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National Logistics Policy

a preliminary draft

manzil PAKISTAN

Manzil Pakistan is a national non-profit think tank dedicated to developing and advocating public policy that contributes to the development of Pakistan. Our aim is to shape Pakistan to a country where policies on decisions of national interest are driven by non-partisan strategic thinking and implemented through consensus in the best interest of the people of Pakistan.

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1.0 Introduction

Amidst growing trade activities and increasing volume of trade, logistics industry has gained considerable significance and considered as one of the essential component of economic growth and development at global level. Thus, an effective and efficient logistics ecosystem facilitates not only domestic trade but can also promote foreign trade by means of enhancing export competitiveness leading to increase income levels and decrease regional and global economic disparities.

Logistics is the flow of product from the place of 'origin' to the place of their 'consumption' via different 'destination(s)' and / or 'connecting terminal(s)'. Hence the logistics industry / sector also involves the integration of material handling, warehouse(s), packaging, transportation, shipping services, inventory management, supply chain management, procurement and other government related services including customs etc.

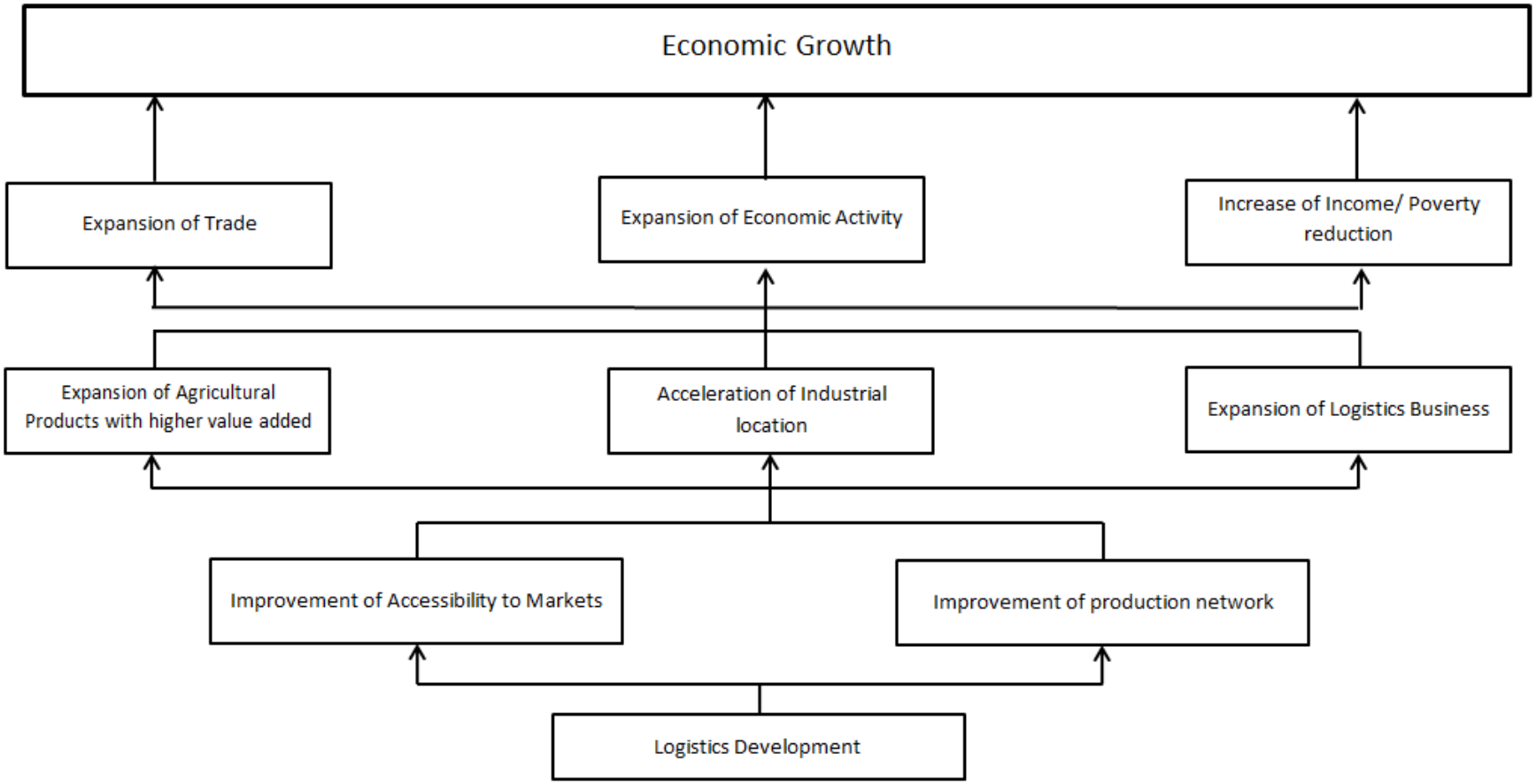
The transport logistics and Communication sector registered a net contribution of 13.04 percent to the GDP in 201-18, with a share in service sector GDP stood higher at 21.6 percent. The sector registered a growth of 3.58 percent in 2017-18 vis-à-vis 2016-17. In other terms, it is the cost incurred by other sectors on logistics, which in turns very high in the economy like Pakistan (other countries like USA 10 percent, Europe 10 percent, Japan 11 percent, India 13 percent). Following table provide the picture of investments / budgetary allocation to transport sector:

Public Sector Infrastructure Investments / Budgetary Allocations

Rs. In Billion

S. #	Infrastructure	FY14	FY15	FY16	FY17	FY18
1.	Roads	63.04	111.56	159.60	188.00	319.72
2.	Railways	30.97	39.57	41.00	41.00	42.90
3.	Ports	0.50	2.58	12.00	11.58	12.78
4.	Aviation Infrastructure	0.90	1.35	3.90	3.26	4.35

There has been considerable investment in the Transport sector, of which almost 77 percent (on an average) spend on the roads, followed by 18 percent investment in Railways. The remaining 5 percent was distributed in ports (4 percent) and aviation infrastructure (1 percent). The lowest investment in ports and aviation are largely attributed to investments directly implemented by Civil Aviation Authority and Port Authorities on self-finance basis.



Roles of Logistics in the Economic Development Process

2.0 State of Pakistan's Logistics Sector and Performance

In global context, developed economies have achieved the milestone of efficiency in the logistics component by means of harmonized, integrated and well synchronized movement of goods. These economies have an effective oversight at entire logistics chain. Despite investments, global ranking of Pakistan in World Bank Logistics Performance Index (2018) stands at 122 among 160 countries. Previously in 2016 Pakistan was ranked 68 in Index, whereas in 2014 and 2012's ranking it was placed 72 and 71 respectively. The index also provides ranking and score for each of its 6 components, following which countries can map out their performance. Among neighbouring countries (and ports in the region), Pakistan's performance stands below par in 4 out of 6 areas.

World Bank Logistics Performance Index 2018

Country	LPI Rank	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
United Arab Emirates	11	15	10	5	13	13	4
Oman	43	44	39	36	49	66	29
India	44	40	52	44	42	38	52
Iran, Islamic Rep.	64	71	63	79	62	85	60
Sri Lanka	94	79	85	112	109	78	122
Bangladesh	100	121	100	104	102	79	107
Pakistan	122	139	121	97	89	136	136

Logistics is a composite industry spanning large stakeholders and involves many government ministries and departments at federal, provincial and local level. The sector also involves various means of transportation that include railways, roads and highways, inland waterways, aviation and sea.

2.1 Inland Transport

From the perspective of inland domestic freight transport, the road transport and rail transport are considered important modals. Pakistan has a skewed modal transportation mix, largely dominated by freight movement on road, significantly higher than developed economies. The road and roads transport dominate the mix and carry the 96.68 percent of freight traffic in 2017-18. The rest 3.32 percent is the share of rail freight transport, which has declined considerably in the last three decades, however, improved from 2012-13 (1 percent). During the year 2017-18, the train freight registered at 7 million tons improved from 1 million tonnes registered in 2013-14. In 2017-18, the rail transport carried 5.30 billion tonnes-kilometre[1] (BT-km) of freight vis-à-vis 154.5 BT-km of freight by road transport. As per vision 2025, the country is targeting 20 percent share of rail freight transport in overall freight transport.

Inland Transport Overview (2018)	
1. Roads:	
a. Length of Network (Total)	268,935 km
b. High Type Length of Network (73.4 percent)	197,398 km
c. National Highways and Motorways Length	12,131 km
d. Motor Way Length	2,362 km
2. Railways	
a. Locomotives	481 Nos
b. Route Length	7,791 km
c. Freight Wagons	16,436 Nos
d. Freight Carried in 2016-17	5.6 million tonnes
e. Track	11,881 km
f. Passengers Carried	5.2 million PAX

In terms of road density, Pakistan is far behind, ranking in 60s (2007). The road density is the ratio of length of country's total road network to the country's land area. The road density in 2017-18 recorded at 0.34 km / sq. km (34 km per 100 sq.km)[2], much lower than the target of achieving 0.64 km / sq. km in vision 2025.

The rail transport, once considered as the cheaper and effective, has lost its competitiveness with the road transport due to many reasons. The modal imbalance between road and rail transport create congestions on the road; raising environmental concerns due to pollution; and over-burdening the road infrastructure resulting in damaging the physical infrastructure. This all together increases the inefficiency of the transport models in the country and increases the cost of transportation and economic cost. Transport is considered as the one of the most expensive component of trade logistics, and is very crucial for the trade efficiency. The road transport creates a significant burden on the foreign outflow by means of fuel consumption. It is estimated that about 35 percent of fuel consumption is by the road transport sector.

[1] *Billion-tonnes-kilometer is calculated by weight carried multiplied by number of kilometers.*

[2] https://www.nationmaster.com/country-info/stats/Transport/Road-density/Km-of-road-per-100-sq.-km-of-land-area

2.2 Pipeline Transport System

Pakistan has entered into regional energy hub, with regional connectivity of freight gas pipelines. Beside this, the national trunk pipeline network has greater significance, the oil, gas and bulk liquid principally transported via pipelines. Existing domestic pipeline connections are established at ports, terminal, refineries, storage depots, dry ports, industrial zones and to periphery of urban areas. There is a need to look into the existing capacities, the current capacity utilization, last-mile connectivity and the future load and extension of these pipelines. During 2016-17, 37.72 percent transportation of crude oil and petroleum products was through pipelines, while 58.35 percent and 3.68 percent was transported through roads and rail transport, respectively.

2.3 Inland Water Transport Prospects

There is 30,000 kilometre long network of rivers and perennial canals, which offers excellent opportunity to establish an economical water transport system. Fuel consumption of the inland water transport can be just 10 percent of the road transport, and 25 percent of the rail transport. However, a comprehensive research is needed on the potential for navigation and it's viability for investment in the sector and moving commercial, trade and passenger cargo in the inland water rivers providing direct access to sea as well for access to international movements.

2.4 International Trade Cargo Movement & Volume

The bulk of trade and cargo volume in the country is handled by two major ports located in the city of Karachi. Even the operationalization of Gwadar port, more than 95 percent of the imports and exports are handled at Karachi Port Trust (KPT) and Qasim Port. Karachi and Port Qasim ports serves as the primary international gateway ports for all type of commodity shipments, while Gwadar port aims for transhipment and regional transit.

Total Sea Trade at Two Ports in Karachi (FY17, Million Tonnes)

IMPORT CARGO			
Type of Cargo	KPT	QICT	Total Trade
Dry General Cargo	18.58	0.19	18.77
Dry Bulk Cargo	10.06	4.76	14.82
Liquid Bulk Cargo	14.00	17.34	31.35

EXPORT CARGO			
Type of Cargo	KPT	QICT	Total Trade
Dry General Cargo	7.92	0.01	7.93
Dry Bulk Cargo	0.62	0.47	1.09
Liquid Bulk Cargo	1.32	0.17	1.49

TOTAL TRADE	
Type of Cargo	Total Trade
Dry General Cargo	26.70
Dry Bulk Cargo	15.91
Liquid Bulk Cargo	32.83

3.0 The Need for a Logistics Policy

Being an emerging economy and with the prospect of economic activities under the China Pakistan Economic Corridor (CPEC), the country needs a thematic change and complete turnaround in its policy making. There is a need to shift from conventional policy making to a dynamic policy with the inclusion of all emerging sectors. The conventional transport policy of the country was limited to understanding physical infrastructure such as roads, rails, air and sea transport both for passenger and freight. However, with growing magnitude of both domestic and international trade, the logistics sector has gained considerable importance over the last decade or two. Thus, factors like freight, insurance, packaging and storage considered important factors in transport of goods. These also influence the cost of doing business in the country in monetary terms as well as efficiency terms. Inclusion of these sectors in transport policy of the country will make the country more competitive economically. Thus, the shift is highly needed from conventional transport policy to a dynamic 'National Transport and Logistics Policy'.

With the substantial investment in infrastructure and to meet the transport sector targets set in 2025, the government of Pakistan realized the need of National Transport Policy. After concerted effort, the transport policy was developed and approved in May 2018 entitled ***'National Transport Policy of Pakistan 2018'***.

3.1 Relationship with Existing Policies

There are several specific policies that exist, which are required to be harmonized with the logistics policy to achieve the objectives of sustainability. The objective can be best achieved when all associated and sub-sectors and related policies are aligned. This policy document also sets the targeted objectives for the logistics sector as a whole

3.1.1 Related Policies (List is not exhaustive, in chronological order)[3]

- ***National Transport Policy of Pakistan (2018):*** The policy is to guide the overall development of the transport sector (including all sub-sectors) in the mid to long-term.
- ***Pakistan Railway Strategic Plan (2018):*** Sets the overall direction for the future development of Pakistan Railways.
- ***National Trade and Transportation Facilitation Strategy (2016):*** Calls for improved transit facilities and processes for the transport and carriage of goods and services to and from the international market.
- ***Automobile Development Policy (2016):*** Focuses on a future road map for tariffs, vehicle standards and an effective monitoring regime to assist the automotive sector in better complying with international standards.
- ***National Aviation Policy (2015):*** Focuses on capital and human investments in the operations and infrastructure to ensure a safe, secure, efficient, adequate, economical and properly coordinated civil air transport system in Pakistan[4].
- ***National Climate Change Policy (2012):*** Addresses the impact of climate change, b y

[3] *The source of these policies is National Transport Policy of Pakistan 2018, Government of Pakistan*
[4] Recently, National Aviation Policy 2019 is approved by cabinet, which should also be taken into account

promoting development and adoption of environmentally friendly transport technologies and fuels and other carbon reduction strategies.

- ***National Trucking Policy (2007)***: Seeks to modernize and upgrade the sector to comply with international standards in freight vehicle standards and operational capabilities.
- ***National Environment Policy (2005):*** Seeks reduction of emission levels from the transport sector, especially improving the ambient air quality in urban air-sheds.
- ***National Maritime Policy (2002):*** Addresses the Maritime sector by amongst other matters, improving the integration and efficiency of ports and shipping within international supply chains. A revised 2017 version is currently with Cabinet for approval.

3.2 Logistics: a driver of sustainable economic development

Logistics sector is a critical driver of economic development, which is currently highly unorganized sector in the country. It is important to recognize that without the right regulatory, institutional, financial, commercial and social environment, investment in the logistics sector will not produce economic returns. There is a need to build focus on multimodal infrastructure logistics, thus promotes the efficiency by bringing the higher-value-added services using the intermodal and / or multimodal logistics. The logistics industry requires commercial viability that provides effective, efficient, traceable, and secure freight transport operation in compliance with national and international regulations, otherwise Pakistan will be unable to integrate regionally and globally. Mainly private sectors role is much important in the logistics industry but there is a need to introduce the government role by means of facilitation, regulation and institutional support.

The global Sustainable Development Goals (SDGs) also address the issue of Transport both for passenger and freight. The Goal 9 of SDGs states that

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
9.1.2 Passenger and freight volumes, by mode of transport

Sustainable economic development of Pakistan is dependent on a robust and low cost transport and logistics sector. Enhanced export competitiveness also depends on the efficient performance of the 'transport and logistics' sector. The government is aware of the vital role of the sector in the overall economic development and in improving the competitiveness of the export. It is, therefore, committed to implement a comprehensive development initiative for modernising the sector through continues process of reform supported by focused investments in all of its sub-sectors. Under Asian Development Bank's Technical Assistance project-8990, Government of Pakistan through its ministries has formulated Steering

Committee for National Logistics Policy (NLP). The Committee with its sub-working groups is working on various policy aspects.

Vision of National Logistics Policy

To drive development of the country, enhancing competitiveness through improving the ecosystems of the country with integrated, efficient, safe, secure and cost effective transport and logistics, leveraging on the best information and communication systems, increase income levels and reducing poverty by creating employment opportunities and human resource development.

Objectives of National Logistics Policy

The policy objectives state the outcome that the logistics and associated sector intends to deliver. Given the expected role of the logistics sector in the economy, there is a need to incorporate global best practices, requires a directional change by means of meeting set of defined objectives. Since, there was no prior policy of the sector, the policy documents sets the objective to be met in next five years i.e. 2019-2024.

1. ***Establish Centralized Facilitation Hub (CFH):*** The policy intends to establish a central facilitation hub, a centralized system for all type of logistics including domestic and international trade and cargo movement. The centralized facilitation will also be used for knowledge and information database and analytics Centre.

   1.1 ***Innovation in Logistics Sector:*** The policy encourages the stakeholders to come forward and take innovative measures for the improved and efficient logistics sector. A state-of-the-art knowledge center and / or center of excellence will be established in coordination with all private and government stakeholders.

   1.2 ***Effective Value Chain System:*** The policy intends to bring efficient value chain system through information and communication technology.

2. ***Integrated Multi-modal Logistics:*** An integrated and balance logistics network consisting of roads, railways, inland waterways, ports, airports and pipelines will help in optimizing the logistics sector and improve the existing multi-modal skewed logistics to balance international accepted multi-modal logistics.

3. ***Foster Sustainable Logistics:*** Future expansion of the logistics sector requires sustainable logistic models and development of infrastructure. The latter include development of dedicated logistics corridors, domestic economic corridors, and international corridors for optimizing the efficiency of logistics sector in the long term.

   3.1 ***Logistics Performance Index:*** improve the country ranking in Logistics Performance Index from current levels (2018: 122) to an index range of 60 to 70.

   3.2 ***Logistics Warehousing:*** increase the number of warehouses in the country, with a focus on improving the quality of storage infrastructure.

   3.3 ***Specialized Warehousing:*** Introduce specialized warehouses in the country, well harnessed with information technology for swift movement of products from farm to

destination with a cost-effective logistics network is envisioned, targeting the cost transport, communication and logistics from 13 percent of GDP to around 10 percent of GDP. Effective and specialized warehouse such as cold chain will help in reducing losses during transportation of perishable agriculture goods.

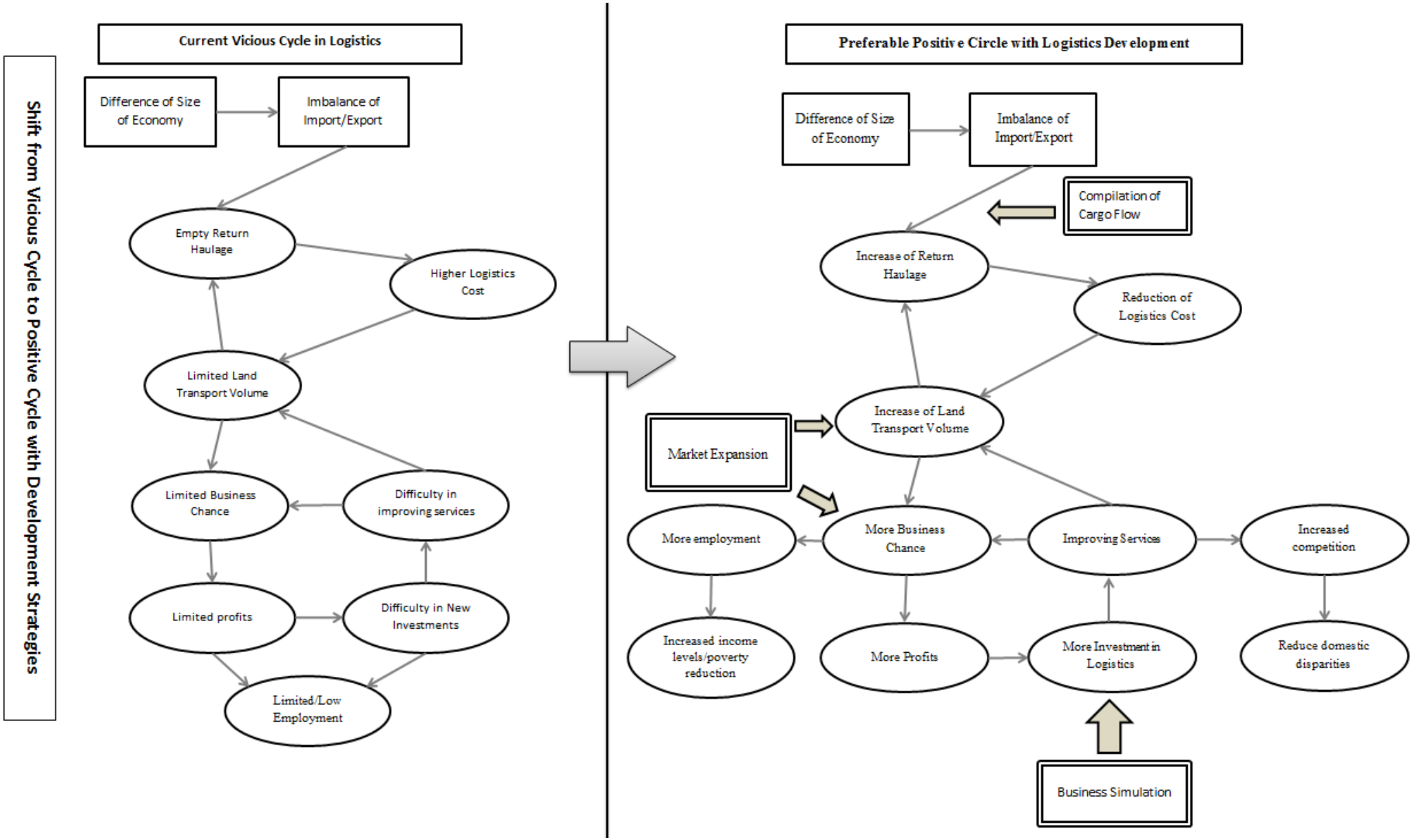
3.3 ***Optimizing and Efficiency:*** The logistics sector performance will be optimized by improving the current skewed modal mix (>90 percent on road transport) to less than 80 percent of modal mix in the next five year (medium term) i.e. 2019 – 2024. As per international benchmarks the optimum multi-modal transport and logistics share include road and inland water ways together have one-half of the equal share, while the rest one-half includes the transport and logistics through railways.

3.3 ***Cost-effectiveness:*** a cost-effective logistics network is envisioned, targeting the cost transport, communication and logistics from 13 percent of GDP to around 10 percent of GDP.

4. ***Improve Connectivity and Accessibility for all:*** An integrated multi-modal logistics will help the in improving the first mile and last mile connectivity and provide accessibility to all economic zones including large scale manufacturing (LSM), Medium and Small Manufacturing Enterprises (MSME), Small Scale Manufacturing and business and the rural connectivity with farmers in agriculture sector.

5. ***Introduce Standardization in Logistics:*** the policy intends to bring standardization of logistics industry but not limited to Packaging, Storage (ware-housing), forwarding processes port operations etc. The scope of standardization includes all sub-sectors and associated institutions.

6. ***Facilitate Equitable Growth:*** facilitate the growth across the country with increased competitiveness. Increase employment opportunities in the sector with a focus on diversified skills along with gender diversity. Provide MSMEs and SMEs an opportunity to build-up on cost-effective logistics network in the country



Source 1: Adapted from " The Comprehensive Study in Logistics Systems in Lao PDR –Chapter 6"