

# ENHANCING PAKISTAN'S AGRICULTURAL SECTOR EXPORTS TO INDIA

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POLICY RECCOMENDATIONS PAPER

TRADE RELATED TECHNICAL ASSISTANCE PROGRAMME



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The policy recommendations and regulatory reforms fall into various categories, for example short and long-term, or an integrated longer-term offensive approach focused on structural adjustment and a short-term defensive approach that phases out as the structural adjustment is implemented. The following discussion looks at the policy recommendations from a short and then a long-term perspective, and the Summary matrix at the end splits the predominantly short-term defensive recommendations and the broader time-spectrum offensive recommendations.

### *Short-term policy recommendations*

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As part of a defensive strategy, "Import Quota" for the agricultural sector may be introduced. The defensive strategy has been suggested by a few Public authorities as a response to the elusive and mythical level playing field with India. Rather than take defensive actions like Import Quotas or matching subsidies, it is better to address this issue in conjunction with an offensive strategy that encourages structural adjustment with the defensive strategy being phased out as the structural adjustment is developed. At any rate, the quantum of the quota may be fixed on the basis of average value of last five years import figures in each of tariff line in the agriculture sector but it would be better if a formula was used that has the quota allowing these imports to increase with greater certainty until the quota is removed in a set number of years. Non-transferable Import Quota may be awarded on first-come first-serve basis on payment of 5 %of the value of quota. The fee will be returned if the importer realized imports. If the importer wants to surrender the import quota than the 5 %fee would be forfeited. On exhaustion of the Import Quota, the MFN bound rate tariff will progressively apply. For a 10 %increase in imports above the IQ limits, the MFN applied tariff will be hiked by 10 %and so on.

The Import Quota may be applied under the Pakistan Safeguard Ordinance 2002 (as amended). However, the thrust of trade contingency rules drafted and agreed either under the WTO Agreement or Pakistan's Trade contingency measures legislation is on the injury to the domestic industry and industry has to come up with complaints backed up with evidence. However, in the case of the agriculture sector for Pakistan (or even for most developing countries) where the majority of farmers are engaged in subsistence farming and their land-holding is less than 15 hectors, it is unlikely that small farmers possess access to trade statistics and other such information to launch a complaint and plead their case in the National Tariff Commission or at the WTO. It is recommended that Pakistan's trade defense regulations be amended so that the agriculture sector's interests, especially those of small land-owing farmers, can be protected. Also, Superior Judiciary may be made bound through legislative amendments in the NTC Act for time bound disposal of trade-related litigations (say within 3 months of the case and all judicial appellant forum to be exhausted within six months) and to restrain from granting an indefinite stay (status quo) on trade-related litigations as importers manipulate the judicial lacunae to stretch the judicial process to the detriment of the local growers, producers and industry. A Directorate of Agriculture may be created within NTC who can initiate and protect the interests of agricultural sectors and farmers. This Directorate should be empowered to monitor imports and take actions if there are threats or threats thereof to the domestic agriculture sector or agricultural production (from unfair trade practices or a sudden surge in imports). Farmers and growers may not need to petition or plead for protection. Real-time import data<sup>1</sup> should be freely and publically available. Such facility should also be provided to the NTC Agriculture directorate where it can monitor imports at disaggregated product (HS Code at 8 digits) levels by country/producer or firm or a cooperative. Imports historical trends and time series data should also be available for real-time analysis.

Other short-term actions, basically just involving policy decisions, and mainly progressive could include:

- a. Eliminate the Excise Duty and Sales Tax on domestic Agricultural products and agro-based industries, or possibly a levy of Additional Duty on Imports of Agricultural products if IQ is not implemented, to level the playing field with imports (though as mentioned earlier, a better progressive approach would be to improve Pakistan's productivity and competitiveness).

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<sup>1</sup> At present, a month lag is the normal time when the Ministry of Commerce gets import data from the Pakistan Bureau of Standards. Complete import data by product/source /country/firm may take two months to be provided to policy makers and public sector organizations.

## ENHANCING PAKISTAN'S AGRICULTURAL SECTOR EXPORTS TO INDIA

- b. Streamline Food Safety and Standards and institute mechanism at the border for strict standards compliance (this would be more effective in progressively assisting trade if these standards were negotiated to be consistent across the traders).
- c. Establish an Export Promotion and Development Agency to promote exports of agricultural products to India.
- d. Encourage participation of agricultural producers and exporters in Indian Trade Fairs & Exhibitions and exchange of trade delegations.
- e. Organize Single Country Exhibition and Export Road Shows in major commercial cities and regions of India.
- f. Help establish banking and insurance facilities in India and Pakistan.
- g. Harmonization of Trade, Customs and Transport procedures.
- h. Capacity Building of farmers especially for grading, treatment, packaging, labelling and enhancing the shelf life of products for export opportunities.
- i. Capacity building in Sanitary and Phyto-sanitary requirements and Food Safety and Hygiene Standards.
- j. Provide cost-effective incentives to adopt HACCP (Hazard Analysis and Critical Control Point) standards
- k. Provide cost-effective incentives for establishing joint ventures in agro-based industries and marketing linkages with internationally renowned brands.

### *Long-term policy recommendations*

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Besides tackling structural issues in the agricultural sector which can take some time, the following measures will improve the agricultural sectors long-term sustainability and competitiveness:

- a. Make available cost effective new farming techniques that could ward-off the any negative effects of climate changes, droughts etc., especially changes in the farming environment (like changes in frequency, pattern and volume of climatic conditions like temperature, rains or winds).
- b. Progressively introduce market-based pricing and procurement policies.
- c. Allow the introduction of cluster farming through legislative cover to facilitate farmers to join a agri-cluster and get support for agricultural/ farming extension services, credit, ASC (Agricultural Supply Chain) and business development and marketing (entrepreneurship) training and assistance.
- d. Develop cost-effective agricultural storage and cold storage facilities for the farmers with adequate transportation. The management of these facilities may be undertaken by agri-clusters or public-private partnerships.
- e. Provide cost-effective incentives for agro-based industries with back-ward linkages with farms to develop the production competitiveness.
- f. Develop agricultural-based FDI policy to facilitate worthwhile joint ventures in agricultural farming, agro-based industrial production, storage, packaging and marketing (including exports).
- g. Cost-effective capacity-building of farmers, and public and private sector officials, in respect of agro-based products.
- h. To date trade adjustment schemes have been introduced to compensate and smooth the sectoral readjustments and alignments for import-competing sectors. It is time now to start trade adjustment schemes especially for small agricultural farms and farmers who may become uncompetitive due to trade liberalization with India (for example Australia had Rural Adjustment Schemes that offered various readjustment options, including farmers making an orderly exit from the sector, improving their skills, taking up new technologies, acquiring more

## ENHANCING PAKISTAN'S AGRICULTURAL SECTOR EXPORTS TO INDIA

land or capital). Introduction of unemployment insurance-cum-retraining opportunities for agricultural sector unemployed farmers may be introduced with a view to transform unskilled farming labour into semi-skilled agro-based industrial workers.

- i. Establishment of cost-effective market to farm business infra-structure including roads, transportation network, storage, quality control and compliance facilities
- j. Introduction of sustainable crop insurance to reduce the agricultural production shocks especially to small farmers.
- k. The establishment of a Consumer Welfare Board may also be established in the Federal and Provincial Governments to look after the legitimate interests of the consumers. This is because, due to the restrictive trade regime, there is a likelihood of collusion among the industry and public sector to jack up domestic prices and restrict supplies.

### Policy recommendations – Summary Matrix

Issue	Policy solution / recommendation	Proposed concrete initiatives	Short/medium or long-term feasibility/prioritization analysis
I Defensive responses to Level Playing Field Level the Playing field for the Agricultural Sector  Trade distorting Indian Subsidies and Support Regime	Managed Agricultural Trade Liberalization - Introduce Import Quota (IQ) (equivalent to existing import levels) Revamp the National Tariff Commission for pro-active monitoring of import surges and elimination of un-fair trade practices Eliminate the Excise Duty and Sales Tax on domestic agricultural products and agro-based industries to assist leveling the playing field with imports	Establish an Agricultural Directorate in NTC Real- time import data monitoring and analysis at disaggregated product (HS Code at 8 digits) level by country/ producer / firm / a cooperative Amend the taxation rules for elimination of Excise Duty and Sales Tax on domestic agricultural products or else levy additional duty on imports of agricultural products if IQs are not introduced.	An immediate action of policy decisions is suggested. Cost mainly in the form of lost gains from more liberalized trade.
II Offensive responses e.g. structural adjustments Lack of mutual understanding, including between policy-makers and industry	Development of initiatives to promote analysis, debate and dialogue on trade liberalization issues and policies to assist achieving an integrated position between policy-makers and industry. Increase bilateral P2P, B2B and G2G contact Normalize trade relations	Establish Regional Trade Promotion and Facilitation department. Develop a five year export marketing and promotion strategy for active participation in Indian Trade Fairs & Exhibitions and exchange of trade delegations. Speed up business visas.	An immediate action of policy decisions is suggested. There is need to activate the Pakistan- India Business Council to institutional B2B contacts.
Issue of NTB  Border Measures	Bilateral negotiations to phase out NTBs that are estimated to have high costs on trade Harmonize regulations, procedures and certification on bilateral and SAFTA level trade Educate businesses regarding complying with Indian Regulations Streamline Food Safety and Standards and institute mechanism at Pakistani borders for strict standards compliance	Document travails of the exporters (including the NTBs faced by them) and estimate their costs to both countries Organize awareness campaigns on exporting to India  Strengthening SPS Facilities & Quality Inspection Services at borders by augmenting the Integrated National Animal and Plant Health Inspection Services (NAPHIS) Capacity building in Sanitary and Phyto-sanitary requirements and Food Safety and Hygiene Standards	An immediate action is suggested. A high priority, low cost with large benefits action.  Immediate and Medium-term actions are recommended with similar impacts from actions to those for NTBs.
Competitiveness and Productivity	Introduction of cluster farming Improvement of the Agricultural	Introduce Legislation for Cluster Farming	Immediate and Medium term actions are recommended. Some

## ENHANCING PAKISTAN'S AGRICULTURAL SECTOR EXPORTS TO INDIA

	<p>Supply Chain Market-based price mechanisms Develop Agri-Storage and Cool chain facilities FDI policy to induce Agricultural JVs</p>	<p>Changes in Investment Policies to encourage worthwhile JVs in the Agricultural Sector Encourage cost-effective Agro-based industrial Clusters Enhance the Agricultural Extension services and improve the Agricultural Supply Chain</p>	<p>high priority, low cost policy decisions with large benefits.</p>
<p>Trade Liberalization Costs - assisting the vulnerable sectors susceptible to import competition</p>	<p>Trade Adjustment Schemes Crop Insurances</p>	<p>Initiate Trade Adjustment schemes for small agricultural farmers who may become uncompetitive.</p>	<p>Immediate and Medium term actions are recommended.</p>
<p>Ensuring Consumer Welfare and Protection</p>	<p>Consumer Welfare Boards</p>	<p>Enhance the role of the Pakistan Competition Commission to safeguard Pakistani consumers' interests.</p>	<p>An immediate action of policy decisions is suggested.</p>