

GOVERNMENT OF INDIA
MINISTRY OF PORTS, SHIPPING AND WATERWAYS
LOK SABHA
UNSTARRED QUESTION NO. 659
ANSWERED ON 04.02.2022

CAPACITY OF INDIAN SHIPPING INDUSTRY

659. SHRI PATEL HASMUKHBHAI SOMABHAI:

Will the Minister of PORTS, SHIPPING AND WATERWAYS be pleased to state:
पत्तन, पोत परिवहन और जलमार्ग मंत्री

- (a) whether the Government proposes to increase the tonnage capacity of Indian shipping industry in next three years;
- (b) if so, the details thereof; and
- (c) the tonnage capacity of the said industry in the country during the last three years, year-wise?

ANSWER

MINISTER OF PORTS, SHIPPING AND WATERWAYS
(SHRI SARBANANDA SONOWAL)

(a & b) The Government is committed to increase the tonnage under Indian flag. The major steps taken by the Government in this regard are as below:

(i) Revision of the criteria for Right of First refusal (ROFR):

The criteria for granting the Right of First Refusal in chartering of vessels through tender process has been revised through Directorate General of Shipping, Mumbai, DGS Circular No. 02 of 2021, for promoting tonnage under Indian flag and ship-building in India, so as to make India an Atma-nirbhar/selfreliant Bharat, in terms of tonnage and ship-building in India. DGS Circular No. 02 of 2021 is at Annexure. The following is the revised hierarchy of RoFR with highest priority to India built, Indian flag (Indian owned) vessels;

- (1) Indian built, Indian flagged (Indian owned);
- (2) Foreign built, Indian flagged (Indian owned);
- (3) Indian built, foreign flagged (foreign owned).

This will promote demand of Indian built and Indian flag vessels as the Indian built and Indian flag vessels will have the priority in chartering and will also provide additional market access and business support to ships built in India.

(ii) Ship Building Financial Assistance Policy (2016-2026):

Government of India has approved the Financial Assistance Policy for Indian Shipyards on 9th December 2015, for grant of financial assistance to Indian Shipyards. Only those vessels shall be eligible for grant of financial assistance, for which the construction commences subsequent to the signing of valid contracts. Vessels which are constructed and delivered within a period of three years from the date of contract are eligible for availing financial assistance under the policy. For specialized vessels, the delivery period can be extended till six years. Financial assistance shall be @ 20% of the contract price, actual receipts, fair price (whichever is least) to Indian shipyards. Under the policy, the financial assistance extended would be reduced by 3% every three years.

(iii) Subsidy support to Indian shipping companies:

A scheme for the promotion of flagging of merchant ships in India by providing Rs.1624 crore over a period of five years as subsidy support to Indian shipping companies in global tenders footed by Ministries and Central Public Sector Enterprises (CPSEs) has been approved by the Cabinet. The rate of subsidy support will be based on age of the vessel.

(iv) Protection to Indian Flag vessels during engagement of foreign ships:

Indian and Foreign entities intending to engage foreign flag vessels for coastal trade of India need to have a license under section 406 of Merchant Shipping Act, 1958 from DG Shipping, GoI. The DGS issues license to such foreign flag vessel only after ensuring that no Indian vessel is available for such trade/function to be performed by foreign flag vessel. Accordingly, Indian ships are given priority above foreign ships for such transportation. Because of this facility, these entities and even shipping companies make an effort to own or register vessels under Indian flag. This helps in increasing the Indian shipping tonnage.

(c) The details of tonnage capacity of the country in the last three years are as below:

INDIAN SHIPPING CAPACITY

YEAR	COASTAL		OVERSEAS		TOTAL	
	SHIPS (in numbers)	Gross Tonnage (GT)	SHIPS (in number s)	Gross Tonnage (GT)	SHIPS (in numb ers)	Gross Tonnage (GT)
31.12.2018	945	14,79,343	456	1,12,04,598	1401	1,26,83,941
31.12.2019	972	14,79,692	457	1,12,66,341	1,429	1,27,46,033
31.12.2020	998	16,72,581	465	1,13,37,811	1463	1,30,10,392
31.12.2021	1027	15,60,021	464	1,14,34,863	1,491	1,29,94,884



भारत सरकार / GOVERNMENT OF INDIA
पत्तन, पोत परिवहन और जलमार्ग मंत्रालय
MINISTRY OF PORTS, SHIPPING AND WATERWAYS
नौवहन महानिदेशालय, मुंबई
DIRECTORATE GENERAL OF SHIPPING, MUMBAI

F. No. SD-9/CHART(82)/97-VI

Dated: 14.01.2021

DGS Circular No. 02 of 2021
(Shipping Development)

Sub.: Guidelines for exercise of Right of First Refusal-grant of license to foreign flag vessels.

Background, Legal Provisions and Policy:

Whereas Section 406 of Part XIV of the Merchant Shipping Act, 1958 [Control of Indian ships and ships engaged in Coasting Trade], mandates that Indian ships and other ships chartered by Indian citizen or a company or a society, needs to be licensed by the Director General of Shipping. Such license can be granted subject to such conditions as may be specified by the Director General of Shipping.

2. Whereas section 407 of the same Part of the Act mandates that ships other than Indian ships or ships chartered by Indian entities, intending to engage in coastal trade of India, need to be licensed by the Director General of Shipping. Such license can be granted subject to such conditions as may be specified by the Director General of Shipping.

3. Whereas, in exercise of powers under the above sections of the Act, the Director General of Shipping has by way of Shipping Development Circular No.-2/2002 dated 08.11.2002 [F.No. SD-9/CHRT (82)/97-II], issued guidelines to provide the right of first refusal to the Indian flag vessels before grant of license to foreign flag vessels.

4. Whereas, as of now, the Right of First Refusal (RoFR) is available to Indian flag vessels, as stipulated under Shipping Development Circular 02 of 2002 dated 08.11.2002, issued by the Director General of Shipping, Gol.

5. Whereas, in addition to the existing policy to encourage flagging of ships in India, it is also the express policy of the Government of India to encourage and promote manufacture and production of goods in India under 'Make in India', with a view to enhance income and employment. To give effect to this policy, the Department of Industrial Policy and Promotion (DIPP) has issued Public Procurement and 'Make in India' orders dated 15.6.2017 and 28.05.2018, and 04.06.2020.

6. Whereas, Government of India has taken several steps to promote shipbuilding in India especially by providing long term subsidy for ship building under the shipbuilding financial assistance policy (2016-2026).

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(4/1/21)

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7. Whereas, Government of India intends to further incentivise shipbuilding by providing additional market access and business support to ships built in India.
8. Whereas, it is felt that demand for the ships built in India can be promoted if some preference is given to Ships built in India, in chartering of vessels and for engaging in coastal trade.
9. Whereas, a need has also been felt to review the licensing conditions keeping in view, (i) the Government of India's policy of promoting the Make in India initiative, (ii) the Ministry's existing policy to promote flagging of ships in India (iii) the Public Procurement and Make in India orders dated 15.6.2017, 28.05.2018 and 04.06.2020 issued by DIPP, (iv) the need to give a long term strategic boost to the domestic shipping and shipbuilding industry, (v) the need to encourage the domestic shipping industry to support the domestic shipbuilding industry, and (vi) the need to develop self- reliance and a strong synergy among these vital industries for the overall long term development and economic growth of the country.
10. Whereas, the Notification No. 2 of 'Make in India' dated 13.02.19 [F.No. SY-13017/4/2017-SBR], was issued by the Ministry of Shipping, Govt. of India, requiring the review of the guidelines on RoFR issued by the Director General of Shipping.
11. Whereas, the Shipping Development Circular 02 of 2002 was superseded by Shipping Development Circular No. 02 of 2019 dated 22.03.19.
12. Whereas, members of INSA were having certain objections on the provision covered in the circular on RoFR and the said Circular No 02 of 2019 was challenged in the Hon'ble Delhi High Court.
13. Whereas, the Notification No. 2 of 'Make in India' dated 13.02.19 [F.No. SY-13017/4/2017-SBR] has been withdrawn by the then Ministry of Shipping, Gol (now Ministry of Ports, Shipping and Waterways) on 20.07.2020.
14. Whereas, the Shipping Development Circular No. 02 of 2019 dated 22.03.19, has also been withdrawn by the DG Shipping, Gol on 07.08.2020.
15. Whereas, the Ministry of Shipping (now Ministry of Ports, Shipping and Waterways), Gol, has issued a Notification No. SY-13017/4/2017-SBR dated 23rd October, 2020 on promotion of Make in India initiative- RoFR for Indian built and Indian flagged ships through amendments to Guidelines for chartering of vessels done through tender process for all types of requirements.
16. Whereas, the said Notification of the Ministry dated 23rd October, 2020 provides the manner for exercise of Right of First Refusal.
17. Whereas, the said Notification of the Ministry dated 23rd October, 2020 provides that all vessels flying the flag of India (i.e. registered in India) up to the date of issue of new circular

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by the Director General of Shipping shall be deemed to be Indian built vessels and will fall in category (i) of the RoFR hierarchy given under Para 7 of the said Notification.

18. Whereas, in view of the above background a need has been felt to review the guidelines on Right of First Refusal under Shipping Development Circular 02 of 2002 and Shipping Development Circular No 02 of 2019 (now withdrawn), to balance the interests of the shipping and ship building industries keeping in view of the policy of the Government to make India, Self-Reliance India [Atma Nirbhar Bharat) in maritime sector.

19. Now therefore in exercise of powers conferred under Section 406 and 407 of the Merchant Shipping Act, 1958, the Director General of Shipping, in supercession of previous guidelines relating to chartering and licensing of the vessels, is pleased to issue the following guidelines, for Right of First refusal in chartering or engagement of foreign flag vessels.

20. **Chartering or engagement of foreign flag vessels done through tendering process, for all types of requirements:** -

20.1. The chartering/engagement of vessels through "tender process" as mentioned above shall only be applicable for open/global tenders and chartering/engagement by other means shall be considered as "chartering/engagement through non-tender processes". The "tender process" shall be considered valid within the following definition:

20.1.1. Tenders shall be open or global tender, for which a tender advertisement has been duly published in a national or international newspaper or commercial websites or website of the agency/organization/company floating the tender;

20.1.2. Tender contains technical specifications and commercial terms and conditions of the vessel provided in the tender advertisement. If there is a dispute relating to technical specifications of the vessel given in the tender advertisement, the matter may be referred to DGS for decision as to whether the Indian vessel with a slight difference in specifications should be chartered/engaged, and not the foreign flag vessel. As far as practicable, this decision will be taken after discussion with the concerned parties.

21. **Right of First Refusal:** "Right of first refusal" is a right which accrues to a bidder in a tendering process, who offers a vessel from the category listed at Para 21.3.4, subject to his matching of the lowest rate offered by a bidder who offers a vessel not listed under Para 21.3.4. The order of preference for right of first refusal will be as indicated at para 21.3.4. This right is conferred based upon the practices of the industry, and the deliberate intention of the Central Government towards encouragement and development of the Indian ship-building industry and the Indian shipping industry.

21.1. Unless the vessel offered is successful in the evaluation of technical bid, the bidder concerned will not be eligible to exercise the Right of First Refusal under this circular.

21.2. Whenever charter/engagement of vessel is undertaken through a tender process specified in Para 20, the provisions of these guidelines are required to be incorporated.

Whether the guidelines have been incorporated in any tender or not, the said guidelines would be deemed to have been incorporated as a part of the tender documents.

21.3. The instances under which the RoFR may be exercised are:

21.3.1. The L1 bidder is a Foreigner or an entity registered outside India, offering a vessel not listed at Para 21.3.4.

21.3.2. The L1 bidder is a Citizen of India OR company registered in India OR Society registered in India with a vessel not listed at Para 21.3.4.

21.3.3. From amongst the bidders eligible to exercise RoFR, the priority to exercise this Right would lie in sequence mentioned in Para 21.3.4 below and in case more than one bidder is available in a particular category, then from the lowest to the highest bidder within the margin of purchase preference. The exercise of RoFR would cease as soon as an eligible bidder in order of priority matches L1. The first priority would be given to any bidder who offers an Indian built, Indian flagged and Indian owned vessel. In the absence or unavailability of Indian built, Indian flagged and Indian Owned vessel, the RoFR will move to Foreign built, Indian flagged, Indian owned vessel and then to Indian built, foreign flagged and foreign owned vessel.

21.3.4. For further clarity the order of grant of RoFR would be as follows:-

- a) Indian built, Indian flagged and Indian owned,
- b) Foreign built, Indian flagged and Indian owned,
- c) Indian built, foreign flagged and foreign owned.

Provided that:

1. All vessels flying the flag of India (i.e. registered in India) up-to the mid night of **15.01.2021** shall be deemed to be Indian built vessel and will fall in category [a] above.

2. The Foreign flagged vessels permitted by the DG Shipping, under section 406 of the MS Act, 1958, for chartering by an Indian citizen/company/society, who is building a ship in an Indian shipyard for registration under Indian flag, as a temporary substitute for the Indian Ship under construction, meeting the following two condition, shall be deemed to fall under category [a] above:

- a) The 25% of the contract money has been paid to Indian shipyard.
- b) The 50% of the hull fabrication has been completed, as may be certified by a Recognized Organization.

The duration of licences to such chartered vessel shall be limited to period of building of the Ship, as mentioned in the shipbuilding contract.

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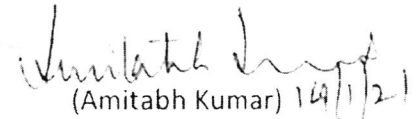
21.3.5. Further, RoFR shall be applicable to all inquiries for in-charter of foreign flagged vessels with in a 20% margin of purchase preference (price band) i.e. the maximum extent to which the price quoted by an Indian Company may be above the L1 for the purpose of purchase preference.

21.3.6. In case none of the bidders eligible to exercise RoFR matches the L1 quote, then the charter shall be awarded to the L1 bidder.

21.4. The bidder who exercises RoFR should meet the commercial requirement by matching the lowest Composite Effective Price. It is further clarified that there shall be no price preference in favour of any vessel. The Composite Effective Price is the derived figure from the various price inputs submitted by a bidder/participant in a tender process, wherein all the costs/inputs are summarized. While working out such Composite Effective Price, inputs such as daily hire/daily rate, mobilization/demobilization charges, call out rates and conversion charges etc. are taken into account.

22 Any grievance arising out of implementation of these guidelines shall be referred to the DG Shipping, Gol.

23. This Circular will come into force w.e.f. 16.01.2021 and shall supersede all the previous DGS circulars on Right of First Refusal.


(Amitabh Kumar) 14/1/21

Director General of Shipping
& Additional Secretary to the Gol.

To,

1. All stakeholders/All Charterers/Shippers/All Indian Shipping Companies, through the official website of the DGS, Gol.
2. INSA/ICSSA/FOSMA/MASSA/Shipyards Association of India/CSL/ISBA/NUSI/MUI/IMF
3. Indian Private Ports and Terminals Association.
4. Shipyard Association of India.

Copy also forwarded for kind information to the:

1. PS to Hon'ble Minister of State (Independent Charge) for Ports, Shipping, and Waterways. Gol.
2. Secretary to the Govt. of India, Ministry of Ports, Shipping, and Waterways, Transport Bhawan, 1, Sansad Marg. New Delhi-110001
3. CEO, NITI Aayog, New Delhi.
4. Secretary, Department of Defence, South Block, Ministry of Defence, New Delhi.
5. Secretary, Department of Defence Production, Ministry of Defence, South Block, New Delhi- 110011.
6. Secretary, Department of Industrial Policy & Promotion, Udyog Bhawan, New Delhi-110011.

7. Secretary, Ministry of Petroleum and Natural Gas, A-Wing, Shastri Bhawan, Dr. Rajendra Prasad Road, New De1hi- 110011.
8. Secretary, Ministry of Chemicals and Fertilizers, A-Wing Shastri Bhawan, Dr. Rajendra Prasad Road, New Delhi-110011.
9. Secretary, Ministry of Steel, Udyog Bhawan, Dr. Maulana Azad Road, New Delhi,110011.
10. Secretary, Ministry of Home Affairs, North Block, Central Secretariat, New Delhi,110001.