

U.S. Maritime Administration Proposes Vessel Citizenship Changes

JULY 2, 2025

The U.S. Maritime Administration proposed changing the way persons prove U.S. citizenship for participation in various programs on July 1, 2025. Those regulations were last adjusted in 2004. MARAD proposed changes initially in 2019. The proposal is of special interest to public companies seeking to qualify for MARAD programs.

Certain MARAD programs, such as the Capital Construction Fund tax deferral program, are restricted to “citizens of the United States.” Others, like the Maritime Security Program, are not so restricted but being a U.S. citizen might be an essential qualifying attribute. Moreover, MARAD oversees transfers of U.S.-flag vessels including via charter and must occasionally determine whether an entity is a U.S. citizen.

There are three types of maritime U.S. citizens – (1) a “documentation” or “registry citizen; (2) a “controlling interest” citizen; and (3) a “coastwise” or “Jones Act” citizen. As the first type implies, an entity must meet certain tests to qualify to document or register a vessel in the United States with the U.S. Coast Guard. That qualification varies by type of business entity. For a corporation, it must be organized in the United States (a Delaware corporation qualifies), its chief executive officer must be a U.S. citizen, its chairman of the board of directors must be a U.S. citizen, and no more than a minority of the quorum of the board of directors can be non-citizens. All the stock of such a corporation can be foreign owned and it would still qualify as a documentation or registry citizen.

A “controlling” interest citizen entity is a documentation citizen that is owned at least 50.1 percent by U.S. citizens. A “coastwise” citizen entity is a documentation citizen that is owned at least 75 percent by U.S. citizens. In each case, entities qualify as U.S. citizens only if they in turn meet the same tests being met by the lowest tier entity essentially until ownership comes to rest with human beings. Both types of citizens are defined in section 2 of the Shipping Act, 1916 and so are both (confusingly) referred to as “section 2 citizens.” There are, in addition, overriding control tests designed to ensure that control of those percentages are genuinely in U.S. citizen hands.

Entities with widely dispersed, often anonymous, owners, such as public companies, have long had difficulty in meeting the 50.1 or 75 percent beneficial ownership tests. The U.S. Coast Guard has already dealt with that difficulty in connection with its oversight of U.S. vessel documentation. In 2012 (77 Fed. Reg. 70,452 (November 26, 2012)), the Coast Guard, after substantial private industry input, produced guidance on “mechanisms of compliance” for public companies. That guidance was the first time that any federal agency had attempted to address common U.S. securities market attributes with respect to maritime citizenship laws which were written in World War I.

In large measure, MARAD is proposing to adopt the Coast Guard guidance by its July 1, 2025 notice. Both agencies, if the MARAD proposal is adopted, would sanction (among other methods) use of the Depository Trust Company segregated account 100 (Seg-100) system for citizen restricted securities, the monitoring of Williams Act filings for substantial shareholders and the adoption of protective provisions in articles of incorporation/bylaws. The MARAD proposal also refers to “geographic surveys or statistical analyses of shareholder’s residences,” not mentioned in the Coast Guard guidance, and leaves the door open for “alternative methods” of compliance with MARAD approval.

MARAD did not adopt several recommendations made by the U.S. Maritime Law Association submitted in 2019 including coordinating with DTC to improve the Seg-100 system to make it a more reliable indicator of citizenship than it is today and to provide for a process by which companies could present citizenship compliance plans for prior approval by MARAD and the Coast Guard. Comments are due on the MARAD proposal by September 2, 2025.

[More in depth information on the subject of public company compliance with U.S. maritime citizenship laws can be found here.](#)

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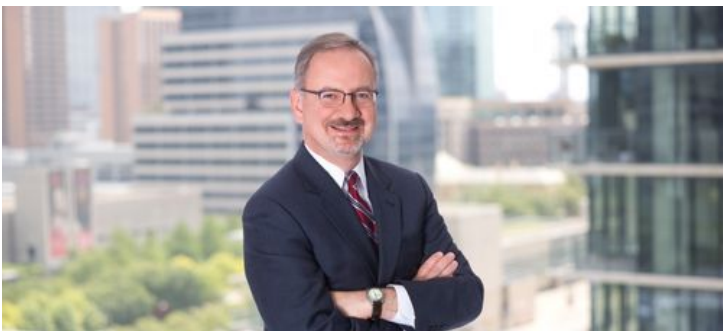
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