CHAPTER - VIII

(PART-I)

The Government of India's Shipping Policy since 1918

Since the closure of the war of 1914-18, there developed almost an universal demand for an adequate national mercantile marine in the country. The consciousness began to develop in the public mind of the drain of wealth from the country from this invisible source and the manifold handicaps, the lack of an adequate merchant navy inflicted upon the national economy and security. The people of this country demanded of the alien rulers that Indian shipping should have its legitimate share in the coastal and oversea trades of the country and that they should build up a national mercantile marine worthy of the country's ancient position in the maritime world. The world War I demonstrated beyond doubt, the country's need in this behalf.

It is therefore necessary to trace the chronology of events and the action taken by the central legislature in the matter of promoting Indian shipping during the inter-war period. A number of non-official resolutions and bills were brought before the central legislature for the remedying specific handicaps which impeded the growth of Indian shipping. A brief account of the important resolutions moved in the central Legislature, and other notable events that had taken place during that period is given below:
In the Legislative Assembly on 12th January, 1922 Sir P.S. Sivaswamy Aiyar moved a resolution to investigate the possibilities and the ways and means of promoting the formation of a mercantile marine and the encouragement of shipbuilding, by appointing a committee of experts and non-official Indians. He also wanted the committee to suggest measures for liberal recruitment of Indians as officers in the Royal Indian Marine, establishment of a Nautical college for training of officers and engineers of ships, construction of dockyards and engineering workshops etc. /

In response to this resolution which was endorsed by the Fiscal Commission's Report,* the Government of India appointed in 1923 the Indian Mercantile Marine Committee - the first landmark in the history of Indian Shipping after World War I. This resolution constituted the terms of reference for the Mercantile Marine Committee which was expressly required to consider ways and means of building up a suitable mercantile marine for India. It considered the various obstacles in the way of the development of Indian enterprise in this field and also examined the several alternatives to get over those difficulties.

Its recommendations in brief were:
(a) Reservation of Indian coasting trade by a system of licences issued on certain conditions.
(b) Purchase by Government of one of the then existing British lines operating on the Indian coast and its eventual

* The Fiscal Commission of 1921-22.
transfer by sale to approved Indian shipowners.

(c) Bounties and other forms of state aid were not immediately recommended but could be considered later on for purely Indian shipping companies engaged in overseas trade.

(d) Mail subsidies to be granted on the basis of the most economical tender having regard to regularity and speed of operations. But if the licensing system was not adopted Indian owned and Indian managed ships should be assisted by bounties mail contracts and carriage of Government stores, whether in coasting or overseas trade.

Unfortunately none of these recommendations were accepted let alone implemented by the alien Government.

Another notable event was the attempt made by late Mr. S.M. Haji who introduced in the Legislative Assembly on 9th February 1928 a Bill to reserve the coastal traffic of India to Indian vessels. Similar Bills for the reservation of the coastal trade were brought before the Central Legislature from time to time but we need mention only Mr. Haji's Bill as most of the controversies in respect of the reservation of the coastal trade centred round this Bill. The Bill was first circulated for opinion but then it was referred to a Sub-Committee. On its emergence from the sub-committee it was recirculated for opinion, but, by the time the opinions were received Mr. Haji had resigned and the Bill lapsed later on owing to the dissolution of the Assembly.

A number of unsuccessful attempts were subsequently made by the non-official members of the Central Legislature to secure adequate encouragement or protection for Indian shipping. The
only tangible result was the Conference held in January 1930 under the presidency of the then Viceroy of India, Lord Irwin. Addressing the annual meeting of the Associated Chambers of Commerce (British business organisation), in December 1928, Lord Irwin had declared:

"But I think that I am correct in saying that the main impulse behind the Bill (moved by late Mr. Haji) I have referred to, is not mere desire to secure for Indian capitalists the profits which now are made by British Companies. Rather it is an ambition that India should have its own mercantile marine and that the ships of that mercantile marine should be officered as well as manned by Indian...."

Such words, however, of the highest Government spokesmen, were not followed by action, whenever Indian interests conflicted with British monopoly. The 1930 Conference was held to enable a full and frank discussion between the representatives of all the interests concerned in order to contribute towards a fair and agreed solution for the problem, and secure adequate participation of Indian shipping in the coastal and overseas trade of India. One of the crucial items on the Agenda of the Conference was:

"Can it be provided for under an Agreement by which the Indian tonnage would increase gradually from year to year, while simultaneously the non-Indian tonnage was reduced?".

During the course of the discussion, it was stated that Indian-owned tonnage might be increased by the purchase of British ships in the trade. While Indian representatives were willing to consider this method of purchase on its own merits,
the British counterpart insisted that such a purchase could not only be of the ships, but of the goodwill as well of the trade. Replacement of British tonnage by Indian-owned tonnage for developing Indian Shipping was not acceptable to them. The fundamental object of the Conference could not thus be achieved; and so it broke up without achieving any agreement.

The Government of India then explained their position in the Communique reproduced below:

"The Government of India will take into consideration at an early date the issue raised in the discussion which took place at the Conference on the development of the Indian mercantile marine. As soon as it has been possible fully to consider these issues, the responsibility will rest with the Government of India of deciding what action should now be taken and whether any useful purpose would be served by inviting the interests concerned to meet again."

The main obstacle to the development of an adequate Indian-owned Mercantile Marine thus remained in the dominant, almost monopolistic, position of the British India Steam Navigation company on the coast of India, and on all the shipping routes of the Indian Ocean. Notwithstanding their declaration, Government proved utterly indifferent and perhaps unable, and this indifference or incompetence persisted all through the remainder of the British regime in India to foster the growth of Indian shipping from such relentless and powerful opposition.

The competing Indian enterprise had, as noticed already, sought a temporary solution by a ten years' agreement with the B.I. Company which permitted them to take a small share in the
coastal trade of India. When that agreement came to be revised in 1933, with the good offices of the then Commerce Member, Sir Joseph Bhore, despite the assurance that it was their responsibility to secure an adequate participation for Indian shipping in India's overseas trades, Government proved utterly helpless when the B.I. insisted as the price of a new agreement, the practical exclusion of the Scindia Company, the only large-scale enterprise in that field, from the carriage of India's overseas trade. The new agreement was for five years and expired in 1939.

The following were the principal provisions of the Tripartite Agreement of 1934:

(1) "The cargo carried by the vessels of the three companies in the coasting trade of India, Burma and Ceylon is to be regulated and apportioned between them according to certain specified percentages.

(2) The Scindia Company have been permitted to carry passengers on the Rangoon-Coromandal coast and the Rangoon-Chittagong runs.

(3) The total gross tonnage of the Scindia Company (owned or chartered) has been raised to 100,000 gr. tons.

(4) The rates of freight for the carriage of cargo and the scales of passenger fares are to be jointly fixed in writing by the parties after mutual consultation and consent, and none of the parties is to quote or charge rates less than the rates thus fixed.

(5) In the event of any dispute or difference the matter is to be decided by arbitration."
In a subsidiary letter addressed by the Scindia Company to the British India Company at the time of the conclusion of the agreement, they have had to agree "to respect the P.& O. and Company's/the B.I. Company's foreign (overseas) trades, and not to compete with them in those services".

Sir Thomas Stewart, who was commerce Secretary in 1935, declared Government's policy in the Council of State on the 7th March 1935. He said:

"The policy to be pursued has been the subject of much thought by the Government of India and after much thought they have come to the conclusion - they came to the conclusion some years ago, that the best hope for the sound, economic, strong establishment of an Indian Mercantile Marine lay in the development of co-operation and a spirit of mutual accommodation between the various interests operating on the coasts".

Although the policy of co-operation had failed in 1930, and although the universal demand in the country to explore other methods of developing Indian shipping continued, Government did nothing to help develop Indian shipping.

This Tripartite Agreement was to be revised in 1939. Indian shipping interests tried their best to do so, both in England and in India. In spite, however, of repeated requests by Indian interests all these years to help them with Government's good offices to have revised that Agreement, Government did nothing in that direction. A Conference of British and Indian shipowners was called by the good offices of the two Governments in 1947. But it proved abortive; and India has yet to fight her way in the list of shipping nations of the world.
During the inter-war period, there was also the problem of protecting the interests of small Indian Companies operating in the coasts. As a result of the intervention of the then Commerce Member, Sir Joseph Bhore, an Agreement was reached by which 85 per cent of the coastal trade in certain areas (West Coast Trade) was reserved for the same period for the small shipping companies operating there.

The stresses and strains of the World War II thoroughly exposed the weakness of the country in this respect when "Our British rulers, signally failed even in their elementary responsibility of feeding the Indian people ... The British Navy also did not and could not perform its duties of defending the shores of India .... That duty had to be discharged by the tiny little fleet of this country". This brought about a welcome change in the policy of the Government of India. The Statement on "Post-war shipping policy" issued in 1945 as part of the second report on Reconstruction and planning reads as follows:

"For a country of its size, the length of its coast line and its strategic position athwart one of the world's main sea routes, India possess a distressingly small number of deeps sea ships which at the outbreak of war stood at no more than 30 with a total of less than 150,000 tons gross. India's weakness in this respect has long been recognised, and the

* M.A. Master in a speech delivered on 2-2-1949 at Bombay.
Government of India are pledged to a policy of assisting in the development of an Indian Mercantile Marine. So far, however, the action taken to implement this undertaking has been limited to the establishment of the "Dufferin" for the training of the executive officers, the provision of special facilities for the training marine engineers and to using Government's good offices to promote a settlement between the Indian and British companies operating on the coast with regard to the division of the available trade between them.

"The valuerability of India's position has been revealed by the stress of the war time conditions but by no circumstances more glaring than by her inability to find adequate shipping for her own resources to provide for the transport of food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objectives, not only for commercial reasons but also because of the development of the Royal Indian Navy necessarily implies the concurrent development of the Merchant Navy.

"The acquisition of an adequate share in the world's carrying trade should be the aim of our post-war shipping policy, and to this end steps should be taken to secure for Indian shipping:-

(i) an increased share of the coastal trade, including the trade with Ceylon and Burma (the present share is estimated at between 20-30 per cent)

(ii) a substantial share in the near trades: e.g. Persian Gulf, East Africa, Malaya and Dutch East Indies and

(iii) a fair share in the Eastern trades, especially
those trades of which Japanese shipping will have been dispossessed;

(iv) a fair share also in the trade between India on the one hand and the U.K., the continent of Europe and North America on the other; and

(v) in order to give maximum relief to the railways, a number of steps have been taken to ensure the fullest utilization of country craft and to prevent wasteful competition between country craft and steamers. As India may have to look to all forms of transport to sustain her economy in the post-war era the continued development of country craft will have to be considered. Co-ordination of Steamer and country craft services is an essential part of this development, subject to due regard being paid to the different needs served by steamers and country craft.

This policy declaration represented a welcome change, long overdue, in as much as that the Government of India recognised its responsibility for the development of Indian shipping. In consonance to this policy, a sub-committee of the Reconstruction Policy Committee was appointed on 10th November 1945, to consider the departmental Statement on Post-war Shipping Policy, with the following terms of reference:

"To consider the departmental Statement on Post-war Shipping Policy and in the light of that Statement and all relevant considerations to recommend -

(1) What would be a suitable tonnage target for Indian shipping, to be attained within a period of five to ten years;

(2) What percentage shares of the maritime trade of
India and other trades in which India is interested both coastal and overseas, cargo and passenger, should be secured for Indian shipping, and

(3) what measures should be taken as to regulate the shipping industry with a view (i) to preventing the formation or establishment of combines or monopolies or excessively large units within the industry and (ii) to ensuring that the number of shipping companies is no larger than economically adequate, (iii) to ensure a fair and equitable distribution, among existing companies and those yet to be established; of trades which may hereafter be secured for Indian shipping.

The sub-committee will be competent to make such other recommendations as seem germane to the subject".

The committee submitted its report on 30th January 1947 and laid the foundation of truly dynamic and vigorous shipping policy of the country. It marked an "auspicious beginning for the regeneration of Indian shipping in as much as that the year 1947 also coincided with the political liberation of the country. Its recommendations, reproduced below, constituted the guiding principles for the national government of the country.

"We strongly emphasise that India should adopt a national shipping policy similar to the policy similar to the policies adopted by the important maritime countries of the world. We define the term "Indian Shipping" as shipping owned, controlled and managed by the nationals of India.

Proceeding on the generally accepted principle that a country should carry in its own national bottoms at least 50 per cent of her maritime trades, we recommend that the objectives of the future shipping policy in India should be to reserve for Indian shipping the entire coastal trade of India and to secure adequate shares in other maritime trades.

In regard to state aid, our recommendations are that the Government of India should give financial aid to that section of the industry which partakes in India's overseas trade. As the licensing system recommended by us would naturally limit the tonnage operating on the coast this portion of Indian shipping need not necessarily be financed by stated aid.

In order to implement our recommendations it is vital that the Government of India should take immediate steps to set up a shipping Board. The Shipping Board should be the spear-point of policy locally and internationally and should have powers to licence coastal vessels and to submit to Government proposals for the removal of all evils of monopolistic exploitation.

Owing to a number of practical difficulties it is not possible for the sub-committee to lay down at this stage the specific target of tonnage this country should eventually have and our recommendations constitute a programme of action for the next five to seven years only.

We have pointed out the defects in the existing statistical data and the necessity for filling up the gaps. It would be advantageous to ask the Port Trusts to undertake this task of improving statistical data and for this reason and for the
other principal reason that the shipping policy and all other questions relating to the ports should be dealt with in the same department, we recommend that the control over the Port Trusts should go over from the Transport Department to the Commerce Department. We recommend further that the shipping statistics should be separated from the trade statistics and published in a separate volume as is done in the U.K.

We recommend that hundred per cent of the purely coastal trade of India, seventy five per cent of India's trade with Burma and Ceylon and with the geographically adjacent countries fifty per cent of India's distant trades and thirty per cent of the trades formerly carried in axis vessels in the Orient should be secured for Indian shipping in the next five to seven years.

The consensus of opinion is that to carry the above cargo amounting to more than ten million tons a year and about three million passengers, India needs two million gross tons of shipping. This figures does not include country craft. Negotiations with H.M.G. and British Companies, immediate acquisition of tonnage by Indian Companies to carry the food grains required to be imported into India, purchase of U.S.A.'s surplus ships and building in India and U.K., are the principal ways of acquiring the additional tonnage.

As the Indian Shipping industry is still very young, we feel that emphasis should now be placed on how Indian Companies could expand their fleets and we have, therefore, stated that it is not possible at this stage to define what an "economically adequate unit" would be so far as this industry is concerned.
It would not be desirable to fix a tonnage limit for Indian shipping companies nor would we recommend the imposition of any restriction on them with reference to their capital structure. But, as we are anxious to prevent monopolistic exploitation we have recommended that the Indian Shipping Board should be empowered to control deferred rebates, rate-cutting and all other evils arising from monopolies.

Equitable division of trades between Indian shipping companies is essentially a matter of detail to be settled by the Companies themselves. If the Companies, however, fail to come to an agreement Government should evolve suitable measures for the fair and equitable distribution of the different trades". *

The Government of India, by their resolution No.172-N-1(25) 47, dated the 12th July, 1947, fully endorsed the view of the Committee that India like other important maritime countries must adopt a dynamic policy with regard to her shipping, and re-affirmed the departmental statement on post-war shipping policy. The Government of India, after careful consideration of the Report, summarised their conclusions on the recommendations in the Report as under:—

"The Government of India agree that the definition of 'Indian Shipping' as shipping owned, controlled and managed by Indian nationals, would be the ideal one and should be the ultimate objective. The Government of India, considering the conditions, then prevailing felt that the criteria to be satisfied by Companies to qualify them for treatment as

'Indian Shipping Companies' should be as follows:

* Report of the Reconstruction Policy Sub-Committee on Shipping, pp.46-47.
(a) The steamers of the companies should be registered at a port or ports in British India; provided that where Government are satisfied that any company is prevented from complying with this condition by circumstances beyond its control, it may be modified suitably;

(b) At least 75 per cent of the shares and debentures of the companies should be held by Indians in their own rights;

(c) All the Directors should be Indians;

(d) The Managing Agents, if any, should be Indian.

The Government of India added that any company, which found it difficult to comply with any of the above conditions, might apply for Government's specific approval to its being treated as an Indian Shipping Company.

With regard to the shares to be secured for Indian Shipping in the various trades, the Government of India declared that it was their intention to assist Indian shipping as far as possible in securing the shares recommended by the Sub-Committee.

The Government of India accepted in principle the recommendation of the Sub-Committee that a Shipping Board should be set up and agreed generally with the Committee's proposal regarding its functions.

A system of licensing and control, although of limited duration and scope, had been introduced in the coastal trade, and the Government of India considered that these arrangements could ultimately lead up to the more comprehensive system recommended by the Sub-Committee.

The Government of India endorsed the view of the Committee that India should adopt a dynamic policy with regard to shipping
and expressed their intention to assist Indian Shipping as far as possible in achieving the targets of tonnage estimated by the Sub-Committee in the various trades.

The Government of India also accepted the committee's view that the development of Indian Mercantile Marine would be facilitated if an understanding on the subject could be reached with the British Government and British Shipping interests. A conference of British and Indian shipping interests was accordingly held in London in July 1947. The Indian representatives tried to secure a share in the country's overseas trade when they were confronted with the question whether they had the ships to carry the share of the trade which they sought to secure. The Indian shipping interests did not possess the requisite tonnage and the British interests were not prepared to help them by selling them some of their ships. In the face of the British attitude of "no ships, no share in trade", the negotiations could not make any progress and the conference ended without achieving any tangible result.

Commenting on these developments Shri M.A. Master, in a speech delivered at a public function on 9-10-1947 said, "It is really very heartening that there has now been a fundamental change in the shipping policy of the country. We realise what a country can do if it has a national Government of its own. Our Government have announced that they will, like other important maritime countries such as England and America, adopt a dynamic policy for the development of an Indian Merchant Navy .... If such a policy is put into firm action with vigour and in right earnest, there can be no doubt that
Indian shipping will make rapid progress and will find that a great and brilliant future lies before it.

Recent experience has, however, convinced us that this dynamic policy cannot be implemented by negotiations with our British friends. The fulfilment of that policy calls for immediate and effective action both on the part of the Government as well as on the part of the people....."

Shri Master wanted the Government to take immediate steps to add to the meagre shipping tonnage of 250,000 gross by purchasing a substantial number of ships from abroad until our shipbuilding industry had adequately developed. Our immediate requirement was at least half a million tons gross, so as to enable us to carry our flags on various overseas routes. He suggested that ships should be purchased from U.S.A. which had a large surplus tonnage after the closure of the World War II and also by placing orders with the shipbuilding yards in U.K. against our accumulated sterling balances. He also wanted our Government to ask for the allotment of a few out of about 300 reparation ships allotted to European and other countries, in recognition of our services rendered during the Second World War.

The Policy Suggested by the I.N.S.O.A. :

The Indian National Steamship Owners' Association in a memorandum submitted for the consideration of the Fiscal Commission of 1949, elucidated what it believed to be the inherent rights of the Indian Shipping and Shipbuilding Industries in the future plan of the nation's economy. It demanded that a declaration on the lines of the one embodied in
the Merchant Marine Act, 1936 of the U.S.A., should be made by the National Government of India and same should be subsequently embodied in the New Indian Merchant Shipping Legislation which the Government of India were understood to have in hand at that time. The Association considered this declaration as its charter of rights which is reproduced below:

*Declaration of Policy:

"It is necessary for the national defence and development of its foreign and domestic commerce that the Union of India shall have a merchant marine -

(a) Sufficient to carry its domestic water-borne commerce, and a substantial portion of the water-borne export and import foreign commerce of the Union of India, and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times;

(b) capable of serving as a naval and military auxiliary in times of war or national emergency;

(c) owned and operated under the flag of the Union of India by citizens of the Union of India; and

(d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the Union of India and manned with a trained and efficient citizen personnel, as far as possible.

It is hereby declared to be the policy of the Union of India to foster the development and encourage the maintenance *

* From the memorandum submitted by the I.M.S.O.A. to the Fiscal Commission in 1949, p.49.
of such a merchant marine.

Charter of Rights:

(1) That the Shipping Industry must be encouraged in all possible ways to achieve the target of 2,000,000 in a period of five years;

(2) That their way to progress be made smooth and fair by the Government and that no impediment in whatever shape or form be allowed in the way of that achievement;

(3) That the industries be granted every facility for acquire more tonnage by the Government of the country coming to their aid in the form of -

(i) Construction subsidies, (ii) Construction loans.

(iii) Instituting hire-purchase system by which the Government buys the ship in the first instance and sells them to the shipowners.

(iv) that the shipowners be allowed and given every assistance in chartering tonnage to enable them to expand the sphere of their operations. In this respect the Government, if they so desire, can purchase a fleet of their own and charter it on bare boat terms to shipowners.

(v) That the shipowners be given an exemption from income-tax for the period of first five years to enable them to consolidate their position and build up reserves; like Italy etc.

(vi) that the shipowners be given an exemption from income-taxes on the profits ploughed back into the industry.

(vii) That the shipowners be given operation differential
subsidies.

(viii) That the shipowners be assisted with postal subventions, carriage of goods on Government account and carriage of troops and Government personnel.

(ix) That the ship-building industry be established in this country on a firm footing and that the old and new entrants be given facilities to purchase Government-controlled raw materials at a minimum fixed price.

(x) That the shipbuilders be given construction differential subsidies where their cost of building ships are higher than those prevailing in U.K.

(xi) That the shipbuilders be offered every assistance, financial as well as technical, not only to start and maintain the main industries, but also to start and maintain the ancillary and auxiliary industries so necessary for the shipyards of the country to become entirely independent in the production of their products.

(xii) That, finally and in the main, the shipowners and the shipbuilders in the country look to the Government to consider the question of production and acquisition of tonnage as one of the most urgent problems of the day so that the Nation would have an adequate mercantile marine at the earliest possible moment.
The first full dressed policy statement on shipping came from the then Commerce Minister the Honourable Mr. C.H. Bhabha while he was explaining, before a conference of shipping interests held in Bombay on 3rd November 1947, the shipping policy of the Government of India, as declared in the earlier resolution. He stated that as an interim measure the Government had taken the following preliminary steps:

(i) Some of the Indian shipping companies had been encouraged and assisted in procuring tonnage from the U.S.A. by the provision of foreign exchange on a considerable scale and such other administrative actions as lay in the Government's power to take;

(ii) Government had formally accepted the tonnage target laid down by the sub-committee and also the principle relating to the reservation of Coastal Trade for shipping companies borne on Indian Register;

(iii) That his predecessors in office had set on foot some negotiations with the U.K. Government for the sharing of coastal and overseas trade on an agreed basis, which negotiations had led up to a conference in the U.K. between the British and Indian shipping companies which had failed to yield tangible results.

The commerce Minister pointed out two fundamental defects in India's shipping viz., (1) Shortage of tonnage and (2) shortage of trained manpower and stated that Government's constructive approach to the problem implied:

* Based on the memorandum submitted by I.N.S.O.A. to Fiscal Commission in 1949.
(a) firstly, an immediate planned attack on the aforementioned basic weakness of Indian shipping, and (b) Secondly, such legislative and administrative action as might be necessary to safeguard the interests of Indian shipping both in Indian as well as foreign waters.

For reaching the target of two million tons as recommended by the sub-committee, the stated that it would be achieved in two practical ways viz., (1) either by building in India or (2) by acquiring such tonnage as might be available from the U.S.A. and other countries.

He, however, added that Government were aware that very few of the shipping companies in this country had the resources to buy a sufficiently large number of ships that might be found available, and it had been increasingly borne in upon Government that if at that stage of the development of the shipping companies in this country government had to rely on private enterprises, the growth and development of our Mercantile Marine would be disappointingly slow. The Government of India had therefore come to the conclusion that their new shipping policy must be broadbased on the active cooperation of the State with enlightened private enterprise in an endeavour to secure for India her rightful place among the Maritime Nations of the world.

This new policy Government felt, necessarily involved the setting up of new pattern of organisation where the state would have an effective voice in the shipping policy as well as in such major administrative decisions as might be necessary.
from time to time to give effect to that policy; and the commerce Minister outlined that policy as follows:

(1) Government should immediately take the initiative in establishing two or three shipping corporations.

(2) In each Corporation, in order to secure and retain effective control, Government should contribute not less than $5\frac{1}{2}$% of the total capital. The balance would be subscribed either wholly by an approved existing shipping company or partly by such company or partly by the public.

(3) Government would be entitled to nominate a number of Directors on the Board of Directors of the corporation proportionate to the share of the total capital subscribed by them.

(4) No private company would be associated with more than one corporation and where no one existing company was found suitable, participation by a group of companies would be permitted.

(5) A company, or group of companies so associated would act as Agents of the Corporation under the control of the Directors of the corporation on such terms and conditions as might be stipulated in the Agency agreement; ordinarily 100,000 tons would be regarded as the optimum tonnage for operation by each corporation.

The Minister further observed that the objectives underlying the Government proposals were to ensure the rapid expansion of Indian owned tonnage and the development of the Indian Mercantile Marine on sound, healthy, and nationally acceptable lines and he was convinced that it was only an organisation of the type as outlined above that could achieve this objective.
In a still backward maritime country like India it was only a government-controlled organisation that could pull its full weight in the private highly organised maritime economy of the world, and that it was only such an organisation that, by revealing Government's direct interest in this branch of transport, could:

(a) encourage the flow of private capital and diversion of private enterprise to shipping services,

(b) eliminate unhealthy competition between Indian companies in the same trades, and

(c) prevent the establishment of private monopolies.

Government felt that the association of private capital and of the operation and managerial experience of established private companies with the proposed corporations would reduce the risks to be taken by the corporations in what in normal times was considered a hazardous venture and would help towards efficient and economical management.

He further said, "I hope I have said enough to convince you that Government are not oblivious of their responsibilities in the matter and that in spite of their many worries and anxieties and major distractions they are moving steadfastly towards their goal. The pace may appear slow to many of you and the goal may be only dimly visible in the horizon, but we must be on our guard against any hurried moves or any false steps taken in a huff. We must make the basic foundation of our shipping industry secure against attack both from within and without, and it is only a co-operative structure based on the active guidance and co-operation of the state, that can with
The organisation that we propose for the shipping industry of the future will, I trust, provide the nucleus of such a co-operative structure. Whether or how this structure will grow and develop will depend largely on our capacity and character for in shipping as in all other industries, it is the quality of the Nation that alone constituted the ultimate guarantee of progress.

Under the Shipping policy of 1947 development of shipping was left to private companies and the responsibility of Government was limited to rendering assistance to them to achieve the targets. But the growth of tonnage was slow. The opportunity of building up the tonnage in the immediate post-war period was not availed of. Since shipping is a highly competitive and hazardous industry the fortunes of those engaged in this industry varied particularly during the pre-independence period on account of the cut-throat competition offered by the giant foreign companies and the lack of protection from the Alien Government of our country. Private companies were chary of putting money to the extent it was required. As has been amplified in the earlier paragraphs it become necessary that the resources of the private enterpreneurs or the savings forthcoming from private quarters should be supplemented by Government. It was therefore considered that State participation would inspire confidence in Indian companies and encourage them to expand their activities in this field. With this end in view and with a view to ensuring the development of Indian shipping with the active co-operation of the private enterprise, Government decided to
set up two or three Shipping Corporations.

As mentioned in chapter number III the Eastern Shipping Corporation, the first state-cum-private owned shipping Corporation, the first state-cum-private owned shipping venture came into being on 24th March 1950. In view of the tight monetary conditions then prevailing the contemplated issue of shares to the public was not made. The Government therefore, decided to take up 74 per cent of shares leaving 26 per cent to the Scindias.

This was an experiment in the policy of mixed ownership. The author of the policy, Shri C.H. Bhabha, the then commerce Minister, put it forth in the belief that it would considerably help the cause of Indian shipping if corporations were started where the State and enlightened private enterprise could work together for running shipping services. The policy did not, however, appeal to private shipowners. Although the policy was enunciated at the end of 1947 the first Corporation came into existence only in 1950. The delay in constituting the Corporation was stated to be due to the protracted negotiations with the Scindias. The proposal to set up the other two Corporations did not make any progress because the companies which were to be associated with them did not evince interest. In the circumstances, it was decided in 1956 to float a second Corporation as a wholly owned Government concern. The Western Shipping Corporation was accordingly set up in 1956. When the Indian Companies Act, 1956, came into force, Scindias ceased to be the Managing Agents of the Eastern Shipping Corporation under Section 325(1) of that Act. The Directors nominated by Scindias tendered their resignations and a decision was taken to repay Scindias' share capital.
After repatriation of the Scindias' share capital, the Corporation has become completely State-owned. Thus, the brief period of experiment in mixed ownership came to an end.

For achieving the objective of attaining a target of 2 million tons, one of the decisions taken by Government was to set up three Corporations in one year. It took three years to set up the first Corporation and nine years to set up the second. The proposal to set up the third Corporation has, for the present, been shelved. The Estimates Committee in its 38th report stated that the delay in setting up the Shipping Corporations was a major factor in retarding the development of shipping in the public sector.

Sea transport has been included in Schedule 'B' of the Industrial Policy Resolution, 1956, and as such belongs to the category of industries which will be progressively State-owned and in which, therefore, the State will generally take the initiative in establishing new undertakings, but in which private enterprise will also have the opportunity to develop in the field either on its own or with State participation. Thus, the policy of the Government as envisaged in 1947 has been more or less reversed and the responsibility for the development of Indian Shipping now rests squarely on the public sector. The Estimates Committee, however, felt that the full implication of this policy was not realised by the Government for the following reasons:

"(1) Though the ultimate target as well as the target for the plan period have been laid down, no corresponding target has been fixed for the public sector nor Government have any
plans in the public sector for achievement thereof”.

(2) Though under the Industrial Policy Resolution, 1956, Government had to take the initiative in setting up new undertakings, it was stated by the Secretary of the Ministry of Transport and Communications (Department of Transport) that permission had been given to some new private shipping companies to be registered as a matter of expediency in the hope that they might be able to secure foreign exchange for acquiring additional tonnage; and

(3) Though shipping in the private sector is expanding rapidly, its growth in the public sector has been comparatively slow”.

The existing policy of Government in regard to shipping Corporations is stated to be as follows:—

"Shipping in the public sector should not run in competition with private shipping companies on routes on which the private shipping companies have established themselves. The Corporations should operate only in those trades in which the private shipping companies are unwilling or unable to operate successfully, owing to uncertain prospects, or inadequacy of resources or any other reasons”.

However, the Estimates Committee felt that the policy of Government in relation to the Shipping Corporations was expressed in negative terms and lacked a positive approach. “Besides, as a policy statement, it is somewhat vague and indefinite.

* Estimates Committee’s 38th report, pp.4-5.
+ Ibid.
Different interpretations have been given to it by different interests and, consequently, a kind of controversy has grown over the role of the Government shipping Corporations so much so that the very necessity of their existence has been questioned. Besides, while the principle of filling the gap and playing a supplementary role might have been in keeping with the policy of Government a decade ago, it does not take into account the fact that the role of Government in the field of shipping has since undergone a change and that it is no longer to play the supplementary role, but the main role itself. The Committee, therefore, recommend that the policy of Government with respect to the Shipping Corporations should be redefined in a positive manner."

It was explained to the Estimates Committee during evidence by the representatives of the Ministry that the intention of Government was that one of the Corporations should specialise in tramp trade on certain specified routes and, for this reason, it was thought desirable to have a separate corporation. It was also explained that the two corporations would have a common organisation and no additional expenditure would be involved in maintaining the Corporations separate. However, since the Corporations were not likely to operate tramp services on the same routes on which they operated liner services and it was stated to be possible that the corporation which operated liner services on certain routes could also operate tramp services on other, the Committee was not quite convinced.

of the desirability or advisability of having two separate
Corporations for operating the small fleet that they owned.
They, therefore, recommend that the feasibility of amalgamating
the two corporations be considered, in any case, they hoped that
the assurance that no additional expenditure would be incurred
on maintaining the Corporations separate would be adhered to.

The amalgamation of the Eastern Shipping Corporation Ltd.
and the Western Shipping Corporation Ltd. was brought about on
2nd October, 1961, for securing better co-ordination in the
working of these Corporations and in the interest of economy.

State Aid to Shipping in India:

For accelerating the growth of Indian Shipping tonnage
and with a view to realising the targets of shipping set in
the Five Year Plans, the Government of India have been
giving loans to Shipping Companies in the private as well as
the public sector on the following terms, and conditions, since
the beginning the first five year plan:

(i) Overseas Vessels:

(a) Quantum of loan not exceeding 85 per cent, to 95 per
cent. in the case of vessels built new and not exceeding 75
per cent in the case of second-hand purchases.

(b) Rate of interest 2\(\frac{1}{2}\) per cent per annum on condition
that in the event of default, penal interest at 8 per cent per
annum should be paid by the company.

(c) Period of repayment - not exceeding 12 to 15 years
in the case of vessels constructed new and not exceeding 2/3
of the residual life of the ship (computed for income-tax
purposes) in the case of second-hand ships.
(d) Security to be offered - Adequate security acceptable to Government which will cover the loan amount outstanding plus 33 1/3 per cent by mortgaging the loan vessel and such other assets as may be necessary.

(ii) Coastal Vessels:

(a) Quantum of Loan. - Not exceeding 85 to 90 per cent in the case of vessels built new and 66 2/3 per cent to 75 per cent in the case of a second-hand purchase.

(b) Rate of Interest. - 4 to 4 1/2 per cent per annum on condition that in the event of default, penal interest at 8 per cent per annum will be paid by the company. 4 per cent is charged only if the loan as repayable in 4 years.

(c) Period of repayment. - Not exceeding 12 to 15 years in the case of new construction and not exceeding 2/3 of the residual life (computed for income-tax purposes) in the case of the second-hand vessels.

(d) Security. - Adequate security acceptable to Government to cover loan amount plus 33 1/3 per cent. by mortgaging the loan vessels and such other assets as may be necessary.

The condition that the borrowing company should accept a Government Director on their Board was originally imposed only in the case of small shipping companies. Subsequently, however, this condition has been made applicable in the case of all loans regardless of the status or standing of the shipping companies. In the case of small shipping companies, there are also two additional conditions, that they should implement any suggestion made by Government for the better management of
the company and that the loan vessels should be made available for periodical inspection by Government surveyors in regard to their maintenance and upkeep. Other conditions which are usually imposed in the case of loans are that the companies concerned should keep the "loan vessels" always insured against all usual risks including war risks for an amount not less than 25 per cent in excess of the sums owing to Government and that the insurance policies will be duly assigned in favour of the Government.

In a memorandum submitted to the Government, the Indian National Steamship Owners' Association proposed the following modifications in the rules governing the grant of loans to shipping companies:

(i) Quantum of loans: This should be increased to 95 per cent in the case of new constructions and 90 per cent in the case of second-hand purchases in respect of both coastal and overseas vessels.

(ii) Rate of interest: This should be reduced to 1 per cent per annum in the case of vessels acquired for overseas trades and 2 per cent per annum in the case of vessels acquired for coastal trade, no interest being charged in both the cases for the first five years commencing from the date of the loan.

(iii) Period of Repayment: This should be increased to 20 years in the case of new construction and to the full residual life of the ship (computed for income-tax purpose) in the case of second-hand ships.

Regarding the availability of funds, it was represented to the Committee that sometimes funds were not made available
when they were actually required and the shipping companies had to miss the opportunity of buying ships when the market conditions were most favourable.

It was also suggested that instead of insisting on the repayment of loans to Steamer Companies, given in the First Plan, they may be permitted to utilise the amount due for repayment for buying more ships and continue to pay interest as before. The Estimates Committee very carefully considered the above suggestion and recommended to the Government to examine their feasibility.

The Committee also recommended to the Government that they should examine the feasibility of implementing Shri C.H. Bhabha's scheme regarding procurement of loans through marketable bonds. He advocates that the loans given by Government should be funded in the form of marketable bonds of Debentures guaranteed by Government; and to ensure a proper response and success to such a scheme, the authorities should issue directions to such Indian Shipping Companies, who have taken loans, to invest a specified part of their depreciation amounts, year after year, in such bonds or debentures at the then ruling market price of these securities, ensuring thereby a setting-off or cancellation of their liabilities through such investments.

Operational Subsidies:

The Scindia Steam Navigation Company made a request to Government during the year 1949-50 for the grant of an operational subsidy to cover their losses in the India/U.K. passenger service. This service was being maintained by their vessels 'Jal Azad'
and 'Jal Jawahar'. The company pleaded that they were incurring a loss of about Rs.8 lakhs per annum as these vessels had no control over the losses which were attributed, mainly, to the following reasons:

(i) High capital cost of ships on account of which they had to make increased provision for depreciation.
(ii) Low speed and high fuel consumption.
(iii) Competition from other lines.

The Government were unable to accede to the request for a subsidy mainly for the following reasons:

(a) There was no indication that the grant of a subsidy would make the service an economical proposition.
(b) When once a subsidy was agreed to, there was no knowing how long it would have to be granted to make the service pay its way.

Subsequently, the Scindias approached Government for permission to sell the two vessels to the Eastern Shipping Corporation and as it appeared that there were prospects of the vessels operating profitably, in the Corporation's trades and as Scindias had decided to discontinue the U.K. passenger service, the permission applied for was given. The vessels were acquired by the Corporation, and they were being operated in the Madras-Singapore and Bombay-East Africa trades.

On being asked by the Estimates Committee about the Government of India's Policy regarding operational subsidies, the Ministry informed the Committee:

"It is contrary to the Government policy, generally, to grant any direct operational subsidy, especially, on a long
They have, however, offered to grant loan facilities on liberal terms and conditions for the acquisition of suitable ships for operation in these trades; but the shipping companies have not been willing to enter these trades on this offer, their reluctance being mainly on the grounds that these were losing services. Government are at the same time anxious to maintain regular Indian Shipping Services in these trades, particularly, in the following two routes:

(i) Madras/Rangoon passenger service.
(ii) India/Persian Gulf services (both passenger and cargo).

"They have, therefore, decided to entrust such services to one of the Government sponsored shipping corporations in spite of the prospect of loss. The question of granting any direct subsidy to these Corporations does not arise as Government are committed to indemnify the Corporations against losses incurred by them in certain specified services during the first five years of their operation subject to re-imbursement out of subsequent profits. So far as the Madras/Rangoon passenger service is concerned the Eastern Shipping Corporation have accordingly placed an order for the construction of suitable passenger-cum-cargo vessel at the Hindustan Shipyard. Similarly, the India-Persian Gulf has been allotted to the Western Shipping Corporation in which Government hold the entire capital.

"With regard to the India/U.K. passenger service, the idea is that when funds permit, Government should acquire two or three suitable passenger vessels and entrust them to one of the corporations for operation. It was originally proposed that Government should acquire such passenger vessels during
the Second Five Year Plan period; but, subsequently, on account of the limited finance available, this proposal has been dropped. The proposal may be raised during the third five year plan."

The Estimates Committee however, felt differently in this regard. Its stated ".... India is geographically situated in a Central position in Asia and is destined to play an important role in international affairs, especially in the East. Apart from strategic importance, her ships will be the symbols of friendship and cultural ties that exist amongst the sister nations of Asia. Her ships would be her roving ambassadors and become an effective instrument in strengthening India's external relations. It is, therefore, necessary to maintain running the passenger and passenger-cum-cargo services on routes like India/Burma, India/Red Sea Ports and Persian Gulf, India/East Africa etc. even though these services may have to be run at some financial loss in the initial stages."+

It will be interesting to quote here an extract from the Industrial Policy Resolution No.91/CF/48, dated the 30th April 1956 where in in para 11 it is stated -

"Industrial undertakings in the private sector have necessarily to fit into the frame work of the Social and Economic Policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general be desirable to allow such

+ Ibid.
undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exists in the same industry both privately and publicly owned units, it would continue to be the policy of the state to give fair and non-discriminatory treatment to both of them."

Keeping in view the above policy statement, and the pressing need of developing Indian Shipping, the Estimates Committee suggested that the question of giving operational subsidy to avoid closing down of certain essential services (as had happened in the case of India/U.K. passenger service) might be reconsidered. As the Government was indemnifying the shipping corporations in public sector against losses for a certain period subject to re-imbursement out of subsequent profits, similar facilities might be extended to the private sector also where found necessary, in the larger interest of Indian shipping as a whole.

Representations were also made to the Government by the Shipping companies to afford relief in the following directions:

(i) The application of the accelerated depreciation allowances should be made optional.

(ii) Proceeds from sale of ships should be exempted from income-tax and Capital Gains Tax, if they are utilised for acquiring further tonnage.

(iii) Profits ploughed back into the Shipping Industry should be exempted from Income-tax.

(iv) Ship's stores and Bunkers should be exempted from Customs duty and sales tax.
**Development Rebate:**

With the grant of a development rebate of 25% in 1955 all industries, including shipping, were entitled to deduct, in addition to the usual depreciation, an extra 25 per cent. of the cost of new plant and machinery, including ships, installed in the business after 1st April 1954, for computation of profits. On account of the unique character of the shipping industry, and the fact that the British Government had since then increased the development rebate on ships to 40%, INSOA had also been asking the Government of India to increase the development rebate on Indian ships to 40% so as to be in line with British shipping with which Indian shipping had to compete. It was gratifying that the INSOA's appeal met with a favourable response from the Government of India which increased the development rebate on ship to 40% from 1-1-1958.

In partial response to the INSOA's further requests, an amendment was made to the conditions attached to the development rebate by virtue of which 75 per cent of the Development Rebate admissible has to be transferred from the profit and Loss Account to a reserve fund to be utilised during the next 10 years for acquisition of assets. In the year of installation in which the rebate cannot be set off in full due to insufficient profits, it may be carried forward over a period of eight years, and the obligation of creation of reserve will in such cases be limited to 75 per cent of such part of the rebate as can be absorbed by available profits in a particular year.
Exemption From the Wealth Tax:

In 1958, the Government of India exempted the shipping industry from the levy of 3% tax on the wealth of the corporations. This was done in recognition of the fact that shipping companies were not in a position to earn high profits on capital employed. Levy of wealth tax on them meant the slow attrition of their capital and their ultimate extinction. It was also felt that the Indian shipping industry was still in a nascent stage and therefore needed all incentives for its development and expansion. The imposition of the wealth tax would have meant a tax burden of about Rs. 20 lakhs on 8 shipping companies whose block value was round about Rs. 40 crores in 1957. These companies owned 85% of the total tonnage.*

Indirect Measures for the Development of Shipping:

The indirect but important steps taken by the Government in the postwar period for promoting the development of Indian Shipping were as follows:

(1) Establishment of the Office of the Director General of the Shipping in 1947 for the administration of the Merchant shipping Act, running of training institutions and welfare activities, and promoting expansion of of Indian shipping tonnage etc.

* Figures based on the evidence given by Shri M.A. Master before the Select Committee of Parliament for Wealth and Expenditure taxes, dated 6-8-1957.
(2) Reservation of Coastal trade for Indian ships in August, 1950.

(3) Establishment of the M.H. Board in March 1950 for advising the Government on the problems of development of our ports.

(4) Taking over by the Government the Scindia Shipbuilding Yard (which was running at loss) in the year 1952 and making available the ships constructed in the yard to shipowners at U.K. parity price.

(5) Passing of the Merchant Shipping Act of 1958 in October '58.

(6) Instituting of non-lapsing shipping development fund in March 1959 for rendering financial assistance to Indian Shipping Companies for the acquisition of ships.

(7) Instituting of the National Shipping Board in March 1959 for advising the Government on problems of Indian Shipping.

(8) Appointment of the Shipping Co-ordination Committee in January 1958 for making available cargoes imported and exported on behalf of the Government to Indian Shipping Companies.

(9) Establishment of Freight Investigation Bureau in January 1959 for investigating into the Complaints of shippers regarding high and discriminatory freight rates, lack of shipping facilities etc.

(More details in this regard will be found in the relevant chapters)

Participation of Foreign Capital in Indian Shipping Companies:

The original draft of the Merchant Shipping Bill, 1958, in clause 12 relating to the definition of Indian ship provided that foreign investment would be allowed to the extent of 40%
together with 60% Indian investment. This was considered necessary in view of the difficulties, regarding the availability of capital and paucity of foreign exchange, which impeded the growth of Indian shipping tonnage. The shipowners were totally opposed to the provision of this clause and they submitted a memorandum, explaining why they considered any Indo-foreign combine as highly detrimental to the vital interests of the country. As against this there were a few who advanced equally weighty reasons for an increasing degree of foreign participation in the equity capital of Indian Shipping Companies. They suggested 51:49 percent formula as it had been accepted by the Government in several other industries, but in view of the special conditions of the shipping industry they considered a safer formula of 60 and 40% so that the national interest might be effectively safeguarded as well as the foreign investment may be given suitable encouragement. However, the Joint select Committee of parliament to which the Bill was referred to, recommend a ceiling of 25% for foreign participation in the equity capital of Indian shipping companies. The Indian parliament accepted this and the definition of the Indian ships as it finally emerged in the Merchant Shipping Act of 1958 clause 21, was as follows:

"For the purposes of this Act, a ship shall not be deemed to be an Indian ship unless owned wholly by persons to each of whom either of the following descriptions applies:

(a) a citizen of India; or

(b) a company which satisfies the following requirements, namely -
(i) the principal place of business of the company is in India;

(ii) at least seventy-five per cent of the share capital of the company is held by citizens of India:

Provided that the Central Government may, by notification in the Official Gazette, alter such minimum percentage, and where the minimum percentage is so altered, the altered percentage shall, as from the date of the notification, be deemed to be substituted for the percentage specified in this sub-clause;

(iii) Not less than three-fourths of the total number of directors of the company are citizens of India;

(iv) the chairman of the board of directors and the managing director, if any, of the company are citizens of India;

(v) the managing agents, if any, of the company are citizens of India or in any case where a company is the managing agent, the company satisfies the requirements specified in sub-clauses (i), (ii), (iii) and (iv)".*

However, subsequently on the recommendations of the Congress Parliamentary Party's executive Committee the Government of India in April 1963 decided to permit increased foreign participation in the equity capital of Indian Shipping - upto a limit of 40 per cent - but the other provision of the Merchant Shipping Act relating to the composition of the board of directors

remained unchanged. This relaxation was made under the hope that the Indian Shipping Companies would be able to attract foreign capital and thereby to increase the tonnage of Indian bottoms.

The question of foreign participation in the Indian Shipping ventures on both these occasions touched off an acrimonious debate in the country. It is therefore interesting to examine the arguments, for and against, advanced firstly at the time of the passing of the Merchant Shipping Act in 1958 and secondly in April 1963 when it was raised from 25 to 40 per cent.

(1) It was stated that the Government of India had not pressed upon the World Bank the great need for financing Indian Shipping just as had been done for ports, so that the necessary exchange might be forthcoming from that quarter.

As against this it was stated that it was no doubt true that at one time the World Bank Chairman seemed agreeable to consider shipping as deserving of support of the World Bank. But as shipping did not form the Core of the Plan, it was neither likely that the Government of India would apply for such loan nor that the World Bank would agree to give the amount. So far as shipping was concerned, there was no reasonable prospect of any world assistance such as World Bank Loan.

(2) It was suggested that shipping being the second line of defence, part of funds meant for defence proper should be diverted to enable shipping companies to reach the targets set under the Five Year Plan.

As against this alternative suggested by the opponents of
foreign capital in shipping it was felt that the iron and steel industry which is the mother of all industries was more important both from the defence as well as the development point of view might need such a diversion of funds if at all it was practicable. (3) It was suggested that half of the money likely to be paid as freight for the import of food-stuffs from America and elsewhere should be diverted to shipping requirement, in order that part of the foreign exchange could be saved.

It was, however, forgotten that if such an amount was allocated to shipping, so much less food could be brought in. Just as the earlier suggestion meant starving defence for shipping, this one would result in starving Indian citizens for growth of Indian Shipping.

(4) It was further suggested by the shipowners that foreign loan should be negotiated for Indian Shipping as was done in the case of steel, railways, ports, etc.

As against this it was felt that instead of the Government providing a foreign loan on its own risk for the purpose of purchasing the ships which would benefit the private shipowners, the Government should instead encourage its own shipping Corporations in the public sector.

Moreover it was felt by the Indian Shipowners that India with its tiny tonnage was making a very dangerous experiment by inviting a foreign capital, which even countries with highly developed shipping, would not venture to do. Out of 110 million tons of shipping in the world, as on July 1957, it was suggested that countries owning over 76 million tons of shipping did not allow foreigners to own their national ships. Even the U.K.,
which is recognised as a leading maritime country in the world, did not concede that privilege to foreigners. It was further reiterated that countries owning over 66 million tons of shipping in the world, imposed severe restrictions on the foreigners owning capital in shipping companies and imposed obligations so that either the entire or the predominant control, direction and management of the ships would remain in the hands of the nationals of the country.

More recently when the foreign participation was raised to 40% in the Indian Shipping Companies the following arguments were advanced against such a move:

(1) As the country's merchant navy is its second line of defence, increased foreign participation and control might create a difficult situation in a war or an emergency.

(2) Through increased foreign participation and control, Indian shipping would lose not only its "swadeshi" character but also national ownership and management in the real sense. Once substantial foreign interests are allowed to come in, the dominating control and management is "bound to pass" into the hands of outsiders. As the assets of a shipping concern are floating ones, the power and control exercised by the Government of India would not be fully effective as in the case of other industrial establishments.

(3) The disadvantages of "divided loyalty" would be particularly marked at International Liners' Conferences where India would have to speak with two voices - one of the nationals of the country and the other of the foreigners having a large share in the ownership of Indian ships. foreigners cannot be expected
always to stand by India at these conferences. The Government of India, too, cannot hope to influence adequately the decisions of the various powerful liners' conferences for several decades to come.

(4) Nationalisation of shipping at one stroke would be a preferable alternative to creating uncertainties and anxieties, and the inevitable conflict between the purely "national" companies and the proposed "mixed" ones.

(5) Increased foreign participation, with its concomitant in the possible creation of "surplus" tonnage in the overseas trade, would be "unfair" to the national shipping concerns which had struggled hard over the past few decades to establish Indian shipping on "sound" lines.

(6) The present move is probably intended to accommodate some new shipping companies which could not raise enough equity capital within the country.

(7) There is no guarantee that foreigners choosing to collaborate would not inflate the prices of their vessels in the course of their acquisition.

(8) The third Plan target for shipping is about to be achieved without the necessity of inviting foreign capital.

Most of the above arguments coming as they did against the backdrop of the Chinese invasion of the country were dismissed as a mere reflection of a hysterical approach on the part of the existing shipowners. Their fears against foreign capital were considered as purely imaginary. It is asserted that there is no reason to suppose that a ship, with Indian command, Indian officers and crew might seek refuge in a neutral port or go over
to an enemy, in a war simply because 40 or 49 per cent of the capital is not Indian. There is no reason to believe that even a 49 per cent foreign interest in equity, which will still be a minority interest, could lead to "dominating control and management" by outsiders. Such a big minority interest will still not change the national character of an "Indian ship" as defined in the Merchant Shipping Act. Nor will it change the "Indian" character of control and management, for the majority of members on the Board of Directors can only be "Indians". Besides the minority foreign interests will have a stake, which will be nearly equal to that of majority Indian interests, in the profitability and efficient performance of Indian shipping. And they can, therefore, be expected, as a matter of course, not to do anything detrimental to the interests of an Indian shipping company in which they are participating.

The other arguments advanced on behalf of shipowners, it is 

safe to say, bring out their conservative reference to "inevitable conflict" between existing and new companies, as also to the possible emergence of a "surplus" in overseas tonnage consequent on the formation of "mixed" companies, reflects a static mind. Here, again, the conservative approach is rooted in the fear that the emergence of new companies with foreign capital participation might lead to further competition from more efficient and modern managements. Where a five fold expansion of Indian tonnage is clearly called for to enable it to handle at least half of the country's foreign trade, it is amazing that the older companies should refuse, to see the expansionary role of foreign participation which can add greatly, to the
existing tonnage in the shorter possible time.

The National Shipping Board which met in early 1963 also considered this question. It advised the Government of India to permit Indo-foreign shipping ventures only for the tanker and the tramp shipping.

Much of this controversy has proved only of academic interest if not sterile simply because since 1958 when the door for the foreign capital was opened up to very recently, not a single Indo-foreign shipping venture (the Jayanti Shipping Company is the only exception) has materialised; either in the private or in the public sector.

Shipping Policy under the Five Year Plan:

The Planning Commission realising the importance of shipping stated in the first Plan that expansion of tonnage was necessary, firstly, to implement the policy of coastal reservation, and, secondly, to ensure fuller participation in the overseas trade. The shipping companies, however, were in need of financial assistance because of the condition of the investment market during the last three years and the fact that these companies, most of which were started recently, had not been able to build up any significant reserves. Taking into account the financial resources available, a programme of development was formulated which aimed at increasing the total gross registered tonnage in the coastal and overseas trades to about 600,000 by the end of the period of the Plan. Some assistance might be forthcoming from the International Bank for Reconstruction and Development for the acquisition of additional tonnage, especially in view of the importance of carrying foodgrains, but whether,
this materialised or not, it was essential that the programme of expansion of tonnage should be implemented.

Regarding the terms and conditions of financial assistance envisaged for shipping the Planning Commission further stated that the shipping companies had urged that the ability to utilise loans provided in the Plan was dependent on the rate of interest charged. This was more so in the case of the companies engaged in overseas trade who had to face keener competition than those engaged in coastal trade, which was sheltered on account of coastal reservation. It was felt that there was justification for a lower differential rate of interest on loans for purchase of tonnage for overseas routes. Such rates might involve an element of subsidy to shipping and it might be necessary to have the standard costs examined.

Fiscal Concessions:

The shipping companies had demanded a few concessions to enable them to raise the necessary finance for replacing obsolete tonnage and acquiring additional tonnage according to the programme. They were:

(a) Profit on sale of old ships should be exempted from taxation on condition that the entire sale proceeds were utilised for replacing the vessels.

(b) Depreciation allowances admissible for taxation purposes should be related to original cost or replacement cost, whichever was higher.

(c) The shipping companies should be entitled to seek assistance from the industrial finance corporation.
The Planning Commission reaction to these suggestions was that the fiscal concessions envisaged in (a) and (b) were of a general character. A uniform policy had to be followed in regard to all industries in such matters. The suggestion in (a) might however, be examined in view of the high cost of the main asset of this particular industry, namely a ship. As regards the third suggestion, legislation to enable the Industrial Finance Corporation to assist the shipping industry was under consideration.

The Programme of Acquisition of Tonnage: under the First Plan:

<table>
<thead>
<tr>
<th>Coastal Trade</th>
<th>Tonnage</th>
<th>Financial Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>G.R.T.</td>
<td>(Total) (Foreign Exchange) (Rs. crores)</td>
</tr>
<tr>
<td>(i) Tonnage from Visakhapatnam shipyard.</td>
<td>100,000*</td>
<td>9.0</td>
</tr>
<tr>
<td>(ii) Additional tonnage Overseas Trade</td>
<td>65,000</td>
<td>6.0</td>
</tr>
<tr>
<td>(100,000 d.w.t.) Additional tonnage</td>
<td>70,000</td>
<td>8.7</td>
</tr>
<tr>
<td>(iii) Ships for the Eastern shipping Corporation.</td>
<td>40,000</td>
<td>6.0</td>
</tr>
</tbody>
</table>

* 60,000 G.R.T. would be for replacement of over-aged ships.

Source: The First Five Year Plan, p.470.

It was expected that by the end of the First Five Year Plan period, the tonnage in the coastal trade would be about 315,000 G.R.T. and in the overseas trade 283,000 G.R.T. totalling...
About 600,000 G.R.T.

Since the Central Government would be extending financial assistance to shipping companies in order to expand their tonnage, the planning Commission wanted the Government to keep a continuous watch with a view to ensuring that the coastal rates of freight and passenger fares were reasonable and that the shipping companies made adequate provision for purposes of replacement and renovation and that the management was efficient and progressive.

Regarding the nature and quantum of expansion of shipping tonnage based on foreign assistance the planning Commission stated that "the provision made for shipping would not meet all the requirements in the coming years, e.g., replacement of all overaged passenger ships, the nucleus of a tanker fleet in connection with, the projected oil refineries and the acquisition of a certain volume of tramp shipping, which was of considerable value in importing foodgrains and in similar duties in times of difficulty. These requirements should be borne in mind in diverting unutilized amounts from the funds earmarked as loans to the shipping companies as well as any additional amount that might become available through foreign aid. It further added that this did not mean the shipping industry would be relieved entirely of their share of 25 per cent or 33 1/3 per cent, as the case might be, of the cost of meeting these requirements. In the case of tankers, however, the Government might have to meet the entire cost themselves."
Regarding the question of co-ordination of shipping with other transport agencies it stated that "movements of goods between port and port were effected by both railways and coastal ships. Country crafts competed to a certain extent with ships in the coastal trade. Although competition between these agencies of transport might not be serious at present owing to bottlenecks in the railway system and insufficiency of coastal shipping, possibilities of keen rivalry existed when conditions became normal. Measures such as reservation of transport of certain commodities to sailing vessels and co-ordination of traffic between railways and coastal ships might have to be taken in future for utilising the various transport services to the best possible advantage.

Recognising the importance of the ports and their development the Commission stated that ports were the gateways of foreign trade and commerce of a country and they served its maritime transport and played a vital part in the national economy. After partition, India's foreign trade was carried on through the five major ports of Calcutta, Bombay, Madras, Cochin and Vishakhapatnam. The loss of Karachi threw an additional strain on the Bombay port to which a part of the traffic previously handled by the Karachi port had been diverted. The capacity existing these of the five major ports to handle cargo was about 20 million tons per annum excluding petroleum, country-craft and bunkers. As against this capacity, they handled about 20 million tons during 1949-50 including petroleum and country-craft traffic, which showed that there was no reserve capacity for coping with a possible expansion of trade in future. Even the capacity was not sufficient to
meet the demands of peak traffic".

It was therefore felt that further expenditure had to be incurred on port development during the period of the plan to realise the following objectives:

(a) to provide a major port at Kandla to handle the traffic previously catered for by Karachi.
(b) to construct a marine oil terminal at Bombay.
(c) to rehabilitate and modernise the facilities at all the existing ports.
(d) to provide additional wharves and berths at Calcutta, Cochin and Madras.
(e) to survey the facilities available at minor ports and improve selected ports with a view to supplementing the resources of the major ports.

At the beginning of the First Plan India had a tonnage of 390,707 GRT consisting of 217,202 GRT on the coastal trade and 173,505 GRT on the overseas trade. The plan provided for an increase of 215,000 GRT, of which 105,000 GRT were to be on the coastal trade and 110,000 GRT on the overseas trade. Thus, according to the plan, the total tonnage should have reached 600,000 GRT. This was to be in addition to the provision for acquisition of ships to the extent of 60,000 GRT with a view to replacement of obsolete ships. However, at the end of the plan the total tonnage attained was 480,000 GRT consisting of about 240,000 GRT on the coastal trade and trade with adjacent countries and 240,000 GRT on the overseas trade.
The Plan had made a financial allocation of Rs. 18 crores for the development of shipping, but this amount was increased to Rs. 26.3 crores with the object of providing further loans to shipping companies to enable them to acquire tonnage for overseas trade. Commitments to the extent of full provision of Rs. 26.3 crores were finalised during the plan period; the expenditure incurred in the first plan was Rs. 18.71 crores.

Second Five Year Plan:

In the second plan it was proposed that about 300,000 GRT should be added after allowing for the obsolescence of 90,000 GRT. Thus, by the end of the second plan the total tonnage should be 900,000 GRT.

The broad objectives of the plan were:

(a) to cater fully for the needs of coastal trade with due regard to the possibility of diverting some traffic from railways to coastal shipping.
(b) to secure an increasing share of India's overseas trade for Indian ships, and
(c) to build up the nucleus of a tanker fleet".*

With the achievement of the targets mentioned above, the Indian tonnage was expected to carry about 12 to 15 per cent of the country's overseas trade and 50 per cent of her trade with adjacent countries as against the proportions of 5 and 40 per cent.

* The Second Five Year Plan, p.481.
respectively at the end of the First Plan. The tonnage position at the end of the Second Plan was excepted as follows as compared with the position at the end of the first plan:

<table>
<thead>
<tr>
<th></th>
<th>Before the First Plan</th>
<th>At the end of the First Plan</th>
<th>At the end of the Second Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal &amp; adjacent</td>
<td>2,17,202</td>
<td>3,12,202</td>
<td>4,12,200</td>
</tr>
<tr>
<td>Overseas</td>
<td>1,73,505</td>
<td>2,83,505</td>
<td>4,05,505</td>
</tr>
<tr>
<td>Tramp</td>
<td>-</td>
<td>-</td>
<td>60,000</td>
</tr>
<tr>
<td>Tankers</td>
<td>-</td>
<td>5,000</td>
<td>23,000</td>
</tr>
<tr>
<td>Salvage Tug</td>
<td>-</td>
<td>-</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,90,707</strong></td>
<td><strong>6,00,707</strong></td>
<td><strong>9,01,707</strong></td>
</tr>
</tbody>
</table>

Source: The Second Five Year Plan, p.481

A provision of Rs.45 crores was made for the development of shipping under second plan but since there was a carry over of about Rs.8 crores from the First Plan, only about Rs.37 crores were likely to be available for the expansion programme during the Second Plan period. However, the original allocation of Rs.45 crores, for shipping was revised upward to Rs.54.25 crores. This included the carry over of Rs.8 crores from the First Plan. Against the provision of Rs.24 crores in the plan for loan assistance to private shipping companies for acquisition of shipping tonnage, loans to the extent of Rs.14.46 crores were sanctioned till the end of 1958-59.

Regarding the liberalisation of terms and conditions of the loans given to shipping companies the planning Commission
stated "The Central Government are examining the possibility of liberalising the terms on which financial assistance is granted to shipping companies. Liberalisation of terms has been sought by companies in three directions, namely, reduction in rates of interest, extension of the period of repayment, and increase in the quantum of loans granted for the purchase of ships. The basis of subsidy given by Government in respect of ships built at the Hindustan Shipyard is also under review and it is hoped to evolve a suitable formula for the determination of prices to be charged in future for ships manufactured at Vishakhapatnam. Indian shipping companies have also to be assisted in securing an adequate share of India's overseas trade. Steps were taken during the first plan period to encourage the use of Indian tonnage for cargo controlled by Government and further measures are now being considered so as to evolve a coordinated policy applicable to all cargoes controlled by public as well as semi-public organisations. In respect of coastal traffic, which is reserved for Indian tonnage, the question of closer coordination between railways and coastal shipping is at present being considered by an expert committee".

* A substantial addition was made in the shipping tonnage during the first two plan periods and despite foreign exchange

difficulties, the overall target of 9 lakh GRT set for the end of the Second Plan was almost achieved. Indian ships, it was estimated were carrying 8 to 9 per cent of India's overseas trade at the end of the Second Plan. The following figures indicate the tonnage position for the coastal and the overseas trade at the end of the First and the Second Plan periods:

<table>
<thead>
<tr>
<th></th>
<th>1950-51</th>
<th>1955-56</th>
<th>1960-61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal</td>
<td>2.17</td>
<td>2.40</td>
<td>2.92</td>
</tr>
<tr>
<td>Overseas</td>
<td>1.74</td>
<td>2.40</td>
<td>6.13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.91</strong></td>
<td><strong>4.80</strong></td>
<td><strong>9.05</strong></td>
</tr>
</tbody>
</table>

Source: The Third Five Year Plan, p.556.

The targets for overseas and coastal shipping by the end of the Second Plan were 4.9 and 4.1 lakh GRT respectively. The actual achievement in respect of overseas tonnage exceeded the target, while in the case of coastal shipping there was substantial shortfall. The financial expenditure incurred during the Second Plan was estimated at Rs.52.7 crores, as against Rs.18.7 crores in the First Plan. An important step taken during the Second Plan period was the establishment of a non-lapsing shipping development fund for grant of loans to shipping companies for the acquisition of tonnage.

The Third Five Year Plan:

Regarding the financial outline and the shipping tonnage expansion programme during the Third Plan the Planning Commission stated "A provision of 55 crores has been made for
shipping in the Third Plan. In addition, a sum of Rs.4 crores is likely to be available from the shipping development fund. The shipping companies are expected to contribute Rs.7 crores from their own resources. A little more than one half of the total amount is proposed to be spent in the private sector and the balance on the programmes of the two corporations in the public sector. It is expected that about 57 ships with a tonnage of 375,000 GRT will be acquired during the plan period.

Of the total tonnage, about 194,000 GRT are estimated to be required for replacement of over-aged ships and the remaining 181,000 GRT will be available for addition to the existing tonnage. This will increase the total tonnage available to 1.1 million GRT. About 216,000 GRT will be acquired in the private sector and the remaining 159,000 in the public sector.

The following table gives the break-up of the tonnage proposed to be acquired during the Third Plan between coastal and overseas trades, both in the private and the public sectors:

<table>
<thead>
<tr>
<th>Item</th>
<th>Private Sector</th>
<th>Public Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal replacement</td>
<td>100,000</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>addition</td>
<td>25,000</td>
<td>7,500²</td>
<td>32,500</td>
</tr>
<tr>
<td>total coastal</td>
<td>125,000</td>
<td>75,000²</td>
<td>132,500</td>
</tr>
<tr>
<td>Overseas replacement</td>
<td>56,000</td>
<td>37,600</td>
<td>93,600</td>
</tr>
<tr>
<td>addition</td>
<td>35,200</td>
<td>113,200</td>
<td>148,400</td>
</tr>
<tr>
<td>total overseas</td>
<td>91,200</td>
<td>150,800</td>
<td>242,000</td>
</tr>
<tr>
<td>Total - Coastal &amp; Overseas</td>
<td>216,200</td>
<td>158,300</td>
<td>374,500</td>
</tr>
</tbody>
</table>
Of the total tonnage, 132,500 GRT are required for the coastal trade and the remaining 242,000 GRT for the overseas trade. A major part of the programme for coastal shipping relates to the replacement of overaged ships. Of the total of 32,500 GRT proposed to be added to the coastal tonnage, 25,000 GRT will consist of small coastal ships for general cargo service, and the remaining 75000 GRT are accounted for by one coastal tanker. As regards overseas trade, provision is made for the replacement of 93,600 GRT of overaged ships and for the addition of about 148,000 GRT to the existing tonnage. Of the additional tonnage, 53,000 GRT are accounted for by tankers. It is proposed to acquire three tankers, two for import of crude petroleum and one for import of petroleum products.

It is recognised that the expansion of shipping has a high priority because it will enable savings to be effected in the foreign exchange expenditure which is at present being incurred on the carriage of the country's overseas trade. The National Shipping Board had recommended a target of 14.2 lakh GRT to be reached by 1955-56. The development programme for shipping however, depends largely on the availability of foreign aid for this purpose, and of necessity has to be modest. As regards coastal shipping, the Committee on Transport Policy and Coordination is expected, in its final report, to make recommendations on the future role of coastal shipping vis-à-vis the railways. Attempts are meanwhile being made to use the available tonnage to the maximum extent for carrying bulk commodities, particularly coal, with a view to affording
Regarding the development of port facilities the Third Five Year Plan draft stated "the programme in the Third Five Year Plan provides mainly for the completion of the projects which are already underway and except for Bombay port, where provision is made for the modernisation and expansion of the docks, no major scheme has been included which may be expected to make any large-scale addition to the capacity of the existing ports. The main objective underlying the schemes in respect of the existing major ports is to maintain and improve the facilities already available. It is expected that with the completion of the schemes, most of which have already been commenced in the Second Plan, the capacity of the major ports will be 49 million tons. This will be sufficient to handle the quantum of traffic expected by the end of the Third Five Year Plan". 

Two important schemes were formulated during the Third Plan period with a view to the maintenance and preservation of Calcutta port. These were -
(a) the construction of an ancillary port at Haldia; and
(b) the construction of a barrage on the river Ganga at Farakka.

The cost of construction of the port Haldia, was estimated at Rs. 25 crores of which Rs. 7 crores were made for the Third Plan period. The total cost of the Farakka barrage project was estimated at Rs. 56 crores and the outlay required in the Third Five Year Plan

* Third Five Year Plan, pp.557-59.
+ Ibid.
period on the basis of a nine-year programme for completion of
the project was estimated at Rs.25 crores.

The Intermediate Ports Development Committee submitted
its report in 1960 which recommended development schemes for
the minor ports known as the 'Intermediate' Ports for the next
five to ten years. Part of the port development programme
(concerning the ports other than major ones) in the Third
Five Year Plan was formulated on the basis of the recommenda-
tions of this Committee.

The Study Group on Transport Planning:

Complaints were received during the year 1953, from various
quarters about the difficulties experienced by industry and
trade in securing adequate railway transport for the carriage
of raw materials and finished goods. Suggestions were also
made that road transport should be expanded so as to fill the
gap between the demand for transport on the one hand and the
availability of railway wagons on the other. The Planning
Commission took note of these criticisms and invited the
comments of the State Governments and an inter-departmental
meeting was convened by the Planning Commission on 19th August
1953 to review the position. It was then decided to set up a
small study group consisting of the representatives of the
Planning Commission and the Ministries of Transport, Railways,
Commerce and Industry and Food and Agriculture to examine and
make recommendations on planning transport industry so as to
meet the increasing demands.
The Study Group was set up in December 1953 with Shri M. Ayyar as chairman. The important item of its terms of reference was to study the data regarding targets of additional production and demand on regional basis and work out the additional transport capacity required to be created for facilitating the movement of traffic arising therefrom.

Regarding the role of coastal shipping in the scheme of co-ordination the Study Group in its report stated "The Five Year Plan includes a modest target in regard to coastal shipping in India. A study group set up by shipping interests has reviewed the position with regard to coastal shipping and has proposed an addition of about one lakh tons for coastal shipping as a target to be achieved during the Second Five Year Plan. This is a very modest target and takes into account the fact that even now there is some difficulty in obtaining cargo for the limited coastal fleet available. In view of the comparatively high cost of transport by sea, resulting from factors over most of which shipping interests have no control, trade and industry are often disinclined to use the sea route. There is in existence an anomalous situation under which, on an overall basis, surplus transport capacity is available but goods do not move because of the reluctance of the trade to use an agency other than railways.

Both shipping interests and Government have invested large sums in coastal shipping. Ports also are developing and improving their facilities at a cost exceeding Rs. 40 crores."
National security demands the existence of a properly developed merchant navy for which coastal shipping is the necessary foundation. Coastal shipping is also important from the point of view of employment. Having regard to these considerations, there should be a definite understanding between railways and shipping regarding the traffic that should be left to be carried by the sea route.

It is desirable that Government should set up a High Level Committee to go into all aspects of sea-rail co-ordination. * The Government of India accepted this recommendation and appointed the Rail-Sea Co-ordination Committee in June 1955.

The Rail Sea-Co-ordination Committee

The Chairman of this committee was Shri N.S. Lokur, President, Railway Rates Tribunal and following were the terms of reference of that Committee:

"1. (a) to examine the reasonableness of freight charged by coastal shipping with reference to its costs of operation;

(b) to examine the existing pattern of trade movements within the country of commodities which could suitably move by sea and suggest measures to ensure effective co-ordination between Railways and Coastal Shipping with a view to promoting movement of such goods by sea and with particular regard to -

(i) the need for promoting development of coastal shipping on sound lines;
(ii) the need for avoiding overlapping between the two forms of transport;
(iii) the need for developing adequate coastal shipping in the larger and long term interests of the country; and
(iv) the possibility of extending through booking arrangements between Railways and shipping for movements by combined rail-sea route, wherever possible.

2. To advise whether any standing machinery should be set up for considering all problems concerning rail-shipping coordination or allocation of traffic between the two forms of transport,*

This Committee after making an exhaustive study of the problems of coastal shipping including the question of railsea co-ordination, submitted its report in 1957. Its important recommendations were:
(a) a general enhancement of 15% in the rates of coastal freights;
(b) in respect of items of traffic like, food grains, fertilisers, iron and steel, salt, cement and coal a positive policy of diversion to the sea or rail-cum-sea route be

* Rail-Sea Co-ordination Committee's Report 1957, p.iii.
adopted to the extent necessary for adequate utilisation of coastal shipping and in such manner as to afford maximum relief to the railways, notwithstanding a slightly higher incidence of freight charges which might result. More details about its recommendations will be found in the chapters on coastal shipping and 'Rail-Sea Co-ordination'. Unfortunately the recommendations of the Committee particularly regarding the diversion of the cargo from the rail-route to the sea-route were not implemented by the Government till May 1960 when serious transport bottlenecks developed and the railways found themselves unable to carry the growing volume of traffic, particularly coal. It is at that time that one million tons of coal was diverted to the coastal route. One additional million tons of coal is also likely to be diverted to sea-route in future, on account of the inability of the railways to carry any more additional traffic.

The broad aspects of the Government of India's Shipping Policy, spread over a period of four decades, have been outlined in the foregoing pages. The details about the institutional and organisational machinery set up by the Government for the implementation of that policy, are given in the Second Part of this chapter.
CHAPTER - VIII

(PART - 2)

INSTITUTIONAL ARRANGEMENT AND ORGANISATIONAL MACHINERY UNDER

THE MERCHANT SHIPING ACT

OF 1958

The institutional arrangements and organisational machinery for the implementation of the shipping policy of the Government of India are detailed out below:

The Merchant Shipping Act of 1958:

The Merchant Shipping Act was placed on the Statute book by the Indian Parliament on 30th October 1958. It provides for the registration of Indian ships on an Indian register and vests powers in the Government, to control Indian ships. However, the Merchant Shipping Act of 1923 did vest certain powers in the Government for the control of ships registered with the Registering Authority in India. The Indian Independence Act 1947, provided for the continuation in force of all preexisting laws in British India. The adaptation of Indian Laws Order 1947 following independence provided for the exercise of all powers vested in Government, by the newly independent Government of India. Immediately following independence, the Government, by a resolution, also defined "Indian Shipping Companies" and laid certain criteria for recognition as such. The control of shipping
Act 1947 vested in the Government, the power to issue licences to ships registered in India and in fact went further and vested powers with Government, through the licensing procedure to control even the trades in which an Indian ship can engage itself. However, the need for codification of the law relating to Merchant Shipping was long felt. The Government of India, therefore, after long preparation, introduced in the Lok Sabha on 14th February 1958 the Merchant Shipping Bill, 1958. The Bill attempted to consolidate the existing legislation relating to Merchant Shipping and thereby to bring together under one Statute all the laws* in force in India relating to Merchant Shipping whether passed by the British Parliament or the Indian Legislature. The motion for reference of the Bill to a Joint Committee of the Houses was moved in the Lok Sabha on 25th February 1958. The Committee examined the Bill in detail, amended it suitably, and reported to the Parliament on 21st August 1958. The Bill was subsequently passed by the Parliament and the Merchant Shipping Act came into existence on 30th October, 1958. The preamble reproduced below states the purpose of the Act.

* 1. The Coasting Vessels Act, 1838.
   2. The Indian Registration of Ships Act, 1841.
   3. The Indian Registration (1841) Amendment Act, 1850.
   4. The Indian Merchant Shipping Act, 1923.
   5. The Merchant Seamen (Litigation) Act 1946.
"An Act to foster the development and ensure the efficient maintenance of an Indian Merchantile Marine in a manner best suited to serve the national interests and for that purpose to establish a National Shipping Board and a Shipping Development Fund, to provide for the registration of Indian Ships and generally to amend and consolidate the law relating to merchant shipping".*

The Act is divided into 18 parts and runs into 461 sections and next to the Indian Companies Act, it is perhaps the largest statute. The various Organisation and institutions, constituted under the provisions of the Act are described in the following pages:

The Director-General of Shipping and other Maritime Institutions:

The Administration of the Merchant Shipping Act, as indeed of all matters affecting the merchant ships is the responsibility of the Ministry of Transport, Government of India. Some years ago, the subject was dealt with, by the Ministry of Commerce, but it was transferred to the Ministry of Transport with effect from the 1st February 1951, as it was felt that all transport subjects namely, shipping, ports, road transport etc. should be dealt with in a coordinated manner in one Ministry. Even prior to this, the need for an executive organisation to deal with all shipping matters was constantly felt and on 1st September 1949, a Directorate General of Shipping was established with headquarters at Bombay. The Ministry of Transport is concerned with general administration, policy and legislation, while the

actual administration of maritime institutions and of the Merchant Shipping Act and rules is the responsibility of the Director General of Shipping under the Ministry of Transport.

The need for establishing the Directorate General of Shipping has also been emphasised by the Estimates Committee. It stated, "This Office of the Directorate General Shipping was set up with effect from the 1st September 1947, to administer all executive matters relating to 'Merchant Shipping' formerly dealt with directly in the Secretariat of the Ministry of Commerce. The handling of the entire work in the Secretariat did not always result in quick disposal of work and the volume of routine and ordinary work involved dealing with these questions left little time and leisure for consolidation of the larger issues relating to policy matters. In accordance with the recommendations of the Economy Committee, it was decided to set up a Directorate General of Shipping with its headquarters in Bombay and to entrust to the Directorate the day-to-day administration of the various offices dealing with the problems relating to shipping and seamen and administrative planning on a comprehensive long-term basis. The appointment has been given statutory recognition by the amendment of the Indian Merchant Shipping Act of 1923 and it has been provided that any functions which are required by the Act to be performed by the Central Government may be delegated to the Directorate General and in a large number of matters, such delegations have been made". * The

Merchant Shipping Act which came into operation in October 1958, under Section 7(Pt.3) also extended a statutory status to the Directorate General of Shipping.

This Directorate was eventually placed on a permanent basis from 1st March, 1952. The subjects dealt with by Director General of Shipping can be classified into three broad categories:

(a) Statutory matters involving the administration of the Merchant Shipping Act, the enforcement of the safety rules etc.

(b) Consequential functions, such as training institutes, welfare activities etc.

(c) Commercial expansion, involving the expansion of Indian tonnage, loan to shipping companies etc.

The following is the detailed account of the items of work dealt by the Directorate:

(1) Matters affecting merchant shipping and navigation and administration of the Merchant Shipping Act of 1958;

(2) Measures to ensure safety of Life and ships at sea.

(3) Development and expansion of Indian shipping;

(4) Provisions of facilities for training of officers and ratings for the Merchant Navy.

(5) International Conventions relating to maritime matters;

(6) Regulation of employment of seamen and welfare of seamen; and

(7) Development of sailing vessels industry.

"On the technical side, the Director General of Shipping is advised by the Nautical advisor who is also the Principal Examiner of Masters and Mates and by a Chief Surveyor who is concurrently the Chief Examiner of Engineers. On the Administra-
The Director General is assisted by two Deputy Directors General and an officer on special duty (Sailing Vessels).

The deputy directors General are in turn assisted by the four Assistant Directors General, three executive Officers, and a Research Officer, while the Nautical Advisor and Chief Surveyor are in turn assisted by the Deputy Nautical Advisor and the Deputy Chief Surveyor respectively.

Director General of Shipping has under his administrative control, the following subordinate offices:

1. Mercantile Marine Department, Calcutta, Bombay, Madras, Vizagapatnam and Cochin;
2. Shipping offices, Bombay and Calcutta;
3. Training Ships, 'Dufferin', 'Bhadra', 'Mekhala' and 'Nalakhi'.
4. Seamen's employment office, Bombay and Calcutta;
5. Nautical Engineering college, Bombay.
6. Directorate of Marine Engineering Training, Calcutta and Bombay;
7. Seamen's Welfare Offices, Bombay and Calcutta;
8. Regional Offices (Sails), Bombay, Tuticorin and Masulipatnam.*

The administration of the Merchant Shipping Act of 1958 and various rules framed thereunder, has been vested in the Director General of Shipping and the Central Government, under section 7(2) of the Act have issued an order directing that any power, authority or jurisdiction exerciseable by it under

* Estimates Committee 1956-57, 62nd Report, p.3.
the Act are exercisable by Director General also in certain respects. He has been also authorised to sign certain documents of international validity such as Load Line Certificates, Certificates of Competency, issued by the Navigating and Engineering Officers, etc.

The matters which are referred to the Ministry of Transport by Director General of Shipping pertain to the grant of loan to shipping companies, and other matters relating to policy. All sanctions for loans are issued by the Ministry, as decided by the Shipping Development Fund Committee, on the basis of the recommendations by the Director General. References are also made, frequently to the Ministry of Transport in respect of other matters connected with the grant of loans, when any departure from the usual terms of loan is to be incorporated in the loan agreement, extension of time for the shipping company, for the repayment of loan instalments as payment of interests, etc.

Director General has full powers as far as sale of vessels within the country is concerned. In respect of sale of vessels to foreigners, the matter is referred to the Ministry of Transport.

The National Shipping Board:

The idea of setting up a Shipping Board for regulating our coastal trade and promoting the growth of Indian shipping in the overseas trade was first recommended by the Reconstruction Policy Sub-Committee on Shipping, as early as 1947. The Committee in its report published in 1949, stated, it would be necessary to set up a suitable machinery for the working of
a licensing system to regulate the coastal trade and for deter-
mining the form, nature and extent of the financial and other
aids that might be necessary for the development of Indian
shipping in the overseas trade. The government of India should
take immediate steps to set up a shipping Board. This Board
should have an independent Chairman, if possible, possessing
considerable judicial training and experience; Government,
shipowners and commerce should be represented as members on that
Board. It should be the functions and responsibility of the
Board to issue licences to Indian ships in order to enable them
to ply in the coastal trade of India. In issuing licences the
Board would have to bear in mind the requirements of the trade
and the economic working of the tonnage that might be licenced.

While emphasising the need for an advisory Committee for
Director General of Shipping, the Estimates Committee state,
"The Committee understand that there is no advisory body to
advise the Director General of Shipping. The consultative
committee of Indian shipowners, the consultative committee of
Overseas Shipping interests, constituted by the Government of
India, however, advise the Government on the problems of ship-
ing. These committees have on their panel representatives of
shipowners. There are also the committees like the Deck
Passenger Welfare Committee, Governing Body of the 'Buffering,'
Merchant Navy Welfare Board etc., but all these bodies deal with
particular aspects of work. There is no general purposes
committee consisting of non-officials which could provide a
suitable forum for discussing all the matters coming under the
purview of the Director General/Shipping. The Committee,
therefore, suggest that the Ministry should examine the feasibility of constituting a general advisory body which should include non-officials, interested in the development of shipping and sailing vessels industry and representatives of business to advise Director General of Shipping. *

The Estimates Committee had also recommended the creation of a Central Transport Board, to work on the same lines as the Railway Board. It stated, "with the ever increasing complexity of transport problems, the Committee are of the opinion that a stage has now come when we should have a competent Central executive Board which will function on the same lines as the Railway Board. It may be called the Central Transport Board consisting of the Chairman and functional members. The Chairman will be the ex-officio Secretary of the Ministry, and the members will be of a status of a Joint Secretary. To begin with, the Board should have three members viz. Member (Shipping), Member (Roads), Member (Ports). The Chairman, Railway Board, and the Chairman, Central Water and Power Commission, should be ex-officio members of the Central Transport Board. Each functional member should have adequate experience of the subject in his charge. Thus, for instance, an individual who has worked efficiently as a Director General (Shipping) may be selected as a Member (Shipping). Chairman of Port may be selected as a member in charge of Ports and some senior Chief Engineer might be selected as a member in charge of Roads. Each functional member should be assisted by adequate technical staff as is the case with the Railway Board. The Committee are of the opinion that such an executive board will be the only adequate step
tagged with asterisk.

* Estimate Committee 62nd Report, p.4.
deal expeditiously with many complicated problems of co-
ordinating and developing various modes of transport. The Board
should have adequate technical organisation at its disposal to
ensure that important policy decisions are promptly implemented
and that proper guidance and supervision are provided to watch
the progress of the various schemes and projects.¹

The Consultation Committee of Shipowners which was set up
in 1951 and which provided a forum for the discussion of shipping
problems of mutual interest to shipowners and Government, had
only partly met the need, since it did not give representation
to interests other than shipowners. It was therefore felt that
there should be a more broad-based body for associating infor-
mated and interested public opinion with the formulation of the
shipping policy of Government. Accordingly, in 1958, when the
Merchant Shipping Act was revised, and consolidated so as to
bring it in conformity with the requirements of modern practices
and conditions, the opportunity was availed of to provide for
the constitution of a permanent statutory body called the
National Shipping Board.

The Merchant Shipping Act, which came into effect from
30th October 1958, laid down the constitution and functions
of the National Shipping Board. Part II clause 4 of the Act
states:

"(1) With effect from such date as the central Government
may by notification in the official gazette specify in this
behalf, there shall be established a Board to be called the
National Shipping Board....

(2) The Board shall consist of the following members

¹ Estimates Committee 50th Report p.2b, & Appendix IV.
(a) Six members elected by Parliament, four by the House of the people from among its members and other two by the council of states from among its members;

(b) Such number of other members not exceeding sixteen as the Central Government may think fit to appoint to the Board to represent:

(i) The Central Government;
(ii) Shipowners;
(iii) Seamen; and
(iv) Such other interests as, in the opinion of the Central Government, ought to be represented on the Board;

provided that the Board shall include an equal number of persons representing the shipowners and seamen.

(3) The Central Government shall nominate one of the members of the Board to be the Chairman of the Board;

(4) The Board shall have power to regulate its own procedure;

(5) The Board shall advise the Central Government

(a) on matters relating to Indian Shipping including the development thereof; and

(b) On such other matters arising out of this Act as the Central Government may refer to it for advise".*

The National Shipping Board, with Shri G.I. Mehta, as its first Chairman, was instituted on March 1, 1959 and was inaugurated

by the then Prime Minister, Late Mr. Nehru on April 10, 1957. On that occasion, Shri S. C. Patil, the then Transport Minister, in his welcome address stated, "In a democratic society such as ours, it is necessary that a Government elected by the people, should, in the execution of its policies be guided by the wishes of the people, without whose active co-operation no national effort of this dimension can succeed. It was with the object of associating informed and interested public opinion with our efforts that a statutory status was given in the Indian Merchant Shipping Act of 1958 to this National Shipping Board. It is the highest policy-making body which has been created under the Act. No limitations have been placed in regard to matters that will come up before this Board as it is charged with the responsibility of advising the Government, on all matters relating to shipping and I have no doubt that Government will treat the recommendations of this Board with the greatest respect. The first National Shipping Board will have an additional responsibility on its shoulders. It will have to build up healthy traditions and create precedents which will be followed by many succeeding Boards. I have no doubt that the Board will discharge this responsibility with success and satisfaction to all". **

The first National Shipping Board, consisted of 20 members including Shri G. L. Mehta who was nominated as Chairman. Shri Mehta represented the shipbuilding industry on the Board. Of the remaining 19 members, six were members of the parliament

* The Merchant Shipping Act, 1958, Pt. II clauses 4 and 5, p. 8
**Quoted in Indian Shipping of April, 1959, p. 11.
four elected from Lok Sabha and two from Rajya Sabha; five representatives of Central Government, including one member Secretary, three representatives of shipowners, and an equal number of seamen and merchant navy officers, one representative of trade and one representative of sailing vessels industry. The shipowners' representatives were the nominees of the Indian National Steamship owners' Association.

The Board was reconstituted by the Government, on May 1, 1961, for a period of two years with Shri G.L. Mehta continuing as Chairman.

The Board, under the chairmanship of Shri G.L. Mehta met in all about 12 times and discussed important subjects like long term planning for the development of Indian shipping, higher priority for shipping, the shipping target for the third plan, coastal shipping, its problems, foreign exchange situation and shipping, shipping statistics, public sector vis-a-vis private sector, liberalisation of loan terms for shipping industry, development rebate, foreign participation in the Indian Shipping Companies etc.

The Union Government again reconstituted the Board on 8th June 1963 with Shri C.H. Bhabha as its Chairman.

The Shipping Development Fund:

The statutory non-lapsing shipping development fund was set up in March 1959 under section 14, pt. 4, of the Merchant Shipping Act 1958 for the purpose of rendering financial assistance to Indian shipping companies, for acquisition of ships. A sum of Rs. 1 crore was given to the Fund by way of loan to start with.
Section 14 of the Act reads as follows:

"There shall be formed a fund to be called the shipping Development Fund and there shall be credited thereto:

(a) the amount of such grants as the central government may make for being credited to the fund;

(b) the amount of any loans advanced by the Central Government to the Committee constituted under Section 15 for carrying out the objects of the fund;

(c) Such sums of money as may, from time to time, be realised out of the repayments of loans made from the Fund or from interest on loans or dividends from investments made from the Fund;

(d) Such other sums as may be received for being credited to the Fund.

Section 15: (provides)

(1) The Central Government shall constitute a Committee to be called the Shipping Development Fund Committee, consisting of a Chairman and such number of other members, not exceeding six, as the Central Government may think fit, to appoint thereto;

(2) The Committee so constituted shall be a body corporate by the name aforesaid having perpetual succession and a common seal with power to acquire hold and dispose of property and may by that name sue and be sued;

(3) The Committee shall have power to regulate its own procedure."

* The M.S.Act, 1958, p.12.
By the end of the year 1962, the total loans, so far taken by the Fund Committee from the Government came to Rs.18.98 crores. The total commitments for loans made by the Fund Committee to the Indian shipping companies, for the purchase of ships totalled upto Rs.26.54 crores some of which will be paid in instalments over a period of years extending beyond the Third Plan.

The Freight Investigation Bureau:

A freight investigation bureau was set up under the administrative control of the Director General of Shipping, Bombay, since January 1959 to maintain a constant watch over the fixation of freight rates for goods constituting India's export trade and for investigating complaints regarding high or anomalous and discriminatory freight rates and lack of shipping facilities emanating from the trade interests of the country. The Bureau has evolved a suitable procedure for consultation with the shipping and trade interests. Since, the Bureau was successful in obtaining reductions in freight rates on export cargoes in quite a few cases. Its branch office was opened in Calcutta, in November 1960.

In July 1961, Shri Govind H. Seth, a full time Director took over the charge of the Bureau and the tempo of its activities stepped up considerably. During 1961-62, the India/U.K. Continental Service introduced pool arrangements as a result of which certain difficulties were experienced by the shippers. A number of shipping conferences effected general increase in freight rates on the ground of increase in cost of operation. All these problems were rigorously pursued by the Bureau, which
was successful in getting reduction in freight rates in quite a number of cases and maintained a close liaison with the trade and shipping interests with a view to ensuring maximum co-operation between them in the interest of export promotion.

During 1962-63, the Bureau was successful in securing reductions in freight rates in respect of 137 items. It also served as a liaison between the Conference and trade interests by rendering service in cases where the shippers were not able to arrive at a satisfactory solution with shipping companies, in matters like charging of dead freight, withholding of deferred rebates etc.

As a result of discussions between Government and India-Pakistan-U.K. continent conference it was agreed that there should be no overall increase in the tariff rates before the 30th June 1963, and that in matters connected with revision of ocean freight rates on Indian exports, the shipping interests would first hold discussions with the shippers and in the event of disagreement between the two the matter would be referred to Government. In this context, a Maritime Freights Commission has been set up under the presidency of Shri Y. S. Sukhthankan, whose functions would be to advise Government on all maritime freight problems in the coastal and overseas trade of India, that may be referred to it.

Since June 1963, the Bureau which enjoyed a separate identity under Shri Govind Seth, ceased to be so and was merged with Directorate General of Shipping. This change was effected when Shri Govind Seth assumed the charge of Deputy Director General of Shipping.
The Shipping Co-ordination Committee:

With a view to effecting better liaison between various Ministries of the Government of India and other Government Organisations on the one hand and the Indian shipping interests on the other so as to intensify the use of Indian shipping for handling (India's exports/imports) cargoes owned and moving on Government account and help conserve foreign exchange, the Government of India in January 1958, decided to set up a Committee called "The Shipping Co-ordination Committee" with the following functions:

(a) to act as clearing house of information in regard to the availability of Government owned cargo and shipping space in Indian ships with a view to making the most effective use of the available Indian tonnage;

(b) To advise on the best and the most economic shipping arrangement possible for the movement of Government owned cargoes when Indian shipping is not available i.e. whether non-Indian vessels should be chartered and if so, whether on time basis or voyage basis;

(c) generally to co-ordinate and advise on all policy matters relating to shipping, including the development of Indian shipping".*

The various Ministries of the Government of India concerned and Indian shipping interests are represented on the Committee.

As a result of the efforts made by this Committee, it was

possible to secure allocation to Indian shipping companies, Government owned cargoes to the extent of about 8 lakhs tons by 1959-60.

A chartering wing was added to this Committee for chartering foreign ships on most economical terms when Indian ships are not available for the carriage of Government cargoes. A Chief controller of Chartering with necessary staff was appointed with effect from the 1st March 1960 and this Chartering Organisation has been working under the aegis of the shipping Co-ordination committee.

The need for effecting purchases of F.O.B. basis and sales on C.I.F. basis has been impressed upon the Government Departments and undertakings by the Committee and there was encouraging response and co-operation from them during the year 1961, when out of a total quantity of 9,47,179 tons of cargoes to be moved on Government account, it was possible to allocate cargoes to Indian ships to the extent of 41,351 tons, which works out to 43.6% approximately. During 1962-63, out of a total quantity of 8,63,746 tons, for which shipping arrangements had to be made by the Committee, 3,29,260 tons were allotted to Indian shipping, which works out to about 38% as against 43.6% and 13% during the year 1961 and 1960 respectively; as shown by the following table:
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Govt. Cargo to be moved.</th>
<th>Cargo carried by Indian vessels</th>
<th>Cargo carried by Foreign vessels</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>N.A.</td>
<td>5 lakhs'</td>
<td>N.A.</td>
</tr>
<tr>
<td>1960</td>
<td>1,192,411</td>
<td>1,58,074 (13%)</td>
<td>1,034,337 (87%)</td>
</tr>
<tr>
<td>1961</td>
<td>9,47,179</td>
<td>4,13,551 (43.6%)</td>
<td>4,336,28 (56.4%)</td>
</tr>
<tr>
<td>1962</td>
<td>8,62,030</td>
<td>3,29,260 (38%)</td>
<td>5,32,770 (62%)</td>
</tr>
</tbody>
</table>

Source: Annual report of the Ministry of Transportation and Communications for respective years.

As a result of an agreement signed by the secretary, shipping co-ordination Committee with the U.K.-Continent/India-Pakistan Conference in London, in September 1962, it was possible to enhance the quantum of rebate accruing on Government cargoes imported from the U.K. and North Continent from 10% to 15%. The foreign exchange saving likely to result from the Agreement is estimated at Rs. 50 lakhs per annum.

A threeman delegation, led by Mr. E.Kolet, Chief Controller of Chartering, left for Washington on 15th July 1963 for negotiating freight concessions from the U.S. Shipping lines, on Government imports.

The Government's ultimate object is to centralise all their chartering activities by creating a Central Organisation - possibly a chartering Corporation. In view of the experience gained by the Committee and its chartering Wing during the past few years, it is felt that they could now safely and successfully take over the chartering work hitherto done abroad by organisation-
tions such as the I.S.D. London, and I.S.M. Washington. Such a step, it is visualised, will enable the Government not only to bring about better co-ordination of their chartering activities but also enable them to obtain freight rates on more economical terms which in turn will mean considerable saving in foreign exchange.

The National Harbour Board:

The Ministry of Transport of the Union Government, by a resolution No. 19-P/123/49, dated the 27th March 1950, constituted a National Harbour Board, to advise on matters of general policy relating to port management and development, including their effects on industry, commerce, shipping, and railways; so as to ensure integrated consideration of all important problems. The West Coast Major Port development Committee also recommended the creation of such a Board. The institution of the Board was particularly desirable since even among the major ports, the method of administration differs, some being administered by special acts, and others directly by the Government of India. Ports of Calcutta, Madras and Bombay are administered by a port trust, whereas Cochin, Vizagapatnam, and Kandla are in charge of Commissioners appointed by the Ministry of Transport, Government of India. The method of administration of minor ports under the State Governments also differs very much. Therefore, there is a continuing need for co-ordination between major and minor ports and among major and minor ports themselves. It is also necessary in matters like surveying of ports, with reference of civil needs and the requirements of the Indian Navy. This co-ordination is sought to be achieved by National Harbour Board.
The National Harbour Board consists of the representatives of the Central Government; the maritime State Governments, non-official representatives of trade and industry, shipping, labour, sailing vessels industry, Railway Board, etc. The Estimates Committee in its 48th Report suggested that some representation might be given to Intermediate and Minor Ports also.