

Shipbuilding – Indian Regulatory & Policy Environment

The Indian shipbuilding industry took full advantage of the subsidy scheme provided by the government during the global boom period. However, despite making rapid strides over the past decade, the industry is heavily dependent on government support for subsidies due to infrastructure constraints of Indian yards.

With the discontinuance of the subsidy scheme in the eleventh five year plan and no further announcement for the renewal of the said scheme, it will become increasingly difficult for the industry to stay cost effective. Already, it is facing troubled times due to the economic slowdown and high operating costs.

However, providing subsidy support is not a permanent panacea for making the industry globally competitive and enabling it to garner a sizeable market share. The industry requires an integrated policy initiative by the government for its revival.

Presently, the domestic shipbuilding industry is subject to various duties, taxes and levies. Comparatively, several shipbuilding nations have relaxed or reduced these levies to encourage shipyards. Additionally, the global shipyards enjoy subsidies, research grants and also the benefit of a very low rate of taxation. The differential rate of duties and taxes between India and other countries puts India at a cost disadvantage to the extent of 30-40 per cent.

The present fiscal and statutory rules on shipbuilding in the country are heavily loaded in favour of export and discourage construction of ships by Indian yards for Indian companies. Octroi, CST, VAT and excise are some of the levies applicable to domestic shipyards. The details of taxes and duties imposed on the domestic shipbuilding industry are discussed below:

- Excise duty @ 5% plus 3% cess totalling 5.15% on domestic sale of ships.
- Procurement of capital goods, raw materials, equipment & components for shipbuilding subject to excise duty of 16 per cent.
- Value Added Tax (State VAT) on indigenous sale of ships as applicable in the States.
- Customs duty @ 10% (Basic Duty). Additional Duty, Countervailing Duty and Cess make the total duty of 26.85% which is applicable on the capital items imported for shipbuilding works.
- 10.3 per cent service tax for ship repair business.

There is thus a need for rationalization of certain taxes and customs procedures to give the shipbuilding industry the competitive edge. The industry is also gunning for grant of infrastructure status to the industry.