

# **Export Restrictions**

## **A Study of Restrictions on Agricultural Exports in Pakistan**

*Special Report  
No. 17*

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## ABBREVIATIONS

ADB	Asian Development Bank
ALMA	Agricultural Livestock Marketing Adviser
AMSL	Agricultural Marketing and Storage Limited
CBR	Central Board of Revenue
ECC	Economic Committee of the Cabinet
EEC	European Economic Community
EPB	Export Promotion Bureau
CEC	Cotton Export Corporation
CPI	Consumer Price Index
FAO	Food and Agricultural Organization
GOP	Government of Pakistan
ICD	Inland Container Depots
ITC	International Trade Center
MEP	Minimum Export Price
OECD	Organization of Economic Cooperation and Development
PASSCO	Pakistan Agricultural Storage and Service Corporation
RECP	Rice Export Corporation
TCP	Trading Corporation of Pakistan

## EXCHANGE RATE

\$US 1 = Rs. 21.4

## **Executive Summary**

The objectives of this study are as follows:

- 1) To identify the restrictions and regulations governing the export of agricultural commodities from Pakistan. These include: a) bans and quantitative restrictions such as quotas; b) taxes and duties; and c) licensing. Emphasis is given to the export of fresh fruits and vegetables, although other commodities are discussed.
- 2) To identify the barriers to agricultural exports caused by inadequate infrastructure (marketing facilities, roads, etc.), government marketing, grading services, etc.
- 3) To estimate the potential costs and benefits of increases in the export of agricultural commodities presently restricted.
- 4) To recommend possible changes in legislation and regulations, as well as improvements in government marketing services, other marketing facilities, etc. with the goal of increasing the profitable export of agricultural commodities.

Despite a sustained growth in exports, the balance of payments problem in Pakistan is still critical. With more than 60 percent of total foreign exchange earnings derived from cotton, textiles, and rice, Pakistan's export base is rather narrow and needs to be expanded. In general, the serious structural problems in the trade sector of Pakistan can be summarized as follows:

- 1) The export base remains narrow and is subject to instability. Unit values of many exports remain low, and more value-added products are needed in the export mix.
- 2) The tax base is too dependent on trade-related taxes leading to a less efficient export structure.
- 3) There has been a structural bias against exports which has lowered growth in exports.
- 4) Administrative barriers (bans, quotas, duties), lack of marketing and transportation infrastructure, and insufficient quality control programs have worked against increased exports.

This study will concentrate on examining the fourth set of problems, although progress must be made in all areas if Pakistan is to meet the challenge of diversifying its export sector and increasing the volume of exports.

## **Direct Trade Restrictions**

**Export Bans:** There are a considerable number of products which legally cannot be exported from Pakistan. This includes live sheep, beef and mutton (except for 50% of the total production of commercial feed lot units, livestock farms and bilateral joint ventures), animal fat, milk and milk products (except for infant formula and cheese), certain types of vegetables, wheat, pepper, pulses, beans, certain brans and fodder, edible oils, gur, hides and skins, charcoal, & timber.

The 5-year average annual value of production of the items on this list for the years between 1984/85 and 1988/89 is some Rs. 23.5 billion, while the 5-year average annual value of exports of these goods was Rs. 370 million, or 1.6% of the total.

**Quantitative Restrictions:** Other items on the list are subject to an annual quota, determined with the assistance of the relevant agencies. For example, the Pakistan Flour Mill Association helps to determine the quota for wheat flour, wheat bran, and other wheat products (suji and maida). The Ministry of Food and Agriculture sets other quotas for goods such as live animals and feed.

## **Indirect Trade Restrictions**

**Export Duties:** Although the number of export duties levied on exports from Pakistan have declined in recent years, there are still a number of duties left. The duty on raw cotton is the minimum export price (MEP) of raw cotton minus Rs. 715 per 37.5 kg. and a Rs. 650 per MT duty on basmati rice and 30% of the export value of IRRI rice. There are also export duties on cotton yarn, raw hides and skins, molasses, breeding camels, and certain birds, and cotton yarn.

**Minimum Export Price:** A number of goods are subject to a minimum export price (MEP), or a floor price for exports below which exports are not allowed. For cotton, the MEP is announced on a daily basis by a committee of the Cotton Board. The price is good for 24 hours. For rice, a MEP is fixed annually, based on a price negotiated with the Gulf Cooperation Council for bulk basmati rice by the RECP. There are MEP's for other goods including various live animals.

**Monopoly control by Government-owned export corporations has been relaxed in recent years;** the private sector is now allowed to export cotton and rice. However, a number of controls are still in place and reduce the flexibility of traders.

**Grading and standards** are not a constraint per se. Rather the lack of adherence to the established grades and standards is the problem, combined with a lack of proper equipment to do the grading. Grades and standards need to be harmonized with international norms.

### **Summary of Costs and Benefits of Lowering Trade Restrictions**

A summary of the costs and benefits to the various groups if trade bans and quotas were lifted follows. We have assumed the 5.0% case under the "Most Likely" scenario as the basis for this summary. The numbers given below are indicative only of this scenario.

- 1) **Consumers:** Urban consumers bear the short-term cost of this change in policy: an increase at most of one-half of one percent (.52%) of the CPI. In rupee terms, this represents a Rs. 3.04 billion transfer from consumers to producers and marketing intermediaries. The loss to consumers will in part be mitigated by supply response by the producers, substitution of other goods by consumers, and gains from increased economic activity, particularly those who obtain employment. Note that, private and public consumption has been growing at a combined annual rate of 11.5% over the past ten years. In relation to this type of growth, a 0.52% increase in the CPI seems relatively small. In the long-run, the economy would adjust to these price changes and the effect on inflation would be very small.
- 2) **Producers:** Producers gain from increased prices of commodities to the extent that higher prices are translated to the farmgate. Traders will gain a portion of the increase. Total gains by producers and traders should equal Rs. 3.04 billion. Long-term benefits are also gained because farmers are able to switch to higher valued crops.
- 3) **Exporters:** The exporting community increases the volume of its exports by Rs. 831 million and the associated profits from that trade. In the long-term, traders would gain from being able to develop a larger scale of operation with a lower risk factor, if government continues to refrain from bans on exports.
- 4) **Government:** The Government will gain Rs. 831 million in foreign exchange and an unknown increase in tax revenues derived from taxes on traders' profits. The Government would also gain from the decrease in the time spent in the administration of export restrictions which would increase the efficiency of the customs system, benefitting the entire economy. These savings could represent up to 5-10% of the entire Customs budget, which is some Rs. 324 million, or a savings of Rs. 16.2 - 32.4 million, according to an estimate of a Customs official.

This level of exports will also generate increased economic activity and additional jobs. Our estimates estimate that the Rs. 831 million of exports would generate Rs. 1.89 billion of additional economic output in the economy. An additional 84,000 jobs would result from the increased exports. There would also be long-run development benefits. Technological innovation and investment in rural areas would be encouraged.

The major problem for the Government would be the short-term complaints of urban consumers. The Government may want to distance itself from taking responsibility for price increases of all but the most important agricultural commodities, such as wheat. The Government must try to strike a balance between the interests of consumers and the interests of producers, as well as a balance between the short-term and the long-term needs of the economy.

#### Policy Options and Recommendations

**Direct Restrictions:** The trade restrictions imposed by the Government on the export of agricultural commodities are often meant to rectify a situation of short supply signaled by an unusual rise in prices. However, it is not entirely clear how well these restrictions work in the short-term. In the long-term, they may depress the development of the agricultural sector by lowering overall demand.

The benefits from lifting trade restrictions are quite clear- increased employment, greater foreign exchange, increased economic activity through the multiplier effect, and increased income for producers and traders.

Because of the economic benefits of increased trade, the Government should try to keep export restrictions to a minimum. Export bans should be used on the minimum of commodities and only in the short-term if at all. Quantitative restrictions are costly in terms of administrative times to the Government and to exporters in terms of lost marketing flexibility. They too should be used as little as possible.

List of Items to Remove from the Banned List If the GOP adopts the strategy suggested in this study, it would begin by carefully examining the list of restricted items and reducing the number of items on the list to the absolute minimum. Fruits and vegetables and spices would probably be the first items to remove from the list, as well as UHT milk, and all meats processed in modern slaughterhouse facilities. Once the list is shortened, then placing an item back on the list might be made only according to a specified set of criteria. The decision to restrict the export of a good should not be taken lightly. The reputation of the country as a reliable supplier of goods is on the line every time.

**Systematic Analysis of Commodities** There should be regular analysis of commodities, rather than emergency data gathering on possible commodities for inclusion on trade restriction list. The analysis of a number of the other commodities on this list including live animals, bran and fodder, edible oilseeds, and hide and skins should begin as soon as possible.

**Set of Criteria for Determining Export Restrictions-** The decision to restrict the export of a good could be made according to a set of explicit criteria. Section 4.3 of this report suggests one possible set of criteria.

**Need for a Stable Business Environment** Perhaps one of the most important goals of the Government's export policy should be to provide a stable and conducive environment in which exporters can conduct their business. Without that environment, growth in the agricultural export sector will be stunted. The extent to which Pakistan can make restrictions on agricultural exports the exception rather than the rule, the higher will be the growth in the export sector and the agricultural sector.

**Indirect Restrictions:** There is the need for a commercially oriented approach to indirect restrictions on trade. Export duties may be a convenient way of collecting taxes, but they may render Pakistani exports uncompetitive in an increasingly competitive international market. Higher duties on lowered levels of exports may bring in less revenue than lower duties on higher levels of exports..

Similarly, the minimum export price is a way of ensuring the deposit of a certain amount of foreign exchange by private exporters. But it may also limit the flexibility of the private sector to make valid sales from an economic point of view. Greater flexibility is needed, with the possible option of: 1) setting a lower minimum export price; 2) creating a system which allows for quality variations; 3) allowing a case-by-case variance of the minimum export price; 4) abolishing the minimum price system.

Grading and standards programs exist in Pakistan. However, government services need to be strengthened to have a wider reach. At the same time, the private sector must adhere more strictly to the grades and standards already established. Some revision of the grades and standards by the appropriate authorities is needed, with an attempt to harmonize them with international standards.

### **Improvements in Services and Infrastructure**

There are a number of improvements needed in the government services and the country's infrastructure that must be made if export volumes, particularly of fruits and vegetables are to increase. These include:

- 1) **Cold Storage Facilities:** Particularly at airports, cold storage facilities are needed throughout the country. It would be desirable if these could be built and operated by the private sector or by cooperative venture of exporters. However, volumes are so small now that it may be necessary for the Government to provide these facilities in the first instance. There are already projects attempting to increase the cold storage capacity.
- 2) **Grading Centers near Production Areas:** The grading program of the Government needs to be nearer to production centers. In fact, private procurement and packing facilities should also be closer to production areas. There is the need for pilot or demonstration programs in the field to show the advantages of pre-cooling, grading, and proper packing techniques. A companion extension program is needed to ensure that the produce is picked at the optimum time for export.
- 3) **Air Cargo:** PIA needs to become a more active player in the total export scheme. The reliability of PIA service for export must be increased during the high export and harvest season. Freight rates need to be reviewed to reflect the competition from Indian air shippers. Also, the landing fees should be reviewed to make sure that they do not discriminate against foreign airlines that would be willing to carry cargo from Pakistan.
- 4) **Grower Associations:** Develop export grower associations to assist in self-help activities and to set up links with international associations. This type of association can provide certain types of services more efficiently than the Government or individual exporters.
- 5) **Joint Ventures:** Encourage the formation of joint ventures between Pakistani producers and foreign marketing firms. This would mean creating entities producing specifically for export, a necessary change in the "surplus mentality" exhibited by many in Pakistan. These types of joint ventures have proven very successful in Latin America and elsewhere in Asia.

## Preface

This study of export restrictions on agricultural commodities in Pakistan has taken place under the auspices of the Directorate of Agriculture Policy (DAP) of the Ministry of Food and Agriculture, along with the Economic Analysis Network (EAN) Project team of the U.S. Agency for International Development. The authors would like to thank Dr. A.H. Maan of the DAP and Dr. Forrest Walters, Technical Advisor at EAN for their help in making this study possible. We would also like to thank Dr. Joseph Ryan, USAID Economist and Mr. Fayaz Nasim of the USAID Program Office for their assistance.

The study took place in several stages. The first stage consisted of fieldwork and studies directed specifically at non-traditional crops. One report, "Institutional and Merchandising Constraints for Pakistan's Non-Traditional Agricultural Exports, was written by William Spencer and K.A. Siddiqi. The second report, "Restrictions on Non-Traditional Agricultural Exports From Bans, Duties, Licensing, and Other Controls by the Government of Pakistan," was completed by Dr. Albert Madsen, K.A. Siddiqi, and Muhammad Ijaz Ahmad.

The second stage, represented by this report, is a more general look at export restrictions with the attempt to calculate the costs and benefits of export policy as a whole. Many of the examples in this report are based on the fieldwork on non-traditional crops carried out in the first two reports. Beyond non-traditional crops, this report was not intended as sector studies of particular crops. We did have excellent studies on the dairy sector and the livestock sector available for our use. Other sector studies would be of much value to policy makers.

This report contains the essentials sections of the Spencer and Madsen reports, principally in Section 3 and Annex II.

# **Restrictions on Pakistan's Agricultural Exports**

## **1.0 Study Background**

### **1.1 Introduction**

Pakistan's exports have long been dominated by traditional agricultural exports such as cotton, cotton products, and rice. Many observers have suggested that there has been too little diversification in the export sector despite efforts by the Government of Pakistan (GOP), a general comparative advantage in many agricultural commodities, and a favorable location between markets in the Middle East and Asia. There are many reasons for this problem. Some are related to government policy; others are related to the level of infrastructure in Pakistan; still others are related to the type of incentives offered to entrepreneurs in both the import and export sectors.

The lack of diversification in Pakistan's export base has been a subject of considerable concern by GOP policy makers. It is also one of the subjects discussed in recent reports by the World Bank and Asian Development Bank.<sup>1</sup> However, these reports have concentrated somewhat more on the export of manufactured goods. The focus of this document is on the exports of agricultural commodities and the positive steps that can be taken to increase them.

### **1.2 Study Objectives**

The objectives of this study are as follows:

- 1) To identify the restrictions and regulations governing the export of agricultural commodities from Pakistan and assess their efficiency in promoting the stated goals of the government. These include: a) bans and quantitative restrictions such as quotas; b) taxes and duties; and c) licensing. Emphasis is given to the export of fresh fruits and vegetables, although other commodities are discussed.
- 2) To identify the barriers to agricultural exports caused by inadequate infrastructure (marketing facilities, roads, etc.), government marketing and grading services, and merchandising practices.

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<sup>1</sup> Asian Development Bank, Promotion of Manufactured Exports in Pakistan, 1989, by Jungsoo Lee and Yoshihiro Iwasaki

World Bank, The Trade Regime in Pakistan, Report No. 7005, 1987

- 3) To estimate the potential cost and benefits of increases in the export of agricultural commodities presently restricted.
- 4) To recommend possible changes in legislation and regulations, as well as improvements in government marketing services, other marketing facilities, and merchandising practices with the goal of increasing the profitable export of agricultural commodities.

### 1.3 Overview of the Trade Sector

#### 1.3.1 Recent Performance

**Balance of Payments:** Despite improvements in the trade balance in FY 1986-87 and 1987-88, the overall balance of payments - as measured by the current account balance - began to deteriorate in fiscal year 1988/89, as shown in Figure 1.<sup>2</sup> This was due to a number of factors, including a widening of the trade deficit caused by a surge in imports, declining remittances from workers in the Middle East, increased debt servicing, and lower export prices in general. Exports were adversely affected by a ceiling on duty drawbacks, floods in the Punjab and Sind, and political disturbances. Foreign aid is a major source of funding to finance these deficits, as well as a certain amount of borrowing from commercial banks.

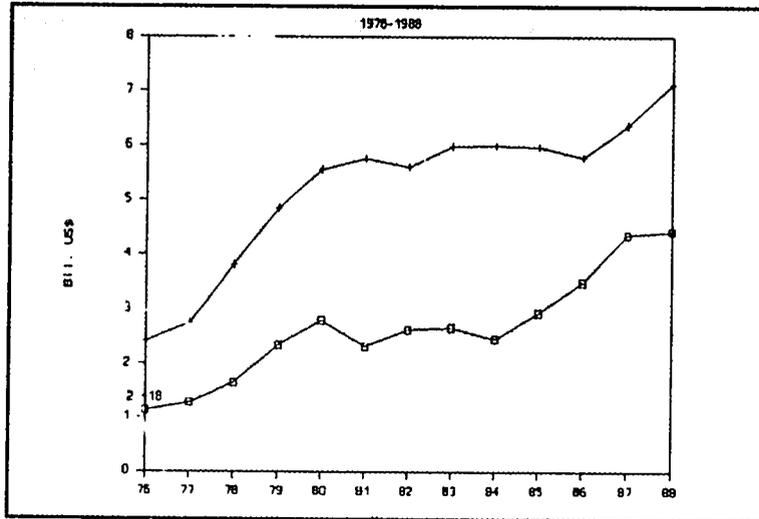
The GOP estimates that in 1987-88, the debt servicing of the country was some \$1.12 bil. on a total external debt of some \$12.9 bil. Debt servicing as a percent of GNP was 2.8% and as a percent of foreign exchange earnings was some 15.5%. External debt as a percent of GNP represented 32.5%. While these external debt ratios are better than some developing countries, they clearly suggest the urgency of improving the trade deficit, since financing the external debt is becoming a constraint on economic growth and development.

**Export and Import Performance:** Over the past five years, the value of exports in nominal dollar terms has grown at an average annual rate of 10.0% in nominal terms or 5.0% in

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<sup>2</sup> Fiscal year 1988/89 is represented by "88" in Figure 1. Also see Table Annex Table I.1

Figure 1

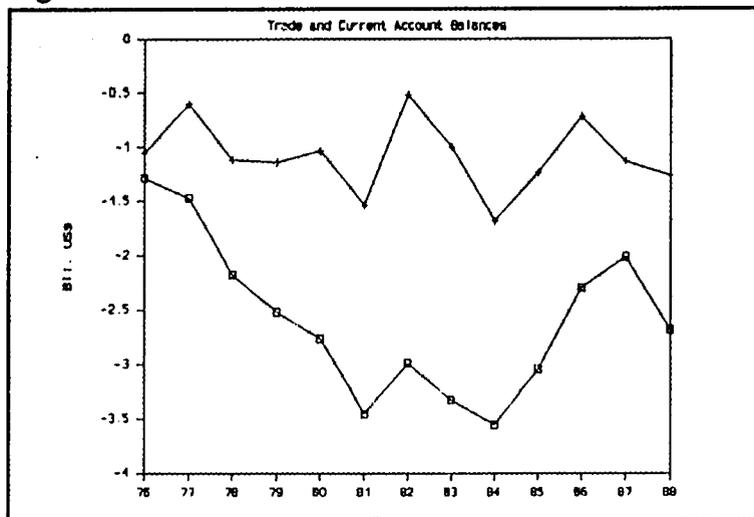


real terms. Exports during the 1988-89 period are estimated to be \$4.7 bil., which represents an annual growth rate of 4.7% in current dollar terms since 1987-88. Exports were slow during the first half of the year, growing at 0.7% in current terms, while improving to 7.3% during the second half of the year. The export target for 1989-90 has been fixed by the Ministry of Commerce at \$5.07 bil., an increase of 7.8%, which may be somewhat optimistic. (See Figure 2 for a graphic representation of export and import statistics.)

Imports have grown at an average growth trend of 7.4% over the last twelve years in nominal dollar terms. In real or constant dollar terms, the annual growth trend in imports has been 2.4%, lower than the growth trend in exports. However, there has continued to be a trade deficit since the export base was originally much lower.

Import figures for 1988-89 are estimated at \$6.9 bil., an increase of some 10.6% over the import bill of 1987-88. The Ministry of Commerce projects an import bill for the 1989-90 year of \$6.8 bil., which if achieved, would mean a decline in the value of imports of 1.4%, again an optimistic goal given historic growth trends. The trade deficit is thereby projected by the Ministry of Commerce to be \$1.73 bil. Given that the deficit has not been below \$2.0 bil. since 1977, this would seem rather optimistic.

Figure 2



### 1.3.2 Structure of Trade

**Exports:-** As shown in Table 1, Pakistan's exports are dominated by cotton-based products, which averaged some 44.5% of the total annual export value over the last five years. In 1987/88, this category added over Rs. 37.6 bil., or \$1.97 bi!. (See Annex Table I.2). Raw cotton was the largest single export category, averaging 12.5% of exports. Cotton and textile products as a whole accounted for over Rs. 45.8 bil., or some 58.4% of total exports.

The agricultural products category, dominated by rice and leather products, accounted for an average of 21.7%. The fruit and vegetable export category comprised on average 1.3% of exports. Although the value of the agricultural products category has increased in nominal rupee terms, its relative share has fallen from 25.2% to 19.7% over the last five years.

The average growth in the nominal value of exports in recent years has been 21% (See Table I.2). The cotton and synthetic textiles industries have had average annual growth rates of over 50%. Increases in the nominal value of guar products, leather, fish products, and tobacco have all been higher than the average for all exports. Rice grew at a rate well below the average over the last five years as did exports of fruits and vegetables.

With more than 60 percent of total foreign exchange earnings derived from cotton, textiles, and rice, Pakistan's export base is rather narrow and needs to be expanded. The country needs to diversify its export base in those areas where global trade is expanding rapidly and in products which Pakistan can compete internationally. Better utilization of the country's

agricultural base through increased production and export of fresh fruits, vegetables, and spices, as well as improved agricultural processing facilities is one way of diversifying and increasing exports. At the moment, however, this represents a fairly small portion of total export earnings.

Table 1  
Composition of Merchandise Exports  
1984/85-1987/88  
(Percent of Total Exports)

	83/84	84/85	85/86	86/87	87/88	Ave. % Exports
Raw Cotton	4.7%	11.5%	16.7%	12.1%	13.7%	12.3%
Cotton Yarn	7.8%	10.5%	9.1%	13.7%	12.1%	11.1%
Cotton Fabrics/Thread	13.8%	12.8%	10.5%	9.6%	11.2%	11.3%
Readymade Garm., Hos.	7.9%	7.0%	8.5%	12.2%	10.9%	9.8%
Subtotal-Cotton Prod.	34.3%	41.7%	44.9%	47.7%	47.9%	44.5%
Synthetic Textiles	3.9%	1.7%	1.6%	4.3%	4.4%	3.4%
Raw Wool	0.5%	0.7%	0.6%	0.5%	0.4%	0.5%
Carpets and Rugs	6.2%	5.3%	5.4%	5.4%	5.7%	5.6%
Subtotal-Ot. Textiles	10.6%	7.7%	7.6%	10.2%	10.5%	9.5%
Rice	15.2%	8.8%	11.1%	8.1%	8.2%	9.8%
Fish, Fish Preparation	2.7%	3.2%	2.7%	3.0%	2.8%	2.9%
Leather, Leather Prod.	6.0%	7.0%	6.6%	7.1%	7.2%	6.9%
Fruits, Vegetables		1.5%	1.4%	1.2%		1.3%
Guar & Products	0.9%	0.9%	0.9%	0.9%	1.2%	1.0%
Tobacco- Raw & Mfd.	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%
Subtotal- Ag. Product	25.2%	21.8%	23.1%	20.7%	19.7%	21.7%
Sporting Goods	1.8%	1.8%	1.6%	1.6%	1.5%	1.6%
Surgical Instruments	1.2%	2.0%	1.7%	1.5%	1.3%	1.5%
Petroleum & Products	1.5%	1.4%	1.0%	0.7%	0.6%	0.9%
Miscellaneous	25.5%	23.5%	20.2%	17.6%	18.6%	20.3%
Subtotal- Other Prod.	29.9%	28.7%	24.5%	21.4%	21.9%	24.3%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Annex Table I.2

In general, exports appear to be a less significant generator of income and employment than in most low-income economies. For example, the ratio of the value of exports to GDP for Pakistan in 1985 was 11%, while this measure was 14% in a weighted average of low-

income economies (excluding China and India) and was 21% as a weighted average of all developing countries including the newly industrializing countries. (World Bank, World Development Report, 1987). This reflects to a large extent the importance in Pakistan's early years placed on import substitution as a strategy for industrialization. With the domestic market large and well-protected, there has been little incentive for many Pakistani firms to compete on international markets.

### 1.3.3 Destination of Exports

The exports of Pakistan are destined largely for OECD countries-a 60.4% share in 1987/88-while a large range of developing countries account for another 35.3% in the same year. The largest customers in recent years have been the United States and Japan, followed by Saudi Arabia. West Germany, United Kingdom, Italy, and France are the largest European customers, while Hong Kong is the largest Asian client. Pakistan depends on markets in industrialized countries less than most developing countries. At the same time, Pakistan has a problem of "relatively low unit returns on foreign export markets.... Pakistani goods appear to have a consistently lower ranking on the basis of unit values than competing suppliers."<sup>3</sup>

This problem of an average low quality of exports appears to plague many of the agricultural exports, particularly in the fruit and vegetable sector. Most of the fruits and vegetables exported appear to go to markets in the Middle East and Asia where the unit prices are lower than they would be in European markets (dried apricots and some spices are exceptions to this problem- See Annex II for country specific exports by commodity).

### 1.3.4 Illegal Cross-Border Trade

It is commonly known that a number of products cross the border of Pakistan illegally into neighboring countries. These commodities include live animals into Iran and Afghanistan; fresh fruits, vegetables, and wheat into Afghanistan; and edible oils into India. Whenever there are price distortions due to shortages, subsidies, export restrictions, etc., price differentials between two countries may be large. If this differential is greater than the marginal costs of smuggling (usually defined as the costs associated with transportation, labor, information, and risk of getting caught and penalized), then there would be an incentive to smuggle goods into or out of a country.

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<sup>3</sup> IMG Consultants, Industrial Efficiency Improvement and Development Strategy Study, Volume 2, 1988, p. 50

Statistics on the size of this trade do not readily exist. One estimate by the World Bank making assumptions from Karachi Customs data suggests that the total volume of annual smuggling (both imports and exports) might be as high as \$1.8 billion dollars in 1985-86. Another estimate specifically for fresh and dried fruits going to Afghanistan from Peshawar in 1987-88 was Rs. 127.9 million or \$6.1 million. Unofficial estimates of the total exports to Afghanistan are over \$104 million.

With this potential size of export through smuggling, export policy needs to take into account the effect of trade policy on illegal exporting. It does little good to ban exports of commodities that will be smuggled out anyway. It may be better for the Government to lift the ban and try to collect tax revenue on the transaction. Legal trade with neighboring countries has the potential to be beneficial for both sides, and therefore should be encouraged.

#### **1.4 Problems and Constraints in the Trade Sector**

Despite the improvements in the trade accounts of Pakistan, there are a number of structural problems which need to be addressed if Pakistan is to achieve the high growth rates in exports necessary to avoid serious balance of payment problems in the future.

- 1) The export base remains narrow and is subject to instability. Unit values of many exports remain low, and more value-added products are needed in general.
- 2) The tax base is too dependent on trade-related taxes leading to a less efficient export structure.
- 3) There has been a structural bias against exports (exchange rate and tariff policies) which has lowered growth in exports.
- 4) Administrative barriers (need for export permits, bans on exports), lack of marketing and transportation infrastructure, and insufficient quality control programs have worked against increased exports.

This study will concentrate on the examining the fourth set of problems, although progress must be made in all areas if Pakistan is to meet the challenge of diversifying its export sector.

### **2.0 Constraints to the Export of Agricultural Commodities**

#### **2.1 Direct Restrictions**

There are two types of direct restrictions on exports from Pakistan. First, there are absolute bans on exports. Second, there are quantitative restrictions or quotas, which limit the amount of a product that can legally be exported. These export restrictions have a long history in Pakistan, with the first export bans placed on wheat in the early 1950's. By 1980, the list of agricultural goods banned and restricted for export had grown considerably and included items such as beef, mutton, grains, flour, dairy products, edible oils, blood meal, corn gluten meal, sesame oil cake, and certain hides and skins.<sup>4</sup> Although additions and deletions on the list have been made over the decade, the list looks quite similar today. Table 2 provides a listing of the commodities that are restricted through an absolute ban or a quota. Annex Tables I.3 and I.4 provide further details on export items which are restricted, as well as the list of restricted goods in Annex III.

The average annual value of production of the items on this list for the year between 1984/85 is some Rs. 23.5 billion while the average annual value of exports of these goods for the same years was Rs. 370 million, or 1.6% of the total.<sup>5</sup> The overall trend of total export value has been slightly downwards, although the trend is not a strong one (See Annex Table I.4 for annual data). Export volume as a percentage of domestic production was low for most items on the list, with only cumin seed, chillies, and rice bran export volume averaging more than 10% of total production.

**2.1.1 Export Bans:** There are a considerable number of products which legally cannot be exported from Pakistan. This includes live sheep, beef and mutton (except for 50% of the total production of commercial feed lot units, livestock farms and bilateral joint ventures), animal fat, milk and milk products (except for infant formula and cheese), certain types of vegetables, wheat, pepper, pulses, beans, certain brans and fodder, edible oils, gur, hides and skins, charcoal, and timber.

The following vegetable exports are presently banned:

- a) Fresh tomatoes and fresh green chillies

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<sup>4</sup> World Bank, The Trade Regime in Pakistan, 1987, p. 37 has a discussion of the recent history of export bans.

<sup>5</sup> Value of production is measured using annual production figures multiplied by wholesale prices. Normally, farmgate prices would be used to estimate production value, but a consistent set of farmgate prices is not yet available in Pakistan.

- b) Spices: ginger (fresh), garlic (whole, dry), turmeric (whole), and cumin seeds (whole)

All other fruit and vegetable exports are allowable at the moment, including powdered dry garlic which was taken off the banned list in January, 1990. The Ministry of Commerce continues to have the power to add or delete additional fruits, vegetables, or other agricultural commodities to the list.

There used to be a ban on the re-export of items that had been imported. This has now been changed. If there has been a minimum of a 10% increase in the value of the exported item, then export is allowed. It is not entirely clear how this is enforced. In fact, many of the bans -- wheat to Afghanistan, live animals to Iran, edible oils to India -- are extremely difficult to enforce, and there are indications of large leakages to surrounding countries.

### 2.1.2 Quantitative Restrictions

Other items on the list are subject to an annual quota, determined with the assistance of the relevant agencies. For example, the Pakistan Flour Mill Association helps to determine the quota for wheat flour, wheat bran, and other wheat by-products (suji and maida). The Ministry of Food and Agriculture sets other quotas. For example, live animals such as buffalos, cows, goats, and camels are allowed for export only for breeding purposes with a limit on the number of animals that can be exported: 10,000 for buffalo and goats, 4,000 for cows. The export of sheep is not allowed at all. Dry red chilies, on the banned list last year, are subject to an export limit of 5,000 MT in 1990. Maize, gram, gramsplit, and barley are also subject to annual quota set by the GOP. At the moment, the quota for these last four commodities is zero. The reason that this is different from a ban is that the Ministry of Agriculture does not have to go to the ECC to get approval to change the quota level.

**Table 2**  
**Trade Restrictions on Agricultural Commodities**

CATEGORY	UNIT	TYPE RES- TRIC- TION	(1)	(2)	(3)	(4)	(5)	(6)
			Produc- tion	Whl.Pr. Rs/Kg	Value Rs.Mil.	Export Vol.	Ex.Val. Rs.Mil.	Ex.Vol as % Prod.
			1984/85-1988/89					
			-----5-YEAR AVERAGE-----					
			(Rs/Hd)					
1. Live Animals								
a)Buffalos	'000 hd	Ban	15,705	2,296	3,606	0.1	1.1	0.00%
b)Cows	'000 hd	Quota	17,541	1,976	3,466	7.1	74.4	0.04%
c)Goats	'000 hd	Quota	29,945	392	1,174	9.9	50.2	0.03%
d)Sheep	'000 hd	Ban	23,287	366	851	0.1	0.0	0.00%
2. Meat								
			(Rs/Kg)					
a)Beef	'000 MT	Mix	554	14.2	788	0.0	0.0	0.0%
b)Mutton(Sheep/Goat)	'000 MT	Mix	518	30.7	1,589	0.03	0.9	0.01%
3. Animal Fat	'000 MT	Ban	92	10.0	92	0.0	0.0	0.0%
4. Milk & Milk Prod.	'000 MT	Mix	9,598	5.1	4,880	0.0	0.1	0.0%
5. Vegetables								
a)Fresh Tomatoes	'000 MT	Ban	140	3.7	51	0.0	0.0	0.0%
b)Green Chillies	'000 MT	Ban	N/A	N/A	N/A	N/A	N/A	N/A
c)Ginger-fresh	'000 MT	Ban	0.06	15.7	0.09	0.0	0.0	0.0%
d)Turmeric-whole	'000 MT	Ban	26	17.6	46	0.0	0.0	0.0%
e)Garlic-dry,whole	'000 MT	Ban	7	7.7	5	0.6	3.3	9.1%
f)Cumin Seeds-whole	'000 MT	Ban	2	101.4	24	0.3	5.9	11.0%
g)Chillies-dry,red,whl	'000 MT	Quota	89	14.8	132	9.7	150.1	10.9%
6. Grains								
a)Wheat	'000 MT	Ban	12,947	2.2	2,840	0.0	28.2	0.0%
b)Maize	'000 MT	Quota	1,096	2.9	314	2.4	1.9	0.2%
c)Barley	'000 MT	Quota	127	2.6	33	0.6	1.6	0.5%
7. Pepper		Mix	N/A	104.9	N/A	N/A	N/A	N/A
8. Pulses & Beans								
a)Masur Pulse	'000 MT	Ban	31	10.0	31	0.0	0.0	0.0%
b)Moong Pulse	'000 MT	Ban	47	8.8	41	0.0	0.0	0.0%
c)Mash Pulse	'000 MT	Ban	40	7.9	32	0.0	0.0	0.0%
d)Gram Pulse	'000 MT	Ban	504	5.4	275	0.0	0.0	0.0%
9. Blood & corn meals		Ban	N/A	N/A	N/A	N/A	N/A	N/A
10.Bran & Fodder								
a)Oil Cake(Cottonseed)	'000 MT	Quota	2,154	2.2	469	0.1	0.3	0.01%
b)Rice Bran	'000 MT	Quota	352	1.5	53	53.1	52.7	15.1%
c)Wheat Bran	'000 MT	Ban	1,553	1.3	204	0.0	0.0	0.0%
11.Edible Oils/Seeds								
a)Cottonseed	'000 MT	Ban	2,507	2.5	636	0.0	0.0	0.0%
b)Rapeseed/Mustard	'000 MT	Ban	230	5.0	114	0.0	0.0	0.0%
c)Sesamum/Linseed	'000 MT	Ban	17	9.3	15	0.0	0.0	0.0%
12.Gur, Khandsari	'000 MT	Ban	1,132	4.5	509	0.0	0.0	0.0%
13.Hides & Skins	'000	Mix	5,503	196.4	1,081	0.0	0.0	0.0%
14.Firewood/Charcoal	'000 m <sup>3</sup>	Ban	461	0.7	32	0.0	0.0	0.0%
<b>TOTAL</b>					<b>23,384</b>		<b>370</b>	

**Table 2**  
**Footnotes**

- Column (1)** Average Annual Production from 1984/85 to 1988/89. Average production is expressed in units shown in the "Unit" column average over a five year period (4 years in some cases. See Annex Table I.3. Livestock data are from the 1985/86 Livestock Survey and represent an estimation of the total number of animals for a given category. The commodity data is from Agricultural Statistics of Pakistan, 1988-89; Pakistan Statistical Yearbook, 1989; the Economic Survey, Statistical Supplement, 1988/89; and Fruit, Vegetable, and Condiment Statistics of Pakistan, 1979/80 to 1987/88. Additional information was gathered at the Statistics Section, Planning Unit, Ministry of Food and Agriculture.
- Column (2)** Average Annual Wholesale Price- Rs./Kg. Average annual wholesale prices for 5 years- 1984/85-1988/89 (or 4 years average if 5 years were not available). All Pakistan averages were used if available. If not the Karachi market average was used. Milk prices given in Rs./liter.
- Column (3)** Average Annual Value- Rs. Million: Average annual value of production valued at wholesale prices. Derive by multiplying Column (1) by Column (2).
- Column (4)** Average Annual Export Volume for the same five year period, derived from data given in Table I.4
- Column (5)** Average Annual Export Value for the same five year period, derived from data given in Table I.4
- Column (6)** Export Volume as a Percent of Average Annual Production. Column (6) divided by Column (1) multiplied by 100.

## 2.2 Indirect Trade Restrictions

### 2.2.1 Export Duties

Although the number of export duties levied on exports from Pakistan have declined in recent years, there are still a number of duties left. For example, the duty on rice is now Rs. 650 per MT of basmati and 30% on the export value of IRRI rice. The duty on raw cotton is the minimum export price (MEP) of raw cotton minus Rs. 715/37.5 kg. Hence, if the MEP is Rs. 1,260/37.5 kg., the export duty would be Rs.1,260 - Rs. 715 = Rs. 545 per 37.5 kg., or Rs. 14.55/kg. If the MEP were to fall to Rs. 715 or below, presumably no export duty would be charged. However, the duty rate at present is some 41 percent of present market rates. Cotton yarn has a three rupee export duty levied on it. This is less than raw cotton, a policy based in attempting to encourage the export of value added products.

Other products are charged duty on a percentage basis of the export price as follows:

Product	Rate of Duty
1. Raw Hides	15%
2. Raw Skins (lamb and fur)	15%
3. Molasses	25%
4. Breeding Camel	Rs. 2,500 per head
5. Other Birds	Rs. 5 per bird

The rationale behind most of these export duties is to try to keep raw materials available for local value-added production. However, if those industries adding value to the raw materials were fully competitive on international markets, there would be little need for protective export duties. In general, export duties can lower the level of exports and negatively affect production to the extent that exporters can pass the duties back to producers.

In 1989, the GOP lifted the "regulatory" export duty on basmati rice exported in small packages, which had been as high as Rs. 3,350 per metric ton plus an export duty of Rs. 650 per MT. Presently, there is only an export duty of Rs. 650 per MT charged on both private and public sector exports. Also, the GOP recently announced that the private sector would

be allowed to export basmati rice in bulk. The duty on IRRI rice exports is 30 percent of the export value of the goods. Only the RECP is allowed to export IRRI rice at present. Hence, the export duty is a transfer from RECP accounts into the GOP treasury.

The basmati policy was changed for several reasons. First, few private sector importers had been able to successfully join the recently deregulated trade of basmati rice. Although Pakistan had a pre-eminent position in international basmati markets, the export tax eroded the competitive position of Pakistani producers and exporters vis-a-vis other producers of basmati rice. For example, the Indians, unencumbered by an export duty, were aggressively able to undercut Pakistan and gain market share, which may now be difficult to win back. In Pakistan, with its orientation towards indirect taxation on the trade sector, export duties have levied in part because of the ease of collection. According to the Economic Survey, 1988-89, some Rs. 3.24 billion were collected in export duties, which represents about 3.6 percent of the total tax revenues collected by the Federal Government. Do these revenues benefits outweigh the risks of becoming uncompetitive in international markets? One writer in the Business Recorder suggests that the same thing is happening to raw cotton exports as happened to rice. Pakistan may be losing market share in raw cotton exports to private Indian exporters who pay no export duty and who have domestic price supports set in line with the international prices. With the export of raw cotton worth over Rs. 10 billion, a review of the export duty on raw cotton is in order. If the duty makes Pakistani cotton uncompetitive on the international market, it should be lowered or removed.

### 2.2.2 Minimum Export Price

A number of goods are subject to a minimum export price (MEP), or a floor price for exports under which exports are not allowed. For cotton, the MEP is announced on a daily basis by a committee of the Cotton Board. The price is good for 24 hours. A recent price for cotton was 68.75 US cents/lb. (for Afzal 1-1/32" on March 3, 1990).

For rice, a MEP is fixed annually, based on a price negotiated with the Gulf Cooperation Council for bulk basmati rice by RECP. The present MEP for Basmati is US\$ 590/MT. In addition to this price, an additional US\$ 50 is added to the MEP for exports of rice in 1-2 kilogram packages and US\$ 25 for exports of rice in packages from 3-25 kilograms.

MEP's are also fixed for several other categories of goods. For live animals, the MEP's for this year are as follows: US\$ 1,000 for cows, US\$ 1,500 for camels, and US\$ 200 for goats.

The stated rationale of the minimum export price system is to protect the GOP from underinvoicing, which presumably applies to both the amount of foreign exchange deposited in Pakistani banks and the profits declared for purposes of income tax. However, the MEP is a barrier to increased exports particularly for the private sector. Their ability of increase

sales by lowering price is hindered, although many traders are able to go around the MEP by using a system of sending money to clients who then remit the full price of the goods. This system is cumbersome and inhibits the development of new clients. The MEP in rice makes it difficult to take full advantage of the range of rice varieties and qualities that are available. Some clients want high quality rice and other want lower qualities. The MEP creates another barrier to rapid movement in trading, which is often the key to a successful trade business.

The MEP also works as a device to protect government corporations (presumably high cost exporters) from being undercut by private exporters, whose costs are presumably lower. The government corporations have little incentive to lower costs because they are in essence protected by the MEP. This leads to stagnation in the trade sector because there is a lack of real competition between the trading firms. Furthermore, the MEP insulates the trade sector from foreign demand (e.g. live animals) and lowers the volume of exports. In very competitive markets, such as rice, the MEP may hinder private sector sales sufficiently to lose market share.

If the real problem is underinvoicing and the aim of the government is to assure foreign exchange deposits and a reasonable basis for corporate income tax, it would seem that there would be other means of protecting against underinvoicing rather than a minimum export price. There are a number of options:

- 1) The GOP could set the price at some level below world price level as a minimum foreign exchange deposit required from each sale. This would ensure that a minimum level of foreign exchange and would allow some degree of flexibility in private sector price negotiation. Particularly for goods in which Pakistan has a comparative advantage such as cotton and rice, exports would increase and there would be increased competition in the trade sector. This system would require government corporations to become more competitive in their trading. It might also require changes in the level of tax rebates for exporters to make up for any lost government revenues from a more flexible trading system. But the increase in exports alone may be enough to make up for any foregone revenues.
- 2) Recognize the need to have different price levels for different quality levels and design a minimum price system that will consider a wider range of factors that influence price. This option would require higher administrative costs because it is more complicated to administer. However, it may give the private sector the flexibility they need in their marketing program.
- 3) Continue the minimum price concept as currently applied but allow variances on a case-by-case basis. If an exporter had a legitimate price offer which is

commercially viable but below the minimum price, then he would request a variance. This would ensure legitimate sales at lower prices and ensure foreign exchange deposits, but would require additional administrative costs and may involve too much time in relation to the timing of the sale.

- 4) Eliminate the minimum price system, which would allow the private sector maximum flexibility in pricing. This would not prevent underinvoicing, but there would still be large amounts of foreign exchange deposited in Pakistani banks as the result of the trading transactions.

### 2.2.3 Controls by Government Export Corporations

In recent years, the two largest government-owned export corporations, the Cotton Export Corporation (CEC) and Rice Export Corporation (RECP), have seen their position in the market considerably reduced as trade in rice and cotton have been opened up to the private sector. There remain a number of commodities which are exportable only through public sector agencies including petroleum, coke, rock salt, sodium hydroxide, and cement. Apparently, there is lobbying for the export of cement by the private sector.

It has taken some time to develop the private sector trade in rice. There have been a number of restrictions placed on private traders. First, there was a Rs. 5,000/MT export duty on private sector rice exports which was lowered then finally abolished because the duty made exporting unattractive to private exporters. There remain several barriers to full participation of the private sector in rice exporting: 1) Private exporters are only allowed to export basmati rice, and cannot export IRRI rice and 2) Exporters are not allowed to export at a price below the minimum export price set by the Government.

Private cotton exporters must follow the special regulations set up by the GOP. Cotton exporters are now free to purchase from anyone, although they must export at the minimum export price set daily by a Government committee. The CEC sells cotton to the private exporters at the minimum price minus a set commission/profit as worked out by the CE as calculated by the Federal Bureau of Statistics.

Column (12) & (13)- Column (11) multiplied by Columns (9) and (10). Summed, these figures represent the potential change in CPI for a given level of exports.

Column (14)- This series of price elasticities is taken from *The Wheat Economy of Pakistan*, by Naved Hamid, Thomas Pinckney, Suzanne Gnaegy, and Alberto Valdes, published by the International Food Policy Research Institute, Nov. 1987. The estimate for milk comes from another IFPRI paper by Harold Alderman entitled, "Estimates of Consumer Price

Response in Pakistan Using Market Prices as Data." (Sept.,1987) Since estimates were only available for broad categories, we have made the assumption that all goods within a category have the same price elasticity of demand. Although this presents some minor methodological difficulties (homogeneity conditions,etc.), the assumption is reasonable. Obviously, it would be useful to have more disaggregated elasticity estimates.

Another paper on price elasticities of demand appeared recently in the Pakistan Development Review, (No.3, Autumn, 1988), entitled "Demand Response in Pakistan: A Modification of the Linear Expenditure System for 1976," by Ehtisham Ahmad, Stephen Ludlow, and Nicholas Stern. Their estimates compare to the IFPRI ones as follows:

CATEGORY	IFPRI	AHMAD
1.Wheat	-.25	-.23
2.Rice	-.70	-.59
3.Pulses	-.30	-.30
4.Meat&Eggs	-.80	-1.12
5.Milk	-1.06	-.69
6.Vegetables, Fruits, and Spices	-.76	-.91
7.Edible Oils	-.57	-.69

All export contracts must be registered with the State Bank of Pakistan and exports are only allowed against registered contracts. Cotton exports by the private sector are also subject to quality control by a special committee. Other concerns of cotton exporters include whether the domestic support prices are set sufficiently in line with world prices to remain competitive and whether the export duty charged is too high to remain competitive against cotton exporting countries that charge no duty such as India and the United States.

#### 2.2.4 Other Export Controls

There are number of other indirect controls on exports from Pakistan. The major one is that certain items are subject to compulsory grading and quality control for export purposes. These include:

- 1) **Food Items:** Wheat flour and wheat by-products (atta, suji and maida) are subject to an Inspection Certificate from the Director General (Food), Ministry of Food & Agriculture, Karachi and subject to quota restrictions.
- 2) **Products of Animal Origin:** Wool, animal hair, lamb skins (Grades III to V), animal casings, eggs, dry fish and shell fish, fish meal, bones are subject to a

certificate of quality from ALMA.

- 3) **Fruits, Vegetables, and Oilseed Products:** Citrus fruits, limes and lemons, chillies, turmeric, ginger, garlic, onion, potatoes, mangoes, and oil cakes/oil cake meal are also subject to a certificate of quality from ALMA.

In addition to the above quality certifications, there are several other requirements for export of certain commodities, such as:

- 4) All agricultural commodities are subject to a Phyto-sanitary Certificate from Plant Protection Department.
- 5) All livestock and their products are subject to a Quarantine Certificate from Animal Quarantine Department.
- 6) Eggs, fish, shrimps, lobsters, crabs, frogs, and vegetables are subject to post-shipment registration of prices and contracts with the Export Promotion Bureau.

The system of export price registration with Export Promotion Bureau was introduced in early 1980's. This system serves largely as a check against underinvoicing.

While the functioning of the quality control system could no doubt be improved with additional manpower and better equipment, the general functioning of the institutions involved with quality control of exports appears to be reasonably good.

### 2.3 Determination of Government Export Policy

The Ministry of Commerce is the agency generally responsible for the design and implementation of trade policy. The basic policy document providing guidance in this area at the moment is Trade Policy, 1987-90. Volume II of this document contains a list of trade restrictions and special procedures. This document is then updated one or more times during the year through administrative orders (S.R.O.'s). The Ministry of Commerce reviews the list annually in consultation with the Ministry of Food and Agriculture and concerned groups of farmers, processors, and exporters. The Economic Committee of the Cabinet (ECC) makes a final decision on the list presented by the Ministry of Commerce. The Ministry of Commerce and the ECC, which closely monitors prices, may also intervene during the year to place a ban or quota on the export of an item.

The basic philosophy of Pakistan's export policy is expressed on the first page of the Ministry of Commerce's Trade Policy, 1987-90:

"Consistent with the need to ensure availability of essential items of daily use for domestic consumption, the central thrust of the export policy is to encourage creation of exportable surpluses and to expand exports of all goods, primary as well as manufactured with built-in preference for value addition."

While this policy statement would appear to have a certain logic, the implementation of this policy has proved somewhat more difficult, particularly in terms of diversifying the export portfolio. Missing from the above statement is a clause stating that many governments in the developing world, including that of Pakistan, are very sensitive to price increases. They not only want to ensure the availability of essential items, but they want to keep prices down. If they are successful at keeping prices low enough for a long enough time, farmers in a country will produce less than if prices had been allowed to rise to some international price level.<sup>6</sup> It is also much less likely that they will produce an "exportable surplus." The country may be caught in a low-level equilibrium, particularly if the trade ban is enforced over a long period of time.

**Sensitivity to Prices** The GOP, of course, is sensitive to changes in prices. The Government calculates a sensitive price index which looks at the changes in the prices of 46 "essential" commodities. The ECC monitors the prices of these commodities very closely, through a detailed report on prices three or four times a month. If the price of an essential commodity looks like it is rising (or falling) at an abnormal rate, then a special rapid investigation may be made of the situation to see if any action is warranted. Price becomes the major indicator of short supply since it is very difficult to obtain reliable information of the detail needed. Price is also the short-term variable to which politicians will respond, particularly for a commodity that is important in the market basket of the common man.

**Balance of Short-Term and Long-Term Needs** However, it is the job of government to balance the short-term needs of the economy and the need for long-term economic growth. Short-term policies may not set the stage for long-term growth. It is also the job of the government and politicians to balance the demands of the consumer and the producer. A price rise to the former may create as much pain as it does joy for the later. The balance is never easily struck.

One way to strike the balance is to let the laws of supply and demand have full play. Few governments in the world let this happen completely for basic agricultural commodities, but

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<sup>6</sup> See The Economics of Export Restrictions, Ed. Jimmy Weinblatt, Westview Press, Boulder, Colorado, USA, 1985

successive Pakistani governments have generally intervened rather heavily in trying to influence prices for all sort of commodities and therefore may be blamed for any given price rise. If the GOP could back away from taking the responsibility for so many agricultural commodities, it would be helpful. But this is a suggestion that would no doubt need to be implemented in small steps.

As the ECC, or the Ministry of Commerce, or the Ministry of Food and Agriculture contemplate what action should be taken to counteract a given price rise, there needs to be careful consideration of the different interest groups involved and the short-term and long-term consequences: Should we allow imports and what effect will this have on domestic prices and domestic suppliers? How large an effect would banning or restricting exports have on domestic prices? What would this do to our export/import sector and our reputation as a reliable exporter? If we let prices rise, will we get a strong supply response from domestic producers? Would higher prices induce investment, technological change, and new employment in that sector in the long-run? Do we have a comparative advantage in that crop and will increased production be able to be marketed internationally? What will it cost to enforce the export restriction? What reactions will the consumers have? Will they just buy a little less of that commodity and switch to substitutes or will they march in the streets? What will be the effect of a given price rise on the Consumer Price Index ?

These are the kinds of questions that might be explored when deciding what to do about an apparent shortage signaled by an unusual price rise. The answer lies in weighing the costs, benefits, and risks engendered by a given policy action. In Section 4.0 of this paper, we will provide estimates of the costs and benefits of making changes in present trade policy such as lifting some of the bans and quotas on agricultural commodities. It is our hope to present a useful way of analyzing trade policy that will lead to more informed decision making.

### **3.0 Other Issues in Exporting**

#### **3.1 Government and Other Marketing Services**

There are a number of governmental institutions with an export mission. On the whole, the public sector institutions appear to see their role as one of control. Most private exporters expressed that some form of joint effort between private initiative and the government is required.

##### **3.1.1 Storage Services**

The Pakistan Agricultural Storage and Service Corporation (PASSCO), established in 1973 as a public limited company has the task of attempting to stabilize prices by buying directly from growers. It has concentrated on grains and milling.

The Federal Bank for Cooperatives established Agricultural Marketing and Storage Limited (AMSL) in 1981 as a private limited company. AMSL acts on government orders and intervenes in the markets for perishables agricultural commodities, including fruits and vegetables. AMSL owns and operates a citrus waxing and grading plant in Peshawar. AMSL has been exporting on a pilot basis many of the non-traditional fruit and vegetables to gain the experience needed to become a larger exporter. They have had limited success in some areas but have suffered from the same constraints as the private exporters. AMSL has a relatively small storage capacity, but has done little to provide storage facilities for the private sector.

Cold storage in Pakistan is almost all ammonia type. There is not, at present, any pre-cooling either for domestic or export for fruits and vegetables crops. Government storage facilities are rarely used to store produce before it is exported.

In general, there has been a recognized lack of storage facilities in the country, particularly cold storage for fruits and vegetables. There are a number of projects that are attempting to overcome this constraint funded by agencies such as the Asian Development Bank.

##### **3.1.2 Grading and Inspection for Export**

The grading and inspection of agricultural commodities for export is done by the government agency ALMA (Agricultural Livestock, Marketing and Grading Advisor). ALMA is authorized to grade and test the agricultural commodities being exported and issues a quality certificate after inspection.

A federal Act entitled "Agricultural Produce Grading and Marketing Act, 1937," empowers the Government to formulate standards of quality for various agricultural commodities.

The evasion of export duty is checked through the grading process of ALMA and may account for some of the avoidance of the grading system.

To date, there are a few grading stations with modern grading facilities. ALMA needs new equipment to up-grade their laboratory to perform the tests necessary for proper grading.

Pakistan has few grading facilities in the field near production centers. The recent 1989 report by Produce Studies, Limited indicates that only a few grading lines exist in Pakistan: one for citrus and two for onions and a new asparagus packing line in NWFP. There are four in existence but they have been reclaimed by the banks and have not been operational for years. Yet, most countries exporting fresh fruit and vegetables have found it necessary to establish and organize grading facilities in the production areas.

Many of the existing grades are far too broad to be useful export of fruit and vegetables. Special export grades may be needed to meet the quality requirements of foreign buyers. The export grades and standards should follow the international standards of the EEC, OECD and USA.

The existing system does not cover many of the non-traditional produce. New grades for non-traditional produce for export should be established. This could be undertaken on a gradual basis through the establishment of small pilot projects with pilot grading centers in areas of export crop concentration initiated by grower groups associations with GOP and/or donor financing.

Another constraint to exporting caused by Pakistan's system of standards and grades is its inability to quickly adjust quality standards. The reason for the slow response time seems to be associated with the process of changing and redefining the grades between the Ministry of Commerce and the Ministry of Food and Agriculture. New grades cannot be introduced until the Ministry of Commerce approves.

### **3.1.3 Market Information**

Market information is the data needed by exporters, wholesalers, producers, and consumers to help them make decisions. Information on prices, quantities available, forecasts of future supply and demand is necessary throughout the marketing system. Relevant, accurate and up-to-date information is particularly important for exporting efficiently.

There are a large number of different agencies involved in the collection and dissemination of market prices and information at the farm, retail and wholesale levels. The majority of the reporting agencies limit the information to the specific commodities of specific interest. The Federal Agricultural Marketing Department and the Punjab Agricultural Directorate are the exceptions where they do report on a wide number of commodities. Some of the reporting organizations are as follows:

<b>ORGANIZATION</b>	<b>TYPE OF REPORTING</b>
1. Provincial Revenue Departments	Harvest prices
2. Provincial Marketing Directorates	Market prices
3. Provincial Directorate of Supply	Weekly average prices
4. Federal Department of Agriculture Livestock Marketing and Grading (ALMA).	Daily & Weekly Price Collection & Monitoring Market Situation
5. Federal Bureau of Statistics	Weekly ave. national prices
6. Food Grain Merchant's Association	Wholesale grain prices
7. Oilseeds Merchant's Group	Daily oilseed prices
8. Karachi Cotton Association	Daily cotton prices
9. All Pakistan Poultry Producer's	Daily poultry prices

Most of the agencies reporting market information do little or no price analysis or forecasting work. The Federal Agricultural Marketing Department normally reviews the prices and market situation on a weekly basis for 21 declared essential food items and a bi-weekly or monthly review of some vegetables for the Government and the ECC. The Punjab Agriculture Marketing Directorate also reviews weekly food items for submission to the Provincial government.

There is no one agency or organization that organizes the marketing information for the general industry or exporters of non-traditional crops. Most exporters have developed trade intelligence sources for their analysis and decision making related to the markets they service.

Without exception, the exporters in the private trade indicated they needed more production information on the non-traditional crops. One exporter described the situation as making contract commitments "blind". Many indicated that the lack of information on production and the quality of the crop stopped them from undertaking forward contracting. Better crop situation reports on a regular basis would be of considerable use to the private sector if well-done and timely.

#### 3.1.4 Customs

The majority of exporters interviewed registered high dissatisfaction with the performance of the custom officials, particularly those working in the ports. The complaints ranged from the new working hours to alleged unethical collection procedures followed by some employees of Customs.

Exporters indicated that recent changes in the official work hours from a night shift to only a day shift from 8:00 am to 5:00 pm had caused losses from delays in shipments and from heat damage. In the past, ships were loaded in the cool evening and night hours which saved time and prevented exposure to the hot daylight hours.

#### 3.1.5 Export Promotion

Pakistan's Export Promotion Bureau (EPB) has the charter to assist both Government and private exporters in export transactions. The EPB is reliant on yearly grants from the GOP for its operations and activities. It organizes fairs and exhibitions abroad, supports the Pakistan Design Institute, export display centers, and gathers marketing information and intelligence.

Some exporters indicated they viewed EPB as an enforcer of export rules and regulations. The EPB does not have funds to promote the export of some of the non-traditional crops discussed in this study. Most of the promotion activities comes from the commodity committees.

The Trading Corporation of Pakistan (TCP) was established to trade with the socialist countries. The corporation's emphasis has been on barter exchange. Pakistan's private trade has not dealt well with barter trade, and its exporters, individually, are too small to trade with large central organizations of the socialist bloc.

TCP only exports local "surplus". It does not try to develop actively a foreign market, nor does it have the resources. It has had some unsatisfactory experiences in past with fresh agro-products.

## **Other Marketing Services**

### **3.2.1 Transportation**

**Trucking:** All fresh produce for export is transported at ambient temperature by truck to airports or seaports. The trucks vary in capacity from small open trucks to large multi-axle fifteen ton plus trucks. Vehicles often appear to be overloaded. Much of the produce is damaged by the truck shipments because of the improper packing and the rough roads. Most of the loads are in bulk and receive heavy damage from the weight. The trip to the export packing points usually takes two to three days with the overloaded vehicles. There is a need for a Pakistan company to develop refrigerated truck units suitable for the Pakistan road conditions.

**Rail:** The Pakistan rail system is owned and operated by the GOP. Inland container depots (ICD) are just being started by the railroad and the railroad is offering a new refrigerated rail container service from Lahore to the docks. To date, little use has been made of this service for fresh fruits and vegetables or animal casings because of the irregular delivery schedule and lack of handling and holding facilities.

**Air:** Pakistan International Airlines is a government- owned airline that operates under the Ministry of Defence. PIA now moves over 10,300 mt. tons of perishable items per year (1988), which is more than half of the total Pakistan export of perishable items.

Pakistan has three international airports, but none have facilities for holding or packing fresh produce. The produce usually sits outside for various lengths of time in metal containers. The mango season is during the rainy season and often shipments are ruined from the rains.

Karachi, Islamabad, and Lahore have international airports from where it is possible to export fresh produce. In 1988, the Federal Government permitted foreign charters to be used as and when required to export fresh produce. Pakistan International Airlines indicated that they keep the cargo rates for fresh produce lower than other rates for air shipment in order to encourage exports (See Table 3).

However, private exporters and the Agricultural Marketing and Storage, Limited have expressed dissatisfaction about PIA's rates and the arrangements for export of the non-traditional fruits and vegetables. More than the rates, they complained of uncertainty of departure dates and the irregularity of departures. One example of a five ton shipment of fresh mangos was given where because of a late departure (12 hours), the produce was sitting out uncovered in the sun and then in the rain so that the shipment was unfit to

send into export.

**TABLE 3**  
**1989 PIA AIR FREIGHT RATES**  
**FOR FRESH FRUIT AND VEGETABLES FOR EXPORT**

DESTINATION	WEIGHT BREAK	FRESH FRUITS AND VEGETABLES		-----MANGO-----	
		Rs/kg	US\$/kg	Rs/kg	US\$/kg
DUBAI	500	5.55	0.26	6.15	0.29
	750	5.10	0.24	5.55	0.26
KUWAIT	500	9.70	0.46	9.10	0.43
	750				
DHARAN	500	9.15	0.44	10.35	0.49
	1,000	8.55	0.41	7.30	0.35
	1,200	7.30	0.35		
JEDDAH	1,000	9.35	0.45	10.35	0.49
	1,200	8.35	0.40		
RIYADH	500	9.15	0.44	10.30	0.49
	750	8.05	0.38		
	1,000	8.55	0.41	7.30	0.35
SINGAPORE	500				
	1,000	8.50	0.40		
	1,500	6.50	0.31		
K.L	500				
	1,000	8.50	0.40		
	1,500	6.20	0.30		
Ldn/Paris/ Frankfurt/ Copenhagen	500	17.75	0.85	18.80	0.90
	1,000	15.35	0.73	16.00	0.76

PIA has indicated it has been offering a capacity of 950 tons per week from Pakistan for export of fresh fruits and vegetables. Approximately 70 percent is for Pakistan and the other 30 percent is for transit freight.

Private exporters have also indicated that they face unfair competition from India. The claim is that India has lower subsidized rates. The rates are about the same level but India gives the exporters a rebate of about 28 percent of the original rate.

Pakistani exporters use space on several air lines, but mostly PIA and Saudi Airlines. Availability of cargo space is strictly allocated to the exporters by volume sent during the

slack periods. This causes exporters to use air freight for less expensive commodities with the only purpose of protecting booking rights for the peak mango and melon seasons. Air cargo freighters from Karachi are not available on any regular timetable.

Several exporters suggested that the high cost of the landing fees charged in Pakistan, presumably fruit and then the best quality on the top layer.

Several observers reported that frequently they hear of many disputes between Pakistani exporters and the importers of fresh fruits and vegetables and the disputes drag on without the necessary compromising spirit.

The procurement system for the export crops is not efficient with most of the buying done at the wholesale markets in Karachi. Much of the produce is shipped directly in the packaging in which it was purchased at the wholesale market. A small proportion of the produce is repacked and sorted by the exporter and then shipped. The quality at the wholesale market level does not really meet export standards; the lower grade is shipped but at a lower price.

For successful export of a higher quality of product, the wholesaler/buyer needs to be back nearer the source of the fresh fruits and vegetables. By purchasing and packing closer to the production, they can avoid time delay and have better control over the quality supplied. Transportation costs can be cut by up to 30 percent by being nearer the production. The closer the buying gets to the grower, the better the communication between the buyer and the grower. It is necessary for the exporter and seller to get together and form direct communication. It would also be useful if the exporters could form joint ventures or other direct business links with importers in other countries.

### 3.2.3 Packaging

Packaging has often been cited as one of the major problems in the export of fruit and vegetables. Discussions with exporters indicated that between 30 and 50 percent of the fruit was rendered unfit by the time it reaches the market for export. Much of the loss was attributed to faulty packaging which is not made to absorb the stresses and strains during transportation of the produce to market. This level of loss was confirmed in a recent FAO report.

In a recent report, Pakistan: Fruit and Vegetable Export Marketing Study, (Produce Studies Limited, England), there were numerous references to the importance of improved packaging and containers, as well as Pakistan's potential for exporting non-traditional agricultural products. The study looked at the export of mangos and reported the following:

- 1) The average return could be improved by packing at a much higher standard than is currently adopted.
- 2) In Saudi Arabia, there was damaged product and boxes with rotten fruit and high wastage.
- 3) Pakistan cannot move away from consignment selling given the current state of Pakistan's reputation for low quality and its packaging standards.
- 4) In Kuwait, the Pakistani products are well liked. Prices are depressed by poor packaging and grading.
- 5) In Singapore, the major constraints to increased exports of mangos are a reputation of unreliability, poor packaging and lack of grading for either quality or size.

There are a number of different reasons why such a low standard of packaging is prevalent in Pakistan. Low volumes of exports have made the creation of a market for high quality, commercial packaging industry difficult. Much of the packaging is made by very small units that are not fully aware and able to produce packaging needed for the international market. Many of the packing crates for export of fresh fruits and vegetables from Pakistan are made of wood and found to be of non-uniform size. Much of the packing material is waste paper cuttings and grass. The packing system does not conform to the normal requirements of foreign importers.

Another problem is the niche presently filled by Pakistani fruits and vegetables-- generally the low end of the market. The poor transportation system and lack of packing at the farm level necessarily reduce the quality of Pakistani exports. Because many Pakistani exporters get relatively low prices for their fruit and vegetables, they are unwilling to invest in higher quality packaging. This keeps those exporters at the low end of the export market -- a vicious circle.

The Pakistani packaging industry is capable of producing packaging materials of international standards. But several manufacturers suggest that the demand for high quality packaging (i.e. the willingness to pay for a high-quality box) is not there at present.

Other packaging people suggest that the duties and taxes on kraft liner are high, which increases the cost of boxes. It is their contention that lowering duty on kraft liner would lower the cost of boxes and increase the demand for high quality packaging.

**Duties and Taxes on Kraft Liner:** The identified per metric ton taxes and duties on kraft paper are shown in Table 4 for selected years. In 1979/80, there were no duties and taxes on Kraft liner. The large tax and duty burden was introduced in September 1984 when taxes were 184 percent of C & F prices--more than doubling the cost of the product. These costs were reduced to 101 percent of C & F value in 1988, and to 92 percent in 1990. These taxes and duties are reported to represent up to forty percent of the total manufactured cost of cartons utilizing the imported material.

Custom/import duty was set at Rs 4,000/mt in 1984 and this was increased to Rs.6,000/mt in October 1988. In January, 1990, these levies were assessed at 40 percent of C & F. This represented a Rs 500/ mt. decrease compared to the previous year's assessment.

Sales taxes have remained at 12.5 percent of the duty paid value since 1984. However, it should be recognized that the absolute amount of the tax on each metric ton of Kraft liner imported increases as the import price increases and thereby increases the absolute level of taxation. Iqra and other surcharges increased from 5 percent in September 1984 to 11 percent of C & F value in October 1988. It has remained at the 11 percent level in 1990.

**TABLE 4**  
**DUTIES AND TAXES ON KRAFT LINER, SELECTED YEARS**

CATEGORY	Sept 1984	1985	1987	October 1988	January 1990
C & F price Rs/mt	5,800	5,800	8,875	10,312	10,000
Custom/import duty Rs/mt	4,000	4,000	4,000	6,000	5,500
Sales Tax (12.5% C & F value)	1,960	1,960	1,609	2,039	2,062
Iqra & other surcharge (% of C & F value)	290 (5%)	580 (10%)	887	1,134 (11%)	1,210
Income tax (2 percent)	241	247	307		
Other Expenses (% of C & F value)	<u>870</u> (15%)	<u>870</u> (15%)	<u>887</u> (10%)	<u>1,237</u> (12%)	<u>1,320</u>
Landed cost Rs./MT	13,161	13,457	16,565	20,722	21,092

Source: Humayun Siddiqui, Constraints Inhibiting the Development and Expansion of Distribution of Fruits and Vegetables and Flowers With Special Reference to Corrugated Board Packing, Decent Packages (Private Limited), Karachi.

"Other expenses" associated with importing the Kraft liner represented 15 percent of C & F value in 1984 and these costs were reduced to 10 percent of C&F value in 1987. These costs represented 12 percent of C & F starting October 1988 and have continued at that rate to the present.

Industry calculations suggest that duties and taxes comprise up to 40 percent of the cost of a box used to transport fruit and vegetables. For boxes that cost on average 5-7 rupees, the duty and taxes paid would be some Rs. 2-2.8 per box. However, these duties and taxes are a much smaller percentage of the FOB price of goods. For example, the FOB value of a box of kinnos might be Rs. 70, for which the box cost represents 7-10% of the total FOB value. Duties and taxes would represent 2.9-4 percent of the total FOB value. This

would appear to be in line with the estimates made by customs which allows a 4-5 percent duty drawback on the export of fresh fruits and vegetables. According to exporters, the administrative cost of obtaining the duty drawback at this rate is not worth the effort. Exporters of processed food receive a duty drawback of over ten percent, which they feel is worthwhile pursuing. Ironically, if Pakistani fruit exporters were to use more expensive packaging, Customs would eventually raise the rate of the duty drawback making it more worthwhile for the exporters to obtain the duty drawback (See Section 3.3.1). For example, packaging costs can represent up to 35 percent of the landed value in importing countries of particular products, according to the research of the SRD Research Group Inc.

One of the issues in packaging is the extent to which the present system in Pakistan allows its exporters to be competitive with other countries. India is the most direct competitor of Pakistan for most crops in target export markets. Exporters of that country can import cartons manufactured in Europe at a considerably lower cost than Pakistan can manufacture good quality cartons. (India does not have the corrugated board manufacturing capability of Pakistan.) The availability of high quality imported cartons gives Indian a significant competitive advantage. The Indian rebate procedures are also much simpler than Pakistan's. Presenting documents at banks automatically entitles Indian exporters to obtain rebates.

In theory, the duty drawback system should allow Pakistani exporters to be competitive. However, there may need to be simplified duty drawback procedures specifically aimed at those industries for which the duty drawback is a relatively low percentage of the export value. The procedure by which the drawback percentage is set also needs to be more flexible and able to respond to changing conditions.

Lowering duties on kraft paper would be another way of trying to lower packaging costs. In 1988/89, the CBR estimates that Rs. 117 million were collected in duties (not including any other taxes) on Rs. 275 millions of kraft paper imports. If duties on kraft paper were lowered, it might also be necessary to lower the duty on imported pulp to allow the local industry capable of making kraft liner to successfully compete. However, lowering duties on the packaging industry will not by itself solve the quality issue. Quality must begin long before the packing of fruit or vegetables into a box in Karachi.

### **3.3 Incentives to Exporting**

The Government has attempted to underscore its commitment to exports by providing a package of incentives to exporters. Of course, part of the reason to provide these incentives is to offset the distortions caused by the rather protective tariff regime on imports -- what the World Bank has called the anti-export bias of the Pakistani trade policy.

### 3.3.1 Duty Draw Backs or Rebates

The GOP has made provisions to allow duty draw backs/rebates to exporters using imported materials. The "Industrial Policy Package", July 1989, has simplified the procedure by allowing an automatic duty drawback up to 80% within three days and the remaining amount, after scrutiny, within one week. The import of raw material by one party (carton manufacturers), and use of cartons by another party viz. exporters, makes the rebate procedure more complicated. In addition, occasional unethical practices by the administering agencies finally make the recovery unattractive and discourages utilization of this facility. The draw backs permitted on packaging produced from local materials is 4 percent of the carton value, which some exporters claimed was not worth the time and effort to apply for the drawback.

One of the biggest problems with the duty drawback systems is the time that it takes to establish or change a standard rebate for a given commodity. Exporters must submit a rather detailed analysis justifying a level of rebate. The Government then verifies these costs through its own studies and establishes a rate. Once the rate is established, the rebate system works relatively well. However, changing costs in an industry may alter changes in the rebate needed which again necessitates the undertaking of a new cost structure study.

### 3.3.2 Income Tax Rebates

Fundamental changes have been brought about in the existing scheme of Income Tax Rebates for exports. Previously, export earnings were eligible for a 55 percent income tax rebate. It has now been decided that higher value added items should be given comparatively higher rebate e.g. export earnings from textile garments, leather garments, engineering goods and electronics would be eligible for 75 percent income tax rebate, while cotton yarn exports would qualify only for 25 percent income tax rebate. Earnings of all other items including fresh fruits, vegetables and cut flowers are eligible for 50 percent income tax rebate. Animal casings, treated as manufactured items, are entitled to 55 percent rebate.

Exporters of fruits and vegetables are entitled to 50 percent exemption of tax on their export income. However, some other countries, i.e. like India, give a 100 percent exemption. This provides more incentive for the private sector of that country to export fresh fruits and vegetables-- particularly the perishable varieties. (Esesjay Consult (PVT) Limited, "Study of Trade, Price and Institutional Policies Needed for Procurement, Processing, Marketing and Export of Perishable Commodities," Final Report to the Government of Pakistan, Ministry of Food and Agriculture. November, 1989.) As recent as 1986, this income tax rebate was not allowed to exporters of perishable commodities.

### **3.3.3 Subsidies or Compensatory Rebates**

Subsidies, called compensatory rebates, are available for most products habitually exported from Pakistan. The rates are fixed as percentages of the product's FOB value. An examination of the list of goods for which these compensatory rebates are available appears to show that most goods included are already being exported. The mechanism of compensatory rebates is apparently not used to provide incentives for new exports. In particular, there are no agricultural or agro-industrial products, other than some cotton manufactures on that list." (GOP/World Bank Study, pg 31) According to local market inquiries with exporters, Indian exporters of fruits and vegetables and some animal products (like casings), are presently entitled to 12 to 20 percent export rebate.

### **3.3.4 Financing**

The export credit scheme of Pakistan is very liberal. One hundred percent pre-shipment financing can be obtained at 6 percent interest rate on the basis of a confirmed order or letter of credit. Conversely, an exporter can elect to obtain one third of this past year's export figure as advance if he undertakes to enhance his comparative export earnings by 14 percent in the coming year. The latter also carries a 6 percent interest rate. In case of default or of an export performance of less than one third of last year's figure, the penalty rate is 17 percent in the case of blanket advance financing. Hence, under this scheme, an exporter can have his entire working capital and his profits financed in advance at below-market rates.

Although very liberal, the scheme is not totally favorable for exports of agricultural products, since it does require a firm order or a letter of credit. The latter is customarily obtainable for processed agro-industrial products, but not for fresh, perishable, goods. Most perishables are exported on consignment and hence will not be eligible for export financing under this scheme.

adequate supply of raw materials to the industrialists. The negative list of imports has been reduced to less than one percent of total imports.

### 3.4 Attitudes About Exporting

#### 3.4.1 Government Attitudes

**The Surplus Mentality:** The basic attitude of government officials towards the export of agricultural commodities is that there must be a surplus of the commodity to be exported. This makes the development of export markets very difficult, because reliability of supply is a key factor in the maintenance of any market, particularly export markets where other sources of supply may be available. The attitude also discourages investment in projects aimed specifically at developing products for the export market. If a ban is placed on the commodity you have been developing for export, it may ruin the viability of your project and your reputation as a reliable supplier. Exporting countries often export their top quality produce. They may even import a lower quality of the same product to supply the domestic market. In the end, the country comes out ahead in terms of foreign exchange, employment, and stable prices.

A large portion of the government officials and workers interviewed displayed an attitude of using the foreign market for vegetables and fruits as a way of dumping the commodities in times of surplus. This supply side mentality to exports is the largest impediment to the development of viable export markets. Demand-driven, export oriented production is needed. The non-traditional commodities need to be produced for the specific requirements of the market.

**Micro-Management of the Economy:** Government officials seem to believe that trade restrictions actually accomplish their goal to keep domestic prices down. However, this is not clearly the case. The bans are often too late to do any more than appease critics and do not help in keeping price down very much. Usually the real problem is a poor harvest and low supplies which can only be helped by importing the good and/or waiting for a new and better harvest. Trying to micro-manage a broad range of agricultural prices is time consuming and not terribly productive.

**Mistrust of Private Sector:** There seems to exist a negative attitude of government towards exporters and other market intermediaries, who are often considered exploitative. Rather than trying to control the export intermediaries, the Government should be starting inventive programs to better use the private sector. It will take a change in philosophy and approach by both the private sector and the Government, but that change is necessary.

### **3.4.2 Private Sector Attitudes**

Private exporters must be in business for the long-run and not just in times of surplus. A successful exporter must gain a reputation as a reliable supplier of a good quality product. This has not always been the case in Pakistan, particularly for exporters of fruits and vegetables. Greater efforts must be made by the private sector to adhere to grades and standards, utilizing an international standard of packaging.

There is a great deal of competition in international markets, and exporting is a risky business. Protected domestic markets have seemed easier to work in and more lucrative. But the private sector must do its share in moving Pakistani goods into international markets if the country is to achieve a higher level of development.

## **4.0 Analysis of Costs and Benefits of Export Policy**

Like most government policies, there are costs and benefits to the export policies being pursued by the Government of Pakistan. Different groups within Pakistan receive those benefits or bear the costs. There are short-term costs and benefits to be weighed against the long-term ones. In Sections 4.1 and 4.2, we will identify the various direct and indirect costs and benefits of trade bans and quotas and the minimum export price. In Section 4.3, we will provide quantitative estimates of these costs and benefits.

### **4.1 Direct Costs and Benefits**

#### **4.1.1 Consumers**

The main intended beneficiary of the policies to restrict exports is the consumer. The GOP carefully monitors wholesale and retail prices, and is often ready to ban the export of goods which appear to be in short supply as indicated by an unusual rise in prices. Among consumers, the specific group that might benefit most from a successful trade restriction policy that kept prices of agricultural commodities down would be the urban consumer. However, urban dwellers who would have gotten jobs in an expanding export sector would lose more on the employment side that they would gain on the consumption side. Presumably this would also be the case for rural non-farmers who might have benefitted from an expanding rural economy meeting increased export demand.

The group helped least by the trade restriction policy would be the rural farming sector to the extent that the restricted good was produced on their farms. In fact, they would like to see the prices for that good go higher.

In summary, assuming that a restriction on the trade of an agricultural commodity works to keep the average price of that good lower, urban consumers and non-farm rural consumers benefit from lower prices, while producers and those in urban and rural areas who would have benefitted from expanding trade bear the cost of lost opportunity.

The next question becomes how much do people benefit and bear the cost of this policy. For those who benefit, the gain is the difference between what the price would have been with exports and the price without exports multiplied by the weight of that item in their food consumption pattern. At the level of the society as a whole, the way to look at this is to estimate price changes for a given increase or decrease in supply availability, then multiply this by the weights used in the market basket of the Consumer Price Index (See Section 4.3). This measures only short-term costs or benefits, since in the longer run people will adjust their consumption and production patterns according to the relative price shifts in the economy.

Hence, the short-term model used here is a very static view of food consumption that assumes that there are no substitute for the given commodity, which is usually not the case. In fact, as prices of one item rise, people begin to substitute other goods. In a more complex model than the one presented in Section 4.3, one would take into account these "cross-price elasticities". The point to keep in mind is that whenever possible, people will switch to substitute goods.

Another question is to what extent have the restrictive trade policies followed actually kept prices down in the past. This is a very difficult question to answer conclusively. Particularly for seasonal crops like tomatoes and chillies, a poor harvest one year resulting in increased prices results in a ban or quota which is actually implemented shortly before the next harvest. If that harvest is good and prices fall, what effect has the trade ban had? The answer lies in several areas: 1) How large are exports and what percentage are they of total production? 2) What is the price elasticity of demand or how much has demand fallen for a given increase in price? 3) How effectively and when was the restriction implemented and were imports allowed as well? 4) If the trade ban is kept in effect over a period of several years or longer, what are the long term effects?

#### 4.1.2 Producers

Probably more than any other group, producers bear the cost of trade restrictions. This comes about in a number of ways. First, trade restrictions lower the growth in overall demand for a product. This means fewer sales and lower prices than would otherwise have been the case.

Second, because there is a lower overall demand, possibly for a high-value crops like fruit and vegetables, the crop mix of a farmer is presumably sub-optimal, or less profitable than it otherwise might have been. It is somewhat unusual that a country with so much irrigation is producing relatively small amounts of higher valued crops. This is in part due to the restrictive trade policies followed in the country, although there are many other reasons for this. But at the margin, restrictive trade policies slow the shift of farmers into higher value crops.

Third, because the crop mix is less than optimal, there is less investment in the agricultural and agribusiness sectors. This slow growth in productivity and leads to less technological innovation in the sector.

In many countries, farmer organizations are allied with exporting interests to make sure the restrictions on the trade of agricultural commodities are kept to an absolute minimum.

#### 4.1.3 Exporters

The trading community is another group that bears the cost of trade restrictions in a number of ways. When goods are banned for export, the trader forgoes the trading opportunity that might have otherwise existed, or may have to bear the legal costs of breaking a contract.

Since the trader may now be trading less, fixed costs are spread over fewer trades and the fixed unit costs of trading increase. Even the possibility of bans becomes one more risk that must be assessed, possibly leading to less investment in the trading business, and certainly less investment in the trade of agricultural commodities that could be targets for bans.

When quantitative restrictions or quotas are placed on the export of agricultural commodities, the costs and risks of trading increase. Costs increase because there are more papers to fill out to satisfy the requirements of the Government verifying that only a certain amount of the commodity is exported. Risk increases because it is not entirely certain what share, if any, of the quota will be allocated to a specific trader.

Finally, export restrictions on traders may contribute to the underdevelopment of trade in general. Instead of banning exports, it would be more productive to allow the import of certain items, especially those for which prices have risen abnormally. Exporters of agricultural commodities are perhaps the ones who are best placed, at least from a business point of view, to undertake the import of agricultural commodities.

#### 4.1.4 Government Revenues

Bans and restrictions on exports are primarily of political benefit to the Government. Since consumers (particularly the urban consumers) may blame the Government for price increases and expect that Government "do something" about the price rise, government officials like to be seen as actively pursuing some policy action against rising prices. The banning or restricting of exports is therefore a convenient action to take.

There is no monetary contribution to government coffers as the result of a ban or trade. There are however some direct and indirect costs associated with these policies. For example, there is the direct cost associated with the enforcement of a ban or quota. This ends up taking the time of Customs and the concerned Ministries, which takes time away from other more productive actions. Customs officials must spend time verifying that the amount of goods under a quota restriction does not exceed the specified amount. Hence, they have less time to spend on the processing of unrestricted exports, reducing the overall efficiency of the system.

The Government also forgoes the foreign exchange and tax revenues associated with the export restrictions in the short term. In the long term, the Government suffers lowered revenues and foreign exchange as the result of underdevelopment in the trade sector and lower growth of the economy. Given the rather heavy direct costs of trade restriction, it is also surprising that the Government is willing to include such a broad range of products in its list of restricted items.

The minimum export price is a more remunerative policy, at least in terms of the direct benefits to the Government. Cotton and rice brought in more than Rs. 15 billion of foreign exchange in 1988-89. The MEP helped to keep that number high. The empirical question, however, is the extent to which the MEP inhibits the growth of trade? Would the growth in exports under a different system replace the foreign exchange lost under that system?

Total export duties in 1988-89 are estimated at Rs. 2.5 billion or about 1.8 percent of total government revenues. This is up from the early 1980's when export duties revenues were consistently below Rs. 1.0 billion. Here, the question is the extent to which export duties render Pakistani products uncompetitive on the market? If the product becomes uncompetitive and exports fall, then it may not be worth it to collect the export duties. At the least, rates would need to be lowered to stay in line with the competition.

## **4.2 Indirect Costs and Benefits**

### **4.2.1 International Reputation as an Exporter**

Since trade is an international matter by definition, the reputation of a country's government and a country's exporters is an important issue. Every time a government places a ban or a quota on an export, it does damage to its reputation as a reliable supplier and may make it difficult for exporters to develop new business. The United States is still trying to outlive the damage done to its reputation as a reliable exporter of agricultural commodities caused by the 1973 embargo of soybean and soybean products.

Bans also damage the confidence of investors - both international and domestic - to invest in either the trade sector or to backwards integrate by investing in the production side. If an investor is not certain to be able to export a commodity, even if it was produced specifically for export, then the investor may hesitate to invest or at the very least may invest a lower amount. It also discourages joint ventures between domestic producers and foreign marketing companies, something which is increasingly important in the fresh produce industry.

For investor and exporter confidence, two things are desirable:

- 1) a reduced number of sectors that are liable to export restrictions;
- 2) consistent application of policy once formulated.

These two factors would help to reduce the uncertainty of investing in export trade in Pakistan.

### **4.2.2 Market Share and International Competition**

Export bans and quantitative restrictions limit the amount of a commodity flowing to the international market from Pakistan. To producers and traders from other countries where these restrictions do not exist, the Pakistani restrictions represent an opportunity to gain market share.

Market share in international trade is very important, since making international business relations is costly and time consuming. Once traders establish a good relationship with an exporter, that relationship tends to continue as long the exporter remains a reliable source of product. A short-term export restriction which damages the ability of an exporter to

provide goods to a trader in another country may cause a long-term loss of market share which may be very difficult to win back.

Hence, another factor that should be considered by policy makers when contemplating an export restriction is the extent to which there are other suppliers of that commodity in the world and whether there are substitute products available. If either of these factors is true, then the long-term consequences in loss of market share should be factored into the analysis.

### **4.2.3 General Development Consequences**

Restrictions on exports, while possibly slowing inflation slightly in the short-term, can slow the growth of an economy in the long-term. Short-term restrictions may have medium to long-term consequences because of loss of market share. However, a number of the trade restrictions have become long-term policies. For example, meat and milk have been restricted for more than a decade. This leads a more restricted market which tends to discourage technological innovation and investment in the sector. Without improved productivity, the shortages in the domestic economy may continue, particularly when domestic price controls of some sort are imposed, as in the case of meat.

## 4.3 Cost and Benefit Calculations

### 4.3.1 Trade Matrix

Table 5 brings together information that provides the basis for an estimate of some of the costs and benefits of lifting trade restrictions. The list of commodities in Table 5 are basically the agricultural goods which are either banned or under quota. The table estimates the increase in price for each commodity assuming that a particular incremental amount of that commodity is exported. Two cases are explored: the rise in prices when 2.5% and when 5.0% more of the commodity is exported. Then, an estimate of the combined effect of these price rises on the Consumer Price Index is calculated. This calculation serves as the basis for estimating the short-term costs and benefits of a shift to a less restrictive trade policy. As shown in Table 2, the value of the total annual production of these items is around Rs. 23.5 billion, with average annual exports of these commodities valued at approximately Rs. 370 million, or 1.6 percent of the total average annual production.

In the base case, we have assumed that the export of all commodities increases by 2.5% or by 5.0% to see what the effect of increased exports will be on prices and the Consumer Price Index. This is a simplifying assumption in three ways: 1) Some products would be exported in larger percentages than others 2) Some products might not be exported at all 3) Some of the increases might occur over a longer period of time. However, we believe our assumption to be a reasonable one because the overall value of the 2.5% and 5.0% increases are close to the actual case; they establish a worst case short-term scenario of the effects of increasing exports. Table 5 suggests that a 2.5% increase in exports of the now restricted crops would bring in an additional Rs. 514 million, and the 5.0% scenario would add Rs. 1.027 billion to export earnings. We will also examine a "Most likely" case when we exclude all products which appear to be above international prices and would not normally be exported. This case is shown in Table 6.

The estimates of price increases are based on the assumption of the 2.5% and 5.0% increases in exports and the use of elasticities of demand to calculate the increase in domestic price.<sup>7</sup> The estimates of the price increases under both scenarios are

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<sup>7</sup> The methodology used is straight forward. Estimates of the elasticity of demand given in *The Wheat Economy of Pakistan: Setting and Prospects*, by Naved Hamid, Thomas Pickney, Suzanne Gnaegy, and Alberto Valdes, of the International Food Policy Research Institute, Nov. 1987, were converted into price flexibilities which measures a change in price for a given change in total availability of a product. See Annex I, Table I.5, Columns 14 and 15 for these figures, as well as table footnotes.

TABLE 5  
EFFECTS OF LIFTING RESTRICTIONS ON AGRICULTURAL TRADE  
BASE CASE

CATEGORY	(1)	(2)	(3)	(4)	(5)	(6) (7)	
	INCREMENTAL EXPORT INCR. 2.5% 5.0% Rs. Mil.	EST. PRICE -CHANGE- 2.5% 5.0%	WGT. in CPI %	EFFECT ON CPI (Export Level) (2.5% 5.0%)			
1. Live Animals							
a)Buffalos	90.2	180.3					
b)Cows	86.7	173.3					
c)Goats	29.4	58.7					
d)Sheep	21.3	42.6					
2. Meat			3.1%	6.3%			
a)Beef	19.7	39.4	3.1%	6.3%	2.36	0.07%	0.15%
b)Mutton(Sheep/Goat)	39.7	79.4	3.1%	6.3%	1.78	0.06%	0.11%
3. Animal Fat	2.3	4.6					
4. Milk & Milk Prod.	122.0	244.0	2.4%	4.7%	5.36	0.13%	0.25%
5. Vegetables			3.3%	6.6%			
a)Fresh Tomatoes	1.3	2.6	3.3%	6.6%	0.52	0.02%	0.03%
b)Green Chillies	N/A	N/A	3.3%	6.6%	0.17	0.01%	0.01%
c)Ginger-fresh	0.002	0.005	3.3%	6.6%	0.10	0.00%	0.01%
d)Turmeric-whole	1.2	2.3	3.3%	6.6%	0.15	0.00%	0.01%
e)Garlic-dry,whole	0.1	0.3	3.3%	6.6%	0.29	0.01%	0.02%
f)Cumin Seeds-whole	0.6	1.2	3.3%	6.6%	0.08	0.00%	0.01%
g)Chillies-dry,red,whl	3.3	6.6	3.3%	6.6%	0.48	0.02%	0.03%
6. Grains							
c)Maize	7.9	15.7	7.1%	14.3%	0.01	0.00%	0.00%
d)Barley	0.8	1.6	5.2%	10.4%	0.01	0.00%	0.00%
7. Pepper	N/A	N/A	3.3%	6.6%	0.03	0.00%	0.00%
8. Pulses & Beans			8.3%	16.7%			
a)Masur Pulse	0.8	1.5	8.3%	16.7%	0.31	0.03%	0.05%
b)Moong Pulse	1.0	2.0	8.3%	16.7%	0.41	0.03%	0.07%
c)Mash Pulse	0.8	1.6	8.3%	16.7%	0.49	0.04%	0.08%
d)Gram Pulse	6.9	13.7	8.3%	16.7%	0.66	0.05%	0.11%
10.Bran & Fodder							
a)Oil Cake(Cottonseed)	11.7	23.4					
b)Rice Bran	1.3	2.6					
c)Wheat Bran	5.1	10.2					
11.Edible Oils/Seeds			4.4%	8.8%	2.68	0.12%	0.23%
a)Cottonseed	15.9	31.8					
b)Rapeseed/Mustard	2.9	5.7					
c)Sesamum/Linseed	0.4	0.8					
12.Gur Khandsari	12.7	25.5			0.14		
13.Hides & Skins	27.0	54.0					
14.Firewood/Charcoal	0.8	1.6					
TOTAL	514	1,027			16.0%		
Est. Increase-Inflation						0.59%	1.18%
a)Rice	57.3	114.5	3.6%	7.1%	0.31	0.01%	0.02%
b)Wheat	71.0	142.0	10.0%	20.0%	5.00	0.50%	1.00%

shown in Columns 3 and 4 of Table 5. All of the price increases under the 2.5% scenario are less than ten percent. Under the 5.0% scenario, the prices of maize, barley, and the pulses would rise above 10 percent. Note that wheat prices, which are not included in the main section of Table 5 because wheat exports are not allowed under bilateral agreements, would rise 10 and 20 percent under the two scenarios (see the bottom of Table 5). Demand for wheat, as the major staple in the country, is rather inelastic. Small changes in availability can have a rather strong effect on prices. Also, note that many of the items have exactly the same calculated change in prices. This is because price elasticities of demand were sometimes available for only broad categories of items. It would be desirable to calculate these figures using specific elasticities if they were available.

Each of the estimated price increases is multiplied by the weight for that item used by the Federal Bureau of Statistics in calculating the average Consumer Price Index of Pakistan combined for all income groups (shown in Column 5 of Table 5). There are several other indices that are calculated for various income groups, but the individual weights of food items does not vary much according to an official at the Bureau of Statistics. This multiplication gives estimates of the increase in the CPI for individual items as shown in Columns 6 and 7 of Table 5.

When the figures in Columns 6 and 7 are summed, they provide an estimate of the total short-term change in the CPI for a given increase in exports. The matrix suggests that for a Rs. 514 million (2.5%) increase in the value of these exports, inflation as measured by the CPI should increase in the short-term by 0.6%, less than one percentage point. An increase of Rs. 1.027 billion (5.0%) in the value of exports would cause a 1.2% short-term increase in the CPI.

The base case makes many simplifying assumptions. One of the major ones is that it assumes that all items could be exported, which is certainly not the case. A rapid way of appraising which items might be exported would be to look at some international market prices converted to rupees, and compare them to appropriate domestic prices. One of the more difficult aspects in this exercise is to make relatively sure that prices are comparable, i.e. that the quality of the two goods are comparable. Time limitations made it difficult to do this with a high degree of rigor, but the international price comparisons shown in Annex Table I.6 do provide an order of magnitude. Any commodity that is shown to be positive in the far right column of Annex Table I.6 is assumed to be above international prices and therefore not exportable. In reality, things are not so strict. There may be niche markets that can be filled even when the average price shows the commodity not to be competitive on international markets. This is the case for Pakistani mutton, which has a certain market in the Middle East even if it is not entirely competitive with international prices.

In Table 6, we have taken out all of the commodities which seem

**TABLE 6**  
**EFFECTS OF LIFTING RESTRICTIONS ON AGRICULTURAL TRADE**  
**AGRICULTURAL COMMODITIES MOSTLY LIKELY TO BE EXPORTED (a)**

CATEGORY	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	INCREMENTAL EXPORT INCR. 2.5% Rs. Mil.	5.0%	EST. PRICE --CHANGE-- 2.5%	5.0%	Wgt. in CPI %	EFFECT ON CPI (Export Level) (2.5%	ON CPI (Level) 5.0%)
1. Live Animals (b)							
a) Buffaloes	90.2	180.3	0.0%	0.0%	0.0%	0.0%	0.0%
b) Cows	86.7	173.3	0.0%	0.0%	0.0%	0.0%	0.0%
c) Goats	29.4	58.7	0.0%	0.0%	0.0%	0.0%	0.0%
d) Sheep	21.3	42.6	0.0%	0.0%	0.0%	0.0%	0.0%
2. Meat			3.1%	6.3%			
a) Beef	19.7	39.4	3.1%	6.3%	2.36	0.07%	0.15%
4. Milk & Milk Prod.	122.0	244.0	2.4%	4.7%	5.36	0.13%	0.25%
5. Vegetables			3.3%	6.6%			
a) Fresh Tomatoes	1.3	2.6	3.3%	6.6%	0.52	0.02%	0.03%
b) Green Chillies	N/A	N/A	3.3%	6.6%	0.17	0.01%	0.01%
c) Ginger-fresh	0.002	0.005	3.3%	6.6%	0.10	0.00%	0.01%
d) Turmeric-whole	1.2	2.3	3.3%	6.6%	0.15	0.00%	0.01%
e) Garlic-dry, whole	0.1	0.3	3.3%	6.6%	0.29	0.01%	0.02%
f) Cumin Seeds-whole	0.6	1.2	3.3%	6.6%	0.08	0.00%	0.01%
g) Chillies-dry, red, whl	3.3	6.6	3.3%	6.6%	0.48	0.02%	0.03%
10. Bran & Fodder							
a) Oil Cake (Cottonseed)	11.7	23.4					
b) Rice Bran	1.3	2.6					
13. Hides & Skins	27.0	54.0					
<b>TOTAL</b>	<b>416</b>	<b>831</b>			<b>9.3%</b>		
Est. Increase-Inflation						<b>0.26%</b>	<b>0.52%</b>

Source: Annex Table I.5

(a) Based on domestic prices being below comparable international prices. See Annex Table I.6.

(b) Live animals (exported for breeding purposes) do not figure in the Consumer Price Index nor do we have estimates of their prices elasticities. We therefore assume for the purposes of this model that an increase in their export would have no effect on the CPI. There could be an effect on meat prices in the short run if enough animals were exported in a short period.

to be above world prices and are therefore assumed not to be exportable. The amount exported falls to Rs. 416 million (2.5% case) and Rs. 831 million (5.0% case). The estimates of inflation also fall to .26% (2.5% case) and .52% (5.0% case), both under a one percent increase in the CPI. Hence, it would appear that the lifting of all bans on trade restrictions, except the ones on wheat and edible oils, would add only one-half of one percent to the overall rate of inflation in the short-term.

**Long-term Consequences of Increased Exports** The model presented in Tables 5 and 6 is a static, short-term model which cannot properly predict the effect of increasing exports over the longer term. The model covers just one period in time. It does not include the supply response of these commodities nor any estimate of the substitution effects between commodities. Both of these would obviate the long-term inflationary effect of increased exports.

The supply response, as measured by the elasticity of supply (area) shown in column 16 of Annex Table I.6, suggests the extent to which the supply (as measured by the area) responds to an increase in price. Hence, farmers should respond in period 2 to increased prices in period 1 which would tend to increase the supply in period 3. Prices in period 3 would fall somewhat. Through exporting, farmers would have increased their volumes and consumers would face the same or slightly higher prices than before the lifting of export restrictions. It is a well-known fact that farmers in Pakistan are responsive to prices increases as they determine their cropping mix.

Substitution effects are measured by cross-price elasticities, which describe the extent to which consumers would substitute one good for another as the price of the first good increased. Again, for those crops which have close substitutes, this would mitigate the rise in prices caused by an increase in exports.

Because the economy will react dynamically to changes in relative prices, increasing exports of agricultural commodities will not be inflationary in the long-term. In fact, as countries become more trade-oriented and have more open economies, real GNP per person tends to grow faster and the inflation tends to be lower (World Bank, World Development Report, 1987). The work of Dr. Lloyd Reynolds at Yale University indicates a similar conclusion.

Although the model shown in Tables 5 and 6 has many simplifying assumptions, simplicity is also its virtue. It provides a methodology for looking at the effects of trade policy with information that is widely available. It concentrates on three areas:

- 1) Estimating the increase in prices caused by a given level of exports. More specific demand elasticities and better estimates of export demand would be useful.
- 2) Calculating the total effect of these price changes on the CPI, using the weights established by the Federal Bureau of Statistics.
- 3) Estimating a simple measure of comparative advantage by looking at border prices and domestic prices for the same quality of a good. This does not estimate the quantity of a good that would be exported if a trade restriction were lifted, but it is a measure of whether or not a good will be exported.

- 4) Also, one should consider the supply response of a commodity and what other substitutes are available.

This set of criteria can be used to help judge the effect of lifting a ban or quota restriction on a specific commodity.

#### 4.3.2 Commodity Analysis

Using the above criteria, we will undertake a brief analysis of the various major commodity groups found on the restricted trade list.

**Fruits and Vegetables-** The demand for fruits and vegetables is relatively elastic (-.76). Therefore, the increase in price due to increased exports is quite small. The CPI weights for fruit and vegetables are low and hence the overall effect of price increases on the consumer price index is small. Pakistan appears to have a comparative advantage in fruits and vegetables, as domestic prices are lower than international prices (although Pakistan will have to spend more on grading and packaging if it hopes to compete in international markets). The supply response is relatively good- farmers will respond to increasing prices with increased production. Since some fruits and most vegetables are annual crops, positive supply response should be rapid. There are a number of fruits and vegetables available as substitutes which should mitigate the effects of rising prices to a certain extent. In short, there would appear to be very little justification for any sort of restriction on the export of fruit and vegetables.

**Milk and Milk Products-** The demand for milk and milk products is quite elastic (-1.06). Hence, the price rise attributable to increased exports is less than five percent. The weight of dairy in the CPI is quite high. Therefore, even small increase in price have a relatively large effect on the CPI. There seems to be a comparative advantage in milk, although UHT milk is probably the only form of milk that can be exported from a logistical point of view. A number of studies have suggested allowing the export of more dairy products, particularly UHT milk. Our model would suggest that this will not cause a large increase in prices, particularly because we believe that the amount of UHT milk that can be exported will not be large enough to cause a disruption. At the same time, it is desirable to allow exports of UHT milk because it is a value-added agricultural export in which large investments have been made.

**Meat Products and Live Animals-** The model suggest that the short-term rise in domestic prices from the increased export of meat products is quite small (6% and under). However, the CPI weights of beef and mutton are relatively large and will therefore have an impact on consumer food budgets. The price of Pakistani processed beef appears to be somewhat below international prices, but those attempting to export beef suggest that, in fact, the market for Pakistani cut beef is a rather small one concentrated among Pakistani workers in the Middle East. Processed mutton from Pakistan has a difficult time competing with New Zealand and Australian cut lamb. The restriction on the export of processed beef to 50% of the amount of beef fattened in feedlots is probably overcautious, and has led to considerable administrative cost to assure the restriction is being met. One meat exporter - now out of business -- suggests that the time necessary to obtain the administrative approval lost contracts in the Middle East on a number of occasions. The meat processing industry appears to need all the help it can get. Removing the 50% restriction would help.

Less is known about the export of live animals and the effect on prices. We were unable to find an estimate of a price elasticity of demand for live animals, something which should be investigated by one of the Pakistani economic research organizations. There appears to be a fairly strong demand in the Middle East for live animals, particularly for a certain size of sheep and goat. There is also reportedly an active illegal trade of animals across international borders. A more liberal quota arrangement (or lifting the ban on sheep exports) could conceivably bring revenues to government coffers and benefits to the small-holders who raise the animals.

As reported in the FAO/ADB Livestock Sector Study, 1987, part of the problem in the livestock stock is the depressing effect on demand of meatless days and retail price controls.<sup>8</sup> Combined with restrictions on the export sector, these controls have a depressing effect on innovation and technological innovation in the sector. Yet, there is considerable potential for increasing fodder crop yields, increased milk production, and increased production of meat. With some additional study of export potential and price elasticities, the Government could consider loosening the quotas on live animals and lifting the restrictions on processed beef with the goal of moving exports mostly to the value-added end of the market in beef and mutton processing.

**Grains:** Among the grains, maize and barley appear to be well above world prices and therefore would generally not be exported. Wheat prices are well below world prices and could presumably be exported if it were warranted.<sup>9</sup> However, the impact of wheat exports on domestic prices is rather large, as shown at the bottom of Table 5. Under the 5% export scenario, domestic wheat prices increased by as much as 20% and added a full one percent to the inflation rate. In addition, the supply response to increased prices is very low, as shown in Annex Table I.5. Wheat is therefore an unlikely candidate for the easing of export restrictions. Lifting export restrictions on maize and barley would probably not matter since at present prices levels, they would not be exported.

**Pulses-** All of the pulses appear to be above international prices. Therefore, lifting trade restrictions would be unlikely to have any real effect since the pulses would not be exported anyway. The price effect of exports would be fairly steep, with prices estimated to rise 16% for a 5% increase in exports.

**Bran and Fodder:** These commodities, used principally as feed for livestock, have been exported in the past (primarily rice bran). We did not have estimates of the price elasticity of demand for these items, and therefore were unable to estimate the possible rise in prices associated with increased exports. There are several factors constraining the cost of feed. One is the extent to which the price of beef is constrained, which would tend to have a depressing effect on feed prices. The other question concerns the availability of substitute

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8 District Authorities still have the legal ability to impose price controls at the retail level. According to the FAO/ADB study, these controls are seldom enforced although they have depressing effect on producer prices.

9 In fact, wheat was exported during two of the last five years. However, Pakistan has also had to import rather large amounts of concessional wheat in several years. When this happens, the donors require that the GOP not allow any exports of wheat.

feeds. If other feeds are not available, either because of a government barrier or an absolute constraint, this would tend to push prices up locally and the bran and fodder would not be exported anyway. If local bran can be exported and another cheaper feed imported to replace the export, then the economy would benefit.

**Hides and Skins:** These commodities are used as the raw materials for a large local value-added industry in leather and leather garments. Some 80 percent of these leather products are consumed locally. There is a certain rationale for restricting the export of hides and unfinished leathers to encourage the value-added activity. We do not have information on the price elasticity of this intermediate good that would allow us to estimate the rise in prices for a given amount of exports.

#### 4.3.3 Employment and Output Benefits of Increased Exports

For every additional unit of exports, there is an increase in employment and in economic output. These figures can be calculated using multipliers derived in an input-output model. In Pakistan, these multipliers have been calculated in a recent paper entitled, Contributions and Interlinkages of the Food and Fiber System in Pakistan's Economy. They have been calculated for different sectors of the economy. We have chosen the multipliers for the food and fiber agribusiness sector (entitled "Manufac. Food & Fiber") since this sector includes the backward linkages with the farm sector as a whole. Using these multipliers, we can estimate the increase in economic activity and employment generated by an increase in exports, as shown in Table 7. In general, a Rs. 1.0 billion increase in exports generates Rs. 2.28 billion in increased output throughout the economy and generates an additional 102,000 jobs. The most likely scenario would suggest lower export figures, hence lower final increases for income output and employment: Rs. 831 million of increased exports generating an additional Rs. 1.89 billion of increased economic activity and 84,00 new jobs. These benefits can be measured against the costs of an increase in the consumer price index in the short-term, which in the case of the most likely scenario at a 5.0% increase in exports would be 0.52%.

Table 7

Employment and Economic Activity  
Derived from Increase Exports

Incremental Increase in Exports

BASE CASE	Unit	2.5%	5.0%
-----			
INCREASE IN:			
Exports	Rs. Mil.	514	1,027
Employment (a)	'000	52	105
Economic Activity (b)	Rs. Mil.	1,172	2,342
CPI	%	0.59%	1.18%
-----			
MOST LIKELY CASE			
-----			
INCREASE IN:			
Exports	Rs. Mil.	416	831
Employment (a)	'000	42	84
Economic Activity (b)	Rs. Mil.	948	1,895
CPI	%	0.26%	0.52%
=====			

Notes:

(a) Employment Multiplier- 102 Men/Million Rupees Expansion

(b) Output (Economic Activity) Multiplier- 2.28 Million Rs./  
Million Rs. Expansion

Sources:

Table 5 and Table 6;

Contributions and Interlinkages of the Food and Fiber System in Pakistan's Economy, Mubarik Ali, Forrest Walters, and Rao Shafiq-ur-Rehman, Economic Analysis Network, Islamabad, June, 1989, Table 7.1, p. 31, and Table 7.4, p. 35

#### 4.4 Summary of Costs and Benefits of Lowering Trade Restrictions

A summary of the costs and benefits to the various groups if trade bans and quotas were lifted follows. We have assumed the 5.0% case under the "Most Likely" scenario as the basis for this summary. The numbers given below are indicative only of this scenario.

- 1) **Consumers:** Urban consumers bear the short-term cost of this change in policy: an increase at most of one-half of one percent (.52%) of the CPI. In rupee terms, this represents a Rs. 3.04 billion transfer from consumers to producers and marketing intermediaries.<sup>10</sup> The loss to consumers will in part be mitigated by supply response by the producers, substitution of other goods by consumers, and gains from increased economic activity, particularly those who obtain employment. In addition, private and public consumption has been growing at a combined annual rate of 11.5% over the past ten years. In relation to this type of growth, a 0.52% increase in the CPI seems relatively small.
- 2) **Producers:** Producers gain from increased prices of commodities to the extent that higher prices are translated to the farmgate. Traders will gain a portion of the increase. Total gains by producers and traders should equal Rs. 3.04 billion. Long-term benefits are also gained because farmers are able to switch to higher valued crops. We have not attempted to quantify this gain, but it could be substantial.
- 3) **Exporters:** The exporting community increases the volume of its exports by Rs. 831 million and the associated profits from that trade. In the long-term, traders would gain from being able to develop a larger scale of operation with a lower risk factor, if government continues to refrain from bans on exports.
- 4) **Government:** The Government will gain Rs. 831 million in foreign exchange and an unknown increase in tax revenues derived from taxes on traders' profits. The Government would also gain from the decrease in the time spent in the administration of export restrictions which would increase the efficiency of the customs system, benefitting the entire economy. These savings could represent up to 5-10% of the entire Customs budget, which is some Rs. 324 million, or a savings of Rs. 16.2 - 32.4 million, according to a rapid estimate of a Customs official.

In addition, the Government could obtain additional support from producers who are getting higher prices, exporters whose businesses are growing, and financial agencies and international donors who are watching the balance of payments improve.

There would also be long-run development benefits. Technological innovation and investment in rural areas would be encouraged.

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<sup>10</sup> This figure is derived by taking the figures for private and public consumption in 1988-89 contained in Table 2.10, p. 34 of the Economic Survey, 1988-89, Statistical Supplement. This is then multiplied by 87 percent, which is the proportion of total expenditures out of total income represented by the CPI. This is then multiplied by the percentage increase in the CPI or .52%.

The major problem for the Government would be the short-term complaints of urban consumers. The Government may want to distance itself from taking responsibility for prices increases of all but the most important agricultural commodities, such as wheat. The Government must try to strike a balance between the interests of consumers and the interests of producers, as well as a balance between the short-term and the long-term needs of the economy.

## **5.0 Policy Options and Recommendations**

### **5.1 Trade Policy**

#### **5.1.1 Direct Restrictions**

The trade restrictions imposed by the Government on the export of agricultural commodities are often meant to rectify a situation of short supply signaled by an unusual rise in prices. However, it is not entirely clear how well these restrictions work in the short-term. In the long-term, they may depress the development of the agricultural sector.

The benefits from lifting trade restrictions are quite clear: increased employment, greater foreign exchange earnings, increased economic activity, and increased income for producers and traders.

The problem comes with increased prices to consumers, which is precisely what concerns the Government. Of course, it is important to monitor the prices of individual commodities and to estimate how much prices might rise for a given increase in exports. We have attempted to do this in Section 4.3.1 of this paper. There is a broad range of price increases (3.0-20.0%) for an assumed 2.5-5.0% increases in exports.

But perhaps a more important issue is what kind of effect would lifting exports restrictions have in the short-term on the overall rate of inflation, as measured by the Consumer Price Index. Again, we have attempted to measure this. For our "most likely" case, the CPI would increase by 0.52% if trade bans and quantitative restrictions were lifted and exports increased by 5.0%. This indicates that the policy change would not have a large effect on the CPI, and that the Government is probably being quite conservative in its export policy.

Because of the economic benefits of increased trade, the Government should try to keep export restrictions to a minimum. Export bans should be used on the minimum of commodities. Quantitative restrictions are costly in terms of administrative times to the Government and to exporters in terms of lost marketing flexibility. They too should be used as little as possible.

List of Items to Remove from the Banned List If the GOP adopts the strategy suggested in this study, it would begin by carefully examining the list of restricted items and reducing the number of items on the list to the absolute minimum. Fruits and vegetables and spices would probably be the first items to remove from the list, as well as UHT milk, and all meats processed in modern slaughterhouse facilities. Once the list is shortened, then placing an item back on the list might be made only according to a specified set of criteria. The decision to restrict the export of a good should not be taken lightly. The reputation of the country as a reliable supplier of goods is on the line every time.

**Systematic Analysis of Commodities** There should be regular analysis of commodities, not just emergency data gathering on possible commodities for inclusion on trade restriction list. The Economic Wing of the Ministry of Food and Agriculture is beginning to do these reports. The commodities that should be placed on the list of items to study includes live animals, bran and fodder, edible oilseeds, and hides and skins. This activity can be valuable for both Government officials and the private sector.

**Set of Criteria for Determining Export Restrictions** In addition, the decision to restrict the export of a good could be made according to a set of explicit criteria. Section 4.3 of this report suggests one possible set of criteria:

- 1) An estimate of the domestic price versus an adjusted international price, to determine if a product will be exportable at all. Domestic prices well above international prices would indicate that even if a trade restriction were lifted, the product would not be exported and an export restriction is redundant.
- 2) The estimated quantity of goods that might be exported. This could be based on historical data or on a sector study in which a team visited major target markets.
- 3) The rise in the domestic price expected from a given increase in the level of exports, using the methodology outlined in this paper.
- 4) The individual and cumulative effect of price rises on the Consumer Price Index.
- 5) The expected supply response for a given increase in price.

In addition, there needs to be a closer look at the seasonal price variation (as shown in Annex II) and the nominal versus real price (see Annex IX).

It is interesting to note how other countries handle this issue of export restrictions. There is a "short supply" provision in the GATT (Article XI 2.(a)) which allows countries to restrict their exports for reasons of short supply. However, in the new round of negotiations, there is the proposal that this clause be removed entirely. This has not yet been ratified by the members of the GATT.

It is now the stated policy of the United States Government not to restrict food exports in any way, except for strategic reasons. However, the last law that was passed on export controls in 1985 contains a clause that is analogous to Pakistan's situation. Under the law, if the US President wants to ban any agricultural item from export, he must make a finding that:

"export of a commodity will result in an excessive drain of scarce material and have a serious domestic inflationary impact."

The words excessive and serious are not defined specifically. It is left to the President's staff to make that case.

**Need for a Stable Business Environment** Perhaps one of the most important goals of the Government's export policy is to provide a stable and conducive environment in which

exporters can conduct their business. Without that environment, growth in the agricultural export sector will be stunted. To the extent that Pakistan can make restrictions on agricultural exports the exception rather than the rule, growth in the export and the agricultural sectors will be higher.

### 5.1.2 Indirect Restrictions

There is the need for a commercially oriented approach to indirect restrictions on trade. Export duties can be a convenient way of collecting taxes, but they may render Pakistani exports uncompetitive in an increasingly competitive international market. Higher duties on lowered levels of exports may bring in less revenue than lower duties on higher levels of exports.

Similarly, the minimum export price is a way of ensuring the deposit of a certain amount of foreign exchange by private exporters. But it may also limit the flexibility of the private sector in making valid sales from an economic point of view.

Greater flexibility is needed by adopting one of the following options:

- 1) setting a lower minimum export price, which becomes more a minimum foreign exchange deposit and allows traders more flexibility;
- 2) creating a system which allows for quality variations, but which is more costly to administer;
- 3) allowing a case-by-case variance of the minimum export price, again more costly to administer; or
- 4) abolishing the minimum price system, and assume that a reasonable amount of foreign exchange will be deposited in Pakistani banks.

Whatever option is chosen, more flexibility than afforded by the present minimum export price system is needed.

Although control of the cotton and rice export markets by Government-owned monopolies has loosened with the private sector now able to participate in these markets, there are still considerable controls on the private sector. Exports would rise if these controls were loosened further. In addition, a more competitive international climate will almost require that the private sector take an increased role if Pakistan is to retain its market share in these critical earners of foreign exchange.

Grading and standards exist to a certain extent in Pakistan. However, government services need to be strengthened to have a wider reach. At the same time, the private sector must adhere more strictly to the grades and standards already established. Some revision of those grades and standards by the appropriate authorities is needed, including efforts to harmonize them with international standards.

### 5.1.3 Import Policy

Pakistan has made considerable strides in reducing the dispersion and average rate of its tariff system. There is more to be done, but in many ways further reductions in tariffs will be possible as a different type of tax structure is evolved.

The duty drawback system does provide a mechanism for exempting exporters from paying duties. Attempts are being made to streamline this system to make it more useable by a wide range of exporters. The duty drawback on fresh fruit and vegetables is under five percent, making it marginally worth the effort to collect. Yet, this may be one factor in the rare use among Pakistani fruit and vegetable exporters of an international standard of packaging, thereby relegating those exporters to the low end of the market.

There are several possible options for handling this situation:

- 1) Create an even more simplified method of obtaining duty drawbacks for exporters whose percentage is under say 7.5%
- 2) Lower the duties on kraft paper (and possibly wood pulp) in hopes of inducing the use of a higher quality of packaging for exports.

A system of determining the standard rate of drawback that is more flexible and able to respond more rapidly to changing market conditions would also be useful. This would require somewhat more manpower and perhaps a review of the procedures now in use to determine if there are ways of streamlining the information now required.

### 5.2 Improvements in Services and Infrastructure

There are a number of improvements needed in the government services and the country's infrastructure that must be made if export volumes, particularly of fruits and vegetables, are to increase. These include:

- 1) **Cold Storage Facilities:** Particularly at airports, cold storage facilities are needed throughout the country. It would be desirable if these could be built and operated by the private sector or by cooperative venture of exporters. However, volumes are so small now that it may be necessary for the Government to provide these facilities in the first instance. There are already projects attempting to increase the cold storage capacity.
- 2) **Grading Centers near Production Areas:** The grading program of the Government needs to be nearer to production centers. In fact, private procurement and packing facilities should also be closer to production areas. There is the need for pilot or demonstration programs in the field to show the advantages of pre-cooling, grading, and proper packing techniques. A companion extension program is needed to ensure that the produce is picked at the optimum time for export.
- 3) **Air Cargo:** PIA needs to become a more active player in the total export scheme. The reliability of PIA service for export must be increased during the high export and harvest season. Freight rates need to be reviewed to reflect the competition from Indian air shippers. Also, the landing fees should be reviewed to make sure

that they do not discriminate against foreign airlines that are willing to carry cargo from Pakistan.

- 4) **Grower Associations:** Develop export grower associations to assist in self-help activities and to set up links with international associations. This type of association can provide certain types of services more efficiently than the Government or individual exporters.
- 5) **Joint Ventures:** Encourage the formation of joint ventures between Pakistani producers and foreign marketing firms. This would mean creating entities producing specifically for export, a necessary change in the "surplus mentality" exhibited by many in Pakistan. These type of joint venture have proven very successful in Latin America and Asia.

ANNEX TABLE I.1

Balance of Payments  
(U.S. \$ Millions)

	1984-85	1985-86	1986-87	1987-88	1988-89 Preliminary	Aver. Annual Growth '85-'89	Aver. Annual Growth '87-'89
TRADE BALANCE	(3,552)	(3,042)	(2,294)	(2,008)	(2,684)	-4.4%	10.6%
Exports (f.o.b.)	2,457	2,942	3,498	4,362	4,437	16.3%	13.2%
Imports (f.o.b.)	(6,009)	(5,984)	(5,792)	(6,370)	(7,121)	4.5%	10.9%
SERVICES(net)	(815)	(1,016)	(982)	(1,389)	(702)	3.3%	-4.0%
Invisibles Receipts	941	963	1,013	987	1,419	12.2%	20.6%
Invisibles Payments	(1,756)	(1,979)	(1,995)	(2,376)	(2,121)	5.5%	4.2%
PRIVATE TRANSFERS(net)	2,687	2,822	2,557	2,264	2,121	-5.5%	-8.9%
(Worker's Remittances)	2,446	2,596	2,278	2,013	1,875	-6.2%	-9.2%
CURRENT ACCOUNT BALANCE	(1,680)	(1,236)	(719)	(1,133)	(1,265)	0.2%	34.6%
CAPITAL ACCOUNT BALANCE	892	1,255	953	1,477	1,727	22.1%	36.0%
LONG-TERM CAPITAL(net)	923	1,101	844	1,224	1,667	19.3%	40.6%
SHORT-TERM CAPITAL(net)	(31)	154	109	253	60		
ERRORS & OMISSIONS	(32)	(26)	8	(30)	0		
OVERALL BALANCE	(820)	(7)	242	314	462		
		55					
GROSS OFFICIAL RESERVES	668	915	864	461	523		
RESERVES IN WEEKS OF IMPORTS	4.5	6.0	5.9	2.6	2.9		
CURRENT ACCOUNT DEFICIT AS PERCENT OF GNP	4.9%	3.4%	1.9%	4.0%	3.4%		

## Sources:

1. World Bank Report No.7591-PAK
2. Economic Survey of Pakistan, 1988-89

ANNEX TABLE I.2

Composition of Merchandise Exports  
1984/85-1987/88  
(Rs. Mil.)

	83/84	84/85	85/86	86/87	87/88	Ave.	Ave. (1)
Raw Cotton	1,772	4,368	8,291	7,676	10,759	6,573	67.3%
Cotton Yarn	2,931	3,974	4,511	8,709	9,530	5,931	37.9%
Cotton Fabrics & Thread	5,167	4,847	5,229	6,089	8,769	6,020	15.5%
Ready-made Gar., Hosiery	2,950	2,662	4,214	7,757	8,521	5,221	35.6%
Subtotal-Cotton Products	12,820	15,851	22,245	30,233	37,579	123,746	31.0%
Synthetic Textiles	1,452	636	802	2,698	3,482	1,814	58.8%
Raw Wool	171	261	274	315	298	264	16.8%
Carpets and Rugs	2,323	2,031	2,693	3,439	4,445	2,986	19.2%
Subtotal-Other Textile	3,946	2,928	3,769	6,452	8,225	5,064	25.4%
Rice	5,688	3,340	5,527	5,139	6,404	5,220	10.4%
Fish, Fish Preparation	1,007	1,231	1,335	1,580	2,186	1,538	22.1%
Leather, Leather Prod.	2,247	2,646	3,251	4,507	5,633	3,657	26.1%
Fruits, Vegetables		570	694	763		676	7.9%
Guar & Products	322	341	444	582	923	522	31.4%
Tobacco- Raw & Mfd.	143	158	195	219	318	207	22.9%
Subtotal- Ag. Products	9,407	8,286	11,446	13,140	15,464	111,549	14.7%
Sporting Goods	665	674	787	1,000	1,145	854	14.9%
Surgical Instruments	430	774	842	956	998	800	26.7%
Petroleum & Products	543	525	507	444	479	500	-2.8%
Miscellaneous	9,528	8,941	9,996	11,130	14,555	110,830	11.9%
Subtotal- Other Products	11,166	10,914	12,132	13,530	17,177	112,984	11.8%
TOTAL	37,339	37,979	49,592	63,355	78,445	153,342	21.0%

(1) Ave. Annual Growth of Export Earnings in Current Rs. - 1983/84-1987/88, except for Fruits and Vegetables for which only three years of data were available.

Annex Table 1.3  
Restricted Export Items  
Production and Wholesale Prices  
1984/85-1988/89

CATEGORY	UNIT	FOOT- NOTE/	ANNUAL PRODUCTION					Ave.	(RS/KG)*					
			84/85	85/86	86/87	87/88	88/89		NOMINAL	AVERAGE	ANNUAL	WHOLESALE	PRICES	
			84/85	85/86	86/87	87/88	88/89	Ave.	84/85	85/86	86/87	87/88	88/89	Ave.
1. Live Animals														
a) Buffaloes	'000 hd.				15,705			15,705	1,763	1,921	2,232	2,516	3,049	2,296
b) Cows	'000 hd.				17,541			17,541	1,559	1,579	1,779	2,189	2,774	1,976
c) Goats	'000 hd.				29,945			29,945	371.8	353.5	376.1	394.6	464.7	392
d) Sheep	'000 hd.				23,287			23,287	332.5	337.2	355.9	369.1	432.9	366
2. Meat														
a) Beef	'000 MT		513	539	567	595	N/A	554	11.84	12.08	13.48	15.34	18.48	14.24
b) Mutton (Sheep/Goat)	'000 MT		467	500	534	570	N/A	518	24.68	26.47	29.58	33.36	39.34	30.69
3. Animal Fat	'000 MT		84	89	94	101	N/A	92						10.00
4. Milk & Milk Prod.	'000 MT		8,779	9,308	9,867	10,437	N/A	9,598	4.70	4.77	4.95	5.48	5.53	5.08
5. Vegetables														
a) Fresh Tomatoes	'000 MT		130	150	148	162		140	3.15	2.86	3.02	4.27	5.09	3.68
b) Green Chillies	'000 MT		N/A	N/A	N/A	N/A	N/A	N/A						
c) Ginger-fresh	'000 MT		0.04	0.05	0.06	0.05	0.09	0.06	13.90	17.36	15.61	15.31	16.54	15.74
d) Turmeric-whole	'000 MT		26	28	29	24	24	26	26.46	18.57	12.29	15.63	14.83	17.55
e) Garlic-dry, whole	'000 MT		53	55	57	61	61	7	5.08	7.10	9.06	11.25	5.81	7.66
f) Cumin Seeds-whole	'000 MT		1.6	1.9	1.7	3.2	3.4	2.4	112.5	106.8	80.7	101.8	105.4	101.4
g) Chillies-dry, red, whl	'000 MT		96	99	92	84	74	89	9.67	8.39	12.72	15.66	27.78	14.84
6. Grains														
a) Wheat	'000 MT		11,703	13,923	12,015	12,673	14,419	12,947	2.09	2.17	2.12	2.21	2.38	2.19
c) Maize	'000 MT		1,028	1,009	1,111	1,127	1,204	1,096	2.40	2.57	2.53	3.00	3.83	2.87
d) Barley	'000 MT		132	134	134	112	123	127	2.46	2.41	1.97	2.39	3.64	2.57
7. Pepper			N/A	N/A	N/A	N/A	N/A	N/A	67.14	106.9	123.3	129.1	97.87	104.9
8. Pulses & Beans														
a) Masur Pulse	'000 MT		26	31	33	31	33	31	9.17	13.05	9.95	8.41	9.19	9.95
b) Moong Pulse	'000 MT		45	49	55	43	41	47	7.43	7.55	7.28	9.05	12.60	8.78
c) Mash Pulse	'000 MT		47	49	39	35	32	40	7.13	7.24	7.77	7.34	9.95	7.88
d) Gram Pulse	'000 MT		524	586	583	372	456	504	4.79	5.10	3.96	5.04	8.35	5.45
9. Blood & corn meals			N/A	N/A	N/A	N/A	N/A	N/A						
10. Bran & Fodder														
a) Oil Cake (Cottonseed)	'000 MT		1,691	2,006	2,174	2,487	2,413	2,154	2.07	1.78	2.43	2.46	2.14	2.18
b) Rice Bran	'000 MT		365	321	384	357	337	352	1.27	1.09	1.04	1.10	2.07	1.31
c) Wheat Bran	'000 MT		1,404	1,671	1,442	1,521	1,728	1,553	1.24	1.21	1.11	1.41	1.60	1.31
11. Edible Oils/Seeds														
a) Cottonseed	'000 MT		2,017	2,434	2,640	2,937	N/A	2,507	2.21	2.27	2.54	2.72	2.94	2.54
b) Rapeseed/Mustard	'000 MT		235	250	213	204	249	230	4.58	4.39	4.39	5.47	6.02	4.97
c) Sesame/Linseed	'000 MT		19	21	18	12	15	17	7.18	5.88	8.16	12.86	12.23	9.26
12. Gur Khandsari	'000 MT		1,265	1,246	1,201	898	1,048	1,132	3.26	4.70	5.44	4.45	4.64	4.50
13. Hides & Skins	'000		5,350	5,450	5,550	5,660	N/A	5,503	142	134	161	225	321	196
14. Firewood/Charcoal	'000 m3		454	385	543	N/A	N/A	461	0.61	0.68	0.75	0.77		0.70
<b>TOTAL</b>														

\* Except for live animals (Rs/Head), Milk (Rs/liter), and Hides and Skins (Rs/Hide)

## Footnotes

### Annex Table I.3

Nominal average wholesale prices are all-Pakistan annual averages taken from the 1988-89 Statistical Survey, Average Wholesale Prices of Selected commodities, Table 9.4 adjusted to a per kilogram basis.

Certain prices not available on an all-Pakistan basis were taken from specific markets as follows:

Karachi: Maize, Tomatoes, Turmeric, Black Pepper, Cottonseed, Mustardseed, and Rapeseed, Firewood (Babal)

Lahore: Barley, Cottonseed Oilcakes

Hides and Skins- unweighted average of buffalo and cattle skins on a per skin basis.

Annex Table I.4  
Restricted Export Items  
Export Quantities and Values  
1984/85-1988/89

CATEGORY	EXPORT QUANTITIES- '000 MT						EXPORT VALUES- MIL. RS.					
	84/85	85/86	86/87	87/88	88/89	Ave.	84/85	85/86	86/87	87/88	88/89	Ave.
1. Live Animals												
a) Buffaloes	0.03	0.05	0.03	0.00	0.16	0.05	0.48	0.89	0.28	0.00	3.85	1.1
b) Cows	5.35	5.45	3.66	15.76	5.10	7.06	78.85	64.29	72.72	78.94	77.21	74.4
c) Goats	16.56	16.09	9.71	2.10	5.16	9.92	78.36	60.61	77.80	7.39	26.96	50.2
d) Sheep	0.00	0.00	0.00	0.60	0.00	0.12						
2. Meat												
a) Beef												
b) Mutton (Sheep/Goat)	0.086	0.002	0.001	0.024	0.026	0.028	2.81	0.00	0.00	0.00	1.53	0.9
3. Animal Fat												
4. Milk & Milk Prod.							0.00	0.01	0.25	0.05	0.00	0.1
5. Vegetables												
a) Fresh Tomatoes												
b) Green Chillies												
c) Ginger-fresh												
d) Turmeric-whole												
e) Garlic-dry, whole	0.20	0.69	0.60	0.69	1.04	0.64	0.2	2.8	3.5	6.0	4.0	3.3
f) Cumin Seeds-whole	0.004	0.07	0.62	0.27	0.34	0.26	0.1	0.9	15.0	6.3	7.3	5.9
g) Chillies-dry, red, whl	11.22	9.51	5.83	14.11	7.83	9.70	131	99	76.9	240.6	202.8	150.1
6. Grains												
a) Wheat							132	0	0	0	8	28.2
c) Maize	10.60	1.49	0.03	0.00	0.00	2.42	2.4	6.8	0.1	0.0	0.0	1.9
d) Barley	3.20	0.00	0.03	0.00	0.00	0.65	7.7	0.0	0.0	0.1	0.0	1.6
7. Pepper												
8. Pulses & Beans												
a) Masur Pulse												
b) Moong Pulse												
c) Mash Pulse												
d) Gram Pulse												
9. Blood & corn meals												
10. Bran & Fodder												
a) Oil Cake (Cottonseed)	0.00	0.00	0.64	0.00	0.05	0.14	0.0	0.0	1.2	0.0	0.1	0.3
b) Rice Bran	29.41	90.52	54.63	51.08	39.96	53.12	18.9	77.0	62.7	56.6	48.1	52.7
c) Wheat Bran												
11. Edible Oils/Seeds												
a) Cottonseed												
b) Rapeseed/Mustard												
c) Sesamum/Linseed												
12. Gur Khandhari												
13. Hides & Skins												
14. Firewood/Charcoal												
<b>TOTAL</b>	<b>77</b>	<b>124</b>	<b>76</b>	<b>85</b>	<b>60</b>	<b>84</b>	<b>454</b>	<b>312</b>	<b>311</b>	<b>396</b>	<b>380</b>	<b>370</b>

ANNEX TABLE I.5  
LIFTING RESTRICTIONS ON AGRICULTURAL TRADE  
BASE CASE

CATEGORY	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
	Est. Price Chge	Est. Price Chge	Wgt. in CPI	EFFECT ON CPI (Exp. Level)	EFFECT ON CPI (Exp. Level)	Elast. Demand w/r/t Price	Elast. Demand w/r/t Price	Elast. Supply w/r/t Price	Est. Border Price	% Dom. + or - World Price	P On Essn. Comm. List
1. Live Animals											
a)Buffalos											
b)Cows											
c)Goats											
d)Sheep											
2. Meat	3.1%	6.3%				-0.80	-1.25				
a)Beef	3.1%	6.3%	2.36	0.07%	0.15%	-0.80	-1.25	0.20	24.3	-14.6%	Yes
b)Mutton(Sheep/Goat)	3.1%	6.3%	1.78	0.06%	0.11%	-0.80	-1.25	0.20	42.8	0.7%	Yes
3. Animal Fat									6.9	44.6%	
4. Milk & Milk Prod.	2.4%	4.7%	5.36	0.13%	0.25%	-1.06	-0.94	0.20	8.0	-6.0%	Yes
5. Vegetables	3.3%	6.6%				-0.76	-1.32	0.10			
a)Fresh Tomatoes	3.3%	6.6%	0.52	0.02%	0.03%	-0.76	-1.32	0.10	8.5	-40.0%	Yes
b)Green Chillies	3.3%	6.6%	0.17	0.01%	0.01%	-0.76	-1.32	0.10			Yes
c)Ginger-fresh	3.3%	6.6%	0.10	0.00%	0.01%	-0.76	-1.32	0.10	28.8	-30.5%	
d)Turmeric-whole	3.3%	6.6%	0.15	0.00%	0.01%	-0.76	-1.32	0.10	19.2	-29.3%	
e)Garlic-dry,whole	3.3%	6.6%	0.29	0.01%	0.02%	-0.76	-1.32	0.10	8.5	-38.5%	Yes
f)Cumin Seeds-whole	3.3%	6.6%	0.08	0.00%	0.01%	-0.76	-1.32	0.10	28.3	-9.5%	
g)Chillies-dry,red,whl	3.3%	6.6%	0.48	0.02%	0.03%	-0.76	-1.32	0.10	28.8	-13.2%	
6. Grains											
a)Maize	7.1%	14.3%	0.01	0.00%	0.00%	-0.35	-2.86	0.25	2.4	25.7%	
b)Barley	5.2%	10.4%	0.01	0.00%	0.00%	-0.48	-2.08	0.25	2.8	18.0%	
7. Pepper	3.3%	6.6%	0.03	0.00%	0.00%	-0.76	-1.32				
8. Pulses & Beans	8.3%	16.7%				-0.30	-3.33				
a)Masur Pulse	8.3%	16.7%	0.31	0.03%	0.05%	-0.30	-3.33	0.25	10.1	18.2%	Yes
b)Moong Pulse	8.3%	16.7%	0.41	0.03%	0.07%	-0.30	-3.33	0.25	6.8	7.4%	Yes
c)Mash Pulse	8.3%	16.7%	0.49	0.04%	0.08%	-0.30	-3.33	0.25	7.3	40.4%	Yes
d)Gram Pulse	8.3%	16.7%	0.66	0.05%	0.11%	-0.30	-3.33	0.25	7.8	16.8%	Yes
9. Blood & corn meals											
10. Bran & Fodder											
a)Oil Cake(Cottonseed)											
b)Rice Bran											
c)Wheat Bran											
11. Edible Oils/Seeds	4.4%	8.8%	2.68	0.12%	0.23%	-0.57	-1.75	0.40			Yes
a)Cottonseed									4.5	23.5%	
b)Rapeseed/Mustard											
c)Sesamum/Linseed											
12. Gur Khandasari			0.14								Yes
13. Hides & Skins									49.2	-3.4%	
14. Firewood/Charcoal											
TOTAL				16.0%							
Est. Incr. in Inflation				0.59%	1.18%						
b)Rice	3.6%	7.1%	0.31	0.01%	0.02%	-0.70	-1.43	0.60	7.8	-4.1%	Yes
a)Wheat	10.0%	20.0%	5.00	0.50%	1.00%	-0.25	-4.00	0.09	3.6	-19.2%	Yes

## Footnotes

### Annex Table I.5

Columns (9) & (10)- Estimated Price Change for a 2.5% or 5.0% assumed increase in the level of exports for each commodity. Calculated by multiplying Column (15) by 2.5% or 5.0%.

Column(11)- Weight in the Consumer Price Index as calculated by the Federal Bureau of Statistics.

Column (12) & (13)- Column (11) multiplied by Columns (9) and (10). Summed, these figures represent the potential change in CPI for a given level of exports.

Column (14)- This series of price elasticities is taken from The Wheat Economy of Pakistan, by Naved Hamid, Thomas Pinckney, Suzanne Gnaegy, and Alberto Valdes, published by the International Food Policy Research Institute, Nov. 1987. The estimate for milk comes from another IFPRI paper by Harold Alderman entitled, "Estimates of Consumer Price Response in Pakistan Using Market Prices as Data." (Sept.,1987) Since estimates were only available for broad categories, we have made the assumption that all goods within a category have the same price elasticity of demand. Although this presents some minor methodological difficulties (homogeneity conditions,etc.), the assumption is reasonable. Obviously, it would be useful to have more disaggregated elasticity estimates.

Another paper on price elasticities of demand appeared recently in the Pakistan Development Review, (No.3, Autumn, 1988), entitled "Demand Response in Pakistan: A Modification of the Linear Expenditure System for 1976," by Ehtisham Ahmad, Stephen Ludlow, and Nicholas Stern. Their estimates compare to the IFPRI ones as follows:

<u>CATEGORY</u>	<u>IFPRI</u>	<u>AHMAD</u>		
1.Wheat	-.25	-.23		
2.Rice	-.70		-.59	
3.Pulses	-.30	-.30		
4.Meat&Eggs	-.80		-1.12	
5.Milk	-1.06	-.69		
6.Vegetables, Fruits, & Spices			-.76	-.91
7.Edible Oils	-.57		-.69	

These figures suggest that except for milk, the IFPRI figures generally agree with the Ahmad study are in fact somewhat conservative side. For example, the IFPRI elasticity for fruits and vegetables predicts a higher price increase from an increase in exports, which would provide evidence of our estimates as upper limits to inflationary price rises.

## Annex Table I.5

Column (15) - The reciprocal of figures in Column 14.

Column (16)- Supply Elasticities with respect to Price as quoted in The Wheat Economy of Pakistan. Area is used as a proxy for supply.

Column (17)- Estimated border price as calculated in Annex Table I.6.

Column (18)- The percentage that the domestic price of a good in Pakistan is above (+) or below (-) the international price as calculated in Table I.6.

Column (19) - Whether the commodity is on the essential commodities list.

Table 1.6  
BORDER PRICE CALCULATIONS

CATEGORY	Unit	Est.	Est.	Est.	Exc. Rate	Est.	Dom.	% Dom.P + or - World Price
		FOB Price	Est. Tran- sport	Est. CIF Price		\$/unit	\$/Kg	
1. Live Animals								
a) Buffalos								
b) Cows								
c) Goats								
d) Sheep								
2. Meat								
a) Beef	1b	0.47	0.05	0.52	1.16	21.00	24.29	20.75 -14.6%
b) Mutton (Sheep/Goat)	1b	0.83	0.08	0.91	2.04	21.00	42.84	43.13 0.7%
3. Animal Fat	1b	0.14	0.01	0.15	0.33	21.00	6.91	10.00 44.6%
4. Milk & Milk Prod.	1t	0.36	0.02	0.38	0.38	21.00	7.98	7.50 -6.0%
5. Vegetables								
a) Fresh Tomatoes	MT	397	7.93	404.53	0.40	21.00	8.50	5.09 -40.0%
b) Green Chillies								
c) Ginger-fresh	1b	0.60	0.01	0.61	1.37	21.00	28.79	20.00 -30.5%
d) Turmeric-whole	1b	0.40	0.01	0.41	0.91	21.00	19.19	13.56 -29.3%
e) Garlic-dry, whole	MT	387	19.35	406.35	0.41	21.00	8.53	5.25 -38.5%
f) Cumin Seeds-whole	1b	0.59	0.01	0.60	1.35	21.00	28.31	25.63 -9.5%
g) Chillies-dry, red, whl	1b	0.60	0.01	0.61	1.37	21.00	28.79	25.00 -13.2%
6. Grains								
a) Wheat	MT	162.87	8.14	171.01	0.17	21.00	3.59	2.90 -19.2%
b) Maize	MT	108.26	5.41	113.67	0.11	21.00	2.39	3.00 25.7%
c) Barley	MT	124.93	6.25	131.18	0.13	21.00	2.75	3.25 18.0%
7. Pepper								
8. Pulses & Beans								
a) Masur Pulse							10.05	11.88 18.2%
b) Moong Pulse							6.75	7.25 7.4%
c) Mash Pulse							7.30	10.25 40.4%
d) Gram Pulse							7.75	9.05 16.8%
9. Blood & corn meals								
10. Bran & Fodder								
a) Oil Cake (Cottonseed)								2.60
b) Rice Bran								
c) Wheat Bran								
11. Edible Oils/Seeds								
a) Cottonseed								
b) Rapeseed/Mustard	MT	202.00	10.10	212.10	0.21	21.00	4.45	5.50 23.5%
c) Sesamum/Linseed								
12. Gur, Khandhari								
13. Hides & Skins	1b	0.95	0.10	1.05	2.34	21.00	49.16	47.50 -3.4%
14. Firewood/Charcoal								

## Footnotes

### Annex Table I.6

- 1) Beef-Steers, Texas, per lb., March, 1990, adjusted for quality differential
- 2) Mutton- Colorado Feedlot, March, 1990 adjusted for quality.
- 3) Animal Fat- Tallow, quoted Wall Street Journal, March9/10, 1990
- 4) Milk- California Wholesale, March, 1990
- 5) Fresh Tomatoes- California Annual Average, 1989, Department of Food and Agriculture, Sacramento, California
- 6) Ginger, Tumeric, Cumin Seeds, Chillies: New York Spice Market Quotes, March, 1990
- 7) Garlic, California Wholesale Price, Gilroy, March, 1990
- 8) Wheat- #2 HW ORD GIF, Feb.25, 1990
- 9) Maize- # 3 Yellow, Gulf, Feb.25, 1990
- 10) Barley- # 2 WSRN, Feb.25, 1990
- 11) Pulses Figures-From Business Recorder, Karachi, March 7, 1990, for imported and domestic pulses
- 12) Rapeseed- For Business Recorder, Karachi, March 7, 1990
- 13) Hides and Skins- Wall Street Journal, March9/10, 1990

## Annex II

### COMMODITY INFORMATION

#### 1.1 *"Exportable Surplus" Related to Production and Export Trends.*

The companion report made note of the relationship of total tonnage of non-traditional agricultural product exports and value of exports. The quantity has remained flat while value has increased. Part of this is due to inflationary or exchange rate factors. The significance of an "export surplus" consideration for selected products is discussed below with reference to Tables II.1 and II.2.

1000.00  
Table II.1 Production of Selected Products, 1979/80-1987/88

Item	Unit	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Potatoes	000 Tonnes	448500	394300	476600	518100	509800	543300	618400	594300	563200
Onions	"	434000	447600	451800	474800	503400	514600	514700	576800	633100
Peas	"	75400	75600	80900	79800	69000	74700	67900	69100	66600
Chillies Dried Whole	"	109000	106200	99800	103800	96900	96400	98800	92400	84300
Citrus	"	870600	927200	1159800	1245100	1300300	1373000	1434400	1467000	1411300
Mango	"	550200	546600	651700	682600	673100	691900	713400	736600	712900
Dates	"	198400	194100	214500	223700	230700	234200	268600	273800	276500
Apricot	"	34100	35700	37100	43700	46500	52200	53800	61500	65800
Animal Casings	Mill.No	3100	3100	3100	3200	3300	3300	3400	3400	

Source: Agricultural Statistics of Pakistan, 1987-88

Table 11.2 QUANTITY OF EXPORTS OF SELECTED AGRICULTURAL PRODUCTS, 1979/80-89/90

Item	Quantity (Tons)									
	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Potatoes	41259	4853	3207	7379	3465	2650	1304	2479	20	995
Onions	68590	75282	33893	75515	44988	25124	66254	48942	63155	27059
Peas				1	5		15		22	
Chillies Dried Whole	13783	6072	2801	3826	6584	11220	9510	436	37	296
Chillies Powder								5393	14068	7531
Kinno	55147	20274	24767	41019	36972	32628	29317	28377	19689	24875
Mango	4240	4212	6810	13331	9865	6710	7709	10288	11003	10685
Lemons	159	206	185	296	73	106	209	280	55	159
Dates Fresh		34		409	1860	4143	4988	3179	5904	7946
Dates Dried	213	2547	9733	13739	16208	16472	12241	16301	29550	21180
Apricot Dried	409	407	288	506	476	698	769	181	252	206
Apricot Fresh	101	629	5	90	10	5	2	40	321	156
Sausage Animal Casings	231	269	270	262	287	338	482	493	579	540

VALUE OF EXPORTS OF SELECTED AGRICULTURAL PRODUCTS, 1979/80-89/90

Potatoes	54880	8879	5788	14338	6404	6027	2136	3734	36	2128
Onions	146616	117538	55182	92571	55853	36579	85693	55719	79591	59827
Peas				9	34		148		187	
Chillies Dried Whole	96146	44290	29993	60766	83544	131381	98565	4982	847	9387
Chillies Powder								75524	235616	193443
Kinno	102068	39632	48197	86385	87969	75032	60780	57896	45670	52009
Mango	26440	24805	39996	81566	58182	39165	48179	57868	65441	69087
Lemons	937	760	412	639	391	430	1055	2583	778	1964
Dates Fresh		317		5775	32423	80620	64333	46546	86025	131281
Dates Dried	1169	13923	66037	90673	79186	87484	66070	94301	191732	210368
Apricot Dried	10348	10331	5201	7700	8776	10294	11144	4644	5477	4543
Apricot Fresh	2486	5658	923	1974	67	77	31	1087	6955	2764
Other Fresh Fruits	19370	34552	44618	97492	94435	134534	180422	180989	148886	136248
Sausage Animal Casings	41087	59990	56645	52674	56139	68506	98515	144415	210059	225523

Source: Agricultural Marketing and Grading Department.

Table 11.3 EXPORTS AS % AGE OF PRODUCTION, 1979/8 1988/89

Item	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	Average
Potatoes	9.20	1.23	0.67	1.42	0.63	0.49	0.21	0.42	0.00	0.16	1.45
Onions	15.80	16.82	7.50	15.91	8.94	4.88	12.87	8.48	9.98	3.83	10.50
Peas	0.00	0.00	0.00	0.00	0.01	0.00	0.03	0.00	0.03	0.00	0.01
Chillies	12.64	5.72	2.81	3.69	6.79	11.64	9.63	6.31	16.74	10.52	8.65
Citrus	6.36	2.21	2.15	3.32	2.85	2.33	2.05	1.95	1.40	1.60	2.63
Mango	0.77	0.77	1.04	1.95	1.47	0.97	1.08	1.40	1.54	1.45	1.24
Dates	0.11	1.33	4.54	6.33	7.83	8.80	8.11	7.11	12.82	10.37	6.57
Apricot	1.79	4.68	0.81	1.58	1.08	1.36	1.43	0.42	1.35	0.73	1.52
Sausage Animal Casings	7.42	8.71	8.71	8.13	3.79	10.30	14.12	14.41	--	--	0.07

If certain agricultural products are exported only when domestic needs are considered satisfied (additional amounts are deemed surplus and eligible for export), Pakistan's efforts to increase exports of these products cannot succeed. To penetrate more profitable export markets, there must be a well organized sustained effort. In an effective market economy, price will ration supplies in both export and domestic markets.

The "exportable surplus" predicated government interference in the market to influence prices in favor of consumers and with little regard for the disadvantage to producers. To encourage production of seasonal perishable products, farmers must receive the benefits of high prices to survive the disasters from low prices for these products and to compensate for risk. Otherwise, government will find it necessary to compensate producers in the amount that income is reduced by the prices dampened by bans or quotas or production for export will not occur. As evidenced in countries throughout the world, an economy bears a heavy burden in decreased production, a loss in foreign exchange, or large agricultural subsidy costs when there is disruption in the stability of an economic system the decisions of many entrepreneurs seeking profits and consumers examining least cost alternatives, seem to be the most effective means of allocating resources.

## **2. Export Surplus of Individual Crops: Production & Exports**

### **2.1 POTATOES**

Production of potatoes has reflected an upward trend while exports have been downward. (Annex II, Figures 1 and 1-A). The main buyers have been as follows:

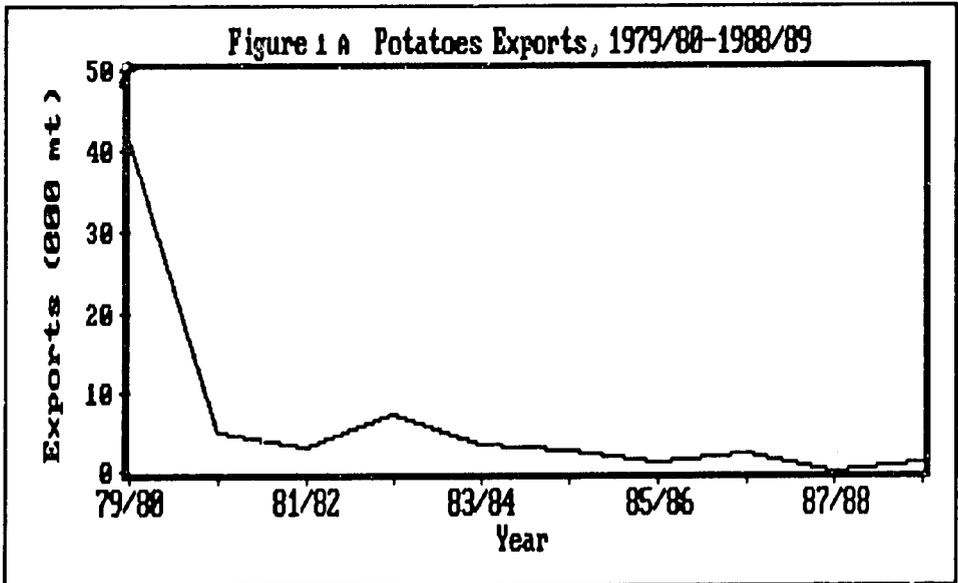
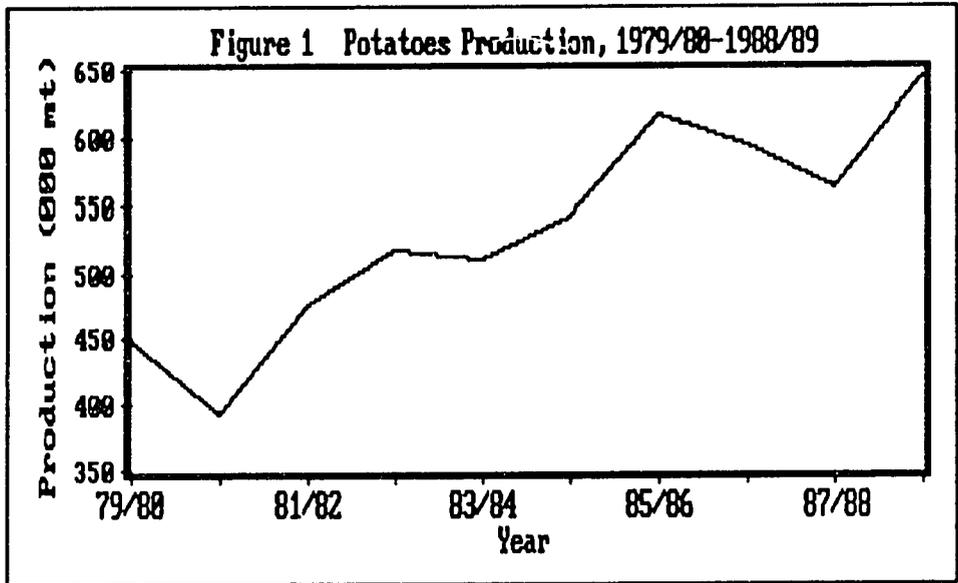


Table II.4

**PAKISTAN**  
**POTATO (Red) EXPORTS BY IMPORTING COUNTRY (TONS)**

	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9
AFGHANISTAN	-	-	-	-	-	216
BAHRAIN	313	123	28	20	-	47
DUBAI	2,330	2,537	1,156	2,399	20	718
KUWAIT	36	-	45	-	-	-
SINGAPORE	n.a.	n.a.	75	-	-	-
SULTANATE OF OMAN	n.a.	n.a.	-	60	-	-
OTHERS	786	-	-	-	-	14
<b>TOTAL</b>	<b>3,465</b>	<b>2,660</b>	<b>1,304</b>	<b>2,479</b>	<b>20</b>	<b>995</b>

It is evident that there have been ample supplies (and even a huge surplus this year) but exports have dropped off without bans or quotas invoked by the GOP. In fact, GOP has supported the price by direct purchases. The explanation for these results is the negative reputation of Pakistan's potatoes in international circles as reported in the most recent Fruit and Vegetable Export Marketing Study by GOP and the Asian Development Bank. Government has tried to export potatoes purchased but losses have been incurred. Data in figure 1 and 1A suggest the need for private enterprise to organize the production, harvest and marketing of potatoes. Pakistan has great production potential and foreign markets will open again only with a sophisticated approach to the problem.

## 2.2 ONIONS

Onion production is widespread throughout Pakistan with virtual year round supply. Total production 1988-89 was 630,000 mt of which 27,059 tons were exported with a Rupee value of 59.827million. At the present exports are purchased at wholesale markets and shipped through Karachi.

There has been a constant upward trend in production the past 10 years (GOP has supported the price by direct purchases at the minimum price announced by it periodically). The exporters have been erratic (Annex II, Figures 2 and 2A). The traditional buyers have largely been the Gulf States as can be witnessed from the following:

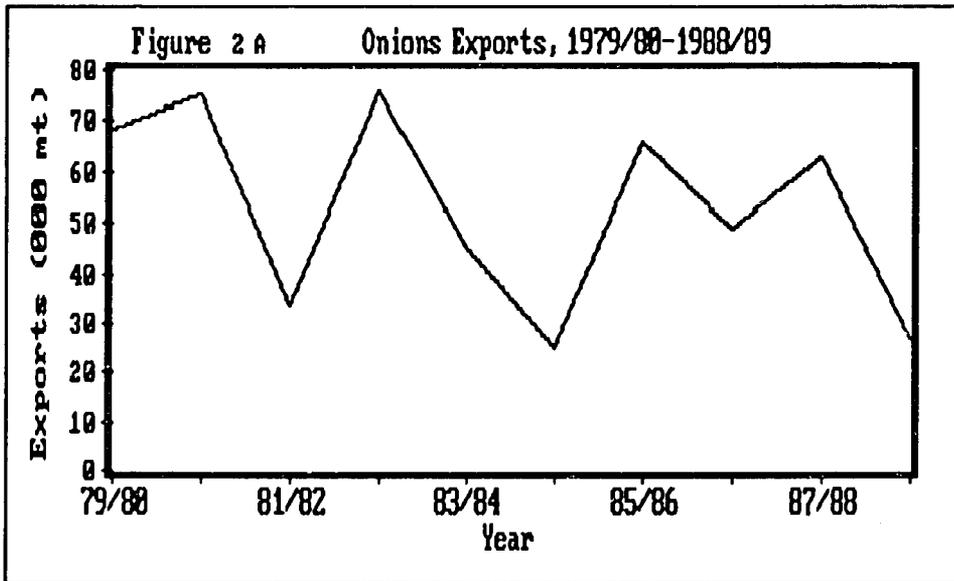
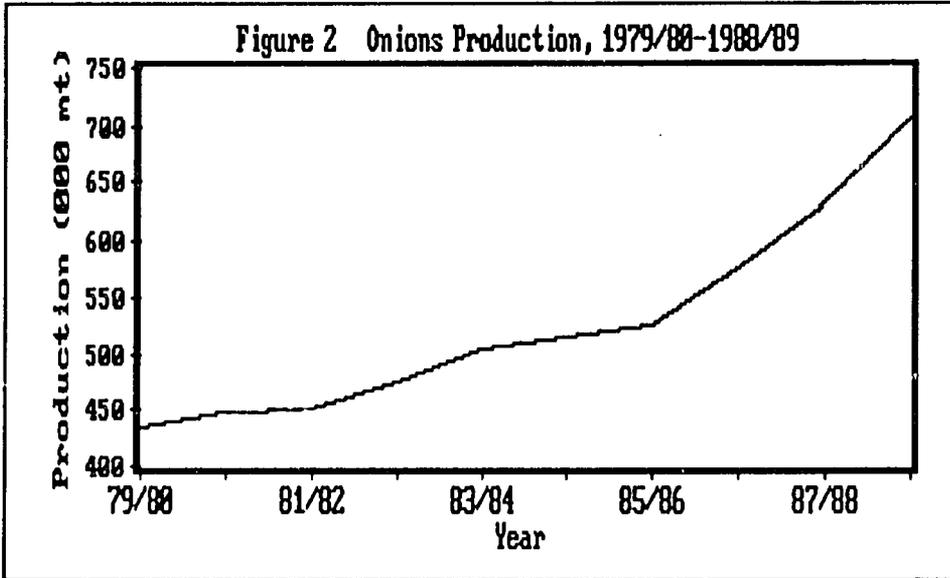


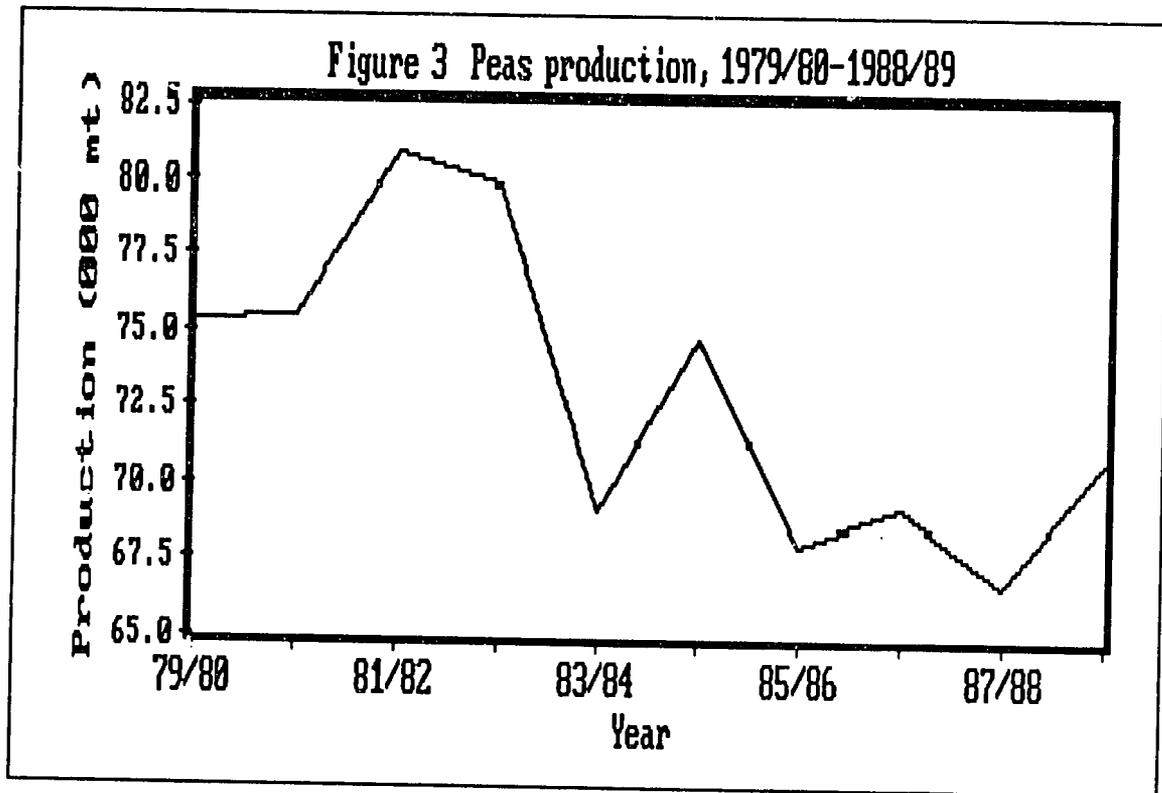
Table II.5

		PAKISTAN				
ONION	EXPORTS BY IMPORTING COUNTRY (TONS)					
	1983/4	1984/5	1985/6	1986/7	1987/88	1988/89
BAHRAIN	1,332	258	1,698	1,243	1,764	857
DUBAI	31,325	16,263	46,056	40,276	44,907	20,627
S. ARABIA	5,307	1,131	1,074	839	2,685	100
SINGAPORE	-	-	1,092	449	1,891	1,184
SRI LANKA	6,345	7,053	15,484	5,750	10,729	1,000
MALAYSIA	-	-	283	100	350	250
OTHERS	679	419	567	284	829	41
TOTAL	44,988	25,124	66,254	48,941	63,155	27,059

GOP has not initiated bans or controls of exports. However, the widely fluctuating exports may be indicative that the private sector itself treats this market as secondary. When prices are low in the domestic market, central wholesale market supplies are skimmed, and sales are made at the bottom end of prices in export markets. The other constraints in exports are the lack of proper grading facilities.

### 2.3 PEAS

Production has been slightly downward over the ten years 1979/80-1989 (Annex II, Figure 3), and exports have been almost nil. There have not been GOP restrictions on this product, but neither has there been significant encouragement for exporters to deal with this market. It is a highly perishable and very demanding fresh product export market. Lesser number of seeds or lower seed recovery rate from individual pods seems also to be a cause for poor export performance and negligible exports.



## 2.4 Chillies

The production of dried whole chillies has declined with a sharp drop in the most recent years (Annex II, Figure 4). A ban on exports was invoked in mid-1989 and then an export quota of 5000 tons was introduced January 1, 1990. It is doubtful that the ban had a significant affect on the domestic markets, unless it was psychological. The exports of dried whole chillies, the three years previous to the ban, were less than 440 mt. each year. Prices for dried chillies dropped substantially from July to November 1989 but that was most likely from new crop harvest rather than due to limiting exports. Trends of production and exports are shown in Annex 2 Figures 4 and 4A. The announced ban served more to quiet consumer complaints and show government concern than to affect prices. As previously noted, the export ban did wreak havoc upon one exporter who had a niche in the U.S. market.

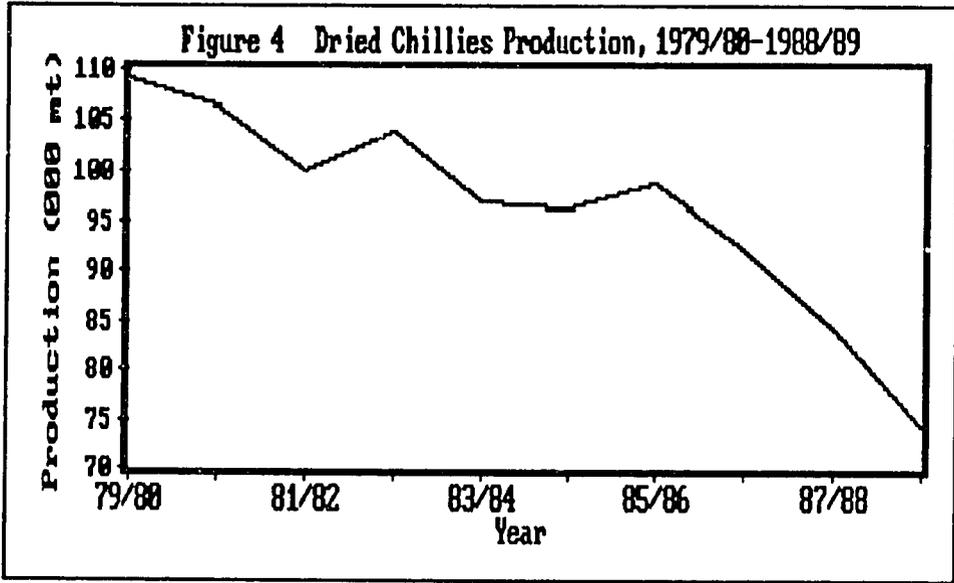
If the GOP were serious about influencing the domestic market prices through export controls, the ban would also have been placed on exports of chilli powder. It will be noted that exports of this processed product went from nil in 1985/86 to 14000 mt in 1987/88 and dropped to 7531 mt. during 1988/89. Even with these high exports, the domestic market adjusted itself as climatic conditions and disease problems associated with production changed. Although the export market fell by half between 1987/88 and 1988/89, processors-exporters could adjust to anticipated supply problems without losing their entire presence in the market.

The Pakistan Times (February 2, 1990), reported one further action taken by the government in a January 28, 1990 meeting. It made the 5000 mt. export quota applicable to both powdered and whole chillies. The procedures followed to apply the quota and the explanation for the action are clearly presented in the news article quoted below.

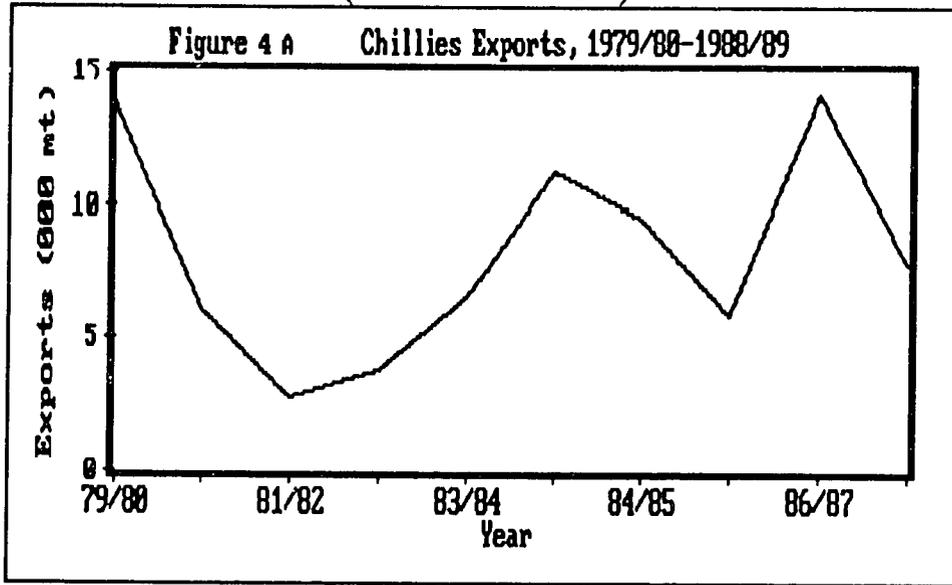
"An inter-ministerial meeting was held here on Sunday under the chairmanship of Secretary Commerce and attended by Secretary Ministry of Industries, Agricultural Development Commissioner/Additional Secretary, Ministry of Food and Agriculture and Member Customs, Central Board of Revenue and General Manager and Utility Stores Corporation in order to review the present structure on export of chillies in the context of larger production of the crop this year.

Keeping in view the production of chillies and consumption requirements in the country and also the need for a continuing foothold in the export market, it has been decided to allow limited export of whole and powdered chillies i.e., up to 5,000 metric tons during Jan. 1, 1990 to Dec. 31, 1990. There would be no fixed export trade price and no export duty. The export will, however, be subject to the following procedure: Export will be subject to pre-shipment registration of contracts with the Export-Promotion Bureau, which will ensure that no contract is registered if the prices offered are below the average wholesale prices prevailing in the domestic market.

Contracts will be registered on first-come-first-served basis. --- APP".



(Whole and Powder)



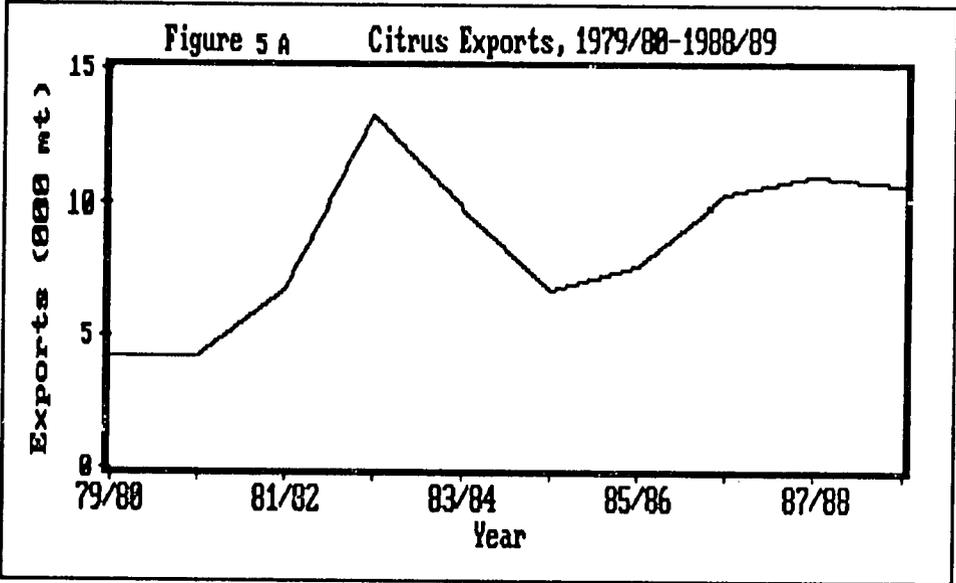
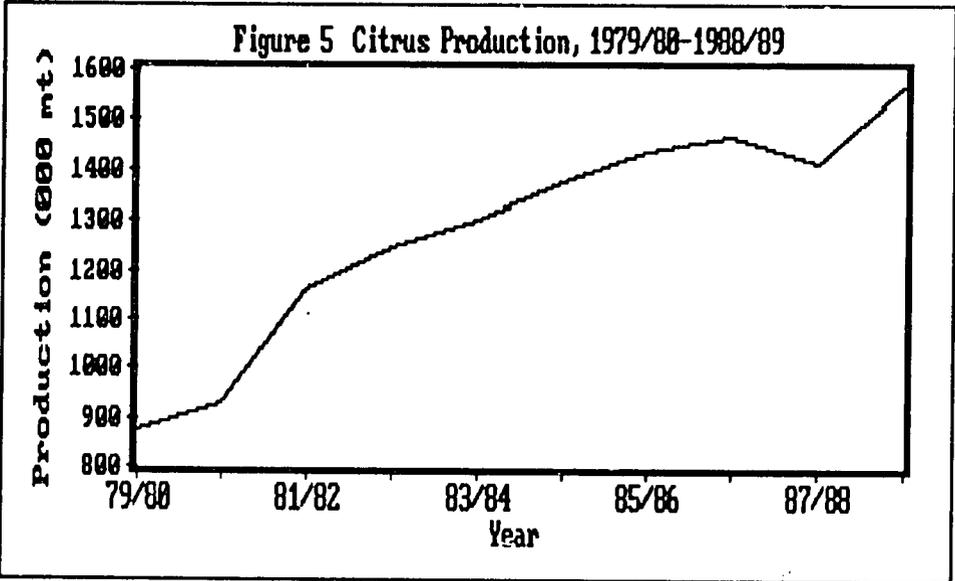
## 2.5 KINNO (CITRUS)

Production of citrus fruits has continued an upward trend over the last 10 years. Separate figures for different varieties are not available. Except for mosammi, which contribute about 2 percent to the total, all varieties are estimated to have maintained similar trends. Against the increasing trend in production, the exports have fluctuated widely (Annexure II, Figure 5 and 5A). Gulf States have remained the main importers of Pakistan citrus with Singapore picking up though moderately. Citrus exports to various destinations in the last 6 years have been as follows:

Table II.6

KINNO	PAKISTAN EXPORTS BY IMPORTING COUNTRY (TONS)					
	1983/4	1984/5	1985/6	1986/7	1987/88	1988/89
AFGHANIS'TAN	n.a.	4,024	3,044	3,243	2,616	470
BAHRAIN	n.a.	1,733	2,610	318	307	250
DUBAI	27,095	24,944	22,043	24,044	16,019	23,060
KUWAIT	n.a.	n.a.	37	21	144	n.a.
S. ARABIA	3,582	1,182	657	266	112	n.a.
SINGAPORE	107	219	137	234	358	430
OTHERS	6,188	526	789	251	133	650
<b>TOTAL</b>	<b>36,972</b>	<b>32,628</b>	<b>29,317</b>	<b>28,377</b>	<b>19,689</b>	<b>24,870</b>

Since there has been no GOP interference in exporting this product, we must attribute the highly variable export intensity to the exporters themselves. It is evident that reliable export markets for fresh Kinno have not been developed and this observation is substantiated in other export market prospects (the most recent for the Asian Development Bank). The GOP has not provided a facilitating environment as pointed out in the companion study. Traditionally the kinno is packed in wooden crates that are over-filled and suffer damage during transit. It is noted that Cargill is developing a plant to process kinno for pulp and juice for export.



## 2.6 MANGOS

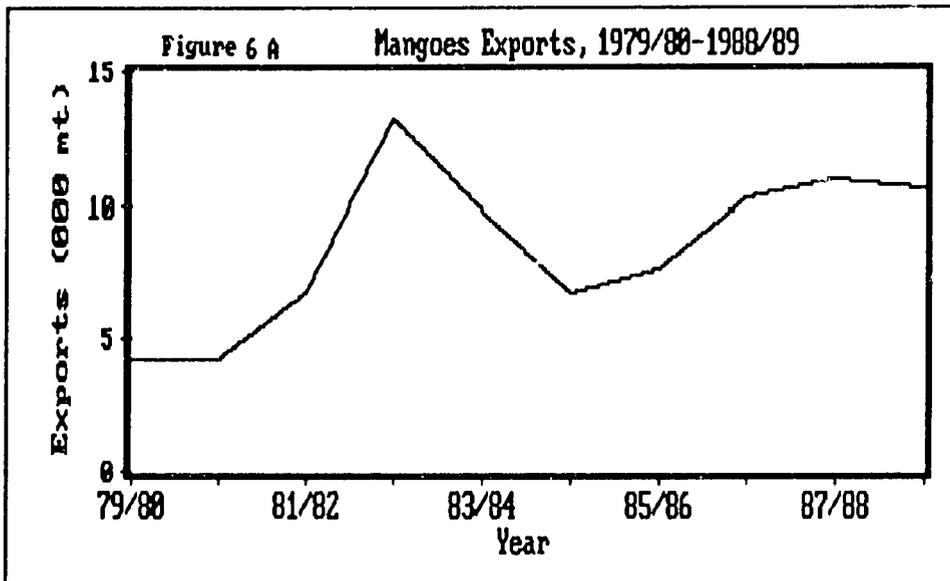
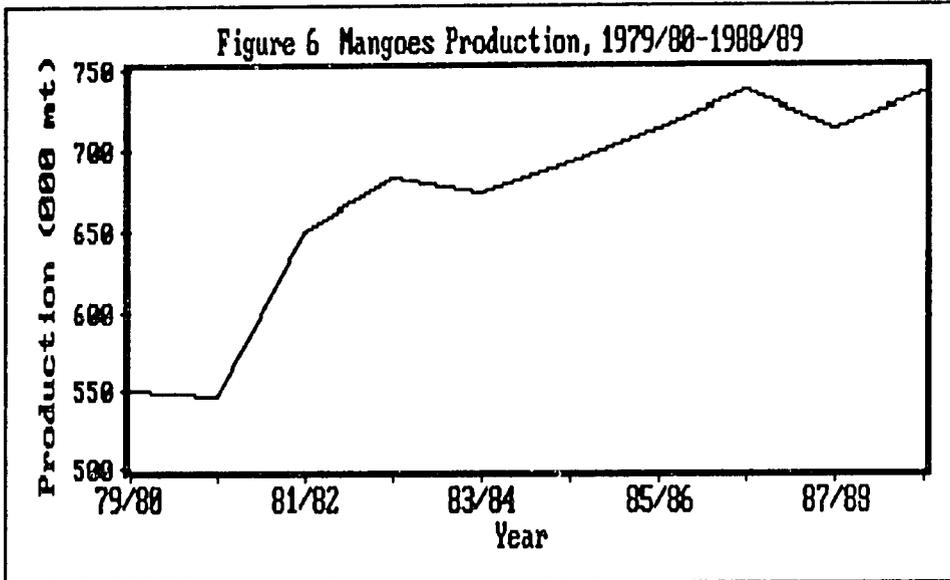
Mango production is concentrated in Sind and Southern Punjab. The present production is near 720,000 tons and exports for 1988-89 were 10,685 tons with an export value of 69 million Rupees.

Most of the mangos for export are purchased on the tree by contractors with some of the exporters beginning packing operations in the field using hand sorting. Most of the crop goes to Karachi by unrefrigerated truck and is then sorted and packed for export.

The trend of production and exports are shown in Annexure II, Figures 6 and 6-A. The Bulk of the exports go to Gulf States, Saudi Arabia and UK. The table below indicates the various destinations:

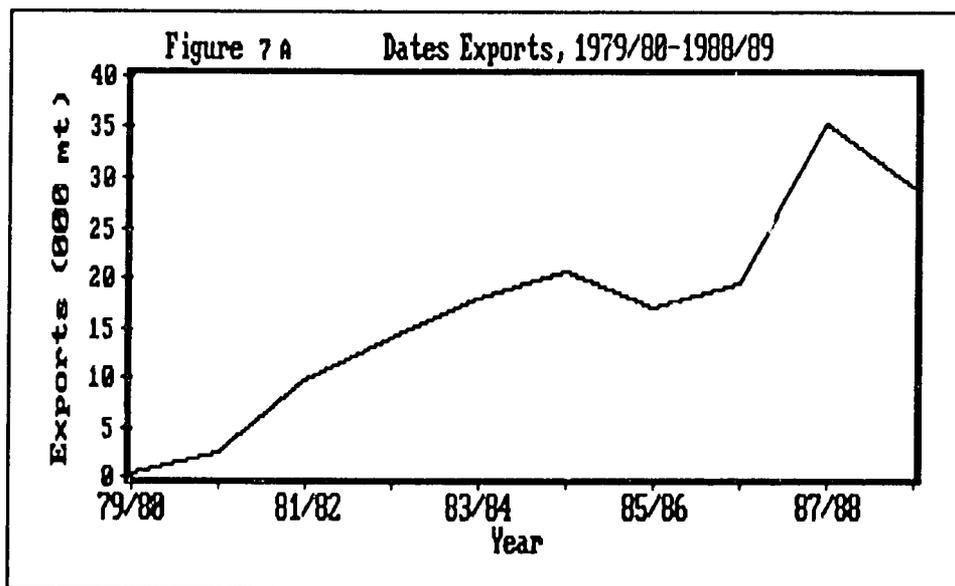
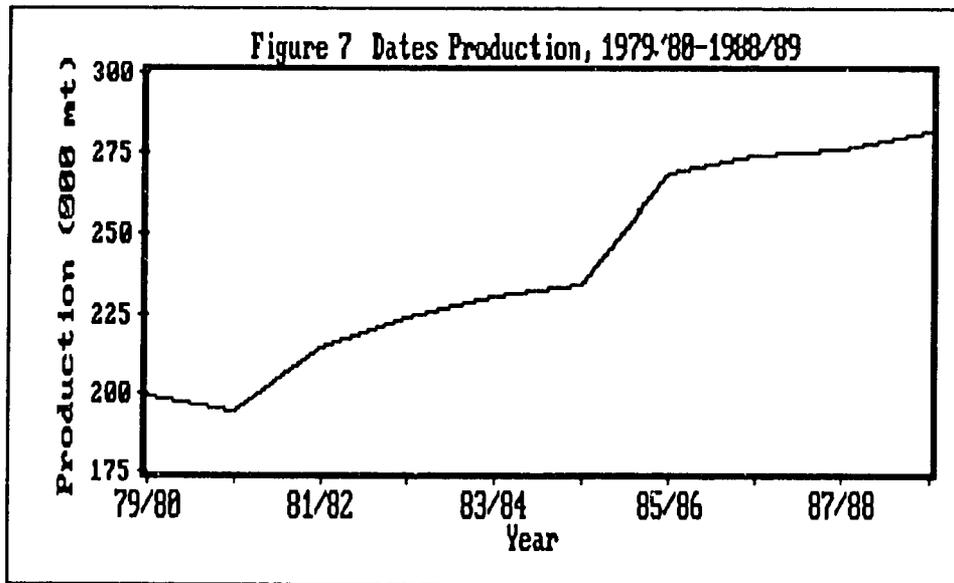
Table II.7

MANGO	PAKISTAN EXPORTS BY IMPORTING COUNTRY (TONS)					
	1983/4	1984/5	1985/6	1986/7	1987/88	1988/89
AFGHANISTAN	n.a.	n.a	n.a.	104	599	147
BAHRAIN	384	201	285	194	80	115
DUBAI	4,965	3,505	4,499	6,419	7,346	7,396
KUWAIT	322	233	203	294	298	232
S. ARABIA	2,960	2,062	1,988	2,187	1,388	1,326
U. K.	601	297	426	776	840	1,049
OTHERS	633	412	308	314	452	409
<b>TOTAL</b>	<b>9,865</b>	<b>6,710</b>	<b>7,709</b>	<b>10,288</b>	<b>11,003</b>	<b>10,684</b>



## 2.7 DATES

Production of dates has increased every year since 1981, providing for an exportable surplus. Export growth was especially rapid between 1986 and 1988. However, exports declined in 1989. Production and export trend between 1979-80 and 1987-88 are given in Annex II, Figures 7 and 7A. The organization for exporting dates is considered to be one of the best developed systems for non-traditional agricultural products from Pakistan.



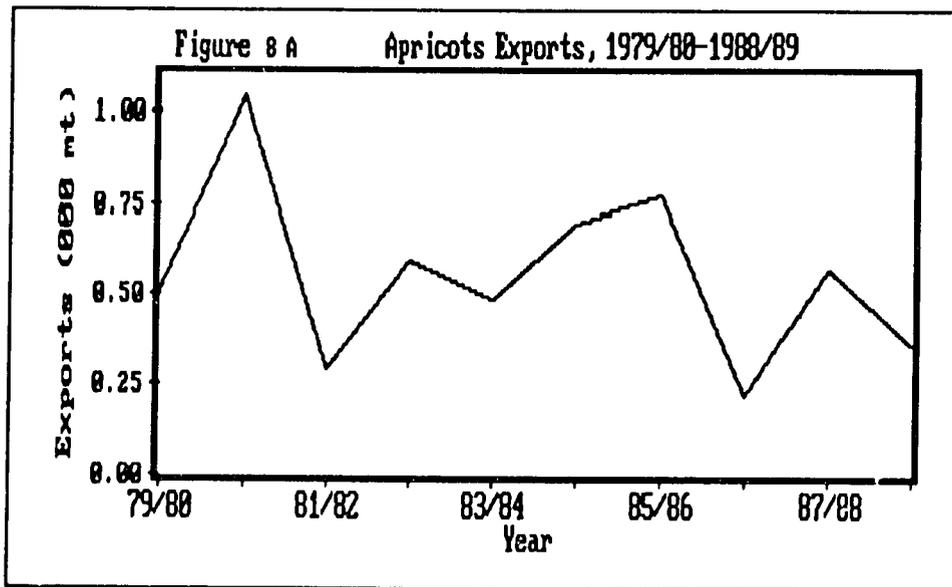
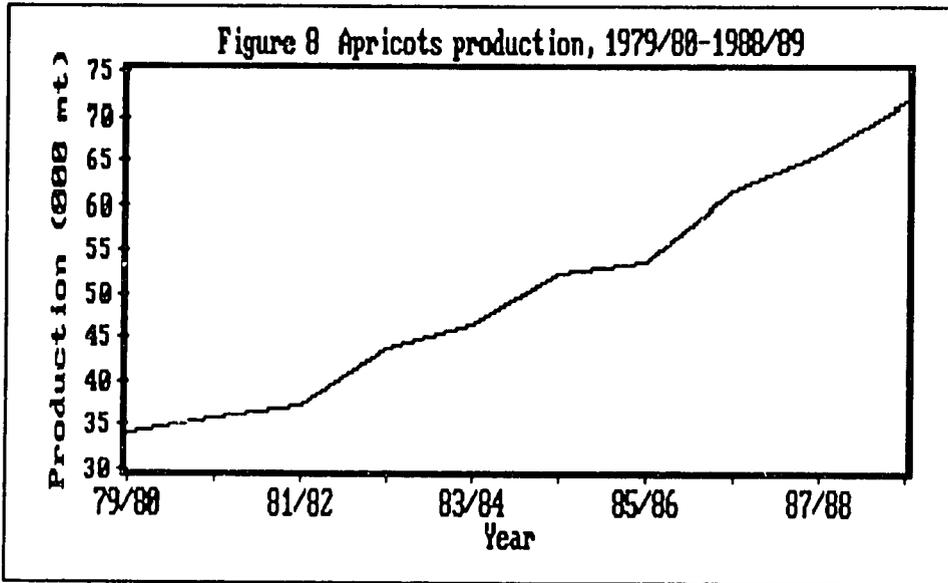
## 2.8 APRICOTS

Pakistan apricots are of good quality and have good potential as an export crop. The growth in production has been upward the entire past 10 years. Exports of both dried and fresh products have fluctuated greatly around a relatively small export base (Annex II, Figures 8 and 8-A). The USA has been the main purchaser in the last two years. Exports to different countries have been as follows:

Table II.8  
APRICOT

### PAKISTAN EXPORTS BY IMPORTING COUNTRY (TONS)

	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9
SWEDEN	n.a.	n.a.	-	29.00	-	-
FINLAND	n.a.	n.a.	-	-	33.00	-
WEST GERMANY	n.a.	n.a.	-	-	48.00	20.00
NETHERLANDS	n.a.	n.a.	-	7.00	-	13.00
U.S.A.	n.a.	n.a.	-	-	158.00	48.00
U.K.	n.a.	n.a.	-	-	50.00	17.00
OTHERS	n.a.	n.a.	3.00	4.0	32.00	58.00
=====						
TOTAL	n.a.	n.a.	3.00	40.00	321.00	156.00
=====						

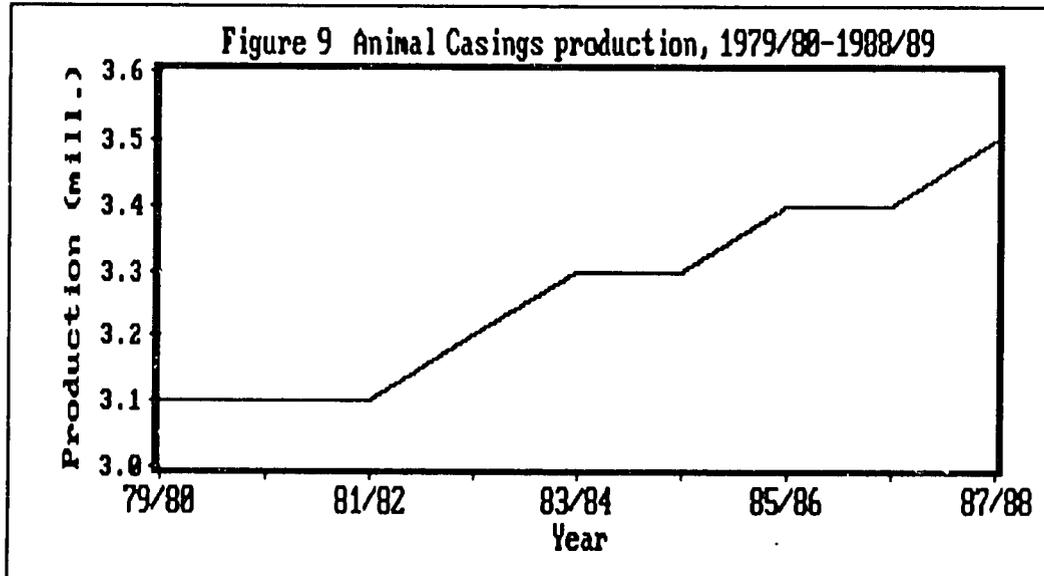


## 2.9 ANIMAL CASINGS

The production of animal casings has maintained an upward trend in line with the increased slaughtering of animals (Annex II, Figure 9). The country's exports of animal casings for sausage has been at the 450 ton level over the past few years. The rupee level has been near 22 million.

Pakistan has good to fair quality casings when shipped in the cool season with enough rock salt. The importers are demanding higher quality and have switched away from Pakistan to China, Turkey, Iran and Australia. Japan was a good market but has switched to Australia because of health concerns.

Constraints: 1) Not sterilizing the casings so that they can be shipped directly to the U.S. markets and other markets of developed countries. The Pakistani casings are now being transhipped from Europe after sterilization to the U. S. sausage makers; 2) Internal transportation in the summer months causes losses to the casings because of the lack of refrigerated trucks and rail cars; 3) Financing has been a problem since the GOP has raised the interest rates for low cost loans for exporting; 4) Export duty and licensing for export are also problems; 5) Lack of organization of pickup of casing from butchers causes a loss of 30 or 40 percent of available casings. This is particularly true during high holiday slaughter.



## 2.10 HIDES AND SKINS

Pakistan produces 5.6 million pieces of hides of which 2.2 million are cattle hides and 3.4 million buffalo hides. Cattle hides largely fall in the lightweight, fine grained category ideally go for the better quality leather. Buffalo hides fall in the lighter category, and go in the mechanical leather.

The development of leather tanning and manufacturing industry in Pakistan and the export of leather (Rs 500 million in 1987-88) and the value added (Rs 400 million in 1987-88) for the leather processing have led to a ban on exports of hides. Pakistan is also importing hides for the manufacture of leather worth Rs 122 million in 1987-88 and leather worth Rs 50 million during the same period. However, there are many hides of low quality that are not used for leather processing in Pakistan and could be exported.

## 3 PRICE BEHAVIOR AS EVIDENCE OF EXPORT SURPLUS

### 3.1 *Consumer vs Producer Interests in Monitoring Export Surplus*

It becomes evident that low prices prevail as frequently as high prices. If efforts are made by government to dampen high prices, through controls, without being effectively concerned about low prices, producers will be unable to survive in the long run. Low transparency of the market in short-term trend behavior of different markets and poor market information facilities, create another problem in introducing equilibrium, which normally goes to the disadvantage of the producer.

Agricultural products that are produced are either consumed or wasted. Therefore, it may be concluded that low prices occur when supplies seasonally flood the market. During these periods there would be a defined "exportable surplus" available. For certain non-traditional agricultural export products GOP monitors domestic consumer or wholesale prices. It then controls exports to reach some undefined "acceptable" price level. A major problem is that the timing of actions is usually reactionary and without specific guidelines. Under the best of conditions agricultural prices vary due to conditions of nature--droughts, disease, insects, etc. Fresh fruits and vegetables cannot be stored and, thus, the seasonality of supplies cause many additional price fluctuations.

It has been recognized that exports will not be sustained when utilizing residual supplies or culls. It must be a highly organized continuous effort without constant threat of government interference. Many exporters have themselves to blame for being more casual players than professionals in exporting non-traditional agricultural products. It will be shown, for the crops under study, that seasonal and even cyclical prices are a way of life for both Pakistani producers and consumers. Farmers throughout the world consider widely fluctuating prices as one of the most undesirable problems they face. They prefer dependable moderately rewarding prices to "boom or bust" conditions. However, since government does not involve itself in maintaining minimum prices for non-traditional crops (exceptions are potatoes and onions), it should not attempt to control high prices.

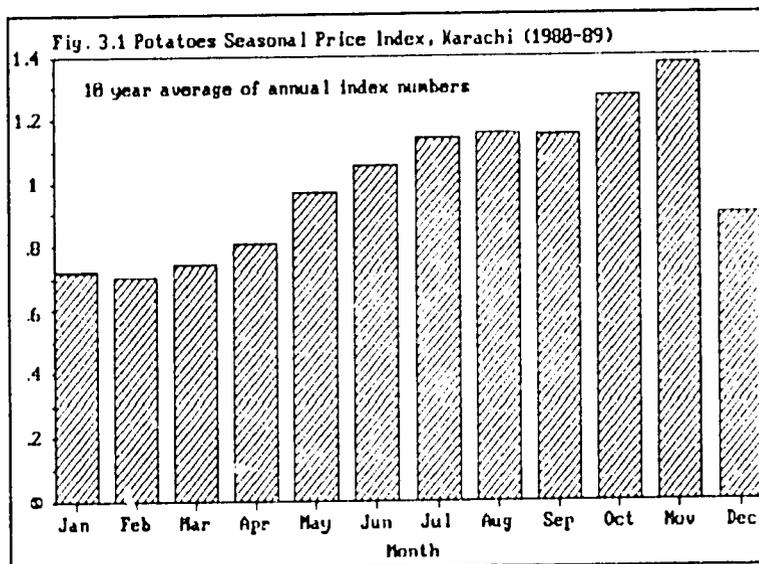
### 3.2 Price Variability and Export of Selected Crops

In this section it is demonstrated that price variability is the norm and not the exception. Producers and consumers deal with both low and high prices in the normal course of events. Exports of non-traditional agricultural products seem to occur on an unorganized and ad hoc basis. They increase substantially when prices are low and decrease greatly when prices are high.

#### 3.2.1 Potatoes

The price variability for this product is astounding, not only for the monthly seasonal changes but also from year to year. Within some years the range in monthly price changes (high monthly price minus the low monthly price) exceed the average price for that year. For example, in 1980 prices averaged Rs. 59/40 Kg for the year while the range in monthly price variation was Rs. 93/40 Kg. (Table II.9) The coefficient of variation (CV) was 43 percent. As recent as 1987, the potato price range was Rs. 168/40 Kg while the CV was 45 percent for that year. The between years CV ranged from 29 percent to 59 percent.

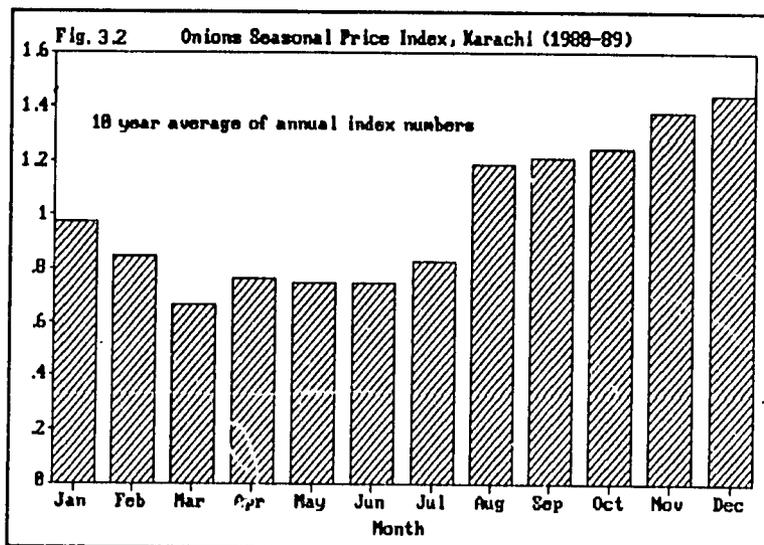
From the producers' point of view there is considerable risk in producing this crop. The average prices of the same month vary greatly from year to year--even during the main harvest period of December to May. It is a very costly program for GOP to regulate prices so that consumers and producers are satisfied. This action interferes with consumers' normal adjustment to use cheaper substitute products when prices dictate. The seasonal price index for potatoes indicate a relatively consistent pattern of low seasonal prices during December through May. (Figure 3.1) This is a time during which exports, under a highly organized export program, could remove some price variability. These are winter months in Western and Eastern Europe. There may be a small market niche for Pakistan in those countries as well other countries if the quality of products shipped could be maintained and varieties improved. Other studies have confirmed that Pakistan has a poor image for this product. The government itself has had a negative performance in marketing potatoes in export markets.



#### 3.2.2 Onions

There is a definite seasonal price movement with lowest prices occurring March through June and then generally increasing prices to December, (Figure 3.2). The low price season for this product should position Pakistan for a niche in Northern European markets or countries in the Gulf or Far East where production does not take place during these months. Another indication of wide price variation is CVs of 37 percent up to 71 percent in 6 out of the past 10 years.

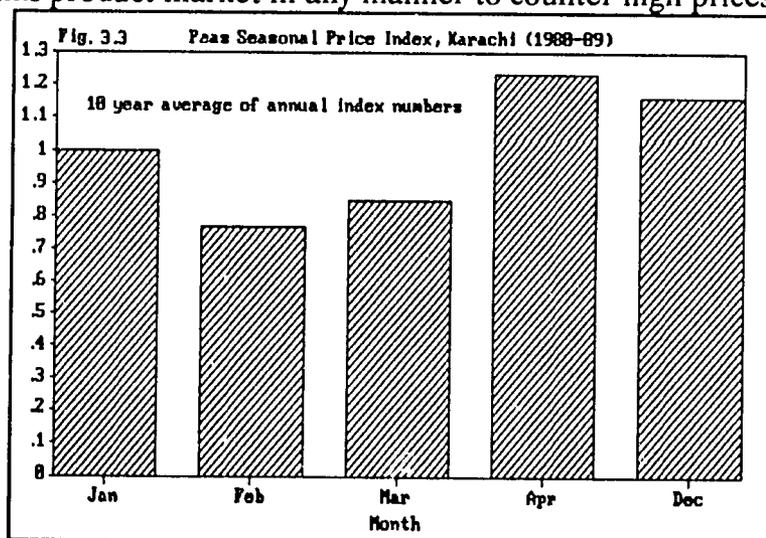
The range in monthly prices demonstrates the roller coaster pattern of prices. The lowest within year fluctuation in wholesale prices was Rs 35/ 40 Kg in 1980 and the greatest range in prices was in 1983 and 1987, Rs. 189 and Rs 184/ 40 Kg respectively, (Table II.10). The GOP has made some effort to control price variations through its purchase and sale programs but the results have been disappointing. Interviews with exporters indicate that they adjust exports to current prices. Every other year there was a large



increase in exports and then the following year a decrease in exports in correlation with low prices. Since production had a continual upward trend, it is apparent that the "export surplus" theory did not drive exports. Rather, it was a price incentive to supply a generally inferior product in the low priced segment of markets in target countries.

### 3.2.3 Peas

This is a crop that enters the domestic market from December through April. February and March are the months of lowest prices and April prices average the highest. (Figure 3.3) government does not interfere in this product market in any manner to counter high prices. Prices vary considerably within the year as indicated by CVs from 23 percent to 34 percent during most years. Between years the CVs for given months were 16 percent to 41 percent. April and December were months of greatest price variation between years, and consumers learn to deal with such variability. (Table II.11). Exports of this crop have been erratic to nil.

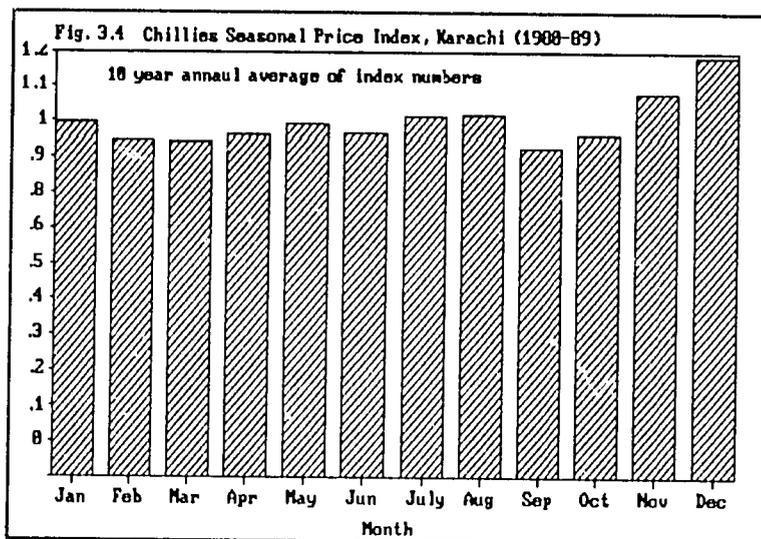


### 3.2.4 Dried Whole Chillies and Chillie Powder

These chillie based products are the ones that caught the attention of consumers in 1989 causing the GOP to exercise its authority to ban exports of whole chillies. The cause for consumer concern can be seen in monthly prices for 1988-1989 (Annex II, Table II.12).

From May 1988 to August 1989 the retail prices of whole dried chillies increased from Rs 580/Kg to Rs. 2100/Kg. However, during the years 1984,1985 and 1986 prices remained at relatively low levels averaging less than Rs. 350/Kg. In April, 1982 chillies were Rs 750/Kg and then this level was not again reached until November 1988. Producers needed a period of high prices to compensate for crop losses from disease and drought in prior seasons. Consumers became accustomed to the low prices. It was the large temporary price shock of a key food seasoning that gained attention.

Price variability between months has been substantial in terms of actual prices but the CV percentages are not as large as for crops previously discussed. The year of greatest variation was 1989 when the CV was 38 percent. The monthly average retail price fluctuated Rs. 1150/Kg during 1989. The 10 year seasonal index reflects relatively more uniform prices throughout the year than for most other crops considered, (Figure 3.4). High prices occur in December. It is the price variation for similar months in different years where the greatest variation occurs.



CVs range from 43 percent to 98 percent. This causes extreme uncertainty and risk for producers.

As would be expected, the prices of chillies powder followed much the same pattern as for the dried chillies, (Table II.12.A).

The conclusion from evidence in other reports and from data in this study is that GOP served primarily to introduce a "non-enabling environment" in the export market of this non-traditional agriculture product. Its actions perhaps served to calm political activists, but probably had little economic effect on chillie prices.

### 3.2.5 *Kinno*

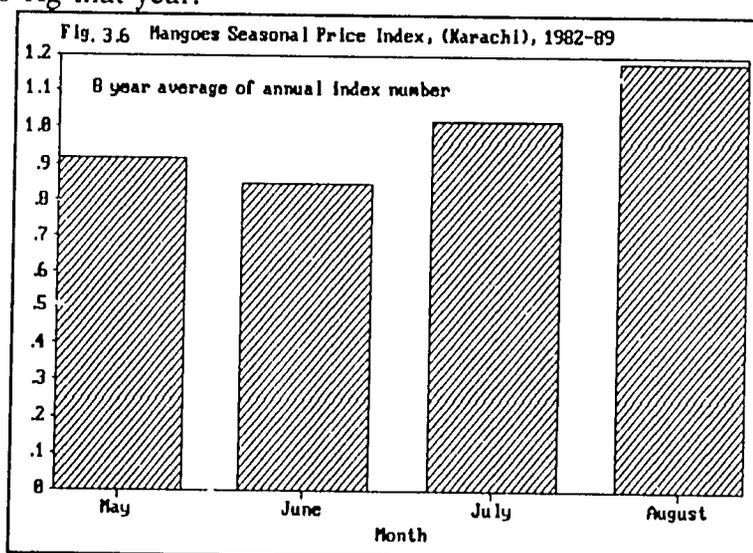
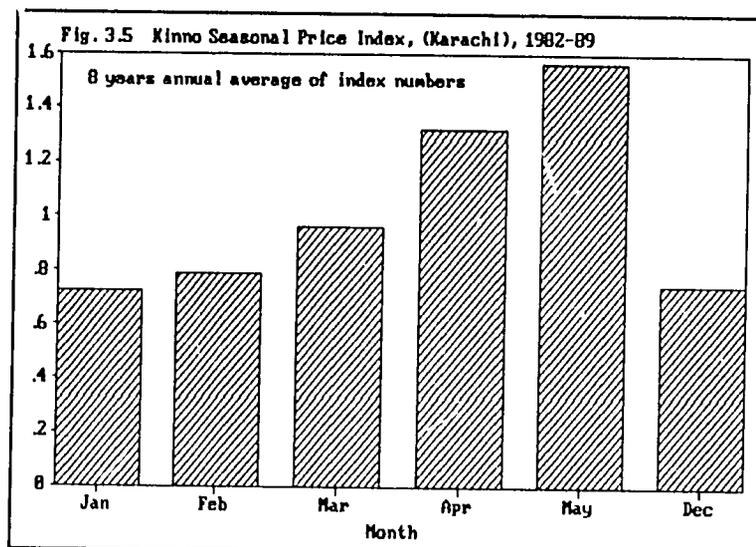
Kinno has a production period primarily from December through May. January is the month of lowest prices and May has the highest prices, (Figure 3.5). The CVs, ranging, from 19 percent to 49 percent, demonstrate large within-year price movements, (Table II.13). Price variation for individual months of different years have lower CVs than for some of the previous crops ranging from 10 percent to 37 percent. GOP is anxious to see development of export markets for this crop and have not placed direct restrictions on its exports.

Exporters followed their usual pattern for exporting non-traditional agricultural products. They increased shipments in periods of low prices. The low price months of December, January and February make this product a candidate for exports to countries identified in other studies, i.e., Asian Development Bank study.

### 3.2.6 Mangoes

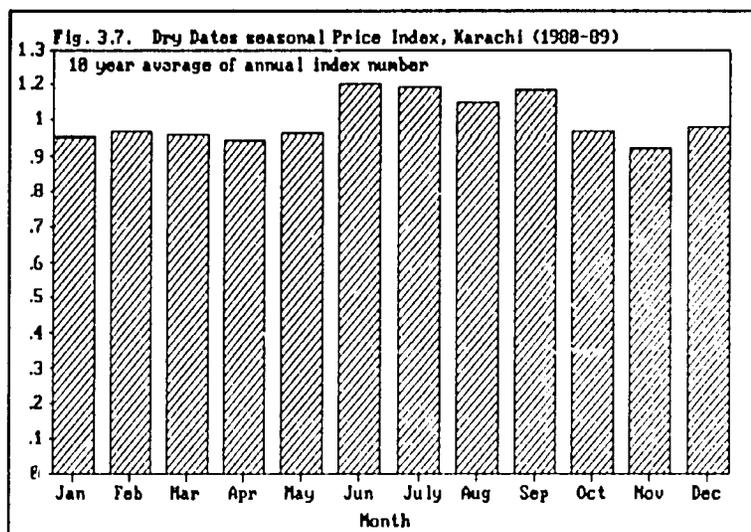
Mangoes have a 4 month season from May through August, (Figure 3.6). The within year price variation is less, than for other crops previously considered, (Table II.14). The highest variation was Rs 203/40 Kg in 1988 while prices averaged Rs. 368/ 40 Kg that year.

The CVs within year variation range from zero to 29 percent. There seems to be an every other year pattern of high and low price variation. The CVs for months in different years range from 15 percent to 25 percent. Prices for this product have been relatively stable over the 8 years considered with prices of Rs 200 and Rs 300 predominating.



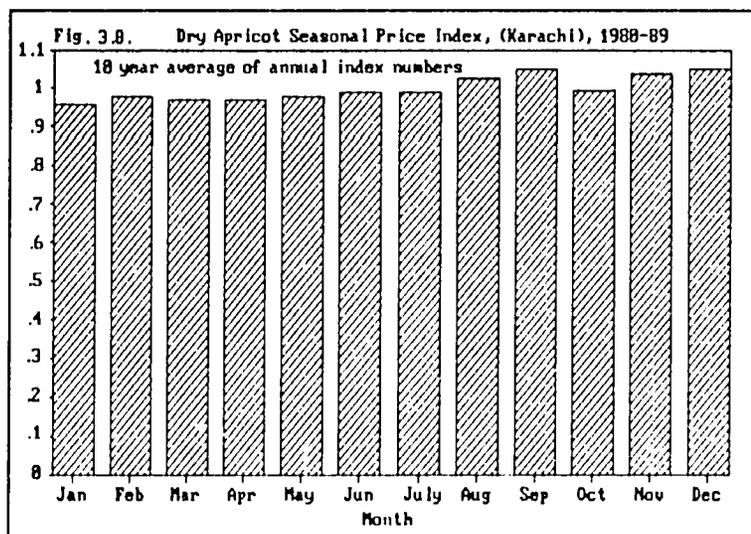
### 3.2.7 Dates, Fresh and Dried

Fresh date prices appear to be the most stable of the non-traditional crops studied, (Tables II.15 & II.16). There is production in every month and there is little seasonal variability, (Figure 3.7). The CVs for between years indicate that fresh dates have less variation (CVs mostly in mid-teen percentages) than dried dates (CVs of mid-20 percent). Dried date prices have been relatively flat over the past 5 years. Again this is a product that the GOP has not interfered in and it is the one crop which is reported to be organized for export.



### 3.2.8 Apricots Dry

There is relatively little seasonality in prices as evidenced in Figure 3.8. The CV percentages confirm this ranging from only zero to 11 percent. (The exception is 1989.) There has been a continuous upward trend in prices from 1980-1989 with only the last year showing a steeper price climb. This explains the high CVs of 26 percent to 40 percent between years, (Table 9). Consumers are not subjected to the shocks of wild price changes



and producers are better able to project potential returns than a number of other crops. However, even with this degree of price stability, the exports have not been maintained in a consistent manner.

Monthly Price Data and seasonal Indices For Selected Products 1979/80-1989/90

Table 11.9 Potatoes, Monthly Wholesale Prices (Karachi), 1980-89

(Rs./40 Kg)

Month	1980	1981	1982	1983	1984	1985	1986	1987	1989	Average	CoefVar
January	32.50	52.50	52.50	37.50	50.00	55.00	52.50	42.50	132.50	56.39	49%
February	27.50	50.00	50.00	29.00	57.50	65.00	55.00	45.00	120.00	55.44	46%
March	39.00	62.50	47.50	39.00	52.50	70.00	60.00	46.00	97.50	57.11	30%
April	37.50	67.50	37.50	33.00	95.00	92.50	67.50	67.50	72.50	63.39	34%
May	57.50	95.00	57.50	35.00	107.50	80.00	67.50	127.50	82.50	78.89	34%
June	55.00	120.00	55.00	55.00	110.00	100.00	65.00	132.50	65.00	84.17	35%
July	60.00	120.00	57.50	65.00	100.00	95.00	65.00	155.00	95.00	90.28	34%
August	60.00	125.00	52.50	72.50	105.00	100.00	82.50	132.50	75.00	89.44	29%
September	60.00	133.00	50.00	77.50	105.00	85.00	72.50	152.50	65.00	88.94	37%
October	95.00	133.00	52.50	90.00	115.00	77.50	55.00	170.00	115.00	100.33	35%
November	120.00	137.50	47.50	117.50	60.00	85.00	50.00	210.00	145.00	108.06	47%
December	62.50	62.50	37.50	80.00	55.00	62.50	46.25	140.00	N.A	60.69	59%
Price Variability											
Price High	120.00	137.50	57.50	117.50	115.00	100.00	82.50	210.00	145.00		
Price Low	27.50	50.00	37.50	29.00	50.00	55.00	46.25	42.50	0.00		
Price Range	92.50	87.50	20.00	88.50	65.00	45.00	36.25	167.50	145.00		
Average	58.88	95.54	49.79	60.92	84.38	80.63	61.56	118.42	96.82		
Coef Var	43%	35%	13%	43%	30%	18%	16%	45%	27%		22%
Seasonal Index											
January	0.55	0.54	1.05	0.62	0.59	0.68	0.85	0.36	1.37		
February	0.47	0.52	1.00	0.48	0.68	0.81	0.89	0.38	1.24		
March	0.66	0.65	0.95	0.64	0.62	0.87	0.97	0.39	1.01		
April	0.64	0.70	0.75	0.54	1.13	1.15	1.10	0.57	0.75		
May	0.98	0.98	1.15	0.57	1.27	0.99	1.10	1.08	0.85		
June	0.93	1.24	1.10	0.90	1.30	1.24	1.06	1.12	0.67		
July	1.02	1.24	1.15	1.07	1.19	1.18	1.06	1.31	0.98		
August	1.02	1.29	1.05	1.19	1.24	1.24	1.34	1.12	0.77		
September	1.02	1.38	1.00	1.27	1.24	1.05	1.18	1.29	0.67		
October	1.61	1.38	1.05	1.48	1.36	0.96	0.89	1.44	1.19		
November	2.04	1.42	0.95	1.93	0.71	1.05	0.81	1.77	1.50		
December	1.06	0.65	0.75	1.31	0.65	0.78	0.75	1.18	N.A		

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

Table 11.10 Onion, Monthly Wholesale Prices (Karachi), 1980-89  
(Rs./40 Kg)

Month	1980	1981	1982	1983	1984	1985	1986	1987	1989	Average	CoefVar
January	49.00	29.00	75.00	37.50	90.00	57.50	47.50	135.00	137.50	73.11	52%
February	50.00	27.50	52.50	31.00	52.50	75.00	47.50	52.50	172.50	62.33	66%
March	44.50	24.50	42.50	37.50	27.00	80.00	45.00	36.00	92.50	47.72	46%
April	42.50	23.00	38.00	48.00	33.00	105.00	50.00	45.00	98.33	53.65	50%
May	42.50	32.50	37.50	49.00	29.00	87.50	46.00	45.00	92.50	51.28	42%
June	35.00	47.50	42.50	47.50	50.00	60.00	50.00	57.50	67.50	50.83	18%
July	50.00	60.00	42.50	52.50	25.00	60.00	40.00	110.00	67.50	56.39	40%
August	60.00	90.00	55.00	75.00	95.00	57.50	77.50	220.00	60.00	87.78	55%
Sep.	70.00	70.00	67.50	88.00	90.00	60.00	115.00	190.00	55.00	89.50	44%
October	55.00	80.00	63.00	110.00	65.00	57.50	150.00	170.00	75.00	91.72	44%
November	47.50	130.00	53.00	180.50	52.50	67.50	130.00	140.00	85.00	98.44	46%
December	47.50	125.00	47.50	220.00	57.50	47.50	153.33	110.00	N.A	89.81	59%
Price Variability											
Price											
High	70.00	130.00	75.00	220.00	95.00	105.00	153.33	220.00	172.50		
Low	35.00	23.00	37.50	31.00	25.00	47.50	40.00	36.00	0.00		
Range	35.00	107.00	37.50	189.00	70.00	57.50	113.33	184.00	172.50		
Average	49.46	61.58	51.38	81.38	55.54	67.92	79.32	109.25	91.21		
Coef Var	18%	59%	22%	71%	44%	23%	54%	55%	37%		26%
Seasonal Index											
January	0.99	0.47	1.46	0.46	1.62	0.85	0.60	1.24	1.51		
February	1.01	0.45	1.02	0.38	0.95	1.10	0.60	0.48	1.89		
March	0.90	0.40	0.83	0.46	0.49	1.18	0.57	0.33	1.01		
April	0.86	0.37	0.74	0.59	0.59	1.55	0.63	0.41	1.08		
May	0.86	0.53	0.73	0.60	0.52	1.29	0.58	0.41	1.01		
June	0.71	0.77	0.83	0.58	0.90	0.88	0.63	0.53	0.74		
July	1.01	0.97	0.83	0.65	0.45	0.88	0.50	1.01	0.74		
August	1.21	1.46	1.07	0.92	1.71	0.85	0.98	2.01	0.66		
Sep.	1.42	1.14	1.31	1.08	1.62	0.88	1.45	1.74	0.60		
October	1.11	1.30	1.23	1.35	1.17	0.85	1.89	1.56	0.82		
November	0.96	2.11	1.03	2.22	0.95	0.99	1.64	1.28	0.93		
December	0.96	2.03	0.92	2.70	1.04	0.70	1.93	1.01			

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

Table 11.11 Peas, Monthly Retail Prices (Karachi), 1982-89  
(Rs./Kg)

Month	1980	1981	1982	1983	1984	1985	1986	1987	1989 Average	CoefVar
January	4.00	4.60	4.70	7.60	5.33	5.55	3.98	7.75	6.73	5.58
February	3.50	4.00	3.00	6.60	3.34	5.30	4.20	3.55	5.73	4.35
March	4.25	4.20	5.30	3.38	3.58	5.15	5.30	3.85	5.14	4.46
April	3.85	5.00	5.20	7.05	4.30	10.57	5.40	6.50	12.18	6.67
December	6.80	5.00	6.55	7.03	4.00	4.80	8.25	7.27	N.A	5.52
							Price Variability			
Price High	6.80	5.00	6.55	7.60	5.33	10.57	8.25	7.75	12.18	
Price Low	3.50	4.00	3.00	3.38	3.34	4.80	3.98	3.55	5.14	
Price Range	3.30	1.00	3.55	4.22	1.99	5.77	4.27	4.20	12.18	
Average	4.48	4.56	4.95	6.33	4.11	6.27	5.43	5.78	7.45	
CoefVar	26%	9%	23%	24%	17%	34%	28%	30%	38%	
							Seasonal Index			
January	0.89	1.01	0.95	1.20	1.30	0.88	0.73	1.34	0.90	
February	0.78	0.88	0.61	1.04	0.81	0.84	0.77	0.61	0.77	
March	0.95	0.92	1.07	0.53	0.87	0.82	0.98	0.67	0.69	
April	0.86	1.10	1.05	1.11	1.05	1.68	1.00	1.12	1.64	
December	1.52	1.10	1.32	1.11	0.97	0.77	1.52	1.26		

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

Table 11.12 Chillies Dried, Monthly Wholesale Prices (Karachi), 1980-89  
(Rs./40 Kg)

Month	1980	1981	1982	1983	1984	1985	1986	1987	1989	Average	CoefVar
January	160.0	275.0	510.0	660.0	477.5	310.0	290.0	500.0	1350.0	503.61	0.66
February	160.0	325.0	520.0	580.0	330.0	280.0	265.0	490.0	1600.0	505.56	0.81
March	160.0	320.0	630.0	445.0	330.0	290.0	270.0	530.0	1590.0	507.22	0.80
April	145.0	305.0	750.0	450.0	340.0	290.0	290.0	540.0	1575.0	520.56	0.78
May	155.0	370.0	705.0	450.0	345.0	270.0	325.0	600.0	1580.0	533.33	0.75
June	155.0	390.0	620.0	360.0	345.0	240.0	340.0	620.0	1580.0	516.67	0.78
July	180.0	380.0	575.0	350.0	320.0	270.0	340.0	620.0	2100.0	570.56	0.98
August	165.0	410.0	605.0	350.0	400.0	275.0	380.0	625.0	1550.0	528.89	0.73
September	195.0	290.0	506.0	330.0	315.0	270.0	380.0	625.0	1100.0	445.67	0.59
October	195.0	305.0	495.0	430.0	400.0	235.0	380.0	625.0	1050.0	457.22	0.53
November	222.5	400.0	650.0	430.0	325.0	310.0	460.0	625.0	950.0	485.83	0.43
December	192.5	510.0	660.0	460.0	325.0	295.0	460.0	625.0	N.A	391.94	0.51
Price Variability											
Price High	222.50	510.00	750.00	660.00	477.50	310.00	460.00	625.00	2100.00		
Price Low	145.00	275.00	495.00	330.00	315.00	235.00	265.00	490.00	0.00		
Price Range	77.50	235.00	255.00	330.00	162.50	75.00	195.00	135.00	2100.00		
Average	173.75	356.67	602.17	441.25	354.38	277.92	348.33	567.42	1456.82		
CoefVar	13%	18%	13%	21%	13%	8%	18%	9%	38%		
Seasonal Index											
January	0.92	0.77	0.85	1.50	1.35	1.12	0.83	0.85	0.93		
February	0.92	0.91	0.86	1.31	0.93	1.01	0.76	0.84	1.10		
March	0.92	0.90	1.05	1.01	0.93	1.04	0.78	0.91	1.09		
April	0.83	0.86	1.25	1.02	0.96	1.04	0.83	0.92	1.08		
May	0.89	1.04	1.17	1.02	0.97	0.97	0.93	1.02	1.08		
June	0.89	1.09	1.03	0.82	0.97	0.86	0.98	1.06	1.08		
July	1.04	1.07	0.95	0.79	0.90	0.97	0.98	1.06	1.44		
August	0.95	1.15	1.00	0.79	1.13	0.99	1.09	1.07	1.06		
September	1.12	0.81	0.84	0.75	0.89	0.97	1.09	1.07	0.76		
October	1.12	0.86	0.82	0.97	1.13	0.85	1.09	1.07	0.72		
November	1.28	1.12	1.08	0.97	0.92	1.12	1.32	1.07	0.65		
December	1.11	1.43	1.10	1.04	0.92	1.06	1.32	1.07			

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

Table 11.12 A Chillies Powder, Monthly Wholesale Prices (Karachi), 1980-89  
(Rs./Kg)

Month	1980	1981	1982	1983	1984	1985	1986	1987	1989	Average	CoefVar
January	7.00	8.00	18.00	20.20	15.50	12.00	14.00	17.00	40.91	16.96	56%
February	7.50	10.00	16.00	12.40	15.50	13.00	14.00	17.95	47.15	17.06	65%
March	7.50	10.00	16.00	16.60	14.40	13.00	14.00	18.00	45.23	17.21	61%
April	6.20	10.00	24.00	15.60	14.00	13.00	14.00	18.00	45.23	17.78	61%
May	7.00	10.00	22.00	17.00	13.75	13.00	11.55	18.00	47.77	17.79	64%
June	6.50	10.00	21.80	16.00	14.00	13.00	14.00	18.81	48.33	18.05	64%
July	6.50	12.00	20.00	16.00	13.00	12.90	14.00	20.00	62.45	19.65	80%
August	8.00	12.00	20.00	16.00	13.00	13.00	14.00	20.08	62.45	19.84	78%
September	8.00	14.00	16.80	16.00	16.00	12.90	14.00	20.15	45.00	18.09	55%
October	8.00	12.00	16.00	15.40	14.00	12.80	14.00	19.85	33.36	16.16	42%
November	10.00	12.00	20.00	15.50	15.00	14.00	14.00	19.77	29.02	16.59	32%
December	7.75	12.00	20.00	15.50	12.00	14.00	16.00	19.85	N.A	13.01	45%
Price Variability											
Price											
High	10.00	14.00	24.00	20.20	16.00	14.00	16.00	20.15	62.45		
Low	6.20	8.00	16.00	12.40	12.00	12.00	11.55	17.00	0.00		
Range	3.80	6.00	8.00	7.80	4.00	2.00	4.45	3.15	62.45		
Average	7.50	11.00	19.22	16.02	14.18	13.05	13.96	18.96	46.10		
CoefVar	13%	14%	13%	10%	8%	4%	7%	6%	37%		
Seasonal Index											
January	0.93	0.73	0.94	1.26	1.09	0.92	1.00	0.90	0.89		
February	1.00	0.91	0.83	0.77	1.09	1.00	1.00	0.95	1.02		
March	1.00	0.91	0.83	1.04	1.02	1.00	1.00	0.95	0.98		
April	0.83	0.91	1.25	0.97	0.99	1.00	1.00	0.95	0.98		
May	0.93	0.91	1.14	1.06	0.97	1.00	0.83	0.95	1.04		
June	0.87	0.91	1.13	1.00	0.99	1.00	1.00	0.99	1.05		
July	0.87	1.09	1.04	1.00	0.92	0.99	1.00	1.06	1.35		
August	1.07	1.09	1.04	1.00	0.92	1.00	1.00	1.06	1.35		
September	1.07	1.27	0.87	1.00	1.13	0.99	1.00	1.06	0.98		
October	1.07	1.09	0.83	0.96	0.99	0.98	1.00	1.05	0.72		
November	1.33	1.09	1.04	0.97	1.06	1.07	1.00	1.04	0.63		
December	1.03	1.09	1.04	0.97	0.85	1.07	1.15	1.05			

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

Table 11.13 Kinno, Monthly Retail Prices (Karachi), 1982-89  
(Rs./Dozen)

Month	1982	1983	1984	1985	1986	1987	1988	1989	CoefVar
January	8.00	5.75	4.80	7.10	5.50	6.75	7.02	5.85	16%
February	8.80	5.85	5.40	10.60	5.20	6.15	7.46	6.94	26%
March	10.00	8.10	6.25	12.60	7.80	7.00	8.31	8.33	23%
April	11.00	11.05	11.69	13.67	10.50	9.65	10.38	15.69	10%
May			12.33	19.60	15.15	10.88	10.38	20.13	23%
December	5.50	5.05	7.40	6.80	6.75	6.50	6.48		37%
Price Variability									
Price									
High	11.00	11.05	12.33	19.60	15.15	10.88	10.38	20.13	
Low	5.50	5.05	4.80	6.80	5.20	6.15	6.48	5.85	
Range	5.50	6.00	7.53	12.80	9.95	4.73	3.90	14.28	
Average	8.66	7.16	7.98	11.73	8.48	7.82	8.34	11.39	
Coef Var	22%	31%	37%	37%	41%	23%	19%	49%	
Seasonal Index									
January	1.11	0.96	0.60	0.61	0.65	0.86	0.84	0.51	
February	1.22	0.98	0.68	0.90	0.61	0.79	0.89	0.61	
March	1.39	1.36	0.78	1.07	0.92	0.89	1.00	0.73	
April	1.52	1.85	1.47	1.17	1.24	1.23	1.24	1.38	
May			1.55	1.67	1.79	1.39	1.24	1.77	
December	0.76	0.85	0.93	0.58	0.80	0.83	0.78		

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

Table 11.14 Mangoes, Monthly Wholesale Prices (Karachi), 1982-89  
(Rs./40 Kg)

Month	1982	1983	1984	1985	1986	1987	1988	1989	CoefVar
May				290	240	285	240	360	16%
June	192	240	220	260	200	250	290	300	15%
July	192	280	260	290	300	290	470	300	25%
August	192	320	425	300	370	300	470	400	24%
Price Variability									
Price									
High	192.00	320.00	425.00	300.00	370.00	300.00	470.00	400.00	
Low	192.00	240.00	220.00	260.00	200.00	250.00	240.00	300.00	
Range	0.00	80.00	205.00	40.00	170.00	50.00	230.00	100.00	
Average	192	280	302	285	278	281	368	340	
Coef Var	0%	12%	29%	5%	23%	7%	28%	12%	
Seasonal Index									
May				1.02	0.86	1.01	0.65	1.06	
June	1.00	0.86	0.73	0.91	0.72	0.89	0.79	0.88	
July	1.00	1.00	0.86	1.02	1.08	1.03	1.28	0.88	
August	1.00	1.14	1.41	1.05	1.33	1.07	1.28	1.18	

Source: Monthly Statistical Bulletin, federal bureau of Statistics, government of Pakistan.

Table 11.15 Fresh Dates, Monthly Retail Prices (Karachi), 1982-89  
(Rs./ Kg)

Month	1982	1983	1984	1985	1986	1987	1988	1989	Average	CoefVar
January	12.00	12.19	15.50	13.58	18.00	18.00	18.17	19.24	15.84	17%
February	12.00	13.71	15.67	14.33	17.80	18.00	18.23	18.60	16.04	14%
March	12.00	12.58	16.00	15.26	18.00	17.33	18.20	18.32	15.96	15%
April	11.71	12.75	16.00	16.44	18.00	17.40	18.16	18.81	16.16	15%
May	12.00	12.65	15.89	16.00	18.00	18.30	18.12	17.73	16.09	15%
June	17.43	14.69	16.60	15.80	18.00	17.10	17.85	18.45	16.99	7%
July	14.50	14.00	15.02	15.71	18.00	17.67	18.29	18.74	16.49	11%
August	13.25	14.44	13.11	16.00	18.00	17.71	18.48	18.12	16.14	13%
September	14.13	14.55	12.22	16.00	18.00	18.23	34.50	18.24	18.23	36%
October	14.13	12.42	13.54	15.81	18.00	18.33	19.32	18.08	16.20	15%
November	14.00	13.35	13.88	16.00	18.10	18.27	19.00	18.43	16.38	13%
December	13.75	15.56	14.00	16.29	18.00	18.17	19.59	N.A	14.42	40%
Price Variability										
Price										
High	17.43	15.56	16.60	16.44	18.10	18.33	34.50	19.24		
Low	11.71	12.19	12.22	13.58	17.80	17.10	17.85	0.00		
Range	5.72	3.37	4.38	2.86	0.30	1.23	16.65	19.24		
Average	13.41	13.57	14.79	15.60	17.99	17.88	19.83	18.43		
CoefVar	12%	8%	9%	5%	0%	2%	22%	30%		
Seasonal Index										
January	0.89	0.90	1.05	0.87	1.00	1.01	0.92	1.04		
February	0.89	1.01	1.06	0.92	0.99	1.01	0.92	1.01		
March	0.89	0.93	1.08	0.98	1.00	0.97	0.92	0.99		
April	0.87	0.94	1.08	1.05	1.00	0.97	0.92	1.02		
May	0.89	0.93	1.07	1.03	1.00	1.02	0.91	0.96		
June	1.30	1.08	1.12	1.01	1.00	0.96	0.90	1.00		
July	1.08	1.03	1.02	1.01	1.00	0.99	0.92	1.02		
August	0.99	1.06	0.89	1.03	1.00	0.99	0.93	0.98		
September	1.05	1.07	0.83	1.03	1.00	1.02	1.74	0.99		
October	1.05	0.91	0.92	1.01	1.00	1.03	0.97	0.98		
November	1.04	0.98	0.94	1.03	1.01	1.02	0.96	1.00		
December	1.03	1.15	0.95	1.04	1.00	1.02	0.99			



Table 11.17 Dry apricot, Monthly Retail Prices (Karachi), 1980-89  
(Rs./50 gm)

Month	1980	1981	1982	1983	1984	1985	1986	1987	1989	Average	CoefVar
January	0.70	0.92	1.00	1.11	1.41	1.48	1.50	1.68	2.13	1.19	35%
February	0.70	0.91	1.00	1.25	1.48	1.48	1.50	1.73	2.27	1.23	36%
March	0.68	1.00	1.00	1.21	1.35	1.50	1.50	1.73	2.23	1.22	35%
April	0.70	0.90	1.03	1.15	1.39	1.50	1.50	1.73	2.37	1.23	38%
May	0.75	0.90	1.00	1.17	1.44	1.50	1.50	1.75	2.37	1.24	38%
June	0.75	0.87	1.00	1.40	1.45	1.50	1.50	1.65	2.41	1.25	37%
July	0.77	1.00	1.00	1.15	1.40	1.50	1.50	1.78	2.39	1.25	37%
August	0.75	1.27	1.00	1.22	1.39	1.50	1.50	1.77	2.52	1.29	37%
September	1.00	0.90	1.00	1.20	1.39	1.50	1.50	1.73	2.51	1.27	37%
October	0.75	0.88	1.00	1.21	1.50	1.50	1.50	1.75	2.53	1.26	40%
November	0.84	1.00	1.13	1.28	1.50	1.50	1.54	1.75	2.52	1.31	36%
December	0.80	1.00	1.18	1.34	1.50	1.50	1.63	1.80	N.A	1.19	26%
Price Variability											
Price High	1.00	1.27	1.18	1.40	1.50	1.50	1.63	1.80	2.53		
Price Low	0.68	0.87	1.00	1.11	1.35	1.48	1.50	1.65	2.13		
Price Range	0.32	0.40	0.18	0.29	0.15	0.02	0.13	0.15	2.53		
Average	0.77	0.96	1.03	1.22	1.43	1.50	1.51	1.74	2.39		
CoefVar	11%	11%	6%	7%	3%	0%	2%	2%	5%		
Seasonal Index											
January	0.91	0.96	0.97	0.91	0.98	0.99	0.99	0.97	0.89		
February	0.91	0.95	0.97	1.02	1.03	0.99	0.99	1.00	0.95		
March	0.89	1.04	0.97	0.99	0.94	1.00	0.99	1.00	0.93		
April	0.91	0.94	1.00	0.94	0.97	1.00	0.99	1.00	0.99		
May	0.98	0.94	0.97	0.96	1.00	1.00	0.99	1.01	0.99		
June	0.98	0.90	0.97	1.14	1.01	1.00	0.99	0.95	1.01		
July	1.01	1.04	0.97	0.94	0.98	1.00	0.99	1.02	1.00		
August	0.98	1.32	0.97	1.00	0.97	1.00	0.99	1.02	1.06		
September	1.31	0.94	0.97	0.98	0.97	1.00	0.99	1.00	1.05		
October	0.98	0.91	0.97	0.99	1.05	1.00	0.99	1.01	1.06		
November	1.10	1.04	1.10	1.05	1.05	1.00	1.02	1.01	1.06		
December	1.04	1.04	1.15	1.09	1.05	1.00	1.08	1.04			

Source: Monthly Statistical Bulletin, Federal Bureau of Statistics government of Pakistan.

## Annex III

### REBATE PROCEDURES

Efforts have been made to make these list upto date, and to be correct as far as possible. For actual dexcription of items, rates and effective dates, relevant notifications may be consulted.

#### REVISION OF REBATE RATE

Exporters may file a revision application with the Central Board of Revenue if they are dissatisfied with the notified rates of rebate, or on any of the following grounds namely:

- (i) If there is a change in the rates of duty on the raw materials and components used in the goods meant for export.
- (ii) CIF value of the raw material undergoes a change.
- (iii) Manufacturing formula of the goods is revised thereby altering the quantities of raw material and components.

Revision of the notified rates of rebate on account of the first two reasons enumerated above is undertaken at the Central Board of Revenue on receipt of revision applications. However, a survey report is called for from the Collectors in case the revision of rebaes is sought as a result of change in the manufacturing formula.

#### FINISHED GOODS LIABLE TO EXCISE DUTY

Finished goods liable to excise duty can be esported without payment of duty or the duty paid can be refunded under Rules 13 and 12 of Central Excise Rules. The manufactureers have to submit an application on Form AR-4 to the proper officer at the time of removal of the goods from the factory. Sub-rule 3 of Rule 12 allows this facility to commerical exporters as well. The goods removed from the factory on AR-4 should be exported within a period of 3 months from the date of removal of the goods or within such period as the Collector in any particular case may allow.

#### PROCEDURE FOR PAYMENT OF REBATE

On issue of notification the exporter may file the rebate claim within 120 days of the export of goods or publication of the SRO which is later with the Collector of Customs (Rebates). Customs House, Karachi in respect of customs duty and sales tax or the respective collectorateof Central Excise and Land Customs for exercise duty. The rebate applications accompany the following documents so that the claims are settled quickly. Non-production of any document may lead to delay or even rejection of the claim:

- (i) Quadruplicate copy of Shipping Bill bearing examination report of Customs Staff.
- (ii) Pre-receipted payment orders.
- (iii) Copies of invoice certified by Customs.
- (iv) Bank Credit Advance or Bank Guarantee in prescribed form.
- (v) Copy of the SRO.
- (vi) Duplicate copy of AE-2 (in case of rebate of excise duty). (Appendix G).

The following simplification in the payment of rebate claims have been introduced:-

- (i) Previously payment of the rebate amount was made through the District treasuries except customs House, Karachi which had its own treasury. Now the Departmental treasuries of Customs and Central Excise at all the headquarters of the Collectorates of Central Excise and Land Customs have been set up with effect from 1st July, 1980.
- (ii) For exports made on credit terms and deferred payment basis, the exporters had to wait for rebate till the realisation of proceeds. Now the rebate claims will be paid on production of Bank Guarantee (valid for 6 months equal to the amount of rebate) pending production of Bank Credit Advice.

### **PROCEDURE FOR EXPORT REBATE NOTIFICATIONS**

In the first stage the Exporters are required to file applications for Customs & Sales-tax rebate rates on prescribed Form 'A' and in case of rebate for Central Excise duty, on prescribed form. A.E.I. to be sent to Director, Survey and Rebates CBR Islamabad, with a duplicate copy to the concerned Regional Office at Lahore/Karachi.

All the Columns in the application form must be carefully studied and filled in by the applicant with full facts, data, figures etc. to avoid delay and unnecessary communication.

Acknowledgement by CBR is sent to the applicant. Number of this letter indicated on the left side to be quoted on shipping bill (bill of export), while the exporter is shipping his goods prior to notification.

Effective date of the notification is the date of receipt of application in the Directorate.

(i) ***Survey Stage:***

The Regional Survey Staff of the Directorate visits the factory premises and makes on the spot enquiries to verify the facts, figures and information disclosed by the exporters in their applications.

Incomplete applications or data, may delay the survey leading even to the closure of the rebate case.

(ii) ***Notification Stage:***

On the basis of survey report the CBR issues a notification which is published in the Gazette of Pakistan.

Pending its printing, advance copies of the notification are despatched to:-

- (a) all the Collectorates of Central Excise and Land Customs.
- (b) all Chambers of Commerce and Industry.
- (c) Export Promotion Bureau, and
- (d) the applicant.

On the basis of this notification the claims may be lodged with the concerned Assistance Collector of Customs (Rebate).

(iii) ***Revision Stage:***

The exporter may file a revision application with CBR in case:

- (a) he is dissatisfied with the notified rates or rebate of Customs Sales tax/Central Excise duty.
- (b) if there is any change in rates of duty.
- (c) CIF imports value of raw material used in the goods changes, or
- (d) there is a change in the manufacturing formula.

### **Procedure for Claiming Rebate After Issue of Notifications**

On issue of notifications, the exporters may file the rebate claims within 120 days of the export of goods or publication of the SRO, whichever is later.

The rebate application should accompany the following documents so that claims are settled quickly. Non-production of any document may lead to delay or even rejection of the claims.

- (i) Quadruplicate copy of shipping bill bearing examination report of Customs Staff.

- (ii) Pre-receipted payment orders.
- (iii) Copies of invoice certified by Customs.
- (iv) Bank Credit Advice.
- (v) Copy of the SRO.

For the rebate claims filed with the Collector (Rebate), Custom House, Karachi, cheques will be sent to the applicant under registered cover.

In case of Lahore, Sialkot, Peshawar, Islamabad - Rawalpindi and Quetta, the Rebate branch of the respective Collectorate will process the claims and issue the rebate payment vouchers to the applicant. The applicant then, may present this voucher and the bank credit advice to an authorised branch of National Bank of Pakistan in each exporting station and receive his rebate payment.

#### **Rejected Claims**

- (i) In case any rebate claim is rejected by the assistant Collector of Customs, an appeal lies with the Collector of Customs within 30 days of the receipt of Order-in-Original.
- (ii) A revision petition lies with Federal Government within 30 days in case Collector of Customs rejects the appeal. The petition is to be addressed to the Additional Secretary (Customs), Central Board of Revenue, Government of Pakistan, Islamabad.

**SOURCE:** Government of Pakistan  
ministry of commerce  
trade policy 1987-90

VOL. II Export policy

# ANNEX IV COMPARATIVE STANDARDS OF QUALITY

## POTATOES

	UN/ECE STANDARDS			PAKISTAN STANDARDS		
1. Minimum Requirements	The potatoes meant for human consumption must have normal appearance, should be whole, sound, firm, practically clean, free from external moisture, foreign smell or taste, free from external or internal defects, bruises, green colouration, scab spots, brown stains due to sun.			The potatoes must have normal appearance for the variety to a minimum of 95 percent by count, should be whole, sound, clean, free from external moisture, free from foreign smell or taste, unbroken, free from cracks, cuts, bites, bruises, green colouration, other external or internal defects.		
2. Grades & Specifications	Grades	Quality	Tolerance	Grade	Quality	Tolerance
	Early Potatoes	- as above	A maximum of 4 percent of total by weight for minimum requirements for wet rot (1 percent), green imbers (1 percent), blight (1.5 percent) and waste (1 percent).	X-Large	Above 70mm	Maximum of 5 percent by weight for over size and 5 percent for under size. Upto 3 percent by weight for appreciably diseased and damaged with maximum of 0.25 percent allowed for soft rot. Extraneous matter not more than 2 percent. Aggregate of all defects not more than 5 percent by weight.
				Large	55-70mm	
				Medium	40-55mm	
	Ware Potatoes	- as above	A maximum of 6 percent with not more than 1 percent by weight affected by wet or dry rot and 2 percent as waste wart disease and ring-rot not allowed.	Small	28-40mm	
				Pak Mids	17-28mm	
3. Size			Not less than 28mm (by square mesh) or 20 grms, 17mm to 28mm termed as 'mids'.	V-I		In size: 3 percent by weight smaller than 28mm but not below 22mm. 3 percent by weight in lots of mids smaller than 17mm or more than 28mm.
	Ware Potatoes					3 percent for weight, in lots 3 percent weight either limits.
	Early Potatoes		Not to pass through a square mesh of 35mm. No sizing requirements for long varieties.			3 percent by weight below the minimum specified. For other varieties 2 percent.
4. Packaging			Must be uniform as to colour of skin and flesh, packed to stand long distance, uniform weight of 25,30,50 kg net weight.			Packages of uniform weight, clean and good condition. Adequate ventilation.
Early Potatoes						

# CITRUS FRUITS

## 1. Minimum Requirements

### UN/ECE STANDARDS

They apply to Lemons, Mandarines, Tangerines, Oranges and Grape fruit. Subject to special provisions and tolerances the citrus fruit must be intact, sound, free from damage, clean, free from abnormal external moisture and foreign smell and taste. It must have been carefully picked and at an appropriate degree of development and ripeness and colour to withstand transport and handling and to reach destination in normal variety colour.

Minimum juice contents of different varieties prescribed are 20-25 percent for lemon; 33-40 percent for satsumari; 33 percent for mandarines; 30-35 percent for oranges; and 35 percent for grape fruit.

### PAKISTAN STANDARDS

They apply to lime, lemon, orange (malta, mosambi), Mandarines (Kinnow and Fewtrell), and grape fruit. Subject to special provisions and tolerance, the citrus fruit shall be of normal shape, uniform in colour, not entirely green, clean, intact and sound, at a stage of maturity to permit ripening in transit upto destination. Free from foreign matter and smell. No visible defects allowed. Not more than 5 percent of fruits should have lost their buttons and upto 10 percent by weight allowed for over or undersize by one class category.

## 2. Grades and Specifications

Grade	Quality	Tolerance	Grade	Quality	Tolerance
1. 'Extra' Class	Superior quality characteristics of variety, free from defects. Slight Superficial defect allowed.	5 percent by number or weight not satisfying the requirement but falling within next lower class. Not more than 5 percent having lost their button.	1. Pak Special	Superior quality, free from defects.	Superficial blemishes not to exceed 5 percent of the surface area of any fruit.
2. Class I	Good quality, characteristics typical of variety slight defects in shape, colour, skin defects and healed defects allowed.	10 percent by number or weight not satisfying the requirement but falling in class II allowed. Not more than 20 percent having lost their buttons.	2. Pak Choice	Superior quality free from defects.	Superficial blemishes not to exceed 10 percent of the surface area of any fruit.
3. Class II	Fruits not falling above classes but satisfying minimum requirements. Defects due to shape, colour, rough skin superficial healed skin and partial detachment of pericarp allowed.	15 percent by number or weight allowed below the requirement including maximum of 5 percent showing superficial cuts. Not more than 35 percent of the fruits having lost their buttons.	3. Pak Standard	As in minimum requirements. No defects in development, shape or colouring allowed.	Superficial blemishes not to exceed 15 percent of the surface area of any fruit.

## 3. Size

Range	Tolerance	Range
(1) Lemons - 7 sizes, 42mm - 83mm + (2) Oranges- 13 inches, 53mm - 100mm (3) Satsumas- 10 sizes, 35mm - 63mm + (4) Grape Fruit - 9 sizes, 70mm - 139mm	Upto 10 percent by number in all varieties corresponding to size immediately above or below the size mentioned.	1. Lemons - 1 size in special 64-70mm, 3 sizes in choice standard 51-70mm. 2. Orange - 2 sizes in special 70-83mm, 3 sizes in choice 2 standard 64-83mm. Similar in sweet orange - 64-76mm and 57-76mm. 3. Mandrine (Kinnow)- 2 sizes in special 70-83mm, and 3 sizes in choice 2 standard. 64-83mm. Similar in Fewtrell - 64-76mm,

**Tolerance**

10 percent of the fruit by count in one size category lower or higher.

and 57-76mm.

4. Grape Fruit-2 sizes in special, 102-114mm and 3 sizes in choice and standard, 95-114mm.

4. Packaging Each package must contain fruit of the same variety, quality, class and must be packed to ensure protection of the produce. Packaging material should be new and clean. Sizes of fruits should be uniform within allowable limits whether in layers or not/or in individual wrapping. Citrus fruit shall be packed in clean wooden boxes or cartons having suitable aeration arrangements: Unless specified by importer the size of the boxes or cartons shall be 61 x 29 x 29 cm. Fruits in a container shall be of the same variety.
5. Markings Packages should indicate name of species, variety, type, origin, class, size and identification of packers and official mark (optional). The grading staff shall affix appropriate label on each package indicating variety, grade, consignment number from each station of packing and export.

## ANIMAL CASINGS

1. Minimum Requirements	<u>PAKISTAN STANDARDS</u>	<u>PAKISTAN STANDARDS</u>	
	1. Sheep and Goat Casings (Wet salted)	Casings shall be prepared from healthy intestines and shall be preferably preserved. Calibre casings shall be specified.	
	2. Beef Casings (Air dried)	Casings shall be prepared from healthy intestines and shall be properly preserved. Free from putrefaction, insects, moulds, fungus. Calibre shall be indicated.	
	3. Buffalo Casings	- do -	
	4. Beef Middles	Shall be prepared from healthy animals. Calibre shall be specified.	
2. Grade and Specifications	<u>Grade</u>	<u>Quality</u>	<u>Tolerance</u>
	1. Sheep & Goat Casings Calibrated (Pak One)	Natural, strong, hank of 288-300 feet or ring of 72-75 feet. Pieces below 3 feet not allowed. No biological defects.	Free from holes
	(Pak Two)	Off-white colour, length as above. No biological defects.	Upto 2 holes in a ring
	Uncalibrated (Pak Original)	Lengths as above, not more than 5 pieces in a ring. No biological defects.	Holes allowed if not within 6 feet of each other.
	(Pak pieces)	Not more than 6 pieces in a ring. No piece less than 4 feet. No biological defects.	Holes not allowed.
	2. Beef Casing (Pak one)	Creamy to yellowish, soft to touch, pliable, glazy, free from cracks and each hank not less than 190-200 yards.	Free from pimples and pox marks.
	(Pak two)	Creamy to yellowish, reasonably soft to touch and pliable. Length as in Pak One. Free from cracks.	Upto 5 pimples in a hank. No pox mark.
	(Pak three)	Off colour, may be papery but shall not crack when pressed. Length of hank as above, free from cracks.	Pox marks not allowed.
	3. Buffalo Casings (Pak one)	Yellow to dark yellow. Each hank of 190-200 yards. Soft to touch, pliable, glazy, free from cracks.	Free from pimples and pox marks. Fat deposits not allowed.
	(Pak two)	-do-	Fat deposits allowed.
	(Uncalibrated)	-do-	-do-
	4. Beef Middles (Pak Calibrated)	Natural to white, length 10-20 yards	Two holes allowed.
	Uncalibrated Pak Original Wet/Dry Salted	-do-	-do-

3. **Packing**                    Shall be packed in in bales or containers or as agreed to between buyer and seller. All containers shall in a in a consignment shall contain same ind of casings.
4. **Marking•**                    One side of the container shall be reserved for the grading stgaff for its markings of the kind of casings and the consignment numner of each packing station for subsequent identification, if and when needed.

**NOTE UN/ECE STANDARDS NOT AVAILABLE**

## DRY CHILLIES

### PAKISTAN STANDARDS

**1. Minimum Requirements** Not more than 13 percent moisture by weight, shall be free from visible molds and infestation. Not more than 1 percent immature pods and 1.5 percent extraneous matter allowed.

2. Grades & Specifications	Grade	Quality	Tolerance
	1. Large Special	Above 5cm, bright red.	Upto 4 percent damaged. 20 percent shorter pods. 4 percent brokens and 1 percent loose seed.
	Medium	Above 5cm, red to dark red	Upto 5 percent damaged 25 percent shorter pods 5 percent brokens and 1.5 percent loose seed.
	2. Medium Special	Above 4cm, bright red.	As in Pak Large (Special)
	Medium	Above 4cm, red to dark red.	As in Pak Large (Medium)
	3. Small Special	4cm and below, red to dark red	Upto 2 percent damaged 3 percent brokens and 1 percent loose seed.
	Medium		Upto 3 percent damaged 4 percent brokens and 1.5 percent loose seed.

**3. Packing** Shall be packed in strong jute bags of same size and holding approximately same weight, each lot shall be of same grade.

**4. Marking** Merchants allowed to use one side to put their marks. Grading staff shall mark, on the other side, the species, the Grade and Consignment number of individual packing centre for subsequent identification, if needed.

**NOTE UN/ECE STANDARDS NOT AVAILABLE**

# MANGOES

## PAKISTAN STANDARDS

1. Minimum Requirements  
Mangoes conforming to the shape of variety, free from malformation, disease, insect, pest or mechanical injury, calyx shall be intact, fruit shall be firm, uniform colour at a stage of maturity to permit completion of ripening upto destination.

2. Grades and Specification	Variety	Grades	Quality	Tolerance
	8 varieties covered	Common as under 1. Pakistan special 2. Pakistan choice 3. Pakistan standard	Grade relates to weight in each variety	Upto 10 percent by weight if falling in next higher or lower grade

3. Packaging  
Mangoes shall be packed in clean crates as cartons which should be strong enough to withstand strain of transit the packages or shall be of same size to contain same weight. Each package shall contain one variety and one grade.

4. Marking  
The grading staff shall mark each package indicating variety, grade, net weight and consignment number of individual.

**NOTE UN/ECE STANDARDS NOT AVAILABLE**

# ONIONS

## UN/ECE STANDARDS

## PAKSITAN STANDARDS

### 1. Minimum Requirements

Subject to special provisions and tolerances allowed in each class, the bulb should be intact, sound, clean, free from damage, sufficiently dry, free of external moisture and foreign smell and taste. Stem must be clean cut, onion must be in a condition to withstand a stress of transport and handling upto destination.

Subject to tolerance limits the dry onions (whole) shall be mature, clean, free from sun scald, decay as also from damage by seed stem, moisture, double bulb, disease and other damages.

<u>2. Grades and Specifications</u>	<u>Grade</u>	<u>Quality</u>	<u>Tolerance</u>	<u>Grade</u>	<u>Quality</u>	<u>Tolerance</u>
1. Class I		Must be a good quality, shape and colour typical to variety, firm, compact, no evidence of growth, no hollow or tough stem.	10 percent by weight of onions not satisfying requirements of class but meeting those of class II.	1. Pak. Bold	64 mm and above in diameter	5 percent by weight
				2. Pak. medium	51 mm and above in diameter	7 percent by weight
2. Class II		Onion that satisfy minimum requirements should be reasonably firm.	10 percent by weight may be of shape and colour not typical of variety, show early evidence of growth, traces of rubbing, slight marking of diseases and healed cracks, rotting, marked bruises. Unhealed cracks not allowed.	3. Pak. small	38 mm and above in diameter	8 percent by weight
						Sizes specify grades above.
3. <u>Sizes</u>	<u>All Classes</u>	<u>Minimum - TO</u>		<u>Tolerance</u>		
		10 mm 20 mm		5 mm in not more than 10 percent by weight.		
		20 mm 40 mm		15 mm in not more than 10 percent by weight.		
		40 mm 70 mm		20 mm in not more than 10 percent by weight.		
		70 mm & Above		30 mm in not more than 10 percent by weight.		
				Sizes specify grades above		

4. Packaging. Must be packed to protect the produce properly. Packaging material should be new and clean. Shall be packed in the small jute bags, of the same size and approximately of the same weight. Only one grade shall be packed in one package.
5. Marking. Should indicate name of contents, quality, size, weight, identification of packer, and official mark (optional). Merchants shall place their marking only on one side of the bag. The grading staff shall stensive its own marks on the other specifying the spice, the grade and the consignment number.

# APRICOTS

	UN/ECE STANDARDS	PAKISTAN STANDARDS																
1. Minimum Requirements	Subject to special provisions and tolerances allowed in each class the fruit should be carefully picked, development of fruit of stage to stand transport and handling upto destination, intact, sound, clean, free from external moisture, and foreign smell or taste.	No National Standards have been laid down.																
2. Grade & Specifications	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;"></th> <th style="width: 30%;">Grade</th> <th style="width: 30%;">Quality</th> <th style="width: 30%;">Tolerance</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">2. Grade &amp; Specifications</td> <td style="vertical-align: top;">1.Extra Class</td> <td style="vertical-align: top;">Superior Quality, typical of variety. Minimum size 35mm.</td> <td style="vertical-align: top;">No defects allowed, 5 percent tolerance by weight or numbers if meeting requirements of Class I size deviation upto 5mm.</td> </tr> <tr> <td></td> <td style="vertical-align: top;">2.Class I</td> <td style="vertical-align: top;">Good quality, typical of variety, flesh must be perfectly sound. Minimum size 30mm.</td> <td style="vertical-align: top;">Slight defects in shape or development, colouring, or slight signs of rubbing as buring, affecting total area of not more than 0.5 sq.cm. Tolerance in quality of not more than 10 percent by weight or number but meeting requirements of Class II. Size deviation upto 10mm in 10 percent by number or weight.</td> </tr> <tr> <td></td> <td style="vertical-align: top;">3.Class II</td> <td style="vertical-align: top;">Fruits satisfying 'minimum requirement' Minimum size 30mm.</td> <td style="vertical-align: top;">10 percent by number or weight but excluding visible rot, pronounced bruising or unhealed cracks. Size deviation upto 10mm in 10 percent by number or weight.</td> </tr> </tbody> </table>		Grade	Quality	Tolerance	2. Grade & Specifications	1.Extra Class	Superior Quality, typical of variety. Minimum size 35mm.	No defects allowed, 5 percent tolerance by weight or numbers if meeting requirements of Class I size deviation upto 5mm.		2.Class I	Good quality, typical of variety, flesh must be perfectly sound. Minimum size 30mm.	Slight defects in shape or development, colouring, or slight signs of rubbing as buring, affecting total area of not more than 0.5 sq.cm. Tolerance in quality of not more than 10 percent by weight or number but meeting requirements of Class II. Size deviation upto 10mm in 10 percent by number or weight.		3.Class II	Fruits satisfying 'minimum requirement' Minimum size 30mm.	10 percent by number or weight but excluding visible rot, pronounced bruising or unhealed cracks. Size deviation upto 10mm in 10 percent by number or weight.	
	Grade	Quality	Tolerance															
2. Grade & Specifications	1.Extra Class	Superior Quality, typical of variety. Minimum size 35mm.	No defects allowed, 5 percent tolerance by weight or numbers if meeting requirements of Class I size deviation upto 5mm.															
	2.Class I	Good quality, typical of variety, flesh must be perfectly sound. Minimum size 30mm.	Slight defects in shape or development, colouring, or slight signs of rubbing as buring, affecting total area of not more than 0.5 sq.cm. Tolerance in quality of not more than 10 percent by weight or number but meeting requirements of Class II. Size deviation upto 10mm in 10 percent by number or weight.															
	3.Class II	Fruits satisfying 'minimum requirement' Minimum size 30mm.	10 percent by number or weight but excluding visible rot, pronounced bruising or unhealed cracks. Size deviation upto 10mm in 10 percent by number or weight.															
3. Packaging	Fruits should packed to ensure suitable protection. Packaging material should be new and clean.																	
4. Marking	Should indicate name of contents, size of fruit, grade, packers identification, and government marking.																	

## Annex V

### Compendium of Laws Relating to Exports

Compendium of Laws and Regulations Providing Authority for government Actions that Affect Agricultural Product Exports.

- \* Government of Pakistan, Ministry of Commerce, TRADE POLICY 1987-90, VOL II EXPORT POLICY.  
Section 1.8 Identification of essential commodities that are banned. Section 1.8 Commodities subject to quality control restriction. Products of animals origin and fruits and vegetables.  
Section 1.10 General Exemptions.  
Chapter 3, Sections 3.1--3.8. Procedures for Customs duty, sales tax and excise duty rebates.  
Chapter 4, Export Finance Scheme under Section 17 (2) (a) and Section 17 (4) (c) of the State Bank of Pakistan Act, 1956.
- \* Law providing power to specify Customs-duties. Section 19 of the Customs Act, 1969 (IV of 1969) Federal government, as amended by S.R.O.S 1983 to date.
- \* Regulation of exports relating to bans, quotas, special certification procedures, minimum export price restrictions, quality control and general exemptions derive their legal sanction from the Export Trade Control Order, 1987 (S.R.O. 550) (I)/87). The basic law conferring these powers is Subsection (1) of Section 3 of the Imports and Exports (Control) Act, 1950 (XXXIX of 1956).
- \* Powers of Enforcement of the Import and Exports Controls laws and regulations are provided under the Customs Act, 1969(IV of 1969) and the Code of Criminal Procedure, 1898 (Act V of 1898).
- \* Export registration and certification of trade organizations are licensed or recognized by the Federal government under the Trade Organizations Ordinance, 1961 (XLV of 1961) with powers conferred by Sub-section (1) of Section 3 of the Imports and Exports (Control) Act, 1950 (XXXIV of 1950).
- \* Cancellation of registration of importers or exporters is authorized under the Income Tax Act, 1922 (XI of 1922), the Tariff Act, 1934 (XXXII of 1934), the Central Excise and Salt Tax Act, 1951 (III of 1951), Section 26 of the Companies Act, 1913 (VII of 1913), Registration (Importers and Exporters) Order, 1952 under Section 3 of the Imports and Exports (Control) Act, 1950 (XXXIX of 1950).
- \* Authority for inspection of products is provided under the Inspection Agencies Registration and Regulation) Ordinance, 1981 (XXXVII of 1981).

- \* Exemptions from the above Act are products under the control of all government departments and organizations setup for inspection under the Agricultural Produce (Grading and Marketing) Act, 1937 (I of 1937), and the Pakistan Standards Institution (Certification Marks) Ordinance, 1961 (XLVII of 1961).
- \* Machinery Exemptions from payment of custom duty is provided by Section 19 of the Customs Act, 1969 (IV of 1969) and Sub-section (1) and (2) of Section 7 of the Sales Tax Act, 1951 (III of 1951).
- \* Exchange control in Pakistan is administered under the provisions of the Foreign Exchange Regulation Act, 1947.

## Annex VI

### Source of Data and Bibliography

1. The Lahore CHAMBER OF Commerce, USAID, and "The Industry Council for Development in New York, is hosting the Pakistan Horticulture Investment Forum". This is for the purpose of developing joint ventures with the Pakistan business community and large companies involved in horticultural sector worldwide. The forum was held in February 1990.
2. The Asian Development Bank (ADB) has just completed a draft of their final report "Pakistan: Fruit and Vegetable Export Marketing Study" The consultants Produce Studies Limited of the U.K. have three volumes of up to date detail on the potential of increasing exports of fresh fruits and vegetables from Pakistan and advise on the action required to exploit the opportunities identified in the report, particularly by the private sector.
3. The Export Promotion Bureau, with E.C.C. support has carried out a post-harvest technology training program for the fresh produce industry. A series of short courses were held in several locations in 1989. Trial shipments to the Middle East are to follow as another activity.
4. The Food and Agriculture Division of the Government of Pakistan has just finished a draft report "Study of Trade, Price and Institutional Policies Needed for Procurement, Processing, Marketing and Export of Perishable Commodities. November of 1989. with Esesjay Consult(private) Limited. The study examines the causes of instability in the supply of perishable commodities and assesses the present procurement policy to stabilize exports and domestic prices.
5. The Pakistan German Business Cooperation Project, has investigated the subject of horticultural exports and written a report which is not yet available to the public.
6. The Aga Khan rural Development Project in Northern Pakistan includes fresh products( apricots, apples and plums).
7. The Australian High Commission is funding activities related to mango export marketing.
8. The Government of Pakistan, USAID, and RONCO Consulting Corporation, and Agri-Bi-Con International(private) Limited are carrying out a study "Analysis of Corporate Sector Constraints in Agriculture" which is an assessment of the existing national agribusiness Environment. Draft completed September 1989.

9. The Government of Pakistan, Ministry of Commerce completed a study entitled "Trade Policy 1987-1989 Volume II Export Policy"  
A study of export policy.
10. The Industry Council for Development published a proceedings of the workshop in two volumes entitled "Report on the Workshop and Action plan for Development and Expansion of Horticulture in Pakistan. May 1986.
11. The Government of Pakistan, Ministry of Planning and Development, Planning and Development Division, The World Bank, and Investment Advisory Center of Pakistan, and United Consultants Limited completed a 24 volume study on Industrial Efficiency Improvement and Development Strategy Study. The study includes export policy.
12. The Government of Pakistan, Planning and Development Division and United consulting Group Limited completed a study in January 1986, entitled " Integrated Development of Horticulture of North West Frontier Province for Export". It describes the constraints and makes recommendations for improvement of the export marketing system for horticultural crops.
13. USAID Office of the A.I.D. Representative for Afghan Affairs and Robert R. Nathan Associates, Inc., and Louis Berger, Inc. produced a report entitled "Profile of Private Sector Cross-Border Trade Between Afghanistan and Pakistan. This report is a study of cross-border trade between Afghanistan and Pakistan.

## Annex VII

### LIST OF PERSONS AND ORGANIZATIONS INTERVIEWED FOR THIS REPORT

1. Saifullah Khan Khattak, Agricultural and Livestock marketing Adviser Agricultural Marketing and Grading Department, Government of Pakistan, Karachi
2. Rashid Aziz, economist The World Bank, Islamabad
3. Inam-ul Haq, Managing Director, Agricultural Marketing and Storage Limited, Islamabad
4. Saeed-ul Hassan, Managing Director, United Consultants (private) Ltd, Lahore
5. M.Y. Bhutta, Director General, Export Promotion Bureau, Government of Pakistan, Karachi
6. Mohammad Yusuf A. Rehman, Vice President, Chamber of Commerce and Industry, Karachi
7. R.A. Jafri, Managing Director, Pakistan Packaging Institute, Karachi
8. Mohammad Saeed Mohammad Hussain, Manager, Habibullah, Karachi
9. Humayun Saddique, Managing Director, Decent Packages (private) Limited, Karachi
10. Tariq Nazir, Managing Partner, Corcarton Industries (private) Karachi
11. Mohammed Nasim Shaikh, Managing Partner, Rafique and Ahsan, Karachi
12. Muhammad Iqbal, General Manager, Agricultural Marketing and Storage Ltd., The Government of Pakistan, Islamabad
13. Padrgram Dhirani, Export Executive, R. R Corporation, Karachi
14. Agha Fuad Sami, Deputy Agricultural Marketing Adviser, Department of Agricultural Marketing and Grading, Government of Pakistan, Karachi
15. Itrat Rasool Malhi, Deputy Agricultural Marketing Adviser, Agricultural and Livestock Products Marketing and Grading Department, The Government of Pakistan, Karachi
16. Robin Tilsworth-Rude, Agricultural Attache, United States Department of Agriculture, Islamabad

17. **A.H. Maan, Economic Consultant, Ministry of Food, Agriculture and Cooperatives, The Government of Pakistan, Islamabad**
18. **Philip E. Church, Agriculture Development officer, USAID/Afghanistan, Islamabad**
19. **Ahsan Tayyab, Agribusiness Specialist, USAID, Islamabad**
20. **Leon F. Hesser, Agricultural Economist, Ronco Consulting Corporation, Islamabad**
21. **Mohammad Sadiq Khan, Director, Export Promotion Bureau, Government of Pakistan, Karachi.**
22. **Muslim Pervaiz, Javed Traders, Karachi**

## **Annex VIII**

### **Graphs of Real and Nominal Prices for Selected Commodities**

