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Growth continues in Pakistan's exports to Switzerland in 2007

During the first six month of 2007 exports to Switzerland have increased by 6.58% to CHF 34.1 million compared to the same period last year**.**

The major items contributing to this increase were ethanol (+24.96%, 4.3 million CHF), carpets (+17.62%, 1.4 million CHF), cotton yarn (151.1%, 865'000 CHF), guar gum (232.8%, 623'000 CHF), and surgical instruments (+66.93, 431'500 CHF).

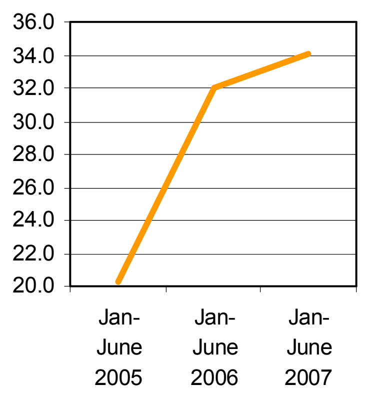
Textiles showed only modest increases (+1.52%, 19 million CHF) due to competitive pressure from China, India, Bangladesh, and Thailand. Although value of exports to Switzerland is still relatively low, Pakistani footwear products continued their steady penetration with an increase of +18.04% to 493'000 CHF.

Dried mushrooms, which were exported significantly in 2006, increased modestly by 2.05% to 3.1 million CHF. However, the season for mushrooms is not over yet so higher sales may be expected later in the year. Rice exports rose by only 1.26% to 505'000 CHF.

On the downside, some items dropped during 2007, due to strong international competition from China and India. Sports goods registered the largest decrease of 50.44% to 705'000 CHF. This drop can be explained by Swiss companies sourcing products exclusively to key companies for the 2008 European Football Tournament held jointly in Switzerland and Austria. Other items that decreased were leather products (-6.51%, 1.2 million CHF).

Swiss exports to Pakistan, on the other hand, decreased by 24.73% for the same period to 129 million CHF. The largest decreases were in machinery, electronic equipment, and

Pakistan exports to Switzerland, millions CHF



Source: Swiss Federal Customs

Pakistan's position against major competitors in Switzerland

A comparison of Pakistan with key non-OECD competitors is shown for selected export items.

Ethanol
The main competitor for ethanol is Brazil but Pakistan is gaining greater share of the market.

Textile
The main countries exporting textiles to Switzerland are India with CHF 75 million, followed by Bangladesh and China. Pakistan is in fourth position.

Carpets
In hand-made carpets imports, Pakistan is distanced by Iranian and Indian rugs and its market share is falling.

Rice
India is the market leader. Thailand comes in second place followed by Sri Lanka, Brazil, China, and Vietnam. Pakistan is very small player.

Sports goods
The main competitor in footballs imports to Switzerland is China.

Swiss imports of ethanol from Pakistan likely to reach CHF 20 million

In Switzerland, the import of ethanol is controlled by the Swiss Alcohol Board (SAB), a monopoly. The SAB has handed responsibility for all imports of ethanol in Switzerland to Alcosuisse, an independent organizational unit, that has 28 employees dedicated to buy ethanol in the international market for different Swiss industries.

Ethanol is used for the manufacture of detergents, cosmetics, flavours, and disinfectants. The Swiss ethanol production covers roughly a third of domestic requirements, and the rest is bought by Alcosuisse from ethanol producing countries.

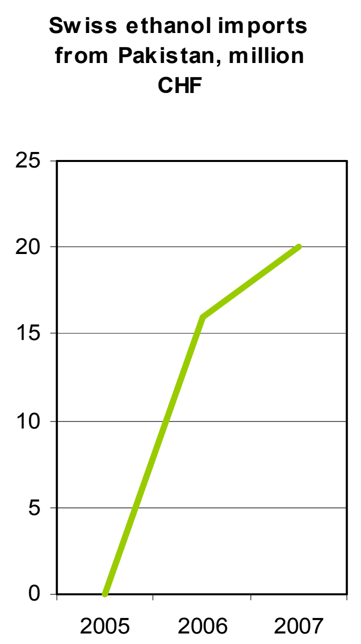
The international ethanol market is not structured; there is no international exchange, nor is there any international quality standard. Only 10% of world ethanol production is traded in global markets.

Moreover, ethanol production is not stable year on year and varies widely depending on the yield and evolution of demand of other products derived from the primary material, e.g. the demand of sugar from sugarcane in Pakistan.

Traditionally, Alcosuisse bought ethanol from Brazil, South Africa, and Europe. However, due to European protectionism for ethanol manufacturers and the consequent price hike, Alcosuisse had to diversify its supply sources. One key provider that emerged was Pakistan, where imports jumped from a mere CHF 25'000 in 2005 to more than CHF 12 million in 2006. Already, between January and June 2007, ethanol imports increased by 24% from the same period last year and is expected to reach 16-20 million CHF (see graph).

Many reasons explain this new orientation, chief among them costs and reliability of supply. Pakistan emerged as a reliable, low-cost partner. Alcosuisse has identified some Pakistani manufacturers with whom it does regular business and which it considers as "world class".

This is a great opportunity for serious Pakistani ethanol producers to take a greater



Swiss companies in Pakistan to expand their activities

Mr. Martin Bienz, Switzerland's Consul-General, has said that most of Swiss companies operating in Pakistan have plans to make new investments to further expand their business activities. He was speaking at an event organized by the SITE Association of Industry in May 2007 to advise Pakistani manufacturers how to market their products in Switzerland where the "Made in Pakistan" label is not familiar.

New Swiss companies have expanded their businesses in Pakistan in the areas of logistics, airport ground services, timber, and marketing of assembly material, he added.

EFTA to start negotiations with Pakistan

The European Free Trade Association and the Government of Pakistan have agreed to deepen their mutual trade relations including free trade agreements. The first meeting in this context is scheduled for the 3 October 2007 in Geneva. The Pak-Swiss Commercial Section of the Pakistan Mission to the WTO is conducting detailed tariffs analysis to identify the preliminary strategy.

Changes in used cars import in Pakistan

Used vehicles imported under under Transfer of residence, Gift, or Personal baggage schemes need to be less than 3 years old.

Gherzi sees big potential in Pakistan's textiles industry

Gherzi, a Swiss textiles supply chain and marketing consultancy, gave an exclusive interview to the Commercial Team, and spoke about the needs and potential of Pakistan's textiles industry.

In June 2007, Gherzi assessed the competitiveness of Pakistan's textile industry. The report, submitted to the Ministry of Textile Industry, gives recommendations taken up in the Ministry's first Policy Paper. Gherzi is an old hand in Pakistan as it has worked with the Ministry of Commerce since 1993 on various projects.

Mr. Udo Hartmann, who led the assessment, said Pakistani entrepreneurs need to be encouraged to upgrade their technology through investments facilitation. This will help them meet their customers' specifications with greater consistency than is being done at present.

One problem facing these entrepreneurs is the very low margin under which they operate, leaving little aside for investments. Soft loans would help as other countries also grant similar preferential rates to their own companies.

The Government of Pakistan needs to re-evaluate the 6% R&D subsidy it grants to both manufacturers and exporters. Gherzi believes this subsidy should only be given to manufacturers. This makes sense as manufacturers are the ones who actually undertake the costs and risks for product development.

However, product development relies on precise needs assessment says Mr. Keith Stuart-Smith, marketing expert for Gherzi. He observes that Pakistani manufacturers do not have a good understanding of their international clients nor of the market they serve. That is because they remain passive, waiting for buyers to knock at their doors. Most firms adopt this approach, leading to prices spiralling down.

Today, this way of working is no longer valid. Under the constraints of tight supply chains and consistent quality requirements Pakistani manufacturers urgently need to develop direct and deeper relations with international buyers and markets.

As companies reach the maturity stage, they should progress from making basic products for lower-end markets to offering a range of higher-value products. A few only make the necessary investments for this transition.

Nevertheless, Gherzi believes there is enormous potential in Pakistan as few countries bring together the full cycle of textile manufacturing, from cotton growing to garments making. There are best in class national players who could take the lead in international markets if the Government adopts and implements a comprehensive textiles and garments strategy.

To illustrate, in Switzerland a company has out-sourced in Pakistan and has been working with a single manufacturer for nearly two decades. This type

50% increase in foreign investment in Pakistan to US$6.3 billion

Total foreign investment for the first 11 months of the financial year 2006-2007 (from 1st July 2006 to 31st May 2007) reached US$ 6.3 billion, 50% more than the amount—US$ 4.2 billion—during the same period last year.

Pakistan relies on foreign inflows to develop roads and power stations to foster growth and eradicate poverty. Because of inadequate infrastructure, the Asian Development Bank estimates that Pakistan's economy may slow down to 6.5% in the year. Nevertheless, that is only slightly lower than the 6.8% growth it achieved last year.

Pakistan has very attractive offers. According to Standard and Poor's, a worldwide ratings agency, investors all over the world are very interested in Pakistan in part due to privatizations and the sale of assets.

In this regard, examples of acquisitions abound:

Philip Morris is interested to get a majority stake in the Pakistan cigarette maker Lakson Tobacco for US$338.9 million.

Standard Chartered completed the biggest acquisition in Pakistan's banking history by buying Union Bank last year for US$487 million.

China's two biggest lenders, Bank of China and the Industrial & Commercial Bank of China, are

Calendar of events

Pakistan

Hotel, Bakery & Restaurant Asia, enables global entrepreneurs to make important contacts with local producers, Karachi Expo Centre, 8-10 September 2007.

Instyle, Showcase of the value-added textile manufacturing sector, Karachi 1-3 November 2007.

CONNECT-IT 2007, Leading IT and Telecom exhibition, Karachi Expo Centre, 1-3 November 2007.

Auto & Auto Parts Pakistan, vehicles, parts, equipment & tools, and accessories, Karachi, 12-15 December 2007.

Machine Tools & Automation Pakistan (MTAP 2007), Displays by industry giants from around the world, Karachi, 12-15 December 2007.

Flagship Events

EXPO Pakistan 2008, Experience the Colours of Pakistan, Pakistan's leading international alliance and business venture event, will be held in Karachi during 13-16 March 2008.

Textile Asia 2008, textile machinery, accessories, raw materials, chemicals and services, Karachi Expo Centre, 1-4 March 2008.

Switzerland

OHA Thun, National Autumn Fair in Trade, Agriculture,

Nestlé, Unilever, PepsiCo, & Coca-Cola in Pakistan for the long-term

Multinationals in the Food and Drink industry are making long-term commitments and investments in Pakistan. Chief among them is Nestlé from Switzerland, which has gone one step further from other competitors such as Unilever, Coca-Cola, and PepsiCo and has formed a mutually beneficial relationship with Pakistan's economy.

Nestlé's 2mn litre-a-day facility is just one facet of its US$371mn 10-year investment plan for Pakistan. Not only does this project contribute enormously to job creation, Nestlé has also enacted a high profile Corporate Social Responsibility programme aimed at providing assistance to Pakistan's most disadvantaged groups and building its brand.

Pakistan suffers from low consumer spending and a challenging business environment. But Nestlé, along with other multinationals have been among those willing to take these risks and commit long-term investments in the country.

An expansion-driven, brand-building Nestlé benefits Pakistan's rural communities, especially its milk farmers who have developed due to the level of foreign investment in the dairy industry.

Nestlé's thirst for diversification in Pakistan in packaged and branded goods, and also in soft drinks will set in motion greater commitments from Unilever, Coca-Cola and PepsiCo.

Nestlé's continued expansion can only be good for industry growth, for consumers as well as retailers. A more dynamic and competitive industry will force prices down and marketing expenditure up, thus driving consumer interest in a highly price sensitive market.

BMI, an international Food and Drink consultancy, forecasts volume sales growth of 30.6% to 2011 in Pakistan's soft drinks industry. As consumer awareness in branded food and beverage goods will grow, retailers will have a stronger incentive to sell a broader range of products.

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Pak-Swiss Commercial Section, Permanent Mission of Pakistan to the WTO, 37-39 Rue de Vermont, 1211Geneva, Switzerland.

For trade enquiries please contact Commercial Section

Internet: www.wto-pakistan.org
Email: info@wto-pakistan.org.
Tel.: +4122 – 748 70 25
Fax: +4122 – 748 70 29

Chief Editor: Sharafat Ahmad Piracha