

# Cabotage Laws in India: Need for Reform

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## **Abstract**

Cabotage laws refer to the regulations and laws governing the inter-port transportation within a domestic country by a foreign shipping operator. The aim of this research paper is to examine the meaning and history of Cabotage Laws in India. It will investigate the evolution of these laws by understanding the various reforms and amendments it has undergone, and review the outcomes of the same. A critical analysis of key stakeholders and their interests with respect to cabotage shipping is needed to understand the impact of the relaxation or restriction of these laws. From an economic standpoint, it is necessary to evaluate the effect of cabotage laws on the growth of the Indian shipping industry, its export and import, and global trade competitiveness. A comparison of cabotage laws in India with policies of other countries is undertaken so as to deduce the effect of these laws on the dynamics of the shipping industry in the global context, and to gauge if insight can be gained to be incorporated in the formulation of India's policies. Following a thorough analysis of the legal framework of cabotage in India, the findings of this paper seek to suggest reforms to the existing system, to address its pressing issues as well as recommend measures that will allow the maritime industry to achieve sustained growth and development.

## **1. Introduction**

In 2023, the Cabotage Laws of India were set to be abolished. These laws, which had previously been reformed in 2018, were now poised to be removed completely. Cabotage Laws are those laws that are concerned with shipping in the coastal regions of a country. The first cabotage laws were introduced by the Portuguese in the early 16th century to protect their coast from foreign ships. In the present context they refer to the set of laws and regulations that govern the transport of cargo and passengers between different ports in the territorial waters of a country. The principle of Cabotage in coastal nations is based on prohibiting foreign vessels from navigating and trading along their coastlines without permission and for clear, justified reasons. These laws, which were initially designed for protection of coastal regions, have evolved into a powerful tool which can be utilized to support indigenous shipping industries.

These laws are significant as regulations on foreign-owned or chartered vessels can impact a country's trade competitiveness, its export-import logistics, and the overall economic growth of its maritime industry. India is a peninsular region surrounded by water bodies on three sides, with a coastline that is 7,500 km long, and having the prospect of 14,500 km long navigable waterways, yet the potential of these are not yet fully harnessed and utilised. Coastal shipping is also starting to gain traction as an alternative to rail and road transport owing to its lower costs and environmental sustainability. In this perspective, it is of paramount importance to assess the present situation and formulate suitable policy and law for India's maritime and shipping sectors.

Maritime cabotage markets represent considerable business and trade potential, particularly in countries with longer coast lines and in archipelagic countries. From the perspective of supply chain efficiency, maritime cabotage can be of interest to improve door-to-door services as it can enhance efficiency in the logistic supply chain, promote the carriage of larger cargo volumes at lower costs and guarantee service continuity.

The restrictive nature of maritime cabotage regimes is indicative of the sensitive nature of this sector. Originally motivated by security concerns, maritime cabotage restrictions today are more related to building national capacity in shipping to derive revenues and employment benefits.

## 2. Cabotage Laws in India: An Overview

The Cabotage Laws of India were initially contained within the Merchant Shipping Act (MSA) of 1958. Section 406 of the Act states that Indian ships and ships chartered by a citizen of India may be operated locally only on grant of a license issued by the Director General. Section 407 states that no other ships other than an Indian ship or a ship chartered by a citizen of India shall engage in the coastal trade of India except under a license granted by the Director General.

### Specifications of the Law and its Implications

Only Indian flagged vessels or vessels chartered by Indian companies holding a license granted by the director general could transport cargo or passengers from one Indian port to another. Foreign flagged or registered vessels could only operate within Indian terminals when an Indian vessel was unavailable and after obtaining a licence from the Director General. Under the law, it was also mandatory to utilise feeder services offered by Indian shipping firms to transport cargo from transshipment hubs in Sri Lanka and then have them transported between different ports of India even as it restricted the entry of foreign-flagged container ships.

The law was widely considered to be protectionist and suited the interests of domestic transport operators as they were protected from competition with foreign flagged ships. The process of obtaining a license before operations for foreign vessels would also lead to frequent and large-scale delays and congestion at the ports. As other countries began gradually liberalising their cabotage policy allowing for free trade, they became major transshipment hubs while India struggled to compete.

### Brief Overview of Reforms

The first major reform came in 2005, with the then UPA government relaxing the law so as to allow feeder services and transshipment to and from certain select large ports in the country such as Mumbai Port. Later in 2014, a committee was set up under Rakesh Mohan to further investigate potential overhauls for the cabotage policy given the uncompetitiveness of India's coastal fleet. A major policy change came finally in May 2018, with the Modi government's decision to fully remove cabotage restrictions for foreign operators, with the law now requiring them to only obtain a license from DG Shipping for transshipment between Indian ports. The government at the time was also focused on the Sagarmala project, an initiative to strengthen the coastline and waterways of the country. A government notification issued at the time said, "The purpose of these relaxations is to arrest the increasing share of Indian container cargo transhipped at foreign ports." These reforms were introduced with the objective of modernising India's ports and allow free movements of foreign vessels in order to reduce dependence on transshipment hubs such as the Colombo or Singapore Port.

### **3. Impact of Cabotage Laws on the Domestic Shipping Industry**

#### **Benefits for the Domestic Shipping Industry**

Relaxation of cabotage law in India took place in 2018 as well as 2023. The 2018 reforms amended the existing 1958 Act which previously did not permit any foreign ship operators to ply on Indian routes. The 2018 amendment allowed coastal transshipment by foreign ship owners provided they had a license from the DGS. The 2023 reforms further relaxed cabotage law, allowing foreign-registered and flagged ships to conduct business along India's coastline without the need for a license from the Directorate General of Shipping.

The impact of this decision and reactions of stakeholders were mixed. On one hand, the increased liberalisation of cabotage law was expected to bring in an influx of foreign vessels and containers along Indian routes, subsequently resulting in increased competition in the container logistics sector. This increased competition potentially offers a variety of benefits - providing an incentive to local cargo owners to streamline their operations and making them more cost efficient, thereby promoting competitive pricing in the market. This should ideally benefit both importers and exporters by decreasing shipping costs and enhancing global trade presence in the long run. It also urges local ship owners to invest in innovation in realms such as tracking and monitoring systems and automation, which in turn boosts greater efficiency.

To accommodate increased competition, it is crucial for an associated investment in port infrastructure to increase cargo holding capacity and for time and cost effective operations. A document from the Ministry of Ports, Shipping, and Waterways recommends that "the focus should be on enhancing ports and jetties, improving port connectivity, determining suitable vessel types and capacities as well as mitigating financial burdens of multimodal transportation."

Liberalised cabotage regulations also open up greater avenues for foreign trade through the establishment of new routes as well as offering new services. Improved and resilient supply chains have the potential to attract foreign investment, and the growth of industries reliant on coastal transshipment aids in overall economic growth of the shipping sector.

An expanded market with increased competition could influence freight rates in the long run, but there also persists a risk of volatile market rates which could be discouraging to local ship operators. Allowing foreign vessels to operate in domestic ports and enhancing coastal shipping is a step in the right direction to achieve India's goal of becoming a global trade hub.

#### **Challenges For Indian Ports**

Although the additional relaxation of cabotage law was received well by foreign shipping operators, Indian ship owners found themselves at a disadvantaged position due to these reforms.

Expectations of growth due to increased competition seem idealistic in contrast to the current ground reality - data indicates that India depends on foreign shipping lines for as much as 93-95% of export-import

cargo. Indian flag ships are carrying only 5-7% of India's EXIM cargo, resulting in a massive outflow of foreign exchange.

Along with the cabotage legislation, foreign ship owners also enjoy the benefit of tax exemptions in their favour, making the overall cost benefit highly advantageous for them. The potential benefits of increased competition will only be reflected in reality if the playing field is level for local ship owners, which is not the case at present. The dominance of a few foreign operators in the market creates a condition comparable to that of an oligopoly, with pricing and market capacity being controlled by an alliance of a select few. Indian operators are also at significant disadvantage owing to short run difficulties caused by a sudden surge in foreign competitors in the market.

Indian ship owners have found it difficult to keep up with this competition as expanding tonnage implies incurring high operational and capital costs. There persists the problem of inadequate infrastructure or investment in ports to support increased cargo flows. Fluctuations in freight rates pose a significant risk for domestic shipping operators.

Following the policy in 2023 which further relaxed cabotage law, Indian maritime regulator the Directorate General of Shipping (DG Shipping) had proposed reinstating cabotage regulations for foreign lines in favour of local ship owners. According to the authority, following the recent relaxation of the law, "Indian container shipping entered a phase of stagnation and decline." The additional liberalisation of the law had "created an unfavourable and uncompetitive operating environment for Indian shipping companies," with only 30 containerships registered under the Indian flag. The loss of market share by Indian shipowners has fostered an increasing reliance on foreign vessels for coastal shipping. Furthermore, foreign ships with foreign crews operating in such close proximity to the Indian coast poses a significant security concern. India remains a target of international terrorist attacks, and opening up the Indian coastline to foreign vessels could imply the risk of subversion and infiltration.

#### **4. Global Trade Competitiveness and Cabotage Laws**

Cabotage Laws play a crucial law in the international trade of a country. Regulating the movement of cargo between terminals, especially by foreign carriers bears significant economic implications for a nation. Liberalisation of cabotage laws is often done with the intention of promoting free trade and opening up the economy to global trade and competition. The cabotage policy in India before the liberalisation of 2018 was considered to be protectionist in nature as it shielded Indian ship owners from foreign competition. Following the relaxation of the law it is necessary to evaluate the impact it has had on India's global trade competitiveness.

Before the relaxation of cabotage laws in 2018, the Indian economy and its trade had seen considerable growth in the last two decades. Specifically, in the financial year 2017-2018 alone, India's trade grew 16.32%, from 660.2 to 769.9 billion dollars, of which 90% of trade (by volume) and 70% (by value) is carried by the maritime sector. (NITI Aayog, 2018) Despite these remarkable numbers, the merchant fleet is still lagging



behind in certain aspects. Growth in the sector has been stunted despite 100% foreign direct investment (FDI) being allowed in the shipbuilding industry. Consequently, the number of Indian-flagged ships remains insufficient to cater to increasing demand. Despite restrictive cabotage laws that exclude participation of foreign vessels in coasting trade, Indian-flagged vessels carry only about 40% of trade.<sup>1</sup>

The rigidity of the cabotage laws have also contributed to the growth of transshipment ports around India. Due to restrictions on foreign operators discouraging their operations in Indian waters, many foreign-flagged vessels prefer to offload their cargo in ports around India, such as in Colombo, the cargo from which are then shipped to various Indian ports. Almost 50% of the transshipment containers being loaded or offloaded in the Colombo port either originate from or are bound for Indian terminals. This adversely impacts the traffic received by Indian ports which in turn is detrimental to their financial profitability, causing them to lose millions of dollars of port charges.

Among the biggest obstacles to India's external competitiveness is its inadequate seaport infrastructure, with most container handling ports lacking the capacity to hold large container vessels. Additionally, poor trade logistics and weak hinterland connectivity between manufacturing hubs and shipping terminals also poses significant setbacks.<sup>2</sup>

The relaxation of Cabotage Laws in India primarily sought to enhance the cost efficiency of logistics to ultimately improve trade and competitiveness. India has been successful in leveraging its cabotage regime and developing shipping supply-side capacity.

### **Effects on Foreign Shipping Lines**

From a publication issued by the United Nations Conference on Trade and Development:

Foreign vessels participating in domestic coasting trade can be advantageous in certain cases. With specific regards to India, the usage of foreign-flagged vessels, which are larger and more advanced than the domestic fleet, aid in reducing costs through their scalability and cargo optimization. As opposed to using smaller ships that lack scale for the purpose of shipping domestic cargo to international ships, a more cost effective alternative would be using a foreign vessel in the domestic leg with extra capacity for the shipment of domestic cargo. This advantage offered by utilising economies of scale also profits import and export cargo by avoiding unnecessary cargo transfers from domestic vessels to international ones. It is this aspect of relaxed cabotage policy that factors into improved connectivity to feeder ports, in turn enhancing access to transshipment hubs.<sup>3</sup>

The DGS in March of 2020 claimed that coastal trade in India faces challenges due to several restrictions and limitations resulting from various factors such as geography, cabotage restrictions, costing, taxation, non-availability of cargo and disproportionate investment by the Government on other modes of transport, etc. The removal of cabotage restrictions on specialised cargo vessels for a period of five years was a recent

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<sup>1</sup> [Maritime India](#)

<sup>2</sup> [OECD](#)

<sup>3</sup> [United Nations Conference on Trade and Development](#)

measure undertaken to increase their supply. Cabotage was also relaxed for the carriage of empty & EXIM containers, agricultural commodities, fertilisers, etc. The simplification of the process of issuing licenses for foreign flagged vessels chartered by Indian companies was also done to allow for the chartering of vessels. To the merit of these policies, the relaxation of regulatory guidelines to reduce the capital and operating costs of coastal vessels, reduction on taxation on bunkers and in port charges, etc., resulted in the number of Indian vessels increasing from 1302 in 2016 to 1430 in 2020.<sup>4</sup>

### **Influence on India's Export-Import Logistics**

Along with the relaxation of cabotage laws, various other factors such as bilateral and multilateral FTAs can enhance global EXIM trade through Indian ports. An anticipated increase in demand in consumption of petroleum production, coal, natural gas for power generation and fertilizer industry, production of steel, fertilizer imports, etc. leads to increase in imports through the ports. Similarly, an anticipated increase in surplus exportable items leads to the increase of exports. Growth in container traffic is envisaged to international trade growth, penetration of containerization and hub and feeder service structure. Further, measures taken for improving efficiency and reducing the time to export through technology can boost the trade through Indian ports. Rationalizing the tariff structure and discount methods at major ports can also have a huge impact in growth of EXIM trade at these ports.

The Sagarmala Programme has contributed hugely in the development of port infrastructure in India. The programme aims to reduce logistics cost for EXIM and domestic trade with minimal infrastructure investment. Under it, various projects such as the development of world class, deep draft-water terminals capable of handling super cape size vessels, development of new berths and mechanisation of existing berths were undertaken to improve the capacity of Indian ports and achieve a global standard.

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<sup>4</sup> [The Sagarmala Post](#)

## 5. Critical Analysis of Recent Reforms

As per the 1958 Merchant Shipping Act, Cabotage Laws were restrictive and did not permit participation of foreign tonnage in Indian inter-port transportation. In May of 2018, these laws were liberalised with the goal of transforming the country into a major transshipment hub and also to reduce its dependence on ports such as Colombo or Singapore. This venture achieved some initial success in diverting Indian transshipment cargo from Colombo to Indian ports. The 2018 reforms removed cabotage restrictions, allowing foreign-flagged vessels to participate in the movement of containers between Indian ports. This decision was expected to usher in a new phase of Indian container trade by creating new avenues for foreign transport operators to move cargo, facilitating greater holding capacity for Indian ports and boosting both export and import.

There was no explicit ban that curtailed foreign flagged vessels to operate in the coasting trade of India, however the restriction was that only those foreign containers holding a license granted by the DGS could operate in the coasting trade of India. Furthermore, this license is granted only in case of unavailability of Indian vessels.

The licence granted may be a general licence, a licence for the whole or any part of the coasting trade, or a licence for a specified period or voyage. The licence will be subject to any terms and conditions that the DGS may impose, as well as to the provisions of circulars and public notices issued by the DGS from time to time. To obtain a license for a foreign vessel to operate in the coasting trade of India is for the charterer to circulate a requirement to the INSA (Indian National Shipowners Association) seeking availability of Indian ships. In case the INSA does not respond with a confirmation within 48 hours, an application can then be made under Sections 406 or 407 as the case may be, to the DGS with a copy of the request to INSA and the response received from INSA. The DGS may then grant a licence allowing the foreign vessel to operate in the coastal trade of India during the period of the licence.<sup>5</sup>

The procedure of granting licenses is quite time consuming and is very often delayed by bureaucratic processes. Even though there was no explicit ban on the transportation by foreign vessels, the process for obtaining a license is lengthy and the delays prove discouraging to foreign ship owners. It is undesirable for the process of obtaining licenses required for undertaking operations to be marred by such difficulties, and the time-inefficiency of this process adversely affects the country's competitiveness in container transshipment.

The rationale behind those who favour the liberalisation of laws is that the existing infrastructure and shipping licensed under the present cabotage regulations are insufficient for expanding feeder services, even those ports contended to be transshipment hubs such as Chennai and JNPT, therefore, participation of foreign vessels in transshipment must be permitted and even encouraged.

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<sup>5</sup> [safety4sea.com](http://safety4sea.com)



Members of the Indian National Ship-owners Association (INSA) have historically been opposed to the relaxation of Cabotage policy. They justify their stance by claiming that privately owned and operated ports have enjoyed greater benefits than publicly owned ones. The major ports are the ones that are owned and run by the government, and face the issues of strictly enforced tariff regulations which hinder their efficient and streamlined operation, while minor ports which are privately owned enjoy more lax regulations on tariffs and infrastructure of a higher standard. This is to say that, in the present situation, the playing field is not level.

Opponents to the policy relaxation also argue that the concerns of existing stakeholders such as domestic port trusts and Indian ship-owners, have not been addressed. The relaxation of cabotage law leaves them at a disadvantaged position. The Indian owned vessels participating in coastal trading have thus far been shielded from foreign ship owners, and at present are not well equipped to keep pace with the fresh wave of competition that will enter the country's ports as a result of the newly liberalised policy. As a result, the policy which was expected to boost efficiency and bring better freight rates as a result of increased competition is in reality leading to the sector being dominated by an alliance of a few superior foreign-flagged transport operators, with Indian ship owners potentially facing the risk of incurring losses.

The 2018 reforms also emphasised port-led development, and projects such as the Sagarmala programme have been undertaken with the aim of reducing logistics costs for both foreign and domestic trade with minimal infrastructure investment. It also focuses on modernising ports, enabling water transport to have an increased share in the modal mix due to its cost-effectiveness and environmental sustainability. As of 2024, 130 projects across 11 states have been sanctioned 3,714 crore of which 62 projects have been completed.<sup>6</sup> The project has seen significant success in reducing turnaround times and increasing container traffic at major Indian ports.

## 6. Case Studies

### **Lessons from Global Cabotage Policies: Examples from the USA, EU, and China**

**USA:** The cabotage laws of the US, enshrined in the Merchant Marine Act, are considered to be some of the most rigid and restrictive cabotage laws in the world. These laws are commonly referred to as the “Jones Act”. Section 27 of the Act mandates that all goods transported by water between United States ports be carried on United States-flag ships, constructed in the United States, owned by United States citizens, and crewed by United States citizens and United States permanent residents. In essence, only those ships that are built, owned and manned by the Americans can participate in American coastal trade. Despite neighbouring countries of Canada and Mexico having relatively relaxed their cabotage laws, waivers on the Jones Act are only allowed and rarely issued for reasons concerning national defence.

The rigidity of the Cabotage laws has been justified as a necessity for strengthening national security and safeguarding the borders of the US. One of the declared purposes of the US merchant Marine Act of 1936 as

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<sup>6</sup> [Press Information Bureau](#)

contained in its preamble is “to aid in the national defense”. They were designed in such a way as to shield the domestic maritime industry from foreign transport operators to avert the risk of unhealthy competition or domination.

Critics of the Act claim that the US stands to gain significantly from liberalisation of its cabotage laws. Approximately 40% of the U.S. population, including over 5.5 million Americans in the coastal regions of Alaska, Guam, Hawaii, and Puerto Rico rely heavily on marine transport, and suffer due to the inefficiency or inadequacy of domestic transport. Although its concern of national security remains relevant, countries such as India and China, for whom national security considerations are a top priority, have reformed their cabotage laws in favour of a more liberalised approach.

**Lessons for India:** The rigidity of the cabotage laws in the U.S. are highly beneficial for domestic shipping companies, as there is virtually no competition from foreign vessel operators. However, such a model is sustainable only due to well-equipped ports, an adequate number of cargo vessels and a well-developed infrastructure. As India is deficient in many of these aspects, it is not ideal to replicate such a policy framework to regulate its coastal shipping. Furthermore, the rigidity of these laws represents a great economic loss considering the potential amount of cargo and number of passengers that could be transported domestically along the vast coastline of the U.S. using coastal shipping.

**EU:** The European Union also undertook maritime cabotage liberalisations among its member states from 1993–2004.

Maritime cabotage law in the EU is regulated by the Council Regulation (EEC) No 3577/92, which established the principle of freedom to provide maritime transport services within Member States. The regulation gives shipowners of the EU the right to operate between ports of other Member States. The objective of the policy was to progress towards market integration, that is, creating a regional market for providing maritime cabotage services. Almost all categories of cabotage were opened in 1999, and remaining restrictions were lifted in 2002.<sup>7</sup> In 2014, the European Commission passed its fifth report on the free right to provide maritime cabotage between Member States. Article 1 of the Regulation liberalizes maritime cabotage in the EU, giving EU ship owners the freedom to operate between ports in another Member State. This freedom cannot be restricted, except in situations covered by the derogations specified within the Regulations and in “duly justified cases”.<sup>8</sup>

In 2014, a report by the European Commission measured the impact of the liberalised cabotage policy from 2001-2010. A publication issued by the United Nations Conference on Trade and Development summarises its findings as follows:

- The removal of restrictions to the maritime cabotage market did not lead to a considerable increase in the number of ship-owners interested in providing cabotage services.

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<sup>7</sup> [UNCTAD](#)

<sup>8</sup> [United Maritime Law Chambers](#)

- There was a need to introduce public service obligations on service providers in case of commercial routes that are less attractive to ensure flow of traffic to and from these regions
- An increasing lack of statistical tools to track maritime cabotage was observed, and collected data was considered insufficient and unreliable, as some member states did not collect market-related statistics after liberalisation. In addition, private operators were reluctant to provide data citing business confidentiality reasons.
- Vessels flying non-national flags for cabotage of goods increased. In Finland, the presence of non-Finnish European Economic Area (EEA) flags has increased from 25% in 2001 to 36% in 2005 and 47% in 2010. In Italy, the presence of non-Italian EEA flagged vessels has increased in cargo transport in mainland cabotage from approximately 43% in 2001 to almost 47% in 2009. In Germany, on average more than half of the total cargo is transported by non-German EEA vessels: in 2002 this share represented 52%; in 2010 it rose to almost 56%.
- Cargo volumes remained generally stable during the period (except for the crisis years), with some countries recording increased cargo volumes.
- Cabotage liberalisation has had a positive impact in terms of modernisation of national fleets under pressure of wider competition and in improving the quality of services offered.
- The most important market segment for EU cabotage is liquid bulk.<sup>9</sup>

Before the reforms that relaxed maritime cabotage between member states, 23% of all heavy-goods vehicles in the EU ran empty.<sup>10</sup> The legalization of cabotage led to a decrease in the number of vehicles running empty as transport operators were able to optimize their routes. Considering cabotage's benefit to transporters, their clients, consumers and the environment, are all factors that explain the EU's comparatively relaxed stance on cabotage.

Lessons for India: The case of the EU indicates that relaxation of cabotage helps in facilitating trade between strategic locations within the general region in a way that is reciprocally beneficial to all parties involved. In the case of the EU, all member states are bound by virtue of their membership to the Union, but regional organisations in South East Asia can act as a catalyst to boost trade in the region.

**China:** China was another country that had in place protectionist cabotage policies, which were recently relaxed in 2021. The relaxation adopted is a partial one - meaning that maritime cabotage policy within the Shanghai free trade area has been liberalised, allowing foreign registered vessels to transport containers between Shanghai and other Chinese ports. The only restriction is that these ships must still have Chinese owners.

Xingguo Cao and Yen-Chiang Chang in their study state that, "The so called new coastal piggybacking policy allows foreign container liner companies to carry out the coastal piggybacking business, i.e., domestic segment of transportation of international trade goods by foreign-flagged ships, which means when

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<sup>2</sup> [UNCTAD](#)

<sup>10</sup> [United Maritime Law Chambers](#)

conditions set by the policy are met, foreign-flagged ships deployed on international voyages and owned or controlled by foreign companies are allowed to carry direct export container goods and transit container goods at the same time between China's coastal ports."<sup>11</sup>

The reform of this policy is not without its drawbacks. Resistance is expected from the domestic shipping industry, and there will be hindrances to the reciprocal enforcement of the policy as there are no agreements on the opening of the cabotage which have been concluded by China in any existing bilateral or multilateral agreement before.<sup>12</sup>

Lessons for India: This selective liberalisation of cabotage policy in only its major ports, that too on a trial basis, has seen success in diverting traffic from key transshipment hubs in the region such as in Hong Kong. The policy reform has effectively enhanced the transshipment volumes in the Shanghai free trade region, and decreasing throughput and connectivity is a cause for concern for Hong Kong now. Similar effects owing to cabotage relaxations have been observed on maritime hubs near the coastal ports of other countries.

**Singapore:** Singapore is a major transshipment hub in Southeast Asia. This is owing to the fact that there is no explicit mention of any provision that governs the transportation of empty or loaded containers between ports in the Maritime and Port Authority (MPA) Act. There is also no provision in the Customs (Container) Regulations concerning the transportation of empty containers between domestic ports without a permit. This is to say that Singapore virtually does not have any cabotage regulations.

The state of Singapore's domestic transport is such that there is no necessity for express cabotage restrictions or regulations, as nearly the entirety of Singapore's domestic transportation occurs by road. Foreign trade is concentrated in a four mile stretch of four ports on the south of the island.

Consequently, Singapore also does not have any maritime subsidy programs, crewing restrictions, ownership restrictions for coastal trade, or requirements for the domestic construction of vessels.

Lessons for India: Singapore's highly unregulated cabotage policy has been crucial in its growth into a transshipment hub. However, owing to its small size, there is a limited need for coastal shipping as a means of domestic transport. India, on the other hand, has vast stretches of coastline and several important ports, therefore such a model with a complete absence of cabotage regulation is neither feasible nor desirable for India.

## 7. Arguments for Reforming India's Cabotage Laws

The government has historically implemented socialist policies in pursuit of protecting the domestic maritime industry from foreign competition. This was in the interests of the Indian shipowners, however, in the long run it turned out to yield unfavourable results. By restricting foreign participation with its rigid

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<sup>11</sup> [Science Direct](#)

<sup>12</sup> [Proquest](#)



cabotage policy, the “license-raj” as it is known, made the domestic shipping industry uncompetitive and inefficient. Following the liberalisation of the economy in 1991, a favorable attitude towards globalisation and international trade was developed, and old protectionist policies are gradually being done away with.

With Indian trade and economy and its trade having experienced appreciable growth in the last two decades, it is in India’s interests to reform the laws governing its maritime cabotage. Although concerns of the competitiveness of the Indian domestic fleet are valid, the present situation is that there is an insufficient number of Indian-flagged vessels to carry out coasting trade. Despite the rigidity of the laws restricting foreign-flagged vessels, in reality, very few Indian-flagged vessels actually carry out inter-port trade. This cycle will continue to damage the competitiveness of the Indian shipping sector unless reforms and additional investments in necessary areas are made.

Arguments advocating for the relaxation also cite the issue of present infrastructure at Indian ports being ill-equipped to expand feeder services even at major ports. Data from the Indian National Shipowners’ Association indicates that only 15 feeder container ships with a total carrying capacity of about 15,000 TEUs are available under the Indian flag. Due to the small number of vessels available, and under the protection of cabotage restrictions, domestic shipping operators enjoy the ability to keep freight rates high. As opposed to this, a liberalised cabotage market allowing entry and participation of foreign operators would create a significant reduction in freight rates.

Owing to the rigidity of cabotage laws in India, there have emerged various transshipment hubs in countries around India, such as in Singapore, Colombo and Dubai. Due to the comparatively relaxed nature of cabotage laws in these countries, foreign transport operators prefer to offload cargo at these ports, reducing traffic in Indian ports and causing significant financial losses.

Therefore, those advocating for relaxation of cabotage law argue that it would thereby improve the overall flow of trade through coastal ports, increasing the maritime’s sectors prospects of attracting both domestic and foreign investment, which could ultimately contribute towards long-term infrastructural development in ports, making available smaller vessels and overcoming issues of dredging requirements. If cabotage is made less restrictive, it provides incentive to merchant vessels to use the country’s ports, increasing traffic flow and thereby generating an increased collection of port charges. This economic advantage compensates for the demerits that might otherwise discourage the opening up of ports through cabotage relaxation.

## **8. Challenges**

Domestic shipping companies have historically been opposed to the opening up of the cabotage market to foreign operators. This is for a number of reasons.

### **Different Scenarios for Indian and Foreign Vessels**

The market of the shipping industry is highly volatile, therefore the domestic shipping industry depends on such restrictions. Indian shipping companies are taxed by the government, whereas foreign-flagged ships are



not. Foreign-flagged vessels also enjoy freedom from restrictive manning norms, such as minimum remuneration, whereas Indian shipping companies, as mandated by Indian law, contribute to employment by hiring Indian nationals on their ships. The shipbuilding industry is also a contributor to the manufacturing sector of India and thus, to the economy. The domestic sector argues that because of these reasons they are liable to receive concessions from the government. Thus, the sector would be significantly disadvantaged by the total opening up of Indian ports to foreign flagged ships

“Many international shipping companies register their ships at either tax havens or where the taxes are sufficiently low to be negligible. For example, Panama, Marshall Islands and Bahamas have an extremely large number of registered ships although the volume of trade of these countries is extremely low. Similarly, many other countries also have lower taxes when compared to India. Countries like Greece proactively encourage their shipping companies. They also tax foreign ships in almost equal measure to ensure fair competition. Indian shipping companies argue that in the prevailing situation they would be unable to compete successfully without help from the government.”<sup>13</sup>

As per estimates, the operating costs for Indian shippers are about 20% higher than for foreign lines because of the higher cost of funding, fuel, training costs, wages tax, GST, etc. Foreign flagged ships that operate in Indian waters benefit from lower costs in the country of registration, allowing them to offer tariffs much lower than their Indian counterparts.

Stakeholders such as the INSA, Domestic port trusts and Indian ship-owners, claim that there is an imbalance in the effects of cabotage liberalisation. Many of the new and upcoming ports in India are privately owned, and the cabotage liberalisations disproportionately favour them. Resistance from domestic ship owners is a major hurdle to introducing reforms in cabotage policy. They argue that the threat of unhealthy competition from foreign operators will risk forcing Indian shipping companies out of business, and create an unsustainable dependence on foreign transporters.

#### **Difference in Scenario for Coastal Vessels and Oceangoing Vessels**

Heavy taxation on bunker fuel oil is a major impediment to the growth of coastal shipping. Coastal ships are required to pay taxes on marine fuels, while oceangoing vessels do not, and the diesel used in road transport is subsidized. This acts as a discouraging factor for Indian operators participating in coastal shipping. It is also detrimental to the transport and logistics industry, as coastal shipping offers the benefit of lower costs and environmental sustainability

Capital costs are increased unnecessarily as coastal vessels rely heavily on imported spares, which are subject to the burden of import duties. These taxes are exempted for only those ships which are repaired at repair units registered with DGS. Furthermore, capital costs are also increased needlessly for domestic shipowners as coastal vessels are constructed to the same specifications as oceangoing vessels, though they do not have to endure the same kind of stress and turbulence.

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<sup>13</sup> [Maritime India](#)

As coastal vessels do not earn as much revenue as oceangoing vessels, they are given second preference at ports and are unable to avail concessions in port tariffs. This adversely affects the profitability of the domestic coastal shipping sector. To enhance their operational efficiency, they require prompt handling of bulk cargo and well-equipped berthing facilities. While shipping companies operating oceangoing vessels can opt between paying corporate tax and tonnage tax, this choice is not offered to coastal shipping companies, again placing them at a disadvantage by reducing prospects for investment in coastal shipping.

Funding coastal shipping also faces many hurdles, as it is difficult to obtain large amounts of financing at low interest rates. Coastal ships do not earn in foreign exchange, which poses a challenge in effective commercial borrowing from external sources. Shipping companies often have to rely on traditional bank financing which is unsuitable for funding ships due to their high interest rates and short maturity.

Problems associated with the manning of coastal ships also demand policy reform. Staff costs on Indian vessels for coastal shipping are higher than on foreign ships due to manning scales, taxes and other benefits. As coastal ships are not required to adhere to different conservancy and safety regulations at different international ports, qualified officers prefer to work on oceangoing vessels.

## 9. Policy Recommendations

To address these challenges from a policy standpoint, it is important to take into consideration the multifaceted nature of this issue. Coastal shipping and cabotage regulations in India are influenced by a variety of factors, such as the availability of vessels, port infrastructure, operational costs, taxation regimes, etc.

### 1) Taxation and Revenue Measures

- a) Remove tax on bunker fuel for coastal ships to stimulate trade flow and EXIM cargo handling, with an anticipated long-term revenue gain of over 700 crores.
- b) Extend tonnage tax benefits to the coastal fleet.
- c) Reduce GST for domestic vessels and provide tax exemptions for transshipment vessels carrying LNG and oil.
- d) Offer subsidies and incentives to promote coastal trade.

### 2) Port and Infrastructure Development

- a) Strengthen port infrastructure and encourage quality investments to make coastal shipping a competitive mode of transport.
- b) Allow concessions in port tariffs for coastal vessels.
- c) Establish a central authority to oversee reforms under the Merchant Shipping Act, ensuring effectiveness and addressing stakeholder grievances.

### 3) Cabotage and Liberalisation

- a) Allow limited foreign participation in coasting trade to increase competition and efficiency.
- b) Reintroduce cabotage laws during periods of prolonged growth in coastal cargo.

- c) Liberalise cabotage laws for foreign ships with green vessel certifications to encourage environmentally sustainable practices.
- 4) **Cargo Optimization**
  - a) Encourage a modal transition from road/rail to coastal shipping for transporting goods like steel, tiles, cement, marble, fertilizers, food grains, silica, bauxite, and manganese.
  - b) Explore the market potential for containerized cargo, with an estimated annual value of \$500 million and over 20% growth.
- 5) **Ship Construction and Regulations**
  - a) Enact policies specifying separate construction requirements for coastal vessels to reduce unnecessary costs.
  - b) Align regulations with IMO standards for coastal vessels under the Standards of Training, Certification, and Watchkeeping.
- 6) **Funding and Financial Support**
  - a) Create dedicated departments in financial institutions to address the unique funding needs of coastal shipping companies.
- 7) **Human Resource Development**
  - a) Develop and train a specialized cadre of officers for manning coastal vessels.
- 8) **National Security and Collaboration**
  - a) Collaborate with armed forces and the navy to address national security concerns arising from liberalized cabotage laws.
  - b) Foster partnerships between public and private Indian shipowners and operators to create a level playing field.
- 9) **Sustainability and Technology**
  - a) Introduce green vessel certifications to promote sustainable practices.
  - b) Implement advanced technology, such as automatic ID systems, single-window clearance systems, and online portals, to streamline licensing for foreign-flagged vessels.

## 10. Conclusion

### Summary of Findings

Cabotage law is concerned with regulations imposed on coastal trade - that is trade between multiple ports on a country's coastline. For any country with a significant amount of coastline, in India, cabotage law is a topic of utmost importance that impacts various realms such as defence, national security, trade and its shipping industry overall. In India, cabotage law was highly regulated and restrictive, and prevented foreign participation in coastal trade. In recent times, however, these laws were liberalised in 2018 and 2023 to allow for foreign-flagged vessels to transport cargo between Indian ports.

Reactions of stakeholders to the reforms were mixed. On one hand, the influx of foreign containers and increased trade flows through Indian ports was expected to be highly profitable and the increased shipping activity would aid in India's objective of transforming its major ports into transshipment hubs. On the

other hand, domestic shipowners argued that the reforms put them at a disadvantaged position, and that the increased competition from foreign transport operators would drive Indian vessels out of business. This coupled with issues such as lack of adequate infrastructure in Indian ports, cabotage relaxations have not been welcome.

However, the ground reality is that coastal shipping in India is already predominantly carried out by foreign containers. To introduce reforms, consideration must be given not only to the goal of promoting Indian ports as prospective transshipment hubs but also to make the domestic coastal shipping industry self-sufficient. Foreign players can help draw more traffic into Indian ports, thereby increasing revenue generation capacity. Concessions made for domestic operators can assist in levelling the playing field, and this resulting competition enhances the profitability of the domestic shipping industry, as well as promotes efficiency by incentivising innovation. Infrastructural investments in ports enhance their appeal to foreign transporters and have great potential to attract significant foreign investment. The promotion of coastal shipping as a more cost effective and environmentally friendly mode of transport also benefits the industry greatly.

### **The Way Forward for India's Maritime Sector**

The implementation of policies in other countries offers some insight for solutions for India's cabotage related issues. The EU allows unrestricted cabotage trade between its member states. Such a relaxation promotes regional trade and if implemented correctly, such an approach in India would help promote trade between strategic ports in many such countries in South Asia that are reliant on maritime transport. China also recently liberalised its cabotage law, specifically in its major hub, the Shanghai free trade region. India struggles with the problem of being surrounded by transshipment hubs with looser cabotage relaxation that attract more traffic flows. This reform in China has been successful in diverting traffic from nearby transshipment hubs such as Hong Kong. Such selective cabotage relaxations have produced similar results in maritime hubs close to other nations' coastal ports.

Other reforms and policy recommendations include reforms to taxation systems and import duties that add unnecessary costs, introducing port concessions, reevaluating safety norms and changing specifications in ship constructions to reduce capital costs. Increasing cargo handling capacity and improving the efficiency of the same is the need of the hour to attract traffic flows and foreign investment. The Sagarmala programme aimed at modernising and developing ports, enhancing port connectivity, supporting coastal communities and stimulating port-linked industrialisation, has also shown promise.

The findings of the study indicate that Indian cabotage law is not the only element that requires reform, additional measures must be undertaken to achieve its goal of transforming its ports into major transshipment hubs.

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