



DECEMBER 2020

Options of Registering Foreign Vessels under Russian flag

Recently one matter in particular has received significant attention from various foreign companies – the right to fly the Russian flag on foreign vessels.

The rising interest in sailing under the Russian flag is clear when one considers the restrictions Russian law places on foreign vessels. For example, cabotage in the Russian Arctic waters can only be performed by a vessel flying the Russian flag. In short, entities with intentions to participate in Arctic projects will most need to sail under the Russian flag.

What are the options for registering a vessel in Russia?

Russia has six ship registers, and each of them has its own features. However, in this alert only four of these registers, which are relevant to our discussion, will be highlighted.

1. The State Ship Register

This is a general register designated for nearly all vessels which are owned by Russian entities. Considering that the owner of the vessel must be a Russian entity, the State Ship Register is not an attractive option for foreign companies wishing to retain ownership over their vessels.

A solution here might be to bareboat charter the vessel to a Russian entity since Russian law allows for the temporary right to fly the Russian flag for a period not exceeding the term of the bareboat charter.

2. Bareboat charter Register of Ships

There are certain general requirements that must be met in order for the vessel to be included in this register. These include:

- the bareboat charterer must be a Russian entity;
- the shipowner has given written consent thereof to the placement of the ship under the Russian flag;
- the mortgagee of the vessel (if any) has given the same consent;
- the legislation of the shipowner's State allows temporary re-flagging;
- the right of sailing under the foreign flag is or will be suspended at the time of granting the ship the right of sailing under the Russian Flag.

Besides the aforementioned ship registers, Russia also has two so-called preferential registers.

3. The Russian International Register of Ships

The main advantages of this Register are tax preferences and easier customs clearance. For instance, a vessel registered in the Russian International Register is exempted from property tax, vessel tax, income tax, import VAT and customs clearance fee.

However, you have to pay for the preferences. Therefore, the presence of the vessel in this register must be annually confirmed and an annual duty must be paid, the amount of which depends on the size of particular vessel (gross tonnage).



It is important to note that not every vessel may be registered in the Russian International Register of Ships. Vessels are only eligible for registration if they meet the following criteria:

- are owned or bareboat chartered by a Russian entity (on the terms described previously); and
- correspond to applicable age limits set depending on the type of vessel's activity.

For example, vessels used in the international carriage of goods can only be registered in the Russian International Register if they are under fifteen years old. An interesting point here is that the vessel retains her right to fly the Russian flag even after she becomes older than the prescribed age limit, provided that after inclusion in the register such vessel does not for any reasons lose the right to fly the Russian flag.

4. The Russian Open Register of ships

This Register was introduced as the first register in Russia for ships owned by foreign companies. However, this is not a straightforward rule - the company with ownership or the bareboat chartering company must redomicile in the Special Administrative Region in Russia and obtain the special status of an International Company, which requires investments in Russia and meeting other relatively specific conditions.

As for the preferences, they are nearly the same as those provided for the vessels registered in the Russian International Register with the exception of payment of custom clearance fees.

It should be noted that vessels included in the Russian Open register of Ships are not allowed to perform certain types of activities including cabotage and sea transportation of oil, gas and coal mined from Russian territory from the point of their extraction to the first Russian port. Therefore, the Open Register might not be a suitable option for companies involved in Arctic projects.

As you can see in order to choose the most suitable Ship Register in Russia, you must first analyse your firm's demands and then identify the most pressing goals. Only then will the optimal registration path be clear.

Contacts



Alexey Karchiomov

Head of Maritime Shipping and Transport Law Practice

alexey_karchiomov@epam.ru
+7 (812) 322 9681

This material has been prepared for informational and/or educational purposes only and should not be taken as legal advice or opinion. Egorov Puginsky Afanasiev & Partners, its management team, attorneys and employees cannot guarantee that such information is applicable for your purposes and shall not be responsible for your decisions and related eventual direct or consequential loss and/or damage resulting from the use of all or any information contained in the material.

Subscription

You have received this information because this topic may be of interest to you. If you have received this information in error, we would like to extend our apologies and ask that you send us an unsubscribe request.

To unsubscribe from Egorov Puginsky Afanasiev & Partners' mailing list, please reply to this email with **Unsubscribe** as email subject.

To subscribe to our legal alerts, please reply to this email with **Subscribe** as email subject.
