Chapter

3 Government Policies: Impact on Shipping Industry

3.1 Government Support

Prior to November 2001, the Government of India (GOI) supported the country's flag vessels and Indian shipping lines through the right of first refusal[3] and all Public Sector Undertakings (PSUs) /Government departments were required to finalise the import and export contracts on Free on Board (FOB)[4] and Cost and Freight[5] basis respectively. The Shipping wing of the Ministry of Shipping, GOI called Transchart was making shipping arrangement in the above cases. As a part of this arrangement, the bids were invited by Transchart and even though the lowest bid was from a foreign flag owner, Indian flag owners were given a chance to match the price. In November 2001, GOI while deciding to continue with the restriction in respect of imports, allowed the PSUs/Government departments to finalise export contracts on FOB basis.

Subsequently, in April 2005, the GOI allowed, Indian Oil Corporation Limited (IOC) and in March 2007, Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL) to make their own shipping arrangements for import of crude oil on cost considerations, though these Oil PSUs still had to obtain permission from Director General (Shipping), Ministry of Shipping, GOI for inchartering foreign flag vessels. As a result, the crude oil import which accounted for 71 per cent (47.16 million MTs) of the shipping arrangements made by Transchart in 2004 came down to only 39 per cent (10.97 million MTs) during 2010.

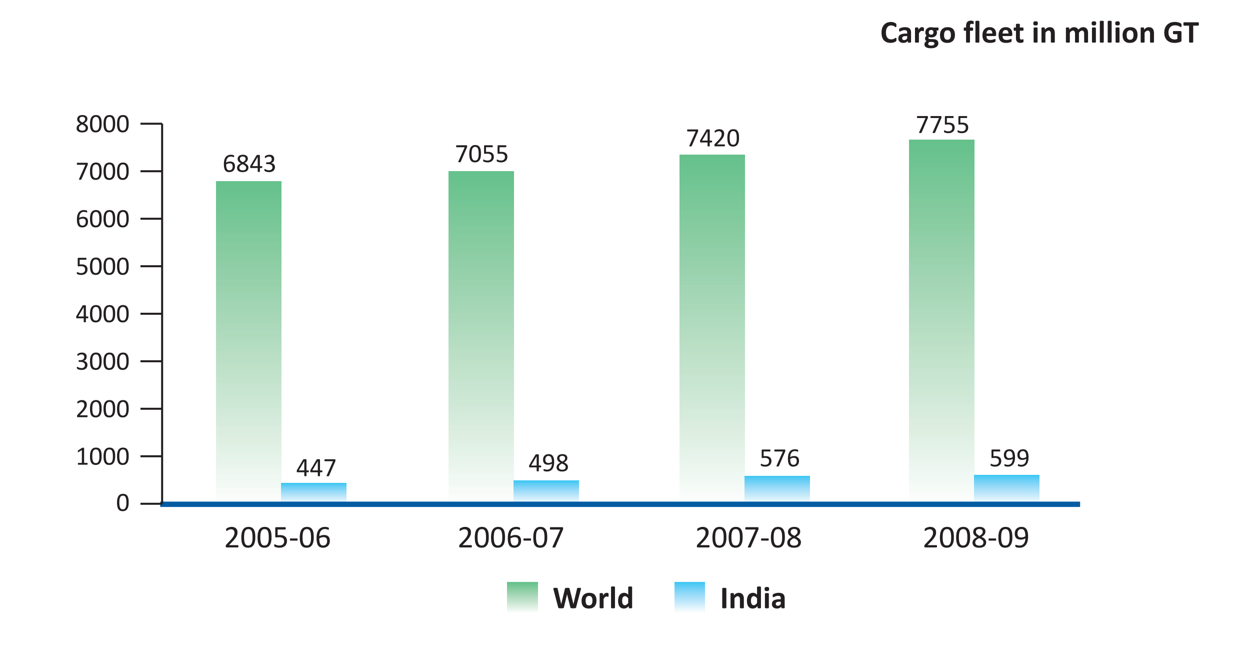
Further, as is evident from the table/graphs below, the share of Indian vessels in India's overseas trade decreased from 61 million tonnes (14 per cent) in 2005-06 to 50 million tonnes (8 per cent) during 2008-09 while the percentage of Indian fleet to world fleet remained static at 1.17 during the same period.

[3] Right to match the rates quoted by foreign lines
[4] Buyer has to arrange and pay for shipment of the cargo
[5] Seller has to arrange and pay for shipment of the cargo

Table - 1

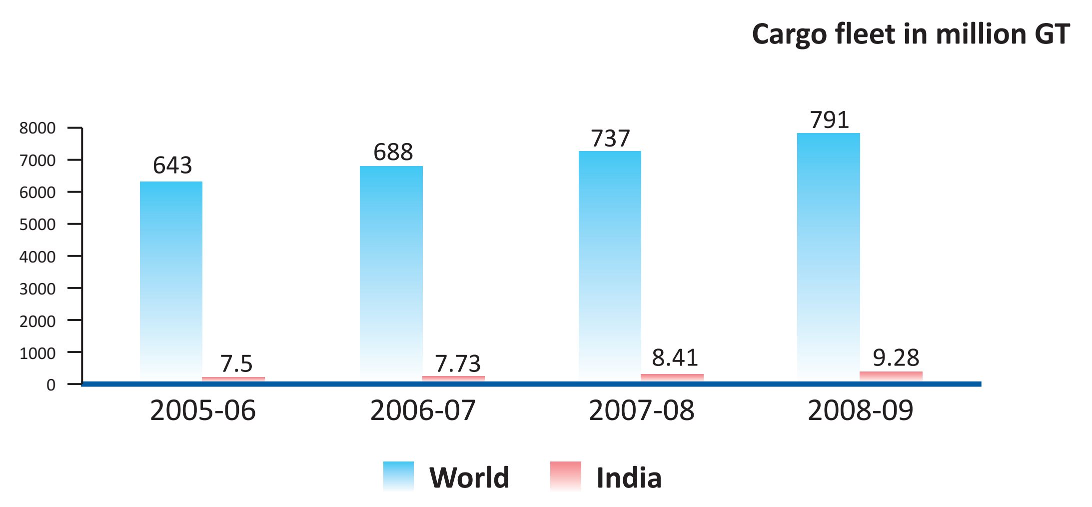
Growth (2005 to 1.1.2009)	World	India
Seaborne trade	13 per cent Increased from 6843 to 7755 million tonnes	33.90 per cent Increased from 447.14 to 598.70 million tonnes.
Cargo fleet	23 per cent Increased from 643 to 791 million GT	24 per cent Increased from 7.50 to 9.28 million GT
Indian vessels in overseas trade	Not applicable	Decreased from 13.7 to 8.4 per cent From 61 to 50 million tonnes
Share per cent of Indian fleet	Not applicable	Remained 1.17 during the period

GRAPH-4



Similarly, the graph below indicates the growth of world cargo fleet and Indian fleet during 2005-06 to 2008-09:

GRAPH-5



The Ministry endorsed the Audit view that non-availability of required tonnage was one of the reasons for the decline in share of Indian tonnage in carriage of Government/Indian dry bulk cargoes.

After the restrictions were relaxed, the share of Indian ships in the carriage of country's overseas trade had gradually declined from 14 per cent in 2005-06 to 8 per cent in 2008-09, though the country's overseas trade had increased by 34 per cent in the corresponding period.

3.2 Need for increased national tonnage

The need to strengthen the Indian shipping industry assumes great significance in view of the various recommendations made by several entities.

a) The Working Group on Shipping and Inland Water Transport constituted (2006) by Planning Commission had emphasized the need for increased national tonnage on the following grounds:

- Overall Indian freight bill was US $ 16.3 billion (₹ 73,300 crore) and out of this, over $ 14.2 billion (₹63,900 crore) was paid to foreign flag vessels as the mercantile fleet under the Indian flag was only 1.17 per cent.

- The shipping sector contributed 2.5 to 3 per cent of GDP.
- Negotiating power to control freight costs and to guard against undue freight charges by cartels and monopolies as it was essential to have a certain percentage of tonnage in every cargo sector;
- Maintaining the supply lines for essential cargo like crude on national energy security concerns was essential as proved during the Iraq war as all the crude imported from the Middle East through Indian ships.

b) 'Working Paper on Policy for India's Services Sector prepared (March 2010) by Department of Economic Affairs, GOI also highlighted the need to strengthen Indian fleet in view of the positive contribution from the Indian shipping industry to the GDP of the country.

The Ministry stated (April 2011) that the Government was aware of the urgent need for enhancement of national tonnage and with the positive steps taken by the Government including introduction of tonnage tax regime to reduce the tax burden of Indian Shipping companies and permitting 100 per cent foreign direct investment in the shipping sector, the Indian tonnage for the first time crossed 10 million GT mark and stood at 10.38 million GT as on 28 February 2011.

While audit acknowledges the recent growth in the tonnage, the fact remains that this growth is not commensurate with the country's increasing growth in seaborne trade and therefore, needs to be stepped up.

3.3 Government's indecision on vital issues

Though there was appreciation of the problems being faced by the Indian Shipping Industry from all the stakeholders, the Government did not act promptly to resolve these vital issues which impacted adversely the growth of the Industry, as is evident from the issues discussed below.

(i) Restrictive Tax Regime for Indian shipping

In order to enable Indian shipping to compete globally in a level playing field, the Government of India introduced tonnage tax regime[6] for the industry with effect from April 2004. The Indian shipping companies, even otherwise were in a disadvantageous position, as they were exposed to a variety of other direct/indirect taxes as detailed in Annexure I, which were not applicable to the Shipping Industry in other countries. Incidence of these taxes for Indian shipping Companies was 4 - 5 per cent higher than its international counterparts, as assessed by CARE, a renowned Government Research Agency[7].

[6] *Tonnage tax is a special scheme of taxation for shipping companies. As per the scheme , tax is levied on the basis of aggregate of tonnage income (its capacity) of ship.*

[7] *Report on Shipping Industry 2010 by CARE Research, a Division of Credit Analysis & Research Limited.*

This being a major concern hampering the growth of Indian shipping industry, recommendations were made at various forums at different points of time for abolition of the additional tax burden as indicated below:

- The industry through Indian National Shipowners' Association (INSA)[8] took up (since November 2005) the issue of burdening the industry with higher incidence of taxes, which was against the spirit of competitive level playing field.
- A Group constituted by the Government of India under the chairmanship of Joint Secretary, Department of Shipping, Ministry of Shipping , Road Transport and Highways in October 2005 recommended (December 2006) for exemption from these taxes.

The Working Paper for Policy for India's Services Sector of the Department of Economic Affairs (March 2010), GOI also favored extending tax benefits for building a strong Indian fleet.

(ii) Other pending issues

The decisions on the following issues raised by INSA since November 2005, were also still pending (December 2010) with the GOI:

- Grant of infrastructure status to the shipping industry;
- Access to cheaper funding of the acquisition of new vessels;
- Transchart to be empowered to fix percentage of cargo to be moved by Indian flag vessels;
- Long term chartering agreement by PSUs for critical energy cargoes of crude oil, petroleum products and gas to be negotiated and concluded exclusively with Indian ship owners for Indian flag vessels.

The Ministry stated (April 2011) that the above issues were taken up with Ministry of Finance, GOI and further added that it had asked Ministry of Petroleum to impress upon the Public Sector Oil marketing companies to indicate their long term tanker requirement so that adequate Indian tonnage is built up for the purpose and that for cargo reservation for Indian flag vessels, policy decision was to be taken by the Government.

In sum, there is a need to expedite action on the above concerns to provide Indian shipping players a level playing field to facilitate them to compete effectively with the global players.

[8] *Indian National Shipowners Association – a collective forum of shipowners with 36 members (34 in the private sector and two in the public sector viz. the Shipping Corporation of India Limited and Poompuhar Shipping Corporation Limited, Chennai).*