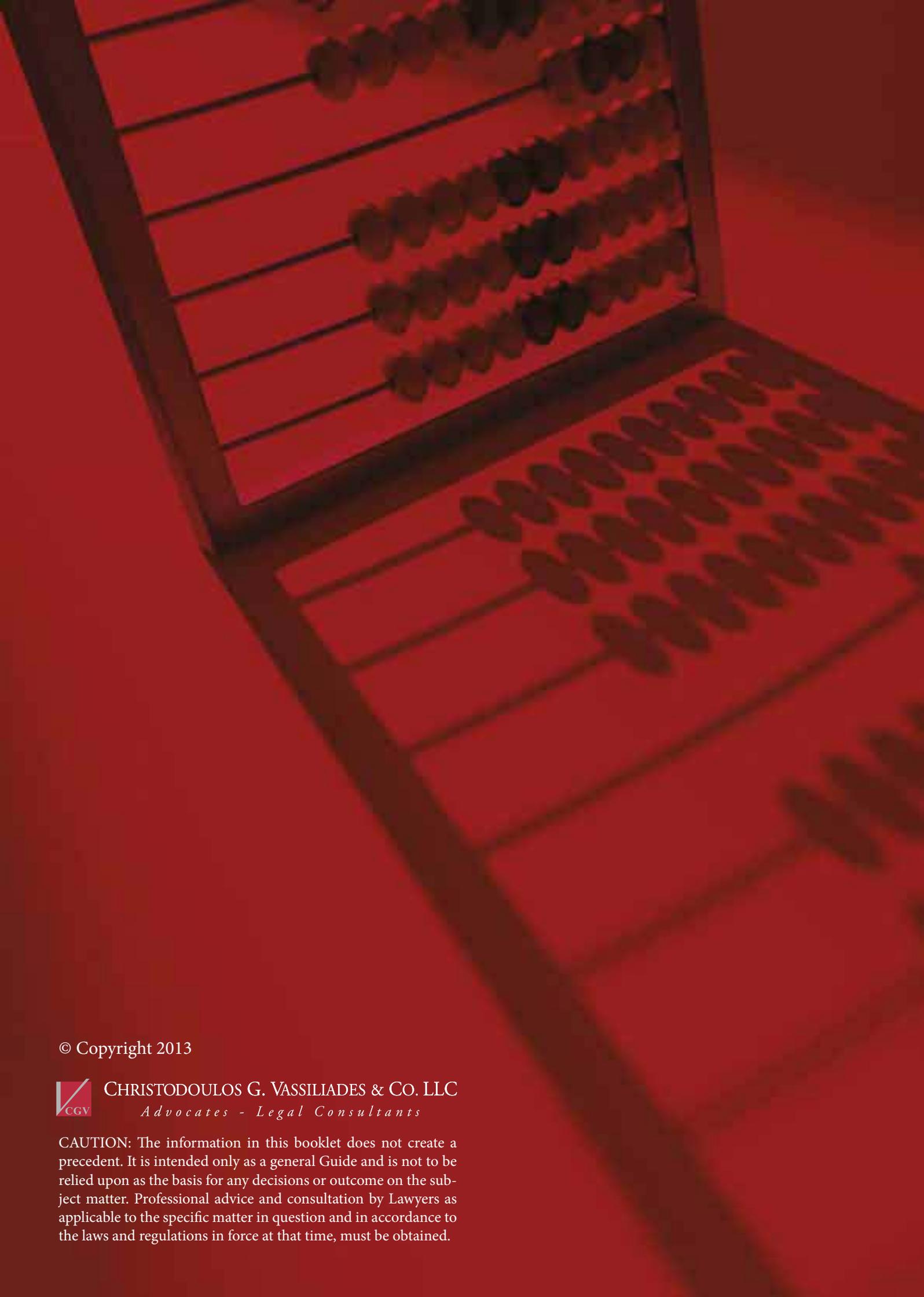
The following fees and taxes are payable each year:

- A. Tonnage tax, and;
- B. Fees for the renewal of the licence to install and work a wireless telegraphy and/or telephony station.

CONCLUSION

Cyprus' development into a major base of international maritime operations and the phenomenal growth of its Merchant Shipping Registry, currently ranking 10th in the list of leading maritime nations as opposed to 29th just ten years ago, it is by no means accidental.

The immediate objective of the island with regard to merchant shipping is to enhance the quality of the vessels flying the Cypriot flag, their crews and operators. The Cypriot government has taken steps significantly to strengthen and reorganise its maritime administration, which has come under strain in recent years as a result of the exceptional fleet growth and increasing international safety and pollution prevention requirements.



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