



GOVERNMENT OF PAKISTAN

**TRADE POLICY INITIATIVES
2008 - 09**

Ministry of Commerce
Islamabad

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FOREWORD

The global economic slow down of 2007-08 initially triggered by the sub-prime mortgage crises in the U.S, as a result was which the U.S. Dollar suffered huge depreciation against major currencies; coupled with the phenomenal hike in oil and food prices, sent shock waves around the world, throwing up enormous challenges for most economic managers.

2. Pakistan was no exception. Heavy reliance on imported fuel and food commodities like wheat and sugar placed huge pressure on our balance of payment reserves as our import bill soared.

3. Ministry of Commerce in consultation with stakeholders is endeavouring to use the trade policy as an instrument to mitigate the negative effects of this situation by pursuing the ongoing export led growth strategy more vigorously.

4. Trade Policy (2008-09) therefore aims at bridging the trade gap by focusing on reducing the cost of doing business, enhancing productivity and competitiveness of our manufacturing sector. Trade Policy 2008-09 also focuses on agriculture, as the Ministry of Commerce considers it an integral source of supply of our major Agri based export products.

5. With little fiscal support available for any sector including textiles, concentration now has to be on SME clusters, and compliance to buyer's requirements.

6. In this overall context and the parameters mentioned above, the export strategy for the year 2008-09 has been designed in a manner, so that:-

- i. Instead of providing cash incentives or subsidies to exporters, emphasis would be to support their capacity building in areas like productivity enhancement, and in providing training facilities to upgrade human resource skills.
- ii. Diversification will be encouraged via proposals drawn up specifically to promote higher trade in

agricultural products. In the manufacturing sector this diversification policy will also facilitate SMEs. The advantage of this approach is that SMEs create more employment with less investment and they can trigger the production of higher value added, innovative and knowledge based products.

- iii. Exporters would be encouraged to improve quality, cater to latest consumer preferences, comply with international standards and obtain relevant certifications in this regard.
- iv. Enhancing competitiveness of our exports is a major objective. Hence various measures have been announced to simplify procedural requirements including reducing costs through comprehensive zero-rating of various export sectors.
- v. Intensification of market intelligence gathering by Ministry of Commerce and Trade Development Authority of Pakistan regarding opportunities, consumer preferences, quality and other standards, best practices by other countries; and disseminating this information to our stakeholders would also be done vigorously.
- vi. Trade promotion by TDAP would supplement trade diplomacy efforts by Ministry of Commerce for additional market access opportunities.
- vii. Improvement of physical infrastructure through coordination with concerned Government agencies is vital since poor condition of the infrastructure imposes extra costs on our exporters.
- viii. We will continue with past trade policy measures that are proving valuable for increasing exports.

7. The 2008-09 Trade Policy strategy and a number of new policy measures are detailed in this booklet in summarized form. I hope these will facilitate all stakeholders and especially our trading community to conduct their businesses more efficiently and

effectively. I am optimistic that a perusal of this summarized information will help all stakeholders to understand the underlying ethos and rationale of Pakistan's Trade Policy for 2008-09.

(Syed Asif Shah)
Secretary Commerce

Islamabad, the 10th September 2008.

2007-08 TRADE-OVERVIEW

Export	2006-07	US\$17.0 billion
Export target	2007-08	US\$19.2 billion
Export realized	2007-08	US\$19.2 billion
		Growth 13.2%
Imports	2006-07	US\$ 30.5 billion
Imports	2007-08	US\$ 39.96 billion
		Growth 30.0 %(approximately)

The US\$ 2.2 billion increment in exports in 2007-08 was contributed by following sectors..

Other manufacturers (Cement, engineering, leather etc)	US\$1070.0 million	39.9% of increase
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Food Items	US\$774.1 million	38.4% of increase
Petroleum products	US\$ 344.2 million	40.1% of increase

The increment in imports in 2007-08 was contributed by following sectors.

POL	US\$ 4044.9 million	55.1%
Machinery	US\$ 690.2 million	10.3%
Others	US\$ 916.0 million	38.8%

TRADE POLICY INITIATIVES FOR FY 2008-09 EXPORT MEASURES

1. INCREASING COMPETITIVENESS OF EXPORTS

1.1. ZERO RATING OF EXPORTS

For reducing cost of doing business it has been decided to completely zero-rate the export by refunding whole amount paid as indirect taxes on inputs used for manufacturing for exports. A study will be conducted jointly by the FBR and the Ministry of Commerce to quantify the extent of refund, which will become due on this account. Nevertheless, in first instance, to encourage value added products, particularly those being by SMEs, the draw back rate has been increased by 1% of FOB value on this account for 14 products i.e. (i) Tents, Canvas & Tarpaulin, (ii) Electric machinery, (iii) Carpets, Rugs, & Mats, (iv) Sports Goods, (v) Footwear, (vi) Surgical Goods/Medical Instruments, (vii) Cutlery, (viii) Onyx manufactured, (ix) Electric Fans, (x) Furniture, (xi) Auto Parts, and (xii) Handicrafts, (xiii) Jewellery, (xiv) Pharmaceuticals .

1.2. NEW SCHEME FOR FURTHER FACILITATION OF EXPORTS

In view of the hassle involved in getting benefits of DTRE Scheme, a new scheme will be introduced where by a notified percentage of inputs will be allowed to be imported at zero duties against fob value of exports with flexibility to import any product among the notified list in any quantity within the overall entitlement of the exporter.

1.3. IMPROVEMENTS IN SCHEMES OF IMPORTS FOR EXPORT MANUFACTURING

Duty & Tax Remission for Exports

- i) Plant, machinery and equipment imported to setup a unit in DTRE scheme will be exempt from duty and taxes. This will result in reduced cost of investment and encourage investment for exports and generate employment.
- ii) Inputs in DTRE will also be allowed to be imported from India, even if these are not included in the importable items from India, or manufactured locally.
- iii) Import of PET bottle scrap for manufacture and export of PSF will be allowed in the DTRE scheme, (subject to non-hazardous certification).

Temporary Importation Scheme

The period of retention of raw material and components for export under temporary importation scheme (SRO 1065) have been increased from current 12 months to 18 months i.e. at par with DTRE Scheme.

1.4. MANAGEMENT EFFICIENCY

Efficient management is basic for increased productivity and competitiveness, National Productivity Organization (NPO) is conducting efficiency audits of industrial units in collaboration with Asian Productivity Organization and German Cooperation Agency (GTZ) but its outreach is low. It has been decided that the outreach of the NPO will be expanded by funding 'Training of Trainers' of auditors from EDF in the area of:

- i) Production Audit
- ii) Energy Audit
- iii) Labour Productivity Audit

Ministry of Commerce and Ministry of Industries will work out the modalities.

2. EXPORT DIVERSIFICATION

2.1. DEVELOPMENT OF EXPORT CLUSTERS

Export clusters are essential for development and promotion of non-traditional products. Gaining from the experience in this regard, it has been decided that in addition to the existing clusters, TDAP will establish following new Clusters.

- i) Surgical Instruments, Sialkot
- ii) Gloves and Personal Protective Equipment, Sialkot
- iii) Sports Wear, Sialkot
- iv) Leather & Leather Products Sialkot and Charsadda
- v) Sports Goods, Sialkot
- vi) Weaving and textile processing sector, Faisalabad
- vii) Light Engineering Sector, Gujranwala
- viii) Auto parts, Lahore
- ix) Ceramics, Multan and Halla
- x) Ajrak and Bangles in Hyderabad/Halla
- xi) Embroidery in Balochistan

UNIDO will provide training to Cluster Development Agents and Coordinators who will work in these clusters.

2.2. PHARMACEUTICALS

First Year Allowance

In order to attract new investment in pharma sector having good export prospects, it is decided that an incentive for accelerated depreciation allowance @ 90% of the value of capital assets will be allowed in line with the industries undertaking establishment in rural areas. This is in line with similar scheme where this concession is available to industrial undertakings established in the rural areas.

Establishing Bio-Availability and Bio-Equivalence Labs

The Ministry of Health shall draw up proposal for establishing bio-availability and bio-equivalence labs in National Institute of Health.

Physician Samples

Exporting pharmaceutical companies will be allowed to send free samples to the extent of 10% of the commercial export quantity in the preceding year.

Retention of Export Earnings

The pharmaceutical sector will be allowed to retain up to 15% of their export earnings in foreign currency accounts.

Biotech Pharmaceutical:

A committee comprising Ministries of Commerce, Health, Finance, and FBR will be formed to consider and submit its proposals for consideration by ECC of the Cabinet on special incentives for the Biotech pharmaceuticals sub sector. The facilities / incentives may include giving Pioneer Industry status to this industry and providing the facility of duty-free import of Plant, Machinery and Equipment, raw material, 15 years tax holiday, carry forward of taxes already paid prior to acquiring this status, and other benefits.

2.3. SEAFOOD

- i) Consultancy services will be arranged through FAO / *INFOFISH* for aquaculture;
- ii) A peeling shed will be set up at Karachi Fish Harbor in coordination with TDAP and Sindh Government. by arranging funding through the PSDP
- iii) Sindh government will arrange training program for fishermen in catching of fish. Initial program of Training for Trainers will be arranged in collaboration with TDAP.

2.4. GEMS & JEWELRY

Gold, silver, platinum, palladium, diamond and precious stones will be exempted from levy of customs duties & sales tax. This would reduce the cost of inputs and the trade of gold and precious stones will come into the formal sector.

2.5. EXPORT OF MINERALS

To reduce expenditure on Machinery / equipment for mining / quarrying and grinding of minerals (along with spares) will be allowed from India. List of such machinery is being notified in consultation with FBR and stakeholders.

2.6. LEATHER

- i) Currently available 6% mark up support on loans for setting up in-house effluent treatment plants has been increased to 8% or 50% of the mark up, whichever is lower
- ii) Initiative of hiring of consultants for benchmarking studies of leather garments exporting units will continue on a cost-sharing basis.

2.7. FURNITURE

The Ministry of Industries will set up a wood seasoning plant at an appropriate location for ensuring availability of seasoned wood for furniture manufacturing. Secondly NAVTEC will set up a couple of vocational training centers on modern lines to cater for skilled labour requirements of the furniture sector.

2.8. HORTICULTURE

Status of an Industry

The horticulture sector is being declared as an industry enabling it to qualify for industrial credit, relief in taxation, etc, leading to modernization and infrastructure development.

6- Addressing SPS Issues

To supplement the upcoming irradiation facility at Lahore, another facility based on latest *e-beam* technology will be set up in Karachi in collaboration with Sindh Government.

C- Cool Chain

A farm to port cool chain is being established as part of National Trade Corridor Improvement Program. Till such time that is implemented to facilitate exporters of horticultural products support for cool chain and cold storages for horticulture will be increased to 8% or 50% of the mark up, which ever is lower

Facilitation for Floricultural Exports

A Flora Common Facility Center will be set up in collaboration with Punjab Government near Lahore. Depending on its success the project will be replicated in other provinces.

2.9. HERBAL HEALTH SUPPLEMENTS

Government will bear 50% of the cost of registration of herbal medicinal products (e.g. Joshanda, Amaltas, Isaphgol etc.) abroad i.e., at par with pharmaceutical products.

2.10. HANDICRAFTS

Consultants of international repute would be engaged to seek technical assistance for improvements in the development of Handicrafts with a view to achieving a quantum jump in the Exports of Handicrafts.

Master craftsmen would be exposed to international designs and trends.

The Prime Minister's Programme of "one village-one product" (*AHAN*) will also be focused upon.

2.11. PROMOTING AND DEVELOPING EXPORTS FROM NORTHERN AREAS

In order to realize the full export potential of Northern Areas and to facilitate local exporters:-

- i) Trade Development Authority of Pakistan has been allowed to open an office in the Northern Areas.
- ii) MINFAL will arrange for SPS control at Pak-China border for certification of cherry and other fruits / products, for which there is a great demand in Chinese market.

2.12. FACILITATING EXPORTS TO AFGHANISTAN

To facilitate exports to the Afghanistan provinces of Paktia (Gardez) and Khost, a customs station at Pak-Afghan border will be setup at an appropriate location (perhaps Thal). This will reduce transportation cost & delivery time to this area from Pakistan.

3. EMPHASIS ON AGRICULTURE

Being the mainstay of economy that comprises supply chain of most important export products and having the potential of directly contributing to export growth, agriculture is being given special importance in the current export policy

3.1. RICE

New Varieties

MINFAL will focus on evolving new varieties of rice & increasing area under rice cultivation.

Seeds

To eliminate risk of diseases, all imports of rice should undergo strict quarantine measures; the "Seed Act" and other related laws, if need be, will be amended accordingly.

Rice Farm Machinery

- i) MINFAL will explore the possibility of using Agribusiness Support Fund for providing matching-grant for procurement of Paddy harvesters & Paddy dryers in rice growing areas; *for demonstration purposes four dryers and harvesters will be provided to MINFAL from EDF.*

- ii) Rice farm machinery (paddy harvesters and dryers) from India through Wagha border will also be allowed by road.

3.2. EXPORT OF HALAL FOOD PRODUCTS

Pakistan has ample livestock population and potential for still more quality animals. This advantage coupled with the being that of a Muslim country, has the potential of conversion into export opportunity for halal food products. To realize it,

- i) A Halal Certification Board will be set up, under the Ministry of Science and Technology, to devise and enforce Halal Standards and certification mechanism for export of Halal food products.
- ii) Currently available 6% mark up support on loans for setting up of slaughterhouses will be increased to 8% or 50% of the mark up, whichever is lower.

3.3. EXPORT QUALITY & STANDARDS

A system of voluntary pre-shipment inspection and sampling of agro-products for exports will be introduced. Lists of products, corresponding standards and accredited labs shall be notified by Ministry of Commerce after intimation by MINFAL & MINSTECH.

To support the private sector for establishment of laboratories and their own food safety system, the cost will be subsidized from EDF. The percentage and details would be notified separately by EDF.

3.4. ENHANCING AGRICULTURE PRODUCTIVITY

There has been a persistent dearth of quality inputs like fertilizers, pesticides and hybrid seeds. To generate investments in these sectors, the Board of Investment (BOI) will put together a package of special incentives for this sector in consultation with MINFAL and other stakeholders.

4. INSTITUTIONAL SUPPORT

4.1. REVITALIZATION OF FEDERAL EXPORT PROMOTION BOARD (FEPB)

FEPB, chaired by PM, is the highest export related decision-making body. It has been inactive. The Board will be reconstituted to make it more wieldy, and proactive.

4.2. TRADE DISPUTE SETTLEMENT ORGANISATION

A Trade Dispute Settlement Organization, under the administrative control of Ministry of Commerce, will be set up to deal with trade disputes arising from export activities. Legal cover, in consultation with Law Division will be worked out.

The newly set up organization will be headed by a Director General (BS 20/21) and the existing Directorate of Trade Dispute of TDAP will be brought under this organization.

4.3. TRADE DEVELOPMENT AUTHORITY OF PAKISTAN

Newly constituted Trade Development Authority could not come up to expectations and a need is being felt to review its organizations and functions. A summary will be submitted to the Cabinet shortly along with a draft bill for approval of the National Assembly, proposing amendments in the current TDAP law.

5. PROCEDURAL FACILITATIONS

- i) All "Humanitarian Food Commodities" will be allowed for re-export purpose by international humanitarian aid & relief agencies.
- ii) The export of gift parcels was allowed, through post or courier services. Now it has been decided to allow gift parcels also through air shipment.

IMPORT MEASURES

6. REDUCING COST OF DOING BUSINESS

6.1. IMPORT OF JOB LOT AND STOCK LOTS

In order to reduce cost of raw material imports and thereby make our export products more competitive, the import of Job lots & Stock lots of raw material, which attract duty up to 5%, has now been allowed

6.2. USED CRYOGENIC CONTAINERS

In order to reduce the cost of manufacturing of liquefied gases, import of used cryogenic containers/cylinders by industrial consumers has been allowed subject to prior NOC from the Department of Explosives and condition that the containers/cylinders are:-

- i) refurbished prior to shipment.
- ii) Inspected by a duly notified independent international certifying body that such containers/cylinders are compliant with international safety standards.
- iii) Such containers/cylinders are not older than 10 years.

6.3. SECONDHAND / USED CEMENT BULKERS

Import of cement bulker semi trailers, without prime movers in secondhand / used condition has been allowed in favour of cement manufacturers for transportation of bulk cement subject to the condition that the same will not be older than 10 years.

6.4. IMPORTS FROM INDIA

Cheaper raw material and machinery sourced from India will make our exports more competitive in the international market. As such, the positive list of items from India has been expanded by adding another 136 items in the said list. This also includes diesel and fuel oil from India, because it will be cheaper due to the difference in transportation cost. This will also help us to address our global trade deficit.

6.5. STAINLESS STEEL AND COTTON YARN

Stainless steel and cotton yarn is importable from India by train. In order to further reduce the cost of doing business, import of the same has also been allowed by trucks through Wahga as well.

6.6. IMPORT OF PRIME MOVERS

In last year's trade policy, prime movers not older than 4 years, which were Euro-III compliant, were made importable for a period of one year. i.e. 2007-08. This facility was only available to registered transport companies and established fleet operators operating at least 25 prime movers in their names. This facility has now been extended for the year 2008-09. The age limit has been relaxed to 5 years and the minimum fleet requirement to 15 prime movers.

6.7. WASTE DISPOSAL TRUCKS

At present Municipal Bodies /Corporations/ Cantonment Boards can import old / used waste disposal trucks provided they are not more than 15 years old, directly or through their nominated agents for their own use only. The facility of importing old/used waste disposal trucks has also be extended to the "authorized contractors" of Municipal Bodies. However in all cases, the imported trucks will not be older than 10 years.

7. FACILITATION FOR OVERSEAS PAKISTANIS

7.1. IMPORT OF VEHICLES UNDER TRANSFER OF RESIDENCE SCHEME

If Pakistani nationals importing a vehicle are unable to release their vehicle due to high tariff or other reasons, re-export of such vehicle will be allowed by FBR if there is no contravention of the Import Policy Order during import stage. Moreover, the requirement of a driving license for import under the TR scheme has also been dispensed with.

7.2. IMPORT OF USED BUSES (TRANSFER OF RESIDENCE SCHEME)

To facilitate expatriate returning Pakistanis with limited means to create an economic opportunity for themselves as well as ease the shortage of buses on inter city routes, import of buses which are not more than 05 years old under the Transfer of Residence scheme has been allowed.

8. FACILITATION

8.1. IMPORT OF VEHICLE FOR DISABLED PERSONS

In order to facilitate physically handicapped persons, used motor cycles or tri-wheeler vehicles especially designed/made or altered for the handicapped has been allowed for import, subject to disability certification from the Ministry of Health.

8.2. ACADEMIC, SCIENTIFIC AND PROFESSIONAL BOOKS

The prices of academic, scientific & reference books are quite competitive in India and technical and professional books are already importable from India. In order to give access to our people to cheaper books, import of academic, scientific & reference books from India has also been allowed.

9. REGULATORY

9.1. CHEMICAL PRECURSORS

In compliance with the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988, import of Toluene, MEK and Potassium Permanganate has been made subject to NOC by the Ministry of Narcotics.

9.2. EXPLOSIVES & CHEMICALS

Import of explosives has been made subject to approval of Ministry of Industries (Department of Explosives) which will be issued only after NOC from Ministry of Defence Production.

9.3. SPECIALIZED PRINTERS, LAMINATORS AND ROLLS

In order to avoid any potential disruption to NADRA system and misuse, import of specialized printers, laminators and laminator rolls used for printing visa stickers and passports has been restricted to NADRA only.

9.4. WILDLIFE SPECIES

Import of wildlife, including CITES appendix II species has been made subject to NOC from National Council for Conservation of Wildlife (NCCW) and the respective provincial wildlife department.

9.5. IMPORT OF PALM OIL BY RECOGNIZED MANUFACTURERS

In order to prevent unscrupulous elements from selling unrefined palm oil in the market and endangering public health, it has been decided that only recognized manufacturers will be allowed to import crude palm oil for further processing and refining. Furthermore, manufacturers who import palm oil in crude form will not be allowed to sell it to non-manufacturers. However commercial importers who have invested in large bulk storages will be allowed to continue importing crude palm oil subject to a safeguard mechanism to be drawn up by FBR.

9.6. IMPORT OF MOBILE TRANSIT MIXTURES/ DUMPERS

Construction companies or oil and gas companies were allowed to import mobile transit mixtures/dumpers. In order to avoid misuse of this facility:

- i) Certification of the Chief Executive of a company of the respective sector, endorsing requirement of the contractor, sub-contractor or service companies shall be required.
- ii) It will be mandatory to register the imported vehicles with the local Registration Authority.
- iii) The vehicles shall be non-transferable.

- iv) Vehicles shall be liable to confiscation in case these are found involved in violation of the above conditions to their importation.

9.7. IMPORT OF USED DUMP TRUCKS

Used dump trucks without age limit and designed for off-highway uses with payload capacity exceeding 5 tons were importable by commercial importers. Construction companies however, could not import these trucks if they were more than 10 years old. The anomaly has now been removed by restricting both categories of importers to the above conditions i.e. of not importing trucks more than 10 years old.

9.8. CFC BASED COMPRESSORS

In compliance with the Montreal Protocol, import of CFC gas based refrigerator and freezing equipments (falling under HS 84.18) are banned. In order to remove any possibility of misuse, import of CFC based compressors has also been banned.

9.9. IMPORT OF STATIC ROAD ROLLERS

Used and old static road rollers not manufactured locally were importable without restriction of capacity and age by commercial importers. In case of a construction company, there were limitations that these should not be older than 10 years and the capacity should not exceed 12 tons.

The anomaly has now been removed by restricting both categories of importers to the above conditions i.e. these Rollers will not be more than 10 years old and also not upto capacity of 12 tons.

9.10. IMPORT OF CNG BUSES FROM INDIA

In case any Indian manufacturer of CNG buses makes a firm commitment to establish manufacturing of such buses in Pakistan, the Ministry of Commerce may provide special dispensation for import of 10 buses by road via Wahga from each possible investor as test consignments.