

Introduction

Economic reforms in India have triggered a high rate of economic growth in the country and this in turn has led to an increase in transport demand. Transport demand has grown at 8.5% in the past 10 years. Currently, the national transport system handles 870 billion-tonne kilometre (btk) of freight and 2,450 billion passengers-kilometre a year. This demand is being met mainly by the rail and road transport systems. About 65% of the freight traffic is carried by road, and only about 35% by rail. Transportation of goods by road imposes substantial costs to the economy in terms of the economic losses from congestion, road accidents, energy consumption and adverse environmental costs. About 16.5% of commercial energy in India is consumed by the transport sector. If the economy continues to grow at 7-8% per year, the transport demand may grow at around 10% per annum with the freight demand growing to around 1,800 btkm by 2012. The domestic rail and road transport network have severe capacity constraints and if they are to cater to this increasing demand, significant investments in these networks would be required. Coastal shipping can effectively meet a substantial portion of this demand. India has tremendous potential for coastal shipping given its vast coastline (of around 7500 km) and a number of major and minor ports. An optimal mix of road, rail, inland water transport and coastal shipping is, therefore, necessary to provide an efficient transport infrastructure with mobility, flexibility, energy and cost efficiency.

Energy and environment

Coastal shipping has inherent advantages over rail and road transport. It is environment friendly, and usually much safer than road transportation. It is also energy efficient as fuel consumption for every ton kilometre of freight carried is only 15% of the consumption by road transport and 54% of that by rail transport. The emissions (with the exception of SO₂) from coastal shipping are also much lower than that in rail and road. These are shown in Table 1.

Table 1 Comparison of fuel consumption and emissions between coastal shipping, rail and road

| Mode | Fuel Consumption (gm/tkm) | Emissions (gm/tkm) | | | | | |
|---------|---------------------------|--------------------|-------|-------|-----------|-----------------|-----------------|
| | | CO ₂ | CO | HC | Particula | NO _x | SO ₂ |
| Road | 31.330 | 98.30 | 0.479 | 0.227 | 0.078 | 0.978 | 0.03 |
| Rail | 8.911 | 28.33 | 0.196 | 0.098 | 0.027 | 0.47 | 0.03 |
| Coastal | 4.828 | 15.45 | 0.036 | 0.012 | 0.006 | 0.31 | 0.290 |

SOURCE TCS 2003

Coastal shipping is also able to handle large parcel sizes easily. Rail and road transport because of their limited capacity and infrastructure cannot handle large quantities of coal, iron-ore, etc.

The cost of carriage of goods, from coast to coast, by coastal shipping also works out to be much lower than that by road and rail. Tata Consultancy Services (TCS) in their report of December 2003 have estimated the cost of coastal shipping at 21% of the cost by road and

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42% by rail (Table 2). According to TCS, if the external costs which arise out of accidents, noise pollution, air pollution, climate change, congestion, infrastructure burden etc. are taken into account, then the cost of coastal shipping as a percentage of road and rail transport would be even lower. However, it has not been possible to ascertain from the TCS report or timesb2b.com the basis of these calculations. Presumably, the costs worked out by TCS do not reflect the total financial costs of handling and transportation, including costs such as port charges, transport to ports and destination etc.

Table 2 Cost of carriage by various modes

| Mode | Cost of carriage/tkm (1000 km lead) |
|------------------|--|
| Road | Rs 1.20 |
| Rail | Rs 0.60 |
| Coastal shipping | Rs 0.25 |

SOURCE timesb2b.com April 2002 (TCS 2003)

Current Status and Viability

The potential for coastal shipping has not been exploited in India, with it accounting for only 7% of domestic cargo movement. The total tonnage (originating traffic) moved by coastal shipping in 2001/02 was around 54 million tonnes of which coal accounted for 16.2 mt (30% of total) and petroleum products for 16.4 mt (30% of total). This is in sharp contrast to other countries like China where the coastal cargo traffic handled in 2000 was around 614 million tonnes.

Although cargo is moved between Indian ports not only by dedicated coastal ships but also by ocean going vessels the growth of coastal fleet tonnage is an indication of the growth of coastal shipping. It has been hovering around 0.47 million GT in the past ten years and has increased only marginally to 0.6 million gross tonnes (GT) in 2003. The growth of Indian coastal fleet size is given in the Table 3.

Table 3 Growth of the Indian coastal fleet

| Fleet size | 951 | 961 | 971 | 981 | 991 | 001 | 003 |
|------------|-----|-----|-----|-----|-----|-----|-----|
| In numbers | 9 | 04 | 2 | 5 | 4 | 33 | 44 |
| Million | .22 | .36 | .22 | .30 | .40 | .58 | .60 |

SOURCE Directorate of shipping

Although the number of vessels as on 2003 was 244, the number of cargo carrying fleet was just 95. The remaining fleet comprises of passenger-cum-cargo vessels, passenger vessels, dredgers etc. Around 65% of the cargo vessels are over 15 years of age (Table 4). There have also been no changes in the technology or configuration of the coastal fleet. For example, there are hardly any RO-RO vessels which can carry trucks from one port to another to reduce the costs of double handling.

Table 4 Age profile of Indian coastal fleet as on 2003

| Vessel age group | argo | on-cargo | Total |
|------------------|------|----------|-------|
| 5 years & above | 0 | 5 | 5 |
| -10 years | 4 | 6 | 0 |
| 1-15 years | 9 | 6 | 5 |
| 6-20 years | 2 | 2 | 4 |
| 0 years & above | 0 | 0 | 0 |

| | | | |
|-------|---|----|----|
| Total | 5 | 49 | 44 |
|-------|---|----|----|

SOURCE Directorate General of Shipping 2003

The commodities carried by coastal shipping have mainly been bulk and break bulk commodities. The cargo mix has not changed over the years. The cargo currently moved through coastal shipping is as in Table 5.

Table 5 Coastal Traffic Profile: 2001-02

| | Commodities (million tones) | Quantity | Percentage |
|----------|--------------------------------|----------|------------|
| Products | POL | 16.4 | 30 |
| | Thermal | 16.2 | 30 |
| Coal | Crude | 10.2 | 19 |
| | Iron ore and | 4.7 | 9 |
| Pellets | Cement and | 3.7 | 7 |
| Clinker | Others | 2.8 | 5 |
| | Total | 54 | 100 |

Factors impacting on the growth of coastal shipping

One of the main reasons for the share of coastal shipping being low is the competition provided by rail and road transportation, the double handling costs involved and the lack of active policy measures to promote coastal shipping. With most of the production and consumption centres being land locked and the facility of door-to-door movement that road transport provides, it has taken precedence not only over water transport but also over rail transport. Over the years, there has been a substantial amount of investment in creating and improving the basic infrastructure for road transport. However, this has not happened in the case of coastal shipping. A review of the public sector investment in the transport sector since the First Five Year Plan reveals that the average investment in the shipping sector per plan was only 5% as against 51% for railways and 32% for road sector. Even this meagre investment was almost entirely allocated to overseas shipping. In the port sector also, very little investment has been made by the maritime states on the development of minor ports and by the Govt. of India / Major ports on creating earmarked facilities for coastal cargo. The other important factors that have contributed to the slow growth of coastal shipping are:

- (1) Cumbersome and lengthy customs procedure
- (2) Non availability of concessional finance the acquisition of coastal vessels
- (3) High import duties on bunker oil and spares
- (4) High manning scales which increase operational costs
- (5) Stringent specifications relating to construction of vessels leading to higher capital costs
- (6) Incidence of corporate for coastal as against tonnage tax for ocean going vessel and personal income tax which discourages quality officers from continuity on India coastal vessels.
- (7) Lack of separate berthing facilities at Major ports and inadequate cargo handling facilities at the minor ports

The status of the coastal shipping industry and measures necessary to address these issues and facilitate its growth have been studied by several Committees in the past. Notable amongst these are the Afzalpurkar Committee 1993, Pinto Committee 1997, 10th plan of sub group (coastal shipping) 2001, and the TCS study 2003. This paper has attempted to examine all their recommendations, except the few that have been implemented, and also suggest additional

measures that would be necessary to facilitate the growth of industry.

Recommendations

Cabotage Law

Cabotage Law in most countries reserves the movement of coastal trade of the country for its own flag vessels. In India too, The Merchant Shipping Act does not permit foreign bottoms to carry cargo between Indian ports ; permission is, however, accorded to foreign ships to ply between Indian coasts if no suitable Indian vessel was available. The market of shipping industry being highly volatile, this kind of protection creates a certain degree of stability for the Indian bottoms.

International experience reveals that a majority of maritime nations protect their domestic transportation industries through cabotage laws having various kinds of restrictions such as crewing restrictions, ownership restrictions, provisions for domestic fleet subsidy, reflagging restrictions, provisions for subsidy etc.

There is a view that cabotage restrictions, while protecting Indian tonnage, discourages the growth of coastal shipping in as much as Indian tonnage is not adequate, and the Indian industry is not aggressive enough to increase the share of coastal shipping. It is also argued that international competition would bring about greater efficiency. There have been proposals to relax the cabotage laws. On the other hand, it is argued that relaxing cabotage laws will not create a level playing field. Ships with foreign flags have the advantage of being able to hire international crew at very low rates and are not bound by restrictive manning norms. Also, the Indian taxes and duties do not apply to foreign vessels. They usually operate under favourable taxation rules, subsidies and lower costs. Hence, foreign vessels have inherent advantages as compared to Indian bottoms and the latter would not be in a position to compete. Relaxing the cabotage laws could, therefore, impact on the growth of the Indian tonnage available for coastal shipping.

However, if the primary objective is to increase coastal shipping and not to protect coastal tonnage it might be desirable to allow foreign vessels to compete for coastal cargo. This would help to bring in technology and efficiencies, and also help to reduce costs. Though, it could be argued, this strategy could hurt the Indian tonnage but in the long run by creating demand for coastal traffic, this could be beneficial. Cabotage laws can always be reintroduced when there is sustained growth in coastal cargo.

Ship acquisition

The coastal tonnage as mentioned earlier has been more or less stagnant. One of the reasons for this, apart from the profitability of coastal shipping, is the difficulty in getting finance at low interest rates. Although coastal ships are also entitled to external commercial borrowing, they are effectively not in position to do so as they do not earn in foreign exchange. With the winding up of the Shipping Development Fund Committee and SCICI, companies have to rely on traditional bank funding and in banks and not equipped to deal with the financing of ships; this also involves high interest rates and short maturity. There is, therefore , a case for developing specialized wings in development financial institutions for funding coastal shipping.

Import Duties

Coastal ships, unlike ocean going vessels, have to pay duties on bunker oil. This duty increases the cost of operation of coastal vessels significantly. The cost of bunker fuel oil for a coastal vessel is reported to be higher than that for an ocean going vessel to the extent of around 28%, and around 36% for High Flash High Speed Diesel (TCS 2003). Coastal shipping is also at a disadvantage as compared to road transport as the diesel used by road transport is subsidised. Similarly, import duties on capital goods and spares also cast a burden on coastal shipping, as these vessels are heavily dependent on imported spares. Also, if the ship owners get their ships repaired at ship repair units which are registered with DG Shipping, then the spares imported by these units are not subject to taxes. On the other hand, if the spares are imported directly or by any other route for repairs to be carried out by the vessel's engineers, then no such tax relief is available. Given that coastal shipping is much more environment

friendly and fuel efficient than any other mode of transport, there is a case for providing tax concessions both for fuels and spares .

Manning scales

The manning scales for the coastal shipping industry continue to be stringent. Now coastal ships have to comply with the scales that are applicable for Near Coastal Vessels that ply between India, Bangladesh, Sri Lanka, and Maldives. Although this is a relaxation from the earlier position where the manning scales of ocean going vessels applied, there is still a case for reviewing both the manning scales and qualifications. A study carried out by TERI in 2003 indicated that because of the manning scales, taxes and other benefits, the staff costs on Indian ocean going vessels was higher than on foreign vessels. A comparison of a typical wage bill is shown in Table 8.

Table 8 Comparison of total wage bill per month per ship

| | Indian ships | Foreign ships |
|-------------------|--------------|---------------|
| | \$/ month) | \$/ month) |
| Bulk carriers | 5883 | 9,800 |
| Off shore vessels | 4683 | 6,124 |
| LPG carriers | 2979 | 7,200 |
| Product tankers | 0857 | 7,200 |

SOURCE TERI. 2002. Study on status of and challenges before the Indian Shipping Industry. New Delhi, 99pp.

While the manning scales for coastal vessels are different, the wages of the crew and officers still constitute a substantial portion of the cost of operation of vessels. Also, with similar qualification requirements, qualified officers prefer to work on ocean going vessels .TCS and others have opposed relaxations on grounds of safety. However, given the fact that coastal vessels do not have to conform to the different conservancy and safety requirements in different foreign ports and face the hazards of the high seas, there is a strong case for revisiting this issue. The IMO regulations relating to STCW also permit setting different norms for coastal vessels. There is also a case for building a separate cadre of seafarers with different qualifications than those for ocean going vessels for coastal shipping in order to ensure adequacy of staff.

Cost of Vessels

The specifications used for the construction of coastal vessels are the same as those for ocean going vessels even though coastal vessels are not subject to the same stress and turbulence as ocean going vessels. This is because of the provisions contained in the Merchant Shipping Act. As a result the capital costs of coastal ships are higher than is necessary resulting in higher operational costs. There is a need to make suitable amendments to the Merchant Shipping Act or enact separate legislation for coastal shipping to provide for different specifications for coastal vessels as also for lower manning scales.

Taxation

Corporate tax

Till date, the Indian shipping companies had to pay corporation tax at the rate of 36.75% or the Minimum Alternate tax at 7.5%. The industry also enjoyed benefits under Section 33 AC of Income Tax Act in which the amounts transferred to a reserve specified under this section, were not considered as a part of book profits. However, in the Union Budget 2004/05, tonnage tax has been adopted for the Indian shipping industry. The shipping companies now have the option of choosing between corporate tax and tonnage tax. This benefit, however, has been restricted to ocean going vessels to make them competitive with vessels registered under other national flags, and is not available to coastal shipping. This would act as a further disincentive for investment in coastal tonnage and also for the carriage of coastal cargo by ocean going vessels

in as much as they would not be entitled to tonnage tax to the extent that tonnage is used for coastal movement. Tonnage tax should also be extended to coastal fleet.

Personal income tax

The present system of income tax discriminates against the seafarers employed on Indian coastal vessels. Indian seafarers who are employed on foreign vessels for 183 days or more in a year or on an Indian vessel, which plies outside Indian territorial waters for more than 183 days in a year, are entitled to non-resident status and pay no taxes. This discourages officers and seafarers from enlisting on coastal ships and makes it all the more necessary to review the qualification requirements and improve the emoluments.

Ports

Efficient shipping operations, whether international or coastal, depend largely on efficiencies in the ports. Coastal shipping, like international shipping, requires efficient bulk cargo handling facilities and speedy berthing facilities; in addition coastal shipping requires concessional port tariff. While major ports have the necessary handling facilities, they do not accord the necessary importance to coastal vessels due to their pre-occupation with ocean going vessels as they generate more income.

The Major Ports do not have identified berths for coastal shipping nor do they give priority to coastal vessels. Port tariff is determined by the concerned Port Trust with the approval of TAMP. At the instance of government, coastal vessels now enjoying a 40% concession in vessel related tariffs and cargo handling charges (except for thermal coal, crude oil and POL) as compared to ocean going vessels. As this concession has been fixed as a percentage of the tariffs for ocean going vessels there is an element of uncertainty. There is a need to fix the tariff at low levels instead of relating them to the tariffs of ocean going vessels which are periodically revised. Also, the ad-valorem tariff in major ports makes the movement of high value goods like cars by coastal vessels impossible. For instance, in case of JNPT port, the wharfage charges on motor vehicles or any other equipment passing through the port is as given in table 9.

Table 9 Wharfage charges on motor vehicles in JNPT port

| Item | Rate as a % of the following |
|---------------|------------------------------|
| Import | 0.50 of the CIF value |
| Export | 0.50 of the FOB value |
| Transshipment | 0.65% of the CIF/FOB value |

Source <http://www.tariffauthority.org/> as on 10 December 2004

As far as minor ports are concerned, connectivity with rail and road has been a major constraint in addition to inadequate cargo handling facilities. TCS has identified 14 minor ports for development from the point of view of encouraging coastal shipping and has also estimated the investment requirement. Development of minor port ports is a state subject and most of the maritime states are making efforts to develop minor ports through private investment. Ultimately however, the development of minor ports depends on the growth in cargo. Both issues, therefore, need to be addressed together.

Along with the development of minor ports, it is necessary to provide for connectivity of the minor ports with the road and rail network. Ports like the Pipavav port had languished because of the lack of connectivity, and the Pipavav – Surendranagar rail link was established by the port of Pipavav in joint venture with the Indian Railways. It is understood that phase 3 of the National Highway Development Programme would provide for connectivity to the minor ports; this needs to be accorded high priority.

Inland connectivity

India has an extensive network of rivers, lakes and canals, which, if developed for shipping and navigation, can provide efficient inland connectivity. It has approximately 15000 kms of navigable waterways. However, at present Inland Waterway Transport (IWT) forms a very small part of the total transport network. In terms of tonne kilometres of total inland cargo, its share is a paltry 0.15 per cent. Most of the waterways suffer from a number of shortcomings like navigational hazards and absence of infrastructure facilities like terminals and inadequacy of

navigational aids. In contrast, countries like China, Netherlands, Germany etc. the IWT system is highly developed. China is directing a lot of investment towards further developing the infrastructure and system. The Yangtze river in China moves around 80% of the countries IWT traffic.

Possibilities of designing vessels, which are capable of moving in IWT as well as coastal areas, should be explored. The promotion of IWT in tandem with coastal shipping would go a long way in moving cargo from up country locations to major/minor ports for movement between ports in India.

Custom Designed Vessels

It is also necessary to design vessels like Ro-Ro vessels, silo vessels etc to facilitate the movement of trucks over long distances and cargo like cement and foodgrains efficiently. Konkan Railways has demonstrated that Ro-Ro wagons can effectively reduce movement by road; Gujarat Ambuja Cements move significant quantities of cement using silo vessels through water transport.

Similarly, the use of vessels like catamarans and hovercraft to move passengers, for example from Bombay to new Bombay and between cities on the Konkan Coast needs to be encouraged. The shipping Corporation of India used to run a vessel from Bombay to Goa to carry passengers which has now been discontinued. Specific origin and destinations need to be identified for the transportation of passengers through coastal vessels.

Enabling Legislation

The Merchant Shipping Act 1958 currently deals both with ocean going vessels and coastal ships. As a result, standards and norms set for ocean going vessels apply equally to coastal vessels. The recommendation was therefore made by Pinto Committee that a law be enacted to deal only with coastal shipping. Accordingly, a Committee was constituted in 1998 which proposed a draft legislation for coastal shipping. Government should now move forward to enact a separate law for coastal shipping so that suitable norms can be fixed for coastal vessels in respect of manning scales, qualifications of officers and seafarers, design specifications etc.

Cargo Potential

TCS has made projections of coastal movement of the commodities listed in Table 6 in the future keeping in view production, consumption, exports and the O-D (Origin and Destination). TCS's traffic projections are in Table 6.

Table 6 Summary of Traffic Estimates by Coastal Shipping

| Commodity | In million tonnes | | |
|--------------|-------------------|---------|---------|
| | 2001-02 | 2006-07 | 2011-12 |
| Crude | 16.00 | 16.00 | 16.00 |
| POL | 12.70 | 25.00 | 32.50 |
| Coal | 15.90 | 20.00 | 25.00 |
| Iron Ore | 4.66 | 9.75 | 13.30 |
| Iron & Steel | 0.28 | 0.76 | 1.04 |
| Cement | 3.16 | 8.65 | 13.00 |
| Sub Total | 52.70 | 80.16 | 100.84 |
| Others | 0.26 | 0.52 | 1.04 |
| Subtotal | 52.96 | 80.68 | 101.88 |
| Containers | 1.04 | 2.60 | 5.20 |
| Total | 54.00 | 83.28 | 107.08 |

TCS has further made a study of the economics of cargo diversion using certain criteria of land and sea distances between different O-D locations, quantity of goods and cargo categories. In calculating the cost of carrying select commodities TCS has taken into account the handling costs, bunker costs, standing costs, port tariffs, land movement costs, inventory costs and

external costs. The TCS study indicates that in respect of certain land leads and sea distance and in respect of certain commodities coastal movement is viable. The summary of the viability analysis is contained in the following tables (Table 7 and 8). The cargo projections are in respect of the commodities traditionally moved through coastal shipping and does not seem to include commodities like cars and other high-value low-volume items and trucks through Ro-Ro vessels. These findings should therefore be treated as indicative.

The study indicates that handling cost, charter hire cost, port dues and bunker costs are the major contributors to the cost of coastal transportation. Handling costs range from 35-50%, charter hire from 20-33%, port dues from 10-20% and bunker cost from 13-30%. TCS has recommended that coastal shipping can be made viable through reduction in these costs, especially handling costs and charter hire cost. TCS has further recommended that with the development of coastal shipping and minor ports, a vessel should be encouraged to call at more than one port in its voyage. TCS's other major recommendation is the introduction of liner services between select ports to develop coastal shipping.

What the study indicates is that with concessional freight rates being charged by railway for certain commodities like food grains, and the cost of multiple handling involved in coastal shipping, high port dues and charter hire charges, coastal shipping is not viable and would not attract new customers and commodities in the future unless specific measures are taken to promote coastal shipping. It clearly emerges from the discussion above that the focus needs to be on providing a level playing field for coastal shipping and reducing the transaction costs involved in order to make coastal shipping competitive. Cargo reservation is not an answer. The consignor should be free to choose the mode of transport that is most economic and appropriate for his needs. What is essential is to identify specific origin-destinations on which identified cargo can move at lower costs through coastal shipping than by road/rail and create the necessary facilities for handling the cargo at both ends. The selection of minor ports should be done on this basis.

Draft Maritime Policy

Recently, in November 2004, the Ministry of Shipping has proposed a National Maritime Policy. The policy recognises coastal shipping as an eco-friendly, cost effective and fuel-efficient mode of transport. One of its thrusts is on promoting coastal shipping so as to raise its share in the movement of inland cargo from 7% to around 15% by the year 2025. A package of measures has been proposed to promote coastal shipping. Some of the specific initiatives proposed are as follows:

- In order to promote coastal shipping, special rates in ports are to be provided for coastal cargoes and coastal shipping.
- Dues for coastal ships to be delinked from those charged for foreign going vessels. Voyages on coastal stretch to be exempted from payment of lighthouse dues.
- Duty free bunker and import of spares/stores/equipment related to coastal vessels to be allowed.
- Rationalization of manning scale
- Coastal shipping to be rendered free from all requirements of obtaining customs or immigration clearance at all locations.
- A Coastal Shipping Development Fund with a corpus of Rs 500 crores to be set to provide finance on soft terms for acquisition of coastal vessels.
- Government assistance to be provided for other developmental activities such as training of coastal shipping personnel etc.

The Policy has also laid emphasis on increasing the share of inland cargo movement to around 2% by 2025. This is proposed to be done by an addition of around 2500 cargo vessels to the existing fleet, increase in trained manpower by around 25000 and improvement in productivity level of IWT fleet to reach a level of 10000 tonne-kms/dwt. High priority would be given to moving the Govt./public sector undertaking cargo by IWT. Some of the other specific proposals are as follows:

- IWT Development Fund with a corpus of Rs 500 crores at the national level to be created
- Private investment in IWT to be encouraged along with 100% FDI
- Investment made in IWT infrastructure or IWT vessels by companies to be exempted

from direct taxes for a period of 20 years and companies from IWT operations will also be exempted from income/corporate tax upto 100% for the first 10 years and upto 50% in next 10 years

- No customs duty to be charged for imported equipments/machines, spares and installations for IWT development and operations.

These proposals are yet to be accepted by the government. Also, the target of 2% of the total inland cargo movement by 2025 for IWT seems to be on the lower side given the rapid advances that other countries have been able to achieve in the development of their IWT systems.

Way forward

Given the inherent advantages of coastal shipping, there is an urgent requirement to promote the growth of this sector. For this purpose, it is essential to provide the necessary support through appropriate policy initiatives and fiscal and financial incentives. Some of these are summarised below:

- Review of cabotage laws
- Exemption of customs duties on spares and bunker fuel.
- Extend tonnage tax to coastal shipping
- Review the manning norms and consider reduction in required qualifications
- Review design specifications for coastal ships
- Ease ship acquisition by making available capital under more attractive conditions
- Enable this sector to offer more attractive employment opportunities to officers and seafarers
- Provide earmarked facilities at major ports, develop minor ports for coastal shipping and reduce port charges for coastal shipping
- Provide for connectivity between ports and the road/rail network
- Enact legislation to deal with coastal shipping

It is also our view that fiscal benefits should be provided to those who move cargo by coastal shipping as is being done in other countries. It is understood that Holland provides a fiscal incentive equivalent to the freight cost incurred in coastal transport. Similarly, government should consider allowing a credit of say of about 150% of actual freight cost in calculating the taxable income of the consignor company on the lines of the tax benefit provided for R&D in the automobile industry in the recent budget. In financial terms, the loss of revenue to the government would be more than off set by the savings in cost of oil imports and in overall external costs. It is recognised that there could be misuse of this concession. However, if it is limited to bulk cargo like coal, fertilisers, iron ore etc the beneficiaries would be large corporates who are subject to audit. Investment in coastal tonnage or increase in coastal cargo will not happen unless coastal movement becomes cheaper than movement by any other mode. It is, therefore, necessary to focus on measures that would provide an incentive to move cargo through water transport.

The draft Maritime policy also recognises the importance of growth in this sector. Many of the proposals are in line with the recommendations of this paper. Coastal shipping is likely to benefit greatly from these measures.