Country Update

Agricultural products' exports: Sanitary & PhytoSanitary barriers faced by exporters in Pakistan

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Background

Agriculture is the backbone of Pakistan's economy. It contributes about 24 per cent[1] of Gross Domestic Product (GDP) and accounts for half of the employed labour force. It is also the largest source of foreign exchange earnings.[2] The importance of agriculture in terms of its contribution to Pakistan's economy is overwhelming. In fact, the share of agriculture in Pakistan's GDP is significantly higher than other countries in South Asia.[3]

As far as international trade in agricultural products is concerned, Pakistan has traditionally been a net food importer, but for the first time in 2013, it had a trade surplus with its exports of agricultural products reaching US$ 5.6 billion.

Major crops produced in Pakistan include wheat, rice, maize, cotton, and sugar cane. Pakistan is also an important producer of fruits and vegetables. Other important agricultural goods cultivated in Pakistan include pulses, chilli, and medicinal herbs. The fisheries sector also has a significant role Pakistan's economy and particularly for the communities living in the coastal areas.

Realizing the fact that sanitary and

[1] Some sources show the figure to be lower at 21%.
[2] Pakistan Bureau of Statistics Report dated 20 April 2016
[3] State Bank of Pakistan Annual Report 2015 http://www.sbp.org.pk/reports/annual/arFY15/Real.pdf

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phytosanitary standards (SPS) have assumed great importance in international trade and market access, periodic efforts were made to have a more modern SPS management system but due to a lack of resources and the frequent changing of key personnel nothing sustainable was achieved.

Thanks to the European Union Trade Related Technical Assistance (TRTA II) program the situation is improving. Due to the concerted efforts of UNIDO over the last six years (which was tasked with the implementation of the TRTA), a number of initiatives have made good progress. These include drafting a policy paper on SPS controls; establishment of a Federal Regulatory Authority responsible for food safety, animal and plant health and training of concerned personal. These efforts have raised considerable awareness about better management of SPS problems. As a result, rejection of agricultural products exported to other countries has declined significantly. Furthermore, after a lapse of 15 years, Pakistan recently notified to WTO Secretariat various SPS measures which it has taken since 2000 to restrict the import of agricultural commodities.

The establishment of National Animal and Plant Health Inspection Service (NAPHIS) is making some progress but the task has not been easy. One of the difficulties is that due to recent constitutional changes (18th Amendment), the functions of the Federal Ministry of Food and Agriculture have been devolved to the four Provincial Governments and coordination with all the provinces is time consuming.

It is hoped that with the establishment of NAPHIS, coordination with the WTO Committee on SPS will be on more solid footing. But as yet, there is none or very little awareness about the WTO Committee on SPS. A handful of exporters who have some idea of the WTO perceived the Committee as a legislative body for SPS standards setting. Since there was very little knowledge of its peer-review functioning, the survey indicated that none of the exporters has ever taken any interest in the deliberation of this Committee or informing the Ministry of Commerce to take up their SPS issues for discussions at Geneva.

The only instance where Pakistan seems to have successfully used the SPS Committee forum is in 2008 when it raised a Specific Trade Concern (STC) in relation to an import ban imposed by Mexico on rice from Pakistan due to the Khapra beetle. At the March 2010 session of the Committee, Mexico announced that it had removed the absolute restrictions on rice imports and replaced it with partial restrictions.

Analysis of the SPS issues for top-5 agricultural products

Top five agricultural products (including fisheries) exported from Pakistan are rice, fish, fruit, vegetables and meat. Pakistan is also a major producer of sugar and ethanol. In 2015, sugar exports amounted to $423 million.

However, its export is intermittent depending upon the domestic crop and subsidies given by the government. Moreover, its exports have mostly been confined to one or two limited markets. Similarly Pakistan is a major exporter of ethanol, a by-product of sugar. In 2015, exports of ethanol amounted to $320 million. Since sugar and ethanol have not faced any difficulty due to SPS controls; therefore they are not discussed in this paper.

Major exporters, trade associations, government agencies and other relevant persons were contacted to find the extent of problem being faced on account of SPS measures. A questionnaire was circulated amongst prominent exporters and export associations of selected commodities. Persons or organizations that responded to the questionnaire are listed in Annex B. Based on the responses and other secondary research, the following picture emerged.

Rice

Pakistan is the world's 5th largest exporter and 11th largest producer of rice. Rice exports hover around US$ 2 billion annually, which is about two-thirds of the total exports of agricultural goods from Pakistan. Main export markets include the UAE, Iran, Saudi Arabia, Kenya and Afghanistan.

The survey and personal interviews with major exporters indicate that Pakistan has so far not faced any serious problems on account of SPS controls in its traditional markets. However, its penetration in new markets has not been easy. For example, Mexico imports about 730,000 tons of rice or 60 per cent of its needs. Almost 90 per cent of imported rice is held by the United States. One major reason for lack of penetration by the Pakistani and other Asian rice exporters are the restrictions imposed by Mexico under SPS measures.

After hectic efforts including raising the issue at the WTO SPS Committee, Mexico partially lifted the ban in 2010. Pakistan's rice exports to Mexico started growing because due to its higher quality and competitive price (being cheaper by US$ 100 per ton). In just one year, exports of Pakistani rice jumped from 1,500 tons in 2012 to more than 22,000 tons in 2013. But this came to a halt when in June 2013, the Mexican port authorities claimed that some rice containers had traces of khapra beetle and quarantined 3,000 tons of Pakistani rice. It was strongly suspected that the motivation for prohibition was due to lobbying by the US exporters and Mexican millers of US rice as the US export share had started declining whereas the share of Pakistani rice had started increasing.

Another major import market for rice is Russia, which imports about 0.5 million tons rice per year from Pakistan. In 2007, they imposed a ban on account of sanitary and phyto-sanitary conditions. After thorough investigations, including a visit by the Russian Federal Veterinary and Phytosanitary Surveillance Services (VPSS) to Pakistani rice processing plants, the ban was lifted. However, in 2011 the ban was re-imposed. Due to the intensive

efforts of Pakistani officials, the ban was lifted in April 2012.

The rice exporters in Pakistan believe that there was no scientific reason for the ban either from Mexico or Russia, as khapra beetle is usually not found in rice but wheat. Moreover, Pakistan exports rice to over 100 countries including the EU, which have never reported finding any khapra beetles.

A new SPS issue that may arise in the near future is the level of arsenic in rice produced through irrigated water. The Codex Alimentarius Commission Committee on Contaminants is currently discussing the setting of a maximum limit. Although studies so far have shown that arsenic contamination risk are rather low, it could become a serious issue if the Codex were to set a low limit.

Fish and fish products

Fisheries sector also has an important role for many communities living in the coastal areas. It is also an important export commodity with fish exports amounting to about US$ 366 million in 2015. Pakistan's major buyers are China, Thailand, Malaysia, Middle East, Sri Lanka, and Japan. Higher value species of fish and shrimp are exported to the EU and United States.

Due to the inability of Pakistan's fishing plants to meet the high SPS standards of the EU and the US, Pakistan has not been able to effectively enter these lucrative markets. In 2004-05, EU imposed a temporary ban on account of SPS measures. At the time of the ban, EU's share in total exports from Pakistan was 26 per cent. The restriction was to be reviewed by the EU in 2007. However, before the formal review, Pakistan's Marine Fisheries Department felt that the SPS situation had not improved to the level desired by the EU. Therefore, it voluntarily continued the ban. After a lapse of 6 years, the EU agreed to allow two out of 11 fish processing plants to resume exports. Estimates for the losses due to this restriction ranged from US$ 20 million to US $45 million per year.

Earlier this month, Saudi Arabia banned shrimp imports from Pakistan after reports by the World Organisation for Animal Health (OIE) regarding emergence of white spot disease. Although Saudi Arabia is a relatively small export destination accounting for about 2,016 tonnes of seafood (valued at $7.494 million) including 189 tonnes of shrimp ($2.175m) in 2015, however this is a worrying development for the exporters as other countries may follow suit. The Marine Fisheries Department of Pakistan suspects this ban is on some misunderstanding, as the shrimp-farming season has not yet commenced.

Fruits

Pakistan grows a large variety of fruits including citrus, mangoes, apples, bananas, guavas, peaches, apricots, grapes, dates, papaya, plums, berries, fig, melon, water melon, musk melon, prunes, pomegranate and cherry. Total production is estimated at 7 million tons of which about 10 per cent is exported.

Post-harvest losses are rather high and account for almost 25 per cent of the total. Most of the wastage is because of the prevalence of fungal diseases, high level of fruit flies, lack of proper transport and cooling facilities. Only the major fruits whose exports exceed US$ 20 million are discussed here.

Citrus is the most important fruit. It accounts for almost 40 per cent of all fruit and is grown over 199,000 hectares. Pakistan is the 12th largest producer of citrus and the largest producer of Kinnow (hybrid mandarin) in the world. During 2014-15, exports of all citrus fruits were on an all time high of 350,000 tonnes worth US $200 million. Major international markets are Afghanistan, Saudi Arabia, UAE, Ukraine, Iraq, Indonesia, Malaysia, Russia and EU (Germany, UK, Belgium, Italy and Netherlands). The most common fungal and bacterial diseases that attack citrus are scab and canker. Discussions with the major exporters revealed that they did not face any serious SPS issues but some citrus consignments were rejected because of their packing in wooden boxes which could carry pathogen (pests). Some complaints of pesticide residue are also reported.

Mango is the second largest fruit in Pakistan with over 1.7 million tons of annual production. About 100,000 tons worth $60 million is exported. Major problem with mangoes exports is the presence of fruit flies. According to major exporters, they have to be extremely cautious while exporting mangoes to EU (and other developed countries) as they impose a complete ban if more than a certain number of consignments are rejected.

The Department of Plant Protection (DPP) is now exercising strict controls and only allows those consignments, which have undergone hot water treatment. Furthermore, DPP has now developed the capacity to track any consignment to its source, thereby limiting damage to other exporters.

Dates are also important export item. The annual production in Pakistan is estimated at 535,000 tons of which about 86,000 tonnes worth about US$ 30 million are exported. Wastage is estimated at about 50 per cent of the total produced. The largest importer of dates is India with a share of about 40 percent of Pakistani exports. Other major importers are France, UK, Canada, Germany, Denmark, Malaysia, Indonesia and USA. No specific cases of rejection on account of SPS controls were reported.

Vegetables

Potato is one of the principal cash crops. Pakistan produces around three million tons as against the local demand of 1.5 million tons thereby leaving another 1.5 million tons for exports. Major export markets are Afghanistan, Iran, Iraq, Malaysia, Sri Lanka, Central Asian States, Russia and the UAE. None of the major exporters complained about SPS measures as a reason for restricting exports.

Onion is another important vegetable. Pakistan produces about 1.5 million tons which makes it the 8th largest producer and 10th largest

exporter in the world. Its major export markets are Sri Lanka and UAE. There have been no SPS related complaints by any exporter.

Meat and Meat Products

Meat industry in Pakistan is growing fast and has doubled its production in the last 5 years to $244 million. But it can grow much further as it can exploit niche market of halal meat where its share is still very low at 5 per cent of the world trade. About 90 per cent of meat is exported to the Middle Eastern countries. It is mostly red meat and is exported in carcasses form.

There were some SPS related problems when Pakistan started expanding its exports of meat but these have now been mostly resolved. For example, in 2001 exports of meat to the main destination, markets of Saudi Arabia and United Arab Emirates, were banned due to concerns over hygiene in the slaughterhouses. The ban was lifted after the required SPS standards were met.

Seeking Solutions

While exporters fully understand the need for meeting the SPS standards of importing countries, they nevertheless feel that some countries go beyond what is required and use SPS measures to protect domestic producers of agricultural and fishery products from competition. This is evident from the fact that many SPS issues get resolved through diplomatic efforts.

In discussions conducted in the context of this exercise, several suggestions were made to enhance the interaction between the private sector and the WTO Missions. Some of these suggestions are listed below.

As a first step, delegates from developing countries need to actively participate in the WTO SPS Committee and should raise specific trade concerns where they feel that the ban is not based on scientific basis.

There needs to be some mechanisms to ensure that if an importing member imposes temporary precautionary ban, then it should be obliged to review it periodically and report the results of review to the SPS Committee.

Art 5.3 of the SPS Agreement requires that “in assessing the risk to animal or plant life or health and determining the measure to be applied for achieving the appropriate level of sanitary or phytosanitary protection from such risk, Members shall take into account as relevant economic factors: the potential damage in terms of loss of production or sales in the event of the entry, establishment or spread of a pest or disease; the costs of control or eradication in the territory of the importing Member; and the relative cost-effectiveness of alternative approaches to limiting risks”. However, it is often observed that this article is not given due consideration while enforcing higher SPS standards.

Since most of agricultural exports are among developing countries, they should consider discussing of Mutual Recognition Agreements

in some areas.

In many cases, SPS standards are based on Codex standards. Since developing countries are often not represented there, it works against them.

The WTO Missions should keep the relevant trade associations informed of any SPS measures that relates to their trade. At present, the only entity that has some idea of SPS meetings in Geneva is the Ministry of Commerce. Even the relevant government office dealing with the SPS issues is not kept in the loop.

If there are any success stories, those should be shared to encourage others to bring their issues to the notice of their authorities. For example, Pakistan had one instance of raising restriction by Mexico on rice imports at the SPS Committee. However, none of the trade associations were aware of this event.

Many felt that technical assistance can play a significant role in raising awareness. Some exporters referred to the EU's trade related technical assistance programme for strengthening SPS controls in Pakistan and the impact it had on raising awareness.

In order to improve communication, it would be useful to share some good practices from other countries where the private sector is fully involved.

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Annex A

Questionnaire on Sanitary and Phytosanitary (SPS) Measures

1. What is your major agricultural export?
2. What are the key export destinations?
3. Have your exports ever been adversely affected by SPS measures? If so, how often?
4. What kinds of SPS measures have been applied to restrict your exports?
5. Can you identify the export market(s) where this problem/issue is most encountered?
6. Do you think that some time the importing countries impose unjustified SPS restrictions?
7. Have you ever raised the SPS issue with the relevant Ministry for a resolution?
8. Are you aware of the WTO SPS Agreement or any WTO discussions on this issue?
9. What is the impact of SPS measures on your exports? Please provide facts and figures.
10. What is the approximate cost of compliance with SPS requirements?
11. Are there any aspects of SPS requirements that pose particular difficulty?
12. Do you think any specific technical assistance or other requirements would help to offset any negative effects of SPS requirements?
13. Can you suggest any solution to the SPS issue?
14. Name, title and address of the exporting firm/association
15. Email and phone number

Annex A-I

Responses based on the questionnaire

Q #	Rice	Fruits (Mangoes)	Fruits (Citrus)	Vegetables (Potato & Onion)	Dry Date	Fish and Fish Products	Herbs
Q2	Kenya, Uganda, Rwanda, South Sudan, Tanzania, UAE, Africa and Oman	Japan Middle East, UK and EU-Scandinavian countries, Singapore, USA	Russia, Central Asia, UK/EU, Middle East, Far East	Japan, Middle East, India-Ahmadabad, Russia, Middle East, UK/EU	India-Bombay, Delhi, Amritsar and Gujrat	China, UAE, Far Eastern Countries, EU, Egypt, Japan, Usa	India-Amritsar and Delhi
Q3	Adversely affected	Yes, infested with pests	Very rarely in EU/UK	Yes, infested with pests at AFU Karachi. EU and UK	Not effected	Not effected	Not effected
Q4	Free from live animal, fumigation at port	Flies pest, MLRs, Fruit Fly, Hot water and irradiation treatment and Vapour Heat Treatment	Cold water treatment for Citrus	Quality check by Quarantine Department, Vapour Heat Treatment (VHT)	No	Regulative Measures Such as HACCP Programmes	No
Q5	USA, Russia	Japan, EU, UK	UK and EU	Japan	Can't identify	Not applicable	Can't identify
Q6	No experience	Yes, especially EU countries	Yes, to restrict imports	Yes, used as a tool to restrict Imports	No	No	No
Q7	Yes, but didn't discuss with ministry	Yes-Quarantine Department of Plant Protection & other relevant ministries	Yes, with MoC, MNFS, DPP	Pak- Quarantine Department of Plant Protection, MoC, DPP	No	No	No

Q8	Yes	Basic Knowledge	Yes	Yes, IPPC and Codex Alimentarius Standard Setting Department	Yes	No	Yes
Q9	No impact	Increases the cost of doing business, minimised scope of perishable exports	Adverse impact on exports	Up to some extent	No impact on exports	No impact on exports	No
Q10	Rs. 1500-5000 per container	Rs. 15 - 20 / kg		Rs. 15 to 300 /kg For UK/EU- Rs. 2.5/kg	Rs. 300	Not calculated	Rs. 300
Q11	In getting container number on phyto	Problems in getting machinery for vegetable treatment	Well aware	Well aware	No	The general condition of the harbour should be improved	No
Q12	There should be a space allocated at port only for SPS requirements	Yes, technical assistance from government	GoP should convince other countries to replace VHT with HWT.	Treatment plant installed by the govt. can ease the problems	No	Training programmes can help in better understanding.	No
Q13	There should be a space allocated at port only for SPS requireme-nts	Gop should install Quality Treatment plants, Introduction of corporate far-ming, Awareness ca-mpaigns, Understanding with importing country SPS authorities	GoP shall assist PFVA to set up HWT plants, VHT plants and Pack houses. GoP should play its role in the implementation of Global GAP	GoP should provide cheap energy to run the plants	Agree with the procedure	The issue can be better commented upon by Marine Fisheries Department	Agree with the procedure

Annex B

List of persons with whom personal interviews were conducted

Public Sector

1. Malik Zahoor Ahmad, Director General, National Animal and Plants Health Inspection Service (NAPHIS), Islamabad
2. Itrat Rasool Malhee, SPS Specialist, Ministry of National Food Security, Islamabad
3. Samar Ihsan, Joint Secretary, WTO Wing, Ministry of Commerce, Islamabad
4. Shaheen Viqar, Deputy Secretary, WTO Wing, Ministry of Commerce
5. Mohammad Khalid Siddiq, Joint Technical Advisor, Ministry of Science and Technology, Islamabad
6. Dr.Saifuddin Junejo, Collector Customs Exports,Custom House Karachi
7. Samina Zehra, Collector Customs Exports, Port Qasim, Karachi
8. Zulfiqar Younus, Collector of Customs, Lahore <zyounas@gmail.com>
9. Sarfraz Ahmad Warraich, Collector of Customs, Multan

Private Sector

1. Mohammad Ilyas Khan, Secretary General, All Pakistan Food and Vegetable Exporters and Importers Merchants Association
2. Ch. Muhammad Shafique, Chairman Rice Export Association of Pakistan, Lahore
3. Maj ® Tariq Khan, Vice Chairman, Multan Chamber of Commerce and Industry
4. Asim Abrar, Director, Seagreen Enterprises
5. Shahid Sultan, Proprietor, Zahid Kinnow

Respondents of the Questionnaire

1. Sunil Kumar, Proprietor, Sunny imports and Exports
2. M/S Muhammad Usman and Co
3. ARY Cargo
4. Muhammad Zaman, Proprietor, Anas Tropical Fruit and Vegetable
5. Syed Nasir Ali, Shalimar Impex
6. Agri Commodities Exchange
7. Suresh Kumar, JS Commodities
8. Mangal Das Nawani, Chief Executive Officer, Pak Arab Food Industries
9. New Ali enterprises
10. JTA Cargo
11. International Imran Yousaf and Co.
12. Pak Afghan Impex
13. AK Enterprises
14. M. Faisal, Proprieter, N.F International
15. M. Sadiq
16. All Pakistan Fruit and Vegetable Exporters, Importers and Merchants Association (PFVA)

17. PMG Group of Farms
18. Muslim Mohamedi, Chairman, Pakistan Fisheries Exporters Association

CUTS International, Geneva

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37-39, Rue de Vermont, 1202 Geneva, Switzerland
geneva@cuts.org ● www.cuts-geneva.org
Ph: +41 (0) 22 734 60 80 | Fax:+41 (0) 22 734 39 14 | Skype: cuts.grc

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