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## **Pakistan**

### **Food Processing Sector**

**1999**

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#### **Report Highlights:**

**Pakistan's food processing sector is large and output is growing at about 8 percent annually. The market offers opportunities for U.S. exports in several areas, including edible oils, flavoring and additives for the bakery and confectionary sectors and powdered milk and other dairy products.**

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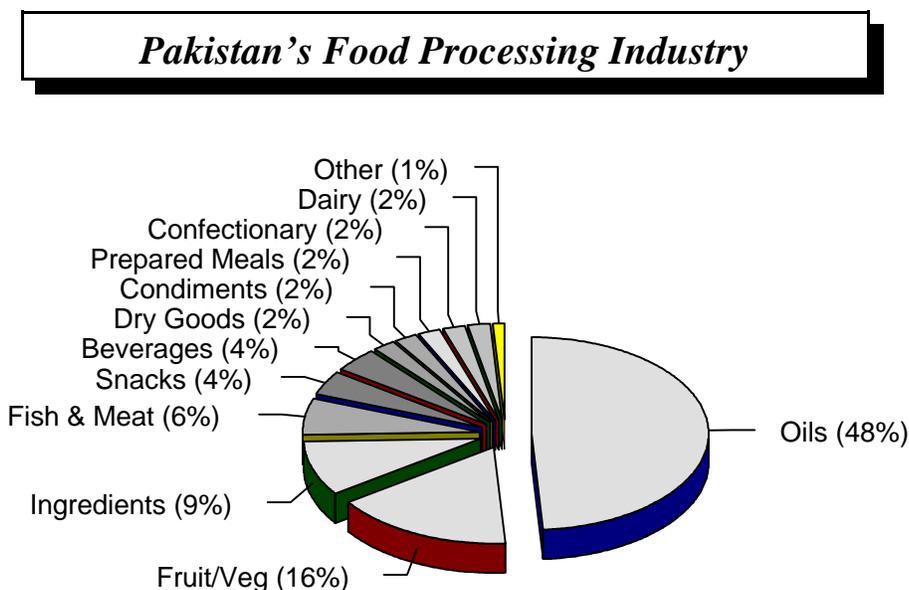
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## I. MARKET SUMMARY

With an estimated 150 million consumers, Pakistan is the world's ninth largest market. Economic growth, which averaged more than 5 percent annually for the past decade, slowed last year as a result of the Asian financial crisis and economic sanctions imposed following Pakistan's May 1998 nuclear tests. One of the major objectives of Pakistan's new military government is to restore investor confidence and to implement broad economic reforms, with the aim of stimulating growth. Although per capita income remains low (about \$450), there is a large and growing food processing sector. The average Pakistani consumer spends 42% of her income on food.

Pakistan's food processing industry is large and growing. Output from the food sector currently accounts for about 17% of Pakistan's manufacturing output. During 1998, the food processing sector produced an estimated \$7 billion in products. Growth has averaged around 8 percent annually during the past 5 years. The sector is characterized by numerous small, processing units. In 1998, there were an estimated 4,600 food processing firms, each of which, on average, employed less than 10 workers.

Almost half of the food processing industry is located in the port city of Karachi, with the remainder spread among the major urban centers. About a quarter of the industry is involved in fruit and vegetable processing. Edible oil processing also is an important sub-sector and is forecast to expand as Pakistan looks to reduce its \$1.2 billion bill for imported oils by capturing the value-added of local processing. Other important sectors include: ingredients, meat and fish, snack foods, and beverages.



The local food processing industry relies heavily on imported materials. During 1998, sources estimate that locally produced raw materials supplied less than half of the requirements of the food processing industry, resulting in imports of more than \$900 million. Despite the current recession, the industry is expected to grow at more than 5 percent annually for the next five years. On the supply side, direct foreign investment has

provided new technology and expanded production capacity. On the consumption side, the change to a “western lifestyle” has helped to increase demand for processed foods. Growth in demand will continue to be from the domestic market. Pakistan is not expected to become a regional supplier of processed foods for the foreseeable future.

For religious reasons, imported food ingredients may not contain pork or alcohol and ingredients of animal-origin must be “halal.” The maximum tariff on all items is 35 percent. Items for further processing generally, but not always, have lower tariffs. Imports also are subject to a 15% sales tax.

***ADVANTAGES and CHALLENGES FACING  
U.S. FOOD INGREDIENTS in PAKISTAN***

<b><i>ADVANTAGES</i></b>	<b><i>CHALLENGES</i></b>
Pakistan’s food processing industry is large and accounts for 17% of the manufacturing sector in Pakistan.	Most food processors are small with less than 10 employees.
Pakistani food processors rank U.S. ingredients the best in terms of quality and safety standards.	Pakistan is a price-sensitive market and U.S. prices are relatively high.
Some U.S. ingredients are well-known and are imported either directly from the U.S. or overseas subsidiaries.	However, most importers and end-users have limited knowledge of the variety and quality of U.S. products .
Plenty of opportunity for new-to-market products.	Limited knowledge of U.S. export practices and procedures.
Import regulations now are more transparent and tariffs have been reduced to a maximum of 35%.	Additional transparency and reforms are required. Tariffs still high and require further reduction.
Pakistan’s new government appears committed to restoring business confidence and reviving the economy.	Continued economic problems following Asian financial crisis and sanctions as a result of nuclear tests.

## **II. ROAD MAP for MARKET ENTRY**

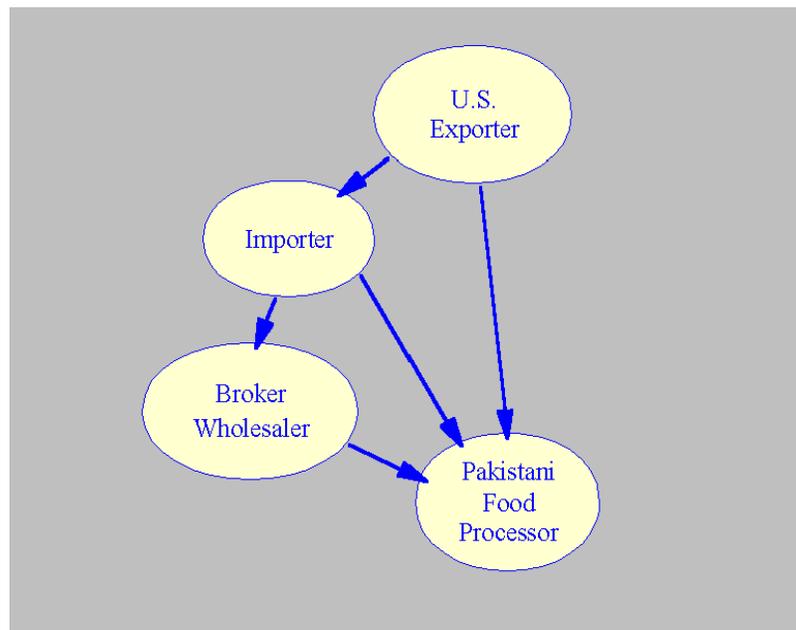
## ( Entry Strategy

Pakistan is a price-sensitive market. Quality-oriented food processors and international franchises prefer to buy directly from U.S. suppliers. Personal contact, either through an agent or visit, are an important part of the transaction. An exporter's local representative is the key to a product's successful entry in the Pakistani market. The local representative should have a thorough understanding of the product and import regulations, including labeling and other requirements. In addition, he should understand the local market and consumers' preferences, have an efficient distribution network and, above all, be committed to marketing the product. Seminars and exhibits demonstrating the quality and variety of U.S. products also will help to stimulate sales.

## ( Market Structure

Large processors generally purchase ingredients directly from the exporter. Whereas, small and medium processors often purchase from an agent broker or local wholesaler. Small and medium-sized processors generally are more price-conscious than the larger, multinational firms. Commercial traders import ingredients directly or through traders in

### *Trade Flows*



Dubai or Singapore and Eastern and European

establishment of trade relations with commercial traders, in addition to the direct contacts with the

other Far centers. The

food processors, are important ways to facilitate sales as well as to introduce new products.

Suppliers interested in the Pakistani market should contact FAS/Islamabad regarding questions or concerns about the trade with Pakistan. Payment is generally through a letter of credit either on FOB or C&F basis.

### **MAJOR FOOD PROCESSORS**

<b>Name of Retailer</b>	<b>Production Site</b>	<b>CY 98 Sales \$ Million</b>	<b>Market</b>	<b>Procurement Channels</b>
Lever Brothers	Pakistan, USA	350	All	Direct Import, Local Distributors
Nestle Milkpak	Pakistan, Switzerland	85	Retail, HRI	Direct Import, Local Distributors
CPC Rafhan	Pakistan, U.S.A.	44	All	Importers, Local Distributors
Ahmed Food Industries	Pakistan	14	Retail	Local Importers, Wholesalers
National Foods	Pakistan	13	Retail, HRI	Local Importers, Wholesalers
Shezan International	Pakistan	12	Retail, HRI	Direct Import, Local Distributors
Murree Brewery	Pakistan	11	HRI	Direct Import, Local Distributors
Mitchell's Fruit Farm	Pakistan	10	Retail, HRI	Direct Import, Local Distributors
Candyland	Pakistan	7	Retail	Importers, Wholesalers
Clover Pakistan	Pakistan	1	Retail	Direct Import, Local Distributors

### **III. COMPETITION**

European and Far Eastern countries, plus Australia, New Zealand and South Africa are the major U.S.

competitors. The source of competition varies widely by product. Almost all competitors have a freight advantage over the United States. Products from the Far East often have a price advantage but not a quality advantage. Pakistani processors generally are more familiar with European products due to their long and close association with Europe. Even when a U.S. product is imported, it generally is purchased indirectly from consolidators in Dubai or is manufactured outside of the United States.

The general practice is for importers to visit or to place orders with foreign wholesalers. The key to future success likely will involve distribution rights. New products can be successfully introduced and promoted under exclusive distribution rights.

Competition varies from product to product. The U.K. dominates in powdered juices, flavors, and some dairy products. German firms deal mainly in gum base, glucose, spices and flavors. Holland, Australia and Ireland export powdered and liquid milk, cream and gums. Malaysia dominates in palm oil, food coloring and additives. Imports from Japan mainly consist of chocolate powder, sodium bicarbonate, activated carbon (for glucose) and yeast. India exports chocolate powder.

## **IV. BEST PRODUCT PROSPECTS**

### **( Products Present in the Market with Good Sales Potential**

Demand for edible oils as well as flavors, additives, and concentrates for the baked and confectionary goods is large and growing. Dry milk and dairy products have significant potential for U.S. exporters. Most of these products are sold through traditional wholesale outlets. Although the major international brands are popular, there is good potential for new brands, especially if they are price competitive and promoted.

### **( Products Not Present in Significant Quantities but which Have Good Sales Potential**

Demand for food coloring, vitamins, beverage ingredients and gum bases is beginning to expand. The United States generally has a quality advantage but not always a price advantage for many of these items.

### **( Products Not Present Because They Face Significant Barriers**

Pork and pork products as well as alcoholic beverages may not be imported for religious reasons. Consumers also have reservations about imported meat products due to concerns about the reliability of "halal" products originating from non-Islamic countries.

## **V. POST CONTACT**

If you have questions or comments regarding this report or need assistance exporting to Pakistan (or

Uzbekistan or Kazakhstan), please contact the Foreign Agricultural Service Office in Islamabad at the following:

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For more information on exporting U.S. agricultural products, please visit the Foreign Agricultural Service's home page at: <http://www.fas.usda.gov>