

Preliminary Research Paper: Development of Shipping Services Sector in Pakistan



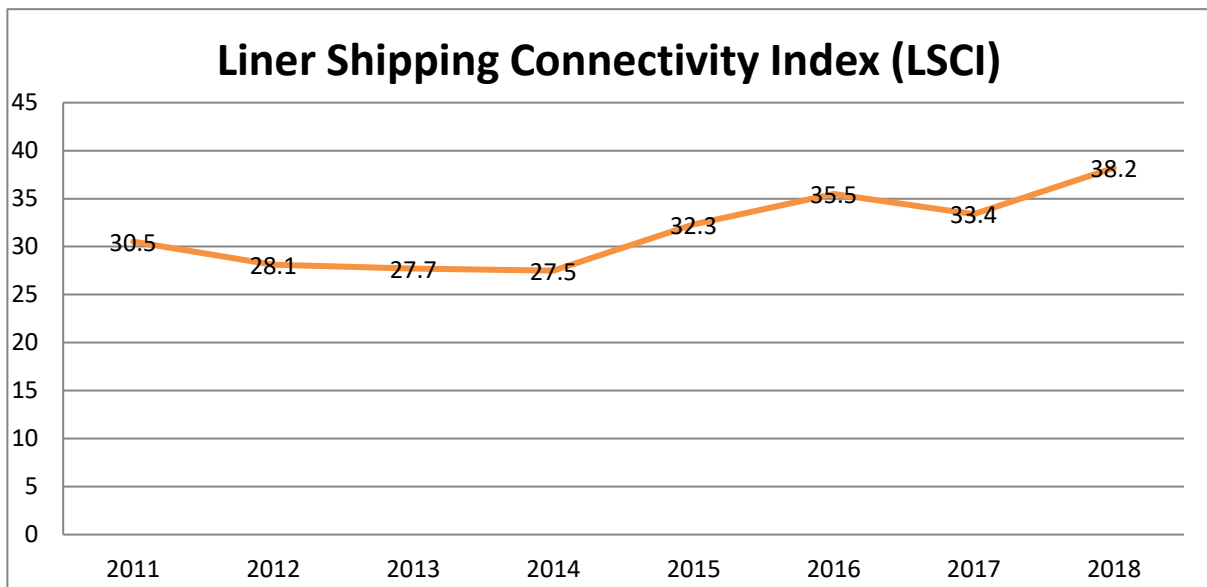
Manzil Pakistan is a national non-profit think tank dedicated to developing and advocating public policy that contributes to the development of Pakistan. Our aim is to shape Pakistan to a country where policies on decisions of national interest are driven by non-partisan strategic thinking and implemented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

1 Introduction & Background

It is very pleasant and encouraging that Ministry of Commerce and Textile (TIS Wing) is reaching out to stakeholders requesting suggestions for revitalizing Shipping Services industry of Pakistan. Creating advantageous environment for improvement of shipping services industry is capital intensive and its roots entrenches deep down the economy. A consistent multipronged strategy is required to help resurrect this industry.

Shipping Services industry has multi-folded dynamics / linkages and it can't be revived by just mere Stop gap arrangements. In order to revitalize it, many policy measures are required. Laws, Policy Directions and its implementation is the key for any industry to provide a platform from where it could takeoff. Considering the potential of this industry Manzil Pakistan is very keen towards its legal and policy reform.

Liner Shipping Connectivity Index (LSCI), LSCI captures how well countries are connected to global shipping networks. It is computed by the United Nations Conference on Trade and Development (UNCTAD) based on five components of the maritime transport sector: number of ships, their container-carrying capacity, maximum vessel size, number of services, and number of companies that deploy container ships in a country's ports. On score out of 100, Pakistan averages at 31.7 whereas UAE, Sri Lanka, Oman, India, Iran and Bangladesh averages at 69.8, 54.8, 52.4, 48.7, 25.9 and 9.5 respectively (from 2011-2018).



On the other hand, 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 neighboring countries (and ports in the region), Pakistan's performance stands below par in 4 out of 6 areas. The timeliness, customs procedures, infrastructure and tracking & tracing are the four major factors, where improvements if made can help in reducing handling cost in industry and increase efficiency in the global market supply chain. However in two areas i.e. International Shipments and Logistics competence Pakistan's performance is better than Bangladesh.

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

Over the last few years, opportunities arise to diversify and expand the volume of Pakistani products. The European Union's Generalized System of Preference Plus (GSP Plus) status given in 2014 provided the opportunity to explore and expand the trade to new European markets. Beside these, the new avenues and potential for trade growth has been approaching the country by means of China Pakistan Economic Corridor (CPEC). CPEC is considered to be a game changer with the huge ever investment by a single country in Pakistan. The investment includes revitalizing and development of Gawadar Port, Energy related developments, and developing road infrastructure and communication networks etc. The development of Gawadar Port would turn Pakistan into a regional Hub of trade and commerce and play a significant role in regional connectivity.

To fully capture industry's inherent potential it is important to understand its composition. Total sea borne trade of Pakistan for FY17 was 89.85 million Metric Ton (mMT) out of which only 15.92% (14.3 mMT) was moved by Pakistani flag carrier. It is important to note that Pakistan National Shipping Corporation (PNSC) is the **only** domestic merchant marine fleet that carries Pakistan flag. Because of Pakistan's incapacity to carry majority of its freight, Pakistan pays out approximately USD 2.3 billion during FY17-FY18 in sea-freight bill.

As expressed in the letter, sent earlier by All Pakistan Shipping Association (APSA) dated October 4, 2018 to the Ministry, Manzil Pakistan is keen to provide its assistance in

developing shipping sector with research based policy initiative. In line with our intention we have conducted a preliminary study to take a stock of shipping service dynamics in Pakistan. In next section we have listed down some recommendations for improvement in shipping sector.

As mentioned in earlier section following are the recommendations and suggestion which we believe should be taken into consideration for development of shipping industry in Pakistan. Suggestions cover policy-investment hurdles, issues in ship building-repair-breaking, manpower and foreign policy priorities.

Shipping: Policy-Investment-Operational Hurdles

- It is important to note that Pakistan National Shipping Corporation (PNSC) is the **only** domestic merchant marine fleet that carries Pakistan flag. The share of PNSC in Pakistan's sea trade has improved. Its market share has increased to a peak of 26.4 percent in 2014, however, declined considerably in the last two years to around 16 percent in 2016 and 2017. Majority of PNSC's contribution in Pakistan's sea borne trade is in crude oil sector, while dry bulk sector share is highly insignificant. Of the total share of 16 percent in Pakistan's sea borne trade, liquid handling (oil) accounts for 14.07 percent, while dry bulk trade handled by PNSC is only 1.5%. The oil cargo moved by PNSC is not based on competitive win but it is an allocated cargo provided by government. Interventions are required to make PNSC competitive enough to get cargo beyond its allocated share and priority by government.
- With developing PNSC is it also important to encourage private sector investment. Private sector participation in any industry is linked with the progress and development for that particular industry, and it also provides a positive outlook for the economy. During our consultation and research we came to know about some key factors (including lack of trust due to inconsistency in governmental policies) that are putting off private sector investment in the Pakistan's shipping industry.
- Prior to 2000, there used to exist national flag carriers at private-domestic level. Those private shipping companies experienced nationalization in 70s and denationalization in late 80s. Afterwards intense competition in 80s and 90s and lack of government support, these companies could not survive. Resultantly private shipping companies mostly owned by Pakistani nationals have closed down. To attract local investors back in industry it is necessary to provide some rationalised governmental incentives and assurances.
- From ship registration to daily operations, there are many hindrances that do not supplement speed and time with the shipping industry. For instance ship registration process involves physical inspections from technical committee which takes months, which gets tricky to handle when there huge is financing and operating cost involve.

- Shipping is a sector which involves working with multiple entities situated in multiple countries on daily basis and this obviously requires financial transactions in Foreign Exchange (FX), current policies and regulations adopted by State Bank of Pakistan, is not conducive for this industry. To re-invigorate shipping sector and attract investors it is important to review restrictions on remittance flows especially for sectors which are also earning in foreign currencies.
- Shipping is a capital intensive business and such businesses require strong support of financial institutions. However current situation of Pakistan's banking and financial industry is not resilient enough. This makes it imperative that some initiative should be taken to build capacity of national financial institutions and room provided to get loans from international financiers.
- Another grievance of investors is duty and taxation on buying and selling of ships. Heavy duties increases the need for capital investment while high taxation (like of capital gains tax on selling ship) makes operations difficult and kills growth.
- To run the shipping business foremost requirement is availability of cargo to be shipped. This requires providing rationalised cargo preference list to safeguard business for encourage national flag carrier by providing them base cargo at market pricing.

Ship Building-Repair-Breaking

Ship building and repair has dual importance in shipping ecosystem. On one hand it provides support to local shipping industry by providing local and considerably cheaper maintenance, it also acts as an industry on its own when it has excess capacity to international demand.

Ship breaking is another off shoot of the shipping business. It is similar to using port facilities and manpower, and produces scrap which serves as a raw material in other steel related industries. All ancillary sectors related to the shipping industry are in deplorable conditions specially ship breaking.

Ship breaking industry has important role and backward linkage with steel Industry in Pakistan, by supplying steel scrap produced in ship breaking process. Pakistan's Iron and Steel Scrap Import accounts for 2.65 percent (amounting to 1.035 billion USD) of the total Pakistan import in FY18. According to some claims, ship breaking industry can fulfil 30 percent of country's iron need. Whereas, Steel Re-rolling mills claim that the production using imported scraps accounts for 85 percent of total production, which can be reduced substantially by augmenting ship breaking business. Beside earning foreign income and saving foreign exchequer due to lesser imports, the industry has direct and indirect impact on employment as well.

- The Karachi Shipyard and Engineering Works Limited (KS&EW) is the only and oldest shipyard in Pakistan that is purposely established to cater to the needs of shipbuilding and ship repair. Currently, the entirety of Pakistan's shipbuilding, maintenance and repair work is undertaken at KS&EW. The facility is largely used as major defense contractor and serving the naval forces for building naval vessels and submarines for Pakistan Navy. Thus the services to private shipping are considerably limited.
- Ship breaking is also facing terrible negligence. Gadani ship breaking yard now produces only one fifth of the scrap it used to produce in 1980s. One of the reason for collapse in ship breaking industry is non-compliance of safety procedures and heavy reliance on informally trained staff. Ship breaking can be a source of cheap import substitution for steel/ iron scrap which is being imported at a higher cost by the steel and allied manufacturers in Pakistan.

Shipping: Manpower

The global shipping industry has consistently been growing with the increase in global trade however Pakistan has seen its share of international shipping professionally gradually decline over the last decades. The Government needs to view this as an industry source of high inward remittance potential. Currently Pakistani seafarers are facing issues to secure employment in national and particularly international level because of many reasons such as:

- Non-existence of domestic shipping industry. PNSC is the only Pakistani flag operating organisation and on its fleet of 9 vessels it can only provide limited number of employment opportunities.
- Hurdles faced at domestic level such as lack of appropriate training opportunities and acquiring certificates of competencies. The Pakistan Marine Academy (PMA) is the only public institute to train the seafarers from Pakistan and is managed by DG Port and Shipping. Despite several changes in the standards of training at international level, and new amendments adopted in Manila Amendments 2010, the training curriculum for Merchant Marine Personnel of PMA remains very traditional with very little emphasis on updates and technological innovations. Several courses have been discontinued by the academy on account of paucity of funds, lack of trainers and non-availability of appropriate training instruments.
- The failure to address the requirements of modern trainings set under the IMO conventions.
- Post 9/11 Pakistani citizens are facing strict customs check at foreign borders, situation for seafarers is more deplorable because of un-updated Seafarers Identity Documents (SID) as per ILO Convention 185) and e-Articles of Agreement as a result Pakistani seafarers cannot join foreign flag vessels without proper visa of the Country

where Pakistani seafarer has to join foreign flag ship. The Pakistani seafarers further are not allowed shore leave or transit or transfer at foreign ports. This all hassle makes Pakistani seafarers as least desired employees by vessel operators.

Currently Philippine is considered as a major supplier for maritime labor globally. Philippine Overseas Employment Administration (POEA) data showed that there are 367,166 (0.37% of total population) Filipino seafarers with POEA approved contract deployed in 2013. In 2014, the deployed seafarers brought in 5.57 billion US dollar remittances (22% of the total dollar remittances of Overseas Filipino Worker)¹. Reason behind this hold in industry is the modern and updated education system of seafarers where around 80-100 marine schools train seafarers under various degree and diploma courses. It is important here to realize significance of marine academies, if trained; Pakistan can also earn significant revenue in remittances sent by its offshore seafarers.

Shipping: Foreign Policy

Foreign policy relations have huge impact on shipping business. UN's LSCI calculates liner connectivity of one country to others. Also with more regions a country is connected to more business it can have. This all make it necessary that regional co-operative measures should be taken and active participation should be ensured on international platforms, like SAARC, to pave playing field for shipping industry.

¹ <http://sapalovelez.com/v2/pinoy-seafarers-rights/>

From time to time Pakistan has come up with policies to address one issue or another, lacking overall focus and comprehension. Over the years shipping industry has seen dire neglect of national policy makers. At federal leadership level the sector has seen many upheavals, hence no vision to steer progress. There is no such comprehensive policy that is dynamic and oversees issues related to the industry. The Pakistan Merchant Marine Policy -2001 made some 18 years ago is set to expire in 2 years (in 2020) and since its commencement there is no review about policy targets and effectiveness. As now new wave is taking its shape to develop shipping sector it is crucial to develop focus on leadership level, encouraging and securing private investors, implementation of international regulations and standards and developing sound foreign relations.