

h e g

Haute école de gestion
Genève

Navigating Tax Waters: The Impact of BEPS Pillar Two Carve-out on Income and Tonnage Taxation in the Shipping Industry

**Bachelor Project submitted for the degree of
Bachelor of Science HES in International Business Management**

by

Kevin JAQUEMET

Bachelor Project Mentor:
Sylvain GODINET, Tax Lawyer

Geneva, 31st of May 2024
Haute école de gestion de Genève (HEG-GE)
International Business Management

Disclaimer

This report is submitted as part of the final examination requirements of the Haute école de gestion de Genève (HEG), for the Bachelor of Science HES-SO in International Business Management. The use of any conclusions or recommendations made in or based upon this report, with no prejudice to their value, engages the responsibility neither of the author, nor the author's mentor, nor the jury members nor the HEG or any of its employees.

Declaration of authorship

By submitting this manuscript, the author declares that it constitutes their own original work. The author acknowledges full responsibility for the work's design; the acquisition, analysis, and interpretation of the data; as well as the formulation of conclusions within the work. Furthermore, the author asserts sole responsibility for the drafting of the manuscript and its thorough review for significant intellectual content. The author is accountable for all aspects of the work, including matters related to its accuracy and integrity.

Any external assistance, including the use of Artificial Intelligence (AI)-assisted technologies, has been systematically identified in accordance with the HEG Referencing guide and are declared in the reporting summary appended at the conclusion of this manuscript. The author further declares that there is no plagiarism in the text and images within the work.

Acknowledgements

First and foremost, I would like to extend my gratitude to my mentor, Mr. Sylvain Godinet, for his support, insightful guidance, and valuable expertise throughout the completion of my thesis. His professional advice and devotion have been instrumental in this achievement.

My recognition is also addressed to all the five interviewees who generously shared their time and expertise. Their contributions allowed me to explore different aspects of the subject that revealed to be crucial for this research's findings.

Finally, I want to thank my colleagues at HEG, family, and friends for their constant support and encouragement throughout my studies and particularly during the writing of this bachelor's thesis. Their understanding and camaraderie have been a source of motivation and strength.

Executive Summary

In a context where generating profit margins is difficult, shipping companies are constantly striving to optimize their efficiency, whether it be operational or financial. In this regard, while tax optimization can be perilous, it is a well-known strategy among international structures. Shipping companies are no exception and have, for many years, the opportunity to benefit from tax advantages greater than what other industries dare to hope for.

Through strategic hubs offering significant incentives, including zero or low tax rates on maritime income, shipping companies have the opportunity to maintain competitive prices and manage their tax burdens. Among these methods is the little-known tonnage tax, which has long been employed in certain regimes and at the center of discussions in others. In Switzerland, for example, questions arise regarding tax fairness vis-à-vis other industries.

Fairness is also debated through the GloBE rules of the OECD. Indeed, the BEPS program, which establishes guidelines to tackle tax avoidance, has, in its latest reform, implemented a minimum tax rate of 15% on income for all multinational corporations with turnover exceeding EUR 750 mio. However, an exemption exists for international shipping activities, which constitutes an injustice for some and a boon for the main stakeholders.

The impact of this exemption proves to be tremendous; incomes from shipping activities can continue to benefit from reduced taxation, mostly offered by shipping hubs.

This research, aiming to provide an in-depth analysis of the impact of the BEPS Pillar Two carve-out on maritime taxation, has revealed that tonnage tax, based on the carrying capacity of ships, remains a preferred option compared to traditional taxation for most of the maritime companies or commodity trading groups' shipping arm. This preference is explained by its predictability and alignment with operational needs, offering a more stable and manageable tax obligation.

Finally, the study has also demonstrated that the adoption of sustainable solutions on vessels, aligned with social and environmental standards, could positively affect the tax burden, thus creating additional incentives for shipping companies to improve their overall impact.

Contents

Navigating Tax Waters: The Impact of BEPS Pillar Two Carve-out on Income and Tonnage Taxation in the Shipping Industry	1
Disclaimer	i
Declaration of authorship	i
Acknowledgements.....	ii
Executive Summary	iii
Contents.....	iv
List of Tables	vii
List of Figures	vii
1. Introduction	1
1.1 Background.....	1
1.2 Research Question & Hypothesis.....	2
1.3 Aim of the Project	2
2. State of the Art.....	3
2.1 Shipping	3
2.1.1 <i>Fleet Fragmentation.....</i>	<i>4</i>
2.1.2 <i>Current Fleets</i>	<i>5</i>
2.1.3 <i>Profitability of Vessels.....</i>	<i>6</i>
2.1.4 <i>Freight Derivatives</i>	<i>7</i>
2.2 Taxation.....	8
2.2.1 <i>Flag of Registration.....</i>	<i>8</i>
2.2.2 <i>Corporate Income Tax</i>	<i>11</i>
2.2.3 <i>Existing Guidelines</i>	<i>13</i>
2.2.4 <i>Tonnage Tax.....</i>	<i>15</i>
2.2.5 <i>Shipping Incentives.....</i>	<i>20</i>
2.2.6 <i>Potential Tonnage Tax in Switzerland</i>	<i>20</i>
2.3 Illustrative Example & Comparison	21
2.4 Conclusion	24
3. Methodology	26
3.1 Aim.....	26
3.2 Procedure.....	26
3.2.1 <i>Secondary data.....</i>	<i>26</i>
3.2.2 <i>Primary data</i>	<i>26</i>
3.3 Limitations	27
4. Results	28
4.1 A Comprehensive Overview of Core Activities & Tax Challenges in the Maritime Industry	28
4.1.1 <i>Core Activities and Business Models</i>	<i>28</i>
4.1.2 <i>Taxation Challenges and Strategies.....</i>	<i>28</i>
4.1.3 <i>Roles and Responsibilities in Tax Management.....</i>	<i>28</i>

4.1.4	<i>Operational and Tax Compliance Integration</i>	28
4.1.5	<i>Conclusion</i>	29
4.2	Analyzing Decision Factors, Market Influences, and Adaptive Strategies in Shipping Taxation	29
4.2.1	<i>Acquisition Strategies and Fleet Composition</i>	29
4.2.2	<i>Taxation Methods and Strategic Choices</i>	29
4.2.3	<i>Market Dynamics and External Influences</i>	29
4.2.4	<i>Conclusion</i>	30
4.3	Profitability of Vessels	30
4.3.1	<i>Limited Disclosure on ROI</i>	30
4.3.2	<i>Complexity in Measuring ROI</i>	30
4.3.3	<i>Conclusion</i>	30
4.4	The Impact of Tonnage Tax	31
4.4.1	<i>Potential Introduction of Tonnage Tax in Switzerland</i>	31
4.4.2	<i>Tax Stability and Strategic Decision-Making</i>	31
4.4.3	<i>Tonnage Tax and Environmental Sustainability</i>	31
4.4.4	<i>International Tax Considerations and Challenges</i>	31
4.4.5	<i>Conclusion</i>	32
4.5	The Role of Flag States in Shaping Shipping Taxation and Corporate Strategy in the Maritime Industry	32
4.5.1	<i>Factors Contributing to the Disparity Between Ship Owning and Flag States</i>	32
4.5.2	<i>Impact of Flags of Convenience on Corporate Strategies</i>	32
4.5.3	<i>Taxation and Flag States</i>	33
4.5.4	<i>Legal and Compliance Issues</i>	33
4.5.5	<i>Challenges with Permanent Establishments</i>	33
4.5.6	<i>Conclusion</i>	33
4.6	Compliance and Strategy in the Wake of BEPS Standards for International Shipping	34
4.6.1	<i>Adaptation to BEPS Standards</i>	34
4.6.2	<i>Perspectives on BEPS 2.0 Carve-Out for Shipping</i>	34
4.6.3	<i>Comparative Advantage of BEPS Exemption vs Tonnage Tax</i>	34
4.6.4	<i>BEPS 2.0 Opportunities</i>	34
4.6.5	<i>Global Compliance and Operational Challenges</i>	35
4.6.6	<i>Conclusion</i>	35
4.7	Balancing Environmental Regulations, Labor Laws, and Compliance Risks with Strategic Tax Decisions in Shipping	35
4.7.1	<i>Environmental and Labor Law Considerations in Tax Planning</i>	35
4.7.2	<i>Public Perception and Tax Strategy</i>	35
4.7.3	<i>Tax Planning vs. Compliance Risk</i>	36
4.7.4	<i>Strategic Adaptation to Regulatory Changes</i>	36
4.7.5	<i>Integration of Environmental and Tax Compliance</i>	36
4.7.6	<i>Conclusion</i>	36
4.8	Anticipating Regulatory Changes and Leveraging Technology for Optimized Compliance	37
4.8.1	<i>Anticipation and Adaptation to Regulatory Changes</i>	37
4.8.2	<i>Strategic Planning for Sudden Regulatory Changes</i>	37
4.8.3	<i>Leveraging Technology in Tax Strategy</i>	37
4.8.4	<i>Impact of Technology on Decision-Making</i>	37

4.8.5	<i>Conclusion</i>	38
5.	Discussion & Recommendations	39
5.1	Discussion	39
5.1.1	<i>Strategic Shipping Hubs</i>	39
5.1.2	<i>Impact of Tonnage Tax</i>	40
5.1.3	<i>BEPS Pillar Two as a Safe Harbor for Shipping Tax</i>	41
5.1.4	<i>Implications of the Flag</i>	41
5.1.5	<i>Corporate Responsibility at Sea</i>	42
5.2	Recommendations	42
5.2.1	<i>Leverage Strategic Shipping Hubs</i>	42
5.2.2	<i>Utilize Tonnage Tax</i>	43
5.2.3	<i>Create a Shipping Arm</i>	43
5.2.4	<i>Maximize BEPS Pillar Two Opportunities</i>	43
5.2.5	<i>Consider Implications of Flag Choices</i>	43
5.2.6	<i>Commit to Corporate Responsibility</i>	44
5.3	SKARE Decision Framework	44
5.3.1	<i>Define the Scope</i>	44
5.3.2	<i>Identify Key Decision Areas</i>	44
5.3.3	<i>Develop Alternatives</i>	44
5.3.4	<i>Integrate Recommendations</i>	45
5.3.5	<i>Evaluate Methods</i>	45
6.	Conclusion	46
6.1	Outcome of the Study	46
6.2	Limitations and Recommendations for further research	47
	References	48
	Appendix 1: Excel Analysis of Fleets	58
	Appendix 2: Return on Investment Calculations	59
	Appendix 3: Ship owning Countries vs Flags	60
	Appendix 4: Illustrative Example Calculations	61
	Appendix 5: Overview of the BEPS 15 Actions Plan	62
	Appendix 6: Important Articles of the OECD Model Tax Convention	64
	Appendix 7: Important Articles of GloBE Model Rules	69
	Appendix 8: Interview n°1	75
	Appendix 9: Interview n°2	81
	Appendix 10: Interview n°3	87
	Appendix 11: Interview n°4	94
	Appendix 12: Interview n°5	100

List of Tables

Table 1: Interviewees Profile	27
Table 2: SKARE Scoring Model.....	45

List of Figures

Figure 1: Players Relationship.....	3
Figure 2: Distribution of Vessel Categories per Markets	5
Figure 3: Estimated ROI Calculation	7
Figure 4: Baltic Dry Index as of 19th of May 2024 (2019-2024)	8
Figure 5: Where are ships owned and registered?	10
Figure 6: Disparity between ship owning and flag states	10
Figure 7: Illustrative Example – Leman Shipping Ltd Fleet	22
Figure 8: Illustrative Example – Tax Burden Comparison	23

1. Introduction

1.1 Background

For thousands of years, people have traded commodities. Initially starting with livestock, agriculture, or various form of currencies, commodity trading has always been fundamental to the global economy (Thaxton 2023). It has taken a new dimension as markets are now used to hedge and speculate, bringing a massive additional volume of transactions.

At the heart of the commodity trading activities is arbitrage, which aims to buy commodities where the supply is abundant and resell them where demand offers price gains (Shipping and Commodity Academy 2024). Major commodities suppliers are typically located in developing countries, while developed countries are rarely involved in the upstream part of the supply chain (UNCTAD 2021). This dynamic reinforces the dependence of economies on commodity markets.

Commodity trading companies, which constantly seek to benefit from these prices anomalies, understand well this trade scheme. Their activities involve sourcing, transporting, storing, transforming, and delivering (Trafigura 2019).

Transportation is a crucial aspect of trading, and this report will focus specifically on shipping, which involves the transportation of goods and raw materials by sea. Like trading companies (Graber 2015), shipping lines operate with very tight margins; often close to zero (Port Economics, Management and Policy 2023). As a result, shipping companies face a highly competitive and unpredictable environment that must be well-managed to survive. Nevertheless, given the international nature of shipping operations, companies have the opportunity to establish worldwide in order to manage their finances effectively. Among these opportunities, tax considerations are crucial for maintaining profits and staying competitive.

Thus, companies often centralize their operations in shipping hubs that offer favorable tax conditions and strategic locations for shipping activities (KPMG 2012). However, the complexity of these operations leads to significant tax challenges. Indeed, recent changes in international tax laws, particularly the Base Erosion and Profit Shifting (BEPS) framework, have introduced new complications. Income tax, which can constitute a significant cost, is constantly scrutinized by tax authorities on issues like transfer pricing, taxable presence, and the beneficial ownership of income (KPMG 2012).

Tax authorities are directly responsible to comply with OECD BEPS program and its Pillar Two framework aiming to set a global minimum tax rate to prevent multinational companies from avoiding taxes (OECD 2023b). For the shipping industry, this framework has unique implications, especially concerning income and tonnage taxation. BEPS Pillar Two could potentially disrupt current taxation methods and affect shipping tax incentive regimes, which are currently key to the industry's survival.

This work examines these unique tax structures, especially after recent changes made by the OECD's BEPS initiative. By studying the tax systems in various nations, it will offer insights into how a shipping company can benefit from these policies in terms of competitiveness and tax burden.

1.2 Research Question & Hypothesis

This research addresses the following question: How does the BEPS Pillar Two shipping carve-out affect income and tonnage taxation in the shipping industry?

The first hypothesis would be that the BEPS Pillar Two framework reduces the overall tax burden for shipping companies.

The second hypothesis would be that the implementation of the BEPS Pillar Two shipping carve-out results in minimal changes to the effective tax rates, when it comes to the income tax of shipping companies, due to existing tonnage tax regimes.

1.3 Aim of the Project

The main goal of this project is to provide a detailed analysis and answer the question regarding the real impact of the BEPS Pillar Two carve-out on the taxation of shipping activities. Ultimately, it should deliver recommendations, as well as a practical decision framework.

In order to meet these objectives, this report starts by exploring the current literature of secondary data available. A primary research is conducted through qualitative personal interviews of tax professionals being fully or closely involved to the shipping industry. Indeed, different aspects of the shipping taxation have been addressed to provide later a valuable discussion with experts' insights.

Ultimately, by combining literature and insights shared by tax professionals, this report aims to spot the potential discrepancies that might exist between what is outlined in explanatory texts or rules, and their actual application and implications in business.

2. State of the Art

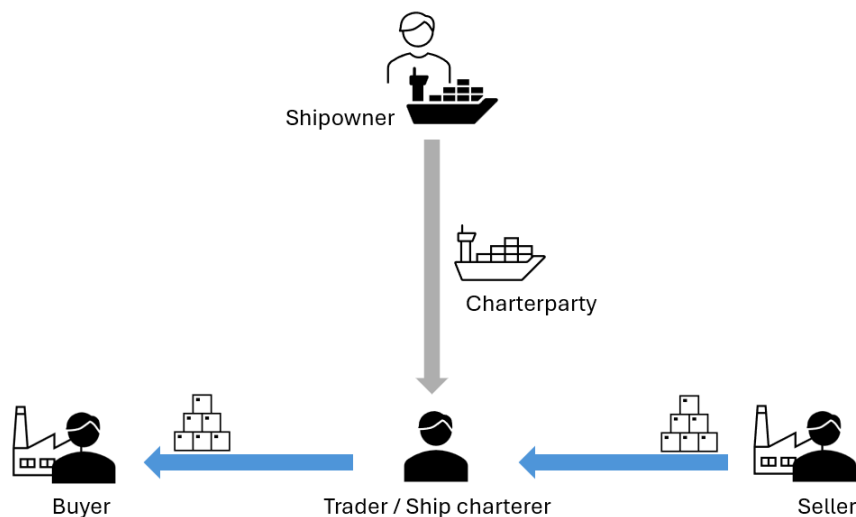
This chapter reviews existing literatures on the taxation of shipping incomes. It examines the legal rules that define tax policies in the shipping industry, analyzes the effects of these policies, and compares how different countries manage these taxes.

2.1 Shipping

Shipping refers to the business of transporting goods and commodities around the world. Although all means of transport are considered as shipping, for the purpose of this thesis, only the maritime route will be studied (Clarksons 2024).

Today, 80 to 90% of international trade logistics are carried by sea (Gutierrez 2023), and this is predicted to grow by 2% by 2028 (United Nations 2023).

Figure 1: Players Relationship



The scheme above illustrates the interactions that exist among the various players in shipping operations. In general, the request comes from a ship charterer, also called trader, who wishes to move cargos from a place of origin to a place of destination. To do this, a ship is needed, and this is why a shipowner rent out (charter out) its ship to the charterer. As a result, the charterer can enjoy the use of a vessel by paying a daily¹ or voyage rate, agreed through a charterparty², to the shipowner.

¹ Also refer to time charter; the lease of a vessel for a fixed period of time.

² A charterparty is a contract between a charterer and a shipowner for the hire of a vessel (Thomson Reuters 2024).

These charter rates correspond to the revenue that a shipowner can expect from renting out its vessel. Thus, it has a direct influence on taxable income; for this reason, in the upcoming sub-chapters, the profitability of vessels will be discussed. However, it is essential to be aware of some specificities related to the markets.

2.1.1 Fleet Fragmentation

As mentioned, the main tool of maritime shipping is a commercial vessel. However, one of the most important aspects of the business is its fragmentation, which relates to the segregation of vessels according to the types of commodities they transport (intra-cargo) and their sizes (intra-fleet). Carrying oil is not the same as carrying corn, or containers, for instance. As a result, there are a number of different types of vessel, which are also split into different categories depending on their usage. The main ones include Dry Bulkers, Tankers, and Containers ships (OneOcean 2021).

2.1.1.1 Intra-Cargo Fragmentation

This initial fragmentation depends on the type of commodities shipped: Tankers carry commodities like oil, petroleum products, gas, and chemicals (International Chamber of Shipping 2023a); Dry-Bulkers transport grains, iron ore, coal, or scrap metals (Clarksons 2023); and Container ships handle most of the manufactured goods, as well as non-liquid or non-bulk commodities (International Chamber of Shipping 2023b).

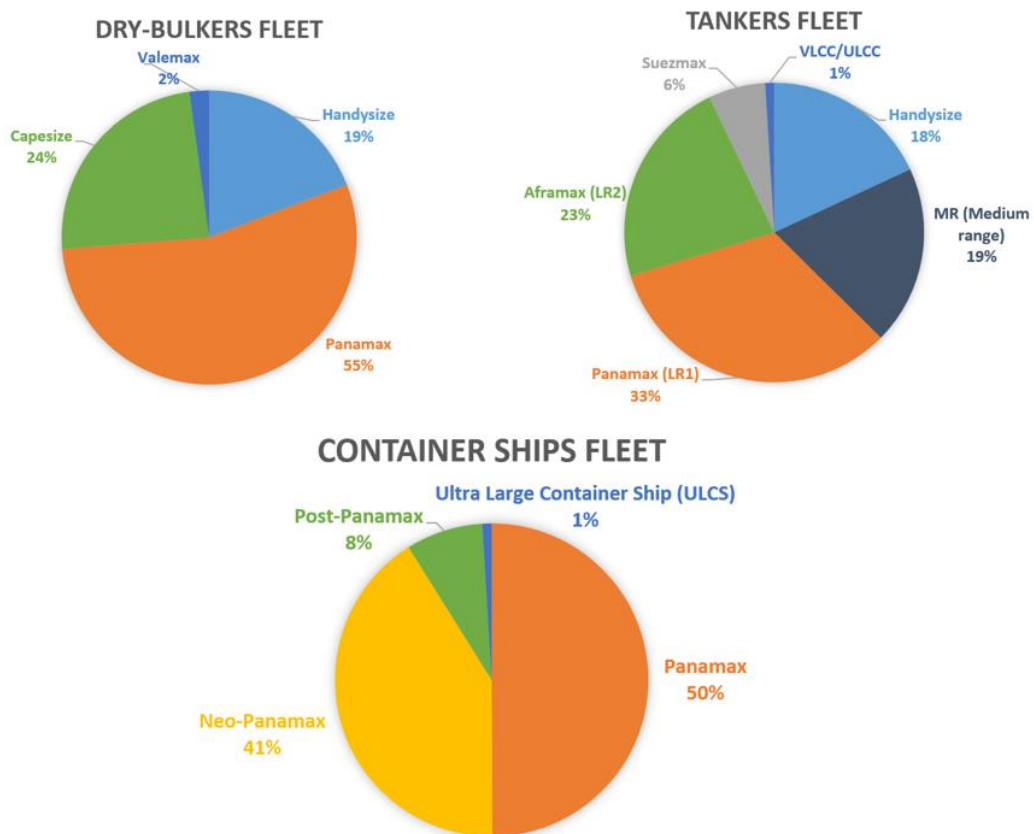
2.1.1.2 Intra-Fleet Fragmentation

Another fragmentation also exists depending on the vessel's carrying capacity. For instance, Dry-Bulk carriers may vary between 10'000 and 400'000 deadweight tons of capacity, from 10'000 to 400'000 deadweight tons for Tankers, and between 3'000 and 25'000 twenty-foot equivalent (TEU) unit for Container ships (Yieldstreet 2019). Such range for the Container ships, would correspond, according to a regression analysis, to 40'000 to 300'000 deadweight tons (Rinauro et al. 2024). As a result, vessels are categorized as Handysize, Panamax, Capesize, Valemax, Ultra Large Container Ship, to name a few (Baltic Exchange 2024a).

2.1.2 Current Fleets

By analyzing the fleets of major players across various markets, insights can be gained about the most commonly utilized vessel types within the industry. An excel analysis³ has been made; as observed in the Figure 2 below, Panamax vessels are largely the preferred choice in this business. An outcome that could be explained by the renown of the Panama canal, which is one of the busiest shipping route in the world (Yildirim 2023), as it connects the Atlantic Ocean to the Pacific Ocean, while drastically reducing voyages' duration (World Economic Forum 2024). It is important to mention that Panamax is a type of vessel characterized by its size, representing the maximum size for a ship navigating the Panama Canal.

Figure 2: Distribution of Vessel Categories per Markets



³ Refer to Appendix 1. An excerpt of major players analyzed: such as MSC (Vessel Tracking 2024a), APM-MAERSK (Vessel Tracking 2024b), or CMA-CGM (Vessel Tracking 2024c) for Container ships; Cargill (Cargill 2024), Oldendorff Carriers (Oldendorff 2024), and Star Bulk (Star Bulk 2024) for Bulkers; as well as Maersk (Maersk 2024), Trafigura (Trafigura 2024), and Scorpio (Scorpio 2024) for Tankers.

2.1.3 Profitability of Vessels

The purchase price of a vessel depends on its capacity, size and specific features, but above all on its usefulness. Indeed, Container ships, Tankers and Bulkers are all priced differently. For instance, around USD 30 mio for a Handysize Bulker (Hellenic Shipping News 2023), USD 60 mio for an Aframax Tanker (Hellenic Shipping News 2023), and almost USD 240 mio for an Ultra Large Container Ship according to the recent buy-in of CMA-CGM (Ang 2023).

Panamax, which appears to be the most used type for maritime shipping, are priced at around USD 40 mio for a Bulker, USD 45 mio for a Tanker (Hellenic Shipping News 2023), and around USD 50 mio for a Container ship.

Like any investment, when an investor purchases a vessel and becomes a “shipowner”, a return on investment (ROI) is highly expected. In order to determine how much a ship can generate, it is necessary to determine the revenues and the costs. Regarding revenues, charter rates represent the daily rental prices for different types of vessels, thus signifying the daily revenue for a shipowner; reports as the one from Banchemo Costa Research deliver such information for Bulkers and Tankers. For instance, from the week 7 of 2024, a Panamax Bulker or Tanker accounted average revenues of USD 13'300 per day, so a bit less than USD 5 mio on a 365 days basis (Banchemo Costa 2024). Regarding the operating expenses (OPEX), they are averaged to 52% for Tankers (Lindhardt 2023), and 33% for the Bulkers (Star Bulk 2023).

In the same way, a Panamax Container ship can account for a revenue of USD 22'878 per day, leading to an annual revenue of more than USD 8 mio (VHBS 2024), which corresponds to the average from historical data gathered (Statista 2024). Nevertheless, regarding its EBIT (Earnings Before Interest and Taxes) margin, latest data available from Q2 2023 amounted to about 9% (Statista 2023), which implies that OPEX correspond to 91% of its revenues.

Finally, from this information, a calculation⁴ has been made on expected Return on Investment (ROI) assuming that interests' costs and taxes are null or included in the OPEX, and without considering any potential expected selling price of the assets. As a result, a Panamax Tanker and Bulker would have a ROI of approximately 5% and 8%, while a Panamax Container ship would not even reach 2% of return. Such disparities might be explained by several industry-specific factors: Carrying dry commodities in bulk

⁴ Refer to Appendix 2.

is less demanding (Cello Square 2023), while tankers necessitate more maintenance and more operating expenditures related to the sophisticated equipment and procedures because of the hazardous nature of the cargoes (Belesis, Kampouris, Fousteris 2024). Ultimately, while Tankers and Bulkers benefit from the economy of scale, Container ships tend to see their operating costs increase as the capacity increases; operating boxes requiring more equipment and workforce (Bernacki 2021). Thus, in terms of investment, it appears more profitable to invest in a Bulker.

Figure 3: Estimated ROI Calculation

Panamax Bulker	Average Revenue	\$	4,854,094.44	
	Average Cost	\$	1,580,365.30	<i>AVG Revenue *33%</i>
	Average Profit	\$	3,273,729.14	
	ROI			8.18% <i>Vessel's price / AVG Profit</i>
Panamax Tanker	Average Revenue	\$	4,854,094.44	
	Average Cost	\$	2,520,245.84	<i>AVG Revenue *52%</i>
	Average Profit	\$	2,333,848.61	
	ROI			5.19% <i>Vessel's price / AVG Profit</i>
Panamax Container ship	Average Revenue	\$	8,350,470.00	
	Average Cost	\$	7,598,927.70	<i>AVG Revenue *91%</i>
	Average Profit	\$	751,542.30	
	ROI			1.50% <i>Vessel's price / AVG Profit</i>

2.1.4 Freight Derivatives

Known as one of the most volatile markets in the world, as demonstrated in the Figure 4 below, freight rates constantly expose players to price volatility. As a result, shipowners and traders use those derivatives as hedging instruments to mitigate those risks (Hayes 2024a), while speculators would look at prices anomalies. Indeed, a shipowner would hedge against falling freight rates, while a trader or charter would hedge against rising freight rates (Alexandridis, Sahoo, Visvikis 2017).

The Baltic Dry Index is used as a benchmark for the price of transporting commodities by sea. It is issued by the Baltic Exchange and is composed of the dry bulk time charter averages of 40% of Capesize, 30% of Panamax, and 30% of Supramax (Baltic Exchange 2024b), all are types of vessels used in the dry market. Thus, it is a good indicator to showcase its high volatility, reinforcing the incentive to hedge those freights in order to reduce the financial exposure.

Figure 4: Baltic Dry Index as of 10th of May 2024 (2020-2024)



Source: (Trading Economics 2024)

Among those freight derivatives, the Forward Freight Agreement (FFA) is the most common instrument (Hayes 2024a). In fact, futures contracts are traded by market participants to agree in advance on a future price of freight, and are directly derived from the spot market⁵ (The Signal Group 2022).

In a nutshell, the reasons behind this volatility can be explained by many factors, such as the seasonality of the demand, political events⁶, operational costs⁷, or a pandemic like the Covid-19, to name a few (Vijaykumar 2024).

2.2 Taxation

In this chapter, the taxation of shipping income is addressed. To do so, various themes that could impact this taxation are elaborated upon.

2.2.1 Flag of Registration

Historically, flags are used to demonstrate the ship's origin. Indeed, in the Ancient Rome, flags of convenience were flight to avoid attack, while in the Middle Ages flags were choose to benefit protection form the port where ships docked in. Thus, a flag state

⁵ Market in which freights are traded for immediate delivery.

⁶ Conflicts in Ukraine or in Middle East, for example, directly affect the shipping industry; shipping routes had to be modified.

⁷ If bunker price increases, it directly leads to higher freight rates.

denotes the nation under whose authority a ship is registered, symbolized by flying that flag. Nowadays, this registration entails adherence to the regulatory frameworks and safety standards set by the flag state, which conducts routine inspections to ensure the integrity of both cargo and crew. Moreover, flag states are responsible for taxes⁸ collection, and for regulate standards of their ships. The establishment of the International Maritime Organization (IMO)⁹ in the 19th century stands as a testament to the common efforts to streamline maritime regulations and ensure standardized safety practices across flag states (MITAGS 2023).

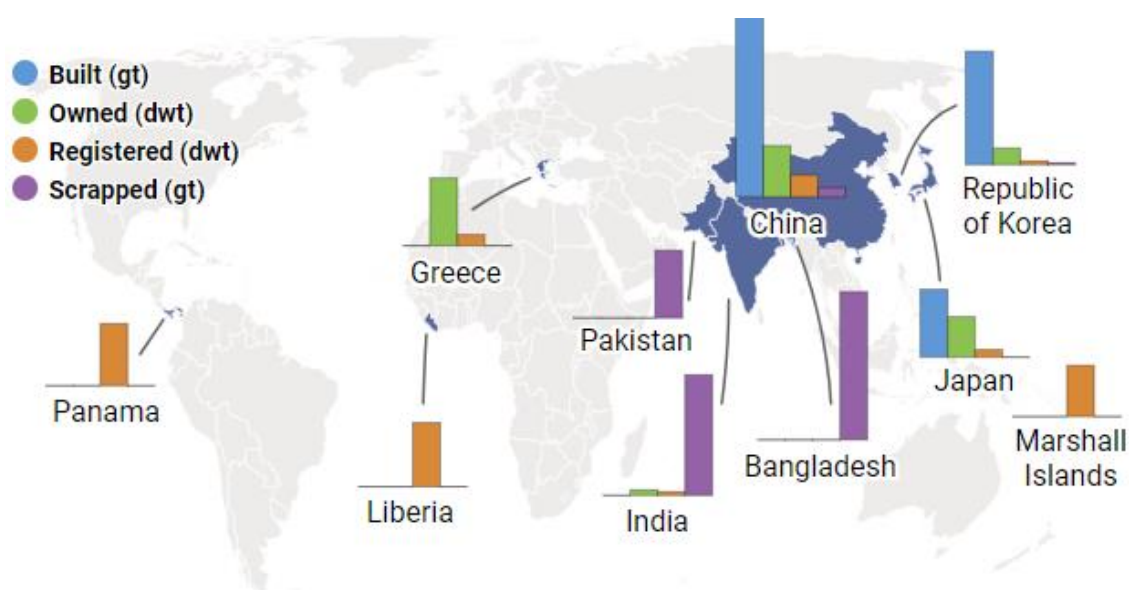
However, the location of the flag is not as straightforward as for a car registered in the canton of Vaud or Geneva, for instance. Indeed, given the international nature of shipping activities, a shipowner has the possibility to register its vessel to a state of its choice. As a result, the flag state defines the rules under which the vessel is subject in international waters, and the tax regime under which it will be taxed (Karan 2021).

It happens that vessels fly the flag of their owners' country; this is known as "traditional" registration, referring to "Traditional Registries" which impose that place of business must be in the country of registration (Shipping and Freight Academy 2022). In contrast, "Open Registries", also known as "Flags of Convenience", have been contentious since their start. Indeed, these registries allow ship owners to register vessels under a flag of a country with which they have no real connection, often to avoid strict regulations in their own nations. As a result, such open systems let ships fly the flag of the registry country at sea, making them subject to their laws (Hunt 2021). Critics argue that open registries, often lead to poor work conditions, lack of safety standards, tax avoidance, and facilitate illegal activities (Karukola 2019). According to the International Transport Worker's Federation, in 2022, 42 countries were declared as "Flag of Convenience"; among these registries, there is Panama, Liberia, Marshall Islands, Malta, or Cyprus, to name a few (ITF 2022).

⁸ The relation between the tax and the flag is open to discussion and will be addressed in the "Results" and "Discussion" sections.

⁹ IMO is an agency of the United Nations responsible for the safety and security of shipping.

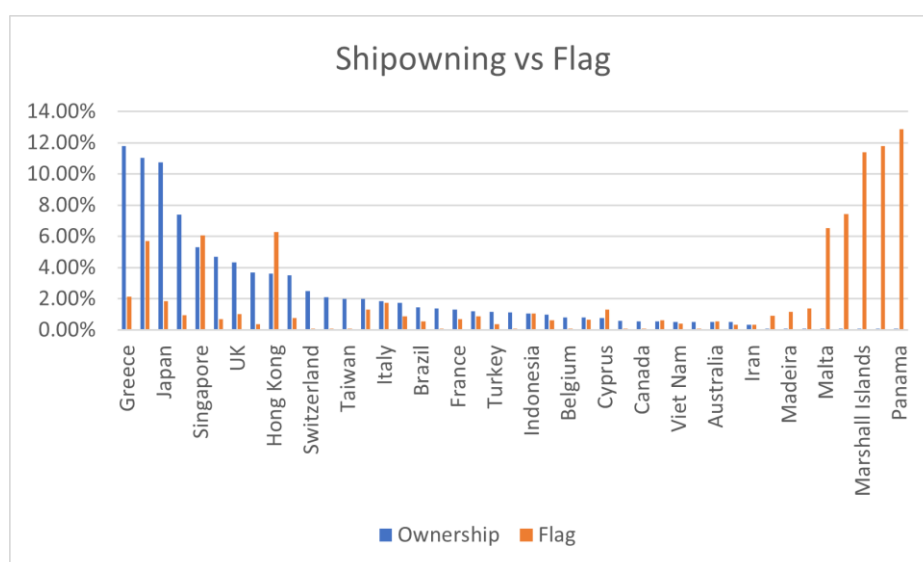
Figure 5: Where are ships owned and registered?



Source: (UNCTAD 2023b)

The figure above demonstrates the differences previously mentioned between the ships owning countries, which are mainly concentrated in Greece and Asia, while flags of registration appear to be in Panama, Liberia, Marshall Islands, and much less in Greece and Asia. Such data provided by Clarksons Research reinforces well the following asymmetry (UNCTAD 2023b):

Figure 6: Disparity between ship owning and flag states¹⁰



¹⁰ Refer to Appendix 3. This figure has been elaborated from UNCTAD's data, in order to better illustrate the disparities.

Indeed, the Figure 6 demonstrates that owners tend to register their vessels in flags of convenience, where regulations related to ships tend to be lighter than in other jurisdictions (RTS 2023a), like Greece, the UK, or the Netherlands, and where taxation systems are quite attractive (European Parliament 2023).

2.2.2 Corporate Income Tax

Corporate income tax (CIT) is a tax that a company pays on its income before tax, which is the money it makes from its business activities before paying taxes. This tax also applies to capital gains (OECD 2022a), which are the profits a company makes when it sells something for more than it paid for it (Chen 2023).

However, an international company is generally subject to the corporate income tax of the Headquarters' place, or of the place of residence, but also of the country in which there is a permanent establishment (PE)¹¹ (Dentons 2024). It is worth to be noted that a permanent establishment generally results on the application of a double tax treaty (DTT)¹², which is an agreement signed by two states to avoid the same profit being taxed twice (State Secretariat for International Finance 2023), and thus allowing the splitting of the profit in two distinct parts. Its significance lies in its role as a threshold for tax liability; it represents a sufficient physical and economic presence in a country, thus granting that country the right to tax the profits that the foreign enterprise generates within its borders (Castro 2012).

Nevertheless, whereas the previous sections of this report suggested a link between the flag of registration and the tax, Article 8¹³ of the Model Tax Convention brings granularity to Article 7¹⁴. Indeed, Article 7 suggests that the profit of a company of a Contracting State¹⁵ must be taxed only in that State, unless the company also carries on business in another Contracting State through a permanent establishment, in which case the corresponding profit must be taxed in that other State. However, Article 8, which deals with international shipping, stipulates that the profit is only taxed in the Contracting State

¹¹ A permanent establishment is defined as a "fixed place of business" within a country. In other words, a place of management, an office, or a natural resource (Bloomberg Tax 2022).

¹² A Double Tax Treaty is a bilateral agreement that aims to avoid double taxation of profit of each of respective tax payers (Kagan 2020).

¹³ Refer to Appendix 6.

¹⁴ Refer to Appendix 6.

¹⁵ A Contracting State is a state that consents to be bound by a treaty.

linked to the international operations, which applies to joint business and operating agencies too (OECD 2017).

In accounting terms, remembering that tax is a percentage applied to the income before tax, i.e. revenue less costs and depreciation (IFRS 2023), it means that it is therefore possible to reduce the tax burden either by increasing costs and depreciation, or by shifting the taxable profit to a more favorable tax regime. Different techniques and opportunities are available for managing taxes. One such method is net operating losses (NOL); it allows a company to apply a previous loss to future income to reduce taxes (Corporate Finance Institute 2023). Another strategy involves transfer pricing in intragroup transactions, which is done by underpricing and overpricing services to benefit the group as a whole (Corporate Finance Institute 2024). Additionally, there is tax shield, which aims to finance a business through debt rather than equity; interests paid on debt are tax deductible, whereas dividend paid to shareholders from equity would be included in profit and thus subject to tax (Kilroy 2023).

In others words, a well-managed tax planning leaves room for profit shifting or debt shifting, which respectively aim to shift the profit in low-tax jurisdictions, and apply the debt in higher-tax countries (Buettner, Erlangen-Nuremberg, Wamser 2012).

2.2.2.1 CIT Rates

In Switzerland, Corporate Income Tax rates vary between 11.9% and 21%, depending on the cantons and communes (PWC 2024a), while the worldwide average is 23.45% (Enache 2023). Thus, it makes the Swiss tax regimes quite attractive on an international level.

Indeed, many countries overlap the global average; some even reach 35%, while others remained at 0% in 2023 (OECD.Stat 2023). Surprisingly, Panama, which is the main flag state in the world (UNCTAD 2023a), has a corporate income tax rate of 25%; higher than the average (OECD.Stat 2023). Regarding the United Arab Emirates, which encounter only few vessels under their flag (UNCTAD 2023b), they did not have a corporate income tax in 2023 (OECD.Stat 2023).

On the international scene, it is therefore understandable for companies to engage in treaty shopping; this means they establish a permanent presence in countries with more favorable tax regimes to take advantage of beneficial double tax treaties (Clark Fernández 2022). However, not all countries have signed tax agreements with each other.

2.2.3 Existing Guidelines

Because of the constant quest to reduce tax burden, the OECD set some guidelines through the BEPS program in order to address abusive behaviors related to tax avoidance.

Historically speaking, in 1948, The Organization for European Economic Co-operation (OEEC) was founded with the goal to collaborate for the reconstruction of Europe after the second World War. Then, it shifted in 1960 from OEEC to OECD in a purpose to achieve a better development of the world economy (OECD 2010).

Thus, OECD, which stands for The Organization for Economic Co-operation and Development, is an international organization that is constantly on the lookout for new policies that can lead to better living for everyone (OECD 2024a), or as the OECD website states: “prosperity, equality, opportunity and well-being for all” (OECD 2010).

In numbers, it corresponds to 38 Member countries (OECD 2024b) that are, with partners, engaged to innovate and find solutions regarding: education, international tax evasion, corruption, health and safety, as well as several others (OECD 2010).

In this report, the international tax avoidance problematic, overviewed by the Base Erosion and Profit Shifting (BEPS), initiated by the OECD, will be elaborated.

2.2.3.1 Base Erosion and Profit Shifting

Base Erosion occurs when a taxpayer makes payments, such as interest or royalties¹⁶, to reduce its profits in the location where the income is initially earned. Profit Shifting, meanwhile, involves moving profits from one place to another through intra-group transactions. Consequently, BEPS refers to the exploitation of tax rule gaps by multinationals to minimize their tax burdens (OECD 2024c).

Such practices directly affect governments’ revenue and their ability to pay for public infrastructures (Bradbury, Hanappi, Moore 2018), as well as impact domestic investments, growth, and employment of the country where the profit has been shifted from (Klemm, Liu 2019).

Consequently, the OECD and G20 countries initiated in 2013 the BEPS’ action plan. In 2015, a report of 15 actions¹⁷ was finalized, covering tax-avoidance practices and

¹⁶ A royalty represents a fee paid to an individual or company in return for the use of their intellectual property, franchise rights, or natural resources (Banton 2024).

¹⁷ An overview of the 15 actions is available in the Appendix 5.

aggressive tax-planning (European Parliament 2016). Today, there is 145 Members of the OECD/G20 Inclusive Framework (OECD 2023a).

2.2.3.2 BEPS 1.0

The original BEPS project outlined 15 actions (OECD 2015a), which were designed to tackle tax avoidance issues that arise when multinationals move operations or shift their intangible assets to lower tax jurisdictions. Additionally, the BEPS project introduced mechanisms and requirements, aiming to more accurately measure the actual tax losses, as well as to enhance the understanding of taxpayers' strategies (European Parliament 2016). None of these actions are legally binding but are expected to be implemented by Members (OECD 2015a).

2.2.3.3 BEPS 2.0

Also known as the Reform of International Tax System, BEPS 2.0, unlike its predecessor BEPS 1.0, has significantly updated the approach to digital transactions, introducing two key pillars (Rödl & Partner 2022). Pillar One emphasizes a more equitable distribution of profits and taxing rights among countries, moving beyond the traditional requirement of physical presence; meaning that multinationals should pay tax where they do business even if they do not have a physical presence. It basically refers to a major overhaul of the nexus rules¹⁸, which were initially intended to safeguard modest countries, particularly in developing areas (OECD 2020b).

Under its Pillar Two, also known as the Global Anti-Base Erosion (GloBE) the OECD implements a global minimum tax rate in order to stop the “race to the bottom” (OECD 2023b). Thus, from January 2024, a global minimum tax rate of 15% has been introduced for multinational enterprises (MNEs), having a global turnover of EUR 750 mio, or more (EY 2023a), for at least two of the last four fiscal years (OECD 2022b). Such equilibrium should probably reduce the incentives to shift the profit, as it used to be done to lower-tax jurisdictions (York 2018).

The Global Anti-Base Erosion proposal under OECD's BEPS 2.0 framework is a pioneering effort to mitigate aggressive tax competition. Its main objective is to establish a regulatory threshold, which entails that if a subsidiary of a parent company, subject to the GloBE criteria, incurs a tax liability below the minimum, the parent entity is obligated

¹⁸ Nexus rules determine when a business's activities in a market are sufficient for it to be taxed there, focusing on economic rather than physical presence, especially in the digital economy (OECD 2020a).

to compensate, aligning with the carve-out amount (OECD 2020c). Consequently, by reshaping the global tax environment, BEPS 2.0 imposes multinationals to a comprehensive strategic reassessment (KPMG 2022).

Nevertheless, according to Article 3.3¹⁹ of GloBE rules, “International Shipping Income and Qualified Ancillary International Shipping Income” are exempted from the global minimum tax rate of 15%. Regarding the Ancillary Shipping Income, the paragraph 3 of Article 3.3 considers “investment income” as part of this exemption and thus not subject to the 15% tax rate (OECD 2021). Such a detail would include investment in port facilities, like shipping majors used to make²⁰, or profit from financial instruments linked to shipping operations, such as freight derivatives²¹ for instance.

Indeed, the GloBE rules are intended to maintain fairness between sectors. However, the unique aspects of international shipping, which can benefit from special tax regimes such as tonnage tax, raise questions about how these rules would be applied to a sector that is generally not taxed on its corporate income; it would have raised the complexity of the rules (OECD 2020c).

As a result, profits from shipping activities are exempted from the new 15% threshold and can continue to benefit from a lower tax rate. However, it appears that the application of a tonnage tax regime might be even more advantageous when looking at the Effective Tax Rate (ETR)²² (Zeldenrust 2023), as will be stated in the following chapters.

2.2.4 Tonnage Tax

Tonnage tax is a taxation opportunity that has been in place for several years in many countries, but it still struggles to gain traction in others. Nevertheless, such an implementation would help the countries that adopt it to strengthen their competitiveness in the international shipping market (ITR 2021). Furthermore, according to the analysis of the financial results of five maritime transport companies, it was demonstrated that the additional profits earned by the three companies that did not choose tonnage tax as their basis for taxation resulted in a significant increase in their tax burden (Sea-Intelligence 2022).

¹⁹ Refer to Appendix 7.

²⁰ In 2023, MSC buy stake in the container terminal of Hamburg (Chambers 2023).

²¹ Refer to the Freight Derivatives part of this report.

²² Effective Tax Rate (ETR) represents the percentage of the taxable income that a tax payer pays in tax (Kagan 2021).

Instead of being taxed on its profit, a shipping vessel can be taxed on its net or gross tonnage depending on the applicable regime. Such a method makes the calculation independent of any profit or loss of the shipping company (PWC 2022). However, if a shipping company opts for the tonnage tax system instead of the standard corporate tax regime, it has to remain in it for a fixed number of years (PWC 2022). Thus, under such a specific scheme, no loss can be taken into account, and that there will always be a tax to pay, and no carried-forward losses.

Although it varies slightly from country to country, the calculation basis usually consists of a table displaying the daily or fixed taxable profit per each, 100 or sometimes 1'000 net or gross tons (EXPERTsuisse 2022). Then, depending on the model, Dutch or Greek, the first coefficient, given by the capacity of the vessel, is either multiplied by the CIT rates or by a rate related to the ship's age (PWC 2022).

In order to benefit from these opportunities, several criteria must be met, depending on the jurisdictions. Obviously, it requires to be engaged in shipping activities; commercial transport for instance. Requirements also exist for ownership, flag, and management (PWC 2022). Some regimes apply certain type of vessels, while others not. Moreover, revenue from ancillary activities, or capital gains, may be subject to limitations (EXPERTsuisse 2022).

Ultimately, the tonnage tax system allows shipowners to benefit from a predictable and stable tax burden, as well as a much lower effective tax rate (ETR) (PWC 2022).

It is therefore essential to understand that the way in which a commercial vessel is taxed depends primarily on the fiscal regime to which it is subject. However, this in turn depends on many other factors, such as the company's place of residence, the flag under which the vessel sails, and whether or not there is a double tax agreement between two concerned states. Thus, it is for this very reason that international mapping of the flag states becomes both necessary and intriguing. Indeed, further research is appropriate to address numerous questions concerning the shipping taxation, keeping in mind the management of optionality, in other words adapting the strategy to the countries concerned.

2.2.4.1 Two Models

There are currently two benchmark models of the tonnage tax that countries can be inspired of: the Dutch model and the Greek model (PWC 2022). On one hand, the Dutch model is the most popular but also the most recent; it differentiates itself by providing a

taxable profit based on the vessel's net tonnage, which is then applied to the usual corporate income tax (PWC 2022). On the other hand, the Greek model, only used by Cyprus, Malta, and Pakistan, has no connection with the corporate income tax; it is calculated firstly on the basis of tonnage and then on the age of the vessel (PWC 2022).

The Dutch and Greek shipping tax models, representing general rules, show distinct approaches to the taxation, qualifications, and registration of maritime vessels, excluding for example ship management from qualifying activities (PWC 2022). Under the Dutch Model, which is applied in multiple countries such as Netherlands, US, UK, Norway, or Japan, taxes are calculated on a sliding scale based on net tonnage for vessels that are either owned or under a bareboat charter, contingent upon meeting certain ownership or tonnage thresholds. This model usually offers an optional 10 years commitment to the tonnage tax system, with no taxation on capital gains, and requires vessels to fly the flag of the country applying the tonnage tax (PWC 2022). The Greek Model uses a strict tonnage tax system based on a sliding scale of gross tonnage and vessel age, with all vessel types qualifying if they meet specific tonnage criteria and are registered under the domestic or an approved foreign flag (Deloitte 2013). Like the Dutch system, it does not tax capital gains but enforces a strict registration requirement, necessitating a domestic management office (PWC 2022).

It is important to note that while these outline general frameworks, specific conditions and specifications can vary within different shipping tax regimes.

2.2.4.2 Some Specificities

When comparing the tonnage tax regimes across several countries, a mix of similarities and contrasts become apparent, highlighting each regime's unique approach to maritime taxation. Thus, this subchapter uncovers similarities, differences, and trends observed among major regimes in the shipping industry relative to tonnage tax.

For instance, the Netherlands and Norway present distinct approaches within their Dutch-inspired models. The Netherlands permits ancillary maritime activities up to 50% of a ship's annual profit (PWC 2022), with a requirement for vessels to fly an EU/EEA flag. Since 2020, flexibility has been introduced, allowing eligibility for the Dutch tonnage tax if at least one vessel in a fleet is EU/EEA flagged (EXPERTsuisse 2022). Additionally, under certain conditions, ship management activities also qualified for the tonnage tax (PWC 2022). Contrastingly, Norway contemplates a complete overhaul of its regime, potentially abolishing the tonnage tax (EY 2023b). It imposes specific constraints on bareboat chartering, particularly in offshore shipping where a maximum of 50% of the

fleet can be chartered out (EXPERTsuisse 2022). For traditional shipping, a limit of 40% of the fleet is set, and bareboat chartering contracts are capped at 5 years (PWC 2024b). Norway's regime also caters to EEA companies operating exclusively within Norway, linking eligibility to vessel ownership or a minimum shareholding in shipping companies (PWC 2022). Additionally, it offers a tax reduction of up to 25% for environmentally compliant vessels (EFTA Surveillance Authority 2017). These differing national strategies highlight the nuanced approaches to maritime taxation and reflect each country's unique maritime economic priorities.

The United States and Japan both adopt protectionist stances in their tonnage tax systems, yet with markedly different implementation strategies. The US, under the Merchant Marine Act of 1920 (Jones Act) (Kenton 2023), enforces a comprehensive tonnage tax influenced by vessel classification and crew citizenship, comprising various tax types including regular, special, and light money taxes (EXPERTsuisse 2022). Eligibility for this regime requires vessels to be self-propelled, US-flagged, with a capacity of at least 6'000 deadweight tons and predominantly operated in foreign trade (PWC 2022). An interesting aspect of the US system is the tax treatment on capital gains: there is no tax levied on the sale of a vessel if it is replaced, and only surplus gains, if any, are taxed (PWC 2022). Conversely, Japan's tonnage tax system, instituted in 2008 to enhance international competitiveness and incentivize the use of the Japanese flag, presents a different focus (Lloyd's List 2007). It emphasizes strict regulations on crew nationality and mandates that Japanese legal entities are the sole beneficiaries of the tonnage tax, with an obligation to transfer foreign vessels to the Japanese registry upon government request (Goda 2021). Unlike many tonnage tax schemes, Japan uniquely applies the regular tax to capital gains (PWC 2022). Both countries' approaches reflect their respective maritime policies: the US with its multifaceted tax structure aiming to protect domestic maritime interests, and Japan with its stringent measures to bolster its flag's presence in global shipping and a distinctive approach to taxing capital gains. These differences underscore the diversity in maritime economic strategies across nations.

The United Kingdom and Malta have both recently amended their tonnage tax regimes, enhancing flexibility and competitiveness but in differing manners. The UK's amendments include a reduction in election periods from 10 to 8 years (BDO UK 2024) and an increase in capital allowances limits to GBP 200 mio (formerly GBP 80 mio) for lessors leasing their vessels to companies subject to the regime, thereby encouraging ship leasing in the UK. These changes aim to make the regime more attractive,

especially for lessors and ship management companies, which are now included under the regime (Rackow 2023). Moreover, the UK has eased access to its regime by eliminating the requirement for vessels to fly a European flag (UK Ship Register 2022). However, to qualify, vessels must meet stringent annual conditions, including tonnage and chartering criteria. Contrastingly, Malta's approach centers around age-based degressive rates (EXPERTsuisse 2022), offering tax benefits for newer vessels while imposing higher taxes on older ships (European Commission 2019). A unique aspect of the Maltese system is the provision for companies to irrevocably opt out of the tonnage tax in favor of standard corporate income tax, providing a distinct choice absent in the UK regime (PWC 2022). These revisions in the UK and Malta indicate a trend towards making tonnage tax regimes more adaptable and appealing to a wider range of maritime operators, reflecting the evolving dynamics of the global shipping industry.

In 1957, Greece was the first country to implement the tonnage tax (International Transport Forum 2019). Today, it ranks first in the world in terms of net tonnage owned (Glass 2023). The Greek regime also uses a table of degressive rates; in which the rate decreases the greater the ship's capacity. However, under the Greek model, there is also a rate based on the age of the vessel, which is progressive; in other words, the older the vessel, the more it is taxed (EXPERTsuisse 2022). It is also applicable to bareboat charterers; renting a ship without the crew, as well as to ship lessee (Zepos & Yannopoulos 2023). Nevertheless, the regime provides for exceptions: notably a 6-year tax exemption if the vessel is built in Greece and registered under Greek flag. In addition, there is potentially a 50% reduction when a vessel operates between Greece and abroad, or only abroad, on a regular basis (PWC 2024c). Although qualifications initially depend on ownership and activities, the latter have been lightened on the ownership aspect (PWC 2022). Indeed, it happens that the Greek tonnage tax applies to foreign flag ships managed by foreign company, but having offices in Greece (Zepos & Yannopoulos 2023).

In summary, while there are common themes such as the inclusion of commercial and auxiliary activities and flag-based requirements, each country's tonnage tax regime reflects its specific maritime priorities and economic policies. The US and Japan's protectionist models contrast with the flexibility and competitiveness of the UK and Malta's systems. The Netherlands and Norway both draw from the Dutch model, but Norway's potential overhaul signifies a notable divergence. Greece's age-based approach and exemptions for local vessels highlight its distinct strategy of protecting and preserving its local operations.

2.2.5 Shipping Incentives

Although some jurisdictions do not use tonnage tax, some regimes remain highly attractive for shipping activities. For instance, in Singapore, all international shipping operations directly linked to a Singapore flag vessel are exempted of tax. However, activities linked to ship management and leasing are subject to tax (Deloitte 2013). Moreover, the Singapore regime features a Block Transfer Scheme, which aims to facilitate Singapore flag growth by providing more advantageous tax burden for shipping companies having a larger fleet under its flag (MPA Singapore 2023).

In Liberia, tax regime is also favorable to shipping activities. In fact, under maritime law, an annual tax of USD 0.40 per net ton is levied, including a minimum corresponding to 2'200 net tons (Liberian Maritime Authority 2002). However, the law also stipulates that shipping companies do not pay income tax. In fact, owning a Liberian flag vessel does not make the company a tax resident, which is also the case for the Marshall Islands (Seward & Kissel LLP 2023); and as a matter of fact, corporate income tax is only paid by tax resident companies (GSL Law & Consulting 2023).

For the Bahamas, the approach to vessel registration is quite radical. In fact, any vessel, including those less than 12 years old, at least 1'600 net tons, and engaged in international trade, can be registered under Bahamian flag (*Ship Registry - Bahamas Investment Authority - Government* 2023). This registration comes with the benefit of being tax-free; in other words exempted of income tax (Higgs & Johnson 2017).

Another example is Panama; it levies a tonnage tax based on the type of vessel and activity. For international trade activities, the Panamanian regime applies progressive tariffs using gross tonnage (GRT) as the unit of measurement (Consulate General of Panama 2024). Then, in addition to its great flexibility with regard to the age of the vessel, its tonnage and the nationality of its owner, the regime provides an exemption from income tax for all international activities (PMA Certification 2023), which can explain that Panama ranks as the 1st flag state in the world.

2.2.6 Potential Tonnage Tax in Switzerland

Although Switzerland ranks 8th among the top maritime nations (DanishShipping 2022), measured in operated tonnage, it still does not offer a tonnage tax regime (Haerberli 2024). In terms of human resources, it represents around 2'000 jobs in Switzerland; such an implementation might, as of 2027, create 7'000 more jobs in the industry, which could increase the Swiss fiscal entries up to CHF 400-450 mio (SUISSENÉGOCE 2017).

In 2023, Nautilus and the Swiss Shipowners Association have also stated that this failure is and will continue to be detrimental to the Swiss merchant fleet; in their view, a tonnage tax is vital in order to keep shipowners under the Swiss flag (The Maritime Executive 2023). Indeed, it would safeguard the competitiveness and attractiveness of Switzerland in the shipping industry (Mazars 2021).

Thus, it makes sense to ask why a country like Switzerland still has not adopted this basis yet. Until now, only a draft law was submitted in May 2022, and it does not seem that it has gained unanimous support as the project is not far from being thrown in the garbage (Haeberli 2024). As a matter of fact, opinions differed on potential unknown losses for public services, and unequal tax advantage due to State revenue shortfalls, and if there would be a real impact on employment prosperity (RTS 2023b).

Nevertheless, if the Swiss tonnage regime were to be born, it would most likely be derived from the Dutch model. Indeed, the draft law provides a degressive rate applicable per 100 NT per day; once calculated, the net taxable profit based on the vessel's tonnage would be taxed at the ordinary Swiss corporate income tax rate. It should be noted that the net taxable profit for ship management would correspond to 25% of what would have been calculated for pure operation. Also, it would also be possible to benefit from a 30% reduction if the vessel had to meet certain ecological requirements. Finally, such a taxation would be valid for 10 years (Confédération suisse 2022).

2.3 Illustrative Example & Comparison

In the realm of maritime commerce, the choice of taxation system for shipping companies can have profound implications on their financial health and strategic decision-making. This case study introduces Lemman Shipping Ltd, a hypothetical but representative shipping company based in Geneva, Switzerland. With a diversified fleet comprising 2 Handysize, 6 Panamax, 1 Suezmax, and 1 Capesize vessels, totalling 700'000 dwt (Deadweight Tonnage), Lemman Shipping presents an ideal subject for examining the contrasting impacts of two prevalent taxation systems: Corporate Income Tax and Tonnage Tax. By delving into this comparative analysis, it aims to elucidate the financial and operational repercussions these tax regimes impose, offering insights into their broader implications within the shipping industry.

Figure 7: Illustrative Example – Lemman Shipping Ltd Fleet

	Capacity (DWT)	Estimated AVG Profit
Handysize 1 (Bulkier)	20,000	\$ 2,787,825.57
Handysize 2 (Tanker)	20,000	\$ 2,787,825.57
Panamax 1 (Bulkier)	70,000	\$ 3,273,729.14
Panamax 2 (Bulkier)	70,000	\$ 3,273,729.14
Panamax 3 (Bulkier)	70,000	\$ 3,273,729.14
Panamax 4 (Tanker)	70,000	\$ 2,333,848.61
Panamax 5 (Tanker)	70,000	\$ 2,333,848.61
Panamax 6 (Tanker)	70,000	\$ 2,333,848.61
Suezmax (Tanker)	120,000	\$ 11,833,427.21
Capesize (Bulkier)	120,000	\$ 5,446,044.95
	700,000	\$ 39,677,856.56

Assuming that Lemman Shipping Ltd is fully anchored in Geneva, Switzerland, it is likely that the entire company's fleet is registered under the Swiss flag. As a result, Lemman Shipping Ltd is inherently subject to the taxation laws and regulations of Switzerland and the Canton of Geneva. Thus, in this scenario, the fleet's profit, based on relatively recent charter rates, totaling approximately USD 39'677'856 per year, falls under the purview of Geneva's Corporate Income Tax (CIT) regime, given the non-existence of a tonnage tax system in Switzerland. Notably, Geneva imposes a CIT rate of 14% (Prieur 2024), which is one of the lowest in Switzerland, while also standing as an attractive proposition on a global level. Moreover, in the wake of international tax reforms, particularly the Base Erosion and Profit Shifting (BEPS) 2.0 framework, Lemman Shipping Ltd finds itself in a favorable position. Indeed, while the Pillar Two BEPS initiative sets a global minimum CIT rate of 15%, the shipping industry, including Lemman Shipping Ltd, benefits from Article 3.3 of the Global Rules and its specific exception carved out within these regulations. This exception allows the company to maintain a CIT rate below the 15% threshold, preserving its competitive tax advantage. Then, under the circumstances, the resulting tax burden would amount to USD 5'554'899²³.

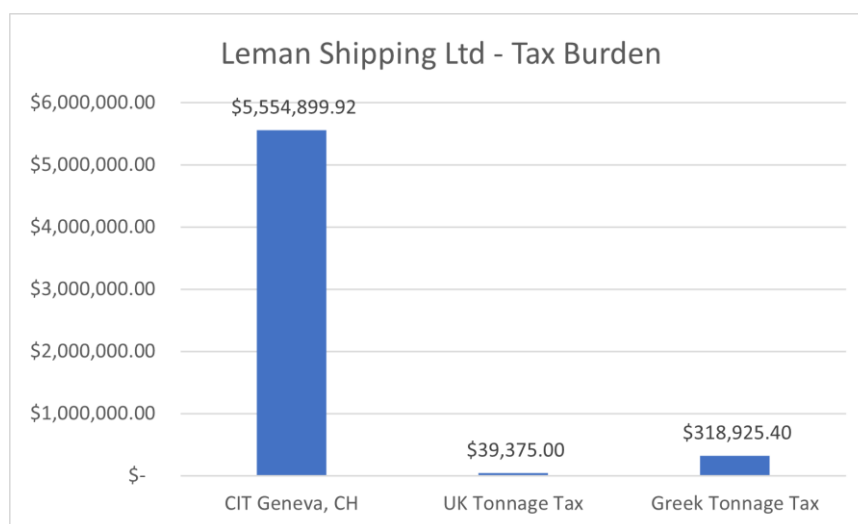
For Lemman Shipping Ltd to capitalize on a tonnage tax system, it is imperative to establish a permanent presence in a jurisdiction where such a taxation mechanism is in place. This move represents a strategic shift in their operational and fiscal planning, allowing them to leverage the benefits offered by a tonnage-based tax system, which could significantly reduce their tax liabilities compared to the corporate income tax regime they currently encounter in Geneva.

²³ USD 39'677'586 x 14% = USD 5'554'899.

Thus, the establishment of a PE in a country with a favorable tonnage tax system involves navigating a complex landscape of international tax laws and agreements. It is not just a matter of establishing a physical presence; it also means understanding and adhering to the local regulations, taxation norms, and managing the associated operational costs (Castro 2012). This strategic decision requires careful consideration, as it can substantially influence the company's overall tax burden and international operational strategy.

For instance, by moving towards a PE in the United Kingdom or in Greece, Lemman Shipping Ltd can transition from a purely profit-based tax system to one that taxes based on the tonnage of their fleet. Thus, considering a 25% corporate income tax rate in the UK (OECD.Stat 2023), as well as an average basis for the age the fleet regarding the Greek tonnage tax calculation (EXPERTsuisse 2022), Lemman Shipping Ltd would be able to reduce its tax burden up to USD 318'925 in Greece, and even USD 39'375 in the UK.

Figure 8: Illustrative Example – Tax Burden Comparison²⁴



As a result, the tonnage tax regime in the UK allows Lemman Shipping Ltd to achieve an income equivalent of USD 157'500, and an effective tax rate of around 0.1%²⁵, which confirmed several statements that argued that tonnage tax could lead to an effective tax rate of less than 1% (PWC 2015). Regarding the Greek regime, considering a 22% corporate income tax rate (OECD.Stat 2023), it “only” allows a USD 1'449'661²⁶ income

²⁴ Refer to Appendix 4.

²⁵ ETR = Total Tax / Earnings before Tax: USD 39'375 / USD 39'677'856 = 0.1%.

²⁶ USD 318'925 x 100 / 22 = USD 1'449'661.

equivalent, for an effective tax rate of 0.8%²⁷. However, such Greek burden may be drastically improved under certain conditions, for example if the vessel is built in a Greek shipyard, or if the latter only operates in foreign ports; such exceptions can respectively lead to tax exemption for 6 years, or a 50% reduction on the final tax burden (EXPERTsuisse 2022).

Finally, while the tonnage tax system appears markedly advantageous for Lemnan Shipping Ltd compared to traditional corporate income taxation, exploring shipping incentive regimes can unveil even more beneficial fiscal opportunities. A strategic example of this is considering an establishment of the operations in Singapore, renowned for its favorable shipping industry tax policies. Indeed, Singapore's maritime-friendly territorial tax system would allow Lemnan Shipping Ltd to be exempted from the tax (Deloitte 2013). This presents a significant financial advantage, even surpassing the reduced tax liability offered by tonnage tax systems.

To conclude, all these results highlight the real benefit of such a tonnage tax system, or a shipping incentive regime. However, this must be balanced with the costs and regulatory compliance associated with maintaining a permanent establishment.

2.4 Conclusion

This review of the literature on how shipping incomes are taxed shows that tax rules in the global shipping industry are complicated but very specific. The literature suggested that the flag of a ship directly affects how shipping revenues are taxed. However, the Model Tax Convention suggests the opposite, showing that the flag mainly has legal implications, not fiscal ones, because of the international nature of shipping. Nevertheless, recent statistics also demonstrate a clear disparity between where shipowners are based and the flags under which their ships are registered.

It worths to be noted that the GloBE rules, part of the BEPS project, mention that incomes from freight derivatives, which are considered "Ancillary" activities, do not need to pay the minimum tax. This gives shipping companies a reason to speculate on agreements like forward freight agreements (FFA) to make more profit, which still benefits from tax carve-outs.

Additionally, tonnage tax systems provide significant tax benefits, often leading to effective tax rates (ETR) of less than 1%. However, there are pure shipping incentive

²⁷ USD 318'925 / USD 39'677'856 = 0.8%.

regimes that might offer even better opportunities, like full exemptions from taxes. We showed with examples that while tonnage tax can lead to very low tax rates, some shipping incentive regimes might offer no taxes at all.

As a matter of fact, these methods are complex; for this reason, a detailed, case-by-case studies are needed to fully understand these schemes and the tax benefits they offer.

Moving forward, this thesis will include information from professionals in the industry. Their experiences will help give a practical view of the opportunities and challenges in creating a tax-efficient strategy for new companies in the international shipping industry.

3. Methodology

3.1 Aim

The goal of this research is to understand the different ways of taxing the shipping industry, especially the freight transport activities. Indeed, among these options, there is the tax on the profit, more commonly known as corporate income tax (CIT). However, there is a less known method that seems to be beneficial for the main parties involved; it is the tonnage tax, which is a tax calculated based on the carrying capacity of a vessel. The fact is, given that both methods are available, companies with shipping activities and respective vessels have the choice in how their income will be taxed.

The questions about these two very different methods become even more relevant when we consider the BEPS Pillar Two, which initially involves a minimum CIT rate of 15% for multinationals with revenues over EUR 750 mio. But the OECD rules include a shipping carve-out, which excludes freight transport revenues from this minimum rate. Thus, this research revolves around two main hypotheses on the impact of the BEPS Pillar Two carve-out: on one hand the foreseen overall tax burden reduction and on the other hand the expected minimal changes to the effective tax rates, when it comes to the income tax of shipping companies, due to existing tonnage tax regimes.

3.2 Procedure

Given the theoretical nature of this research, it is mainly qualitative data that was expected to be collected.

3.2.1 Secondary data

Initially, the plan is to collect secondary data on the shipping industry and to discuss tax methods; namely, the corporate income tax and the tonnage tax. This part is covered through the State of the Art to better understand the nature of this industry and the existing research. Thus, the focus is placed on literature written by experts, consulting firms like the big 4, as well as existing rules, especially those of different tax regimes, and the OECD guidelines.

3.2.2 Primary data

In the next phase, it is important to understand how these opportunities are handled in practice within different companies active in the industry; either shipping companies, or commodity trading companies involved in transport of freight. Therefore, primary data is

collected from professionals in the field, specifically from tax departments of these organizations, and is illustrated in the "Results" section of this research.

Following this, it is necessary to consolidate all the collected data and discuss it to develop a comprehensive understanding of the topic and better address the questions concerning the opportunities available to different organizations, as well as the potential complementarity of these taxation methods.

Table 1: Interviewees Profiles

Professional Title	Type of Company	Market
Global Head of Tax (ITW1)	Major Trading company	Energy
Tax Manager (ITW2)	Trading company	Metals
Senior Tax Counsel (ITW3)	Major Trading company	Agriculture
International Tax Director (ITW4)	Trading company	Energy
Tax Manager (ITW5)	Major Shipping company	Container

3.3 Limitations

The collection of primary data is limited by various factors: It is challenging to contact professionals fully concerned with these issues. Indeed, most of the interviewed companies are part of a group that likely has a shipping arm elsewhere in the world. As a result, the professionals interviewed mostly have only an external perspective on these activities. Additionally, the sensitivity of the information is a limitation; some information are difficult or even impossible to collect.

4. Results

4.1 A Comprehensive Overview of Core Activities & Tax Challenges in the Maritime Industry

4.1.1 Core Activities and Business Models

Companies in the maritime sector are involved in a diverse array of activities, ranging from commodity trading in oil, gas, and agricultural products, to operating shipping and freight services. These activities extend global operations with significant logistical components involving both owned and chartered vessels. The strategic management of these operations is often centralized in hubs like Singapore, Malta, or Cyprus, which are chosen for their favorable tax regimes and strategic geographic locations.

4.1.2 Taxation Challenges and Strategies

The primary taxation challenge highlighted by the interviewees involves navigating the complexities of various tax jurisdictions, especially the costs and risks related to strategic hubs. The companies benefit significantly from incentives such as the 0% tax rate on shipping income in Singapore and similar advantageous arrangements in other jurisdictions, which offer tonnage tax regime for instance. These benefits are crucial for maintaining competitive pricing and managing overall tax burdens.

4.1.3 Roles and Responsibilities in Tax Management

Experts within these companies, ranging from Global Heads of Tax, to Internal Tax Counsels, or Tax Managers, play critical roles in ensuring that all aspects of the company's operations adhere to international and local tax laws. Their responsibilities include providing technical advice on potential tax costs, solving tax-related problems during operations, advising on contract terms to protect against adverse tax consequences, and maintaining compliance with ethical standards and laws.

4.1.4 Operational and Tax Compliance Integration

Managing tax challenges effectively entails seamlessly integrating tax strategy with day-to-day operations across diverse regions and commodities. This integration guarantees that operational decisions, like selecting flags for ships or structuring joint ventures, harmonize with overarching tax efficiency strategies. Employing varied tax regimes strategically, tailored to the specifics of joint venture partners and operational needs, underscores the dynamic nature of tax planning and compliance.

4.1.5 Conclusion

The maritime industry's core activities are closely linked to complex tax challenges that require sophisticated management strategies. Companies utilize strategic geographic locations and favorable tax regimes to optimize operations while ensuring strict compliance with an ever-evolving global tax landscape. The role of tax professionals within these companies is crucial, as they navigate the complexities of international tax law, adapt to regulatory changes, and implement strategies that align with both business objectives and legal requirements. The insights from the interviews highlight the critical importance of integrating operational strategies with tax planning to sustain global competitiveness and compliance.

4.2 Analyzing Decision Factors, Market Influences, and Adaptive Strategies in Shipping Taxation

4.2.1 Acquisition Strategies and Fleet Composition

Companies are increasingly focusing on acquiring new vessels that are environmentally friendly and technologically advanced, reflecting a strong commitment to reducing the carbon footprint. The types of vessels acquired are chosen based on the specific needs of the commodities they transport, and tend to be diversified to serve to various market demands.

4.2.2 Taxation Methods and Strategic Choices

There is a significant emphasis on selecting tax regimes that align with the company's operational hubs and joint venture agreements. Most companies prefer consolidating their tax strategies around hubs like Singapore, which offers attractive marine incentives with a 0% tax rate on shipping income. However, decisions can vary depending on joint venture partners or the specifics of the vessel operations, suggesting a nuanced approach to taxation that considers both the location of management and the partnership dynamics. Indeed, if it is not a shipping incentive regime like Singapore's, a tonnage tax seems to be the preferred option.

4.2.3 Market Dynamics and External Influences

External factors, like global market dynamics and crises, significantly shape strategic tax decisions. Indeed, companies remain agile and prepared to respond to shifts in the economic landscape that may affect their operations. As a result, the preference for tonnage tax stands out for its predictability and suitability in stable or thriving market

conditions, offering manageable tax obligations compared to the potential volatility of corporate income tax. Despite market fluctuations post-COVID, the ongoing global demand for maritime transport reinforces the continued use of tonnage tax. Companies acknowledge the vital role of maritime transport in the global supply chain and tailor their tax strategies to sustain efficient operations during peak and downturn periods.

4.2.4 Conclusion

Overall, maritime companies employ strategic decision-making in both fleet management and taxation to navigate the complex and dynamic landscape of global shipping. Their strategies are tailored to optimize operational efficiency, comply with environmental standards, and mitigate risks associated with fluctuating market conditions and diverse tax regimes.

4.3 Profitability of Vessels

4.3.1 Limited Disclosure on ROI

Interviewees indicated a lack of insight or willingness to disclose specific figures regarding the average annual return on investment (ROI) for their vessels. This non-disclosure showcases the sensitive nature of financial performance data in the maritime industry, which companies might view as proprietary information.

4.3.2 Complexity in Measuring ROI

Furthermore, it can be attributed to the complexities involved in calculating such metrics, which are primarily determined on a case-by-case basis due to the multitude of variables involved, including revenue, financing costs, and tax burdens, to name a few. Moreover, the complexity comes from the use of both owned and chartered vessels, which add difficulty in calculating and segregating ROI by individual vessels.

4.3.3 Conclusion

The responses regarding the profitability of vessels reveal that specific ROI figures are closely guarded and challenging to isolate due to the blended nature of shipping operations that often combine owned and chartered fleet activities. The industry's competitive environment and the diverse operational strategies likely contribute to this guarded approach towards financial disclosures.

4.4 The Impact of Tonnage Tax

4.4.1 Potential Introduction of Tonnage Tax in Switzerland

Most interviewees expressed a nuanced point of view on the potential introduction of a tonnage tax regime in Switzerland. There is a general sense of favorability towards such a regime, particularly as it could create a more structured management framework for shipping operations in Switzerland. Indeed, the introduction of a tonnage tax is seen as a way to potentially retain and attract maritime businesses to Switzerland, which could lead to job creation and economic activity, although it might also lead to reduced tax revenues for the state. Ultimately, the introduction of a tonnage tax could potentially enhance Switzerland's attractiveness as a base for maritime operations, aligning it with other countries that offer similar tax incentives. Finally, from the point of view of one of the interviewee, there would not be so much chance that a Swiss tonnage tax exists one day.

4.4.2 Tax Stability and Strategic Decision-Making

Tax stability is deemed crucial by the respondents, with many emphasizing that a consistent and predictable tax environment is vital for long-term planning and investment. The complexity and variability of traditional regimes were mentioned as challenging, suggesting that a straightforward and stable tonnage tax regime would be preferable.

4.4.3 Tonnage Tax and Environmental Sustainability

While the direct link between tonnage tax regimes and environmental sustainability is not a primary motivator for most companies, there is acknowledgment that such policies could incentivize companies to invest in greener, more efficient vessels as part of a broader corporate sustainability strategy. The responses indicate a recognition that while tonnage tax itself may not drive environmental policies, it forms part of a larger matrix of regulatory and economic factors that can influence corporate behavior towards sustainability.

4.4.4 International Tax Considerations and Challenges

A significant concern highlighted is the interaction of a tonnage tax regime with international tax obligations, particularly in the context of US tax law. The complexity of aligning tonnage tax with US taxation rules, where tonnage tax might not be recognized as an equivalent to income tax, poses a risk of double taxation. This could discourage multinational corporations from benefiting from a tonnage tax if it leads to unfavorable

tax treatment under international laws. Additionally, due to the nature of the tonnage tax, a company may incur a loss yet still be obligated to pay the tax, with no ability to offset the loss against other activities. Consequently, tonnage tax regimes seem beneficial primarily for pure shipping companies but hold little interest for trading houses.

4.4.5 Conclusion

The existence of tonnage tax regimes globally offers opportunities for maritime businesses but also raises concerns about tax revenues and international tax laws. While such regimes could enhance management frameworks and attract maritime activities, their applicability for certain companies is limited. Successful implementation will require careful consideration to align with international obligations and diverse stakeholder interests in the maritime sector.

4.5 The Role of Flag States in Shaping Shipping Taxation and Corporate Strategy in the Maritime Industry

4.5.1 Factors Contributing to the Disparity Between Ship Owning and Flag States

Interviewees pointed out that the choice of a flag state often revolves around legal and operational advantages rather than direct tax benefits. Indeed, flags of convenience, such as Liberia or Panama, are popular because they offer regulatory ease, lower costs, and flexible legal requirements, which are attractive for minimizing operational overheads and liabilities. This setup allows companies to navigate international waters in a cost-effective manner while adhering to less strict regulations.

4.5.2 Impact of Flags of Convenience on Corporate Strategies

The use of flags of convenience has significant implications for corporate strategies, particularly in terms of risk management and compliance. Companies tend to prefer flag states that align with their sustainability and labor standards, thereby avoiding potential reputational risks associated with flags that do not enforce strict regulations. Nevertheless, it also exists reasons behind the use of flags of convenience, such as reduced bureaucracy and the ability to operate more freely on a global scale, which can lead to enhanced competitiveness.

4.5.3 Taxation and Flag States

While direct taxation of shipping profits might not be affected by the flag state due to international maritime regulations, the strategic choice of flag can impact indirect taxation and operational freedom.

4.5.4 Legal and Compliance Issues

Legal and compliance issues are paramount in the choice of flag. Companies need to manage their liability and ensure that they can operate within an acceptable legal framework that does not unduly expose them to international disputes or compliance failures. The use of Special Purpose Vehicles (SPVs)²⁸ to manage individual ships under different flags is a common strategy to isolate risks and manage liabilities effectively.

4.5.5 Challenges with Permanent Establishments

A recurring theme in the responses was the strategic avoidance of creating permanent establishments in foreign countries to prevent local tax obligations. The operations are structured so that local agencies play minimal roles, which do not qualify as permanent establishments under international tax laws. This careful management ensures that the core revenue-generating activities remain centralized in favorable tax jurisdictions like Switzerland or through entities in strategic locations like Singapore, Malta, or Cyprus.

4.5.6 Conclusion

The choice of flag state is a strategic decision that impacts various aspects of shipping operations, from legal liability and compliance to tax optimization and corporate reputation. Companies in the maritime industry must balance the benefits of operational flexibility and cost reduction offered by flags of convenience against the potential risks and challenges of regulatory compliance and international taxation. The insights from the interviews underscore the complexity of these decisions and the nuanced approaches companies adopt to navigate this multifaceted landscape.

²⁸ A Special Purpose Vehicle is a subsidiary that has been created by a parent company in order to manage its financial risks exposure (Hayes 2024b).

4.6 Compliance and Strategy in the Wake of BEPS Standards for International Shipping

4.6.1 Adaptation to BEPS Standards

Shipping companies are evidently integrating BEPS guidelines into their broader tax and operational strategies to ensure compliance while minimizing tax burdens. This involves structuring operations to avoid the risks of double taxation and ensuring that income from shipping activities is maximized within legal frameworks. Strategies such as using long-term charters layered with short-term opportunities help in optimizing taxable income while adhering to market conditions and BEPS norms.

4.6.2 Perspectives on BEPS 2.0 Carve-Out for Shipping

The exemption granted to shipping activities under BEPS 2.0 is perceived differently among stakeholders. Some see it as a continuation of beneficial treatment similar to tonnage tax regimes, particularly advantageous in jurisdictions where shipping activities already enjoy favorable tax treatment, like Singapore. This exemption allows shipping companies to maintain competitiveness and operational efficiency without the added burden of the global minimum tax that other sectors might face.

4.6.3 Comparative Advantage of BEPS Exemption vs Tonnage Tax

While the BEPS exemption is welcomed, there is a consensus that traditional tonnage tax regimes or other shipping incentives may offer more substantial benefits, particularly because they are designed specifically for the shipping industry and often provide more predictable and lower tax rates. The BEPS carve-out is seen as complementary but not as impactful as regimes wholly dedicated to the maritime sector.

4.6.4 BEPS 2.0 Opportunities

Shipping companies employ sophisticated transfer pricing strategies to ensure compliance with BEPS standards, particularly in managing base erosion. This includes setting charter rates based on market conditions, employing hedging strategies to stabilize income, and optimizing operations through strategic chartering. These practices not only align with BEPS recommendations but also present significant opportunities. For instance, profits from related activities such as Forward Freight Agreements (FFAs) are exempted from GloBE rules and the minimum tax.

4.6.5 Global Compliance and Operational Challenges

The international scope of shipping operations requires navigating a complex landscape of tax jurisdictions, each with its own compliance demands and risks. Companies must carefully manage their operational presence to avoid creating taxable permanent establishments in jurisdictions without favorable tax treaties. The use of Article 8 of the OECD Model Tax Convention²⁹ protect shipping income from local taxes, aligning with global operations centered in strategic hubs.

4.6.6 Conclusion

The shipping industry's response to BEPS 2.0 standards reflects a strategic alignment of tax planning with operational flexibility. Companies are leveraging exemptions and existing tax incentive regimes to maintain competitive advantages while adhering to international compliance standards. The ongoing challenge for shipping companies will be to balance these strategies within a constantly evolving global tax environment, ensuring that they not only comply with BEPS standards but also capitalize on the specific exemptions and benefits available to their industry.

4.7 Balancing Environmental Regulations, Labor Laws, and Compliance Risks with Strategic Tax Decisions in Shipping

4.7.1 Environmental and Labor Law Considerations in Tax Planning

Environmental regulations and labor laws play a significant role in shaping the operational strategies of shipping companies but have a relatively indirect impact on the choice of tax regimes. Companies prioritize compliance with environmental standards and labor laws, integrating these into their broader operational frameworks. The adoption of low-emission ships, compliance with safety standards, and the use of emission certificates are examples of how environmental considerations are embedded in operational decisions rather than tax strategy directly.

4.7.2 Public Perception and Tax Strategy

A recurring theme across the responses is the importance of managing public perception related to tax planning strategies. Companies are increasingly cautious about adopting aggressive tax strategies that could lead to negative public exposure or be perceived as unethical. The balance between legal tax optimization and moral obligations to the public

²⁹ Refer to Appendix 6.

and stakeholders is a delicate one, with companies aiming to stay "under the radar" and avoid actions that might lead to reputational damage.

4.7.3 Tax Planning vs. Compliance Risk

Companies are mindful of the risks associated with non-compliance in an international regulatory environment that is becoming increasingly stringent. The goal is to ensure stability and predictability in tax costs, allowing for better risk management and long-term planning without unexpected tax liabilities.

4.7.4 Strategic Adaptation to Regulatory Changes

The maritime industry is undergoing significant changes due to new environmental regulations, such as the ban on high sulfur fuel oil and the requirement to surrender CO2 certificates for shipping activities within EU waters. These regulations are pushing companies to explore innovative technologies like retrofitting vessels for low-carbon fuels and considering alternative energy sources like ammonia, ethanol, and hydrogen. These operational changes, driven by environmental compliance, indirectly influence tax strategies as companies might seek jurisdictions that support green initiatives through favorable tax incentives.

4.7.5 Integration of Environmental and Tax Compliance

Overall, shipping companies are integrating their compliance with environmental and labor laws into their broader corporate strategies, which include tax planning. While direct tax regime choices are not primarily driven by these factors, the operational adjustments required to comply with such regulations can influence overall corporate strategy, including how and where companies decide to allocate their resources and manage their tax liabilities.

4.7.6 Conclusion

In conclusion, the maritime industry exemplifies how companies navigate the complex interplay between operational compliance (environmental and labor), strategic tax planning, and public perception. While tax regime choices are not directly driven by environmental and labor considerations, these factors significantly influence overall corporate strategies, shaping how companies operate in a globally connected and regulated market environment. The responses highlight a shift towards more responsible

and transparent tax practices, aligning operational and compliance strategies with ethical standards and public expectations.

4.8 Anticipating Regulatory Changes and Leveraging Technology for Optimized Compliance

4.8.1 Anticipation and Adaptation to Regulatory Changes

Maritime companies actively monitor the regulatory landscape to anticipate changes that could affect their tax strategies. This proactive approach involves staying informed about potential regulatory shifts, such as those related to global minimum taxation and the tonnage tax regime. Companies often have advanced warning of these changes, which allows them to prepare and adjust their strategies accordingly. The dialogue between companies, advisors, and regulatory bodies helps shape these regulations to be as favorable as possible, enabling companies to minimize the impact on their operations.

4.8.2 Strategic Planning for Sudden Regulatory Changes

For sudden changes in tax regulations, companies emphasize the importance of flexibility in their strategic planning. They maintain readiness to adapt quickly, which often involves reassessing which jurisdictions are most beneficial for their operations. This agility ensures that they can respond effectively to changes that might arise unexpectedly, safeguarding their operations from potential disruptions.

4.8.3 Leveraging Technology in Tax Strategy

Technological advancements play a crucial role in enhancing the tax strategies of maritime companies. The use of sophisticated software tools helps these companies predict risks, anticipate tax changes, and optimize cargo operations. Technology provides valuable data that aid in making more informed decisions, allowing companies to position themselves favorably within the regulatory framework. This includes tools for transfer pricing, benchmarking charter rates, and assessing the financial impact of placing companies in different jurisdictions.

4.8.4 Impact of Technology on Decision-Making

The integration of technology into tax strategies not only helps in compliance and risk management but also improves the overall efficiency of operations. The ability to access real-time data and predictive analytics supports better decision-making, aligning

operational strategies with tax planning to maximize profitability while remaining compliant with international tax laws.

4.8.5 Conclusion

In the context of an increasingly complex and dynamic regulatory environment, maritime companies are utilizing a combination of strategic foresight and technological innovation to navigate tax regulations effectively. By anticipating regulatory changes and leveraging advanced technologies, these companies enhance their ability to adapt quickly. This approach not only mitigates risks associated with regulatory changes but also positions these companies to take advantage of new opportunities as they arise, maintaining competitiveness in the global market.

5. Discussion & Recommendations

Following a detailed presentation of the results from interviews with tax professionals within the shipping industry, this discussion part aims to look more closely at the primary data collected and connect it to what has been elaborated in the literature review. The goal of this section is to interpret these findings in light of this thesis objective, which is to understand how shipping income taxation aligns with the BEPS Pillar Two carve-out and strategic tax regimes used in the industry.

As a matter of fact, this research showcases discrepancies between the literature and the real world; theories do not fully capture how complex and varied the reality is. Thus, several topics will be addressed, including the strategic use of shipping hubs to capitalize on favorable tax regimes, the application and implications of tonnage tax as a special tax rule, and other specific carve-outs provided under BEPS Pillar Two. Additionally, the choice of which country's flag a ship sails under and why it matter, as the environmental and social concerns will be discussed.

5.1 Discussion

5.1.1 Strategic Shipping Hubs

Strategic shipping hubs like Singapore, Malta, or Cyprus, to name a few, are crucial for shipping companies interviewed seeking tax optimization. These hubs are not only geographical conveniences but also provide substantial tax incentives such as reduced or zero tax rates on shipping income. Indeed, as explained in the literature, while Singapore's regime used to provide tax exemptions under The Income Act 1947 for shipping companies operating both Singaporean and foreign ships (Inland Revenue Authority of Singapore 2023), an additional tax option will come into force from the beginning of 2025. This new alternative is linked to the net tonnage of ships and became effective to anticipate any regulatory compliance with other regimes and preserve the maritime hub' status of Singapore (PWC 2024d).

The status of being a maritime hub is shared with countries like Malta or Cyprus, both of which provide a tonnage tax regime. Similarly to Singapore, Malta and Cyprus provide tax advantages for the shipping industry, covering a broad range of maritime and ancillary services, also incentivizing environmental concerns³⁰ (EXPERTsuisse 2022).

³⁰ Refer to subchapter "Corporate Responsibility at Sea".

Overall, results align with literature that notes the strategic selection of jurisdictions for tax advantages. However, discrepancies lie in the practical depth of strategic management and integration with global operations, which is often understated in the literature.

5.1.2 Impact of Tonnage Tax

Indeed, while the literature suggested several options for revenue from shipping activities, the primary data rather indicates a common strategy for all shipping activities, which is to benefit from tonnage tax, or total exemption, in all cases. Thus, the BEPS Pillar Two carve-out, discussed below, would not be an option to consider as such, but rather the tool allowing these existing tax advantages for shipping income to continue.

As a matter of fact and as seen in the literature of this report, the effective tax rate (ETR) relative to tonnage tax could be lower than 1%. A minimal and almost non-existent rate when compared to what the exemption of shipping activities under GloBE rules provides. As such, this exemption simply means that such revenues are not subject to the 15% minimum, for example, offering the possibility for Swiss shipping revenues in Geneva to continue to be taxed at 14%; yet not making them attractive compared to shipping hubs.

Moreover, the literature often overlooks the nuanced decision-making process behind opting for tonnage tax, including its interaction with other tax obligations under different jurisdictions. Indeed, tonnage tax is, by nature, not an income tax. Thus, certain jurisdictions may not recognize tonnage tax as a foreign income tax and would not allow it to be deducted domestically, leading, in some cases, to double taxation of income³¹.

Also, tonnage tax would be mainly interesting for pure shipping companies. Indeed, as precisely explained by the Maltese regime (EXPERTsuisse 2022) and highlighted during an interview³², a loss from an activity cannot be used to offset the profit from another. Especially knowing that under the tonnage regime, even a loss implies a tax, as it is in no way impacted by the financial result. These lines also justify the reasons why trading companies create a shipping arm for their maritime transport activities.

Thus, the real-world application shows that tonnage tax serves as a crucial factor in strategic financial planning, not only providing stability in a volatile market, but as a necessity in order to compete with other companies active in the field.

³¹ In these cases: foreign tonnage tax + domestic corporate income tax.

³² Refer to Appendix 10.

5.1.3 BEPS Pillar Two as a Safe Harbor for Shipping Tax

In the existing literature, shipping carve-out is not extensively covered; it mainly tends to focus on the broad impact of BEPS Pillar Two, respectively GloBE rules, across various sectors. Nevertheless, the interviews suggest that the carve-out for shipping serves as a safe harbor for the industry. Indeed, it basically allows the industry to maintain its competitive edge, particularly in shipping hubs.

Furthermore, although briefly mentioned in the literature, an interviewee highlighted the opportunities offered by BEPS Pillar Two regarding ancillary shipping activities. Indeed, among these, hedging activities are included and therefore excluded from the minimum tax. Thus, for example, Forward Freight Agreements (FFAs), often not well known, should be more considered, as the income from these could, in regimes like those of Singapore (Maritime and Port Authority of Singapore 2024), Malta (Gonzi & Associates 2020), or Cyprus (Russell Bedford 2021), be exempt from tax.

5.1.4 Implications of the Flag

The choice of flag under which a ship sails can have various implications. While the literature mainly advanced an economic impact, including tax benefits, the results suggest otherwise. Indeed, the tax aspect, although subject to questioning in the literature, has proven to be a misconception, which indicates a gap in the literature regarding the comprehensive implications of flag choices. It turns out that the flag has no impact on how shipping income is taxed but has only a legal impact. What was certainly a lack of clarity is now supported by Article 8³³ of the OECD Model Tax Convention, which protects shipping companies: Only the Contracting State of the company is able to levy tax on the profit realized.

A legal impact that can be illustrated by the event of March 2024, when a container ship registered under the Singapore flag has completely destroyed the Francis Scott Key Bridge in Baltimore³⁴. Indeed, since the incident occurred in US waters, the case will be handled by American authorities. However, if an incident had occurred in international

³³ Refer to Appendix 6.

³⁴ On the 26th of March 2024, a container ship, called the Dali, registered in Singapore crashed into the Francis Scott Key Bridge in Baltimore, in the US. It causes deaths and massive damages.

waters³⁵, authority would have been granted to the Singaporean authorities (Llewellyn 2024).

Also mentioned in interviews but often under-explored in the literature, the choice of a flag, while flexible, is not to be taken lightly. Indeed, beyond political and social impacts, the choice of flag can have an indirect effect on profit taxation. For instance, like the Cyprus, a specific regime might require EU or EEA flags to be eligible for its tonnage tax.

5.1.5 Corporate Responsibility at Sea

During interviews, companies have demonstrated commitment to their environmental and social impact. Indeed, today, the industry accounts for 3% of global emissions, and 10% if no action is taken (Transport & Environment 2023). However, major players have advanced their acquisition strategies toward new technologies aimed at reducing their carbon footprint. A significant factor that would also, as exposed in the literature of this report and according to existing regimes, reduce the tax burden through additional reductions in taxes linked to more responsible practices; Singapore, Malta, and Cyprus are notable examples of this.

5.2 Recommendations

As a result, recommendations can be proposed to enhance the strategic and financial planning of shipping activities, while considering tax optimization, regulatory compliance, and corporate responsibility.

5.2.1 Leverage Strategic Shipping Hubs

The first recommendation is to establish or expand operations in hubs, like Singapore, Malta, or Cyprus, to benefit from their favorable tonnage tax regimes and other tax incentives. Moreover, each of these locations offers substantial advantages, including reduced or zero effective tax rates on shipping income and broad coverage of maritime and ancillary services.

³⁵ Maritime zones not under the authority of any state.

5.2.2 Utilize Tonnage Tax

Within these hubs, opt for tonnage tax regimes³⁶ to achieve a lower effective tax rate, often below 1%. In addition to that, such taxation method provides significant financial stability and competitive advantage in a volatile market. In any case, it is important to stay informed about the latest regulatory changes, such as new tax options; it will ensure compliance and maximize benefits under the updated tax regimes.

5.2.3 Create a Shipping Arm

In the case of a commodity trading group having shipping activities, it is suggested to create a dedicated shipping arm to utilize the tonnage tax regime effectively. Indeed, such a segregation ensures that incomes stay under this specific entities and are not taxed a second time in a jurisdiction that does not consider tonnage tax as a foreign income tax. Also, among several other reasons, it would allow to leverage transfer pricing rules to allocate the more income under the shipping arm, optimizing the overall tax burden across the group.

5.2.4 Maximize BEPS Pillar Two Opportunities

First of all, BEPS Pillar Two carve-out must be considered as a safe harbor to maintain existing tax advantages for shipping income, in shipping hubs.

But it is essential to consider it as a massive opportunity to enhance ancillary activities. Indeed, among these opportunities is the possibility to cover freight exposure more extensively; more than just a hedge, it represents an additional source of gain that benefits from the tax advantages offered by shipping hubs. Thus, whether in the case of a pure shipping company or a commodity trading group, focusing more on freight speculation and hedging holds great promises.

5.2.5 Consider Implications of Flag Choices

Even if the flag has no direct implication on the shipping income taxation, it might have an indirect one when it comes to meet flag requirements to enter in a specific tax regime. Moreover, it is essential to recognize that a flag has legal implications regarding compliance with international regulations.

³⁶ It worth to be noted that even in Singapore, that initially offers a full tax exemption for shipping activities, choose the tonnage tax system, effective from 2024, would be a relevant choice.

5.2.6 Commit to Corporate Responsibility

The last recommendation would be to intensify the adoption of new technologies on vessels to reduce carbon footprints and demonstrate a commitment to environmental and social responsibility. This not only addresses global emissions but can also lead to significant tax reductions and a better public perception.

5.3 SKARE Decision Framework

With the ambition to serve companies active in shipping activities, the SKARE framework, developed by the thesis' author, aims to help to select the most suitable tax regime to optimize tax efficiency while aligning with their strategic and ethical goals.

5.3.1 Define the Scope

The company is invited to analyze elements such as fleet composition, business activities, regulatory compliance, corporate values, public perception, and environmental and social standards. This comprehensive approach ensures that all relevant factors are considered in the decision-making process.

5.3.2 Identify Key Decision Areas

In this second part, the entity must identify the characteristics that may influence its decision. Indeed, it includes determining whether the company is a pure shipping entity or a commodity trading group, listing of the owned fleet³⁷, considering company values. But also ensuring compliance with international and local regulations, and finally adhering to environmental and social standards are also essential for responsible business practices.

5.3.3 Develop Alternatives

Then, additionally to the preferred regime, alternatives must be identified. Those should include at least another shipping incentive regime, as well as a standard corporate income tax regime. In other words, if the preferred regime is Cyprus, Malta or Singapore might be chosen as similar regime, and Switzerland could be selected to compare it with a traditional corporate income taxation. These alternatives provide a basis for comparison to identify the most suitable tax regime for the company's specific context.

³⁷ The listing of the fleet must include: types, sizes, capacities, and flags.

5.3.4 Integrate Recommendations

This step is not mandatory but suggests to consider the potential integration of recommendations³⁸ and their respective feasibility. This will help identify limitations in decision-making.

5.3.5 Evaluate Methods

Finally, using a scoring model, the company will be able to evaluate each tax regime based on various criteria. Thus, scores from 1 to 3 are assigned to each criteria, allowing the comparison of alternatives. This method provides a structured approach to identifying suitable tax regime, ensuring informed and strategic decision-making.

Table 2: SKARE Scoring Model

Criteria	Preferred Regime	Similar Regime	Standard Regime
Tax Efficiency			
Relevance			
Feasibility			
Compliance			
Risks			

³⁸ Refer to Recommendations part.

6. Conclusion

6.1 Outcome of the Study

The recent reform of the Base Erosion and Profit Shifting (BEPS) framework has introduced new complexities and questions regarding its implications for taxation in the shipping industry. For this reason, this thesis aimed to analyze the impact of the BEPS Pillar Two carve-out on income and tonnage taxation in the maritime industry. For now, the findings of this research lead to a clear conclusion: The BEPS Pillar Two carve-out is the fundamental reason why shipping activities continue to benefit from favorable tax burdens.

The nuance lies in the method by which the income derived from shipping is taxed: As a matter of fact, the study unveils that companies in the maritime sector benefit significantly from operating in strategic hubs, capitalizing on favorable tax regimes and incentives. These benefits are crucial for maintaining competitive pricing strategies and managing tax burdens. Indeed, it becomes evident that taxing shipping activities based on traditional corporate income, devoid of tailored advantages reserved for this specific industry, such as tonnage taxation or total exemption, would make very little sense.

For these reasons, it is erroneous to compare the tax burden under corporate income tax, to the tax burden under a favorable regime. Indeed, the BEPS Pillar Two carve-out does not reduce the tax burden per se but allows favorable regimes to persist. Furthermore, an exemption from the minimum tax of 15% would not suffice on its own, not allowing to compete with what shipping incentives regimes can offer; it is on these grounds that the results demonstrate that the BEPS Pillar Two carve-out only impacts regimes already favorable for these activities.

In addition to that, the study emphasizes that the resonance of this exemption would offer many other edges. In specific shipping hubs, certain ancillary activities are already exempt from taxation, and can therefore continue to be so under BEPS Pillar Two. Moreover, it is worth to be noted that shipping companies can incorporate BEPS standards into their tax strategies to align with international norms while preserving their competitive edge.

Finally, through the SKARE decision framework, the issue of optionality has been integrated. Therefore, with this method, shipping companies have the opportunity to employ a flexible strategy that adapts to any type of corporate structure and incorporates recommendations stemming from this research.

6.2 Limitations and Recommendations for further research

Future research could focus on the economic impact of shipping hubs on local and global scales, assessing whether they contribute to or mitigate tax competition. Additionally, investigating on how tonnage taxes align with or conflict with international efforts like BEPS, particularly in light of evolving global tax norms, would be valuable. It would be also insightful to explore how these carve-outs affect the competitive landscape of international shipping and whether they meet the intended goals of fairness and transparency in global taxation. Furthermore, it exists a need for a deeper analysis of how flags of convenience affect global shipping governance, balancing economic benefits with ethical considerations. Further study should examine how these factors interact and influence each other in the long-term strategic planning of shipping companies.

References

- ALEXANDRIDIS, G., SAHOO, S. and VISVIKIS, I., 2017. Economic information transmissions and liquidity between shipping markets: New evidence from freight derivatives. In : *Logistics and Transportation Review*, pp. 82–104.
- ANG, Irene, 2023. CMA CGM on the hunt for up to 10 ultra-large container ship newbuildings. *TradeWinds | Latest shipping and maritime news* [online]. 9 May 2023. Retrieved from : <https://www.tradewindsnews.com/containerships/cma-cgm-on-the-hunt-for-up-to-10-ultra-large-container-ship-newbuildings/2-1-1447601> [accessed 1 March 2024].
- BALTIC EXCHANGE, 2024a. Main Vessel Types. *Baltic Exchange Consumer* [online]. 2024. Retrieved from : <https://www.balticexchange.com/en/who-we-are/guide-to-modern-shipping/main-vessel-types.html> [accessed 25 February 2024].
- BALTIC EXCHANGE, 2024b. Indices. *Baltic Exchange Consumer* [online]. 2024. Retrieved from : <https://www.balticexchange.com/en/data-services/market-information0/indices.html> [accessed 10 May 2024].
- BANCHERO COSTA, 2024. *Bancosta-Weekly-2024-07* [online]. Retrieved from : <https://www.hellenicshippingnews.com/wp-content/uploads/2024/02/Bancosta-Weekly-2024-07.pdf> [accessed 1 March 2024].
- BANTON, Caroline, 2024. What Is a Royalty? How Payments Work and Types of Royalties. *Investopedia* [online]. 2024. Retrieved from : <https://www.investopedia.com/terms/r/royalty.asp> [accessed 8 May 2024].
- BDO UK, 2024. UK Tonnage Tax and International Tax Update. .
- BELESIS, Nicholas, KAMPOURIS, Christos and FOUSTERIS, Andreas, 2024. Vessel's operating expenses: a key variable on companies strategic decisions. In : *Vessel's operating expenses: a key variable on companies strategic decisions*, pp. 102–117 [online]. Corporate & Business Strategy Review. ISBN 2706-4965. Retrieved from : https://www.researchgate.net/publication/380048696_Vessels'_operating_expenses_A_key_variable_on_companies'_strategic_decisions
- BERNACKI, Dariusz, 2021. Assessing the Link between Vessel Size and Maritime Supply Chain Sustainable Performance. In : *Assessing the Link between Vessel Size and Maritime Supply Chain Sustainable Performance* [online]. Energies. Retrieved from : https://www.researchgate.net/publication/351748799_Assessing_the_Link_between_Vessel_Size_and_Maritime_Supply_Chain_Sustainable_Performance
- BRADBURY, David, HANAPPI, Tibor and MOORE, Anne, 2018. Estimating the fiscal effects of base erosion and profit shifting: data availability and analytical issues. *Transnational Corporations*. Vol. 25, no. 2, pp. 91–106. DOI 10.18356/e1d7a8b4-en.
- BUETTNER, Thiess, ERLANGEN-NUREMBERG, FAU and WAMSER, Georg, 2012. Internal Debt and Multinationals' Profit Shifting – Empirical Evidence from Firm-Level Panel Data. .
- CARGILL, 2024. Fleet | Capesize, Panamax, Supramax, Handysize, Coaster Dry Bulk Ships | Cargill. [online]. 2024. Retrieved from : <https://www.cargill.com/transportation/dry-bulk-shipping/fleet> [accessed 10 March 2024].
- CASTRO, Leonardo F M, 2012. Problems Involving Permanent Establishments: Overview of Relevant Issues in Today's International Economy. . Vol. 2.

CELLO SQUARE, 2023. What Are the differences? Containership vs Bulk Carrier | Cello Square. [online]. 2023. Retrieved from : <http://www.cello-square.com/en/blog/view-908.do> [accessed 8 May 2024].

CHAMBERS, Sam, 2023. MSC tables bid to to buy 49.9% stake in Hamburg's HHLA. *Splash247* [online]. 13 September 2023. Retrieved from : <https://splash247.com/msc-tables-bid-to-to-buy-49-9-stake-in-hamburgs-hhla/> [accessed 10 May 2024].

CHEN, James, 2023. Capital Gains: Definition, Rules, Taxes, and Asset Types. *Investopedia* [online]. 2023. Retrieved from : <https://www.investopedia.com/terms/c/capitalgain.asp> [accessed 31 January 2024].

CLARK FERNÁNDEZ, Jean Franco, 2022. What is Treaty Shopping? *Offshore Affairs* [online]. 22 June 2022. Retrieved from : <https://www.offshoreaffairs.com/post/what-is-treaty-shopping> [accessed 4 February 2024].

CLARKSONS, 2023. What is dry bulk cargo? | Clarksons. [online]. 2023. Retrieved from : <https://www.clarksons.com/glossary/what-is-dry-bulk-cargo/> [accessed 29 February 2024].

CLARKSONS, 2024. What is the shipping industry? | Clarksons. [online]. 2024. Retrieved from : <https://www.clarksons.com/glossary/what-is-the-shipping-industry/> [accessed 25 February 2024].

CONFÉDÉRATION SUISSE, 2022. *Loi fédérale sur la taxe au tonnage applicable aux navires de mer (Loi sur la taxe au tonnage) (Projet)* [online]. Retrieved from : <https://www.fedlex.admin.ch/filestore/fedlex.data.admin.ch/eli/fga/2022/1253/fr/pdf-a/fedlex-data-admin-ch-eli-fga-2022-1253-fr-pdf-a.pdf> [accessed 24 January 2024].

CONSULATE GENERAL OF PANAMA, 2024. Fees and Taxes – Consulate General of Panama in Hong Kong. [online]. 2024. Retrieved from : <http://panamaconsulatehk.com/fees-and-taxes/> [accessed 26 January 2024].

CORPORATE FINANCE INSTITUTE, 2023. Net Operating Loss (NOL). *Corporate Finance Institute* [online]. 2023. Retrieved from : <https://corporatefinanceinstitute.com/resources/accounting/net-operating-loss-nol/> [accessed 31 January 2024].

CORPORATE FINANCE INSTITUTE, 2024. Transfer Pricing. *Corporate Finance Institute* [online]. 2024. Retrieved from : <https://corporatefinanceinstitute.com/resources/economics/transfer-pricing/> [accessed 16 March 2024].

DANISHSHIPPING, 2022. Annual Report 2022. [online]. 2022. Retrieved from : <https://danishshipping.dk/en/about/danish-shipping/annual-report-2022/> [accessed 24 January 2024].

DELOITTE, 2013. *Shipping Tax Guide* [online]. Retrieved from : <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/dttl-ER-Shipping-Tax-Guide-6countries.pdf> [accessed 25 January 2024].

DENTONS, 2024. Permanent establishments and technology. [online]. 2024. Retrieved from : <https://www.dentons.com/en/insights/articles/2024/january/25/permanent-establishments-and-technology> [accessed 16 March 2024].

EFTA SURVEILLANCE AUTHORITY, 2017. *The Norwegian Special Tax System for Shipping 2018-2027* [online]. Retrieved from : <https://www.eftasurv.int/cms/sites/default/files/documents/decision-214-17-COL.pdf> [accessed 9 February 2024].

ENACHE, Cristina, 2023. Corporate Tax Rates around the World, 2023. *Tax Foundation* [online]. 12 December 2023. Retrieved from : <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2023/> [accessed 16 March 2024].

EUROPEAN COMMISSION, 2019. COMMISSION DECISION (EU) 2019/ 1116 - of 19 December 2017 - on State aid SA.33829 (2012/ C) Maltese tonnage tax scheme and other State measures in favour of shipping companies and their shareholders - (notified under document C(2017) 8734). .

EUROPEAN PARLIAMENT, 2016. *Understanding the OECD tax plan to address “base erosion and profit shifting” – BEPS* [online]. Retrieved from : [https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/580911/EPRS_BRI\(2016\)580911_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2016/580911/EPRS_BRI(2016)580911_EN.pdf) [accessed 23 January 2024].

EUROPEAN PARLIAMENT, 2023. Addressing ship reflagging to avoid sanctions. .

EXPERTSUISSE, 2022. *Tonnage tax regimes - Comparative tables* [online]. Retrieved from : https://www.expertsuisse.ch/dynasite.cfm?cmd=cdocs_docs_docs_download&id=1517&sprache=en&skipfurl=1

EY, 2023a. Base Erosion and Profit Shifting (BEPS) 2.0. [online]. 2023. Retrieved from : https://www.ey.com/en_gl/tax/base-erosion-profit-shifting-beps [accessed 24 January 2024].

EY, 2023b. Expert committee proposes changes to Norwegian tax system. [online]. 2023. Retrieved from : <https://taxnews.ey.com/news/2023-0088-expert-committee-proposes-changes-to-norwegian-tax-system?uAlertID=Sd%2FG8rua1oj6%2FI58EZ2AiA%3D%3D> [accessed 22 January 2024].

GLASS, David, 2023. Greek shipowners control 21% of global tonnage. *Seatrade Maritime* [online]. 4 August 2023. Retrieved from : <https://www.seatrade-maritime.com/tankers/greek-shipowners-control-21-global-tonnage> [accessed 20 January 2024].

GODA, Hiroyuki, 2021. Vessel Charter : Shipping Company Nationality. .

GONZI & ASSOCIATES, 2020. Tax Planning & Compliance. *Gonzi & Associates, Advocates* [online]. 2020. Retrieved from : <https://gonzi.com/mt/aviation-shipping/shipping-ship-registration/tax-planning/> [accessed 15 May 2024].

GRABER, Stéphane, 2015. Revenues, margins and misconceptions. *AGEFI* [online]. 2015. Retrieved from : <https://agefi.com/actualites/acteurs/revenues-margins-and-misconceptions> [accessed 18 May 2024].

GSL LAW & CONSULTING, 2023. Liberia tax system: audit, reporting and optimization of taxation of Liberian companies and individuals: VAT, income tax and capital gains. Tax treaties of Liberia. | GSL. *GSL Law & Consulting* [online]. 2023. Retrieved from : <https://gsl.org/en/taxes/tax-zones/liberia/> [accessed 25 January 2024].

GUTIERREZ, MJ, 2023. Types of Maritime Transport: Everything You Need to Know. *Global* [online]. 30 November 2023. Retrieved from : <https://www.noatumlogistics.com/types-of-maritime-transport-everything-you-need-to-know/> [accessed 25 February 2024].

HAEBERLI, David, 2024. Sans taxe au tonnage, les armateurs suisses déchantent - Le Temps. [online]. 14 March 2024. Retrieved from : <https://www.letemps.ch/suisse/sans-taxe-au-tonnage-les-armateurs-suisses-dechantent> [accessed 7 May 2024].

- HAYES, Adam, 2024a. Freight Derivatives: Meaning, Overview, FAQ. *Investopedia* [online]. 2024. Retrieved from : https://www.investopedia.com/terms/f/freight_derivatives.asp [accessed 10 May 2024].
- HAYES, Adam, 2024b. What Is a Special Purpose Vehicle (SPV) and Why Companies Form Them. *Investopedia* [online]. 2024. Retrieved from : <https://www.investopedia.com/terms/s/spv.asp> [accessed 13 May 2024].
- HELLENIC SHIPPING NEWS, 2023. <https://www.hellenicshippingnews.com/newbuildings-more-orders-for-dry-bulk-carriers/>. [online]. 2023. Retrieved from : <https://www.hellenicshippingnews.com/newbuildings-more-orders-for-dry-bulk-carriers/> [accessed 1 March 2024].
- HIGGS & JOHNSON, Lynn, 2017. Shipping in The Bahamas. *Higgs & Johnson* [online]. 30 November 2017. Retrieved from : <https://higgsjohnson.com/shipping-in-the-bahamas/> [accessed 25 January 2024].
- HUNT, Frazer, 2021. Open Ship Registries and Implications for the Maritime Community | Mills Oakley. | *Mills Oakley* [online]. 2021. Retrieved from : <https://www.milloakley.com.au/thinking/open-ship-registries-and-implications-for-the-maritime-community/> [accessed 7 May 2024].
- IFRS, 2023. IFRS - IAS 12 Income Taxes. [online]. 2023. Retrieved from : <https://www.ifrs.org/issued-standards/list-of-standards/ias-12-income-taxes/> [accessed 31 January 2024].
- INLAND REVENUE AUTHORITY OF SINGAPORE, 2023. IRAS | Shipping Companies. *Default* [online]. 2023. Retrieved from : <https://www.iras.gov.sg/taxes/corporate-income-tax/specific-industries/shipping-companies> [accessed 15 May 2024].
- INTERNATIONAL CHAMBER OF SHIPPING, 2023a. Tankers. [online]. 2023. Retrieved from : <https://www.ics-shipping.org/explaining/ships-ops/tankers/> [accessed 29 February 2024].
- INTERNATIONAL CHAMBER OF SHIPPING, 2023b. Container ships. [online]. 2023. Retrieved from : <https://www.ics-shipping.org/explaining/ships-ops/container-ships/> [accessed 29 February 2024].
- INTERNATIONAL TRANSPORT FORUM, 2019. *Maritime Subsidies - Do they provide value for money?* [online]. Retrieved from : <https://www.itf-oecd.org/sites/default/files/docs/maritime-subsidies-value-for-money.pdf> [accessed 20 January 2024].
- ITF, 2022. Current registries listed as FOCs. *ITF Seafarers* [online]. 2022. Retrieved from : <https://www.itfseafarers.org/en/focs/current-registries-listed-as-focs> [accessed 7 May 2024].
- ITR, 2021. Switzerland: A tonnage tax for maritime activities. *International Tax Review* [online]. 16 March 2021. Retrieved from : <https://www.internationaltaxreview.com/article/2a6a85hp03txpuk1a1urk/switzerland-a-tonnage-tax-for-maritime-activities> [accessed 14 October 2023].
- KAGAN, Julia, 2021. Effective Tax Rate: How It's Calculated and How It Works. *Investopedia* [online]. 2021. Retrieved from : <https://www.investopedia.com/terms/e/effectivetaxrate.asp> [accessed 15 October 2023].
- KARAN, C, 2021. What are Flag States in the Shipping Industry? *Marine Insight* [online]. 9 June 2021. Retrieved from : <https://www.marineinsight.com/maritime-law/what-are-flag-states-in-the-shipping-industry-2/> [accessed 16 March 2024].

KARUKOLA, Divakara Rao, 2019. *Flag of Convenience or Inconvenience?* [online]. Retrieved from : https://www.researchgate.net/publication/335715569_Flag_of_Convenience_or_Inconvenience/link/5d77697892851cacdb2e0a38/download?_tp=eyJjb250ZXh0Ijp7ImZpcnN0UGFnZSI6InB1YmxpY2F0aW9uliwicGFnZSI6InB1YmxpY2F0aW9uIn19

KENTON, Will, 2023. What Is the Jones Act? Definition, History, and Costs. *Investopedia* [online]. 2023. Retrieved from : <https://www.investopedia.com/terms/j/jonesact.asp> [accessed 20 January 2024].

KILROY, Ashley, 2023. What Is a Tax Shield? - SmartAsset | SmartAsset. [online]. 2023. Retrieved from : <https://smartasset.com/taxes/what-is-a-tax-shield> [accessed 16 March 2024].

KLEMM, Alexander and LIU, Li, 2019. Chapter 9. In : *The Impact of Profit Shifting on Economic Activity and Tax Competition*. Working Paper No. 2019/287. ISBN 978-1-5135-1989-0.

KPMG, 2012. Commodity trading companies. .

KPMG, 2022. *BEPS 2.0 – Assessing the impact on your organization*. .

LIBERIAN MARITIME AUTHORITY, 2002. *Liberian Maritime Fees Regulations* [online]. Retrieved from : https://www.liscr.com/sites/default/files/RLM-108A_Fees_0.pdf [accessed 25 January 2024].

LINDHARDT, Kit, 2023. Tanker carriers heading for new record: “Strongest market we’ve seen in a long time.” [online]. 4 September 2023. Retrieved from : <https://shippingwatch.com/carriers/Tanker/article16404468.ece> [accessed 10 March 2024].

LLEWELLYN, Aisyah, 2024. Does a Ship’s Flag Matter? [online]. 2024. Retrieved from : <https://thediplomat.com/2024/04/does-a-ships-flag-matter/> [accessed 16 May 2024].

LLOYD’S LIST, 2007. Japan gets tonnage tax with strings attached. *Lloyd’s List* [online]. 14 December 2007. Retrieved from : <https://lloydslist.com/LL102055/Japan-gets-tonnage-tax-with-strings-attached> [accessed 22 January 2024].

MAERSK, 2024. All Ships | Maersk Tankers. [online]. 2024. Retrieved from : <https://www.maersk-tankers.com/ships> [accessed 10 March 2024].

MARITIME AND PORT AUTHORITY OF SINGAPORE, 2024. Additional Information. *Maritime & Port Authority of Singapore (MPA)* [online]. 2024. Retrieved from : <https://www.mpa.gov.sg/singapore-registry-of-ships/register-with-srs/additional-information> [accessed 15 May 2024].

MAZARS, 2021. Renforcement de l’attractivité de la Suisse par l’introduction de la taxe au tonnage applicable aux navires de mer - Mazars - Suisse. [online]. 2021. Retrieved from : <https://fre.mazars.ch/Accueil/Insights/Newsletters/Swiss-Tax-Newsletter/Swiss-Tax-e-newsletter-Novembre-2021/Introduction-de-la-taxe-au-tonnage-en-Suisse> [accessed 8 October 2023].

MITAGS, 2023. Flag State vs. Port State. *Maritime Institute of Technology and Graduate Studies (MITAGS)* [online]. 2023. Retrieved from : <https://www.mitags.org/flag-vs-port-state/> [accessed 7 May 2024].

MPA SINGAPORE, 2023. Fees. *Maritime & Port Authority of Singapore (MPA)* [online]. 2023. Retrieved from : <http://www.mpa.gov.sg/singapore-registry-of-ships/register-with-srs/fee> [accessed 26 January 2024].

OECD, 2010. Better policies for better lives. In : OECD, *OECD Science, Technology and Industry Outlook 2010*. OECD. OECD Science, Technology and Industry Outlook. ISBN 978-92-64-08467-4. DOI 10.1787/sti_outlook-2010-3-en.

OECD, 2015a. *OECD/G20 Base Erosion and Profit Shifting Project - 2015 Final Reports* [online]. Retrieved from : <https://www.oecd.org/ctp/beps-frequently-asked-questions.pdf> [accessed 24 January 2024].

OECD, 2015b. *Explanatory Statement* [online]. Retrieved from : <https://www.oecd.org/ctp/beps-explanatory-statement-2015.pdf> [accessed 7 May 2024].

OECD, 2017. *ARTICLES OF THE MODEL CONVENTION WITH RESPECT TO TAXES ON INCOME AND ON CAPITAL* [online]. Retrieved from : <https://www.oecd.org/ctp/treaties/articles-model-tax-convention-2017.pdf> [accessed 8 May 2024].

OECD, 2020a. “Nexus”, in *Tax Challenges Arising from Digitalisation* [online]. OECD Publishing, Paris. Retrieved from : <https://www.oecd-ilibrary.org/docserver/048e9557-en.pdf?expires=1715175406&id=id&accname=guest&checksum=0D9FEEB744D9148B07044B5AE29D6ED4> [accessed 8 May 2024].

OECD, 2020b. *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint: Inclusive Framework on BEPS* [online]. Retrieved from : https://read.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-report-on-pillar-one-blueprint_beba0634-en [accessed 24 January 2024].

OECD, 2020c. *Tax Challenges Arising from Digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS* [online]. Retrieved from : https://read.oecd-ilibrary.org/taxation/tax-challenges-arising-from-digitalisation-report-on-pillar-two-blueprint_abb4c3d1-en [accessed 24 January 2024].

OECD, 2021. *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS*. OECD. OECD/G20 Base Erosion and Profit Shifting Project. ISBN 978-92-64-90268-8.

OECD, 2022a. Tax - Tax on corporate profits - OECD Data. *theOECD* [online]. 2022. Retrieved from : <http://data.oecd.org/tax/tax-on-corporate-profits.htm> [accessed 31 January 2024].

OECD, 2022b. *Tax Challenges Arising from the Digitalisation of the Economy – Commentary to the Global Anti-Base Erosion Model Rules (Pillar Two)*. . OECD, Paris.

OECD, 2023a. *Members of the OECD/G20 Inclusive Framework on BEPS*. .

OECD, 2023b. *Minimum Tax Implementation Handbook (Pillar Two)*. .

OECD, 2024a. About the OECD - OECD. [online]. 2024. Retrieved from : <https://www.oecd.org/about/> [accessed 23 January 2024].

OECD, 2024b. OECD member countries and partners. [online]. 2024. Retrieved from : <https://www.oecd.org/about/members-and-partners/> [accessed 23 January 2024].

OECD, 2024c. About - OECD BEPS. [online]. 2024. Retrieved from : <https://www.oecd.org/tax/beps/about/> [accessed 23 January 2024].

OECD.STAT, 2023. Statutory Corporate Income Tax Rates. [online]. 2023. Retrieved from : https://stats.oecd.org/Index.aspx?DataSetCode=CTS_CIT [accessed 16 March 2024].

OLDENDORFF, 2024. OLDENDORFF CARRIERS – Bulk Cargo Vessels & Dry Bulk Shipping. [online]. 2024. Retrieved from : <https://oldendorff.com/pages/fleet> [accessed 10 March 2024].

ONEOCEAN, L. R., 2021. LR OneOcean | Vessel Types Explained. *OneOcean* [online]. 2021. Retrieved from : <https://www.oneocean.com/insights/vessel-types-explained> [accessed 25 February 2024].

PMA CERTIFICATION, 2023. Advantages of registering a ship in Panama | PMA Certification. [online]. 2023. Retrieved from : <https://www.pmacertification.com/advantages-of-registering-a-ship-in-panama/> [accessed 26 January 2024].

PORT ECONOMICS, MANAGEMENT AND POLICY, 2023. Average Operating Margins of Main Carriers by Quarter, 2008-2023 | Port Economics, Management and Policy. [online]. 2023. Retrieved from : <https://porteconomicsmanagement.org/pemp/contents/part1/ports-and-container-shipping/average-operating-margins-carriers-quarter/> [accessed 18 May 2024].

PRIEUR, Romain, 2024. Corporate tax rate in Switzerland in 2024 - Swiss company tax. <https://karpeo.ch/en/> [online]. 2024. Retrieved from : <https://karpeo.ch/en/corporate-tax-rate-in-switzerland-swiss-company-tax/> [accessed 1 April 2024].

PWC, 2015. Choosing your course - Corporate taxation of the shipping industry around the globe 2015. [online]. 2015. Retrieved from : <https://www.pwc.es/es/publicaciones/transporte/pwc-choosing-your-course.pdf> [accessed 1 April 2024].

PWC, 2022. Choosing your course - Corporate taxation of the shipping industry around the globe 2022. [online]. 2022. Retrieved from : <https://www.pwc.nl/nl/marktsectoren/transport-en-logistiek/pdf/2022-choosing-your-course.pdf> [accessed 5 February 2024].

PWC, 2024a. Corporate income tax (CIT) rates. [online]. 2024. Retrieved from : https://taxsummaries.pwc.com/quick_charts/corporate-income-tax-cit-rates [accessed 3 February 2024].

PWC, 2024b. Norway - Corporate - Taxes on corporate income. [online]. 2024. Retrieved from : <https://taxsummaries.pwc.com/norway/corporate/taxes-on-corporate-income> [accessed 22 January 2024].

PWC, 2024c. Greece - Corporate - Taxes on corporate income. [online]. 2024. Retrieved from : <https://taxsummaries.pwc.com/greece/corporate/taxes-on-corporate-income> [accessed 20 January 2024].

PWC, 2024d. Alternative net tonnage basis of tax for shipping enterprises | PwC Singapore. *PwC* [online]. 2024. Retrieved from : <https://www.pwc.com/sg/en/publications/singapore-budget/commentary/alternative-net-tonnage-basis-of-tax-for-shipping-enterprises.html> [accessed 15 May 2024].

RACKOW, Spiros Zavitsas, Alexander, 2023. The reform of the UK Tonnage Tax regime and its implications. *Ship Law Log* [online]. 30 May 2023. Retrieved from : <https://www.shiplawlog.com/2023/05/30/uk-tonnage-tax-regime/> [accessed 20 January 2024].

RINAURO, B. et al., 2024. Regression analysis for container ships in the early design stage. *Ocean Engineering*. Vol. 292, p. 116499. DOI 10.1016/j.oceaneng.2023.116499.

RÖDL & PARTNER, 2022. BEPS 2.0: Pillar 1 and Pillar 2 Update. [online]. 2022. Retrieved from : <https://www.roedl.com/insights/beps-pillar-update> [accessed 24 January 2024].

RTS, 2023a. Les pavillons de complaisance, un véritable imbroglio international. *rts.ch* [online]. 2023. Retrieved from : <https://www.rts.ch/info/monde/11556987-les-pavillons->

de-complaisance-un-veritable-imbroglio-international.html [accessed 16 March 2024].
Last Modified: 2023-11-29T15:07:04Z

RTS, 2023b. La taxe au tonnage, une réforme fiscale trop sensible avant les élections fédérales. *rts.ch* [online]. 20 February 2023. Retrieved from : <https://www.rts.ch/info/economie/13798527-la-taxe-au-tonnage-une-reforme-fiscale-trop-sensible-avant-les-elections-federales.html> [accessed 15 October 2023]. Last Modified: 2023-02-20T09:20:15Z

RUSSELL BEDFORD, 2021. Cyprus – 2021 brings positive tax changes. [online]. 2021. Retrieved from : <https://www.russellbedford.com/latest/insight/cyprus-2021-brings-positive-tax-changes/> [accessed 15 May 2024].

SCORPIO, 2024. Our Fleet of Vessels for On-Time Delivery. *Scorpio Tankers* [online]. 2024. Retrieved from : <https://www.scorpiotankers.com/our-fleet/> [accessed 10 March 2024].

SEA-INTELLIGENCE, 2022. Sea-Intelligence - 2021: Significant tonnage tax advantage. [online]. 2022. Retrieved from : <https://www.sea-intelligence.com/press-room/129-2021-significant-tonnage-tax-advantage> [accessed 14 October 2023].

SEWARD & KISSEL LLP, 2023. *Ship Finance - Marshall Islands* [online]. Retrieved from : <https://www.vedderprice.com/-/media/files/vedder-thinking/publications/2023/8/2023-ship-finance--marshall-islands.pdf?rev=a3de05d88f1042f6b3068f20ca8f1a61&hash=E5AB00F5CEF31740E1B9319A821BF0AC> [accessed 25 January 2024].

SHIPPING AND COMMODITY ACADEMY, 2024. How to Arbitrage Commodity Markets: A Clear Guide. *Shipping and Commodity Academy* [online]. 17 January 2024. Retrieved from : <https://shippingandcommodityacademy.com/blog/how-to-arbitrage-commodity-markets-a-clear-guide/> [accessed 18 May 2024].

SHIPPING AND FREIGHT ACADEMY, 2022. Demystifying Shipping and Freight Jargon: The Flag of the ship. *Shipping and Freight Academy* [online]. 26 September 2022. Retrieved from : <http://shippingandfreight.academy/demystifying-shipping-and-freight-jargon-the-flag-of-the-ship/> [accessed 7 May 2024].

STAR BULK, 2023. *Star Bulk's financials highlights* [online]. Retrieved from : https://www.starbulk.com/media/uploads_file/2023/11/14/p1hf5cs6761cg21h25gi1gfq14dt4.pdf [accessed 11 March 2024].

STAR BULK, 2024. Star Bulk Fleet List. *www.starbulk.com.pdf* [online]. 2024. Retrieved from : https://www.starbulk.com/?module=fleet&action=generate_all_pdf_file [accessed 10 March 2024].

STATISTA, 2023. EBIT margins of container carriers by quarter. *Statista* [online]. 2023. Retrieved from : <https://www.statista.com/statistics/1263780/ebit-margins-of-container-carriers-by-quarter/> [accessed 10 March 2024].

STATISTA, 2024. Global container shipping rates 2024. *Statista* [online]. 2024. Retrieved from : <https://www.statista.com/statistics/1440707/global-container-freight-index/> [accessed 1 March 2024].

SUISSENÉGOCE, 2017. Switzerland, a maritime nation. [online]. 2017. Retrieved from : <https://www.suissevenegoce.ch/policy-regulation/swiss-tonnage-tax> [accessed 24 January 2024].

SUTTON, Paul, 2014. What is a commissionaire? *LCN Legal* [online]. 15 July 2014. Retrieved from : <https://lcnlegal.com/what-is-a-commissionaire/> [accessed 9 May 2024].

THAXTON, Ryan, 2023. History of commodity markets. *City Index* [online]. 2023. Retrieved from : <https://www.cityindex.com/en-uk/news-and-analysis/history-of-commodities/> [accessed 18 May 2024].

THE MARITIME EXECUTIVE, 2023. Calls to Change Swiss Law to Save Its National Merchant Marine. *The Maritime Executive* [online]. 2023. Retrieved from : <https://maritime-executive.com/article/calls-to-change-swiss-law-to-save-its-national-merchant-marine> [accessed 24 January 2024].

THE SIGNAL GROUP, 2022. The Signal Group - Forward Freight Agreement (FFA) & Freight Risk Management, a powerful mix. [online]. 2022. Retrieved from : <https://www.thesignalgroup.com/newsroom/forward-freight-agreement-ffa-and-freight-risk-management-a-powerful-mix> [accessed 10 May 2024].

TRADING ECONOMICS, 2024. Baltic Exchange Dry Index - Price - Chart - Historical Data - News. [online]. 2024. Retrieved from : <https://tradingeconomics.com/commodity/baltic> [accessed 10 May 2024].

TRAFIGURA, 2019. *COMMODITIES DEMYSTIFIED* [online]. Retrieved from : https://www.trafigura.com/media/taglwndt/2018_trafigura_commodities_demystified_guide_second_edition_english.pdf [accessed 18 May 2024].

TRAFIGURA, 2024. Trafigura's fleet. [online]. 2024. Retrieved from : <https://www.trafigura.com/what-we-do/shipping-and-marine-logistics/#> [accessed 10 March 2024].

TRANSPORT & ENVIRONMENT, 2023. Climate impact of shipping. [online]. 2023. Retrieved from : <https://www.transportenvironment.org/topics/ships/climate-impact-shipping> [accessed 16 May 2024].

UK SHIP REGISTER, 2022. Tonnage Tax. [online]. 2022. Retrieved from : <https://www.ukshipregister.co.uk/useful-information/tonnage-tax/> [accessed 9 February 2024].

UNCTAD, 2021. More than 100 countries depend on commodity exports | UNCTAD. [online]. 8 September 2021. Retrieved from : <https://unctad.org/news/more-100-countries-depend-commodity-exports> [accessed 18 May 2024].

UNCTAD, 2023a. Merchant fleet – UNCTAD Handbook of Statistics 2023. [online]. 2023. Retrieved from : <https://hbs.unctad.org/merchant-fleet/> [accessed 25 February 2024].

UNCTAD, 2023b. *Review of Maritime Transport 2023*. . United Nations.

UNITED NATIONS, 2023. *Review of Maritime Transport 2023*. Review of maritime transport / United Nations Conference on Trade and Development, Geneva.

VESSEL TRACKING, 2024a. MSC Container Ships | Vessel Tracking. [online]. 2024. Retrieved from : <https://www.vesseltracking.net/carrier/carrier-ships/2?page=1&per-page=100> [accessed 10 March 2024].

VESSEL TRACKING, 2024b. Maersk Container Ships | Vessel Tracking. [online]. 2024. Retrieved from : <https://www.vesseltracking.net/carrier/carrier-ships/1?page=3&per-page=100> [accessed 10 March 2024].

VESSEL TRACKING, 2024c. CMA-CGM Container Ships | Vessel Tracking. [online]. 2024. Retrieved from : <https://www.vesseltracking.net/carrier/carrier-ships/3?page=3&per-page=100> [accessed 10 March 2024].

VHBS, 2024. *New ConTex Container Ship Time Charter Assessment Index Week 17* [online]. Retrieved from : <https://www.hellenicshippingnews.com/wp-content/uploads/2024/04/New-Contex-Commentary-2024-week-17.pdf> [accessed 8 May 2024].

VIJAYKUMAR, 2024. What Factors Drive Volatile Shipping Freight Rates & Shipping Cycle? [online]. 2024. Retrieved from : <https://www.freightify.com/blog/what-drives-volatile-shipping-rates> [accessed 10 May 2024].

YIELDSTREET, 2019. The most common types of large cargo ships, explained. [online]. 2019. Retrieved from : <https://www.yieldstreet.com/resources/article/types-of-cargo-ships/> [accessed 29 February 2024].

YORK, Erica, 2018. The Benefits of Cutting the Corporate Income Tax Rate. *Tax Foundation* [online]. 14 August 2018. Retrieved from : <https://taxfoundation.org/research/all/federal/benefits-of-a-corporate-tax-cut/> [accessed 31 January 2024].

ZELDENRUST, Mirjam, 2023. Pillar 2 and the tonnage regulation: watch out for possible additional taxation! *Grant Thornton | Accountancy Tax Advisory Growth* [online]. 2023. Retrieved from : <https://www.grantthornton.nl/en/insights-en/topics/transport-logistics/pillar-2-and-the-tonnage-regulation-watch-out-for-possible-additional-taxation/> [accessed 17 March 2024].

ZEPOS & YANNOPOULOS, 2023. Corporate Tax 2023 - Greece | Global Practice Guides | Chambers and Partners. [online]. 2023. Retrieved from : <https://practiceguides.chambers.com/practice-guides/corporate-tax-2023/greece> [accessed 22 January 2024].

Appendix 1: Excel Analysis of Fleets

Container ships	MSC	APM-MAERSK	CMA-CGM	Total
Panamax	92	161	106	359
Neo-Panamax	121	82	93	296
Post-Panamax	23	25	9	57
Ultra Large Container Ship (ULCS)	4	1	2	7
Dry-Bulkers	Cargill	Oldendorff Carriers	Star Bulk Carriers	Total
Handysize	130	21	0	151
Handymax	0	0	0	0
Panamax	300	53	77	430
Capesize	120	51	19	190
Valemax	0	0	17	17
Tankers	Maersk	Trafigura	Scoprio	Total
Handysize	40	2	14	56
MR (Medium range)	59	1		60
Panamax (LR1)	41	3	58	102
Aframax (LR2)	29	2	39	70
Suezmax	17	2		19
VLCC/ULCC	0	3		3

Appendix 2: Return on Investment Calculations

Markets	Intra fleet fragmentation	AVG	Measurement	Prices of a vessel	OPEX margin	Average revenue per day	Average revenue per year	Average EBIT	Net profit	ROI
Bulkers	Handysize	25,000		\$ 30,000,000.00		\$ 11,325.00	\$ 4,133,625.00	\$ 2,787,825.57	\$ 2,787,825.57	9.29%
	Handymax	52,500				\$ -	\$ -	\$ -	\$ -	
	Panamax/Kamsarmax	82,500	dwt	\$ 40,000,000.00	33%	\$ 13,298.89	\$ 4,854,094.44	\$ 3,273,729.14	\$ 3,273,729.14	8.18%
	Capsize	150,000		\$ 60,000,000.00		\$ 22,123.50	\$ 8,075,077.50	\$ 5,446,044.95	\$ 5,446,044.95	9.08%
	Valemax/Chinamax	300,000				\$ -	\$ -	\$ -	\$ -	
Tankers	Handy (SR)	32,500		\$ 30,000,000.00		\$ 11,325.00	\$ 4,133,625.00	\$ 2,787,825.57	\$ 2,787,825.57	9.29%
	MR (Medium range)	47,500		\$ 40,000,000.00		\$ -	\$ -	\$ -	\$ -	0.00%
	Panamax (LR1)	70,000		\$ 45,000,000.00		\$ 13,298.89	\$ 4,854,094.44	\$ 2,333,848.61	\$ 2,333,848.61	5.19%
	Aframax (LR2)	105,000	dwt	\$ 60,000,000.00	52%	\$ 50,314.00	\$ 18,364,610.00	\$ 12,385,576.68	\$ 12,385,576.68	20.64%
	Suezmax	162,500		\$ 80,000,000.00		\$ 48,071.00	\$ 17,545,915.00	\$ 11,833,427.21	\$ 11,833,427.21	14.79%
Container ships	VLCC	260,000		\$ 130,000,000.00		\$ 63,667.75	\$ 23,238,728.75	\$ 15,672,810.74	\$ 15,672,810.74	12.06%
	ULCC	360,000				\$ -	\$ -	\$ -	\$ -	
	Panamax	4,000		\$ 50,000,000.00		\$ 22,878.00	\$ 8,350,470.00	\$ 751,542.30	\$ 751,542.30	1.50%
	Post-Panamax	8,750	TEU	\$ 90,000,000.00	91%	\$ 30,000.00	\$ 10,950,000.00	\$ 985,500.00	\$ 985,500.00	1.10%
	Neo-Panamax	15,250		\$ 200,000,000.00		\$ -	\$ -	\$ -	\$ -	0.00%
	Ultra Large Container Ship (ULCS)	21,500		\$ 240,000,000.00		\$ -	\$ -	\$ -	\$ -	0.00%

Appendix 3: Ship owning Countries vs Flags

	Country or Territory of Ownership	Percentage share		Flag of Registration	Percentage share
1	Greece	11.80	1	Panama	12.86
2	China	11.04	2	Liberia	11.78
3	Japan	10.73	3	Marshall Islands	11.41
4	United States	7.41	4	Bahamas	7.44
5	Singapore	5.29	5	Malta	6.53
6	Norway	4.70	6	Hong Kong, China	6.27
7	United Kingdom	4.33	7	Singapore	6.07
8	Germany	3.67	8	China	5.69
9	Hong Kong, China	3.63	9	Greece	2.15
10	Republic of Korea	3.50	10	Japan	1.85
11	Switzerland	2.50	11	Norwegian International Ship Register	1.75
12	Denmark	2.09	12	Italy	1.73
13	Taiwan Province of China	1.99	13	Danish International Register of Shipping	1.37
14	Bermuda	1.98	14	Cyprus	1.31
15	Italy	1.83	15	Bermuda	1.30
16	Kingdom of the Netherlands	1.74	16	International Shipping Register of Madeira	1.15
17	Brazil	1.45	17	Indonesia	1.06
18	United Arab Emirates	1.39	18	United Kingdom	1.02
19	France	1.32	19	United States	0.95
20	Russian Federation	1.19	20	Isle of Man	0.91
21	Türkiye	1.18	21	Kingdom of the Netherlands	0.89
22	Monaco	1.14	22	Russian Federation	0.87
23	Indonesia	1.05	23	Republic of Korea	0.76
24	India	0.97	24	Norway	0.69
25	Belgium	0.81	25	France	0.68
26	Malaysia	0.81	26	Malaysia	0.66
27	Cyprus	0.78	27	India	0.63
28	Qatar	0.58	28	Nigeria	0.62
29	Canada	0.56	29	Australia	0.55
30	Nigeria	0.56	30	Brazil	0.55
31	Viet Nam	0.53	31	Viet Nam	0.41
32	Sweden	0.52	32	Germany	0.38
33	Australia	0.50	33	Türkiye	0.38
34	Saudi Arabia	0.50	34	Islamic Republic of Iran	0.35
35	Islamic Republic of Iran	0.35	35	Saudi Arabia	0.34
	Top 35 countries or territories	94.48		Top 35 flags	93.31
	<i>Rest of the World</i>	5.52		<i>Rest of the World</i>	6.69
	Total	100.00		Total	100.00

Source: UNCTAD calculations, based on data from Clarksons Research, 2023. Note: vessels of 1,000 GT and above.

Appendix 4: Illustrative Example Calculations

	Capacity (DWT)	Estimated AVG Profit		CIT Geneva, CH	
Handysize 1 (Bulk)	20,000	\$ 2,787,825.57		\$ 390,295.58	
Handysize 2 (Tanker)	20,000	\$ 2,787,825.57		\$ 390,295.58	
Panamax 1 (Bulk)	70,000	\$ 3,273,729.14		\$ 458,322.08	
Panamax 2 (Bulk)	70,000	\$ 3,273,729.14		\$ 458,322.08	
Panamax 3 (Bulk)	70,000	\$ 3,273,729.14		\$ 458,322.08	
Panamax 4 (Tanker)	70,000	\$ 2,333,848.61		\$ 326,738.81	
Panamax 5 (Tanker)	70,000	\$ 2,333,848.61		\$ 326,738.81	
Panamax 6 (Tanker)	70,000	\$ 2,333,848.61		\$ 326,738.81	
Suezmax (Tanker)	120,000	\$ 11,833,427.21		\$ 1,656,679.81	
Capesize (Bulk)	120,000	\$ 5,446,044.95		\$ 762,446.29	
Total	700,000	\$ 39,677,856.56		\$ 5,554,899.92	<i>AVG Profit * 14%</i>
				14%	
UK Tonnage Tax	Income Equivalent		Greek Tonnage Tax	Income Equivalent	
\$ 1,912.50	\$ 7,650.00		\$ 14,025.40	\$ 63,751.82	
\$ 1,912.50	\$ 7,650.00		\$ 14,025.40	\$ 63,751.82	
\$ 3,975.00	\$ 15,900.00		\$ 34,453.70	\$ 156,607.73	
\$ 3,975.00	\$ 15,900.00		\$ 34,453.70	\$ 156,607.73	
\$ 3,975.00	\$ 15,900.00		\$ 34,453.70	\$ 156,607.73	
\$ 3,975.00	\$ 15,900.00		\$ 34,453.70	\$ 156,607.73	
\$ 3,975.00	\$ 15,900.00		\$ 34,453.70	\$ 156,607.73	
\$ 3,975.00	\$ 15,900.00		\$ 34,453.70	\$ 156,607.73	
\$ 5,850.00	\$ 23,400.00		\$ 42,076.20	\$ 191,255.45	
\$ 5,850.00	\$ 23,400.00		\$ 42,076.20	\$ 191,255.45	
\$ 39,375.00	\$ 157,500.00	<i>Tonnage Tax * 100/25</i>	\$ 318,925.40	\$ 1,449,660.91	<i>Tonnage Tax * 100/22</i>
	0.10%			0.80%	
Capacity			Capacity		
100-1000	0.6		100-10000	1.2	
1001-10000	0.45		10001-20000	1.1	
10001-25000	0.3		20001-40000	1	
>25000	0.15		40001-80000	0.45	
			>80000	0.2	
			Age		
			0 to 4	0.407	
			5 to 9	0.73	
			10 to 19	0.714	
			20 to 29	0.676	
			>30	0.522	
			AVG Age Rate	0.6098	

Appendix 5: Overview of the BEPS 15 Actions Plan

Action 1 – Address the Tax Challenges of the Digital Economy: Analyzes how the digital economy cannot be separated from the global economy and highlights BEPS risks that are intensified by the digital environment. It suggests mechanisms for efficient VAT collection in cross-border digital sales and considers further measures based on monitoring future developments (OECD 2015b).

Action 2 – Neutralise the Effects of Hybrid Mismatch Arrangements: Proposes rules to eliminate mismatches in tax outcomes where differences in countries' tax rules are exploited to avoid taxation. This aims to prevent double non-taxation and excessive deductions (OECD 2015b).

Action 3 – Strengthen CFC (Controlled Foreign Corporation) Rules: Enhances guidelines to prevent companies from shifting profits to subsidiaries in low-tax jurisdictions. This action aims to identify challenges posed by mobile income such as intellectual property, services and digital transaction; thus suggests comprehensive measures to ensure profits are taxed where substantive economic activities generating the profits are performed (OECD 2015b).

Action 4 – Limit Base Erosion via Interest Deductions and Other Financial Payments: Recommends a common approach to limit deductions for interest and similar payments that can erode the tax base, ensuring that deductions are aligned with the income generated by the corresponding economic activities (OECD 2015b).

Action 5 – Counter Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance: Focuses on improving transparency and requiring substantial activity for preferential tax regimes. It strengthens the requirements for intellectual property regimes (like patent boxes) to align tax benefits with genuine R&D activities (OECD 2015b).

Action 6 – Prevent Treaty Abuse: Implements a minimum standard to prevent treaty shopping and other inappropriate use of tax treaties, including new treaty provisions and model guidelines to prevent countries from granting treaty benefits to companies that do not have a substantial presence or economic activity in these countries (OECD 2015b).

Action 7 – Prevent the Artificial Avoidance of PE (Permanent Establishment)

Status: Modifies the definition of a PE³⁹ to prevent businesses from avoiding the establishment of a taxable presence in a country through the use of commissionaire arrangements⁴⁰ and similar strategies (OECD 2015b).

Actions 8 to 10 – Assure that Transfer Pricing Outcomes are in Line with Value

Creation: Revises guidelines to ensure that transfer pricing rules⁴¹ align profits with the value creation activities conducted by MNEs (Multinational Enterprises), specifically addressing issues related to intangibles, risks, and capital (OECD 2015b).

Action 11 – Measuring and Monitoring BEPS: Establishes methodologies to measure and monitor BEPS, suggesting ways to better analyze and evaluate the scale and impact of BEPS based on empirical data (OECD 2015b).

Action 12 – Require Taxpayers to Disclose their Aggressive Tax Planning

Arrangements: Encourages transparency by requiring taxpayers to disclose aggressive or abusive tax planning arrangements, providing tax administrations early information to respond effectively (OECD 2015b).

Action 13 – Re-examine Transfer Pricing Documentation:

Introduces a three-tiered standard documentation approach, including a master file, local file, and a country-by-country report, to enhance transparency and assist tax administrations in assessing transfer pricing risks (OECD 2015b).

Action 14 – Make Dispute Resolution Mechanisms More Effective:

Commits to a minimum standard for resolving treaty-related disputes more timely and effectively through mutual agreement procedures and arbitration (OECD 2015b).

Action 15 – Develop a Multilateral Instrument:

Promotes the development of a multilateral instrument to implement these BEPS measures across countries, simplifying the amendment of bilateral tax treaties and enhancing international cooperation (OECD 2015b).

³⁹ Article 5 of the OECD Model Tax Convention (Appendix 6).

⁴⁰ Business structure where a commissionaire sells goods in their own name on behalf of a principal, but the customers interact directly with the commissionaire, with no formal legal relationship with the principal (Sutton 2014).

⁴¹ Article 9 of the OECD Model Tax Convention (Appendix 6).

Appendix 6: Important Articles of the OECD Model Tax Convention

ARTICLE 5 PERMANENT ESTABLISHMENT

1. For the purposes of this Convention, the term “permanent establishment” means a fixed place of business through which the business of an enterprise is wholly or partly carried on.
2. The term “permanent establishment” includes especially:
 - a. a place of management;
 - b. a branch;
 - c. an office;
 - d. a factory;
 - e. a workshop, and
 - f. a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.
3. A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.
4. Notwithstanding the preceding provisions of this Article, the term “permanent establishment” shall be deemed not to include:
 - a. the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
 - b. the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
 - c. the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
 - d. the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information, for the enterprise;

- e. the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity;
- f. the maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs *a)* to *e)*,

provided that such activity or, in the case of subparagraph *f)*, the overall activity of the fixed place of business, is of a preparatory or auxiliary character.

4.1 Paragraph 4 shall not apply to a fixed place of business that is used or maintained by an enterprise if the same enterprise or a closely related enterprise carries on business activities at the same place or at another place in the same Contracting State

and

- a. that place or other place constitutes a permanent establishment for the enterprise or the closely related enterprise under the provisions of this Article, or
- b. the overall activity resulting from the combination of the activities carried on by the two enterprises at the same place, or by the same enterprise or closely related enterprises at the two places, is not of a preparatory or auxiliary character,

provided that the business activities carried on by the two enterprises at the same place, or by the same enterprise or closely related enterprises at the two places, constitute complementary functions that are part of a cohesive business operation.

5. Notwithstanding the provisions of paragraphs 1 and 2 but subject to the provisions of paragraph 6, where a person is acting in a Contracting State on behalf of an enterprise and, in doing so, habitually concludes contracts, or habitually plays the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the enterprise, and these contracts are

- a. in the name of the enterprise, or
- b. for the transfer of the ownership of, or for the granting of the right to use, property owned by that enterprise or that the enterprise has the right to use, or

c. for the provision of services by that enterprise,

that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business (other than a fixed place of business to which paragraph 4.1 would apply), would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. Paragraph 5 shall not apply where the person acting in a Contracting State on behalf of an enterprise of the other Contracting State carries on business in the first-mentioned State as an independent agent and acts for the enterprise in the ordinary course of that business. Where, however, a person acts exclusively or almost exclusively on behalf of one or more enterprises to which it is closely related, that person shall not be considered to be an independent agent within the meaning of this paragraph with respect to any such enterprise.
7. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.
8. For the purposes of this Article, a person or enterprise is closely related to an enterprise if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same persons or enterprises. In any case, a person or enterprise shall be considered to be closely related to an enterprise if one possesses directly or indirectly more than 50 per cent of the beneficial interest in the other (or, in the case of a company, more than 50 per cent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) or if another person or enterprise possesses directly or indirectly more than 50 per cent of the beneficial interest (or, in the case of a company, more than 50 per cent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) in the person and the enterprise or in the two enterprises.

ARTICLE 7 BUSINESS PROFITS

1. Profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits that are attributable to the permanent establishment in accordance with the provisions of paragraph 2 may be taxed in that other State.
2. For the purposes of this Article and Article [23 A] [23 B], the profits that are attributable in each Contracting State to the permanent establishment referred to in paragraph 1 are the profits it might be expected to make, in particular in its dealings with other parts of the enterprise, if it were a separate and independent enterprise engaged in the same or similar activities under the same or similar conditions, taking into account the functions performed, assets used and risks assumed by the enterprise through the permanent establishment and through the other parts of the enterprise.
3. Where, in accordance with paragraph 2, a Contracting State adjusts the profits that are attributable to a permanent establishment of an enterprise of one of the Contracting States and taxes accordingly profits of the enterprise that have been charged to tax in the other State, the other State shall, to the extent necessary to eliminate double taxation on these profits, make an appropriate adjustment to the amount of the tax charged on those profits. In determining such adjustment, the competent authorities of the Contracting States shall if necessary consult each other.
4. Where profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

ARTICLE 8 INTERNATIONAL SHIPPING AND AIR TRANSPORT

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.
2. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

ARTICLE 9 ASSOCIATED ENTERPRISES

1. Where

- a. an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State,
- or
- b. the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

- 2. Where a Contracting State includes in the profits of an enterprise of that State — and taxes accordingly — profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

Appendix 7: Important Articles of GloBE Model Rules

Article 3.3. International Shipping Income exclusion

3.3.1. For an MNE Group that has International Shipping Income, each Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income shall be excluded from the computation of its GloBE Income or Loss under Article 3.2 for the jurisdiction in which it is located. Where the computation of a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income results in a loss, the loss shall be excluded from the computation of its GloBE Income or Loss.

3.3.2. International Shipping Income means the net income obtained by a Constituent Entity from:

- a. the transportation of passengers or cargo by ships that it operates in international traffic, whether the ship is owned, leased or otherwise at the disposal of the Constituent Entity;
- b. the transportation of passengers or cargo by ships operated in international traffic under slot-chartering arrangements;
- c. leasing a ship, to be used for the transportation of passengers or cargo in international traffic, on charter fully equipped, crewed and supplied;
- d. leasing a ship on a bare boat charter basis, for the use of transportation of passengers or cargo in international traffic, to another Constituent Entity;
- e. the participation in a pool, a joint business or an international operating agency for the transportation of passengers or cargo by ships in international traffic; and
- f. the sale of a ship used for the transportation of passengers or cargo in international traffic provided that the ship has been held for use by the Constituent Entity for a minimum of one year.

International Shipping Income shall not include net income obtained from the transportation of passengers or cargo by ships via inland waterways within the same jurisdiction.

3.3.3. Qualified Ancillary International Shipping Income means net income obtained by a Constituent Entity from the following activities that are performed primarily in connection with the transportation of passengers or cargo by ships in international traffic:

- a. leasing a ship on a bare boat charter basis to another shipping enterprise that is not a Constituent Entity, provided that the charter does not exceed three years;
- b. sale of tickets issued by other shipping enterprises for the domestic leg of an international voyage;
- c. leasing and short-term storage of containers or detention charges for the late return of containers;
- d. provision of services to other shipping enterprises by engineers, maintenance staff, cargo handlers, catering staff, and customer services personnel; and
- e. investment income where the investment that generates the income is made as an integral part of the carrying on the business of operating the ships in international traffic.

3.3.4. The aggregated Qualified Ancillary International Shipping Income of all Constituent Entities located in a jurisdiction shall not exceed 50% of those Constituent Entities' International Shipping Income.

3.3.5. The costs incurred by a Constituent Entity that are directly attributable to its international shipping activities listed in Article 3.3.2 and the costs directly attributable to its qualified ancillary activities listed in Article 3.3.3 shall be deducted from the Constituent Entity's revenues from such activities to compute its International Shipping Income and Qualified Ancillary International Shipping Income. Other costs incurred by a Constituent Entity that are indirectly attributable to a Constituent Entity's international shipping activities and qualified ancillary activities shall be allocated on the basis of the Constituent Entity's revenues from such activities in proportion to its total revenues. All direct and indirect costs attributed to a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income shall be excluded from the computation of its GloBE Income or Loss.

3.3.6. In order for a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income to qualify for the exclusion from its GloBE Income or Loss under this Article, the Constituent Entity must demonstrate that the strategic or

commercial management of all ships concerned is effectively carried on from within the jurisdiction where the Constituent Entity is located.

Article 5.3. Substance-based Income Exclusion

5.3.1. The Net GloBE Income for the jurisdiction shall be reduced by the Substance-based

Income Exclusion for the jurisdiction to determine the Excess Profit for purposes of computing the

Top-up Tax under Article 5.2. A Filing Constituent Entity of an MNE Group may make an Annual Election not to apply the Substance-based Income Exclusion for a jurisdiction by not computing the exclusion or claiming it in the computation of Top-up Tax for the jurisdiction in the GloBE Information Return(s) filed for the Fiscal Year.

5.3.2. The Substance-based Income Exclusion amount for a jurisdiction is the sum of the payroll carve-out and the tangible asset carve-out for each Constituent Entity, except for Constituent Entities that are Investment Entities, in that jurisdiction.

5.3.3. The payroll carve-out for a Constituent Entity located in a jurisdiction is equal to 5% of its Eligible Payroll Costs of Eligible Employees that perform activities for the MNE Group in such jurisdiction, except Eligible Payroll costs that are:

- a. capitalised and included in the carrying value of Eligible Tangible Assets;
- b. attributable to a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income under Article 3.3.5 that is excluded from the computation of GloBE Income or Loss for the Fiscal Year.

5.3.4. The tangible asset carve-out for a Constituent Entity located in a jurisdiction is equal to 5% of the carrying value of Eligible Tangible Assets located in such jurisdiction. Eligible Tangible Assets means:

- a. property, plant, and equipment located in that jurisdiction;
- b. natural resources located in that jurisdiction;
- c. a lessee's right of use of tangible assets located in that jurisdiction; and
- d. a licence or similar arrangement from the government for the use of immovable property or exploitation of natural resources that entails significant investment in tangible assets.

For this purpose, the tangible asset carve-out computation shall not include the carrying value of property (including land or buildings) that is held for sale, lease or investment.

The tangible asset carve-out computation shall not include the carrying value of tangible assets used in the generation of a Constituent Entity's International Shipping Income and Qualified Ancillary International Shipping Income (i.e. ships and other maritime equipment and infrastructure). The carrying value of tangible assets attributable to a Constituent Entity's excess income over the cap for Qualified Ancillary International Shipping Income under Article 3.3.4 shall be included in the tangible asset carve-out computation.

5.3.5. The computation of carrying value of Eligible Tangible Assets for purposes of Article 5.3.4 shall be based on the average of the carrying value (net of accumulated depreciation, amortisation, or depletion and including any amount attributable to capitalisation of payroll expense) at the beginning and ending of the Reporting Fiscal Year as recorded for the purposes of preparing the Consolidated Financial Statements of the Ultimate Parent Entity.

5.3.6. For purposes of Articles 5.3.3 and 5.3.4, the Eligible Payroll Costs and Eligible Tangible Assets of a Constituent Entity that is a Permanent Establishment are those included in its separate financial accounts as determined by Article 3.4.1 and adjusted in accordance with Article 3.4.2, provided that the Eligible Employees and Eligible Tangible Assets are located in the jurisdiction where the Permanent Establishment is located. The Eligible Payroll Costs and Eligible Tangible Assets of a Permanent Establishment are not taken into account for the Eligible Payroll Costs and Eligible Tangible Assets of the Main Entity. The Eligible Payroll Costs and Eligible Tangible Assets of a Permanent Establishment whose income has been wholly or partly excluded in accordance with Articles 3.5.3 and 7.1.4 are excluded from the Substance-based Income Exclusion computations of the MNE Group in the same proportion.

5.3.7. For purposes of Articles 5.3.3 and 5.3.4, Eligible Payroll Costs and Eligible Tangible Assets of a Flow-through Entity that are not allocated under Article 5.3.6 are allocated as follows:

- a. if the Financial Accounting Net Income or Loss of the Flow-through Entity has been allocated to the Constituent Entity-owner under Article 3.5.1(b), then the Entity's Eligible Payroll Costs and Eligible Tangible Assets are allocated in the same proportion to the Constituent Entity-owner provided it is located in the jurisdiction where the Eligible Employees and Eligible Tangible Assets are located;

- b. if the Flow-through Entity is the Ultimate Parent Entity, then Eligible Payroll Costs and Eligible Tangible Assets located in the jurisdiction where the Ultimate Parent Entity is located are allocated to it and reduced in proportion to the income that is excluded under Article 7.1.1; and
- c. all other Eligible Payroll Costs and Eligible Tangible Assets of the Flow-through Entity are excluded from the Substance-based Income Exclusion computations of the MNE Group.

Appendix 8: Interview n°1

Interview date	Friday, 12 th of April 2024
Interviewee	Global Head of Tax of a major trading company Geneva. Energy market.
Interviewer	Kevin Jaquemet
Interview condition	Microsoft Teams

Could you describe the core activities of your company within the maritime industry, and how do these activities intersect with the unique challenges and considerations you face in managing shipping taxation?

As a starting point, our company is a commodity trader in oil and gas mainly, and we also have a shipping arm, which is managed out of Singapore, that really aims to transport our products from A to B. Also, we typically hold ourselves a couple of vessels under Singapore flag, but at the same time, this management out of Singapore would also be chartering in and out vessels from third parties.

Could you please share your role and responsibilities within the company and explain how your position relates to navigating the complexities and challenges of shipping taxation?

So I'm the global head of tax for the whole group, in total globally, which includes as well the tax position of our shipping companies. And what we mainly faced there is that like in Singapore, we have this marine authority incentive where shipping companies in Singapore achieve 0% tax rate on their shipping income.

In terms of acquisition strategies, what type of ships, considering size and capacity, are currently favored for new acquisitions? Do fleets tend to be diversified or rather uniform, and for what reasons?

So this year we have signed up shipbuilding contracts for new LNG vessels and new LPG vessels, which are likely to become operational between 2026 and 2027. And at that point in time, there will be from a carbon footprint best in class. So that is the type of new acquisitions that we do.

Otherwise, in in the chartering industry, it all depends on the type of product that needs to be transported and because clearly an LNG vessel is different than an LPG vessel. Or

if you transport like bitumen that needs to stay at a certain temperature throughout the whole journey. So that defines a little bit what type of vessels we will be acquiring.

Is there a correlation between the choice of taxation method (traditional corporate income tax or tonnage tax) and fleet fragmentation (types of commodities transported, ship sizes, and other aspects of fleet composition)?

That, in itself, doesn't really matter to us, because the ones that are managed out of Singapore, they follow the corporate tax regime of Singapore, which is this marine incentive. We also have a couple of vessels that are flying under the Norwegian flag, which are joint ventures with a third party and there they are benefiting from the Norwegian tonnage regime.

What is your company's methodology or criteria for choosing between tonnage tax and corporate income tax? Is it usually a single strategy for the whole fleet or rather a mixed strategy?

No, I think it's basically one standard strategy, which is to bring everything on the Singapore. But a lot of our shipping activities, especially the vessels themselves are held through joint ventures and then it sometimes it depends on the joint venture partner under which flag that vessel may be sailing.

So if there was another opportunity outside Singapore, it would be an incentive to change the regime?

Then, we would maybe find, like with our Norwegian partner, to apply the Norwegian tax regime because that's also what they are very used to. And, if there would have been a different partner, we would very likely have said: "well, we need to move these vessels under the Singapore flag".

Have you ever changed tax strategy, or even tax regime for your ships? If so, what factors prompted this change?

Not really. As far as I know, we always have been in Singapore. It is our main tax regime because that's where our shipping management is, and a lot of these regimes they go hand in hand with where your management is.

What is the average annual return on investment for your ships, and does this vary across different markets?

I have absolutely no idea. I'm looking at our total shipping income, but that could be derived from own vessels, but as well chartered vessels. So, I personally don't have any insights there about what the return on investment by vessel is.

What are your thoughts on a possible introduction of tonnage tax in Switzerland, and how would it change your strategies?

Yeah, actually, we have been in much favour of having a tonnage regime here Switzerland as well. Because we are, as a commodity trader somewhat headquartered here in Switzerland, and the shipping arm out of Singapore is supported by shipping brokerage activities here in Switzerland, similarly in the US. So, there are people in Switzerland and in the US that do have chartering vessels in the region.

And so, if there would be a tonnage regime in Switzerland, that would, for me, open up the opportunity to actually create a greater management framework around these people that we have here in Switzerland. And then we would clearly qualify on the tonnage regime in Switzerland and then will benefit from that regime here.

How important is tax stability in your decision-making process for choosing a tax regime for your ships?

Yeah, I think it's rather important and the reason why I'm saying this is that we start to learn about the Norwegian tonnage regime when we ended up in this joint venture with this Norwegian partnership. And then talking through, it feels like as if the Norwegian tonnage regime is extremely complicated; what you can and cannot do, and what is qualifying. And so, for us, having a tonnage regime that is very similar across the world that would be really helpful.

From your perspective, does implementing a tonnage tax system create incentives for shipping companies to better align with and achieve sustainable environmental goals? How does this tax regime influence corporate strategies towards sustainability and environmental responsibility?

For us, I don't think that's so important, I think it's more of a company-wide goal to be more sustainable. And we realized that we are in the oil and gas industry, so that's somewhat of a no go industry. At the same time, we do a lot of green investments and would like constructing these new vessels that are contributing at the highest standard in terms of carbon footprint. And it's, I think, part of that sustainability strategy to contribute to the environment.

Similarly, there's also a lot of carbon emission trade and allowances that are coming into play and in new regulations, especially here within the EU, and we try to only charter vessels that are not older than 10 years and then have a good records of maintenance.

Asymmetry has been observed between the world's leading ship owning countries and the preferred flag states: from your perspective, what factors contribute to this disparity, and how your company is concerned? Most of leading flag states are “flag of convenience”, with which Switzerland does not generally have double tax treaty: why would a Swiss-based company enter into such a regime?

We are not really a Swiss based shipping company; so it makes the question a bit difficult. I think there are probably other reasons why we have certain companies choose Switzerland as their location. And I could see that there are, potentially, no specific benefits for really Swiss based companies to acquire a vessel under Swiss flag.

But otherwise, I think that at least the more serious companies would sail under flag that has sustainability requirements and solid labor law requirements. So I think these seem to be more important than just a tax treatment.

What are the factors influencing your company to not register all ships under flags of convenience?

I think especially the labor law requirements.

What strategies do you employ to legally minimize tax burden in your international shipping operations? What is your perspective on the BEPS 2.0 carve-out for shipping activities? Do you think such an exemption could be as advantageous as tonnage tax or shipping incentive regimes?

So for us, in BEPS or in Pillar Two the global minimum tax standard, international shipping income is excluded from the global base. So as a consequence, we try to maximize our shipping income as much as we can.

At the same time, the shipping market is rather transparent as well, so the way we somewhat try to play with this is actually entering into long term charters where there's an underlying short term chartering happening.

So if you're long term, you can fix the charter rate per day or for many months, and then try to benefit from short term opportunities that may give you a better or a worse rate, as it also may happen. So that's how we try to play with this, but I must say that's not overly active because that all sounds much easier than it is in reality. There are charterers or

charter companies that will give you rates in the market, which is really difficult to apply a different pricing than actually some of these companies will offer you.

How do environmental considerations or labor laws play a role in your choice of tax regime? How do you balance the benefits of tax planning with the risks of non-compliance or negative public perception?

Environmental considerations, labor laws, and this type of things are a framework that is as well driven from group company. And so, it is just a company-wide effort and the shipping arm is an element of all of this. In itself, it is not driving any decision about which tax regime we would apply.

Then, I think, for us, the public perception is becoming more and more important. And therefore, if I would come up with a tax strategy or tax planning that has a lot of risk embedded to it, and if it comes out we will end up on the front page of the newspaper. That's not what you want to happen.

So for me, that's where the balance is. What if it is discovered? How is it then going to be perceived? And we don't want be perceived as bad taxpayer or a bad citizen.

How do you anticipate changes in tax regulations and how might these impact your future shipping tax strategies? What plans do you have in place for sudden changes?

The thing is, I would think here about change and widening the scope about shipping income. Because if you, as a foreign government, have a shipping regime in place, knowing that companies are interested in wanting to be within your jurisdiction to benefit as much as they can from this regime, and basically from the exclusion from the global minimum taxation. Then you want to try to reach the limits of what is still allowed and what can be done.

So that's, I think, probably one element that is likely to happen here in Switzerland, where we are thinking about the tonnage regime, which in itself is a bit strange if you are not bordering any sea, why you would have a nice regime.

And that's how governments are looking into these type of things as an incentive to attract new activities. But as I said, we are more than ready if some would impose a tonnage regime to bring some of that activity into Switzerland.

How is technological advancement impacting your tax strategies, particularly software used to predict risks, tax changes, optimization of cargos?

Well, I think actually the new technology will help us giving us more embedded data: how we may be able to play, on the tech side which would say the pricing of a charterer. Let's assume that it's like a normal transfer pricing, there's a benchmark, there's a range of prices.

Thus, technology nowadays does help us in making a better decision or more favourable decision for the company, than we probably would have done in the past.

Appendix 9: Interview n°2

Interview date	Tuesday, 23 rd of April 2024
Interviewee	Tax Manager of a trading company, Lausanne. Metals market.
Interviewer	Kevin Jaquemet
Interview condition	Microsoft Teams

Could you describe the core activities of your company within the maritime industry, and how do these activities intersect with the unique challenges and considerations you face in managing shipping taxation?

So, the group we're part of is a Turkish group with a lot of verticality; in the sense that we have mines in countries like Turkey, Russia, Albania and others; so that's where the mining is going to be done. From there, we buy the material from the Group's companies, i.e. from these mines. These materials are then transported by ship from Turkey, Albania or Russia, for example, either to Europe or to the United States, South America or Asia. In Europe, we'll import via Italy, Holland, Belgium or Slovenia, depending on where our customers are located.

So, since we're going to import these goods, we need a VAT number for that country of import, where we'll be reselling to our European customers. So, a large part of our work concerns European VAT, and then all the tax aspects at Swiss level, given that we're here for two reasons, in my opinion: firstly taxation, we still have a lower tax rate than the average, i.e. around 14% between Geneva and Vaud, whereas other countries are around 20%-25%. And of course, when it comes to trade finance, there's a great deal of knowledge in this area, especially in Geneva, so that's another reason for our presence in Switzerland.

As far as the Group's shipping activities are concerned, our vessels are owned by a subsidiary based in Malta. Most of the Group's vessels are registered in Malta.

Could you please share your role and responsibilities within the company and explain how your position relates to navigating the complexities and challenges of shipping taxation?

Regarding the complexity, we need to understand what people are trying to do, and whether what they're explaining to us is really the case. For example, a vessel goes from A to B; are the INCOTERMS correct? are they used correctly? do they make sense? For imports, it will also be important to know who paid for what and when. So, in terms of complexity, there's of course the VAT, the direct tax in Switzerland, and there's the Transfer Pricing aspect.

What would be your methodology or criteria for choosing between tonnage tax and corporate income tax?

In my opinion, we'd choose the tonnage tax, at least with the constraints, with the specificities linked to our vessels, to our types of vessels, in my opinion, it would be more appropriate although in Switzerland, a more thorough calculation would be necessary given that at Swiss level, we benefit from a relatively low rate of 14%, here between Lausanne and Geneva. Would we really benefit? It remains to be seen, the type of vessel, the capacity; it's a case-by-case basis.

What are your thoughts on a possible introduction of tonnage tax in Switzerland, and how would it change your strategies?

Such an introduction would be an excellent thing for the shipping companies we have in Geneva and for the companies that own vessels. Afterwards, of course, as always, like everything else, all these types of tax are not necessarily accepted by everyone.

Without it in place, we lose competitiveness, just as we lost competitiveness with BEPS; I can make a connection between the two, because these companies are waiting for Switzerland to implement this tonnage tax, and in the end, it hasn't been done. So maybe one day, these companies will start thinking to go elsewhere.

Then again, there's the more moral side of things: whether favoring these companies is a good thing for Switzerland or not. In fiscal terms, it would reduce Swiss tax revenues, which is not necessarily good, while on the other hand it would create or secure jobs in Switzerland.

But again, the issue of tonnage tax or BEPS has its advantages for companies, for people like me who work for these companies. But in terms of income, it's not very equal compared to other companies.

So it's all a question of morality. However, in my opinion, it would keep the companies in Switzerland, as well as all the employees, who also pay their taxes in Switzerland.

How does your company adapt to BEPS standards, particularly regarding transfer pricing practices and base erosion? What strategies do you employ to legally minimize tax burden in your international shipping operations?

So there have been a lot of changes over the last 10 years. With BEPS, there's a lot more reporting to do already, so reports to finally show that we're compliant, to show that in each country we'll be able to justify a tax rate and above all why we'd tax more in Switzerland than in Turkey. So we prove with reports, often prepared by the Big 4, that our employees are in Switzerland, that the risks are in Switzerland, that the financing is done in Switzerland. And so, in relation to the number of employees, in relation to the risks we take, in relation to the decisions we make from Switzerland, ultimately reveal the percentage of profit that can be kept in Switzerland.

Then, of course, the authorities will monitor this. Most will want profit, of course, and will say that the profile must stay in Switzerland, that the profile must stay in Albania, that the profile must stay in Russia and so on. So every country will eventually want a piece of the pie.

So, if we can, we try to maximize profit where the rate is relatively low, and vice versa. However, to do this, you really need to put a structure in place; a Transfer Pricing structure, but for this we often have quite a few European or world headquarters here in Switzerland, because we can justify the risk taken by the company, the decisions that are made; therefore decisions in relation to the market price, and therefore that the decision-makers are in Switzerland, typically CFO, sales director, etc. These are reasons that will make people take advantage of our services.

If the company makes a loss, it will also make a loss in Switzerland. On the other hand, if the company makes a profit, it will make the maximum profit in Switzerland, and so the structure is often to keep a company in Switzerland. Either a global headquarters, European headquarters and then lighter structures in Europe.

Could you describe the process and ease of establishing a permanent establishment for your operations?

Well, setting up a company is easy. How much it costs depends, but it's not going to be expensive. For example, Panama could be interesting from a tax point of view, but the Swiss authorities will ask "why are you going to Panama?".

On the other hand, for example, we might even have a permanent establishment without our knowledge. For example, employees work for us in Germany; they're based in a

group company, but ultimately not linked to ours, but some people do work for us from Germany. And that would be justified, without being a good thing for us because ultimately the German authorities would want a piece of the pie. And instead of being taxed at 14%, we'd be taxed at 25%; we're very careful about that.

For these reasons, our aim, at European level, is to have no fixed establishment. We have VAT numbers everywhere, without having fixed establishments because we don't want to. So the complexity lies with those who want to open a permanent establishment in a place where the tax system is very attractive, and avoid having one where it's not.

In the end, what BEPS is all about is transfer pricing and who wants a piece of the pie, in the sense that each company is going to say "I've got a lot of people here, I've got the sectors here, etc." whereas that's not necessarily the case, so there's always going to be this war between countries to find out where the profile has been created.

What is your perspective on the BEPS 2.0 carve-out for shipping activities? Do you think such an exemption could be as advantageous as tonnage tax or shipping incentive regimes?

So we're talking about a minimum of 15%. So from a Geneva or Vaud point of view, we're only going to go up by 1%, which is still much lower than many, many countries, even in Europe, the United States or Asia, so it's still marginal; we're not going from 14% to 20%. And personally, I think that from a Geneva or Vaud point of view, it's rather good because all the cantons will be at the same level. Although internationally, we could lose a little competitiveness.

On the whole, internationally, there are more administrative constraints and risks. For example, our parent company is in Netherlands. So we're going to have to submit our GloBE and BEPS reports to Netherlands, i.e. the global calculation of our taxes. It's finally on the basis of this calculation that we'll obtain the delta on which we'll have to pay 1% more. And if the Dutch tax authorities don't agree with our calculations, we run the risk of paying more. So I think we're in for quite a battle.

As for the exemption of shipping activities, this is advantageous for the companies concerned, but not necessarily very fair to the others.

How do you balance the benefits of tax planning with the risks of non-compliance or negative public perception?

Perception! That's why a lot of companies, not necessarily ours, but in general, talk about public perception. And there's the fact that the general public thinks that companies like ours, or quite a few companies in Switzerland, don't pay enough taxes compared to other Swiss companies. And they don't necessarily see the advantages either, so they only see the final tax burden.

As a European minister said a few years ago about companies that were going to base themselves in Ireland to benefit from the 12% rate: "what you're doing is legal, but not moral". And that's the whole point: the aim of companies like ours is to stay under the radar. And that's how we try to ensure that public perception is not tainted.

In terms of communication too, we explain why, because it's often the case that, if you look at the Swiss population, you may not all understand why we're in Switzerland. But if tomorrow, taxes were equal and we paid 25%, there would be a lot fewer people in Switzerland, and therefore direct and indirect job losses.

How do you anticipate changes in tax regulations and how might these impact your future strategies? What plans do you have in place for sudden changes?

Yes, we often see projects coming. In the sense that there's a fair amount of communication behind any new concept, so we often have several years to see the implementation of these new regulations. Typically, for BEPS and BEPS 2.0, we talked about them 2-4 years beforehand.

And after that, there are often discussions between the various parties, i.e. between companies, trustees and the Big 4, to ensure that these regulations are the least restrictive possible.

And finally, when you see this coming, the aim is to find out which countries are going to be most impacted and where the greatest opportunities lie with these changes. Today, I'm Tax Manager in Switzerland, so I'm going to sell this to my management, telling them that in the end there's no impact for us and for the Group, and that we'd do better to continue maximizing our opportunities in Switzerland.

How is technological advancement impacting your tax strategies, particularly software used to predict risks, tax changes, optimization of cargos?

Yes, so we don't necessarily use it internally, but I know that there are tools for better management, better visibility, a better idea of what we've got and what we're doing. Typically tools used by the Big 4, to try and improve all that. So we're talking about tools

that allow us to see the impact if we put a company in this country, what's going to happen.

Appendix 10: Interview n°3

Interview date	Thursday, 25 th of April 2024
Interviewee	Senior Tax Counsel of a major trading company, Geneva. Agriculture market.
Interviewer	Kevin Jaquemet
Interview condition	Microsoft Teams

Could you describe the core activities of your company within the maritime industry, and how do these activities intersect with the unique challenges and considerations you face in managing shipping taxation?

The group, with more than 160,000 employees in 70 countries, provides agri-food, industrial and financial products and services in more than 125 markets, with sales in 2023 of \$177 billion. The parent company of the group is the largest unlisted company in the United States. The group has been active in Switzerland since 1956, and currently employs over more than 400 employees of over 40 nationalities at its headquarters in Geneva. This headquarters is an essential part of the group and operates as a worldwide trading platform for agricultural commodities. Transporting these commodities by ship requires a fleet of over 400 ships, so the Geneva office is also home to the Group's shipping and freight trading operations. Freight trading has grown over the years, and today, third-party business accounts for over 75%. The remaining 25% is mainly dedicated to the intra-group transport of commodities.

As far as our fleet of over 400 vessels is concerned, we do not own any vessels as assets. In fact, as it is often frequent within the maritime sectors, the vessels are chartered from vessels owners under long-term time charter agreements. Those vessels are operated by the charter, while the crewing and provisioning is the ship owner's responsibility.

Could you please share your role and responsibilities within the company and explain how your position relates to navigating the complexities and challenges of shipping taxation?

In my case, the role of Internal Tax Counsel consists of (among other things):

- Providing technical advice on the possible tax costs and risks in the various jurisdictions in which we operate and which are inherent in doing business with these countries, so that decision-makers are fully informed before undertaking any transaction or activity. For example: the tax implications of chartering a boat to operate between territorial waters and international waters of an African country, in order to act as a shuttle to supply and load larger vessels on the high seas with raw materials for export.
- Solve tax problems that may arise during the execution of operations. For example: demurrage to be paid by a counterparty in Algeria: discussion of potential withholding tax, or application of local VAT.
- Advise on contractual wording to protect the company from the tax consequences of transactions. For example: freight contract for ships calling at US ports, revision of clauses relating to payment of Transport Tax.
- Maintain contact with tax authorities to clarify and/or satisfy any information requests for information. For example: declaration in Indonesia of freight received from local counterparties and withholding tax incurred.
- Ensure that all business activities and operations are carried out in compliance with respect not only applicable laws but also the strictest ethical principles. For example: a request by a counterparty to make a payment to another company located in an offshore jurisdiction.

In terms of acquisition strategies, what type of ships, considering size and capacity, are currently favored for new acquisitions? Do fleets tend to be diversified or rather uniform, and for what reasons?

The company does not buy ships in the legal sense of the term. Company's fleet is chartered on a long-term basis ("time-charter") by shipowners who own the vessels and directly or indirectly supply each vessel and its crew. The company (1) then sells a service for the transport of goods from port A to port B ("voyage-charter", for example: for the transport of soybeans from Santos in Brazil to Shanghai in China); (2) or occasionally resells the use of the vessel to a third party, but for a shorter period; or finally (3) uses these vessels to transport its own commodities, which it has purchased in country A (American corn) and resold to country B (Egypt), with the obligation to deliver the goods in the port of arrival. In this case, instead of buying freight (as everyone else does we use our own fleet.

The fleet consists of bulk carriers of various sizes/capacities. At the company we generally operate with

- Panamax (adapted for the Panama Canal)
- Supramax (medium size - can enter shallow ports)
- Handymax (small size)
- Cape-size (very large, but must round the Capes of Good Hope and Horn)
- Tankers: liquid tankers.

Have you ever changed tax strategy, or even tax regime for your ships? If so, what factors prompted this change?

We have developed a hub in Singapore, as this country offers tax advantages for shipping activities under certain conditions (similar to Swiss “tax holidays”).

What are your thoughts on a possible introduction of tonnage tax in Switzerland, and how would it change your strategies?

All models are more or less similar and, in Europe, generally limited enough to avoid tax competition. Tonnage tax is of no interest for a trading company whose ultimate parent company is in the USA.

In fact, the American tax system, in one way or another, establishes taxation in the United States of the trading income we earn in Switzerland; this tax transparency is known as “Subpart-F” taxation. This means that even if we obtain trading income here in Switzerland and we don't distribute it as dividends, US law creates a fiction in which this trading income, as if it had been obtained directly by the US parent company, is subject to taxation in the USA, which could also be the case for a shipping company. So, from the moment trading and shipping income is taxed immediately in the USA, let's say today at a rate of 26%. Then you are entitled to reclaim against your US tax the tax paid abroad, i.e. a foreign tax credit. So, to avoid double taxation, you can only normally credit a foreign tax against your own tax to the extent that the foreign tax is of the same nature as your income tax. However, a tonnage tax is not the same as an income tax; it is an indirect estimate of certain revenues based precisely on tonnage and not on income.

At this point, in the United States as in most other countries, the law will not recognize this tax paid abroad as a foreign income tax, and won't allow you to deduct it, which means you end up paying tonnage tax in a certain country and paying the full 26% on

that same income in the US. In the end, your taxation will not only be 26%, but will go beyond this amount.

The reference to the fact that, in principle, it's of no interest to a trading company whose ultimate parent company is in the US, and so we have made it clear on numerous occasions with the cantonal administration and also within the Swiss Trading Shipping Association, because there are of course other players in the market who have pushed for this tonnage tax, that from our company's point of view, we were not against but we had no specific interest whatsoever in supporting it. At least, we remained on a neutral position, so we didn't fight the existence of a tonnage tax, if it can benefit someone else, so much the better for them.

Again, not only can you make losses and still pay the tax, but you can't use those losses to offset income from other activities, so in our case, if we make a profit buying and selling wheat and make a loss on the sale of freight, we'll pay a tax. Our interest in this tax is therefore extremely limited, and as we've seen, it can only be of interest to companies involved purely in shipping.

To sum up, in general, the tax is due irrespective of whether you make losses, in which case these losses cannot be used against income from other trading activities (and vice-versa). On the other hand, the tax is not recognized as an "income tax" and so a US company cannot eliminate this tax in the US in the form of a foreign tax credit, giving rise, in our case, to situations of double taxation.

And this has many other negative consequences. That's why, for example, I talked to you before about freight, freight can be subject to withholding tax, but there are many countries that tell you that freight paid to a foreign entity is exempt from withholding tax as long as the foreign company is subject to a tax similar to those they have in their own country. Now, they're going to say, "Wait a minute, which tax is your Swiss company subject to? you're going to have to tell them that I'm subject to a tonnage tax, and all of a sudden, Brazil, for example, is going to tell you that they don't know about tonnage tax. It's not an income tax, so you don't meet the conditions for exemption, and I'm going to deduct it from your freight.

How important is tax stability in your decision-making process for choosing a tax regime for your ships?

Tax stability is essential for any kind of business.

From your perspective, does implementing a tonnage tax system create incentives for shipping companies to better align with and achieve sustainable environmental goals?

I don't think that's going to be the deciding factor at all.

Asymmetry has been observed between the world's leading ship owning countries and the preferred flag states: from your perspective, what factors contribute to this disparity?

This is a strictly legal problem in the event of liability. Flags of convenience make it possible to submit disputes to laws that are more convenient for the parties, and with more acceptable costs. The choice of flag is made by the shipowners and, in the company's case, this has no bearing whatsoever.

Most of leading flag states are “flag of convenience”, with which Switzerland does not generally have double tax treaty: why would a Swiss-based company enter into such a regime?

I don't think the flag itself has any influence on the taxation of profits. This is a false belief. I don't know whether it has any influence on indirect taxation (VAT or other taxes on the transfer of the vessel - but I doubt it).

Could you describe the process and ease of establishing a permanent establishment for your shipping operations, especially in jurisdictions that have Double Taxation Treaties with Switzerland?

A permanent establishment is not necessary for the development of our activities and we try to avoid having one whenever possible.

In our case, and in most cases, there is no need for a specific permanent establishment for the shipping business. In fact, we're always careful when we're looking for customers or canvassing potential customers, and so on, in the various countries, to ensure that these activities or any other kind of activity do not create a permanent presence in that country, which could subsequently raise the question of whether our activity, as a result, creates a tax presence, and therefore a permanent establishment, for our company in that country. So, as I said, we don't need to have a permanent establishment to do our own business, which is selling freight. And we try to avoid, as far as possible, it being perceived in this way, i.e. if I have someone in India in our office, in our company, meeting potential customers, we'll be careful that this person plays an auxiliary and minimal role,

so that this person is not seen as creating an agency or a significant presence of our business in that country. Having a permanent establishment in these countries, it's simply a nightmare. So we avoid it, especially with countries that don't have a double taxation treaty.

Does your company specifically target these DTT jurisdictions for establishment, and what are the primary considerations and challenges in this process?

In cases where a jurisdiction without DDT comes into play, we take great care to ensure that the activity does not create a tax presence, and we adapt this activity to better minimize the risk if necessary. A discussion about a tax presence in a jurisdiction without DDT can easily turn into a nightmare, and usually goes beyond the technical channels, as the tax authorities will not want to let go and will come up with all kinds of convoluted arguments pretending to make you pay the public budget or, worse, the private wallet.

How does your company adapt to BEPS standards, particularly regarding transfer pricing practices and base erosion? What strategies do you employ to legally minimize tax burden in your international shipping operations?

We don't employ any "strategy" to minimize the tax burden. We simply try to avoid the same income or operation ending up being taxed twice or three times, which is easy enough to happen in an international environment with unsophisticated countries at its core.

What is your perspective on the BEPS 2.0 carve-out for shipping activities?

Personally, I don't think it follows any logic of tax justice and is surely the result of pressure from various lobbies or jurisdictions.

Do you think such an exemption could be as advantageous as tonnage tax or shipping incentive regimes?

No. The BEPS exemption can only be advantageous in a jurisdiction that already has a favorable regime at its core. The BEPS exemption guarantees that Pillar 2 will not spoil this benefit.

For example, Singapore has a shipping regime that already allows you to pay 0. And if Singapore were now forced, under Pillar 2, to apply a 15% tax, its internal shipping incentive regime would be useless. So the BEPS exemption for shipping is fully effective if you already have a favorable regime in place. In Geneva, we're now at 14%, so we're going up one point to 15%. However, if all I did was shipping and I had a tonnage tax, so

I'd be taxed at close to tonnage tax only, this BEPS exemption would be advantageous in that case.

So, these two regimes are complementary.

How do environmental considerations or labor laws play a role in your choice of tax regime?

They play a major role in our shipping activity (choice of ships based on their low emissions, use of emission certificates, etc.), but play a negligible role in our tax choices. Labor laws, on the other hand, have no influence whatsoever on our tax strategy. In addition, the crew is provided with the vessel, although we strictly monitor compliance with labor laws and crew safety.

How do you balance the benefits of tax planning with the risks of non-compliance or negative public perception?

Our tax planning is the antithesis of aggressiveness in the knowledge that a tax will be paid here or there sooner or later. For the company, what counts is the reliability and stability of the tax cost, so that risk decisions can be taken in advance. Surprises are very difficult to digest, as they distort forecasts. That said, being a multinational always marks you out as the "bad guy" from the outset, whatever you do. Tax planning with the primary aim of optimization is not a priority for us.

Appendix 11: Interview n°4

Interview date	Thursday, 25 th of April 2024
Interviewee	International Tax Director of a trading company, Lausanne. Energy market.
Interviewer	Kevin Jaquemet
Interview condition	Microsoft Teams

Could you describe the core activities of your company within the maritime industry, and how do these activities intersect with the unique challenges and considerations you face in managing shipping taxation?

Historically, the company is a utility company. It's only been until we have entered into the LNG trading that we've had more focus on shipping activities and also since the energy transition started and we use the utilization rate of our coal fired power plants that has been less than historically because of the new renewables on the grid.

In order to remain competitive in the coal market, you know to source coal for our plans, we also trade more volumes internationally. And that involves also, the expansion of shipping activity.

In the last couple of years, we have more shipping activity and it will go up. For instance, we have signed some long term FOB LNG deals in the US as well, which we need to bring to Europe.

Could you please share your role and responsibilities within the company and explain how your position relates to navigating the complexities and challenges of shipping taxation?

I'm part of the trading department and then functionally, I'm also part of the tax department for risk management purposes, so that as we have four eyes principal in the company; it's never someone alone that decides on taxation subjects.

Then regarding tax approval. So in which we go products and the products can be any physical activity of a service or any financial derivatives.

So once we started building out a chartering activities, then the first question is OK, can we basically charter the vessels for my perspective without triggering tax liabilities in countries where Germany does not have a tax treaty with?

So each time that we do something, which can be a loading port and be a discharge port, or if we have a position on the ship and we will resell the freight instead of use it for us, it constitutes a product. And then, I review it, to check if it does not have adverse tax consequence for the company, or if it leads to additional tax reporting requirements and tax obligations.

And that that describes my role in the trading process and tax organization.

What is your company's methodology or criteria for choosing between tonnage tax and corporate income tax?

Our vessels are registered in Germany, so we are reviewing this with the support of an advisor in order to know to what extent German tonnage tax could apply to our fleet of owned and chartered vessels.

What are your thoughts on a possible introduction of tonnage tax in Switzerland, and how would it change your strategies?

We have not consider at all the Swiss tonnage tax for the moment it does not exist yet. But in general, of course, it's an effective regime because also it's one of the activities that's not included in the Pillar 2 of the global minimum taxation of the OECD.

As many countries and also many OECD countries and G20 countries have a tonnage tax regimes, and if you look at trading companies in general, you may notice that most of them have shipping entities in Singapore and that the freight traders, so the ship brokers, outside Singapore, work as agents or brokers, for that Singaporean shipping entity. And that is because Singapore has a tonnage tax, but it's slightly different, it's more like an exemption of all shipping income, as well as ancillary income such the demurrage fees, but also if you hedges in your shipping book. So FFAs or, you know, financial derivatives, with which you can hedge your freight exposure. Then income from those hedges is also exempt from income tax.

And then you have a minimum number of requirements to your fleet. So you can have purely charter fleet. You don't need to own vessels in order to qualify for that, but instead, Singapore requires a minimum of four long term time charters vessels or minimum for a

year, each charter time. And then there's a requirement on the cost to incur in Singapore, so by employing people in salaries, by using local service providers, or banks, or lawyers.

Then you can get into that very attractive shipping regime, which will also continue to exist within the Pillar 2 minimum taxation, as long as shipping is outside of that.

And I think for trading companies in general, if you already have a Singapore presence then that is a more attractive regime than the tonnage tax regimes in Europe.

Moreover, the EU, for instance, has a framework on tonnage taxation and so if you purely have a chartering activity then generally it doesn't work. Even if you can have chartering income, so from a chartering fleet, the majority of your income will still need to come from owned vessels of that of that group or company. So you can have some ancillary chartering income, like FFAs, now, considering that most trading companies only own vessels to a limited extent, but most of them are chartering, on the time charter or voyage charter basis. The income generated with that, so if you have a separate shipping company that charges your trading company for shipping activities, you may have a hard time to qualify that income for tonnage tax. So in that sense, probably the Singaporean shipping tax regime is more attractive than a purely tonnage taxation, which is more anchored to the owners of the vessels.

Asymmetry has been observed between the world's leading ship owning countries and the preferred flag states: from your perspective, what factors contribute to this disparity, and how your company is concerned?

Well, you have to consider that the Liberian ship registry has mainly been set up by the US to allow US companies to compete on international shipping, because for domestic transportation in the US there's Jones Acts vessels; you need to have a US build ship which needs to be operated by the US crew, if you want to transport a goods between US ports or within the US. Obviously, there's a higher cost of shipping when you have a US ship than if it would be in Korea, or Vietnam, and all operated by an international group. So for that purpose, the Liberian ship registry was set up, and in Monrovia, capital of Liberia, it only has a very small office, where you have one concierge opening and forwarding the mail and the entire registry is actually run from the US.

So this is basically to allow US multinationals also to compete on the shipping market. So typically the Liberian ship registry you would see it with US companies, while some others also use this flag of convenience.

But it also exist other reasons to not use flag of convenience, like Liberia, Marshall Islands, or Panama. For instance, Panama is getting blacklisted by number of countries, as Panama does not being transparent, not sharing tax information, etc. So I think there are other reasons from a business risk perspective to not use those flags of convenience.

Typically, if they used Greece, for instance, which has a tonnage tax regime, which not only applies to ship owners, so to ship owning companies, but also do the O&M, the operating and management companies. So if the Greek ship operating companies, then do the crewing and management of vessels, so the operational management; they get their income also exempted under tonnage tax regime. Reason why you see lot of Greek shipowners. And I think some of the registries like Marshall Islands, also have an office in the port of Piraeus. As a result, it is very easy for the Greek companies to deal with ship registries and the compliance filings that they need to make with the ship registry.

It could be many other political reasons why companies keep the fleet in the countries where they are registered. And NYK, for instance, where we will charter the LNG vessels from, uses EU companies as the owners. It's probably maybe from Japanese requirements more attractive to use EU. And then, they are shipowners, so they automatically qualify for tonnage tax regime. I have personally not asked NYK why they opted for that, but for us it's not bad because it's more transparent obviously to have EU shipowners.

How does your company adapt to BEPS standards, particularly regarding transfer pricing practices and base erosion? What is your perspective on the BEPS 2.0 carve-out for shipping activities?

In fact it's even before BEPS, where companies are using separate shipping entities to do the transportation activity or commodity traders use shipping companies to do their trading for them. Obviously, if you charter in a vessel and then you charter it out basically through the trading company for a fee, there's a limited optimization possible as generally it is the Address Commission that would stay behind the shipping company: Address Commission is a discount that charters get from the owners on the lease of the vessel.

So if I so depending on the size of the vessel. For example, a small Bulk Carrier, it could be around 3.75% if it's a LR (Long Range) Oil Tanker, it could be more around 2.5%. So if I agree with you, a charter rate of USD 100 per day, on the voyage charter, it's then USD 100 minus 2.5% of Address Commission, so in fact the charterer will only pay USD 97.5. Then the shipping company sells the freight to the trading company for USD 100

and the USD 2.5 is the margin that should cover the costs of the shipping company and leave some profit there.

If you do a long-term time charter, basically you charter it in at cost; you have to CapEx of the vessel that is recovered and then there's an operational element, OpEx, like the crewing and other operating expenses, which is indexed. So, if you charge it for a number of years, the CapEx is fixed, it's depending on the financing and the depreciation.

Then, if you always have events happening, so freight rates, they can go along with the market. So if you charter out at market rates to the company, first of all the shipping company can hedge those market rates, thus hedge its income. So that if the market rates go down, they will still be able to have their revenue hedged and then if the shipping company only pays tax based on the tonnage tax regime, then most of that margin will be tax free.

If you have freak events like the Houthis, in the in the Red Sea, or the Horn of Africa, attacking vessels; and all the vessels have to go around the Cape and the freight rates double or triple, then you can charge out at those high rates to your trading company and you get the income in the shipping company, which is only taxed at tonnage tax regime.

And BEPS doesn't change that because if you charter out at market rates and shipping the commodities we're transporting and you do that as quoted prices, so the prices that you get from shipbrokers or from pricing platforms, that is the recommended transfer pricing methods by the OCEC and BEPS; so that's not impacted by it.

Also like the Singapore shipping exemption regime that requires you to have certain substance in people and officers; actually is aligned with the BEPS regime whereby you cannot have payments without risk taking and without activity. So optimizing your income through shipping activities, in my view is not contradicting with BEPS and also not with Pillar 2, minimum taxation, because shipping income is outside the scope of that. As a result, it continues to be an attractive optimization opportunity for companies.

How do environmental considerations or labor laws play a role in your choice of tax regime? How do you balance the benefits of tax planning with the risks of non-compliance or negative public perception?

Obviously we are, a very responsible market participant and we have thorough compliance procedures, ship vetting procedures on any ship that we charter, but this is a general in the commodity trading, or at least with the larger commodity trading

companies that they have ship vetting procedures, that ships need to meet safety standards, environmental standards, and also have a good track record, in terms of accidents and safety measures. And in that sense, shipping is not different than any other part of the business and we approach that with the same concern but also other large commodity trading houses all have vetting departments and environmental checks and balances in place.

And compliance will only go up, it won't go down, regulation. And we will see further and I mean one of the biggest shifts, it was the 2016 ban on high sulfur fuel oil. But now you also see that the shipping companies need to surrender CO2 certificates for the shipping, that they do in EU waters. And there are more and more studies about retrofitting vessels to low carbon fuels like ammonia, like ethanol, and there's talk about hydrogen engines as well. So you will see more and more development.

Appendix 12: Interview n°5

Interview date	Friday, 26 th of April 2024
Interviewee	Tax Manager of a major shipping company, Geneva. Container market.
Interviewer	Kevin Jaquemet
Interview condition	Face-to-face / Microsoft Teams

Could you describe the core activities of your company within the maritime industry, and how do these activities intersect with the unique challenges and considerations you face in managing shipping taxation?

So the group is divided into 3 sub-groups: the cargo part, what we call cargo here, is the shipping part, i.e. sea transport. It also includes a sub-division called logistics, or inland transportation, which covers everything land-based, such as trucks and barges, as well as warehouses for storage. Then there are cruises. And finally, terminal investment, i.e. large ports with cranes in which we invest in the form of concessions, for several years during which we operate the port.

And I only deal with the cargo side of things, whether it's logistics or shipping. So the challenges we face are that in each country we're going to operate, we're going to have port activities, when shipping arrives in the ports, we generally have a shipping agency that represents us, so a legal company in itself, with a team and management. In fact, we're divided by region, which means that in each region we have a manager who operates, and so the main challenges are to be compliant at local level, for example in terms of taxation, and of course to try to optimize taxation knowing that in many countries the tax rate is higher than in Switzerland; so finding a way to repatriate as much cash as possible to Switzerland. And then there are all the international aspects of today's BEPS regulations, or the limitation of interest.

So I'd say there's a global international aspect, and then you go down, and you have to try to respect local compliance as much as possible, and make sure that you respect local tax laws and apply local tax rules.

Could you please share your role and responsibilities within the company and explain how your position relates to navigating the complexities and challenges of shipping taxation?

I'm a Tax Manager in a 5-person team, we have a Head of Tax, and each has a region. As far as I'm concerned, I'm in charge of Africa, where we have a presence in some forty countries, as well as Switzerland, Luxembourg and Cyprus.

So I work directly with the local CFOs of our agencies, and we coordinate together in the form of project management. Knowing that the CFOs take care of all local tax compliance, tax declarations and so on. Then, when you have tax audits, or reorganizations we want to carry out within the group, we'll get involved in the discussions and act as a bridge between our local tax advisor, our local team and ourselves. And we report to the management at our Geneva headquarters.

In terms of acquisition strategies, what type of ships, considering size and capacity, are currently favored for new acquisitions? Do fleets tend to be diversified or rather uniform, and for what reasons?

Admittedly, this isn't my area of expertise, but I can tell you that the fleet has grown extraordinarily since COVID, to become number one in terms of transport capacity, thanks to the fact that we've bought a lot of second-hand vessels. Of course, the founder started out with a single, relatively small vessel. And year after year, they started buying ships with more and more TEUs, more and more capacity.

On the other hand, it's true that today, as far as I can see, the Group is trying to align itself with ecological standards and therefore to buy more environmentally-friendly vessels, mainly the new ones we're having built.

As for vessel size, that depends on the market. A Europe-Asia market requires large container ships, as voyages are long. Smaller vessels are needed for shorter distances, for example in Africa or Europe.

Is there a correlation between the choice of taxation method (traditional corporate income tax or tonnage tax) and fleet fragmentation (types of commodities transported, ship sizes, and other aspects of fleet composition)?

No, I don't think so. In any case, personally, I don't see any because the method of taxation, notably the tonnage tax, won't depend on your type of boat. At least for the

moment. After that, maybe one day they'll include an ecological component in the tonnage tax. I don't think they have yet.

What is your company's methodology or criteria for choosing between tonnage tax and corporate income tax? Is it usually a single strategy for the whole fleet or rather a mixed strategy?

For us, it's a unique strategy: we are taxed on the tonnage whenever possible.

In the context of intense global market dynamics, such a crisis, how do these external factors influence your company's choice between traditional corporate income tax and tonnage tax?

Indeed, a crisis would be extremely problematic, with this tax due even after losses. Nevertheless, I'd say that with the current economy, there's so much demand, there's so much need for this transport again. Today, we have no alternative to sea transport. Well, we have airplanes, but they have limited capacity and are much more expensive. Admittedly, since COVID, freight prices have come down a lot, and we no longer expect to make a profit as we did during COVID, but I can't see a huge crisis where everything would fall. So in the end, that's what keeps us with the idea of continuing with tonnage tax for as long as possible.

What is the average annual return on investment for your ships, and does this vary across different markets?

Unfortunately, I don't have this information. It's sensitive and not communicated.

What are your thoughts on a possible introduction of tonnage tax in Switzerland, and how would it change your strategies?

I find it very interesting. Then my question is whether if we'll ever have it; today only one or two companies could really benefit from it. So would such a tax attract shipping companies to Switzerland? For the moment, it remains a project. And I honestly don't think there's much chance of it going through. In any case, we're not currently diversifying in terms of tonnage tax. So today, I'd say no, it won't change our strategy. We're fine the way we are.

And there's another reason that's not directly linked to tonnage tax itself: tonnage tax is a framework, like any tax law, and some countries are more flexible than others. In fact, it's easier to talk to tax authorities in some countries than in others. And it has to be said that Switzerland's tax authorities are very tightly framed, they respect the rules, unlike

Africa where you can quickly deviate and be a bit borderline. So finally, in Switzerland, you'd have a framework and it would be difficult to break out of it. For example, in Switzerland, we have tax rulings, which means that for a reorganization or sale, for instance, you have to submit a tax analysis to the authorities so that the proposed tax treatment can be verified. So a lot of quality but little latitude in your actions. And not to mention bribing the authorities, but really the flexibility they have in wanting to arrange things for you.

As far as we're concerned, we operate all over the world, but our tonnage tax is centralized in one place, which is Cyprus.

How important is tax stability in your decision-making process for choosing a tax regime for your ships?

Yes, and that's clearly the advantage of the tonnage tax. The tax burden may vary, because you don't know the demand for container transport, but it's framed and you won't be surprised by the tax you pay.

From your perspective, does implementing a tonnage tax system create incentives for shipping companies to better align with and achieve sustainable environmental goals?

So I don't think it's an incentive. For example, for a shipping line, which has a certain tonnage tax, in a certain country they'll be sensitive to that because if, for example, it allows you to pay less tax, you'll tend to want to develop a slightly greener fleet. After that, would this push shipping line towards another tonnage tax? I'm not sure.

Asymmetry has been observed between the world's leading ship owning countries and the preferred flag states: from your perspective, what factors contribute to this disparity, and how your company is concerned?

First of all, the reason for the flag is never a tax issue. For example, for tonnage tax, some regimes require X% European flagging, which is the first condition. If you don't meet this requirement, you can start the tonnage tax with a single ship under European flag, but each year, you commit to adding more ships.

But it's never a tax issue, it's more a legal one. Or a compliance issue. What I mean by this is that you can often have a flag in a country where, legally speaking, it's easy to set up a company, it's cheap, you don't need to have share capital. In fact, you create a structure, what we call an SPV (Special Purpose Vehicle), or an investment vehicle; each

SPV will hold a single vessel, for questions of insurance, liability and so on. So it's really all about legal issues. In this way, we occupy the whole chain: we are at once the shipowner through the SPV, the charterer, and the operator of the vessel.

As far as flags are concerned, the majority of our vessels are under Liberian and Panamanian flag.

For example, our Cypriot tax tonnage requires 60% of our ships to be under European flag. So it would make sense today to register new ships under European flag in order to meet this condition, and leave older ships to more flexible regimes from a legal point of view.

Could you describe the process and ease of establishing a permanent establishment for your shipping operations?

Firstly, you often want to avoid having any. In the maritime transport conventions, there's article 8, maritime freight and auxiliary income, and you're always going to try to benefit from it, so that your income is taxed in the country of the operating company, in our case Switzerland, in Geneva.

After that, you avoid permanent establishments as much as possible, because you don't want us, our company in Geneva, to have to be taxed in other countries. So, in each country where we operate, we have a shipping agency, a company, which represents us locally.

So we don't set up a company because there's a double-taxation agreement, but because from an operational point of view we need one. In fact, a shipping agency is totally dependent on Geneva, and in our case, we don't do anything without Geneva's agreement.

After that, double-taxation agreements will help us define the company's remuneration method. When you don't have a double-taxation agreement in certain countries where you have fairly strict local rules, agencies are remunerated by means of a commission. For example, a commission on the tonnage transported, on the number of containers, etc., but also on all other types of sales. But also on any other type of service they can provide locally. The aim is to offer the customer transport from A to B, i.e. overland transport to the port, where everything is invoiced and forms part of the package. And the same at point B.

And when you don't have a double-taxation agreement, all these types of services are generally income for the agency. Afterwards, when you have a double taxation agreement, you can remunerate the company differently in the sense that you can implement transfer pricing methodologies. From then on, its dependence on the group makes it a service provider, so cost-plus can be a method of remuneration; it involves remunerating the company by taking the cost base and adding a margin.

How does your company adapt to BEPS standards, particularly regarding transfer pricing practices and base erosion? What strategies do you employ to legally minimize tax burden in your international shipping operations?

The BEPS standards automatically apply to you, as the majority of countries in the world are aligned with these standards. So you have to consider them as part of your tax strategy. After that, it all depends on the country you're in: in countries where you have a double taxation agreement, thanks to Article 8, you'll be able to repatriate more income directly with Geneva, rather than leaving it locally and then bringing it back up in the form of dividends, for example. In countries where there is none, you're not protected by Article 8, which is where the notion of permanent establishments comes in. Finally, as long as you're not protected by a tax treaty, there are far more risks in terms of financial flows. For example, Article 8 includes freight and ancillary revenues, which in our case are taxed in Geneva, Switzerland, and if you don't have a double taxation treaty, there's a good chance that the country in question will also want to tax these revenues.

What is your perspective on the BEPS 2.0 carve-out for shipping activities? Do you think such an exemption could be as advantageous as tonnage tax or shipping incentive regimes?

Honestly, all shipping lines are subject to tonnage tax. So it doesn't seem very likely to me that a company would have shipping-related profits that would be taxed under the income tax. Tonnage tax offers a much more advantageous opportunity than the BEPS 2 exemption.