पत्तन, पोत परिवहन
एवं जलमार्ग मंत्रालय
MINISTRY OF
PORTS, SHIPPING
AND WATERWAYS

सत्यमेव जयते

Policy Assessment of GO-1, GO-2 & GO-3 (2018): Impact on Indian Tonnage, Coastal Cargo Participation and Maritime Competitiveness

Director General of Maritime Administration

WHAT CABOTAGE MEANS & HOW INDIA ENFORCES IT

Cabotage → Cabotage is the reservation of a country's domestic (coastal) shipping trade for its own national-flag vessels, restricting or licensing foreign-flag ships from carrying cargo between two ports of the same country.

India enforces it through:

Merchant Shipping Act, 1958 (Sec 406/407):
Every Indian ship, or foreign ship chartered by an Indian entity, needs a licence to go to sea; foreign ships engaged directly by foreign entities for coasting trade also need a licence.

⇨

Coastal Shipping Act, 2025 (Sec 11):
Indian-flag vessels are exempted from licensing (automatic primacy); foreign-flag vessels are licensed only after Indian tonnage availability is checked – this is the Right of First Refusal (RoFR).

GENERAL ORDER 1, 2, 3 OF 2018

Section 406 of the Act

- Act requires every Indian ship or a foreign ship chartered by an Indian entity to be issued with a licence for taking the vessel to sea (that is coasting, EXIM and worldwide trade).

Section 407 of the Act

- Act requires foreign ships engaged (specifically by foreign entities directly) on coasting trade to be issued with a licence.

Exemptions under General Order 1, 2, 3 of 2018

General Order 1 of 2018	dated 21st May 2018	Exception from Section 407, giving permission to foreign ships to carry EXIM and empty containers on the coast without a licence or ROFR to Indian container ships.
General Order 2 of 2018	dated 22nd May 2018	Exception from Section 407 for movement of agriculture, horticulture, fisheries and animal husbandry commodities on foreign ships without ROFR to Indian container ships.
General Order 3 of 2018	dated 22nd June 2018	Exception from Section 407 for movement of fertilizers on foreign ships without ROFR to Indian container ships.

WHY THE GENERAL ORDER 1,2 & 3 IS DEBILITATIVE

- The orders exempted foreign-flag vessels (engaged directly by foreign entities) from licensing/RoFR for coastal movement of transshipment containers, agri/horti/fishery goods, and fertilisers.
- Over 8 years this produced a decline in Indian-flag tonnage – container fleet fell to just 30 vessels (~70,500 TEU)
- Cargo diverted to foreign ships, with no licensing check
- No reduction in freight rates despite unrestricted foreign access – the stated justification for the orders didn't materialize
- Employment losses (seafarers and shore services)
- Increased forex outflow (freight paid abroad)
- Owners preferring short-term charter over new vessel acquisition (no cargo assurance)
- Deteriorating return-leg cargo availability, hurting coastal voyage economics

The General Orders addressed a temporary capacity constraint by effectively suspending the statutory Right of First Refusal (RoFR) mechanism, rather than adopting a calibrated and time-bound exemption framework. This structural approach diluted long-term safeguards intended to support Indian-flag shipping

OBSERVED IMPACT OF PREVIOUS RELAXATIONS (2019-2025):

Data trends post-2018 :

Major Ports have reported significant growth in coastal trade (for commodities exempted from cabotage regulation as per 2018 orders - *EXIM laden containers for transshipment, agricultural and allied commodities and fertilizer cargo*) since the initial relaxations were implemented.

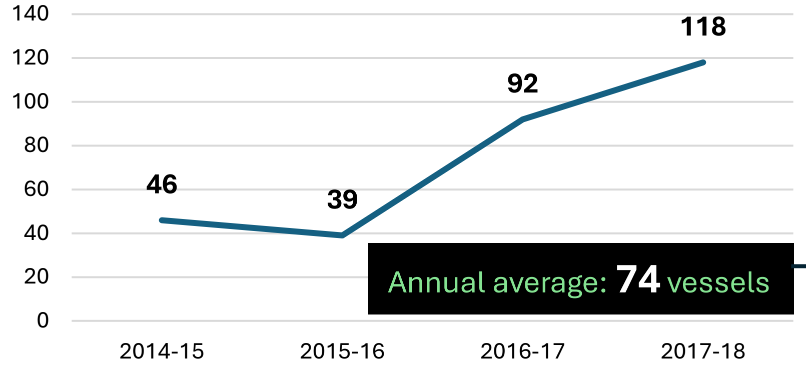
Average number of foreign-flagged vessels participating in coastal cargo movement of exempted commodities per year increased from 74 in 2014-2018 period to 298 in 2019-2025 period.

Average coastal cargo volume carried by foreign-flagged vessels of exempted commodities per year increased from 0.7 MT in 2014-2018 period to 4.7MT in 2019-2025 period

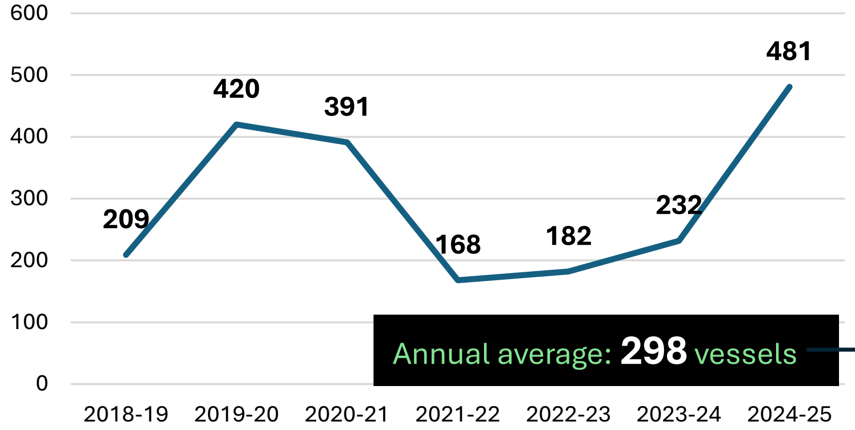
Source: Committee on Costal Shipping , Ministry of Ports, Shipping and Waterways, 2026

Shift in Coastal Cargo Participation Towards Foreign-Flag Vessels Following GO 1,2,3

Foreign Flagged Vessels

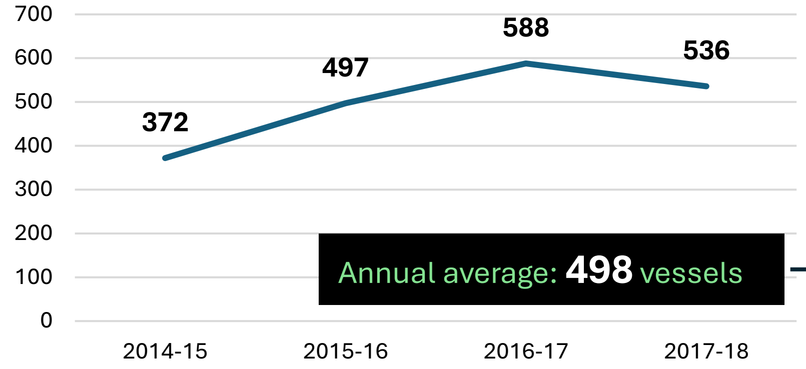


Foreign Flagged Vessels

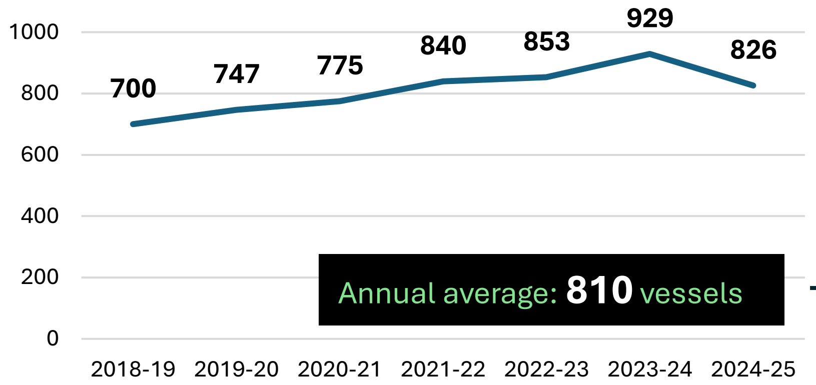


4 x

Indian Flagged Vessels



Indian Flagged Vessels



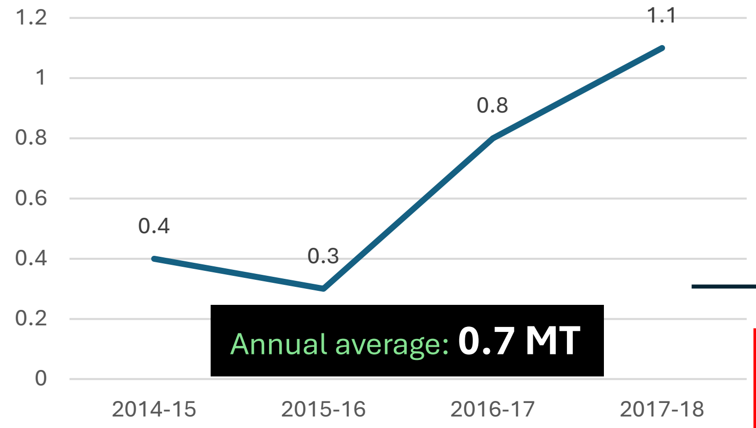
1.6 x

Foreign-flag vessel participation grew approximately 2.5 times faster than Indian-flag vessel participation.

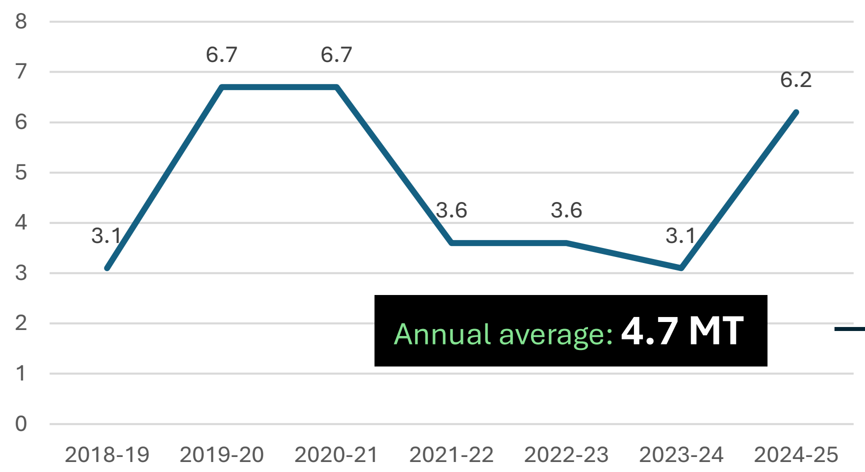
Source: Committee on Costal Shipping , Ministry of Ports, Shipping and Waterways, 2026

Observed Shift in Coastal Cargo Volumes Towards Foreign-Flag Vessels after the GO 1,2,3

Foreign Flagged Cargo (MT)

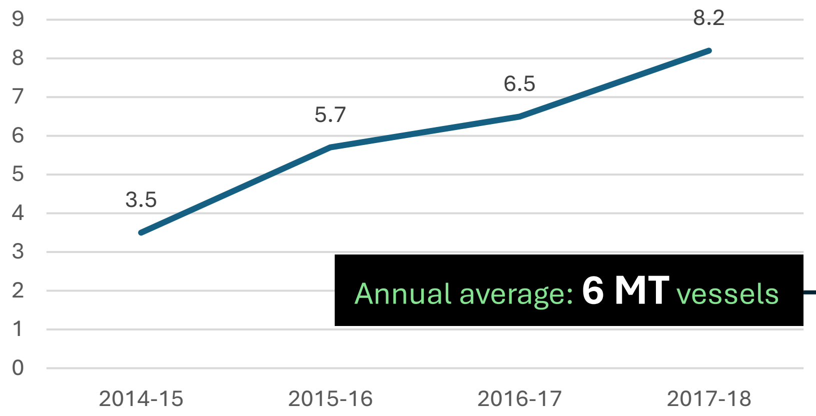


Foreign Flagged Cargo (MT)

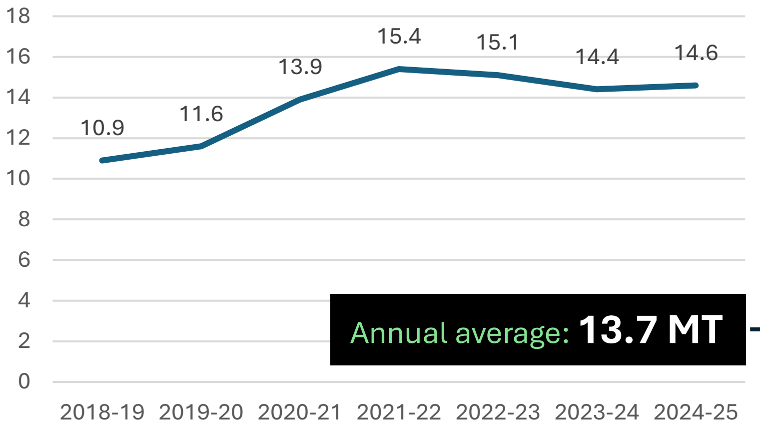


6.7 x
(571%)

Indian Flagged Cargo (MT)



Indian Flagged Cargo (MT)



2.3 x
(128%)

Foreign-flag cargo volumes expanded nearly 3 times faster than Indian-flag cargo volumes following the cabotage relaxations

Source: Committee on Costal Shipping , Ministry of Ports, Shipping and Waterways, 2026

Adverse impact of GO-1, GO-2 and GO-3 of 2018 on Indian Shipping

1. Policy intent not achieved

- Failed to reduce dependence on foreign transshipment hubs such as Colombo.
- No meaningful reduction in freight costs for Indian exporters and importers.
- Coastal movement of agricultural commodities remained negligible.
- Fertilizer cargo continued to be efficiently handled by Indian-flag vessels.

2. Increased Dependence on Foreign Shipping

- Greater participation of foreign-flag vessels in coastal cargo movement.
- Increased reliance on foreign container lines for feeder and empty container movements.
- Higher exposure of Indian trade to foreign carrier pricing and commercial practices.

3. Adverse Impact on Indian Shipping Companies

- Cargo shifted from Indian-flag vessels to foreign-flag operators.
- Erosion of return-cargo opportunities for Indian coastal operators.
- Reduced voyage viability and operational efficiency for Indian shipping companies.
- Weakening of the commercial base for Indian coastal container services

Adverse impact of GO-1, GO-2 and GO-3 of 2018 on Indian Shipping

4. Economic Losses to India

- Increased foreign exchange outflows through freight payments to foreign carriers.
- Loss of GST revenues associated with cargo carried by foreign vessels.
- Freight earnings that could have remained within India flowed overseas.
- Limited economic value retention within the domestic maritime ecosystem

5. Impact on Indian Fleet Development

- Reduced cargo assurance discouraged investment in Indian tonnage.
- Weakened incentives for acquisition of new Indian-flag vessels.
- Slowed growth of the domestic container shipping segment
- Constrained long-term capacity creation in Indian shipping.

6. Strategic Concerns

- Increased market power of foreign container lines.
- Greater vulnerability of Indian trade to freight rate volatility.
- Reduced maritime self-reliance and national shipping capability.
- Misalignment with India's objective of strengthening domestic tonnage.

How Coastal Cargo Repatriation Opportunities Are Being Diverted Away from Indian Shipping

- GO-1/2/3 bypassed RoFR safeguards, allowing foreign-flag vessels to carry coastal transshipment and EXIM-linked containers without licence or RoFR checks.
- Cargo that could have been offered to Indian vessels never entered the RoFR process, limiting opportunities for Indian tonnage participation.
- The 1963 Notification created a parallel exemption route, allowing foreign vessels chartered by Indian entities to undertake coastal voyages without licensing requirements.
- Multiple exemption pathways enabled continued foreign participation in coastal cargo movement, outside the intended licensing hierarchy.

Conclusion

- The experience of GO-1, GO-2 and GO-3 demonstrates that broad-based cabotage relaxations, while intended to address short-term capacity constraints, ultimately weakened the commercial foundations of Indian shipping.
- The policy facilitated a disproportionate increase in foreign-flag participation without achieving its stated objectives of reducing transshipment dependence, lowering freight costs, or promoting coastal movement of targeted commodities.
- Restoring licensing discipline and the Right of First Refusal is therefore essential to strengthen Indian tonnage, retain freight earnings within the country, enhance maritime employment, and align coastal shipping policy with the long-term objectives of Maritime Amrit Kaal Vision 2047.

Thank You