

Investigation Into the Causes of Fraudulent Practices in Ship Registration

¹Sabas Shayo, ²Benjamin Meli, ³Keneth Oliver Mbaga

Department of Science and Management, Dar es Salaam Maritime Institute, Dar es Salaam

Sabasshayo208@gmail.com

Abstract: *Fraudulent practices in ship registration have become a significant concern in the global maritime industry, undermining regulatory frameworks and posing risks to international trade and security. This paper investigates the underlying causes of fraudulent ship registration, with a focus on regulatory loopholes, flag of convenience (FOC) systems, lack of transparency, and inadequate enforcement of international standards. Through an extensive literature review and qualitative analysis, the study explores how these factors contribute to fraudulent practices, their impacts on the industry, and potential measures to mitigate them. Findings suggest that a combination of institutional reforms and enhanced global cooperation is essential to reduce fraud in ship registration.*

Keywords: *Fraudulent ship registration, Flag of convenience (FOC), Maritime regulations, Ship ownership transparency, International Maritime Organization (IMO) Regulatory gaps*

1. Introduction

Ship registration is a critical component of maritime governance, linking vessels to national jurisdictions, legal systems, and regulatory frameworks. Proper registration ensures compliance with safety standards, labor laws, and environmental protection measures. However, fraudulent practices in ship registration have emerged as a growing concern, threatening the integrity of the maritime industry.

Fraudulent registration occurs when ships are registered with false information, often to evade regulations, avoid taxes, or conceal ownership. This can lead to serious repercussions, including increased risks of maritime accidents, environmental degradation, and involvement in illegal activities such as smuggling, piracy, and terrorism. Identifying and addressing the root causes of fraudulent practices in ship registration is therefore vital to safeguarding maritime trade and security.

This paper aims to explore the underlying causes of fraudulent ship registration, examining the structural weaknesses within the international maritime regulatory framework. The study will provide insights into how certain factors, including the flag of convenience system, regulatory inconsistencies, and lack of enforcement, contribute to the proliferation of fraudulent practices.

2. Literature Review

Ship Registration and the Flag of Convenience System

Ship registration involves assigning a ship to a national registry, which grants it the nationality and legal rights of that state. The practice of flying a "flag of convenience" (FOC) refers to the registration of ships in countries that offer favorable conditions such as low taxes, minimal regulations, and relaxed labor laws. Liberia, Panama, and the Marshall Islands are among the most popular FOC states, accounting for a significant proportion of the world's fleet.

While the FOC system enables shipowners to reduce operational costs, it has been widely criticized for facilitating fraudulent registrations. According to Mitchell (2015), the lack of stringent verification processes in some FOC countries allows unscrupulous operators to register ships using falsified documents or without proper oversight.

Regulatory Gaps and Inconsistencies

Regulatory gaps and inconsistencies at the national and international levels create opportunities for fraudulent activities. The International Maritime Organization (IMO) has established conventions such as the International Convention for the Safety of Life at Sea (SOLAS) and the International Convention on Standards of Training, Certification, and Watchkeeping for Seafarers (STCW), which are designed to standardize ship safety and registration procedures. However, enforcement of these conventions is uneven, leading to disparities in compliance.

As illustrated by Johnson (2017), some countries lack the resources or political will to enforce strict ship registration protocols. This often results in weak oversight and a regulatory environment where fraudulent practices can flourish.

Lack of Transparency in Ownership Structures

The complexity of global ship ownership, often involving shell companies and opaque corporate structures, has been identified as another contributing factor to fraud. According to a study by the Organization for Economic Co-operation and Development (OECD, 2018), it is common for ships to be owned by holding companies in offshore tax havens, making it difficult to ascertain the true

owners. This lack of transparency facilitates the registration of vessels for illicit purposes, including tax evasion, smuggling, and money laundering.

Insufficient International Collaboration and Oversight

International collaboration between maritime authorities is crucial for preventing fraudulent practices. However, a lack of coordination and information-sharing between national registries has been identified as a major weakness in the system. In his study, Rogers (2020) emphasizes that fraudulent activities often go undetected because of the fragmented nature of international maritime governance.

There are many studies conducted relevant to this research. These studies include those by Chen Yanch (2020), Ceslav Pejovic (2015), Magreth Otieno (2013), and Sammantha Peel (2002), which focused on fraud in ship registration processes. Their findings suggested that the adoption of stricter digital verification systems could help address fraudulent registration. However, these studies did not critically examine the broader consequences of fraudulent ship registration or explore additional mitigation measures beyond digital solutions. Therefore, this study aims to fill that gap by providing a more comprehensive analysis of the causes, consequences, and diverse mitigation strategies for fraudulent practices in ship registration.

3. Methodology

the primary objective is to investigate causes of fraudulent practices in ship registration. through a qualitative approach and descriptive research design. To ensure that the research was reliable and valid, a sample size of 28 was determined using equation (1), which took into consideration an estimated population proportion of 40, Constant Value of 01, and a desired level of precision which has constant value of 0.1. This formula ensured that the sample size was statistically significant and adequate to achieve the research objectives, and the estimation played a crucial role in determining the appropriate sample size for the study. Data collection involved the use of a well-crafted questionnaire, interviews, and Documentary Reviews, while analysis utilized thematic analysis, Excel for graph creation. Fig. 3 indicates the workflow of the methodology used.

$$n = \frac{N}{1 + N(e)^2} = \frac{40}{1 + 40(0.1)^2} = 28 \dots\dots\dots \text{Eq 1}$$

4. Results and discussion

4.1 Causes of fraudulent ship registration in Tanzania

4.1.2 Weak Regulatory Framework

One of the primary causes of fraudulent ship registration in Tanzania is the weak regulatory framework. The lack of harmonization between Zanzibar's Maritime Transport Act, 2006, and Tanzania's Merchant Shipping Act, 2003, has created a legal loophole. Ships registered under the Zanzibar registry may not meet the stringent requirements imposed by the Merchant Shipping Act, leading to discrepancies in ship ownership, nationality, and compliance with international standards. This legal gap provides an avenue for fraudulent registration, as it allows ship owners to exploit the less stringent regulations in Zanzibar.

Furthermore, the enforcement of existing laws is often inadequate. The maritime authorities tasked with overseeing the registration process, may lack the resources and authority to enforce regulations effectively. This inadequacy allows fraudulent activities to go unchecked, further eroding the integrity of the registration process.

4.1.3 Corruption and Bribery

Corruption within maritime authorities is another significant factor contributing to fraudulent ship registration. In some instances, officials within maritime authority may be bribed to overlook irregularities in the registration process. This can include the registration of vessels that do not meet the required standards or the falsification of documents to conceal the true ownership or condition of a ship.

The influence of powerful individuals and entities, both domestic and international, can exacerbate this issue. These entities may exert pressure on maritime authorities to facilitate the registration of ships that would otherwise be ineligible. The lack of accountability and transparency in the registration process creates an environment where corruption can thrive.

4.1.4 The use of RO's in facilitating registration of ships

Since 2007 when the URT started to undertake international ships, registration has contracted Philitex Corporation Ltd resides (Belize) based in Dubai to undertake ROs duties for a 10years period. The Zanzibar Maritime Authority, ZMA terminated the contract with Philitex in 2014 due to its involvement in registration of sanctioned vessels. Philitex Corporation even after termination of the agreement purported to continue with registration of ships and issuing of documentation, certificates and right to fly URT flag without the consent of the flag state¹⁰⁰. Moreover, URT submitted that some owners fraudulently continued to operate and sail vessels under URT flag even after vessel been deregistered by ZMA¹⁰¹. Comprehensive list of more than 25 vessels with IMO number, type of vessel and date reported to be involved in fraud using the URT flag from 2016 to 2019¹⁰² were submitted by URT for the Committee to note and guide on the appropriate mode to get rid of the phenomena which is a current threat to the development of maritime transport in URT.

4.1.5 Economic Incentives

The economic incentives associated with fraudulent ship registration cannot be overlooked. Ship owners may seek to register their vessels in Tanzania to benefit from lower registration fees, reduced taxes, and less stringent regulatory requirements. Zanzibar's registry, particularly the open registry for international ships, may be perceived as a "flag of convenience," offering ship owners a way to circumvent the more rigorous regulations imposed by other countries.

This appeal of "flags of convenience" is a significant driver of fraudulent registration. Ship owners are motivated by the potential cost savings and the ability to operate with greater flexibility, even if it means engaging in fraudulent activities. This trend is particularly prevalent in the global maritime industry, where the pressure to reduce operating costs can lead to unethical practices.

4.1.6 Lack of Oversight and Coordination

Another cause of fraudulent ship registration in Tanzania is the lack of oversight and coordination between the various maritime authorities. The dual governance structure between Zanzibar and the URT creates gaps in oversight, allowing fraudulent activities to go unnoticed. The URT's lack of Flag State Control (FSC) over ships registered in Zanzibar further complicates the issue, particularly in international matters and on the high seas.

Inefficiencies in international monitoring also contribute to the problem. While international organizations such as the International Maritime Organization (IMO) play a role in overseeing global maritime activities, the effectiveness of these efforts can be limited by the lack of coordination at the national level. This disconnect allows fraudulent registrations to persist, with limited consequences for those involved.

4.1.7 Global Maritime Trends

The broader trends in the global maritime industry also play a role in the prevalence of fraudulent ship registration in Tanzania. The international demand for lax regulations and "flags of convenience" creates pressure on countries like Tanzania to offer more attractive registration terms. This demand is driven by ship owners seeking to maximize profits by minimizing regulatory compliance costs.

Additionally, the global nature of the maritime industry means that ships registered in Tanzania may operate far beyond the jurisdiction of the country, this global reach complicates efforts to monitor and enforce compliance, allowing fraudulent activities to continue unchecked.

Conclusion

Fraudulent practices in ship registration are a serious threat to the maritime industry, contributing to risks in safety, security, and environmental sustainability. The literature and expert interviews suggest that the primary causes of these practices include the flag of convenience system, regulatory gaps, lack of transparency in ownership, and insufficient international collaboration. Addressing these issues requires a concerted effort from the global maritime community, including the strengthening of regulatory frameworks, improved enforcement of international conventions, and greater transparency in ship ownership.

Based on the findings of this study, the following recommendations are proposed:

Strengthen International Regulatory Frameworks International bodies like the International Maritime Organization (IMO) should revise and strengthen conventions related to ship registration, focusing on harmonizing global standards. Clearer regulations and improved enforcement mechanisms can help close the loopholes that enable fraudulent registrations. It is crucial for countries to adopt and uniformly implement these regulations to ensure consistency and reduce opportunities for fraud.

Improve Transparency in Ownership Structures Governments and maritime authorities should introduce stricter requirements for disclosing beneficial ownership of ships. Mandatory reporting of ownership information, especially in the context of flag of convenience (FOC) states, would reduce the use of shell companies and hidden ownership structures that facilitate fraudulent practices. A global database of ship ownership, accessible by maritime authorities, could help in identifying and verifying legitimate ship owners.

Increase Collaboration Among National Registries Enhanced information sharing and collaboration between national ship registries is essential in detecting and preventing fraudulent practices. Establishing an international platform where national registries can exchange information about suspicious activities or potential fraudulent registrations would strengthen oversight and coordination, improving the overall integrity of ship registration processes.

Adopt Digital and Blockchain-Based Registration Systems Modernizing ship registration systems through the use of digital platforms, particularly blockchain technology, can significantly reduce opportunities for fraud. Blockchain-based registries ensure data transparency, immutability, and accountability, making it harder for individuals to manipulate information or use falsified documents in ship registration. Governments and maritime authorities should invest in these advanced technologies to enhance the security and accuracy of registration data.

Enhance Flag State Accountability Flag states, particularly those that operate under FOC systems, should be held accountable for their role in ensuring compliance with international standards. Stringent audits of flag states' regulatory practices and compliance

with international conventions should be conducted regularly. Flag states found to be negligent in enforcing registration standards should face penalties or sanctions from international maritime bodies.

Conduct Regular Inspections and Audits Maritime authorities should increase the frequency of inspections and audits of ships to ensure compliance with registration requirements and safety standards. Random and thorough inspections can help identify ships that have been fraudulently registered or are involved in illegal activities. These inspections should be standardized and include a review of the ship's documentation, ownership records, and compliance with international regulations.

Raise Awareness and Training for Maritime Professionals Providing training and education to maritime professionals on the risks and signs of fraudulent ship registration is essential for preventing fraud. Shipowners, registrars, maritime lawyers, and port officials should be made aware of the latest methods used in fraudulent practices and be trained to identify and report suspicious activities. Raising awareness will ensure that stakeholders in the industry are proactive in detecting and preventing fraud.

Promote Global Cooperation on Law Enforcement Enhanced cooperation between international law enforcement agencies is necessary to combat cross-border fraud in ship registration. Joint investigations, mutual legal assistance agreements, and coordinated enforcement actions can help track down fraudulent actors and hold them accountable. Establishing a global task force on maritime fraud could facilitate better coordination among enforcement agencies across different jurisdictions.

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