How the squeeze on standards enables small flags to flourish

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When we see the flags flown by ships, and the ports of registry painted on their stems, we notice that they are often attached to such places as Panama and Liberia, Bahamas and Malta. We take them for granted because we have become so familiar and so numerous even though we may find it difficult to connect these flags with our understanding of what constitutes a proper administration.

In recent years a number of other flags have arrived on the scene from countries that are not so familiar, such as Belize, Bolivia, Cambodia, and Equatorial Guinea. As mentioned in the introduction, registries of ships attached to these flags have shown extremely rapid growth rates over their short lifespans, it is reasonable to wonder why this growth has occurred and what the consequences might be.

The initial response to these new arrivals is simply to see them as yet further examples of open registers or flags of convenience. After all, they are just another set of flags that operate in the same manner? Well no, they don’t. Not any longer. What we see is the birth of a large number of new flags that are working hard to position themselves in the market. This, in turn, has had a profound effect on the way international regulations are enforced. As a result, we find that the increasing deletion of substandard ships has become the norm.

The decision by established open registers to delete ships likely to be detained by port state control has been a recognition of the increasingly successful standardization of international regulations. Shipowners wishing to avoid deletion must conform to minimum requirements and standards, but this has cost implications. The net effect of this process has been to cause a corresponding increase in the established open registers, although it is the case that these new standards have not been considered too risky by the Panama and Liberias.

The success of these new registries is due to the fact that they were able to create a market niche that has not been filled by the established flag market. In other words, and as we have seen, the larger flag states have either to pick up unwanted tonnage or refuse to take the rejects of the smaller flags.

But there are several ways in which these new registers differ from their established peers. The most immediately obvious difference is that they have far fewer regulatory restrictions than those required by the big flags of convenience. Certainly a shipowner resorting to any of these new flags may choose to fulfill all international requirements. But the flag administrations – if they may actually be called that – make it plain that this is a matter for the shipowners themselves and that, they, the “administrators”, are in practice safe in doing different levels of compliance with international conventions.

This practice of passing responsibility for regulatory compliance has, of course, been common among open registers but, as we have seen, the larger registers have begun to place higher expectations upon their shipowner clients. This regulatory squeeze has put pressure on even the marginally low standards that have gone in search of (or, in some cases, are required to set up) new flag administrations. In short, the raison d’être of these registers is the provision of a regulation-free environment for the shipowner.

The success of these new flags depends on the continued absence of any significant threat to their market niche. The owner has either to take the risk of registering with a new flag willing to take the rejects of the big flags, or have the registration of their ships deleted by the established flags.

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