

Subsidy support to Indian Shipping companies in global tenders

July 24, 2021

In news

Recently, the Cabinet approved a scheme to provide Rs.1624 crore over five years as subsidy to Indian Shipping companies in global tenders floated by Ministries and CPSEs for import of government cargo.

Key highlights of the scheme

- **For a ship which is flagged in India after 1st February 2021 and is less than 10 years** at the time of flagging in India, **the subsidy support would be extended @15%** of the quote offered by the L1 foreign shipping company OR the actual difference between the quote offered by the Indian flag vessel exercising ROFR and the quote offered by the L1 foreign shipping company, whichever is less.
- For a ship that is **flagged in India after 1st February 2021 and which is between 10 to 20 years old at the time** of flagging in India, the **subsidy support would be extended @10% of the quote offered** by the L1 foreign shipping company OR the actual difference between the quote offered by the Indian flag vessel exercising ROFR and the quote offered by the L1 foreign shipping company, whichever is less.
- The rate at which the above subsidy support is extended would be reduced by 1% every year, till it falls to 10% and 5%, respectively, for the two categories of ships mentioned above.
- **For existing Indian flagged ship which is already flagged and less than 10 years old on 1st February 2021,**

the **subsidy support would be extended @10% of the quote offered** by the L1 foreign shipping company OR the actual difference between the quote offered by the Indian flag vessel exercising ROFR and the quote offered by the L1 foreign shipping company, whichever is less.

- **For existing Indian flagged ship which already flagged and between 10 to 20 years old on 1st February 2021, the subsidy support would be extended @5% of the quote offered** by the L1 foreign shipping company OR the actual difference between the quote offered by the Indian flag vessel exercising ROFR and the quote offered by the L1 foreign shipping company, whichever is less.
- The provisions of this **subsidy support would not be available in the case where an Indian flagged vessel is the L1 bidder.**
- The budgetary support would be provided directly to the Ministry/Department concerned.
- The subsidy support would be extended only to those ships which have bagged the award after the implementation of the scheme.
- Flexibility in the allocation of funds for expenditure from one year to another and within the various Ministries/Departments of the scheme.
- **Ships older than 20 years would not be eligible for any subsidy** under the Scheme.
- The scheme would be reviewed after 5 years.
- Registration shall be done online within 72 hours like the world's best ships registries.
- In addition to this, it is intended to provide 30 days to any in-flagging vessel to replace the crew on board with Indian crew.
- The Scheme has laid out a monitoring framework which is detailed at also provides for effective monitoring and review of the Scheme.

Benefits:

The scheme would benefit

- All Indian seafarers
- Indian cadets aspiring to be seafarers
- All existing Indian shipping companies.
- All Indian as well as foreign citizens, companies, and legal entities who are interested in setting up Indian companies and flagging ships in India.
- Indian economy as a whole due to massive savings in outflow of foreign exchange on foreign flag ships.

Indian shipping industry & Its fleet

- Despite having a 7,500 km long coastline, a significant national EXIM trade that is steadily growing on an annual basis, a policy of 100% FDI in shipping since 1997 and Indian shipping industry and India's national fleet is proportionately small when compared with its global counterparts.
- **Currently the Indian fleet comprises a meagre 1.2% of the world fleet in terms of capacity.**
- **The share of Indian ships in the carriage of India's EXIM trade has drastically declined** from 40.7% in 1987-88 to about 7.8% in 2018-19.
- Indian flagged ships mandatorily engage Indian crew and comply with Indian taxation and corporate laws.
- The operating costs of Indian ships are thus much higher as compared to those of foreign ships
- Since Indian ships are less competitive while compared to their foreignpeers, therefore, the Right of First Refusal (ROFR) policy has not been able to fuel growth of Indian tonnage.
- Data collected from the Indian National Shipowners Association (INSA) reflects that it issued NOCs in 95% of the cases processed under the ROFR mechanism.
- The policy of Right of First Refusal for Indian ships

will only be beneficial provided Indian ships are made competitive.

- A policy to promote the growth of the Indian shipping industry is also necessary because having a bigger national fleet would provide economic, commercial, and strategic advantages to India.
- The subsidy support proposed to be provided to Indian shipping companies would enable more Government imports to be carried on Indian flag ships.