

Pakistan's International Freight Forwarding Sector

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Definitions/Acronyms

International Freight Forwarder. The international freight forwarder is the entity which moves goods from point of origin to overseas point of destination and ensures that internationally traded merchandise arrives in good time, safe condition and at the most economical cost. Specifically, freight forwarding firms arrange transportation from shipper's factories or warehouse to ports, packing or consolidation of cargo if necessary according to the customers needs, documentation, customs clearance, shipping (land, sea and air or combination thereof), unpacking or deconsolidation if required and delivery at customer designated location(s).

International freight forwarding firms in Pakistan can be segmented into:

- **Primary service providers** labeling themselves as freight forwarders but effectively operating as brokers offering competitive tariffs to small and medium shippers for LCL cargoes, negotiating maximum margins from consolidators searching for smaller consignments to complete container loads and arranging customs clearance, documentation and payment of custom's levies.
- **Middle order firms** providing core services provided by primary services acting as nominated agents for overseas buyers.
- **Total solutions providers** offering full range of services with access to global networks through overseas associates.

Customs clearing agent: An agent licensed by the Central Board of Revenue through the Customs authorities to complete documentation formalities and arrange, on behalf of the merchant, payment of custom duties, taxes etc.

TEU: Twenty-foot equivalent unit a standard measurement of volume in container shipping. The majority of containers are either 20' in length, or 40' in length. A 20' container is one TEU, a 40' container is two TEUs.

LCL: Less than container load cargo

FCL: Full container load cargo

Size: Freight forwarding companies have been classified according to annual TEUs handled as under:

Small = 360 TEUs Medium + 1200 TEUs Large = 4800 TEUs

Shipper: Merchant or manufacturer selling goods to overseas buyers (exporter)

Consignee: Merchant or manufacturer buying goods from overseas suppliers (importer)

Shipping Agent: An agent licensed by the Central Board of Revenue through the Customs authorities for servicing vessels calling at Pakistan's ports. The agent represents the interest of the vessel/carrier and arranges payment of port dues, etc.

1. Executive summary

The emerging global trade environment under the WTO will be intensely competitive. Economic pressures will increase in all countries to achieve maximum cost efficiencies in external trade. Apart from optimum use of national resources, access to low-cost transportation services has a critical role in this regard since logistic costs amount to 30% of the delivered cost in some economies whereas in efficient economies it can be as low as 10%.

The international freight forwarding industry emerged in Pakistan in the early 1980s. Initially, the industry comprised a few firms catering to a niche market catering to the shipments of plants and machinery for the expanding weaving sector of the textile industry, household packing companies assisting families re-locating overseas and multilateral agencies providing food supplies under aid or emergency programs.

The industry's growth remained subdued in its early years. This was due largely to client reluctance to risk overseas business relationships by placing their consignments in the hands of an unknown market entity. The industry subsequently evolved as an intelligent intermediary between local exporters, importers and shipping lines. Growth in the country's international trade, the growing trend towards containerization and increasing market acceptance of the tangible benefits of international freight forwarding services were the major factors driving industry growth. Value addition by the industry between 1985-95 comprised the creation of a wholesale market in shipping space by acquiring bulk capacity from shipping lines and offering relatively cheaper tariffs to exporters and importers. Currently, the industry comprises about 450 entities with an estimated annual turnover of Rs 43 billion, over 12,000 employees and geographical coverage in the major centres of export-oriented industries.

Initial years were characterized by high profit margins for early entrants. Subsequently, mushroom growth facilitated by low entry barriers intensified competitive pressures and eroded profitability. At the same time, a competitive market environment intensified pressure on established companies to move up the value chain by offering vertically integrated services. Firms in the industry are increasingly becoming global logistics specialists by providing inventory management services to overseas buying chains, including transportation, warehousing and competitive freight tariffs.

Growing business volumes together with provision of value-added services are transforming freight forwarding into a capital-intensive business. However, low returns on investment compounded by forced credit to customers due to competitive market conditions has adversely affected the ability to finance urgently needed capital outlays. This is aggravated by lack of access to commercial bank financing to meet working capital needs as well as reluctance of financial institutions to extend long-term loans.

A strong freight forwarding industry is imperative if the country is to capitalise on emerging opportunities as well as enhancing the efficiency of vulnerable industries. The increasing complexity of global trade practices comprising multi-modal transportation, cargo consolidation at regional hubs, distribution at destinations and multiple documentation have increased the importance of intermediaries providing logistics solutions. Pakistan faces aggressive competition from China and India in the textile industry, the country's leading engine of exports. The potential benefits from the sector's US\$ 3 billion investment in recent years in re-vamping production facilities will be severely constrained unless supported by efficient logistics. In addition, a large number of consumer goods industries have suffered from the onslaught of cheap imports from China. Developing a vibrant freight forwarding industry therefore merits priority in government policies aimed at accelerating economic growth.

The industry's development is adversely affected by several factors. The major constraints include unregulated market entry, the secondary status and hitherto politicised environment of its trade body, lack of access to commercial bank financing and absence of supportive government policies. Issues addressed by the industry's trade body include the introduction and adoption of 'Standard Trading Conditions' (August 2004), upgrading the quality of manpower through accredited training courses (commenced February 2004) and, most importantly, lobbying senior decision makers at the highest levels of government on the important role played by the industry. Consistent representations made to the policy makers seem to be drawing the government's attention towards this hitherto neglected sector. Meanwhile, efforts by different groups from within the industry bore fruit in December 2004 with the setting up an independent association. As a result, the industry is now positioned to introduce a well-defined trading environment and push for effective government support. This will help promote the industry's future development.

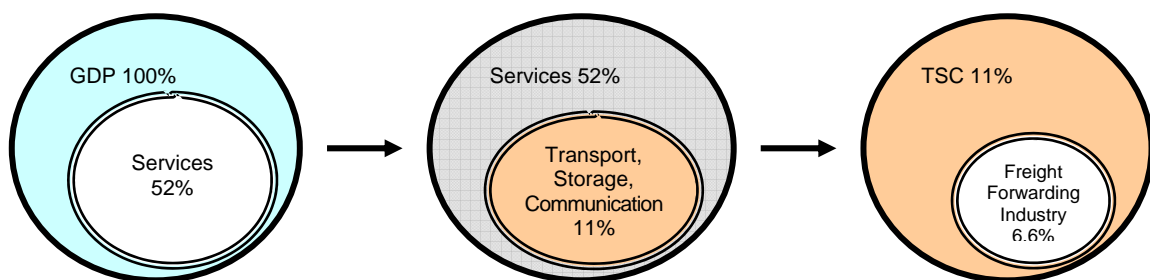
Recognizing the need to accelerate industry development and at the specific request of industry's representatives, the Ministry of Commerce commissioned a study to acquire a better appreciation of the industry's economic role and major constraints impeding future growth as part of the Pakistan Trade and Transport Facilitation Project financed by the World Bank with technical support from the UN Conference on Trade and Development (UNCTAD). The study was carried out by International Asset Management Company Limited, a consulting firm with expertise in conducting sector research.

2. Economic importance of Pakistan's international freight forwarding industry

2.1 Contribution to GDP

The international freight forwarding industry is classified in the transportation, storage and communication segment of the services sector, the largest contributor to Pakistan's GDP. This sector attracted the largest inflow of investment in 2004, which rose by nearly 33% over the previous year.

The importance of the industry lies in managing the logistics of the country's international trade. The services provided by international freight forwarding companies facilitate exports including cotton and its made-ups, leather and leather goods, sports goods, surgical, rice and seafood which collectively generate over 80% of the country's foreign exchange earnings. At the same time, imports handled by the industry ensure uninterrupted flows of industrial raw materials, plant and machinery, spares and components to maintain industrial production at competitive costs.



Source: Pakistan Economic Survey, 2003-04 and IAMC estimates

2.2 Value-addition

The industry's annual turnover for 2004 is estimated at Rs 43.3 billion while gross income is estimated at Rs 3.3 billion. The value-added by the freight forwarding industry can be measured as the residual balance after deducting all expenses from aggregate industry receipts except wages, profits and rent which amounts to Rs 1.3 billion. This is considered a conservative estimate given the difficulties in obtaining accurate financial data as well as secondary value-addition through business volumes generated for vendor industries namely trucking, clearing and port handling.

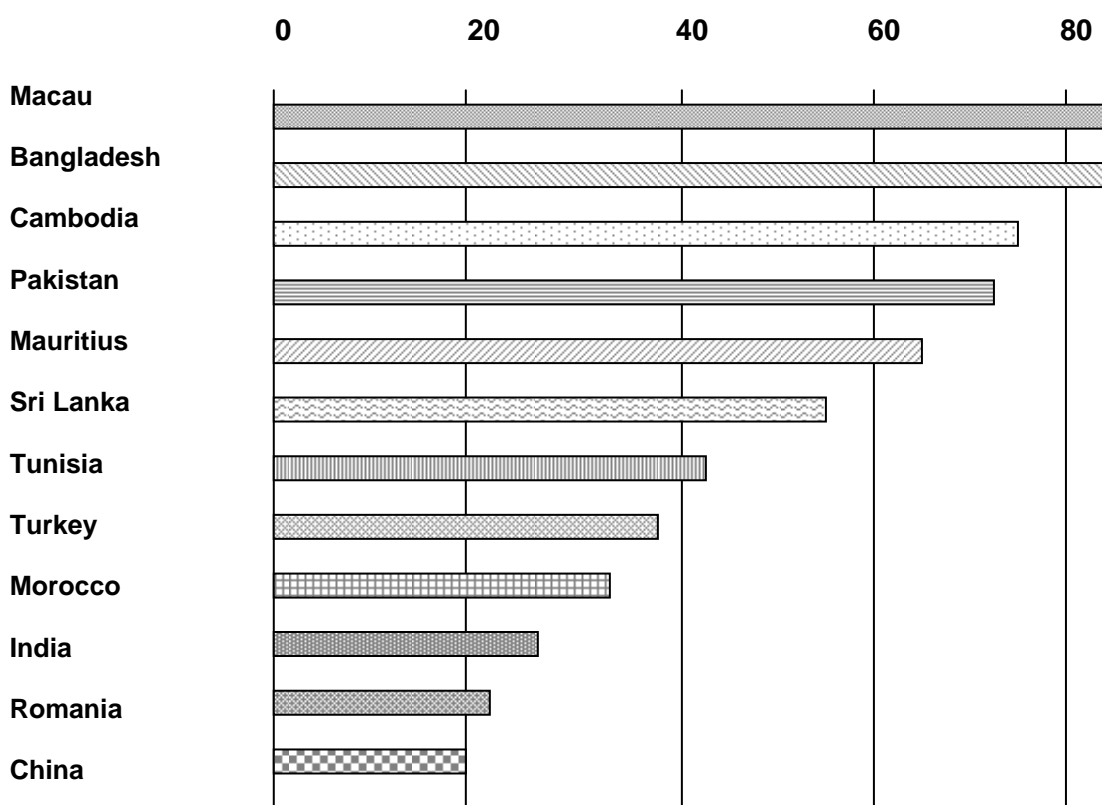
	Rs M
Industry Turnover	43,392
Gross income	3,337
Intermediate inputs	2,018
Value addition	1,319

Source: IAMC estimates

2.3 Global competitiveness

Logistics costs play an important role in determining any country's competitiveness in the global market. Research has established that such costs vary from 10% to 30% between countries depending on the efficiency of their transportation and international freight forwarding services. In many countries, an inefficient logistics infrastructure imposes far greater economic cost than tariff barriers restricting market access. The role of the international freight forwarder as the "architect of efficient logistics" is acquiring increasing importance as global trade becomes driven by competitive market forces. Countries with the capacity to ensure timely and secure transportation of goods between their primary producers and ultimate consumers are likely to win increasing market share in the emerging world trade environment.

**Textile and clothing exports as % of total exports
(2002)**



Source: IMF

2.5 Export financing

Due to competitive market structures, the industry provides forced credit terms to its clients. Working capital financing is extended to shippers as a revolving credit on 30–60 day terms. Based on annual industry turnover of Rs 43.4 billion, this indicates an export subsidy of about Rs 5.2 billion at current interest rates.

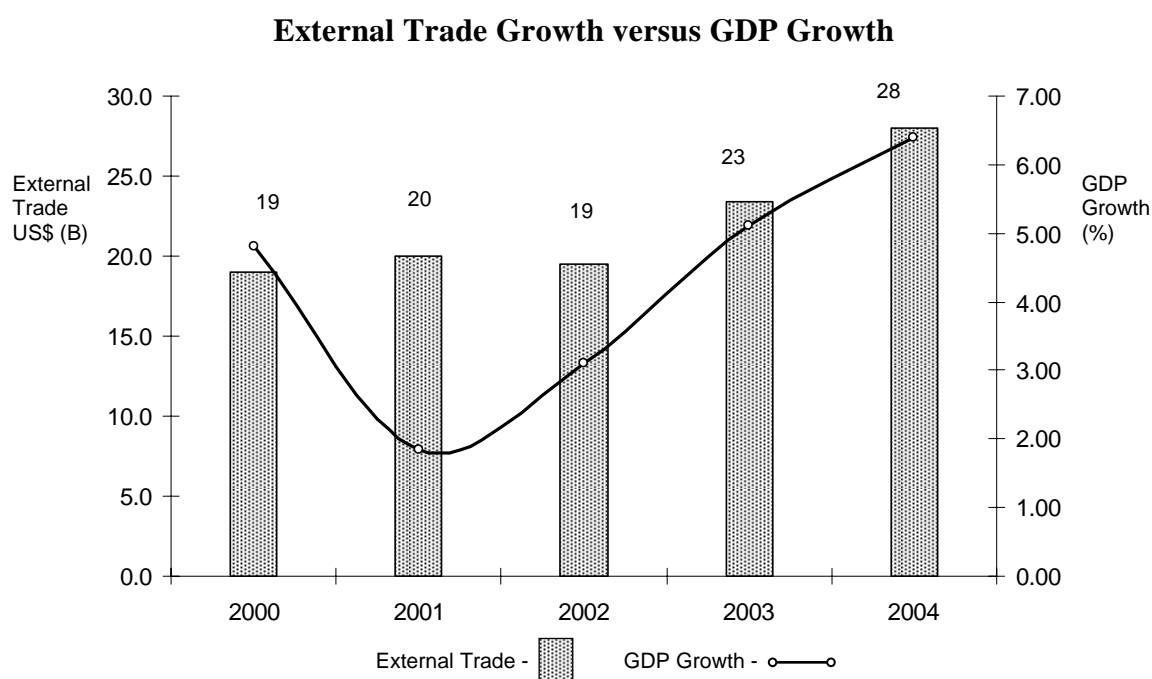
2.4 Importance of external trade

Pakistan has a relatively open economy. Since 2001, the country's external trade to GDP ratio has averaged 27%. National economic activity is, therefore, heavily influenced by external sector developments. A significant proportion (13%) of aggregate demand comprises of exports, while imports, mostly comprising industrial raw materials and capital goods, sustain manufacturing activity. Among leading textile export, Pakistan is ranked fourth in terms of the share of textiles in total exports.

3.0 Market size and trends

3.1 Demand

The demand for international freight forwarding services derives from the volume of Pakistan's external trade. After virtual stagnation between 2000-02, Pakistan's external trade has increased sharply over the last two years. During 2004, the country's total trade amounted to about US\$ 28 billion, reflecting a sharp increase of nearly 44% over 2002 levels. Survey respondents who confirm the uptrend in business volumes over this period corroborate the trend captured in official data.



Source: Pakistan Economic Survey, 2003-04

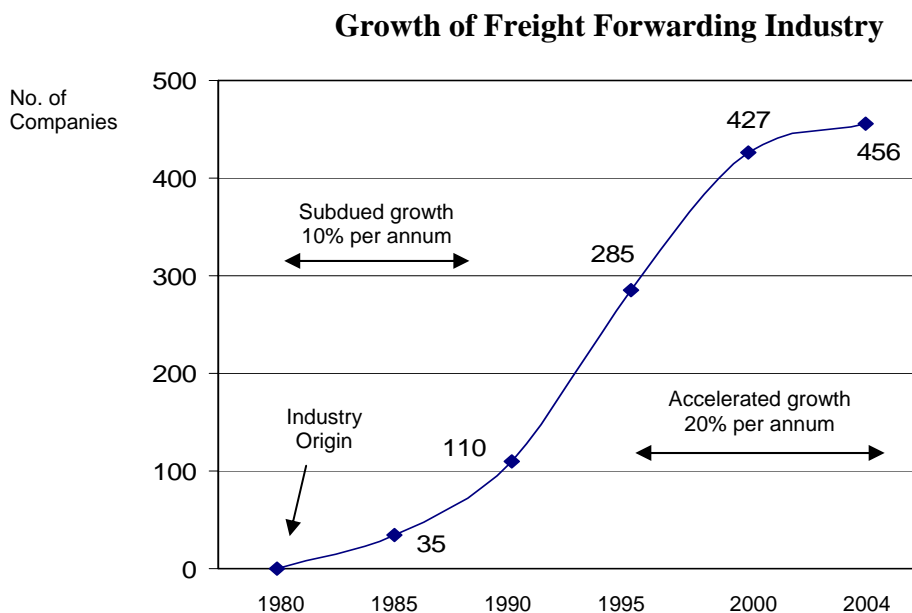
The enabling factors underlying rising demand include:

- Increasing containerisation of Pakistan's overseas trade; according to industry sources, container throughput of Pakistani ports doubled between 1995-2004 to one million TEUs. Higher volumes and an expanding number of unitized cargoes, particularly bulk commodities such as rice and cotton, accounted for rapid growth.
- Growing trend among large overseas retail chains to nominate Pakistan based international freight forwarding firms to effectively operate as liaison offices, monitor status of ordered merchandise, negotiate competitive freight tariffs, consolidate ordered merchandise and execute loading plans. This was largely due to increased high frequency of delayed shipments and manipulation of shipping documents by suppliers to camouflage production delays.

- High shipping tariffs and withdrawal of shipping lines from the LCL business opening up a market niche for consolidation services by international freight forwarding companies.

3.2 Supply

The increase in cargo volumes accompanying rising external trade and the expanding demand for specialized services including consolidation/de-consolidation also fostered the growth of Pakistan's international freight forwarding companies. The growth trend was subdued initially but gained momentum after 1992 peaking at 20% annually between 1995-2002.



Source: PIFFC

Industry sources indicate that the supply of international freight forwarding services closely matched demand between 1985-1990. In recent years however, the rate of new entrants into the industry has outpaced growth in demand. This has resulted in excess capacity and a competitive market environment. The key factor behind the mushrooming growth is the virtual absence of entry barriers which are practically non-existent at the bottom end of the value chain and increase progressively upwards. New entrants to the industry have managed to establish viable businesses by attracting customer through discounted freight charges.

4. Industry structure

4.1 Current size and geographic dispersion

At present, the industry comprises approximately 450 companies. These include 380 entities registered with the industry's trade body and the balance comprising freight forwarders without formal membership. The overwhelming majority of freight forwarders are located in Karachi, while the balance is mostly clustered in Lahore and Sialkot.

Industry Size and Geographic Dispersion

Size	No. of Companies	Karachi	Lahore	Sialkot	Other cities
Primary service providers	253	187	40	14	12
Middle-order firms	153	113	25	8	7
Total solutions providers	50	37	8	3	2
Total	456	337	73	25	21

Source: PIFFC/IAMC estimates

The industry has a competitive market structure. The intensity of competition is fierce at the primary services level and moderates progressively for firms positioned higher upon the value chain.

Competitive Structure Indicators

Segment	As % of total industry	Intra-segment competition	Barriers to Entry
Primary service providers	55	High	None
Middle-order firms	34	High	Moderate
Total solutions providers	11	Moderate	High

Source: IAMC estimates

The majority of these companies are clustered at the lower end of the value chain. Total solutions providers account for approximately 10% of the industry.

4.2 Age profile

The industry is relatively new in Pakistan. The average age of firms is eight years and almost half of them have been in business for only five years or less. Mushroom growth is due to the emergence of new firms set up by former employees of older established companies as well as those formed as a result of breaking-up or realignment of old partnerships.

4.3 Forms of business organisation

The majority of industry players comprise smaller proprietary or partnership firms operated with a maximum of 15 employees. Survey results indicate that 55% of the firms surveyed are sole proprietorships/partnerships, while 45% comprise private limited companies. The latter include some multinational corporations that have either entered into joint ventures with local companies or established independent offices.

5. Investment aspects

5.1 Fixed investment

The international freight-forwarding companies at the low end of the services scale do not incur substantial capital investment in their business. Capital requirements grow proportionately to the scope of value-added services and the client base of freight forwarders. The aggregate fixed investment in the industry is estimated around Rs 1 billion.

Fixed Investment

Segment	Number	Average fixed investment (Rs M)	Aggregate investment (Rs M)
Primary services	253	0.5	126.5
Middle-order firms	153	2.5	382.5
Total solutions	50	10.0	500.0
Total	456	1.5	1009.0

Source: IAMC estimates

5.2 Working capital

Working capital requirements are rising to support higher operating overheads and growing trade receivables. Cash flow management is a major challenge for international freight forwarders. This is because in some cases shipping companies extend about 15 days credit while clients usually stretch payments up to 60 days and occasionally even default.

Survey data on working capital indicates that cash requirements are mostly met through internal funds while the use of bank borrowings is virtually non-existent. Only the larger companies are able to attract working capital financing which is usually fully secured through personal mortgages, guarantees or indemnity bonds and carries a premium over prime borrowing rates. Banks are unwilling to finance international freight-forwarding companies due to perceptions of high risk resulting from an inadequate understanding of the industry, lack of regulatory framework within the industry and until recently, the absence of operating procedures or standard trading conditions. Most firms are therefore, forced to manage the cash cycle through juggling receivables and payables. Feedback from industry sources indicates that financial pressures are increasing as new entrants facilitate clients with larger credit terms.

Working capital

Segment	Number of companies	Average working capital (Rs M)	Aggregate working capital (Rs M)
Primary services	253	0.5	127
Middle-order firm	153	3.0	459
Total solutions	50	20.0	1,000
Total	456	3.5	1,586

Source: IAMC estimates

Currently the majority of the country's international freight forwarding companies out-source packaging, transportation, customs clearance and warehousing to vendor firms. This is cost effective for forwarders with moderate volumes. The anticipated growth in business over the medium term will necessitate rising investment requirements on account of warehouses, forklift trucks, lorries, containers, office premises and information technology infrastructure as mid-sized firms scale upwards to cope with customer requirements and cost benefit ratios of incremental investment are favourably impacted by savings in operating costs. However, pressure on profit margin combined with diversion of funds to finance working capital continues to hurt the industry's ability to accelerate investment. This represents a major barrier for the industry's future development.

6. Business volumes

Business volumes for Pakistan's international freight forwarding industry have increased in parallel to increasing containerization of Pakistan's external trade. Over the five years ending 2003, total container throughput increased at the rate of 8% annually, matching the growth in the country's external trade. Industry estimates place current container throughput at about one million TEUs for 2004.

6.1 Turnover

The industry is estimated to handle over 500,000 TEUs of overseas cargo annually, representing about 50% of total container throughput. Shipping sources confirm that virtually all LCL consignments both export and import is now handled by freight forwarders in addition to about 20% of FCL shipments. Based on the country's trading pattern and current freight rates, this translates into an annual turnover of Rs 43.4 billion for 2004 (details in Annex V).

Given the nature of the industry, it is difficult to assess industry revenue through directly translating volume into value. Forwarders handling lesser volumes could be deriving higher sales revenue by providing broader services while those handling larger volumes could represent high turnover, low margin operators. In addition, forwarders are reluctant to disclose sensitive financial information. Despite these limitations, the industry's financial indicators have been estimated based on survey data and industry feedback.

Industry Turnover

Segment	Number of companies	Market share (%)	Estimated annual turnover (TEUs)
Primary service providers	253	17.7	91,080
Middle-order firms	153	35.7	183,600
Total solutions providers	50	46.6	240,000
Total	456	100.0	514,680

Source: IAMC estimates

6.2 Profitability

Industry margins vary from 3% for primary service providers to about 10% for total solutions companies. Margin differences reflect the intensity of competition in different segments, the impact of economies of scale and qualitative differences in the scope of services.

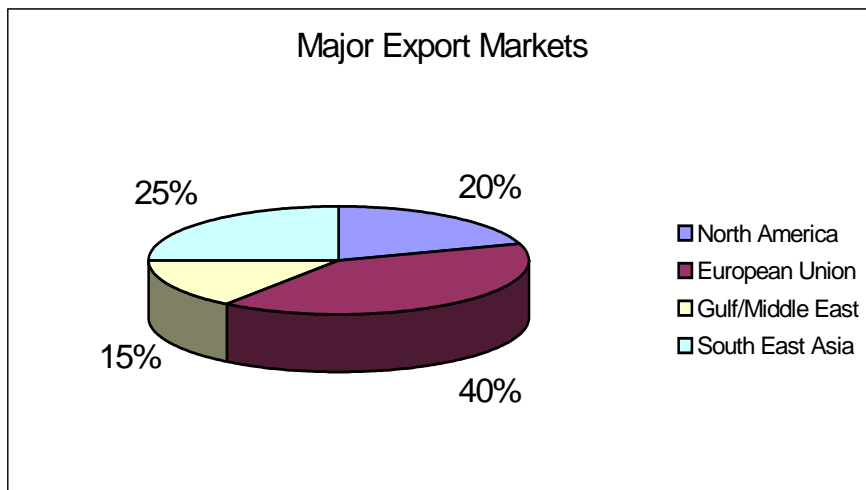
Industry Profitability

Size	Billing Base (Rs M)	Gross Margin (%)	Gross Income (Rs M)	Net Margin (%)	Net Income (Rs M)
Primary service providers	7,679	3	230.4	1.0	76.8
Middle-order firms	15,478	7	1083.5	2.5	387.0
Total solutions providers	20,231	10	2023.2	4.0	809.2
Total/avg.	43,388	7.7	3337.1	3.8	1273.0

Source: IAMC estimates

7. Customer profile

The clientele of freight forwarding companies comprises both local companies as well as multinationals. The industry caters to the needs of a diverse variety of exporters including primary products, semi-processed industrial raw materials and manufactured goods. The top five items on the export side include cotton and its made-ups, textiles, leather products, sports goods, surgical goods, rice and handicrafts etc. The major imports handled by the industry include plant and machinery, sophisticated electrical components and pharmaceuticals.



Source: IAMC estimates

7.1 Client base

The customer base of the country's international freight forwarders comprises a diverse range of businesses including small and medium enterprises as well as large corporate clients. The average number of customers ranges from 10 to 20 clients at the lower end to over 800 at the upper end.

Distribution of industry by customer base

Type	Number	(%)
Small (up to 10)	3	4.2
Medium (between 11–30)	20	28.2
Large (31+)	48	67.6
Total	71	100.0

Source: IAMC estimates

In order to assess the quality of business services provided by the international freight forwarders, opinion about the quality of forwarders services was obtained from exporters of hosiery, readymade garments and fabrics comprising over 50% of total textile exports. The feedback was generally positive and clients of the industry had no complaints regarding the efficiency and service charges of forwarders. Services provided by the international freight forwarding companies are mostly nominated by overseas buyers. As compared to customs clearing agents forwarders provide a better quality and range of services.

Interviews were also conducted with a sample representing 6% of Overseas Investors Chamber of Commerce & Industry (OICC&I) members, the association of multinational companies with business operations in Pakistan. Results indicated that clients were generally satisfied with the services, which primarily related to handling their imports. Only a minority expressed dissatisfaction with forwarders on account of excessive delivery charges and delays in clearance of import consignments. It is interesting to observe that virtually all of these companies were utilising the services of multiple service providers.

8. Human resources

The industry requires trained manpower to manage specialized tasks including multi-modal logistic planning, sea freight and inland delivery, pricing, air freight, documentation and handling dangerous goods. The total labour force in the industry is estimated at about 12,000 full time employees. In addition, outsourcing generates indirect employment from allied activities including packaging, warehousing, and transportation handling at ports/container terminals and customs clearance at the ratio 1:3 translating into non-exclusive employment generation at three times the industry's workforce.

Industry firms encounter major difficulties in recruiting workers from the urban labour force. This is largely because salaries and benefits in the industry are below average compensation in alternative employment, poor prospects for long-term career growth and lack of professional employment practices in closely held family firms.

8.1 Training opportunities

Prior to February 2004, training opportunities were virtually non-existent. Employees acquired the necessary skills on the job. Rapid industry growth in recent years has resulted in an acute shortage of experienced employees. The scarcity of required manpower resulted in employee poaching within the industry and by shipping lines.

In order to address the issue, the industry's trade body submitted a specific request to the Trade and Transport Facilitation Project under the Ministry of Commerce. With the active participation of PIFFC's management and its training and education subcommittee, a basic freight forwarding training course developed by UNCTAD and the International Federation of Freight Forwarding Associations (FIATA) was customized to meet the local industry's needs. PIFFC accredited four institutes in Karachi and Lahore to run certificate courses, which commenced in February 2004. As of September 2004 about 200 employees from industry companies had undergone training thereby upgrading the quality of manpower available to the industry. As an incentive, some industry firms subsidized the cost for their employees. Although it is too early to judge their impact, there is a consensus among industry sources that the availability of these courses is good for the industry. The industry body plans to expand the program further to augment the supply of trained manpower in future years.

9. Current issues

9.1 Infrastructure constraints

The industry is negatively impacted by severe infrastructure constraints. Ports are notoriously inefficient. Exporters suffer losses via careless handling by dock labour and damage of less than container load (LCL) cargoes, due lack of covered storage facilities exposing merchandise to pilferage and weather hazards. These problems are aggravated by operations restricted to specified working hours, high wages for port labour and document processing by multiple government agencies.

Quantifiable economic costs through the above losses are estimated at US\$ 93 million for the five years ending June 2004. The damage to business relationships, however, is far greater than measurable losses. Strained relationships with overseas buyers reduce their willingness to expand business ties with Pakistani exporters resulting in negative repercussions on long term export growth. The estimated cost of foregone business opportunities on this account are estimated at three times the amount of measurable losses.

Economic Cost of Weak Infrastructure

	Exports	Imports	Total
Aggregate value 1999-2004 (US\$B)	50.40	59.17	109.57
Affected merchandise (US\$B)	2.52	1.18	3.70
Quantifiable loss (US\$M)	63.00	29.50	92.50
Business lost via trade disputes (US\$M)	189.00	88.50	277.50
Aggregate loss (US\$M)			370.00

Source: IAMC estimates

9.2 Inefficient transit rules

The country's geographic position gives it a strategic advantage in handling transit trade for landlocked Afghanistan and Central Asian countries compared to Iran. However, current transit rules are cumbersome and result in procedural delays hence Pakistan has been losing out on the increased goods traffic destined for Central Asia. Pakistan is the only country in the region that is not a signatory to the TIR convention which is the world's most widely practiced transit cargo procedures agreement. However, recent initiatives taken by some industry members have resulted in Pakistan Government's decision to ratify the convention.

9.3 Access to bank financing

Conservative lending policies of commercial banks deprives the country's international freight forwarding industry of operating funds. Banks are only willing to extend credit on fully secured terms and at high interest rates. The problem of obtaining working capital financing from commercial banks is not confined to the international freight forwarding industry. Commercial banks are generally averse to extending financing to the services sector in Pakistan working on the basis of cash flows.

Senior officers at major banks attribute the conservative mindset to the lack of in-house research capacity to provide an understanding of the business dynamics of this sector and inadequate industry information to evaluate loan requests. Although the decision to lend is strictly a business prerogative, better appreciation of the industry and later on even some mechanism for credit rating would help companies access bank financing consistent with prudential criteria established by the central bank.

9.4 Industry trade body

Pakistan International Freight Forwarding Council, (the only trade body prior to the formation of an industry trade association towards the end of 2004) was established in the mid 1980s. The body has 380 registered members which account for over 80% of the total known firms in the industry.

PIFFC's capacity to promote the industry was hitherto limited by two major factors. These include the trade body's status as a 'council', effectively only a sub-committee of Federation of Pakistan Chamber of Commerce & Industry (FPCCI), rather than an independent trade association. This deprived the industry of a strong platform to interact effectively with national policy makers. Secondly, the body's activities were politicised which prevented the body from focusing on industry promotion.

Despite these limitations, PIFFC's management undertook several initiatives in 2004 with the Trade and Transport Facilitation Project to promote the industry. These included the development and implementation of the industry's standard trading conditions, code of conduct, minimum qualifications for members and their acceptance by the country's trade and all its affiliated trade bodies under the Federation of Pakistan Chambers of Commerce and Industry. The other important initiative related to human resource development of the industry's manpower, through organising training opportunities for industry employees.

The industry achieved a major milestone towards the end of December 2004 with the establishment of an independent trade association, namely the Pakistan International Freight Forwarders Association (PIFFA). As a result, the industry is now poised to push for greater government support and in order to play its due role in the national economy.

10. Promoting Pakistan's international freight forwarding industry

10.1 Emerging global trading environment

The emerging trends shaping global trade under the imminent free trade regime will have a significant impact on the operating environment of Pakistan's international freight forwarding industry. There will be a significant rapid transfer of labour intensive, low technology production from developed countries and middle-income countries to developing countries. The resulting re-alignment of trade flows will increase imports of low-end manufactures into the European Union and North American markets with merchandise sourcing increasingly based on complex supply chains involving multiple suppliers within and between countries. The new supply configuration will increase the need for more organized management of shipments to safeguard against abrupt supply disruptions. Currently, nearly 40 countries possess textile industries sharing a global market of US\$ 360 billion. With full trade liberalization, countries possessing the entire supply chain including fibre, weaving, fabric and garments/home textiles will squeeze out secondary exporters. China, India and Pakistan are forecast to be the principal beneficiaries in the global textile trade post 2005.

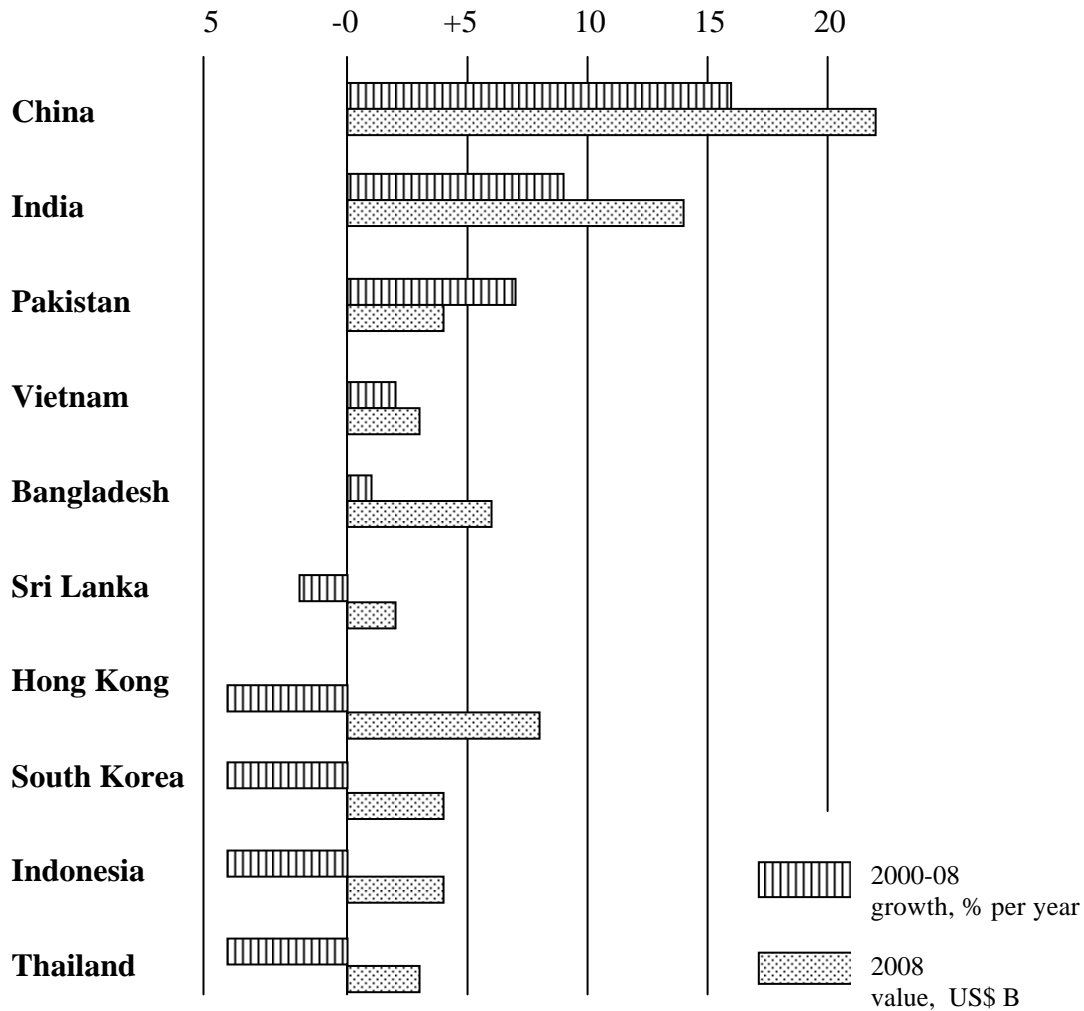
An estimated US\$ 3 billion has been invested in Pakistan's textile industry over the last three years to modernize production facilities in anticipation of emerging opportunities and rising competition. However, realising higher export volumes will require efficient port handling facilities. The pressure on existing inefficient infrastructure will intensify in the near future and substantial investment will have to be made in all logistics support facilities in order to remain competitive in global markets.

10.2 Policy recommendations

The government needs to recognize that, without a strong freight forwarding industry, ambitious export targets are unlikely to be achieved. The end of preferential access to developed markets under the emerging global trade environment makes it imperative for the government to view the International freight forwarding industry as part of the mainstream economy.

The International freight forwarding industry in Pakistan operates under major constraints. The management of the industry's trade body is known to have brought several vital issues to the notice of the national policy makers. Critical issues are highlighted below and need to be addressed urgently in the interest of the industry and the national economy.

Projected Market Shares in Global Textile Trade Post Trade Liberalisation under WTO



Source: DHL

10.3 Enhanced access to capital

The industry's needs for working capital are increasing with growing business volumes. With the full implementation of WTO, overseas buyers will require delivery of ordered merchandise on duty paid terms. This will enhance the capital requirements of freight forwarders.

Commercial banks are currently flush with surplus liquidity, interest rates have declined to historic lows and there is intense competition between banks for viable lending opportunities. The government is also keen to support the small and medium enterprise sector and the central bank has circulated prudential guidelines to facilitate such lending.

The industry association needs to engage with commercial banks to develop a viable financing model for their members. The key element for such a dialogue would include an understanding of the sector and willingness on the part of forwarders to provide adequate disclosure on their operations to permit the lending institutions assess credit rating of potential borrowers.

10.4 Institutional strengthening

The emergence of a fully independent trade association will confer several benefits including productive utilization of members' contributions for industry promotion and the development of a regulatory framework to establish professional and financial conditions of access to the profession. In addition, given the absence of a national fleet, the vulnerability of trade and industry to aggressive tariff policies by foreign carriers can be addressed through a strong body.

10.5 Rationalising transit trade procedures

Rationalisation of rules offers possibilities of significantly increased business volumes for international freight forwarding companies in future years resulting from increased transit trade flows.

10.6 Incentives for infrastructure development

There is an urgent need for establishing additional container freight stations (CFS) since the existing stations are operating at full capacity. The government should recognize the severity of this problem and address the same through encouraging new CFS in the private sector through fiscal and monetary incentives. Industry representatives have requested similar incentives for establishing modern warehousing systems, transport equipment etc.

Annex I

Research Methodology

This sector study has been conducted by International Asset Management Company Limited a consultancy firm with extensive experience in specialized business research. The survey methodology included a combination of primary data generated through a sample survey, secondary sources of information, intensive interviews with individuals connected to the industry and focus group discussions.

Primary data

A survey of international freight forwarders was conducted using a structured questionnaire based on a random sample drawn from the trade body list. A total of 77 companies were interviewed in Karachi, Lahore and Sialkot comprising approximately 20% of the industry to ensure full representation of small, medium and large enterprises. Personal interviews were conducted with senior management including CEOs, directors, proprietors and partners. In addition to the information specified in the terms of reference, the industry's views on their problems and required remedial actions were also obtained. Except for a minority that refused to cooperate, the general response was positive. However, many respondents declined to provide financial and operational data. The list of respondents is attached as annex IV.

Secondary sources

1. "Trade in International Maritime Services: How much does policy matter?" World Bank Economic Review, Vol. 16, 2002
2. "Eliminating excessive tariffs on exports of least developed countries," World Bank Economic Review, Vol. 16, 2002
3. Pakistan Economic Survey, 2003-04
4. State Bank of Pakistan Annual Report 2004
5. Federation of Pakistan Chambers of Commerce and Industry
6. Overseas Chamber of Commerce and Industry
7. Director-General, Ports and Shipping
8. Foreign shipping lines and Pakistan National Shipping Corporation

Annex II

Date: _____

Questionnaire on Pakistan's International Freight Forwarding Sector

1. Company Name: _____

2. Legal Structure:

a) Public Limited Company

b) Partnership

c) Sole Proprietorship

3. What government facilities are you presently using in the course of your operations?

a) Sea Ports

b) Dry Ports

c) Air cargo Terminals

d) Others, please specify _____

4. How many persons are employed in your organization?

a) Executives/Officers

b) Clerical Staff

c) Support Staff (peons, messengers, sweepers etc.)

5. Please indicate the types of services which your company outsource:

- a) Packing
- b) Transportation
- c) Clearing/Forwarding
- d) Others, please specify _____

6. What is the approximate number of your present clients?

7. What are the types of clients you are currently handling:

<i>Type</i>		<i>Number</i>
a) Multinationals	<input type="text"/>	_____
b) Local Companies	<input type="text"/>	_____
c) Government	<input type="text"/>	_____

8. Based on the last two financial years' figures what was the approximate breakdown of your revenues through various services?

	<i>2003</i>		<i>2004</i>	
	Amount (Rs.)	%	Amount (Rs.)	%
a) Exports	_____	_____	_____	_____
b) Imports	_____	_____	_____	_____
c) Local trading	_____	_____	_____	_____

9. Identify 4 major expenses in running your business:

- a) _____
- b) _____
- c) _____
- d) _____

10. How did you fund your working capital requirements during the last two financial years?

	2003 Amount <small>(Rs.)</small>	2004 Amount <small>(Rs.)</small>
a) Through internally generated funds	_____	_____
b) Through bank borrowings	_____	_____

11. How much cargo did you handle during the last two financial years?

	2003	2004
a) Average monthly billing (Rs. equivalent)	_____	_____
b) Average monthly tonnage	_____	_____

12. Kindly detail the breakdown of your services (%) by countries of origin/destination:

Country	Export/Import	%
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

13. What are the main problems presently being faced by Pakistan's International freight forwarding industry? (Use extra sheets, if necessary)

-
-
-
-
-
-

14. Kindly provide your recommendations/solutions to your industry problems: (Use extra sheets, if necessary)

-
-
-
-
-
-

15. Please provide your:

Full name: _____

Designation/Title: _____

Address: _____

Phone no: _____

Fax no: _____

E-mail address: _____

Annex III

Computation of Industry Turnover

Market Zone	Trade Share (%)	Average Tariff (US\$/cnt)	Turnover – qty (cnts)	Turnover - value (US\$ M)
North America	40	2,200	205,872	452.9
European Union	35	1,200	180,138	216.2
Gulf/Middle East	15	300	77,202	23.2
Far East	10	600	51,468	30.9
Total/avg.	100	1,405	514,680	723.13
				= Rs. 43,388 M.

Market Share Analysis

Segment	Cnt/mth	Cnt/yr	No. of Companies	Total Containers	Avg. Freight (US\$/cnt)	Total Billing (US\$ M)	Turnover (Rs M)
Primary	30	360	253	91,080	1,405	128	7,678
Middle order	100	1,200	153	183,600	1,405	258	15,478
Total Solutions	400	4,800	50	240,000	1,405	337	20,232
Total	--	--	456	514,680	--	723	43,388

Income Computations

Segment	Turnover (Rs M)	Gross Margin (%)	Gross income (Rs M)	Net Margin (%)	Net income (Rs M)
Primary	7,678	3.0	230.4	1.0	76.8
Middle order	15,478	7.0	1,083.5	2.5	387.0
Total solutions	20,232	10.0	2,023.2	4.0	809.3
Total	43,388	7.7	3,337.1	2.9	1,273.1

List of Survey Respondents

Annex IV

Karachi					
Company Name	Name of Person	Designation	Address	Tel. #	Fax #
1 ACE Cargo International	Muhammed Naeem	Proprietor	2nd Floor, Shernaz House, 8 West Wharf Road, Karachi	22030445	22030446
2 Air Tiger Pakistan	Javed Usmani	Managing Director	Suite # 203, 2nd Floor, Fortune Centre, I.I. Chundrigar Road, Karachi	4392131-4	4392135
3 Cargo Express	M. Bashir Suleman	CEO	Shahbaz Plaza, Thathai Compound, M.A Jinnah Road, Karachi	7732288	7722851
4 Cargo Vision Shipping Agency	Shahrakh Abid	Managing Director	Suite 4/9, 4th Floor, Main Arkay Square, New Chali, Shahrah-e-Liaquat, Karachi	2420577	2436755
5 CIM Shipping NIC	Mujahid Hussain	Admin Manager	408-409, Business Plaza, Mumtaz Hassan Road, Karachi	2417120	2419151
6 Combined Freight (Pvt.) Ltd.	Sagheer Ahmed	General Manager	Suite # 1/2 Q, G-2/A, Park-View Towers, Block-6, P.E.C.H.S, Karachi	4542862	4542866
7 Connet Enterprises	Kamran Aqeel	Shipping Manager	A-6 & 7, Ocean Centre, Eduljee Dinshaw Road, Karachi	2205171-3	2200790
8 Consolidation Shipping & Logistics (Pvt.)	Abid Ali	Sales Director	908 Business Plaza, Mumtaz Hassan Road, I.I. Chundrigar Road, Karachi	2426287	2426639
9 Daco International Transport (Pvt.) Ltd.	Abdul Rauf Baig	Managing Director	Puri House, 22 West Wharf Road, Karachi	2200368-70	2200372
10 Dynamic Shipping Agencies (Pvt.) Ltd.	Tariq Mehmood Chaudhry	CEO	Suite 301, Progressive Square, Shahrah-e-Faisal, Karachi	4535330	4535338
11 Eastern Cargo	Mansoor Ahmed	CEO	Ground Floor, Progressive Plaza, Beaumont Road, Karachi	5652052-3	5652054
12 Excel Frieght Systems (Pvt.) Ltd.	Muhammad Asif Khan	Director	6-K, SPR House Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi	4544557	4544579
13 Experience Express Services	Zahid Razzaq Chaudhry	CEO	Suite # 314-315, 9th Floor, Techno City Office Tower, Hasrat Mohani Road, Karachi	2217571-74	2217570
14 Faiz Cargo	Abu Zakir	CEO	6-Q, Block-6, P.E.C.H.S, Shahrah-e-Faisal, Karachi	4380726	4380720
15 Foxl International and Co.	Rashid Mehmood	Proprietor	Room # 1017, 10th Floor, Uni Plaza, I.I. Chundrigar Road, Karachi	2420141-47	2420149
16 Freight Dynamics	Shamshad Siddiqui	Director	Suite # 11, 3rd Floor, Shalimar Centre, Main Tariq Road, Karachi	4529124-5	4540126
17 Friends Shipping & Logistics	Tahir Rahim	Sales Manager	11-12, 11th Floor, Arkay Square, Shahrah-e-Liaquat, Karachi	2427951	2413990
18 Gateway Logistics (Pvt.) Ltd.	Salman Ahmed Usmani	Managing Director	Suite # 310, Business Arcade, Block-6, P.E.C.H.S, Shahrah-e-Faisal, Karachi	4390011-12	4381462
19 Geologistics	Moin A.Malik	CEO	205-206, Progressive Centre, Block-6, P.E.C.H.S, Main Shahrah-e-Faisal, Karachi	111-436-436	4383763
20 Globalink	Bilal-ur-Rehman	Director	36, Timber Pond, Keamari, Karachi	2852612	2851678
21 Gulf Maritime Services (Pak) (Pvt.) Ltd.	Nissar Yusuf Ahmed	CEO	Hakimsons Building, 1st Floor, 19 West Wharf Road, Karachi	2311912	2314830
22 HTL Trans (Pvt.) Ltd.	Faisal Yaqoob	National Sales Manager	Suite # 706, 7th Floor, Marine Faisal, No. 10-A, Block-6, P.E.C.H.S., Shahrah-e-Faisal, K	4535062	4547419
23 Interfreight Services	Yawar Badat	CEO	Hakimsons Building, 7-A, Ground Floor, 19 West Wharf Road, Karachi	2201747	2201897
24 International Cargo Management	Rabnawaz Khan	General Manager	711, 7th Floor, Uni Centre, I.I. Chundrigar Road, Karachi	2417863	2417743
25 International Forwarding Agency (Pvt.) Ltd	S.Y. Mohajir	Shipping Consultant	43, Badri Building, I.I. Chundrigar Road, Karachi	2415578-9	2416809
26 JAC Logistics	Aqil Maniar	CEO	Suite # 28-30, 6th Floor, Trade Avenue, Shahrah-e-Liaquat, Karachi	2472291-3	2472294
27 M.R. Traders (Pvt.) Ltd.	Munir Ahmed	CEO	Suite # 1208-1210, 12th Floor, Chapal Plaza, Hasrat Mohani Road, Off I.I.Chundrigar Road	2429251	2472806
28 M.S. Shipping Agencies (Pvt.) Ltd.	Akber Kamani	Director	GSA House, 1st Floor, 19 Timber Pond, Keamari, Karachi	2851995-7	2851998
29 IMAK Cargo	Kamran Mirza	CEO	Suite # 209, 2nd Floor, Progressive Centre, Block-6, P.E.C.H.S, Karachi	4528736	4553979
30 Manzoor Nazir Logistics	Haji Nazir Ahmed	CEO	Uni Centre, 2nd Floor, I.I. Chundrigar Road, Karachi	2419855	2410380
31 Marine Bureau	Riaz Iqbal	Proprietor	Office # 506, 5th Floor, Kashif Centre, Karachi	5654361	5681983
32 N.S. Freight System	Ashraf Sattar	CEO	Suite # 3-7, 4th Floor, Trade Avenue, Hasrat Mohani Road, Karachi	2435590-93	2423357
33 OCS Pakistan (Pvt.) Ltd.	Nadeem Wali	Manager Cargo	Worldwide House, C-17, Korangi Road, D.H.A, Phase II Extension, Karachi	5898269	5880606
34 Olympic Freight (Pak) Pvt. Ltd.	M. Pervez Butt	CEO	Suite # 713, 7th Floor, Trade Tower, Abdullah Haroon Road, Karachi	5216770	5216771
35 Osaka Shipping International	Capt. Aftab Nadeem	CEO	Suite # 504, Marine Pride, Kehkashan Clifton, Block-7, Karachi	5872127	5872125
36 Prime Ocean Cargo Management Co	Irshad Junaid	Director	713, 7th Floor, Uni Centre, I.I. Chundrigar Road, Karachi	2420067	2420069
37 Professional Freighters	Neelum Kizilbash	Executive Director	Suite # 1204, Kashif Centre, Shahrah-e-Faisal, Karachi	5653030	5688728
38 R.S International	M. Saleem Qureshi	Managing Partner	Suite # 1110, 11th Floor, Uni Centre, I.I. Chundrigar Road, Karachi	2414518	2414518

Company Name	Name of Person	Designation	Address	Tel #	Fax #
39 Ravian International Agencies	Abdul Majeed Paracha	Managing Partner	1003, 10th Floor, Business Plaza, Mumtaz Hasan Road, Off I.I. Chundrigar Road, Karachi	2414141	2414149
40 SA Logistics (Pvt.) Ltd.	Qaiser Iqbal	S. Manager, A. Freight Exp.	9-10, Amber Castle, P.E.C.H.S., Block-6, Shahrah-e-Faisal, Karachi	4540710	4548500
41 Seabiz International	Capt. M. Khurshid Khalil	CEO	1-A, 1st Floor, Sattar Chamber, 29 West Wharf Road, Karachi	2201617-21	2311717
42 Sea Hawk Shipping Line	Syed Amir Ali	CEO	1015, 10th Floor, Uni Centre, I.I. Chundrigar Road, Karachi	2415189	2415360
43 Seatrade International	Asad Ahmed	Proprietor	708, 7th Floor, Uni Centre, I.I. Chundrigar Road, Karachi	2424247-94	2424248
44 Security Packers	Raza Hussain	General Manager	2nd Floor, Dean Arcade, DC-4, Block-8, Scheme-5, Kehkashan Clifton, Karachi	5862305-08	5874197
45 Sun Freight International	Ubaid-ur-Rehman	CEO	Suite # 1110, 11th Floor, Park Avenue, Main Shahrah-e-Faisal, Karachi	4527702	4527712
46 Target Logistics Int'l (Pvt.) Ltd.	Khalid Mir	CEO	Suite # 310, Progressive Centre, 30-A/6, P.E.C.H.S., Main Shahrah-e-Faisal, Karachi	4384668	4384667
47 Trans World Express	Nurul Abedin	CEO	Suite # 10, 1st Floor, Amber Tower, Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi	4535024	4536422
48 Trans Asia Shipping Agency	Zulfiqar Momin	Director	Suite # 501, 5th Floor, Land Mark Plaza, M.B.Qasim Road, Opp Jung Press, Karachi	2212050	2212060
49 Transfreight Corporation (Pvt.) Ltd.	Babar Badat	Managing Director	8-B, 2nd Floor, PAK Chambers, 25 West Wharf Road, Karachi	2315034	2314841
50 Transworld Int'l. (Pvt.) Ltd.	Gulzar Shah Mushwani	CEO	5th Floor, Trade Avenue, Hasrat Mohani Road, Karachi	2416626-7	2410033
51 Tri Sea Cargo System	Jamil Ghaffar	Office Manager	610 Chapal Plaza, Hasrat Mohani Road, Karachi	2416242	2415624
52 Universal Freight Systems (Pvt.) Ltd.	Salim R. Baxamoosa	Director	Freight House, 50-H, Block-6, P.E.C.H.S., Off Shahrah-e-Faisal, Karachi	4538080	4549515
53 Waterlink Pakistan (Pvt.) Ltd.	Abdul Qadeer	Director	4-A, Kehkashan Town Houses, Ground Floor, Block-5, Clifton, Karachi	5824397-8	5838688
54 Xpress Agencies	Shariq Khan	Manager Bus. Develop.	112, Progressive Centre, 30-A, Block-6, P.E.C.H.S., Karachi	4313491	4313490
55 Zarghoon Maritime (Pvt.) Ltd.	Capt.K. Raif Zaheer	Chairman	B-4, Dawood Apts, 187/3-A, Block-2, Karachi	4548496	4548459
56 Zey Square & Co. (Pvt.) Ltd.	Wasim Reyaz Shaikh	Managing Director	2 & 3, Ground Floor, Imperial Hotel Building, M.T. Khan Road, Karachi	5654017-8	5686391
Lahore					
1 Aries Logistics (Pvt.) Ltd.	Tauqir Khan Lodhi	Sales Director	Garden Block, Garden Town, Lahore	5889791-4	5889795
2 Delta Shipping	Sikander Mehmood	General Manager	Centre Point Gulberg, Lahore	5755235	5752285
3 DMK Logistics (Pvt.) Ltd.	Iftiqar Hussain	Company Secretary	129-E-1, Main Boulevard, Gulberg III, Lahore	5877745-8	5878610
4 Excel Freight Systems	Hassan	General Manager	8-1, Habib Ullah Road, Adj Davis Road, Lahore	6310291	6369627
5 Expeditors International Pakistan (Pvt.) Ltd.	Afsar Mehmood	Managing Director	3-F/4, Kiran Villas, Aziz Avenue Canal Bank, Gulberg-V, Lahore	5713545	5710589
6 GCS (Pvt.) Global Cargo Systems	Imran Khan	CEO	Suite # 28, Auriga Complex, Main Boulevard, Lahore	5714151	5716947
7 Khawaja Air Services (Pvt.) Ltd.	Khawaja Azhar	Managing Partner	1-A, Durand Road, Near Shimla Hill, Lahore	6363519	6363528
8 Logistics Solutions	Tahir Khan	General Manager	Auriga Complex, Main Market, Main Gulberg III, Lahore	5714151	5716947
9 Loyal Agencies	Imran Jafri	CEO	Suite #6, 2nd Floor, Land Mark Plaza Jail Road, Gulberg II, Lahore	5714333	5712522
10 Salt Cargo	Amjad	Director	47-C1 Agro Square, Main Market, Shadman, Lahore	7574955	7552592
11 Shaheen Cargo Services (Pvt.) Ltd.	Asif Baksh	CEO	80, Shadman Colony-1, Lahore	7473219	7590063
12 Taq Int'l Cargo Services (Pvt.) Ltd.	Muhammad Ilyas	Director	25-A, Agha Khan Road, Lahore	6363300	6369019
13 Team Logistics (Pvt.) Ltd.	Saleem Ahmad	Director	26-Abbot Road, Lahore	6364633-4	6364335
14 Trafco Logistics (Pvt.) Ltd.	Tahir Malik	CEO	Suite # 327, 3rd Floor, Eden Centre, 43- Jail Road, Lahore	7494025	7594025
Sialkot					
1 Allied Cargo Systems	Najeeb Ashraf	Managing Partner	Allama Iqbal Market, Paris Road, P.O. Box:1242, Sialkot	583608	583663
2 Fritz Companies Pakistan (Pvt.) Ltd.	Muzaifur Qader	CEO	Allama Iqbal Market, Paris Road, P.O. Box:1242, Sialkot	583600	583700
3 Lonesons Enterprises	Nadeem Khalid Lone	Managing Director	Abbot Road, Sialkot	58717	593677
4 Pakistan Cargo Services (Pvt.) Ltd.	Mohammad Yousuf	General Manager	Anwaar Club Road, Sialkot	269232	266801
5 Rapid Cargo	Sheikh Abdul Majeed	Managing Director	1/1319, Paris Road, Sialkot	580901	588099
6 Speedy Worldwide Logistics	Ashraf	Proprietor	Iqbal Town, Defence Road, Sialkot	554145	554947
7 Transpak International	Maj @ Muhammad Akht	CEO	1st Floor, 13 Cantt Plaza, Allama Iqbal Road, Sialkot	591528-29-30	590848