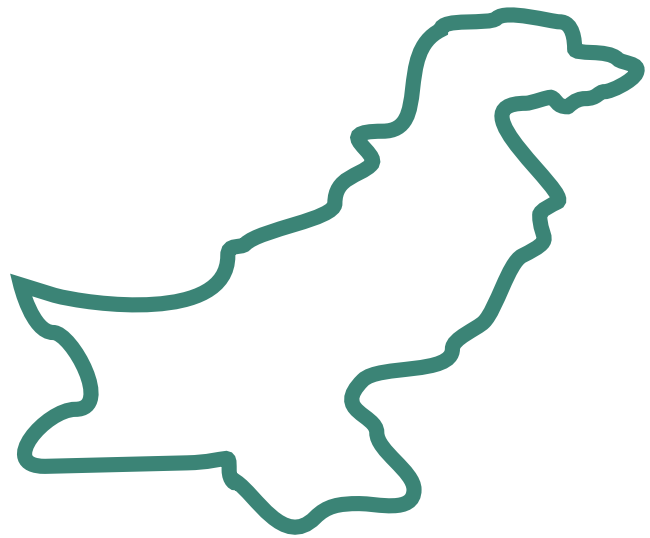


# PAKISTAN



## **Logistics Cost Study**

Final Report

June 2006

**Logistics Consulting Group**

# TABLE OF CONTENTS

<b>1. Introduction</b>	Page 1
<b>2. Executive Summary</b>	Page 2
<b>3. Acknowledgement</b>	Page 3
<b>4. Methodology</b>	Page 4
<b>5. Macroeconomic Background</b>	Page 5
5.1 General Economic Background	Page 5
5.2 Export Development 2000-2005	Page 7
5.3 Trends in commodity groups 2005/2006	Page 11
5.4 Export projections	Page 14
<b>6. Key Product Group Included in the Logistics Cost Study &amp; ADD-ON</b>	Page 15
6.1 Leather and leather products	Page 15
6.2 Sporting Goods	Page 16
6.3 Textile	Page 17
6.4 Carpets	Page 20
6.5 Food	Page 22
6.6 ADD-ON Index	Page 27
<b>7. The Pakistan Logistics Environment</b>	Page 35
7.1 Trade	Page 35
7.1.1 Membership in Trade Organizations	Page 35
7.1.2 Trade Policy	Page 35
7.1.3 Export Development Strategy	Page 38
7.1.4 Key Government Initiatives	Page 39
7.1.5 Pakistan Competitiveness and Logistics Challenges	Page 40
<b>8. Logistics Cost Factor Analysis</b>	Page 42
8.1 Conclusion	Page 42
8.2 Costs of Pakistan Logistics	Page 46
8.3 Potential Savings	Page 53
8.4 Comparative Analysis by Product and Economic Distortions	Page 55
8.4.1 Import	Page 55
8.4.2 Export	Page 56
8.5 Financial Costs Analysis	Page 63
<b>9. The Logistics Chain in Pakistan: Issues and Costs</b>	Page 66
9.1 Production	Page 67
9.2 Transport	Page 68
9.2.1 Domestic Transport	Page 69
9.3 Storage Facilities and Dry Ports	Page 72
9.4 Quality Control	Page 74

9.5 Port Services	Page 77
9.6 International Transport	Page 79
9.6.1 Shipping	Page 79
9.6.2 Airfreight	Page 80
9.7 Freight Forwarding	Page 85
9.8 Fiscal Practices and Banking	Page 86
9.9 Insurance and Liabilities	Page 87
<b>10. Documents, Procedures and Regulations</b>	Page 92
10.1 Import	Page 92
10.2 Export	Page 93
10.3 E-Commerce	Page 93
10.4 Standards	Page 94
10.5 Intellectual Property Rights	Page 94
10.6 Labelling/marketing requirements	Page 94
10.7 Service Barriers	Page 94
10.8 Investment Barriers	Page 95
10.9 Other Barriers	Page 95
<b>11. Customs</b>	Page 96
<b>12. Trade Facilitation</b>	Page 103
12.1 Export Subsidies, Promotion and Facilitation	Page 105
12.2 Incentives	Page 106
<b>13. Summary of Findings and Proposals</b>	Page 107
<b>14. Abbreviations and Acronyms</b>	Page 116
<b>Appendix A ADD-ON Index</b>	Page 119
<b>Appendix B International Logistics Benchmarks</b>	Page 121

# PAKISTAN LOGISTICS COST STUDY

## 1. INTRODUCTION

The Pakistan Trade and Transport Facilitation Project has initiated a study aimed at identification of the magnitude of the logistics costs in Pakistan for import and export transactions.

“Logistics” in the context of the current study is defined as “planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements.”

Excessive logistics cost is the by-product of inadequate physical facilities, inefficient administrative procedures, and a legal framework that does not support modern trade practices.

The key focus is on the practical value and long-term usability of the data obtained during the study with the aim to clearly define the full impact of contemporary Trade Facilitation on efficiency and competitiveness. The study will therefore serve as basis for specific action plans and development measures.

The study is based on an analysis of selected import and export commodities: Import (general cargo) and Export (carpets, sport goods, leather goods, textiles and foodstuffs) as well as data from interviews with selected exporters and importers locally as well as overseas. The key to the accuracy and relevance of the conclusions from the study lies in full chain or origin-consumer coverage.

To assess the development over the recent years the results from above analyses, interviews and findings are compared with the results and findings in the “Logistics Costs Study” report prepared Logistics Consulting Group in May 1996.

Development is often measured and assessed over too short a period and by different entities with different background. In this report, the comparison is made by the same entity and headed by the same consultant – whereby an unbiased interpretation of the real life findings is secured.

It should be stressed, however, that the methodology applied is based on random quality check principle – i.e. based on selected import and export shipments in key commodity groups (maintaining 1996 selection for comparison purpose).

## 2. EXECUTIVE SUMMARY

In the 1996 report a number of severe logistics problems were pinpointed, being a continuous drain to the economy and discouraging market growth. A number of measures were suggested to enhance the export as well as the logistics competitiveness.

In the 2006 report we can confirm that a positive development has taken place as to export growth and logistics practices. The findings prove, that the logistics costs as well as lead-time have decreased considerably. The average logistics costs (Non Factor Costs) as summarized on the basis of the case-shipments analyzed, have decreased from 11,01 percent in the 1996 report to 6,11 percent in 2006 as a minimum.

The Logistics Cost Factor analysis as the basis index from 1996 study has been maintained in the 2006 study for comparison purposes, but the 2006 study has also introduced the Add-ons Index, which focuses at the main elements scrutinized by the buyers when taking “where to buy” decisions. This index covers, in addition to transport and border crossing, also warehousing and distribution expenditures and the extra costs arising from excessive inventories, obsolete inventory, repair costs and losses in sale due to obsolete or damaged goods. The index visualizes the accumulation of the key cost elements in the supply chain, resulting in non-competitive end price.

The findings of the 2006 study confirm, that the major logistics challenges in Pakistan today are related to domestic transport, IT development and implementation of contemporary “in-house logistics”. The key parameters in contemporary logistics – low lead-time, frequent and smaller deliveries, reliability in delivery times and quality – need to be introduced and focused at in Pakistani companies, the total quality and supply chain has to be bound together to avoid shortcomings at one end resulting in un-competitiveness at the client end.

The 2006 study pinpoints a growing problem for Pakistan companies - inability to meet the short lead-times (deadlines) demanded by international buyers due to a combination of production and supply problems. This adds extra pressure on the logistics, which should compensate for the delay in production as well as quality control, which cannot be properly executed. As a consequence, the image of Pakistan as a reliable supply partner is damaged. In order to stop the evil circle, enhanced knowledge and change of attitude is required, where quality in production and in-house logistics is perceived as vital and inseparable part of the total supply chain and competitiveness.

Introduction of proper IT measures (incl. IT skills) in the supply-chain will be an effective instrument to control the lead-time throughout the chain. This applies to in-house operations in connection with order processing as well as to external services and transport providers, not mentioning the foreign buyers and suppliers.

The “in-house logistics” problems today result in late deliveries, extra transport costs and discounts given to compensate the buyers for “lost sales” etc. The whole chain covering order receipt, order processing, procurement, inventory management, production, documentation and communication (IT) with buyers/suppliers must be streamlined and rapid upgrading is needed to stay in competition. The transport and distribution logistics cannot compensate “fully” for poor in-house logistics and the industry has to make the move.

The major part of the importers-exporters today – based on analyses and interviews - are satisfied with the work of customs, contradictory to the 1996 study, where heavy criticism was made and where export-import processing times were excessively high. The CARE system introduced has been a very positive development.

However, the smaller and medium sized companies are, to a large extent, still using manual systems today and the modern IT development level is yet to come. Valuation problems are still acute in import and so is the general problem of delayed repayment of sales tax and export fees.

The Add-on Index comparisons show, that the quality (product and logistics) costs, such as obsolete costs, delay costs, etc. are hampering the Pakistani competitiveness significantly today. Importers buying from Pakistan have a tendency of including a high safety margin in their calculations, thereby reducing the Pakistani competitiveness in planning stage already.

Measures need to be implemented to change the situation. An additional tool helping to control the logistics costs and avoid the excessive safety margins is a change in the terms of delivery, from FOB and CIF to DDP (or DDU).

In order to monitor and assess the performance and development in logistics as well as the effect of trade facilitation measures, a number of tools - key performance indicators, logistics benchmarks and indexes - have been recommended by the study. By introducing such tools an ongoing assessment and refinement can be secured, as well as visualization of the improvements serving the purpose of improving the quality image. It is also recommended to initiate a study identifying the Pakistani supply chain challenges at large as well as detailing the strategic measures to be introduced to make Pakistani companies (big as well as SMEs) capable of taking advantage of the global logistics development. Special attention should be paid to logistics development measures for SMEs and measures to upgrade cool chain logistics.

### **3. ACKNOWLEDGEMENT**

This study has been prepared by consultants from Logistics Consulting Group, headed by Mr. Stig Lofberg and consultants from The Mariners International (Pvt) Ltd, Karachi, headed by Mr. Irfan Naqvi.

The consultants wish to thank the private and public sector parties in Pakistan who provided very valuable information during the interviews and also to thank the private sector representatives in EU (exporters, importers and transport providers) who have given important information on current business activities as well as information on future requirements and expectations.

## 4. METHODOLOGY

The study is based on an analysis of selected import (general cargo) and export (leather goods, sport goods, textiles, carpets, foodstuffs) commodities.

The information was compiled on the basis of importers' and exporters' files in Pakistan and interviews with suppliers and importers at selected origins/destinations abroad. Additional information was obtained from transporters, transport intermediaries, banks, and insurance companies, as well as official sources. For interviews, carefully prepared questionnaires were used, which ensured uniformed approach and understanding as well as sufficient coverage of major aspects.

The companies included in the analysis were selected on the basis of being representative of the trade. In order to obtain the full chain picture also selected EU importers and exporters were interviewed, so that the real life situation is ensured as to prices, costs, competitiveness, supply chain quality, etc.

The companies interviewed included both, big and small companies for better coverage purposes. However, factual differences in cost levels etc. between SME-s and big companies were not an object of the current study. In future it can be recommended to examine the gap between the big companies and SME-s as to logistics performance levels and ability to cope, so that more tailor-made support measures can be designed.

The full chain/circle approach secured a better overview of each element in the chain and this way made a better judgement of which process elements are hampered by inefficiencies in trade facilitation and which by poor performance of private sector companies. Interviews with overseas clients for Pakistani exports also gave valuable input in terms of emotional and quality related parameters, like the general image of Pakistani commodities and performance of Pakistani companies.

The background to the study was also a need to follow up on the 1996 logistics costs study, to evaluate the progress made as well as shortcomings still to be tackled.

The methodology and approach chosen was that enabling to make a comparison to the 1996 data while also allowing to cover the full chain "from point of origin to point of consumption" and focus on "conformity to customer requirements".

For enhanced practical value the "Add-on Index" was introduced, enabling to clearly visualize the pitfalls in the chain.

Compared to statistical averages, such an approach is closer to real-life business and the pattern of thinking, calculating and taking decisions. The methodology in fact resembles a random quality check with verification at both ends, complemented by empirical judgement from the clients.

The intriguing part of the study is the "blending" of figures and conclusions derived from the case studies with those from macro reports. This may arouse certain discussion and should not be treated as attempt for statistical proofs, but merely as simulations and illustrations based on real life cases – "illustrating macro through micro".

Selected companies were visited for personal interviews and data collection purposes within a six-week period. Personnel selected for interviews were from higher-level management, able to respond knowledgeably and fairly. The willingness to participate was secured through adequate information on the aims of the project in terms of improving transport efficiency and trade facilitation in Pakistan. However, it should be mentioned that a number of companies for various reasons refrained from participating in the project. It was obvious, that a number of these companies did not have a clear overview of their logistics performance nor the logistics costs.

All companies and entities interviewed were guaranteed that business confidentialities would not be disclosed, nor would any documents or files provided by them.

The assignment was undertaken in Pakistan and in Germany, Holland, Sweden, Denmark and Italy. The first four EU countries mentioned are leading edge logistics countries, whereby the business circles focus a lot on logistics performance and logistics costs when dealing with overseas business partners. For Pakistan it means clear-cut performance related signals as well as support and participation of the companies from these countries in upgrading the supply chain and securing a smooth goods-flow at reasonable cost.

For faster (to meet the short deadline) and more efficient implementation of the project activities, the interviews in Pakistan were made in close co-operation with a local partner, The Mariners International (PVT) LTD.

Strong emphasis was laid at preparation of comprehensive instruction and support material for all consultants. This secured uniformed thinking as well as brought value-added to the companies interviewed. The questionnaires prepared ensured that all key issues were addressed and double-checked, while remaining brief enough to avoid exhaustion.

## **5. MACROECONOMIC BACKGROUND**

### **5.1 General Economic Background**

Pakistan has suffered from decades of political instability and low levels of foreign investment. However, the IMF-approved government policies, foreign assistance and renewed access to global markets since 2001, have generated a solid macroeconomic recovery.

The Pakistan government has made substantial macroeconomic reforms since 2000, although progress on more politically sensitive reforms has slowed. While long-term prospects still remain uncertain (given Pakistan's general low level of development), medium-term prospects for job creation and poverty reduction are the best in more than a decade. GDP growth, spurred by double-digit gains in industrial production over the past years, has become less dependent on agriculture.

In the near term it has been doubted that growth can be sustained at the 7% level; however, massive international aid (the World Bank and Asian Development Bank announced that they would provide US \$1 billion each in aid to help Pakistan rebuild areas hit by the October 2005 earthquake in Kashmir, in Spring 2006 World Bank announced of increased aid totalling 1.5 billion per year over 3 years + 2 billion in infrastructure development), increased government spending, lower taxes, and pay increases for government workers will help Pakistan maintain strong GDP growth over the longer term.

In 2004-2005 Pakistan's economy extended its impressive expansion for the third year in a row, with economic growth reaching its highest annual rate of 8.4 per cent in two decades. Pakistan positioned itself as the second fastest growing economy after China. Pakistan witnessed the largest ever expansion of private sector credit, the country's public and external debt burden declined to their lowest in decades.

The sharp pick-up in growth was ably supported by a stellar performance in large-scale manufacturing (15.4%), impressive recovery in agriculture (7.5%) and a strong growth in services sector (7.9%). The wholesale & retail trade, finance & insurance sub-sectors grew by 12.0 and 21.8 percent, respectively against 8.1 per cent and 4.5 per cent 2003-2004. All in all the growth was broad-based and was strongly reflected in almost every sub-sector. The per capita income in dollar terms has grown at an average rate of 13.5 per cent per annum during 2002-2005 rising from \$ 579 in 2002-03 to \$ 657 in 2003-04 and further to \$ 736 in 2004-05. The foreign exchange reserves continued to reach new levels in 2005, supported by steady worker remittances.

Agriculture accounts for nearly 23 per cent of Pakistan's national income (GDP) and employs 42 per cent of its workforce. Agriculture also supplies raw material to Pakistan's industries, notably textile industry, the largest industrial sub-sector of the economy. 67.5 % of country's population living in rural areas is directly or indirectly dependent on agriculture for their livelihood. A positive performance of agriculture has been one of the hallmarks of the fiscal year (FY) 2004-05 with growth reaching as high as 7.5 per cent on account of unprecedented increase in cotton production (14.6 million bales) and a wheat crop of 21.1 million tons.

Inflation in Pakistan as measured by the Consumer Price Index (CPI) climbed to 9.3 percent in 2004-2005, compared to earlier 3.9 per cent and is considered one of the biggest threats to Pakistani economy.

Exports were up by 14.6 %, amounting to 14.4 billion USD in 2004-2005. 60% of the net increase in exports came from the non-traditional export items (other exports). The export increase was mainly driven by substantial rise in volume.

During 2004-2005 domestic fixed investment grew by 15.6%, private sector investment grew by 19.3% and public sector investment registered a decline of 0.4%.

During July-February 2005-2006, Pakistani exports figures showed 10.6 billion USD, which reflects a 19.7% increase compared to same period 2004-2005. It is expected that Pakistan will not only achieve its export target of USD 17 billion, but is likely to exceed it. The good performance in exports has taken place despite the decline in the prices of textiles and clothing as a result of intensified price competition in the international market.

## **Government Medium Term Development Framework (MTDF) 2005-2010**

The MTDF has been conceived in the light of recent socio-economic performance of Pakistan, continuing supportive public policies and challenges and opportunities emerging from the global economy.

The principal objective of the MTDF is to attain high growth of 8.2% by 2009-2010, with a sustained annual average growth of 7.6 % during the 5-year period without compromising macroeconomic stability. The second key objective is to achieve higher level of investment to meet the targeted growth and to effectively address the perennial issues of poverty reduction, employment generation, better access to basic necessities incl. quality education and skills development for upgrading the human resources, improved health and environment. The third key objective is to attract foreign investments to a level required to become a fast growing economy.

The key elements of the growth strategy highlighted in MTDF are: wider development of agriculture incl. livestock and fisheries, product quality and market efficiency; expanded production base in manufacturing (by developing engineering goods, electronic, chemicals and other high-technology based and value-added industries) and increase its share in GDP to 21.9% by 2009-2010 + SME development; securing of adequate infrastructure and supply of skilled manpower; in export - increased role of technology and improved comparative export sophistication; encouraging of higher investment and savings.

The GDP and sector growth rates projected are:

	2004-2005	2005-06	2009-10	Average 2005-10
GDP (fc)	8.4	7.0	8.2	7.6
Agriculture	7.5	4.8	5.6	5.2
Major crops	17.3	6.6	7.4	7.0
Livestock	2.3	3.5	3.9	3.7
Manufacturing	12.5	11.0	12.2	11.6
Large-scale m.	15.4	13.0	13.8	13.4
Services	7.9	6.8	7.9	7.3

In the coming 2006-2007, the Pakistan economy is expected by analysts to remain one of the fastest growing economies in the region, yet the growth is expected to be moderating.

## 5.2 Export development 2000-2005

From 2000 onward Pakistan's export has been growing at an increased rate, at an annual compound growth of ca 9%. The 14 billion USD level was achieved in 2004-2005 and is estimated to reach 28 billion USD in 2009-2010.

Over the last 15 years there has been a shift in the composition of exports with the share of primary commodities falling and that of manufacturing goods increasing. The share of primary commodities has decreased from 18.7% in 1991 to 11% in 2002-03 and the share of manufacturing goods has increased from 56.9% to 78% during the same period. Increased share of manufactured goods has decreased Pakistan's export vulnerability to fluctuations in the international prices of primary commodities.

Pakistan's principal exports are cotton yarn, cotton fabrics, readymade garments, Synthetic textiles, hosiery, other textile made-ups, rice, fish products, leather & leather garments, sports goods, surgical goods, carpets etc. The textile alone has been the backbone of the whole export sector.

**Table 5.1**  
**Exports of selected items 2001-2005, in million USD**

ITEM	2000-2001	2001-2002	2002-2003	2003-2004	2004-05
Textile	5755.5	5778.3	7224.7	8039.4	8926.0
Incl. - cotton cloth	1032.5	1130.8	1345.7	1711.5	1863
- cotton yarn	1073.5	929.7	928.4	1126.9	1057
- bed wear	744.9	918.6	1329.1	1383.3	1450
- knitwear	911.4	845.9	1146.7	1458.7	1635
- apparel & clothing	826.8	875.0	1092.6	993.3	1088
- art silk, synth. textile	544.6	410.0	574.3	470.8	300
- textile made ups	330.9	350.9	359.8	416.6	466
Rice	526.6	448.3	555.4	634.4	933
Fish and fish preparations	137.8	125.6	134.5	152.9	139
Fruits and vegetables	101.0	102.1	109.7	128.4	112
Leather	658.4	623.0	621.3	666.0	938
Incl. – leather tanned	232.9	239.9	234.8	251.7	304
- leather manufact.s	425.5	383.1	386.5	414.3	527
- leather garments	375.6	321.3	232.3	323.7	--
Medical instruments	124.1	145.0	150.0	132.6	183
Carpets, rugs, mats	288.8	249.6	220.9	231.4	279
Sports goods	270.6	304.5	335.2	324.8	307
Chemicals & pharmacy	156.9	152.7	260.9	262.9	453

Source: Pakistan Planning Commission, International Trade Centre (2004-05 figures from Export Promotion Bureau)

*NB! The data available tends to differ as they may be coming from different sources*

Pakistan has been making efforts to increase exports, realizing it is a key instrument in job creation, favourable balance of payments, fast economic growth and increase in the level of incomes and standard of living.

The level of exports growth has not been up to expectations, however. The share of exports in GDP is less than 15 per cent today as compared to 32.3% for Indonesia, 44.4% for Philippines, 56% for Thailand, 39% for Korea, 96% for Malaysia and 27% for Sri Lanka.

Although the country's exports have exceeded \$14 billion, it constitutes only 0.12 per cent of total world exports. Its share in world exports has declined from 0.26% in 1960 to 0.12% in 2004 whereas the share of other developing countries has increased manifold (e.g. Korea has increased its share in world export from 0.1 % during 1960s to 2.06% in 2000).

During 1999-00, the exports receipts were \$8.56 billion, increasing to \$12.27 billion during 2003-04 and 14 billion in 2004-2005. The annual growth in 2002/2003 and 2003/2004 comparison was 9.94%, while global merchandise exports showed an increase of 16% (from \$6.3 trillion in 2002 to \$7.3 trillion in 2003); the 2004-2005 growth, however, was a remarkable 14.6%.

The export statistics on Pakistan indicate, that Pakistan's exports have a narrow base; there is a lack of diversification with respect to both products and markets. In 1999-2000, only 10 products made up 90 per cent of Pakistan's total exports and the situation has not much changed today. Of these 10 products, the group of 5:

textiles & garments, leather, rice, sports goods and carpets & rugs constituted 85% of the total export. Nearly 65 per cent of total exports consisted of only one product category, textile and garments. The cotton group together with three other items, namely leather, synthetics and rice made up 78% of the total export earnings.

Besides Pakistan's export base being relatively undiversified, it is also concentrated in relatively low value added products. The combination of narrow export base concentrated in low value added products represents a serious issue for Pakistan. The Government has taken serious efforts in recent years to improve this situation.

**Table 5.2**  
**Share of products in export, 1999-2004**

No.	Product group	% 1999- 2000	% 2000- 2001	% 2001- 2002	% 2002- 2003	% 2003- 2004	% 2004- 2005
1.	Textiles & garments	64.95	62.81	63.51	64.7	67.43	62.46
2.	Leather products	7.54	6.61	6.15	5.6	5.82	6.15
3.	Rice	6.30	5.71	4.91	4.98	5.06	6.34
4.	Sports goods	3.26	2.94	3.33	3.00	2.51	2.29
5.	Carpets & rugs	3.08	3.14	2.73	1.98	1.92	1.97
6.	Petroleum products	0.96	2.00	2.09	2.23	2.22	3.07
7.	Chemicals	1.25	1.79	1.67	2.34	2.11	2.56
8.	Surgical instruments	1.40	1.35	1.59	1.34	1.04	1.26
9.	Fish	0.93	0.86	0.91	1.21	1.27	0.94
10.	Fruits & vegetable	0.93	0.86	0.91	1.00	1.03	0.85

*Source: International Trade Centre/Planning Commission.*

In 1999-00, more than 75 per cent of exports were-destined to four regions: the European Union (EU), North America, the Middle East and China including Hong Kong. In 2004 the corresponding figure was 55%.

EU and North America accounted for nearly 56 per cent of the total exports in 1999/2000 and 55% in 2003/2004. More than 90 per cent of Pakistan's North American exports were purchased by the USA in 99/00 and the situation was the same in 03/04. Within the European Union (EU), 4 countries - the UK, Germany, Italy, and the Netherlands - accounted for nearly 62 per cent of total exports to that region in 99/00 and 56% in 03/04.

At present, 10 countries account for more than 61 per cent of Pakistan's total exports. The USA remains the single largest export buyer taking nearly 24 per cent of total exports.

Pakistan's exports to the Middle East are 16 per cent of its total exports – while nearly 47% of total exports to Middle East go to Dubai.

The share of SAARC countries in Pakistan's exports is merely 2.53 per cent, while that of the ASEAN is 3 per cent. The share of Eastern Europe and Central Asian Republics is negligible.

Exports to Afghanistan constitute 3.23 %.

Pakistan is the member of two regional trade blocks, the SAARC and the ECO. However, with the exception of Afghanistan, no other member of these two blocs is among Pakistan's top 15 export partners. Similarly, none of the major buyers is from Central Asian Republics, Oceania region, African continent, Europe outside the EU or South America.

**Table 5.3*****Percentage share of top 10 markets/regions in Pakistan's total exports from 1999-2004***

Sr No.	Region/market	Share in 1999-2000	Share in 2000-2001	Share in 2001-2002	Share in 2002-2003	Share in 2003-2004	Share in 2004-2005
1.	EU	28.42	26.29	27.41	27.48	29.46	27.5
2.	North America	27.15	26.67	27.05	25.75	25.52	25.7
3.	Middle East	11.75	13.87	16.26	18.27	15.94	15.2
4.	China including Hing Kong	8.23	8.77	7.34	6.92	7.32	6.3
5.	Africa	4.85	5.36	4.67	5.25	4.23	5.6
6.	East Asia including Japan & Koreas	5.98	5.13	5.69	3.29	2.94	
7.	ASEAN region	3.00	3.91	3.11	3.38	3.08	2.2
8.	SAARC region	3.19	2.91	2.48	2.43	2.53	
9.	Afghanistan	-	1.52	1.85	2.86	3.33	5.2
10.	Oceania region	1.70	1.59	1.47	1.37	1.41	1.1

*Source: Export Promotion Bureau*

**Table 5.4*****Percentage share of top 10 countries in Pakistan's total exports from 1999-2004***

Sr No.	Country	Share in 1999-2001	Share in 2002-2003	Share in 2003-2004	Share in 2004-2005
1.	USA	24.62	23.45	23.62	24.0
2.	Dubai	6.75	9.02	7.42	-
3.	UK	6.74	7.06	7.60	6.2
4.	Hong Kong	5.48	5.20	5.07	3.9
5.	Germany	5.43	4.27	2.96	4.8
6.	Italy	2.56	3.06	3.57	4.0
7.	Saudi Arabia	3.02	2.61	2.68	2.5
8.	Netherlands	2.64	2.57	2.78	2.4
9.	Afghanistan	1.69	2.83	3.23	5.2
10.	China	2.63	2.19	2.45	2.5

*Source: Export Promotion Bureau*

The above data shows, that export diversification has not taken place to a considerable extent and should be focused at for more reasons: as safeguard against price fluctuations; as protection against fluctuations in demand in international markets as well as market saturation; as strategic tool against product life-cycle induced decline in some of the markets; as buffer against problems in supply chain. Another major reason is the impact that worsening of political relations with any of the key trade partners may bring along.

Thus a broad export base is required in terms of both products and markets. Besides traditional products, new product groups like engineering goods, furniture, cutlery, furniture and gems and jewellery need to be explored as to export opportunities as well as search for new markets has to be carried out.

In overall terms, however, in the background of general growth trends supported by government initiatives, Pakistan has been doing fine in exports over the last years, the 2004-2005 growth was 14.6% and export targets for 2005-2006 have been revised and set to 17 billion USD.

According to the Governor of the State Bank of Pakistan (at the Expo 2006 Investment Conference) Pakistan would be able to achieve the export target of \$28 billion in the year 2010. The export potential is high in areas such as food and milk processing, seafood, gem stones, software and IT services. The optimism is supported by continued foreign capital inflows, increased public investment for improvement in infrastructure, and greater trade liberalisation in the form of Preferential Trade Agreements. Pakistan has also a roadmap for further deepening of reforms and addressing of such policies, legal and regulatory distortions, which would ensure the continuation of recent strong economic performance well into the future. However, a host of other factors also affect competitiveness such as good business environment, comparative advantage in various sectors, elimination of anti-export bias due to preference given to import substitution policies, and the capability of the firms to combine the various factor inputs in a sophisticated and efficient manner to produce high quality products.

### **5.3 Trends in commodity groups 2005/2006**

The below chart gives an overview of the trends in increase and decrease of value of exports of selected commodities in the balance of trade during July to February 2005-2006 as compared to 2004/2005. It can be seen that the biggest increase trends have been in cement, raw wool, petroleum, bed-ware, rice, leather goods, sugar, spices and garments groups. The decrease trends have been most visible in textile (raw cotton, knitted fabrics, tents and canvas, textile products); molasses; gems & jewellery, oil seeds and tobacco.

**Table 5.5** **INCREASING**  
TREND OF SELECTED COMMODITIES DURING JULY-FEBRUARY 2005-06

VALUE IN 000 \$					
S.NO.	COMMODITIES	JUL-FEB.	JUL-FEB.	ACTUAL INC.	
		2005-06	2004-05	VALUE	%
	VALUE	VALUE	VALUE		
<b><u>TEXTILE &amp; GARMENTS</u></b>					
<b>A</b>	<b><u>CATEGORY</u></b>	<b>5,931,167</b>	<b>4,705,796</b>	<b>1,225,371</b>	<b>26.04</b>
1	COTTON CLOTH	1,373,973	1,151,689	222,284	19.30
2	BED WARE	1,330,058	802,591	527,467	65.72
3	KNITWARE ( HOSIERY )	1,120,544	1,099,142	21402	1.95
4	READYMADE GARMENTS	872,276	655,125	217,151	33.15
5	COTTON YARN	844,370	654,781	189,589	28.95
6	TOWELS	365,938	324,743	41,195	12.69
7	YARN OTHER COTTON YARN	24,008	17,725	6283	35.45
<b>B</b>	<b><u>OTHER CORE CATEGORIES</u></b>	<b>2,094,099</b>	<b>1,510,706</b>	<b>583,393</b>	<b>38.62</b>
1	RICE	710,714	503,900	206,814	41.04
2	LEATHER GARMENTS/ MNF.	484,025	330,460	153,565	46.47
3	PETROLEUM & ITS PRODUCTS	453,061	264,415	188,646	71.34
4	SPORTS GOODS	193,683	178,789	14894	8.33
5	CARPETS & RUGS (WOOLLEN)	176,938	171,930	5,008	2.91
6	LEATHER FOOTWEAR	74,295	60,699	13,596	22.40
7	RAW WOOL	1,383	513	870	169.59
<b>C</b>	<b><u>DEVELOPMENTAL CATEGORIES</u></b>	<b>629,913</b>	<b>548,501</b>	<b>81,412</b>	<b>14.84</b>
1	CHEMICAL & ITS PRODUCTS	244,693	222,844	21,849	9.80
2	FISH & FISH PREPARATIONS	117,894	92,243	25,651	27.81
3	ENGINEERING GOODS	120,330	107,630	12700	11.80
4	FRUITS	78,323	68,839	9484	13.78
5	CUTLERY	22,642	20,172	2,470	12.24
6	MARBLE & GRANITE/ ONYX MANF.	12,909	9,074	3,835	42.26
7	VEGETABLES	16,880	14,547	2333	16.04
8	MEAT PREPARATIONS	14,676	12,012	2,664	22.18
9	POULTRY	1,566	1,140	426	37.37
<b>D</b>	<b><u>ALL OTHERS</u></b>	<b>1,008,826</b>	<b>696,681</b>	<b>312,145</b>	<b>44.80</b>
1	OTHER CATEGORIES	913,471	652,768	260,703	39.94
2	CEMENT	58,013	19,853	38,160	192.21
3	SPICES	15,384	8,633	6,751	78.20
4	SUGAR ( White Crystalline)	15,141	8,757	6384	72.90
5	HANDICRAFTS	6,817	6,670	147	2.20
<b>SUB TOTAL</b>		<b>9,664,005</b>	<b>7,461,684</b>	<b>2,202,321</b>	<b>29.52</b>

**Table 5.6** **DECREASING**  
TREND OF SELECTED COMMODITIES DURING JULY-FEBRUARY 2005-06

		VALUE IN 000 \$			
S.NO.	COMMODITIES	JUL-FEB. 2005-06 VALUE	JUL-FEB. 2004-05 VALUE	ACTUAL DEC. VALUE	%
<b>A</b>	<b><u>TEXTILE &amp; GARMENTS</u></b> <b><u>CATEGORY</u></b>	<b>559,624</b>	<b>929,912</b>	<b>(370,288)</b>	<b>(39.82)</b>
1	TEXTILE MADE-UPS (EXCL. TOWELS & BEDWARE)	274,742	320,758	(46,016)	(14.35)
2	ART SILK & SYNTH TEX.	128,294	207,479	(79,185)	(38.17)
3	OTHER TEXTILE PRODUCTS	59,598	111,713	(52,115)	(46.65)
4	RAW COTTON	48,074	89,275	(41,201)	(46.15)
5	KNITTED/ CROACHED FABRICS	35,992	155,464	(119,472)	(76.85)
6	TENTS AND CANVAS	12,924	45,223	(32,299)	(71.42)
<b>B</b>	<b><u>OTHER CORE CATEGORIES</u></b>	<b>291,308</b>	<b>364,983</b>	<b>(73,675)</b>	<b>(20.19)</b>
1	LEATHER	168,978	198,336	(29,358)	(14.80)
2	SURGICAL INSTRUMENTS	104,450	117,581	(13,131)	(11.17)
3	MOLASSES	17,880	49,066	(31,186)	(63.56)
<b>C</b>	<b><u>DEVELOPMENTAL CATEGORIES</u></b>	<b>9,880</b>	<b>17,966</b>	<b>(8,086)</b>	<b>(45.01)</b>
1	GEMS & JEWELERY	9,880	17,966	(8,086)	(45.01)
<b>D</b>	<b><u>ALL OTHERS</u></b>	<b>48,555</b>	<b>61,346</b>	<b>(12,791)</b>	<b>(20.85)</b>
1	GUAR & GUAR PRODUCTS	17,001	17,821	(820)	(4.60)
2	OIL SEEDS	10,388	18,948	(8,560)	(45.18)
3	ANIMAL CASINGS (Incl. Guts, Stomach etc.)	10,019	10,493	(474)	(4.52)
4	FURNITURE	7,094	7,594	(500)	(6.58)
5	TOBACCO	4,053	6,490	(2,437)	(37.55)
	<b>SUB TOTAL</b>	<b>909,367</b>	<b>1,374,207</b>	<b>(464,840)</b>	<b>(33.83)</b>
	<b>GRAND TOTAL</b>	<b>10,573,372</b>	<b>8,835,891</b>	<b>1,737,481</b>	<b>19.66</b>

*Source: Export Promotion Bureau*

## 5.4 Export projections

According to the *Pakistan Planning and Development Division, Planning Commission*, the export projections in key commodity groups go as follows (in million USD):

**Table 5.7**

Commodity	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Acgr
<b>A TEXTILE &amp; GARMENTS</b>	<b>8999</b>	<b>9874</b>	<b>10851</b>	<b>11941</b>	<b>13161</b>	<b>14528</b>	<b>10.1</b>
Yarn	1260	1323	1389	1459	1532	1608	5.0
- Cotton Yarn	1210	1271	1334	1401	1471	1544	5.0
Fabrics	1949	2103	2270	2450	2644	2853	7.9
- Cotton Fabrics	1894	2046	2209	2386	2577	2783	8.0
Garments	2567	2819	3095	3400	3735	4104	9.8
- Readymade garments	1025	1107	1196	1291	1395	1506	8.0
- Knitwear (hosiery)	1542	1712	1900	2109	2341	2598	11.0
Made-ups	470	517	569	626	688	757	10.0
Bedware	1573	1809	2080	2392	2751	3164	15.0
Towels	440	528	634	760	912	1095	20.0
Artificial silk & synthet.	520	556	595	637	682	729	7.0
<b>B OTHER CORE CATEGORIES</b>	<b>2552</b>	<b>2767</b>	<b>3004</b>	<b>3266</b>	<b>3557</b>	<b>3880</b>	<b>8.7</b>
Rice	665	701	739	780	824	870	5.5
Leather products	790	878	975	1085	1208	1347	11.3
- Leather tanned	265	292	321	353	388	427	10.0
- Garments/manf.	440	484	532	586	644	709	10.0
Footwear	85	102	122	147	176	212	20.1
Sports Goods	338	362	387	414	443	474	7.0
Wool raw/carpets	242	252	262	272	283	294	4.0
Surgical Instruments	150	159	169	179	189	201	6.0
Petroleum products	315	362	417	479	551	634	15.0
<b>C DEVELOPMENT CATEGORIES</b>	<b>930</b>	<b>1141</b>	<b>1415</b>	<b>1774</b>	<b>2247</b>	<b>2876</b>	<b>25.3</b>
Fish and fish preparations	175	193	212	233	256	282	10.0
Fruits and vegetables	148	163	179	197	217	238	10.0
Chemical products, pharma	300	390	507	659	857	1114	30.0
Engineering goods (incl. cutlery)	165	231	324	457	647	920	41.0
Gems % Jewellery	35	41	48	57	67	79	17.7
IT services	40	50	63	78	98	122	25.0
<b>D ALL OTHER</b>	<b>1569</b>	<b>1918</b>	<b>2580</b>	<b>3576</b>	<b>4960</b>	<b>6841</b>	<b>34.2</b>
<b>Total Exports</b>	<b>14050</b>	<b>15700</b>	<b>17850</b>	<b>20557</b>	<b>23925</b>	<b>28125</b>	<b>14.9</b>

In 2005 and 2006 Pakistan government has declared that Pakistan is switching over to industrial economy and will focus on high value added goods. The government is going to establish industrial parks, textile and garment cities. To facilitate this development the government is focusing on bridging the skills gap and the Technical and Vocational Training Authority has been set up. The government has been investing in development of human capital to build a knowledge-based economy and to create the core competencies required for the industrial growth.

## **6. KEY PRODUCT GROUPS INCLUDED IN THE LOGISTICS COST STUDY & ADD-ON INDEX**

### **6.1 Leather and leather goods**

The leather industry in Pakistan is the second largest foreign exchange earner after textiles. It is one of the established indigenous manufacturing sectors that have developed reasonably well over the years with exports having increased at an average rate of 11% per year. The industry contributes ca 5% to manufacturing GDP, 7% to total exports and provides direct employment to more than 200,000 people.

There are over 2500 tanneries and footwear-manufacturing units, mainly in Karachi, Lahore, Sialkot and Kasur. Kasur specializes in processing of raw hides and skins into finished leather only, Karachi, Sialkot and Lahore in addition to that also possess expertise in manufacturing of apparel/garments, gloves and footwear respectively.

Pakistan is well known for wide-ranging finished leather, garments, (sports jackets) and gloves (working and industrial). The leather apparel (bags, belts, etc) share in export is rather nominal; also the footwear production has been oriented at domestic market primarily.

Pakistan produces 7.8 million hides and 38 million skins per year. Although the use of local production of hides and skins by the tanning industry has been increasing, it is still insufficient for the growing industry demand. Thus raw hides & skins are imported from international market.

The leather industry has been export-oriented for several decades. The export of leather and leather products has increased from 639 million USD in 2000-2001 to 938 million USD in 2004/2005. In 1989-90, the total exports of finished leather and leather products were \$483 million USD of which only 42% was value-added leather. In 2001/2002 the value added leather already comprises 65% of total leather export and in 2004/2005 the share was 68%.

More than 85% of the export is directed to USA, UK, China, Hong Kong and Korea.

Pakistan's share in world leather and footwear market by UNCTAD statistics:

- World market hides, skin and leather (HS41) 14 billion USD - Pakistan's share = 1.71%
- World market leather apparel and articles of leather (HS42) 22 billion USD, Pakistan's share is 1.73%
- World market footwear (HS64) 38 billion USD - Pakistan's share is 0.12%

TOTAL world leather and footwear market 74 billion USD - Pakistan's share is 0.90%

Lots of opportunities exist for Pakistani leather exporters. Out of total world market of \$74 billion, USA and EU alone account for more than 50% of total global imports.

In reality however, almost 40% of total installed capacity of tanning sector is unutilized. Footwear units are often operating at less than 50% capacity. Except for some big exporters of leather garments, majority of the producers are producing low quality and low price leather garments. The product range is narrow (mainly jackets and working gloves). Direct investments from international brand companies are scarce. The few producers that manufacture their products for well-known brands do it either on franchise or as paid workers.

The people in the leather garment sub-sector believe in a strong growth potential of this sector. The efforts towards this target should start from the very scratch:

- Livestock management (to diminish the share of hides and skins lost due to skin diseases, malnutrition and primitive slaughtering techniques);
- FDI and tourism promotion (the industry is influenced by foreign direct investment -branded companies - and the growth of tourism as proved by the cases of Thailand and Vietnam);
- Compliance to ecological and social standards (many big units have already obtained ISO-9000 and 14000 standards). Effluent treatment plants have been established in Kasur, Karachi (under construction) and cleaner production technologies in individual units are being implemented in Sialkot;
- Other measures include: employment of skilled work force, design improvement, introduction of new products e.g. furniture and upholstery leather, fashion garments etc); aggressive marketing; etc.

The leather and footwear sector together possess an export potential of nearly \$3 billion. Other benefits include jobs, additional foreign exchange to the country as well as drive for certain agricultural activities.

## 6.2 Sporting goods

For Pakistan, export revenues from the sporting goods industry are of fundamental importance. From 1980 to 2000 this sector increased its share in Pakistan exports from 1.05% to 3.26% (in 2004-2005 it was 2.29%), exceeding the export figures for carpets. According to the export projections by the Planning Commission, the sports goods export should increase from 338 million USD in 2004-2005 to 474 million USD by 2009-2010. Yet in the world market Pakistan's sporting goods industry still holds a subordinate position. Measured by the price of a football to the final consumer only as little as 9-10% goes to the producing country Pakistan. This is not only due to the low market value of Pakistan labour, but also due to weak negotiation power of the Sialkot's companies compared to the big international sports-gear groups. The main competitors to Pakistan in sports goods field are India and China.

The export articles from Sialkot sports goods industry today are footballs, handballs, volleyballs, hockey clubs and cricket- and polo rackets. Within the last 20 years average turnover per company increased from 630 000 EUR to over 2, 4 mill. EUR.

Football stitching is a predominantly men's business in Pakistan, apart from the abundant home-based workers network, where women and girls make up ca half of the football stitchers. Because of the marginal opportunity to earn money as farm labourer, small industry or workshop employee, families depend strongly on the additional income. The indebtedness is large-scale, reaching as high as 60-80% of families, thus cheap labour is readily available.

In recent years, the international organizations have started severe campaigns against use of child labour, which has had an impact on the development. In 2004 the sports industry leaders in Sialkot signed the Lahore-Sialkot declaration on corporate environmental responsibility.

**The following table gives an overview of football production in Pakistan:**

**Table 6.1**

	1970/71	1980/81	1990/91	2000/01	2003/04
Footballs produced, in millions	1,4	5,2	19,7	40-43	33-35
Number of football stitchers	1.500-2.000	5.000-7.000	21.000-25.000	50.000-54.000	41.000-44.000

*Source: Zimmermann 2005*

High division of labour, ongoing throughout the last 30 years, characterizes Pakistan's football industry. The structure of the sporting goods sector is heavily export end concentrated. The increasing outsourcing of part orders leads to a growing number of small-scale businesses and workshops.

The success of a Pakistani sports goods company depends on the extent to which they obtain direct access to the world market. The export business as such is concentrated in a small group of companies, while the importers of footballs and other sports goods appear as ordering party only, except for a Pakistani-British joint venture in hockey equipment production. The importers as a rule work together with different Pakistani companies and change their partners now and then.

Of the 3000 sporting goods companies in Sialkot only a few have it as core business, with steady export orders and their own production capacity. Numerous sports goods businessmen have no production of their own; they place occasional orders to the small local workshops.

Those big sports goods companies of Sialkot that are world market integrated have a turnover of 2,45 mill. EUR and employ ca 125 employees, being large firms in Sialkot. Nonetheless they only offer direct employment to ca 6% of the sector workers. Outsourcing of labour-intensive production phases is widespread.

Besides the bigger companies, there are ca 2500-3000 urban small enterprises and workshops in Sialkot region with average 4 people employed, which mostly fulfil orders from the above large enterprises in Sialkot. Ca 12-15 000 employees work for the continuous part-orders here. These small urban companies specialise in one type of goods normally, e.g. footballs or hockey clubs. Only ca 1/6 of these companies have orders enough to work full-time and undertake all production phases except stitching. Most of the small workshops only carry out a single production step. These small workshops are very widespread as they are easy to establish requiring little resources and as there is constant pressure for cost-cutting from the export companies in turn squeezed by the global sporting goods companies. The abundance of businessmen without production facilities that are only shopping for and placing occasional orders are the booster for these small workshops.

The main outsourced area in the football production is the stitching, which links the urban businesses with numerous rural areas surrounding Sialkot. Many of these stitching locations can be found along major roads or at junctions. These locations are spread within ca 30 km radius around the city of Sialkot.

The stitching orders are either placed by the world market integrated sports goods companies direct or by the urban small-scale businesses. Over 80% of the stitching workshops work thus basically for one contractor. Yet these workshops also place orders – to the individual home-based stitchers or groups of stitchers spread over several villages in the surrounding area. The order placement in rural areas is structured as a multi-level system with workshop supervisors in between.

### 6.3 Textile

Textiles make up nearly 64% of the country's exports.

Textile trade was, until 2005, subject to quantitative restrictions or simply quotas, which ensured a specific share of Pakistani products in the markets of North America and the EU.

However, under the Agreement on textile and clothing (ATC) of the World Trade Organization (WTO), all quotas were phased out by December 31, 2004 and from January 1, 2005 there is open textile trade.

The textile exports thus faces competition from other textile exporters, particularly India and China which are

price-wise more competitive than Pakistan. The competitors today are China, India and Vietnam but also countries whom USA has given preferential treatment like NAFTA, CBI, AGOA, etc.

The only way for Pakistan to keep or increase its market share in textiles is to produce better quality products, which indeed is a big task.

The government under Textile Vision 2005 (elaborated in 2000) focused more on providing credit and other facilitative support to diversify the products, especially to cater for the needs of the high value added sector like garment industry. The textile industry invested substantially in BMR for improving production quality and moving towards more value addition.

Textile industry imported US\$ 525 million worth of machinery in 2002-03 and US\$ 409 million in 2001-02. The major area of investment, which amounts to nearly \$4 billion, has been capacity expansion, product diversification and new product ranges of higher value addition in Greenfield projects during the past four years. As a result of the investments, the exports of textiles has grown from \$5.9 billion in 1999-2000 to \$7.4 billion in 2002-2003 and 8.9 billion USD in 2004-2005; the growth has come mainly from exports of the value added components.

Export of cotton fabrics increased from 1,575 million sq meters worth US \$ 1.10 billion in 1999-2000 to 2005 million sq meters worth US \$ 1.35 billion in 2002-2003 and USD 1.86 billion in 2004-2005, thus showing an increase of 69% in terms of value. Major markets for Pakistan's fabric are USA, Hong Kong, UK, China, Dubai, Italy and Turkey.

The demand for textiles in the world is around \$18 trillion, which is likely to be increased by 6.5% in 2005. Pakistan has emerged as one of the major cotton textile product suppliers in the world market with share of world yarn trade about 30% and cotton fabric about 8%, having total textile export of 8.9 billion USD.

## **2005 and onwards**

2005 has seen a new order in international textile trade, the surge of textile goods flowing from the east to the west, with China leading the way in terms of volume and value and a drop of unit price recorded by almost every exporting country.

Despite the mid-year pile-up and problems with Chinese textile heading for EU and USA and the disputes in-between, China remained the largest producing base in the world, India and Pakistan were picking up during the year.

Looking ahead, in the keen competition, there is no doubt that textile industry in the Asian countries will continue to receive pressure as to product quality, variety, price, lead-time, etc. While continuing to seek for the major portion in the traditional markets as in the EU and the US, more attention is switched to the domestic market and new overseas markets.

Apart from competition that governed the Asian textile arena, Free Trade Agreements (FTA) of both bilateral and regional types are expected to play a pivotal role in determining winners and losers. Many international trade agreements are coming/to come into effect. For example, under the South Asia Free Trade Agreement, developing SAARC (South Asian Association for Regional Cooperation), Pakistan, India and Sri Lanka cut tariffs to between zero and 5% within seven years. China and Pakistan also agreed to progressively lower tariff on more than 1,000 types of products, including some textile items. Despite seeing each other as competitors, the Asian textile producers are actually seeking collaboration with each other, and many more of FTAs covering textile trades are expected.

Today the textile industry firmly believes that market access to Pakistan will ensure a level playing field against developed countries.

Many sector experts are of the view that concessions offered to countries such as Bangladesh and Sri Lanka have hit Pakistan badly.

A tariff waiver to Pakistan after 9/11 added \$450 million extra to country's exports annually.

Pakistan's textile industry has been facing tough time since 2005, when the EU withdrew the tariff concessions. The government of Pakistani has offered many incentives in recent past like: introduction of BPD-29 to waive off non-performing loans in the spinning and weaving sector; the 6% Research & Development Fund to the knitwear and garment industry offered in 2005, interest rates kept low for about three years that resulted in the inflow of heavy machinery worth \$5 billion in the sector, etc. Still many industrialists admit that a good amount of money out of \$5 billion was spent on non-productive areas by the industry.

The Pakistani Government has taken an active role in promoting Pakistan and in facilitating the development via envisaged textile and garment cities, industrial parks, etc. A number of countries have started to take an interest in cooperating with Pakistan, e.g. Romania has recently expressed interest in joint venture with Pakistan in Textile, Sweden signed several MOU-s during EXPO 2006, etc. The National Engineering Services Pakistan (NESPAK) is currently working on the master plan of the Textile City for 1,250 acres of land in the precinct of Port Qasim industrial area, the mega project would be implemented in 2 phases and the total cost is 200 million USD. After the development of land, the management of Textile City would hand over plots to textile manufacturers like dyeing, printing and processing units.

The Government officials say that the textile city in Karachi would generate 2 million jobs and earn a foreign exchange worth 2 billion USD through textile exports. Yet independent economists have contested these figures.

In the background of above, based on the data from Export Promotion Bureau, the July-February 2005/2006 period showed a decline as compared to same period 2004/2005 in textile made-ups (decline 14%), artificial silk and synthetics (decline 38%), knitted fabrics (decline 77%); while growth was recorded in bed ware (+66%), readymade garments (+33%), cotton yarn (+29%), cotton cloth (+19%), etc.

### **6.3.1 Garments**

Readymade garment industry has emerged as one of the most important small-scale industries in Pakistan. Its products have large demand both at home and abroad. The local requirements for readymade garments are almost wholly met by the industry. Its exports in 1999-2000 stood at US \$ 772 million or 8.5% of the total exports, the corresponding figure in 2004-2005 was 1087 million USD (excl leather garments).

Garment industry is also a good source of providing employment opportunities to a large number of people at a low capital investment. It mainly uses locally produced raw materials. Most of the machines used by this industry are imported or locally made and assembled.

This sector is also one of the key export sectors. The industry turns out various kinds of garments for men, women, boys such as plain/embroidered/printed dresses, blouses, maxis, shirts, skirts, night dresses, track suits, middies, trousers, sub-dresses etc. A variety of ready-made garments are made from cotton fabric and synthetic fibre. The bulk of these garments are mainly exported to developed countries, like U.S.A., Europe, Japan and Australia. However, the exported readymade garments are regarded inferior in quality in comparison with garments from India, Korea, Hong Kong, Taiwan, Philippines and Sri-Lanka. Nevertheless, Pakistan's cotton textile industry has won wide recognition for producing cool and colourful lawns, which cater for the fashion needs of the people, both at home and abroad.

Other fashion fabrics are silk, linen and man-made materials, which are generally blended with cotton. Much of the success of any design depends on the clever handling of such elements as line, shape, colour and texture. Pakistani textile craftsmen are increasingly acknowledging the importance of this.

North America and the EU are the major markets supplied by Pakistan and together account for over 50% of Pakistan's garment exports.

The readymade garment industry in Pakistan generally operates on a small and unorganised scale. According to an estimate about 70% of its units are in the unorganised sector and are established in small shops, flats and houses.

These units also do not have modern machines like over locking, creasing, collar pressing buttoning and cutting etc. The garment industry uses both, industrial sewing machines and domestic sewing machines. The industrial sewing machines are mainly imported from Japan.

The industry provides an impetus to many other allied industries such as spinning, weaving, printing/dyeing processing and also provides employment to various artisans, such as embroidery art work, block printing and hand screen printing, cutting, stitching and packing etc. The potential for export of readymade garments was estimated at more than US\$ 2.0 billion in 2005, provided appropriate measures are taken to solve the problems confronting this high value-added industry. The actual 2004-2005 statistics showed 1.087 billion.

The garment manufacturing needs modern technology to boost the production today. The Pakistani officials have said the country would seek technological assistance from Chinese garment industry. The government has also committed to develop textile and garment cities, infrastructure and institutes for skills development as well as overcome the challenges in sustaining global positioning, enhanced market share and increased unit value.

## **6.4 Carpets**

The carpet industry plays a vital role in the economy of Pakistan. It is a major earner of foreign exchange and it also helps to relieve poverty in rural areas. The carpet industry is in practise a cottage industry that is spread all over Pakistan. For many rural families it is a major source of income, next to the marginal agriculture. The infrastructure required for start-up is few and thus it is easy to enter the carpet making. It sets no requirements to electricity, water, etc. The key instruments required are a loop, yarn and some knotting skill. The carpet industry is entirely indigenous, even machines are locally manufactured. Only raw materials, chemicals and wool are imported.

The rugs are individually made from a process of knotting with a unique pattern. A carpet of ca 3 by 4 metres takes 5 people 2 months to make.

In the world market such rugs are known as Persian rugs and Turkish rugs.

According to Pakistan Carpet Manufacturers and Exporters Association there are ca 150000-200000 looms in the country and ca 200000-250000 weavers. All 4 provinces of Pakistan deal with carpet weaving.

### **According to the 2003 data the carpet industry:**

- Earns annually 300 million USD in foreign exchange
- Gives work and jobs to 1.5 million people
- Over 99% of the carpets go for export

- Pakistan is among the 6 leading carpet suppliers in the world together with Iran, India, China, Nepal and Turkey
- Carpet industry is having problems on international arena in connected with employment of child labour
- Iranian and Pakistani hand-made carpets dominate the USA market, India and China dominate in Germany and China and Pakistan dominate in South-East Asia.

## Pakistan Carpet Exports

**Table 6.2**

Year	Exports (millions)	Share in exports (%)
1994-1995	195.4	2.4
1995-1996	205.3	2.4
1996-1997	195.9	2.5
1997-1998	197.4	2.3
1998-1999	202.7	2.6
1999-2000	250.0	3.0
2000-2001	288.0	3.3
2001-2002	249.6	3.4
2002-2003	220.9	1.98
2003-2004	231.4	1.92
2004-2005	277.8	2.0

Source: Export Promotion Bureau

**Table 6.3**

### The top 10 Buyers of Pakistani Carpets

	Country	Thousand USD in 2002-2003	Share in %	Thousandnd USD in 2001- 2002	Share in %
1	USA	89,740	40.63	95,640	38.32
2	Germany	22,688	10.27	31,230	12.51
3	Italy	19,974	9.04	13,996	5.61
4	United Kingdom	12,181	5.51	15,753	6.31
5	France	9,937	4.50	12,588	5.04
6	UAE	8,389	3.80	9,835	3.94
7	Japan	7,497	3.39	6,965	2.79
8	Canada	7,188	3.25	6,183	2.48
9	Spain	5,128	2.32	4,584	1.84
10	Greece	5,052	2.29	2,740	1.10
	Sub Total	187,774	85.01	199,514	79.94

The carpet export in Pakistan was declining during 2002-2004. According to the carpet manufacturers the reasons were: the government refusal to give export rebate on carpets based on agreement with the International Monetary Fund; another reason has been the allowing of imports of carpets, whereby sub-standard carpets and

smuggled carpets ruined the local carpet industry and thirdly, the return of afghans who held 50% of the carpet production to their homes. Also the US market recession after 9/11 had an impact as well as decline of dollar value. 2004-2005 export statistics shows a 17% increase.

The carpet exporters are searching for new markets, like South America and Eastern Europe, to increase the carpet export. Recently China has expressed interest in cooperation with Pakistan in carpet industry among others – suggesting that with the Chinese technology combined with Pakistan’s excellence in design the industry could get a new boost.

## **6.5 Food**

### **Standards and safety**

Today food safety is a global issue. Increasing awareness of health risks related to food consumption has made governments to focus on maintaining low risk level (EU, USA, etc).

To reduce the risk, trading with food products is confronted with technical requirements at the multilateral, country and business level. A number of developing countries are facing problems with qualifying under the new requirements and strict control procedures.

The export of fruits and vegetables has become more difficult for Pakistan with importing countries demanding better quality, safety standards and adherence to related protocols of HACCP, EUREPGAP and traceability of the origin of products. The export of vegetables has decreased because of non-compliance of SPS (Sanitary and Phytosanitary Standards) whereas some groups, like mangos and citruses have increased due to compliance with standards as laid down by the International Certification Agencies.

The SPS measures are claimed to be an impediment to exports of, for example: fish, livestock products and horticultural products. Although public authorities inspect food products prior to export, exporters consider that financial constraints limit the effectiveness of these procedures and that, in particular, testing and inspection facilities in the country are inadequate.

Pakistan is experiencing difficulties in meeting the SPS requirements of developed countries and concerns have been expressed about the way in which the SPS agreement has been implemented to-date. The conformity costs are very high due to lack of technical know-how and the low performance of the public certification and control authorities.

The problems Pakistan has in complying with SPS requirements reflect its wider resource and infrastructure constraints that limit not only Pakistani ability to comply with SPS requirements, but also its ability to demonstrate compliance (insufficient ability to assess implications of developed country SPS requirements following notification, to participate effectively in dispute settlement procedures, to demonstrate that domestic SPS measures are equivalent to developed country requirements, undertake risk assessment, etc). A particularly acute problem is access to appropriate scientific and technical expertise.

In brief, Pakistan has to do many things, particularly in the areas of quality, packaging and promotion for acquiring reasonable share of the markets in developed countries.

### **6.5.1 Fruit and vegetables**

In 2004/2005 budget the government foresaw strategies and development measures for the farm sector and related infrastructure to materialize Pakistan’s opportunity of becoming a major exporter of cash crops and

value-added agribusiness products over the coming 4-5 years and thus taking advantage of the rising trend in world food prices.

A big potential was seen also in the Chinese market, as a main destination for e.g. mangos. The Chinese Quarantine and Quality Control Bureau have declared Pakistani mangoes pest-free and of good quality. The potential in exports to Chinese market for mangos and other fruits was seen as high as millions of dollars per year.

These plans have not materialized as of today, a number of problems still have to be tackled, among them the trend of decreasing production despite increase in total production area; lack of cold storages and poor cool chain distribution; poor planning; poor quality control; declining investments; etc.

The main public authority for developing the Pakistani horticulture exports is the Pakistan Horticulture Development and Export Board (PHDEB). The horticulture sector could become Pakistan's second biggest exporter after textiles in the next three to five years, earning 500 to 600 million USD in exports, according to the PHDEB statements in 2004.

Unfortunately Pakistan is currently only exporting horticulture items worth around \$126 million.

The PHDEB focuses on fruit and vegetables like mangoes, citrus fruits, dates, apples, peaches, plums, persimmons (commonly known as Japanese fruit), onions, potatoes, and cut flowers. The PHDEB sees compliance with WTO regulations and outdated technology to be the biggest problems for Pakistani industries holding that the pre-shipment checking is a vital part of ensuring rotting perishable items were not sent abroad, but above all Pakistan needs a "cool chain", which would ensure fruit and vegetables were kept in suitable environments from the moment they left the fields to when they reached the shelves.

According to PHDEB Pakistan was on average "wasting" 65 million USD annually through mismanagement.

The Pakistan Horticulture Development and Export Board (PHDEB) is planning to launch a Pre-Shipment Inspection scheme for the exporters of fruits in 2006. This will be a voluntary scheme and exporters getting their consignments inspected from a third party appointed by the PHDEB would get freight subsidy.

The PHDEB, in collaboration with the Atomic Energy Commission, is also setting up an irradiation plant to enhance the shelf life of vegetables and fruit for exports. The PHDEB will set up a similar type of plant in Karachi if the Lahore plant proves a success.

## **6.5.2 Rice**

### **World rice market**

Source UNCTAD

Rice is the second largest produced cereal in the world. The World production totalled 395 million tons of milled rice in 2003.

Production is geographically concentrated in Western and Eastern Asia with more than 90 percent of world output. China and India, which account for more than one-third of global population, supply over half of the world's rice (30.7% and 21.6%). Brazil is the most important non-Asian producer, followed by the United States. Italy ranks first in Europe.

World production has shown a significant and very steady growth, almost exclusively due to increasing production in Western and Eastern Asia.

World rice consumption has increased 40 percent in the last 30 years.

International rice trade is estimated between 25 and 27 million tons per year, which corresponds to only 5-6 percent of world production. It makes the international rice market one of the smallest in the world compared to other grain markets such as wheat (113 million tons) and corn (80 million tons).

Besides the traditional main exporters Thailand (6.91 million ton), Vietnam (3.74 mill.t), India (3.13 mill.t) and Pakistan (1.98 mill.t), a relatively important but still limited part of rice traded worldwide comes from developed countries in Mediterranean Europe and the United States. There are two major forces behind this: new food habits in developed countries and new market niches in developing countries.

The Middle East is the leading import and export region, accounting for 35 percent of the world's rice imports and about 75 percent of total exports.

It is projected that the global market will increase 3 percent per year over the mid to long term. However, there are uncertainties about this projection because importers, normally low to lower-middle income countries, have vulnerable economies.

The major importers are Indonesia (2.33 mill.t), Bangladesh (0.95 mill.t), Nigeria, the Philippines, Iraq (0.85 mill.t) and Brazil (0.97 mill.t).

### Rice production in Pakistan

Source: Rice Exporters Association of Pakistan

Rice is the third largest crop after wheat and cotton. It is grown over 10% of the total cropped area. Rice is highly valued cash crop and is also major export item. It accounts for 6.7% in value added in agriculture and 1.6% in GDP (2003 data of Rice Exporters Association). Pakistan grows enough high quality rice to meet both domestic demand and allow for exports of around one million ton per annum.

In Pakistan, rice is mainly grown in the Sindh and Punjab. The Sindh is specialized in producing the long grain white rice IRRI-6 and IRRI-9, while Punjab is producing world class Basmati rice among IRRI-9 and other varieties. Punjab is the biggest producer of rice in the country and contributes 58 per cent to national production while the provinces of Sindh, Balochistan and NWFP contributed to 29, 3 and 10 per cent, respectively. Some of the important varieties grown in the country are Super Basmati, Kernel Basmati, Basmati 385, IRRI-6, IRRI-9, KS-282, DR-82 and DR-83. All rice is irrigated and mainly transplanted. On an average, each household in Pakistan spends about 3.8 percent of its total food expenditure on rice and rice flour. It is the second staple food and contributes more than 2 million tons to Pakistan's national food requirement.

### Rice Production Data

**Table 6.4**

<i>Area, Production and Yield of Rice</i>						
Year	Area		Production		Yield	
	(000 Hectare)	%	(000 Tons)	%	(Kgs/Hec.)	%
	Change		Change		Change	
00-01	2377	-5.5	4803	-6.8	2021	-1.4
01-02	2114	-11.1	3882	-19.2	1836	-9.1
02-03	2225	5.2	4478	15.3	2013	0.6
03-04	2461	10.6	4848	8.3	1970	-2.1
04-05 (P)	2503	1.7	4991	2.9	1994	1.2

P: Provisional. (July-March) Source: Ministry of Food, Agriculture and Livestock. Federal Bureau of Statistics.

## **Rice export**

Like India, Pakistan exports both, the high-quality Basmati rice (which sells at a substantial premium in high-income markets as well as intermediate) and low quality non-aromatic long grain milled rice sold to developing countries, mostly East Africa where it competes with China and Vietnam, and South Asia. Pakistan's Basmati rice typically sells at a lower price than India's Basmati. For all rice, Sub-Saharan Africa, Afghanistan, Bangladesh, Indonesia, Middle East and the EU are leading export markets for Pakistan.

Rice exports reached record US\$ 932.3 million in 2004/2005, showing an extraordinary increase of US\$ 297.8 million (46.9 percent) despite a fall in unit values. Export values of basmati rice and other varieties stood at US\$ 439 and US\$ 493.6 respectively.

## **Rice Trade Organizations**

In 1988-89, the Rice Exporters Association of Pakistan (REAP) came into existence and started interacting with the Ministry of Commerce and Ministry of Food, Agriculture and Livestock and also the Planning Division of the Government of Pakistan. In 1992 realising the absence of any national rice standards, REAP played a pivotal role in establishing the Pakistan Rice Standards with the Pakistan Standards Institution for the first time in the history of Pakistan. In 1998-99, REAP became a registered body with the Director Trade Organisation, Ministry of Commerce. The same year, membership of REAP became compulsory for all rice exporters. Now the membership of REAP is around 800 members spread all over Pakistan. Growers, millers and traders of rice crop have been brought onto one platform.

## **Export development 2005, 2006**

Judging by media published information Pakistan's rice exports were expected to be facing a tough time in the international market in 2005 because of cheap prices quoted by Chinese competitors and increase in import duties by three African countries. As a part of the new regional tariff arrangements under the EAC trading protocol, Kenya, Tanzania and Uganda slapped an import duty of 75 per cent against the previous 35 per cent from Jan 1, 2005.

The strong domestic market, where prices skyrocketed because of various factors drove prices of exportable rice high.

It was also feared that the future trend might not be favourable for Pakistan. The international price might go down further in February 2005 when Pakistan's key competitors -- Burma and Vietnam -- would be in the market with big stocks.

Pakistan's total exports of 1.9 million ton during the year 2003-04 consisted of 800,000-ton basmati rice and 1.1 million ton non-basmati. Out of it the African countries imported ca ¼, Kenya imported 175,000 ton followed by Tanzania with 18,000 ton and Uganda with 3,500 ton, making a total shipment of non-basmati rice to these countries around 200,000 ton.

Keeping in view the export of non-basmati rice, Pakistan was expected to lose 18 per cent of the total 1.1 million ton export.

The actual figures for 2004/2005 showed a 47% increase (value 932 million USD by data from Export Promotion Bureau) as compared to 2003/2004 in total rice export of Pakistan, while Basmati rice exports grew 4%. The export projection by the Planning Commission has not foreseen such figures even by 2009-2010 (their prognoses by then is 870 million USD).

According to the Indian Society of Agribusiness Professionals data, Pakistan achieved the record rice export of \$1.002 billion for the first time in the country's history. The country reportedly exported rice of about 2.81 million MT up to March 31, 2006. According to statistics, a total of 1.5 million MT Irri-6 variety was exported, bringing in \$450 million, while 560,000 MT Basmati variety received \$325 million during nine months of the

current fiscal year (2005/2006). Most of the volumes were exported to Iran as well as Afghanistan through land route. Some rice was exported to East African countries as container cargo.

According to the Rice Exporters Association of Pakistan, rice export through Balochistan border has tremendously increased, crossing the figure of 0.5 million tons, as 250,000 tons rice was exported to Iran, and the same quantity was exported to Afghanistan in the nine months of this fiscal year.

Quetta-based exporters say that Pakistan's rice is not only being exported to neighbouring Iran and Afghanistan but is also being sent to Iraq and Central Asian Republics through land routes. Both Irri-6 and Basmati varieties of Pakistani rice are equally popular in these countries and almost equal quantity of both varieties has been exported to Iran and Afghanistan.

As many as 18 trailers of 40 tons capacity are running across the border transporting this commodity from Pakistan to Iran under Transport International Permit (TIP). These trailers are running across the border on daily basis to transport rice from Quetta to Zahidan - the nearest city of Iran - while some other Irani and Pakistani trailers are also running from Quetta to Zahidan to transport rice to the two countries.

The trend in rice export by land routes has tremendously increased during the last three years as in 2003 this trade was hardly 50,000 tons (which has now crossed 0.5 million tons). Quetta has become the hub of trade activities between Pakistan and the neighbouring countries including Iran, Afghanistan, Central Asian Republics and even many other items are being exported to Iraq via land route from Balochistan.

### **Export Finance Scheme, rice**

In April 2002 the State Bank of Pakistan in order to boost the exports of “Brown Rice” to the European Countries decided to allow finance / refinance for export of Brown Rice in bulk / loose. The finance is provided on case-by-case basis under Part I of the Scheme against L/Cs only. The facility for export of “Brown Rice” in packing of 1-50 KG also continues to be available to the exporters desirous to avail the finance on their export consignments to all countries under both parts of the Scheme.

Source: State Bank of Pakistan

### **Export procedures for rice**

Under Export Policy Order 2005 (certified as SRO (I)/2005 21-07-2005, the condition of registration of export contracts of Rice with EPB for export purpose has been done away with consequently, the export of rice is now not subject to registration of export contracts with EPB. However the export of Basmati Rice only is subject to quality check under such procedure as prescribed by the Export Promotion Bureau.

According to EPB a **Quality Related Benchmark System** has been put in place to ensure that all rice exports conform to standard specifications. The quality control system is administered by Quality Review Committees (QRC), one for the North Zone (Punjab) and one for the South Zone (Sindh/Baluchistan/NWFP). The QRC is composed of members from the Managing Committee of REAP and the EPB. There is a QRC Rice Inspection Cell headed by a Controller of Inspections, assisted by his two deputies in North and South Zones. They also report directly to the QRC. All rice is inspected by the QRC Rice Inspection Cell according to the contract, registered with EPB and the exporters filed at the time of contract registration. In case of any commercial inspection requirements by the buyers/sellers, that is done in addition to the statutory inspection by the QRC Rice Inspection Cell.

The quality related benchmark system covers all exports of rice by private/public sector by land/sea/air to all destinations except the European Union. All rice bags exported from Pakistan must bear the valid Export Registration Number of the Exporter as ERN-... printed or stencilled on each retail and master bag. Bulk shipments, losses in containers or ships hold, and all brown rice shipments are exempt from this requirement. QRC (North Zone) establishes and announces quality related benchmark prices for all rice varieties grown in the Punjab, except IRRI-6 and KS-282, throughout the year every Saturday, in US\$ per metric ton, on FOB basis. The rice export contract should be valid for shipment within 90 days from registration date after which the registration is automatically cancelled. The contracted price has to be at or above the prevailing quality related benchmark for the rice variety to be exported. Payment modes are sight/usance L/C up to 180 days, advance payment or cash against documents. Contracts with payment terms on D/A (Documents against Acceptance) or consignment basis are not allowed.

The exporter need not present L/C at the time of contract registration, nor is he required to disclose the name/address of the buyer. It is enough to mention the destination of the shipment. Quality declaration is to be done in the prescribed form. Copies of all contracts registered, along with the quality declaration for each, are forwarded by EPB to the QRC.

The QRC Inspection Cell monitors exports as per the quality declarations. The QRC realizes inspection charges at the rate of Rs. 10 per Metric Ton for non-basmati variety and Rs. 20 per Metric Ton for basmati variety. Quality inspection is done inside the Customs area simultaneously with the Customs examination. Initially, the inspection is done on a random basis, say 5-6% of the consignment. For shipment of 500 metric tons or more, the exporter has the option to request the QRC inspection at his warehouse within the Karachi Metropolitan area besides normal final inspection inside the Customs area. A Quality Inspection Certificate from QRC is a necessary document for allowing export at Customs stage. The inspection report is not disclosed to any person in REAP but only to Director General EPB Lahore/Director EPB Karachi nominated for the purpose.

Source: Export Promotion Bureau

## **6.6 Add-on Index**

### **Add-on Index from exporter to consumer**

The add-on index is based on a method used by firms to “benchmark” their suppliers as to the product quality and logistics quality (all non-factor cost activities) and takes into account the different elements accumulating and forming the final cost of a product. The index this way compares the final amount according to different geographical (or suppliers) origins. (The Add-On index methodology and details about data are further described in Appendix A).

The add-on index below has been established based on data collected during interviews with EU importers of Pakistani products and the linked associations.

The index employs calculation norms applied in specific branches or market segments.

The various components are based on previous experience, expectations, risks and performance regarding the quality and reliability of suppliers. Thus it is also communicating the current image of Pakistan exporters.

The table provides the calculations of the final cost of leather garments, sports goods and textiles.

The situation may differ for other products and branches, especially if the quality considerations and the “technical and/or consumer expectations” level of exported products are not of primary importance. But in general, the index reflects quite well the situation faced by most Pakistan exporters of manufactured products. The lack of overall competitiveness illustrated by the index may force some Pakistan exporters to reduce their prices or abandon their exports and instead concentrate on the local market, thus further accentuating the country’s less competitive export performance in more sophisticated manufactured products.

The index reflects a number of the challenges that have been stated by the Pakistani exporters in the course of the interviews carried out – where many of them were very much aware of the evil circle causing the above-mentioned negative impact on the prices.

There is a need for a concentrated focus on product quality and logistics quality – which together form the Pakistani quality image. One may have the best product in the world and competitive prices - but if the product does not reach the buyer at the right time, in the right quantity and in the right condition it will be a matter of lost opportunities instead. Without proper logistics performance, the price will continue to be the number one pressure tool from the buyers and there may not follow a second sale at all.

The same situation goes for the combination of good contemporary logistics and poor product quality. The good logistics cannot compensate for a poor product quality. The two key factors go hand in hand and with the development in global trading, where companies abroad must be competitive on local terms, the logistics performance will be in focus as never before.

The Pakistani exporters have the potential for entering and meeting the competition only when the quality in products and logistics are merged into a full image-creating solution/concept, whereby the total quality is accepted and appreciated by the buyer.

### **Add-On Index comparison**

The two product final consumer price calculation comparisons illustrate the Pakistan product competitiveness up against similar products from Turkey, India, China and Italy. In the third comparison (textiles) Italy has been replaced with Portugal.

The findings confirm, that the Pakistan industry needs to follow the positive development seen in the non-factor logistics costs. The major price increasing factors today are costs like obsolete cost, inventory capital costs, delay costs, etc. None of these costs is related to the performance of the transport and service providers, but have to do with production, the quality and delays in order processing and production.

On top of China having lower product ex factory prices, the percentage of the above costs in the final consumer price is also less than the Pakistan percentages.

The focus on the “in-house logistics costs” should not diminish the attention paid to the non-factor logistics costs in Pakistan, with the positive development seen recently. The latter should be further refined as the “neighbouring” countries like India and China generally have lower non-factor logistics costs percentage in the final consumer prices than Pakistan. The recommendation to the Pakistan companies therefore is, that improving of the general logistics performance should go hand in hand with the other suggestions and recommendations made in connection with non-factor (service) logistics costs.

Extract of problems stated by European importers seen in the Pakistan context:

- a) Agreed delivery times are very often exceeded
- b) Total lead time (from order placed till delivery) is rather long compared to suppliers in other countries
- c) Emergency replenishment orders are very difficult to get through, the flexibility is limited
- d) The full compliance quality percentage (quality of product, quantity, “sizes”, labelling, etc) is too low and creates too high obsolete costs and also lost sales situations. Uniformity of quality (arising from technology or lack of technology) must be upgraded and a better sorting/grading system must be introduced
- e) No up-to date communication vehicles (EDI, ordering system, tracking, etc.)
- f) Charges ex factory are often fluctuating

- g) Damages and pilferage happen frequently
- h) Image problem(s) like: “Forwarders in Pakistan tend to be paid off by exporters to make things go smoothly”, “The forwarders have no service at all”, “If you use well known forwarders at your choice it creates problems with the Pakistan exporters and with the services as such”
- i) House Bill of Lading has created problems as the dating in some cases has been before the date where the production of the goods in reality had been finished.

### **Add-on Index, Leather products**

Pakistan has higher product final consumer prices than India and China. In fact, Pakistani price level is the same as that of the leading “brand” supplier Italy. Turkey is considered as the main competitor to Italy, yet Turkey today lacks as strong a brand image as Italy. The sample comparison also shows, that Turkey has a higher final price than Italy in this particular case. This is mainly due to obsolete costs and inventory capital costs. Compared to Pakistan, the Turkish exporter has a share of 20,3% of the final value (price), while the share of the Pakistan exporter is 16,3%. The Chinese exporter, that has the lowest ex factory price, also has a higher share of the final price. Chinese leather is dutiable. If Pakistan should pay the same duty as China, the final consumer price would be 4% higher than that of Italy and in line with the Turkish final price.

The share of transport costs in the final price is 0,31% from Pakistan, 0,15 % from Turkey, 0,34% from India and 0,68% from China.

The obsolete costs, inventory costs and delay costs are the cost factors making the big difference and are mainly costs related to the efficiency of the exporters (quality, on time delivery, quantity, etc.). For Pakistan, these costs count for 8,5% of the final price compared to 4,7% for Turkey, 5,2% for India, 7,3% for China and as low as 0,66 % for Italy.

As it can be seen from the Index comparison, the preferred supplier of quality products would be Italy, which is more competitive than Turkey that has established a kind of a semi-brand.

The other countries are considered merely as bulk suppliers. In this group China has by far the most competitive final price while at the same time having a higher ex factory value share (17%) than Pakistan. For India the share is 20% and for Italy as high as 25%.

The difference in competitiveness is influenced by the mark-ups made by wholesalers and retailers, the higher the mark-up, the less competitive Pakistan becomes.

**Table 6.5****LEATHER PRODUCTS TO DENMARK**

<b>ACCUMULATED COST INDEX</b>	<b>Pakistan</b>	<b>Turkey</b>	<b>India</b>	<b>China</b>	<b>Italy</b>
Basic Price	88	114	101	66	132
Transport costs	89	115	103	68	132
Transport risk costs	90	115	103	69	132
Duty	93	115	107	71	132
Inventory capital costs	107	124	118	82	134
Inventory costs	109	125	120	84	134
Obsolete costs	137	139	131	98	135
Delay costs	141	141	135	101	136
<b>Sub-total I</b>	<b>141</b>	<b>141</b>	<b>135</b>	<b>101</b>	<b>136</b>
Mark-up Wholesaler	190	191	182	136	184
<b>Sub-total II</b>	<b>190</b>	<b>191</b>	<b>182</b>	<b>136</b>	<b>184</b>
VAT	238	238	227	170	229
<b>Sales price to retailer</b>	<b>238</b>	<b>238</b>	<b>227</b>	<b>170</b>	<b>229</b>
Retailer mark up	447	448	427	320	431
Sales price excl. VAT	447	448	427	320	431
VAT	558	560	534	399	539
<b>Consumer price</b>	<b>558</b>	<b>560</b>	<b>534</b>	<b>399</b>	<b>539</b>

**Add-on Index, Sports Goods**

In the sports goods comparison, Pakistan has the second lowest final consumer price after China. China is the only one of these countries paying duty on sports goods.

It is interesting to see, that in this segment the Pakistani obsolete percentage calculated is lower than that of Turkey, India and China. This is a good example of how the quality aspects are being reflected in the final consumer price calculation. The “obsolete share” of the final consumer price in the sports goods segment is 1,9% as compared to an obsolete share of 5% for leather products and 3,65% for textiles as calculated from the final value.

At the same time, however, the delay costs for the sports goods from Pakistan are higher, than for leather goods and textiles. The importers consider on-time delivery as part of an agreement with the Pakistan exporters – but the deadlines are often not met.

The effect of the lower obsolete cost can be seen in the Pakistan exporters` share in the final value – which for this sample is 19% and is close to Turkey with 20,5% and India with 19,5%.

China has the lowest exporters share in the final price, 16%. Italy`s exporters have a share of 20%.

The share of transport in the final price is 0,90% for Pakistan, 0,36% for Turkey, 0,84% for India and as high as 1,63% for China. The mark-up in this segment is relatively high due to the high influence of seasonal sales – whereby the mark-up includes calculated sales price reductions from the second part of the season. The calculation often shows, that 50%-60% of the products have to pay for 100% of the costs. Also weather conditions have a heavy impact on the sales.

During the interviews a number of the companies mentioned child labour as a focus area (political correctness and consumer attention) in connection with “risk” calculations. The general perception is that Pakistan is still involving child labour in for example the football manufacturing.

As to lead time, the importers have included in the contracts clauses, whereby delays of a certain number of days will mean that the exporter will have to send by air instead of ship, at the exporter’s account. Penalty clauses are also included. According to the importers, some of the Pakistani suppliers are very unsatisfied with these terms and sanctions, but for the importers it is a matter of lost sales that they may have to start introducing in their risk calculations when choosing suppliers. The Pakistani exporters should be aware of it.

It can, however, be recommended that the exporters considered the part shipments opportunities when making a quotation. A Total Costs Comparison, inclusive of capital costs, inventories costs, etc. should make the benefits clear for the exporters (better utilization of machinery, more orders) as well as the importers (planned part shipments according to actual requirements, thereby lower inventory and risks). This should make it possible for exporters to offer more frequent, but smaller deliveries, whereby they can serve more clients and at the same time utilize resources better.

**Table 6.6****SPORTS GOODS TO GERMANY**

<b>ACCUMULATED COST INDEX</b>	<b>Pakistan</b>	<b>Turkey</b>	<b>India</b>	<b>China</b>	<b>Italy</b>
Basic Price	85	111	98	64	140
Transport costs	89	112	102	70	141
Transport risk costs	89	112	102	70	141
Duty	89	112	102	72	141
Inventory capital costs	100	121	112	83	143
Inventory costs	102	123	114	85	143
Obsolete costs	110	136	125	99	144
Delay costs	116	138	129	102	145
<b>Sub-total I</b>	<b>116</b>	<b>138</b>	<b>129</b>	<b>102</b>	<b>145</b>
Mark-up Wholesaler	156	187	173	138	196
<b>Sub-total II</b>	<b>156</b>	<b>187</b>	<b>173</b>	<b>138</b>	<b>196</b>
VAT	181	217	201	160	227
<b>Sales price to retailer</b>	<b>181</b>	<b>217</b>	<b>201</b>	<b>160</b>	<b>227</b>
Retailer mark-up	391	467	434	344	489
Sales price excl. VAT	391	467	434	344	489
VAT	453	542	503	399	568
<b>Consumer price</b>	<b>453</b>	<b>542</b>	<b>503</b>	<b>399</b>	<b>568</b>

**Add-On Index, Textiles**

The Pakistan exporters' share of the final consumer price in textiles is higher than that of China's exporters (17% and 16% respectively) and lower than Portugal's (26%), Turkey's (21%) and India's (19%).

The Pakistan exporters' final consumer price is lower than the prices of Turkey and India, but 27% higher than China and 3% higher than Portugal. For the Turkish textiles no duty is paid, whereas the duty rate for China is 2,4% higher than for Pakistan and India. The duty paid for the Pakistan merchandises constitutes 1,9% of the final value. For China it is 2,04%

Pakistan's percentage for obsolete, inventory capital, delay costs, etc (all so-called in-house quality and performance logistics costs) in the final price is as high as 7,57%, China has an even higher percentage of 9,14%.

India and China have higher transport costs percentages than Pakistan 0,66% and 1,32% respectively. The Pakistan percentage is 0,62%.

The obsolete percentage separately counts for 3,6% of the final value of Pakistani goods, which is more than double the duty that is paid and almost six times higher than the transport costs.

There is a general trend in this product segment that an increasing share of higher end products are being produced closer to the point of use/market. Zara, the Spanish fashion brand with prices in the same range as HM have the major part of their products manufactured in Spain and nearby countries, so that they can control the quality and obtain very low obsolete costs, have shorter production runs and higher flexibility, while at the same time a very short lead time (from order is placed till delivery takes place).

As seen from the comparison below, the aforementioned trend is economically justified - Portugal in relation to the final consumer price is surpassed by China; the latter, however, is considered as a pure bulk producer and has no brand except for being cheap.

**Table 6.7**  
**TEXTILES TO NETHERLANDS**

<b>ACCUMULATED COST INDEX</b>	<b>Pakistan</b>	<b>Turkey</b>	<b>India</b>	<b>China</b>	<b>Portugal</b>
Basic Price	85	111	98	64	128
Transport costs	88	112	101	68	128
Transport risk costs	88	112	101	69	128
Duty	97	112	111	77	128
Inventory capital costs	109	121	122	89	130
Inventory costs	112	122	124	90	130
Obsolete costs	131	131	133	106	131
Delay costs	135	133	136	113	131
<b>Sub-total I</b>	<b>135</b>	<b>133</b>	<b>136</b>	<b>113</b>	<b>131</b>
Mark-up Wholesaler	183	180	184	152	177
<b>Sub-total II</b>	<b>183</b>	<b>180</b>	<b>184</b>	<b>152</b>	<b>177</b>
VAT	217	214	219	181	211
<b>Sales price to retailer</b>	<b>217</b>	<b>214</b>	<b>219</b>	<b>181</b>	<b>211</b>
Retailer mark up	429	423	433	358	417
Sales price excl. VAT	429	423	433	358	417
VAT	511	504	515	426	496
<b>Consumer price</b>	<b>511</b>	<b>504</b>	<b>515</b>	<b>426</b>	<b>496</b>

Pakistan has to choose a path as Turkey and India have almost the same final prices and a better image based on the risk factors included in calculations for the three countries.

If Pakistan managed to reduce the obsolete costs which have a direct impact on the inventory capital costs and also to reduce the delay costs which have an influence on the inventory costs - so the total percentage is dropping from 7,57 to 2,57 - it would mean that Pakistani final consumer price would be competitive with China. In the first case, the exporters' share of the final price would rise from 17% to 21%. If the Turkish average percentage was reached, there would be 19 percent for the exporter of the final price and Pakistan would have a price that would be 14% lower than India's final consumer price. It seems, that also in the textile sector it would be feasible to focus at the use of resources on improving the in-house quality in production and logistics.

### **Add-on Index conclusion**

The Add-On Index samples for the 3 products segments show that the Non Factor (Service) Logistics Costs can be further refined.

The Add-on Index is indicating a need for solving the transport capacity problems (Transport Risk Costs) for the domestic transport. This goes for road transport as well as rail transport and is discussed in details in the transport chapter. Further a refinement is needed in the total logistics supply chain planning (import and export) where the freight forwarders must take the lead in providing contemporary logistics services along with contemporary information systems that enable producer as well as the buyer to follow the movement of shipments and optimize production, marketing and customer activities accordingly (Delay Costs, Inventory Costs, Capital Costs and Obsolete Costs).

At the same time it is clear, that there is a need for an improvement in the general image of Pakistani products as well as the image of Pakistan as a quality partner. The production, quality and image issues are closely linked to logistics, whereby an interlinked development is required based on a holistic vision. The product quality elements - quality of material, finish, quantity, labelling and packing, etc. according to order specifications - and the logistics quality elements - delivery time, delivery on time, correct place of delivery, quantity and non-damaged packing, no pilferage and all at acceptable costs - make up the total quality.

It is also obvious from the current image of Pakistan as to lead-times and keeping of delivery terms that a far better communication and cooperation between the exporters and the service/transport providers is needed. Total Costs Comparison concepts have to be introduced, where the exporters are guided by service and transport providers in connection with delivery times, so that delays are not turned into emergencies and orders into a loss of money. The service and transport providers should be a part of the distribution planning in the companies and become an integrated part of the supply line. For the Pakistan exporters it is not only a matter of saving money but also a matter of becoming more competitive and getting higher market share.

In order to further enhance the competitiveness, the exporters may consider taking more responsibility and control over the supply line – for this purpose the change to DDP terms of delivery can be a good solution. Thereby the exporter can influence the risks and costs and the level of such elements in the pricing calculations. For the end clients it will mean that they can buy as if buying locally.

The add-on index analyses indicate, that there is quite a potential for improvements from upgrading of in-house logistics, production logistics and quality management. When the cost accumulation is already in-built due to poor quality, even superb logistics can do no miracles. Compared to Pakistani competitors, there surely hides some potential unutilized today.

## **7. THE PAKISTAN LOGISTICS ENVIRONMENT**

### **7.1 Trade**

#### **7.1.1 Membership in Trade Organizations**

Pakistan is a member of the World Trade Organization (WTO). Although the country is not a member of any free trade arrangement, it is a party to arrangements designed to achieve progress towards regional liberalization of trade under the following organizations:

- The Economic Cooperation Organization (ECO), whose membership includes Pakistan, Turkey, Iran, Afghanistan, Azerbaijan and five Central Asian states. The ECO grants 10% tariff preference on statutory rates for some goods.
- The South Asian Association for Regional Cooperation (SAARC) comprised of India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka and the Maldives. SAARC is operating under a South Asian Preferential Trading Agreement (SAPTA), which became effective in 1994. However, this has not translated into increased regional trade, since the trade volume between countries is limited.

The Afghan Transit Trade Agreement governs all transit goods to Afghanistan.

Pakistan is also a member (with India and Nepal) of the Asian Clearing Union, founded with the aim of facilitating multilateral payments through the use of local currencies of participating countries in regional transactions, in order to expand intra-regional trade and save convertible foreign exchange.

#### **7.1.2 Trade Policy**

Pakistan has liberalized its trade policies significantly over the last decade, being among the more open trade regime countries in relatively protectionist South Asia. The Government of Pakistan, encouraged by the IMF and the World Bank, has initiated a process of trade liberalization and has reduced tariffs, streamlined procedures and deregulated import restrictions on industrial raw material to stimulate increased manufacturing activity.

Pakistan has unilaterally reduced import tariffs so that the rates applied are often below the bound rates to which Pakistan is committed by WTO membership. Pakistan uses the Harmonized System to classify and describe goods, while customs duties are levied on an ad valorem basis. The maximum average import tariff for Pakistan is 25% and the weighted average tariff 15.2% (which used to be 56% in 1995 and almost 80% in 1985). The tariff on most consumer goods has been reduced to 25%, for most intermediate goods 10% and for most raw materials 5%. Pakistan also charges sales tax at 12.5% on the duty-paid value of a variety of goods produced in the country.

In 2000 Pakistan reached an agreement with WTO Balance of Payments Committee to phase out quantitative restrictions on textile imports and to remove all textile products from its “negative list”. All textile products can now be imported into Pakistan, although the tariff on certain synthetic fibres (scheduled to expire 2008) is relatively high.

Pakistan's trade policy in 2005 continued to ban the import of 30 items, mostly on religious, environmental, security and health grounds. In July 2005 Pakistan further reduced duties on imported automobiles to between 50-75%. The Government also exempted all domestically produced pharmaceutical related inputs from the General Sales Tax. In fiscal year 2005 Pakistani Government further reduced duties on instant print film and cameras to 5% from prior 30-200% range, to avoid smuggling. The Government also rationalized the Sales Tax Regime for the textile sector and four other key export sectors i.e. leather, sports goods, surgical instruments and carpets, exempting these sectors from sales tax in the Federal Budget for 2005-06. Imports of raw material for these sectors have also been exempted from customs duty and sales tax.

With the cooperation of the State Bank of Pakistan, a Long Term Fixed Rate Financing Scheme was introduced in May 2004; to support project-financing requirements of export oriented industries and various initiatives of the Trade Policy. By June 30, 2005, an amount of Rs. 3.70 billion had been utilized. Under this scheme the banks have allocated a limit of Rs. 8.60 billion, expected to be utilized by December 2005.

The Government of Pakistan reserves the right to grant sector-specific duty exemptions, concessions and protections under Statutory Regulatory Orders.

Under the investment policy introduced in 1997 the policies towards inward FDI have also become comparatively liberal: foreign investors are ensured national treatment, low import duties on plant and equipment, first year profits tax allowance. Full foreign ownership and repatriation of capital, dividends and profits is allowed. Pakistan has also taken measures to introduce an Intellectual Property Rights regime compatible with WTO.

## **Trade Policy 2005-2006**

Pakistani objective is to significantly increase the rate of export growth by adopting a Rapid Export Growth Strategy (REGS) based on five pillars:

- Improved market access through trade diplomacy, and new FTAs/PTAs with selected priority countries.
- Focusing on neglected regions and countries like Africa, Latin America, Eastern Europe, Central Asia and the Far East.
- Strengthening of trade promotion infrastructure of the Government including the EPB and the trade offices abroad.
- Improving skills development and productivity through provision of large-scale training.
- Provision of state of the art physical infrastructure by the government to spur investment and FDI.

Pakistan has initiated discussions and negotiations with a number of countries for concluding Preferential Trade Agreements (PTA) or Free Trade Agreements (FTAs). The first FTA has become operational with Sri Lanka in 2006, a PTA has been concluded with Iran and also an Early Harvest Agreement has been signed with China as a prelude to an FTA. Apart from that, bilateral negotiations are under way with, Malaysia, Singapore, Indonesia, Turkey, Kazakhstan, Tajikistan, Morocco and Mauritius. Preferential access arrangements are being worked out in SAARC, ECO, OIC, D-8, Mercosur and GCC.

Given the importance of the EU market, it has been a major focus of Pakistan trade diplomacy. Since January 2002 Pakistan has benefited from the EU Drug related G.S.P scheme. Under this scheme Pakistan has availed duty free access for its exports to the EU except leather and leather products, yarn and fabrics and from 1st January 2005 also clothing - so that 80% of Pakistani exports are now excluded from the benefits of this G.S.P Scheme. Pakistan would be included in the EU new G.S.P. scheme as of 1st January 2006. The new scheme would allow Pakistani exports including textiles and clothing to enter the EU markets at concessionary rates of tariff.

Diplomatic efforts have been made to enhance access to the USA market, the major market after EU for Pakistani exports. Negotiations on a Bilateral Investment Treaty (BIT) with the US are under way. This Treaty is likely to be instrumental in promoting buyer driven FDI, which is an important factor for export growth. Pakistan has requested free trade negotiations.

The second pillar of the REG Strategy requires a focus on previously neglected regions and markets. Conferences of Pakistani envoys and trade officials in Central Asia, Latin America, Africa and China have been held and a strategy based on the requirements of each region has been developed.

For the Rapid Export Growth Strategy to succeed, an effective promotion set-up is required. A step taken in this regard has been to overhaul Pakistani trade offices abroad.

The last two pillars of the strategy require action by a number of government entities and are intended to address the supply side constraints that limit the rate of growth of Pakistani exports.

With respect to the three pillars relating primarily to the Ministry of Commerce, a detailed tactical plan has been prepared to be implemented during 2006. The plan has 8 areas of tactical focus under which specific proposals have been formulated:

- Diversification of Exports
- Trade Facilitation
- Increased Market Access
- Enhancing export competitiveness by reducing cost of doing business
- Capacity Building on WTO and Trade Negotiations
- Developing Export of Services
- Improving compliance and quality infrastructure
- Technical-legal proposals.

**Recent decisions** following the trade policy 2005-2006 highlights and incentives as declared by the Ministry of Commerce include:

- PHARMA: additional incentives to existing cost-sharing for registration of pharmacy products in foreign markets (2 year salary coverage for 3 medical representatives)
- TEXTILE, GARMENTS: a Textile Garments Skill Development Board will be established
- GEMS & JEWELLERY: the Valuation Committee for export clearance will be abolished to simplify the procedures; a financing scheme for imports of gold will be established
- 50% subsidy in foreign country product registering fees for Pakistani Trade Marks
- FOOTWEAR: setup and support to Footwear Development Centres in Lahore and Karachi
- FOODSTUFFS: 50% subsidy on cost of certification of EUREPGAP
- LOGISTICS: freight forwarding and logistics are declared as an industry and will be entitled to concessional duty and taxes on import of equipment, easier access to finance; freight forwarders will be allowed to collect freight charges locally and remit them in Foreign Exchange through the State Bank

- EXPORT FACILITATION: 75% of the certification cost of the internationally accepted laboratories will be borne by the EDF fund (max 2000 USD per certification)
- A list of used machinery is allowed for import, etc.

### **Trade Policy 2004-2005 implementation achievements**

*as highlighted by the Ministry of Commerce:*

- The Ministry of Textile Industry is implementing the textile city project in Karachi and setting up garment cities in Lahore, Faisalabad and Karachi. Similarly the Punjab Government has set up a new industrial estate at Sundar.
- Textile and four other key export sectors i.e. leather, sports goods, surgical instruments and carpets have been exempted from sales tax in the Federal Budget for 2005-06. Imports of raw material for these sectors have also been exempted from customs duty and sales tax.
- The Government has announced extension of duty free temporary import under SRO 410 up to 30-6-2006.
- The government has rationalized the tariff structure for man-made fibre and synthetic textile chain.
- Measures to provide support to meeting the mark-up expenses involved in financing effluent treatment plants and cool chains for horticulture, also for obtaining certification regarding compliance with standards as well as for consultancy relating to export marketing activities.
- Provision of freight subsidy on export of non-traditional items and export to non-traditional markets, inland freight subsidy and freight subsidy on relocation of industrial plants; extended further to freight subsidy for relocation of industrial plants by Pakistani nationals and eligibility of the leather garment sector for freight subsidy.
- One of the main challenges of the 2004-2005 Trade Policy was to provide new opportunities to Pakistani exporters. One way to do this was to facilitate potential foreign buyers of Pakistani products. This matter assumed crucial importance due to the fact that there are misconceptions and exaggerated fears in the mind of foreign importers concerning the security environment in Pakistan. The Expo Pakistan 2005 in February 2005 achieved its objectives to a considerable extent by convincing foreign buyers that Pakistan is a safe place to do business. Encouraged by the success of Expo 2005, a similar event is planned to be held every year now.

### **7.1.3 Export Development Strategy**

The *Pakistan Planning Commission* elaborated an export development strategy (Medium Term Development Framework, 2005), which highlights the need for: consistency in economic policies, product/market diversification, improved competitiveness, cluster development to broaden export base, encouragement of brand development, joint ventures, human resources development, focus on specialized units (process based), meeting of international standards (Quality/Environment/Social), increased EPZ's role, image building (away from low quality-price-unreliable to), more active role of Trade Commissioners.

Other Measures as foreseen by the Planning Commission were:

- Increased labor productivity through education, on-job training, skills up-grading and dissemination of new knowledge and latest techniques.
- Measures to improve physical and financial infrastructure including shipments, clearance, cargo space, handling etc at the ports and airports.
- Education of exporters.
- Diversification of export base by developing engineering goods and

chemicals industry and higher value-added segments in textile and clothing.

- Investment in blended fabrics.
- Improved sales tax refund regime.
- Import of professional managers and skilled manpower as opposed to traditional family circle.
- Role of formal sector in bringing SME-s into the production network.

The **Pakistan Export Promotion Bureau** has compiled an export strategy document in 2003 which foresees among other things the following:

- Adoption of the concept of world class Supply Chain Management.
- Achieve excellence in communication capabilities, for product promotion purposes as well as image-building purposes for Pakistan.
- Maximum customer orientation.
- Application of world-class management tools and techniques, IT or EDP.
- Measurement of success and achievements.
- Increased penetration of the top 10 core product categories in the top 10 countries + penetration in next top 10 countries.
- Increased value added.
- Export diversification (fisheries, fruit, vegetables, wheat, marble & granite, engineering goods, healthcare, poultry, IT software and services, gems & jewellery, chemicals, general services).
- Geographic expansion (to Africa, Eastern Europe, Oceania, South America, Central Asian Republics).
- Energizing of women entrepreneurship.

For materialization of above the following key enablers are highlighted by the *Export Promotion Bureau*: developing an export culture, incl. “export hype”; marketing support by Government, creating positive business image of Pakistan, human resource and technology support, improved supply chain management capacity; quality, social and environment management; FDI and finance measures; exchange rate management; SME development, strong Export Promotion Bureau.

In order to strengthen the export sector and boost exports of the country, the Export Promotion Bureau has extended assistance for establishment of a number of institutions for training and development of human resources for export-oriented industries. Also assistance has been provided for strengthening of infrastructure for the exporting industries. Institutions under the scheme have been established in the private sector on the principle of public-private collaboration to ensure that the institutions are managed professionally while catering for the needs of export sector.

#### **7.1.4 Key Government Initiatives**

There is growing recognition within the Government of Pakistan (GOP) that the country’s ability to realize its economic potential is closely linked to the efficiency of its transport system. Accordingly, the Government has initiated a number of actions to address the key constraints faced by the sector. These include:

- A new integrated transport policy.
- Increase of infrastructure investments, including in transport, to about 4.0 percent of GDP by FY 2009-10, a Medium Term Development Framework has been developed and adopted for that.

- Roads are increasingly being viewed as a ‘service’ and a ‘business’ and the National Highway Authority (NHA) has set up a dedicated road fund account through which significant fund allocation is being made for network conservation.
- A National Highway Safety Ordinance has been enacted to provide the legal basis for establishing the Highway and Motorway Police (NH&MP) Force under the federal Ministry of Communications. This measure expands the role of the very successful Motorway Police to the National Highway System, in a phased manner.

### **7.1.5 Pakistan Competitiveness and Logistics Challenges**

In the Growth Competitiveness Index compiled by the World Economic Forum, Pakistan placed as number 83 in 2005, having risen by 8 places as compared to 2004.

In general, manufacturing activity in Pakistan is dominated by resource-based and low technology activities. However, the share of complex products has been rising over the time. One of the mistakes made en route by Pakistan as underlined by several economists has been the failure to get into technology-intensive activities. This has affected its export performance, especially in relation to the East Asian Tigers.

Pakistan’s exports are concentrated at the low sophistication level of the spectrum. Pakistan’s largest export product in 2004 was made-up textile articles, which are also a champion product in terms of product dynamics in world trade. Unfortunately the next two largest export articles (cotton fabrics and textile yarn) are stagnant in world trade. Also most apparel products are in the non-dynamic segment of trade, Pakistan being heavily dependant on them. In medical instruments, Pakistan is losing market share, while the product is a dynamic one.

The product positioning for Pakistan has thus been pretty weak in the export specialization point of view. Several core products are among the slowest growing industrial activities in the world, their export growth is reaching a plateau as the relocation from high to low wage countries matures. These activities offer limited potential for learning or technological and skills advancement. They attract relatively little and low value FDI. The current export structure gives Pakistan a weak competitive base that is unlikely to drive sustained industrial growth. Given Pakistan’s cotton resources and textile facilities it will remain a major player in world textile and apparel markets, but for long-term dynamism a diversification of exports is necessary. The Government has taken measures to improve this situation.

Pakistan is a low wage, labour surplus economy. Comparisons between companies indicate that the wages, though low by international standards, are still higher than in Bangladesh and even India. Allowances for differences in labour and capital productivity suggest that on average Pakistan is a higher cost location than China, India or Bangladesh.

One of the key constraints of Pakistan’s economic growth has been the slow growth in private investment, especially in large-scale manufacturing, due to uncertain political scene and the economic and institutional aspects of the general investment climate. However, changes were introduced in 2002 and the situation is improving.

Other hindrances to economy include the high cost and poorly functioning infrastructure (lack of reliable power supply, shortage of fixed line telecom connections, etc) as well as by many opinions also transport (high port handling costs in Karachi and Port Qasim etc). Today the Government has declared that contemporary supply chain and logistics will be one of the key target areas.

Pakistani Government has realized the need for rapid change and development and a number of measures have been foreseen in different strategy and vision documents. Among other things textile villages were foreseen (currently a master plan is being developed for the Textile City on 1,250 acres of land near Port Qasim), concentrating resources and skills and attracting investments, also industrial parks, logistics projects, etc. The coming years will show the effect and justification of these efforts.

As regards the human and technological resources, Pakistan has been performing poorly by regional standards, by a number of different indicators of skill creation. Pakistan Government has fully recognized the need for increasing local technological effort and a number of measures have been worked out. Yet the per capita R&D spending in Pakistan is among the lowest for all countries, as well as a number of other R&D indicators commonly used.

In IT sector, positive trends can be observed lately. Owing to a combination of favourable economic circumstances, global IT corporations have identified Pakistan as a new offshore investment destination. With an export target of \$50 million set for FY 2005-2006, Pakistan is currently working hard to catch up with its giant neighbour in software development and business process outsourcing. Fifty-five foreign IT and telecom companies have already entered the market. In Pakistan's favour is a tax-free policy for IT industries.

## 8. LOGISTICS COST FACTOR ANALYSIS

### 8.1 Conclusion

In the 1996 report we stated a number of severe logistics problems that should be addressed and taken care of in order to enhance the export as well as the logistics competitiveness. It was stated, “Pakistan reliance on obsolete logistics practices is not only a continuous drain to the economy, but discourages the market growth”.

In the 2006 report we can confirm that a positive development has taken place as to export growth and logistics practices. Based on the findings we can conclude that logistics costs as well as lead-time have decreased in almost all product segments scrutinized. In export, the current container rates due to imbalance in Pakistani import/export quantities are very competitive indeed. There is, however, room for further improvements in logistics, in order to reach an internationally competitive level.

The 1996 Study had the Logistics Cost Factor analysis as the basic index. The 2006 study has maintained the Logistics Cost Factor Analysis for comparison purposes and has further included the Add-on Index, which looks upon the logistics costs from the buyers’ point of view. The add-on index is the real life comparison linked to the “where to buy” decisions.

This complementary approach has been adopted for wider perspective purposes, to focus on the trade facilitation concept in the broad sense, as the indexes cover not only transport costs and cross-border procedures but also warehousing and distribution expenditures and extra costs arising from e.g. excessive inventories, obsolete inventory, repair costs and losses in sale due to obsolete or damaged goods.

The major logistics challenges, as based on the findings from interviews and questionnaires carried out during the study, are related to domestic transport, IT development and implementation of contemporary “in-house logistics”.

The efficiency of railway transport has to be improved to compete with truck transport to/from the ports. Too many exporters prefer truck transport in spite of cost disadvantages today. Clients focusing on lead-time, however, are willing to compensate for the higher cost. On the other hand, lower transport costs have a direct positive impact on reducing the logistics costs.

It must be born in mind, however, that experience from other countries proves, that lead-time is a very important parameter in global trade, when choosing suppliers as it has to do with lower capital costs, more frequent deliveries in connection with minimizing inventory and diminished risks for carrying obsolete products.

The study pinpointed a growing problem for Pakistani companies - their inability to meet the short lead-times (deadlines) that they are competing with internationally, due to a combination of production and supply problems. This creates an even circle between poor planning, production, product quality and logistics, where the time pressure affects quality and visa versa. This is putting more pressure on the logistics, as exporters tend to demand that the logistics services should compensate for the delay in production.

All in all, this leads to a situation, which damages the image of Pakistan as a reliable supply partner. It is therefore important, that the Pakistan companies change attitude and accept that total quality is a combination of quality in products and quality in supply. Otherwise it will not be possible for Pakistan companies to really take advantage of the improvements that have taken place over the recent years.

Introduction of proper IT measures in the supply-chain will be an effective instrument to control the lead-time throughout the chain. This applies to in-house operations in connection with order processing as well as to external services and transport providers, not mentioning the foreign buyers and suppliers.

An assessment of the “in-house logistics” efficiency was not originally a part of this study. However, the findings in Pakistan as well as the information obtained from buyers, gives a relatively clear picture of the situation. It is obvious, that contemporary logistics has not been introduced to the level needed in order to comply with the increasing competition. Late deliveries, extra transport costs and discounts given to compensate the buyers for “lost sales” etc. indicate quite clearly, that the in-house logistics systems must be rapidly upgraded. The whole chain covering order receipt, order processing, procurement, inventory management, production, documentation and communication (IT) with buyers/suppliers must be streamlined. Even though there is room for further improvement and refinement in the transport and distribution parts of the logistics chain, it is high time now for Pakistani enterprises to make the necessary step forward and introduce contemporary logistics. The transport and distribution logistics cannot compensate “fully” for poor in-house logistics and the industry has to make the next move.

In the 1996 study the performance of customs was challenged based on heavy criticism from the private sector. The lead-times of export as well as import processing were claimed to be too long and thus have a negative effect on the logistics costs due to delays, demurrage costs, etc.

In the 2006 study the major part of the importers/exporters interviewed are satisfied with the work of customs. Especially the development and results in connection with the CARE system is mentioned as a very positive development. There is a tendency, that the smaller companies are a little less positive than the big companies. It should be mentioned that an unexpectedly high number of the smaller and medium sized companies are still using manual systems and the IT development is still to come (this could also be considered as a negative factor in the total lead time context).

For import, the problems with valuation are still actual and often mentioned along with the general problem of delayed repayment of sales tax and export fees.

The product cost analysis performed in the product segments and in the companies selected for the current survey shows, that the Non Factor Service cost (transport logistics costs) have decreased from 11,11% in the 1996 report to 6,11% in the 2006 report. The average CIF/FOB for the world is 5.4%, developed market-economy countries 3.9%, developing countries 9.1%, Asia 8,6% (2005 figures from UNCTAD). In this light the 6% as based on the cases analyzed under the current survey is a remarkable achievement and serve as a benchmark platform for further development.

In reality, the decrease is higher when you compare to the 1996 figures, if to exclude the Export Fee (0,25%) - as the 0.25% was not included in 1996. Further it should be noted, that the development in logistics cost has been influenced by the Rp/USD currency exchange rate as well as the increased fuel prices. The currency exchange rate in the 2006 report is double the rate in the 1996 report. This means that the domestic costs (inland transport, etc.) in reality have increased more than the percentages illustrate. The increase in domestic transport is partly due to increase in fuel prices as well the higher USD exchange rate. Ocean rates are all quoted in USD whereby the importers abroad have been the ones benefiting most from the low ocean freight charges.

It should also be noted, that the commodity tonnage-values (value per kg) for the commodities included in the 2006 survey are almost the same (10 to 15% higher) as in 1996 for the major part of the commodities.

The quality image has a direct impact on the Pakistani possibilities for further export growth. If the total quality (product and logistics) is not improved to meet the quality level of competitors in other countries, it will lead to a decline of prices.

The real-life situation has been exemplified in the Add-on indexes, comprising samples from the three branches included in this study. The comparison shows, that quality (product and logistics) costs, such as obsolete costs, delay costs, etc. is hampering the Pakistani competitiveness significantly.

The quality image in transport alone is exemplified with a comparison of budget calculations and real life calculations. The comparison shows, that importers buying from Pakistan have a tendency of including a high

safety margin in their calculations (“just in case”). This makes Pakistan products less competitive/attractive already in the planning/budgeting stage.

It is mandatory that Pakistan is changing the quality image and a number of initiatives are already described in the strategic plan from Planning Committee and Export Promotion Bureau.

However, it can be recommended that the strategies will also include one for changing the terms of delivery from FOB and CIF to DDP (or DDU), whereby ensuring a better control over the logistics costs up to the importer.

In the 1996 report it was suggested to introduce the Logistics Index Benchmark. Taking stock of the strategic initiatives planned, it could be feasible to recommend the parties to include Logistics Benchmarks for the various segments prioritized and utilize the benchmark as a proof and performance assessment tool, thereby influencing and enhancing the quality image. At the same time, such an index along with the logistics costs comparison and the add-on index can serve as Key Performance Indicator (KPI) for the private and public sector.

The enhancement of contemporary logistics will have a significant impact on the use of resources in the years to come. Below table illustrates the 2003-2005 sources and uses of resources.

**Table: 8.1**

<b>EXPENDITURE ON GROSS NATIONAL PRODUCT AT CURRENT PRICES</b>				
<b>Flows</b>	<b>2003-04R</b>	<b>2004-05 P</b>	<b>% Change 2003-04 to 2002-03</b>	<b>2004-05 to 2003-04</b>
Private Consumption Expenditure	4,052,901	5,235,382	14.2	29.2
General Government Current Consumption Expenditure	462,462	512,926	7.9	10.9
<b>Gross Domestic Fixed C</b>				
Capital Formation	864,701	999,306	17.4	15.6
Change in Stocks	94,294	103,299	16.9	9.5
Export of Goods and Non-Factor Services	883,704	1,001,011	8.4	13.3
Less Imports of Goods and Non-Factor Services	825,399	1,304,334	5.0	58.0
Expenditure on GDP at Market Prices	5,532,663	6,547,590	14.7	18.3
Plus Net Factor Income from the Rest of the World	124,478	125,224	-18.0	0.6
Expenditure on GNP at Market Prices	5,657,141	6,672,814	13.7	18.0
Less Indirect Taxes	455,549	501,470	13.0	10.1
Plus Subsidies	65,494	83,556	6.0	27.6
GNP at Factor Cost	5,267,086	6,254,900	13.7	18.8

## 8.2 Costs of Pakistan Logistics

It is important to stress, that the below judgements and conclusions are based on the actual shipments/cases analyzed, following the criteria stipulated in the Terms of Reference as well as description of the methodology. - and are not statistical averages.

Analyses of cases (1-18) follow the pattern of the 1996 Logistics Cost Study.

A positive development has taken place during the period of significant fuel price increase and doubling of the exchange rate for Rs/USD. In spite of the increases (that have a direct impact on the international freight rates and costs), there is a significant cost decrease for import shipments as well as export shipments.

Consequently, the headline for the 1996 report "High Costs of Pakistan Logistics" has been changed to "Cost of Pakistan Logistics".

Interesting to note is that the export ocean freight rates (FCL/LCL) for the shipments included in the survey are all quoted as "all in prices". THC, BAF, CAF, etc., etc. is not a major issue as it was in 1996. However, it shall be mentioned that the official ratesheets of the shipping lines are still stating the various add on fees and charges separately. (Ref. chapter 9.6.1).

Further it shall be noted that the export commodities included are all primary export segments and the total value of segments where this study can be used as a benchmark count for approximately 83% of the total export value.

The background for the cost development by individual elements is further discussed under the individual elements in chapters 4 to 9.

### Cost Factor value for cases 1-10

Extrapolation of the values in the analyses of cases 1-10 shows, that the ocean freight is costing Pakistan about 1,86% of its foreign trade account. In 1996 the percentage was 6,40 and the Cost Factor Services (CFS) was USD 1,18 billion. From 1996 up to today, the import and export values have doubled and unless the Government, government agencies and the private sector had introduced and implemented relevant measures, the 6,40% of the 2005 turnover would have been equivalent to a CFS of USD 2,05 billion. Instead, the CFS for the 10 first cases amounted to USD 651,4 million only. The ocean freight for the import shipments is lower than the ocean freight for the export shipment due higher value and excess amounts of empty containers in Europe which result in very competitive FCL and LCL rates.

The insurance costs for the 10 cases comprised 0,47%, which is 40% less than for the 10 cases in 1996.

However, there is room for further improvement and it should be realistic to lower the average CFS insurance percent to around 0,30. This would mean extra savings in the range of USD 16,0 million.

The domestic transport costs count for 1,57%, which is too high, even it is lower than in 1996. The 1,57% is equivalent to a CFS of USD 550,3 million

Port charges have dropped over the period and gone from 1,33 percent in 1996 to 0,23 percent in 2005 values (USD 80,5 million).

The financial costs (inventory and immobilizations during transit) amounted to USD 265,9 million which is equivalent to 0,76 percent. In 1996, the financial costs percentage was 1,46 - so a positive development can be noted here.

The financial costs should be further decreased and it will be possible in connection with a further refinement of lead-time and a more competitive interest rate for financing of export.

The most significant change among the 10 cases was the drop in customs duties. The average duty percentage of the CFS was as low as 4,81. For the export, the percentage was 0,22 of the final value.

The average Total Non Factor Services based on the 10 shipments was 5,41 percent or USD 1,9 billion. The potential savings are estimated to 1,5% or about USD 525,5 million.

However, it must be stressed that the Non Factor Cost savings can be ten-fold surpassed by the possible savings in the rest of the logistics chain – where it is estimated that implementation of contemporary logistics principles can result in savings of 8-12 percent, which would mean USD 2,8 to 4,2 billion – or similar to the total non factor costs + duties.

**Table: 8.2 Cost of Pakistan Logistics**

Cost Factor	Average cost of final value % cases 1 to 10	2004-2005 Imports+NFS (USD Mill.)	2004 to 2005 Exports+NFS (USD Mill.)	Cost Factor value and % share in 2004-05 foreign trade	
				USD Mill.	%
<b>Cases 1 to 10</b>					
Ocean freight					
*imports	0,687	20.623,0		141,68	0,69
*exports	3,537		14.411,0	509,72	3,54
Total,				651,40	1,86
Insurance	0,474	20.623,0	14.411,0	166,06	0,47
Port charges (includes storage and demurrage).	0,23	20.623,0	14.411,0	80,58	0,23
Freight Forwarding (includes customs clearance and handling).	0,516	20.623,0	14.411,0	180,78	0,52
Customs duties and taxes					
*imports	4,805	20.623,0		990,94	4,81
*exports	0,221		14.411,0	31,85	0,22
Total				1.022,78	2,92
Land transport (domestic).	1,571	20.623,0	14.411,0	550,38	1,57
Financial cost ( inventory + immobilizations).	0,759	20.623,0	14.411,0	265,91	0,76
Informal cost (speed money).					
Total "non-factor-services" and duties share (2004-05 foreign service).				2.917,89	8,33
Non-factor services - transport & insurance (-financial cost).				1.895,10	5,41
Duties and taxes.				1.022,78	2,92

The figures from the 1996 Logistics Cost Study are shown below for comparison reasons.

**Table 8.2.1 Cost of Pakistan Logistics -1996 Study**

Cost Factor Import & Export Cases 1 to 10	Average cost of final value % cases 1 to 10	1993 to 1994 Imports+NFS (USD Mill.)	1993 to 1994 Exports+NFS (USD Mill.)	Cost Factor value and % share in 1993-94 foreign trade	
				USD Mill.	%
Ocean freight					
*imports	2,45	10.443,3		255,86	2,45
*exports	10,5		8.196,6	860,64	10,50
Total,				1.116,51	5,99
Insurance	0,72	10.443,3	8.196,6	134,21	0,72
Port charges (includes storage and demurrage).	1,33	10.443,3	8.196,6	247,91	1,33
Freight Forwarding (includes customs clearance and handling).	0,59	10.443,3	8.196,6	109,98	0,59
Customs duties and taxes					
*imports	45,29	10.443,3		4.729,77	45,29
*exports	0,9		8.196,6	73,77	0,90
Total				4.803,54	25,77
Land transport (domestic).	4,99	10.443,3	8.196,6	930,13	4,99
Financial cost (inventory + immobilizations).	1,46	10.443,3	8.196,6	272,14	1,46
Informal cost (speed money).	0,38	10.443,3	8.196,6	70,83	0,38
Total "non-factor-services" and duties share (2004-05 foreign service).				7.614,41	40,85
Non-factor services - transport & insurance (-financial cost).				2.810,87	15,08
Duties and taxes.				4.803,54	25,77

Cost Factor Services Cost split of 8.2

## Import 1-3 and Export 4-10

### Cost of Pakistan Logistics - Import Table 8.2.2

Cost Factor Import Cases 1 to 3	Average cost of final value % cases 1 to 3	2004-2005 Imports+NFS (USD Mill.)	2004 to 2005 Exports+NFS (USD Mill.)	Cost Factor value and % share in 2004-05 foreign trade	
				USD Mill.	%
Ocean freight					
*imports	0,687	20.623,0		141,68	0,69
*exports				0,00	0,00
Total,				141,68	0,69
Insurance	0,507	20.623,0	0,0	104,56	0,51
Port charges (includes storage and demurage).	0,204	20.623,0		42,07	0,20
Freight Forwarding (includes customs clearance and handling).	0	20.623,0		0,00	0,00
Customs duties and taxes					
*imports	4,805	20.623,0		990,94	4,81
*exports				0,00	0,00
Total				990,94	4,81
Land transport (domestic).	0,257	20.623,0		53,00	0,26
Financial cost )inventory + immobilizations).	1,052	20.623,0		216,95	1,05
Informal cost (speed money).					
Total "non-factor-services" and duties share (2004-05 foreign service).				1.549,20	7,51
Non-factor services - transport & insurance (-financial cost).				558,26	2,71
Duties and taxes.				990,94	4,81

### Comments to the matrixes 8.2.2 and 8.2.3

In addition to the Cost of Pakistan Logistics analyses demonstrating the development that has taken place in 1996 to 2006 comparison, the 2006 report has been further split so as to differentiate the "clean" import development and export development alone (cases 1-10 have been divided into 3 import cases and 7 export cases). Separation of the import costs for 2006 cases means that the amount of duties and taxes for the import shipments are increasing from 2,92% to 4,81% as an average (table 8.2.2).

This is still a significant difference compared to the 1996 figures, where the average of the samples 1-10 was 25,77%. Separation of the 3 import shipments in the 1996 survey would change the above average for the 1996 import shipments from 25,77% to 45,25%.

**Table 8.2.3 Cost of Pakistan Logistics Export 4-10**

Cost Factor Export Cases 4 to 10	Average cost of final value % cases 4 to 10	2004-2005 Imports+NFS (USD Mill.)	2004 to 2005 Exports+NFS (USD Mill.)	Cost Factor value and % share in 2004-05 foreign trade	
				USD Mill.	%
Ocean freight					
*imports				0,00	0,00
*exports	3,537		14.411,0	509,72	3,54
Total,				509,72	3,54
Insurance	0,46		14.411,0	66,29	0,46
Port charges (includes storage and demurage).	0,257		14.411,0	37,04	0,26
Freight Forwarding (includes customs clearance and handling).	0,516		14.411,0	74,36	0,52
Customs duties and taxes					
*imports				0,00	0,00
*exports	0,221		14.411,0	31,85	0,22
Total				31,85	0,22
Land transport (domestic).	1,571		14.411,0	226,40	1,57
Financial cost )inventory + immobilizations).	0,633		14.411,0	91,22	0,63
Informal cost (speed money).					
Total "non-factor-services" and duties share (2004-05 foreign service).				1.036,87	7,20
Non-factor services - transport & insurance (-financial cost).				1.005,02	6,97
Duties and taxes.				31,85	0,22

In Non Factor Services costs for 2005, the import shipments alone will have an average 2,71% (USD 558), a decrease of almost 50% compared to the figures in table 8.2.

For the import shipments, the 2006 report ocean average percentage is 0,69 compared to 2,45% in 1996. The commodities were very much the same. The commodities in 1996 included cables, synthetic felt rolls and spare parts and in 2006 report machinery, spare parts and cables.

However, it shall be noted that the average basic container rate paid in 1996 was USD 1900 compared to USD 1150 in 2005.

The average ocean percent for the 7 export shipments is 3,54%, which is close to the 4% shipment costs stated in The State Bank of Pakistan annual report. However, by calculating the average ocean costs percentage for all the export shipment samples it goes down to 2,27%.

As it can be seen in chapter 8.4 (potential savings) no possible savings in connection with the samples have been anticipated.

For the 7 export shipments the percentage of Non Factor Services is increasing to 6,97% and the average Non Factor Service costs for all shipments comes down to 5,44%. The difference is mainly due to high inland costs and financial costs (higher values) for the first 4-10 shipments compared to the shipments 11-18.

### **Cost Factor value for cases 11-18**

The average value per shipment is about four times higher for cases 11-18 than for cases 4-10 (also export) and with the import shipments included (1-3) two times higher.

The export duties and taxes are linked to the export fee of 0,25% imposed on all export shipments.

The ocean freight counts for 0,996 percent of the Pakistan foreign trade account – equivalent to USD 143,5 million. In 1996 the ocean freight amounted to USD 236,8 million (2,89%) with an average shipment value of USD 110,180 (compared to an average value in 2006 of USD 136,900). If the 1996 ocean freight share had remained unchanged, the share of Pakistan foreign trade account would have been USD 416,4 million.

The insurance share is 0,52 percent as compared to 0,72% in the 1996 report. The decrease should be followed up upon and the premium level of around 0,30% should be reached. This would be a reduction from USD 76,09 million to USD 42,3 million. Domestic transport (as by cases 11-18) is also too high with its 1,011 percent of the foreign trade account, amounting to USD 145,7 million. The domestic transport percentage should be reduced – implementing the upgrading measures mentioned in the transport chapter – with a final reduction to a percentage around 0,5 to 0,6. The 0,83 percent of financial costs in Pakistan foreign trade and NFS it too high and should be reduced with around 0,35 percent. It is caused by the export financing 9 percent and the capital inventory costs arising during transit. The higher the value, the more valuable are the savings in days in transit.

The total financial cost for the higher value cases amounted to USD 163,1 million in 1996 and USD 102,19 million in 2006, where the Export + NFS in the 1996 report counted for 8,196.6 million and the amount in this report is USD 14,411.0 million.

**Table: 8.3 Cost of Pakistan Logistics**

Cost Factor Cases 11 to 18	Average cost of final value % cases 11 to 18	2004-2005 Imports+NFS (USD Mill.)	2004 to 2005 Exports+NFS (USD Mill.)	Cost Factor value and % share in 2004-05 foreign trade	
				USD Mill.	%
Ocean freight					
*exports	0,996		14.411,0	143,53	0,996
Total,				143,53	0,996
Insurance	0,528		14.411,0	76,09	0,528
Port charges (includes storage and demurage).	0,32		14.411,0	46,12	0,320
Freight Forwarding (includes customs clearance and handling).	0,208		14.411,0	29,97	0,208
Customs duties and taxes					
*imports				0,00	0,000
*exports	0,233		14.411,0	33,58	0,233
Total				33,58	0,233
Land transport (domestic).	1,011		14.411,0	145,70	1,011
Financial cost (inventory + immobilizations).	0,834		14.411,0	120,19	0,834
Informal cost (speed money).					
Total "non-factor-services" and duties share (2004-05 foreign service).				595,17	4,130
Non-factor services - transport & insurance (-financial cost).				561,60	3,897
Duties and taxes.				33,58	0,233

### Summary

The general development has been positive, with a decrease in non-factor (services) logistics costs in Pakistan foreign trade and non-factor services account. In US dollars, the reduction in non-factor services logistics costs for the first 10 cases (inclusive of the 3 import cases and duties) was from US 7,761.6 to USD 2,917.2 during 1996 to 2006. The major part of the decrease comes from the diminishing of duties from USD 4,729.7 in the 1996 report to USD 990.9 in this report period. So it should be possible to confirm that the Government of Pakistan has taken the steps agreed to according to the international agreements entered.

For the second group of cases (11-18), the decrease over the last 10 years is from 6,39% to 4,13%

It should be mentioned, that the so-called speed money did not appear in such a form that it would have made it actual to be included in a comparison. In the 1996 report the speed money counted for an average of 0,24 percent. Had it not vanished, the 0,24% would be equivalent to USD 84,0 as of today.

## 8.3 Potential Savings

**Table 8.4**

Non Factor costs incl. financial costs

2004/2005			USD mill.
Imports + NFS			20.623,0
Exports + NFS			14.411,0
<b>Total</b>			<b>35.034,0</b>
Element	savings %		USD
Insurance	0,19	from average 0,49 to 0,30	66,6
Inland transport	0,69	from average 1,38 to 0,69	241,7
Freight Forwarding	0,12	from average 0,37 to 0,25	42,0
Financial costs	0,34	from average 0,80 to 0,46	119,1
<b>Total</b>	<b>1,34</b>		<b>469,5</b>
<b>Overall savings from the Pakistan Improved In-House Logistics</b>			
Steps - period	savings %		USD mill
<b>Total savings options</b>	19	min 18 max 25	<b>6.656,5</b>
First step 2007/2009	9	min 07 max 12	3.153,1
Second step 2010/2012	10	min 12 max 15	3.503,4
2004/2005 values			

The average savings are based on the savings from insurance, inland transport, freight forwarding and financial costs. The current level of ocean transport and port charges is considered as acceptable and further savings could be minimal, ca 0,01 per cent of the Pakistan foreign trade and NFS account.

The savings suggested are estimated to be around 1,34 percent of the Pakistan foreign-trade and non factor services account which is equivalent to USD 469,5 million or in the range of the total costs for ocean freight and port charges.

The recommendations as how to realize savings is for insurance a matter of pooling insurance activities, for inland transport a matter of better utilization of existing capacity along with streamlining of procedures. For freight forwarding it is a combination of better utilization of resources along with enhancement of HR (training and education). All the above issues are further discussed in the chapters 9.2, 9.3, 9.6, 9.7, 9.8 and 9.9.

These savings should be compared to the savings that could be achieved from introducing contemporary logistics measures in Pakistan. It should be stressed, that the savings included are only related to the Pakistan foreign trade and non-factor services account. If it were extended to Pakistan industrial turnover as such, the figures (savings) would increase dramatically.

In the context of Pakistan foreign-trade and NFS the potential savings from introducing contemporary in-house logistics could be in the range of USD 6,6 billion. Achievement could be implemented in two steps over a period of 5 years, which would allow for a strategic plan to be worked out and implemented during the period.

The optional savings from the first step are estimated to be in the range of USD 3,1 billion. In relation to non-factor services costs it would mean, that the annual savings from in-house logistics costs would be more than the total of non-factor services and duties. The magnitude and importance of the in-house logistics improvement effect cannot be over-estimated/exaggerated.

The overall savings potential by introducing contemporary In-House Logistics (the logistics controlled by the company) covers widespread logistics activities from procurement of material for the production, planning of the production – time and size of orders, the receivable of goods, warehousing, pick and pack, to distribution and shipping.

Looking at the logistics development during the last fifteen years in leading edge countries (like Denmark, USA, Germany, Sweden, Norway, Japan, Switzerland – countries also topping the UNCTAD’s Trade and Development Index) there has been an ongoing reduction of the logistics costs. The average logistics costs for leading edge companies in the above countries in 2005 were as low as 6% of the turnover.

The total logistics costs (6%) are divided as follows: a) Warehousing- (incl. packing) 39 %,

b) Transport/shipping (including internal transport) 27 %, c) Capital cost inventory 18 %,

d) Administration (procurement, production and administration) 16 %.

The average figures cover production, trading as well as wholesale companies.

The above mentioned assessment of potential savings (19% incl. of transport cost savings) is based on a comparison with the logistics cost development in the leading edge countries mentioned above as well as the progress in developing countries like Korea and Malaysia. This leads to an estimate of current direct and indirect Pakistan logistics costs in the range of 28% (USD 9,800.0 mill) of the turn over.

By 2012 the aim would be to reach a logistics cost level between eight and ten percent which is equivalent to USD 3,150.0 mill (in 2005 figures). General international Logistics Benchmarks are included in Appendix B.

Distribution of savings:

Activity	Potential Change in Percent				Savings
	Warehousing	Transport - Shipping	Capital Cost Inventory	Administration	USD mill
Procurement		4	5	1	980
Production Planning	5		1	1	785
Sales order processing		1		3	392
Receiving	1				98
Warehouse	15		2	2	1868
Production	1	1	1	1	392
Pick & Pack	5			1	589
Shipment and Export (see above)					469,5
Procedures, Management and Quality (total) loss	4	1	2	4	1083
Total					6,656,5

## 8.4 Comparative Analysis by Product and Economic Distortions

The below tables are established to enable an easy overview (analysis and comparison) of the general costs percentages in the 18 cases. The tables show the costs and value development of a shipment (in percent) during the major steps in the process; CIF, Port Gate and Final Value for Import shipments and the FOB vessel, C+F destination and Final value for the Export shipments.

### 8.4.1 Imports

**Table: 8.5 Analysis and Comparison**

<b>Imports</b>	<b>Case 1</b> Communication utilities	<b>Case 2</b> Textile printing machine	<b>Case 3</b> Spare parts
Value CIF Karachi			
% cost accrual	0,741	1,659	2,572
Factor value (%)	93,404	93,69	93,737
Value port gate Karachi			
% cost accrual	6,486	6,335	7,241
Factor value (%)	99,149	98,366	98,406
Final value			
% cost accrual	7,337	7,969	8,835
Factor value (%)	100	100	100
Non factor services (%)	0,741	2,62	2,572
Financial cost (%)	0,806	0,988	0,878
Savings potential (%)			
Customs duty & Tax (%)	5,533	4,325	4,558
Transit time (days)	36	35	38
Country of Origin	France	UK	Germany

The lead-time from departure at origin up to delivery to the consignee has improved compared to the transit days for the import shipments analyzed in the 1996 report. The customs processing time from filing of declaration to release of shipment to final consignee has been lowered substantially, to an average throughput time of 3 days. All three import shipments went through the CARE system.

These figures should be compared to the average processing/dwelling time at port, which is 11 days. The faster throughput means substantial financial savings and for all import a faster throughput by 1day is equivalent to USD 5,09 mill. lower financial costs in transit. This means that total implementation of the CARE system could give financial cost savings during transport (dead capital en route) in the amount of 40,7 million US dollar (when reducing the throughput time from 11 to 3 days).

In addition, the duties have been considerably decreased; the average duty for the 3 import shipments and the average duty factor to Pakistan foreign trade and NFS account (import) is 4,81 percent.

Port costs and delivery costs constitute 0,20 percent and 0,47 percent respectively.

## 8.4.2 Exports

### Leather products

In order to compare the cost ratio for two companies in the same product line two leather garment exporters were chosen. The third one was a low value leather product (semi-finished leather) export shipment.

**Table: 8.6 Analysis and Comparison**

<b>Export</b>	<b>Case 4</b> Leather garment	<b>Case 5</b> Leather Garment	<b>Case 6</b> Semi finished leather
Value FOB vessel			
% cost accrual	0,768	1,191	2,698
Factor value (%)	97,281	97,96	96,861
Value C+F destination			
% cost accrual	2,804	2,524	5,326
Factor value (%)	99,317	99,293	99,49
Final value			
% cost accrual	3,487	3,231	5,836
Factor value (%)	100	100	100
Non factor services (%)	2,824	2,541	5,354
Financial cost (%)	0,683	0,707	0,51
Saving potential (%)			
Transport and Insurance in Pakistan (%)	0,774	1,199	2,711
Ocean freight (%)	1,64	0,937	1,664
Transit time (days)	28	29	21
Destination	Felixstowe	Manchester	Hong Kong

The transit time for the two shipments for European destinations can be considered as acceptable and mirror the upgrading on ocean services from Pakistan to Europe and other important destinations. The transit time to North American destinations like New York and Baltimore is between 38 and 40 days – which is also acceptable.

The average non-factor services for the two cases with leather garments (and higher values) was 2,68 percent with the part up to FOB Karachi counting for 0,99% and the ocean freight average 1,29. The inland costs are far too high and should be reduced by around 0,70 percent; also the financial services should be reduced to around 0,34 percent.

The non-factor costs for the semi-finished leather of 5,35 percent is high and this is mainly due to the long transit time and thereby high financial costs.

The leather industry and their challenges are described under the Add-on Index in Chapter 8.3

## Sports Goods

**Table: 8.7 Analysis and Comparison**

<b>Export</b>	<b>Case 7</b> Sports Goods	<b>Case 8</b> Sports Goods	<b>Case 9</b> Sports Goods
Value FOB vessel			
% cost accrual	2,739	0,512	9,974
Factor value (%)	94,802	89,521	84,02
Value C+F destination			
% cost accrual	7,015	10,795	25,271
Factor value (%)	99,078	99,803	99,317
Final value			
% cost accrual	7,937	10,991	25,954
Factor value (%)	100	100	100
Non factor services (%)	7,08	10,816	25,445
Financial cost (%)	0,922	0,197	0,683
Savings potential (%)			
Transport and Insurance in Pakistan (%)	2,765	0,513	10,043
Ocean freight %	3,881	10,103	14,902
Transit time (days)	31	8	37
Destination	Copenhagen	Düsseldorf	Antwerp

*(By Air)*

The analysis of shipments with sports goods comprised 3 shipments, incl. one shipment with rather low value and one shipment at the higher end of the scale. This is considered to be representative of the value and weight mix in the sports goods segment. Out of the three shipments, two were sent by ship and one by air. The air shipment was not a planned airfreight shipment but was sent by air to meet the contracted delivery time. The financial costs savings for the airfreight shipment were in fact only 5% of the potential savings, as the transit time advantage could not be fully utilized. Under normal circumstances the transit time would have been 3 days, but due to lack of capacity, the airfreight shipment took 10 days to reach the final customer. As delay situations are “normal” in this business segment, the importer included higher delay costs than for the other commodities analyzed in this report. This is also reflected in the add-on index.

The freight rates as well as the transit times for the two ocean shipments are competitive compared to suppliers in other countries of the region. The frequencies and services of international shipping lines on Karachi have grown substantially over the last years, at the same time also the LCL services have developed rapidly. The inland transport costs as well as the forwarding costs for the two ocean shipments are relatively high as opposed to the ocean freight.

The insurance premium (average of the three shipment) was in the range of 0, 30% of the final value. In general, the non-factor services costs are rather high (8,7%) due to a combination of low value of the goods, the forwarding costs, high domestic transport costs (23% of the total non factor costs) and financial costs during transport/transit.

As to possible savings, the main savings could be derived from a combination of the above costs and would amount to 1,80 % for case 7.

For case 8, the savings could be around 1,0% - derived from freight forwarding and financial costs. However, had the production made the shipment ready for shipping in time, the transport costs would have been reduced from 11,12% to 1,5% of the total cost factor. For case 9, the possible savings are limited to domestic transport and insurance. The total reduction could be in the range of 7%. However, it should be noted that the value for this shipment is very low, taking the weigh into consideration.

As it can be seen from the sports goods example in the Add-On index comparison, the delay and FOB costs are well in line with the calculation considerations made by the importers.

## Textiles

**Table: 8.8 Analysis and Comparison**

<b>Export</b>	<b>Case 10 Textiles</b>	<b>Case 11 Textiles</b>	<b>Case 12 Textiles</b>
Value FOB vessel			
% cost accrual	0,689	0,289	1,422
Factor value (%)	94,556	98,65	95,07
Value C+F destination			
% cost accrual	5,402	1,101	5,601
Factor value (%)	99,269	99,462	99,249
Final value			
% cost accrual	6,133	1,639	6,352
Factor value (%)	100	100	100
Non factor services (%)	5,442	1,107	5,643
Financial cost (%)	0,731	0,538	0,751
Savings potential (%)			
Transport and Insurance in Pakistan (%)	0,694	0,29	1,433
Ocean freight (%)	4,219	0,515	3,24
Transit time (days)	35	34	31
Destination	California	Genoa	Antwerp

The main competition is currently faced from India and China, but revision of production and supply logistics towards higher frequency of deliveries and thereby smaller orders brings new and old competitors into the

market-place, as short lead-time in production and supply is mandatory for the bigger customers and retail chains.

The Pakistan quality image turns price into the major issue for buyers. However, it should be mentioned here, that case number 11 represents a situation, where the product quality is good enough for the Italian importer to label it with “Italian design”. As it is an all-year textile product, it is possible for the Italian importer to make a bulk purchase.

Especially in the textile segment it can be suggested that the Pakistan exporters take advantage of the improved logistics infrastructure ex Karachi and consider a change in terms of delivery - to DDP.

Case number 11 is an example of a good quality product, where it is not the exporter, but the wholesaler who benefits from the high quality and a very high mark-up.

The non-factor costs are low due to very high value and low inland transport costs. The major non- factor cost item is the financial cost, which is 1,01%. The total transport time for this shipment was 34 days only, so in this case it can be seen that some companies are capable of expediting efficiently. It should also be mentioned, that the importer is monitoring production and supply very carefully.

Case number 10 covers a volumetric shipment for USA, shipped in a 40' container. It is an all-in shipment, where the ocean freight counts for 78% of the total non-factor costs. The inland transport cost is limited, as it is only 0,28%. The only feasible cost reduction could be the financial costs. The reduction could only come from a reduction of the interest rate, as the total transit time from Karachi to the US West coast was as short as 35 days.

All 3 textile shipments analyzed had an acceptable transit time.

Where case 12 is concerned, the total non-factor costs are 5,64%. Possible savings can be found in forwarding and inland transport plus financial costs – in an amount of 1,00%.

## Carpets

**Table: 8.9 Analysis and Comparison**

<b>Export</b>	<b>Case 13 Carpets</b>	<b>Case 14 Carpets</b>	<b>Case 15 Carpets</b>
Value FOB vessel			
% cost accrual	0,389	0,384	0,367
Factor value (%)	98,298	97,828	97,123
Value C+F destination			
% cost accrual	1,141	1,659	1,842
Factor value (%)	99,05	99,102	98,598
Final value			
% cost accrual	2,091	2,556	3,244
Factor value (%)	100	100	100
Non factor services (%)	1,152	1,674	1,868
Financial cost (%)	0,95	0,898	1,402
Savings potential (%)			
Transport and Insurance in Pakistan (%)	0,393	0,388	0,372
Ocean freight (%)	0,507	0,592	0,895
Transit time (days)	39	37	58
Destination	London	Düsseldorf	Baltimore

Carpets have a different non-factor services costs and logistics profile. Due to the high value the percentage of the non-factor services cost of the export price is normally relatively low.

The inventory costs (financial costs and storage costs) is a major issue along with insurance. The importers have had a tendency of buying in big lots when the prices were low, as the capital costs were not considered a costly issue due to traditionally very high mark-up.

New distribution patterns may change this, as a number of companies are distributing also high quality carpets. They have a different inventory turnover strategy; carpets are treated like any other commodity, whereby it is above all a matter of securing fast turnover and rapid cash flow where the key focus is on “how fast can you turn an order in to cash”.

The development of LCL services and the increasing number of destinations operated with consolidated cargo services have reduced the ocean rates significantly. In the 3 carpet cases analyzed, the ocean freight counts as an average for 0,67% only, while in the 1996 report cases the percentage was 1,74%.

The average non-factor service cost for the three shipments is as low as 1,56%.

The financial costs are from 0,90% to 1,00% and as the average transit time for the shipments is of acceptable level, the only savings to be achieved is a lower interest rate for the financial costs.

The special situation in the carpets segment does not make it viable to suggest a general introduction of contemporary logistics here. Otherwise, based on the value of the commodities, one could expect that a focus

should be put on inventory level at origin and destination, combined with fast replenishment by air as a possible cash flow and economic advance.

It could, however, be suggested that a Total Distribution Costs analysis was established in connection with an assessment of the turnover of special carpet types for single importers. It could also be considered if it was feasible to establish for example a general consolidated inventory centre in Europe and USA, from where buyers could be offered faster replenishment and thereby get a preference for Pakistan carpets as well as improve the cash flow.

## **Foodstuff**

The conclusion was, that the quality was superb at the place of growing, but started to deteriorate as soon as the picking started. The grading and sorting plus handling was a major problem and lack of cooling facilities meant that the maturing process was escalated too fast leading to a limited shelf life and thereby time for sales in the shops and super-markets.

The importer had, in the worst case, calculated that only 30% of the mangoes that arrived were sellable, which means that the obsolete rate was 70%. Based on data obtained in Pakistan, such a case illustrates a situation, where only 14% of what was picked was quality wise suitable for sales in final destination. To put it differently, 14% of the shipment (product lot) should pay for the costs, profit, etc. for 100% - which means being not competitive price wise.

The fresh food market is the fastest growing market segment in the world and with the quality “in the field” that Pakistan food products have it is about time that a Pakistan quality and cool chain concept be established. The current supply to Europe is coming from a multitude of suppliers in Africa, South America and South East Asia. As mentioned in the transport chapter, airfreight facilities and capacity is a must in connection with effective fresh food supply chain, whereby the local quality and cool chain development should go hand in hand with the transport cool chain development.

**Table: 8.10 Analysis and Comparison**

<b>Export</b>	<b>Case 16</b> Food Rice	<b>Case 17</b> Food Rice	<b>Case 18</b> Food Confectionery
Value FOB vessel			
% cost accrual	2,807	4,344	3,08
Factor value (%)	88,935	90,788	91,683
Value C+F destination			
% cost accrual	12,927	12,8	10,963
Factor value (%)	99,056	99,244	99,566
Final value			
% cost accrual	13,871	13,556	11,397
Factor value (%)	100	100	100
Non factor services (%)	13,05	12,897	11,011
Financial cost (%)	0,944	0,756	0,434
Savings potential (%)			
Transport and Insurance in Pakistan (%)	2,833	4,377	3,093
Ocean freight (%)	9,255	8,147	7,573
Transit time (days)	39	31	29
Destination	Munich	Muritus	Yemen

In the quality and investments context it is worthwhile to observe the growing trend in America and EU, where consumers are refusing the artificial preservation (spraying, radiation, etc) method as a negative quality aspect of fresh food products. For example, Smartfresh (1-MCP gas) is being banned as of April 2006 in big European supermarket chains like Ahorn and ICA. No doubts more importers will follow this ban pressed on them by the consumers. The South-European fruit and vegetable producers welcome the ban and expect that their fresh food market share will increase.

The above trends and focus gives extra advantages to exporters with superb logistics facilities for the full supply chain. The aim here should be not only general market share, but to obtain a share of the top end of the market. The fresh fruit quality at origin complements this market approach only if the Pakistan logistics efficiency is able to cope accordingly, so that the quality of product and the quality of supply meet the requirements from the clients.

## 8.5 Financial Cost Analysis

The financial cost analysis comprises 3 import shipments and 15 export shipments.

The 3 import cases are spare parts for two of the shipments and the third shipment is import of a textile-printing machine. The export shipments comprise the product segments; leather goods, sports goods, textiles, carpets and foodstuff. The shipments represent real life shipments expedited in the last part of 2005/beginning of 2006.

Information has been obtained from a combination of data from importer and exporters, transport companies and service providers (forwarding agents).

The analysis confirms the positive development in the context of decreased non-factor services costs compared to the figures in the 1996 report. It also confirms the decrease in duties and financial costs. There is still room for improvement and in the Savings chapter it is shown, that further savings in close to USD 500 millions should be possible.

The individual groups cannot be compared case by case due to different values per 100kgs and different ratios between volume and tonnage (freight calculation), but merely as a comparison within the product groups. However, the average values of all the cases should be considered as representative for export and import activities.

**Table 8.11 Import - Total Cost Factor**

	<b>Cost Factor</b>	<b>Case 1</b> Communication Utilities	<b>Case 2</b> Textile printing machine	<b>Case 3</b> Spare parts
1	<b>Value ex Factory</b>	236.930,00	96.360,00	26.890,00
2	<b>Insurance (marine)</b>	1.184,65	289,08	231,19
3	<b>Ocean Freight</b>	710,00	1.448,00	527,50
	<b>Value CIF Karachi</b>	<b>238.824,65</b>	<b>98.097,08</b>	<b>27.648,69</b>
4	<b>THC</b>	392,79	331,05	5,00
5	<b>Wharfage</b>	13,00	0,00	27,73
6	<b>Demurrage</b>	67,65	0,00	0,00
7	<b>Duties and Taxes</b>	14.215,80	4.528,92	1.344,50
8	<b>Infrastructure Fee</b>	0,00	0,00	0,00
9	<b>Octroic (abolished)</b>	0,00	0,00	0,00
10	<b>Freight Forwarder</b>	0,00	36,00	0,00
11	<b>KPT Storage</b>	0,00	0,00	0,00
	<b>Value Port gate Karachi</b>	<b>253.513,89</b>	<b>102.993,05</b>	<b>29.025,92</b>
12	<b>Delivery</b>	115,00	676,33	211,00
13	<b>Destuffing</b>	0,00	0,00	0,00
	<b>Value at Destination</b>	<b>253.628,89</b>	<b>103.669,38</b>	<b>29.236,92</b>
14	<b>Financial Cost</b>	2.061,09	1.034,72	259,06
	<b>Final Value</b>	<b>255.689,98</b>	<b>104.704,10</b>	<b>29.495,98</b>
	<b>Total Potential Savings</b>			
%	<b>Transport and Insurance, % of final value</b>	<b>0,97%</b>	<b>2,66%</b>	<b>3,40%</b>
%	<b>Financial cost, % of final value</b>	<b>0,81%</b>	<b>0,99%</b>	<b>0,88%</b>
%	<b>Duties &amp; taxes, % of final value</b>	<b>5,56%</b>	<b>4,33%</b>	<b>4,56%</b>

**Table 8.12 Export - Total cost factor**

	Cost factor	product	product	product	product	product	product	product
	USD	Leather	Leather	Semi	Sport	Sport	Sport	Textile
	Case	Garments	Garments	finish	goods	goods	goods	
		4	5	6	7	8	9	10
1	Value ex factory	91.200,00	42.330,00	14.150,00	11.742,00	31.953,00	2.882,00	53.485,00
2	Packing at factory	0,00	0,00	0,00	0,00	0,00	0,00	0,00
3	Export Fee 0,25% ex fact.	228,00	105,83	35,38	29,36	79,88	7,21	133,71
4	Forwarding & inspection costs at Dry port	34,00	53,00	85,00	65,00	76,00	83,00	0
5	Inland transport to Dry port + insurance	118,00	185,00	210,00	30,00	28,00	43,00	147,00
6	Transport to Karachi & local transport Karachi	253,00	177,00	0,00	225,00	0,00	255,00	13,00
7	Export clearance	0,00	0,00	0,00	0,00	0,00	0,00	0,00
8	Terminal handling, wharf. demurrage & handling	93,00	0,00	50,00	0,00	0,00	0,00	99,00
9	Octroic - abolished	0,00	0,00	0,00	0,00	0,00	0,00	0,00
10	Karachi-external charges	0,00	0,00	25,00	0,00	0,00	0,00	0,00
11	15 + 16	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	<b>FOB Karachi</b>	<b>91.926,00</b>	<b>42.850,83</b>	<b>14.555,38</b>	<b>12.091,36</b>	<b>32.136,88</b>	<b>3.270,21</b>	<b>53.877,71</b>
12	Insurance (Marine)	373,90	171,40	145,00	50,35	64,27	15,40	281,41
13	Ocean freight & charges	1.550,00	410,00	250,00	495,00	3.627,00	580,00	2.404,00
14	Grading	0,00	0,00	0,00	0,00	0,00	0,00	0,00
15	Profit Wholesaler Pakistan	0,00	0,00	0,00	0,00	0,00	0,00	0,00
	<b>CIF port of arrival</b>	<b>93.849,90</b>	<b>43.432,23</b>	<b>14.950,38</b>	<b>12.636,71</b>	<b>35.828,15</b>	<b>3.865,61</b>	<b>56.563,12</b>
16	Financial charge	645,37	309,34	76,66	117,59	70,55	35,13	485,72
	<b>Final landed cost</b>	<b>94.495,27</b>	<b>43.741,57</b>	<b>15.027,04</b>	<b>12.754,29</b>	<b>35.898,70</b>	<b>3.900,73</b>	<b>57.048,84</b>
%	Non Factor Services (less packing&financial)	<b>2,82%</b>	<b>2,54%</b>	<b>5,35%</b>	<b>7,08%</b>	<b>10,82%</b>	<b>25,45%</b>	<b>5,44%</b>
%	Transport + Insurance Pakistan	<b>0,77%</b>	<b>1,20%</b>	<b>2,71%</b>	<b>2,76%</b>	<b>0,51%</b>	<b>10,04%</b>	<b>0,69%</b>
%	Potential savings							
	Transit days	28	29	21	31	8	37	35

**Table 8.13 Export - Total cost factor**

Cost factor	product Textiles	product Textiles	product Carpets	product Carpets	product Carpets	product Food	product Food	product Food
USD								
case	11	12	13	14	15	16	17	18
Value ex factory	668.522,00	33.819,00	97.759,00	122.960,00	129.750,00	13.727,00	16.976,00	12.286,00
Packing at factory	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Export Fee 0,25% ex fact.	1.671,31	84,55	244,40	307,40	324,38	34,32	42,44	30,72
Forwarding and inspection costs at Dry port	0,00	85,00	27,00	38,40	34,00	85,00	19,16	74,35
Inland transport to dry port + Insurance	108,00	256,00	46,00	64,00	52,00	0,00	333,33	257,97
Transport to Karachi & local transport Karachi	12,00	0,00	71,00	75,10	82,00	253,00	333,33	0,00
Documentation costs Karachi	0,00	0,00	0,00	0,00	0,00	0,00	0,00	
Export clearance	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Terminal handling, Wharf. demurrage & handling	170,00	63,00	0,00	0,00	0,00	50,00	124,80	63,00
Octroic - abolished	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Karachi-external charges	0,00	25,00	0,00	0,00	0,00	25,00	0,00	0,00
15 + 16	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>FOB Karachi</b>	<b>670.483,31</b>	<b>34.332,55</b>	<b>98.147,40</b>	<b>123.444,90</b>	<b>130.242,38</b>	<b>14.174,32</b>	<b>17.829,06</b>	<b>12.712,04</b>
Insurance (Marine)	2.021,95	339,00	245,00	861,00	778,00	138,00	60,53	42,99
Ocean freight & charges	3.500,00	1.170,00	506,00	747,00	1.200,00	1.475,00	1.600,00	1.050,00
Grading	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Profit Wholesaler Pakistan	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>CIF port of arrival</b>	<b>676.005,26</b>	<b>35.841,55</b>	<b>98.898,40</b>	<b>125.052,90</b>	<b>132.220,38</b>	<b>15.787,32</b>	<b>19.489,59</b>	<b>13.805,03</b>
Financial charge Karachi + Ocean freight	6.906,02	271,38	948,69	1.133,04	1.879,81	150,49	148,51	60,14
<b>Final landed cost</b>	<b>682.911,28</b>	<b>36.112,92</b>	<b>99.847,09</b>	<b>126.185,94</b>	<b>134.100,18</b>	<b>15.937,81</b>	<b>19.638,10</b>	<b>13.865,16</b>
Non Factor services (minus packing&financial)	1,11%	5,64%	1,15%	1,67%	1,87%	13,05%	12,90%	11,00%
Transport + Insurance Pakistan	0,29%	1,43%	0,39%	0,39%	0,37%	2,83%	4,38%	3,09%
Potential savings								
Transit days	34	31	39	37	58	39	31	29

## 9. THE LOGISTICS CHAIN IN PAKISTAN: ISSUES AND COSTS

Lengthy, unpredictable and costly import and export procedures are a burden for foreign exporters and importers as well as have a negative impact on Pakistan exporting firms and final consumers. The problems with estimation of logistics expenses and lead time entail higher capital costs and inventory levels and force companies to apply “buffer” arrangements, whereby additional mark-up of up to 35% is added to compensate for the higher capital costs as well as anticipated problems with delivery times, resulting in higher prices of imported goods for Pakistan industries and consumers. The exporters face the same problems, often combined with the quality issues, which leads to low competitiveness of Pakistan exports. The European importers interviewed estimated the buffer time/stock to have increased approx. 8%-10% over the last 5 years. However, during the interviews with European importers it became evident that the “buffer” elements included in the calculations by the majority of the importers are far too high when compared to the real life situation as disclosed in the course of the Study.

The Pakistan logistics sector today needs to adjust to the general logistics requirements as well as the dominating purchasing/ordering and supply trends globally. These trends include:

- a) More frequent and smaller order sizes to avoid inventory piling. For fashion/ seasonal goods access to more recent “fashions” and re-ordering possibility for best selling products.
- b) Reduced lead-time for replenishment to minimize safety stock.
- c) Integration of IT systems with suppliers so that the lead-time for forecasting as well as the actual ordering time are diminished.
- d) Pull replenishment agreements with suppliers.
- e) Application of Quality Indicators (product quality as ordered, delivery as agreed) with penalty clauses (discounts, cancellations and lost sales norms).
- f) Changing Terms of Delivery to DDP (for a multitude of reasons: a) to simplify the calculations b) minimize the risk for unforeseen costs c) more effective benchmark/comparing quotations from different companies in different regions d) “all in” assessment with common focus on quality of products and supply.

Part of the problem in the quality line (production and logistics) today seems to be a certain lack of corporate culture (loyalty and pride) and the inability to see ones own importance (as well as risk for creating big problems – e.g. too high obsolete costs at destination resulting from minor “quality” mistake) in the total supply chain. This has to do with corporate visions and values on the one hand and general knowledge level on the other hand.

An area requiring special attention in the Pakistan competitiveness and logistics chain efficiency context is the human resource development and knowledge building. Without efforts in this area, the business processes will remain inefficient.

Pakistani trade is not tuned to international business processes today. Neither in trade nor in services (freight forwarding, etc.) the earlier suggested upgrading of skills and knowledge has taken place. The learning by doing concept in force does not provide the essential part of understanding or skills in relation to international productivity, quality and general logistics norms. This should not be interpreted as lack of interest from the employees to learn, but merely as a result of inadequate interest for and understanding of the benefit of vocational and basis training from the employers’ side. “Why train people so they can go to a competitor to be better paid?” is still considered as an acceptable reason for maintaining the “mushroom management” principles (i.e. “keep them in the dark so they do not disturb”). The training and education so badly needed has not been organized or coordinated by any of the parties that should be interested in finding solutions.

The human resource development (vocational and basic training) inadequacy forms a risk to achieving a general acceptable level in understanding contemporary principles in production, trade and logistics. It is mandatory that private and public sector initiatives be introduced rapidly. While service and transport providers in other countries have developed to become total service logistics providers and logistics partners to exporters and importers, only a very few Pakistani companies can provide the merchandising and quality control, supply line control and logistics cost control that is expected to qualify as a partner.

The higher-level education in relation to production, trade and service logistics seems to be to a great extent based on global logistics principles. It is, however, missing the link and relation to real life activities, thereby creating an image of logistics as a very superficial discipline and further widening the gap between the practitioners and the theoreticians. It is mandatory that the higher education include a practical “usage” module and at the same time relevant middle level education and training schemes be established. Only this way the contemporary human resource “supply line” can be secured and utilized properly. The Pakistan image will benefit immensely from upgraded human resource and logistics skills development system and so will the general economy.

## **9.1 Production**

The production principles are quite different in the segments analyzed, but for all segments the importance of lead-time is becoming increasingly obvious and adding more pressure to the production efficiency, quality control, internal logistics and the internal order system and processing. Non-efficient order processing systems and procedures reduce the time allocated for production activities, including eventual purchasing of raw material and other production inputs.

It is clear that the production logistics is only known in some of the bigger leading edge companies, whereas the majority of producers are still operating by outdated principles. This is not only hampering the lead-time, but also the profitability of the companies. The capital costs from carrying inventory as well as the “waste/obsolete” costs are high. There is a need for introduction of contemporary logistics principles in most companies in order to meet the increasing demands from buyers for shorter lead-time and lower total costs.

The above-said is especially valid for leather goods, textiles and sports goods where more “seasons” are being introduced to replace the previous 4-season system. This means that the pressure on flexibility, shorter lead times and more tailor-made solutions will grow dramatically. The leading edge companies in the garment business - like the Spanish Zara - are currently operating with 12 “seasons” annually, which is putting an extra pressure on the supply chain of the competitors, to cope in terms of quality and supply. At the same time the competitors having the advantage of preferential schemes with EU (e.g. Sri Lanka) put extra pressure on the refinement of logistics and logistics costs of Pakistani companies in order to compensate for this “uneven” competition.

The food business is today characterized by the booming of the fresh food market. Consequently, the key focus area is the diminishing of obsolete products at the consumer end combined with the requirement for more time for shelf-sales. This makes it mandatory to have full control of the quality throughout the supply chain – starting with quality of the picking, grading and sorting in Pakistan.

The continuing trend in logistics is that of buyers aiming at keeping inventories low and pushing them back to where the value is the lowest. This in turn creates a situation where suppliers that can manage more frequent supplies based on shorter lead times and can do it in an economical way – will be the winners and leave other companies to reduce their prices to keep afloat.

During the interviews it has been stated that there is a need for a better understanding of total logistics - the requirements set for the management and the employees - so that a general understanding is developed of the aims, tasks and consequences of contemporary logistics. It shall be stressed that it is not only in the production sector that there is a lack of understanding - the same situation is felt in marketing entities and also in the professional quarters of service and transport providers.

The shortage in logistics understanding is already an obstacle and will continue to be so in the long term. It hinders the communication and understanding of the requirements and norms from international buyers as well as makes it difficult to cope. It is therefore important that the understanding, willingness and ability to introduce the logistics principles throughout the total supply chain be upgraded – covering and including the importers, producers and exporters. The Trade Facilitation measures are very well going hand in hand with contemporary logistics – so it may be an issue that could be handled by the Trade Facilitation Committee.

## **9.2 Transport**

Recent World Bank reports are stating that Pakistan has a reasonably developed transport infrastructure. The backbone of Pakistan's transport system is its roads network. Two major ports, Port Karachi and Port Quasim, handle 95% of all international trade, and 14 dry ports cater to high value external trade. A few oil pipelines - about 2,100 km in length – have a yearly pumping capacity of 6.0 million tons.

Over the past ten years, road traffic – both passenger and freight - has grown significantly faster than national economic growth. The 8,800 km long National Highway and Motorway network - which is 3 percent of the total road network - carries 75 percent of Pakistan's total traffic. There are 36 operational airports, one major public sector airline, and a few private airlines.

The transportation sector accounts for about 11 percent of the country's GDP and 17 percent of Gross Capital Formation (GCF). It provides over 6 percent of employment in the country and receives 12 to 15 percent of the annual Federal Public Sector Development Program. Government agencies dominate the sector.

The projected economic growth will double the demand for transport services in the coming years, the projected figure by 2015 is 190-210 billion ton-km. This will set high demands on infrastructure and service level.

Although the sector is functional its efficiency is rather low. The long waiting and travelling times, high costs and low reliability are hindering the country's economic growth. These factors reduce the competitiveness of the country's exports and constrain Pakistan's ability to integrate into global supply chains, which require just-in-time delivery. The inadequate performance of the sector is estimated to cost the economy 4-6 percent of GDP each year.

It has been assessed that in order to cope with the demands of the growing economy and trade, an investment of nearly 1% of GDP annually over 5 to 7 years period is required.

### 9.2.1. Domestic Transport

Domestic transport is still suffering from relatively long lead times and costs. In areas like Sialkot where all transport is based on truck transport the current capacity problems are expected to increase along with the implementation of reduced axle pressure on trucks (because of overloads).

The cost and transport problems are also reflected in the analysis of the 18 samples. The domestic transport costs count for as much as 1,29% (average) of the final value of the commodities. In 1996 the average percentage was 1,11%.

The domestic transport along with freight forwarding is the two major areas where costs have increased, with the inland costs as the “winner”. In comparing inland transport and ocean transport (overseas transport), the inland transport costs are close to the ocean transport cost – being only 25,8 percent less.

The trucking cost has increased due to raise in fuel prices but at the same time it can be concluded that the costs for delivering to inland Dry Ports and then onwards to Karachi ports is a cost raiser. This as the consolidation opportunities are not fully utilized and thereby reducing the costs. Also it can be observed that the tendency of choosing truck transport from areas, where transport on rail is possible is hampering the costs.

Train transport can be improved so that the lead-time and reliability is brought in order and thereby attract cargo moving on truck – but also mixed loads (bonded/non bonded) on trains should be allowed to enhance the services, frequency and capacity.

The trucking costs are also high due to the fact that truck transport is used for urgent shipments to reach port due to delay in production – and higher costs are arising from special speedy services.

All in all the inland transport network needs an overhaul so that the costs can be decreased to an acceptable level. An average percentage of 0,80 for inland transport of the final value must be considered as acceptable. It means that the current costs must be cut around 50%.

This will need coordination between the different modes of transport, introduction of more reliable railway services, introduction of mixed cargo (status) trains where also empty containers plus LCL/LWL high frequency services should be introduced.

If Pakistan decides to upgrade the efforts in connection with export of perishables (ocean and/or air) there will be a need for heavy investments in refrigerated trucks, wagons and cooling facilities so that an unbroken cool chain can be operated throughout the supply line. But it is a question, if such an upgrading will be feasible taking into consideration the current poor quality of inland transport quality for general cargo.

The above findings and suggestions are further elaborated in the following:

#### **Trucking**

The quality of road transport services is low. Pakistani current level of rail operations force larger than normal share of low value commodity freight onto trucks. The large road freight share is costing the economy 60-90 billion Rupees per year in extra fuel cost and subsidies on diesel. The truckers are forced to keep rates low and the overloading is very high. Over half of the national highways network is in poor condition, and the road safety record is poor. The country’s truck fleet is mostly made up of obsolete, underpowered and polluting vehicles, trucks are often grossly overloaded. Truck speeds are consequently low, ranging between 20 to 25 kph compared to 80-90 kph in Europe, and journeys take three times longer than in Europe. The road freight takes as an average 3-4 days between ports and the north of the country (a distance of 1400-1800 km) – which is twice the equivalent time in Europe and Asia. In “emergency” cases a 1-2 days transport can be arranged.

Upon introduction of the axle pressure limitation planned to “avoid” the overloading of trucks, a worse situation will develop as to congestions, lead-times and higher prices. It has been calculated that due to the limitations 30-40 extra trucks will be needed. More trucks on the road will also have a very negative impact on the development of external costs and become a further cost-burden for municipalities, regional governments and the Government of Pakistan.

Most probably the development will lead to an under-capacity situation, which will have a direct negative impact on the competitiveness of Pakistani companies and also increase the capital costs.

The possible lack of capacity will be “supplemented” with the usual seasonal capacity shortage during the periods where raw cotton is moving from North to South, when fertilizers move from South to North and in case of wheat import. On top of this, the road transport will also be affected by transit moving to Afghanistan, as well as relief shipments to the northern regions.

In short as well as long-term perspective, the only alternative is to dramatically enhance the quality of rail transport, so that truck capacity can be freed up for industries in areas, where rail services are not available. Today’s situation, where big enterprises (in areas where railway services are available) importing more than 6200 m/t a year and for export utilizing approx. 700 containers a month are using truck transport for more than 90% of the hauls shows the need for changes.

The “negative” trend of increasing cargo on roads instead of rail is primarily due to non-efficient railway services – at least this is the reason stated by importers and exporters.

A good example of the current cost level for inland transport can be seen from the fact that the transport of a bonded 20’ container from Lahore to Karachi costs around 49 percent more than the ocean freight for a 20’ container from Karachi to Dubai and constitutes approx. 45% of current container rate to Rotterdam. The average truck transport rates between Lahore and Karachi are the following:

From Karachi to Lahore	From Lahore to Karachi
➤ Open truck Rs. 40,000 per 20’ container	➤ Open truck Rs 14,000 per 20’ container ➤ Bonded truck Rs 25,000 per 20’ container

For comparison it should be mentioned here, that the Railway today charges Rs.15, 000 per 20’ container from Karachi to Lahore and Rs. 7000/8000 per 20’ container from Lahore to Karachi.

## Railway

Pakistan Railways (PR) needs to take major steps to improve the quality of freight services. Today it is not a freight railway, but focuses on passengers above all. The bulk of freight carried by rail belongs to the public sector; the private sector usage is close to zero except for legally required traffic, like Afghan Transit Traffic. The challenges facing PR today include improving delivery times, reliability, tracking information etc. Presently, it takes 21–28 days for PR to deliver upcountry at a distance of 1800 km, which is 4 to 7 times slower than in China and the US. As a result, the railways have a very low and stagnant market share, carrying less than 5 percent of freight and 10 percent of passenger traffic.

The majority of the importers and exporter are not satisfied with the railway services. A number of exporters do not dare to rely on the transit times stated by the railway while the lead-time pressure makes catching the ship in Karachi a critical issue. Therefore urgent shipments are for nearly 95% of the cases transported by truck. The

truck transport cost is significantly higher than for rail, so the insecurity as to railway's performance creates an increasing evil logistics cost circle that tends to be a more and more normal situation due to the lead-time constraints. The situation should be addressed more effectively, so that the negative development is arrested.

Container trains:

During the study the railway performance in conjunction with the Lahore services was assessed. According to local experts, this can be used as a representative sample of the situation.

According to the Pakistani Railway, most trains are arriving in Karachi from Lahore between 28 and 32 hours (pure transport on rail time). For schedule purposes 32 hours transit time is "budgeted".

Compared to transport time for urgent shipments by truck – which according to the exporters can be "squeezed" to two days in special cases – the railway should be the preferred mode of transport. So there seems to be a difference in the way the Railway see their performance and the image they have in the import/export industry.

The statistics from the Railway for runs during March shows the following picture:

Up to Lahore 35 trains

Number of Trains	In percent	Performance
3	08,57	Arrived on time or earlier
13	37,14	Were late by 1-5 hours
12	34,28	Were late by 6-10 hours
5	14,28	Were late by 11-15 hours
2	05,71	Were late by 16-22 hours

Down to Karachi 35 trains

Number of Trains	In percentage	Performance
12	34,29	Arrived on time or earlier
9	34,28	Were late by 1-5 hours
12	34,29	Were late by 6-10 hours
2	02,70	Were late by 11-15 hours

"On time" refers to the above-mentioned 32 hours transit time. As it can be seen from the tables the "performance" of the trains to Karachi were better than of the trains coming from Karachi. LPD (Lahore Dry Port) pointed out that March was rather a bad month due to three accidents occurring during that month!

Examples of reasons for delays were stated as follows:

- a) Loss of Electric Traction (ET) power (worst example 1:20H)
- b) Overhead ET down
- c) Change from electric to diesel power (6:35H)
- d) Biria Road procedure, some track renovations is taking place (1:30H)
- e) Crew Change at Kotri (2:50H)

In the worst case, if all delays took place at the same time, it would not explain the up to 22 hours per trip, etc. as stated in the tables above. However, it is important to stress that the above delays are delays in connection with the "technical" part of the railway service. A number of delays are caused by other activities, beyond the control of the Railway.

Such activities are mainly concentrated around the following:

a) One day delay at Karachi due to payment of wharfage to Karachi Port:

Such delays could be avoided if (i) KPT allows LDP (and other dry ports) to collect wharfage on their behalf, or (ii) KPT provides a system at Lahore for receipt of wharfage, or (iii) Agent pays wharfage “on-line” to KPT.

b) Containers are sometimes delayed due to examination/clearance by Anti Narcotics Force ANF or other departments/sections involved in control over contraband drugs.

It could be suggested to carry out this drug examination for both import and export at LDP as the access to containers en route can be secured. For import it can also be recommended that PAK Customs start to introduce the origin tracking based Risk Management System which is being supported by the international shipping lines who are now giving the Intelligence Sections of Customs bodies access to their data-base.

All in all there is room for improvement and part of the improvement does not need big investments but merely a change of current practices. The remedies outlined and the impact on cost and lead time can prove to be very beneficial for the private as well as the public sector and at the same time have a positive influence on the general Pakistan logistics performance.

More details are discussed in the Storage Facilities and Dry Port chapter below.

### **9.3 Storage Facilities and Dry Ports**

There is a general storage shortage for finished goods as well as raw materials, which leads to a situation where the planned dwelling time is longer than necessary simply due to lack of space. Outsourcing of storage, handling, etc to 3<sup>rd</sup> party storage and service providers is not yet very developed.

Companies could free up in-house space for production activities and resources and reduce costs by outsourcing part of their storage, packing, labelling and logistics activities. By consolidating such activities in type distribution centres or distribution parks the investment burdens in facilities and equipment could be reduced significantly. At the same time, it will lead to a larger scale upgrading and will serve as a short cut to improving logistics activities.

The Distribution Centres and Distribution Parks outside Pakistan are based on public/private joint ventures or are operated on pure private basis where you have incorporated customs, transport and value added activities (incl. of IT network and services) into a kind of 1- Window/1- stopping approach.

The consolidation of activities makes it possible to upgrade the logistics activities much faster and at the same time due to the consolidation of investment needs secure an acceptable level of utilization and return on investment faster than if the single entity should operate themselves.

#### **Dry Ports**

The dry ports in Lahore, Peshawar, Islamabad, Quetta and Multan are all public sector organizations, under the Pakistan Railways. Dry Ports are a department of the Pakistan Railways. The largest dry port is the Lahore Dry Port.

Lahore Dry Port (LDP) was chosen in the 1996 Study as a sample of costs and procedures in connection with import/export of in-bond shipments via the dry port.

LDP has, for years, been unable to carry out an effective tracking of containers and cargo en route. This has caused control as well as customer service problems. The situation should be improved around beginning of June, where LDP is expected to become an integrated part of the Railway on-line container tracking system. This will be an achievement that will be appreciated by importers and exporters, as it will secure a far better logistics planning opportunity. At the same time tracking systems tend to have indirect influence on improving the general efficiency.

In order to minimize the overall lead-time in connection with incoming/outgoing it can be suggested that the IT systems of LDP and Customs be upgraded so that they can interface. The current level leaves room for improvement as the systems are running independently and at very basic level of computerization. It is still hardcopies of documents that are being exchanged.

As mentioned under trade facilitation, it can be recommended to establish a kind of a host system whereby an inter-link between more entities can be established with optimal investment. It could be worthwhile to consider the possibility of enabling Customs to become the IT/EDI host, as Customs is the organization with the most developed system, know-how and experience.

The inter-link should not be limited to dry ports and customs but should be developed so that importers and exporters also get access.

LDP seems to face a HR challenge as the ongoing refinement of logistics in the private sector requires upgrading of skills to be able to act as a supply chain partner. Also, it can be foreseen that part of the future development of dry ports will be to introduce and offer similar services to the ones carried out in distribution centres. This will be a cost effective development that will have a positive influence on the logistics costs and the general lead-time.

Another possibility to be considered is LDP and other dry ports starting to service fresh food products in relation to cold store facilities, grading facilities, etc. Distribution centre services at the source of the transportation chain provide generally big advantages in connection with logistics costs, quality control, grading, packing, labelling and above all – the lead time.

Consolidation of such activities can have a positive economic impact on the businesses as such and will also mean a consolidation of knowledge and experience thus contributing to general upgrading of quality in products and services at much less resources than in the case of company by company development. This way the time to improvement of costs and quality could be squeezed.

Distribution centre value added activities are not included in the current development plan. It could, however, be interesting to consider such activities in connection with the facilities planned to be constructed at Kot Radha Kisha (import of raw materials), at Jalo Station (for poultry industry in relation to import from India), at Peshawar when the dry port is being shifted to Pir Pyai Station.

Consolidation of activities could also have a positive impact on utilization of equipment, containers, etc. and at the same time support the plans of raising the number of container trains from 3.5 container trains per day to 6 trains per day and thereby reduce the average transport lead time and enhance the use of container transport by train for a wider range of products. This again could relieve the tremendous pressure on the roads and at the same time reduce the external costs level.

#### Official Freight Rates by rail to/from Lahore Dry Port

Description	Type of Containers	Freight Charges (Rs.)	Import Surcharge
Import	20' container	16900/-	1575/-
	40' Container	28200/-	2700/-

Export	20' Container	6500/-	
	40' Container	10800/-	

There is a 10 days free time allowed at the LDP for containers arriving by container train. Thereafter there is a charge of Rs. 200 per ton service charges.

Containers arriving at LDP by road are given 7 days free time.

The storage capacity of LDP is 1500 TEU and the average “inventory” is 1000 TEU. It can be recommended that this “congestion” and holdback of containers from faster circulation should be dealt with by reducing the free time. Clients should be encouraged to expedite their shipments quicker and not use the dry port as a warehouse, thus releasing pressure on space and enabling a better layout of containers and pathway for movement. A contemporary “warehouse management system” should be introduced along with a survey assessing the inventory situation at all dry ports so that current facilities are utilized more properly before decisions on expansion or new facilities are taken. Such activities could be linked to a general zone-planning assessment - as another problem of efficiency seems to be linked to the layout of roads (too narrow for a two-way container traffic, etc.) and container placement.

During the period July 2005 and March 2006 the unloading/loading – removal of containers at LDP amounted to:

IMPORT				EXPORT			
By Rail		By Road		By Rail		By Road	
20 feet	40 feet	20 feet	40 feet	20 feet	40 feet	20 feet	40 feet
7396	5081	2009	2090	2080	916	93	89

As it can be seen there is quite an imbalance in incoming and outgoing containers. This has led to a favourable situation for exporters who are obtaining very “preferential” rates for inland container transport as well as ocean transport. The importers are in both cases paying double up for the transport.

The “import” container trains are having a high load factor, whereas the trains carrying export load only utilize about 70% of the capacity. While this situation has overall negative logistics cost impact, there is a lot of cargo moving out of the Lahore area (same for other dry ports), which could easily utilize the empty space. This containerized cargo is, however, a non-bonded status cargo, whereby it is not allowed to be on the same train as bonded containers. The same restriction is in force for empty containers.

This is a situation that should be changed soonest possible and with the tracking system introduced by the Railway combined with the fact that the containers are not coming off the train en route it will be possible to have the segregation and examination after reaching the port. It is merely a technical matter more than a risk matter and with the many development efforts in Customs and the Risk Management System coming in force it should be possible to find a solution satisfying all parties by being secure, operational and cost-efficient.

At the same time, there will be a general benefit for the society as it will ease the road transport and help to reduce the aforementioned external costs. The current traffic pattern could actually mean for Lahore Dry Port one extra container train capacity a day from Lahore to Karachi.

## 9.4 Quality Control

As illustrated by the Add-on indexes in Chapter 8.3, the quality image is not in line with the general image highlights as found in promotion materials and information about Pakistani export commodities.

The focus on prices and shorter lead-time seems to have had a negative impact on the quality control within the companies – in product quality, packing and labelling quality as well as logistics quality.

It is a combination of the quality control systems and the ability of the employees in the production companies' organizations to understand the importance and consequences that individual quality failure has on the total quality of the company.

It must be stressed that the human factor is extremely important in the quality chain and technical control measures do not automatically secure full quality control.

It is mandatory that the Total Quality Concept be supported, so that the opportunities for Pakistan exporters to strive at higher end part of the market segments abroad become a reality and not just slogans.

It can be recommended, that the production companies introduce so-called Quality Certification (LogCer) for production and Logistics Certification for in-house logistics. The elements to be included are purchasing, order receiving/processing, documentation, warehouse operations (pick & pack) and distribution. The certificate should include measurable Key Performance Indicators (KPI) for time and cost parameters.

A general "order processing" LogCer tool can be seen below – but it is important to stress that companies will have to get LogCer customized, so it reflects the aims, goals and specifications of the single companies.

### Logistics Certificate ©

#### Order processing of sales orders:

Service level, order delivered as agreed (time, quality, quantity)

Lead time - receiving of order till system entry (manual or IT) Hours

Lead time for order to be available in warehouse for picking. Hours

Lead time for picking and packing of order. Hours

Lead time for order ready for shipment (invoicing) after picking & packing Hours

(inclusive export papers, etc.)

Actual	Score	
98	8	☺
6	3	☹
1	9	☺
5	7	☺
4	8	☺

#### Warehousing:

Average inventory value as a % of turnover.

Ability to deliver ex stock by order entry as a % of total number of orders.

(Only orders delivered from finished goods inventory)

Number of order lines picked per man per hour.

Number of picking errors as a % of total order lines.

Utilization of stock locations (and/or m2) as a % of total.

Inventory deviations in USD per month as a % of average inventory.

Stock turnover (not for temperature-controlled goods)

10	5	☹
92	8	☺
5	-3	☹
1	6	☺
80	8	☺
0,5	9	☺
10	8	☺

#### Total Lead time and logistics costs:

Logistics costs as a % of turnover

(The logistics costs is inclusive of forwarders, transport and eventually 3<sup>rd</sup> party contracts)

Total lead-time in hours from receipt of an order until goods are ready for shipment.

On time performance in %

6	7	☹
12	8	☺
98	9	☺

**Total company score**

**100**

In the non-factor logistics area it can be recommended to introduce a number of Quality Indicators (also KPI). The indicators should complement the logistics costs (non-factor costs) indicators, but on more detailed level.

### **Logistics Index**

This is a logistics benchmark tool for assessing the overall logistics performance and competitiveness. The Logistics Index refers to the chain of logistical events that begins at the warehouse of finished goods and ends with the actual delivery to a customer. The index measures the ability of a country (region or company) to fulfil customer needs and expectations, in particular as regards securing timely and efficient expedition of customer orders in line with prior agreements and proper functioning of the supply chain, incl. of the optimal composition of inventories.

The Logistics Index in the form of a country index will be a benchmark with selected countries, which are considered as competitors to Pakistan.

The main elements of the index are:

- a) Lead Time (weighting 50%): it corresponds to the time span between the time an order has been placed and the time when the delivery actually has reached the final consumer, i.e. time used to process, pick, prepare and distribute the order.
- b) Warehousing and distribution costs (weighting 40%), incl. capital costs tied up in stock, measured in per cent of total costs: these costs also include the interest on inventory at origin, during transport and at destination.
- c) Safety stock levels (weighting 10%), measured in money terms: proper functioning of the supply forecasting system secures that inventory (safety stock) is of optimal quantity and composition to ensure timely delivery and avoid stock-out.

The Logistics Index was also recommended in the 1996 Logistics Costs Study, as an important tool in connection with trade facilitation activities. The Index makes it possible to communicate the message about performance and competitiveness in real terms and figures.

### **Landed-cost Index**

Exporters and importers heavily criticize the level of port costs in Karachi as the rates are considered to be too high. Due to the current situation with overflow of containers into Pakistan the exporters have not felt the high charges, as the costs have not influenced the price of a container. But this can be a temporary situation and in line with refinement of other logistics activities it could be worthwhile to keep track of the development so that eventual necessary measures can be taken in due time.

The landed cost index compares a number of elements of the shipping activities to assess the adequacy of pricing in relation to other ports in the region.

The components of the Index are:

- a) Port handling fees
- b) Import fees
- c) Delay Costs
- d) Capital Costs

### **Export Distribution Index**

The restriction on axle pressure soon to be introduced is expected to have a negative influence on the capacity and will result in higher prices. At the same time, the railway performance is not supporting the general development as to speedy and environmentally friendly transport modes. The lack or insecurity of capacity

availability means that exporters and importers in their planning need to add “buffer” time to their calculations. This has a direct impact on the competitiveness of the lead-time that Pakistani exporters can offer.

The Export Distribution Index compares the Pakistani situation as to access to capacity (incl. of airfreight) with the situation in countries with whom Pakistan is competing.

It includes the following elements:

- a) Access to capacity/frequency
- b) Transport costs
- c) Lead time

The index identifies the strong points and/or weak points where measures must be introduced to cope with the needs and demands.

### **Import Distribution Index**

This index enables to make an assessment of the import situation as compared to that in competing countries. The index covers the general cost level and lead-time for import as well as the impact of lead-time from point of origin on the inventory (safety stock) level. The cost and lead-time parameters at import of raw material for production of commodities have a direct impact on the “final” competitiveness” of the ready-made products exported (capital costs and general lead time).

The Index contains the following elements:

- a) Transport costs
- b) Lead Time
- c) Inventory

The quality control indexes suggested will not only identify the real life situation, but also give the guidelines for prioritization of activities to be upgraded.

The Pakistan Standards and Quality Control Authority, which is the national standards body, has established over 21,000 standards for agriculture, food, chemicals, civil and mechanical engineering, electronics, weights and measures and textile products. However, no standards have been established for logistics or the single components of logistics.

This index is making it possible to assess the situation for importers as compared to the situation in competitor countries.

## **9.5 Port Services**

The average dwelling time for the import shipments analyzed was 6 days (customs processing time 3 days). The longest dwelling time was 9 days. In 1996 the dwelling time was 14 days.

However, the dwelling time is not in fact reflecting efficiency, as the handling time as such is in order. The dwelling time in the port is mainly due to late payments prior to release of shipments combined with the customs clearance activities. The overall average dwelling time is ca 10 days according to the local specialists. It was also stated that part of the dwelling time was due to insufficient handling expertise at the port.

The ports throughput for export cargo has - in spite of the fact that additional upgrading of the general facilities could be needed - improved. Unless there is an operational problem or the ship is already full, terminals can

accommodate late arrival by special request, providing it arrives about 6-10 hours before sailing time. In general, delivery 2 days prior to departure of the ship is accepted and this is in line with other ports.

According to the industries and organizations, it is the high costs of port operations that are deterring trade. The port charges in the 18 shipments analyzed counted as an average for 0,24% of the final value (import and export). In 1996 it counted for 0,77%. So in fact there has been a decrease in port charges compared to 1996. Comparing port charges in relation to export alone (cases 11-18), the average percentage of the charges as of final value was 0,22% in 1996 and 0,32% in 2006, which gives a 0,10% increase from 1996 to 2006. Presently, the high vessel call charges mentioned below are not reflected in the container rates quoted to exporters – as the shipping lines rather apply market-oriented prices than cost-based prices (due to imbalance of containers).

According to the World Bank data it costs 5-9 times more to enter a Pakistani port than in other ports in the region.

The container dwelling times - 11 days on average - are four times those in developed countries, and three times the average in East Asia. Port entry costs are 5-9 times more than some others in the region - vessel call charges in Pakistan are US\$30,000, in Jebel Ali they are US\$6,700, and in Salalah, Oman, they are US\$3,900. In addition, the ports' limited draught - at 9-12 meters - keep the latest and most efficient ships from calling. Redundant dock labour costs trade \$15-20/TEU.

During the interviews it appeared, that Karachi Port Trust is going to announce a decrease of port charges in the range of 15% in June 2006.

### **Import**

If the cargo is not cleared within the free time of 7 days (now reduced to 5 days at Karachi), a demurrage/storage is payable to KPT at the rate of Rs. 28 per foot per day of containers for first 15 days which goes up to Rs./ft/day up to 25 days, thereafter Rs.70/ft/day. In addition, the terminal ground rent at Rs. 30/60 20'/40' per day is charged. Plus container detention charged by Line after free days; 1<sup>st</sup> 10 days \$6 & \$12, 11<sup>th</sup> day onward \$12 and \$ 24 per day.

The development of shortening the free days can, from a capacity point of view, be accepted and appreciated, but if more time is needed because of non-performance of the port and/or customs, the fees should be brought up for discussion.

### **Export**

Port storage costs Rs. 200 & 400 per day, Line container detention Rs. 360 & 720 per day. Terminal ground rent Rs. 30 & Rs. 60 per day.

The port activities – costs and lead-time – will need continuous upgrading to cope with the trade competition from the region. The front-runner in the region is China, with up-graded port facilities and activities targeted to support the trade and be the preferred calling point of the lines. For container ships, the turn-around time in a port has become a crucial issue and will be a major aspect when shipping lines are planning routes and direct calls/sailings – leaving the non-efficient ports to feeder lines – which again will lead to fewer direct frequencies, higher costs and thus longer lead-times.

In China Shanghai, Shenzhen and Tianjiin have already developed into national ocean transport hubs and with the new port clusters, China will double the capacity. In southwest China, Zhanjiang, Fangchen and Haikou will develop a container transportation system. China's ocean handling capacity is forecast to increase from 3,8 billion tons in 2005 to 5 billion tons by 2010, and its coastal throughput of containers from 74,4 million TEU in 2005 to 130 billion in 2010.

So the frequency of container ships will grow dramatically in the years to come and it is important that Pakistan secures its share already today, by enhancing the required capacity development.

## 9.6 International Transport

### 9.6.1 Shipping

The shipping costs have noticeably decreased over the last 10 years. The average ocean freight cost factor in the 18 cases analysed is 1,74%, compared to 5,28% in 1996. The 1996 analyses included transport in reefer containers, which were rather high charge containers at that time. A reefer container price to Rotterdam in 1996 was USD 7,200 (20'). In 2006 the price is USD 4,300 (20').

The shipping rates for Pakistan (both FCL and LCL) have shown continuing drop. Ocean freight rates out of Pakistan are very competitive for the time being, ranging from \$ 850 to \$ 1200, including HC for Europe. The export freight is low because of import-export imbalance, which means availability of more containers for export. The current rate levels must be considered as competitive and no further savings can be expected on the ocean rates.

The total Pakistani export in 2004-2005 was USD 14.5 billion (equal to 41 % of the total international trade), while import amounted to USD 20.6 billion USD. The total freight charges for export and import were estimated in the range of USD 651 million.

There has been a significant development in the international shipping industry with many direct calls to Karachi introduced and a good feeder network to and from the ports in the Indian Ocean. This has considerably enhanced the frequency and flexibility.

National carriers transport a limited part of the total tonnage; the market is still dominated by the big international carriers. The average monthly frequency per shipping line is 4 calls.

The following carriers are servicing Karachi and Port Quasim today:

#### Karachi:

YML, APL, Cosco/Evergreen, Hanjin/Cosco, Hapag Lloyd, Wanhai, UASC, Hanjin, RCL, PIL, MOL, Evergreen, NYK, LNL, K-Line, Norasia/CSAV, CCNI, LMT and Samudera.

#### Port Quasim

Safmarine, MSC, CONTSHIP, Hamburg Sud, NYK, LNL, OOCL, MacAndrew, CMA-CGM, NSCSA, SENATOR/UASC/HJS and Norasia/CSAV.

The direct calls are complemented with a number of regional feeder services like Orient Express Line, Seacon, Simatech, Regional Container Line and IRISL.

In the 1996 report, the low utilization of LCL services was mentioned as a cost “increaser”.

Most of the carriers (and NVOCCs) today offer LCL services as a matter of routine, which has resulted in lower costs for the Pakistani exporters and has helped them to compete. The transit time for LCL cargo compared to FCL is due to consolidation and de-consolidation approximately + 4 days.

The higher use of LCL services has had a positive impact on cost level and is a part of the reason why the general ocean costs have decreased.

The use of House Bills of Lading has today been accepted in general, but due to malpractices experienced by some buyers, where a forwarder or LCL service provider has issued HBL-s prior to receiving the cargo for transport (to service certain clients), some of the European and US buyers are today hesitant to utilize such services. Therefore the use of HBL can be hampered by stories spread among importers on flexibility of Pakistan freight forwarders (issuing HBL before they have received the cargo). This is an issue that the Forwarders Association must address and take care of so that the violations made by some companies are not damaging the general image of Pakistan freight forwarders. This flexibility profile creates a trend where e.g. European importers are changing towards FOB shipments - so as to control the shipping and related costs ex Pakistan. At the same time there is a tendency of importers designating forwarders with international background to take care of the shipping. This is a development seen elsewhere, but it is important for the local forwarders to cope with the reliability, liability, service and costs demands. Otherwise it will become a downward spiral for the local businesses, serving the benefit of the multinational service and transport providers.

Interesting to note is that the export ocean freight rates (FCL/LCL) for the shipments included in the survey are all quoted as “all in prices”. THC, BAF, CAF, etc., etc. is not a major issue as it was in 1996. However, it shall be mentioned that the official ratesheets of the shipping lines are still stating the various add on fees and charges separately.

Ex Karachi Maersk Line for example quote the following costs to be added to the BAS (Basic Ocean Freight):

OHC	PKR 5700/20' & PKR 8550/40'	Origin Handling Charge
BAF	USD 185/20' & USD 370/40'	Bunker Adjustment Factor
CAF	6.03%	Currency Adjustment Factor
SER	USD 6/CONTAINER	Line Security Fee
PSC	USD 5/CONTAINER	Port Security Fee
DHC	EUR 136.14/CONTAINER	Destination Handling Charge
ODF	PKR 200/SET	Origin Documentation Fee
DDF	EUR 20	Delivery Order Fee
OPA	USD 50/20' & USD 100/40'	Origin Port Additional

## 9.6.2 Airfreight

Air transport options are rather limited. The survey and interviews made disclose a general delay of ca 4-7 days. This means, that the dwelling time at the airport is two to three times longer than the actual time of transport. Such a delay has a negative impact on the supply line, damaging customer satisfaction, increasing the capital costs during transportation and making it difficult to cope with the demand for frequent on-time deliveries demanded by overseas importers.

Airfreight is often used in emergency cases (which are frequent), where the planned transport mode would result in late delivery and penalties.

The airfreight rate level is normally linked to capacity available, it can therefore be concluded that airfreight rates out of Pakistan reflect the capacity limitations. Palletized Europe-destined direct flight airfreight options (transported on freighters or wide-body aircrafts) are limited to PIA and British Airways. Transit opportunities are available via the Emirates and Turkey only.

The study of the airfreight rates for general cargo and the five key commodities included in the analyses shows, that the major competitor (India) offers ca 30% lower rates on an average than the airfreight rates out of Pakistan. There is a freight subsidy of 25% offered to Pakistan exporters – but even with the subsidy the rates ex India are lower. (In this connection Pakistan exporters are complaining about the extremely long reimbursement time of airfreight subsidies – some exporters claim that it takes between 3-6 months to be reimbursed).

At the same time, the relatively huge capacity out of Mumbai gives opportunities to negotiate special contract rates with the air carriers.

#### AIR FREIGHT RATE COMPARISON

TO FRANKFURT FROM	Min. weight	kilos	Karachi	Bangkok	Mumbai	Shanghai
			USD/kg	USD/kg	USD/kg	USD/kg
General cargo	45	2,98	5,05	2,44	5,30	
General cargo	500	1,98	3,40	1,89	4,80	
Food stuff	500	1,18	2,40	1,00	4,80	
Leather goods	500	1,95	3,14	1,30	4,80	
Textiles	500	1,95	3,30	1,30	4,80	
Carpets	250	1,65	3,30	1,20	4,80	
Sports goods	500	1,95	3,30	1,30	4,80	

Even more important than the rates is the fact that Indian exporters have access to bigger airfreight capacity than Pakistan exporters.

For example, the frequency out of all Pakistan's international airports (Karachi, Lahore, Islamabad and Peshawar) to Frankfurt is 10 flights per week (type Boeing 777-200 Passenger), whereas the frequency from one of India's international airports Mumbai to Frankfurt is 19 flights a week inclusive of a MD-11 full freighter flying 3 times a week. The 16 other flights are serviced with Boeing 747-passenger aircrafts. Capacity wise it means that Mumbai can accommodate 300% more export by air.

Another example is Amsterdam – the centre of European Fresh Food distribution. The total capacity from all Pakistani international airports to Amsterdam is 4 flights per week (Boeing 772-200), whereas ex Mumbai the exporters have access to 8 weekly flights (type DC10).

To New York the weekly frequency ex Pakistan is 10 flights a week (6 frequencies serviced with Boeing 777 passenger version and 4 flights with Boeing 747 mixed configuration). Ex Mumbai the frequency is 15 flights a week (all Boeing 747 passenger aircrafts).

The airfreight comparison below illustrates the full freighter and wide-body capacity from Pakistan and from regional competitors to primary destinations. Except for Dhaka, all other competitors (single airports are included only) have a higher frequency/capacity than Pakistan.

**Please see below chart, table 9.1 - showing 'Air Freight Capacity Comparison'.**

In addition to hampering export in general, the capacity situation also has a dramatic impact on the possibilities for Pakistan fresh food exporters to exploit the booming market for fresh food products with relatively short shelf life.

The fresh food market is the fastest-growing market segment in the world and includes fresh fruit, vegetables, flowers and other perishables like fish and shellfish.

Countries in the region like India, Thailand, Indonesia and Vietnam are utilizing their logistics to perfection in connection with high yield airborne products. These countries are pursuing a strategy, which is also enhancing and promoting the general image of being a quality supplier of fresh food products and the intention of becoming a preferred supplier. The price is important, but not the ultimate issue for the consumers and therefore also for these countries.

Instead of the 25% freight subsidy offered to exporters it could be recommended that an assessment of the possibilities of enhancing the airfreight capacity to and from Pakistan be carried out. Not only in order to service the current users (delayed export) of airfreight, but to create the necessary platform for approaching the overseas markets on similar terms to those of the regional competitors.

The level of aviation is in fact an indication of a country's competitiveness. Airfreight gives an indication of the potential of the country. This relates not so much to the general development, than the ability to conform to competitiveness trends in higher end market segments like fresh food, fashion goods (garments, leather), etc. as well as the ability to conform to fast replenishment requirements.

Based on above, airfreight should have a wider focus and capacity provided by international carriers should be attracted. A Total Distribution Costs analysis of high end market segment products in Pakistan will no doubt show, that when taking all elements and advantages (capital costs, minimum inventory levels, reduced lead time, more time for production, and replenishment, etc.) for the seller and the buyer into account, then airfreight will turn out to be the "cheapest" solution in a number of cases. At the same time it will also enhance the Pakistan supply image.

**Tabel 9.1**

<b>Air Freight Capacity Comparison</b>											
<b>Full Freighter and Wide-body Capacity from Pakistan and from Regional "competitors" to primary destinations</b>											
<b>To</b>	<b>From</b>	Islamabad	Karachi	Lahore	Peshaw ar	Bangkok	Dhaka	Mumbai	Kuala L.	Shanghai	
<b>Amsterdam</b>	type of A/C	310	310/772	772	.	744/74F/M11 320/319	.	D10	74M/747/744	77W/74F/742	
	Frequency (w eekly)	.2.....	.2..5..	....5..	.	1234567	.	1234567	1234567	1234.67	
<b>Brussels</b>	type of A/C	.	.	.	.	767/74F/333 777	D1C	M1F	.	777/74E/74F	
	Frequency (w eekly)	.	.	.	.	1.34.67	....5..	..3.5..	.	1.3.567	
<b>Chicago</b>	type of A/C	772	772	772	.	74F/332/744	.	744	.	74F/74Y/777	
	Frequency (w eekly)	....6.	..2....6.	.2.....	.	.234567	.	1234567	.	1234567	
<b>Copenhagen</b>	type of A/C	772/743	743	743	.	343/747	.	.	.	343	
	Frequency (w eekly)	..3...7	..3...7	..3....	.	1234567	.	.	.	123.567	
<b>Dubai</b>	type of A/C	772/310	IL8/332/773/72	IL8/772/332	310/332	773/77W/333	742/D1C/310	D1C/74F/310	332/772/330	744/77W	
	Frequency (w eekly)	332 1234567	310/73F/330 1234567	73F/310 1234567	1234567	332 1234567	772 1234567	332/773 1234567	1234567	1234567	
<b>Frankfurt</b>	type of A/C	772	772/332/744	772	.	M1F/763/744 343/77W/330	D1C	744/M1F/332	744/772	M1F/74F/74X 747/343/76F	
	Frequency (w eekly)	...4..7	1234567	....5..	.	1234567	...4...	1234567	1234567	1234567	
<b>Hamburg</b>	type of A/C	.	.	.	.	RS/343	.	.	.	0	
	Frequency (w eekly)	.	.	.	.	12.45.7	.	.	.	0	
<b>London</b>	type of A/C	743/744	772/74M/332	772/743	.	744/332/74F 77W/330	D1C/310/777	744/771/332 74F/343/77W	744	74F/346/777 340/76F/744	
	Frequency (w eekly)	..3.567	1234567	12.4.6	.	134567	1234.67	1234567	1234567	1234567	
<b>Los Angeles</b>	type of A/C	.	.	.	.	345/767/747 74M/332/74F	.	744	744	M11/M1F/74F 777/744/763	
	Frequency (w eekly)	.	.	.	.	1234567	.	2.45.7	1.3.567	1234567	
<b>Milan</b>	type of A/C	310	317/74F	310	.	345/74F	74F	763/74F	0	340/767/74F	
	Frequency (w eekly)	.....7	..3.56	....5..	.	2345.7	..3..6..	123,567	0	1234567	
<b>Moscow</b>	type of A/C	.	310	.	.	IL9/346	.	763	0	D1F/IL9/332	
	Frequency (w eekly)	.	..3...7	.	.	1.2.4.67	.	..3.5.7	0	12345.7	
<b>New York</b>	type of A/C	74M/777	777/74M	74M/777	.	345/767/74F	D1C	744	772	74F/M1F/777 76F/763	
	Frequency (w eekly)	.....7	2.4567	..3.56.	.	1234567	....5..	1234567	1..4.6.	1234567	
<b>Osaka</b>	type of A/C	.	.	.	.	772/74Y/767 777/333	.	310	767/772	M1F/767/763 74F/M11/333	
	Frequency (w eekly)	.	.	.	.	1234567	.	2..56.	1234567	1234567	
<b>Paris</b>	type of A/C	310	310	310	.	744/74X/343	D1C	763/772/74F	744	340/772/74Y 346/76F/763	
	Frequency (w eekly)	..2..5..	..2.....	...4..7	.	1234567	.....7	1234567	1..4567	1234567	
<b>Rome</b>	type of A/C	.	.	310	.	747/743/343 773/77W	D1C	.	744	340	
	Frequency (w eekly)	.	.	...4..7	.	1234567	...4..7	.	1..4.6.	2.4..7	
<b>Sydney</b>	type of A/C	.	.	.	.	74Y/744/77W	.	74Y/333	777/772/744	340/74Y/777 333/340	
	Frequency (w eekly)	.	.	.	.	1234567	.	..3.5.7	1234567	1234567	
<b>Tokyo</b>	type of A/C	310	310	.	.	744/310/332	310	740	74F/772/767	74F/76/M1F 744/767/777	
	Frequency (w eekly)	...4..7	1.4.67	.	.	1234567	...4...	23.56.	1234567	1234567	
<b>Zurich</b>	type of A/C	.	.	.	.	346/343/77W	.	332/345/310	772	.	
	Frequency (w eekly)	.	.	.	.	1234567	.	1234567	2.4.6.	.	

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## 9.7 Freight Forwarding

The average cost percentage (NFC) from final value for forwarding services is, based on the shipments analyzed in this study, 0,36 – which is relatively high when compared to international forwarding practice. With the introduction of further IT applications in logistics the importers and exporters will have an opportunity to take care of major part of the documentation outsourced today, in-house. This will leave freight forwarders with mainly coordination of transport, unless the clients prefer to go direct to the carriers. This will also mean that the forwarders' income will change from the traditional forwarding and customs clearance fees, etc. to be mainly made from the transport part of the supply chain. An extrapolation of the figures from the analyses shows that the average percentage of 0,36 is equivalent to USD 126,1 million paid annually by importers and exporters for forwarding services.

The Pakistan freight forwarding business is still in need of a break-through in the general development and partnering with the business environment. The forwarding business is very fragmented and lacks the consensus-building fundament that could secure a general upgrading of the business. A very small change compared to 1996 can be seen. Several big international forwarding agents are offering contemporary forwarding services to their clients but the majority of freight forwarders are still fulfilling a kind of back office function with no major improvement over the years.

In 1996, a number of recommendations were made in commercial and liability issues. It was also suggested that the forwarders should organize an “authorization” scheme whereby it was up to the business to establish the business code and proper practices for Pakistan. In 2005 “The Standard Trading Conditions for Freight Forwarders” and “Code of Conduct” were established. However, the intentions laid down in these documents have not been materialized today and the documents are not recognized as the “contract” between the freight forwarders and the clients (as represented e.g. by the Pakistan Chamber of Commerce and Industry). Thus there is still no generally accepted common platform for performance and liability rules and standards. In the meantime, customs introduced an authorization scheme for forwarders where they would have to be trained, pass specific tests, etc. prior to obtaining the authorization in connection with import/export customs activities. Forwarders violating the rules laid down would have their authorization withdrawn. This was a good initiative, but should not stop the PIFFA from introducing further initiatives in cooperation with and supported by the Pakistan Chamber of Commerce and Industry in relation to enhancing the professionalism, trust-worthiness and reliability inside PIFFA.

The current inordinately long time for decisions diminishes the trust in the organizations involved in logistics. A number of clients today have stated that they find the institutions involved in logistics matters either non-existent or non-performing. It can be strongly recommended that PIFFA establish a PIFFA “arbitration body” which can adopt decisions fast and effectively, taking basis in the Trading Terms for the members of PIFFA (serving the purpose of a contract between the PIFFA members and their clients).

A number of the Pakistan forwarders do comply with international standards and are recognised members of international forwarding and transport associations as well as members of global alliances. These forwarders have a special obligation to participate as leading edge facilitators to the benefit of the industry at large, even they may have difficulties in “finding the time” for such activities. An organization like PIFFA with a 1-year track record could definitely use such a support.

The human resource development (vocational, high-level and basic training) in the logistics business is inadequate today. Professional performance, knowledge of rules and regulations, etc must be upgraded soonest possible. There is a severe need for vocational as well as basic training for newcomers in the business. The

general globalization of forwarding business as well as the needs and demands from clients will form a more complex logistics services environment where the forwarders in order to cope must act and take responsibility as a reliable partner in the global supply and logistics chain. It could very well be carried out under the umbrella of PFFA as has been seen in other countries, but with the current situation in mind it can be suggested that the efforts be started as a joint activity where state money and private money mutually fund the development (PPP).

## **9. 8 Fiscal Practices and Banking**

The financial cost of the commodities in Pakistan is equivalent to 0,79% of the final sales price. In the 1996 report the financial costs comprised 1,75% of the final sales price. It was recommended that the cost should be reduced by 40% percent, i.e. to a 1.05% average cost of the final value.

During the period from 1996 to 2006 the export financing interest rate has risen to 9% from 6% in 1996. However, the reduction in total transit time has reduced the percentage to 0,79%, which is equivalent to a 55% reduction.

In order to “finance” the recommended change in terms of delivery from FOB/CIF to DDP, it can be strongly recommended that the export financing interest be reduced. A 6% interest rate in financing will mean annual saving in the range of USD 2,9 million for the exporters.

### **Taxes**

The corporate income tax rates in Pakistan are defined according to the status of the company and may vary from period to period, e.g. in 2006 tax year ending Jun 30, a rate of 37% applies to private companies, a rate of 35% applies to public companies and a rate of 38% applies to banks.

Compared to 1995 data, the bank tax has gone down from 60% in 1995 to 38% in 2006. Public company tax is almost the same - in 1995 it was 36% and now 35%. Other companies in 1995 had a corporate income tax rate of 46% and the private company rate today is 37%. Thus altogether the corporate income tax level has diminished.

### **Duty Draw Back**

The duty draw back system has not been an issue that has been addressed separately as the system is on its way out. But it is worth mentioning that under the CARE system (80% of the cases) some of the big companies are receiving the refund cheque in 3 days, whereas for the remaining 20% (under the manual system) the refund period can be up to six months.

### **Terms of Delivery**

There is a tendency that Pakistan exporters prefer to quote FOB prices or C&F. As the position of sellers is considered to be rather weak, buyers normally lay down the delivery terms.

It is, however, important for Pakistan exporters to control the cost development as far as possible in the supply chain to secure that factual costs are being calculated and not “rule of the thumb” costs, which often tend to have a large safety margin.

Therefore it is important that the exporting companies in the process lift up the image and the performance of export from Pakistan and take the extra “burden” to quote DDP prices. This way the cost is controlled all the way to the shelf of the client and at the same time also certain advantages could be gained from paying duty and costs on a lower value than the value already including the sales mark-up. This is an issue that should be addressed by the Export Promotion Board as well as the Forwarders Association. The change in terms of delivery can also have an impact on the trade balance figures, etc.

In order to benefit from the change in the terms of delivery to DDP, it is important that the exporters get access to a more competitive export-financing rate than the current 9%. The benefits for the society from the exporters obtaining control over the supply-chain costs should be compensated by better financing terms for the exporters.

### **Banking**

The development in the banking sector has been positive as seen by the banks. In connection with the acceptance of the WTO Financial Services Agreement it became possible to establish new banks as well as grandfather the acquired rights of established banks and foreign securities firms. The State Bank of Pakistan (SBP) has changed its branch licensing policy and has eliminated restrictions from a number of foreign bank branches.

As mentioned above, banks could become very instrumental in supporting the Pakistan development. In connection with export and the suggested change to DDP terms of delivery it could be feasible if the banks introduced competitive factoring possibilities and rates for exporters so as to ease the cash flow.

## **9.9 Insurance and Liabilities**

The average cost of insurance for the 18 samples scrutinized was 0,50% of the Pakistan foreign trade account, which means a 31% reduction compared to 1996.

There should be possibilities for further reduction of the premium, as the current market offers premium in the range of 0,25 to 0,30% for Cover A (for cargo/marine full cover including war risk for containerised shipments, commodities like leather goods, textiles, etc.). For a Cover B (mainly covering total loss situation) the premium is about 0,14%.

Based on the 2006 foreign trade account figures a further reduction from 0,50% to 0,30% would mean annual savings in the range of USD 70,0 million on insurance premium to the exporters and importers.

Since the 1996 study the insurance market has undergone considerable changes towards openness, as part of the government's financial sector reforms. Foreign investors are allowed to hold up to 51% equity share of companies operating in the life and general insurance sectors. Pakistan does not regulate insurance premiums. Five major domestically owned company's account for 78 percent of the general insurance market.

### **Marine Insurance**

Pakistan is a WTO member; it is unbound to GATS commitments. The domestic insurance laws applicable are:

- Pakistan Insurance Corporation Act No 37 of May 8, 1952 (reinsurance issues)
- Export Credit Guarantee Insurance Scheme Rules of 1962
- National Insurance Company Act of 1976 (public companies insurance)
- Insurance Ordinance 2000 (deals with all insurance matters).

All imported goods must be insured locally with insurance companies registered to operate in Pakistan. However, some importers such as those of heavy pieces of machinery may effect cover limited to total loss of vessel and arrange for all risks cover to be placed by shipper and included in the invoice cost, so that replacement is easier in the event of loss.

### **Restrictive measures:**

- It is forbidden for the buyer to insure imports abroad
- It is forbidden for the buyer to import on a CIF basis

- Pakistani insurance companies are not permitted to issue cover in foreign currency except companies having branches abroad.

### **Marine Policies – Exports**

Exporters can insure exports from Pakistan only if the goods are shipped on CIF basis. In respect of shipment on FOB or C & F basis, the overseas buyers will arrange insurance. Exporters can take out policies only from companies operating in Pakistan, which can be expressed in Rupees or in foreign currency.

### **Marine Policies – Imports**

Imports into Pakistan are required compulsorily to be insured in Pakistan with companies operating in Pakistan. Imports can thus be made only on C & F or FOB basis. It is not permissible to issue marine policies covering imports into the country in currencies other than Rupees (with exceptions of insurance companies having branches abroad).

As an exception to the above general rule:

- a) National Insurance Company Limited is authorised to issue foreign currency policies against imports financed by P.I.C.I.C./I.D.B.P. and directly by the loan-giving agencies.
- b) Sub-authorisations issued under U.S. AID Programme on CIF basis can, at the option of the importers, be utilized for imports from U.S.A. on C.I.F. basis by arranging insurance in the U.S.A.

### **Marine Policies – Shipment between two countries outside Pakistan**

Shipments between two countries outside Pakistan financed by a person or firm in Pakistan with the permission of the State Bank of Pakistan can be insured in Rupees or in foreign currency.

### **Marine Policies – Coastal Shipments**

Coastal shipments between places in Pakistan can be insured in Rupees only.

### **Claims in respect of Marine Policies covering Exports**

Claims arising under the policies covering exports from Pakistan are payable to the shippers in cases where the proceeds have not been realised from the overseas importers. Where the shippers have received the payments, the claim can be paid to the overseas importers.

Remittance of these claims by Pakistani insurance companies to foreign importers may be allowed by the Authorised Dealers on submission of applications accompanied by the following documents:

- a) Application on Form M along with the declaration in the prescribed form.
- b) Claim Note.
- c) Policy in original. Duplicate acceptable where original is retained by the Customs authority of the importing country and/or lost and indemnity in lieu of the original.
- d) Invoice on CIF basis relating to the shipment.
- e) Bill of Lading/Airway Bill/Postal Receipt relating to the shipment.
- f) Survey Report/Short Landing Certificate/General Average Adjustment/Short Contents Certificate/No Survey Loss Certificate. Survey is not necessary if claim is not likely to exceed U.S. \$100/-.
- g) Foreign bank's certificate to the effect that the proceeds relating to the shipment against which claim is made have already been remitted to Pakistan (except in case of general average claim payable to adjusters).

To facilitate prompt payment to overseas claimants, the State Bank will consider requests from Pakistani insurance companies for settlement of such claims by their overseas settling agents through a system of revolving letter of credit. In cases when such permission is given, claims are to be scrutinized by the overseas

settling agents on the basis of the documents indicated at serial No. (b) to (g) in the preceding sub-paragraph and payments made through revolving letter of credit. The claim documents both in respect of direct remittance and remittance under letter of credit should be submitted to the State Bank along with the relative Form 'M' while reporting the transaction in the monthly Returns for post facto checking along with the declaration in the prescribed form.

Foreign insurance companies are required to settle claims in respect of marine policies covering exports through their head offices on the basis of all the above claim documents.

### **Carrier liability**

According to the Carriage of Goods by Sea Act, 1925, article IV concerning rights and immunities:

In any event the carrier and the ship shall be discharged from all liability in respect of loss or damage unless suit is brought within one year after delivery of the goods or the date when the goods should have been delivered. In the case of any actual or apprehended loss or damage, the carrier and the receiver shall give all reasonable facilities to each other for inspecting and tallying the goods.

- After the goods are loaded, the bill of lading to be issued by the carrier, master or agent of the carrier, to the shipper shall, if the shipper so demands, be a "shipped" bill of lading, provided that, if the shipper shall have previously taken up any document of title to such goods, he shall surrender the same as against the issue of the "shipped" bill of lading, but at the option of the carrier, such document of title may be noted at the port of shipment by the carrier, master, or agent with the name or names of the ship or ships upon which the goods have been shipped and the date or dates of shipment, and when so noted the same shall for the purpose of this Article be deemed to constitute a "shipped" bill of lading.
- Any clause, covenant or agreement in a contract of carriage relieving the carrier or the ship from liability for loss or damage to or in connection with goods arising from negligence, fault
- Neither the carrier nor the ship shall be liable for loss or damage arising or resulting from un-seaworthiness unless caused by want of due diligence on the part of the carrier to make the ship seaworthy, and to secure that the ship is properly manned, equipped and supplied, and make the holds, refrigerating and cool chambers and all other parts of the ship in which goods are carried fit and safe for their reception, carriage and preservation in accordance with the provisions of paragraph 1 of Article III. Whenever loss or damage has resulted from un-seaworthiness, the burden of proving the exercise of due diligence shall be on the carrier or other person claiming exemption under this section.
- Neither the carrier nor the ship shall be responsible for loss or damage arising or resulting from:
  - (a) Act, neglect, or default of the master, mariner, pilot, or the servants of the carrier in the navigation or in the management of the ship
  - (b) Fire, unless caused by the actual fault or privity of the carrier:
  - (c) Perils, dangers and accidents of the sea or other navigable waters:
  - (d) Act of God:
  - (e) Act of war:
  - (f) Act of public enemies:
  - (g) Arrest or restraint of princes, rulers or people, or seizure under legal process:
  - (h) Quarantine restriction:

- (i) Act or omission of the shipper or owner of the goods, his agent, or representative:
- (j) Strikes or lock-outs or stoppage or restraint of labour from whatever cause, whether partial or general:
- (k) Riots and civil commotions:
- (l) Saving or attempting to save life or property at sea:
- (m) Wastage in bulk or weight or any other loss or damage arising from inherent defect, quality, or vice of The goods:
- (n) Insufficiency of packing:
- (o) Insufficiency or inadequacy of marks:
- (p) Latent defects not discoverable by due diligence:
- (q) Any other cause arising without the actual fault or privity of the carrier, or without the fault or neglect of The agents or servants of the carrier, but the burden of proof shall be on the person claiming the benefit of this exception show that neither the actual fault or privity of the carrier nor the fault or neglect of the agents or servants of the carrier contributed to the loss damage.

- The shipper shall not be responsible for loss or damage sustained by the carrier or the ship arising or resulting from any cause without the act, fault or neglect of the shipper, his agents or his servants.
- Any deviation in saving or attempting to save life or property at sea, or any reasonable deviation shall not be deemed to be an infringement or breach of these Rules or of the contract of carriage, and the carrier shall not be liable for any loss or damage resulting there from.
- Neither the carrier nor the ship shall in any event be or become liable for any loss or damage to or in connection with goods in an amount exceeding 100% per package or unit, or the equivalent of that sum in other currency, unless the nature and value of such goods have been declared by the shipper before shipment and inserted in the bill of lading and ad valorem has been paid.

This declaration if embodied in the bill of lading shall be prima facie evidence, but shall not be binding or conclusive on the carrier.

By agreement between the carrier, master or agent of the carrier and the shipper another maximum amount than that mentioned in this paragraph may be fixed, provided that such maximum shall not be less than the figure above named.

Neither the carrier nor the ship shall be responsible in any event for loss or damage to or in connection with goods if the nature or value thereof has been knowingly mis-stated by the shipper in the bill of lading.

- Goods of an inflammable, explosive or dangerous nature to the shipment whereof the carrier, master or agent of the carrier, has not consented, with knowledge of their nature and character, may at any time before discharge be landed at any place or destroyed or rendered innocuous by the carrier without compensation, and the shipper of such goods shall be liable for all damages and expenses directly or indirectly arising out of or resulting from such shipment.

If any such goods shipped with such knowledge and consent shall become a danger to the ship or cargo, they may in like manner be landed at any place or destroyed or rendered innocuous by the carrier without liability on the part of the carrier except to general average, if any.

### **Forwarder liability**

The freight forwarders do not have a commonly accepted liability scheme comparable to general practice in the global forwarding business today. It is therefore mandatory (as suggested in the 1996 report already) that the

forwarders association PIFFA introduce an overall liability and insurance scheme for their members, whereby the coverage is arranged by international standards so that the liability and coverage becomes part of the image and profile of the forwarders being the PIFFA members.

It is important that the liability scheme and the insurance coverage together with the Standard Trading Conditions are agreed to as a package with a counterpart like Pakistan Chamber of Commerce and Industry - so that a mutual understanding, support and acceptance is secured.

### **Analyses summary**

The average cost of insurance for the 18 samples scrutinized was 0,50%, which is 31% less than for the samples analyzed in 1996.

There should be possibilities for further reductions in the premium, as today the market for cover A (for cargo/marine full cover including war risk for containerised shipments, commodities like leather goods, textiles, etc.) offers a premium between 0,25 to 0,30percent. For a Cover B (mainly covering total loss situation) the premium is about 0,14%.

In 2006 figures a further reduction from 0,50% to 0,30% would mean annual savings in the range of USD 70,0 million.

Since 1996 the government has opened the insurance market as one of its financial sector reforms. Foreign investors are allowed to hold up to 51% equity share of companies operating in the life and general insurance sectors.

Pakistan does not regulate insurance premiums.

Five major domestically owned companies account for 78 percent of the general insurance market.

## **10. DOCUMENTS, PROCEDURES & REGULATIONS**

Pakistan has experienced a rather positive Trade Facilitation development (see chapter 12), which has simplified a number of procedures and documentation. This has had a measurable impact on the general lead-times and costs. IFC confirmed this development at the end of 2005, where they stated that Pakistan was the top performer in the South Asian region and the number 10 reformer globally – making it easier to register property, increasing penalties for violating corporate governance rules and replacing requirements to license every shipment with 2-year duration licenses for traders.

### **10.1 Import**

#### **10.1.1 Import documents**

##### **Table 10.1**

Customs Import Declaration Form

Bill of Lading

Commercial Invoice

Packing List

Ship Arrival Notice

Cargo Manifest

Stowage Plan

Collection Order

Terminal Charges Receipt

Customs Cargo Release Form

Equipment Interchange Receipt

Customs Transit Document

#### **10.1.2 Import restrictions**

Pakistan has removed the requirement for all importing firms in the private sector to register as importers (earlier everybody who imported goods to Pakistan had to register with the Export Promotion Bureau).

The Government of Pakistan permits imports from all countries except Israel. However, in the case of loans, credits or specified revolving credits (like US PL480), imports are subject to availability from the specified source only. A few of the special conditions, which apply to importers, are:

- Importers are required to obtain special authorization from the Ministry of Commerce for to import items on the negative/restricted list;
- They must ensure that the correct Harmonized Schedule code number for every imported item is stated in the import documents;
- Health hazard warnings must be printed in English and Urdu on every package of cigarettes;
- Imports from India are governed under a specific trade regime and individual items specified by the Ministry of Commerce can be imported if they are classified under the Harmonized System numbers.

## **Prohibited imports**

Pakistan controls certain imports through the negative list. Goods not on the negative list may be freely imported. The negative list is made up of:

- Items banned for religious reasons (goods bearing words or inscriptions of a religious connotation), or security or luxury consumption reasons;
- Capital and consumer goods banned to protect domestic industry; and intermediate goods used in producing protected goods. A restricted/conditional list includes items that may be imported, for example, only by specific parties or against a specific loan etc.;
- Products and by-products of pigs/hogs/boars.

## **Requirements to food products**

Edible products shall have remaining at least six months or 50% of the shelf life, whichever is less, calculated from the date of filing of the Import General Manifest (IGM). They shall also be free of any "haram" (non-kosher) elements and ingredients; and where the conditions specified under (a) above are not printed on the packing, a certificate issued by the manufacturers or principals in respect of these conditions shall be accepted by Customs.

## **10.2 Export**

### **10.2.1 Export Documents**

#### **Table 10.2**

Customs Export Declaration Form

Bill of Lading

Commercial Invoice

Certificate of Origin

Packing List

Pre-shipment Inspection Clean Report of Findings

Equipment Interchange Report

Shipping Note

## **10.3 E-Commerce**

There are no trade restrictions, duties or taxes on electronic commerce in Pakistan, but the e-commerce is pretty weakly developed. Pakistan enacted an Electronic Transactions Ordinance in 2002, adopting international standards and providing for the establishment of certification authority. In 2005, one certification authority started to function in the private sector. Another one is planned to start up in public sector. Certain websites are blocked by the authorities, for contents deemed as conflicting with Pakistani religious and cultural norms.

## **10.4 Standards/ISO 9000**

The Pakistan Standards and Quality Control Authority (PSQCA) is the national standards body. As of June 2005, PSQCA had established more than 21,000 standards (of which 15,500 were ISO standards) for food, chemicals, agriculture, engineering, electronics, measures, and textile products. No new standards were approved in 2005.

Business sector has complained about inadequacy of testing facilities for agricultural goods as well as inconsistent application of the standards.

## **10.5 Intellectual property rights**

The Government of Pakistan recently revised the law implementing intellectual property rights (trade marks, patents, copyrights, integrated circuit layouts and industrial designs). Violation of the Intellectual Property Rights Act deterred foreign investment, caused revenue leakage and was a disincentive to creative work.

To ensure better protection under IPR, the Government has reviewed the Pakistan Penal Code and Trade Marks Ordinance to update the relevant laws and remove anomalies in their interpretation and application. The amendments introduced are expected to bring about consistency between the various regulations and laws on IPR. The legal framework is being upgraded to be more responsive. The Pakistan Intellectual Property Rights Organization (IPO) has been set up and is designed to service all IPR requirements under one organization.

Pakistan is a party to the Berne Convention for the Protection of Literary and Artistic Works and a member of the World Intellectual Property Organization. In July 2004 Pakistan acceded to the Paris Convention for the protection of industrial property.

Despite Government efforts, Pakistan has been widely known for IPR violations. In the beginning of 2005 Pakistan was among the world's leading producers of pirated optical discs and other copyrighted material. Radical measures were applied later in 2005 and the situation was turned towards improvement.

## **10.6 Labelling/marketing requirements**

Pakistan has no uniform or universal system of imposing labelling and marking requirements on products; however, individual industries or sectors are subject to regulation by specific bodies. For example, the Ministry of Health sets requirements for the pharmaceuticals industry, while tobacco products must have a printed health hazard warning.

## **10.7 Service Barriers**

Pakistan generally permits foreign investments in services, subject to certain provisions, including a minimum initial capital investment of 150,000 USD (higher in financial services). Recent changes in Government investment policy permit foreign investors to hold up to a 100% equity stake and allow 100% repatriation of profits. The changes made in 2004 reduced the 300 000 USD minimum initial capital investment requirement in the services sector, eliminated the requirement towards foreign investors to accumulate 40% local equity within

5 years of initial investment and eliminated the cap on repatriation of profits at a maximum 60% of total equity or profits. Investment policy also allows foreign investors in services and other non-manufacturing sectors to remit royalties and technical fees, on certain conditions. In IT (incl. software), foreign investors are not subject to the requirement for minimum initial investment.

## **10.8 Investment barriers**

Foreign investors are free to establish and own business enterprises in all sectors of economy, with the exception of five restricted areas: arms and munitions, high explosives, currency/mint operations, radioactive substances and new non-industrial alcohol plants. While foreign ownership in agricultural investments cannot exceed 60%, there are no ownership limits in other sectors of the economy. There is no minimum investment requirement for manufacturing, a 150,000 USD minimum foreign investment requirement in non-financial services and a minimum investment requirement of 300,000 USD in agriculture, infrastructure projects and social services.

The Government's investment policy promises full repatriation of capital, capital gains, profits and dividends at approval by the State Bank of Pakistan. There are no requirements to technology transfer. The law provides for expropriations upon adequate compensation only, prohibiting changes in benefits and incentives for the purpose of disadvantaging foreign investors.

Though Pakistan has enacted a Monopolies and Restrictive Trade Practices Ordinance and has established a Monopoly Control Authority, the regulatory oversight is resource-squeezed. The state-owned firms are exempt from the provisions of these laws and thus in a market where state-owned firms dominate several sectors, the competition policy is still incomplete.

## **10.9 Other barriers**

Other barriers repeatedly referred to in context with trading with Pakistan are corruption and a weak judicial system. In 2002 Pakistan Cabinet approved a National Anti-Corruption Strategy, targeting key focus areas and measures to combat corruption.

Another concern area is contract enforcement, which still remains difficult in Pakistan.

Pakistan's ranking in the Transparency International Corruption Perceptions Index dropped from 29<sup>th</sup> position out of 145 countries in 2004 to 144<sup>th</sup> out of 158 countries listed in 2005.

## 11. CUSTOMS

### Introduction

Customs has improved a lot and must be considered to be one of the leading edge government agencies as to successful implementation of trade facilitation measures.

It is positive to see that the Pakistan Customs follow the global trend of customs agencies becoming the front-runners in supporting national trade and transport and acting like a facilitator.

There is, however, room for further rationalization, considering the relatively low usage of IT/EDI.

A good deal of simplification has been achieved by implementing GD (general document) and doing away with the registration process for the exporters.

GD has facilitated the trade through online filing of documents. However, the extent of paperwork (now on computer) is still very big. There is only marginal relief as to the amount of information to be provided in the GD - which has 63 fields and numerous back-up details. Filing the GD takes several hours.

Facilitation efforts should also aim at reducing the quantity of information to be provided directly by the trade.

The introduction of the CARE system set new standards for processing of customs work, however, the problem (disputes) with valuation needs to be settled. The clients hold, that diminishing the touch of/contact with the individuals (in connection with valuation) would enhance the processing of the work and secure shorter lead-time.

### Extract of clients' comments from interviews

The CARE system is working satisfactorily, the clients would like it to be extended to other locations, as it is only functioning at KICT;

Clients do not use automated CARE system when shipments are from Port Quasim where CARE is not available. Some clients are considering moving to a transport line calling at Karachi Port in order to benefit from the faster Customs throughput;

The Customs ADP system works very well. The refund of sales tax on export is still problematic;

Delays on import are often arising in connection with valuation of the commodities, where customs will not accept the shippers' invoice as to value (Here it could be viable to suggest that the commercial invoice presented for clearance had an authorized copy of the export document attached, stamped by the customs in the country of shipping);

The attitude of customs tends to be like that of an auditor and not a facilitator; hence problems are created.

### General info

In January 2000 the Pakistani Government began implementing a transactional valuation system, pursuant to which 99% of import valuation is based on invoice value, in accordance with the WTO Customs Valuation Agreement. Currently, about 90% of imports are assessed duties pursuant to the transactional valuation system. A number of traders in food and non-food consumer products sector however report about irregularities and deviations in the application of the system.

There are ample public and bonded warehouse facilities in Pakistan, most of which are owned by the Port Trust organizations. Pakistan has no free port facilities, but regulations permit similar privileges while goods are warehoused.

Goods must be landed within the period specified on the bill of lading or within 15 days after entry of the vessel into port. Once the goods have entered and duties have been assessed, the importer must clear them for consumption (by paying the duties) or warehouse them.

Pakistan is introducing the Pakistan Customs Computerized System (PACCS) by end-2006, whereby clearances lead-time should be considerably reduced.

### Brief on findings

Today 30% of all shipments are electronically cleared, by June the target is 40%.

Shipments surveyed confirm reduction in lead-time and costs.

Expectations and challenges towards Customs will be high and Customs will have to take a leading role in the further development.

Best practices from other countries should be taken stock of.

KPI have not been established today, it should be recommended to introduce the KPI in future.

### Role and Impact of Customs in Pakistani Logistics

The impact of the Pakistani Customs regarding the import and export business is significant.

The ability to handle the customs procedures in a fast and efficient way is a must for the Pakistani business environment to be competitive.

The new Pakistan Customs and Clearance System (PACCS) now introduced in Karachi International Container Terminal (KICT) has been a great and much needed achievement.

The Customs performance is measured in two activities – the Dwell Time, i.e. the time the cargo spends at the port till clearance and the Customs Processing Time, i.e. the time it takes the customs to make the clearance and make the goods at the importers disposal.

### The Dwell time

The dwell time is an important parameter for both the importers as well as for the exporters. A long dwell time will imply extra costs for handling, demurrage, etc.

The dwell time is also a good ‘pointer’ of the efficiency and overall quality in the port.

**Table 11.1**

**Dwell Time in Pakistan (Imports)**  
For the calendar year 2003

Days	Containers (225036)	% age	Cum % age
0	76	0.03%	0.03%
1	1,240	0.55%	0.58%
2	3,159	1.40%	1.98%
3	4,741	2.10%	4.08%
4	7,068	3.14%	7.22%
5	9,319	4.14%	11.36%
6	10,564	4.69%	16.05%
7	11,918	5.29%	21.34%
8	10,165	4.51%	25.85%
9	9,875	4.38%	30.23%
<b>10</b>	<b>44,035</b>	<b>19.56%</b>	<b>49.79%</b>

The above statistic (source KICT) for the dwell time, from before the new system has been implemented, shows that around 50% of the containers stay up till 10 days in the port before the Bill of Entry (B/E) has been approved and it can be customs cleared.

**Table 11**

## **Dwell Time in Pakistan (Imports)**

June- September 2005 (KICT)

Days	Containers (46,903)	%age	Cum %age
0	77	0.16%	0.16%
1	881	1.88%	2.04%
2	2149	4.58%	6.62%
3	2854	6.08%	12.71%
4	4165	8.88%	21.59%
5	4272	9.11%	30.70%
6	5457	11.63%	42.33%
7	5128	10.93%	53.27%
8	3962	8.45%	61.71%
9	2529	5.39%	67.11%
10	2173	4.63%	71.74%
<b>11+</b>	<b>13256</b> Source KICT	<b>28.26%</b>	<b>100.00%</b>

Looking at the above dwell time statistic (source KICT) for 2005 (as compared with year 2003), following the implementation of the new PACCS system, it can be seen that a significant improvement has taken place, as more than 70% has been handled within 10 days.

Compared to the international environment, this is not yet satisfactory, as the processing time with an online system should make it possible to clear as much as 90 % within 3 days, to be able to compete with international standards.

### **Customs Clearance**

The processing time at the customs for the customs clearance is a very important parameter, where a long processing time will imply the same costs as the dwell time.

With the new system, the processing time is likewise a good 'pointer' of the efficiency and overall quality of the customs efficiency.

The statistics (appraisalment – source KICT) for the Customs processing time shows that 50% has been customs cleared within five days and 83% within 15 days.

According to CBR, the previous processing time was around ten hours and after the new system around 50% should be cleared in less than four hours.

It is important to note that above figures for the dwell time are based on official statements and are only valid for the KICT terminal in Karachi.

### **The new Pakistan Customs and Clearance System (PACCS)**

The old manual customs system has been highly criticized by the users and there has been a demand for introduction and implementation of a modern IT based system.

The main critical points about the old system (and the one they are still using in most places) are:

- Paper environment
- Complex and time consuming clearance procedure
- Fragmented customs
- Too many offices/officials need to stamp and sign papers

- Not transparent, may lead to corruption

In 2002 the Central Board of Revenue (CBR) initiated the CARE project (Customs Administrative Reforms). The core of the CARE project is the development and implementation of the PACCS system with following key points:

- PACCS project is an integrated and automated cargo clearance system developed through an in-house re-engineering initiative by Central Board of Revenue / Pakistan Customs supported with legislative and administrative changes.
- One-window operation with expeditious clearance of cargo for legitimate trade.
- Shift from the present random customs examination to a risk management system.

The CARE was launched on April 19, 2005 and Karachi International Container Terminal was selected as Pilot project site for the first implementation.

The Key features of PACCS are:

- Single window on-line environment
- Paperless virtual environment
- Self-assessment during entry
- 24 hours, 7 days operations
- High clearance speed
- End to end integrated customs
- Secure assessment and examination areas
- Risk Management System
- Transparent and corruption free

The PACCS system is based on four main components **TARIP, INTRA, ECHO AND ACCESS.**

- TARIP is the complete picture of regulations for import or export of cargo to & from Pakistan.
- INTRA is an online nationwide network connecting all stakeholders involved in imports, exports and movement of cargo with PACCS.  
(INTRA is the DDS of EU or ITDS of US)
- ECHO is online connectivity between the carriers, PACCS and Terminal Operator
- ACCESS is the core of the clearance system and covers the following:
  - Advanced Carrier declaration
  - Advanced screening for Risky Cargo
  - Goods declaration with off-line support
  - Payment Management System
  - Risk Management System
  - Assessment Management System
  - Clearance Management System
  - Status Reporting System
  - Law Cell
  - Adjudications
  - Auctions
  - Warehousing

- Licensing
- Transit and Transshipments

### **The roles and changes in handling and procedures, following the new system**

It is not only the system that changes following the implementation of PACCS. The procedures for the Vessels, Importers and Exporters will change as well.

In the following a summary of the main changes (source KICT) is given.

The vessel handling:

#### Changes in Vessel Handling Process

- Berthing  
Vessel allowed berthing only after PACCS clearance received.
- Port Clearance  
Received electronically.
- Discharging  
Containers including empties can only be discharged after clearance from PACCD. PACCS uses the seventh digit as a calculated check sum.
- Import documentation  
Automatically generated out-turn reports by PACCS.
- Loading  
Simplified handling of shutouts requiring simple declaration by TO PACCS of new vessel.
- Export Documentation  
MR list and EGM not required. Booking system to be set up with customer lines.
- Trans-shipments  
Simplified handling of trans-shipments. Must be manifested as trans-shipment before discharge.

#### Changes in Import Process

- CFS/ICD/Multimodal Moves
  - MUST be declared to PACCS before discharging. For Merchant haul ICD move, Consignee' or Notify party's City must be within that Collectorate.
  - Can be picked up immediately after discharge.
  - Only Customs Licensed bonded Carriers allowed to pick up ICD/Multimodal moves on submission of delivery order.
- Examination
  - Conducted immediately on discharge or shortly thereafter.
  - Witnessed and supervised by Reputable Surveyors.
  - Performed according to EO instructions.
- Delivery Documentation
  - Clearance received electronically from PACCS.
  - Only Delivery Order and Container release required for pick up.
  - Combined Gate-pass/EIR document released to carrier.

- No requirement for 3-folio pass – EIR to function as a 3-folio pass for entry in non-PACCS customs station.

### Changes in Export Process

- Gate Entry
  - A consigned note must accompany Container(s), indicating CRN of export consignment and seal number applied at shippers' premises.
  - Any required documents e.g. fumigation certificates etc. must also be submitted on entry.
  - Only shipments cleared to enter by PACCS electronically will be allowed entry.
- CFS/ICD/Multimodal moves
  - Must be accompanied by GD/TP documentation in original.
- Examination/Sample/DEC
  - Conducted immediately on entry or shortly thereafter.
  - Witnessed and supervised by Reputable Surveyors
  - Performed according to EO instructions.
- Loading Documentation
  - Clearance received electronically from PACCS.
  - Exporter or his authorized agent can query the status of their container from KICT's website for payment of wharfage /KICT dues.

### **Summary**

The overall goal for the PACCS system has been to create a modern IT system, which is cost effective, fast and transparent, thereby enabling the Pakistani business community to reduce their overall cost and to make them more competitive internationally.

In our opinion they have succeeded and PACCS is a big step forward.

The challenge for the Pakistani customs (CBR) is to prepare a further implementation of PACCS, which so far is only implemented at KICT.

The CBR has to make a major effort and soonest possible offer PACCS to other cities in Pakistan, at least at the bigger customs stations, thus making it available for a bigger part of the import/export industry.

The critics of the system claim, that even with the new automated system there is still too many signatures needed for the import and export procedures. They also find, that there are problems in getting the necessary statistical data needed for the import/export (from the customs authorities), which gives an overall feeling that there is still too much red tape in PACCS.

Furthermore, most of the import and export clearances are still done in the old manual way, giving a general feeling that not much has changed and as some of the participating companies expressed it “ the authorities don't trust the business community “.

Even if CBR could implement the PACCS throughout the country within a short period of time, there is one huge challenge to face – *the lack of IT knowledge*.

The use and knowledge of IT systems, PC-s, EDI and online connections, etc. is very limited in Pakistan. Only the bigger corporations are today using IT systems as a matter of routine. Consequently, even if CBR were able to implement PACCS in many other places, the import/export industry would not be able to take full advantage of it.

It is therefore not only the responsibility of the users, the importers and exporters, but also the organisations and not least the Pakistani government, to start a major education program for the use of IT. It is also required to find a way to finance the investment needed to bring Pakistan up to the standard of the countries that Pakistan is normally compared with. As an example, China has introduced IT for their import and export industry to a large extent and they have in many cases succeeded to reduce the customs processing time to below one hour.

## 12. TRADE FACILITATION

Increasing product complexity, shorter product life cycles, global network of suppliers and customers as well as continuously rising quality requirements are placing heavy demand on supply chain efficiency and thereby the logistics performance.

In parallel with the decreasing role of conventional barriers such as tariffs in international trade, the relevance of trade facilitation issues for governments and businesses has considerably increased both in national as well as international context. In a broad sense, trade facilitation covers customs procedures, transport and other logistics aspects involved in moving goods from one country to another.

The National Trade and Transport Facilitation Committee (NTTFC) was set up as a joint venture arrangement by the Government of Pakistan (Ministry of Commerce) and the private sector (Pakistan Shippers Council of the Federation of Pakistan Chambers of Commerce and Industry – FPCCI). It was set up under guidance and assistance of Trade and Transport Facilitation Project of UNCTAD-Ministry of Commerce and credit of the World Bank. NTTFC expenses are now funded by the Export Development Fund (EDF) and office premises are provided by the FPCCI.

NTTFC has 25 members designated by the Government of Pakistan and the private sector.

The Trade Facilitation measures introduced in Pakistan through the activities of NTTSC and the other parties involved have been significant and have had a positive effect on the general increase of logistics efficiency. In general, however, the industry does not realise the work carried out and the achievements made by the NTTFC and there is a need for more exposure of the NTTFC activities, so that a wider group of entities and individuals in the public as well as the private sector will realize, appreciate the work, its benefits and impact on their competitiveness and will thereby provide more support.

Pakistan NTTFC has been active and instrumental in enhancing the simplification and effectiveness of the trade and transport activities with a focus on import/export transactions.

The outcome of the work is being materialized and visualized through the documented decrease in lead-time and costs for import and export transactions.

NTTFC has participated in accomplishment of a number of tasks during the recent years, including various documentary forms. The following form (documents) could be mentioned: a) Goods Declaration (GD) in an electronically generated form, b) Ships' General Declaration and Crew and Passenger Lists c) Phyto-sanitary Certificate Forms d) Certificate of Origin form, d) Commercial Invoice form.

The better exposure and understanding of the benefits of the NTTFC activities is also needed in order to overcome the inertia and reluctance to changes that still exists in some public sector organizations.

A special issue raised again and again was the lack of development in the export finances scheme – where there is a need for changes in order to establish competitive terms for the business.

At the same time the private sector needs to develop rapidly and to establish efficient linkages. Two groups – forwarders and garment exporters – have a special need to cope with the previously mentioned requirements from buyers abroad in connection with complete back- up and supply chain security.

Further, quality control should be more vigorous as the current level is insufficient (see Add-on cost Index) and affects the Pakistan quality image (in production and supply).

This situation has been experienced in many other “trade facilitation countries” but the NTTFC in Pakistan has the advantage of having customs as a driving force in the development.

The experience of the consultants involved has shown, that the best basis for success lies in countries where Customs has the leading role in implementing the different measures.

According to the Pakistani Board of Investment statements in spring 2006, Pakistan would be able to save \$1.25 billion annually by improving standards & procedures and through improved information flows for exports as well as imports.

Pakistan is determined to upgrade its performance in the coming years. The Central Board of Revenue (CBR) would modernize and streamline trade and transport logistics practices to enable Pakistan compete regionally and globally. Port dwell time and customs clearance time would be reduced to five and two days through the Pakistan Customs Computerized System (PACCS) by end-2006. CBR will develop a trade facilitation strategy for quick clearance of imports as well as export consignments so that the cost of imports and exports is reduced at Pakistani ports.

The CBR would expedite the implementation of Customs Administration Reforms (CARE) to do away with the procedural difficulties and elimination of discretionary powers, by allowing importers as well as exporters to avail the benefits of self-assessment in customs.

The freight forwarding sector, trade insurance sector and banking sector would be developed in accordance with the present-day needs for trade development in the country to meet the national and international challenges.

The National Trade and Transport Facilitation Committee would be strengthened so that the issues requiring immediate resolution could be handled on the spot and no delay is caused at imports and exports. The role of trade organizations such as the Federation of Pakistan Chamber of Commerce and Industry and sector-specific organizations would be strengthened to play their due role in trade facilitation.

The trade facilitation requirements of the World Trade Organization (WTO), South Asia Free Trade Area (SAFTA) and Economic Cooperation Organization (ECO) would be publicized, so that the business community as well as the relevant authorities could be made aware of the international obligations.

The targets and timelines have been set to achieve the trade facilitation levels at Pakistani ports. In this regard, Pakistan's Second Trade Facilitation Conference would be held, the clearance charges of wet and dry cargo would be reduced, a trade facilitation strategy would be developed and finalized by 2007, electronic submission and processing of customs clearance documents would be ensured by end-2007, transport pricing mechanism would be adopted and charges would be reduced for the private sector at ports by end-2007.

The receipt and delivery charges at container terminals would also be reduced by end- 2007 and the efficiency at the dry ports would be ensured across the country. A training institute would be established for the training of freight forwarders to ensure the safety of trade consignments by end-2007.

Ports IT network would be made operational for facilitation purposes by 2008, the role of banks in trade facilitation would also be streamlined by 2009 and the infrastructure for cold chains at important points would be enhanced and improved to increase the exports of perishable items by 2010.

In order to increase the facilitation impact it is mandatory that the public and private parties develop an understanding and recognition of each other's role and importance in the society and the economy.

**The following actions are recommended:**

1. In order to cope with international standards in logistics (incl. of order processing) the general logistics capabilities need to be improved and utilization of EDI and IT in trade and logistics enhanced. Especially in medium and smaller size companies the current development is too slow and needs a "push".

It is suggested that the NTTFC leads the establishment of a strategy that lays out the guidelines for securing a

proper logistics development in time. The document should include the proposal of a possible national EDI “host”.

2. Further simplification towards the 1-window approach and database to make the system approach uniformed with equal rights as well as requirements for bigger and smaller companies is required.

3. The suggestion made in 1996 to adopt a business perspective and develop specific methodologies to measure trade facilitation performance is still valid. The logistics index, which can be estimated for individual countries, regions or firms, can be used as a tool for assessing the overall logistics performance of Pakistan compared to other regions and countries. The method should be used to assess Pakistan’s capabilities to continue and further improve the trade facilitation activities.

## **12.1 Export subsidies, promotion and facilitation**

Pakistan is actively promoting exports with measures like tariffs concessions on imported inputs and income and sales tax concessions. The subsidies in 2003 totalled roughly 56 million USD and were confined mostly to wheat.

In 1989 the Government established its first Export Processing Zone (EPZ) in Karachi, with fiscal and institutional incentives to encourage establishment of export-oriented industries.

The government subsequently established additional EPZs in Risalpur, Gujranwala and Sialkot in the Punjab, and Saindak and Duddar in Balochistan.

Principal government incentives for EPZ investors include an exemption from all federal, provincial and municipal taxes for production dedicated to exports; exemption from all taxes and duties on equipment, machinery and materials (including components, spare parts and packing material); indefinite loss carry forwards; and access to Export Processing Zone Authority "One Window" services, including facilitated issuance of import permits and export authorizations.

Pakistan also offers incentives for additional categories of export manufacturing. An Export-Oriented Unit (EOU) is a stand-alone industrial unit, allowed to operate anywhere in the country, that exports 100% of its production. EOU incentives include an exemption from duty and taxes on imported machinery and raw materials and duty-free import of two vehicles per project. Pakistan also has 83 industrial zones (IZ): 27 in Punjab, 29 in Sindh, 16 in the Northwest Frontier Province and 11 in Balochistan. The IZ provide infrastructure facilities but do not enjoy fiscal incentives like those of EPZ.

The EPZ and IZ have produced results: Pakistan has witnessed a solid growth in exports over the last years.

The key trade and export promotion organizations in Pakistan are: Export Promotion Bureau, Federation of Pakistan Chambers of Commerce and Industry; Ministry of Commerce; All Pakistan Cloth Exporters Association; Pakistan Bed wear Exporters Association; Pakistan Tanners Association; Trading Corporation of Pakistan.

To support the export of a number of “strategic commodities” the EPB offers a 25% freight subsidy.

Further EPB supports testing certification for leather. The cost of such testing is USD 15,000 and the subsidy is up to USD 2,000.

For (ISO 9000, ISO 14000) certification the subsidy is up to Rs. 15,000.

## 12.2 Incentives

According to the *National Trade Estimate Report* from 2004, Pakistan has granted significant tax and duty incentives to 2 industry categories, the *priority industries* (tourism, housing, construction) and the *value added export industries* (manufacturing of garments, bed linens, surgical instruments, sporting goods).

For priority industries maximum customs duty has been reduced to 10% from 25% on imported plant, machinery and equipment. Minimum equity investment and national ownership requirements for investments in priority industries have been removed, 50% depreciation allowance to all fixed assets has been given.

The value-added export industries have higher incentive levels: 0% duty on imported plant, machinery and equipment in addition to a first year depreciation allowance of 50% on all fixed assets. However, Pakistan subjects all export industries that receive any incentives (opposed to the value-added export industries) to performance requirements – requirement to export an average of 50% of production during the first 10 years of operation.

Any exporter achieving 10% export growth over the prior year is permitted to retain 50% of increased export earnings in foreign exchange to purchase machinery, raw material, and promotion services.

### 13. SUMMARY OF FINDINGS AND PROPOSALS

The below proposals are indicative as to parties involved and it is suggested that the logistics strategy and action plan that has been recommended will make a clear split of the detailed responsibilities.

#### General

FINDINGS	REMEDIES	TIMEFRAME
Pakistan stands at a crossroad where one has to decide on the path to follow in the years to come, where Pakistan will be competing on global grounds and with countries with advanced trade and transport supporting infrastructure and services. To face this competition the government has to take more coordinated steps to materialize Pakistan's export and general trade potential.	The impacts of enhanced services to support trade would be wide ranging and extend beyond their simple provision. It would have a notable multiplying effect on the economy at large, provide opportunities for employment on relatively high qualification and earnings level, allow for diversification to avoid excessive dependence on economic risks and external factors and contribute to a more balanced development. However, Pakistan will be able to reap the benefits from these services only if two conditions are met: the provision of competitive services quality and price wise and a commitment to continuously improve these.	Establish a "Strategic Plan for Trade Supporting Infrastructure & Services" which will complement the current strategic planning activities undergoing in public and private agencies. The strategic goals of the plan shall be: a) <u>Regulatory framework</u> ensuring the development of trade supporting services (incl. of liability and guarantee schemes for the participants in the service chain) b) <u>Public-Private Partnership</u> Efficient public-private partnership, based on combined resources, close and objective co-operation and perception of goals. c) <u>Access to Capital</u> Access to capital for the Pakistan economy on equal terms and conditions as competitors. d) <u>Access to knowledge</u> Provision of quality education, training and research on trade supporting services. e) <u>Access to markets</u> Easy Pakistan access to global market.
Pakistan does not have a brand image in logistics and transport nor in products. The obsolete and other deficiency costs make it difficult for Pakistan products and service providers to obtain an image as a reliable partner in supply and quality. This has a negative impact on the pricing and makes it difficult to raise the prices.	Upgrade the general efficiency and customer service. Take the extra mile and introduce supply chain options – inclusive of Total Distribution Costs solutions (smaller shipments, more frequencies, gearing of Pakistan to develop new market segments).	Part of above.
Pakistan exporters and service/transport providers control too little a share of the supply chain.	Change of terms of delivery.	Part of above.

#### Human resources

FINDINGS	REMEDIES	TIME FRAME
There is a severe lack of knowledge and understanding of the contemporary disciplines of logistics in production, procurement, order processing and distribution (incl. of supply chain management).	In order to cope with the increasing global competition it is mandatory that the private/public sectors initiate and implement contemporary schemes for basis, vocational and high level education/training in trade and logistics activities.	Preparation of curriculum for the various levels by end of 2006 and with start of activities mid 2007.
Only a very few Pakistan companies can	Improved knowledge through education	Same as above.

provide the merchandising and quality control, supply line control and logistics cost control that is expected from them to qualify as a partner.	and training. Establishing of Key Performance Indicators and Benchmarks.	
There is no link to the understanding, acceptance and support of total quality concepts and zero errors. It is not understandable for the individuals how important their role is in securing that their function is fulfilled.	TQM Total Quality Management schemes must be established and introduced in the individual companies. The TQM concept could be linked to the logistics education but it must be secured that also blue-collars are getting involved.	Same as above.
Lack of corporate culture and vision – thereby also loyalty and support.	Introduce strategic planning tools. Develop the Pakistani vision, image and profile.	

### Quality control

FINDINGS	REMEDIES	TIME FRAME
Compliance with international quality standards in transport and production is lacking, as well as the consensus.	Establishment of Key Performance Indicators for the various transactions on macro and micro levels + measurement and control system. Plan and carry out seminars and training for the management of freight forwarding agents, managers from export companies in order to agree to standards and values.	Start beginning of 2007.
Below standards product quality is often reason for uncompetitive final cost to consumers as shown in add-ons index. Also packing and labelling quality is poor. This makes it impossible to take advantage of higher end market segments.	Total Quality Concept must be supported. Benchmark and performance assessment tools must be introduced (Logistics Index, Landed Cost Index, Import Distribution Index, Export Distribution Index) to monitor and assess performance and detect problem areas.  Establish a working group of exporters and forwarders that can discuss the Total Quality Concept elements and agree to a prioritizing of the indexes and indicators that should be introduced.	Start last part of 2006
Quality systems in companies are inadequate.	It can be recommended, that the production companies introduce so-called Quality Certification (LogCer) for production and Logistics Certification for in-house logistics. The elements to be included are purchasing, order receiving/processing, documentation, warehouse operations (pick & pack) and distribution. The certificate should include measurable Key Performance Indicators (KPI) for time and cost parameters.  Seminar(s) on the use of internal performance indicators – where after companies individually can make follow	Start last part of 2006

	up activities. It could be viable to invite members from the shipping community to participate.	
Quality concept and consequences are not known; human factor plays a key role in quality problems.	Introduction of Total Quality Concept; training and education measures.	Establishment of train the trainers coaching concept in companies – export, import and transport, in 2007.
Lack of corporate culture (loyalty and pride) and the inability to see ones own importance/consequences in the total supply chain. This has to do with corporate visions and values on the one hand and general knowledge level on the other hand.	Strengthening of corporate culture, visions and values – through training and image-building support measures. Improvement of general knowledge in logistics and supply chain management and performance.	Same as above.
Pakistan has difficulties in meeting the SPS requirements of developed countries in food sector. The conformity costs are high due to lack of technical know-how and the low performance of the public certification and control authorities.  Poor quality management - according to PHDEB The Pakistan Horticulture Development and Export Board (PHDEB) Pakistan was on average “wasting” 65 million USD annually through mismanagement.	Improve capabilities and the scientific and technical skills and resources via government-initiated measures.  PHDEB is planning to launch a Pre-Shipment Inspection scheme for the exporters of fruits in 2006.  Investments and development of the cool chain and supply chain.  Seminar on “Global consumer behaviour, preferences and trends” – in order to secure that the planned developing activities are based on realities and final customer and consumer demands.	2007

## Logistics

FINDINGS	REMEDIES	TIME FRAME
The logistics costs in companies are far too high and at the same time the lead times are too long. The lack of proper logistics in production, procurement and order processing means increased costs and too long lead-times. Also there is a risk that delays are arising followed by extra transport costs due to express services or else penalties or rebates to be paid to the buyers or in worst case, cancellation of orders.	A general introduction of contemporary logistics and implementation will mean substantial reductions in costs and at the same time increase the general competitiveness. It is estimated that Pakistan companies by following best practices can cut costs around 10% for import and up to 20% for export.	Establishment of a common strategy for development of contemporary logistics by end of 2006, beginning of 2007.  EPB, PIFFA, FICCP
The human resource development (vocational and basic training) inadequacy forms a risk to achieving a general acceptable level in understanding and thereby following contemporary principles in production, trade and logistics. The higher-level education in relation to production, trade and service is missing the link and relation to real life activities.	Public and private initiatives in training and education. Secure practical modules in higher education programs.  FICCP, PIFFA & NTTFC should discuss and prepare the curriculum for the education as well as identification of the funding.	Same as above End 2006.

High and uncompetitive cost level resulting from high safety margins added to compensate for unreliable delivery times.	Changing Terms of Delivery to DDP to simplify the calculations, to minimize the risk for unforeseen costs, to obtain more effective benchmark/comparative quotations from different companies in different regions, to have an “all in” assessment with common focus on quality of products and supply.	Same as above End 2006.
Poor image of Pakistan as to lead-times and keeping of delivery terms, resulting in low competitiveness and market share.	Improved communication and cooperation between the exporters and the service/transport providers is needed. Total Costs Comparison concepts have to be introduced, where the exporters are guided by service and transport providers in connection with delivery times. The service and transport providers should be a part of the distribution planning in the companies and become an integrated part of the supply line.	Same as above End 2006.

### IT/EDI

FINDINGS	REMEDIES	TIME FRAME
Contemporary EDI and IT solutions are not commonly used in the private sector, except for large corporations. Mainly the IT system is being used for e-mails. The lack of IT utilization hampers communication with buyers- suppliers and public bodies (customs) – and is causing longer lead times, poorer planning and customer service as well as higher cost margins than wanted. This results in lower cost control and benefit/share to the companies.	<ol style="list-style-type: none"> <li>1. Establishment of an EDI/IT host strategy which will outline the guidelines for developing a national business IT concept – inclusive of a Host system.</li> <li>2. Assess if it could be possible to establish a Host system where a public body (e.g. Customs) could facilitate the development and act on public basis or based on a PPP (Private, Public Partnership) arrangement.</li> </ol>	<ol style="list-style-type: none"> <li>1. Establish strategy during second half 2006</li> <li>2. Investigate the Customs or PPP Host arrangement along with the further development of CARE system as the IT/EDI development will enhance the use of the CARE system</li> </ol>
Order processing time tends to hamper the general lead-time as well as have a negative effect on the distribution lead-time due to low level of integration of the parties in-between.	<p>Implementation of an integrated IT-system with order processing, printing of picking notes/delivery notes etc. will give opportunities to</p> <ul style="list-style-type: none"> <li>- Savings in manpower in warehouse/distribution of up to 25%</li> <li>- Eliminate the error rate 25%-50% (picking and shipping)</li> <li>- Reduce lead time, from receipt of order to delivery, with around 50%</li> </ul>	Linked to above (host concept).

### Domestic Transport

FINDINGS	REMEDIES	TIME FRAME
The inland distribution and transport costs are too high and will increase along with the increase in fuel prices, restrictions on truck transport and poorer utilization of transport on rail. The quality of transport is not good	<ol style="list-style-type: none"> <li>1. It is mandatory to upgrade the use of railway transport in order to control the domestic transport costs, decrease or stabilize the external costs, provide guaranteed services on time and with access to necessary</li> </ol>	Should be implemented as part of the Pakistan Strategy for Trade Supporting Infrastructure & Services.

<p>enough as to lead time/price combination and is having a negative impact on the efficiency of the total supply chain.</p>	<p>capacity. 2. In this context it is mandatory to find a solution as to utilizing empty capacity on rails from up-country by permitting trains with mixed cargo of bonded and non-bonded freight, empty containers, etc. At the same time it is mandatory that LCL services be upgraded to daily services and with guaranteed delivery times.</p>	
<p>The transit times on railway are not reliable and far too long; delays are frequent, but often due to activities beyond the railway responsibility (e.g. payment of wharfage to Karachi port, container inspection for anti-contraband and anti-drug control).</p>	<p>KPT allows LDP (and other dry ports) to collect wharfage on their behalf, or (ii) KPT provides a system at Lahore for receipt of wharfage, or (iii) Agent pays wharfage “on-line” to KPT. Carry out drug examination for both import and export at LDP as the access to containers en route can be secured. For import it can also be recommended that PAK Customs start to introduce the origin tracking based Risk Management System which is being supported by the international shipping lines who are now giving the Intelligence Sections of Customs bodies access to their data-base.</p>	<p>Should be discussed with Customs and CRB.</p>

### International transport

FINDINGS	REMEDIES	TIME FRAME
<p><b>Air- transport</b> Pakistan lacks sufficient air transport facilities to secure that the current tonnages are airlifted on time and especially to start using airfreight as value added replenishment tool for high end products, perishables and other products where the transport lead-time is crucial.</p>	<p>Investigate which measures can be taken to secure additional capacity to and from Pakistan with a special emphasis on starting promoting high end products and well-paying perishables trade.</p>	<p>Part of strategy (market access).</p>
<p><b>Shipping</b> The use of HBL is hampered by stories spread among importers on flexibility of Pakistan freight forwarders (issuing HBL before they have received the cargo). This flexibility profile creates a trend where e.g. European importers are changing towards FOB shipments - so as to control the shipping and related costs ex Pakistan. At the same time there is a tendency of importers designating forwarders with international background to take care of the shipping.</p>	<p>The Forwarders Association must address and take care of the situation so that the violations made by some companies are not damaging the general image of Pakistan freight forwarders. It is important for the local forwarders to cope with the reliability, liability, service and costs demands.  Establishment of contemporary liability and guarantee scheme for Pakistan freight forwarders</p>	<p>By end 2006.</p>

### Documentation/Simplification

FINDINGS	REMEDIES	TIME FRAME
<p>The lead-time in the general system could</p>	<p>1 day less in customs for all import is</p>	<p>Consultations with Customs and CRB.</p>

<p>be cut if the GD-PRAL system was further aligned so the many signatures were avoided but took place electronically.</p> <p>At the same time there is a server capacity problem with PRAL-IT which needs updating as it is delaying the processes and creating longer lead times.</p>	<p>equivalent to financials cost savings for goods in transit of around USD 5 millions (2005 import turnover). It can be recommended that GD-Pral further simplify the E-filing of pro-forma invoice, LC and insurance.</p> <p>It could be worthwhile to look into the capacity problem along with the suggested upgrading of the general I/EDI host activities.</p>	<p>Ongoing in NTTFC regime.</p>
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### Freight forwarders

FINDINGS	REMEDIES	TIME FRAME
<p>The General Trading Conditions of the forwarders are not accepted by exporter/importers as a valid contract document governing the relation between the forwarder and their clients.</p>	<p>The forwarders will not become partners to the industry until they secure a kind of authorization system with a clear-cut product declaration and at the same time have the means to exclude eventual members who do not conform/ stick to agreed rules and regulations.</p> <p>Establishment of proper liability and guarantee schemes and reaching of consensus with exporters and importers organizations regarding the General Conditions.</p>	<p>Consultations - to create consensus about the Forwarders General Trading Conditions – should be started between PIFFA and FPCCI</p> <p>Now</p>
<p>The current inordinately long time for decisions diminishes the trust.</p>	<p>It can be strongly recommended that PIFFA establish a PIFFA “arbitration body” which can adopt decisions fast and effectively, taking basis in the Trading Terms for the members of PIFFA.</p>	<p>PIFFA should discuss this opportunity with the relevant bodies soonest possible – as a part of the professional platform.</p>
<p>A more complex logistics services environment has developed today, where the forwarders in order to cope must act and take responsibility as a reliable partner in the global supply and logistics chain. The knowledge and capacity for that today in Pakistan is inadequate.</p>	<p>Human resource development, upgrading of knowledge of rules and regulations – in a combined public-private effort.</p>	<p>PIFFA should establish this type of education (with certificate) as a needed qualification for becoming a PIFFA member. (A certain percentage of the staff in forwarding companies must hold a PIFFA training certificate). To be implemented during 2006 and 2007.</p>

### Customs

FINDINGS	REMEDIES	TIME FRAME
<p>The extent of paperwork in GD (now on computer) is still very big. There is only marginal relief as to the amount of information to be provided in the GD - which has 63 fields and numerous back-up details. Filing the GD takes several hours.</p>	<p>Facilitation measures to reduce the quantity of information to be provided directly by trade + reduce red tape.</p>	<p>For discussion at NTTFC and as a part of the overall strategy with Customs in focus as the main Pakistan facilitating entity.</p>
<p>Low usage of IT/EDI, lack of IT knowledge &gt;&gt; all this leads to limitation of PACCS/CARE spread and benefits and</p>	<p>Large-scale IT education complemented with investments in IT development.</p>	<p>Same.</p>

continued high share of manual entry and thus long lead time.		
The dwell time (average 10 days) is not yet satisfactory, as the processing time with an online system should make it possible to clear as much as 90 % within 3 days, to be able to compete with international standards. PACCS is so far only implemented at KICT. There is still too much red tape in PACCS.	Extend the electronic solutions all over the country + complement with required training and investment support. The CBR has to make a major effort and as soon as possible offer PACCS to other cities in Pakistan, at least at the bigger customs stations, thus making it available for a bigger part of the import/export industry.	Same.
The refund of sales tax on export is still problematic.	Reduce red tape; establish Key Performance Indicators and clear norms.	Same.
Delays on import are often arising in connection with valuation of the commodities, where customs will not accept the shippers' invoice as to value.	Suggest that the commercial invoice presented for clearance had an authorized copy of the export document attached, stamped by the customs in the country of shipping.	Same.
The attitude of customs tends to be like that of an auditor and not a facilitator.	Establish a clear vision of being a trade facilitator and enhancer for Customs, establish internal norms and service philosophy.	Same.

### Insurance and liabilities

FINDINGS	REMEDIES	TIME FRAME
Based on the case analyses carried out there should be possibilities for further reduction of the insurance premium.	Further reduction from 0,50% to 0,30%. This would mean annual savings in the range of USD 70,0 million on insurance premiums to the exporters and importers.	Action by NTTFC.
The freight forwarders do not have a commonly accepted liability scheme comparable to general practice in the global forwarding business today.	The forwarders association PIFFA should introduce an overall liability and insurance scheme for their members, with coverage by international standards. The liability scheme and the insurance coverage together with the Standard Trading Conditions should be agreed to as a package with a counterpart like Pakistan Chamber of Commerce and Industry - so that a mutual understanding, support and acceptance is secured.	Action by PIFFA.

### Fiscal and banking

FINDINGS	REMEDIES	TIME FRAME
High export financing interest rate (9%).	In order to "finance" the recommended change in terms of delivery from FOB/CIF to DDP, it can be strongly recommended that the export financing interest be reduced. A 6% interest rate in financing will mean annual savings in the range of USD 2,9 million for the exporters. Banks should introduce competitive factoring possibilities and	Action by NTTFC and FPCCE and as a part of the overall strategy.  By end 2006.

	rates for exporters to ease the cash flow.	
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### Logistics costs

FINDINGS	REMEDIES	TIME FRAME
High share of transport costs in the final price of sports goods from Pakistan. Also high delay costs.	Consider part shipments opportunities when making a quotation. A Total Costs Comparison, inclusive of capital costs, inventories costs, etc. should make the benefits clear for the exporters (better utilization of machinery, more orders) as well as the importers (planned part shipments according to actual requirements, thereby lower inventory and risks). This should make it possible for exporters to offer more frequent, but smaller deliveries, whereby they can serve more clients and at the same time utilize resources better.	Action by FPCCI and as a part of the Logistics curriculum suggested.  Time – now.
Very high obsolete costs for Pakistani textile goods.	Improve in-house quality in production and logistics.	Same as above.
Large safety margins are used by overseas importers in cost calculations, resulting in high final cost.	Pakistan exporters should control the cost development as far as possible in the supply chain to secure that factual costs are being calculated. Therefore it is important to quote DDP prices on export. This way the cost is controlled all the way to the shelf of the client and at the same time also certain advantages could be gained from paying duty and costs on a lower value than the value already including the sales mark-up. This issue should be addressed by the Export Promotion Board as well as the Forwarders Association.	EBP should establish guidelines for the exporter how they can utilize and benefit from this possibility. Also EBP should assess the opportunities for Pakistan companies to register abroad as a company or c/o transport and service provider (Customs and VAT Host).

### Storage and dry ports

FINDINGS	REMEDIES	TIME FRAME
There is a general storage shortage for finished goods as well as raw materials. Outsourcing of storage, handling, etc to 3 <sup>rd</sup> party storage and service providers is not yet very developed.	Companies could free up in-house space for production activities and resources and reduce costs by outsourcing part of their storage, packing, labelling and logistics activities. By consolidating such activities in type distribution centres or distribution parks the investment burdens in facilities and equipment could be reduced significantly. At the same time it will lead to a larger scale upgrading and will serve as a short cut to improving logistics activities.	Action by NTTCF.
LDP is unable to carry out an effective tracking of containers and cargo en route, causing control as well as customer	LDP becomes an integrated part of the Railway on-line container tracking system.	Beginning of June 2006.

service problems.		
Long incoming/outgoing lead times.	The IT systems of LDP and Customs are upgraded so that they can interface. Establish a host system whereby an interlink between more entities (also importers, exporters) can be established with optimal investment, Customs could become the host.	Customs and NTTFC
Inability of dry ports to act as supply chain partner, activities not consolidated.	Upgrading of skills; introduction of services like those of distribution centre; possibility to start to service fresh food products in relation to cold store facilities, grading facilities, etc.	EPB and TTFC
Imbalance in incoming and outgoing containers at dry ports.	Solve the non-bonded status cargo situation by e.g. having the segregation and examination after reaching the port; apply contemporary risk management system.	NTTFC and Customs

### Trade Facilitation

FINDINGS	REMEDIES	TIME FRAME
The industry does not realise the work carried out and the achievements made by the NTTFC and there is a need for more exposure of the NTTFC activities for better support and understanding.	Improve the visibility of trade facilitation effects by introducing performance assessment, benchmark and measuring tools (e.g. Logistics Index).	Action by NTTFC and as part of the overall strategy.
The general logistics capabilities are far too weak and harm Pakistani competitiveness. EDI and IT in trade and logistics needs to be enhanced (especially in medium and smaller size companies). Standards and procedures need to be developed, general efficiency increased in trade and transport.	The NTTFC should lead the establishment of a strategy that lays out the guidelines for securing a proper logistics development in time. The document should include the proposal of a possible national EDI "host". Further simplification towards the 1-window approach and database is required, to make the system approach uniformed with equal rights and requirements for bigger and smaller companies.	Same as above.

## 14. Abbreviations and Acronyms

ANF	Anti Narcotics Force
Asycuda	UNCTAD Customs System
ATC	Agreement Textile and Clothing
B/E	Bill of Entry
B/L	Bill of Lading
BAF	Bunker Adjustment Factor
BIT	Bilateral Investment Treaty
BMR	Balancing Modernization Replacement
C & F	Cost and Freight
CARE	Customs Administrative Reforms
CBR	Central Board of Revenue
CFR	Cost and Freight
CFS	Container Freight Station
CIF	Cost, Insurance and Freight
CMR	Truck 'Bill of lading' (Contract Merchandise Routiere)
CNF	Cost and Freight
CPI	Consumer Price Index
CRS	Cumulative Recovery System
CY	Container Yard
D/A	Document against Acceptance
DDP	Delivered Duty Paid
DDU	Delivered Duty Unpaid
ECO	Economic Cooperation Organization
EDI	Electronic Data Interchange
EDP	Electronic Data Processing
EOU	Export Oriental Unit
EPB	Export Promotion Board
EPZ	Export Processing Zone
ET	Electric Traction
ETA	Estimated Time of Arrival
FCL	Full Container Load
FDI	Foreign Direct Investment
FEU	Forty Feet Equivalent Container
FIATA	Association of International Freight Forwarders
FOB	Free on Board
FPCCI	Federation of Pakistan Chamber of Commerce and Industry
FTA	Free Trade Agreement
FTA	Free Trade Agreement
FY	Fiscal Year
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNP	Gross National Product

GOP	Government Of Pakistan
GSP	General System of Preference
HBL	House Bill of Lading
HR	Human Resources
HUB	Distribution Centre
ICD	Inland Clearance Depot
IDBP	Industrial Development Bank of Pakistan
IFC	International Finance Corporation
IGM	Import General Manifest
IMF	International Monetary Fund
IPO	Intellectual Property Organization
IPR	Intellectual Property Right
IT	Information Technology
IZ	Industrial Zone
KHI	Karachi
KICT	Karachi International Container Terminal
KPI	Key Performance Indicators
KPS	Karachi Port Surcharge
KPT	Karachi Port Trust
L/C	Letter of Credit
LCL	Less Container Load
LCL	Less Container Load
LDP	Lahore Dry Port
LTL	Less Truck Load
MT	Metric Tons
MTDF	Medium Term Development Framework
NESPAK	National Engineering Services Pakistan
NFS	Non Factor Surcharge
NH&MD	National Highway & Motorway Police
NHA	National Highway Authority
NLC	National Logistics Cell
NOC	No Objection Certificate
NTTFC	National Trade and Transport Facilitation Committee
NVOCC	Non Vessel Operating Common Carrier
NWFP	North West Frontier Province
OIC	Organization Islamic Conference
PACCS	Pakistan Customs and Clearance System
PGB	Performance Bank Guarantee
PHDEB	Pakistan Horticulture Development and Export Board
PIA	Pakistani International Airline
PIFFA	Pakistan International Freight Forwarders Association
PQA	Port Quasim Authority
PR	Pakistan Railways
PSC	Pakistan Shippers Council
PSI	Pre Shipment Inspection

PSQCA	Pakistan Standard and Quality Control Authority
PTA	Preferential Trade Agreement
QRC	Quality Review Committee
R&D	Research and Development
RDP	Rawindi Dry Port
REAP	Rice Exporters Association of Pakistan
RECP	Rice Exporters Cooperation of Pakistan
REG (S)	Rapid Export Growth (Strategy)
SAARC	South Asian Association for Regional Cooperation
SAD	Single Administrative Document (used in EU)
SAPTA	South Asian Preferential Trading Agreement
SPS	Sanitary and Phytosanitary Standard
TEU	Twenty Feet Equivalent Container
THC	Terminal Handling Charge
UNDP	United Nations Development Project

## APPENDIX A

### ADD-ON INDEX

The index is a comparison tool applied to see the accumulation of costs from ex-factory onwards, until the final consignee in the export destination. The 'add on' costs, quality performance, experience and margins are influencing the calculation principles of importers. The lower price at origin may turn out to be the highest cost option at destination. The quality, obsolete share, conformance to specification and long lead times tend to be typical problems increasing the final cost. In order to compensate for the high cost accumulation caused by various factors as visualized in the indexes, the exporter cannot but reduce the price.

The index is calculated by an "adding on" method, using industry-specific calculation norms/formulae. The units applied can be either actual prices and costs or an illustrative unit figure, where the accumulation is added based on real life figures and percentages derived. The input data is gathered during interviews, based on specific questionnaires.

The delivery efficiency is reflected in the index as delay costs resulting from late or incomplete deliveries and transport risk costs. The smaller delay costs, transport risk costs (and partly also obsolete costs), the better the efficiency. For assessment purposes (garments, leather garments, textiles, etc.) one can use the International Logistics Benchmarks chart attached in Appendix B as a reference.

The add-on index is based on a method used by firms to "benchmark" their suppliers as to the product quality and logistics quality (all non-factor cost activities) and takes into account the different elements accumulating and forming the final cost of a product. The index this way compares the final amount according to different suppliers, locations as well as product pricing and quality.

The index employs calculation norms applied in specific branches or market segments.

The various components are based on previous experience, expectations, risks and performance regarding the quality and reliability of suppliers. Thus it is also communicating the current image (perception) of Pakistan exporters.

#### Add-On Index Elements

**Transport costs** calculated up to landed destination

**Transport risk costs:** Access to capacity related extra costs and/or change of mode of transport or routing

**Duty** to be paid in country of import (also related to transaction value, tariff specification flexibility)

**Capital costs:** Internal calculation rate of interest or external capital cost rate

**Inventory costs:** Warehousing, overhead, handling and salaries

**Obsolete goods:** Quality, quantity, not corresponding to order, damaged goods and/or packing, labelling, supply shortage, etc.

**Delay costs:** Follow costs like lost sales, discounted sales, administration costs linked to part-shipments, guarantee costs, etc.

**Wholesaler mark up:** covering sales, administration, merchandising, order processing, claims, profit, etc.

**Retail mark up:** linked to calculated % of goods sold (percentage of commodities that will cover the cost for 100% of shipment), overheads, space management costs, turnover, inventory discrepancies, profit, etc.

The Pakistan add-on index has been established based on data collected during interviews with EU importers of products from Pakistani and the other countries in the benchmark.

The data collected were consolidated into representative benchmark samples for the three commodity groups. In general the major parts of the cost percentages were within the same range except for the mark-up percentages.

The mark-up percentages vary from company to company and from retail outlet to retail outlet. A good illustration is the findings from the garments (leather) sample where big department stores were calculating with 250% as an average mark-up, Hypermarkets around 175% and so-called ethnic outlets with around 125%.

Further the calculation of percentage of pieces forecasted to be sold (percentage of the total pieces purchased) differed a lot.

Leading department stores calculated with a sales percentage of 70%, which gives the following calculation.

Retail calculation example: garments 100 pieces		
Retailer purchase price (excl. VAT)	USD	15.000,00
Expected sales 70% (70 pieces)		
Factual Purchase price per piece "sold"	USD	214,29
Mark-up 200%	USD	428,58
Price per piece	USD	642,87

Where the department stores have a fast turn-around "sell and cash" strategy the so-called ethnic shops tend to stock pile till the last piece is sold and therefore they calculate with a 100% sales – not taking the cash flow, capital costs, etc. into consideration.

The Add-On Index can be used for a multitude of purposes from identifying and correcting shortfalls to form the basis for introduction of new strategic measures.

It can be recommended that the Add-On benchmarks in this report be used as a platform for discussing and forming contemporary and operational supply and quality strategies that can sustain the enhancement of the Pakistan competitiveness.

## APPENDIX B

### International Logistics Benchmarks (source: Apparel Logistics)

#### Apparel & Textiles

Description	Value
The reduction of the price of materials using Internet procurement vs. traditional procurement	5% - 10%
The reduction of cycle times using Internet procurement vs. traditional procurement	5 days
The reduction in inventory using Internet procurement vs. traditional procurement	25% -45%
Savings percentage of total supply chain cost that "Best-in-Class" companies experience over competitors	4% - 6%
Supply chain cost advantage for "Best-in-Class" companies vs. average competitors	42% -48%
Order cycle times advantage between "Best-in-Class" companies vs. average competitors	45% -55%
Inventory days of supply advantage between "Best-in-Class" companies vs. Average competitors	45% -55%
Percentage of time "Best-in-Class" companies meet delivery dates vs. average competitors	15% -18%
Percentage of the number of fewer days of inventory "Best-in-Class" companies have vs. the competition	58% -62%
Percent of time "Best-in-Class" companies meet customers request	98%+
Percent of operating costs inefficiencies in the supply chain waste	22% -26%
Advantage that "Best-in-Class" companies experience over the competition in cash-to-cash cycle time	45% -55%
Cost advantage of optimizing the distribution network	20% -30%
Increase in on-time deliveries by companies that effectively manage their supply chain	Over 40%
Increase in revenue generated by companies that effectively manage their supply chain	Over 15%
Inventory reduction generated by companies that effectively manage their supply chain	Over 40%
Percentage of customers who stop buying because of attitude and supply performance towards the customer	65% -70%
World class companies logistics costs as a percent of sales	Under 5%
World Class companies inventory turn over rate	Over 20

World Class companies total order cycle	4 - 6 days
Percent of sales increase if stock outs were eliminated	10% -14%
Cost savings from companies adopting strategic sourcing	15% -25%
Percentage of expenditures related to the supply chain	65% -70%
"Best-inClass" percentage of on-time delivery	99%
"Blass percentage of order completeness	98%



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