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Editorial

New shipping policy

Ali Haider Zaidi, the Federal Minister for Maritime Affairs, has announced the PTI government's shipping policy during a press conference with Razzak Dawood, Advisor to the Prime Minister on Commerce, envisaging involvement of the private sector in the industry. This is a landmark decision as no successive administration took the decision to denationalize shipping after its nationalization on 1 January 1974, along with banking, during the tenure of Z A Bhutto. True that shipping industry had already suffered considerably after the break-up of the country in 1971 as previously the shipping industry was mainly focused on trade between the two wings; however, nationalization then put the death knell on this industry.

Shipping thus became limited to Pakistan National Shipping Corporation (PNSC) for 46 long years with local private sector company conspicuous by its absence in this sector which, in turn, led to foreign shipping companies taking up Pakistan's market share. These foreign companies have developed economies of scale and there is therefore a need to look at the policy's specific clauses to determine whether a local company can compete with these foreign carriers. In this context, it is relevant to note that the LNG deal struck with Qatar envisages non-Pakistani ships.

Several key features of the policy must be appreciated, including the decision to exempt vessels registered in Pakistan from customs duty, income tax and sales tax till 2030, and to extend first berthing rights to Pakistan flag carriers defined as Pakistani-owned and resident companies that are registered with the Securities and Exchange Commission of Pakistan (SECP).

These measures have generated considerable euphoria in prospective investors. Minister Zaidi also announced that shipping companies would now be able to take advantage of fiscal concessions and low mark up rates offered by State Bank of Pakistan under its Long Term Financing Facility (LTFF) with an applicable rate of 5 percent; however, the maximum amount for a single project under LTFF is 2.5 billion rupees which may have to be raised for the shipping industry as it is highly capital intensive.

Be that as it may, there are a number of amendments that would further promote the shipping industry. The policy specifies exemption of customs, sales and income; however, one would have hoped that the policy had specified exemption from all levies as administration after administration, hard pressed for revenue, has circumvented exemptions by then levying federal excise duty, turnover tax (with FBR contending that turnover tax is not income tax and other levies such as surcharges. It is, therefore, critical for the government to pledge zero taxes and levies (by whatever name) in the policy.

Secondly, and equally importantly, the government must relax the conditions imposed under the law and rules governing Pakistan; flag vessels to enable the shipping industry to compete with vessels plying between various sea routes under flags of convenience.

And thirdly, the government must legislate for preference to be accorded to Pakistani flag vessels by mandating a clause in the letters of credit established for exports from and imports into Pakistan.

The minister claimed that the policy would help reduce the annual freight bill of $5 billion plus; however, it must be borne in mind that while politicians are typically over-optimistic about the time period of success of their measures yet where billions of rupees of private investment is required achievement is slow and requires other enabling conditions that maybe lacking at present, especially given the pledges made by the government with respect to the contractionary monetary and fiscal policies agreed with the International Monetary Fund (IMF).