

PRESENTATION AT THE PAKISTAN DEVELOPMENT FORUM
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Historical Position & Realization

A prerequisite to the development of any economy is a efficient logistics & transportation system and the driver of a efficient logistics & transport system is a efficient Freight Forwarding sector. Pakistan Freight Forwarding, logistics & transport sector had been virtually nonexistent, so about three years ago we approached the Government and mutually explored the merits of addressing this sector, several presentations were made resulting in a series of coordinated efforts. It was evident that to support the fast paced growth of Pakistan economy this sector would need a focused development effort. Additionally it was also realized that a properly articulated & efficient logistic and transport sector could provide services to not only Pakistan economy (with a population of 160 million) but also to the Central Asian countries (with a combined population of 60 million) as well as the larger population of Western China.

The freight forwarding industry was totally fragmented with no direction, no official recognition and no access to formal financing, warehousing was non existent and trucking was totally in the informal sector having no corporate structure, no access to formal financing and no cross border transport opportunities due to the absence of necessary legislation and transit mechanisms.

If Pakistan's Logistics and Transport sectors were to move forward then we would need to institutionalize our existence on a much larger canvass supported with the appropriate international linkages. Therefore the need to create the necessary institutions was the big initial challenge.

Industry's Initiative

In 2004 we setup the TIR Commission at the ICC-pnc and it became the member of IRU – the International Road Union hence also the guaranteeing national organization for the implementation of the TIR Convention. Soon after in December 2004 we set up PIFFA – Pakistan International Freight Forwarders Association. A set of “Standard Trading Conditions” were adopted and PIFFA then got membership of FIATA after being unanimously

elected at the 2005 World Congress held at Moscow. Both these were independent actions but were interlinked and formed the necessary basis to move forward with the development of the country's logistics & transportation sector.

Governments Initiative

We then worked closely with the Ministry of Commerce as well as the Ministry of Industries and got support from them for our proposals & ideas which translated into the trade policy announced in June 2005 as well as the Industrial policy strategy programme announced in the same period. We perused coordination with the World Bank to take these initiatives further. The World Bank meanwhile started working with the Government on infrastructure development and the Federal Governments Planning Commission proposed to formalize the initiatives. In August 2005 The Prime Minister announced the formation of the National Trade Corridor. He articulated the entire expanse of the project and it was quite evident that this was going to be the backbone of further development of Pakistan industry and its economy. The project was to deal with the improvement and up gradation of the entire logistics & transport infrastructure & services starting from deepening the port channels, setting up of deep draft berths, planning cargo villages at the seaports & airports, expansion & up gradation of the road & highway networks as well as creation of new linkages, revamping of Pakistan Railways freight section, setting up of container freight stations & setting up of customs stations on our northern border crossings. On the services sector the Government was revamping the entire customs procedures including the introduction of the Care Project. The Government encouraged the freight forwarding sector i.e. PIFFA to streamline its rules, code & procedures. Similarly the trucking sector will also need to draft its operating rules, procedures & standards.

The National Trade Corridor has six functional committees each with a specific focus.

- Ports & Shipping development.
- Trade Facilitation for development & modernization of Freight Forwarding services, dry ports & terminals and simplification of customs procedures.
- Trucking sector modernization.
- Highways & Roads modernization.
- Rail freight business modernization.

- Air transport sector improvement & modernization.

It is heartening to note that the work being done by various ministries & departments in the above committees is focused and the coordination by the Planning Commission is good, the objectives are being met.

Market Expansion

The private sector service providers offering the logistics & transport services whether members of PIFFA (Int'l Freight Forwarders) or the TIR Commission (Int'l Road Transporters) or the local transporters had limitations in the size of their economy. A survey conducted in January 2005 determined the annual turnover of the countries Freight Forwarding industry at approx Rs. 45 billion, this did not cover trucking services and consisted mainly of afreightment agreements contracted in Pakistan for exports of sea & air shipments, some basic warehousing and a small quantity of import cargoes.

The Pakistani merchant buys on C&F basis allowing the freight to be contracted by his overseas suppliers, a legacy of the countries previous exchange control environment when importers could only pay for freight charges by opening C&F L/cs, which meant that local importers was actually taking into account an estimated freight amount and opening the L/Cs on that estimated freight therefore paying an excess amount of freight to cover the risk of the suppliers. We engaged with the State Bank of Pakistan to address this problem, they saw merit in our suggestions and finally allowed local importers to open FOB L/C, contract competitive freight terms with the forwarding companies and pay the freight charges locally in Pak Rupees, the Freight Forwarder in turn is now allowed to remit the foreign exchange to his counterpart at the overseas port of loading. This will result in sizeable foreign exchange savings to the economy. It has allowed us to enhance the local market size for the freight forwarding companies.

Similarly today Pakistan is deficient in the road transport sector, i.e. Afghanistan with a population of under 20 million people has a national trucking fleet of around 80,000 vehicles but Pakistan with a population of nearly 160 million people has a trucking fleet of only 250,000 vehicles. This shortfall will need to be addressed and an enabling environment will need to be built where this sector can play its role in the national as well as in the regional economy. The impediments in the growth of this sector have already been mentioned earlier.

Similarly the warehousing sector has not developed because the ports were giving huge free times to the trade i.e. in the past the cargo was carried on break bulks vessels and the discharging of such vessels would take several days, the free time allowed by the ports to the cargo was thus also of 10 days. Today the containerized vessels take no more than 18 or 20 hours to discharge and reload hence the free time allowed should be 2 or 3 days. The Government reduced it from 10 days to 5 days and will eventually bring it down to 3 days. This will now automatically enhance the capacity of the ports. It allowed new opportunities for our trade while enhancing the quality of services which will be available to the merchant.

The Merchants Readiness

While the Government has realized the importance and is investing in these changes, similarly the Freight Industry is also engaging to drive and implement a modern logistic environment; however the big question is whether our merchant is ready for this change. Unfortunately our merchant has not kept pace with fast changing global environment. They must change their mode and stop forever relying on Government subsidy or asking for unfair Government interventions for their own protection, they need to gear up for real competition on an international scale and allow policies to be guided by International Best Practices.

Case in example: with the freight forwarding sector now moving towards of formulized structures of few incidents may have occurred where merchants have been victim of some negligent or unscrupulous service providers. Instead of seeking redressal through the legal system or engaging in the process of due diligence they try to seek Government intervention to limit the use of the forwarders documents and asking for freight forwarding industry to be licensed under a outdated law, the famous of which is the application of criminal law for commercial matters and in the bargain were also hoping to control the service providers pricing by exerting unfair pressure rather than working on the principal of market mechanism. The freight industry has prepared its rules and code which based on international practices and hopes to work in a modern environment to encourage its own development and the development of Pakistan economy.

TIR Convention

Pakistan ratification of the convention is under process. It is important that the process is speeded up. At the same time, it is important that we move to urgently develop our own trucking industry otherwise we could be overrun by the well developed transport industry of the neighboring countries i.e. Iran.

Institutional Support

Still in its infancy, the Freight Forwarding, Logistic and Transport Industry needs specific development support in terms of adequate funding and tax benefits. While NTC programme provides enabling infrastructure and environment dedicated funding on competitive terms is required to propel the sector into a fast growth mode.

Moving Forward

It would not too adventurous to suggest that a specific Ministry or independent body be created which could pick out all matters concerning logistic and transport and put them under one roof. Today this work is carried out across six Ministries. This would cover “Logistic & Transport, Ports, Shipping & Aviation”.