

Road Map for Developing Shipping Services Industry: Issues, Potential and Way Forward



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.

It is very pleasant and encouraging that Board of Investment Pakistan is keen for the bringing foreign investment in Pakistan. The purpose of this document is to identify potential and need 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. A good legislative framework with healthy 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 to contribute in reforming its policy and legislative aspects.

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 mainly focused on revitalizing and development of Gawadar Port, Energy related developments, and having effective communicating network by developing a comprehensive rail/road infrastructure in the country. The development of Gawadar Port would turn Pakistan into a regional Hub of trade and commerce and play a significant role in regional

Shipping Industry has the potential of savings/earnings up to USD 9 billion per Anum.

USD 4 billion in Saving by Import Substitution and USD 5.3 billion in export of good and services earnings

connectivity.

Pakistan's shipping services industry has a potential of saving/earning up to USD 9 billion. This contribution in an emerging economy can ease up the pressure on foreign reserves and enhances the fiscal space for government to invest in other more beneficial social developmental avenues i.e. social and infrastructure etc. The major saving/earnings flows are expected from following four core directions;

- Sea-freight bills
- Ship breaking Industry
- Contributions from Pakistani’s seafarers
- New trade agreements

New trade agreements can increase/boost export of country by USD 3 to 4 billion

Ship breaking provides employment

Ship breaking can save up to USD 2 billion

Upto USD 9 billion savings/earnings

Scrap is imported 2.21 times the price of scrap obtained from shipping

Pakistani seafarers can contribute upto USD 1.35 billion by 2029

- Modify and amend Merchant Marine Ordinance 2001 for smoother administrative and registration processes
- It is now essential to invest in image building of Pakistan in backdrop of 9/11 and war on terror
- Modify and adopt technologically advanced teaching and training methods in accordance with Manila Amendments 2010

National shipping can save upto USD 2 billion in sea freight bill

Reset of the cargo is moved by foreign companies which leads to an outflow of approx 2.3 billion from exchequer

PNSC is only Pakistani company providing liner services and only covers 12.79% of Pakistan's total sea borne trade

These sectors can contribute billions if a well-directed reform effort is initiated. Manzil Pakistan is keen to provide its assistance in developing shipping sector with research based policy initiative. As a sequel to our intention Manzil Pakistan have conducted a preliminary study to take a stock of shipping service dynamics in Pakistan. In subsequent part of paper some recommendations for improvement in shipping sector are listed down.

2 Potentiality of Shipping Sub-Sectors

Pakistan Owned Merchant Fleet Potential

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 on account of sea-freight bill. If we develop national shipping, Pakistan can save USD 2 billion outflow.

National Shipping can save up to USD 2 Billion in sea freight bill breaking

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 can save up to USD 2 billion

Beside earning foreign income and saving foreign exchequer due to lesser imports, the industry has direct and indirect impact on employment as well. Ship breaking industry has substituted USD 1 billion worth steel and iron scrap in 2018. This also means that incase of no shipbreaking and the domestic industry requires to import the same scrap, additional foreign exchange outflow amounted to over 1 billion USD. If we implement the structural reforms, shipbreaking industry can save up to USD 2 billion by reduction in country's import bill which is the major focus of the current government. Following assumptions are used to understand the potentiality of the shipbreaking sector enhancement / increase¹:

¹Details in Manzil Pakistan Publication 'Shipbreaking in Pakistan'

- 1- If we increase scrap collection in shipbreaking by 25 percent, we will be saving USD 1.3billion, **or**
- 2- If we increase scrap collection in shipbreaking by 50 percent, we will be saving USD 1.5 billion, **or**
- 3- If we double the ship breaking we will be saving USD 2.0billion.

Overseas Manpower Potential– The Seafarers

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.

Pakistani Seafarers can contribute up to USD 1.35 billion by 2029

Pakistan seafarers can contribute up to USD **1.35 billion** by 2029 which is almost two-fold vis-à-vis remittance inflow by seafarers in 2018 and more than 6 percent of the total remittances (approx. **20 billion** US dollars) by Pakistani's overall expatriate working abroad in 2018².

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.

²Details in Manzil Pakistan Publication 'Prospects of Pakistan Origin Seafarers Employment potential to increase foreign remittances'

- 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.

Exports Boost: Foreign Policy and Trade Agreements

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.

New Trade Agreements could boost export by USD 3 to 4 billion

Bilateral Trade Agreements (BTA) and Free Trade Agreement (FTA) incorporates elimination of quotas, tariffs, and other barriers to international trade, allowing contracting parties to specialize in the products that can be produced cost effectively and on mass scale. These trade agreements improve bilateral trade and export earnings. Pakistan has entered into many BTAs and FTAs after year 2000. Existing trade agreements has improved exports earnings by USD 2 billion and if we double our BTAs we could earn up to USD 3 to 4 billion.

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 to reduce 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.

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. Development of shipping service industry have the potential of saving/earning up to USD 9 billion which would be a significant support for foreign exchange reserves.

- Sea-freight bills can save up to USD 2 billion in terms of sea freight bills.
- Ship breaking Industry can save up to 2 billion in terms of import substitution
- Contributions from Pakistani's seafarers have the potential of up to USD 1.35 billion by 2029.
- New trade agreements have the potential of earning of USD 3 to 4 billion if we double the BTAs.

Reshaping the focus of these four avenues can boost the shipping services industry and help generate/save up to USD 9 billion in the process. As now new wave is taking its shape to develop shipping sector, hence it is the time to bring solid policy reforms which provide encouragement and secures private investors, implementation of international regulations and standards and developing sound foreign relations. **A task force at this stage is highly needed under cabinet committee supervision or under the supervision of Board of Investment Pakistan to tap the potentiality of Shipping Service Sector.**