

UNOFFICIAL TRANSLATION

Swiss Maritime Navigation Office (SMNO)
Elisabethenstrasse 33
4010 Basel

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The French version is authoritative

Informal consultation on the future orientation of the Swiss flag and maritime fleet

Sir, Madam,

In the context of the informal consultation on the future orientation of the Swiss flag and maritime fleet, we would like to send you our comments on a comprehensive Swiss maritime strategy and an analysis of the four concrete scenarios identified by the external expertise of the Institute for Maritime Economics and Logistics in Bremen (ISL) commissioned by the Swiss Maritime Navigation Office (SMNO).

Although Switzerland is a landlocked country, it has an important maritime sector. Among maritime nations, Switzerland ranks 11th in the world and 5th in Europe. The shipping industry employs about 2,000 people in Switzerland. The direct contribution to national GDP is estimated at CHF 2.4 billion. In addition, the maritime sector plays a central role in Switzerland's commodity trading hub, employing more than 10,000 people and contributing 4.8% to the Swiss GDP, as well as 20% of the tax revenue of the cantons of Geneva and Ticino and 17% of the tax revenue of the canton of Zug.

1. A comprehensive Swiss maritime strategy

At present, Switzerland does not have a comprehensive maritime strategy, however, any decision on the future of the flag and fleet should be integrated into a strategy whose aim is to increase Switzerland's attractiveness and competitiveness while creating a level playing field with other countries. The STSA welcomes the Federal Council's objectives of promoting a competitive Swiss economy in the field of commodity trading and shipping and of creating the necessary and attractive framework conditions for the establishment of foreign shipowners as well as for those already present in Switzerland.

Switzerland competes with other trading centres such as Singapore, Dubai and London. The planned, but still hypothetical, introduction of a tonnage tax without a mandatory link to the Swiss flag, which is widely accepted internationally and particularly widespread in the EU, may represent an additional element in the promotion of maritime transport from Switzerland. This seems to be the simplest and most attractive concept, even if the impact of the introduction of the tonnage tax alone, without any other competitive improvement, would only have minimal repercussions on the Swiss flagged fleet.

A future global maritime strategy should also define Switzerland's role and position with respect to international laws and standards on global targets adopted by the International Maritime Organisation (IMO). In particular, it would be relevant to reiterate Switzerland's vision on reducing greenhouse gas emissions in the international maritime transport sector, in line with Switzerland's long-term climate strategy and the UN Sustainable Development Goals.

The IMO targets call for a reduction in carbon intensity of at least 40% by 2030 compared to 2018 and a reduction in total annual greenhouse gas emissions of at least 50% by 2050 compared to 2008. It is important to actively monitor these developments as, according to the latest IMO Greenhouse Gas (GHG) study, GHG emissions from shipping (expressed in CO₂ equivalents) have increased from 977 million tonnes in 2012 to 1076 million tonnes in 2018. Despite efficiency gains fully offset by the continued growth of shipping, GHGs are still expected to increase by 50% by 2050 (compared to 2018 levels).

In this context, the greenhouse gas emission reduction targets set by the IMO may seem unattainable if States, including Switzerland, do not take drastic measures now.

2. Scenarios for the future of the Swiss flag and maritime fleet

The consultation presents a choice between four options, two of which, namely the status quo (option 1) and the abandonment of the maritime flag and closure of all associated registers (option 4), are not in the interest of private companies operating on Swiss territory. The option of flag modernisation with limitation to non-commercial shipping (option 3b) should also not be pursued, as non-commercial shipping includes only yachts and other vessels operated for private and non-profit purposes.

Option 2, the general opening of the Swiss pavilion, should not be excluded from the outset. Therefore, a solution between the general opening of the Swiss flag (option 2) and the modernisation of the flag with higher safety and sustainability requirements (option 3a) should be analysed. It should also be stressed that these two options are not necessarily mutually exclusive, but that a transition from option 2, as stated in the report, to a solution mentioned under option 3a could be considered.

Finally, the ISL report does not take into account the economic, legal, administrative and political aspects in the short, medium and long term.

i. Option 2

STSA believes that the reputation of flags of convenience is erroneous, particularly with regard to their performance and standards. Indeed, four of the top ten "whitelist" flags of the Paris Memorandum of Understanding (Paris MoU), audited and listed by port inspections, meet the definition of a flag of convenience. These four flags are Marshall Islands (3rd position), Bermuda (4th), Bahamas (6th) and Cayman Islands (9th)¹. The fact that they are on the whitelist gives them real credibility with chartering companies and States.

The main advantage of option 2 is the liberalisation and immediate attractiveness of the Swiss hub. It is important to maintain a high level of quality standards:

- the standards of acceptance of the vessel and its manager (pre-vetting);
- the annual audit of the manager and the annual inspection of the ships;
- accession and ratification of international treaties and their interpretations.

Option 2 would allow new ships to be attracted, depending on age criteria or the results of port control by the authorities. Faced with the flexibility of offshore flags, the European States and the Republic of San Marino have also adapted their registers. The French International Register (RIF) has facilitated access to the French flag and simplified administrative procedures. It is now possible for the shipowner not to be French in order to have access to the French flag, which was previously a sine qua non condition and is still the case in Switzerland (art. 5b para. 1 of the Ordinance on Maritime Navigation). The same applies to the Norwegian International Ship register (NIS), which is a relatively "open" register that does not require Norwegian ownership of ships but does require an economic link with Norway. Both models could be alternatives for Switzerland.

By adopting Option 2, Switzerland would attract a large fleet to sail under the Swiss flag and thus prepare for Option 3a, while leaving the government the freedom to legislate on future standards. In order to reinforce the short- and medium-term strategy, option 2 should be promoted internationally through the tonnage tax, a tax regime favourable to trading companies. This should be done with the aim of attracting foreign shipowners with a quality fleet to Switzerland.

ii. Option 3a

According to STSA, the modernization of the Swiss flag would allow the implementation of higher safety and sustainability requirements:

- i. Through national regulations that would correspond to international (IMO) and/or regional (EU/US) standards;
- ii. Through higher requirements for flying the Swiss flag controlled by rigorous follow-up audits and inspections.

¹ Paris MoU, Current Flag Performance list 2020, Period 07-2021 / 06-2022.

STSA supports option 3a (ii), as it would bring STSA member companies up to the same level of requirements as other countries. The gradual, 3-5-10 year transition to Option 3a can be reviewed at regular intervals with a reassessment at each stage. The international rules are already present, their application defines the quality of the flag (see the results of the flags of convenience in the Paris MoU) and for this it is crucial that the Swiss flag has a competent inspection system.

In conclusion, the members of STSA welcome the adoption of a comprehensive maritime strategy for Switzerland, in order to create greater confidence for all actors involved and active in international maritime transport. If Switzerland succeeds in building up a large and significant fleet sailing under the Swiss flag, it will increase its influence within the IMO and thus be able to contribute to the implementation of its strategy to improve the environment and safety in the international commodity trade value chain. However, the choice of scenario lies solely in the responsibility of the Confederation and its willingness to remain an attractive place for commodity trading companies and shipowners and not in a multiple choice of options.

We are at the disposal of the Confederation and the Swiss Maritime Navigation Office for any questions relating to international maritime transport. Please accept, Madam, Sir, the assurances of our highest consideration.



Florence Schurch
Secretary General, STSA