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Danish views on Tonnage tax, the maritime sector and state aid issues

Dear Commissioner Margrethe Vestager,

Following the recent debate on maritime taxation in Denmark, I wish to draw your attention to a number of important issues regarding the international competitive situation of the maritime industry, as the Danish and European companies are facing strong competition from countries outside of the EU.

I shall address the Danish challenges concerning mobile offshore drilling rigs and vessels (possible extension of the Tonnage tax scheme), taxing of personnel on off shore construction vessels (DIS), and the Maritime Guidelines on state aid in respect to the definition of the destination criteria.

Further, we are awaiting the Commission's response to a notification regarding an extension of the scope of the Danish Tonnage tax in respect to specialized ships. The Danish Authorities has previously forwarded documentation on the matters to the Commission services.

The Danish tonnage tax scheme

Mobile drilling rigs and drilling vessels

The current Danish tonnage taxation scheme is dedicated to ensure the competitiveness of Danish ships and ship owners globally. The global market is characterized by high mobility between flag States and the Danish tonnage tax scheme seeks to match the Danish conditions with the conditions offered by other leading international shipping nations.

The framework of the Danish tonnage tax consists of regulation approved by the Commission under the present EU guidelines. However, the Danish Government has taken a political decision to strive to extend the tonnage taxation scheme to include mobile drilling rigs and drilling vessels, though a bill has not yet been introduced before the Parliament. At the earliest, this might take place in February 2017. A preparatory meeting took place between the Commission and the Danish Authorities on the 5 October 2016.

Globally, tonnage taxation is a popular way of attracting state income. In 2007, Singapore extended its tonnage taxation scheme to include mobile drilling rigs and drilling vessels. Presently, this has led to huge differences in taxation of mobile rigs and vessels on a global scale. As an example the current Danish tonnage taxation scheme being in the range of DKK 10 million/unit, while the change of the Singaporean tonnage taxation in 2007 has led to an annual tax rate in Singapore in the range of DKK 50,000/unit.

These tax differences increase Danish ship owners' incentive to register existing and new mobile drilling rigs and drilling vessels under e.g. the Singaporean flag. In order to anticipate the global competitive situation, we believe that the maritime guidelines must include drilling rigs and ships in the tonnage taxation regulation on terms similar to international regulation on transport by sea. Namely because:

- It is possible to register a vessel outside the EU, even though it operates in the EU or competes in the world against EU units.
- The competitive situation is directed towards ship registers outside the EU – only 3.5 per cent of the vessels are currently flying an EU flag or owned within the EU/EFTA.
- The competitive situation is characterized by the major part of “drilling rig vessels” being registered in registers in Liberia, Marshall Islands, Panama, Vanuatu, Singapore and Bahamas. E.g. because Singapore offers attractive taxation schemes, Liberia does not levy any tax.

Ongoing registration outside of DK/EU will have an impact on employment and shore-based activities. The EU risks losing specialized know-how. On this note I strongly urge the Commission to establish grounds for a state aid approval of an extension of the Danish tonnage tax system.

Danish Ship Register (DIS)

The Association of Danish Shipowners has pointed at a similar challenge for the conditions of competitiveness of the maritime sector in Denmark. Most shipping nations have a special tax regime for personnel on ships. In Denmark the tax regulation for personnel on ships is regulated in the Danish Ship Register (DIS). However, offshore construction vessels are not presently part of the Danish DIS taxation regime. Hence, Danish offshore construction vessels are not operating on a level playing field with respect to personnel tax compared to other nations where personnel on such vessels are covered by more favorable tax regulations.

Thus, the need to explore possibilities for an adjustment of the tax regime for personnel on offshore construction vessels is of great importance.

The definition of the destination criteria in the maritime guidelines

In addition, I would like to draw attention to another important issue; the carriage of passengers or goods by sea between a port and a (non-fixed) destination described in the Maritime Guidelines. In my view it ought to be possible to include the carriage of passengers or goods by sea between a port and a (non-fixed) destination at the high seas, e.g. another ship, in the Maritime Guidelines. The Danish Government therefor strongly urges the Commission to expand the definition of “maritime transport”.

Amendment of the Tonnage tax - Specialized ships

Finally, let me draw your attention to the pending Danish State Aid notification SA.45300-DK- RDO - Amendment of the Danish Tonnage Tax scheme. I am looking forward to the Commission response on the matter in the beginning of 2017. Hopefully, a solution where we can obtain the Commission’s approval for the amendment can be found.

I look forward to a continuous constructive dialogue with you on these and other important Danish issues in the future.

Yours sincerely,



Brian Mikkelsen

Minister for Industry, Business and Financial Affairs
Denmark