

**REPORT
OF
WORKING GROUP
FOR
SHIPBUILDING
AND SHIPREPAIR INDUSTRY
FOR THE
ELEVENTH FIVE YEAR PLAN
(2007-2012)**

**Government of India
MINISTRY OF SHIPPING, ROAD TRANSPORT &
HIGHWAYS**

MARCH, 2007

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CHAPTER – 1

PERFORMANCE OF INDIAN SHIPBUILDING YARDS IN IX & X PLAN; FINDINGS AND TARGETS FOR XI PLAN

1.1 India requires a vibrant and strong shipbuilding industry for economic as well as strategic reasons. For a country that is predominantly peninsular in nature with a coastline of 7516.5 km and 1197 islands, India's shipbuilding capabilities which have not kept pace with its economic development, market demand and human resource potential need to be addressed in the 11th Plan.

1.2 The Indian shipbuilding is mainly centred around 27 shipyards comprising of 8 Public Sector 6 yards under Central and 2 under State Governments) and 19 Private Sector shipyards as per details placed at **Annexure-1**. The shipyards between them have 20 dry docks and 40 slipways with an estimated capacity of 281,200 DWT¹. A major share of this capacity is held by the 8 public sector yards and only Cochin Shipyard Limited (1,10,00 DWT) and Hindustan Shipyard Limited (80,000 DWT) have the required infrastructure and graving dock to build large vessels. Private shipyards though more in number are severely limited by capacity and size of ship they can build but some expansion plans are now visible in this direction and they are catching up in this respect.

1.3 All major financial and economic institutions (IMF, World Bank, OECD) are forecasting relatively strong economic growth for the world economy. As recently as September 2006 the IMF had raised its expectations of economic growth for the 2007 to around 5% pa. Such an outcome would maintain trade at around current levels, and would continue the high demand for both bulk and container shipping. Energy demand is expected to remain high. In turn, this development would encourage a continuation of the strong demand for new vessels.

¹ Higher shipbuilding tonnage can be achieved by building more than one ship in the same berth by adopting modern practices, higher productivity and shorter build time. Shipyards in Japan and Korea are able to role out 6-8 ships per berth per year.

Performance of Indian Shipbuilding Industry

1.4 The Indian shipbuilding industry has since long being dogged by low capacity, poor productivity and lack of modernisation. Due to high labour cost and lack of competitive edge there has been a gradual shift of shipbuilding from Europe to Asia. South Korea entered shipbuilding market in the late 1970's to create the biggest shipbuilding industry in the world in just 20 years. China has followed suite in the late 1980's and created the third largest shipbuilding industry in a shorter time frame. Korea (36%), Japan (24%) and China (17%) command almost 77% of world shipbuilding market totalling around Rs 200 billion \$.

1.5 Today, the global shipping industry is experiencing an unprecedented demand for new building ever witnessed in its history. This has created a window of opportunity for the Indian shipbuilding industry that was not available earlier.

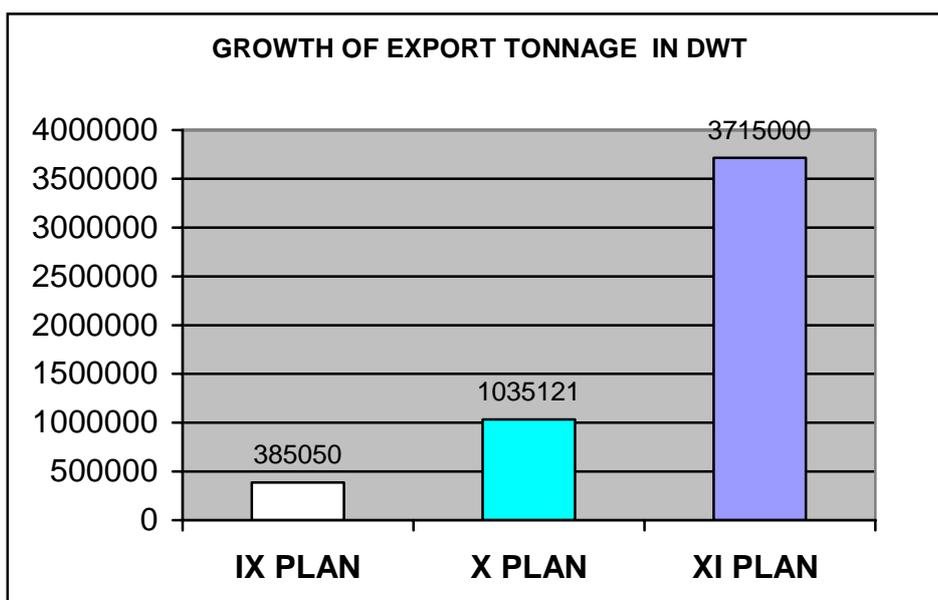
1.6 The targets set in the IX plan by Indian Shipbuilding yards was 0.3 million tons which was achieved but a modest projections of only 0.4 million DWT was made for the X plan. Contrary to expectations the order book today stands at 1.3 million DWT. This has been possible on account of the shipbuilding boom and both foreign/Indian Shipping Companies are coming forward to place new building orders on Indian Yards. This has enabled the industry's order books to grow from Rs 1500 crs in 2002 to Rs 14,000 crs (roughly 3060 m \$) in 2006 and by the end of this Fiscal Year this might be touching Rs 15,000 crs as is evident from the segment wise order book shown below.

| Ships | No | Rs Crs |
|------------------------------|-----------|---------------|
| Cargo Ships Small and Medium | 62 | 3570 |
| Containers | 18 | 3330 |
| Offshore Logistics | 57 | 3333 |
| Offshore Service Vessels | 8 | 554 |
| CG Ships (Non-Combatants) | 22 | 1225 |
| Heavy Lift | 4 | 440 |
| Passenger Ships | 5 | 244 |

| | | |
|---|------------|--------------|
| Port Service Crafts | 19 | 237 |
| Barges | 12 | 120 |
| Others | 3 | 734 |
| Total | 210 | 13787 |
| Total Value of Order Rs 13787 crs (3063 M\$) | | |

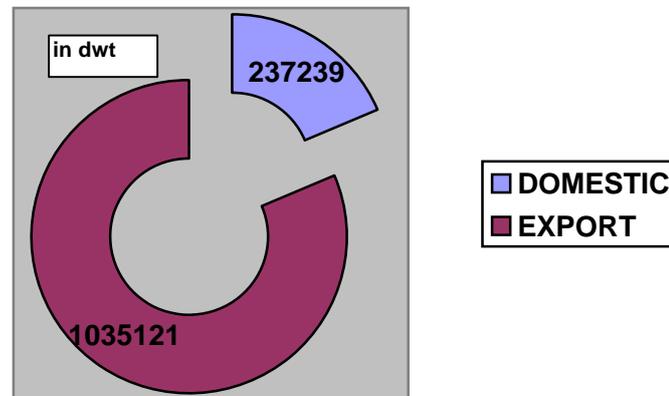
1.7 The growth over a five year period of the 9th Plan was hardly 23 percent, averaging 4.5 percent per year. In the 10th Plan period the growth has been of 72% with an average rate of 15% per year. Hence growth of shipbuilding in India has gone up from 4.5% to 15% per year in X Plan period. Due to this **India's share in the world market has gone from an insignificant low of 0.1% in the beginning of 10th Plan to 1.3% in 2006**

1.8 On the export front, one Public Sector Shipyard i.e. CSL and 3 private sector shipyards viz ABG, Bharati & Chowgule performed remarkably well during the X plan period and were able to get export orders. A meager six ships were exported in the IX plan but orders for export of more than 50 ships have been taken by Indian yards in the the X plan. It will be observed that against 0.3 million DWT exported during IX Plan, the order book for export is more than 1.00 million DWT and the projections for the XI plan are about 4.00 million DWT as shown below indicating a growth of about 80% per year during the XI plan.



1.9 It is also evident that out of 1.28 million DWT on order during the X Plan period, more than 1.00 million DWT is for export, clearly indicating the

highly favourable climate for export and the relatively negative climate for domestic construction of ships for Indian owners.



1.10 Analysis of the export orders show that that barring exception of CSL, which has exported some large and medium size ships, the bulk of the export is in small ship segment where India has emerged as a major place the construction of offshore and oil industry ships like Offshore Supply Vessels (OSVs) and Anchor Handling tugs. Thus, from an inward looking industry dependent on government orders, the Indian shipbuilding industry is emerging as internationally competitive export led industry. Nevertheless, the industry is still in its nascent stage and dependent on government support for subsidy. The industry is expected to become self sufficient in 10 years time and will no longer require subsidy thereafter.

1.11 The main reason for this dependence is infrastructure constraints of Indian Yards. Hence while foreign shipping companies are building their medium and small merchant ships in India, Indian shipping companies are purchasing their ships from abroad both big and small but more big than small. The present fiscal and statutory rules on shipbuilding in the country are heavily loaded in favour of export and discourages construction of ships by Indian yards for Indian flag.

1.12 Another significant aspect is in the IX Plan period an investment of Rs 10 crs took place against a target of 280 crores in the shipbuilding sector, due to recession and poor order book position. However there was a jump

in the investments which increased to Rs.322 Crores in the X Plan due to the export market. But this has been mainly in infrastructure and not in technology, R&D, design or upgradation to high value products.

1.13 It is clear from the above that India can grow in the shipbuilding sector in a healthy manner if shipbuilding is recognized as a strategic industry and if it can enjoy simple taxation policies with a fully empowered regulating body for quick decision-making .

Market Potential

1.14 The Indian merchant fleet on 01.03.2007 comprised 780 vessels of 8.45 million gross tonnage. As per INSA's (Indian National Shipowners Association) assessment about 374 vessels of 3.79 million GT would be scrapped over the next 5 years and equivalent tonnage would need to be inducted to maintain the same level. Keeping in view of the XI Plan target of 10 million GT, the number of additional vessels which will roughly translate to 830 vessels based on average existing tonnage per ship. Taking into account the 374 vessels of 3.79 m GT to be replaced, the total tonnage required to be added in the 11th plan will be around **5.33 million GT and 455 vessels. As per INSA's assessment the investment required for building this number of new ships will be Rs 55,000 crs.**

1.15 The annual average global order book grew by 78.86 million DWT in the period 2001-05 and in excess of 100 million DWT in the last 2 years. Of the 14,000 crs worth vessels on order in Indian yards nearly 68% are for foreign buyers. With such a trend, it will be reasonable to assume that a huge market is available for the taking by the Indian shipbuilding industry provided they have the capacity. Under these conditions, a faster growth of shipbuilding capacity would be in our national interest.

1.16 If the above factors are taken into account then it is seen that the market potential for new building in the 11th plan is much more than the capacity of Indian yards which if not utilised will be gain to other countries such as Korea, Japan or China. This calls for a reassessment of our policy

towards shipbuilding in the 11th plan and a pro-active approach by the government and the industry.

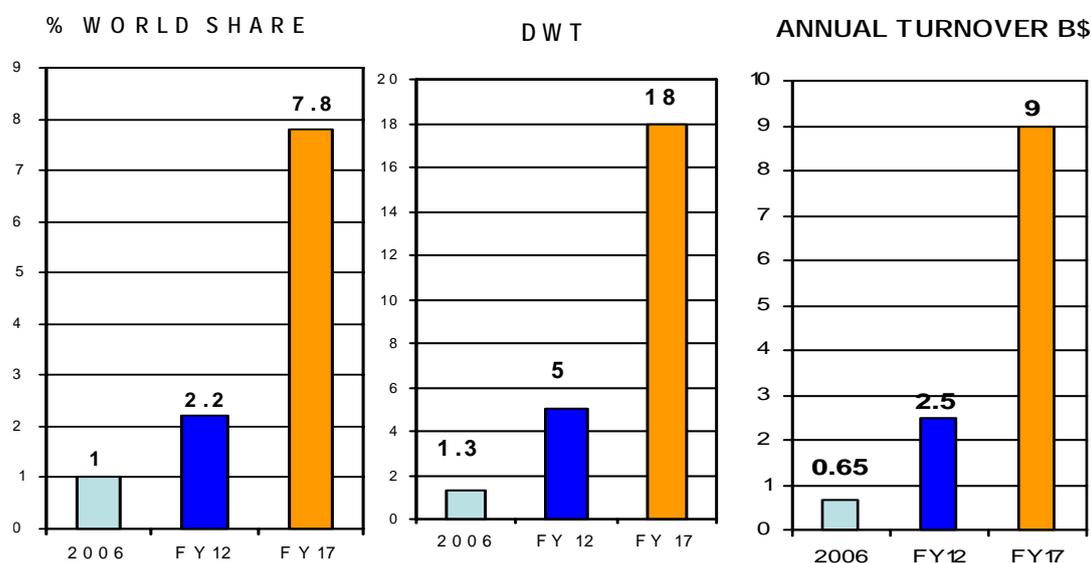
Future Prospects - Indian Shipbuilding

1.17 The Indian Shipbuilders Association (ISBA) has carried out an assessment of the **present and future growth trend of the industry** and are of the view that this industry can grow at a rate of more than 30% and this momentum can be maintained for the next 10 years to reach a level of XI Plan of 5 million DWT order book as against 1.3 million the X Plan. With this shipbuilding industry would also be able to achieve a world share of 2.2% and an annual turnover of Rs. 18,000 crores (2.5 Billion \$) in the last year of 11th Plan. It is expected that by the time the shipbuilding industry matures by 2017 it would have attained more than 7.5% of global order book and will have a turnover of Rs 40,500 crs (9 billion \$).

Projected order book turnover

| | 2006-07 | 2007-12 | 2012-17 |
|------------------------------------|---------|---------|----------|
| Order Book (Mn DWT) | 1.3 | 5.00 | 18.00 |
| Global Order Book (Mn DWT) | 231.2 | 231.2* | 231.2* |
| India's Share of Global Order book | 0.4% | 2.2% | 7.8% |
| Delivery (Mn DWT) | 0.65 | 2.50 | 9.00 |
| Turnover (US\$ Billion) | 0.65 | 2.50 | 9.00 |
| Shipbuilding Industry % of GDP | 0.04% | 0.16% | 0.27% |
| Total Employment | 12,000 | 78,000 | 2,52,000 |

* The global order book is likely to decline after about 2010 onwards and in that event the global share will increase.



1.18 In addition to this, the **ship repair industry** is likely to make a contribution of around 440 million \$ to the annual turnover thus bringing the total industry's turnover to around 3 billion \$ by 2012.

1.19 There are good chances that the industry can achieve the targets of the 11th plan earlier if new shipyards on the anvil are set up on time. For this suitable investment climate needs to be created. With this, the optimistic figure for the 11th Plan could be close to 10 million DWT with a value of 8-10 billion \$.

1.20 If self-reliance in shipbuilding is the key, the present subsidy scheme must be extended through the XI Plan period. Once the skills and growth are well-established, this can be reviewed in the XII Plan period. However subsidy alone is not the cure for all the ills of the industry. There is a need for rationalization of certain taxes and customs procedures to give this industry the competitive edge. There is also a need to streamline certain statutory rules on approvals of designs and certification of equipment manufactured indigenously. Only then we can ensure at least Rs.10,000 crores investment planned by the private agencies during this period actually materializes.

1.21 While the future growth figures mentioned above might look impressive when compared to its past performance these pale in comparison with **China** as shown below where the Indian targets set for 2017 of 18 million DWT order book is already exceeded by China. Hence there is a need to have a much more progressive shipbuilding programme in place for setting up of new yards.

SHIPBUILDING

| | CHINA | INDIA |
|-----------------------------|---------------------------|-----------|
| Shipbuilding & Repair Yards | 492 | 28 |
| Manufacture of Equipment | 148 | Not known |
| No Of Employees | 2,87,702 (total industry) | 12,000 |
| Orderbook | 40 m DWT | 1.3 m DWT |
| Global Share | 19-20% | 1% |

CHINA IS GAINING ALMOST 2% WORLD SHARE PER YEAR - INDIA HAS A LOT OT CATCHING UP TO DO

SHIPREPAIRS

| | CHINA | INDIA |
|---------------|--|--|
| Size of Ships | VLCC | 1,10,00 dwt by CSL, 70,000 dwt by HSL |
| Repair Units | 176 | 35 SRUs |
| Facilities | 36 Dry Docks 42 Floating Docks <u>Total 78</u> | •2 DD & 1 Floating Dock with Shipyards, 13 DD & 1 Floating Dock_with Ports - <u>Total 17</u> |

1.22 The growth of Chinese shipbuilding industry is now becoming a threat to almost all major shipbuilding nations as China is planning to become the leading shipbuilding nation with an aim to corner more than 30% global share by 2015. India is probably the only country that will be able to match the Chinese prices with its relatively low labour costs and industrial base for manufacture of equipment.

11th Plan Targets in Shipbuilding

1.23 Physical performance targets of Rs 2.5 Billion \$ (Rs 18000 crs) annual turnover of 5 million DWT and a global share of 2.2% should be set up by the last year of the Plan period. This should convert into nearly 400-500 small and medium size ships in the entire plan period.

CHAPTER – 2

SHIPBUILDING IN INDIA, ITS COMPETITIVENESS & NEED FOR SUBSIDY

The Future & Present

2.1 During the X Plan period, Indian Shipbuilding has received significant global attention for the very first time in its post independence history. Order book position increased substantially from 0.25 Million DWT in 2004 to over 1.3 Million DWT in 2006. Though this growth has been very small, as compared to global growth in the sector, the fact remains that it is significant and we need to get our act together to use this very promising window of opportunity.

2.2 Having taken roots during the X Plan period, there is a need to propel India's Shipbuilding industry in the future to be among top five shipbuilding countries. Growth of the Industry should include R&D, infusion of technology, our own designs, development of skill, increase in Indian tonnage built by Indian shipyards, etc. A market share which increased from 0.1% in the 9th Plan to 1.0% in the 10th Plan is likely to increase to 2.2% and can be increased to 3.00% of the global order book in the XI plan period if industry is given due attention and issues blocking its growth are addressed immediately and holistically.

2.3 The shipbuilding industry has its own distinctive feature as compared to other industries in the country. It is unique in a way that it has to sell first and construct later, unlike the auto industry or others, where one manufactures first and sells later. Further shipyards get orders only if they are credible (deliver quality ships on time) and it can be credible only after successfully executing consistently under international competition. Further, it has to be globally competitive against the best yards in the world. Unfortunately, the shipyards are faced with very stiff taxes, tariff, duties, and financing charges as compared to foreign yards. Unlike other manufacturing industries the product takes two years to deliver and requires high cost

finances over a long period. This weakens the competitiveness of the industry.

Capacity of Indian Shipbuilding

2.4 Nothing was more GLARING in the X Plan than the establishment of the fact that the future of Indian Shipbuilding is in the GLOBAL market and also our ability to attain a foothold. We need to build on this and provide the engine for growth. It is clear that if the policies are favourable, we are as good as foreign shipyards and deliver high quality ships on time. Accordingly, while foreigners commend our skills, Indian ship owners deride and accuse our shipyards of poor performance and productivity. The reasons are mainly fiscal in nature. **Annexure-2** clearly brings out this. The cost of administration of taxes and cost of a design to suit Indian flag requirements is not included in the annexure.

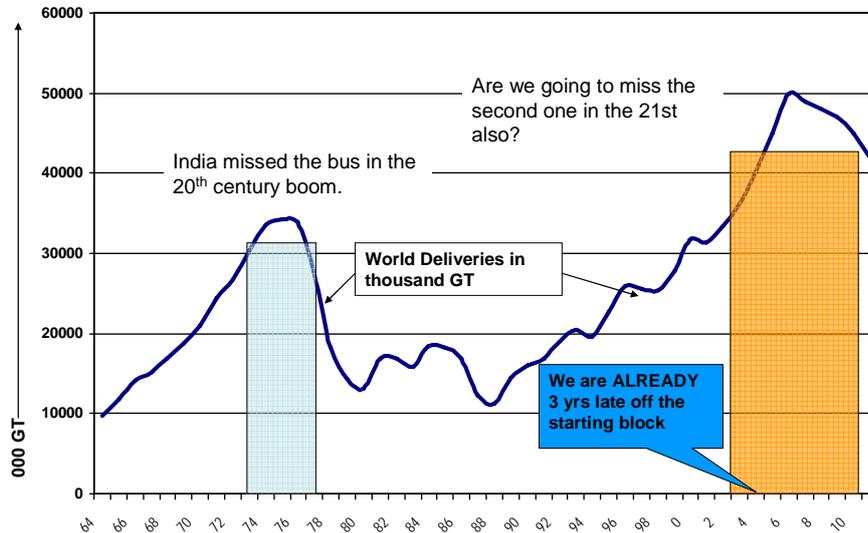
Productivity

2.8 A comparison of productivity shows that while China may be well ahead of India in total ship building, it's productivity is almost the same as India and this is one area that India can take a lead on the strength of its IT industry and setting up new modern shipyards.

| COUNTRY | COMPLETIONS M DWT | EMPLOYEES | PRODUCTIVITY DWT PERSON |
|--------------|----------------------|-----------|----------------------------|
| JAPAN (2004) | 23.2 | 80,000 | 290 |
| KOREA (2004) | 23.0 | 71,800 | 320 |
| CHINA (2004) | 8.8 | 158,000 | 56 |
| INDIA (2006) | 0.6 | 12,000 | 50 |

Need For Subsidy

GLOBAL SHIPBUILDING FORECAST



2.9 The government has tried various promotional and subsidy measures since the 70's which managed to keep the industry alive at a time when the global industry was passing through a deep recession after the boom of the 70's which, the country missed due to lack of industrial growth. The shipbuilding industry is now witnessing a growth phase after a gap of almost 25 years. This is an opportunity for India to revive its shipping industry and bring it at par with the rest of the world.

2.10 The current scheme of 30% shipbuilding subsidy was introduced in 2002 but its real effect in promoting shipbuilding was felt as soon as the industry moved into the growth path globally in 2003-04. Although the Indian shipbuilding industry was slow off the start block it has picked up surprisingly well within a short time despite severe restrictions in its infrastructure and capacity.

Why Subsidy

2.11 Subsidy is required to provide an even playing field. Unlike other industries that is protected by custom and duty barriers the shipbuilding industry has to compete on a global pricing levels as there is no duty

imposed by the government in import of ships and dredgers. In addition, the Indian yards have to pay excise and VAT on all indigenous items as well as on complete ships which is not the case with ships imported.

2.13 The shipbuilding industry is required to pay 19 different types of duties/taxes and levies, a summary of which is placed below along with the comparison with foreign yards

| Details | Total Additional Per ship (%) | Cost disadvantage v/s Foreign yards (%) | Taxes/Duties paid back to govt. (%) | |
|--|-------------------------------|---|-------------------------------------|--------------|
| | | | Domestic Order | Export Order |
| VAT and CST | 4.00 | 4.00 | 4.00 | 0.00 |
| Working Capital | 4.00 | 2.00 | - | - |
| Bank/Refund Guarantee | 3.60 | 2.40 | - | - |
| LC Cost | 0.30 | 0.20 | - | - |
| Insurance | 1.60 | 0.60 | - | - |
| CAPEX Finance | 0.90 | 0.40 | - | - |
| CAPEX Custom Duty | 1.70 | 1.70 | 1.70 | 1.70 |
| Custom Bond Cost | 0.25 | 0.25 | 0.25 | 0.25 |
| Clearing and Forwarding | 0.60 | 0.30 | - | - |
| Excise and VAT | 4.18 | 4.18 | 4.18 | 4.18 |
| Service Tax | 1.40 | 1.40 | 1.40 | 1.40 |
| Freight Differential | 2.50 | 2.50 | - | - |
| Price of Equip Differential | 5.00 | 5.00 | - | - |
| Octroi | 2.50 | 2.50 | 2.50 | 2.50 |
| Power | 0.50 | 0.50 | - | - |
| Corporate Tax | 3.50 | 1.20 | 3.50 | 3.50 |
| Tax on Foreign Income | 0.27 | 0.27 | 0.27 | 0.27 |
| Income Tax | 0.00 | 0.00 | 2.05 | 2.05 |
| Taxes by Ancillary Units and sub-contractors | 0.00 | 0.00 | 1.00 | 1.00 |
| Total | 37.6 | 30.2 | 20.85 | 16.85 |

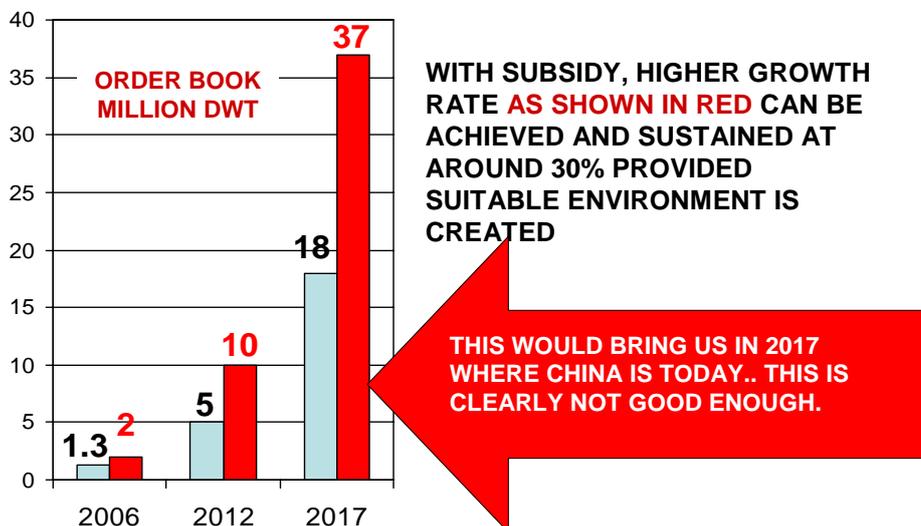
2.14 Subsidy is required for the future growth and consolidation of the shipbuilding industry. Without this the industry is likely to collapse and there will be no shipbuilding industry left in the country.

2.15 Subsidy should be used to get a foothold in the market to become competitive internationally. If this is not done, then we may never have the volumes, the technology, scale and skill set.

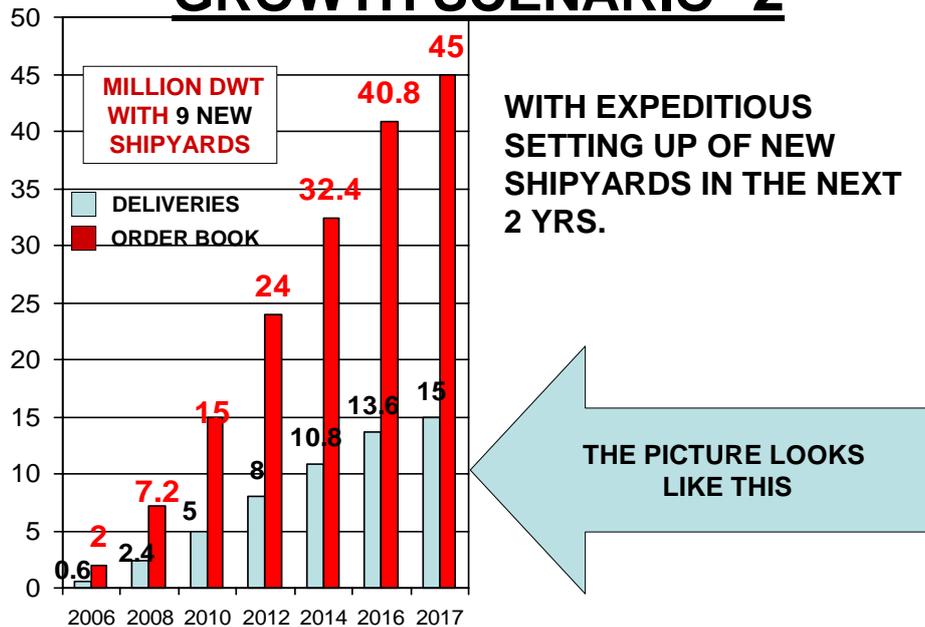
2.16 Continuation of subsidy will attract massive investment required for setting up new shipyards which India needs.

2.17 A study carried out by ISBA shows that the following targets are attainable by the industry in a subsidy scenario.

GROWTH SCENARIO -1



GROWTH SCENARIO -2



Financial Implications

2.18 The financial implications of the subsidy are shown in tabulated form below. This table has been prepared on the basis of the projections shown above. In order to estimate the total benefit a computation of the total Net Present Value of the net Government benefits {Taxes (Shipbuilding + Ancillary) – Subsidy} has been computed from 2006 onwards. The tax rates taken are 18% in the 11th Plan; 15% in the 12th Plan, 12% in the 13th Plan and 9% in the 14th Plan. The discount rate is taken as 11% for NPV. The subsidy has been taken as 30% in the 11th Plan, 20% in the 12th Plan and 10% in the 13th Plan.

| Year | Shipbuilding Revenue | Subsidy | Total Government Income | Net Govt Benefit (Tax – NPV of Net Govt Benefit) |
|------|----------------------|---------|-------------------------|--|
| 2007 | 2925 | 878 | 684 | |
| 2008 | 3803 | 1141 | 890 | -251 |
| 2009 | 4943 | 1483 | 1157 | -326 |
| 2010 | 6426 | 1928 | 1504 | -424 |
| 2011 | 8354 | 2506 | 1955 | -552 |
| 2012 | 10860 | 3258 | 2541 | -717 |
| 2013 | 14118 | 2824 | 2753 | -71 |
| 2014 | 18354 | 3671 | 3579 | -92 |
| 2015 | 23860 | 4772 | 4653 | -119 |
| 2016 | 31018 | 6204 | 6049 | -155 |

| | | | | |
|------|--------|------|-------|-------|
| 2017 | 40324 | 8065 | 7863 | -202 |
| 2018 | 34947 | 3495 | 5452 | 1957 |
| 2019 | 454311 | 4543 | 7087 | 2544 |
| 2020 | 59061 | 5906 | 9213 | 3307 |
| 2021 | 76779 | 7678 | 11977 | 9213 |
| 2022 | 99812 | 9981 | 15571 | 11977 |
| 2023 | 129756 | 0.00 | 15181 | 11678 |
| 2024 | 129750 | 0.00 | 15181 | 11678 |
| 2025 | 129750 | 0.00 | 15181 | 11678 |

2.19 The NPV of Net Government benefit is Rs 21,671 crs if subsidy is given to the shipbuilding industry. Apart from this there will be a tremendous value addition in terms of jobs, expansion of manufacturing and ancillary industry as well as other down stream effects. A similar expansion will also take place in the Ship Repairs industry and therefore the total benefit will be much more.

2.20 In the event subsidy is not given there is unlikely to be any new investment in setting up of new shipyards or expansion of existing facilities. The existing industry, being old and obsolete will not be able to compete globally and may have to close down.

CHAPTER –3

NEW SHIPYARDS AND FUNDING

New Shipyards in XI Plan

3.1 The new Shipyards likely to be set up in the XI Plan in the private sector are as under:

Pipavav Shipyard

3.2 Sea King International Ltd (SKIL) announced Plans to establish a large shipbuilding yard. SKIL is considering development of its 200 Acre land at Pipavav at Gujarat to build docks of 350/65 meter size. The docks will be in a position to build, repair and dry-dock VLCCs/LNG carriers, Offshore Platforms, Rigs and Large container ships.

Adani Shipyard

3.3 The Adani Group plans to build a shipyard at Mundra, Gujarat. The facility will build ships of various ranges upto VLCC size.

L&T Shipyard

3.4 L&T plans an international size shipyard capable of building conventional merchant vessels, naval ship construction and design services. It is learnt that they have selected a site at Kakinada in the east-coast.

ABG & Bharati Shipyards

3.5 Both these private sector shipyards have done very well in X plan and have gone in for Initial Public Offer. Both of them have committed approximately Rs.400 Crores each for expansion of their facilities and set up new shipyards on the west coast to build larger ships.

Funding

3.6 The total investment during the XI plan from all the above can be expected to be in the region of Rs.4000 Crores. All these investments are

with the help of continuance of the subsidy scheme by the government and setting up of SEZs for new shipyards in consonance with other fiscal incentives.

3.7 In case all these things do happen, the existing public sector shipyards, viz. CSL, HSL and HDPE will be seriously affected unless -

- (a) Existing shipyards/industry is given SEZ status.
- (b) Price disadvantage in pricing between existing and new shipyards due to taxes is removed.
- (c) Shift of trained manpower from existing shipyards is arrested.

3.8 Hence, it stands to reason that existing PSU shipyards must also be given SEZ status along with new shipyards in order to remain competitive and avoid different interpretation of the same fiscal rule for the same business.

CHAPTER – 4

INITIATIVES REQUIRED & RECOMMENDATIONS FOR GROWTH OF SHIPBUILDING IN XI PLAN

The following course of action, which is an integrated approach, is suggested for ensuring development of shipbuilding sector in India. It is believed that this will remove the structural weakness of the industry as well as address other concerns.

Dedicated SEZ

4.1 All ships including dredgers imported by Indian owners from abroad are fully exempted from customs duty. Hence the existing shipbuilding industry is totally unprotected. In fact customs duty of the order of about 35% is imposed on all capital equipment required for shipbuilding even though this measure does not protect any industry in India. There is therefore a need to accord export status for building ships which are built in India for Indian owners. **Both existing and future shipyards should be considered as SEZ.** Such a status should be accorded to any other ancillary industry that may come up to enable the industry to grow in clusters. Investment will then be structured and will flow in the right direction without affecting the existing units.

Single Window Clearance

4.2 The industry is presently subjected to multiple checks and clearance from both Central and State Governments. From being an extremely dynamic as well as cyclical industry, return on investment/capital needs to be ensured by avoiding procedural delays and allowing smooth expansion of capacity. The main deterrent of multiple clearance which delay a project must be removed. Hence environmental clearance, clearance for allocation of land and its development, clearance for power and water requirements

and security clearance of the location apart from the long term fiscal climate must be established through a single window.

Professional Monitoring Authority

4.3 To ensure targeted development of this sector, there is need for good professional advice at the higher level. If you have to achieve reasonable slice of the world market share in the next 10 years and ensure that investments take place, professional monitoring authority fully empowered must be appointed. This authority will facilitate clearance through a single window and ensure that bottlenecks for investment in the sector are removed.

Design & Investment In R&D

4.4 India lags behind in ship design capability, whereby it can develop new designs for the market. Presently most of the designs or part thereof are imported from abroad and virtually there is no innovation indigenously. Availability of design and a strong capability in the Shipyard will enable keeping delivery schedules and cut cost dramatically. The credibility of the shipyard also goes up. There is a need to encourage design and provide fiscal benefits as given to R&D investments in the pharma sector.

Ancillary Industry Development

4.5 Almost all the machinery and equipment required inside a ship are presently imported, because it is cheaper as well as of good quality. The same is not produced in India because of low volumes eg. Main engine, gear boxes, shafting, propellers, generators, switchboards, valves, pumps etc. Therefore even though India has the industrial capability, there is no incentive to produce in the country due to low volumes. Hence dedicated areas in the SEZ must be earmarked for ancillary industry also to come up.

Subsidy

4.6 Shipbuilding skills take a long time to nurture and build up and industries take time to be set up. Hence the present subsidy scheme needs

to be extended for at least the next 10 years so that Indian shipbuilding fully establishes itself in the global arena.

Taxes & Duties

4.7 There is a need to bring the taxes and duty structure on par with the competitors in Dubai, Singapore and Colombo. Service Tax on shipbuilding and shiprepair is totally unwarranted and promotes only foreign shipyard to be more competitive. Indian Shipyards are therefore to be exempted from service tax as shipbuilding and shiprepair are both manufacturing activities.

Custom and Excise Duty on Capital Investment on Shipbuilding

4.8 Presently about 35% duty is to be paid on all capital equipment such as cranes, plasma cutting machines and other material handling equipment purchased for running a Shipyard. This is totally unwarranted as it does not protect any indigenous industry. This inflates the cost of establishment/expansion of shipyard as compared to International Yards and permanently disables the shipyards in terms of higher capital cost, interest cost and depreciation charges. This also results in reduced return on capital employed and inherently increases the risk profile of investment. Therefore, it is recommended that these investments be exempt from customs/excise duty till such time as the SEZ status is not accorded to the shipyards.

4.9 Custom bonded warehouse Rules should be amended to suit Shipbuilding industry including the period for which materials can be stored. Presently, Sec 65 of the Customs Act and its varied interpretations results in a huge increase in cost of production. The whole issue of storage and issue of material for shipbuilding is totally oriented to meet customs procedures and NOT commensurate with industry practice abroad.

4.10 There is a need to promote single point taxation or rationalize tax structure (State and Central) in line with competitive yards in South East Asia, viz. Colombo, Dubai, etc. since it is a global market we are targeting.

4.11 Simplification of customs procedures, including:

- (a) Priority clearance for import
- (b) Duty exemption for scrap generated in shipbuilding and ship repair.

4.12 The tedious and laborious procedure involved for customs clearance and issue of materials to demoralizes motivated personnel. Eventually there is a lot of wastage of time and manpower mainly to reconcile materials which goes on for years after a project is over.

CHAPTER - 5

FISCAL & ADMINISTRATIVE REFORMS

5.1 The reforms required can be broadly grouped into Fiscal and Administrative. Shipbuilding and Ship repair cannot be seen in isolation as far as taxes and levied are concerned. For example, service tax of 12.24% in particular, is affecting the ship repair business of Cochin Shipyard, which constitutes about 60% of the ship repair income generated in India.

5.2 Though issues relating to shipbuilding only are addressed in this chapter, the taxes and levies, both central and state affecting ship building and ship repair is enclosed at Annexure-III, showing the present position, modification required, detailed justification for amendment and revenue implication of proposed change.

FISCAL REFORMS-CUSTOMS

Duty on sale of ship

5.3 Though items imported for building Ships indigenously are exempted from payment of Customs duty, the ships built and delivered to Indian owners are treated as ships imported and Customs duty @ 5% is levied by treatment of indigenously built ships under the above category will defeat the very purpose of granting the facility of duty free imports of raw materials and parts for shipbuilding extended for indigenous shipbuilding industry. This discourages building of ships for Indian owners and encourages building for overseas owners. This will seriously affect growth of Inland Water Transport and Coastal transport in India.

Duty on capital goods imported for shipbuilding

5.4 Capital goods imported for shipbuilding including renewals and replacements of yard facilities are presently dutiable under Customs Act. This must be reversed if climate for Shipbuilding in India is to be encouraged.

5.5 Ships are constructed under bond and remain to be bonded till they are broken up even in the case of ships delivered to indigenous owners. Hence it is not construed as a sale for home consumption. However Customs Deptt interpret and assess the above sale of ship to Indian owners as home consumption Sale and value the scrap on the basis of value of the mother material. This leads to continuous litigation and wastage of time and money. This amounts discrimination and is detrimentally affecting the industry. To avoid the same amendment is required.

5.6 The imported items kept under customs Bond, if not utilized, within 1 year in the case of shipbuilding and 90 days in the case of ship repair, for the purpose for which imported, are required to be de-bonded paying customs duty and interest which ends up in huge loss to the yards. When such stock of imported materials have become obsolete and unusable, it has to be disposed off. The actual realizable value will be much less than the Customs Duty and interest payable for de-bonding the items. Hence this has to be exempted from levy of interest and customs duty may be charged on realizable value only.

5.7 Presently goods imported for ship building and ship repair are kept under bond and drawn for shipbuilding/ship repair operations by taking permission from the Customs Authorities and fitment certificates are furnished. The yards are maintaining all records of import/storage/consumption of goods. Hence the Customs Authorities can inspect and verify the records at any point of time.

5.8 It is suggested to consider "Self Removal System" whereby the yards will maintain Customs Bond and the designated Officers of the yard will control and supervise the bond operations instead of the present customs Establishment in the yards as yard is submitting all required documents including fitment certificates.

5.9 This will help the yard to release the warehoused items required for shipbuilding/ship repair activities in time thereby achieve delivery targets/

schedule and reduce huge establishment expenses incurred for maintaining the Customs Establishment in the yards.

Excise Duty

5.10 Capital goods required for construction of ships are not exempted from levy of Excise Duty. Capital goods for shipbuilding also be exempted from the key of excise duty as in case of Ship repair as the concessions given to shiprepair activity alone may not yield the required purpose.

5.11 Benefits of this exemption may be extended to all manufactured items anywhere in the country (without confining to items manufactured in shipyards alone) intended for use in construction and repair of ocean going vessels and exemption from following Central Excise Rules, 2001 may be allowed due to practical infeasibility in complying with the rules. No financial implications are involved. End exemption is available in respect of items manufactured in a shipyard intended for use in manufacture or repair of goods falling under certain headings. Benefits is for procedural relaxations.

5.12 For effective utilization of yard facilities, shipyards will have to undertake other works, which are dutiable. In such cases even scrap generated from exempted products, which is otherwise exempted, will also become dutiable. Since separate accounts and records are kept for exempted works and excisable works, scrap arising from exempted works may be exempted from Excise Duty, even if excisable goods other than exempted goods are also manufactured in the shipyard.

ADMINISTRATIVE REFORMS

Board of Directors – PSU Shipyards

5.13 The Boards should be strengthened by inducting independent directors and it should be empowered to sanction upto a higher capital expenditure limit.

CHAPTER 6

R&D IN SHIPBUILDING

IT in Shipbuilding/ Repair Industry

6.1 Integration of design, detailed engineering, information exchange, production monitoring and project management are the key elements in shipbuilding/ Repairs. There is a need to train in the areas of key packages like CAD/ CAM packages such as Tribon, Foran, Auto Ship etc to facilitate drafting, design development, Dimensional management, Procurement planning, yard practices, document management, and support systems to management etc. The integration of production processes, internal and external exchange of data would be need of the future. In order to keep pace with the latest developments in ship building internationally, a technical library is required to be established which is accessed online by every shipyard and other associated organizations for their online logistic management support system.

6.2 NSDRRC, having a specialized R & D Centre for networking, computerization, online connectivity and a computerized library information system, may be entrusted with the responsibility of establishing these new initiatives in various shipyards.

Training and HRD in Shipbuilding & Shiprepair industry

6.3 There is a requirement of Institutional support for Impart Training Technical and Managerial Courses in the SBR Sector. This is needed in the following key areas:-

- (a) Naval Architecture and Ship Designing (Basic and Detailed Production Drawing/ Packages)

(b) Ship Building Technology (Block Production Techniques, Construction Super vision/ Surveying),

(c) Equipment Design and Production Techniques (Ancillary Development)

6.4 To promote R&D in Shipbuilding an outlay of Rs.201.80 crores as per details in **Annexure-4** is proposed. In addition, an outlay of Rs.19 crores is proposed for Conducting Studies in Shipbuilding.(Annexure-5).

CHAPTER 7

SHIP REPAIR INDUSTRY

Overview

7.1 There is a mistaken though commonly held view that the shipbuilding and ship repair industry are one and the same. This is far from truth because both industries are very different in nature from each other in the type of work that is done although the basic infrastructure required may be almost identical.

7.2 Ship repair is generally considered as an evergreen industry, both globally as well as domestically. Ship being a floating structure requires regular inspection and maintenance of equipment and machinery for smooth and safe functioning during the ocean voyages and also during cargo handling operations at Ports. Ships are also generally governed by scheduled periodic repairs for which the Classification Society and other Statutory Bodies have formulated guidelines for periodic survey such as; Special Hull and Machinery surveys every five years, Dry-docking at two and half years and Hull and Machinery annual survey every year. Hence ship repair yards generally have continuous and consistent flow of business which makes shiprepair revenue generation more predictable as opposed to shipbuilding or shipping, which is often prone to pulls and pressures of market forces and cyclic change.

7.3 Due to differences in the nature of activity shipbuilding and shiprepair industry has not grown together. Shipbuilding is generally seen as more attractive and higher on the value chain and less labour intensive and therefore more preferred by the developed shipbuilding nations. On the other hand developing nations like India and China have found ship repairs not only attractive but also useful for generation of jobs and regular revenues. However, yards have been known to shift from ship repairs to shipbuilding as they have acquired better skills and improved their infrastructure. Generally it is easier for shipbuilding yards to take on ship repairs than vice versa.

7.4 In order to gain economy of scale, there is also a clustering of shipbuilding and ship repairs industries at different locations. Within leading shipbuilding nations there are dedicated shipyards for shipbuilding and shiprepair activities in order to achieve a more focussed work force and production efficiencies. China for example has 176 dedicated ship repair yards in addition to 316 shipbuilding yards (India in comparison has only one dedicated repair yard called Western India Shipyard Ltd). South Korea, Japan, and China are better known as shipbuilding countries, whereas Singapore, Dubai, Bahrain and Colombo have emerged as ship repair centres (and that too with Indian labour). However, combined shipbuilding and ship repair yards are also operating fairly successfully in pockets in Eastern Europe, Russia and India with a view to mitigate the risks of downturn cycle.

Indian Ship Repair Industry

7.5 The Indian Shipbuilding Industry is mainly concentrated on 27 shipyards comprising of 8 Public Sector Shipyards (6 yards under Central and 2 under State Government) and 19 private sector yards. This industry has yet to grow to its full potential and is limited by size and capacity constraints. However, despite numerous constraints, the shipbuilding industry is growing rapidly and is the focus of great interest on how it is going to shape up, whereas, the **ship repair industry is almost stagnant and very much less visible with only 3-4 yards engaged in any meaningful ship repair activity.**

7.6 Curiously, the Indian ship repair industry is highly regulated through **Ship Repair Units (SRU)** which are registered and licensed by the Director General of Shipping to enable them to avail Custom Duty and other concessions for undertaking ship repairs. There are a total of 35 SRUs registered with the Director General of Shipping of which only 7 SRUs namely - M/s Alcock Ashdown & Co Ltd., Chennai Port Trust, Cochin Shipyard Limited, Garden Reach Shipbuilders & Engineers Ltd., Hindustan Shipyard Limited, Mumbai Port Trust and Mazagon Dock Limited have been given the permanent approval as SRUs. All other SRUs are given licenses

for a limited duration which are periodically renewed by DG Shipping for specific activity such as repairs to Navigation/communication, Hull or Machinery as the case may be depending upon their capabilities, infrastructure and facilities. In addition to the Shipyards there are dry-docks available with the Port Trusts which can also be used for limited repairs of ships.

MARKET POTENTIAL

7.7 The Indian shipping tonnage in the last 3 years (between FY-03 to FY-06) has grown by 11.3% CAGR from 6.1 million GRT to 8.5 million GT. Whereas the global fleet in the same duration increased from 503 million GT to 626 million GRT, with a growth rate of 8% CAGR. Looking at the aggressive fleet expansion by the domestic shipping companies and their current order book, the Indian flagged ships is expected to reach 12 million GT by the end of 2012. This boom in shipping coupled with greater demand for safety at sea, more stringent inspections and statutory requirements etc., should in due time result in concurrent demand for suitable repair and dry dock facilities in India and also on a global scale. While shipping industry has grown phenomenally and so has shipbuilding, the reverse is happening in ship repairs where there has probably been a slight decline as many of the shiprepair yards in China and other places that were doing ship repairs earlier have graduated to more lucrative shipbuilding. The example of this can be seen in India also where yards like ABG, Alcock Ashdown and Bharati have either reduced or totally stopped their shiprepair activity.

Ship repair work by nature is labour intensive and not prone to automation and India has an abundant supply of this kind of skilled and low cost labour. It is also a well known fact that large number of workers in ship repair yards in Singapore, Dubai and Colombo are of Indian origin. Most of these workers, both white and blue collar, acquire their basic skills in Indian training institutes and shipyards and then move abroad for better opportunities and higher wages.

7.8 India not only enjoys easy availability of skilled labour, but also availability of ships for repairs both from its domestic fleet of around 780 ships totalling 8.45 million GT(as on 1.3.2007) and foreign ships calling in Indian ports. India also has the advantage of being situated along the major shipping lanes between the east and west. Therefore, with proper policy and support measures India can become a leading ship repair nation by offering the most cost effective repair solutions despite its present short term weakness in dry dock facilities and infrastructure. **This is precisely the area we need to focus so as to become a leading nation in ship repairs.**

7.9 The shipyard where the ship owners like to send their ships for repairs primarily depends on the overall cost of repairs they are likely to incur. Ship repair costs are generally evaluated in terms of total expenses directly and indirectly in deciding the yard for ship repair. The factors that affect cost are:

-

- (a) **Revenue Loss.** This is the charter income loss while the ship is undergoing repair in the dry dock.
- (b) **Operational Expenses.** During repairs the ship does not earn but has to continue to bear operational expenses like crew wages, etc.
- (c) **Docking Expenses.** This is one of the most expensive part of any ship repair activity. Hence, the ship owner and the shiprepair yard emphasis on keeping the ship in dock for the least number of days.
- (d) **Mobilisation of Ship.** The ship is towed/sailed to the shiprepair yard from its last unloading port. This has operational expenses whereas the revenue part is totally absent.
- (e) **De-mobilisation of Ship.** The ship sails from the repair yard to the loading port. Once again operational expenses are incurred without earning revenue.

7.10 The ship owners analyse all the above factors contributing to the repair bills before deciding on the yard for repairs. Sometimes, time becomes the most important factor above all else. Thus, Ship owners prefer to get ships repaired at yards in the vicinity of major trade routes or destinations in order to save on unnecessary mobilisation and demobilisation expenses. This goes to show that if Indian ship repair yards can match the repair time with that of other yards in the vicinity they will enjoy competitive advantage in terms of the mobilisation and de-mobilisation cost of the ship.

7.11 It is estimated that the global ship repair bill would be of the order of US\$ 10-12 billions. Singapore has almost 20% share of the global shiprepair market. As compared to this, the Indian ship repair industry is relatively insignificant with an average turnover of around of only US\$ 76 million. The market potential of the Indian ship repair industry is much more than what is presently being undertaken and this can be divided into the following categories:-

- (a) Commercial ships visiting Indian ports
- (b) Coastal Vessel/Service crafts.
- (c) Offshore Rigs
- (d) Naval and Coast Guard ships
- (e) Ships calling in regional ports

Commercial Ship Visiting Indian Ports

| Year | Overseas Trade (Million Tons) | No. of ship calls (Port) | No. of ships | % share of Indian ships in overseas trade | Foreign Ships in overseas trade | Indian Ships in overseas trade |
|---------|-------------------------------|--------------------------|--------------|---|---------------------------------|--------------------------------|
| 1999-00 | 255 | 5208 | 1060 | 31.5 | 726 | 334 |
| 2000-01 | 276 | 5636 | 1147 | 22.0 | 895 | 252 |
| 2001-02 | 303 | 6200 | 1262 | 17.0 | 1048 | 215 |
| 2002-03 | 348 | 7119 | 1449 | 15.1 | 1230 | 219 |
| 2003-04 | 400 | 8170 | 1663 | 13.8 | 1434 | 229 |

Note (Basis and explanation of the above table) It has been observed that the average DWT of ships employed in overseas trade is about 54,000 DWT. Therefore if the overseas trade is x tonnes, then the number of ships

calls to carryout that trade would be $x/54000$ i.e. No of ship calls (port). An assumption has been taken that the on an average a ship makes about 5 voyages over the year for trade, the number of ships that can be repaired annually in India would be $1/5^{\text{th}}$ No of Ship Calls.

7.12 The repair bill per intermediate dry docking of foreign going ships would be about Rs 80 lakhs to Rs 100 lakhs. Hence an optimistic assessment of the annual repair market that can be tapped from 1434 foreign ships would be around Rs 1150-1400 crs. The repair potential of domestic shipping companies annualised would be about Rs 200 crs.

Coastal Vessel/ Service Crafts

7.13 There are a total of around 481 coastal vessels including specialised crafts like dredgers, OSV etc operating in the Indian waters as shown below.

| Type of Vessel | Number of Vessels |
|---------------------------------|--------------------------|
| Dry Cargo | 62 |
| Tugs | 132 |
| Passenger-cum-cargo | 17 |
| Passenger Services | 21 |
| Ethylene Gas Carriers | 3 |
| Dredgers | 19 |
| Offshore Supply Vessels | 88 |
| Specialised Vessels | 36 |
| Port Trusts and Maritime Boards | 79 |
| Barges | 3 |
| Others | 21 |

7.14 The ship repair revenue in the coastal and service segment would be difficult to estimate as these ships are scattered all over the country and barring a few cases like dredgers, repair of these ships are generally carried out in local yards. The annual repair expenditure of some of the specialised crafts like dredgers/Passenger ships in this segment is fairly high at around Rs 1-2 crs where as for smaller crafts like tugs and barges might be much lower. However, taking a mean value of Rs 40 lakhs per ships per annum the estimated repair market for these ships would be in the region of Rs 190 crs.

7.15 About 88 domestic and 26 foreign owned/flagged offshore supply vessels are operating in India. Most of these vessels were built in the late 70's and early 80's and do not possess dynamic positioning system whereas ONGC is likely to make availability of DP1 dynamic system compulsory for OSV's employed on their duty. It is estimated that 65-70 vessels may require conversion to DP1 and this conversion costs about Rs 1 m USD which provides a potential ship repair business of around US \$ 65-70 million in the next 6-8 years.

Offshore Rigs

7.16 The largest numbers of drill rigs outside Gulf of Mexico are operating in Indian waters. Presently there are 38 drill rigs (of which 27 are jack up rigs) employed with various oil and gas companies and it is estimated that this number might increase to around 65 in the next 10 years due to expansion of exploration activities around the Indian peninsula. A jack up rig has to undergo complete refurbishment every 10-15 yrs. Considering that there are 27 such rigs in Indian waters and their older age profile, there would be on an average 2-3 rigs that would require to be repaired annually. The dry docking cost of refurbishing a jack up rig can vary from Rs 100 crs to Rs 150 crs and therefore, the annual market potential of repairs of rigs would be around Rs 300 crs.

7.17 Currently CSL and HSL are the only two shipyards capable of carrying out complete refurbishment of rigs. There are about 11 floaters (Semi-submersibles Drill rigs) working in Indian waters and the annual repair bills for these rigs would be about Rs 100 crs.

7.18 Most of the drill rigs with the exception of ONGC rigs are being repaired and refurbished outside India and taken to Dubai and Singapore although facilities are available in India for this job. Notwithstanding the above, a market potential of Rs 300-400 crs per annum exists in the offshore sector.

Naval and Coast Guard Ships

7.19 Most of the naval ship repairs are carried out in-house by the naval dockyards. Some spill over repairs are given to other PSU and private yards. It is difficult to quantify this repair work as MoD is unlikely to give their refit plans. However, repairs of Indian Naval submarines are being carried out on a regular basis by HSL and CSL. With the increase in the strength of Naval Ships there is a likelihood of more ships being off-loaded for repairs to PSU and Private shipyards. In the case of the Coast Guard ships, the repairs are generally carried out by the Public and Private shipyards on the basis of tendering process.

7.20 The total annual value of the repair expenditure from Indian Navy and Coast Guard without counting Submarine repairs at HSL, is estimated to be approximately Rs 100 crs.

Ships Calling in Regional Ports

7.21 Ships calling in regional ports such as in the South Asian and Middle East region can be attracted to the Indian shiprepair yards as is the case with Singapore, Colombo and Dubai. For this the desired infrastructure and competency levels would have to be developed. The revenue that can be generated through this business has not been assessed but can be substantial if harnessed as is being done by yards in Dubai, Colombo and Singapore. For purposes of estimation this could be taken at around Rs 500 crs.

Summary of Market Potential

7.22 The realisable market potential of the Indian ship repair industry in the short term is around Rs 1870-2220 crs per annum as tabulated below. This potential has been assessed for ships operating in India or calling at Indian ports. It can be substantially more if other ships passing in the vicinity can also be taken in for repairs as is being done by Singapore.

| Type of Ships | Repair Potential Per Year (Rs Crs) |
|---|------------------------------------|
| Foreign Ships on overseas trade visiting Indian Ports | 1150-1400 |
| Domestic ships on overseas trade | 200 |
| Coastal/Service Vessels | 190 |
| Offshore Rig Repairs | 300-400 |
| Navy and Coast Guard Vessels | 100 |
| Other Merchant Vessels in Region | 500 |
| Total | 2440 - 2790 |

7.23 This shows that India is more than self-sufficient in availability of ships for repairs with a captive market unlike other neighbouring shipyards in Singapore, Colombo or Dubai which have to primarily rely on ships which are operating along the trade routes.

Job Creation Potential

7.24 Being a solely labour oriented industry, the potential for employment of direct and in-direct labour is relatively huge in ship repairs than in any other industry. Unlike shipbuilding where almost 70% of the equipment including steel in terms of value are imported the reverse is the case in ship repairs where almost 100% work is done locally within the country.

7.25 As a thumb rule, out of the every 100 Rupees turnover in ship repair work Rs.50 goes towards material, Rs 30 towards direct labour and Rs.20 towards profit, taxes, duties, statutory payments etc. The Rs 50 spent on material includes repair, refurbishment and renovation work as well as manufacture of parts and spare which is undertaken by the ancillary units. There would be certain amount of labour component here also, but that has not been taken into account in computing the job potential. Thus, for every 100 rupees spent in ship repairs, Rs 30 goes towards labour charges. Taking the above factors into account, the job creation potential of ship repairs is as given in the table below.

| Turnover Crores | Rs | Labour component at 30% in Rs crs | No. of Mandays @Rs 1000 per manday | No. of jobs per year. (mandays/300) |
|-----------------|----|-----------------------------------|------------------------------------|-------------------------------------|
| 100 | | 30 | 3lakh | 1000 |
| 500 | | 150 | 15 lakh | 5000 |
| 1000 | | 300 | 30 lakh | 10,000 |
| 2000 | | 600 | 60 lakh | 20,000 |

It is therefore seen that the ship repair industry provides an ideal environment for the growth of a vibrant and self dependent ancillary industry, labour pool and acts as a nursery for the shipping industry in general. This valuable contribution of ship repairs as an engine of growth has not been given the due importance in the past and needs to be corrected in the XI Plan.

10TH PLAN PROJECTIONS

7.26 In order to promote the stagnant ship repair industry the government has extended continuation of concessions towards Excise, Custom duty and taxes in the 10th Plan period.

7.27 The Working Group on Shipbuilding and Shiprepair Industry for the 10th Five Year Plan documents had envisaged increase in shiprepair capacity to a level whereby internationally competitive repair work is undertaken in the country. The 10th plan had set the following specific targets for the ship repair industry:-

- (a) Repair business of Rs 1900 crs in Xth Plan.
- (b) Ensuring a revenue level of Rs 1000 crs per year in a 15 year time-frame.
- (c) To emerge as a dominant shiprepair centre replacing Dubai, Singapore and Bahrain
- (d) PSU shipyards to make an investment of Rs.2200 Crores, including setting up of ship repair yard for vessels over 2,50,000 DWT – one at each Coast.

Performance Of Ship Repair Industry In Xth Plan

7.28 A comparison with the Xth Plan targets and actual performance of ship repair industry shows that the expected targets have only been partially met. A compliance table in this respect is placed below for reference.

| Tenth Plan Targets | Compliance Statement |
|--|--|
| Repair business of Rs 1900 crs in Xth Plan | Achieved. Repairs of Rs 1881.3 crs + Rs 250 crs (est) for other SRUs achieved. |
| Ensuring a revenue level of Rs 1000 crs per year in a 15 year time-frame. | The average annual turnover has been about Rs 436 crs only. |
| To emerge as a dominant shiprepair centre replacing Dubai, Singapore and Bahrain | This has not happened as shiprepair in India is coupled with the shipbuilding and most of them are diverted their focus on the shipbuilding to capitalise the current boom and we may actually decline further in this respect |
| PSU shipyards to make an investment of Rs.2200 Crores, including setting up of shipyard units for vessels over 2,50,000 DWT – one at East Coast. | CSL has made an investment of around Rs 25 crs in its repairs infrastructure and HSL not more than Rs 5 crs. |

7.29 The analysis of the performance of the ship repair turnover of the yards in the 10th plan period brings out that even amongst the registered and licensed yards almost 90% of the total ship repair revenues are generated by just two PSU shipyards, namely Hindustan Shipyard Ltd and Cochin Shipyard Ltd as would be evident from the table below. The balance of ship repair load is shared by the various small yards in the country including the Defence Public Sector yards.

| Ship repairs turnover in 10 th plan period | | | | | |
|---|------------------------------|--------|--------|--------|--------|
| | All figures in Rupees Crores | | | | |
| Shipyard | 2002-3 | 2003-4 | 2004-5 | 2005-6 | 2006-7 |
| CSL | 109.0 | 189.0 | 148.0 | 150.0 | 200.0 |
| HSL | 108.3 | 74.8 | 152.4 | 103.6 | 150.0 |
| MDL | 46.5 | 26.4 | 49.1 | 10.1 | 7.4 |
| GRSE | 1.2 | 10.0 | 6.9 | 0.6 | 0.0 |
| HDPE | 0.9 | 0.2 | 6.0 | 1.5 | 3.5 |
| Western India Shipyard | 67.0 | 63.0 | 42.0 | 42.7 | 45.0 |
| ABG | 9.8 | 10.8 | 15.5 | 6.6 | 12.0 |

| | | | | | |
|--|-------|-------|-------|-------|-------|
| Vipul Shipyard | 0.9 | 0.7 | 0.8 | 1.2 | 1.5 |
| NN Shipbuilders | 0.1 | 0.4 | 0.9 | 0.6 | 0.1 |
| Geeta Eng | 0.6 | 0.5 | 0.7 | 2.0 | 0.5 |
| | 344.3 | 375.8 | 422.3 | 318.9 | 420.0 |
| Total in the 10 th Plan 1881.3 crs | | | | | |

7.30 As would be evident from the table that the total revenue generated in the 10th Plan is Rs 1881.3 crs. This has not taken the revenue generated by the smaller SRU's. These ship repair units do not have their own shipyard. They are mostly workshop on the port premises or adjoining areas (mostly major ports) and carry out afloat repair of machinery and equipments on the ship when she is at port. Some of these shiprepair units hire out ports drydock facility to carryout underwater repair of ships. The Turnover of these SRU could vary between Rs 2 Cr to Rs 8 Cr. These SRU are very prominent in Mumbai, Kolkata, Chennai and some in Cochin. A detailed survey would be required to find out the exact revenue generated by these SRU, but for the purpose of this study could be taken at around Rs 250 Cr. With this the total turnover of the ship repair industry will come to Rs 2131.3 crs which is slightly more than to the X Plan target of Rs 1900 crs. Here it needs to be kept in mind that a fair share of the revenue has been derived from repairs of ONGC Drill rigs, Naval Ships and Submarine and Coast Guard ships. **In fact the actual share of repairs of merchant ships 'per se' might have declined in real terms from the 9th plan figures** but as this data is not available it cannot be conclusively proven as such. It is to the credit of the two PSU shipyards CSL and HSL that they had been able to maintain a growth curve despite decline in the merchant ship repair orders.

Comparison With China

7.31 A comparison with the ship repair facilities of China has been carried out to bring out the fact that the Indian ship repair industry has a long way to go and unless suitable measures are not taken this industry is in danger of getting completely marginalised. This would be undesirable especially because this is one industry which is neither highly technical nor difficult and

is a very useful engine for the creation of jobs in the unskilled category of workers.

| | CHINA (2004 data) | INDIA |
|---|-----------------------------------|--|
| Repair Units | 176 | 35 SRUs |
| Facilities | 36 Dry Docks 42 Floating Docks | 2 Dry Dock & 1 Floating Dock with Shipyards 13 Dry Docks and 1 Floating Dock with Major Ports |
| Size of Ship | VLCC | 1,10,000 DWT with CSL and 70,000 dwt with HSL |
| Persons Employed | 56,575 | 5000 |
| Persons employed in ancillary and manufacturing units | 73,015 | Data not available |
| Turnover | 1886.3 M USD or Rs 8677 crs | Rs 436 crs |

MEASURES REQUIRED TO PROMOTE SHIP REPAIRS

7.32 The ship repair industry is highly competitive and in the prevailing market scenario the level at which the time charter and freight earnings are set the lay-up time for repairs are critical and completion of repairs on time is of paramount importance. Therefore, those yards that can complete the repair work in the shortest time will be preferred.

7.33 It is seen that despite various promotional measures given by the government, private investment has not taken place in ship repairs. The private shipyards have also shown greater inclination to build ships than to undertake repairs. This may be due to a variety of reasons such as the high cost of investment, or the rigid labour laws, or the lack of orders from shipping companies etc, all these need to be addressed squarely by the government in order to bring in greater private investment. Indian shipbuilding industry can never come of age unless it has a robust ship repair industry. Where China has 176 dedicated repair yards there is only one dedicated yard in India and that too has not been doing well. With stiff competition coming from neighbouring yards and high tax structure, the existing repair industry is in danger of becoming extinct if immediate corrective action is not taken.

7.34 It is thus seen that while the Indian shipbuilding industry is riding on the crest of an unprecedented boom, the ship repair industry is in doldrums. The task of the XI Plan should therefore be to focus on the revival of this industry. Some of the measures necessary for the promotion and growth of this industry are enumerated below.

Optimum Utilisation of Existing Facilities

7.35 Despite the fact that the dry dock berths in the existing shipyards are limited, considerable improvement in the repair turnover can be achieved by diversification and optimum utilisation of existing facilities. This is possible by modernisation of blasting and cleaning procedures, painting, steel replacement etc which are presently done by much slower manual process so that the ship under repairs can be turned around faster thus allowing the yard to take more ships and achieve greater turnover. The **Yiu Lian Dockyard Ltd** which is reputed to be the biggest repair yard in China has steel renewal capacity of 250 tons/day as against 5 tons at best in India and Sand/Grit Blasting capacity of over 15,000 sq m /day as against around 1000 sq m in India. Thus, it takes 6-7 days to blast the outer hull of a 30-40,000 dwt ship in India as against just one day in China. The same is true of steel replacement as this is one of the major activity for ship under repairs. Where as it will take 50 days to replace 250 tons of steel in HSL, it can be done in one day in the Chinese yard. Optimisation of the existing facilities will therefore help in cutting down of the repair period considerably.

7.36 In addition to the above, the major port trusts between them have **13 dry docks and one floating dock**. This is much more than the facility available in all other Indian shipyards. At present these facilities are being under utilised due to various constraints. It is recommended that this issue be examined and measures initiated to fully utilise these facilities.

7.37 Optimum utilisation of our existing facilities can only take place if there is adequate investment in improvement in the basic infrastructure and facilities. This is particularly important in the PSU shipyards, CSL and HSL as they are the engines of growth in ship repairs. This investment is required

to modernise and overhaul the existing facilities to world standards. **For this it is estimated that an expenditure of around Rs 1000 crs, would be needed for the two PSU yards.**

Creation of Additional Repair Facilities.

7.38 The existing docking facilities in India have not grown to meet the requirements of the modern tonnage with only CSL (1,10,000 DWT) and HSL (70,000 DWT) having any meaningful dry dock and repair facilities. Indian tonnage has grown in size and as on date the largest vessel on Indian Registry is having overall dimensions LOA 333.12 mtrs, beam of 60.00 mtrs and moulded depth 30.40 mtrs. It should be noted that with the commencement of new refineries and SBM's on the Indian coast, the number of vessels in VLCC's class is bound to increase and hence the potential for docking of such vessels would be necessity and this opportunity need to be addressed. Other than VLCC even docking facility for Suezmax size vessels whose dimensions are LOA 274 mtrs Beam 46 mtrs and moulded depth 23.6 mtrs are not existing which results in the necessity of vessels to drydock out side India. Gujarat has substantial potential in this segment. Considering upcoming refinery in the state and adjoining areas, the state is ought to become the largest state with maximum crude and petroleum tankers calling to its port. Moreover, its vicinity to the adjacent Middle East Countries can attract substantial tanker repair business.

7.39 These is therefore a need to create additional dry docks which can take up repairs of vessels of VLCC size as well as variety of other ships like tankers, product carriers, container ships and LNG carriers. This process needs to be accelerated by the government and suitable climate must be created for the setting up of new international class shipyards and expansion of existing ones. While setting up these new yards, it must be ensured that adequate ship repair facilities are also created simultaneously.

Development of Ancillary Units.

7.40 Ancillary units are the lifeline of any shipbuilding/shiprepair industry. As a ship has hundreds of different type of equipment and machinery this provides an ideal breeding ground for a host of ancillary industry. Realising the importance of ancillary industry to shipbuilding and repairs both Japan and S Korea have formulated a strategic approach with a well crafted industrial policy for the shipbuilding and shiprepair ancillary industry. There is also a tacit understanding to use their locally made equipment in their ships. The South Korean government had a specific programme through incentives, R&D support, business to business network to increase the indigenous contents of equipment in ships built by Korean yards. A similar exercise needs to be taken by the Indian government to identify certain key ancillary industry and ensure their growth through appropriate policy measures.

Continuation of Existing Exemption Schemes

7.41 The government of India has allowed certain concessions as mentioned below for promotion of the ship repair industry. Despite these concessions, the growth of the shipbuilding industry has not been satisfactory. These concessions should therefore be continued for some more time.

(a) As per the general exemption No.40 of the Central Excise Tariff Act (Notification No.82/84-CE dt.31.03.1984 as amended), exemption from **central excise duty** is available on capital goods, components and raw materials used for ship repairs by following the procedure specified in the above said notification.

(b) As per Sl. No.351 of customs Act Notification (CN) No.21/2002-CUS Dt.01.03.02, **customs duty** exemption in respect of capital goods and spares thereof, raw materials, material handling equipments, parts and consumables for repair of ocean going vessels by a ship repair unit registered with the Director General of Shipping, Govt. of India.

Exemption of Service Tax for Ship Repairs

7.42 As per Notification No.15/2005 –service tax dt.07.06.05, ship repair services are covered under the chapter ‘Maintenance & Repair services’ with effect from 16.06.2005. Accordingly service tax @ 12.24% is payable on ship repair services excluding material component. **The introduction of service tax has imposed an unbearable burden on the shiprepair industry** because this is making shiprepairs in India uncompetitive as compared to Singapore, Colombo or Dubai. Such a steep differential of 12.36% in cost cannot be matched even by the most competitive ship repair yard anywhere in the world leave alone the Indian ship repair industry that is already reeling under low productivity, lack of orders and other structural weaknesses.

7.43 The extra cost of ship repairs in India is slowly driving the repair business out of the country. The present situation is that virtually no Indian shipping company is getting its ships repairs done in India. The only ships that are being repaired are those that cannot be sent abroad due to some reason or the other which include - Drill rigs of ONGC, Dredgers of DCI, Indian Navy, Indian Coast Guard, few SCI ships mainly those belonging to A&N/UTL, ships of Fisheries department etc. Service tax has today become one of the biggest threats to the revival of the ship repair industry.

Rationalisation of Tax Structure (State & Central)

7.44 As the ship repairs are generally for short durations of a few weeks, and the import procedures in India are cumbersome , it is not possible to get an equipment/spares imported in this time frame. Hence the yard has no option but to seek indigenous substitutes which often turns out to be more expensive than the imported item in the first place. This indigenous procurement is now required to go through **two stages** of VAT payments. In the first stage, on purchase of the equipment VAT is compulsory (in AP @ 12.5%) for which input credit up to a maximum of 90% can be availed later. However this input credit is not given on purchase outside the state for which CST has been paid. The second stage of VAT is levied under section 4(7) of the AP VAT tax @ 12.5% on the value of materials used in the execution of ship repair works. This is an ‘adhoc’ estimation as the value is determined on

the basis of work carried out by the yard on the machinery and is decided not on any scientific basis but on the interpretation of the tax authorities who often tend to charge more. **In effect the yard has to pay double VAT which comes to around 8 -12%** on the material depending on the type of work carried out during the refit of the ship. As almost 50-60% of ship repair cost is towards material this extra expenditure has to be loaded on to the overall price thus making the repairs in India more expensive.

Payment of Income Tax for Foreign Service Engineers.

7.45 Income tax has to be paid by the shipyard for requisitioning services of Foreign Service engineers during ship repair activity. This is different from country to country and varies between 11.68% - 12.5% for most countries and 20% for USA.

Berthing Charges

7.46 Under the rules of TAMP, the port levies berthing charges on ships even when the ship is berthed in the shipyard on grounds that it is within the port premises and the yard is using the waters of the port.

Simplification of Customs Procedures

7.47 Today's economics demands proper management of resources with just on time delivery of spares without resorting to blocking of capital and keeping spares idle on board vessel. Therefore, ships do not stock spares and expect them to be made available by the yard during the short duration of the refit of the ship. While foreign dockyard are able to procure and deliver spares quickly our system of import and custom clearance procedures tends to taking days/weeks before the parts get cleared and delivered on board. In addition when spare parts are required to be sent out locally or imported for repairs, the yard is required to follow a complex procedure which is inefficient and time consuming. These procedures need to be simplified in order to make ship repair economically viable and competitive in the country.

Duty Exemption for Scrap

7.48 Ship come for renewal of steel plates when they have outlived their life due to fatigue or corrosion and in most cases this is almost 20-30 yrs old at the time of replacement. This scrap has very low resale value, yet the custom authorities demand payment of custom duty on such scrap at prevalent market rates. This results in piling up of unsold scrap thus making the shipyard itself look like a scrap yard.

Soft Loans

7.49 The technology in ship's repair in other parts of the world has undergone major changes resulting in drastic reduction of docking/lay up repairs time. Most foreign yards have gone in for sophistication in equipment, high safety and environmental standards for carrying out repairs, tank cleaning etc where we still lag far behind. Similarly, in modern vessels there is a high level of automation which requires regular maintenance, rectification and constant attention. With vessels trading pattern being rather stringent, owners prefer to carry out routine maintenance during drydocking/lay up repairs to ensure trouble free service between docking intervals. Creation of advanced repair facilities requires investment for which funds are not available with the yards or they are available at very high interest rates. In order to promote and encourage shipyards to take on speedy and comprehensive shiprepairs it would be desirable to make available soft loans towards establishing additional infrastructure/ facilities. Soft loans are also required for extending credit facilities to ship owners as this is a common practice in Chinese yards where the ship owner is allowed to pay back at a later date, thus making repairs in China more attractive even if it involves extra expenditure to send ship all the way to the Chinese yards.

Port Infrastructure/Facilities

7.50 In Indian shipyards, repair facilities invariably utilize the services of port trust facilities for vessel movements which negates the time schedule as the priorities of ports movement are always given to cargo vessels rather than repairs vessel, which results in time lost for vessels undergoing repairs

not being able to sail after completion. In addition, the existing port facilities presently do not have berth facilities to carry out lay up repairs to vessels. This is an area where due importance will need to be given.

XI PLAN TARGETS

7.51 The Indian ship repair industry has not got its due share of attention in investment due to various reasons and as a result, its growth has been severely hampered. Due to the unprecedented shipping boom, most Indian yards have got a reasonably good shipbuilding order book and thus those yards which were undertaking ship repairs earlier have shifted to the more lucrative shipbuilding which will result in further decline of the ship repair industry if suitable remedial actions are not taken.

7.52 As brought out earlier, almost 100% of the income earned by the yards in ship repairs is ploughed back into the economy in one way or the other. Thus, value addition from the ship repair industry to the economy is much more than that of the shipbuilding industry and this potential needs to be tapped in the years to come. The XIth Plan should therefore set the following targets for the growth of the ship repair industry:-

(a) Setting up of additional shipyards with capacity to build and repair ships up to VLCC size should be one of the top most priority agenda of the government in the XI Plan. As the cost of setting up of international standard shipyard is high (as much as setting up of a power plant) this investment will only come from private sector if conditions are favourable.

(b) Each of the international class shipyards should be able to repair around 35-40 ships per year and achieve an annual repair turnover of Rs 400 crs. Suitable actions must be taken to achieve this target in the XI Plan period.

(c) The existing dry dock in major ports must be upgraded and additional repair capacity must be created in the ports as part of their expansion plan. These facilities could be leased out to the SRU's for

undertaking essential dry docking repairs to ships. This will not only provide additional revenue to the ports but will encourage shipping companies to get their ships repaired during port call for loading/discharge of cargo thus saving on mobilisation /demobilisation costs. A repair target of Rs 50 crs should be set for each of the major ports which will provide a repair turnover of Rs 600 crs from the 12 ports.

(d) Budgetary support from Government to PSU shipyards for setting up additional ship repair facility and modernisation of existing facilities must be provided.

(e) Various tax exemptions and fiscal measures proposed at paragraph 33 to 49 are provided.

(f) A four fold growth as compared to the Xth Plan target , i.e., from a total turnover of Rs 1900 crs target to a turnover in excess of Rs 8,000 crs in the XIth Plan should be considered. This would imply an average annual turnover of Rs 1,650 crs. As indicated below. This growth would be heavily dependent on the creation of additional dry dock facilities through setting up of new yards and augmentation of existing ones.

| XI PLAN TURNOVER | | | | | | |
|--------------------------------------|---------------------------------|----------------|----------------|----------------|----------------|---------------|
| | All Figures in Rs Crores | | | | | |
| Shipyards | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Total |
| CSL | 190.0 | 210.0 | 220.0 | 225.0 | 235.0 | 1080 |
| HSL** | 200.0 | 210.0 | 220.0 | 220.0 | 230.0 | 1080 |
| MDL | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 15.0 |
| Western India | 55.0 | 65.0 | 75.0 | 85.0 | 95.0 | 376.0 |
| ABG | 15.0 | 19.5 | 26.3 | 36.8 | 53.4 | 151.0 |
| Vipul Shipyards | 2.0 | 2.5 | 3.0 | 3.5 | 4.0 | 15.0 |
| NN Shipbuilders | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.8 |
| Geeta Eng | 0.6 | 0.7 | 0.9 | 1.1 | 1.3 | 4.6 |
| Two International Standard Shipyards | 0.00 | 200.00 | 600.0 | 800.0 | 800.0 | 2400.0 |
| Major Ports | 360.0 | 480.0 | 600.0 | 600.0 | 600.0 | 2640.0 |
| Other SRU and Private Yards | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 500.0 |
| Total | 925.7 | 1290.8 | 1848.4 | 2074.6 | 2121.9 | 8262.4 |

RECOMMENDATIONS FOR REVITALISATION OF INDUSTRY

7.53 The successful shipbuilding industrial development of Japan, Korea and China has not happened by chance but by a carefully crafted policy where the government has provided the core administrative guidance and support. Such an integrated policy initiative would be required for the revitalisation of the Indian ship repair industry as well so that conditions are created for the Indian firms to become technological leaders instead of followers, through promoting competition, cooperation and even acquisition and Joint Ventures with leading foreign yards.

7.54 The promotion of the ship repair industry is required for three main reasons. Firstly, the labour-intensiveness of the industry will act as a conduit for providing employment to the youth of the country. Secondly, the growth of the industry will result in growth and technological spill over of related industry like steel and almost 50 other different industries such as electronics and chemicals. Thirdly, this will lay the foundation for the building of an independent ship building and repair industry can become world leaders in its own right.

7.55 **Target.** A target of Rs 8000 crs turnover should be set to be achieved in the 11th plan for the Indian repair industry. This will require implementation of promotional measures outlined in this at the earliest and close monitoring of the progress thereafter. This in turn will help to employ around 25,000 people for the ship repair industry from the existing level of around only around 6700 people.

7.59 **Fiscal Reforms.** Rationalisation of various taxes, duties and levies as outlined in this committee report.

CHAPTER - 8

XI PLAN OUTLAY FOR SHIPBUILDING AND SHIP REPAIR

8.1 In order to modernize and upgrade the existing shipyards under the Department of Shipping and also to facilitate setting up of two international size shipyards, the outlay proposed for each of the organization is as under:

| Sl. No. | Name of Shipyard/ Schemes | GBS | IEBR | Total |
|--------------|--|----------------|----------------|----------------|
| 1. | Cochin Shipyard Ltd. | 40.00 | 550.00 | 590.00 |
| 2. | Hindustan Shipyard Ltd. | 250.00 | 250.00 | 500.00 |
| 3. | Hooghly Dock and Port Engineers Ltd. | 50.00 | 52.00 | 102.00 |
| 4. | Setting up of two International size shipyards | 1500.00 | 1500.00 | 3000 |
| 5. | R&D Schemes in Shipbuilding | 201.80 | -- | 201.80 |
| 6. | Conducting Studies | 19.00 | -- | 19.00 |
| TOTAL | | 2060.80 | 2352.00 | 4412.80 |

The details of Plan schemes of CSL, HSL, HDPE are given at **Annexure 4 to 8**. The details of Plan Schemes on R&D Schemes and Conducting Studies in Shipbuilding are already given in Annexure 4 and Annexure 5 respectively.

CHAPTER - 9

SUMMARY OF RECOMMENDATIONS FOR SHIPBUILDING AND SHIPREPAIR

The summary of action points are :

9.1 Government should develop Dedicated SEZ for integrated and clustered development of Shipbuilding sector in India. This should include existing shipyards also.

9.2 Single Window clearance mechanism for providing all Central and State level clearances under the Chairmanship of Secretary (Shipping).

9.3 Constitution of a Shipbuilding Monitoring Authority to ensure investments well before the boom period is over for global shipbuilding industry.

9.4 Encourage Design capability and R&D through fiscal benefits as given to R&D investment in pharmaceutical sector.

9.5 Encourage development of equipment and machinery ancillaries in the dedicated SEZs.

9.6 The existing shipbuilding subsidy scheme should be extended beyond Aug. 2007 for a period of 10 years.

Taxes & Duties

9.7 Indian Shipyards should be exempted from Service Tax on Shipbuilding and Ship Repair.

9.8 Provide exemption from Custom and Excise Duties on capital investments for shipbuilding.

9.9 Custom Bonded Warehouse Rules to be amended to suit Shipbuilding industry including the period for which materials can be stored etc.

9.10 Promote single point taxation OR rationalize tax structure (State & Central) in line with competitive yards in South East Asia viz. Colombo, Dubai etc.

9.11 Simplification of customs procedures including:

(a) Priority clearance for import

Duty exemption for scrap generated in shipbuilding & ship repair.

9.12. Existing concessions to Ship repair units should continue.

9.13. Ship repair units be exempted from Service Tax.

9.14. Dry docks in Ports should be put to optimal use.

ANNEXURE-1**DETAILS REGARDING PUBLIC AND PRIVATE SECTOR SHIPYARDS IN INDIA****Table-1 Public Sector Yards**

| | Name of Yard | Type of Vessel | Max. Length of vessel which can be built (Mtrs) | DWT |
|-----|--|------------------------------|--|-----------------------|
| (1) | Cochin Shipyard Ltd, Kochi, 1972 | All types up to 1,10,000 DWT | 250 | 110,000 |
| (2) | Hindustan Shipyard Ltd, Vizag, 1941 | All types up to 80,000 DWT | 240 | 80,000 |
| (3) | Alcock Ashdown, Bhavnagar, 1994 | Medium | 90 | 5,000 |
| (4) | Shalimar Works, Kolkata, 1981 | Small | 55 | 1,500 |
| (5) | GRSE, Kolkata, 1960 | Naval Ships | 160 | 26,000 |
| (6) | Goa Shipyard Ltd, Goa, 1967 | Naval Ships | 105 | 1,200 |
| (7) | Hooghly Dock and Port Engineers Ltd, Kolkata, 1984 | Small Ships | 85 | 1,000 |
| (8) | Mazgaon Dock Limited, Mumbai, 1934 | Naval Ships | 190 | 27,000 |
| | | TOTAL DWT | | <u>254,700</u> |

Table-2 Private Sector Shipyards

| | Name of Yard | Type of Vessel | Length (Mtrs) | DWT |
|------|--|-------------------------------|--------------------------|----------------------|
| (1) | Elite Shipyard, Varavel, 1981 | Fishing boats, wooden Vessels | 18 | 0 |
| (2) | PS & Company, Vizag, 1996 | Small ships, Barges | 12 | 1000 |
| (3) | Dempo, Goa, 1963 | Small ships, barges | 85 | 3500 |
| (4) | ABG, Mumbai, 1985 | Small ships | 150 | 15,000 |
| (5) | East Coast Boat Builders, Kakinada, 1969 | Not available | | |
| (6) | Bharati, Mumbai, 1976 | Small ships | 125 | 10,000 |
| (7) | Chowgule & Co. Goa, 1965 | Small ships, barges | 100 | 3,300 |
| (8) | Alang Marina, Bhavnagar, 1987 | Small ships | 100 | 2,000 |
| (9) | Empreiteiros Gerais, Goa, 1962 | Barges | 75 | 1,000 |
| (10) | Sesa Goa, 1984 | Small ships, Barges | 80 | 3,500 |
| (11) | AC Roy, Kolkata, 1969 | Boats, Barge, Small ships | 65 | 1,500 |
| (12) | Bristol Boats, Aroor, 1973 | Boats | 20 | 100 |
| (13) | Tebma, Chennai, 1956 | Small ships | 70 | 5,000 |
| (14) | Wadia Boat Builders, Bilimora, 1991 | Boats | 46 | 0 |
| (15) | Corporated Consultancy, Kolkata | Boats | 40 | 0 |
| (16) | NN Shipbuilders, Mumbai, 1975 | Boats, Barges | 60 | 0 |
| (17) | Western Marine Eng, Kochi, 1983 | Boats, Barges | 45 | 350 |
| | | TOTAL DWT | | <u>26,750</u> |

FISCAL REFORMS

MODIFICATIONS REQUIRED IN THE TAX STRUCTURE (DIRECT/INDIRECT TAX – CENTRAL)**(SHIPBUILDING & SHIP REPAIR)**

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
|--|---|---|--|---|
| SERVICE TAX: Section 65 of Finance Act, 1994 | Government of India has introduced levy of "Service Tax" on certain services with effect from 01 Jul 03 which included Repair and Maintenance Services. On introduction of this new levy on Maintenance and Repair Services ship repair activities are interpreted to be included under "Maintenance and Repair" for the purpose of levy of Service Tax. Govt. of India further vide Finance Bill 2005 has amended the provisions of Service Tax Act to include all repair services under the head "Maintenance & Repairs". This has come into existence w.e.f. 16-06-05. With this amendment ship repair services will also fall under the purview of service tax. | Specific exemption may be granted to ship repair services from the purview of Service Tax, w.e.f. 01-07-03. | Already ship repair industry is reeling under considerable difficulties in securing orders at remunerative price. This additional levy will accentuate the situation and will be counterproductive to Government of India's support measures in the form of exemptions/ concessions under Customs/Central Excise Tariff. | Financial Implications: Average Estimated Ship Repair turnover - Rs.300 Crs per annum. Taxable Services 40% of Rs.300 Crs. = Rs.120 Crs. Service Tax @ 12.24% on Rs.120 Crs. = 14.68 Crs. |
| CUSTOMS DUTY: Sl. No.353 of Notification No. 21/2002 -Cus dated 01-03-2002 | DUTY ON SALE OF SHIP Though items imported for building Ships indigenously are exempted from payment of Customs duty, the ships built and delivered to Indian owners are treated as ships imported | Clarificatory notification may be issued to the effect that the levy of Customs Duty @ 5% on ships imported vide item No.353 of the Table annexed to Notification No.21/2002-Cus., dated 01-03-2002 is not applicable on ships and other vessels con- | Sl. No.353 of Notification No. 21/2002 -Cus dated 01-03-2002 refers to import of completed ships, which attract 5% Customs Duty from 2001-02 onwards. The treatment of indigenously built ships under the | This is based on the invoice value of ships/Tugs/Dredgers built and delivered to indigenous buyers. |

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
|---|--|---|--|---|
| of Customs Act. | and Customs duty @ 5% is levied by the Customs Deptt. | structed in Indian shipyards and delivered to Indian Owners | above category will defeat the very purpose of granting the facility of duty free imports of raw materials and parts for shipbuilding extended for indigenous ship building industry. | |
| CUSTOMS DUTY: Notification No.21/2002-Cus. dated 01-03-2002 as amended by Notification No.21/2006 - Cus. Dated 28-02-2006) of Customs Act | DUTY ON CAPITAL GOODS IMPORTED FOR SHIPBUILDING: Capital goods imported for shipbuilding including renewals and replacements of yard facilities are presently dutiable under Customs Act. | The words "Capital Goods and spares thereof" may also be inserted at the beginning of the description at item No.356 of Notification No.21/2002-Cus., dated 01-03-2002. | In any yard having both ship building and ship repair facilities, most of the assets are common. Hence the concessions extended to one activity alone may not benefit the required purpose. As such the Capital Goods imported for ship building may also be exempted from Customs Duty. This will help for modernization and up gradation of ship building facilities so as to improve the productivity to achieve a better competitive edge in global bidding. | Financial Implications: Approx. yearly Capital purchase = Rs.30 Crores (effective rate of duty 38.82%) The loss to all private shipyards will buy second hand capital equipment from abroad as is being done now and the loss on account of customs duty exchequer will be Rs.11.65 crores if 50% of about Rs.6000 crores investment is treated as capital equipment. PSUs cannot grow as they do not have this facility. |
| CUSTOMS DUTY: Section 65 (2) (a) & (b) of Customs Act | <u>DUTY ON STEEL SCRAP FROM IMPORTED STEEL</u> a) Shipbuilding Steel scrap generated during the construction of ocean going vessels is valued at the price of parent material if the vessels are not exported. | The proviso to Section-65(2)(a) may be extended to sec. 65(2)(b) also. Further this proviso may be modified to read as "Provided such waste or refuse is either destroyed or duty is paid on such waste or refuse on the Transactional Value basis (Customs Duty on actual realized value)" | Ships are constructed under bond and remain to be bonded till they are broken up even in the case of ships delivered to indigenous owners. Hence it is not construed as a sale for home consumption. However Customs Deptt interpret and assess the above sale of ship to Indian owners as home consumption Sale and value the scrap on the basis of value of the mother material. This leads to continuous litigation and | |

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
|--|---|--|---|---|
| | | | wastage of time and money. This amounts discrimination and is detrimentally affecting the industry. To avoid the same the amendment is sought. | |
| CUSTOMS DUTY: Section 61 of Customs Act | SELF REMOVAL SYSTEM: b. Clearance of Surplus stock of imported items The imported items kept under customs Bond, if not utilized, within 1 year in the case of shipbuilding and 90 days in the case of ship repair, for the purpose for which imported, should be debonded paying customs duty and interest which ends up in huge loss to the yard. | While debonding the surplus materials Customs Duty may be charged based on the realizable value and levy of interest on the above may be exempted otherwise the yard will end up in huge losses in the case of debonding of such materials. | When such materials have become obsolete and unusable, materials have to be disposed off. The actual realizable value will be much less than the Customs Duty and interest payable for debonding the items. Hence this may be exempted from levy of interest and customs duty may be charged on realizable value only. | Nil. Procedural relaxation. The left over materials have no value except scrap in market. |
| CUSTOMS DUTY: Section 157. of Customs Act. | SELF REMOVAL SYSTEM: Presently goods imported for ship building and ship repair are kept under bond and drawn for shipbuilding/ship repair operations by taking permission from the Customs Authorities and fitment certificates are furnished. These activities are controlled by the Manufacture and Other Operations in Warehouse Regulations, 1966 | In order to reduce huge establishment expenses incurred for maintaining the Customs Establishment in the yard and to avoid the procedural/ administrative delays, it is proposed to consider "Self Removal System" whereby the yard will maintain Customs Bond and the designated Officers of the yard will control and supervise the bond operations instead of the present customs Establishment in the yard as yard is submitting all required documents including fitment certificates | The Customs Bond in the yard is supervised by Two Superintendents and six Preventive Officers. As per the Regulation the establishment charges such as salary, overtime, etc. are being borne by the yard. The annual expenditure on the above works out to Rs. 50 Lakhs. In addition to the above, 20 CSL personnel are working on the job. The expenditure on this works out to Rs.60 Lakhs totaling Rs.1.10 Crs. every year. The yard is maintaining all records of | Procedural relaxation & of Admn. expenditure only. |

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
|--|---|---|--|--|
| | | | import/storage/ consumption of goods. Hence the Customs Authorities can inspect and verify the records at any point of time. This will help the yard to release the warehoused items required for shipbuilding/ship repair activities in time thereby achieve delivery targets/ schedule and reduction in costs. | |
| <p>EXCISE DUTY: Section 5A(1) of Central Excise Act. Notification No.63/95-CE dated 16-03-95 as amended by Notification No. 62/2003 - CE dated 31-07-2003</p> | <p>SHIPBUILDING: a) Capital goods required for construction of ships are not exempted from levy of Excise Duty.</p> | <p>In the description of goods at Sl. No.3 of Notifn No.63/95 dt. 16-03-95, the words "All goods" may be replaced with "All goods including Capital goods and spares thereof" and Condition No.(i) & (iii) of Sl. No.3 of the above Notification.</p> | <p>This will help for modernization and up gradation of ship building facilities so as to improve the productivity to achieve a better competitive edge in global bidding. In any yard having both shipbuilding and ship repair facilities, most of the assets are common. Hence the concessions extended to one activity alone may not benefit the required purpose. Hence capital goods for shipbuilding may also be exempted from the levy of Excise Duty as in the case of ship repair</p> | <p>Financial Implications: For every yearly purchase = Rs.50 Crs Excise duty @ 16.32% = Rs. 8.16 Crores</p> |
| <p>EXCISE DUTY: Notifn No.63/95-CE dt. 16-03-95 as amended by Notifn No. 62/2003 - CE dated 31-07-2003</p> | <p>b) Raw materials, equipment and components, procured from indigenous sources for shipbuilding are subject to levy of Excise Duty at the rate of 16%. However, vide Notifn. No.63/95-CE dated 16-03-95 Excise Duty exemption is available in respect of items manufactured in a Shipyard, intended for use in the</p> | <p>The procedural relaxation requested is as follows: "Condition No. (I) & (iii)" of Sl. No.3 of Notification No.63/95-CE dated 16-03-95 may be deleted.</p> | <p>Benefits of this exemption may be extended to all manufactured items anywhere in the country (without confining to items manufactured in shipyards alone) intended for use in construction and repair of ocean going vessels and exemption from following Central Excise (Removal of Goods at Concessional Rate of Duty</p> | <p>No financial implications. Proposal is only for procedural relaxations</p> |

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
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| | <p>manufacture or repair of goods falling under Heading Nos. 89.01, 89.02, 89.04, 89.05 & 89.06 and if such use is in a shipyard different from the yard where it is manufactured the procedure set out in Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2001 are followed</p> | | <p>for Manufacture of Excisable Goods) Rules, 2001 may be allowed due to practical infeasibility in complying with the rules.</p> | |
| <p><u>EXCISE DUTY</u> Section 5A(1) of Central Excise Act. Notification No.82/84-CE dated 31-03-84 as amended by Notification No.35/2001-CE dated 29-06-01</p> | <p>c) Ship Repair All raw materials, components and capital goods procured for repair of ocean going vessels falling under chapter headings 89.01, 89.02, 89.04, 89.05 & 89.06 are exempt from Central Excise Duty vide Notification No.82/84-CE dated 31-03-84 as amended by Notification No.35/2001-CE dated 29-06-01) provided procedures set out in Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2001 are followed.</p> | <p>Exemption from the following: The procedure set out in the Central Excise (Removal of Goods at Concessional Rate of Duty for manufacture of Excisable Goods) Rules, 2001 may be granted for which proviso No.(ii) of notification No. 82/84-CE dated 31-03-84 may be deleted</p> | <p>In view of the limited time period involved in ship repairs the shipyards are unable to avail the benefits by complying with the procedure as set out in the notification. Therefore, proviso No. (ii) of the exemption notification that "Central Excise (Removal of Goods at Concessional Rate of Duty for manufacture of Excisable Goods) Rules 2001 to be followed" may be deleted. The relief sought is only procedural relaxation for speedy execution of repair works which is very much required in the competitive environment.</p> | <p>No financial implications are involved. Proposal is only for procedural relaxations</p> |
| <p><u>EXCISE DUTY</u> Notification No.89/95-CE dt. 18-05-95 of Central Excise Act.</p> | <p>Scrap: As per Notification No.89/95-CE dated 18-05-95 Scrap arising in the course of manufacture of exempted goods are fully exempted from Ex-</p> | <p>The proviso to Notification No.89/95-CE dated. 18-05-95 may be deleted.</p> | <p>For effective utilization of yard facilities, shipyards will have to undertake other works, which are dutiable. In such cases even scrap generated from exempted products,</p> | <p>Presently no such scraps are generated.</p> |

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
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| | <p>cise duty. However <u>this exemption will not be available if excisable goods other than exempted goods are also manufactured in the factory.</u></p> | | <p>which is otherwise exempted, will also become dutiable. Since separate accounts and records are kept for exempted works and excisable works, scrap arising from exempted works may be exempted from Excise Duty, even if excisable goods other than exempted goods are also manufactured in the shipyard.</p> | |

| Section of the IT Act/ Customs & Excise Act | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
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| INCOME TAX Section 33AC of Income Tax Act. | <p>The Public Sector Shipbuilding and Repair yards in India faces stiff competition from within and outside the country and the profitability of the yards are under stake. Most of the yards have been incurring losses continuously. Some of the yards have improved their performance and started wiping out their losses and made marginal profits. However incidence of income tax on the profits of the yards acts as a deterrent in ploughing back the profits for further development of the yard facilities/working capital.</p> | <p>It is requested that the benefits of this section may be extended to shipbuilding and ship repair industry also by amending Sub. Section (1) of Sec. 33AC adding the words "engaged in shipbuilding and ship repair industry" after the words 'operation of ships' in the beginning of the para of this Sub-Section. Also the words "new plant and machinery/equipments" may be added after the word 'new ship' in Sub-Section (2)(a) and also after the words 'new ship' in Sub-Section (2)(b). Further the above words may be added after the words "where the ship" in Sub-Section (4) of Sec.33AC.</p> | <p>Government of India has discontinued extending financial assistance through budgetary support for the capital investments/working capital requirements of the PSU's and now PSU's are required to find own means for such activities. In view of the above the profit generated by the yard's may be exempted from the incidence of income tax at least for a period of ten years.</p> <p>As per Sec. 33AC of the Income Tax Act, Indian Public Limited Company including Govt. Shipping Company engaged in the business of operation of ship can claim deduction under the above section 100% of the profit derived from the operation of ship upto assessment year 2005-06 and 50% from 2006-07 onwards provided the amount is transferred to reserve account.</p> | |

MODIFICATIONS REQUIRED IN THE TAX STRUCTURE (DIRECT/INDIRECT TAX – STATE GOVERNMENT – KERALA)

SHIP REPAIR

| Sl. No. | Section | Present Position | Modification required | Detailed justification for amendment | Revenue implications of proposed charge |
|---------|----------------------------------|---|--|---|--|
| 1 | Kerala Value Added Tax Act, 2003 | 12.5% on Ship Repair income, which is coming under works contract in the Act. | Tax rate for Ship Repair works may be reduced from 12.5% to original level of 4% | Ship Repair is the major activity in Cochin Shipyard. The enhanced rate is unaffordable and detrimental to the very survival of the industry. | Average Ship Repair Turnover – Rs.300 p.a. Taxable – 12.5% = |