III. TRADE POLICIES AND PRACTICES BY MEASURE

(1) INTRODUCTION

1. Since its last Trade Policy Review, Pakistan has pursued trade liberalization, albeit unevenly and accompanied by seemingly increased industrial production/export assistance, including in textiles and clothing. Trade openness is directed at promoting private sector investment and export-led growth.

2. Pakistan's main trade policy instrument remains the tariff, an increasingly important source of tax revenue, accounting for about a fifth of the total. Virtually all tariffs (99.4%) are *ad valorem*; for 2007/08 there are 29 different applied rates (seven main bands). Unilateral tariff reductions gave way to "piecemeal" reforms from 2002/03. The simple average applied MFN rate is 14.5%, down from 20.4% in 2001/02, but exceeded slightly the 2005/06 level of 14.4%. Peak *ad valorem* rates have dropped from 250% to 90% and remain focused in alcoholic beverages and automotive items. Tariff escalation and disparities have increased, further compounded by the multitude of input tariff concessions/exemptions. The scope of tariff bindings (now 98.0% of all lines) has risen considerably since 2001/02, thereby promoting market access transparency and predictability. However, as the bound average tariff is some four times the applied level, substantial leeway exists to raise applied tariffs; the authorities increased applied rates on some 600 items in 2006/07 and on a few items in 2007/08 to protect against imports. Pakistan has eliminated all cases noted at the last Review where applied tariff rates exceeded binding commitments (the last one in the 2007/08 Budget). "Regulatory" duties, which provided additional protection for some goods during the period under review, are no longer publicly scrutinized by the National Tariff Commission, whose role in general tariff policy-making has diminished.

3. Pakistan seemingly applies transaction value (c.i.f. price) and WTO customs valuation rules. Minimum values no longer exist, except on imported motor cycle parts under customs "take over" provisions. It acceded to the Revised Kyoto Convention in October 2004. Customs is being reformed and automated with the progressive implementation of the Pakistan Customs Computerized System (PACCS); clearance times have been generally shortened from seven-ten days to under six-eight hours. Enhanced risk management techniques have also lowered physical inspection rates on imports from 100% to 4% (2% on exports). Significant smuggling remains, albeit reduced, partly due to trade restrictions with India. Preshipment inspection is required on a range of used machinery and equipment for health and safety reasons.

4. Import prohibitions and licensing are operated mainly for health, safety, security, religious, and environmental reasons. Imported alcoholic beverages are banned for religious reasons; nevertheless, they are brewed locally for non-Muslims by a private monopoly. The import ban on used machinery and equipment has been relaxed. According to the authorities, imports from Israel (but not exports) remain prohibited but those from India are progressively being allowed. Certain imports eligible for tariff exemptions/concessions require ministerial or other approval, and import quotas apply to some of these goods, e.g. certain chemicals and refrigerated trucks. Recourse to anti-dumping action has increased.

5. The complex tax system, including tariff concessions/exemptions, is used as a major industry policy tool. Domestic sales and excise taxes discriminate against imports in some cases, including favouring local content. Instead of income tax, importers pay income withholding tax of up to 5% (reduced from 6% in the 2007/08 Budget) levied on the import's tax- and tariff-inclusive price, effectively an additional import tax. Import levies fund development boards. The capital value tax levied on imported motor vehicles was merged with the tariff in 2007/08.

6. Production (and/or exports) is assisted by a range of general and sectoral schemes that offer income and other tax exemptions/concessions (e.g. generous taxation of export and farm incomes), direct subsidies (e.g. on freight and research and development grants), concessionary credit, input subsidies (e.g. fertilizers and natural gas), and agricultural price and other domestic support (e.g. wheat and cotton). Generous SBP (State Bank of Pakistan) concessionary finance to exporters, especially of textiles and clothing, has distorted industrial incentives. The remaining deletion programmes on motor vehicles, involving local-content requirements, were replaced by a tariff-based scheme on 1 July 2006. These schemes were designed to promote industrialization and indigenization through lower rates on imported CKD kits than on final products, concessional duties on raw materials not made locally, and qualitative minimum-processing requirements; they also apply to a wide range of other engineering products. Despite divestment, state involvement remains significant. The state-owned Trading Corporation of Pakistan, imports (and exports) major agricultural commodities (e.g. wheat, sugar, and urea), without special privileges, mainly to provide food subsidies to the poor and meet emergency situations. Some state entities have exclusive import rights on certain raw materials at exempt/concessionary tariffs. Transparency and management of government procurement has improved following regulatory and institutional arrangements; price preferences of up to 25% remain, depending on the domestic value-added. Standards increasingly follow international requirements, are seemingly largely applied uniformly to imports and domestic goods, and are main voluntary. SPS arrangements are generally internationally recognized, but their administration may be complicated by the many agencies involved, producing overlapping responsibilities and duplication. Duty drawback arrangements appear to be administratively complex and non-transparent; drawback rates, which are set as a fixed percentage of each product’s f.o.b. value, provide the possibility of over- and under-compensation despite regular adjustments.

7. Export requirements have been eased, although contracts for cotton and urea must be registered. Mandatory minimum export prices were removed on rice in 2003/04 and subsequently on cotton yarn. Minimum value addition is an export requirement for vegetable ghee and cooking oil. While export taxes are prohibited, "regulatory" duties apply to some exports, and exports are also levied income withholding taxes, unified at 1% of the f.o.b. value in 2007/08, as a seemingly concessionary means of taxing export income of more profitable firms, which is income-tax free. A development surcharge of 0.25% f.o.b. is also levied on exports to finance the Export Development Fund. Wheat and fertilizer exports (including urea) are effectively banned, and certain other exports must meet specified conditions. The Export Promotion Bureau has been transformed into the Trade Development Authority, to boost export promotion and improve effectiveness. Export quality inspections remain either compulsory on some goods (e.g. cotton) or encouraged, including by financial inducements, e.g. the freight subsidy scheme terminated in end-July 2007.

8. Pakistan has strengthened protection of intellectual property rights, including enforcement, especially in optical piracy, by acceding to the Paris Convention (2004), creating the Intellectual Property Organization (2005), and including the Federal Investigation Agency in the enforcement of copyright crime (2005). Monopoly oversight remains weak but regulatory and institutional improvements are planned. Consumer protection, mainly a provincial responsibility, is being improved slowly.

(2) MEASURES DIRECTLY AFFECTING IMPORTS

(i) Registration and documentation requirements

9. Importers no longer need to be registered with the Export Promotion Bureau (since 2002/03) nor to use a customs agent, but they must belong to an industry-based trade organization.[1] Both

[1] EIU (2006), p. 17.

importers (and exporters) must have a national tax number and a sales tax registration number. The Single Administrative Document (SAD) replaced ten documents in 2003.[2]

10. Under the Customs Administration Reforms Programme (CARE) introduced in February 2002, the Pakistan Customs Computerized System (PACCS) is replacing the Automated Clearance Procedure (ACP) applied to selective importers from May 2004, to enable full electronic documentation and clearance.[3] Introduced in April 2005 on a pilot basis at the Karachi International Container Terminal (handles about one third of Karachi Port's trade), the PACCS is being extended progressively to the rest of Karachi Port and elsewhere. Its full roll-out, initially planned for June 2007, has slipped; currently 25.2% of imports and 38.3% of exports (30.0% of trade overall) are covered.[4] The steps needed in order to clear vessels have been reduced from 26 to one; the 34 signatures and 62 verifications to declare goods have been replaced with a single electronic declaration; clearance times shortened from 7-10 days to below 6-8 hours[5]; physical cargo inspection rates reduced from 100% to 4% (2% for exports), and port dwell times from 11 to 4 days; and pre-arrival declaration and processing introduced.

11. Pakistan acceded to the Revised Kyoto Convention in October 2004, and, according to authorities, has increased compliance by implementing many of the required changes to customs legislation and administrative practices in PACCS.[6] It complies with 26 standards of the Kyoto General Annex, e.g. provisions on customs computerization, post-clearance audit, fiscal fraud, and alternative dispute resolution systems.[7] Temporary import facilities have improved, including application of the ATA Carnet Istanbul and TIR Conventions in 2005/06.

12. Administrative appeals against duty valuations and other customs decisions can be made to a Customs internal review, and to the Central Board of Revenue (CBR), which appoints a committee to consider the case. Such decisions, including criminal proceedings, can be appealed to the Special Court for customs, taxation, and anti-smuggling, and subsequently to the Appellate Tribunal on Customs, Excise and Sales Tax, the provincial High Court and, in certain situations, the Supreme Court.

13. Despite enhanced anti-smuggling efforts, smuggling is still common, especially of vehicles and components, cloth, bicycles, cooking oil, and vegetable ghee (mainly from India and Afghanistan),

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[2] World Bank (2006b), p. 139.

[3] PACCS comprises the Tariff and Integrated Policy (TARIP) system to provide import and export regulations (including tariff rates), and the Automated Customs Clearance System (ACCESS) system to perform customs functions using an automated risk-management system. The ACP covered importers with annual imports over PRs 30 million (PRs 50 million in January 2005); 10% of declarations were randomly audited, including selective physical inspection.

[4] In October 2006, PACCS was expanded to two other terminals (Pakistan International Container Terminal at Karachi Port, and Qasim International Container Terminal at Port Qasim). It currently covers all FCL (full container load) sea cargo for imports, exports, and transshipment, but is yet to include liquid and LCL (less than container load) sea cargo, air freight, and trade through land routes.

[5] Over 70% of consignments are cleared within one hour (WTO document TN/TF/W/135, 17 July 2006). In early 2006, 25% of imports by value were cleared within one day and 70% within four days (World Bank, 2006b, p. 139). Foodstuffs can take longer due to SPS requirements, but are normally cleared within a week (USDA, 2006, p. 9).

[6] Pakistan is also a signatory of the Nairobi and Istanbul Conventions and is to implement the World Customs Organization (WCO) Framework on Standards to Secure and Facilitate Global Trade. In partnership with U.S. Customs, Pakistan has established an international container cargo control terminal at Port Qasim that complies with WCO and U.S. requirements for safe ports.

[7] In 2004, Pakistan did not comply with 30 provisions of the Kyoto General Annex and ten provisions of the Specific Annex (CBR, 2004a, pp. 49-50).

although, according to authorities, it has fallen sharply due also to trade liberalization (section (2)(v)(a)).

(ii) Tariffs

(a) Policy and general features

14. Unilateral "tops down" tariff reform programmes ended in 2002/03; since then "piecemeal" reforms have mainly prevailed, including extending duty exemptions/concessions. Although lower, the anti-export bias from tariffs and other trade restrictions remains high, favouring import substitution and reducing Pakistan's resource-use efficiency, export competitiveness, and diversification.[8] Pakistan reduced tariffs to zero on a number of items in the 2007/08 Budget[9]; it intends to take further unilateral tariff reforms to eliminate the anti-export bias and to encourage export-led growth.

15. Tariff rates (inscribed in the First Schedule of the Customs Act, 1969) are amended annually at Budget time and approved by Parliament in the Finance Act. The CBR determines annual tariff rates in close collaboration with key ministries, mainly the Ministries of Finance; Commerce; and Industries, Production and Special Initiatives; along with the Engineering Development Board, which conducted the Competitiveness and Efficiency Improvement Exercise for the 2007-08 Budget. This was aimed at rationalizing the tariff by providing sufficient tariff incentives, through cascading, to local industry and foreign investors, while improving competitiveness through facilitation rather than providing "undue" protection.[10] The CBR circulates proposed tariff changes to relevant ministries and departments for comment. It also receives tariff recommendations from the National Tariff Commission (NTC), which conducts public inquiries into tariff assistance, and since 2004/05 has provided annual tariff proposals around April/May (Chapter II). Since the last Review, its role in tariff policy making, including on the imposition of "regulatory" duties, appears to have diminished as its functions in contingency protection have increased. Changes in legislation introduced in 2006/07 allow the Government to raise tariffs during the year by up to 35 percentage points (section 18(5) of the Customs Act).

16. The Government has general authority (section 19, Customs Act) to apply tariff exemptions/concessions, and to add or modify import rules. The Ministry of Finance/CBR issues these as Statutory Regulation Orders (SROs), which are approved by the Economic Coordination Committee of Cabinet. Transparency is being improved by reducing the number of SROs and incorporating these concessions into the tariff.[11] The number of SROs providing tariff concessions has fallen from 35 in 2001/02 to 14 in 2007/08; only three or four are used regularly.

17. Tariff revenue was 19% of government tax receipts in 2005/06, up from 15.3% in 2001/02. This was despite significant tariff reductions, due to substantial import growth associated with economic expansion, and better tariff administration and collections.[12] Most revenue accrues from indirect taxes, especially sales tax (section (4)(i)).

[8] World Bank, 2006b, pp. 125-127.
[9] Government of Pakistan, (2007a), p. 12.
[10] EDB (2007b).
[11] Government of Pakistan (2006c), p. 7.
[12] Government of Pakistan (2006c), p. 8.

(b) Structure

18. The Pakistan Customs Tariff (PCT) is the Harmonized Commodity Description and Coding System at the eight-digit tariff line level; HS07 replaced HS02 (adopted on 1 July 2002) in July 2007.[13] The number of tariff lines rose from 6,803 in 2006/07 to 6,909 in 2007/08 (5,477 in 2001/02), due mainly to splitting existing tariff lines to meet various sector needs. The non-integrated tariff schedule, which is published annually on the CBR website, has only MFN rates.

19. Tariffs remain the main trade policy instrument. Although the simple average (unweighted) MFN tariff in 2007/08 of 14.5% is below the 2001/02 rate, it rose to 15.0% in 2006/07 and still slightly exceeds the 2005/06 level of 14.4% (Table III.1). The rise in 2006/07 was due mainly to the introduction of higher tariffs for some 600 industrial product lines, while the reduction in 2007/08 primarily reflected the introduction of zero rates on 5.8% of tariff lines and reduced or eliminated rates on raw materials, parts, and components used in manufacturing.[14] The 2007/08 Budget also raised tariffs on a number of products, such as poultry meat and welded stainless steel pipes, to protect local industry against surging imports.[15]

Table III.1
Pakistan's tariff structure, 2001/02 and 2004/08
(Per cent)

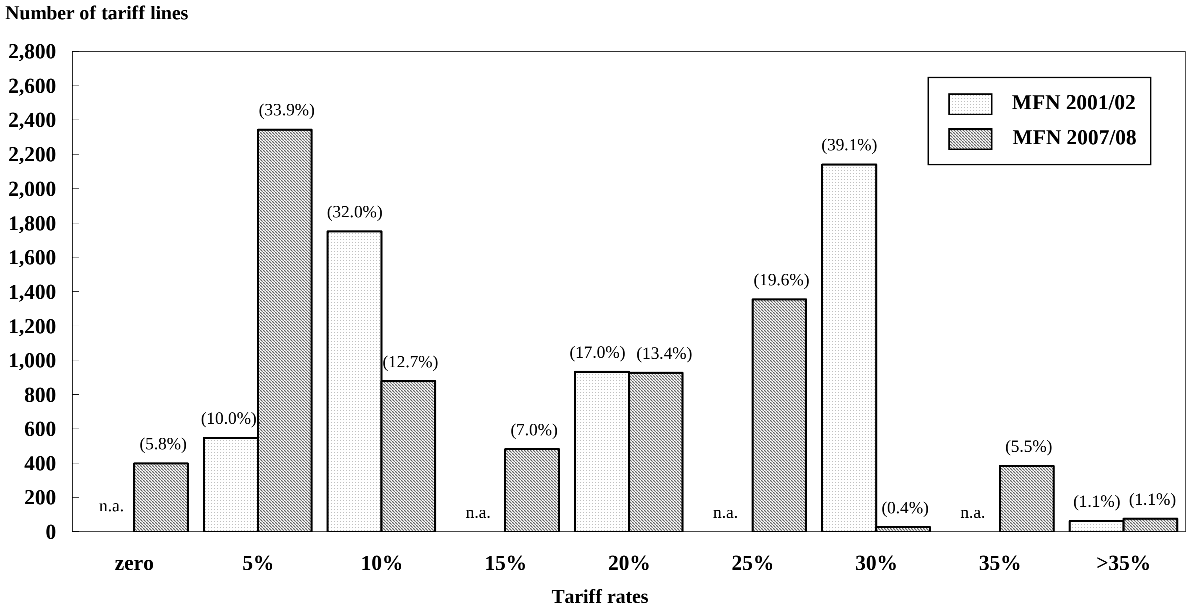
	2001/02	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Final bound[a]**
1. Bound tariff lines (% of all tariff lines)	36.6	..	98.4[b]	98.0	98.0	98.0
2. Simple average applied rate	20.4	16.8	14.4	15.0	14.5	61.3
Agricultural products (HS01-24)	21.8	19.0	15.6	15.4	14.9	95.1
Industrial products (HS25-97)	20.2	16.5	14.2	14.9	14.5	56.6
WTO agricultural products	22.1	19.3	15.7	15.3	14.8	96.1
WTO non-agricultural products	20.1	16.5	14.2	15.0	14.5	56.7
Textiles and clothing	26.4	21.7	18.9	19.4	19.3	24.1
3. Tariff quotas (% of all tariff lines)	0.0	0.0	0.0	0.0	0.0	0.0
4. Domestic tariff "peaks" (% of all tariff lines)[c]	0.9	1.2	1.1	1.0	1.1	0.0
5. International tariff "peaks" (% of all tariff lines)[d]	57.1	52.0	40.1	41.5	40.0	95.1
6. Overall standard deviation of tariff rates	16.0	11.9	11.0	11.3	11.7	22.3
7. Coefficient of variation of tariff rates	0.8	0.7	0.8	0.8	0.8	0.4
8. Duty free tariff lines (% of all tariff lines)	0.0	0.0	0.0	0.0	5.8	0.0
9. Non-*ad valorem* tariffs (% of all tariff lines)	0.9	0.6	0.7	0.7	0.6	0.0
10. Non-*ad valorem* tariffs with no AVEs (% of all tariff lines)	0.9	0.6	0.7	0.7	0.6	0.0
11. Nuisance applied rates (% of all tariff lines)[e]	0.0	0.0	0.0	0.0	0.0	0.0

.. Not available.
a Based on 2006/07 tariff schedule. Implementation of the U.R. was reached in 2004. Calculations on bound averages are based on 6,670 bound tariff lines (representing 98% of total lines), out of which 6,618 (97.2%) are fully bound and 52 (0.8%) are partially bound.
b As of 26 October 2005.
c Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate.
d International tariff peaks are defined as those exceeding 15%.
e Nuisance rates are those greater than zero, but less than or equal to 2%.
Note: Calculations exclude specific rates and include the *ad valorem* part of compound rates. The 2001/02 tariff schedule is based on eight-digit HS96 nomenclature consisting of 5,477 tariff lines; the 2004/05, 2005/06, and 2006/07 tariff schedules are based on HS02 nomenclature consisting, respectively of 6,231, 6,336, and 6,803 tariff lines; the 2007/08 tariff schedule is based on HS07 nomenclature consisting of 6,909 tariff lines.
Source: WTO calculations, based on data provided by the authorities of Pakistan.

[13] In July 2007, Pakistan joined the WTO waiver until end-2007 on the application of GATT Article II to enable GATT Article XXVIII negotiations and consultations with Members on the adoption of HS07 (WTO document WT/L/675/Add.3, 31 July 2007).
[14] These included compressed natural gas (CNG) compressors, paper and paperboard, light engineering products, polystyrenes and their raw materials, and footwear (CBR, 2007).
[15] CBR (2007).

20. The tariff remains relatively complex, with 29 (24 in 2001/02) different rates. In 2007/08, it contained 14 *ad valorem* rates ranging from zero to 90% and 15 specific rates (13 and 9 in 2001/02, respectively). Peak *ad valorem* rates have dropped in recent years from 250% to 90% and are concentrated on a few sensitive items (1.0% of all tariff lines) e.g. rates of either 65%, 75% or 90% on most motor vehicles (increased in 2007/08, see section 2(iv)(a)); 80% on motorcycles (reduced from 90% in 2007/08); and 90% on alcoholic beverages. Seven *ad valorem* rate bands (zero, 5%, 10%, 15%, 20%, 25%, and 35%) account for some 98% of tariff lines, and 99.4% of lines are subject to *ad valorem* rates. Modal tariff rates for 2007/08 are 5% and 25% (Chart III.1). Since 2001/02, average tariffs have declined most on agricultural products, falling continuously (WTO basis) from 22.1% to 14.8% in 2007/08. During this period, the share of items with a tariff of 5% rose substantially (from 10.0% to 33.9%) as did those with rates of 15%, 25% and 35%, while those with rates of 10% and 30% fell sharply (Chart III.2). Average MFN tariffs on non-agricultural products (WTO basis) rose in 2006/07 to 15.0% before falling to 14.5% in 2007/08; the rise was due mainly to an increase in the average for textiles and clothing to 19.4%; this is slightly lower in 2007/08, at 19.3%, but remains well above the non-agricultural average.

Chart III.1
Distribution of MFN tariff rates, 2001/02 and 2007/08

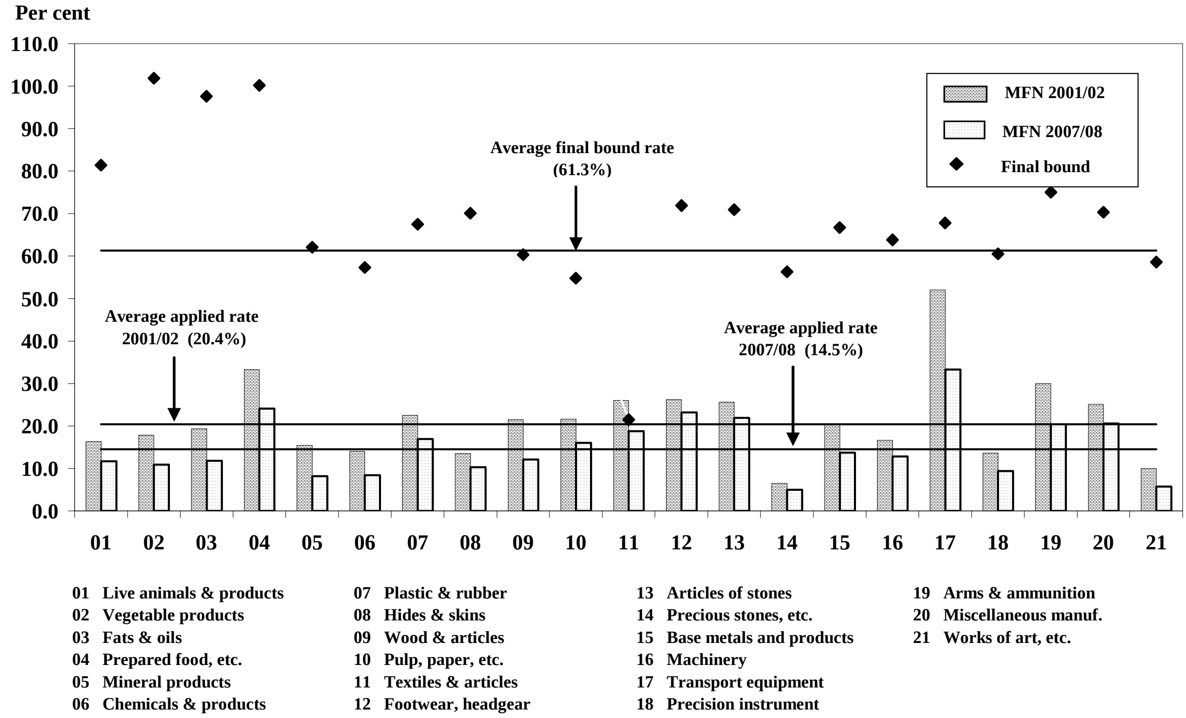


n.a. **Not applicable.**

Note: **Calculations exclude specific rates and include the *ad valorem* part of compound rates. Figures in parentheses denote the share of total lines. The 2001/02 tariff consists of 5,477 tariff lines and the 2007/08 consists of 6,909.**

Source: **WTO Secretariat calculations, based on data provided by the authorities of Pakistan; and Pakistan Customs online information. Viewed at: http://www.cbr.gov.pk/newcu/TARIFF/Tarriff-2007-2008.asp.**

Chart III.2
Average applied MFN and bound tariff rates, by HS section, 2001/02 and 2007/08



Note: Calculations exclude specific rates and include the *ad valorem* part of compound rates. Sections 1, 2, 4, 5, 6, 11 and 17 are not fully bound. Final bound rates are based on 2006/07 tariff schedule.

Source: WTO Secretariat calculations, based on data provided by the authorities of Pakistan; and Pakistan Customs online information. Viewed at: http://www.cbr.gov.pk/newcu/TARIFF/Tarriff-2007-2008.asp.

(c) MFN tariff bindings

21. Pakistan's coverage of tariff bindings rose considerably as from 26 October 2005.[16] Some 97.2% of tariff lines are now fully bound and a further 0.8%, including mainly certain paper and paper products, are partially bound (36.6% of items were bound in 2001/02) (Table III.1). All bindings are *ad valorem*. Unbound items are mainly motor vehicles and parts, alcoholic beverages, mandarins, sorbitel, some seeds, and certain meat and meat products, e.g. some beef and preserved meats. The authorities provided no comments concerning the unbound agricultural items.

22. Ceiling levels mainly exceed applied rates. The final average bound tariff rate of 61.3% is almost four times or 46.8 percentage points higher than the 2007/08 applied level (Chart III.2).[17] This reduces predictability as substantial leeway exists to raise applied tariffs; on average, the gap is highest for agricultural products (bound levels exceed 95%). In 2007, Pakistan eliminated the last of the numerous cases where applied tariff rates exceeded commitments (under the HS02 tariff

[16] WTO documents G/MA/TAR/RS/94, 14 July 2003; G/MA/TAR/RS/94/Add.2, 26 July 2005; and WT/Let/502, 20 November 2005. Pakistan has introduced several rectifications/modifications to its WTO schedule of tariff commitments as a result of bilateral arrangements, mainly in textiles.

[17] This gap is much larger on some agricultural items, e.g. seven tariff lines (cane or beet sugar and chemically pure sucrose, in solid form) under HS code 1701 have an MFN applied rate of 10% and a bound rate of 150%; one tariff line (08029010, Areca betel nuts) is bound at a rate of 200% while the MFN applied rate is 5%; and several other tariff lines have MFN applied and bound rates of 5% and 100%, respectively.

nomenclature) (as noted in its previous Review).[18] The increase of tariff lines resulting from the introduction of the HS07 tariff nomenclature in July 2007 (section (b) above) makes the transposition of Pakistan's existing binding commitments to the new nomenclature urgent; Pakistan has taken no action under GATT Article XXVIII since its last Review. The 2007/08 Budget amended legislation to prevent "regulatory duties" (section (f)) being levied on top of tariffs, which would exceed Pakistan's multilateral commitments (section 18(5) of the Customs Act).

(d) Specific or compound duties

23. Non-*ad valorem* duties apply to 0.6% of tariff lines (0.9% in 2001/02). Most are specific rates (e.g. on betel leaves (PRs 150/kg), certain animal and vegetable oils, including margarine (ranging from PRs 5,000 to 16,600/kg), certain semi-manufactured silver (PRs 120/kg), and gold (PRs 2,500/kg). Compound duties cover certain petroleum (lubricating) oils (PRs 0.88/litre plus 25%). Non-*ad valorem* rates can conceal relatively high protection, especially against cheaper substitutes and/or if world prices are declining, thereby potentially distorting efficiency. The only a*d valorem* equivalents (AVEs) available to the WTO Secretariat covered four HS02 eight-digit items at rates ranging from 32.1% (petroleum oils) to 69.3% (liquid soda); calculations were based on 1999-2001 imports.

(e) MFN tariff dispersion and escalation

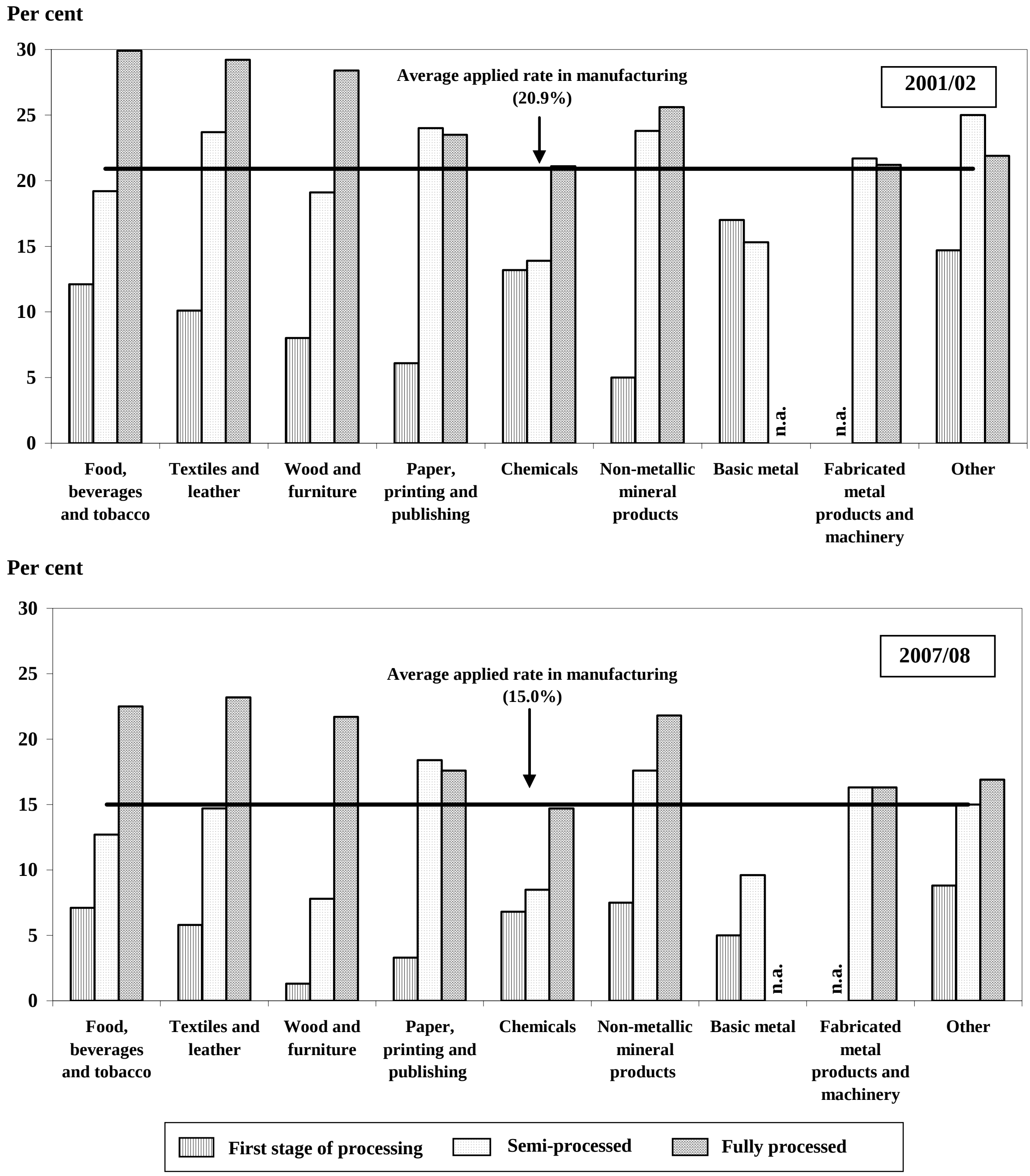
24. Tariff dispersion, as measured by the coefficient of variation, has remained constant during the review period. Maintaining lower duties on industrial plant, machinery, and raw materials than on consumer goods and/or reducing tariffs faster on inputs than on final goods to favour investment and industrial development adds to tariff dispersion.[19] As efficiency losses from tariffs depend on both level and dispersion, wider disparities may undermine the efficiency gains from reduced tariffs. International tariff peaks fell from 57.1% of tariff lines in 2001/02 to 40.0% in 2007/08, while the incidence of domestic tariff peaks increased slightly to 1.1%. Tariff escalation, usually associated with dispersion, remains pronounced and a "guiding principle" of tariff policy; primary raw materials are generally dutiable at tariffs of 0-5%, intermediate inputs and components at 5-10% and finished goods at 20-25% (Chart III.3).[20] Including input concessions would increase tariff dispersion/escalation.

[18] In 2001/02, applied tariff rates on 91 eight-digit HS items (mostly textiles and clothing) exceeded their bound levels by up to 17 percentage points (WTO, 2002, p. 31). The 2007/08 Budget reduced the MFN applied rate on aluminium waste and scrap – auto-parts (HS 7602.00.10) from 35% to the bound level of 30%.

[19] Government of Pakistan (2006c), p. 7.

[20] CBR (2007).

Chart III.3
Tariff escalation by 2-digit ISIC industry, 2001/02 and 2007/08



n.a. Not applicable.

Note: Calculations exclude specific rates and include the *ad valorem* part of compound rates.

Source: WTO Secretariat calculations, based on data provided by the authorities of Pakistan; and Pakistan Customs online information. Viewed at: http://www.cbr.gov.pk/newcu/TARIFF/Tarriff-2007-2008.asp.

(f) Regulatory duties

25. "Regulatory duties" of up to 100% may be imposed on specified imports in addition to tariffs and "special" duties (Customs Act, section 18(3)). They are issued in SROs by the CBR and are not included in the tariff schedule (not hence, the Secretariat's tariff analysis). Regulatory duties were being phased out at the time of the previous Review, but are still imposed periodically under "certain peculiar and compelling circumstances". The maximum duration of one year was removed in the 2005/06 Budget.[21] While no regulatory duties on imports are currently in force, seven SROs imposing regulatory duties were issued during the Review period. For example, duties of 5% were levied on raw and white crystalline sugar (both beet and cane) in October 2006, and on emamectin benzoate in January 2007; and duties of 5% and 15% were levied on fixed wireless terminals and certain pharmaceuticals respectively, in November 2006.[22] The removal in 2005/06 of the legislative requirement for these duties to be imposed subject to NTC recommendations was aimed at providing greater flexibility in using them; however, it has reduced their transparency and public scrutiny.

(g) Concessions and exemptions

26. In addition to general powers to exempt tariffs, the Government can repay all or part of the tariffs paid on imported inputs used in exports or by firms/organizations declared entitled to import at concessionary rates (Customs Act, section 21).

27. While the number of authorizing SROs has been consolidated, tariff concessions/exemptions remain a widely used industrial policy instrument to promote investment, industrialization, and exports (section 3(v) and Table AIII.1). Further tax concessions were introduced in 2006, especially on tariffs.[23] Various exemptions/concessions, including for designated/authorized persons, were superseded by an expanded list in June 2006 (Table AIII.2).[24] Many exemptions/concessions are also directed at end use, covering specific activities (e.g. only phosphatic fertilizer manufacturers may import phosphoric acid tariff exempt), or users, especially manufacturers-cum-importers, though conditions are often attached, such as minimum in-house production facilities (Tables AIII.1, AIII.2 and AIII.3). Some are firm specific (including state-owned entities), time bound or applied retrospectively, usually to rectify errors in the tariff, the Customs notifications or occasionally to comply with court decisions (section (vi)).[25] Most exemptions/concessions are on imported inputs (raw materials, plant and equipment), and often require that these inputs are not produced locally, in order to maintain protection for local producers, but final goods are also covered. Exemptions/concessions were extended and deepened in the 2007/08 Budget to assist manufacturing as part of the Government's "Second Generation" tariff reforms.

28. Some 26% of tariff lines covering four SROs were subject to tariff concessions (sections 19 and 21) in 2006/07.[26] Revenue forgone from tariff exemptions/concessions, including refunds and rebates, totalled PRs 53.7 billion in 2005/06, up from PRs 19.4 billion in 2001/02. The average tariff collection rate of 9.2% in 2005/06, although higher than in 2001/02 (8.3%), remained well below the

[21] Previously any SRO notification would expire at the end of the financial year in which it was issued unless rescinded earlier (section (18(2)).

[22] Customs Notifications SRO No. 1074(I)2006, No. 1089(I)2006, and No. 44(I)/2007.

[23] Government of Pakistan (2006a), p. 25.

[24] Customs Notification SRO No. 655(I)/2006, No. 567(I)/2006; and No. 575(I)2006; and Government of Pakistan (2006c), p. 7.

[25] For example, only the private company M/s Pakistan PTA Ltd can import paraxylene and acetic acid duty free to make pure terephthalic acid until end-June 2008.

[26] Customs Notifications SRO No. 565(I)2006, No. 567(I)/2006, No. 575(I)2006, and No. 693(I)2006.

average (unweighted) tariff in 2005/06 of 14.4%. This reflected mainly the widespread use of tariff exemptions/concessions, and non-collection of customs duties.

29. It is difficult to understand which concessions/exemptions still operate and to assess their incidence: the extent to which new exemptions/concessions extend, replace or duplicate previous ones is often unclear. While SROs on exemptions/concessions are published in the official *Gazette* and simultaneously posted on the CBR website, no integrated schedule or publication of current concessions/exemptions exists. Their wide use makes the tariff regime complex and less transparent. By altering the structure of tariff incentives unpredictably, with uncertain effects on resource allocation, these concessions/exemptions may potentially counteract economic efficiency, for example, by raising tariff escalation and increasing/widening effective rates of protection.

(h) Tariff preferences and rules of origin

Preferences

30. Pakistan increasingly grants preferential tariffs on imports under trade agreements and unilateral schemes (Chapter II). The authorities provided no data on the share of imports entering at preferential rates, but indicated this would rise as existing and new trade agreements are phased in and tariff concessions deepened. This report does not cover preferential duties in its tariff analysis since these were unavailable, either in an integrated electronic tariff schedule or the published customs tariff. Preferential tariff margins and product coverage vary widely across agreements/schemes.

Rules of origin

31. Preferential rules of origin exist under bilateral/plurilateral trade agreements and unilateral schemes (Table III.2). They incorporate various value addition and change in tariff classification criteria, as well as usually providing for product-specific rules. Pakistan intends to introduce non-preferential rules of origin in the Import Policy Order.

Table III.2
Preferential rules of origin and tariffs in trade agreements, 2007

Trade agreement	Wholly produced or obtained	Minimum value addition	Cumulation rules	Product specific rules	Maximum tariffs/tariff margins
South Asian Association for Regional Cooperation	Yes[a]	40% of f.o.b.; 30% for LDCs; 35% for Sri Lanka[b]	Minimum aggregate originating content of 50% f.o.b.[c]	Yes[d]	Maximum 20% by 2008 (5% by 2009 on LDC imports); maximum 5% by 2013
Organization of Islamic Conference	Yes[a]	40% of f.o.b.; 30% for LDCs	Minimum aggregate originating content of 60% of f.o.b.; 50% for LDCs	Possible in accordance with negotiated sectoral agreements	Maximum tariffs of 25%, 15% and 10% on certain items; fast-track programme to raise margins of preference to 50%
Group of Developing Eight Countries	Being drafted	Being drafted	Being drafted	Being drafted	Maximum 10% on certain items
Economic Cooperation Organization	Yes[a]	40% of f.o.b.	Minimum aggregate originating content of 60% of f.o.b.	Possible in accordance with negotiated sectoral agreements	Maximum 10% by 2009

Table III.2 (cont'd)

Trade agreement	Wholly produced or obtained	Minimum value addition	Cumulation rules	Product specific rules	Maximum tariffs/tariff margins
Pakistan-Sri Lanka FTA	Yes[a]	35% of f.o.b.[e]	Minimum value addition of 25% in exporting country[f]	None	Tariffs phased out on most goods by June 2008
Pakistan-China FTA	Yes[g]	40% of f.o.b.	Minimum value addition of 25% in exporting country[h]	None	Tariffs phased out on many goods and maximum 50% margins of preference on others by 2012
Pakistan-Malaysia PTA (Early Harvest programme)[i]	Yes[g]	40% of f.o.b.	Minimum value addition of 25% in exporting country[h]	Certain textiles and jewellery[j]	Tariffs of 5% eliminated and 50% margin of preference on 10% duties for a few goods
Pakistan-Iran PTA	Yes	..	..	..	Margins of preference mainly of 10% and 30%
Pakistan-Mauritius PTA	Yes	..	..	..	Margins of preference of mainly 50% extended to 100% after one year on selected goods
Global System of Trade Preferences	Yes[a]	50% of f.o.b.; 40% for LDCs[e]	Minimum total value addition of 60%; 50% for LDCs	Negotiable	Margins of preference of from 40% to 65%

.. Not available.

a Fish caught in high seas must be in vessel registered in member country and operated by its citizens or an entity with domestic equity (including state) of 65%, or 75% equity of all members.
b Final good must be classified to different tariff heading (4-digit HS) than all non-originating material inputs.
c Also, must be minimum domestic minimum domestic value content (value of inputs originating in the exporting member plus domestic value addition in the exporting member) of 20% of f.o.b. value, and meet change in tariff classification requirements.
d Generally require lower minimum value addition of mainly 30% or 40% and change in 6-digit HS classification.
e Final good must be in a different 6-digit tariff classification than all non-originating material inputs.
f Minimum total value addition in two countries of 35%.
g Fish caught in high seas must be in vessels registered in member or entitled to fly its flag.
h Minimum value addition in two countries of 40%.
i EHP rules to be replaced under FTA.
j Based on change in 4-digit tariff classification (spinning, weaving, bleaching, dyeing, printing and finishing sufficient transformation to be originating goods).

Source: Compiled by WTO Secretariat.

(i) Tariff quotas

32. Pakistan has no MFN tariff quotas. However, quotas on imports of certain goods eligible for tariff exemptions/concessions operate effectively as tariff quotas. For example, new and used concrete-mixer lorries eligible for the 5% concessionary rate are limited to an all-up quota of 2,500 units, allocated on a "first come first served" basis; it is substantially under-utilized (Table AIII.2). There are bilateral tariff quotas on tea, betel nuts, and certain clothing with Sri Lanka, and reportedly on certain textile products with Mauritius under respective FTAs (Chapter II).

(iii) Customs valuation, minimum import prices and preshipment inspection

33. Pakistan legislated WTO customs valuation rules in 2000 (section 25, Customs Act). Transaction value is used, followed sequentially by other WTO methods. Until June 2002, Customs checked declared values during transition using a previously constructed valuation data base; this

practice was discarded amid allegations that these constructed valuations were often applied.[27] Customs currently maintains reference prices only to check authenticity of declared values. However, transaction value reportedly applies to only some 90-95% of imports and is used unevenly on food and consumer goods.[28] Customs has used its "take over" legislation introduced in 2006 to determine customs values of targeted goods to guard against rampart fraudulent under-invoicing. These provisions allow Customs to "take over" (enforced purchase) specified imported goods where another person offers a "substantially" higher value (20% or more) than the importer's declared customs value (section 25A, Customs Act).[29] If the importer does not agree to raise the declared value to this offer, Customs "takes over" the goods and sells them to the local bidder, paying the importer his declared value plus 5%.[30] Customs has "taken over" only one import consignment, of motor cycle parts. Customs values set for these goods have been reviewed with input from the Engineering Development Board and the Association of Pakistan Motorcycle Assemblers.[31]

34. Special customs valuation procedures apply to motor vehicles. Their c.i.f. price is constructed from f.o.b. values supplied by local agents of foreign manufacturers plus the local agent's commission and other incidental charges, freight to Pakistan provided by the shipping lines, insurance (where unavailable at a rate of 1% of the C&F value) and landing charges (1% of c.i.f. value).[32] Used vehicles of up to three years old (five years old until the 2006/07 Budget) can only be imported by Pakistani nationals once every two years either as personal baggage, transfer of residence, or gift, and are depreciated monthly at 2%, up to 50%. "Special" provisions enabling payment of a lump sum specific duty, covering tariffs and other taxes (sales tax, income withholding tax, and capital value-added tax) based on engine capacity up to 1,800 cc (Asian makes only) apply to imported used cars.[33] Used non-Asian cars with engine capacities above 1,601 cc and Asian cars with engines above 1,800 cc are taxed normally as for new cars and levied *ad valorem* tariffs and domestic taxes separately, according to engine capacity.

35. Pakistan has preshipment inspection requirements on a wide range of allowable imports of second-hand goods (e.g. plant, machinery, equipment, and apparatus) by an authorized agency to certify age and workability, mainly for health and safety reasons (section (2)(v)).[34]

(iv) Other levies, charges and taxes

(a) Domestic taxes

36. While, with some important exceptions, domestic taxes (sales, excise, and income withholding taxes) apply at the same rate on domestic and imported products and may not generally discriminate against imports, any assessment is made difficult by their non-transparency and

[27] CBR (2003c), p. 54.

[28] USTR (2007a), pp. 441-442.

[29] Cosmetics and toiletries; floor coverings and sheets; self-adhesive tape; coated abrasive and bonded abrasive paper; motor cycles; auto-parts; soap; polyester yarn; fabrics; air conditioners; and soda ash (CBR, 2003c).

[30] The bidder must provide a pay order of 25% of the offer (plus tariffs and other duties), which is forfeited if the sale fails. The goods are then released to the original importer at the declared value.

[31] EDB (2006), p. 16.

[32] On the rare occasion that domestic models are imported the certified f.o.b. value of a similar export model uplifted by 5% of its C&F price is used as the basic c.i.f. price on which to add the other components.[0]

[33] The combined specific duty ranges from US$4,000 (Asian makes with engines up to 800 cc) and US$6,000 (for non-Asian makes up to 800 cc) to US$21,000 for Asian makes with engine capacity from 1,601 cc to 1,800 cc, or the equivalent in PRs.

[34] Authorized inspection firms are Lloyds of London, Quality Tech LLC, ABS, Bureau Veritas, SGS and IMTECH (Trade Policy 2006-07, Part A, IPO 2006-07, Appendix H).

complexity, including in how they are administered differently on imports. Thus, such taxes may have broader discriminatory effects on imports (section (4)(i)).

Capital value tax (CVT)

37. The capital value tax (CVT), levied only on imported motor vehicles (excluding hire cars and three wheelers), including used vehicles, was merged with the tariff in June 2007, thereby raising tariffs on cars with engines above 800 cc by either 5, 10 or 15 percentage points depending on engine capacity.[35] The CVT on foreign travel air tickets (1.5% of value) was eliminated in 2006.

(b) Other

38. Changes to the Customs Act (section 18D) in the 2007/08 Budget allows fees and charges to be levied on imports for services, such as examination, scanning, and inspection; the legislation does not specify that these charges and fees are to be on a cost recovery basis. A maximum fee of US$50 (0.5% of the value if lower) is payable on the invoiced value of tea imports from Kenya, for the attestation of certificates of origin by the Pakistan High Commission in Nairobi and, according to the authorities, to cover the service costs of verification of quality for valuation purposes (Import Policy Order). While the *ad valorem* alternative duty may not seem to represent the approximate cost of services rendered, the fee is capped at a relatively low level. The authorities indicated that a revenue surcharge of 1%, announced in the 2007/08 Budget, was not implemented; it was to be levied on all imports, except mainly vegetables and pulses, edible oils and ghee, crude petroleum, medicines and fertilizers.[36]

39. Revenue from cesses of PRs. 0.05 per kg on imported edible oils and 10% of the tariff collected on oilseeds imported for crushing purposes (Chapter IV) are used to find the Pakistan Oilseed Development Board.

(v) Import prohibitions, quotas, restrictions, and licensing

40. The Government can prohibit or restrict imports by notification (Customs Act, section 16), and ban imports from all or any source if deemed in the "public interest" (Import Policy Order 2006, section 19). Such measures are contained in the Ministry of Commerce's annual Import Policy Order (Part-A, Trade Policy). All goods are freely imported, subject to tariffs and other taxes, unless included in prohibited (Appendices A and B) or restrictive (Appendix C) lists.

41. The 2006-07 Trade Policy changed several import rules, including allowing: government organizations to import directly, without recourse to the Ministry of Commerce, provided they have foreign exchange from the Ministry of Finance; public and private limited companies to import new or used aircraft, subject to relevant licensing formalities; and research laboratories and educational institutions to import acetone, sulphuric acid, and hydrochloric acid after obtaining a "no-objection" certificate (NOC) from the Ministry of Narcotics Control (previously allowed for industrial firms only). Specialized sporting clubs and associations may now import guns, parts, and slugs, subject to

[35] CBR (2007). The CVT rose progressively from 3.75% of the tax- and tariff-inclusive price for cars with engines above 800cc to 7.5% with engines of 1,600 cc and over. It was greater on non-Asian small vehicles (US$6,000), and the top amount for vehicles with engines from 1,601 to 1,800 cc applied only to Asian vehicles, excluding jeeps. The tariff analysis in this report excludes these duty increases on motor vehicles as a result of the inclusion of the CVT with the tariff. The new tariff rates are 55% for vehicles with engine capacities from 800 to 1,000cc; 60% from 1,000 to 1,500cc; 75% from 1,500 to 1,800cc; and 90% for larger engine vehicles up to 3,000cc.

[36] CBR (2007).

notified procedures, and pharmaceutical raw materials may be imported provided they conform to the Drugs Imports and Exports Rules 1976. Palm stearin may be imported subject to certain technical standards.[37] The Government has continued to relax import restrictions on second-hand plant and equipment, including in the 2006-07 Budget.

(a) Prohibitions

42. Pakistan continues to ban imports of a range of items, mainly for health, safety, security, religious, and environmental reasons (e.g. under the Montreal and Basle Conventions).[38] Imports of alcoholic beverages, and re-treaded and used pneumatic tyres also remain banned.[39] Since the last Review of Pakistan, the ban on imported iron and steel waste and scrap has been relaxed and that on cotton waste lifted. While second-hand machinery was also removed from the prohibitive list, imports of a wide range of used plant and equipment remain prohibited (Table AIII.4). Imports of used equipment are subject to pre-shipment inspection, by authorized companies, to be certified in good working order and ten years old or less. Construction, mining, oil, gas, and petroleum industries may import second-hand plant, machinery, and equipment (and used or re-conditioned parts), including of specified machinery and specialized vehicles (Import Policy Order), provided construction companies are registered with the Pakistan Engineering Council (from 2007/08).[40]

43. Pakistan bans all imports from Israel, and restricts imports from India according to a steadily increasing positive list that currently covers 1,077 eight-digit HS codes (over 600 in mid 2000).[41] A further 1,000 tariff items of raw materials not made in Pakistan can be imported from India for use in exports (since 2002). Pakistan's policy is to gradually open trade with India, particularly in products where it is uncompetitive, especially for inputs[42]; however, the authorities are concerned that unless India removes its non-tariff barriers, this could worsen Pakistan's trade balance with India. The authorities indicate that extending MFN status to India is being considered, as this could reportedly raise bilateral trade to US$2-4 billion; it is supported by the private sector, which does not believe it would threaten Pakistani industries.[43] Informal/smuggled trade between the two countries, either directly, through Afghanistan, or re-routed through third country ports, mainly Dubai and Singapore, is estimated at US$500 million annually (mainly cloth, textiles, pharmaceuticals, machinery, cosmetics, jewellery, and tyres) (Chapter II).[44]

44. Imports of rough diamonds from Cote d'Ivoire were banned in January 2007.[45] While no specific imports from Afghanistan are prohibited, a negative list prevents certain imports by

[37] EIU (2006), p. 67.

[38] The Montreal Protocol on Substances that Deplete the Ozone Layer, and the Basel Convention on the Control of Transboundary Movement of Hazardous Wastes and their Disposal. Imports of most ozone depleting substances are to be phased out progressively by 2010, 2015 or 2040.

[39] The domestic brewery producing for the non-Muslim market is a private monopoly, and alcoholic beverages cannot be sold freely in Pakistan.

[40] This was introduced to ensure that only genuine construction companies imported second-hand machinery and equipment. The 2007/08 Budget also extended this permission to commercial importers of such goods (except for dump trucks and concrete-mixer lorries) on behalf of construction companies registered with the Pakistan Engineering Council, as well as mining and petroleum firms, subject to the same pre-shipment inspection requirements.

[41] Import Policy Order, Appendix G, and SRO No. 1100(I)/2006, 3 November 2006. While India granted Pakistan MFN treatment in 1995/96 Pakistan has not reciprocated.

[42] SBP (2006d), Chapter 2, p. 17.

[43] Ministry of Industries, Production and Special Incentives (2005), p. 153; SBP (2006d), Chapter 2, p. 24.

[44] World Bank (2007b).

[45] Notification SRO No. 1/2007.

Afghanistan from transiting through Pakistan, so as to discourage the smuggling of these goods back into Pakistan.[46]

(b) Restrictions and licensing

45. Certain imports are restricted unless they meet specified conditions, such as prior approval or clearance, passing certain testing arrangements, or satisfying procedural requirements (Import Policy Order, Appendix B). While these are mainly for health, safety, security, and environmental reasons (covering many imported second-hand specialized vehicles, ships, trawlers, aircraft and related parts, and equipment), this does not always seem to be the case e.g. for motor vehicles and the oil and gas sector (Table AIII.5).[47] Certain goods may be imported only by the public sector or industrial consumers (e.g. active ingredients for formulation/manufacturing pesticides). The requirement for prior approval from the Ministry of Petroleum and Natural Resources to import light, mineral, and base oils was removed in 2002/03. The 2007/08 Budget allowed imports, for own use, of prime movers of 380 horsepower and above, up to four years old (initially only in 2007/08), by registered transport companies and established fleet operators with at least 25 prime movers, subject to the imported movers being EURO-III compliant.[48] Imports of waste, parings, and scrap of polyethylene and polypropylene, previously allowed to industrial users subject to certification from the exporting company and by the Pakistan Council for Scientific and Industrial Research (PCSIR) as being hazard free, must (from 2007/08) be covered by mandatory certification in the exporting country or by a specialized preshipment inspection company; the PCSIR is no longer involved due to its inability to certify the hazard-free status of imports.

46. Imports of certain goods eligible for tariff exemptions/concessions require ministerial or other approval (Tables AIII.2 and AIII.3). For example, the Ministry of Health must approve specified finished pharmaceuticals, and packing and raw materials for in-house manufacture of certain pharmaceutical substances to be imported at concessionary tariff rates; and the Ministry of Food, Agriculture and Livestock must certify duty-free imports of wheat flour, and approve manufacturers or formulators of agricultural insecticides permitted to import at concessionary/exempt tariffs. The Economic Coordination Committee of Cabinet can authorize a plant to be eligible for concessionary tariffs. These concessionary arrangements may operate as a type of import licensing regime.

47. Pakistan has not submitted replies to the WTO Questionnaire on Import Licensing Procedures since its last Review. The authorities indicate that this is because Pakistan no longer operates an import licensing system.

(c) Quantitative restrictions

48. Certain imports (e.g. ozone-depleting substances, certain chemicals) are subject to quantitative limits set on a domestic needs basis or by the CBR in consultation with competent government agencies (Table AIII.5). There is a quota of 1,500 units for imports of used refrigerated lorries not older than ten years for 2006-07.[49]

[46] This list has been reduced to cigarettes and auto parts (cooking oil is now excluded).

[47] Imports of CKD kits for motorcycles and motor vehicles are limited to registered assemblers.

[48] Each import order must be of at least ten prime movers and the importers cannot dispose of the vehicles until after five years.

[49] Trade Policy 2006-07, Part A, Import Policy Order, Appendix C, p. 45. Viewed at: http://www.epb.gov.pk/v1/tradepolicy/pdf/0775-31072006-ipo.pdf [11 October 2007].

(vi) State trading

49. Despite on-going efforts to reduce its involvement in the economy, the State participates in a wide range of trade and/or trade-related activities (section (4)(iii)). The Government and numerous state-run corporations are major importers. The authorities did not provide data on the Government's share of total imports, including those by SOEs. Pakistan last notified the WTO in 2003 that it had no state-trading enterprises within the meaning of Article XVII:4(a) of the GATT 1994; it also noted that existing state firms are not granted any exclusive or special rights (including statutory or constitutional powers) allowing them to influence the level and/or direction of foreign trade.[50]

50. The state-owned Trading Corporation of Pakistan (TCP), the Government's trading house, imports essential commodities for non-profit, socio-political reasons under directives from the Economic Coordination Committee (ECC) of Cabinet (and exports agricultural goods produced by public-sector corporations and agencies). The TCP has no import monopoly or exclusive trading rights, and pays full taxes and tariffs on imports. It mainly sells imported urea to fertilizer manufacturers, but also imports other crops, especially wheat and sugar, and periodically pulses (daal), when in short supply.[51] Imports are sold by the TCP and the state-owned Utility Stores Corporation (USC) at subsidized prices to lower income households. Consumption subsidies, almost totally on sugar, totalled PRs 65.5 billion in 2005/06 (forecast at PRs 85.7 billion in 2006/07). TCP plans to import up to 500,000 tonnes of sugar in 2006/07 and to sell a monthly quota of 32,000 tonnes through the USC at subsidized prices. The USC is also required to maintain strategic sugar reserves of 500,000 tonnes. The ECC of Cabinet has instigated a review of stocks and commodity prices, including for sugar and pulses.

51. While most exemptions or concessions are available to private firms and SOEs, several SOEs benefit, exclusively, from tariff exemptions/concessions. Pakistan Steel Mill, which operates as a private company, can import iron ores and "concentrates non-agglomerated" duty free.

(vii) Government procurement

52. Pakistan is not a signatory or observer to the Plurilateral WTO Agreement on Government Procurement and does not currently have plans to join; it has not participated in the work of the Working Group on Transparency in Government Procurement. In June 2004, Pakistan reformed the public procurement practices for its federal ministries and agencies (including autonomous and semi-autonomous bodies under their administrative control) in the light of perceptions of political influence in procurement, official corruption, and long delays. They must conduct procurement efficiently and economically in a "fair and transparent manner" to achieve "value for money" and giving equal opportunity to bidders (Presidential Ordinance, 2002, section 4). The Public Procurement Regulatory Authority (PPRA), established in May 2002 as a permanent statutory body, regulates public procurement of goods and services, including construction works.[52] It provides a code of ethics on public procurement and recommends new or revised laws, policies, and procedures, with particular emphasis on improving governance, transparency, accountability, and quality of public procurement (Presidential Ordinance, section 5). According to the authorities, Pakistan's current government procurement framework is based upon international best practice aimed at eliminating corruption, improving transparency, reducing delays, and enhancing accountability.

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[50] WTO document G/STR/N/9/PAK, 7 July 2003.

[51] In 2005/06, TCP sugar and urea imports totalled PRs 26.8 billion (US$447 million), equivalent to about 2% of Pakistan's total merchandise imports.

[52] The Ordinance was amended in 2006 to exclude privatized entities from its purview, including the Pakistan Telecommunications Company limited (PTCL).

53. The principal procurement method, open competitive bidding, is used for all contracts above PRs 100,000 (or PRs 500,000 in some cases). Procurement contracts generally from PRs 0.1 to 2.0 million must be advertised on the PPRA website, and if higher also in national newspapers. Pre-qualification of bidders must be based on ability to perform satisfactorily. Direct and negotiated contracting are permitted subject to prescribed conditions; direct tendering is allowed when no advantage is envisaged from competitive bidding or where proprietary rights are involved. Legislative amendments in 2006 allowed direct tendering when the Government or any authority "fixes the price of goods, services or works" or when buying "motor vehicles from local original manufacturers at manufacturer's prices" (section 42(c)). In these cases competitive bidding is considered unnecessary as prices are either fixed or known. These changes may advantage domestic, including resident foreign, suppliers relative to firms located overseas.

54. Bidding is open to any nationality, unless limited to national bidders; and certain nationalities are prohibited by government policy (section 24). Procuring agencies must provide domestic (including foreign) suppliers price preferences where this is government policy. Price preferences of up to 25% remain on all government purchases depending on domestic value added content; the maximum preference requires at least 30% domestic value added.

55. Provincial governments handle their own procurement, and are not subject to PPRA authority or regulations. However, they are establishing similar authorities to regulate their own procurement. Two have already adopted the Federal Government framework and others are expected to follow.

56. Pakistan's total government procurement market for goods and services was estimated at PRs 366.1 billion (US$6.3 billion) in 200/01.[53] The authorities did not provide updated figures nor and indication of the share of federal procurement covered by the PPRA.

(viii) Local-content requirements and indigenization programmes

57. Since its last Review, Pakistan has eliminated the "voluntary" Indigenization/Deletion Programme that provided incentives by way of duty concessions on prescribed imported components and parts used to assemble and manufacture engineering goods, electrical items, automobiles (cars, tractors, motor cycles, commercial vehicles, and buses), subject to meeting deletion lists.[54] While 86 plans covering machinery and domestic appliances were removed by end 2003, a further 16 for the motor vehicle industry were not repealed until replaced by a tariff-based scheme on 1 July 2006 (Chapter IV).[55]

58. A number of excise tax concessions favour local content (section 4(i)).[56] Aerated waters made wholly from indigenous juices of fruits, vegetables, and food grains that contain no other local or imported ingredient (except sugar, colouring materials, preservatives or additives) are taxed at 10% of the retail price instead of 12%. Non-aerated beverage concentrates used to make non-aerated

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[53] WTO (2002), p. 54.

[54] The only remaining deletion programme, on exports of arms and ammunition, is proposed for elimination in consultation with the Ministries of Defense and Interior.

[55] In light of the programme's inconsistency with the WTO Agreement on Trade-Related Investment Measures (TRIMs), Members granted Pakistan several extensions to eliminate these schemes, the last until end 2003. Pakistan's request for another extension until end 2006 to eliminate the motor vehicle plans, due to developmental, financial, and trade needs, was subsequently withdrawn in May 2006 since the schemes were being eliminated (WTO documents G/C/W478, 22 December 2003, and G/C/M/83, 1 May 2006).

[56] Federal Excise Act, 2005, First and Third Schedules (Table I). Viewed at: http://www.cbr.gov.pk/newce/FEActandRules/2005/Federal%20Excise%20Act%202005updateduptoJune2007.pdf [11 October 2007].

waters wholly from the same ingredients are exempt from the 50% excise tax. Crude vegetable oil (excluding cooking oil) obtained from locally grown seeds is exempt from the 15% excise tax.

59. Indigenization requirements still encourage industrialization. These are generally implemented by the Ministry of Industries, Production and Special Initiatives, in conjunction with the Engineering Development Board (EDB), which has an Indigenization Committee. Indigenization of motor vehicles and components is encouraged by the tariff-based plan and concessionary tariff arrangements (Chapter IV). Manufacturers of air conditioners, refrigerators, and visicoolers; deep freezers and coolers; and washing machines that meet minimum qualitative processing requirements may import specified raw materials, components, and assemblies that are not produced locally, at concessionary/exempt tariffs (Table AIII.3). The EDB must also recommend and/or approve concessionary imports for in-house manufacture of a wide range of plant, machinery, and equipment.

(ix) Contingency measures

60. The National Tariff Commission (NTC) conducts anti-dumping, countervailing, and safeguards investigations.[57] The Appellate Tribunal, formed in March 2003 and terminated six months later, heard appeals against anti-dumping and countervailing decisions. The Government intends to re-establish an Appellate Tribunal. In addition, parties can appeal to the High Court and subsequently, the Supreme Court against imposition of anti-dumping, countervailing, and safeguard actions. Pakistan has taken no countervailing or safeguard actions. The only NTC safeguards investigation, on footwear imports from all sources, was terminated in August 2005.[58] It has conducted 24 anti-dumping investigations and imposed 19 measures since July 2002. Pakistan began applying anti-dumping measures in July 2002 (tin plate from South Africa), and took action on two more products in 2007 (Chinese ceramic tiles and polyester staple fibre imported from Indonesia, Korea, and Thailand) (Table III.3). At end-June 2007, Pakistan had definitive anti-dumping duties on eleven products from thirteen countries. The anti-dumping duties on tin plate from South Africa, which expired in July 2007, were re-newed.[59]

Table III.3
Anti-dumping actions, as at July 2007

	Product	Initiation	Provisional measures	Final measures	Dumped imports as % domestic consumption
A. For six months ending June 2007					
China	Ceramic tiles	27.03.06	30.11.06 of 0-21.02%	30.03.07 of 14.85-23.65%	33.00
Indonesia	Polyester staple fibre	09.08.06	09.02.07 of 0-8.33%	07.06.07 of 0-10.26%	9.43
Korea, Rep. of	Polyester staple fibre	09.08.06	09.02.07 of 0-8.33%	07.06.07 of 0-10.26% 07.06.06 price undertaking of 6.92%	9.43
Thailand	Polyester staple fibre	09.08.06	09.02.07 of 0-8.33%	07.06.07 of 0-10.26%	9.43

Table III.3 (cont'd)

[57] The respective legislation is the Anti-Dumping Ordinance 2000 and Anti-Dumping Duties Rules, 2001; Countervailing Duties Ordinance 2001 and the Countervailing Duties Rules, 2002; and the Safeguard Measures Ordinance 2002 and the Safeguard Measures Rules, 2003.

[58] WTO document G/SG/N/9/PAK/1, 4 October 2005.

[59] WTO document G/ADP/N/161, 11 September 2007.

	Product	Imposition	Period
B. Outstanding definitive duties, end-June 2006			
China	Urea formaldehyde moulding compound	18.07.05	5 years
	Tiles	30.11.06	
France	Sorbitol 70% solution	19.07.03	5 years
Finland	Formic acid	07.07.06	5 years
Germany	Formic acid	07.07.06	5 years
India	Phthalic anhydride	13.02.06	5 years
Indonesia	Sorbitol 70% solution	19.07.03	5 years
	Polyester filament yarn	12.11.05	5 years
	Polyester staple fibre	07.02.07	5 years
Iran	PVC resin	26.10.04	5 years
Korea, Rep. of	PVC resin	26.10.04	5 years
	Polyester filament yarn	12.11.05	5 years
	Polyester staple fibre	07.02.07	5 years
Malaysia	Polyester filament yarn	12.11.05	5 years
South Africa	Electrolytic tin plate	22.07.02	5 years
Chinese Taipei	Glacial acetic acid	25.02.04	5 years
Thailand	Polyester filament yarn	12.11.05	5 years
	Polyester staple fibre	07.02.07	5 years
Uzbekistan	Acrylic tow	13.08.04	5 years

Source: WTO document G/ADP/N/158/PAK, *Semi-annual Report Under Article 16.4 of the Agreement, Pakistan*, 3 August 2007, and Pakistani authorities.

(x) Standards and other technical requirements

(a) Standards and quality certification

61. The Pakistan Standard and Quality Control Authority (PSQCA) remains the national standardization body; it develops and adopts standards, and provides conformity/testing assessments. Imports are subject to the same national quality standards or regulations as similar domestically made goods (Import Policy Order, 2006-07, section 16A(b)(vii)).

62. Pakistan, as a member of ISO, IEC, and the International Organization of Legal Metrology (OIML), continues to harmonize standards with international requirements. It has some 27,000 national standards, covering mainly agriculture, foodstuffs, chemicals, civil and mechanical engineering, and textiles; about 15,000 are ISO standards and 7,000 are IEC/OIML standards. Reportedly, enforcement remains poor, due largely to limited inspection resources.[60] Standards covering 47 products (e.g. edible oils, biscuits, and bottled water) are mandatory for human safety and public health reasons under the Compulsory Certification Mark License Scheme. These goods, whether imported or domestic, must meet Pakistan standards, which are generally harmonized with international requirements, and have a Certification Mark issued by the PSQCA to be made, stocked or sold domestically; domestic manufacturers and exporters to Pakistan must be registered with the PSQCA to ensure compliance.[61] Imports and domestic goods undergo the same conformity testing procedures, according to the authorities. PSQCA also sets mandatory standards, generally in line with international requirements (e.g. WHO and CAC), to be incorporated in technical regulations for public health and safety (mainly on food and exports).

[60] USDS (2007).
[61] The list was expanded in 2007 with the addition of polypropylene woven sacks for sugar.

63. The Pakistan National Accreditation Council (PNAC) remains the national accreditation body for testing laboratories and other conformity assessment facilities.[62] It applies international standards and has accredited 24 testing and calibration laboratories, including in pharmaceuticals, textiles, chemicals, engineering, and food. The PCSIR also provides testing facilities (mainly to exporters). Pakistan’s 24 certification bodies are almost entirely foreign based. The Trade Development Authority funds 60% of the investment costs and consultancy charges of laboratories being accredited.[63] The 2004 National Quality Policy and Plan is being implemented to strengthen related infrastructure, at an estimated cost of PRs 3.6 billion during 2005-10; already 30 projects/proposals costing an estimated PRs 1.5 billion are at various stages of approval or implementation. The PSQCA’s System Certification Centre was recently established and is to be fully operational shortly.

64. Pakistan’s only notifications to the WTO under the TBT Agreement since its last Review were all submitted in June 2007. The 25 notifications covered health and safety standards adopted, covering mainly sampling and testing procedures as well as labelling, packaging, storage, and transport of a number of food and other products.

(b) Sanitary and phytosanitary regulations

65. Imports of edible products unfit for human consumption are banned (e.g. under the Import Policy Order). A national strategy to implement the WTO SPS Agreement has been formulated based on a National Animal and Plant Health Inspection System, accreditation of laboratories, and review of SPS-related laws.[64] No WTO Member has raised concerns about Pakistan's SPS measures in the SPS Committee; its single latest WTO notification dates back to 2000.

66. The Ministry of Food, Agriculture and Livestock has overall responsibility for formulating and implementing animal/plant quarantine and regulating pesticides A National Animal and Plant Health Inspection Services (NAPHIS) was recently established. Pakistan's SPS Enquiry Point and National Notification Authority are located within this ministry. Other ministries involved are Commerce, Science and Technology, and Health. Implementation of Pakistan's sanitary and phytosanitary regime is reportedly complicated by the number of federal and provincial agencies involved, often causing overlapping functions, duplication, and poor coordination[65]; however, according to the authorities, no provincial agency is involved in implementing such measures. A National SPS Taskforce formed in early 2006 assists stakeholders to disseminate information and develop strategies to implement SPS policies.

67. Pakistan’s SPS-related legislation is reportedly outdated, lagging behind international and trade-partner needs.[66] The Government is reviewing legislation, aimed at making revisions to enable the adoption of international standards in line with SPS requirements.

Plant quarantine and protection

68. The Department of Plant Protection (DPP), a member of the FAO International Plant Protection Convention (IPCC, ratified in June 2003), amended the 1976 plant quarantine legislation

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[62] The PNAC is an associate member of the International Laboratory Accreditation Cooperation (ILAC); an accreditation body member of the International Accreditation Forum (IAF); an associate member of the Pacific Accreditation Cooperation (PAC); and in June 2004 became a full member of the Asia Pacific Laboratory Accreditation Cooperation (APLAC).

[63] World Bank/UNIDO (2006), p. 9.

[64] WTO document G/SPS/GEN/661, 28 March 2006.

[65] World Bank/UNIDO (2006), p. 6.

[66] World Bank/UNIDO (2006), p. 10.

in 2000.[67] According to the authorities, no major changes that adversely affect imports were made during the period under review, and Pakistan's phytosanitary measures follow IPPC guidelines. Imported plants and plant materials must be inspected by the DPP for pathogen and pest infestations and, where restricted, be issued with "import release orders" (Import Policy Order). Imported cotton seeds require prior approval from the Ministry of Food, Agriculture and Livestock. Imported fresh and dry fruits and whole red chillies must be certified pest and disease free by the DPP. Phytosanitary requirements apply on a consignment basis to all countries and for all fruits. Seed imports must be registered with the Federal Seed Certification and Registration Department (Seed Act, 1976).

69. Pakistan adopted the Biosafety Guidelines of the Cartagena Protocol in May 2005 (Pakistan Bio safety Rules and Regulations) and an implementation action plan, including the formation of the National Biosafety Committee within the Ministry of Environment. Pakistan allows the production, import, and export of all genetically modified (GM) crops; it imports GM soybeans and soybean oil.[68]

Animal quarantine and protection

70. Pakistan belongs to the Codex Alimentarius Commission and the International Office of Epizootics (OIE). The Animal Quarantine Department (AQD) administers the 1979 animal quarantine legislation, but no longer certifies imported animal products as fit for human consumption after imposition of the Customs Administrative Reforms (CARE); such imports are in practice cleared by Customs, and, according to authorities, this may need to be re-examined for health reasons. All imports of animal products must be accompanied by a health certificate issued by the exporting country certifying it has no specified diseases. The AQD approves imports of live animals, including animal semen and embryos, which must also be accompanied by quarantine certificates from the exporting country. The Import Policy Order also prohibits, until further notice, live animal imports, meat and bone meal, tallow containing protein, and feed ingredients from BSE-infected countries. Imports of live poultry (including birds) and poultry products from countries with Avian Influenza are also banned until further notice. The Import Policy Order list of prohibited imports is updated during the year, at the request of the affected country, in line with OIE recommendations; Pakistan accepts "disease free" status of countries according to OIE results. Imports of Indian livestock and meat products were allowed in May 2005 subject to inspection and tests; live animals require a maximum 22-day quarantine (minimum 7 days if the quarantine officer is satisfied with their health status). The National Veterinary Laboratory provides international standard testing facilities, according to authorities, and works closely with provincial livestock services to analyse, monitor, plan, and formulate disease control and eradication programmes.

(c) Other foodstuffs

71. Foodstuffs consumed in the country of origin are generally permitted. Codex standards and regulations are being applied to imported food, including on additives, preservatives, vitamins, and maximum residual limits (MRLs) of contaminants e.g. pesticides. MRL limits are claimed to apply only to imports as Pakistan lacks capacity to apply them to locally made foodstuffs.[69] However, according to the authorities, Pakistan implements EC requirements on MRL in animal casings. It occasionally imposes its own special food contamination requirements. To prevent imports of cheap dyes hazardous to health, only specified food colours and food lakes can be imported and each consignment must have a government certificate of use or registration in the exporting country (Import Policy Order). Most consumer foods do not need to be registered by the Ministry of Health but if required the importer must be the manufacturer's sole agent to enable registration in joint names,

[67] Pakistan is also a member of the Asia and Pacific Plant Protection Commission.
[68] USDA (2006), p. 4.
[69] USDA (2006), p. 7.

for an initial (extendable) one-year period. Registration can take three months. Imported foodstuffs, including ingredients, must have at least 50% of the original shelf life left upon importation (Import Policy Order).[70] Provincial Health and Food Departments as well as local government authorities can prohibit the sale, including import and export, of unwholesome foodstuffs (Pure Food Ordinance, 1960).

(d) Marking, labelling, and packaging

72. Pakistan still has no uniform labelling and marking system, and there have been no major changes during the review period. Imports failing to meet labelling and marking requirements are seized and destroyed by Customs. Special labelling requirements apply to certain goods e.g. specified food colours must be "fairly" and "truly" labelled (Import Policy Order). Also, all pharmaceutical imports must meet the Drugs (Labelling and Packaging) Rules, 1986, and the retail price generally must be displayed on the drug label at the time of importation. Cigarette manufacturers must print their names on packets (from 2006/07). Packaging requirements normally follow Codex rules, and Pakistan generally accepts packaging material if allowed in the exporting country. Most foodstuffs are imported in consumer-ready packaging. The requirement for refined vegetable oil to be imported in bulk for re-packaging is aimed at encouraging local packaging and saving foreign exchange.

(3) MEASURES DIRECTLY AFFECTING EXPORTS

(i) Registration, documentation, clearance, inspection and minimum prices

73. In general, exporters no longer have to be registered with the Export Promotion Bureau (EPB) (since 2002/03). The Government has taken steps to expedite export clearance, which is claimed to take about 30 minutes under PACCS and up to 2 days otherwise.[71] The CBR closely monitors exports to Afghanistan; special procedures and authorized border crossings must be used. All goods not manufactured in bond can be exported to Afghanistan or, in transit, to Central Asian Republics either in rupees or convertible currency. However, those exported in rupees or contained on a negative list (Export Policy Order, Schedule III) exported in convertible currency are ineligible for zero-rating on sales tax, excise tax rebates, or tariff drawback.

74. Preshipment registration of export contracts with the Trade Development Authority (formerly the Export Development Board) remains in place for cotton and urea. A security deposit of 1% for cotton will be forfeited unless the contract’s irrevocable letter of credit is opened within 35 days of shipment and the contract completed within 180 days; the authorities indicate that is to ensure that exporters fulfil their contracts in the event that domestic cotton prices rise. Exporters must also generally have a grading and classification certificate issued by the Pakistan Cotton Standards Institute.[72] Quality (preshipment) inspection of rice, enforced by the Ministry of Commerce (with participation of the Pakistan Rice Exporters Association), ceased in 2003/04 (except for basmati rice), when the setting of quality-related mandatory minimum benchmark U.S. dollar f.o.b. prices was terminated on all rice exports. Rice exporters must belong to the Rice Exporters Association. The previous mango freight subsidy was conditional on quality pre-shipment inspection by one of three nominated international inspection firms (section (3)(iv)(b)). While PSQCA has legislative quality inspection and testing responsibilities for exports, its role is relatively minor.

[70] Customs should accept a certificate issued by the manufacturer or principals where dates are not printed on the packing (Import Policy Order). The remaining shelf life requirement was increased to a minimum of 75% in the2004/05 Budget but returned to 50% in 2005/06.

[71] World Bank, 2006b, p. 139.

[72] The Association's costs for standardizing and classifying cotton are met by a cess on ginners of PRs 10 per bale produced.

75. Jewellery and gemstone exporters must be registered with the Trade Development Authority in order to import gold duty and tax free.[73] They must export gold jewellery within 180 days of importing gold or pay leviable duties and taxes plus a 5% penalty for the first month and 10% thereafter. Unless sale receipts are realized within 240 days from export, a monthly 1% penalty of sale proceeds is incurred. A valuation committee for clearing exports was abolished in 2005/06. Exporters of horticultural commodities must be registered with the Pakistan Horticulture Development and Export Board.

76. The All-Pakistan Textile Association no longer sets minimum export prices on cotton yarn. According to the authorities the special mechanism mentioned in the 2006 Export Trade Order for monitoring metal exports, including prices, was not established.

(ii) Export duties and taxes

77. Export taxes are prohibited (section 18(2), Customs Act). However, the CBR can impose "regulatory duties" of up to 100% on exports, by notification without parliamentary approval (section 18(3)). Duties of 25% were applied to exported ferrous and non-ferrous waste and scrap in June 2006 and of 35% on pulses in 2006/07, due to domestic shortages[74]; "regulatory" duties also apply at 15% on exports of sugar, 30% on leather goods, 20% on hides and skins and, from the 2007/08 Budget, 25% on specified metals and articles thereof.[75] The authorities indicate that such measures are used to control supply of commodities for local consumption and not to raise revenue or assist domestic users of these goods; nevertheless export taxes can implicitly subsidize users of affected goods by reducing domestic prices.

78. An export development charge of 0.25% of the f.o.b. value is levied on all exports (except from export processing zones) to finance the Export Development Fund (EDF) (section (3)(iv)).

79. Exporters pay income withholding tax instead of income tax: the rates ranged across products from 0.75% of f.o.b. sales to 1.5% until they were unified at 1% in the 2007/08 Budget (section (2)(iv)(a)).

(iii) Export prohibitions, restrictions, and licensing

80. Under section 3 of the Imports and Exports (Control) Act, 1950, the Government may prohibit, restrict, or control exports. The Ministry of Commerce announces export policies and measures at budget time as part of its Trade Policy (Part B, Export Policy Order). Exports are allowed unless listed in Schedules I or II of the Export Policy Order.

(a) Export prohibitions

81. Export prohibitions focus on health, social, religious, or environmental protection under international treaties e.g. CITES.[76] They also cover exports of wood and timber generally, and exports to Afghanistan of vegetable ghee and cooking oil manufactured in bond, and acetic anhydride (Export Policy Order 2006, section 8(5)). Wheat flour exports were also banned in 2007 due to

[73] Notification SRO No. 789(I)/2005.

[74] Customs Notification SRO No. 573(I)2006; and Government of Pakistan (2006d), p. 32.

[75] CBR (2007).

[76] In addition to wildlife, prohibited exports also cover alcoholic beverages, wood and timber, and counterfeit products (Trade Policy 2006-07, Part B, Export Policy Order, Schedule I. Viewed at: http://www.epb.gov.pk/v1/tradepolicy/pdf/0776-31072006-epo.pdf).

domestic supply shortages. According to the authorities, Pakistan maintains no country-specific export prohibitions (including to Israel).

82. Exports of imported goods in their original and unprocessed form are generally prohibited (section 10, Export Policy Order 2006). Minimum-value-added requirements of 2.5% on some of these exports were removed in 2005/06.[77]

(b) Export licensing and restrictions

83. Specified exports are permitted if certain conditions are met (Schedule II) (Table AIII.6). Exports are no longer reserved for public-sector agencies. Exports of wheat, although permitted on a limited basis for the first time in 2006/07 were subsequently suspended indefinitely, and fertilizers, including urea, while classified restricted are effectively banned; urea exports must be approved on a case-by-case basis by the ECC of Cabinet (none processed since 2003).[78] Exports of vegetable ghee and cooking oil are allowed if there is minimum value addition of 15% for edible uses in packs up to 16 litres for cooking oil and 16 kg for vegetable ghee, and 50% value addition for non-edible uses in packs up to 0.5 litres or 0.5 kg.[79] Precious and semi-precious stones and gold jewellery are subject to special procedures.

(c) Access-related export quotas

84. Pakistan's textile and clothing exports were subject to quotas in the EC, the United States, and Canada under the WTO Agreement on Textiles and Clothing (ATC) until end 2004; the United States and the EC had expanded these quotas prior to their definitive removal. The EC has imposed anti-dumping duties on Pakistani bed-wear exports.

(iv) Export subsidies

85. Exports are accorded a high priority under the Government’s Rapid Export Growth Strategy, and receive substantial financial assistance.[80] Direct export assistance is financed through the Export Development Fund (EDF), which the authorities indicate is fully funded from the Export Development Surcharge charged to exporters at 0.25% of the f.o.b. value of shipments. Export assistance includes general schemes that benefit many exporters, and various sectoral schemes targeting particular exports, such as textiles and garments; these have received priority to help meet greater competition in developed markets from other developing countries (e.g. China and Viet Nam) following termination of the MFA. The numerous assistance schemes add complexity to Pakistan’s trade regime, undermining transparency and opening the possibility of distorting competition, trade, and production patterns at the expense of resource-use efficiency. Pakistan has not notified any export assistance to the WTO since its last Review.

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[77] USDS (2007).

[78] Amendments to the Export Policy Order in January 2007 allowed wheat exports of 500,000 tonnes under procedures and conditions prescribed by the Ministry of Food, Agriculture and Livestock (Order SRO No. 54(I)/2007). A total of 1.3 million tonnes was exported in three shipments. Such exports were suspended in May 2007.

[79] Trade Policy 2006-07, Part B, Export Policy Order, Schedule I. Viewed at: http://www.epb.gov.pk/v1/tradepolicy/pdf/0776-31072006-epo.pdf.

[80] A scheme under which firms exporting at least 50% of production were classified as category A (value added) priority industries no longer operates.

(a) General schemes

86. Although the freight subsidy introduced on new exports in 2002/03 to diversify exports was temporarily suspended from October 2005, a modified scheme was re-introduced from August 2006 until 31 July 2007. It provided a freight subsidy of 25% of proceeds (up to PRs 5 million annually per company/exporter) on all exports; certain goods contained in a negative list are ineligible for the export subsidy.[81] Exports of "developmental" goods (those considered by TDA to have export potential e.g. fish and fish preparations, fruits, vegetables, chemical and chemical products, and pharmaceuticals) are subsidized if exported to the top 20 destinations of the previous year. The subsidy could require certain conditions, such as voluntarily adopting international quality standards on horticultural exports set by the Pakistan Horticulture Development and Export Board (section (3)(i)).[82] The authorities indicated that claims for the freight subsidy were expected until end-September 2007. Its total cost was estimated at PRs 328 billion.

87. Assistance of PRs 100,000 (US$1,934) provided by the Ministry of Commerce to exporters achieving ISO 9000/14000 quality standards was withdrawn in 2004/05. Exporters receive a 25% subsidy on the cost of acquiring software to improve competitiveness. Consultant's costs for developing accredited testing facilities to international standards are fully subsidized, and an interest rate subsidy of up to 6% applies to loans for investing in quality testing and research and development equipment. Certification costs of EUREPGAP, ISO 14000 and 17025, HACCP, WRAP and eco-labelling are subsidized by 50%. SME exports will benefit from the SME Export House when established. Official fees paid by exporters to register products with Pakistani trade marks overseas are subsidized by 50%. Exporters also benefit from subsidized finance provided by the SBP (section (2)(vii)).

88. Exports are also seemingly subsidized by income tax concessions. Exporters pay income withholding tax instead of income tax: the rate levied on products previously ranging from 0.75% of export proceeds to 1.5% but was unified at 1% in the 2007/08 Budget.[83] While the tax base of gross f.o.b. receipts would substantially exceed taxable net income on which company tax would be levied, the substantial difference in tax rates (company tax rate of 35%) suggests possible sizeable subsidies for the more profitable exporters.[84] According to the authorities, information suggests that most exporters are penalized and not assisted by the income withholding tax arrangements; however, this would be contrary to government policies of encouraging exports and would suggest that reform of the income tax treatment of exporters would be a more efficient policy choice than providing assistance.

89. According to Pakistan's latest notification to the WTO (2001), in 1997-98, it provided export subsidies of US$2.65 million for fresh fruits and vegetables, US$0.004 million for citrus (kinnow), and US$0.38 million in freight subsidies for potatoes.[85] The authorities indicate that updated notifications will be submitted to the WTO by end 2007.

90. Exporters with at least 10% growth over the previous year's exports, in U.S. dollar terms, can retain 50% of additional export proceeds in foreign currency accounts maintained in Pakistan.[86] For

[81] The negative list covers all cereals, cement products, fertilizers, raw hides, skins and leather, and silk, wool, cotton and other vegetable textile fibres, yarns, and fabrics (EPB, 2006).

[82] Government of Pakistan (2004a), pp. 30-31. The Board has approved no horticulture products for payment of the freight subsidy since 2004/05.

[83] Income Tax Ordinance, 2001, section 154.

[84] However, non or low-profitable firms are penalized as they must still pay income withholding tax.

[85] WTO document G/AG/N/PAK/9, 20 August 2001.

[86] Government of Pakistan (2003b), Annex-V, p. 174.

many specified services exports, 35% of proceeds can be held in foreign currency accounts within Pakistan. Such foreign currency can be used for a wide range of legitimate purposes (e.g. promotion and market studies) without Central Bank approval.

(b) Sector-specific schemes

91. A number of sector-specific schemes also assist exports (Table III.4). Exports of computer software and IT-related services are exempt from income tax until end-June 2016 (from 1 July 2003). Exporters of garments and from 2006/07 home textiles and footwear receive a research and development subsidy at rates of 3%, 5% or 6% of the f.o.b. value depending on product type, to be reduced to a uniform 3% rate in 2007/08. At end-May 2007, a total of PRs 18.4 billion had been disbursed under the scheme, mostly assisting garments (PRs 14.3 billion).[87] The 2007/08 Budget extended the research and development export subsidy to fibre manufacturers at the rate of 3.5%. A separate freight subsidy was introduced in 2005 for leather garment exports.[88] A freight subsidy of up to PRs 250 million (funded by the EDF), paid at the rate of PRs 15 per kg by air and PRs 10 per kg by sea, assisted mango exports to Europe from 1 July to 15 October 2006.[89] Under a textile package approved in July 2006, the State Bank provided "debt swaps" for long-term loans extended for importing plant and machinery under the LTF-EOP Scheme until end-2006. This was available only on value-added textiles (doubling, twisting, combing, slubbing, lycra and yarn dyeing, but excluded spinning). An amount of PRs 34 billion has been extended under this Scheme at reduced mark-ups of 7% and 6% for seven and three years, respectively. Electricity used by many export-oriented manufacturing units was zero rated for GST in 2005 as well as for inputs and outputs of five export-oriented sectors.

Table III.4
Sectoral export subsidies, 2006/07

Export/industry	Description
Horticultural products	Pakistan Horticulture Development and Export Board provides marketing and export promotion; concessionary finance encourages investment in greenhouses and cool-chain infrastructure; EDF finances the first 6% mark-up on borrowings (introduced in 2004/05 to export-oriented infrastructure but extended to all such investment in 2006-07)
Priority export sectors of leisure equipment, fisheries including shrimp farming, horticulture, furniture, gems and jewellery, footwear, and medical equipment	Efforts to reduce capital cost of infrastructure
Pharmaceuticals	50% subsidy on costs of Pakistan firms registering products overseas; salary of 3 medical representatives subsidized for 2 years, up to monthly maximum of US$500 each (30% higher for designated high-cost countries)
Enhancing quality and volume of developmental sectors (fisheries including shrimp farming, horticulture, marble and granite, furniture, gems and jewellery, sports leisure equipment, surgical instruments, carpets, and IT enabled businesses)	Qualified consultants engaged and paid from EDF
Finished furniture and products of marble and granite	Inland freight subsidy of 25% for factories located beyond 250 km from exporting sea port
Gems and jewellery	Bank financing scheme whereby exporters can import gold using an acceptable collateral arrangement

Table III.4 (cont'd)

[87] Government of Pakistan (2007a), p. 8.
[88] Government of Pakistan (2006g), p. 18.
[89] Trade Development Authority of Pakistan online information, *Freight Subsidy Scheme*. Viewed at: http://www.epb.gov.pk/v1/exporterbenefits/freight_subsidy.php?PHPSESSID=16fe9f2f1f04ad65d3280b912db2b26b [17 October 2007]

Export/industry	Description
Footwear	Financial assistance to establish footwear development centres at Lahore and Karachi; research and development support of 6% of f.o.b. value available from 2006/07 (reduced to 3% in 2007/08)
Textiles, ready-made garments and knitwear	Research and development support at 6% of f.o.b. value, to be reduced to 3% in 2007/08. Expanded in 2006/07 Budget to include dyed/printed fabrics and white home textiles, both woven and knitted at a rate of 3%, and dyed/printed home textiles, whether woven or knitted, of 5%
Carpets	Financial assistance to establish "carpet cities" in Lahore and Karachi
Meat	Halal meat export zones established in Karachi, Lahore, Preshawar, and Quetta and interest rates on credit used to set up cool-chain facilities subsidized up to 6%. Costs of refrigerated transportation of meat to export markets subsidized
IT services or enabled services, computer software	Income exempt from tax for the period 1 July 2003 until 30 June 2016.

Source: Government of Pakistan, *Trade Policy*, various years.

(v) Duty and tax concessions

92. A multitude of selective tariff and tax exemptions/concessions, mainly on raw materials, intermediate inputs, plant, and equipment, are aimed at improving international competitiveness, including of export-oriented firms (sections (2)(ii)(g) and (iv)). For example, in 2005/06 tariffs were removed and sales tax zero-rated on machinery and raw materials for priority sectors with export potential, including marble and granite, poultry and meat, gems and jewellery, horticulture, and pharmaceuticals; these concessions also apply to domestic sales.[90] The Government zero-rated the sales tax on five major export categories in 2005/06 for imported inputs not made domestically[91]; Cotton ginning is also zero-rated. Tariff concessions via repayment of tariffs up to specified limits (expressed mainly as a percentage of the f.o.b. value of exports) were introduced or extended in August 2006 on many raw materials for specified export products.[92] The 2007/08 Budget zero-rated the sales tax on utility charges paid by rice exporters.

Drawback and rebate schemes

93. The CBR administers the duty drawback scheme (DDB) to refund tariffs paid on imported inputs used in exports. In 2005/06, drawback of tariff revenue amounted to PRs 11.8 billion (PRs 15.4 billion in 2004/05), some 10% of gross tariff collections. Most benefits go to textiles exporters of clothing, and leather, followed by engineering goods and metal products. Drawback is based on rates set by the CBR (Input Output Coefficient Organization), the latest in 2006, using input-output coefficients and actual duties paid on inputs. They are mainly *ad valorem* rates based on f.o.b. export values, and ranged during 2006/07 from 0.02 to 3.24% for textiles, 0.12 to 4.83% for leather products, 0.01% to 9.15% for engineering or metal goods, and 0.01 to 8.28% for miscellaneous products (Table III.5). Rates are normally revised annually, based on C&F prices of the preceding year[93]; other factors taken into account when determining DDB rates include local production of inputs relative to imports and the availability of concessionary tariffs. Drawback at times appears to

[90] Exporters spend about 20% of their time dealing with sales tax refunds and most have felt it necessary to set up costly dedicated refund departments (Ministry of Industries, Production and Special Initiatives, 2005, p. 52).

[91] The 2007/08 Budget removed zero-rating on chemicals used in these industries that were also being used in other activities.

[92] Customs Notifications SRO No. 837(I)/2006, No. 838(I)/2006, No. 839(I)2006 and No. 840(I)2006.

[93] DDB rates may also be revised following a specific request by an exporter or an exporters' association. Exporters may also apply to CBR for DDB rates to be set on goods not covered by current notifications.

be used as a policy instrument. For example, DDB was removed on clinker in 2001 due to the substantial domestic availability of inputs but retained on cement, except during April-November 2006 when cement exports were temporarily banned to ease domestic shortages. The DDB system is administratively complex and non-transparent, and as it does not directly relate duty paid on imported inputs to refunds, it is likely to have an uneven impact across export items. Any remaining subsidy (excess refunds) is likely to have fallen, due to lower average refund rates (6.7% of eligible export values in 2001/02 compared with 2.1% in 2004/05), due mainly to lower tariff rates, including concessionary rates, and technically improved input-output coefficients.[94] However, while it is unclear whether the drawback scheme overall under- or over-refunds exporters, the authorities emphasize that customs legislation prohibits DDB rates from subsidizing exports, and that are carefully calibrated based on actual duties incurred on imported inputs to ensure no such subsidy.

94. While DDB automation under PACCS has improved efficiency, it has only yet happened at the "Model Customs Collectorate" in Karachi, where the authorities indicate that DDB payment occurred within 2-3 days of export. Documentary and administrative requirements also remain substantial. According to Customs, claims are generally processed in 7-10 days (with 95% paid within 3-4 days), but businessmen indicate about 1-2 months.[95] The authorities state that claims are now being processed within 2-3 days at Karachi, and 95% at other customs posts within 3-4 days. The 2005/06 Budget reduced DDB notifications from 110 to four standard notifications and reduced the 723 DDB rates to 465.[96] Overdue claims of 35,000-40,000 in December 2004 (PRs 2 billion) were reduced to 3,500-4,000 (PRs 0.5 billion) in mid 2006, and stood at PRs 0.9 billion at end May 2007.[97]

Table III.5
Duty drawback rates on exports, 2006/07
(Per cent of f.o.b. value or PRs per kg unless otherwise indicated)

Imported input/manufactured export	Duty drawback rate	Imported input/manufactured export	Duty drawback rate
Textiles and allied products		**Miscellaneous products**	
Schedules I-V	0.04-1.15% ; PRs 0.15-3.09, 0.18-1.13%; 0.22-0.43%; 0.63%; 0.56% and 1.16%	Schedules I-V	2.46-7.34%, PRs 1.53; 2.85% and 6.13%; 2.36%; 2.30% and PRs 2.67; 2.88-5.98%
Schedules VI-X	PRs 0.87-3.90; PRs 1.27-4.95; PRs 0.97-4.35; PRs 0-4.35; PRs 1.59	Schedules VI-X	PRs 1.08; PRs 0.61-5.52 per pair; 1.50%; PRs 0.53 per piece; 3.07%, PRs 0.66 and PRs 1.25 per dozen
Schedules XI-XV	1.45%; 1.04% and 2.38%; PRs 0.47; 0.60%; 1.04%	Schedules XI-XV	1.27-2.14%; PRs 0.03-2.29; 3.50%, PRs 0.23 per 50 kg bag; 2.14-4.79%; PRs 5.51-12.48 per 20 packets, 3.07%
Schedules XVI-XX	0.74-1.85%; 1.17% and 1.22%; 0.24-4.18%; 0.32-0.62%	Schedules XVI -XX	0.47-8.80%; 2.80%; 1.94%; PRs 25.08 per tonne; PRs 0.54-1.07 per bag
Schedules XXI-XXV	0.01%; PRs 0.54-1.61; PRs 0.03; 2.29% and 4.75, PRs4.82-8.67; PRs 1.37-6.09	Schedules XXI-XXV	PRs 0.84; 2.52%; PRs 0. 18 per 1,000 toilet rolls, PRs 0.26 per carton of 1,000 tissues, PRs 0.55 per carton of 1,000 pocket packs, 1.64%; 1.56% and 2.17%
Schedules XXVI-XXX	0.70-1.53%; 1.33% and 1.89%; PRs 0.05-4.71; PRs 0.78-2.92; PRs 0.49	Schedules XXVI-XXX	1.42-7.39%; 2.60-4.75%; 5.35%; PRs 0.15 per 100 sticks; 1.03-1.80%
Schedules XXXI-XXXIV	PRs 0.80; 5.32%; 1.16%; PRs 2.50 and PRs 2.63	Schedules XXXI -XXXV	PRs 7.02 per tonne; 2.29-5.89%; PRs 57.18 and PRs 9681.83 per tonne; PRs 10.34 per case of 24 cans; PRs 32.64-317.24 per 1,000 packs

Table III.5 (cont'd)

[94] World Bank (2006b), p. 176.
[95] World Bank (2006b), pp. 175-176.
[96] Four notifications cover DDB rates: on textiles; leather goods, footwear and sports goods; engineering goods and metal products; and miscellaneous goods.
[97] World Bank (2006b), p. 177.

Imported input/manufactured export	Duty drawback rate	Imported input/manufactured export	Duty drawback rate
Leather and allied products		Schedules XXXVI-XL	PRs 0.08 per litre and PRs 0.83; 2.07% and 6.26%; 2.51-8.13%; PRs 0.06-0.10 per litre, PRs 0.79; 1.89%
Schedules I-V	0.23-5.24%; 0.12-4.28%; 1.29-3.70%; 0.65-5.25%; 0.14-4.19%	Schedule XLI -XLV	1.48-3.90%; 0.28% and 0.32%; 0.01-4.45%; PRs 0.05-0.99, PRs 6.87 per case; 2.70%; 1.55%, PRs 0.08-3.49
Schedules VI-VI	3.73% and 4.10%; 0.48-4.25%	Schedules XLVI-L	PRs 39.37 per tonne; PRs 25.00 per 10 gms; PRs 4.65 and PRs 9.29 per M2n/5mm; 0.72%; 0.33%
Engineering/metal and allied products		Schedules L-LV	PRs 10.84; 1.38%; 0.59-3.54%; 1.52%; 3.38% and 3.68%, PRs 3.03
Schedules I-V	0.47% and 2.08%; 0.84-4.04%; 3.46%; 2.74%; 5.43%	Schedules LVI-LX	0.46-6.57%; PRs 2.09-4.81; 6.09%, PRs 17.61 per sheet; 0.59-1.06%; 2.25-6.97%, PRs 0.85-13.78
Schedules VI-X	3.12-4.48%; 8.62%; 6.90%; 3.37% and 3.58%; 4.95%	Schedules LXI-LXV	3.55%; 2.06% and 2.87%; 1.94-5.36%; 1.45% and 1.98%; 1.90-8.31
Schedules XI-XV	0.90%; PRs 6.11; 0.25-1.15%; 0.80%; PRs 6.35 per piece	Schedules LXVI-LXX	1.23-3.14%; PRs 0.10 and PRs 0.11 per syringe; PRs 0.21 per set; PRs 2.01 and PRs 5.02 per 100 pieces; 3.67-9.17%; 1.33-3.80%
Schedules XVI-XX	2.92%; 0.75-1.59%; 2.95%; 6.17% and 6.27%, PRs 2.39 and PRs 3.45; PRs 0.68 and PRs 2.64 per container	Schedules LXXI-LXXV	PRs 0.52-3.09; PRs 4.14-83.70; PRs 10.98-96.59; 0.62% and 1.43%; 4.49% and 5.08%
Schedules XX-XXV	0.19%; PRs 0.09 per centimeter; 1.76%; PRs 803.32-1,806.92 per tonne; 2.11-2.87%		
Schedules XXVI-XXX	6.62-12.90%; 5.75%; PRs 1.08-3.09 per piece; 0.21%; PRs 17.73-407.49 per 1,000 pieces		
Schedules XXXI-XXXV	0.92%; 0.97-5.64%; 5.64%; 2.74-3.63%; 4.87%		
Schedule XXXVI-XL	3.66%; PRs 95.23-273.35 per 1,000 pieces; 11.45%; 9.18%; 9.47-13.75%		
Schedules XLI-XLV	0.35-3.50%; 3.83%; 2.89%; 1.55-3.70%; 2.49% and 2.59%		
Schedules XLVI-L	0.12-10.70%, PRs 0.32 per piece and PRs 1.86; 0.75-2.60%; 4.82%; 4.26%; 1.92% and 4.62%		
Schedules LI-LV	1.06-2.12%; 1.71%; 0.65%; 2.17% and 9.70%; 2.05%		

Note: The drawback rates give either the range or the actual rates corresponding to each schedule (separated by semi-colon) within the group given in the left hand column.

Source: CBR, Customs Notifications SRO No. 784(I)/2005, No. 785(I)/2005, No. 786(I)/2005, and No. 787(I)/2005.

95. The duty and tax remission for exports (DTRE) scheme, introduced in 2003/04, allows exporters tariff- and tax-free imports of input used in exports. Modified in 2005/06, it allows exporters (direct and indirect) to source inputs (including domestically) free of tariffs and other taxes (sales, excise, and income withholding taxes) upon provision of an irrevocable bank guarantee to cover duty/tax liability. Direct exporters may register for DTRE on individual contracts or if they exported at least US$100,000 in each of the past two years. The DTRE also covers sales tax on gas, electricity, and other services.[98] Despite the advantages of DTRE, it has taken off slowly, with only 1,712 exporters approved during 2001-05. In 2006/07, 509 DTRE approvals were granted, involving duties/taxes of PRs 3.5 billion (corresponding figures for 2005/06 were 484 approvals and PRs 3.3 billion).

[98] Refunds are permitted where the value of inputs subject to tax, excluding electricity, gas, and services, is less than 20% of the export's f.o.b. price.

(vi) Export-processing zones

96. The Export Processing Zones Authority (EPZA) continues to administer export-processing zones (EPZs). Firms in EPZs receive generous tax benefits e.g. income tax holidays, indefinite carry forward of losses, duty-free imports, and freedom from national import restrictions. They must export at least 80% of production from 2004/05 (section 13(5), Import Policy Order 2006). Domestic sales of 11 products are permitted. EPZ exporters pay the same income withholding tax as other exporters plus a service charge of 0.5% of f.o.b. value to the EPZA. Certain goods (e.g. cotton ginning, sugar, vehicles, and cement) cannot be produced in EPZs. Preferred activities for EPZs are export-oriented industries that require advanced technology and marketing and use local raw materials and labour. Plans are to expand the network of EPZs, including by public-private joint-ventures; 18 are scheduled.[99] At present four manufacturing and three mining EPZ's are operating. The Gawadar Free Economic Zone (FEZ) incorporates an EPZ around the airport and a deep seaport, and is administered provincially by the Gawadar Development Authority. The Karachi EPZ, with Phase II finished, currently has 98 operating industrial units. The Government intends to introduce an export-oriented units (EOUs) scheme that will provide essentially the same incentives as EPZs.[100]

97. Many industrial estates, which provide infrastructure but, unlike EPZs, do not usually offer fiscal incentives, have closed during the review period. The Sundar Industrial Park near Raiwind is being developed at a cost of PRs 3 billion (one third funded by Punjab province and the rest by land sales). Annual production of PRs 60 billion and 60,000 new jobs are planned within three years. Most firms with suitable in-house manufacturing facilities that started commercial operations in special industrial zones before end 2002, invested over US$10 million, and employed at least 100 staff were entitled to a concessionary tariff margin of 25% on imported raw materials not made locally.[101]

(vii) Export finance, guarantees, and insurance

98. The State Bank introduced a concessionary export Long Term Fixed Rate Financing Scheme (LTF-EOP) in May 2004 to meet exporters' project financing requirements (including machinery imports), for establishing new units or up-grading existing facilities; locally made machinery is ineligible for financing. Banks allocated PRs 8.6 billion to the scheme, and prioritized projects identified by the Government. Reducing the maximum bank interest spread from 3% to 2% in July 2006 lowered borrowing costs by 1%. The loan term is up to 7.5 years. Interest rates, linked to treasury bill yields, are revised annually and were 4% for loans of up to three years and 5% for longer periods (July 2006); some PRs 50 billion has been disbursed under the scheme.[102] The SBP also provides concessional re-financing support (currently at an annual interest rate of 6.5%) to exporters under the Export Finance Scheme. Pre- and post-shipment funds are provided for up to 180 days (270 days for hand-knotted carpets and exports to South America). The concessionary value of the scheme has been reduced. Monthly export finance rates equal the weighted average yield on six-month Treasury bills. The annual rate is 7.5% (bank refinance rate of 6.5% and a 1% bank margin).

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[99] The Karachi Export Processing Zone started in 1981, while the Saindak Processing Zone (the Gold and Copper Project) and the Risalpur Export Processing Zone opened in July 2006. Development work has been completed at the Sialkot Export Processing Zone.

[100] Existing units exporting at least 80% of output will be eligible for registration as EOUs, while new units will have to export all production (Government of Pakistan, 2007a, p. 18).

[101] Firms starting commercial operations before end-June 1999 were entitled to a ten-year tariff and GST exemption on imported raw materials not made locally (Customs Notification SRO No. 71(I)/95).

[102] Government of Pakistan (2007a), p. 6.

99. As well as impeding monetary management, these schemes distort the industrial incentives structure.[103] To improve monetary management and efficiency, the export finance limits of banks under the EFS have been fixed at end-June 2007 levels, with the SBP only allowing 70% re-financing against these limits; the remaining 30% is to be funded by the banks. A new Long Term Financing Facility (LTFF) was also introduced in 2007/08 to finance exporters' purchases of new, imported and locally made, plant and machinery; exporters must export at least 50% of output or US$5 million to be eligible. SBP finance would be up to 70%, subject to yearly limits.

100. A commercial export-credit-guarantee scheme operated by the state-owned Pakistan Insurance Corporation covers all exports not covered by letters of credit. It covers 80% and 90% of losses from commercial and political risks, respectively. The Pakistan Export Finance Guarantee Agency, established in 2001 with equity from private banks and the Asian Development Bank, provides minimal non-subsidized trade finance guarantees and credit facilities, including pre-shipment export-finance-guarantees and post-shipment insurance, mainly to SMEs. It is to be re-structured to include insurance of exporters' credit risks.[104]

101. A US$150 million foreign currency export finance facility, which enabled exporters to import by borrowing at the Libor 2% (plus or minus) interest rate and to repay from export proceeds, ceased ahead of schedule in 2004 due to low utilization.

(viii) Export promotion

102. The state-owned Export Promotion Bureau (EPB) has been transformed into the Trade Development Authority of Pakistan (TDAP) (Presidential Ordinance November 2006) (Chapter II). The Government intends to boost export promotion as a key factor in raising exports. The TDAP's main role is market promotion, e.g. trade delegations, research and trade exhibitions, and facilitating exporters' activities. It focuses on product and market diversification, including greater value addition, in identified core areas (garments, raw cotton yarns, fabrics, towels, art silk and synthetic textiles, rice, leather products, carpets and wool, surgical instruments, and petroleum products) and developmental products.

103. EPB expenditure in 2005/06 was PRs 863 million, two thirds of which (PRs 576 million) was spent on "grants, subsidies and write off of loans" under the Export Development Fund.[105] The Fund is administered by a Board chaired by the Minister of Commerce and develops export infrastructure and capacity, including mainly advertising and promotion. Such programmes are implemented by various government agencies, including the TDA, as well as private sector and business support bodies, e.g. chambers and trade associations. The TDA is funded directly by the government budget (PRs 0.9 billion allocated in 2007/08). An equity fund is being established to assist Pakistani firms acquire overseas brands and/or brand holding companies and to invest in setting up SPS facilities and testing laboratories.[106]

104. Export promotion and facilitation is provided for specific products by a number of sectoral boards, such as the Pakistan Horticulture Development and Export Board. The Pakistan Software Export Board promotes exports, and has proposed a four-year strategic plan based on annual targets aimed at increasing the information technology industry to US$10 billion by 2010. It has developed an export plan to be incorporated into Pakistan's overall export strategy and targets. The Ministry of Textile Industry promotes textiles and garment exports. The Defence Export Promotion Organization

[103] SBP (2007c), p. 2.
[104] Government of Pakistan (2007a), p. 20.
[105] Government of Pakistan (2006b), p. 198.
[106] Government of Pakistan (2007a), p. 19.

promotes and coordinates exports of defence products, and the Pakistan Tobacco Board promotes cultivation, manufacture, and export of tobacco and tobacco products (funded by a tax levied on production).

(4) MEASURES AFFECTING PRODUCTION AND TRADE

(i) Taxation

105. Pakistan increasingly relies on indirect tax revenue, which accounted for well over two thirds of tax receipts in 2005/06 (section (2)(iv)(a)): sales tax accounted for 60% of indirect tax revenue (excise tax 12%); the income withholding tax accounted for some 60% of direct tax collections, and some 20% came from imports. Many indirect taxes remain unduly complex and lack transparency due to: different tax bases across products and specified minimum levels; a multiplicity of taxes, often narrowly based due to numerous concessions/exemptions; administrative inefficiency with corrupt elements; cumbersome assessment procedures; and endemic tax evasion due to the large informal economy.[107] However, the Government has made important tax reforms during the review period (Chapter I).

General sales tax (GST)

106. GST, a value-added type tax, has been unified at a standard rate of 15% (Sales Tax Act, 1990, Sales Tax Rules, 2002 and 2004, and Sales Tax Procedure Rules, 2006).[108] Some excisable goods are subject to GST. The registration threshold for taxpayers is minimum annual turnover of PRs 5 million or, from the 2007/08 Budget, manufacturers paying an annual electricity bill exceeding PRs 600,000. In 2005/06, GST was applied to the printed retail price on selected consumer goods (e.g. perfume, cosmetics, toiletries, biscuits, confectionery, tea and footwear); coverage was extended in the 2006/07 Budget (e.g. spices and light bulbs).[109]

107. There are many exemptions (Sixth Schedule of the Sales Tax Act or in notifications issued by CBR under section 13), including on basic or unprocessed foodstuffs, medicines, books, and computer software. While government policy is to reduce exemptions/concessions, many remain, and more were issued in the 2006/07 and 2007/08 Budgets. A wide range of agricultural goods e.g. meat products, sea food, and eggs are GST exempt; all agricultural inputs, except seeds, are levied GST. Agricultural machinery, equipment, and implements were exempted from sales tax in June 2004, and plant and equipment, including parts, were zero rated in the 2004/05 Budget. Dairy products are zero rated. Other exemptions from sales tax include leather, textiles, carpets, sports goods, certain chemicals, and dried unsweetened milk.[110] Imported goods not made locally are frequently exempt from GST.

108. GST is generally levied at the same rate on imported and domestic goods. However, some exemptions discriminate directly against imports. For example, edible fresh, frozen or otherwise

[107] WTO (2002), p. 67.

[108] Rates of 2%, 18%, 20% and 23% were abolished in 2004/05. However, the 2007/08 Budget increased the GST rate to 20% on specified raw materials, including some chemicals, used in making iron and steel, plastics and paper to discourage informal production.

[109] In lieu of paying sales tax based on the printed retail prices, biscuit and confectionary manufacturers may pay tax totalling 15% of the ex-factory or cleared price and 15% of a value addition of 12%.

[110] Sales Tax Notification SRO No. 525(I)/2006, and No. 552(I)/2006.

preserved fruits (excluding bottled, canned or packaged) are GST exempt unless imported (other than from Afghanistan).[111]

109. Although hard to assess, the minimum value additions set by the CBR under Division 7A of the Sales Tax Act to levy GST on certain goods, including if they are imported may also potentially discriminate against imports.[112] Until 10 June 2007, commercial importers were required to pay GST on imports using a minimum value addition of 10% of the landed-duty-paid import price (or 15% of the retail price on goods where GST is specified on retail price); according to the authorities, the minimum value addition system for commercial importers was abolished. For some imports it was higher, for example, the 2006/07 Budget raised the minimum value addition to 30% on pesticides[113]; this was subsequently reduced to 15%. Minimum value addition is often lower on equivalent domestic products than on imports. Also, minimum value additions on several imported goods, including potato chips, light bulbs/tube light/lamps, PCs and computer monitors is fixed in U.S. dollars.[114] The minimum value additions on imported and domestic white crystalline sugar were set in April 2006 at US$440 per tonne and PRs 29 per kg, respectively.[115] While the removal of the system for commercial importers has lessened the potential discriminatory impact on imports, minimum values remain on selected imports to equate sales tax treatment with local manufacturers that are levied GST on retail prices of these products. These arrangements may still potentially discriminate, especially against cheaper imports.

110. Exports are generally zero rated (as are other products included in the Fifth Schedule of the legislation and in notifications issued under section 4). Zero rating was extended to several major exporting activities, including cotton ginning in 2004/05, textiles, carpets, leather, sports, and surgical goods in 2005/06, and to dairy products, stationery items, and trucks and larger dumpers in 2006/07. The 2007/08 Budget allows the CBR to direct that GST refunds on exports be paid along with duty drawback.

Federal excise duty (FED)

111. The FED replaced the central excise duty from 1 July 2005 (Federal Excise Act, 2005 and Federal Excise Rules, 2005). Excisable goods currently cover nine tariff items (mainly edible oils, vegetable ghee and cooking oil, aerated waters, tobacco products, cement, natural gas, petroleum products, beverages and beverage concentrates, perfumes and toiletries, and cosmetics). *Ad valorem* rates (ranging from 10-15%, but up to 50% on concentrates for aerated beverages) apply to the retail price; specific rates apply mainly to certain tobacco products, petroleum products, natural gas, and cement. The FED is being phased out gradually, except on items requiring regulated consumption (e.g. cigarettes, beverages, and cement).[116] It was taken off soaps and detergents in 2005/06 to stimulate production and curb smuggling. The FED is levied on specified services as if it was a sales tax, mainly at rates ranging from 3% to 25% (usually 15%).[117] Imports of certain raw materials for

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[111] Sales Tax Act 1990, Sixth Schedule. Viewed at: http://www.cbr.gov.pk/.

[112] CBR (2006).

[113] Sales Tax Notification SRO No. 553(I)/2006.

[114] Sales Tax Notification SRO No. 679(I)/2006, No. 680(I)/2006, No. 732(I)/2006, and No. 1021(I)/2006.

[115] Sales Tax Notification SRO No. 314(I)/2006.

[116] Government of Pakistan (2006c), p. 10.

[117] Provincial governments have had to legislate for the Federal Government to collect FED on services as if it was sales tax under the sales tax legislation because, under the Constitution, it cannot levy GST on services. These include TV advertisements, air travel (extended to international travel, including charter flights, in the 2006/07 Budget when it was removed on up-market train travel), inland air cargo, shipping agents' commission on handling international services, most basic telecommunication services, non-life insurance (3%

specified uses, sometimes specified by manufacturer's name, are exempt; e.g. carbon black oil imported by the National Petrocarbon (Pvt) Ltd to make carbon black, and solvent oil used to make shoe adhesives are exempt from FED.[118] The 2007/08 Budget abolished FED on a number of further products e.g. petrol, jet fuel, and petroleum bitumen.

112. While FED rates on imports and domestic products were generally equalized in 2002/03, some differences still seem to exist, e.g. the rate on imported edible oil, including crude oil, vegetable ghee and cooking oil, is PRs 1 per kg instead of the standard rate of 15% of value, levied on domestically made products; the authorities indicate that these rates are equivalent in *ad valorem* terms. Even on cigarettes with uniform rates, the FED incidence may fall heaviest on imports, since the highest excise rate (63% of retail prices) applies to cigarettes selling at prices above PRs 12 per pack of ten, which are more likely to be imported.[119] Another example of discrimination is the exclusion of the 15% FED on telecom services provided by Pakistan Telecommunication Corporation Ltd (PTCL), which disadvantages new, including foreign, suppliers.[120] Exemptions also discriminate against imports by favouring domestic content under local-content-type arrangements (section (2)(viii)).

113. It is not clear whether the tax base for levying FED on imports and domestic goods is always uniform. Such differences may be a possible source of discrimination against imports. The tax base is generally either the retail price or "value" for home-made goods, and the landed-duty paid price for imports; however, if the domestic tax base is "value" then the import's retail price is used.[121] Such uncertain discriminatory effects were compounded in the 2006/07 Budget by allowing the government to fix minimum values for levying FED, including of imports.[122] The authorities indicate that these arrangements generally discriminate in favour of imports.

Income withholding tax (WHT)

114. The income withholding tax (WHT), which is collected at source, is sometimes readjusted subsequently upon filing of returns; where this is not the case, it represents final income tax payment on the transaction, and therefore is not really an income withholding tax. The WHT coverage has been extended during the review period to some 25 activities. Commercial importers pay WHT on clearing imports at the general rate of 5% (reduced from 6% in the 2007/08 Budget) of the tax- and tariff-inclusive value of the goods as final income tax payment.[123] Some imports, however, are levied at concessionary rates, usually tied to there being no local production (Table III.6). The 2007/08

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of premium) but excluding marine insurance for export, and from 2006/07 certain (mainly commercial) financial services, foreign exchange brokerage, cable TV operators, and franchise services. Internet and e-mail services, value-added data services, and international leased lines used by software exporting firms registered with the Software Exporting Board are exempt.

[118] Federal Excise General Order No. 8 of 2006, CBR No. 1/2-STB/2006.

[119] Cheaper cigarettes retailing below PRs 5.32 are taxed at PRs 2.27, and those priced above PRs 5.32 at this plus 69% of the incremental price above PRs 5.32.

[120] Federal Excise Act, 2005. Viewed at: http://www.cbr.gov.pk/newce/FEActandRules/2005/Federal%20Excise%20Act%202005updatedupto June2007.pdf.

[121] The retail price is the manufacturers' price to consumers, inclusive of all charges and taxes (except FED). Where goods do not indicate retail prices, excise is levied on "value" at a rate of 500% for cigarettes and 40% for other products. From 2006/07 imported cigarettes must display retail prices. The "value" of home-made goods is the "wholesale cash price".

[122] The 2006/07 Budget fixed the minimum retail price for levying FED on the cheapest category of cigarettes at 84% of PRs 5.32 per pack of ten. This was increased by 7% in the 2007/08 Budget.

[123] Income tax is adjusted up on tax filing for WHT paid by manufacturers on imports of raw materials, plant, machinery, equipment and parts for own use (unified at a rate of 1% in the 2007/08 Budget), and from 2006/07 on fertilizer and CBU cars.

Budget reduced the rate on imports of edible oils, bitumen, pesticides, and weedicides to 2%, and extended the 5% WHT to imported polyester filament yarn. WHT therefore effectively imposes an additional levy on imports (similar to a tariff) while exempting importers from income tax.[124] This indirect tax may potentially discriminate against imports. According to the authorities commercial importers are not supposed to pass on the WHT through higher prices.

Table III.6
Concessionary rates of WHT on imports, 2006/07

PCT Code/Product	WHT rate
Fibres, yarns, and fabrics (excluding cotton)	1
Condemned ships for breaking	1
Urea fertilizer	1
Phosphatic fertilizer	1
Cooking oil or vegetable ghee	1
Potassium fertilizer	1
Capital goods (plant, machinery, equipment, spares and accessories to produce goods or used in mining, agriculture, fisheries, animal husbandry, floriculture, horticulture, livestock, dairy and poultry industries, or services); cement, coal, gold, mobile telephone sets, silver, sugar, wheat, raw wood, trucks in CBU condition having Gross Vehicle Weight exceeding 5 tons (PCT 8704.3290 and 8704.9090), dump trucks classified (PCT 8704) and buses (PCT 87.01, 8702.1090); and as covered by SRO No. 575(I)/2006 of 5 January 2006 under the Customs Act, 1969 medical, surgical, dental or veterinary machinery/equipment, fixtures, fittings, furniture and diagnostic kits not manufactured locally, equipment relating to call centers not manufactured locally, disinfectants used in poultry business, pre-fabricated structures for poultry farms, livestock and raw materials and intermediary goods used in the manufacture of packing material for the packing of dairy products, ripening chambers, hot water treatment plant, vapour hot treatment plant, modern cold storage, packing machinery, power generating sets of 10–25 KVA and battery operated fork-lift trucks used in horticulture and floriculture business, processing and packing machinery/equipment required for fish farming, medicines for cancer, drugs used for kidney dialysis and kidney transplant, all type of vaccines for hepatitis, Interferon and other medicines for Hepatitis, all vaccines/anti-sera, cardiac medicines, injection anti-D Immunoglobulin, blood bags CPDA.1, all medicines for HIV/AIDS and all medicines for thalassemia, broadcasting equipment; newsprint as covered by SRO No. 567(i)/2006 of 5 June 2006 of the Customs Act, 1969; computer hardware, parts and accessories (PCT 8471	1
Raw materials for steel industry, including re-meltable/re-rollable scrap, making poultry feed, and stationery	2
PCT Codes 801.1100, 801.3200, 802.1200, 802.9010, 902.4010, 902.4090, 2101.1110, 2101.1120, 0902.2000, 904.1110, 907.0000, 908.1000, 3702.3100, 3705.2000, 3707.9000, 4011.2090, 6301.1000, 8204.0000, 8301.1000, 8511.1000, 8525.4000, 8529.9010, 9004.1000, 0904.1120 (white pepper), 0904.1190 (long pepper), 0906.1000 (cassia), 0813.4010 (tamarind), 0908.3020 (small cardamom), 0908.3010 (big cardamom), 0909.1000 (star aniseeds), 0802.5000 (pistachio), 1211.9000 (medical herbs), 1301.1010 (seed lac), 1903.0010 (sago seeds), 1301.9090 (gum gopal), 3706.9000 (cinematographic film), 9613.1000 (pocket lighters, gas fuelled, non-refillable) and 9613.2000 (pocket lighters, gas fuelled, refillable) and other goods notified by CBR	2
Pulses	2
Edible oils, and goods covered by the Zero Rating Regime for Sales Tax	3

Source: Central Board of Revenue (CBR) (2001), *Income Tax Ordinance,* Second Schedule, Exemptions and Tax Concessions, Part II Reduction in Tax Rates, Islamabad.

Income tax

115. Income taxes provide a declining share of government tax revenue, equal to about one third in 2005/06; about two thirds of income tax is paid by companies. This largely reflects continued use of income tax incentives, including generous depreciation provisions, as a major policy instrument (sections (2)(iv)(a), (3)(iv), (3)(vi) and (4)(ii)). The direct tax system also has a narrow base, equivalent to about 1.5% of the population.[125] A universal self-assessment system operates and appears to have increased compliance. Large and medium taxpayer units have also been established. Company tax rates are being unified gradually at 35% by 2007/08, except for "small" companies

[124] The tariff equivalent will exceed the WHT rate since its base is the tariff/tax inclusive import price.
[125] CBR (2005c), p. 43.

which will continue to be taxed at 20%. In 2006/07, 35% and 37% (43% in 2003/04) respectively for public and private non-banking companies, and 38% (47% in 2003/04) for banking firms.

(ii) Production assistance

116. In addition to various income tax and other tax exemptions/concessions to assist investment and exports, Pakistan provides producers various forms of financial assistance, mainly as income tax concessions/exemptions or direct subsidies. The 2006/07 Budget exempted direct subsidies (including on exports) from income tax (section 102A, Part I of the Income Tax Ordinance, 2001).

(a) Income tax exemptions/concessions

117. The Government may exempt from tax any type of income (section 53, Income Tax Ordinance, 2001); they are published in the Ordinance's Second Schedule (Exemptions and Tax Concessions).[126] Some automatically lapse unless renewed, and many assist producers generally (Table.III.7). Many remain despite attempts to reduce them.

Table III.7
Income tax concessions assisting producers generally, 2006/07

Product/activity	Concession type
Industrial undertakings covering new activities set up by companies with registered offices in Pakistan and located in a special industrial zone, excluding activities engaged in, *inter alia,* alcohol (except industrial alcohol), cotton ginning, spinning (except as part of an integrated textile unit, sugar manufacturing (white), flour milling, steel re-rolling and furnace, tobacco industry, ghee or vegetable oil industry, plastic bags (including Polypropylene, and Polyethylene), beverages (excluding fruit juices), polyester industry, automobile assembly, and the cement industry	Income exempt from tax for 10 years *Commencement date:* establishment between 1 July 1995 and end-December 2002
Electric power generation, excluding oil-fired plants established between 22 October 2002 and 30 June 2006, but including dual fuel (oil and gas) set up after 1 September 2005	Income exempt from tax, provided it is new; owned and operated by a company registered in Pakistan with its head office in Pakistan; and is at least 50% privately owned *Commencement date:* 1 July 1988
Kot Addu Power Station upon privatization	Income exempt from tax for 10 years *Commencement date:* 28 June 1996
All activities	Withholding tax on dividends paid to Pakistani residents reduced to 5% (non-residents pay 10%) *Commencement date:* not available
Mining, excluding petroleum	Withholding tax on dividends paid to non-residents reduced from 10% to 7.5% *Commencement date:* not available
Privatized power generating firm or a company set up to generate electricity	Withholding tax on dividends paid to non-residents reduced from 10% to 7.5% *Commencement date:* 2002
Resident engaged in shipping	Presumptive income tax not to exceed the equivalent of US$1 per tonne. *Commencement date:* 2002; terminate from 1 July 2020.
Distributors of cigarettes made in Pakistan	Amount of minimum tax reduced if applicable by 80% *Commencement date:* not available

Source: Central Board of Revenue (CBR) (2001), *Income Tax Ordinance, 2001*, Islamabad.

118. Agricultural income from rent of farm land, sale of produce by cultivator or from buildings located on farmland is taxed at provincial rather than federal level. However, income from commercial farming activities, such as poultry farming, dairying, and livestock grazing is subject to federal income tax. Income of some commercial SOEs, such as the Pakistan Water and Power Development Authority, is tax exempt.

[126] Part I (Exemptions from Total Income), Part II (Reduction in Tax rates), Part III (Reduction in Tax Liability), and Part IV (Exemption from Specific provisions).

(b) Direct financial assistance (subsidies)

119. Domestic support to agriculture includes government funding of general and infrastructural services, such as research, storage marketing, extension, irrigation and drainage and reclamation, flood control and on-farm water supply facilities. This amounted to US$239 million in 1999/2000, most being spent on irrigation and drainage.[127] Following a report by the Sub-Committee of the National Textile Strategy Committee, the Government is also considering an incentives package worth PRs 29 billion to assist the ailing textile sector; this is designed to improve competitiveness, generate employment and raise exports by 40% by increasing cotton production and improving value-added products.[128]

Input subsidies

120. The budgetary cost of the subsidies on phosphatic and urea fertilizers to assist farmers (Chapter IV) is forecast to rise to PRs 12.3 billion in 2006/07 (PRs 5 billion in 2005/06). The 2007/08 Budget increased the rate of subsidy from PRs 400 to PRs 470 per bag. Farmers in Baluchistan also benefit from an electricity subsidy, costing US$12.6 million in 1999-00[129]; irrigation subsidies are also large with charges set well below cost recovery. The 2007/08 Budget introduced a 25% subsidy to farmers on electricity charges for tubewells; the funding contribution is to be shared equally between the national and provincial governments.

121. Gas used as feedstock (and not fuel gas) by urea and nitrogenous fertilizer manufacturers is supplied at concessionary rates (Chapter IV). Pakistan Railways also provides a freight concession of 30% on imported fertilizer. A domestic freight subsidy on cement of PRs 60 per bag, forecast to cost PRs 720 million in 2006/07, has been withdrawn.[130] The Government hopes to stabilize cement prices at PRs 285-295 per bag. The Textile Garments Skill Development Board, funded by the EDF, was formed in 2006 to support the garment sector develop worker skills.

Concessionary credit

122. Concessionary credit schemes assist various activities. In agriculture, the Government's credit targets were again met in 2007 when credit of PRs 169 billion was disbursed (target of PRs 160 billion), assisted by State Bank "sector friendly policies".[131] The SBP administers, through banks, the Revolving Credit Scheme to provide three-year rolling finance to farmers for buying inputs and funding cultivation; this was modified in mid-2003. It accounts for some 70% of all production loans granted to agriculture. Until July 2005, the SBP also set mandatory credit targets for the five big commercial banks based on expected credit demand in each province and bank performances. It subsidized bank losses on such loans by 50%. Banks failing to meet their targets were penalized. Since then, SBP has set indicative credit targets for an expanded range of banks, including specialized banks, based on credit requirements and their capacity to provide loans. Banks are allowed to set their own lending rates using KIBOR as a benchmark based on their cost structures and risk profiles of borrowers. According to the authorities, only the specialized bank, Zarai Taraqiati Bank Limited (ZTBL, formerly the Agricultural Bank of Pakistan) provides concessionary interest rates of 8-9% annually, under government directives. The SBP released prudential regulations for agricultural financing in October 2005, and bank guidelines on livestock financing in August 2006 and on

[127] WTO document G/AG/N/PAK/8, 20 August 2001.
[128] *Daily News*, "Rs. 29.76 billion package for textile sector in the offing", March 2007.
[129] WTO document G/AG/N/PAK/8, 20 August 2001.
[130] Government of Pakistan (2006d), p. 32.
[131] SBP (2006c), p. 1.

fisheries financing in March 2007.[132] The SBP has developed a strategy to increase agricultural credit to PRs 330 million within 3-5 years.

123. The State Bank operates a credit scheme, through banks, to assist farmers, flour millers and wheat traders to construct storage facilities. Banks are also encouraged to provide financing facilities for licensed wheat traders and flour millers to procure domestic (but not imported) wheat. The State Bank also operates, through banks, a financing scheme to purchase locally manufactured, but not imported, machinery. The scheme was revised in July 2004 and was largely intended to help domestic machinery manufacturers. The maximum term of the loans was 7.5 years, and interest rates were linked to treasury bills and 5-year PIBs. However, the scheme was under-utilized, and is being merged with the SBP Scheme for Long Term Financing for Export Oriented Projects (LTF-EOP); both schemes are to be replaced with a new Long Term Financing Facility (FTFF) in 2007/08 (section (3)(vii)).

Small and medium-sized enterprises (SMEs)

124. Policies on SMEs are handled by the Small and Medium Enterprise Development Authority (SMEDA). The Government's first SME policy, approved in January 2007, highlights logistical and infrastructural support and the need to lower costs of "doing business", such as by providing an improved business environment, easier credit access, human resource development, and support for technology up-grading and marketing. The State Bank issued new prudential regulations for SME financing in 2004 to raise credit access by SMEs. Banks can now extend cash-flow lending to them using personal guarantees. The SME Bank was restructured and is expected to be privatized in 2007/08. The SME Business Support Fund makes grants to SMEs of up to PRs 1.8 million, on a shared-cost basis. SMEDA is also working on a number of state funded sectoral development programmes to facilitate SMEs, including in dairying, gems and jewellery, stone, and furniture.

Development boards

125. A number of public sector boards promote development. The government-funded Engineering Development Board (EDB), a technical arm of the Ministry of Industries, Production and Special Initiatives, was restructured in late 2004 to encourage the industry's growth. The EDB focuses on "thrust" sectors, such as automotive, home appliances, electrical goods, capital goods, and sub-contracting businesses. It is working with the Government to promote assembly of computer numerical control (CNC) machine tools from imported CKD kits by eliminating the 5% duty on such kits while maintaining it on finished machines and tools. To promote compressed natural gas (CNG) buses and reduce pollution the EDB has recommended banning imports of used CNG buses.[133] However, used buses of less than five years old can be imported; no tariffs apply to imported CKD kits. The EDB also prepared an Auto Industry Development Programme (AIDP) to advise the Government on post-July 2006 motor vehicle arrangements, aimed at helping the industry to adjust to the replacement of the compulsory local-content programmes by the tariff-based system.

(c) Price support and controls

126. The Trading Corporation of Pakistan and the Pakistan Agricultural Storage and Supplies Corporation provide market support by intervening in the market by purchasing, as required, to support guaranteed minimum procurement prices set for cotton and certain other agricultural commodities (Chapter IV).

[132] ACD Circular No. 01.
[133] EDB (2006), p. 25.

127. Price controls apply to various products, including pharmaceuticals and utility services, under the Price Control and Prevention of Hoarding Act, 1977. Administered by the Ministry of Industries, Production and Special Initiatives, it regulates maximum prices of "essential commodities", including imports, to achieve "equitable distribution" and "fair prices." The list of items covered has been reduced from 62 to 38 (e.g. beef and mutton, and cement prices were controlled in 2006).[134] According to the authorities, such controls have been relaxed under the Government's deregulation policies and in practice amount to regular monitoring of prices and no fixing of maximum prices *per se*. Some provincial governments also have similar legislation, e.g. the Sindh Essential Commodities Price Control and Prevention of Profiteering and Hoarding Ordinance of 2006, which controls prices of 66 commodities, 18 of which are its responsibility. Petroleum prices have been deregulated, except for gas, petrol, and diesel, which are set by the Oil Companies Advisory Committee (Chapter IV).

(iii) State-owned enterprises

128. State-owned enterprises (SOEs) have an important, but declining role in line with the Government's on-going privatization programme (Chapter I). State involvement occurs mainly in manufacturing (e.g., fertilizers, steel, and engineering goods), energy (oil, gas, and electricity), mining, and key services (e.g., banking, insurance, and transportation (Table III.8). Dividends from SOEs were PRs 63.8 billion in 2005/06, equivalent to 6% of total government receipts, but are forecast to fall with further privatizations. If the large state electricity losses are included, state-owned enterprises substantially drain the government budget (Chapter IV). Several government-sponsored foundations have large commercial interests.[135]

129. The privatization programme, implemented by the Privatization Commission, has slipped due mainly to resistance from vested interests, regulatory uncertainty, especially in utilities and infrastructure services, and negative market sentiment (Privatization Commission Ordinance 2000). The Cabinet Committee on Privatization (CCOP), chaired by the Prime Minister, sets policy and must approve all enterprises to be privatized, including divestment prices and winning bidders. Proceeds accrue to the Privatization Fund to finance poverty alleviation programmes (10%) and retire public debt (Privatization Commission Ordinance, section 16).[136] Since August 2000, 57 sales have occurred worth in gross terms PRs 396.7 billion, mainly in telecommunications, energy, and banking (Table AIII.7). In 2005/06, privatization proceeds were PRs 90 billion, and the Privatization Fund stood at PRs 268.2 billion; the Government completed six sales in 2006/07, totalling PRs 69.9 billion (until May) and anticipates raising US$3.505 billion in 2007/08 from 23 sales (US$15 billion over the next five years) (Table III.8). The major privatization so far has been the sale of a 26% strategic stake in Pakistan Telecommunications Corp Ltd (PTCL) to UAE investors. A major setback was the Supreme Court's nullification of the 75% sale of Pakistan Steel Mills in June 2006, due to the Commission's failure to meet certain procedural formalities; the case is under appeal in the Supreme Court. An initial public offering for Pakistan Steel Mills is now expected to be completed by end 2007.

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[134] Notification SRO No. (I)/2006.

[135] The Fauji Foundation has holdings in sugar, textiles, cereal production, power plants, gas, tobacco, fertilizer, corn, and polypropylene; the Shaheen Foundation in construction, aviation, air cargo, clothing, electronics, agriculture, and television; the Baahria Foundation in finance, industry, and natural gas; the Army Welfare Trust in several large farms, ghee factories, flour mills, engineering works, cotton-ginning plants, travel agency, bicycle plant, several banks, an insurance company, pharmaceuticals, cement, and footwear; and the National Police Foundation in a sheet-glass factory (EIU, 2006, pp. 11-12).

[136] The Government accrues some 60% of privatization proceeds. The remainder is mainly returned to companies being sold, used to meet restructuring expenses, and to fund the Privatization Commission.

Table III.8
Main state-owned enterprises and privatization plans, May 2007

Entity	State equity share	Plans	Entity	State equity share	Plans
A. Energy and natural resources			**E. Utilities**		
Pakistan Mineral Development Corp.	100.0	1st qter 2008	Water and Power Development Authority	..	..
Petroleum Storage Development Corp.	..	..	Karachi Nuclear Power Plant	..	..
Working Interests in Oil and Gas Fields	..	..	**F. Transport**		
Oil and Gas Development Corp.	85.0	2nd qter 2008	Pakistan International Airlines Corp.	..	..
Pak Arab Refinery Company Ltd	60.0	4th qter 2007	Civil Aviation Authority	..	..
Pakistan Oilfields Ltd	..	..	National Tanker Co	..	..
Pakistan Petroleum Ltd	78.35	3rd qter 2007	Pakistan Railways	..	..
Pakistan State Oil Company Ltd	25.51	2nd qter 2007	Pakistan National Shipping Corp.	..	..
Saindak Development Corp.	..	..	Pakistan Railways	..	..
Sui Northern Gas PipeLines Ltd	54.0	1st qter 2008	Sindh Road Transport	..	..
Sui Southern Gas PipeLines Ltd	60.43	1st qter 2008	Republic Motors Ltd	..	..
National Power Construction Co	..	3rd qter 2007	**G. Telecommunications**		
Kot Addu Power Co	46.0	3rd qter 2007	Telephone Industries of Pakistan, Haripur	..	..
Jamshoro Power Co	100.0	3rd qter 2007	**H. Tourism**		
Faisalabad Electric Supply Co	100.0	1st qter 2008	Pakistan Tourism Development Corp.	100.00	4th qter 2007
Peshawar Electric Supply Co	100.0	2nd qter 2008	Services International Hotel Lahore	100.00	3rd qter 2007
National Fertilizers Corp.	..	..	PTDC Motels & Restaurants	..	..
Hazara Phosphate & Fertilizers Ltd	100.0	2nd qter 2007	Roosevelt Hotel	..	3rd qter 2007
Lakhra Coal Mines	..	..	**I. Infrastructure**		
B. Financial			Port Qasim Authority	..	..
House Building Finance	..	..	Karachi Port Trust	..	..
Investment Corp. of Pakistan	..	..	National Highway Authority	..	..
National Investment Trust Ltd	..	3rd qter 2007	**J. Chemicals**		
Pakistan Industrial Credit and Investment	..	..	Federal Chemical & Ceramics Corp. Ltd	..	..
Pakistan Industrial Development	..	..	**K. Ghee units**		
SME Bank	95.89	3rd qter 2007	Ghee Corp.	..	..
First Women Bank	..	..	Morafco Industries	77.48	2nd qter 2008
United Bank Ltd	19.78		**L. Other**		
Initial Public Offering		4th qter 2007	Pakistan Television	..	..
Global Depository Receipt		3rd qter 2007	Federal Chemical and Ceramics	..	..
Habib Bank Ltd	41.5		Pakistan Automobile Corp.	..	..
Initial Public Offering		3rd qter 2007	Pakistan Broadcasting Corp.	..	..
Global Depository receipt		4th qter 2007	Pakistan Engineering Co	..	..
National Bank			Pakistan Security printing	..	..
Global Depository Receipt	76.8	4th qter 2007	Ravi Rayon	..	..
National Insurance Corp.	..	..	Printing Corp of Pakistan Ltd	100.00	2nd qter 2008
Pakistan Insurance Corp.	..	..	Shalimar Recording Co	..	..
State Life Insurance Corp.	..	2nd qter 2007	Tomato Paste Plant	..	4th qter 2007
C. Engineering			Republic Motors	100.0	3rd qter 2007
Pakistan Engineering Corp.	33.0	1st qter 2008	**M. Corporations and others (status to be determined)**		
National Construction Ltd	..	..	State Cement Corp.	..	..
Heavy Electrical Complex	100.0	3rd qter 2007	State Petroleum Refining &		
Pakistan Machine Tool Factory	100.0	1st qter 2008	Petrochemicals Corp.	..	..
Pakistan Steel Mills Corp.	100.0		Pakistan Industries Development Corp.	..	..
Initial Public Offering		4th qter 2007	Utility Store Corp.	..	..
Pakistan Steel Fabricating Co Ltd	..	..	Cotton Export Corp.	..	..
Sindh Engineering Ltd	100.0	1st qter 2008	Rice Export Corp.	..	..
D. Marketing and trading			Export Processing Zone Authority	..	..
Cotton Export Corp. of Pakistan	..	..			
Rice Export Corp. of Pakistan	..	..			
Sindh Sugar	..	..			
Trading Corp. of Pakistan	..	..			

.. Not available.

Source: Privatization Commission and Government of Pakistan.

(iv) Competition and consumer policy

(a) Competition policy

130. The Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970 prohibits "undue concentration of economic power", "unreasonable monopoly power" (ability of one or more sellers to set non-competitive prices or restrict output without losing substantial market share or to exclude others from the market) or "unreasonable restrictive trade practices" (unreasonably prevent, restrain or otherwise lessen competition). The minimum asset threshold for the operation of provisions on undue concentration of economic power was raised from PRs 300 million to PRs 4 billion in September 2005. Unreasonable monopoly power is deemed to exist if two competitors maintain a relationship, including mergers that create monopoly power or substantially lessen competition, if they have at least one third market share. Exceptions are: if the relationship contributes "substantially" to efficiency, technical progress or exports; less restrictive means to competition are unavailable; and the associated benefits "clearly" outweigh anti-competitive effects. Unreasonably restrictive trade practices cover both horizontal and vertical constraints. Companies must register a range of undertakings defined in the legislation with the Monopoly Control Authority (MCA). Full or majority SOEs (including those of provincial governments) are not covered by the legislation, nor are markets subject to sectoral regulators (e.g. electricity, telecoms, oil, and gas).

131. The MCA examined and investigated 895 cases and issued 372 Orders in 2005/06. Major cases related to cement and sugar. Penalties were imposed on 18 cement factories that failed to comply with MCA Orders to abolish a cartel and restore competitive prices. The MCA also directed 47 undertakings to make timely grower payments and to release sugar stocks following a sudden rise in prices through "cartel like" activity. It regularly monitors sugar production and prices, including those paid to growers. It has conducted many confidential sectoral studies.

132. The government has launched competition policy development as a key "second generation" initiative. To strengthen monopoly oversight a new modernized competition law has been drafted to replace the MCA with a new Competition Commission. It will prohibit abuse of market dominance, certain types of anti-competitive agreements, deceptive market practices, and mergers or undertakings that substantially reduce competition. The Commission will have increased powers, such as authority to: publicly issue non-binding opinions; obtain forced entry and search of premises; impose higher penalties, which can be recovered from sources other than arrears of land revenue. Improved appellate procedures are to be introduced, including the establishment of an Appellate Bench, and allowing appeals to the Supreme Court in addition to the current appeal arrangements direct to the High Court.

(b) Consumer policy

133. Consumer protection is primarily a provincial responsibility. While most provinces have legislation, implementation has lagged. Consumer protection councils are yet to be established and consumer courts are not yet functional.

(v) Intellectual property rights (IPR)

134. Pakistan has taken decisive steps to strengthen intellectual property protection, particularly enforcement. However, while a long-standing member of the World Intellectual Property Organization (WIPO), Pakistan participates in only two of its 24 treaties; it acceded to the Paris

Convention for the Protection of Industrial Property on 22 July 2004.[137] Pakistan is making efforts to improve its capacity and resources for implementing intellectual property protection, and would consider acceding to other WIPO treaties in several years when technically feasible.

135. Rules were published on patents in December 2003 (Patents Rules 2003) and on trade marks in 2004 (Trade Mark Rules 2004); copyright rules were amended in 2004. Draft legislation protecting plant variety rights has been approved by Cabinet, and the Intellectual Property Organization (IPO) (see below, and Annex II.1) will be responsible for maintaining the plant breeders' rights registry. The Government can reportedly grant public institutions, including the National Book Foundation, royalty-free compulsory reprint rights where considered in the public interest, without the holder's authorization; some see this as not in line with relevant provisions of the WTO Agreement on Trade-Related Aspects of Intellectual property Rights (TRIPs) and the Berne Convention (Copyright Ordinance, section 36(3)).[138] The authorities indicate that this provision has never been used. It is also claimed that trade mark protection is inadequate, since rights of prior use are not recognized in the Trademarks Registry.[139] However, the authorities indicate that the legislation provides "substantial" trade mark protection for prior use by merchants or manufacturers, and that these provisions have been upheld by several judicial precedents. Changes to patent legislation in 2002 are claimed to have eliminated use patents, restricted patent filings to single chemical entities, limited protection for derivatives, and introduced barriers to patenting biotechnology-based inventions.[140] Pakistan is considering introducing a "section 3(d)-type" provision designed to exclude from patentability the "mere discovery of a new form of a known substance which does not result in enhancement of known efficacy of that substance, the mere discovery of any new property or new use of a known substance, and the mere use of a known process, machine or apparatus – unless that process results in a new product or employs at least one new reactant", thereby allowing only new pharmaceutical discoveries and not subsequent medical uses to be patented.[141]

136. In 2006, 247 patents were granted (225 to non-residents), 3,260 trade marks (1,648), 416 industrial designs (137), and 1,120 copyrights (23). Applications for patents (and for designs or layouts of integrated circuits) must be made using a Pakistani legal practitioner. Applications for trade marks can be made directly, provided the applicant has Pakistani representation, or through a registered local trade mark agent or attorney based in Pakistan. Copyright applications do not require a Pakistani lawyer.

137. To improve enforcement the customs provisions on products with intellectual property were revised in the 2004/05 Budget (Customs Act, sections 15, 16 and 17), which prohibit import or export of goods infringing copyright, patents, and trade marks). Import or export (Export Policy Order) of counterfeit products is prohibited, along with goods having a counterfeit trade mark, false trade description within the meaning of the copyright law or violating other intellectual property laws. Customs may detain, seize or confiscate illegal imported or exported goods (section 16). The

[137] Pakistan is also a member of the Berne Convention, and the Universal Copyright Convention administered by UNESCO. It has bilateral agreements with Australia, New Zealand, Sri Lanka, and the United Kingkom to protect inventions and designs, and with Canada for inventions only (EIU, 2006, p. 26).

[138] IIPA (2005) and (2007), p. 355.

[139] EIU (2006), p. 25.

[140] USTR (2007b), p. 444.

[141] Such provisions have possible implications on the patentability of incremental innovations (building on existing innovations) and so-called "evergreening" (extending the patent's term by making inconsequential changes). While a major Swiss pharmaceuticals company challenged them in Indian courts as non-compliant with the TRIPS Agreement, the Chennai High Court dismissed the case in August 2007 on the grounds of its non-competency to decide on issues relating to the TRIPS Agreement.

autonomous IPO, attached to the Cabinet Division under the Prime Minister's supervision, was formed in April 2005 to strengthen the institutional setting and streamline intellectual protection; its budget was increased considerably in 2006/07.[142] It handles all intellectual property and implements an Enforcement Coordination Initiative to crack down on illegal products. In April 2005, to boost enforcement and reduce piracy, copyright crime also became the responsibility of the Federal Investigation Agency (FIA) and of the district police and customs authorities. Enforcement committees among relevant agencies exist in several cities, and "anti-piracy" cells have been established at all international airports to more effectively prohibit pirated goods, e.g. by inspecting all exports of discs.

138. Enforcement efforts, including major seizures, raids and arrests, are believed to have closed piracy operations and reduced illegal imports, especially of business software.[143] As at end-January 2007, the FIA had conducted a total of 38 raids, including four in January.[144] These substantial improvements in IPR protection, and especially enforcement, are recognized internationally.[145] However, efforts to control book piracy (e.g. sales at Urdu bazaars) where enforcement has lagged that of optical piracy have reportedly been far less successful (although this is rejected by the authorities).[146] Book piracy as well as end-user software and cable piracy appear to be widespread.[147] Also, while optical disc production for export has largely ceased, key prosecutions in 2005 remain outstanding and illegal imports from Malaysia and Indonesia are rising.[148] According to the authorities, this largely reflects Pakistan's success in shutting down illegal domestic operations. Some see fines and criminal penalties, such as no mandatory minimum sentences in some areas, e.g. copyright, as an inadequate deterrent.[149] Claims that trade marks are weakly enforced are rejected by the authorities. There are also claims that there is patent infringement in pharmaceuticals by firms being licensed to produce patented drugs, with inconsistent enforcement of court injunctions, protection against unfair commercial use of test or other data submitted to authorities for registration is also said to be inadequate.[150] According to the authorities the possibilities of misuse are being contained effectively by placing the Controller Patents on the Ministry of Health's Drug Registration Board, and government is actively considering the need for legislation to protect against unfair use of test data.

[142] Previously, the Patents and Designs Office was handled by the Ministry of Industries, Production and Special Initiatives; the Trademarks Registry by the Ministry of Commerce; and the Copyright Registry by the Ministry of Education.

[143] Pakistan was estimated to have had one of the highest piracy rates for optical discs (59%), with at least 230 million pirated discs exported in 2004 (IFPI, 2005). Disc capacity exceeded demand by over ten times in 2004.

[144] Imports of polycarbonate, the main raw material for making optical discs, fell by more than 50% (by volume) during 2003-05.

[145] The United States terminated its review of Pakistan's intellectual property regime as part of its GSP scheme in early 2006, and downgraded Pakistan from the Special 301 Priority Watch List to the Watch List in April 2006, in recognition of its progress on IPR enforcement. Pakistan remains on the Watch List in 2007, subject to an "Out-of-Cycle" Review to monitor progress (USTR, 2007b).

[146] The IIPA has estimated that piracy rates remain high for records and music (100% in 2006, up from 83% in 2002), books, business software (up from 80% to 84%), entertainment software, and motion pictures (IIPA, 2007, p. 356). The Business Software Alliance also estimated software piracy in Pakistan at 86% in 2006, up from 84% in 2004.

[147] IIPA (2007), p. 354.

[148] In 2005, six pirated factories were shut down and another four plants closed, 400,000 pirated discs seized, and nine people arrested (IIPA, 2007, p. 358).

[149] USTR (2007b), p. 355. The maximum penalties for copyright infringement are imprisonment for up to three years and/or a fine up to PRs 100,000 for first offence.

[150] USTR (2007a), p. 444.