

FaR 2021**International Forum “Freedom and responsibility in pivotal times”****RUSSIAN SEAMEN ON SHIPS UNDER THE FLAG OF
CONVENIENCE: ADVANTAGE OR DISADVANTAGE?**

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Abstract

The modern merchant marine fleet does not fly the Flag of its owner or crew's country in most cases. 72 % of the world's fleet, by deadweight, sail under the so-called Flag of convenience. The use of a flag of convenience is inextricably linked with the reform of legal systems in business in the twentieth century. Flag of Convenience is now the dominant form of maritime business organization, beginning as a tool for American shipowners to move away from prohibitions. The salary costs of the ship's crew occupy a significant share in the composition of the vessel's operating expenses. In absolute terms, they can occupy the 2nd–3rd place among all shipboard expenses, after marine fuel. High taxes and other payroll charges typical for developed countries significantly increase this cost item if a vessel is registered in the traditional register of such a country. These tax costs, high legal protection of seafarers' rights in developed countries, together with the principle of freedom of the high seas, created conditions for a massive outflow of ships from traditional registers to offshore jurisdictions – under flags of convenience. At present, Russia is one of the three leading suppliers of professional seafarers for the world fleet. The paper examines the reasons for using Flag of convenience, the formation of the Soviet and Russian segment of maritime professions and estimates the potential income of the households of professional seafarers in the Russian Federation.

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1. Introduction

Flag of convenience is a common maritime business practice. A shipowner registers a vessel in a country other than the country of nationality or where a shipowner does business. The flag of the vessel is a distinctive sign that allows indicating the nationality of the vessel. According to the United Nations Convention on the Law of the Sea (United Nations Convention on the Law of the Sea, 1982), “Every State shall fix the conditions for the grant of its nationality to ships, for the registration of ships in its territory, and for the right to fly its flag. Ships have the nationality of the State whose flag they are entitled to fly” (Article 91), “Ships shall sail under the flag of one State only...” (Article 92).

2. Problem Statement

The modern Russian seaman (officer) working under the Flag of Convenience is a highly paid worker, part of the Russian export of labor, filling the national economy with convertible currency. The average salary of a Russian seafarer is several times higher than the average salary of coastal specialties in the Russian Federation. Due to the Russian peculiarities of taxation (as well as many other countries), seafarers do not pay income tax and do not make payments for pension, health insurance, and other social taxes and fees. Moreover, seafarers are users of government services. According to our estimates, the aggregate receipts of seafarers' foreign exchange earnings in the national economy amount to about 3–5 billion US dollars. This indicator is comparable to the volume of exports from the Russian Federation of such goods as food, nickel, copper, electrical machinery, and equipment, or 13–19 % of the total volume of foreign currency in cash imported by banks into the Russian Federation.

According to Mitroussi (2008), Flags of Convenience have increased their global shipping share since the 1970s. Moreover, the main reason for choosing the Flag of Convenience (26 %) was the Manning / Crew cost. If we summarize the accompanying reasons (taxation (9 %), the availability of qualified labour (13 %)), then the total share will be 48 %. The availability of qualified labour justified the choice of the national flag for the vessel only in 3 %, and taxation and crew costs fell into the category of others – 6 % (BIMCO, 2015). As part of operating costs, crew costs (Manning / Crew cost) are about 40 % (Drewry, 2017).

Thus, one of the significant reasons for the choice of the Flag of Convenience by shipowners is the possibility of reducing the costs of maintaining the crew. Reducing costs is possible due to the wages themselves and related taxes and significant loyalty of the labor legislation of the states of the Flag of Convenience to ship owners.

Salary estimates were based on data from Drewry Shipping Consultants Limited (Drewry, 2017). The estimate of the number of seafarers was made based on UNCTAD data (UNCTAD, 2020a), which is based on the results of the BIMCO-ICS Manpower Report 2015. The study used retrospective, statistical analysis, and generally scientific methods.

3. Research Questions

After the collapse of the USSR, a long period of economic decline and professional degradation began in the newly formed countries. Exports of sophisticated technical goods have been supplanted by commodities with low processing rates and an unskilled labor force. However, some professional activities did not worsen their positions and developed into a competitive world market segment. This group also includes professional seafarers.

The issue of this study is to study the reasons for the formation of the export of labor force of professional seafarers and determine the number of foreign exchange earnings to Russia from their activities.

4. Purpose of the Study

The purpose of this study is to determine the size of financial receipts to the Russian economy from the export of labor – the labor of professional seafarers working in foreign shipping companies under the Flag of convenience.

5. Research Methods

The research used retrospective analysis, information retrieval, analysis of bibliographic sources, comparison, analysis and synthesis, induction, logical method. During the research, the current regulations and recommendations of the International Maritime Organization, scientific publications on the research topic were used.

6. Findings

6.1. Analysis of fleet dynamics and Flag of convenience registration

The crews of aircraft and ships, interacting in human-machine systems with various equipment, are exposed to fatigue factors.

The world merchant fleet is one of the actively developing sectors of the world economy. According to UNCTAD statistics, the tonnage of the sea fleet increased from 672.1 million tons in 1980 to 907.5 million tons in 2005. During this period, the growth was 35 %. In the twentieth century, the fleet began to develop much faster – since 2005, in a twice shorter period of 2005–2020, the fleet has grown by 2.3 times (Figure 01).

Registration of FOC ships has also increased (Figure 02). At the same time, by the number of ships of Russian shipowners, the Russian Federation is in the top 10 world maritime powers, ranking ninth. The Soviet Union possessed the largest naval fleet in terms of numbers and 6th in terms of tonnage.

Ensuring the functioning of the navy led to the creation of a network of vocational schools for the training of officers and nautical schools for the private. In 1983, MacLeod wrote (MacLeod, 1983), there are currently about 7.500 Soviet merchant ships, making the Soviet fleet the largest in the world. In terms of tonnage over two decades, it rose from 14th to sixth place, ahead of the United States. The modern fleet

controlled by Russian shipowners ranks 20th globally in terms of tonnage with a share of 1.13 % (Tables 01 and 02).

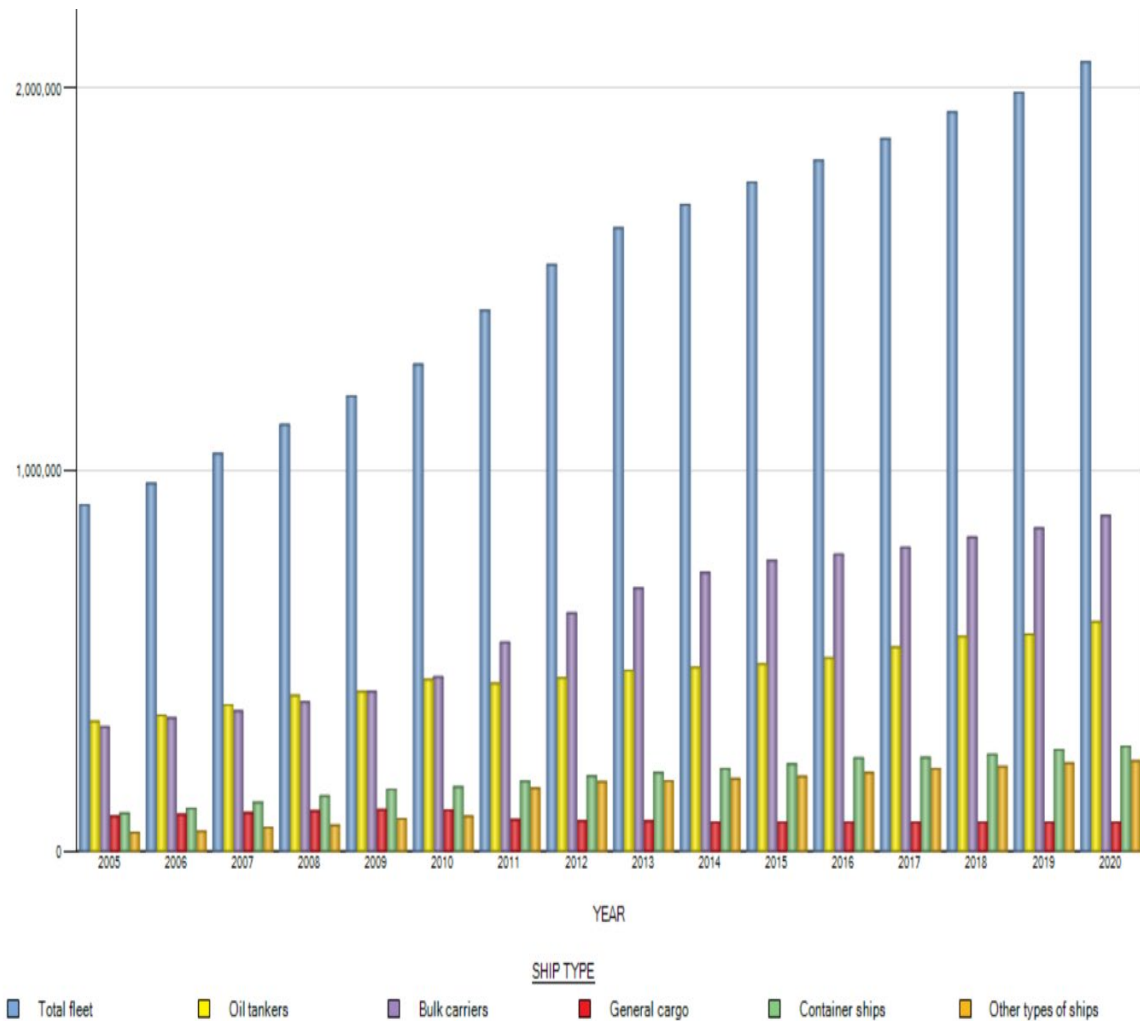


Figure 1. Dynamics of the dead weight of the world merchant fleet (UNCTAD, 2020a)

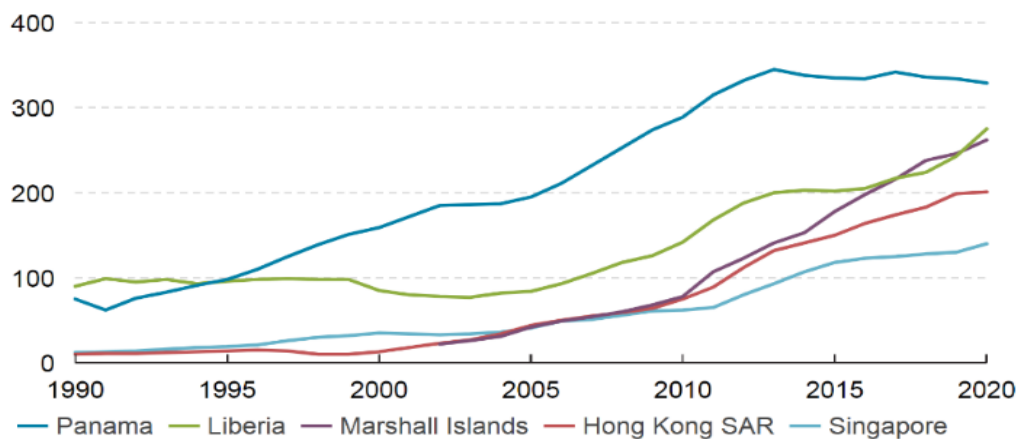


Figure 2. Dynamics of tonnage of vessels under the Flag of Convenience (UNCTAD, 2020b)

Table 1. The number of the world fleet by country, ship owner / flag of registration

Economy of ownership (Ranked by number of ships owned)	Flag of registration (Ranked by number of ships registered)							
	Panama	China	Liberia	Marshall Islands	Singapore	China, Hong Kong SAR	Indonesia	World
China	617	4 569	113	75	75	921	6	6 869
Greece	469	0	1 021	1 023	29	22	2	4 648
Japan	2 024	0	210	210	155	56	8	3 910
Singapore	288	1	235	139	1 493	138	90	2 861
Germany	30	0	607	119	75	19	0	2 504
Indonesia	18	0	7	2	7	1	2 132	2 208
Norway	43	0	90	129	86	46	4	2 043
United States of America	70	0	93	347	8	43	0	1 933
Russian Federation	36	0	125	0	2	1	0	1 742
China, Hong Kong SAR	297	20	44	65	48	883	3	1 690
World	6 528	4 603	3 686	3 592	2 613	2 425	2 293	52 961

Sources: UNCTADstat

Table 2. Tonnage of the world fleet by shipowner countries/flag of registration

Economy of ownership (Ranked by tonnage owned)	Flag of registration (Ranked by tonnage registered)							
	Panama	Liberia	Marshall Islands	China, Hong Kong SAR	Singapore	Malta	China	World
Greece	26 375	85 396	77 629	1 372	1 832	64 332	0	363 867
Japan	133 322	19 208	13 148	2 947	9 715	573	0	233 195
China	22 970	7 472	4 009	78 238	7 287	2 614	100 269	229 247
Singapore	11 302	16 942	9 689	7 734	74 773	2 243	2	137 396
China, Hong Kong SAR	11 344	5 403	3 399	72 505	4 485	785	149	101 035
Germany	857	33 876	6 235	1 304	3 750	6 723	0	89 412
Republic of Korea	35 500	1 468	26 208	1 123	10	356	0	80 595
Norway	2 061	5 146	7 840	7 505	4 570	1 370	0	63 985
Bermuda	1 784	6 744	18 156	7 492	1 043	423	0	60 414
United States of America	1 240	6 763	25 884	3 091	335	643	0	57 688
Russian Federation	870	10 831	0	8	170	731	0	23 136*
World	328 566	274 842	261 919	201 297	140 145	115 852	100 467	2 051 019

Sources: UNCTADstat * Including data for countries – Norway, the Republic of Korea, Iran.

6.2. Russian seamen in international shipping

The location of shipping companies in the USSR was determined by historical, economic, and geographical factors. As a result, after the collapse of the USSR, many shipping companies that have a

specialized fleet and supply them with personnel from educational institutions ended up in new states – Ukraine, the Baltic countries, Georgia, Azerbaijan.

Many complex branches of the national economy in the new countries fell into decay. Economic ties were severed, and the ensuing general economic recession led to the technological degradation of the economy. Most of the state shipping companies ceased to exist, splitting into small companies.

The system of maritime training personnel created in the Soviet years has remained one of the few competitive areas of the national economy. The system of maritime training personnel has been continuously updated. Currently, it produces professional personnel competitive in the world market, which, due to the peculiarities of the legal status of the modern fleet (flags of convenience), form the export of Russian labor.

At the same time, unlike traditional labor migrants, professional seafarers are, in terms of their income, representatives of the middle class, even by the standards of developed countries.

Initially, the acquisition of a maritime profession (occupation of a position on a ship) was determined by the country's national legislation of the ship's registration. However, many major accidents in the maritime fleet pushed the world community to decide this issue. Frequent causes of accidents are the low qualifications of the ship's crew, which was recruited from low-skilled workers who are not familiar with the specifics of the ship's work, who do not have a safety culture.

In 1978, the first edition of the International Convention on the Training, Certification, and Watchkeeping of Seafarers, the International STCW Convention, was adopted. This Convention established many mandatory requirements for the training and certification of professional seafarers. The Convention establishes international standards for the training and certification of seafarers and watchkeeping. The Convention includes provisions to ensure that seafarers on board are adequately trained and trained, have sufficient experience, skills and qualifications, meet the requirements for work, age, health and are fit to perform their duties in a manner that protects human life and the safety of property at sea, as well as the protection of the marine environment.

A diploma means a valid document, whatever its name, issued by or under the authority of the Administration, or recognized by the Administration and entitling its holder to hold the position specified in this document or permitted by national regulations.

As a result, the system of training maritime personnel received many differences from other specialties (areas of training). A future seaman (cadet) who is educated in any country in the world after graduating from his educational institution receives the corresponding national document on education. Further, provided that the cadet and the educational organization fulfill the requirements of the Convention on the training, certification, and Watchkeeping of Seafarers, the cadet has the right to apply to the authorized body in the state – the Administration. In the Administration, seamen can be issued a so-called "working" diploma (Certificate of competency). This international document gives the right to perform work on a seagoing vessel of any country.

A Russian who has received a maritime education has the possibility of legal employment in most countries of the world. This advantage made it possible to preserve the prestige of maritime education and the Russian Federation to preserve the continuity of the training of qualified seamen.

The harsh working conditions at sea make the maritime profession unpopular in developed countries. Working at sea implies the remoteness of the sailor from the family, work without traditional days off, no time off, forced constant communication with a limited number of crew members, exposure to harmful substances. Moreover, despite the collapse of the system of Soviet shipping companies (shipping companies), most sailors were able to adapt to the new requirements and successfully work in multinational crews. The modern Russian system of training seafarers gives them both the necessary competencies to work in foreign companies and the legal basis.

However, the profession of a seafarer is a status one for many reasons: the romance of sea travel, regular visits to foreign countries, the availability of access to privileged resources, namely, checks/certificates/bills as monetary surrogates, a "parallel" currency that existed in the USSR instead of the turnover of foreign currencies (American dollars, German marks, and other currencies) (Figure 03).

In the behavioural model of household members of professional seafarers, stable stereotypes and patterns of behaviour have been formed. Note that the Criminal Code contains Article 209 of the RSFSR Criminal Code, which defines parasitism and punishment for parasitism. Parasitism is a parasitic existence at the expense of society, i.e., evasion of socially useful work or living and unearned income.

In the maritime domain, gender equality is not widespread – the majority of professional seafarers are men. Although women worked on Soviet sea-going ships, they occupied rank-and-file positions with low wages (barmaids, cooks). Today, girls graduate from maritime universities and make a career on ships, but this is an exception so far.

A typical seafarer's family, a household, is represented by a seafarer husband who forms most of the household's income. A seafarer's wife, in most cases, is employed in areas with relatively low wages, self-actualizes in this profession, but does not form a significant share of household income, or is a housewife. We are dealing with a typical patriarchal family, in which a man financially provides for his family, and his relatives depend on him materially.

Traditional problems of ordinary Soviet sailors (sailors) – drunkenness, low level of responsibility and discipline, lack of understanding of the boundaries of subordination and familiarity, craving for "swinging rights" led to the almost complete disappearance of Russian rank and file (sailors) from sea-going ships. At the moment, ordinary Russian sailors have remained on inland navigation vessels (river fleet), auxiliary fleet (for example, tugs, bunkering ships), and ships flying the Russian flag (in most cases, this is a forced measure – a consequence of the prohibition of foreign ships working in cabotage).

As a result, the system of nautical schools that trained rank-and-file sailors ceased to exist. Moreover, modern sailors' main level of training has become officer positions – navigators, ship mechanics, and electromechanics.

For this study, it is necessary to clarify the definition of "household." A household is a collection of persons living in the same dwelling (or part of it), both related and not related by kinship relations, jointly providing themselves with food and everything necessary for life, that is, fully or partially combining and spending their funds. Such a definition is given by the Russian Federal State Statistics Service (On approval of the main methodological and organizational..., 2018) in the method of comprehensive observation of the population's living conditions. A household is an economic unit consisting of one or more persons that

supply the economy with resources and uses the money received to purchase goods and services that satisfy material needs – this is the definition (McConnell et al., 2009).

By their composition, seafarers' families are usually nuclear – they are represented by a couple of spouses and children, without parents living with them.

Thus, the household of a Russian professional sailor can be understood as a nuclear family of the patriarchal type.

The prevailing myths, stereotypes of behaviour, and the forms of implementation of the social-status function of the family, taken by the family, have a significant impact on the structure of expenses of the studied household. The social roles of the seaman's family members were formed under the influence of both the Soviet period and the crisis of the 1990s. In Soviet times, a sailor, not representative of the nomenclatura, had, albeit financially limited, access to foreign goods and materially and status corresponded to the middle class. In the 90s of the twentieth century, against the background of the general economic recession, the financial position of those sailors who were able to rebuild on the modern market, rails began to significantly contrast with the national level. Separately, it should be noted the polarization of income among representatives of the profession. Companies can be divided into three groups in terms of wage rates:

- conventional ships sailing abroad under a foreign flag;
- substandard foreign-flagged vessels;
- inland navigation vessels under the Russian flag.

Those who switched to work on modern maritime conventional, i.e., meeting the high international (conventional) court requirements, sharply increased their income in dollar terms. If in the Soviet period the captain of a ship could receive about \$ 200, then in the 90s, the salary increased to several thousand a month.

Substandard vessels are usually old vessels of mixed navigation (river-sea), which do not fully meet the modern conventional requirements and the requirements of the "first world" states. Salaries on such ships can be several times lower than on conventional ones.

Inland navigation vessels are old vessels that usually do not meet even the minimum convention requirements and operate inland traffic. Salaries are usually ten times lower than on conventional ships.

6.3. Estimation of the number of Russian sailors

Assessing the total income of Russian seafarers requires determining their number, which is a non-trivial task. Official Russian statistics on the number of seafarers, positions held are not published.

Since seafarers seek to use the opportunity to obtain non-resident status under the Tax Code of the Russian Federation. According to Art. 207, individuals who actually stay on the territory of the Russian Federation for at least 183 days within 12 consecutive months are recognized as tax residents. Therefore, seafarers do not pay personal income tax (PIT) from income received outside the Russian Federation, and the amount of income is not declared.

To estimate the current number of seafarers, we will use the UNCTAD statistics. MARITIME PROFILE: RUSSIAN FEDERATION (UNCTAD, 2020c), which is based on the results of the BIMCO-ICS Manpower Report 2015. The number of Russian seafarers is estimated at 97 061 (BIMCO, 2015). For

comparison: Philippines – 215 500 people, China – 243 635 people, India – 86 084 people, Ukraine – 69 000 people, USA – 33 218 people, Great Britain – 14 955 people. The total number of rank-and-file sailors (BIMCO, 2015) is estimated at 873.5 thousand people, officers – 774 thousand, and the total number is 1 million 647.5 thousand people. Russian sailors are in 4–5 place globally in terms of numbers (data obtained from national sources). According to the results of the survey of companies, the places are located differently – China, the Philippines, and Russia occupy the first three positions with similar data, then Ukraine and India follow (Table 03). Please note that national / FOC categorizes neither country survey data nor company survey data. However, these values are estimates and approximate and are not based on mandatory statistical reporting.

Table 3. Rankings of the leading countries of origin of seafarers (country survey) (BIMCO, 2015)

Total sailors	Officers	Ratings sailors
China	China	Philippines
Philippines	Philippines	China
Indonesia	India	Indonesia
Russia	Indonesia	Russia
Ukraine	Russia	Ukraine

Based on significant discrepancies in the estimates of the number in (BIMCO, 2015) according to data received from countries and data received from companies, it is possible to estimate the share of Russian seafarers in the world labor market in the range from 3 to 10 %.

We use Drewry reports to estimate the income of Russian seafarers (Drewry, 2017). A feature of a seafarer's work is the inconstancy of receiving wages (rotational work). In most companies, a seafarer is paid only while on a voyage (contract). The contract duration for Russian seafarers is 4–6 months, plus or minus one month. The wages of Russian seafarers increased from USD 2–3 thousand at the beginning of the century to USD 12 thousand by 2009 and then remained without significant growth (Table 04) (Drewry, 2017).

Table 4. The average salary of a Russian seaman (officer positions) on conventional sea-going ships*

Type of vessel	Captain	Senior Mechanic	Senior assistant/ Second Mechanic	Second Assistant/ The third mechanic/ Electrician	Third Assistant/ The fourth mechanic
Number of crew members on board	1	1	2	3	2
Tanker	12600–15900	12100–15500	9800–11600	5400–6300	2400–4000
Dry cargo ship	8000–9200	7500–8800	6400–7100	3300–4100	1800–2500

* Based on data from Drewry (Drewry, 2017)

Thus, the lower bounds of the annual salary of a Russian seafarer can be estimated from USD 28 667 for a dry cargo ship to USD 54 333 for a tanker.

Let us construct tables 06 and 07, using the classification of households by quintiles – top, upper-middle, middle, lower-middle, bottom and using data from the US Census Bureau (HINC-05, 2020) (Table 05).

Table 5. US Census Bureau 2020 Class Boundaries

	Lower	Lower Middle	Middle	Upper Middle	Higher
Lower limit of annual income, thousand US dollars	0	28 084	53 503	86 488	142 501

Table 6. Average annual income of a Russian seaman (officer positions) on conventional seagoing vessels, thousand US dollars

	Captain	Senior Mechanic	Senior assistant/ Second Mechanic	Second Assistant/ The third mechanic/ Electrician	Third Assistant/ The fourth mechanic
Minimum	55 200	45 000	38 400	19 800	10 800
Maximum	95 400	93 000	69 600	37 800	24 000
Average	75 300	69 000	54 000	28 800	17 400

Table 7. Distribution of professional seafarers by economic classes

	Captain	Senior Mechanic	Senior assistant/ Second Mechanic	Second Assistant/ The third mechanic/ Electrician	Third Assistant/ The fourth mechanic
Minimum	Middle	Lower Middle	Lower Middle	Lower	Lower
Maximum	Upper Middle	Upper Middle	Middle	Lower Middle	Lower
Average	Middle	Middle	Middle	Lower Middle	Lower

For the study, we use UNCTAD estimates of the number of Russian seafarers. The lower bound for the annual income of Russian households of professional seafarers is \$ 2 billion 782 million, and the upper bound is \$ 5 billion 274 million. These figures are comparable with the volume of income from exports from Russia of food (5.61 billion US dollars), nickel (2.97 billion US dollars), copper (5.22 billion US dollars), electrical machinery and equipment, television, and sound equipment (5.59 billion US dollars).

7. Conclusion

The total volume of exports from the Russian Federation amounted to 336.4 billion US dollars in 2020. Moreover, if commodity prices are highly volatile, seafarers' salaries are a much more stable source of income for the Russian economy. Russian seafarers do not emigrate to other countries. Their households and their main expenses are in the Russian Federation. Without paying income tax, seafarers, being consumers of high value-added goods and owners of taxable property, are an important source for the Russian state budget. The taxation of income tax on seafarers' income will not increase tax revenues since one of the main reasons for using FOCs is to reduce the cost of maintaining crews. However, it will only lead to a reorientation of the world fleet towards seafarers from other countries. The share of Russian sailors globally is several times higher than the share of the fleet controlled by Russian shipowners. Moreover, in such conditions, including a system of "flags of convenience" in the maritime fleet, tightening the national tax policy concerning seafarers is only inexpedient. On the contrary, national policy should prioritize

national policy to protect national seafarers, systems for the training of highly qualified personnel, and the fight against dumping and low-quality training.

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