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Report Highlights: Pakistan's food sector is changing significantly and retail sale of processed foods is growing. Demand for imported food is growing, particularly among educated, middle and upper income urban consumers.

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Introduction.....	3
U.S. Market Position	3
Advantages and Challenges Facing U.S. Consumer Foods in Pakistan	4
Section II. Exporter Business Tips	5
Section III. Market Sector Structure and Trends	6
Consumer-Ready Product Market Trends	6
Distribution System for Consumer-Ready Food Products	7
Market Structure.....	7
Domestic Food Processing Sector.....	8
Tourism, Holiday Gifts and Internet Sales.....	8
Section IV. Best High-Value Product Prospects	9
Section V. Key Contacts	9
Table A: Key Trade and Demographic Information	10
Table B: Consumer Foods and Edible Fishery Products Imports.....	10
Table C: Top 15 Suppliers of Consumer Foods and Fishery	10

Introduction

With an estimated 149 million consumers, Pakistan holds the world's ninth largest market. Economic performance is improving due to significant expansion in large scale manufacturing, upsurge in investment, and strengthening balance of payment position despite a severe drought, declining commodity prices, and rising world oil prices. In FY2003/04 economic growth expanded to 6.3 percent, following a 5.1 percent rate of growth the previous year. Although per capita income increased 32 percent over the past two years, it still remains low at about \$652. The consumer class is large and growing and is estimated at about 25 percent of the total population. The average consumer spends 42 percent of income on food.

Pakistan's food sector is changing significantly as lifestyles and traditional eating habits are shifting. Retail sales of processed foods is expanding, by 10 percent per year in recent years, and currently are estimated at about \$1.4 billion, of which imported products account for \$325 million. Industry estimates are that more than half of Pakistan's consumer food imports are not reported officially. Supermarkets are gaining in popularity as a shopping venue and now account for about 10 percent of all retail food sales. In addition, Pakistan now hosts numerous western-style fast food chains reflecting a rising popularity with such eating style.

Pakistan is an Islamic republic. For religious reasons pork, pork products and alcoholic beverages may not be imported. Some consumers also have reservations about imported meat and meat products over concerns on the reliability of "halal" products originating from non-Islamic countries. There are no other restrictions on consumer foods. Although tariffs on consumer foods have declined in recent years they remain in the range of 10-to-25 percent. A separate sales tax of 15 percent is also assessed on imported consumer foods.

U.S. Market Position

Although Pakistan is generally considered to be a price-sensitive market, consumers often prefer imported food items for both quality and status reasons. While some U.S. items may be popular, the product's origin is generally not the primary decision variable. Currently, direct imports of U.S. retail food products account for around 2 percent of Pakistan's total imports of consumer-oriented food products. During 2003 total imports of U.S. Origin consumer foods dropped to \$4.7 million. Large drop in U.S. origin dairy products was partially offset by an increase in other U.S. consumer products.

Pakistani consumers prefer a number of U.S. products, including processed fruits and vegetables, snack foods, tree nuts, breakfast cereals, dairy products, sauces, peanut butter, micro-waveable popcorn, and eggs and products.

Demand for processed foods, both domestic and imported, continues to grow and be spurred on by successful introduction of numerous new-to-market products. Popular imported food items include juices, canned fruit, sauces, honey, coffee, candy, condiments, nuts, dressing, snack foods, powdered milk and other dairy products, including ice cream. Health and dietary food items are gaining in popularity. Efforts to increase contacts between U.S. suppliers and Pakistani buyers will continue to be instrumental to increasing U.S. sales. Such contacts help to increase buyers' awareness of U.S. products' quality and variety as well as supplier's understanding of import procedures.

<p>Advantages and Challenges Facing U.S. Consumer Foods in Pakistan</p>
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ADVANTAGES	CHALLENGES
Large buying population (20% of total) for imported retail foods. Imported retail food market for both processed and semi-processed products is approaching \$500 million.	U.S. origin products imported directly from the U.S. accounts for only 2% of total retail food imports.
Quality and safety are important decision variables.	Retailers and consumers have limited knowledge of variety and quality of U.S. products.
Consumer food sales are expanding at 10 percent annually.	Pakistan is a price sensitive market.
U.S. popular culture and products, including fast foods, are growing in appeal.	Retailers and consumers have limited knowledge of U.S. products variety and quality.
Opportunities for new-to-market products are high. Since 1999 U.S. origin consumer foods sales have increased 40 percent on average.	Limited knowledge of U.S. export practices and procedures. Importers seek exclusive agency agreements to protect investment.
Import regulations are increasingly transparent and tariffs have been reduced to a maximum of 25%.	Additional transparency and reforms are required. Tariffs are still high and require further reduction.

Section II. Exporter Business Tips

Pakistan is a price-sensitive market. Only a very few retailers and processors have resources to import directly. Instead, most retailers source products from wholesalers or brokers, and usually in small quantities. To penetrate this market quickly the key will be the hiring of a local representative who has a thorough understanding of the product and import regulations, specifically in the areas of labeling, packaging and ingredient requirements. In addition, such local representative should understand consumer preferences in the local market, possess an efficient distribution network, and must be committed to marketing the product. Seminars and exhibits demonstrating the quality and variety of U.S. products will help to stimulate sales.

Goods generally are required to be imported under a Compulsory Letter of Credit (L/C), or under a contract registered with a bank. Revolving, transferable, packing Letters of Credit are not permitted. Letters of Credit should provide for negotiation of documents within a period not exceeding 30 days from the date of shipment.

Payment to the beneficiary (stipulated in the L/C or contract) may be made either in the country of origin or in the country of shipment of goods. Other payment terms are subject to approval by the State Bank of Pakistan (SBP). Remittances may be made once goods clear customs.

Pakistan customs authorities require a commercial invoice and a bill of lading (or an airway bill). Exporters should forward documents separately if shipment is by sea, but should include them with air shipments. A certificate of origin is not legally required but may be demanded by the consignee or consignee's bank. When a certificate of origin is not requested, a statement of country of origin should appear on the invoice. Consular invoices are not required.

While Pakistan food label requirements are minimal, products must abide by the following stipulations:

- Goods may not bear any obscene writings, inscriptions, or visible representation
- Goods may not bear any words or inscriptions with a religious connotation
- Goods must have the date of manufacture and expiry printed on each retail pack

- Goods must have 50 percent of shelf life or a minimum of six months shelf life at the time of entry
- Goods without a printed production date on retail packs can be released based on the production date provided in the packing certificate

For details on Food Standards and Regulations see FAS/Islamabad's Food and Agricultural Import Regulations and Standards (FAIRS) report No. PK4012 available thru the FAS/USDA website.

Section III. Market Sector Structure and Trends

Importers usually bring in consolidated shipments which hold multiple products, usually in small quantities each, which they supply to a variety of outlets. Importers generally visit international consolidators in person to make purchases. Importers or agents who promote a product will expect exclusive distribution rights/agency agreements to protect their marketing investment. Importers often also act as wholesalers or distributors. Few have national distribution networks. Refrigerated distribution is limited to a few large local food processors.

Dubai, in the United Arab Emirates, is the most active transshipment center for consumer-ready food products to Pakistan. Limited availability of desired U.S. products in Dubai is one factor which contributes to the small U.S. origin product share in the Pakistan consumer food market. Another factor is the lack of timely response from U.S. suppliers. European suppliers, particularly Dutch, German and French, currently provide the bulk of consumer food items to Pakistan. However, sales from Far Eastern suppliers, especially Indonesia, Malaysia, and Thailand are increasing as a result of their price competitiveness. The East Asian suppliers primarily sell juices and confectionary products, while European suppliers dominate with milk and milk products.

Consumer-Ready Product Market Trends

Demand for imported foods is growing, particularly among educated, middle and upper income urban consumers due to changing lifestyles, influence of foreign media and increasing awareness of health principles. Advertising is also helping to stimulate demand for imported products. Popular imported food items include: canned fruits and juices, snack foods, confectionary, cereals, condiments and mixes. Increasingly these items are becoming available in small towns and more rural areas. However, income constraints, traditional eating

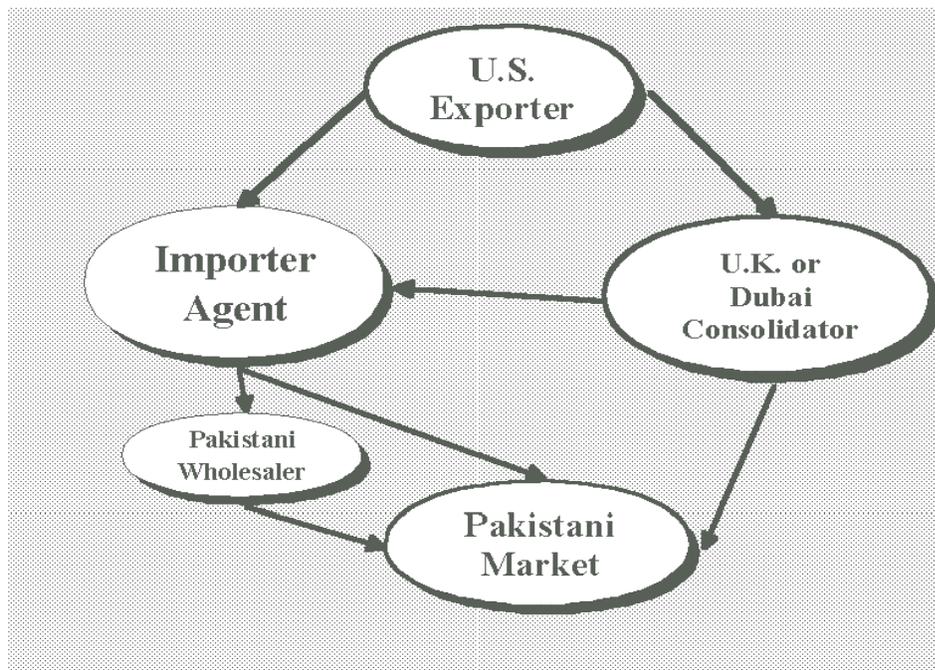
habits, limited marketing and a lack of consumer awareness continue to be significant impediments to increasing demand for consumer-ready foods for much of Pakistan's population.

Distribution System for Consumer-Ready Food Products

The food import business is dominated by small commercial importers, who prefer to sell containers or cases of each product to brokers or wholesalers. Most items are imported as part of a consolidated shipment. Only a few distributors maintain a national network. Most distributors operate a regional network and distribute products by truck via a generally good-to-adequate road network. Refrigerated distribution is limited to only a few local food processors.

Generally, food products are imported in consumer-ready packaging as little or no repackaging is done locally. In fact, one important reason for the growth in demand for imported consumer-ready foods is food safety. Pakistani consumers generally have more confidence in the quality and safety of imported items, and trust manufacturer's packing.

Market Structure



Domestic Food Processing Sector

Pakistan's food processing industry is large and growing. Currently, the sector accounts for 17 percent of Pakistan's manufacturing output. During 2003, the food processing sector produced an estimated \$6 billion in products, which represents a slight decline from the previous year. This decline is from falling vegetable oil prices. The food processing sector is characterized by numerous small, processing units. In 2003, an estimated 4,600 food processing firms existed, each of which, on average, employed less than 10 workers.

Almost one-third of the food processing industry is located in the port city of Karachi, with the remainder spread among the major urban centers. About a quarter of the industry is involved in the processing of fruits and vegetables. Processing of edible oils is another important food sector. Other important food processing includes: ingredients, spices, canned fruits and vegetables, UHT milk, meat and fish, snack foods, and beverages.

The local food processing industry relies heavily on imported ingredients. During 2003, locally produced raw ingredients accounted for more than half the requirements of the food processing industry and demand for imported ingredients fell to less than \$1 billion. The domestic food processing industry is expected to grow at a three percent annual clip. Limited foreign direct investment is providing needed new technology and is financing expansion in production capacity. On the consumption side, the growing popularity of the "western lifestyle" will promote increasing demand for processed foods. Pakistan is not expected to become a regional supplier of processed foods for the foreseeable future. Growth in demand is expected to be generated within the domestic market.

Tourism, Holiday Gifts and Internet Sales

Except for mountaineering in the northern areas, Pakistan is not a major tourist destination. Holiday gift-giving is important, especially during the two major Islamic religious holidays 'Eids'. Snack food, juices and confectionary products are popular 'Eid' gifts. The Internet is several years away as a viable marketing tool.

Section IV. Best High-Value Product Prospects

Branded retail-packed vegetable oils, roasted nuts, peanut butter, chips, confectionery products, chocolates, fruit cocktail, mayonnaise, juices, honey, and cereals are popular imported food products

Section V. Key Contacts

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**Table A: Key Trade and Demographic Information
(July 2003 - June 2004)**

Agricultural Imports from All Origins	\$1.4 billion (US Share 16%)
Consumer Food Imports from All Origins	\$325 million (US Share 2%)
Edible Fishery Imports from All Origins	\$0.4 million (US Share 80%)
Total Population	149 million (2.7% Growth Rate)
Urban Population	50 million (2.1% Growth Rate)
Number of Major Metropolitan Areas*	8
Size of Middle Class	81 million (3% Growth Rate)
Per Capita Gross Domestic Product	\$652
Unemployment Rate	8.3%
Per Capita Food Expenditures	\$274
Percent of Female Population Employed	5.5%
Exchange Rate	\$1=Rs.58.50

* Population in excess of 1,000,000

Sources: --Pakistan Economic Survey 2003/04

--State Bank of Pakistan Annual Report 2002/03.

--GOP household income expenditure survey.

Table B: Consumer Foods and Edible Fishery Products Imports

Limited data is available for Pakistan's consumer food and edible fishery imports. Pakistan imports an estimated \$325 million worth of consumer ready processed foods and about \$400,000 worth of edible fish products. The U.S. share of the consumer food market is now around \$5 million or about 2 percent of the current imports. The U.S. share of edible fish imports is about 80 percent.

Table C: Top 15 Suppliers of Consumer Foods and Fishery Products

No data is available. However, Europe is a major supplier of consumer foods, including subsidiaries of U.S. companies. Eastern European and Far Eastern suppliers are more price competitive now and are becoming important suppliers of consumer food items.