THE AMERICAN BUSINESS COUNCIL OF PAKISTAN (ABC) SUGGESTIONS FOR THE TRADE POLICY 2015/16

The American Business Council of Pakistan (ABC) was formed in 1984 and is one of the largest investor groups in Pakistan. The Chamber currently has 68 members that operate in various sectors i.e. healthcare, financial services, information technology, chemicals & fertilizers, energy, FMCG, food & beverage, oil & gas and others. ABC members have cumulative revenues of US$ 3.73 billion and an investment of over US$ 741 million. Members contribute a sizable amount to the national exchequer every year as direct and indirect taxes – last year they contributed PKR 77 billion. Member companies employ over 34,000 people directly who support 140,000 dependents and indirectly employ nearly one million people with agents, distributors, contractors, etc.

ABC's mission is to protect and promote the interest of U.S. investors in Pakistan; to encourage and stimulate new investments; to introduce and inculcate best practices and to strive to establish a level playing field in the country in order to promote the development of commerce between the USA and Pakistan.

The ABC Industry and Trade Sub-Committee, chaired by Mr. Amin M. Khowaja, meets regularly to study major Government policies relating to Trade, Industry (incl. Import & Export), and the Environment impacting members of the ABC and the American business community at large. The Subcommittee invites the feedback of all ABC members to identify relevant issues and recommend possible solutions. After a critical analysis of the feedback received from members, the Industry and Trade Sub-Committee compiled proposals for Trade Policy 2015-16. This proposal presents amendments and additions to existing trade policies for improving the investment climate in Pakistan by removing barriers such as high front load import duties and fuelling up infrastructure development. The paper also explores environmental issues, quality controls/standards and high utility costs, recommends policies to encourage exports and lower cost of local industries. Additionally it highlights changes needed in the import policy especially in procurement systems and power generation to facilitate the import process. The pharmaceutical sector has been given due importance and various policy improvements are suggested to resolve the multiple issues plaguing this sector. Lastly and more broadly, the proposal discusses trade agreements in context of countries such as India, Afghanistan and USA, stressing the benefits that could be derived.

ABC SUGGESTIONS FOR TRADE POLICY 2015-16

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A. IMPROVING COMPETITIVENESS OF LOCAL INDUSTRY AND ENCOURAGING INVESTMENT

A1. FRONT LOADING INDUSTRIAL INVESTMENTS

Issue
The import duty on machinery and equipment, ‘not locally available’ and imported into the country for setting up industry, can range from 5% to 25% and has been on an increasing trend. Even at 5%, this import duty is unnecessarily burdening companies looking to make large scale investment in the country. Globally, various countries are offering attractive incentives to industries to encourage FDI. Some examples are:

1. South Africa has 0% import duty slab on plant machinery and equipment.
2. Nigeria is offering a scheme to investors for duties and VAT exemptions on capital equipment.
3. In Morocco government is offering tailor made solutions to serious investors in the country and the investors can also negotiate investment deals with the government.

Proposal
The government should introduce a new duty slab of zero percent for all industry raw materials and machinery imported in the country for setting up plants, for which local equivalents are not available.

Benefit
This policy measure will be a positive step in attracting much needed Foreign Direct Investment into the country, especially in the manufacturing sector. It will reduce the cost of production and make Pakistani produced goods competitive in domestic and export markets. Moreover, this will not hurt the local industry as duty rates will only be reduced on machinery and equipment not produced locally. The proposed change offers a better investment climate in the country which would ultimately lead to increased investment in country’s infrastructure and human resource.

A2. INCENTIVES TO SPUR ECONOMIC GROWTH

Issue
Investment in industry is necessary for the government to spur economic growth. Government had taken a positive step by introducing Tax credits under Section 65 of the Income Tax Ordinance to attract investment. However, these tax credits are time bound and are only applicable for industries that make the investment before June 2016. This deadline is fast approaching. Keeping in mind the time it takes to make investment in industry, it may not be feasible anymore to leverage this tool to achieve the objective of attracting investment in industry.

Proposal
The government should consider extending the June 2016 timeline under Section 65 by at least 5 years and make it available for all investors that fulfill the requirements set forth by the law.

Benefit
Incentives offered under Section 65 of the Income Tax Ordinance will help in making Pakistan an investment friendly destination both from existing as well as new investors. Moreover, this could be a key building block to achieve the target set forth in Vision 2025 i.e. to increase FDI from USD 600 million to over USD 15 billion.

A3. IMPROVEMENT IN INFRASTRUCTURE

Issue
Pakistan is a developing economy and looking to fuel economic growth in the country. However, over the past few years not a lot of investment has been made in uplifting the infrastructure in the country including roads, national highways, railways and logistics infrastructure, industry and trade are severely impacted. Not only does this inhibit

trade and movement of goods within the country but also increases the cost of doing business making it difficult for locally produced goods to compete globally.

Proposal
We recommend that the government should give high priority to the development of proper road, rail and transport infrastructure and immediately form a high level Committee from public-private sectors directly reporting to the Prime Minister. Representatives and Chairmen of Chambers of all major cities should be given 50% participation. From the government, Chairmen of relevant major public sector organizations should participate along with Secretaries of relevant Ministries. This Committee should meet with the Prime Minister on a quarterly basis to prioritize major infrastructure development projects and review their progress.

Benefit
This proposal will greatly speed-up the development work for all key transport infrastructure projects, synchronize the critical development among the provinces and facilitate industry and trade by reduced cost of business as well as significantly enhance global competitiveness which is essential in maintaining the high growth rates projected during next 5-10 years.

A4. HIGH UTILITY COST OF LOCAL INDUSTRIES

Issue
Local industry utilities costs are highly inflated which leads to Pakistani companies being unable to compete in manufacturing costs versus companies in other countries. Charges of electricity and gas have substantially increased the cost of doing business in the country.

The combination of generation cost, transmission & distribution inefficiencies have excessive power tariff for industries both local and export oriented.

Proposal
While we encourage the Government to meet international commitments, we propose a tariff reduction through: Organizational Productivity; Theft loss minimization and Recovery of dues

Benefits
Lower input cost to local industries would help:

- Improve export performance through enhanced competitiveness
- Allow the country to realize its export potential by leveraging its innate skills in both traditional and non-traditional exports.

A5. IMPROVEMENT IN PROCESSES OF PAKISTAN STANDARDS AND QUALITY CONTROLS AUTHORITY

Issue
The Pakistan Standards & Quality Controls Authority (PSQCA) is responsible for developing and enforcing standards for different product categories being sold and/or manufactured in Pakistan. Currently there are mandatory standards in place for 78 product categories, all of which are tested by PSQCA. The Quality Control Center (QCC) at PSQCA tests selected samples of products from each batch. The samples are collected either from the port at the time of import or from the plant directly in case of local manufacturing. The samples are then tested as per the metrics defined in the respective product standards, after which QCC issues a conformity report. It is after the issuance of the report that the products can be sold in the market. It takes 25 working days for QCC to issue reports from the time of sample submission in normal circumstances and in case of expedited testing (that costs twice the original fee) it takes them 10 working days. The testing reports are currently being issued in an ad-hoc manner and are often delayed by the authorities. Since the products cannot be sold in the market without the conformity report, these delays are causing additional inventory costs which result in a negative impact on the revenue.

The PSQCA needs to review the testing process and establish a compliance system that is more feasible for manufacturers and importers.

Proposal

A licensing process needs to be established by the PSQCA whereby importers and manufacturers should be issued yearly licenses allowing freedom to operate, contingent on yearly testing of product samples v/s testing samples from batches throughout the fiscal. The license should be renewed every year and for every new addition in the product line. This would ensure compliance by the parties via a more efficient and streamlined process.

Benefit

- Simplifying the process would encourage more importers and manufacturers to ensure compliance with the standards.
- A robust and feasible regulatory compliance framework would help attract more investments in the economy.
- Prevent delays for businesses and reduction in additional inventory costs incurred due to delayed reports.

A6. IMPROVEMENT IN THE ENVIRONMENT

Issue

The Environmental Protection Agency is implementing prohibition of non-degradable plastic products for manufacturers and sellers. The enforcement of these regulations is being carried out in a manner where the industry is not being consulted and there is a lack of guidelines from the Environmental Protection Agency for the industry players with regards to compliance with these regulations. This is resulting in ad-hoc and inefficient implementation of regulations and a clear set of standards need to be defined by the Environmental Protection Agency for the industry to follow.

Proposal

1. The Environmental Protection Agency should form a committee comprising industry players as well as environment experts and researchers to jointly develop standards which address all important environment issues currently being faced.

2. The Environmental Protection Agency should set up a regulatory framework that streamlines the process for standard enforcement and implication and facilitates the industry in practically implementing these environmental standards in their processes.

Benefit

- Streamline the process for environmental regulatory compliance for the industry, encouraging the industry players to comply with more environmental friendly laws.
- Develop standards that are efficient and more up-to-date with the best industry practices.
- Helps in attracting more industry players to invest in environmental friendly energy.

A7. POWER GENERATION - DUTIES & TAXES ON CO-GENERATION EQUIPMENT

Issue

Despite much publicized claims regarding impending improvement in power generation and distribution by previous and present regimes, the power situation in the country is far from improved. The electric utility companies are ill-equipped to maintain existing power plants and handle the rising power demand in the country.

A way out of this problem is to promote on site self-generation, by setting up Co-generation based power plants in industry. This solution not only represents better utilization of country's diminishing fuel reserves but also provides higher system efficiencies than conventional generator based power plants (75% vs 30%).

Under the existing rules co-generation equipment (H.S. Code 8502.3900) imported presently has a duty component of 5%.

Proposal
All types of co-generation equipment should be made duty free.

Benefits
This will encourage industry to set up their own generation units thereby reduce the load on public utility companies.

A8. PROCUREMENT SYSTEM TO BRING TRANSPARENCY AND EFFICIENCY IN GOVERNMENT PURCHASES

Issue
Procurement in Government departments is carried out through a manual tendering process. The complete process requires a long chain of internal authorizations and scrutiny (at times involving several departments), several visits by suppliers to departments, and the generation of reams of paper-based statements and evaluations. The manual tender system is suffering from the following deficiencies:
Discrimination and delay in issue of tender schedules to suppliers: Government departments control the issuance of tender documents to the bidders, after verifying their applications. There exists an element of subjectivity and discrimination in this process, in addition to delays in the preparation of tender schedules.
Cartel formation to suppress competition: Through dubious means, the participating bidders gather the list of prospective bidders for a procurement request. They use this information to lobby for formation of syndicates or cartels and bid at higher quotations.
Tampering of tender files: For the purposes of evaluation, the bid documents are transported across the administrative hierarchy, which introduces the risk of tampering or loss along the way. The transportation of bid documents, manually and through surface mail, is also a time consuming activity.
Delays in finalization of tenders: Red tape, lack of transparency, and manual movement of files across the administrative hierarchy is resulting in inordinate delays in the finalization of tenders. These delays are contributing to cost and time overruns for the projects.
Human interface at every stage: The manual system exposes the departmental personnel to the bidders at every stage of the process. Such repeated contact between bidders and departmental staff could lead to subjectivity, favoritism and other undesirable practices.
Lack of Transparency: Procurement is considered a sensitive function, with all related information tightly controlled and closely guarded by government departments. This lack of transparency leads to misinformation and a lack of trust in the system by the bidders, media and the citizens.

Proposal
The above issue can be taken care of by implementation of e-Procurement best practices that should be adopted by the Government of Pakistan. These best practices will be implemented with the help of an automated e-procurement system. Benefits of such a procurement system are highlighted in the following section. The Electronic Government Directorate of Ministry of IT has already conducted an exercise though an independent consulting firm and has come up with such a procurement framework. All that is needed now is to implement this system.

Benefits
The severe shortcomings in the manual tender system have an adverse effect on the reputation of Government departments. Delays in the finalization of suppliers for materials and services for government projects had crippling impacts on the completion of projects and delivery of services to the citizens.

Automation of the procurement transactions reduces human error, enhances the integrity of the data, brings in transparency to the Government procurements and facilitates standardization of processes.

The entire e-Procurement process should be designed to avoid human interface i.e., supplier and buyer interaction during pre bidding and post bidding stages.

The automated processes and work flows will improve internal efficiency within the departments; shorten tender cycle times, eliminate subjectivity in the evaluation of tenders with system based auto bid evaluations, and reduce corruption.

Reduction in tender cycle time: Today the departments take 90-135 days for finalization of high value tenders. The tender cycle time can gradually come down to an average of 42 days over a period of one year and further reduced to 35 days at the end of the second year.

Reduction in opportunities for corrupt practices: The entire e-Procurement process can be designed to eliminate the human interface i.e., supplier and department interaction during pre bid and post bid processes can be minimized. The automatic tender evaluation functionality will reduce subjectivity in tender evaluation and help to curb opportunities for corrupt practices to a significant extent and increase the accountability of procurement officials. In terms of transparency, a supplier participating in a tender knows the list of other participating suppliers, the documents furnished by his competitors, price quotations and the evaluation result, as soon as a stage is completed by the departments in the system.

Cost Savings: One way to estimate cost savings is to compare the percentage discount of Tendered Contract Value over the Estimated Contract value for service contracts awarded before and after the implementation of the e-Procurement system.

Tenders processed in another country of South Asia through the e-Procurement platform in the pilot phase during 2003-04, the first year of the initiative, yielded a reduction of 16% in the quotations in comparison to the previous years when the procurement was manual.

More Competition: The project encourages bidders to participate in government tenders. Supplier participation will increase from an average of 3 per tender in conventional mode to 4.5 in e-Procurement mode. The cartels are eliminated and even small and medium suppliers will be able to bid.

B. PROPOSALS - SPECIFIC TO PHARMACEUTICAL INDUSTRY

B1. SHELF LIFE RESTRICTIONS: Pharmaceutical Raw Materials and Finished Products

Issue

SRO 766(I)/2009 dated September 04, 2009 allows import of Pharmaceutical Raw Materials and Finished Goods on the condition that these materials/goods have at least **75% Remaining Shelf Life** on arrival at sea/airport in Pakistan. Sometimes it is very difficult to meet this condition as often manufacturers do not have the materials/goods available with them with 75% shelf life and may have no plans to manufacture fresh batches for months. This leads to shortages of materials, delays in production and non-availability of essential drugs in the market.

Proposal

The pharmaceutical shelf life restriction should be changed to more than 50% as is the case in Edible Products.

Benefit

This will facilitate the timely availability of life-saving pharmaceutical preparations to suffering patients as well as the smooth operations of pharmaceutical plants with uninterrupted supplies of raw materials.

Note: The shelf life of an end drug/product has no impact due to the remaining shelf life of the raw materials.

B2. PRICING

Issue

There has been no across the board price increase given to the industry since 2001 except a few cases which have been entertained on hardship basis. The input cost is increasing day by day due to the imported raw materials, rising energy costs, general inflation, rupee devaluation and other factors which are compelling industry to squeeze business. Although, till to-date, industry has been producing an uninterrupted supply of products but this will no longer be possible for an indefinite period if a price increase across the board is not given to the industry. DRAP gave some relief to select products in December 2013 but has now notified a Drug Pricing Policy ("Policy") which contemplates a significant price reduction . Major points of concern in the Policy are as follows:

- Mandates a roll back of the 15% interim relief given to select products in December 2013.
- Mandates a further price cut of 30% across the board on a large number of products.
- Makes provision for relief based on the Cost Plus method which is not transparent and, therefore, not viable for international products.
- Clear violation of IPR by allowing generics to register and withdrawing IPR protections.
- Catchall clause, Article 10, which states that the prices of all imported drugs have to be calculated on the basis of local prices. Creates non-tariff barriers for international investors' entry into the market.

In addition, the Government will have a major PR disaster on its hands as the Policy envisages a price cut for innovative or leader drugs and a price increase for locally manufactured generics. This will see quality products manufactured by the top drug companies disappear from the market as they will no longer be viable.

The industry has challenged the roll back of the 15% interim relief in the Sindh High Court and has obtained a temporary stay order whereby the operation of the Section 7 of the Policy, which seeks to roll back the 15%, has been suspended.

Proposal

Industry demands an immediate review of the Policy in view of the above reasons.

Benefit

Price increase, rather than price decrease will ensure continuity of business and availability of life saving drugs at all times.

B3. AMBER GLASS BOTTLES: for Pharmaceutical Industry

Issue

At present, Ghani Glass Limited (GGL) is the only manufacturer of amber glass bottles for the entire pharmaceutical industry in Pakistan. This fact is believed to be an industry threat because in case of discontinuation of operations of GGL due to any reason/contingency, no alternate is readily available to ensure business continuity. Resultantly, not only the pharmaceutical business will be interrupted but also the patients will suffer due to non-availability of life saving drugs. PET and HDPE bottles are not considered as a substitute for scientific reasons for most of the Active Pharmaceutical Ingredients (APIs).

Proposal

Although currently the CNF cost of imported amber glass bottles from emerging markets is higher than the local price, the government has further levied another 25% custom duty and 16% sales tax on import of these bottles. In order to give a breathing space/relief to the industry, the government should abolish the duty and allow tax free import of these bottles by the pharmaceutical companies.

Benefit
This will ensure business continuity and availability of drugs to the needy patients.

B4. QUOTA ALLOCATIONS: of Psychotropic Drugs

Issue
At present, all companies manufacturing psychotropic drugs are subject to an annual re-approval process for quota allocation of materials used in these drugs.

Proposal
It is suggested that the SOP's put in place in consultation with the industry be implemented in letter and spirit.

The SOP's state that companies previously allotted a quota should get a renewal for that quantity every year automatically. In case of quantity enhancements only, the need for detailed documentation should arise. Company whose track record is good in regard with providing timely and accurate information to DRA, should be allowed to apply for the next year quota after consumption of 75% of the current year quota. This will give sufficient time to both, the DRA and the company to complete the process of quota allocation and purchasing cycle within a reasonable time.

Current practice of entertaining the request from the company by DRA after calendar year end or at the beginning of year takes two/three months quota allocation process and by the time all the necessary requirements are met, it is too late to continue the operations uninterrupted and usually shortages of these drugs have been observed in the market.

Benefit
Manufacturing capacities can better be utilized ensuring uninterrupted manufacturing. Shortages of lifesaving drugs will be ruled out which will be in the interest of patients.

B5. SIMPLIFICATION OF APPROVAL PROCESS: for Import of Raw Materials of Pharmaceutical Industry

Issue
Some raw materials (e.g. Acetone) have been placed under Appendix B of Import Policy Order SRO 766(I)/2009 dated September 04, 2009. In order to import these materials, the Pharmaceutical Industry first has to get the required quantity assessed by the DRA and then obtain a NOC from the Ministry of Narcotics Control for imports.

Proposal
Since pharmaceutical is a highly regulated industry, all additional approvals should come under a single authority i.e. DRA which should be one window and a simpler process.

Benefit
Simplify the process of approval for raw material imports used in manufacturing of life saving drugs ensuring all time availability of drugs for patients need.

B6. TARIFF PROTECTION

Issue
Majority of the pharmaceutical active ingredients (APIs) are included in Schedule 5 of Custom Tariff which are subject to custom duty @5% and are exempt from sales tax. However, to promote basic manufacturing, the government has provided tariff protection to a number of locally manufactured materials e.g. Ibuprofen, Paracetamol, Penicillins, Cephalosporins etc. with custom duty up to @25% and GST @17%. The tariff protection is available to the local manufacturers for decades who are selling these materials at much higher than the international price from renowned sources. Some of these manufacturers have capacity constraints to meet local

needs, have practically stopped manufacturing these compounds and/or do not meet international standard of quality, yet have been availing the tariff protection for many years. This is resulting in high cost of materials to the pharmaceutical industry which is already under severe pressure due to lack of price increase for many years whereas these local manufacturers can charge the price of tariff protected materials at their own discretion.

Proposal
The government should provide tariff protection to basic manufacturers for a limited period of 4 to 5 years after which the local manufactures should compete with the international pricing of these compounds. Moreover, where there are quality concerns and/or capacity constraints to meet the total local demand, tariff protection should be removed.

Benefit
This will ensure availability of pharmaceutical raw materials at competitive price in the overall benefit of the patients.

B7. ANOMALISTIC CLASSIFICATION OF MEFENAMIC ACID

Issue
In most countries Mefenamic Acid is covered under HS code: 2922.4910. China is also exporting Mefenamic Acid to Pakistan under the same HS code. The HS Code 2922.4910 is covered in Pak-China FTA agreement with 0% customs duty. However, in Pakistan Mefenamic Acid is not defined in any HS Code. Customs is therefore classifying Mefenamic Acid under HS Code 2922.4990 (Others) with a customs duty of 4.5%.

Proposal
The government should look into these anomalies and classify Mefenamic Acid under HS Code 2922.4910

Benefit
Equitable duty structure encouraging business and viable cost of production

B8. DUTY RATE FOR FLAVOURS

Issue
Previously flavors in both powder and liquid form were subject to the same rate of customs duty i.e. 10%. However since June 2013, flavors in powder form carry Custom duty at 30%,for both consumer and Pharma industry. Currently customs are classifying powder form flavors imported by pharma industry under HS Code: 2106.9090 with 30% customs duty. This further impacts the industry by way of sales tax of 17%.
It has increased the cost of production for pharma industry, which cannot pass it on to consumer as the prices are fixed.

Proposal
Rate of customs duty for both powder and liquid form should be same for Pharmaceutical industry and customs duty for flavors in powder should also be brought back to 10%, by classifying those under HS Code: 2106.9030.

Benefit
Equitable duty structure encouraging business and viable cost of production

B9. GST ON PACKING MATERIALS

Issue
16 % GST on packing commodities for use in pharmaceutical products is causing considerable increase in cost of manufacturing of life saving drugs/medicines. It is to be noted that price of medicines/drugs are regulated by DRAP

and sale of medicines are exempted from GST, hence pharma industry can't pass on this GST to end consumer. Resultantly, industry is burdened with increased cost of manufacturing/doing business.

Proposal
17 % GST on buying of packing commodities meant for use in pharmaceutical goods/medicines should be removed by either notifying separately or by amending schedule six of the sales tax act-1990.

Benefit
Lower cost of doing business attracts investors, encourage cost effective exports and ensures ready availability of medicines into the local market.

B10. CONTRACT MANUFACTURING

Issue
Outsourcing has become an important part of supply chain management. This area is getting popularity in our country since last many years however from Dec 31, 2011, DRAP has stopped issuing extensions for toll/contract manufacturing which may lead to shortage in supply for 650 drugs which are being manufactured under such arrangement.

Proposal
Permanent policy must be implemented for contract manufacturing. Contract manufacturing should be excluded from GST.

Benefit
- This will help pharma industry to invest more in this area
- Patients will receive continuous supply of essential drugs which are being manufactured under contract manufacturing
- Government may take advantage of taxes

B11. EXPORT DUTY DRAWBACK - RATES AND DELAYED REALIZATION

Issue
It is customary for the Government to issue Duty Drawback rates through SRO for exports after consultation with the concerned industry. Contrary to this, on September 11, 2007 SRO 931(I)/2007 and superseded by SRO 212 dated Mar 5, 2009 was issued without consulting the Pharmaceutical Industry which further significantly reduced the rates that were applicable through SRO 787(I)/2005 dated August 06, 2005. The comparison of the duty drawback rates is as follows:

Pharmaceutical Products	**SRO 787**	**SRO 931superseded by SRO 212**
Tablets and Capsules	3.14%	1.32%
Liquids or powder or syrups or suspension or drops or granules in bottles	1.90%	1.15%
Creams or ointments or gels	2.32%	1.20%
Injections	2.39%	1.29%
Intravenous solutions	1.23%	1.05%

The reduction in the rates was justified had the import duty of input materials (raw and packaging) been reduced. There has been no such change in the import duty tariff on input materials for export products.

Furthermore, the exporters file Rebate Claims on time to Customs House but the process of verifying claims and issuance of checks is unnecessarily delayed.

Proposal
It is proposed that the rates as per SRO 787(I)/2005 dated August 6, 2005 should be restored and any changes to this should not be done arbitrarily after consultation with the industry.

Also, there must be clear and transparent system of finalizing Export Duty Drawback Claims and the issuance of checks. The Customs must establish agreed timelines, monitor and adhere to them.

Benefits
- Increase exports that help to meet company and national targets.
- Exports are competitive in the market place.
- Realization of on time Export Rebates will reduce the money tied up thereby reducing the cost of export products.

B12. LOWER HEALTH CARE COSTS – MEDICAL TESTING / DIAGNOSTIC / LAB REAGENTS

Issue
There is a Customs Duty @ 20% and Sales Tax @ 17% on Composite Diagnostic Reagents (H.S. Code No. 3822.0000) being used in the laboratory for medical tests. It may please be noted that prior to Financial Bill 1997-98, Customs Duty was 15% and Sales Tax 12.5% on the same.

Proposal
The Government would strive to help the common people in the area of medical coverage. To further this objective, it is suggested to remove sales tax however custom duty shall be reduced from 20% to 10%. This would be exactly in line with the current tariff applicable on import of pharmaceutical preparations of Chapter 30.

Also, it is to be noted that lowering of duty will not affect local industry as these Composite Diagnostic Reagents are not produced in Pakistan.

Benefit
This would help in providing medical facilities to the common people at cheaper rates.

B13. DRESSING AND APPLIANCES IDENTIFIABLE FOR OSTOMY USE

Issue
Following Appliances and Dressings for Ostomy use have a Custom Duty and Sales Tax:
HS No: 3006.91 Customs Duty 20 percent & Sales Tax 16 percent
HS No: 3005.109 Customs Duty 25 percent & Sales Tax Free

Proposal
For the above HS No Customs Duty and Sales Tax should be as in the case of Pharmaceutical preparations under Chapter 30. That is Custom Duty is suggested to be reduced to 10% and with no Sales Tax.

Benefit
This would help in providing medical facility to the common people at cheaper rates. Also, it is to be noted that lowering of duty will not affect local industry, as these products are not produced in Pakistan.

C. TRADE AGREEMENTS

C1. AFGHAN TRANSIT TRADE

Issue
Under Afghan-Pak Trade and Transit Agreement (APTTA), shipping trucks are allowed to transit goods within both nations. To tackle the issue of unauthorized trade, both countries had agreed to install tracking devices on transport

units and customs information sharing (IT data and others) should be done. In addition, it was also agreed that financial guarantees equal to the amount of import levies of Pakistan will have to be deposited by authorized brokers or customs clearing agents, which will be released after the goods exit Pakistan. Contrary to this, Afghan Transit Trade (ATT) is causing unlimited damage to the Pakistan economy as goods which are imported to be used in Afghanistan only are freely available in the Pakistan market without any customs or import duty. Very little is being done to control this despite written agreement on papers.

Proposal

1. Customs procedures and Cross-border rules should be published for transparency.
2. Containers coming back from Afghanistan should be checked by customs.
3. There should be a negative list of items which are not utilized in Afghanistan; yet are imported and make their way into Pakistan.
4. Streamlining of border crossing procedures on financial guarantee by banks and anti-corruption measures.
5. Establish formal Banking channel for effective clearance and settlement system to document trade flows.

Benefit

- It will help reduce cross-border smuggling, increase government revenues from legitimate trade.
- The government will receive substantial taxes as the domestic production would increase.
- This helps in reducing unemployment.

C2. TRADE WITH INDIA

Issue

Pakistan and India had made good progress on trade liberalization but no further was announced after both parties were perceived as being close to clinching a deal on complete trade liberalization. This may be because certain local industries do not view the opening of trade with India positively and perceive it as a threat. While we value bilateral and multilateral agreements for trade and business development with neighboring countries, we highlight the need for such agreements to be framed and developed considering the dynamics and preferences of the economy and the industrial sector in Pakistan. Though there may be benefits from opening trade, we feel that some clauses and concessions allowed to India can be detrimental to certain segments of the local industry such as agriculture, textile and autos. The duty structure and concessions available under SAFTA are already hurting segments of industry.

Proposal

It is requested that the government undertake transparent decision making with respect to trade liberalization, via sharing specific timelines for trade liberalization. Furthermore it is equally important for all stakeholders develop a comprehensive understanding of the industry dynamics currently in play in neighboring India i.e. an understanding of India’s negative list, the non-tariff barriers present in India and subsidies available to industry within India. All policies should be developed after considering all dynamics, peculiarities, preferences including cost structure and production capacities and consequent impact of those policies on the local industry, foreign investment and trade. Furthermore the government should consult with all stakeholders when preparing negative, positive and sensitive lists.

Benefit

If the government ensures transparency in decision making, it will engage business stakeholders in the process more completely and enable them to create winning solutions situation for all stakeholders vis-à-vis trade with India. This will allow the governments to better address the concerns of aggrieved parties and contribute to the development of local industry. The Ministry of Commerce may call a joint meeting of all stakeholders to listen to their views, through the ABC platform. The liberalization of bilateral trade between the two countries would be seen as a good model by other nations in the region. This will further help Pakistan to define its trading partners and reap the benefits of being associated as a larger trading bloc, explore opportunities with other trading blocs such as the Middle East and South East Asia and identify ways it can further capitalize its membership within existing trade blocs such as SARC. These arrangements will grant Pakistani products access to a much larger market which in turn will allow our companies to huge export opportunities.

C3. BIT

Issue

Pakistan and the United States launched negotiations for a Bilateral Investment Treaty (BIT) in 2004. While substantial progress was made initial years, the signing of the BIT was delayed. BITs essentially give confidence and safety to the investors that their property and investment will not be expropriated/ nationalized. However, the BIT is marred by a lack of knowledge and transparency amongst stakeholders, namely the business community who will be directly affected by this Treaty. A shroud of secrecy only creates more apprehensions in a relationship rife with mistrust. The BIT is, in essence, good and must not be discriminatory against any party but a win/win for both.

Proposal

Both the US and Pakistan Govt. must ensure that the review period of the BIT is sufficient and adhered to. They must engage with the business community and put stock in their feedback and inputs to be reflected in the final agreement.

Benefit

A BIT will open the door for a FTA/PTA between Pakistan and the US. It promises to enhance trade volume, generate more employment and spur business activities. Engagement with the business community and widespread knowledge of the benefits of BIT will lead to an improvement in the US/Pak relationship.

Signing of the BIT would send a clear signal to the U.S. private sector and to investors throughout the world of Pakistan's commitment to implementing policies that support a welcoming investment climate.

C4. STRATEGIC TRADE POLICY FRAMEWORK

Issue

The government at the beginning of the year sets targets for sectors to achieve high exports and also allocates funds for infrastructure development to help and supplement the export growth. One such initiative was the Strategic Trade Policy Framework 2009-12.

Proposal

The government should publish the achievements against the targets and objectives set for the year. This will enhance the businessman understanding of the performance of the government and may also get advice in the areas where it is deficit to improve performance to meet the set goals.

Benefit

The performance of the government in implementing the trade policy initiatives will be understood by the business community and will develop more enhanced trust in the developing a private public partnership to develop the exports of the country.