

GIFT CITY AND SINGAPORE - COMPARATIVE ANALYSIS IN SHIP FINANCING



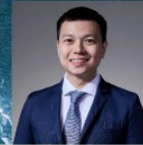
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GIFT City and Singapore – Comparative Analysis in Ship Financing

Gujarat International Finance Tec-City (“**GIFT City**”) in India and Singapore are prominent financial hubs offering distinct advantages in ship financing.

This article sets out a comparative analysis of their regulatory framework, tax incentives and dispute resolution mechanisms.

1. Regulatory Frameworks

India established GIFT City to position itself as a global financial and technological hub.

With its economy growing up to USD 3.89 trillion¹, the Government of India aims to develop GIFT City as a smart city to allow business to enjoy tax incentives and a streamlined regulatory environment. It is strategically located along the national highway 48 (Delhi-Mumbai Industrial Corridor) and is slightly less than half an hour from Ahmedabad International Airport².

By way of background, the International Financial Services Centres Authority (“**IFSCA**”) acts as a centralised, regulatory body for financial products and institutions operating within India’s International Financial Services Centres (“**IFSC**”). It consolidate the regulatory responsibilities of the Reserve Bank of India, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority and the Pension Fund Regulatory and Development Authority, streamlining the process of oversight.

Previously, companies establishing operations in an IFSC needed approvals from both the IFSCA and the Development Commissioner of the Special Economic Zone (“**SEZ**”). In February 2024, the Indian government reassigned certain duties of the Development Commissioner under the SEZ Act, to the IFSCA. This

change specifically applies to entities operating within the IFSC at GIFT City. This change includes appointing an IFSCA nominated officer as the “Administrator (IFSCA)” to oversee these functions. This adjustment is aimed at streamlining processes for businesses by creating a single point of regulatory interaction within IFSCs. By consolidating regulatory authority and simplifying approval procedures, it enhances efficiency and facilitates smoother operations for companies³.

In January 2022, the IFSCA classified “ship lease” as a financial product. This move aimed to foster the growth of a comprehensive ship leasing and financing framework, strengthening the maritime industry and promoting global competitiveness in the sector. It has a framework for entities to register under Finance Company Regulations for undertaking shipping transactions⁴.

To elaborate, an applicant interested in undertaking permissible activities in IFSC as a lessor must meet certain requirements, including complying with all regulations imposed by the Merchant Shipping Act 1958 and other regulations imposed by the Ministry of Shipping or Director General of Shipping. Permissible activities include voyage charters and sale and leaseback transactions⁵.

Meanwhile, Singapore ranks as the second busiest port globally, handling about 140,000 vessel calls each year. It serves as a key hub for over 200 shipping lines, establishing connections with more than 600 ports worldwide⁶. It is the centre point for more than 200 shipping lines with links to over 600 ports internationally.

It is governed by the Maritime and Port Authority (“**MPA**”), a statutory board of the government. The Singapore Registry of Ships is one of the largest ship registries globally. Its regulatory framework ensures that ships under the Singapore flag meet high safety, security and operational standards. The Merchant



Shipping Act 1995 of Singapore outlines requirements for vessel registration, including ownership.

2. Tax Incentives

GIFT City offers numerous tax benefits to attract global financial activities and investments. For example, businesses operating in IFSCs can claim a complete exemption on profits for any 10 years within their first 15 years. Meanwhile, there is a reduced Minimum Alternate Tax (“MAT”) rate of 9%, which applies to entities in IFSCs, although businesses adopting the new tax system are exempt.

After the tax exemption period, businesses can transition to a tonnage tax regime. In addition, non-resident lenders are not taxed on the interest earned from loans provided to IFSC units.

These measures aim to position India’s IFSCs as leading financial hubs, fostering domestic and international investment.

Meanwhile, in Singapore, the Maritime Sector Incentive (“MSI”) administered by the MPA offers tax concessions on qualifying shipping income and leasing activities. To elaborate, the Approved International Shipping Enterprise scheme aims to attract global shipowners to set up their commercial shipping operations in Singapore. The company will enjoy (i) a ten year tax exemption on qualifying shipping income, renewable if eligibility conditions are met; or (ii) a five year non-renewable exemption with the option to upgrade to a ten year renewable period after meeting certain criteria. Applicants must show a proven track record in shipping operations and a strategic business plan detailing contributions to Singapore’s economy, including the total operational expenditures⁷.

Meanwhile, the Shipping-related Support Services program aims to support the growth of companies by providing ancillary shipping service and encourage shipping groups to establish corporate service operations in Singapore. Companies under this scheme can enjoy a preferential tax rate of 10% on additional

income generated from certain shipping related services such as ship broking and freight forwarding and logistics for a renewable period of five years⁸.

Lastly, the Maritime Leasing scheme allows entities such as companies engaged in ship leasing to benefit from tax concessions on qualifying leasing income for up to five years. Ship leasing entities may opt for a tonnage tax system as an alternative for calculating taxes on qualifying shipping income. Approved managers of asset-owning entities are eligible for a reduced tax rate of 10% on their qualifying management income. Applicants must demonstrate a strong track record in vessel or container financing and submit a business plan that outlines how their activities will drive economic growth in Singapore⁹.

3. Dispute Resolution

GIFT City has taken significant robust measures to establish dispute resolution mechanisms.

The Gujarat International Maritime Arbitration Centre is located at GIFT City and will handle arbitration and mediation proceedings connected to the maritime sector¹⁰. It aims to facilitate more efficient dispute resolution and aims to be the ecosystem of ports, maritime and logistics services providers.

Meanwhile, in Singapore, there are several dispute resolution mechanisms for shipping disputes in Singapore, including the Singapore International Commercial Court (SICC), a specialized division of the Singapore High Court that handles international commercial disputes, including shipping, (ii) Singapore Chamber of Maritime Arbitration, an arbitration institution that parties can submit their dispute to and the (iii) Singapore Mediation Centre, a centre which offers mediation services for shipping disputes.

4. Conclusion

To conclude, both GIFT City and Singapore present unique advantages for ship and financing. GIFT City's favorable financial incentives and developing infrastructure make it an attractive emerging hub, especially for cost-sensitive operations. Conversely, Singapore's established regulatory environment, strategic location, and comprehensive ecosystem provide a robust platform for maritime finance activities.

This article was authored by our Partner Oon Thian Seng, Senior Associate Angeline Woo, Associate Kwong Wen Ying and Foreign Lawyer Su Hean Loh.

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¹ <https://www.imf.org/external/datamapper/profile/IND>

² <https://www.pwc.in/assets/pdfs/ship-leasing-in-gift-ifsc.pdf>

³ <https://www.pwc.in/assets/pdfs/ship-leasing-in-gift-ifsc.pdf>

⁴ Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSC

⁵ Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSC

⁶ <https://www.mpa.gov.sg/maritime-singapore/what-maritime-singapore-offers/global-hub-port>

⁷ <https://www.mpa.gov.sg/maritime-singapore/what-maritime-singapore-offers/pro-business-environment/support-for-maritime-businesses/maritime-sector-incentive>

⁸ <https://www.mpa.gov.sg/maritime-singapore/what-maritime-singapore-offers/pro-business-environment/support-for-maritime-businesses/maritime-sector-incentive>

⁹ <https://www.mpa.gov.sg/maritime-singapore/what-maritime-singapore-offers/pro-business-environment/support-for-maritime-businesses/maritime-sector-incentive>

¹⁰ <https://gimac.in/introduction>