UNIT 10 INDIAN SHIPPING

Structure

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10.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the significance of national shipping
- describe the historical development of shipping in India with an emphasis on post independence period
- explain how has the growth of tonnage taken place
- enumerate the phases of growth of Indian shipping
- explain the structure of Indian shipping
- describe the role of Indian shipping in India's overseas trade
- explain India's Shipping Policy Measures
- describe the New Policy Package for Indian Shipping
- analyse the constraints of shipping industry in India.

10.1 INTRODUCTION

You know that shipping provides the necessary logistics support to overseas and coastal trade of a country. It is important for safeguarding country's overseas trade and its contribution to balance of payments. In Unit 9, you learnt about the growth of world seaborne trade, the demand for shipping services, the composition of world fleet and its

distribution by country groups. In this unit you will learn about the importance of national shipping, the history of Indian shipping and its problems, and the various policy measures adopted by the Government for development of shipping in the country.

10.2 IMPORTANCE OF NATIONAL SHIPPING

Shipping is essentially required to provide logistical support to the overseas trade of the country. Besides facilitating the movement of goods in international trade and thus contributing towards economic development, the importance of shipping for a country is also due to following reasons:

1 **Strategic reasons:** For having an uninterrupted supply of crude, POL and such other important supplies, as in case of India, the economy is heavily dependent on imports of crude and POL.

2 **Contribution to balance of payments:** National shipping makes an important, in some cases a sizeable, contribution to balance of payments. It helps to earn or save foreign exchange through freight earnings and on account of payments in national currency to national shipping companies which otherwise would have been paid for in foreign exchange.

3 **Second line of defence:** National shipping, because of its role as a second line of defence and providing a strong logistical support to the naval forces of a country during war, is popularly known as merchant navy.

4 **As safeguard to country's overseas trade:** The acquisition of a sizeable merchant fleet by a country, consistent with its trading needs, not only helps in ensuring the adequacy of shipping services, but its presence also acts as an important safeguard to the interests of country's export-import trade and preventing the unfair freighting policies and practices by shipping conferences or independent carriers operating in its international commerce.

5 **Reduction in dependence on foreign ships:** The very presence of national shipping acts as a check and balance on the unfair activities of a foreign ship operators. It also helps in reducing the dependence on foreign ships eliminates uncertainty to a large extent.

6 **Development of ports and related auxiliary services:** The development of shipping leads to the development of ports and other secondary activities like ship repair/dry docking, container repair and container leasing etc. which are usually termed as auxiliary services and help in employment generation as well as foreign exchange earnings by providing service to a larger number of ships.

10.3 ADVENT OF SHIPPING INDUSTRY IN INDIA

From time immemorial, India has been known as one of the leading sea faring nations with a glorious shipping heritage. But the glorious maritime history of India came to an end during over 200 years of British rule due to strangulating policies of the alien government on the one side, and cut-throat competition and unfair rate war of the foreign shipping companies on the other.

The era of Indian shipping began in 1919 with the establishment of Scindia Steam Navigation Co Ltd. (now a sick unit) in Mumbai and their first ship 's.s. Loyalty' sailing from Mumbai to UK on April 5 that year. It is in commemoration of this historical event, April 5 is celebrated as Idnia's 'National Maritime Day'. The history of Indian shipping is the history of this company's courageous efforts to embark itself and help other small Indian shipping ventures to establish themselves in Indian waters in the face of relentless rate wars waged by the foreign interests.

At the outbreak of Second World War Indian owned tonnage was merely around 125,000 g.r.t. Even this got reduced due to enemy actions during the war. The inadequacy of Indian mercantile marine for the requirement of a country of this size was realised by the then government in 1944 and as a part of the post-war reconstruction efforts, the Government of India constituted a Post-War Shipping Policy Reconstruction Sub-Committee in October 1945 for recommending, *inter-alia*, as to what would be a suitable tonnage target for Indian shipping and what percentage share of the maritime trades of India and other trades in which India was interested, both coastal and overseas, should be secured for Indian shipping. The Sub-Committee laid down the objectives of a national shipping policy similar

to the policies adopted by important maritime countries of the world. It also defined the term 'Indian Shipping' as shipping owned, controlled and managed by the nationals of India and emphrased that acquisition of an adequate share in the world's shipping trade was a must for India.

The Sub-Committee submitted its report in early 1947 with the following recommendations:

a) building of an Indian merchant navy of 2 million tons in next 5-7 years;

b) reservation of 100% coastal trade for Indian ships;

c) reservation of 75% of near and adjacent trade, e.g. trade with Burma (now Myanmar) and Ceylon (now Sri Lanka) for Indian shipping companies;

d) securing 50% of India's distant and overseas trade for Indian shipping; and

e) creation of a National Shipping Board.

The Government of India endorsed the recommendations of Post War Shipping Policy Reconstruction Sub-Committe and recognised the need for adopting a dynamic shipping policy with regard to development of shipping like other maritime countries. Thus the contours of Indian Shipping Policy were laid.

Check Your Progress A

1 Commercial shipping is also referred to as merchant navy. Why?

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2 What were the main recommendations of the Post-War Shipping Policy Reconstruction Sub-Committee?

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3 On which date the Government of India endorsed the recommendations?

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10.4 GROWTH AND PERSPECTIVE

India has a vast coastal line of about 5,700 Km with 11 major ports and more than 139 operatable minor and intermediate ports and shipping, as mentioned earlier, played an important role in her socio-economic development from the very beginning. On attaining independence, the vital role the shipping industry could play in the country's economic and trade development was duly recognised by the Government, and so the development of shipping became one of the policy objectives of the State.

At the time of independence (August 15, 1947) Indian shipping was in nascent stage with a very small fleet of 59 old ships aggregating roughly 1.92 lakh g.r.t. of which about 62% was engaged in coastal trade. The post-independence era witnessed a rapid growth of national shipping tonnage.

10.4.1 Shipping in the Five Year Plans

In recognition of the important role which the shipping industry could play in furthering the growth of overseas trade, the Government could through successive Five Year Plans of has been endeavouring to build up adequate national fleet to carry 100% coastal trade, 100%

strategic cargoes like crude oil and POL, 50% dry bulk cargoes and 40% liner cargoes. The tonnage targets for Five Year Plans were fixed with a view to achieving the above objective and acquisition of ships was planned solely for deployment in India's national trade till 1991, when the policy of economic reforms and trade liberalisation was introduced. The following paragraphs give the plan-wise tonnage targets fixed and achieved right from the beginning of planning era:

For the First Five Year Plan, about 200,000 g.r.t. of shipping intended to be added to the Indian merchant fleet bringing its strength of 600,000 g.r.t. by the end of the Plan period. The tonnage target for shipping was not actually achieved by March 1956 when the strength of the Indian merchant fleet stood at 480,000 g.r.t. However, tonnage under construction and or on order at the time for the Indian shipping companies totalled about 120,000 tons and thus the First Plan target was virtually achieved.

For the Second Five Year Plan, the tonnage target was fixed at 9,01,707 g.r.t. The broad objectives of shipping under the Second Plan included (a) catering fully to the needs of coastal trade; (b) securing an increasing share of India's overseas trade for Indian ships; and (c) building up the nucleus of a tanker fleet. However, the tonnage target was not achieved by the end of the Second Plan when it totalled 857,000 g.r.t. only. Thus, the growth of Indian fleet during the first 10 years of post-independence era was rather slow. As a result, the target of building up a tonnage of 2 million tons within a period of next 5-7 years set out by the Post-War Shipping Policy Reconstruction Sub-Committee, in 1947, was not achieved.

The Third Five Year Plan envisaged a target of 14.2 lakh g.r.t. by 1965-66. The shipping tonnage was expected to reach about 3.5 million g.r.t. by the end of the Fourth Five Year Plan, i.e. 1973-74, consisting of 3.1 million g.r.t. of overseas tonnage and 0.4 million g.r.t. of coastal tonnage. The shipping million g.r.t.. But in view of a number of major and far reaching developments, e.g., decline in import of crude oil, opening of Suez Canal, escalation of prices of ships etc. the target for shipping had to be reduced to 6.5 million g.r.t.

As against the shipping tonnage target of 7.5 million g.r.t. for the Sixth Five Year Plan (1980-85), the achievement by the end of the Plan was 6.36 million g.r.t. Due to resource constraint, a large part of the acquisition programme was postponed for the Seventh Five Year Plan, Plan but the tonnage achieved was about 5.98 million g.r.t. by March 1990. The shortfall in achievement was due to slow acquisition programme and to of worldwide recession in shipping industry. Keeping in view the developments in shipping sector, particularly the shortfalls during the preceding two Plans, the planners decided to fix a reduced tonnage target of 7 million g.r.t. for the Eighth Five Year Plan (1992-97). The target was achieved in December 1995, i.e. 15 months in advance, but due to deceleration in the pace of acquisition of ships to Indian fleet the tonnage achieved could not be maintained.

The Working Group of Planning Commission has assessed that with a view to maintaining the existing level of participation of Indian shipping in the carriage of national cargoes, the Indian tonnage should be built up to at least 14 million g.r.t. at the end of the Ninth Five Year Plan (March 2002). However, citing constraints like limited financial resources and manpower, it has ended up recommending a reduced target of 9 million g.r.t. Almost three years have elapsed since the commencement of the Ninth Plan, there is no sign of Indian shipping strength growing. In fact, declined to 6.78 million g.r.t. as on November 1, 1998.

The basic objectives which were kept in view for the development of shipping right from the commecement of the planning era and which are being pursued are as follows:

1 To reduce the dependence on foreign shipping services for the carriage of overseas trade shipping services;

2 To safeguard the imports of essential supplies, especially POL for the national economy;

3 To serve 100% coastal trade for national flag vessels;

4 To ensure adequate provision of shipping services to meet the requirements of national trade;

5 To improve the balance of payments position through import substitution and export of shipping services; and

6 To develop merchant fleet to act as a second line of defence to protect India's maritime interests and preserve its channels of communication.

The need for a stronger shipping has become all the more important considering the sea borne trade internationally as also due to fact that 90% of India's overseas trade in terms of volume and 77% in terms of value currently moves by sea.

10.4.2 Growth of Indian Tonnage

The growth of Indian tonnage has been manifold during the past 50 years as is clear from Table 1.

Table 1: Growth of Indian Shipping

Year	Coastal		Overseas		Total	
	No. of Vessels	GRT (000)	No.of Vessels	GRT (000)	No.of Vessels	GRT (000)
1947	48	119	11	73	59	192
1955	92	221	33	255	125	476
1960	98	315	74	529	172	844
1965	101	338	116	1122	217	1460
1970	69	250	181	2147	250	2397
1975	70	371	260	4093	330	4464
1980	58	253	325	5426	383	5679
1985	95	296	273	5654	368	5950
1990	162	523	256	5504	418	6927
1992	187	640	254	5647	441	6287
1998	144	498	242	6169	480	6815

Note: 1 The data from 1947 to 1992 reflects the position as on December 31 each year.

2 The data for 1998 is as on July 1, 1998 and the total in that year includes offshore/specialised vessels.

Check Your Progress B

1 Expain the trends of growth in coastal and overseas shipping since 1947.

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2 What is the share of coastal shipping in the total tonnage in 1947 and 1998?

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3 State whether the following statements are True or False.

i) Indian shipping was at an advanced stage at the time of independence.

ii) The tonnage target fixed for Ninth Plan is 9 million g.r.t.

iii) The tonnage target of Eighth Five Year Plan was achieved well in advance.

iv) National shipping prevents the unfair practices of conferences.

v) National shipping does not lead to the development of other auxiliary services.

10.4.3 Types of Shipping Services

Shipping services in India are also patterned similar to the global shipping services, namely, tramps and liners. The types of ships engaged in India's overseas trade include dry cargo liners, cellular container ships, dry cargo bulk carriers, ore oil bulk carriers, oil tankers (product carriers), passenger-cum-cargo vessels, acid carries, timber carriers and LPG carriers. The tonnage in the liner service is very small (merely about 0.6 million g.r.t.)

10.4.4 Age Profile of Indian Shipping

For catering to the requirement of growing trade, usually preference goes for modernisation of fleet i.e., ships with a lower age. However, in view of the ships being highly capital intensive and also the conditions prevalent for operation of ships in the world, the Government of India through the Directorate General of Shipping has prescribed age norms for different categories of ships. From the age profile given Table 2, it may be noticed that out of a total number of 480, 230 ships are in the age category of 15 years and above and in case of overseas trade where a total of 242 ships are in operation, the number of ships in the age category of 15 years plus is 133 which regarded as an alarming situation for the country.

Table 2 : Age Profile of Indian Fleet

Age Category	Number of Ships Engaged in			Total
	Overseas Trade	Coastal Trade	Offshore Supply/ Specialised Vessels	
Under 5 Years	16	33	---	49
5 Years to 9 Years	28	22	7	57
10 Years to 14 Years	65	16	63	144
15 Years to 19 Years	68	21	16	105
20 Years and above	65	52	8	125
Total	242	144	94	480

10.4.5 Structure of Indian Shipping Industry

Over the period, the number of shipping companies has been going up. As many as 42 new shipping have reportedly been formed since 1991-92 i.e., in the post-liberalisation period. The total number of shipping companies in the country as on 31st March 1999 was 92. The largest shipping company in India is the Shipping Corporation of India Ltd. (SCI), a public sector undertaking, with a paid of capital of Rs 2,823 crores owning about 47% of the total tonnage. It owns and operates 119 vessels of 3.07 million GRT. Besides SCI, there are seven other large shipping companies in the private sector accounting together for about 30% of the total tonnage. The remaining companies are very small engaged in shipping services with a fleet of one/two ships. The liner shipping services were being provided by only three companies, namely, SCI, Scindia Steam Navigation Co. Ltd, and India Steamship Co. However, with Scindia Steam Navigation Co. becoming sick, only two companies have now remained in the liner service. India's share in the world shipping is merely 1.6% and in the ranking it comes to 17th.

10.4.6 Stages of Development in Indian Shipping

The developmental stages of Indian shipping can be divided into the following six phases:

The First Phase The period of awakening and struggle which lasted from 1919 to 1946.

The Second Phase This is known as foundation laying phase and its period ranges between 1947 to 1961.

The Third Phase The period of this phase was from 1961 to 1984 and is known as phase of expansion and diversification.

The Fourth Phase This phase continued during 1984-85 and is known as the phase of consolidation.

The Fifth Phase This phase is known as the phase of struggle as the shipping industry due depression had a tough time and the period of this phase continued from 1985-1992.

The Sixth Phase This is continuing from 1993 onwards as is the modern phase which is also known as the phase of liberalisation.

10.4.7 India's Overseas Trade and Shipping Fleet

There has been a remarkable growth in the volume of India's overseas trade in the post-independence period. This is mainly due to the emphasis laid on export promotion right from the beginning of planning process in early fifties and the same policy continues to be further strengthened. The volume of overseas trade which was 24.5 million tonnes in 1961, increased to 172.2 million tonnes in 1997. Just apposed to that, there has been rise in the

shipping fleet as well increasing from 0.9 million g.r.t. to 7 million g.r.t during the same period. Subsequently, there has been deceleration in the shipping fleet, as the same was 6.8 million g.r.t in 1998. This implies that the dependence of country's overseas trade for the carriage on foreign shipping is on the increase.

Besides the overseas trade, the ships are also required to cater to the requirement of the coastal trade where again the volume is likely to up in view the developments of coal-based and gas-based power plants and other industries along the coast line. In the absence of sufficient number of domestic ships, foreign flag ships have been deployed for the carriage of coastal trade. Such ships have been engaged by the Indian shipping companies on bare-boat charter basis and for the same they have to pay hire charges in foreign exchange.

In the initial years of the post-independence period, India's dependence on the foreign ships for its overseas trade was quite. However, with the fleet development programme taken up in the sixties onwards, the share of Indian shipping in the carriage of national trade also improved, but the same did not continue for long. As is clear from Table 3, the share of Indian shipping in the country's total overseas trade was 9.2% in 1960-61 (end of the Second Five Year Plan) which rose to 40.7 per cent in 1987-88 —maximum so far since independence. However, in the succeeding years, the share of Indian shipping in the overseas trade has been hovering around 27.7%-36.7%.

Table 3 : Share of Indian Shipping in India's Overseas Trade

Year	Total Quantity of Seaborne Trade (*million tonnes*)	Share (%) of Indian Shipping
1960-61	24.5	9.2
1970-71	48.5	19.8
1979-80	71.2	32.3
1985-86	86.4	34.9
1987-88	90.0	40.7
1990-91	109.4	35.5
1991-92	111.8	36.7
1992-93	122.3	34.9
1993-94	137.0	33.6
1994-95	146.6	28.7
1995-96	166.1	27.7
1996-97	172.2	29.8

The declining share of Indian shipping in the carriage of India's overseas trade is due to a host of factors including inadequate tonnage and growing competition from foreign flag ships.

10.4.8 Role of Shipping as a Direct Earner/Saver of Foreign Exchange

National shipping not only facilitates the movement of exports of the country, but the shipping service itself is an export item. World Trade Organisation (WTO) has recognised the freight services of a national shipping as an integral part of the country's export trade and GDP. As a 100% service export industry, overseas shipping is an earner and saver of freight value in foreign exchange and, as such, is a direct contributor to the country's balance of payments position. In this endeavour, Indian shipping has also been playing an important role, as may be seen from data given in Table 4.

Table 4 : Net Foreign Exchange Earnings of Indian Shipping

(Rs. Crores)

Year	Gross Earnings	Gross Disbursement	Charter Hire Payments	Financial Costs	Net Inflows
1989-90	1,987	607	113	108	1,159
1990-91	2,186	784	136	95	1,171
1994-95	4,206	1,277	46	230	2,653
1995-96	4,906	1,287	130	278	3,211
1996-97	5,008	1,691	125	335	2,857

Check Your Progress C

1 Enumerate the types of ships engaged in India's overseas trade.

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2 Name the three Indian shipping companies which provide liner services.

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3 State whether the following statements are True or False.

i) SCI is a public sector underaking.

ii) Line services are provided by all the shipping companies in India.

iii) Higher dependence on foreign flag ships for the carriage of overseas trade means higher outgo of foreign exchange.

iv) India has sufficient number of ships to handle coastal shipping requirements.

v) There has been an appreciable growth in the share of Indian shipping in the carraige of overseas trade in the post liberalisation period.

10.5 INDIA'S SHIPPING POLICY MEASURES

The expansion in the shipping tonnage during the post-independence period is the result of the adoption of shipping policy resolution of July 12, 1947 oriented towards increasing self-reliance in the carriage of country's coastal and overseas trades. With this objective, the reservation of 100% coastal trade in favour of national shipping was made statutory in early fifties (now relaxed by allowing mainline container vessels and LASH ships to carry container traffic and LASH barges from the coastline ports). Though India did not formulate any formal or specific National Shipping Policy thereafter, her shipping policy embodies the Shipping Policy Resolution then adopted and supplemented by Government pronouncements issued from time to time. Some of such policy measures taken in the initial stages and which had a great bearing on the development of shipping in the country can be summarised as follows.

10.5.1 Policy of Joint Sector in Shipping

The Government, with a view to develop shipping tonnage in the initial stages, thought that their new shipping policy must by broad based on the active co-operation of the State with enlightened private enterprise. This policy of mixed economy or what was characterised as 'the active co-operation of the State with enlightened private enterprise' was evolved to ensure the rapid expansion of Indian owned tonnage and the development of the Indian mercantile marine on sound, healthy and nationally acceptable lines. Following the policy of mixed economy, the Eastern Shipping Corporation was set up in 1950 on State-cum-Private Ownership basis, the Government of India holding 74% of the shares and a private shipping company holding the balance of 26%.

Encouraged by the experiment of 'mixed economy'. The second shipping company, viz. The Western Shipping Company was floated in 1956 as a wholly Government-owned concern with the intention to exclusively operate tankers and participate on routes to western hemisphere.

In the Industrial Policy Resolution of 1956, shipping was included in the list of the industrial which were to be developed jointly by the private and the public sectors, wherein the public sector would take the initiative and the direct responsibility for establishing new undertakings. Subsequently, in 1961, the Shipping Corporation of India Ltd, (SCI) was established by merging the Eastern Shipping Corporation and Western Shipping Company and with this a greater role was assigned to public sector shipping alongside the private sector. Today, the SCI has

developed as one of the largest shipping in the country. It owns a diversified fleet includin the container and specialised ships and operates both in liner and tramp trades.

10.5.2 Policy on Coastal Shipping

In giving effect to the dynamic policy adopted by the Government of India in 1947, the Coastal Trade Reservation Act was passed in 1950 and the Indian Coastal Conference was established in 1951 and the carriage of coastal cargoes only by Indian vessels became fully effective by September 1952.

10.5.3 Soft Loans Through SDFC

The shipping fleet in the initial years being very small and serious efforts were required to help build the tonnage. For this purpose, the Government of India established a Shipping Development Fund Committee (SDFC) in 1957 which was assigned the responsibility of providing soft loans at very low rate of interest to the shipping industry. The loan assistance given by the SDFC to shipping companies for purchase of ships resulted in speedy expansion of shipping. In the eighties, Indian shipping companies, because of the recessionary trend in world shipping, were adversely affected and, as a result, a number of small companies became sick and were unable to repay the loan advanced by SDFC. It was now realised that SDFC lendings were indiscriminate and wrong and ignored commercial consideration. The government, therefore, decided to wind up SDFC in 1987 and replace it by Shipping Credit and Investment Corporation of India Ltd (SCICI) which subsequently merged with Industrial Credit and Investment Corporation of India Ltd. (ICICI)

10.5.4 Cargo Support

Cargo support to national shipping is nearly universal. In fact, according to a compilation on Cargo Support Measures from US Maritime Subsidies 1993, as many as 57 countries help their shipping industry through various support measures. In case of Indian shipping as well, cargo support was made a cardinal principle of national policy and the same has proved to be a great source of strength in promoting the growth of national fleet in the past. Since the key to cargo support is provided by controlling the terms of shipment to buy on FOB and sell on CIF, the Government of India also formulated a policy of FOB/FAS imports and CIF exports in 1957 and decided to set up a shipping coordination agency in the then Ministry of Transport so as to have liaison between the Ministry of Transport and other Ministries, in particular Commerce and Industry, Railways, Works, Housing and Supply, Steel, Mines and Fuel. Later on, the Govenment established TRANSCHART, a chartering wing in the Ministry of Surface Transport and laid down a policy according to which all import contracts were to be finalised on FOB/FAS (Free on Board/Free Along Side) and all exports on CFR/CIF (Cost and Freight/Cost, Insurance and Freight) basis in respect of Government owned and/or controlled cargoes and, in case of departure therefrom, for any reason, prior permission is required to be obtained from the Ministry of Surface Transport (TRANSCHART) on case to case basis. Under this policy, all things being equal, cargo preference is given to Indian shipping companies. The availability of TRANSCHART cargo being quite significant in the past, the same proved to be of great help to Indian companies to consolidate their fleet. The cargoes arranged by TRANSCHART included dry as well as liquid bulk cargoes like coal, ores, fertilsers, foodgrains, edible oils, petrol, diesel, kerosene, aviation fuel etc. In additional, TRANSCHART also handled a considerable quantity of general cargo for liner vessels.

10.5.5 Fiscal Incentives

Besides extending soft financing and cargo support, the Government had been extending development rebate, investment allowance and tax relief etc. from time to time.

10.5.6 Trade Liberalisation vs. Government Policy

The economic reforms initiated in July 1991 focussed on liberalisation, openness, transparency and globalisation. These, *inter alia*, aimed at providing a free trading environment conducive to accelerate export performance with simplified procedures. As a result, a number of items of export and import, which were falling in the category of 'canalised items' were declared as Open General Licence (OGL) items. In pursuance of above policy, the public sector trading organisations have to function under a globalised regime and the commodities of bulk imports and exports for which ealier the shipping arrangements were being made through TRANSCHART are no longer required to be routed through the same. However, the Government policy of buying and selling on FOB/FAS and CFR/CIF remains unchanged.

In the wake of announcement of the policy of economic and trade liberalisation, a need was felt to develop Indian shipping more aggressively. Since Indian shipping was operating under a regulated regime until that time, the Government took several decisions and came out with a New Policy Package for Shipping.

10.5.7 New Policy Package for Shipping

The new policy package for shipping was announced by the Government in 1993 with the objective of bringing in rapid development in the shipping industry by eliminating procedural obstacles and by allowing increasing private and foreign participation. The measures announced in this direction include the following:

1 **Acquisition of vessels:** In this regard, the following decisions were taken.

- i) Acquisition of all categories of ships, except crude tankers and offshore vessels (OSVs), by private shipping companies;
- ii) Acquisition of replacement tonnage;
- iii) Foreign investment upto 51% for mechanised sailing vessels upto 10,000 DWT;
- iv) For sale of ships for further trading, scrapping to Indian company within India or abroad; and
- v) For acquisition of ships from an Indian shipyard.

In rest of the cases also, the Shipping Acquisition Licensing Committee under the Ministry of Surface Transport clears the ship acquisition proposals in 4-6 weeks time.

2 **Amendment of Merchant Shipping Act :** It was continuously being represented by the shipping industry that Sec. 51 of the Merchant Shipping Act comes in their way for raising foreign loans because as per the existing provision the lender could foreclose the mortgage and realise his money in the cases of default in payment by the borrower, only through an Admiralty Suit to be filed in High Court of the country. This section has since been amended so as to give freedom to the lender to recover the amount due by the borrower by selling the mortgaged ship or share without approaching the Indian courts. This amendment facilities the Indian shipping companies to raise foreign exchange loans from abroad by mortgaging their vessels with the foreign lender.

3 **Relaxation of Cabotage Laws :** Keeping in line with the thinking of liberalisation, Government relaxed the Cabotage Laws for a period of 5 years initially up to 1997 for container vessels and lash barges. This relaxation has attracted foreign mainline vessels for container traffic and lash barges. On the other hand, it has generated a sense of competitveness and has helped the trade.

4 **Abolition of Quaterly Block Allocation Scheme :** Government has abolished the scheme of allocation of foreign exchange for ship-repair, dry docking and import of spares and capital goods which was being sanctioned on quarterly basis. Reserve Bank of India now releases foreign exchange for full requirement of the industry in this behalf.

5 **Strengthening of Indian shipyards :** Hindustan Shipyard, Vizag and Cochin Shipyard, Cochin have been playing important role in the ship building sector. Though there have been hiccups in their delivery schedule and rising cost of the vessel, the problem was not entirely of their making. Government has taken certain measures in the field of financial restructuring, prioritisation of their activities and strengthening the management. Government also grants subsidy to the yards to make the purchase of their vessels advantageous to the Indian shipping companies. These yards have also started separate Repair Divisions to repair/drydock Indian and foreign vessels at competitve costs and thereby saving and earning precious foreign exchange. This has helped these yards to turn around to a great extent. The vessels constructed at these shipyards have proved to be of international standards.

6 **Support to coastal shipping :** Although 100% of the coastal shipping is reserved for Indian flag vessels but, in the absence of sufficient number of domestic ships, foreign shipping companies have been allowed to operate their ships on case to case basis in the interest of the trade. The much needed fillip to coastal shipping is yet to arrive. Despite the government's accepance of a large number of recommendations of the

Inter-Ministerial Committee on coastal shipping, action on most of the recommendation is still pending. This is due to the pace of infrastructural development required for smooth working of coastal shipping remaining far behind the demand.

7 **Other steps taken :** These are as follows:

a) Indian shipping companies have been given the freedom to charter out their vessels to foreign shiping companies for employment in international trade;

b) Indian shipping companies have been allowed to acquire vessel by charter-cum-demise method;

c) Indian shipping companies have been permitted to retain sale proceeds of Indian ships abroad and to utilise the same for fresh acquisition; and

d) Liner routes on which existing shipping companies are not operating have been thrown open to all Indian shipping companies.

Check Your Progress D

1 Enumerate the main features of India's shipping policy.

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2 Outline the need for constituting the new shipping policy committee.

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3 Why does the coastal shipping in India require operational support? Explain.

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4 State whether the following statements are True or False.

i) Floating a joint sector shipping company has been a bad experience.

ii) There is automatic approval for acquisition of all categories of vessels according to the New Policy Package.

iii) Indian Coastal Conference was established in 1950.

iv) Amendments in Merchant Shipping Act were made to help the shipping industry.

v) Relaxation in Cabotage Laws have been made to attract the mainline vessels.

10.5.8 Recent Developments

In response to industry's pressing representations for redefining the national shipping policy in the light continuing constraints and emerging threats to the industry affecting its growth prospects, the Ministry of Surface Transport constituted an 11 Member Committee in March 1997 with the Director General of Shipping as Chairman and Senior Deputy Director General of Shipping as Member Secretary. The Committee submitted its Report in July 1997 which is still under consideration. The highlights of the Report are as follows:

a) Subsidised loans policy to be replaced by a range of new instruments.

b) Quicker depreciation - earlier 20% likely to be 33% and above.

c) Infrastructure status for coastal shipping.

d) Export industry benefits for overseas shipping.

e) De-reserving of LNG trade for Indian ships.

f) Tax benefits to seafarers to attract and retain talent in Indian ships.

g) The tonnage has come down from about 7.1 million g.r.t. to about 7 million g.r.t. Need to add another 3.7 million g.r.t. in next five years so as to have 2 million g.r.t. of new capacity and 1.7 million g.r.t. in replacements in order to maintain a share of 25% in India's overseas trade.

h) Investment requirement at the current prices would amount to Rs. 15,000 crores, same as India's sea freight bill last year.

10.6 PROBLEMS OF SHIPPING INDUSTRY

The shipping industry in India has been facing a host of problems for quite sometime. Some of these problems have been listed hereunder:

1 **Low capital base :** The capital base of a majority of the companies is very low. Hence they operate the service with 1-2 ships and find themselves unable to compete effectively.

2 **Ship finance :** The shipping industry is a highly capital intensive industry and a major effort of shipowners relates to find ways and means to raise funds for ship replacement and expansion. In the absence of soft loans as were extended by SDFC earlier, they have to strive hard in arranging finanace through various methods like equity investment, first bank finance, lease financing, mezzanine finance, leveraged financing etc.

3 **Exodus of merchant navy officers :** In recent years, a large number of merchant navy officers have left jobs with the Indian shipping companies in search of greener pastures abroad where these officers are getting tax-free income. Non-extending of similar benefit to merchant navy officers by the government is resulting in the shortage of skilled manpower.

4 **Growing competition from foreign flag ships :** The foreign flag ships, especially the ships belonging to the open registry countries, have been putting a tough competition to Indian shipping companies in the carriage of cargo. This is one of the reasons for the falling share of Indian shipping in the carraige of overseas trade.

5 **Outdated cost plus formula :** The existing cost plus formula applied in respect of Indian carriers of crude and POL is not finding favour with the shipping companies who have acquired tankers or product carriers at a much higher price in recent years.

6 **Non-uniform taxation policy :** The existing taxation policy is an irritant for the Indian shipping as they are subject to payment of tax on the freight earned, while the foreign ships bringing in the import cargo are not taxed on the freight bill/earned.

7 **Cargo support :** The survival of shipping industry very much depends on the cargo support coming from the trade and industry as well from the government. In the past, TRANSCHART used to extend cargo support to Indian shipping but, with the decanalisation of a large number of bulk commodities and more competitive offers from foreign flag ships, such cargo support is not forthcoming.

8 **Non-classification of shipping as an infrastructure industry:** This issue is being raised by the industry time and again but the government has been neglecting the demand.

9 **Necessity of state support to shipping :** Shipping requires large infusion of capital in the form of equity as well as borrowings. This is because of its being cyclical in nature, volatile and risk prone. As a result, the initial capital costs are too high and returns relatively low. Further, due to enhanced awareness about safety and environmental protection, it has become a highly regulated industry sensitive to rapid technological changes which consequently have a direct impact on the economies of operations.

10 **High manning levels :** The benefit of low cost structure in the past, based on lower manning cost to Indian shipping, in comparison to other developed maritime countries, does not hold good these days. While the foreign flag vessels have been able to bring down the manning cost by reducing the number of personnel on board, Indian vessels have 47 personnel on board. Consequently, the manning cost on Indian ships has increased which is further aggrerated by rising salaries, wages and allowances of the personnel employed.

10.7 LET US SUM UP

The importance of national shipping is primarily from the point of view of providing logistics support to the country's foreign trade. Besides, national shipping is also required

due to strategic reasons such as an uninterrupted supply of crude and POL (as in case of India) as well as for keeping a check on the unfair freighting policies and practices of conferences and independent carriers operating in the country's overseas trade.

India has been a seafaring nation with a glorious shipping heritage from ancient times. But during 200 years of British rule, her glorious maritime industry came to an end on account of apathy of the alien government cut throat competition and unfair rate war of foreign shipping companies.The era of modern shipping began in 1919 when Scindia Steam Navigation Co.Ltd. sailed their ship 'ss Loyalty' on a voyage from Mumbai to UK on April 5 that year. Subsequently, some more enterprises joined the shipping business and at the outbreak of Second World War, Indian tonnage had reached 125,000 g.r.t. But, due to enemy actions during the war, the growth of shipping tonnage received a setback.

The indadequacy of Indian mercantile marine to meet the requirement of a country of this size was realised even by the then govenment in 1944 when a Post-War Shipping Policy Reconstruction Sub-Committee was constituted which submitted its Report in early 1947. The recommendations of the Sub-Committee, *inter-alia*, included the following:

a) building of an Indian merchant navy of 2 million tons in next 5-7 years;

b) reservation of 100% coastal trade for Indian ships;

c) reservation of 75% of near and adjacent trade for Indian ships; and

d) securing 50% overseas trade for Indian shipping.

At the time of India's independence (August 15, 1947), India had a very small fleet of 59 ships aggregating roughly 1.92 lakh g.r.t., of which about 62% was engaged in coastal trade. The commencement of planning era in 1950-51 set a definite programme for the development of national shipping and depending upon the resources availability, physical targets for attaining the tonnage for each successive Five Year Plan were fixed. The endeavour from the very beginning has been to develop adequate national fleet to carry 100% coastal trade, 100% strategic cargoes like crude oil and POL, 50% dry bulk cargoes and 40% liner cargoes. The tonnage target of 7 million g.r.t. fixed for the Eighth Five Year Plan (1992-97) was achieved 15 months in advance. However, due to deceleration in the pace of acquisition of ships, the tonnage achieved could not be maintained. The Working Group of Planning Commission has fixed a tonnage target of 9 million g.r.t. for the Ninth Five Year Plan (1997-2002), though the progress towards fleet development has been has been rather slow so far. The expansion in shipping fleet for a country like India has become all the more necessary due to the fact that 95% of her overseas trade in terms of volume and 77% in terms of value currently moves by sea.

Indian shipping as of now consists of about 85 shipping companies. The largest among them is the Shipping Corporation of India Ltd. (SCI), a public sector undertaking, owning about 47% of the total fleet. Besides SCI, there are seven other large private sector companies owning together about 30% of the total tonnage. Rest of the companies are very small operating the services with a fleet of one or two ships.

India's overseas trade in terms of volume has grown considerably especially from 1961-62 onwards, increasing from 24.5 million tones to 172.2 million tonnes in 1996-97. As against that, shipping fleet also increased from 0.9 million g.r.t. to 7 million g.r.t. during the same period, though there has been decline in the fleet in 1998 dropping down to 6.8 million g.r.t. in the month of July that year. Due to inadequate shipping fleet as also other factors like increasing competition from foreign flag ships, the dependence of country's overseas trade on foreign carriers has increased in the recent past. The share of Indian shipping in the carriage of overseas trade was 41% in 1987-88, highest so far, but in the post-liberalisation period, the share has been on a declining trend. In 1996-97, it was merely 30% in the total trade and in case of general cargo (liner trade) only about 10%. The situation is thus becoming really alarming one.

India's shipping policy has all along been to expand the shipping tonnage so as to achieve self-reliance in the carraige of country's coastal and overseas trade and with this objective, the reservation of 100% coastal trade was done in early 1950s (now stands relaxed in favour of mainline container and LASH vessels). Since the adoption of July 12, 1947 resolution, been Government made many pronouncements which include policy of joint sector in shipping, policy on coastal shipping, soft loans through SDFC and policy on cargo support; to national shipping.

The policy of trade liberalisation introduced in July 1991 resulted in decanalisation of a large number of 'canalised items' of bulk imports and exports. Consequently, the Government policy on buying and selling on FOB/FAS and CFR/CIF which used to provide cargo support to national shipping is no longer that effective now. Further, in the wake of the policy of trade liberalisation, the Government came out with a New Policy Package for Shipping Industry in 1993 with the objective of eliminating procedural obstacles and allowing increasing private and foreign participation in shipping. Some of the measures taken in this direction include according automatic approval for acquisition of vessels with certain exceptions, amendments in M.S. Act, relaxation of Cabotage Laws and strengthening of Indian shipyards.

The not so good performance of Indian shipping in the carriage of overseas trade is due to a host of problems being faced by the industry. These include poor capital base of industry, non-availability of ship finance on easy terms, exodus of skilled merchant navy officers, growing competition from flag ships, non-uniform taxation policy, inadequate cargo support, non-classification of shipping as an infrastructure industry, regulated industry, higher operational cost due to higher manning level.

The above issues were being raised by the industry time and again at different forums. The Government, therefore, appointed an 11 member Committee under the Chairmanship of D.G. Shipping in March 1997. The Report submitted by the Committee in July 1997 is still under consideration.

10.8 KEY WORDS

Auxiliary Services : Subsidiary services such as ports, ship repair, dry docking, freight forwarding etc., in shipping.

Cabotage Law : Law prohibiting other than national ships from being engaged in the coastal trade because of the strategic reasons and other national priorities.

Cargo Support : Preference given to Indian shipping companies for transportation of cargo.

Coastal Trade : Internal trade involving movement of goods from one coast to another.

Investment Allowance : A special deduction from gross total income for taxation of a shipping company when it acquires a new ship.

Mezzanine Finance : Unsecured high yield loans that are subordinate to bank to bank and secured loans but rank above equity.

10.9 ANSWERS TO CHECK YOUR PROGRESS

B	3	(i)	False	(ii)	True	(iii)	True	(iv)	True	(v)	False
C	3	(i)	True	(ii)	False	(iii)	True	(iv)	True	(v)	False
D	4	(i)	False	(ii)	False	(iii)	False	(iv)	True	(v)	True

10.10 TERMINAL QUESTIONS

1 Describe the importance of national shipping as provider of logistics support to the foreign trade of a country.

2 Explain the objectives set out in the five year plans for the develpment of Indian shipping.

3 "The development of Indian shipping fleet from 1919 till date can be put into six phases." Discuss these phases in relation to the physical targets set in each Five Year Plan and the policy pronouncements made by Government from time to time.

4 "Despite increasing volume of India's overseas trade over the period, the performance of Indian shipping has been rather disappointing." Comment on this statement and discuss the constraints faced by Indian shipping industry.

5 "Indian shipping policy measures are aimed at the development of shipping fleet so as to attain self-reliance." Do you agree? Discuss how far has India been able to achieve the objectives set out in the shipping policy?

6 (a) Describe the role of Indian shipping as a net earner of foreign exchange.

(b) Describe the highlights of the New Shipping Policy Package for Indian shipping.

7 What do you understand by government policy on cargo support? What was the impact of trade liberalisation on this policy? Discuss.

8 Discuss breifly the constriants faced by Indian shipping industry.

SOME USEFUL BOOKS

Roy chaudhary, EK : Logistics Management

Kadery, P.A. : Transport Infrastructure

UNCTAD : Seminar Papers on Multi-Modal Transport

Desai, HB : Indian Shipping Perspective

Asian Institute of Transport : Indian Shipping Industry - Critical Issues in Global Context

Brown, HS : Nickel's Steam Ship and Nautical Knowledge

INSA : Annual Reviews

INSA : Indian Shipping Journal

Indian Shipping and Transport News

Intermaritime Newspapers : Indian Shipping and Transport News Ninth Five Year Plan