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Pakistan

Country Strategy Statement

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Report Highlights:
Pakistan is the world's sixth most populous nation. Relatively sustained economic recovery over the past several years has resulted in increased agricultural imports. Thus, despite a less-than-transparent trade regime, Pakistan remains a major importer of cotton, tea, dairy products, and vegetable oil, and an expanding market for U.S. processed food products. Currently, about one-third of Pakistan's 160 million people are considered to be middle-class and that number is growing. With an average per capita income of $1,500 and a combined purchasing power of $78 billion, the middle-class possesses sufficient disposable income to buy quality U.S. food products. Assuming an annual expenditure of 20 percent of disposable income on imported food products, the market for food products in Pakistan is in excess of $16 billion. Moreover, this market is expanding at the rate of 10 percent a year and will exceed $23 billion by 2010. The Government of Pakistan (GOP) considers biotechnology to be a high priority area and has funded more than one billion rupees ($16.7 million) for research and development in this sector through various ministries and the Higher Education Commission (HEC).

Includes PSD Changes: No
Includes Trade Matrix: No
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SCOPE PAPER

Politics Since partition from India in 1947, Pakistan's has experienced several military interventions, and its political situation been characterized by corrupt civilian politics and fragile democratic institutions. Even when not directly governing, the military (and military intelligence) remains an important political factor in governmental affairs. After the most recent intervention in October of 1999, the military dissolved all electoral institutions. Results of the October 2003 elections were interpreted to affirm President General Pervez Musharraf continuation as both President and Army Chief of Staff. Since 9/11 Musharraf and his government have received strong U.S. political and economic support in exchange for active Pakistani involvement along the Afghan border to assist in the war on terrorism. The next general election, scheduled this year, is expected to provide an answer to whether Musharraf will take off his general's uniform to run as a civilian. The election will also serve as a focal point around which opposition parties are expected to unite against the "non-democratic" military rule.

Economy Pakistan' has a population of more than 160 million and an average per capita income of $847. Under military rule, the economy has made a significant recovery that began soon after September 11, 2001. During Pakistani FY 2005/06 (July-June), Pakistan's GDP increased 6.6 percent, due to growth in the large-scale manufacturing and services sectors and unemployment dropped to 6.5 per cent. Inflation has increased to 8 percent. The economy is forecast to grow at an annual rate of 6-8 percent for the next several years but it remains heavily dependent on external factors, including weather and irrigation supplies and international oil prices. The agriculture sector, which remains somewhat sluggish, contributes 22 percent to GDP, employs half the labor force, and generates a large share of the nation's foreign exchange earnings.

Trade During FY 2005/06, Pakistan's imports totaled $26 billion while exports were $17 billion. Textiles are the principal export product, accounting for 59 percent of all export value. Pakistan has significantly reformed its trade regime in recent years, and except for wheat, considered by the government to be a strategic food commodity, state trading has largely been eliminated. The government's policy to promote export-led growth has led to privatization of rice and cotton exports and the elimination of a number of export subsidies. Generally, Pakistan is moving to comply with its WTO commitments, although the tariff regime continues to be characterized by complex regulations, broad bureaucratic discretionary powers, and limited transparency. The government appears committed to reforming the trade regime, complying with international standards, and streamlining import and export procedures.

Agricultural Trade Agricultural production in Pakistan consists primarily of wheat, rice, cotton, sugarcane, and fruit, plus smaller amounts of feed grains, pulses, and vegetables. Vegetable oil is the largest agricultural import, totaling 1.5 million tons annually. In FY 2005/06, Pakistan imported over $1.5 billion in agricultural products, including vegetable oil ($737 million), tea ($223 million), cotton ($175 million), pulses ($174 million), and milk and milk products ($45.2 million). Pakistan's main agricultural exports were: rice ($1.15 billion), fruits and vegetables ($165 million), cotton ($112 million), and oilseeds nuts and kernels ($25 million). Pakistan is a growing market for the consumer ready food products and FAS is actively seeking to facilitate increased U.S. participation.

Agricultural Trade with the United States The volume of agriculture trade between the United States and Pakistan during 2006 totaled $251 million. Agricultural exports from the United States to Pakistan equaled $205 million, while exports from Pakistan to the United States totaled $46 million. The primary U.S. exports to Pakistan were: cotton $117.8

million, wheat $29 million, vegetable oils $12.4 million, vegetable seeds $15.8 million, dairy products $7.2 million, poultry meat $3.9 million, soybeans $2.4 million, and processed fruits and vegetables $1 million. Major U.S. agricultural imports from Pakistan were: rice $15.3 million, sugars, sweets, and beverage bases $6.8 million, spices $3.1 million, processed fruits and vegetables $4 million, and snack foods $2.1 million.

Agriculture's Role in Economy Agriculture is the mainstay of Pakistan's economy. Nearly 22 percent of total output (GDP) and 44.8 percent of total employment is generated from agriculture. Agriculture also contributes substantially to Pakistan's economic growth and exports both as a supplier of raw materials to industry as well as market for industrial products.

Furthermore, 65.9 percent of country's population live in rural areas and depend directly or indirectly on agriculture for their livelihood. Whatever happens to agriculture is bound to affect not only the country's growth performance, but a large segment of the country's population as well. During the past five years, growth in agriculture has been mixed. During 2000/01 and 2001/02, the country experienced a crippling drought, which badly affected agricultural productivity. Overall growth in agriculture turned negative during these two years. In the following years (2002/03 to 2004/05), the relatively better availability of irrigation supplies had a positive impact on overall agricultural growth and the sector exhibited a modest to strong recovery. However, agriculture's performance during the Pakistani Fiscal year 2005/06 (July-June) was weak—agriculture grew by only 2.5 percent versus a target of 4.2 percent and the previous year's growth of 6.7 percent—due to the relatively poor performance of the major crops and forestry and a weak performance by the minor crops and fisheries. Livestock, however, ahs been the bright spot. The performance of livestock, the single largest sector accounting for almost 50 percent of value-added agricultural value, has been impressive. This sector grew by 8 percent due largely to government development projects and a substantial increase in the livestock herd and milk and meat production.

Investment: The development of economy and rapid GDP growth is instrumental in rise of investment in the agriculture sector. Currently agriculture sector attracts more then 7% of the total investment in country. The key areas are processed milk/dairy development and small agro based industries including processing of horticultural products. There is a need to encourage investment for the implementation of large water resource projects as well as improvements in transportation and storage infrastructure. The government is developing a policy for greater investment flows to stimulate growth and diversification, as well as to help remove infrastructure gaps and bottlenecks. Similarly, investment in industry has to be encouraged to support value-addition in textiles, increase agri-product processing and allow the country to diversify production into the medium- and high-end technology products.

Agricultural Cooperation with United States The United states and Pakistan have a long history of cooperation in agriculture. USDA has been involved in agricultural development in Pakistan for many decades, including the following programs:
--*Agricultural Linkages Program (ALP):* Established at Pakistan Agriculture Research Council (PARC), USDA provided US$ 23 million under P.L. 480 to establish a research endowment fund. The main objective of this endowment is to promote and support agricultural research and development activities in accordance with the USDA priorities and Pakistan long-term development goals; and to promote long-term scientific cooperation between Pakistan and the United States in agriculture sector.

The ALP Program has been able to finance 226 projects from all over Pakistan. There are 80 completed and 146 on going projects. These projects are from all spectra of agriculture

discipline. During the last few years when agriculture research was facing shortage of funds ALP program provided an opportunity for the agriculture scientist to sustain their research activities. As these projects were indigenous in nature they provided solutions to problems being faced by Pakistani farmers. They are also a source of building linkages between Pakistani and United States scientists and institutions.

--Natural Sciences Linkages Program (NSLP): Established at Pakistan Science Foundation, under P.L. 480, USDA provided US$ 10 million to establish a research endowment. The main objectives of the endowment are to promote research in areas of natural science related with agriculture and to provide platform for collaboration among scientists and institutions of both countries. The proposals for the first batch of research projects have been invited and the actual research projects are expected to be initiated shortly.

--Faculty Development, Technology Transfer and Product Commercialization (FDTTPC): University of Agriculture Faisalabad (UAF) is the premier research institute acting as nucleus for all the agriculture related research activities in Pakistan. Recognizing its century-old traditions of excellence, USDA provided $12.4 million to establish the FDTTPC. The main objectives of this fund are to support the UAF programs for advanced training in biotechnology, agricultural sciences research, and technology transfer/product commercialization, strengthening of faculty and support research and development, support similar programs with other institutions of higher learning and the private sector, and encourage increased cooperation among scientists conducting agriculture related research at universities in Pakistan and the United States. The first group of research projects is expected to be launched in 2007.

--Pakistan Poverty Alleviation Fund (PPAF): USDA provided $25 million under 416-b to the PPAF to fund 836 projects throughout Pakistan. About 60 percent of USDA's funding is being used to finance drought mitigation projects and 20 percent each for micro hydro-electrical and irrigation projects, representing 20 drought mitigation, 61 micro hydro-electrical, and 755 irrigation projects. An average drought mitigation project cost Rs. 43 million, a micro hydro electrical project Rs. 4 million, and an irrigation project 0.5 million. Seven of the drought mitigation projects are in Balochistan, 6 in Sindh, 4 in Northwest Frontier Province, and 3 in Punjab. The micro hydro-electrical projects are mostly located in the northern areas while the irrigation projects are spread all over Pakistan.

--Agriculture University Peshawar, Pakistan Forest Institute, Peshawar and Economic Wing Of MINFAL: USDA has provided $6.7 million under P.L. 480 to establish three different endowments at these three institutions with a different set of priority areas at each institution. Protocols are being developed and the endowments are expected to be functional by the end of 2007.

Key Areas for Future Cooperation:

--Biotechnology: The Government of Pakistan (GOP) envisions biotechnology as high priority area and has funded more than one billion rupees ($16.7 million) for research and development in this sector through various ministries and Higher Education Commission (HEC). Out of 28 centers claiming to be involved in biotechnology, only a few (3-5) are capable of doing DNA recombination research to produce genetically modified (GM) crops. Crops of interest include: cotton, wheat, sugarcane, tomatoes, canola, and potatoes for various traits, including virus resistance, insect resistance, salt tolerance, drought tolerance, and male sterility for hybrid seed development.

All multinational seed companies doing business in Pakistan are gearing up to formally submit application to the National Biosafety Committee (NBC) for hybrid transgenic crops. It

is expected that within 1-2 years GM crops will be authorized to be grown in Pakistan and respond to the strong demand in the farming community to use GM technology.

Pakistan is conducting research on a variety of biotech crops, including cotton, rice, and several horticultural crops. However, thus far no GE crops have been commercialized. Following the adoption of the national Biosafety Guidelines and rules in April 2005, the Government of Pakistan (GOP) focused on developing a regulatory system. That regulatory system is now in place in the Ministry of Environment. The National Institute for Biotechnology and Genetic Engineering (NIBGE) has submitted one application and the Center of Excellence for Molecular Biology (COMB) has submitted two applications to the National Biosafety Committee (NBC) for the approval of locally developed varieties of Bt cotton. Approval is expected within 6-8 months, followed by field trials, and commercialization within two years. The issue is of up most importance to the GOP as increasing amount of unauthorized varieties of Bt cotton from India is being planted in Pakistan, with mixed results. GOP sources estimate 500,000 acres of illegal Bt cotton (about 5 percent of the crop) were planted last year and an increase is expected this season.

Although the Rockefeller Foundation supports research on GE rice, the GOP does not encourage this work because as the EU has a strong preference for non-GE rice. The Center of Excellence for Molecular Biology (CEMB) in Lahore also conducts biotech research on several horticultural crops, including potatoes, chilies, peppers, and melons. At present, 28 Pakistani research organizations, including the Pakistan Agricultural Research Council (PARC) and the National Agricultural Research Center (NARC), conduct biotechnology research and/or activities.

Pakistan's biotech policy and regulatory agencies, in order of hierarchy, are:

1) National Biosafety Committee (NBC): The NBC is comprised of high-level policy and technocrats from the Ministries of Environment, Health, Agriculture, Education, Science and Technology, and provincial governments.

2) Ministerial Biosafety Committee (MBC): The MBC is independent of the NBC and is located in the Ministries of Environment, Health, Agriculture, Science, and Technology.

3) Institutional Biosafety Committee (IBC): The IBC is comprised of a team of scientists at each institute researching and developing products enhanced through biotechnology.

NBC is the policy making body, while the MBC and IBC have regulatory functions. Currently, the GOP is conducting tests on export shipments of rice so they may be certified GE-free. The state-owned biotechnology research center issues certificates to foreign buyers on test details and results.

Pakistan has formed an independent body, the Intellectual Property Organization - Pakistan (IPOP), to address intellectual property rights issues. Simultaneously, a bill on Plant Breeder's Rights is in the process of being discussed by the National Legislature after having received concurrence from the Provincial Assemblies. Pakistan is importing GM soybeans, soybean oil, and other processed food products from the United States and other countries. After the establishment of Plant Breeder Rights, trade (and production) of GMO seeds by U.S. multinational seed companies is expected to increase.

Sanitary and Phytosanitary Issues (SPS) The GOP plans to develop a state of the art system to address sanitary and phytosanitary issues. The country produces a variety of horticultural crops but export is hindered by the absence of a good phytosanitary infrastructure. The government has launched a project to develop National Animal and Plant

Health Inspection Services (NAPHIS), modeled after USDA's APHIS and has expressed desire for the technical support. Providing technical support to GOP for this purpose will be in line with the FAS objective of encouraging institutional set up to resolve SPS issues.

MinFAL and APHIS are working to develop a pre-clearance program to permit the export of fresh Pakistani mangoes to the United States. The development of a NAPHIS will facilitate the expansion of bi-lateral trade.

Human Resources Development Most of Pakistan's agricultural scientists and policy makers studied in the United States in the 1970s and 80s, funded by U.S. government. This funding was not available to Pakistan for the last two decades and the U.S. trained scientists and policy makers have mostly retired are on the verge of retirement. MinFAL has expressed the desire to establish an arrangement with the USDA for cooperation in training of Pakistani scientists to United States. This type of an arrangement will be mutually benefit to both countries.

SWOT ANALYSIS

An Expanding Market Pakistan is the world's sixth most populous nation, and the relatively sustained economic recovery over the past several years has increased levels of agricultural imports. Thus, despite a less-than-transparent trade regime, Pakistan remains a major importer of cotton, tea, dairy products and vegetable oil, and an expanding market for U.S. processed food products.

Pakistan's economic indicators during the past two years have been best in two decades. The actual GDP growth rate has averaged 7 percent for the previous three years and the country has maintained sufficient foreign exchange reserves and a stable exchange rate. The middle class is expanding and one-third of Pakistan's population of 160 million falls within a middle-income group that has sufficient disposable income to buy quality U.S. food products. More than 52 million people have a per capita income of $1,500 and a combined purchasing power of $78 billion. Presuming an annual expenditure of 20 percent of disposable income on imported food products, the market for food products in Pakistan is in excess of $16 billion. Moreover, this market is expanding at the rate of 10 percent a year and will exceed $23 billion by 2010.

Special Trading Partners Pakistan is a member of the World Trade Organization and is also a party to two agreements seeking to promote regional trade liberalization: the Economic Cooperation Organization (ECO), whose members also include Turkey and Iran; and the South Asian Association for Regional Cooperation (SAARC), whose members include India, Bangladesh, Sri Lanka and Nepal.

Pakistan has signed, or is currently negotiating a number of Free Trade Agreements (FTA) with other Asian countries. An FTA has been signed with Sri Lanka and China and a draft FTA has been exchanged with Singapore that includes services and contains an investment protection clause. Pakistan had a first round of trade talks with Indonesia in October 2004 that led to an agreement to enhance trade relations and move towards an eventual FTA. Negotiations are also underway to conclude an FTA with Bangladesh.

India and Pakistan are working towards increasing bilateral trade. Pakistan has allowed duty free import of certain items while India has accorded MFN status to Pakistan, but reciprocal

status, to date, has not been granted to India. Recent political tensions between the two nations puts into question recent progress in increasing trade.

Trade Agreements with the United States Pakistan does not maintain bilateral trade agreements with the United States; however, it has signed a Trade and Investment Framework Agreement (TIFA) in July 2003. The two countries are now involved in negotiations on Bilateral Investment Treaty (BIT).

Taxes and Tariffs Tariffs range as high as 25 percent but trending downward and subject to further reductions as a part of the governments long-term plan to rationalize the duty structure. The GOP levies surcharges on certain agricultural commodities (vegetable oils in particular) to protect young domestic industries.

Biotechnology Trade Opportunities Pakistan is progressing in the field of agricultural biotechnology, which it views as being critical to addressing food security in the face of burgeoning population. Biosafety guidelines and rules were enacted in April 2005 and Biotech national policy/ action plan has recently been approved. GM soybeans and soybean oil are currently imported to Pakistan. GM corn seed and cotton seed imports my find a market in the light of Bio safety Protocol. There are no biotechnology related trade barriers between the United States and Pakistan and trade should continue without hindrance into the foreseeable future. The EU has asked Pakistan to begin labeling all biotech products exported to EU member countries.

Import Regulations and Relevant Agencies In general, Pakistan's food import regulations are based on the premise that if a product is sold in the country of origin, Pakistani standards will have been met. The federal government generally applies Codex standards and guidelines in its regulation of imported food products. The U.S. Food and Drug Administration standards also are used with certain products.

The Customs Department and Plant Protection and Quarantine (PPQ) are the two main agencies involved in regulating food imports. The Customs Department's primary function is to ensure imported foods meet Pakistan's labeling and shelf-life requirements, are not on the list of banned items and are assessed the appropriate import tariff. PPQ's function is to ensure that shipments of live animal and bulk agricultural commodities meet sanitary and phytosanitary requirements.

Post Assessment of Precautions, Risks, and Opportunities in the Pakistani market
The Pakistan government's primary concern regarding imported food is shelf life. Federal import regulations require imported food products have a minimum of 50 percent of the original shelf life remaining at time of importation. To ensure shelf life requirements are met, correct labeling is of critical importance. Each retail pack must have the production and expiration dates printed on the label. In addition to shelf life and labeling, certain products are banned for religious reasons: the importation of product containing pork or pork by-products is prohibited. Commercial import of alcoholic beverages, as well as products containing alcohol, is also prohibited. Meat and dairy products may be imported if certified to be "halal."

Pakistan controls certain imports through a "negative list." The negative list is comprised of (a) items banned for religious, security or luxury consumption reasons; (b) capital and consumer goods banned to protect a domestic industry; and (c) intermediate goods used to produce protected goods. Pakistan also maintains a "restricted list" of items that may be imported only by certain parties (i.e., the government or other specified users) or under certain arrangements (such as imports against credit).

Other than the listed above, there are no federal restrictions on the importation of consumer foods. U.S. exporters have had problems with requirements due to the use of bar-code labels, which do not have printed dates of manufacture and expiration. As a result, U.S. suppliers using bar-coded labels alone will incur the extra cost of printing new labels or of affixing stickers, with the printed production and expiration dates on each retail pack. Since Pakistani consumers have confidence in the quality of foods imported in the manufacturers own packaging, most foods are imported in consumer-ready packs. Refined vegetable oil, the one major exception; is being imported in bulk and re-packed locally.

STRATEGY AND GOAL STATEMENTS

Long-Term Strategic Goals for FAS in Pakistan

1. The first goal is to develop agricultural linkages between the United States and Pakistan for agriculture development, trade facilitation, and promotion of food security.

2. The second goal is to support U.S. national security objectives in Afghanistan, optimizing the department's contribution for securing political stability and economic development in Afghanistan.

3. The third goal is to increase U.S. exports to Pakistan by increasing the flow of agricultural commodities grown by U.S. farmers and the flow of food products processed in the United States.

4. The fourth goal is to encourage Pakistan (a member of the Cairns Group) to support U.S. positions on WTO in the Doha Round of trade negotiations.

5. The fifth goal is to resolve sanitary and phytosanitary (SPS) and technical issues or barriers to trade between United States and Pakistan.

6. The sixth goal is to maintain a reliable and sustainable system of market knowledge/ intelligence as well as collection/analysis of field crops data.

Short-Term Objectives (18-month time horizon)

1. Capacity building of Ministry of Agriculture and other related organizations through various on going and new initiatives for raising agricultural productivity in an environmentally sustainable way.

2. Support and improve the out reach capability of ministry of agriculture by establishing a P.L. 480 capacity building program in Afghanistan and to revitalize the Faculties of Agriculture and Veterinary Sciences in the Ministry of Higher Education.

3. Improve market access for U.S. products, build markets for new products, develop sustainable market information system, and institutionalize coordination between Pakistani and U.S. companies.

4. Update trade directories, answer trade queries, and coordinate communication links between Pakistani and U.S. companies and the various trade associations.

5. Obtain WTO support for U.S. position by lobbying policy makers, planners, commodity traders, and corporate executives.

6. Obtain USDA/APHIS certification for import of Pakistani mangos to the United States.

7. Maintain an office and staff to effectively represent U.S. agricultural interests and report and address changes in agriculture and trade policy that impact the importation of U.S. agricultural products to Pakistan.

8. Assist the GOP to improve official system for collecting agricultural data and making crop projections by increasing cooperation between NASS and Economic Wing of MiNFAL.

Results

Post's continuing efforts to develop agricultural linkages between United States and Pakistan resulted in the signing of several agreements, including: FY 2006 P.L. 480 agreement for Pakistan for earthquake relief, FY 2006 and FY 2007 P.L. 480 agreements for Afghanistan to funds agricultural capacity building and natural resource conservation, and the development of a Technical Assistance Agreement between USDA/NASS and MinFAL. Additionally, USDA/ARS and Pakistan's Higher Education Commission signed an MOU to cooperate on agricultural education and research. Post also assisted and facilitated the transfer of P.L. 480 funds from the Ministry of Finance to the recipient agencies, which the ministry has been using for budget support. During 2006, P.L. 480-funded endowments with the Agriculture University Faisalabad and Pakistan Science Foundation were made functional along with the development of three new endowments. Post remained involved with Pakistan Poverty Alleviation Fund to develop a water resources management center, which Ambassador Crocker inaugurated in September 2005.

Post also coordinated with MinFAL and APHIS on a pre-clearance program for the export of fresh Pakistani mangoes to the United States. Post coordinated two digital video conferences (DVCs) to facilitate negotiations on phytosanitary and other related issues. Post is continuing its marketing activities with special focus on consumer-oriented foods. To date, 15 Pakistani importers have been recruited to attend the FMI Show in Chicago. As a result of these efforts, exports of U.S. processed foods to Pakistan, a tough market by any standards, continue to grow.

Activity Summary

Post will continue to engage in capacity building activities for MinFAL and other related organizations. A group of 15 GOP statisticians will be send to USDA/NASS for a week long training. Post will also continue working with University of Agriculture Faisalabad and Pakistan Science Foundation to launch its first batch of research projects under USDA funded endowments. Post is working with the other three endowments (University of Peshawar, Pakistan Forest Institute and Economic Wing MINFAL) to formulate and finalize protocols so that these endowments can soon become functional.

FAS/Islamabad will work with MinFAL and APHIS to facilitate and coordinate all necessary steps involved in the development of a pre-clearance program for mangoes, including the visit of APHIS consultants from the United States. Post will also organize a visit by Pakistani importers to FMI Chicago and will participate in other local and regional trade shows and conferences. All changes in Pakistan's agriculture and trade policy, and especially those with an impact on U.S. agricultural exports to Pakistan will be tracked, monitored, reported, and responded to throughout the year.

COUNTRY MANAGEMENT STATEMENT (To Follow in Separate Report)