

PAKISTAN MERCHANT MARINE POLICY – 2001

(Amended vide Notification dated 15 November 2019)

1. Introduction

Pakistan's annual trade is 39 million tonnes, while the share of the National carrier averages 2 million tonnes or a mere 5%. Resultantly the annual freight bill is over US \$ 1.5 billion which is a colossal drain on the limited/depleting foreign exchange resources of the country. Expenditure on related matters like ship repairs etc. is an additional drain. The volume of our annual trade is projected to grow up to 70 million tonnes by the year 2010 and it has become crucial to develop a well-focused strategy with the objective of sharing a much larger percentage of the indigenous cargo. Broadly modern quantitative and qualitative improvement in all spheres is critically needed. In specifics, efficient support services, development of ports, expansion of port facilities, availability of dynamic work force along with dependable and predictable regulatory environment are the key elements.

Shipping is a highly capital intensive industry besides requiring sophisticated and expensive state of the art technology. Recognizing the potential of the maritime sector and the need that it must flourish, the Government of Pakistan have decided to re-structure the maritime sector and provide a viable and investor friendly policy.

Accordingly, the Ministry of Communications in consultation with the private and public sector formulated a Policy known as "Pakistan Merchant Marine Policy – 2001". This policy provides a predictable environment, which through deregulation, simplified procedures, incentives and assurances will provide an environment that is investor friendly. By attracting foreigners, overseas Pakistan's and local investors dependence on foreign carriers will be considerably reduced and thereby substantial savings of foreign exchange, through reducing the country's freight bill will be effected.

2. Objectives

The objectives of the policy are to: -

- (i) Facilitate and attract private sector investment in shipping.
- (ii) Create an environment conducive for unimpeded growth of the maritime sector.
- (iii) Deregulate to provide a free environment for investment in the maritime sector.
- (iv) Maximize sea borne trade of the country through the merchant marine fleet flying Pakistan flag.
- (v) Make the country's merchant marine sector internationally competitive.

- (vi) Ensure efficient operation of the country's ports and harbors through availability of harbour crafts namely tugs, pilot boats, dredgers, survey vessels and specialized crafts.
- (vii) Make tangible contribution to the national economy by augmenting foreign exchange earnings and reducing freight bills.
- (viii) To create an environment conducive to development and rapid expansion of maritime related service industries and institutions.
- (ix) Enhance utilization of trained manpower in the maritime sector by augmenting country's training facilities so as to enhance productivity and make them internationally marketable.

3. Targets

The policy aims at achieving the under mentioned tangible growth targets in the private and public sector by the year ¹2030:

- (i) Expand and upgrade Pakistan flag merchant marine fleet to increase the present share of cargo from 5% to 40%.
- (ii) Increase dead weight carrying capacity of Pakistan flag ocean going vessels to over one million tonnes in order to compete in the global market.
- (iii) Expand maritime related training/support facilities as embodied in the updated IMO Conventions.
- (iv) Revive and augment national ship building/capacity to meet twenty- per cent ship construction requirements of the Pakistan merchant marine and all national requirements of support and ancillary crafts.
- (v) Rejuvenate and expand ship repair potential to undertake the entire range of repairs and maintenance tasks of fifty per cent of Pakistani Flag Ocean going vessels and all ancillary and support crafts.

4. Incentives

The thrust of this policy is towards encouraging the maritime sector, both private and public to grow. TO achieve the objectives and targets of this policy certain specific incentives have been provided. The main incentives including duty exemptions, concessional tax measures, fixed taxes, various assurances, simplified rules and deregulations are: -

¹ The figure "2020" was substituted by "2030" vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

- (i) Ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bareboat chartered by a Pakistani entity and flying the Pakistan flag shall be exempt up to ²2030 from payment of all import duties and surcharges. The above exempting shall not apply to vessels acquired for demolition purposes. The exemption will, however, be subject to the condition that the ships/crafts so acquired will be used for the purpose for which they were procured and in case such ships/crafts are used for demolition purposes within a period of 05 years of their acquisition, full import duties and other charges applicable to ships purchased for demolition purposes shall be chargeable.
- (ii) Ship building and ship repairs shall be classified as an industry (category A under the investment policy and entitled to all incentives contained therein. ³Shipping sector shall be classified as a Strategic Industry.
- (iii) Ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bareboat chartered by a Pakistan entity and flying Pakistani flag shall be exempt up to ⁴2030 from payment of income tax, but in lieu pay:
- (a) ⁵PNSC will continue to pay tonnage tax of US\$ 1.00 per GRT annually on its shipping income. New Pakistan Resident Ship Owning companies will be incentivized and pay tonnage tax of US\$ 0.75 per GRT annually for the first five years of the shipping operations of each individual vessel inducted by them subject to the cut-off period i.e. till 2030. After five years, the Pakistan Resident Ship Owning companies shall pay US\$ 1.00 per GRT annually on the said vessels' shipping operations income.
- (aa) ⁶No Federal Taxes (direct and indirect) shall be levied to the detriment of Pakistan Resident Ship Owning companies during the exemption period.
- (b) Registration fee ranging up to US \$ 1000 as under: -
- | | |
|---------------------------|------------|
| Upto 100 Gross Tonnes | US \$ 50 |
| 101 – 500 Gross Tonnes | US \$ 100 |
| 501 – 1600 Gross Tonnes | US \$ 200 |
| 1601 – 5000 Gross Tonnes | US \$ 500 |
| 5001 & above Gross Tonnes | US \$ 1000 |

² The figure "2020" was substituted by "2030" vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

³ Expression added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

⁴ The figure "2020" was substituted by "2030" vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

⁵ Substituted vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

⁶ Inserted vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

- (iv) Ships, vessels and all floating craft including tugs, dredgers, survey vessels and other specialized crafts not registered in Pakistan, hired by a Pakistani individual or body corporate under any type of charter other than bare-boat charter shall pay a fee of US \$ 0.15 (fifteen cents) per gross tonne per chartered voyage, provided that it will not in any event exceed US \$ 1.00 per GT in any fiscal year.
- (v) All port and harbour authorities in Pakistan shall allow ships and floating crafts including tugs, dredgers, survey vessels and other specialized crafts 10% reduced berthing rates when the same are berthed for purposes of repair and maintenance.
- (vi) Pakistan flag vessels shall be entitled to receive foreign revenues in any convertible currency subject to State Bank regulations.
- (vii) Pakistani seafarers earning salary on foreign flag vessels shall be exempted from payment of Income Tax up to the amount repatriated through banking channel.
- (viii) All port and harbour authorities in Pakistan shall give equitable treatment to ships and other floating crafts under Pakistan flag whether of public or private sector for purposes of berthing and use of other port facilities. ⁷Pakistan flag vessels to be provided priority berthing at all Pakistani ports.
- (ix) Government of Pakistan shall endeavor to secure for ships flying Pakistani flag; a reasonable share of cargo of the country, with which the Government of Pakistan concludes a bilateral shipping agreement. The same principle of securing foreign cargo for ships flying the Pakistan flag shall be followed when the Government of Pakistan concludes international multilateral shipping agreements.

5. Assurances

- (i) The Government of Pakistan shall take necessary legal measures to ensure protection of local and foreign investment made in the maritime sector. Foreign direct investment in shore based shipping activities will be allowed as per BOI Investment Policy.
- (ii) Ship owners, charterers and operators and/or owners, charterers and operators of all floating crafts including tugs, dredgers, survey vessels and other specialized crafts may open and operate foreign currency accounts in Pakistan. They will be permitted to operate these accounts for both receipts and payments of foreign exchange. Such foreign currency account holders may retain their surplus within three months of closing of the financial year. Foreign

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partners in Pakistan based Joint Venture companies may receive their share of profits after tax.

- (iii) Pakistani owners of ships/floating crafts including tugs, dredgers, survey vessels and other specialized crafts who purchase or bare boat charter ships/floating crafts for operating it under Pakistan flag shall be authorized to remit foreign exchange at the official exchange to the sellers/owners of the ships/floating craft.
- (iv) The Government of Pakistan shall authorize free and uninterrupted repatriation of foreign exchange invested in the merchant marine sector of Pakistan. It shall also allow free and uninterrupted repatriation of profits made by foreign Joint Venture partners of Pakistani entities or foreign ship/floating craft owners running Pakistan based companies and operating Pakistan flag vessels/floating crafts.
- (v) Ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts are considered *bona fide* collateral against which financing can be obtained from Banks and DFIs subject to Policy of the financial institution.
- (vi) The Government of Pakistan shall make best endeavors to obtain financing from aid donor countries on attractive terms for the specific purpose of construction/acquisition of new ships other floating crafts. Such efforts shall include obtaining donor country financing for construction of ships and other floating crafts in Pakistani ship/craft building facilities.

6. Registration of Ships

- (i) *Permanent* – Permanent registry to a ship and all other floating crafts including tugs, dredgers, survey vessels and other specialized crafts shall be granted by the Registrar of Ships provided that the vessels is:
 - (a) Entirely owned by a Pakistani National by birth or by migration, partnerships or body corporate and the operation and management of the ship is located in and controlled from Pakistan.
 - (b) Entirely owned by a body corporate registered in Pakistan that may have foreign share and the operation and management of the ships is located in and controlled form Pakistan.
- (ii) *Temporary* – Temporary registry of ships and other floating crafts including tugs, dredgers, survey vessels and other specialized crafts shall be granted provided that: -

- (a) A Pakistani national or firm eligible to own/operate fixes the vessels on a bareboat charter or lease arrangement under the permanent registry as outlined above.
 - (b) The charterer/demise owner follows all rules and regulations as are applicable to ownership under permanent registry.
 - (c) The charter party use is in accordance with international practices.
 - (d) Ships and other crafts including tugs, dredgers, survey vessels and other specialized craft may be registered in Pakistan at the request of the charter or the owner.
- (iii) *Second Registry* – Citizen of Pakistan by birth or by migration or Companies having their principal place of business in Pakistan which are conducting operation and management of the ships from Pakistan or any individual Company permitted by Federal Government may obtain Second Registry of ships/other crafts registered abroad in their names provided that this Registry will be for a period prescribed by the Government.
- (iv) *Procedure* – Following is the registration procedure: -
- (a) The registrar of Ships of the Mercantile Marine Department, Directorate General of Ports and Shipping, Ministry of Communications shall register ships without reference to any other Government department as long as the ship conforms to class and holds statutory certificates which should be valid for minimum of three months at the time of registry.
 - (b) Particulars of any mortgage shall be provided by the applicant, which shall be entered in ships' registry.
 - (c) No customs clearance shall be required for registration under Pakistani flag.
 - (d) The vessel can be registered under Pakistani flag even if the vessel is not present in Pakistani waters. The flagging formalities shall be performed by the relevant Pakistani mission abroad.
 - (e) ⁸Pakistan Resident Ship Owning Company shall be defined as a company registered with the Securities and Exchange Commission of Pakistan and having its own seaworthy vessel(s) registered under Pakistan Flag.

⁸ Added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

- (v) *Deletion from Register of ships* – Deletion of a vessel from Pakistan Registry be done for one of the following reasons: -
 - (a) Sale of vessel for trading.
 - (b) Sale of a vessel for scrap.
 - (c) Loss of a vessel.
 - (d) Where the owner or charter of a bareboat chartered vessel requires such change.

- (vi) *Deletion Requirements* – Register of ships of the Mercantile Marine Department under Director General Ports and Shipping, Ministry of Communication is solely responsible for deleting a ship from Pakistan Registry. He shall require the following documents/proof prior to deletion of a vessel from Pakistan registry: -
 - (a) When a vessel is being sold for trading a No Objection Certificate from Ports and Shipping Wing of the Ministry of Communications to ascertain any claims and/or liabilities on the vessel.
 - (b) When a vessel is being sold for scrap in Pakistan a No Objection Certificate from the Customs authorities in Pakistan.
 - (c) When a ship is lost any reason, credible proof of such loss e.g. insurance company's certification etc.
 - (d) When an owner or charterer of a bareboat-chartered vessel requires such deletion, a request form the owner and charterer shall be the only document required. In case there is a difference of opinion between the charterer and the owner, the owner's request shall be acceded to.

7. Sale/Purchase/Lease

Pakistan based shipping companies may purchase, charter, lease or sell Pakistan flag ships and all other floating crafts including tugs, dredgers, survey vessels and other specialized vessels in accordance with their needs.

The transaction mentioned in the preceding paragraph should be subject to the condition that all international rules and regulations related to safety aspects (safe ships) and environmental aspect (cleaner oceans) are complied with at the time of transaction.

8. Cargo Preference

- (i) Cargo preferences will be given as under: -

- (a) PNSC owned ships;
 - (b) Pakistan flag vessels;
 - (c) Bareboat chartered vessels of PNSC;
 - (d) Bareboat, chartered vessels flying Pakistan flag; and
 - (e) Foreign flag vessels.
 - (f) ⁹No preference shall be given to PNSC in private sector cargo.
- (ii) When the freight awarding authority prescribes an upper limit of ships carrying cargo the vessels under the Pakistan flag shall be allowed a relaxation of up to five years in age, provided the vessel remains properly classed by an approved classification society and maintains a proper hull and machinery insurance and cover and subscribes to a protection and indemnity (P&I) club.
- (iii) ¹⁰Government Organizations and State Controlled Enterprises shall be directed to strictly abide by the cargo preference requirements laid down in Section 77 of the Merchant Shipping Ordinance 2002, Para 8 of the Pakistan Merchant Marine Policy 2001 and in light of the Cabinet and ECC decisions made from time to time.
- (iv) ¹¹Hydrocarbon cargoes imported by Government Organizations and State Controlled Enterprises, including Mogas, HSFO, LSFO, HSD, LPG, Crude Oil and Coal shall be imported on FOB basis through PNSC owned vessels or PNSC chartered vessels and freight shall be paid in Pakistani Rupees as per the present mechanism, subject to changes with mutual consent.
- (v) ¹²In all G2G bilateral oil import agreements on C&F basis, at least 40 percent of the cargo to be shipped through PNSC owned or PNSC chartered vessels and freight to be paid in Pakistani Rupees.
- (vi) ¹³Henceforth, all renewed and new G2G bilateral LNG imports to be negotiated on FOB basis and shipments to be made through PNSC owned or PNSC chartered vessels with freight to be paid in Pakistani Rupee as soon as PNSC is able to do so as per the mechanism mentioned below:-

Mechanism

- (a) PNSC shall enter into a Joint Venture (JV) arrangement for upto 5 years with international LNG shipping company(ies) when awarded long term contract(s).

⁹ Added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

¹⁰ Added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

¹¹ Added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

¹² Added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

¹³ Added vide Notification S.R.O. No. 2(5)/2017-estt dated 15th November, 2019.

- (b) During this period, PNSC shall develop internal expertise and capacity for LNG shipping.
- (c) By the end of this period, PNSC shall acquire its own vessel(s) towards self-sufficiency in this trade in accordance with international standards and commercial requirements.

9. Coastal Trade

- (i) Any voyage that originates from and terminates at one or more Pakistani harbour of ports and remains within the territorial waters of Pakistan during passage shall be considered a coastal voyage.
- (ii) Vessels flying the Pakistan flag will have preference for transportation of cargo and passengers in voyages restricted to coastal operations only.

10. Manning

- (i) Ships and other floating crafts including tugs, dredgers, survey vessels and other specialized crafts flying the Pakistan flag shall normally be manned by Pakistani nationals. However, in the event where no qualified or suitable Pakistani national is available for any particular job a non-Pakistani national can be employed.
- (ii) Every Pakistani mariner (officers, engineers or ratings) of any trade/specialization, who holds the requisite internationally recognized qualification where applicable for the job/task being sought shall be issued Seamen Service Book (SSB) within 2 weeks of the receipt of complete documents. The only prerequisite for issue of this document shall be, where applicable holding of the appropriate qualification.
- (iii)
 - (a) Pakistani mariner (officers, engineers or ratings) who have obtained a job on any non-Pakistan flag vessel shall be required to carry proof of employment (agreement of a letter) between the mariner and entity of his agent in Pakistan providing the job for fulfilling immigration/exit requirements. Such mariners shall not be required to sign Pakistani Articles, but shall enter the details of their assignment with the Government of Pakistan, Directorate General, Ports and Shipping, Government Shipping Office, Karachi. The manning agent may submit this record to the Government Shipping Office within seven days of departure of the mariner from Pakistan.

- (b) In cases where a Pakistani mariner (officer, engineer, rating) is not in possession of a SSB has obtained a job on a non-Pakistan flag vessel and is required to proceed outside the country to join the ship a Pakistani passport shall be considered as a valid travel document as per international practice for exit purposes. The manning agent through whom the mariner has obtained the said job shall be required to submit details of such mariner to the Government Shipping Officer Karachi for record within seven days of the departure of the mariner from Pakistan.

11. Training

- (i) Director General Ports and Shipping, Ministry of Communications shall be the regulatory authority for establishing standards for training of mariners in Pakistan, which will be in accordance with international conventions to which Pakistan is a signatory.
- (ii) All institutions in the private and public sector established for the purpose of imparting professional training to mariners shall require permission from the Ministry of Communications (Communications Division) through Directorate General, Ports and Shipping.
- (iii) There shall be two streams for training mariners in Pakistan: -
 - (a) *The public sector stream* – In this stream mariners shall be trained in the Pakistan Marine Academy, Seamen Training Center or any other organization established by the Government.
 - (b) *The private sector stream* - This shall comprise cadets directly inducted on ships of Pakistan flag shipping lines and ratings having GP-III training from any institute duly recognized by Directorate General Ports and Shipping Wing. Such lines may also establish shore based training facilities or other private concern.

12. Review and Monitoring of this Policy

This policy document is viewed as a dynamic effort which shall need continuous input from all stakeholders to ensure effective implementation, and for making adjustments if so required. The Government of Pakistan shall constitute a Standing Committee under the Secretary, Ministry of Communications for this purpose. The Committee shall comprise members from the relevant Government Ministries/Agencies and stakeholders from the private sector. The Committee shall meet at least once every year from the date of promulgation of this policy. The Minister for Communications shall receive a report of this Committee on 31st July each year.