PAKISTAN

TRADE SUMMARY

U.S. goods exports in 2014 were $1.5 billion, down 7.9 percent from the previous year. Pakistan is currently the 70th largest export market for U.S. goods. Corresponding U.S. imports from Pakistan were $3.7 billion, down 0.4 percent. The U.S. goods trade deficit with Pakistan was $2.2 billion in 2014, an increase of $114 million from 2013.

The flow of U.S. foreign direct investment (FDI) into Pakistan was $231 million in 2012 (latest data available).

TECHNICAL BARRIERS TO TRADE / SANITARY AND PHYTOSANITARY BARRIERS

Technical Barriers to Trade

Packaging requirements normally follow Codex Alimentarius (Codex) rules, and Pakistan generally accepts packaging material if allowed in the exporting country. Most foodstuffs are imported in consumer-ready packaging. A notable exception is vegetable oil. Pakistan requires that refined vegetable oil be imported in bulk for re-packaging, a requirement aimed at encouraging local packaging and saving foreign exchange.

Pakistan requires that all imported meat be certified as halal (produced in accordance with Islamic practices). Pakistan may require other specific certificates based on worldwide alerts or other emergency situations.

Pakistan requires that all imported packaged medicines or drugs display the product name and pharmaceutical raw materials on the labels of imported medicines or drugs in accordance with the "Drugs (labeling and packaging) Rules" published in 1986 by the Ministry of Health. In accordance with the provisions of "Drugs (Imports and Exports) Rules 1976," the exporters must certify that pharmaceutical (allopathic) raw materials are of pharmaceutical grade and shall have at least 75 percent of the shelf life calculated from the date of filling of "Import General Manifest" (IGM), excepting those pharmaceutical raw materials specifically allowed by the Director General, Ministry of Health. If indication of shelf life is not given on the packaging, the customs authorities may allow clearance on the basis of Form 7 (a Batch Certificate issued by the manufacturer showing the manufacture/expiry dates).

Quality certification, as defined by the Pakistan Standards and Quality Control Authority (PS),is required for certain products, including mineral water, carbonated beverages, edible oils including cooking oil, Portland cements, construction materials containing asbestos, and oil stoves.

Pakistan's only notifications to the WTO under the TBT Agreement were submitted in June 2007. The 25 notifications covered health and safety standards adopted covering mainly sampling and testing procedures as well as labeling, packaging, storage, and transport of a number of food and other products.

Sanitary and Phytosanitary Barriers

Live Cattle, Beef, and Beef Products

On July 4, 2014, Pakistan's Economic Coordination Committee issued Order 646, which allows (in principle) imports of cattle from countries with a negligible risk status for BSE under the provisions of the World Animal Health Organization (OIE). U.S. and Pakistani regulators finalized the terms of the health certificate and the sample certificate was posted on the USDA website on February 24, 2015. Pakistan has yet to accept U.S. beef and beef products exports. The United States will continue to engage with Pakistan to open its market to these products.

Pakistan still does not allow the import of beef and beef products from the United States for the same reasons it had initially banned live cattle imports from the United States, namely, misplaced concern over bovine spongiform encephalopathy (BSE) in the United States.

IMPORT POLICIES

Pakistan grants *ad hoc* sector- or product-specific import duty exemptions, concessions, and other protections through promulgation of Statutory Regulatory Orders (SROs), although it had pledged to eliminate the use of SROs by June 2014 under the terms of its International Monetary Fund program approved in September 2013. The Federal Board of Revenue (FBR) is in the process of withdrawing SROs and it is allowing SROs to expire without renewal, however, FBR estimates that it will take up to three years for all SROs to be eliminated. A list of SROs and other trade policy and regulatory documents can be found on Pakistan's Federal Board of Revenue's website: http://www.cbr.gov.pk

A number of traders in the food and consumer products sectors have expressed concerns regarding a lack of uniformity in customs valuation in Pakistan. Similarly, in the machinery and materials sector there are reports that customs officials have erroneously assessed goods based on a set of minimum values rather than the declared transaction value.

An importer for a large U.S. firm has raised concerns about two new SROs (420 and 575) that have raised the sales tax on imported "Finished Footwear and Apparel" from 5 percent to 17 percent, while domestically-produced products continue to be taxed at 5 percent. Officials at the FBR explained that the tax on domestically produced products will increase to 17 percent, evening the playing field. FBR, however, does not have a timeline in place for this increase.

Pakistan imposes higher tariff rates (50 percent) on imports of automobile parts that compete with domestically manufactured products than the tariff rates (35 percent) it imposes on imports of automotive parts where there is no domestic production.

Pakistan requires that commercial invoices and packing lists be included inside each shipping container. This requirement presents challenges to stakeholdersbecause invoices and packing lists do not always originate in the same location as the shipment and may be generated after the shipment departs. The penalty for non-compliance is $526 per container.

Pakistan recently announced regulatory duties (temporary tariffs, usually in place for the balance of the fiscal year) of 20 percent for wheat and sugar to protect farmers from imports.

Pakistan restricts the import of second-hand specialized vehicles, ships, trawlers, aircraft, and related parts and equipment unless they meet specified conditions, such as prior approval or clearance, certain testing arrangements, or other procedural requirements. Pakistan indicates that these requirements are mainly for health, safety, security, and environmental reasons. Certain goods may be imported only by the public sector or industrial consumers (*e.g.*, active ingredients for formulation/manufacturing pesticides). Imports of waste, parings, and scrap of polyethylene and polypropylene must be covered by mandatory certification in the exporting country or by a specialized pre-shipment inspection company.

GOVERNMENT PROCUREMENT

The Public Procurement Regulatory Authority is an autonomous body responsible for prescribing and monitoring public sector procurement regulations and procedures. International tender notices must be publicly advertised and sole source contracting tailored to company-specific qualifications is prohibited. There are no documented official "buy national" policies.

Political influence on procurement awards, charges of official corruption, lack of transparency, judicial intervention, and long delays in bureaucratic decision making are common in government procurements. Suppliers have reported instances in which the government used the lowest bid as a basis for further negotiations, rather than accepting the lowest bid as required by regulation.

Pakistan is not a signatory to the WTO Agreement on Government Procurement, but it recently attained observer status.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Pakistan remained on the Priority Watch List in the 2014 Special 301 Report. The report cites some advances in enforcement of intellectual property rights (IPR) through raids, seizures, and arrests, but little improvement in overall IPR protection. Counterfeiting and piracy, particularly book and optical disc piracy, remain widespread.

The Intellectual Property Organization law provides for specialized IPR tribunals to adjudicate cases and a policy board with private sector representation to assess policy decisions. However, in 2014 Pakistan made little progress implementing the provisions of the law. Although the Intellectual Property Organization previously forwarded to the Cabinet a proposal to form the policy board, the Cabinet has not yet approved it and IPR tribunals have not yet been established.

In 2014, Pakistan also did not make further progress in providing effective protection against unfair commercial use of undisclosed test or other data generated to obtain marketing approval for pharmaceutical products. While the government and international and local pharmaceutical companies have been negotiating a draft data protection law for the past five years, a law has not yet been enacted. With respect to patents, Pakistan lacks an effective system to prevent the issuance of marketing approvals for unauthorized copies of patented pharmaceutical products. With respect to copyrights, Pakistan did not take any significant steps in 2014 to improve copyright enforcement, especially with respect to addressing optical disc piracy. Only a very small proportion of arrests resulted in prosecutions, and the few verdicts that were issued resulted in minor prison sentences. Pakistan is reportedly used as a conduit for infringing products from Russia, Malaysia, Singapore, China, Bangladesh, and Sri Lanka for onward distribution to third countries. Book piracy also continues to undermine legitimate trade and investment. With respect to trademarks, counterfeit products, both imported and domestically produced, are increasingly entering the market with few efforts at enforcement.

SERVICES BARRIERS

Pakistan generally permits foreign investment in services. Except in certain sectors such as aviation, banking, agriculture, and media, there is no upper limit on the share of equity that foreign investors can hold. Foreign investors in Pakistan are limited in the remittance of royalty payments to a maximum of $100,000 for the first payment. Royalty payments are then capped at five percent of net sales for the subsequent five years.

Pakistan prohibits the importation, sale, distribution, and transmission of films the government deems inconsistent with local religious and cultural standards, and also bans websites deemed to be blasphemous or immoral. A ban on the video-sharing website YouTube has been in effect in Pakistan since September 2012.

In October 2012, the Ministry of Information Technology and Telecommunication ordered establishment of an International Clearing House (ICH) that quadrupled charges and curtailed competition for international calls to Pakistan. The United States, the Competition Commission of Pakistan (CCP), and cellular operators expressed serious concern with this change.

After several court cases about the legality of the ICH, Pakistan's Supreme Court directed the matter back to the jurisdiction of the CCP. In April 2013, the CCP issued a ruling against international call termination rate increases. Despite the ruling, the increased rate of $0.088 per minute remains in effect, even though the Pakistan Telecommunications Authority (PTA) no longer officially mandates it.

The Pakistani rate increase caused a reaction in the United States. On March 5, 2013 the U.S. Federal Communications Commission (FCC) issued a Memorandum Opinion and Order that found:

> [R]ecent and ongoing actions by certain Pakistani long distance international carriers (Pakistani LDI carriers) to set rate floors over previously negotiated rates with U.S. carriers for termination of international telephone calls to Pakistan are anticompetitive and require action to protect U.S. consumers in accordance with FCC policy and precedent. Their continuation would result in a substantial increase in the cost of and repress demand for calling Pakistan.

The FCC ordered all U.S. carriers not to pay termination rates to Pakistani carriers in excess of "the rates that were in effect immediately prior to the rate increase on or around October 1, 2012."

In June 2014 the Ministry of Information Technology (MOIT) announced that it would abolish the ICH on August 1, 2014. However, several long-distance phone service providers challenged the MOIT action in court and obtained a stay of ICH's abolishment. In February 2015, the Supreme Court of Pakistan vacated the stay order of a lower court, effectively paving the way for the abolishment of the ICH. In response, the PTA issued a notification informing telecommunications operators of the deregulation of termination rates, effective immediately. The market response remains unclear, but, if implemented, rates should revert to competitive levels.

Foreign banks that do not have global Tier-1 paid up capital (*e.g.*, equity and retained earnings of $5 billion or more) or are not from countries that are part of regional groups and associations of which Pakistan is a member (*e.g.*, the Economic Cooperation Organization and the South Asian Association for Regional Cooperation) and that wish to conduct banking business in Pakistan must incorporate a local company. Foreign investment in the banking sector is limited to 49 percent. The National Insurance Company, a majority state-owned enterprise, has the exclusive authority to underwrite and insure public sector firms, assets, and properties. The government has discretion to grant exemptions to this requirement. Private sector firms may seek foreign reinsurance facilities to meet up to 65 percent of their re-insurance needs.

OTHER BARRIERS

Foreign businesses in Pakistan have been vocal in expressing concern over corruption and a weak judicial system, which act as substantial disincentives to investment. In 2002, Pakistan's Cabinet approved the National Anti-Corruption Strategy (NACS) that identified areas of pervasive corruption and recommended the implementation of reforms to combat corruption. The NACS recognized the National Accountability Bureau (NAB) as the sole federal anticorruption agency. In mid-2009, the Supreme Court directed the

National Assembly to pass new legislation to update the executive ordinance establishing the NAB, but the National Assembly has yet to pass such legislation.

Contract enforcement can be difficult for U.S. and other foreign investors in Pakistan. Parties pursuing legal remedies in the Pakistani judicial system may face years of delays and unpredictable outcomes in the country's overloaded courts.