

# Shipping: Challenges and Way Forward for Bangladesh

Rear Admiral A S M Abdul Baten, (E), BSP, ndc, psc, BN (retd)



## Introduction

The International Maritime Organization has set a universal truth as the theme of the World Maritime Day for 2021, which is: 'Seafarers: at the Core of Shipping's Future! Seafarers have been and shall continue to remain at the core of all significant maritime activities at sea. They belong to the merchant marine or mercantile marine family, which was interesting given the title "Merchant Navy" by British King George V to the British merchant shipping fleets after their service in the First World War. Since then, a number of other nations have also adopted to use that title. Whatever may be the label, the role of seafarers remains the same both during peacetime or wartime at every place of 70% of the earth's surface having complex environments. During peacetime, the seafarers face the

onerous challenges of the marine environment, which are demanding.

In reality, shipping is a complex business involving dozens of stakeholders where the brunt of the challenges are faced by the operators and owners of the platforms who keep the business moving according to the rules and conventions adopted by the stakeholders. This business is challenging, dynamic, competitive and there are ups and downs, which depend on many factors arising from national and international issues. During the pandemic period due to COVID-19 in the last one and half years, it has been a war-like situation in the whole business to get going as it is important to keep the supply chain alive by transporting almost 90% of the world's trade. The professionalism and sacrifice

of the two million seafarers of the world's merchant fleet and other associated members have been exemplary. They deserve a big salute. In Bangladesh the role of the shipping sector is important for survival as it is within the main arteries of economic activities. Currently, Bangladesh flag carriers are rising, though it carries only about 10% of the total freight market. There are huge shipping opportunities if the investors are rightly supported and professionals are prepared to meet the challenges of the global environment.

### **Background of Shipping in Bangladesh**

Bangladesh is a born maritime country with a long tradition of contributing to the maritime sector in various forms, ie. Building boats for other nations, supplying skilled or semiskilled human resources, or supporting related activities in this field. During the reign of the Bengal Sultanate, founded in 1352, Bengal was a major trading nation in the world and was often referred to by Europeans as the richest country of the world and had been known as a nation that made valuable contribution in the maritime sectors (Shaikh, 2020). At the beginning of the 19th century, Chattogram produced vessels of different capacities used in European waters.

After independence, a national shipping company: Bangladesh Shipping Corporation was formed. Seafarers groomed within the country cheerfully joined the vessels with pride which were important value-adding components of the country's supply chain. But, state-owned shipping companies, which started well, also faced difficulties in surviving in the complex shipping business. Meanwhile, the government

allowed the private sector to invest in shipping, and the response was positive. Side by side, private and public shipping companies were visible at blue water flying national flags. Due to the continuous decline of freight, ship owners came under pressure and ships were laid down along with the cancellation of old and new orders. There were few incentives for owners and seafarers, and a gloomy picture prevailed in the shipping sector.

With the beginning of the new millennium, Bangladesh again started to appear on the map of shipbuilding countries as a few prospective entrepreneurs commenced building new ships of 5000 DWT (approximately) or so. The shipping business constantly requires specialized and skilled seafarers with the proper education and training on related subjects. Major maritime institutes for seafarers have been Bangladesh Marine Academy and Maritime Institutes for seaman at Chattogram. Initially, these training institutes had an excellent reputation and record for producing internationally reputed skilled operators. With the addition of many private training institutes, which lacked accreditation for producing quality seafarers, the whole sector suffered due to an image crisis. With the addition of BSMR Maritime University for higher maritime education, all stakeholders have widely appreciated the government's role. However, control on number of institutes and quality of education/training need full attention so that the graduates can enter and compete in the world market with their competitive edge.

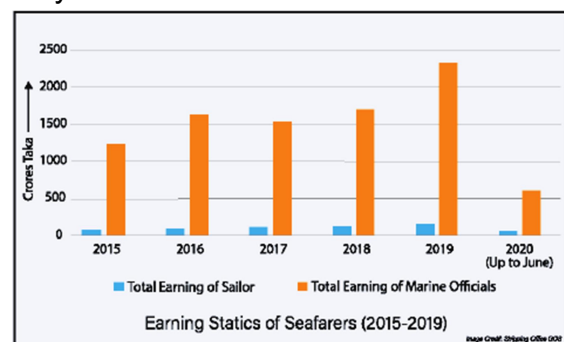
## Shipping in the Economy

Shipping has been always affected by the world economy and trade. In recent years negative economic and trade trends affected maritime trade growth which was at its lowest mark in recent years since the global financial crisis of 2008-2009. Maritime trade volumes reached a total of 11.08 billion tons in 2019. UNCTAD estimated further fall of maritime trade in 2020 and expected some recovery by end of 2021. Again apprehensions are there that disruptions caused by the COVID-19 pandemic will have a lasting impact on shipping and trade all over the world where Bangladesh is no exception.

More than 80% of the country's trade by volume and an almost similar amount by value are carried by sea and handled by the major seaports in Bangladesh. The value of export and import of Bangladesh stood around USD 79 billion (2018-19). Earnings from shipping have grown from \$300 million in FY2015 to \$500 million in FY2019, but this is far below the country's potential. The gap between Bangladesh earnings from shipping freight and payments to the rest of the world is huge. The largest maritime port Chattogram handled 3699 ships (7th FYP performance report, GED). The same report of the General Economic Division of the GoB says revenue earned by CPA was 29.3 Billion Taka in the same fiscal year. It is expected this volume would increase substantially with the entire operation of the deep seaports under construction and with full utilization of the other two seaports (Mongla and Payra). It is reported that the CPA has continued its leadership role in terms of being amongst the most financially profitable

public authority during the 7FYP. Once multipurpose terminals around Matarbari and Maheshkhali area would be in full operation, economic activities connecting shipping would increase manifold. With the completion of all projects, the leading port may be treated as a kind of a commercial hub in the area, as seen in 8FYP. Hinterland connectivity within and beyond the border with efficient intermodal transportation and other ancillary supports would play a greater role to make the trade pattern sustainable in Bangladesh.

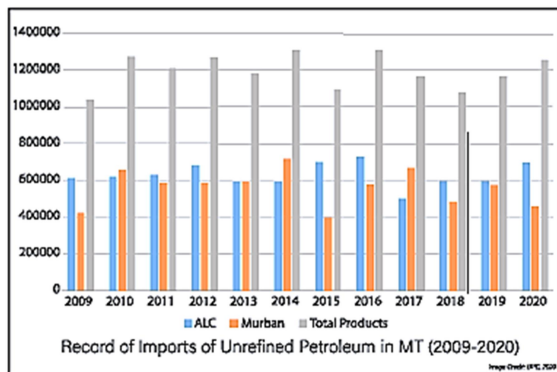
For success in maritime trade and business, both ship owners and seafarers have a greater role to play. To meet the entire set of SDGs in the maritime sector, we need to focus on the areas where the Bangladesh Flags can be protected. At the same time, new investors should be given incentives and guidance/ cooperation to join the business. Our issues need to be addressed as a package so that both owners and employees' interests are met. The income of foreign currency by the seafarers (usually on an average yearly 2000 seaman and 5000 officers employed at home and abroad) alone may be a few times more than the



present picture, if proper target oriented Human Resource Development programmes are taken under proper

quality control. Good examples are available in the Philippines, where the nation has captured a sizable portion of the world market.

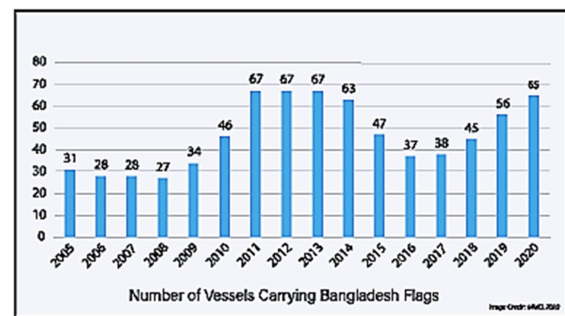
It is expected that due to signing off preferential trade agreements among Bangladesh, India, Nepal & Bhutan, the trade will increase in the region. There is no doubt that these countries would need to employ more ships for transportation of products & goods, This is an opportunity which Bangladesh has to grasp. This can be met both by building new ocean-going vessels at local yards and simultaneously buying more ships. In both EU and ASEAN countries, more than 50% of trade takes place within member countries. Regional agreements can be beneficial for the safe operation of shipping in this region as well. Apart from RMG, machinery and food items, POL is a major item in the list of imported goods.



### Owners and Operators

Shipping involves complex interactions of dozens of stakeholders. However, the two most vital stakeholders are owners and operators. The Bangladesh Ocean Going Ship Owners' Association (BOGSOA) was incorporated in 1989 as a nonprofit organization under the Companies Act (Act- VII) of 1913. The Company is Limited and registered at

the office of the Registrar of Joint Stock Companies, Bangladesh. BOGSOA was formed by the owners of Bangladesh Flag Carriers to deal with their interests and issues affecting the growth and development of Bangladesh. At present, there are 68 registered (2021) vessels with 12 member companies in Bangladesh with the BOGSOA, which are not sufficient to carry even 10% of the freight volume of our cargo, which is worth over 10 Billion USD.



Despite rising operating costs & lower freight rates in the market for a long time, IMO introduced low Sulphur (0.5%) fuel oil to reduce pollution. IMO 2020 low Sulphur Fuel Oil requirement is another challenging commitment for the owners which has been complied.

### Legal Policy Issue and Other Challenges

Bangladesh Government implemented the Flag Vessels (Protection) Ordinance 1982 for the protection of Bangladesh Flag Vessels to expand shipping business. It created an opportunity to carry at least 40% of sea-borne cargo carried by Bangladesh Flag Vessels. Unfortunately, since the Ordinance was in place, Bangladesh Flag Vessels could not take advantage of this law due to various issues. Again on 18<sup>th</sup> November, parliament passed the historical Flag Protection Act, 2019 allowing 50% of cargoes to be carried by Bangladesh Flag Vessels. New provision again has deprived the right of the private sector to

participate in the transportation of government goods/cargoes by Bangladesh Flag Vessels. Acceptance of this new rule has been under review by the private owners who own 90% of the flag carriers. At present, Bangladesh Flag vessel owners need to pay 3% tax at service for the freight tax earned in foreign currency. Usually, service providers outside Bangladesh cannot be taxable. Except for freight, all other inward remittance does not attract any tax & even if it does, it is less than 1%, which need to be addressed by the concerned authority. In order to expand ownership & derive benefit from flag protection, the advanced tax should also be fully withdrawn.

### **Conclusions and Way Forward**

The World Maritime Day theme for 2021 has focused on seafarers as the essential people in the core of shipping. This would encourage the new generation to join the team and enrich the blue economy. Bangladesh flagships are again growing in numbers which should not decline as before. In order to meet SDG targets, Bangladesh must provide enough incentives to local

shipping companies to add more ships to the existing fleet, freight operators to establish freight services, including container liner services to carry goods to/from Bangladesh using our own as well as chartered vessels. New investors should be encouraged to build ocean-going vessels in Bangladesh, Seafarers are to be given enough support, so that they are not harassed in international ports on visa related matters. Shipping is the mainstay and an integral part of international trade, which should be at the core of the country's blue economy. Bangladesh is one of the fastest-growing economies globally and is on track to be a top 30 Global Economy in the foreseeable future. Unless private investors are encouraged with adequate incentives, this sector may again give way to others keeping the nation in frustration.

***Writer: Rear Admiral A S M Abdul Baten, (E), BSP. nde, psc, BN (retd) is the Secretary General of Bangladesh Ocean Going Ship Owners' Association (BOGSOA).***