



SP& Co NEWSLETTER – FOCUS ON SHIPPING

BREXIT & THE ROLE OF CYPRUS

April 2019

The UK has long been one of the leading shipping hubs, this role having been enhanced by its European Union membership and influence over its organs. However, since the 2017 referendum and impending exit (Brexit), with or without an agreement, the focus has turned on other EU alternatives. One of these is Cyprus, a nation with naval tradition going back millennia.

A recent example is the British ferry and shipping freight operator P&O which decided to shift the registration of its UK vessels to Cyprus ahead of Britain's departure from the European Union. According to the spokesman of P&O, one of the reasons for the move to the Cyprus flag was the following: *"The Cyprus flag is on the 'White List' of both the Paris and Tokyo Memoranda of Understanding ("MOU"), resulting in fewer inspections and delays, and will result in significantly more favourable tonnage tax arrangements as the ships will be flagged in an EU member state"*.

Successive Cyprus Governments have been taking a series of measures in order to improve the safety standards of the Cyprus merchant fleet including the revision and approval of new laws and regulations. A strict registration and survey procedure is followed so that ships applying for registration under the Cyprus flag are not substandard vessels that will undermine the reputation of the Cyprus flag. Also, a network of independent inspectors of Cyprus Ships is set up at the most important ports around the world in order to provide adequate coverage of inspections globally. The effective implementation of these measures enabled Cyprus to (i) achieve and maintain a 'White List' status in the flag assessment system maintained by the Paris and the Tokyo MOUs on port state control and (ii) be excluded from the "List of Targeted Flag States" on the US Coast Guard, thus resulting in fewer inspections of the ships and less delays at the ports of both MOUs and of the US.

The Cypriot government also updated its maritime legislation to bring it line with European standards. Cyprus' accession to the European Union on the 1st May, 2004 reinforced the quality of the Cypriot registered fleet. At the same time, Cypriot registered vessels enjoy the benefits of flying the flag of a European Union Member State.

Furthermore, Cyprus introduced in 2010 the tonnage tax system, under which qualifying owners of Cyprus and foreign ships, as well as charterers and ship managers can be taxed under the tonnage tax system rather under the corporation tax. Tonnage tax ("TT") is charged annually and is calculated on the basis of the net tonnage of the qualifying ships they own, charter or manage. Thus, Cyprus has become the only EU country with an EU approved TT system that, inter alia:

- provides for TT on the net tonnage of the vessels rather than corporation tax on the actual profits;
- grants total tax exemption of profits tax and distribution tax at all levels;

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- allows mixed activities within a company/group (shipping subject to TT and other subject to 12.5% corporation tax);
- supports an open registry;
- allows slip ship-management activities (crewing or technical).

Generally, the Cyprus tax system is in full compliance with EU requirements and also within the Organisation for Economic Co-Operation and Development (OECD) requirements against harmful tax practises.

Another area in which Cyprus attached particular importance to is the area of maritime security. As a consequence, the International Ships and Port Facility (ISPS) code is adopted and implemented. All ships flying the Cyprus flag as well as port facilities in Cyprus, are duly certified as complying with the requirements of the ISPS code. Additionally, the Protection of Cyprus Ships Against Acts of Piracy and Other Unlawful Acts Law of 2012, has been designed to enhance the security of ships flying the Cyprus flag whilst at sea and, inter alia, establishes the required legislative framework for permitting the use, in a regulated manner, of privately contracted unarmed and armed security personnel on board Cyprus flag ships when they are sailing through high risk areas.

In addition to the tax incentives, Cyprus offers competitive advantages in terms of attracting UK-based shipping and shipping related companies that seek to retain their access to the European Economic Area, which, among others, are its geostrategic position, the good command of the English language by the majority of its population, the Cypriot legal system (which is based on English law), a highly educated and skilled multilingual workforce, low operating costs, competitive ship registration costs and fees as well as reliable accounting and banking systems. Furthermore, Cyprus is a full member of the European Union, is signatory to numerous international maritime conventions and to more than 60 Double Tax Avoidance Treaties and has more than 25 bilateral cooperation agreements with various countries on Merchant Shipping. A new and independent Deputy Ministry of Shipping has been created in March 2018, which is dedicated entirely to the Cyprus Maritime Industry.

Thus, as a result of the positive results of its economy and restoration of confidence in its economy by the global investment community, Cyprus provides a solid and fertile ground for UK shipping and shipping related companies and investments. It follows that Cyprus has developed in a mature and important player in the maritime industry, banking on its structured administrative, legal and financial reporting framework, as well as its sound maritime infrastructure, favourable tax regime and beneficial tonnage tax system.

SCORDIS, PAPAPETROU & Co LLC, with an enviable and long tradition in admiralty and shipping law, has recently expanded its team of shipping law professionals with the creation of a dedicated shipping law department. As part of this expansion Sofi Mylona, has recently joined its ranks as partner. The Firm has a dedicated team of highly qualified and experienced professionals who are committed to providing a full range of advice and related services to, inter alios, shipowners, charterers, ship managers and financing institutions.

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