

## **Palau**

### **Review of Flag from a Lender's Perspective**

**Prepared for** Palau International Ship Registry  
D: +30 210 429 3500  
E: info@palaureg.com  
www.palaureg.com

**Date** 6 November 2018

**Contact** Nigel Bowen-Morris  
D: +30 210 429 5160  
E: nigel.bowen-morris@shlegal.com



This report is intended only to provide a summary of the general position in relation to the process of vessel registration in Palau and recordation of mortgages over vessels flying the Palauan flag within the context of ship finance transactions. It has been prepared on the basis of generally available information and our discussions with the Palau International Ship Registry and has been reviewed by Palauan legal counsel. It should not be relied upon as a substitute for legal advice nor should it be used or relied on in relation to any transaction. Stephenson Harwood LLP does not provide Palauan legal advice and Palauan counsel should be consulted in relation to any transaction involving Palauan law.

## Abstract

The maritime legislation of the Republic of Palau is primarily governed by the Admiralty and Maritime Title 7 of the Palau National Code, as amended by Senate Bill No. 8-46, SD6, HD1, PD1.

The established maritime legal framework regulates in a comprehensive and impartial manner the process of a vessel's registration and the recordation of a mortgage in the Republic of Palau and addresses efficiently elements that are of interest from the perspective of a potential financier, such as the proprietary interests over vessels (ownership, mortgages, and maritime liens).

The approach adopted under the applicable laws of the Republic of Palau appears to enhance the attractiveness and bankability of the Palauan flag, especially in relation to the priority of a mortgage over a vessel.

In this regard, in our opinion the Republic of Palau constitutes an attractive jurisdiction for the purposes of shipping finance transactions and the employees of the Palau International Ship Registry appear to be adequately trained in order to undertake the process of mortgage registration.

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## 1 Introduction

The Republic of Palau ("**Palau**") is a presidential representative democracy with an independent judiciary and a Compact Agreement of Free Association (COFA) with the United States of America. Palau is served by a pool of qualified accountants and practising attorneys-at-law.

The purpose of this report is to review Palauan maritime shipping legislation (including recent amendments), concentrating on those aspects that will be of most interest to a person financing a Palauan flagged vessel.

## 2 Legal system, shipping legislation and Palau International Ship Registry ("**PISR**")

The judicial power of Palau is vested in a unified judiciary, consisting of a Supreme Court, a National Court and inferior courts of limited jurisdiction that may be established by law. All courts except the Supreme Court are divided geographically and functionally as provided by law or judicial rules.<sup>1</sup>

Palau is a common law jurisdiction with a legal system based on the law of the United States of America and elements of customary law dealing with real property and customary titles. The Palauan law rules of civil procedure and evidence are also in line with the relevant federal rules of the United States of America.

Palauan maritime law is consolidated under Admiralty and Maritime Title 7 of the Palau National Code, as amended by Senate Bill No. 8-46, SD6, HD1, PD1 (together, the "**Act**") which is supplemented by the maritime regulations of Palau ("**Maritime Regulations**"). The Act provides a comprehensive legal framework dealing with various matters including, but not limited to, shipping administration, registration of vessels and proprietary interests over vessels (ownership, mortgages, and maritime liens), and the manning, certification, safety and inspection of vessels.

Pursuant to the amendment of the Admiralty and Maritime Title 7 of the Palau National Code in 2010, Palau established the Palau Open Ship Registry and appointed the PISR as the sole Ship Registry Administrator<sup>2</sup> for the Palauan flag.

Under s. 604 (*Appointment of Ship Registry Administrator; Duties of Administrator*) of the Act, the Minister<sup>3</sup> with the prior approval of the President of Palau generally and specifically delegated to the PISR (as the Ship Registry Administrator) all his authority, powers and functions under the Act in relation to the establishment, maintenance and operation of the Palau Open Ship Registry.<sup>4</sup> In this report references to the PISR are references to it as the Ship Registry Administrator, unless otherwise specified.

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<sup>1</sup> The Constitution of Palau, Palau Constitutional Convention, (January 28 - April 2, 1979), Art. X;

<sup>2</sup> s.602(pp) (Definitions) of the Act;

<sup>3</sup> s.602(v) (Definitions) of the Act;

<sup>4</sup> s. 604 (*Appointment of Ship Registry Administrator; Duties of Administrator*) of the Act;

The head offices of the PISR are situated in Piraeus, Greece (Head Office in Europe) and Houston, Texas (Head Office in the USA). Both head offices operate under the authority of the Palau Ministry of Public Infrastructure, Industries and Commerce.

PISR currently has 39 deputy registrars and 105 flag state inspectors with expertise in different aspects of shipping such as vessel and crew management, inspections and engineering. The appointed deputy registrars are located in 23 countries.<sup>5</sup>

### **3 Qualification for registration**

#### **3.1 Shipowners**

PISR is open to Palauan or foreign citizens, corporate bodies and partnerships established under the laws of Palau and any "*corporation in good standing under the laws of the jurisdiction in which it is incorporated*"<sup>6</sup>.

There are no requirements as to the establishment and operation of a shipowning company (either with regard to its registered office or principal place of business) or any precondition as to local ownership or participation in the ownership of a shipowning company.

The relevant shipowner (together with the technical and commercial managers, the beneficial owner of the shipowning company and the Document of Compliance (DOC) company of the vessel) will however be subject to vetting in relation to sanctions, detentions, casualties and compliance with the relevant Memoranda of Understanding.

Entities, persons and vessels classified as "specially designated nationals" or suspected of violation of, inter alia, the OFAC SDN list (Specially Designated Nationals and Blocked Persons list of the Office of Foreign Assets Control of the United States of America), the Consolidated United Nations Security Council's sanctions list or engaged in any conduct prohibited by the United Nations Council Resolutions concerning sanctions imposed on the Democratic People's Republic of Korea, will not be accepted.

#### **3.2 Vessels**

In order for a vessel to be eligible for registration under s.701 (*General provisions*) of Chapter 7 of the Act, the vessel should be owned by a Qualified Person (as such term is defined in the Act) and be at least 25 feet (7.62 meters) in length.

Under the Act "Ship" is defined as "*a seagoing vessel used for the carriage of goods, excluding an air cushion vehicle*" and "Vessel" is defined as "*a craft for traveling on water; a ship or boat*".

Pursuant to the Act:

- (i) there is no restriction as to where the vessel should have been built;<sup>7</sup> and

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<sup>5</sup> Schedule 1 (*Locations of Deputy Registrars*)

<sup>6</sup> s.602 (gg)(2) (*Definitions*) of the Act;

- (ii) any previous registrations of the vessel under a foreign flag are required to be legally cancelled or terminated in advance.<sup>8</sup>

Vessels over 20 years old (from completion of first construction) are not eligible for registration unless first inspected by a surveyor or inspector certified by the International Maritime Organization, or by an equivalent certified surveyor, and reported as seaworthy.<sup>9</sup>

The above mentioned registration requirements may be waived by the PISR (to the extent the Minister delegates his authority)<sup>10</sup> at its discretion for vessels which are in a satisfactory condition and have been reported as seaworthy.<sup>11</sup>

Nevertheless, the PISR or a special agent can refuse an application to register a vessel on the grounds that, having regard to the condition of the vessel, the registration of the vessel on the register of Palauan vessels would be a risk to the interest of Palau or international shipping as such.<sup>12</sup>

The Act also establishes detailed procedures relating to the assignment of official numbers,<sup>13</sup> the marking of vessels<sup>14</sup> and the issuance of certificates of registry.

In relation to an application for the allocation of a name of a vessel, the applicant shall declare an alternative name in case the first proposed name has already been assigned to another vessel, although in practice there is an option to reserve a name prior to registration.<sup>15</sup>

## 4 Registration procedures – vessels

### 4.1 Permanent registration

An application for registration is made to the PISR in the prescribed form and accompanied by the prescribed fees. All documentation submitted, shall be in the English language or accompanied by an official translation.

The certificate of permanent registration will be valid for a period of five years commencing on initial registration of the vessel and the relevant annual taxes will be payable during the period that the vessel will fly the Palauan flag.

The requirements for permanent registration<sup>16</sup> of a vessel under the Palauan flag include<sup>17</sup>:

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<sup>7</sup> s.702(a) (*Vessels eligible to be documented or re-documented*) of the Act;

<sup>8</sup> s. 703(c) (*Vessels not eligible to be documented*) of the Act;

<sup>9</sup> s.702(b) (*Vessels eligible to be documented or re-documented*) of the Act;

<sup>10</sup> s.602(v) (*Definitions*) of the Act;

<sup>11</sup> s.702(c) (*Vessels eligible to be documented or re-documented*) of the Act;

<sup>12</sup> s.703(b) (*Vessels not eligible to be documented*) of the Act;

<sup>13</sup> s.723 (*Numbering of vessels*) of the Act; Article 2.17 of the Maritime Regulations;

<sup>14</sup> s.722 (*Names, numbers and marks on vessels*) of the Act; Article 2.16 of the Maritime Regulations;

<sup>15</sup> s.724 (*Change in name of vessel*) and s.722 (*Names, numbers and marks on vessels*) of the Act;

<sup>16</sup> s.707 (*Registration and registration fees*) of the Act;

<sup>17</sup> Please note that the list of registration requirement extends also to any other requirement that may be added in the future by the PISR (as the Ship Registry Administrator) and which will be promulgated through marine notices and marine circulars and published in PISR's website ([www.palareg.com](http://www.palareg.com));





- Evidence that any foreign marine document for the deletion of the vessel has been surrendered to (and such surrender accepted by) the government that issued it, or has been legally cancelled or otherwise terminated;
- Evidence that the vessel is eligible for registration under the Act (see section 3.2 (*Vessels*) of this report);
- Evidence of the ownership of the vessel;
- Evidence that the vessel is in a seaworthy condition;
- Duly paid registration and tonnage fees;<sup>18</sup>
- A photograph of the vessel showing:
  - (i) the vessel's markings;
  - (ii) the name of the vessel;
  - (iii) the official number; and
  - (iv) the port of registry;
- A copy of the certificate of measurement which has been issued under the Palauan flag.

If a Palauan flagged vessel is transferred to a new owner, the Act requires the submission of relevant documentation in order for a new certificate of registry to be issued<sup>19</sup> and the vessel to be deemed a Palauan vessel. In this regard, a bill of sale attached to a true copy of the vessel's latest certificate of registry is also required.

#### 4.2 Provisional registration

The Act also regulates the issuance of provisional registration<sup>20</sup> certificates by the Minister through the PISR<sup>21</sup> or special agents<sup>22</sup>.

Subject to the conditions precedent under s.712 (*Conditions precedent to issuance of Provisional Certificate of Registry*) of the Act, a provisional registration certificate may be granted after a written application submitted by the shipowner and accompanied by the required oath.<sup>23</sup> A provisional certificate of registry entitles the vessel to the privileges of a Palauan vessel engaged in foreign trade for a period not exceeding two years.<sup>24</sup>

The provisional registration procedure provides the shipowner with sufficient time to collect all the required documentation for permanent registration. At the end of the period of provisional registration, the shipowner may apply to the PISR for a

<sup>18</sup> s.704 (*Registration and registration fees*) and 705 (*Annual tonnage fee; tax status of owner and vessel*) of the Act; Articles 2.3 and 2.4 of the Maritime Regulations;

<sup>19</sup> s.720 (*New document*) of the Act;

<sup>20</sup> s.711 (*Provisional Certificates of Registry*) of the Act;

<sup>21</sup> s.604 (*Appointment of Ship Registry Administrator; duties of Administrator*) of the Act;

<sup>22</sup> s.605 (*Special agents*) of the Act;

<sup>23</sup> s.708 (*Oaths*) of the Act; Article 2.5 of the Maritime Regulations;

<sup>24</sup> s.711 (*Provisional Certificates of Registry*) of the Act;



permanent certificate of registry upon submission of the necessary documentation (see section 4.1 (*Permanent registration*) of this report).

The requirements for provisional registration<sup>25</sup> of a vessel under the Palauan flag include<sup>26</sup>:

- Evidence that the vessel is eligible for registration under the Act (see section 3.2 (*Vessels*) of this report);
- Evidence of the ownership of the vessel;
- Evidence that the vessel is in a seaworthy condition;
- Duly paid registration and tonnage fees;
- Evidence that the markings of the name, official number and home port have either actually been made or that the shipowner has issued orders to the master of the vessel to have said markings made immediately upon receipt of the provisional certificate of registry on board the vessel;
- Evidence that:
  - (i) the issuing government has consented to surrender any outstanding foreign marine documents for the vessel and that such marine documents have been surrendered for cancellation; or
  - (ii) the shipowner has issued orders to the master of the vessel to surrender the relevant foreign marine documents for cancellation immediately upon the receipt of the provisional certificate of registry on board the vessel; or
  - (iii) the relevant foreign marine documents have been cancelled.

#### **4.3 Bareboat charter registration**

In relation to a vessel which operates under a bareboat charter, the Act enables a Qualified Person who acts as a bareboat charterer to apply for provisional registration subject to the registration requirements (listed below).<sup>27</sup> The relevant Qualified Person shall submit the original or a certified true copy of the bareboat charter together with the application for registration and shall execute under oath or affirmation an undertaking pursuant to which the relevant vessel will not fly any flag other than the Palauan flag nor show any home port other than the harbour of Malakal, Palau.<sup>28</sup>

The requirements for bareboat charter registration<sup>29</sup> of a vessel under the Palauan flag include<sup>30</sup>:

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<sup>25</sup> s.712 (*Conditions precedent to issuance of Provisional Certificate of Registry*) of the Act;

<sup>26</sup> Please note that the list of registration requirement extends also to any other requirement that may be added in the future by the PISR (as the Ship Registry Administrator) and which will be promulgated through marine notices and marine circulars and published in PISR's website ([www.palaureg.com](http://www.palaureg.com));

<sup>27</sup> s.735 (*Recording of bareboat charter party*) of the Act; Article 2.22 of the Maritime Regulations;

<sup>28</sup> s.736 (*Undertaking of bareboat charterer*) of the Act; Article 2.23 of the Maritime Regulations;

<sup>29</sup> s.735 (*Recording of bareboat charter party*) of the Act;

<sup>30</sup> Please note that the list of registration requirement extends also to any other requirement that may be added in the future by the PISR (as the Ship Registry Administrator) and which will be promulgated through marine notices and marine circulars and published in PISR's website ([www.palaureg.com](http://www.palaureg.com));

- A true copy of the bareboat charter evidencing:
  - (i) the name of the vessel;
  - (ii) the names of the bareboat charterer, the owner of the vessel, and the holders of any registered mortgages, hypothecations or similar charges;
  - (iii) the time and date of recording of the bareboat charter;
  - (iv) the period of duration of the bareboat charter; and
  - (v) the foreign state of registration of the vessel;
- An official certificate of registration issued by the relevant foreign state setting forth the ownership of the vessel and any recorded encumbrances;
- The written consents of the vessel's owner and of the mortgagee(s), if any, to the provisional registration of the vessel under the Palauan flag; and
- Satisfactory evidence that the foreign state will withdraw from the vessel the right to fly the flag of that state while the vessel is subject to the bareboat charter.

#### 4.4 Bareboat charter registration in a foreign state

Vessels flying the Palauan flag may be employed under a valid bareboat charter and accordingly registered in a foreign state subject to the condition that the relevant shipowner has obtained a certificate of permission issued by the PISR (the "**Certificate of Permission**").<sup>31</sup> Pursuant to the Certificate of Permission, the right to fly the Palauan flag is withdrawn for the period during which the vessel will operate under the relevant bareboat charter.

The Certificate of Permission also recognises the relevant foreign state as the competent authority to exercise exclusive jurisdiction and control over the vessel in accordance with the applicable International agreements, conventions and treaties for the duration of the bareboat charter.<sup>32</sup>

In the event that a Palauan flagged vessel is registered under the bareboat charter registry of another flag state and is subject to one or more preferred mortgages, the written consent of each mortgagee to the foreign bareboat charter registration shall be duly filed prior to issuance of the Certificate of Permission.<sup>33</sup>

#### 4.5 Special registration procedures

PISR also provides for registration procedures with a duration of three months and subject to certain preconditions. Instances which render vessels eligible for such registration include vessels that undertake:

<sup>31</sup> s.740 (*Bareboat charter registration in foreign State*) of the Act;

<sup>32</sup> s.742 (*Right to fly the flag of the Republic of Palau withdrawn*) of the Act;

<sup>33</sup> s.740 (*Bareboat charter registration in foreign State*) of the Act; Please note that the list of registration requirement extends also to any other requirement that may be added in the future by the PISR (as the Ship Registry Administrator) and which will be promulgated through marine notices and marine circulars and published in PISR's website ([www.palaureg.com](http://www.palaureg.com));



- (i) a single delivery voyage;
- (ii) a last voyage for demolition; and
- (iii) sea trials.

The requirements<sup>34</sup> for such registration of a vessel under the Palauan flag are the same as the requirements for provisional registration listed under section 4.2 (*Provisional registration*) of this report.

## 5 Mortgages

### 5.1 Preferred Mortgage

A vessel under the Palauan flag can be used as security for the repayment of a loan or discharge of other obligations by way of mortgage filed in the standard form provided by the PISR. A valid mortgage, which includes the whole of any vessel, has preferred status<sup>35</sup> from its date of recordation.<sup>36</sup>

A Preferred Mortgage (as such term is defined under s.902 (*Preferred mortgage*) and s.916 (*Preferred status*) of the Act) may secure all debts or obligations arising or that may arise between the parties as a result of a transaction which is subject to the provisions of a Preferred Mortgage, whether such obligations are present, future, actual or contingent and the Preferred Mortgage shall also set forth, in addition to the other terms and conditions, the maximum amount and the maturity date of the facility, or a statement of the date of termination of the facility, if this is different to the maturity date.<sup>37</sup>

A Preferred Mortgage may secure an obligation which is greater or lesser than the value of the vessel or may be used as security for an obligation owed by a third party (e.g. security for a guarantee). A mortgagee may also hold a mortgage for the benefit of others. If all outstanding obligations secured by a Preferred Mortgage have been fully repaid or otherwise performed a Preferred Mortgage is not extinguished and shall not lose its priority, provided that an advance or other value is to be given at a later time pursuant to a commitment existing at the time the Preferred Mortgage is recorded.<sup>38</sup>

Before executing any Preferred Mortgage, the relevant mortgagor is required to disclose in writing to the mortgagee the existence of any maritime lien, prior mortgage or other obligation or liability of the vessel to be mortgaged which is known to the mortgagor.<sup>39</sup> Failure to make such disclosure renders the mortgage debt immediately due and payable at the discretion of the mortgagee.<sup>40</sup>

<sup>34</sup> Please note that the list of registration requirement extends also to any other requirement that may be added in the future by the PISR (as the Ship Registry Administrator) and which will be promulgated through marine notices and marine circulars and published in PISR's website ([www.palaureg.com](http://www.palaureg.com));

<sup>35</sup> s.916 (*Preferred status*) of the Act;

<sup>36</sup> s.902 (*Preferred mortgage*) and s.906 (*Mortgage; recording*) of the Act;

<sup>37</sup> s.908(b)(1) (*Advances and repayments*) of the Act;

<sup>38</sup> s.908(b)(1) (*Advances and repayments*) of the Act;

<sup>39</sup> s.912(a) (*Priority; disclosure of liens; penalty*) of the Act;

<sup>40</sup> s.912(c) (*Priority; disclosure of liens; penalty*) of the Act;

## 5.2 Recordation

The date and hour at which the administrator or special agent proceeds with recordation is the date and hour at the location of the relevant head office of the PISR at which such recordation is effected.

A certified extract of a Preferred Mortgage, recorded with the PISR, is acceptable as evidence of the recordation of a mortgage, including also the date of recordation thereof.<sup>41</sup> For the purpose of the issuance of the transcript, the relevant documents to be registered must be pre-cleared with the PISR who will then issue an authorisation for the transaction.

In this regard, a certificate of ownership and encumbrance shall also, upon request, be issued evidencing all recorded mortgages, encumbrances and related instruments with respect to the vessel.<sup>42</sup>

A mortgagee of a Palauan vessel has a statutory power of sale and the usual provisions found in comparable jurisdictions relating to the transfer and discharge of mortgages can be found in the Act.<sup>43</sup>

A Preferred Mortgage recorded over a provisionally registered vessel will not be discharged by forfeiture of that vessel for a violation of the applicable laws of Palau unless the mortgagee has authorised or consented to or conspired in that illegal act, failure, or omission which justifies the discharge of the Preferred Mortgage. Thus, the Preferred Mortgage will continue to be valid until its discharge even if the provisional registration of the vessel, over which the Preferred Mortgage has been secured, is terminated.<sup>44</sup>

The certificate of registry of a Palauan vessel which is the subject of a Preferred Mortgage may not be cancelled for so long as the indebtedness secured by the Preferred Mortgage remains unsatisfied or the Preferred Mortgage is not otherwise discharged. Accordingly, when the vessel is transferred to another registry following sale by order of an Admiralty Court in a civil action *in rem*, such administrative action by the Minister shall not impair or affect the lien or status of any Preferred Mortgage recorded under Chapter 9 of the Act, nor shall it terminate the interest of a mortgagee of the vessel.<sup>45</sup>

## 6 Cancellation of recordation upon enforcement

The lien of a Preferred Mortgage may also be enforced by a suit *in rem* in the Admiralty Court of Palau or otherwise in any foreign country in which the vessel may be found, pursuant to the procedure of that country for the enforcement of ship mortgages and what constitutes maritime liens on vessels documented under the laws of that country.<sup>46</sup>

<sup>41</sup> s.902(4)(d) (*Preferred mortgage*) and s.906(c) (*Mortgage; recording*) of the Act;

<sup>42</sup> s.906(c) (*Mortgage; recording*) of the Act

<sup>43</sup> s.914 (*Discharge of mortgage*) of the Act

<sup>44</sup> s.903 (*Termination of mortgagee's interest*) of the Act; Article 3.3 of the Maritime Regulations;

<sup>45</sup> s.903(b) (*Termination of mortgagee's interest*) of the Act;

<sup>46</sup> s.915(b) (*Foreclosure and default; jurisdiction and procedure*) of the Act;

In accordance with relevant case law, where a vessel is sold pursuant to an order of a foreign court the Palauan Supreme Court may recognise and enforce the foreign judgment if it is satisfied that the foreign court has provided a full and fair trial in a court of competent jurisdiction, has ensured the impartial administration of justice and the trial was without prejudice or fraud.<sup>47</sup> The foreign court must also have proper jurisdiction over the parties and the judgment must not violate public policy in order to be enforceable.

## 7 Maritime liens

The following rank as maritime liens, under Palauan law:

- Claims for:
  - (i) Wages and other sums due to the master, officers and other members of the vessel's crew in respect of their employment on the vessel, including costs of repatriation and social security contributions payable on their behalf;<sup>48</sup>
  - (ii) Master's disbursements or liabilities made or incurred on account of the vessel<sup>49</sup>; and
  - (iii) unpaid fees, penalties and other charges<sup>50</sup>, such lien having priority over all others save those for crew's wages and salvage;
- Claims for repairs, supplies, towage, use of dry dock or marine railway, or other necessities, to any foreign or domestic vessel upon the order of the shipowner or person authorised by the owner;<sup>51</sup> and
- Claims based in tort arising out of physical loss or damage to property caused by the operation of the vessel, other than loss of or damage to cargo, containers or passengers' effects carried on the vessel.<sup>52</sup>

The Preferred Mortgage lien has priority over all claims against the vessel, except maritime liens:

- (i) for damages arising out of a tort;
- (ii) for fees under s.729 (*Fees: collection, penalties and liens*) of the Act;
- (iii) for crew's wages;
- (iv) for general average;
- (v) for salvage (including contract salvage); and
- (vi) for expenses and fees allowed and costs awarded by the relevant Court.<sup>53</sup>

<sup>47</sup> *Town House, Inc. v. Kanai*, 9 ROP 286 (Tr. Div. 2002)

<sup>48</sup> s.529(d) (*Wages, maintenance, and benefits for sick and injured seamen*) of the Act;

<sup>49</sup> s.642 (*Fine for violation by vessel*) of the Act, s.720(c) (*New document*) of the Act;

<sup>50</sup> s.729(d) (*Fees: collection, penalties and liens*) of the Act, s.738(a) (*Penalty for flying foreign flag; termination of Republic of Palau Registration*) of the Act;

<sup>51</sup> s.918(a) (*Necessities; lien; enforcement*) of the Act;

<sup>52</sup> s.642 (*Fine for violation by vessel*) of the Act;

Only indebtedness incurred on or prior to the maturity date or date of termination of a Preferred Mortgage agreed between the mortgagor and the mortgagee shall retain its status and ranking as a preferred maritime lien under Chapter 9 of the Act. The indebtedness secured thereby shall include all expenses and interest associated with such indebtedness prior to maturity.

The Preferred Mortgage shall constitute a lien on the vessel in the full amount of the outstanding mortgage indebtedness. The lien of a Preferred Mortgage shall not be in any way impaired or affected because the vessel's registration certificate following recording of the Preferred Mortgage has expired, or has been restrictively endorsed, suspended, revoked or cancelled.<sup>54</sup>

Whilst the Act is favourable to a mortgagee in so far as the priority of its claim is concerned, this priority will only be relevant if the vessel is arrested in the jurisdiction of the Palauan courts or where, under foreign law, the question of priority as between a mortgagee and competing creditors is to be determined by the law of the flag.

## 8 Conclusion

In conclusion:

- the Act appears to create a comprehensive legal framework which should protect and regulate private law rights (such as those of a mortgagee) in an impartial way and which is, in particular, favourable to the rights of a mortgagee if Palauan law is to determine the priority of its mortgage;
- the Act enhances the attractiveness and bankability of the Palauan flag which provides a ship mortgage system fully comparable with other flags; and
- we understand that all necessary training has been given to registrar(s), deputy registrar(s), special agents and employees of the PISR in respect of the registration procedure for vessels and mortgages.



**Stephenson Harwood LLP**

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<sup>53</sup> s.917 (Foreclosure; priority of preferred mortgage lien; exemption) of the Act;

<sup>54</sup> s.910 (Lien of preferred mortgage) of the Act; Article 3.10 of the Maritime Regulations;

## Schedule 1

### Locations of Deputy Registrars<sup>55</sup>

<b>Bulgaria</b>	<b>Varna</b>
<b>China</b>	Shanghai
	Guangzhou
	Qingdao
	<b>Fuzhou</b>
<b>Cyprus</b>	Limassol
<b>Dominican Republic</b>	Santo Domingo
<b>Egypt</b>	Alexandria
<b>Estonia</b>	Tartu
<b>Greece</b>	Piraeus
<b>Hong Kong</b>	Hong Kong
<b>India</b>	<b>Kerala</b>
<b>Lebanon</b>	Beirut
<b>Netherlands</b>	Eindhoven
<b>Nigeria</b>	Lagos
<b>Panama</b>	Panama City
<b>Romania</b>	Constanta
<b>Russia</b>	Vladivostok
	<b>Moscow</b>
	<b>Nakhodka</b>
	St. Petersburg
	Sakhalin
<b>Singapore</b>	Singapore
<b>South Africa</b>	Cape Town
<b>Taiwan</b>	Taiwan
<b>Trinidad &amp; Tobago</b>	City of Port of Spain

<sup>55</sup> Please note that the list of PISR Deputy Registrars may be changed in the future and any change will be published in PISR's website ([www.palaureg.com](http://www.palaureg.com)).



<b>Turkey</b>	Istanbul
<b>Ukraine</b>	Kherson
	Odessa
<b>United Arab Emirates</b>	Dubai
	Abu Dhabi
<b>United Kingdom</b>	London
<b>United States of America</b>	Houston
	Miami



