Resurrecting the Obsolete

By Manzoor H Memon

Pakistan Merchant Marine Policy 2001 was the first ever comprehensive marine policy of Pakistan. The policy aimed to achieve growth linked with maritime economy and provided the roadmap for a period of 20 years that included the revival of Pakistan resident investment by means of Pakistani flagged vessels. The ministry of Maritime Affairs has recently extended the existing policy for the next 10 years with some amendments.

Pakistan's seaborne trade is 89.9 million tons annually while the share of the national carrier Pakistan National Shipping Corporation (PNSC) is 16 percent, which averages around 14 million tons per annum (FY2018). Consequently, this results in colossal drain of foreign exchange in terms of freight bill which recorded about $2.3 billion in 2018.

To boost the investment by private sector and to bring Pakistan resident owned national flag vessels, the government has extended its support and unfolded opportunities. First and foremost is the provision of fiscal leverage. The exemption from federal tax also aims to support the Pakistan flag vessels. The reduction in tonnage tax for the first five years of shipping operation till 2030 is also a good policy measure. Pakistan flag vessels are also provided with berthing priority at all Pakistani ports. The advisor to minister also promised for financial leverage. The shipping industry is highly capital-intensive and requires sophisticated and expensive state of the art technology. Thus, the verbally communicated proposed policy rate of three percent markup and refinance facility for buying vessels and ships is a good initiative.

Policies in Pakistan usually lack implementation in true letter and spirit. The paradoxical problem of financial institutions is avoidance of long-term financing at such low markup rates, besides avoiding credit to capital intensive and risk associated industry.

To implement the desired objective of the policy and assure credit at announced rate, the central bank should direct and allocate a portion of banks' loan portfolios for Pakistan-based flag vessel investments. The fiscal incentive required amendment in relevant tax laws. While the needed changes have already been made in the current year's finance bill 2020-21, to build confidence on the policies, consistency is must. In the past, the incentives provided to the sector were taken back without any proper reasons, prior information, and consultation with all stakeholders.

Therefore, to ensure that new investors enter the highly capital intensive and risk associated avenue, it was necessary to take into consideration all supports and incentives provided in the new amended policy, and also provide business surety. The Merchant Marine Policy 2001 had failed to achieve the target of bringing-Pakistani resident owned national flag vessels in the country. One of the major reasons behind that was the first right of refusal to PNSC for government owned trades.

The current extended policy continues with the same thrust, crowd-out private investment amidst highly competitive international market. The amendment for no preference to PNSC in private sector cargo is somewhat irrational as it is already competitive and an open market mechanism.

As per the amended policy, the shipping industry is classified as ‘Strategic Industry’. However, this needs to be explained how this move benefits the shipping industry. In addition, it may also be incorporated in Pakistan Strategic Trade Policy Framework (2020-2025), which is still awaited.

Over the last two decades, there has been considerable change at national and international front. Amidst fast and dynamic global trade, and technological era, 20 years are considered far too long for a policy to steer a direction and stay effective. From Pakistan’s perspective, new trade dynamics and GSP plus status, China-Pakistan Economic Corridor (CPEC) and Gwadar Port, were not pivotal points when making the policy back in 2001. It is high time to revisit and realign the Merchant Marine Policy with the objective to accrue maximum benefits out of it, rather than just merely extending or amending the policy. The changes brought about in policy appear only cosmetic.

In order to attain the potential in maritime sector due to changing dynamics and trade linkages, it is crucial to develop a well-focused direction driven policy in consultation with all stakeholders. Beside this, a comprehensive legal framework, enforced through laws of parliament, is required for better implementation.

In addition to providing level playing field for private sector, the modern qualitative and quantitative improvements in all spheres are critically needed. In specifics, development of port infrastructure, expansion of port facilities, efficient support services, competent dynamic work force along with predictable regulatory environment are some of the key elements needed to upgrade the sector.

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