



# Subsidy Scheme to Boost Merchant Ships

## Why in News

Recently, the Union Cabinet has approved a **scheme for providing subsidy support to Indian Shipping companies in global tenders** floated by Ministries and [Central Public Sector Enterprises \(CPSEs\)](#) for import of government cargo.

- The scheme **provides a subsidy of Rs. 1,624 crore over five years.**

## Key Points

### ▪ Highlights of the Scheme:

- The scheme envisages an **increase in flagging** and would link access to Indian cargo to investment in Indian ships.
  - Flagging in is the **process of adding a vessel to the national registry** and "flagging out" is the process of removing a vessel from a national registry.
- The subsidy support varies **from 5% to 15%** of the lowest quote offered by the foreign shipping company, depending on whether the ship was flagged after or before 1<sup>st</sup> February, 2021.
- However, **ships older than 20 years will not be eligible under the scheme**, according to the Ministry of Ports, Shipping and Waterways.

### ▪ Rationale of the Scheme:

- **Small Size of Indian Shipping Industry:** Despite having a 7,500 km long coastline, a significant [national EXIM \(Export-Import\) trade](#), a **policy of 100% FDI in shipping since 1997**, the 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.
- **Offsetting Higher Operational Costs:** Currently, Indian shipping industry bears relatively higher operating costs, owing to factors like higher costs of debt funds, taxation on wages of Indian seafarers, IGST on import of ships, blocked GST tax credits, etc.
  - In this context, these higher operational costs would be offset to a large extent through the subsidy support and it would be more attractive to flag merchant ships in India.
- **Increasing Foreign Exchange Outgo:** Owing to high operational costs, importing a shipping service by an Indian charterer is cheaper than contracting the services of a local shipping company.
  - This has led to an increase in foreign exchange outgo on account of freight bill payments to foreign shipping companies.

### ▪ Significance of the Scheme:

- **Generating Employment:** Increase in Indian fleet will provide direct employment to Indian seafarers since Indian ships are required to employ only Indian seafarers.
  - Further, cadets wishing to become seafarers are required to obtain on-board training on ships. Indian ships will therefore provide training slots for young Indian cadet boys and girls.
- **Strategic Advantages:** 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.
- **Economic Advantages:** A strong and diverse indigenous shipping fleet will not only lead to foreign exchange savings but would also reduce excessive dependence on foreign ships for transporting India's critical cargoes.
  - Thus, it would help in achieving the objective of Atmanirbhar Bharat and contribute to the Indian GDP.

**[Source: TH](#)**

PDF Reference URL: <https://www.drishtias.com/printpdf/subsidy-scheme-to-boost-merchant-ships>