5th International Committee Meeting Summary

Chairman Mr. Jun Shibata opened the meeting with greetings and introductions. The quorum was met. Ms. Goh Siow Hui, former Chairperson of the Tax Work Group, announced her departure from Ernst & Young Pte. Ltd and introduced her successor, Mr. Cedric Tan. Thanks were extended to Ms. Goh by the chairperson and Mr. Michael Phoon for her decade of service. The minutes from the 4th International Committee Meeting were then adopted without further comments.

Mr. Qin Aohan from China Classification Society presented on China's decarbonisation efforts, highlighting challenges in shipping and the importance of meeting IMO greenhouse gas reduction targets. He discussed technical measures such as energy efficiency, onboard carbon capture, and alternative fuels like green ammonia and methanol. China's approach includes advancements in ship design and fuel supply systems, with current projects using LNG and increasing biofuel adoption. Despite progress, challenges remain in fuel availability and regulatory standards. China's capabilities in retrofitting vessels and developing green fuel infrastructure are notable, but achieving widespread adoption requires overcoming standardization and regulatory hurdles.

Mr. Jack Ferguson from Deloitte & Touche LLP explained the UK tonnage tax regime. To qualify, companies must be subject to UK corporation tax, manage or operate qualifying ships, meet training obligations, and have strategic and commercial management of ships in the UK, without needing specific vessel flagging. Commercial management includes a range of operational tasks conducted in the UK, while strategic management involves high-level decisions affecting corporate residency. Companies must elect for tonnage tax within 12 months of qualifying, and once elected, the status lasts for eight years. The regime covers profits from core and secondary shipping activities, incidental activities within 0.25% of turnover, and various related gains.

Mr. Cedric Tan from Ernst & Young Pte Ltd presented Singapore's new Alternative Tonnage Tax Regime (ATTR), which offers an alternative to the Maritime Sector Incentive (MSI). ATTR targets companies with Singapore-flagged vessels or those using MSI incentives, such as MSI-AIS or MSI-Maritime Leasing. Under ATTR, companies must irrevocably opt-in, losing previous tax exemptions and instead paying tax based on the net tonnage of qualifying ships without partial exemptions or foreign tax credits. Tan compared ATTR's tax calculations with the EU Tonnage Tax, showing ATTR to be lower. Unlike MSI, ATTR does not eliminate tax liabilities but offers lower taxation and applies to a broad range of shipping activities and vessels, including offshore ones, without additional operational conditions. The ATTR, still in draft form, allows concurrent MSI benefits and may help resolve foreign tax disputes. Companies opting out of ATTR would need to shut down or transfer the entity. Feedback on ATTR is invited from the committee.

Mr. Andrea Rumignani from Aither Pte Ltd discussed the EU Emissions Trading System (EU ETS) and carbon commodities. Aither, a key player in carbon trading, handled $4.5 billion in EU ETS transactions last year. The EU ETS, active since 2005 and now in its fourth phase, targets a 4% annual reduction in greenhouse gas allowances to meet the EU's goal of a 55% emissions reduction by 2030. Market dynamics involve primary auctions and secondary trading, with prices affected by future demand. Initially, industries received free allowances, but these are phasing out by 2026 in favor of full auction purchases. The new Cross-Border Adjustment Mechanism (CBAM) ensures that imports meet EU emissions standards, potentially altering global trade. Rising prices and expanded sector inclusion in ETS 2 highlight the growing significance of emissions credits for compliance and strategic planning.

Mr. Alexander Hartnoll of X-Press Feeders raised concerns about the legal issues with Bangladesh Flag Rules but could not attend the meeting due to a flight delay. Mr. Michael Phoon noted that ICS had previously contacted the Bangladesh Government without success and suggested that SSA should instruct ICS to try again. The secretariat will follow up with Mr. Hartnoll and update the committee by email. Regarding EU-ETS implementation, Mr. Michael Phoon reported delays in Spain due to high inquiry volumes and lengthy CNCC procedures, a lack of progress in Germany, and efficient processes in the Netherlands and Belgium, while bareboat charterers face challenges. Committee members are encouraged to continue providing feedback. On the public consultation for the BEO for Liner Shipping Agreements, SSA awaits CCCS's final recommendations. ASA's submission opposing the port fee on Chinese-built vessels has been supported by SSA, as no committee feedback was received. Lastly, ICS's letter on the carbon initiative to the Government of Djibouti was shared. In conclusion, the Chair ended the meeting with no other matters raised.

Singapore, 10th July 2024.
