Information Booklet

Business Regulations

1

IMPORTING GOOD

for SMEs

SMEDA

NBDP

National Business Development Program for SMEs

Introduction

Small and Medium Enterprises Development Authority (SMEDA) works under the Ministry of Industries and Production, Government of Pakistan and was established in 1998 with the objective to propel economic growth through development of SMEs. SMEDA serves as an SME strategy-advisory body for the Government of Pakistan and facilitates partners in meeting their SME development agendas.

SMEDA envisions growth of a globally competitive SME sector (in Pakistan), through creating an enabling environment and support services for increase in the national economy. SMEDA strives to achieve this vision by providing assistance in employment generation and value addition to the national income, through development of the SME Sector, by helping increase the number, scale and competitiveness of SMEs.

National Business Development Program for SMEs (NBDP) is a project of SMEDA which intends to provide hands-on support services to SMEs. The aim of this business development support provided by NBDP is to advance new businesses and improve efficiencies in existing SME value chains to empower them to contend in global market. NBDP expects to facilitate around 314,000 SME beneficiaries over the period of five years.

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Objectives

- To elaborate the concept and importance of importing goods in a business
- To highlight the process of entering into the import business
- Importing goods in Pakistan

Table of Contents

a Import Businesses – Basic Concepts and Significance

In the past few years, world has seen tremendous improvement in trade amongst countries. From a mere $31 Billion in 1928 to over $4 Trillion by the turn of century, it is proof of the veracity of theory of comparative advantage propounded by an economist called Ricardo, which stated that a country should produce only those items in which it has expertise and specialization, rest it should import.

An import business is a business in which goods or services are brought into one country from another. In other words, when a business buys goods internationally and ships them in for domestic customers, it is referred to as an import business.

Significance of Import Business

1. Generally, imports are important for businesses and individual customers.
2. When local industries are not able to produce/manufacture goods as cheaply and efficiently as another country, then it makes more economic sense to import.
3. When the inflow of goods is too much and the competition with local products is hurting the local economy it may be called dumping, as an example, we can see Chinese goods have flooded local markets in Pakistan as they are much cheaper in comparison to goods which may be produced locally but are more expensive.
4. Countries like Pakistan and even the most technologically advanced countries like USA often need to import goods that are either not readily available domestically or are available cheaper overseas.
5. Individual consumers also benefit from the imported goods which require some parts or components to be imported.
6. Electronic gadgets at times require smaller components to be imported such as transistors from China where they are manufactured at much cheaper rates than in Pakistan.

Each country has its own comparative advantage in terms of resources and competitive advantage in terms of products and services e.g. Pakistan has natural resources such as precious metals and minerals, cotton and livestock and products and goods including textile and leather goods while more developed countries such as Europe have developed industrial infrastructure for machinery and capital goods as well as roads, railways, transportation and banking systems etc. which are essential for commerce and trade. When countries engage in trade and economic exchange, they try to optimize on their advantages and benefit from other countries based on what they are more efficient at, this results in better quality products at competitive prices and better quality of life.

b Free Trade Agreements Signed by Pakistan

Countries sign free trade agreements (FTA) with other countries to promote trade and commerce amongst them. Trade agreements cover different aspects such as taxes, tariffs and contracts that boosts investment between different countries. In simple words, FTAs can be described as the relaxation of terms that two countries agree on which to trade with each other.

Pakistan has multilateral and bilateral trade agreements with different countries of the world. Multilateral agreements involve three or more countries. For example, Pakistan has signed multilateral trade agreements under the forum of South Asian Association for Regional Cooperation (SAARC), which is the regional intergovernmental organization and union of states in South Asia. Its member states include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Under SAARC, a free trade agreement referred to as the SAARC Free Trade Arrangement (SAFTA) has been signed by member countries.

As per the Ministry of Commerce, the following list indicates bilateral free trade and preferential trade agreements of Pakistan:

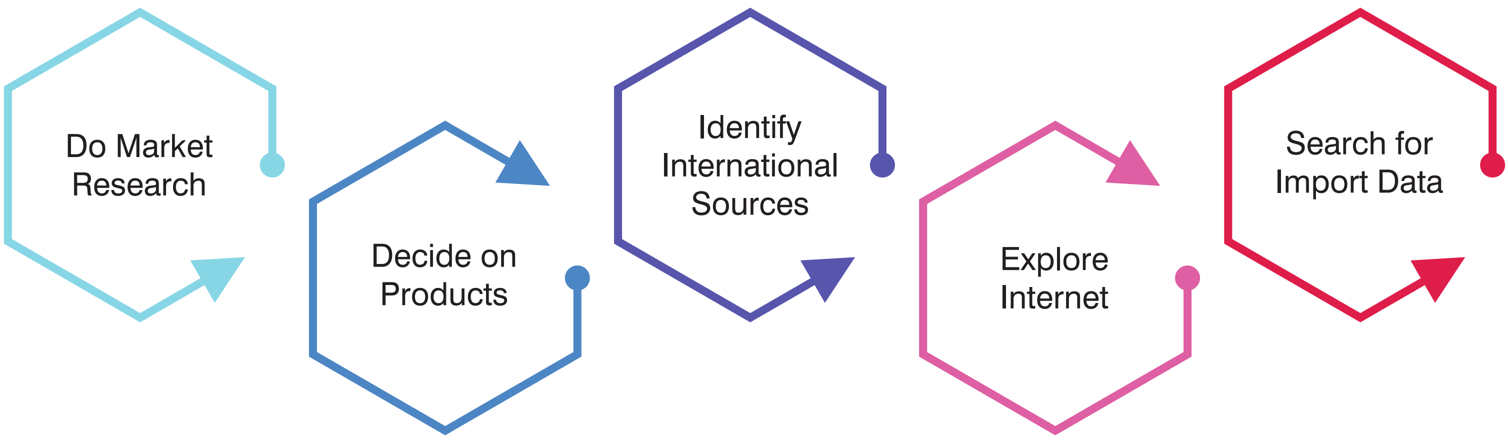
1. Pak-China Free Trade
2. Pak-Sri Lanka Free Trade Agreement
3. Pak-Malaysia Trade Agreements
4. Pak-Iran Preferential Trade Agreement (PTA)
5. Pak-Indonesia Preferential Trade Agreement
6. Pak- Mauritius Preferential Trade Agreement

c Entering into the Business of Importing Goods

Starting an Import Business in Pakistan

Starting an import business can be very challenging and rewarding at the same time. There are a few important things that one needs to do to start and establish an import business in Pakistan. Apart from knowing the rules and regulation to import, an important consideration is which products to import and where to sell them. Answers to these questions can be very exhaustive in the long run but they can be simple and easy in the beginning. To begin with some research and talking to import professionals or practical importer will be helpful for starting the import business. Can start your enquiries from the local market and then move on to Joria bazar in Karachi, Shah Alami market in Lahore, Chowk Yadgar in Peshawar and Liaquat market in Quetta.

Following are the steps that can be taken to start an import business:



While identifying the country depends upon the kind of product you are looking for, China is a good place to start looking for sourcing of most of the consumer products and Alibaba.com is a platform to start searching. Other sources of production can be explored from EU or USA and other platforms like Amazon.com etc, particularly if one has any specific product in mind. You can also look up "All Pakistan Import Data" on the internet where Information for this purpose is available. One can search import data of Pakistan by Importer Name, Supplier Name, or Product Code/Name. If you want to import specific products from some supplier, some import experts can intervene and locate the products for a very little fee.

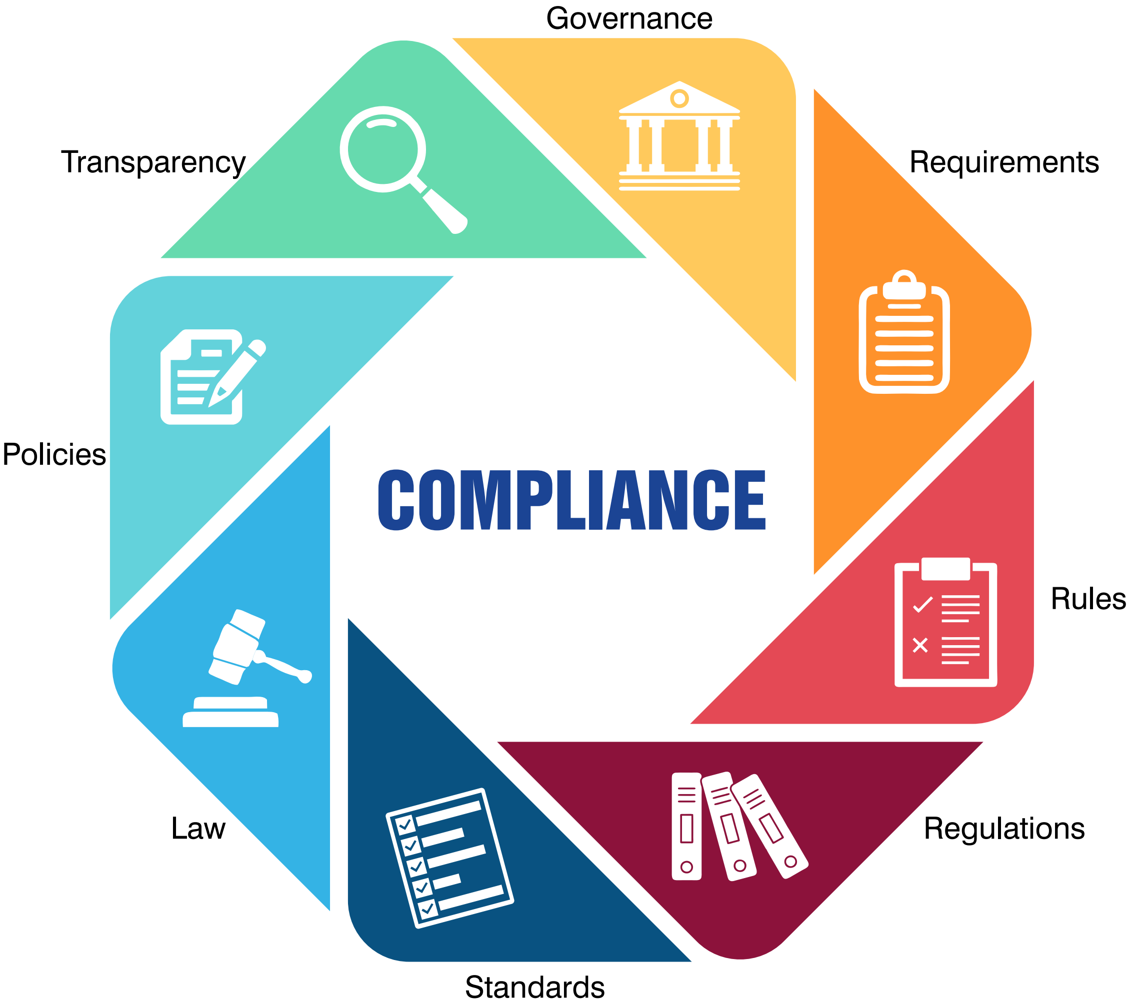
i) Relevant Stakeholders and Authorities

To enter into the business of importing goods, the first step is to understand the relevant stakeholders which are involved in this area. There is a set of institutions and stakeholders present at the national, regional and/or international level that are responsible for overseeing imports between countries. Further, at the national level, there are public and private sector stakeholders e.g. customer, supplier, intermediary or regulatory authority like customs that exist to oversee the import process.

Customer	Supplier	Intermediary	Authority
Importer	Seller	▪ Transport Service Supplier ▪ Bank ▪ Insurance Provider ▪ Customs Agent ▪ Broker ▪ Commission Agent	▪ Customs ▪ Pakistan Environmental Protection Agency ▪ National Agricultural Research Centre ▪ Drug Regulatory Authority of Pakistan ▪ Ministry of National Health ▪ Port Authority ▪ Chamber of Commerce

ii) Government Regulations for Imports

Imports of Pakistan are regulated under the Import Policy Order 2016[1]. CBR has started the clearance of goods through PACCS (Pakistan Customs Computerized System) since May 01, 2005. In this regard, Model Collectorate of Customs, Karachi now handles both import and export consignments at Karachi International Container Terminal (KICT), Pakistan International Container Terminal (PICT), and Qasim International Container Terminal (QICT).



Import Pakistan Customs Clearance Under PACCS

Salient features of PACCS are as follows:

No Geographical Limits	Under PACCS an importer does not have geographical limitations or restrictions. Goods Declarations can be filed from the HQ in Islamabad, pay duties from a branch office at an online bank in Lahore and clear the goods for a factory in Karachi.
PACCS Philosophy Under Import Pakistan	Goods are required at the port only where physical examination is needed; all other customs work can be completed either before arrival of goods or finalized after the goods have been released.

[1] Available at: http://www.commerce.gov.pk/wp-content/uploads/pdf/IPO-2016.pdf

Pre-arrival Goods Declaration Related to Import Pakistan	Advanced filing of electronic goods declaration 10 days prior to the arrival of cargo, no permissions are required.
Pre-arrival Processing of Cargo Related to Import Pakistan	Cargo and container details are acquired electronically from the carriers at least 24 hours prior to the arrival of vessel. Risk Management System screens the cargo declaration and separates high risk from low risk cargo. Transit and transshipment consignments are identified. Major amendments to the manifest are completed electronically by the time the vessel arrives. Cargo declaration is electronically transmitted to the terminal operator to unload cargo according to the manifest.
Procedure after Arrival of Vessel	Non-risky cargo for which Goods declaration (GD) has been filed in advance is released. Transshipment cargo is released to bonded carriers for transporting the cargo. There is no requirement for filing of TP requests under PACCS. High risk cargo as communicated to the terminal operator is brought straight away to the examination areas where it is duly inspected and checked.
Goods Declaration Filing & Processing for Import Pakistan	No documents are required. Declarations can be filed over the web anywhere in the country. Customs Reference Number (machine number) is instantly allotted online and after that, the Risk Management System processes the declaration.
Pakistan Customs Examination Process for Import Items in Pakistan	Pakistan Customs already has examination reports for risky consignments. Where consignments are deemed risky, they are grounded by the terminal operator and examined by customs on arrival of the vessel and the report is fed into PACCS.
Payment of Taxes/Duties	PACCS is a self-assessment system where the business owner pays taxes without interference by customs before filing a declaration to customs. Custom duties can be paid anywhere in the country, provided one has the Bill of Lading (BL) number.
Determination of Value	PACCS proceeds by the book, the only value accepted under PACCS is transactional value ascertained as per the General Agreement on trade and tariff GATT code.
Dispute Over Value	There is a formal mechanism for review of values ascertained by the assessing staff. This is called the first review. In case of non-satisfaction with the first review, there is a second review before the Assistant Collector. The Assistant Collector in the second review gives formal written orders. Orders by the Assistant Collector are appealable before Collector Appeals. Orders of Collector Appeals are appealable before the Appellate tribunal.

(iii) Trade Measurements and Regulations

The government of Pakistan has developed a strategic trade policy framework based on extensive consultation with relevant stakeholders[2]. While every importer is not affected by the changes in trade policy, it is a better practice to discuss the trade policy announcements with the business advisory services experts or trade body members at the local chamber of commerce and industry.

(iv) Licensing and Permits

At present, an import license is no longer required to import any goods or products into Pakistan. However, some documents are required and Annexure B mentions some initial documents which are required for import into Pakistan. Additionally, with reference to agricultural products and goods, there are some quarantine requirements which have been imposed by the Ministry of National Food Security and Research[3].

(v) Labeling Requirements

On February 19, 2019, Pakistan's Ministry of Commerce (MOC) issued a statutory regulatory order (i.e., SRO) concerning the labeling of food products. The SRO requires the following label information:

1. A minimum 66 percent shelf life at the time of clearance of goods
2. Labeling of nutritional values and usage instructions in Urdu and English language
3. The accreditation authority of the country that validated the Halal Certificate or Halal Certificate issuing authority needs to be a member of either IHAF or SMIIC

These rules were made effective February 19, 2019. FAS Islamabad is in the process of exchanging information with Pakistani industry representatives and other stakeholders, as well as, with the Ministry of Commerce (MOC), in order to minimize any trade disruptions and to support their consumer awareness/education efforts.

d Sourcing Products

Sourcing is the process of identification, evaluation, selection and negotiation of price and terms and condition of the products supply with selected supplier, amongst many prospective contenders for supply.

(i) Identifying Potential Suppliers

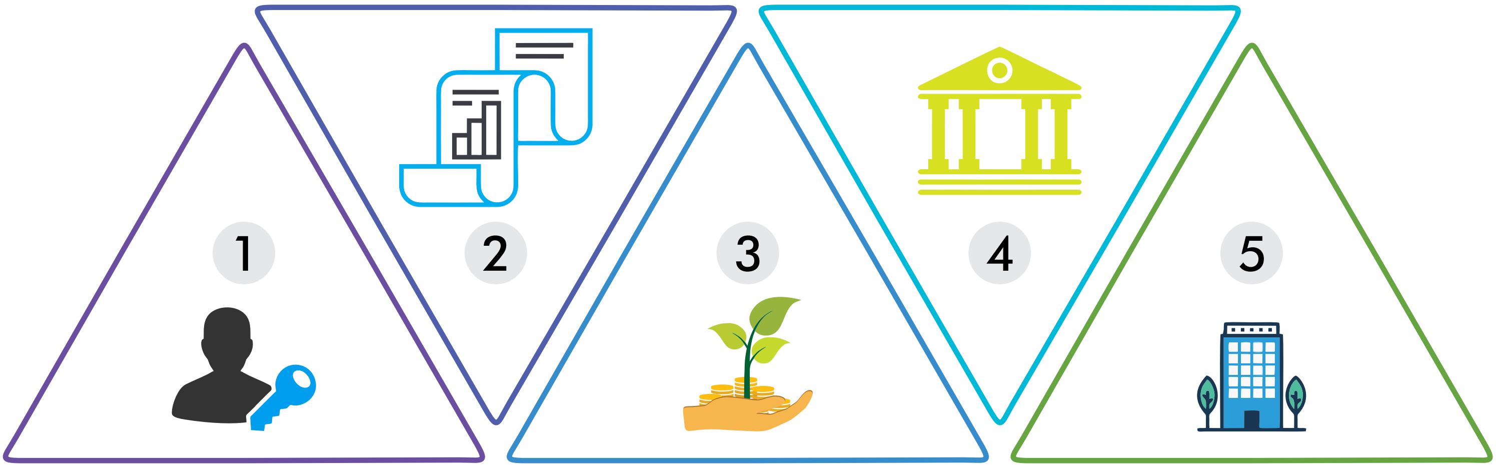
It is important when choosing a potential supplier that adequate market research is carried out about competitors and alternative supply sources are compared. The comparisons are primarily on the basis of price and quality but there are other considerations which are important as well, for example Packing and delivery schedule and the "Product Return Policy" of the supplier. Once the comparisons are done and appropriate supplier is identified both the importer and the supplier get into the finalization of price negotiation and terms of payment, which are usually based upon payment through a letter of credit LC.

[2] The policy is available online and can be accessed at: https://www.tdap.gov.pk/pdf/trade_policy_18.pdf.
[3] These regulations are available online at the Ministry of Food Security and Research's portal and can be accessed at: http://www.mnfsr.gov.pk/mnfsr/userfiles1/file/DPP-Quarantine%20Section%20Final.pdf.

When an SME is starting an import business, it might not be familiar with import procedures or even banking requirements for imports. In such cases, it is better to look for the local importer of the goods and products and purchase the product from them on cash or consignment basis. Consignment basis is a kind of trade credit that can be acquired from the importer. It is important when choosing a potential supplier that both the importer and supplier have a good working equation. Some helpful tips in this regard are as follows:

Providing detailed product information and labeling requirement

A company that is friendly, creative, and well-organized in both operational and administrative aspects



Good chemistry with key contact-preferably within top management-of a potential supplier

Ensuring adequate packaging, quality, convenience, and price considerations

A company desirous to maintain a world-class product quality reputation in the industry

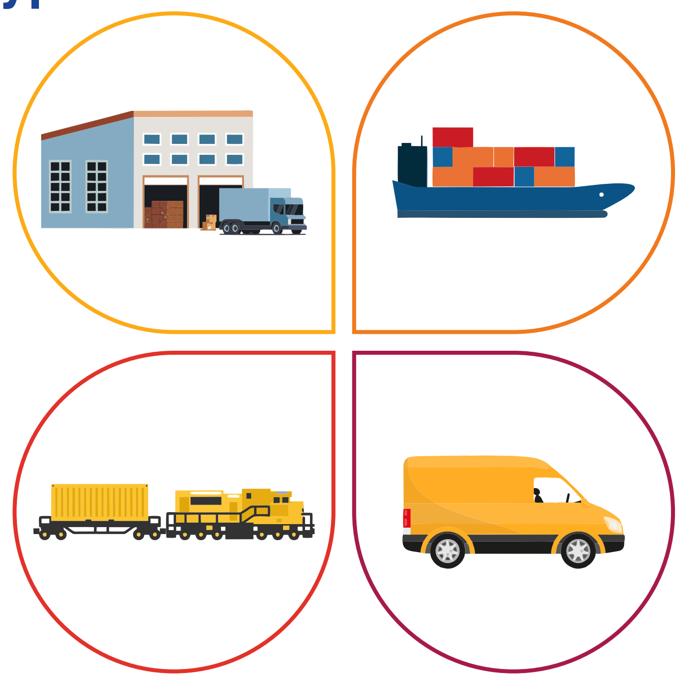
(ii) Sourcing Channels of Distribution

A distribution channel is the path by which all goods and services travel to arrive at the intended consumer. Conversely, it also describes the pathway that the payments make from the end consumer to the original vendor. Distribution channels can be short or long, depending on the number of intermediaries required to deliver a product or service.

4 Types of Distribution Channels

Manufacturer
Buys from small (sometimes on person) manufacturers

Exclusive Distributor
Set up or sell to smaller local wholesalers



Regional Distributor
Break down box-car sized lots and sell truckload boxes of products to local wholesalers

Jobber
Individuals make daily deliveries to local grocers and retailer brick-and-mortar stores

Channels are broken into two different forms-direct and indirect. A direct channel allows the consumer to make purchases directly from the manufacturer (less costly) while an indirect channel allows the consumer to buy the goods from a wholesaler or retailer. There are the different sourcing channels used to import things by selecting a broker, using personalized trading networks, producers (associations, voluntary chains, cooperatives), and contracting.

e Settling Quotation and Terms

(i) Analyzing the Supplier's Quotations and Offers

These are some considerations which will help determine the best price for the goods:

Technical Specifications

Always check the technical specifications of the quote. This includes all information about the product, such as weight, color, size, and other data.

Unit and Packing

The quotation must specify in which unit the product will be purchased (for example, by pounds or kilos, hundreds or thousands), as well as the packaging in which it will be delivered. Some inputs are transported in pallet boxes, others in plastic bags with bubble wrap or pieces of foam for protection, and this makes all the difference in the final price.

Deadline

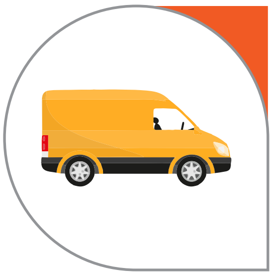
The delivery time must be in line with what the company specifies in the purchase order, and the supplier must undertake all steps to meet this deadline, except in extreme circumstances such as accidents or strikes, or factors that cannot be controlled.

Payment Conditions

Each supplier receives payment in the way that best suits them. Some offer the option of installments with a deposit, while others do not request one payment, others offer discounts for cash payment, and so on.

Validity of the Proposal

All quotes have an expiration date. When receiving a quote, make sure that it is valid for enough time to make the purchase under those conditions.



Place and Conditions of Delivery

The quotes from the suppliers usually indicate the place of delivery or pick up of the product. It can be in the company itself, in the factory, in the distributor's warehouse, in the port, in the airport, in the carrier, at the border. Identify the location and what is embedded in the price by the acronym CIF (cost, insurance and freight) for insurance and freight costs included, and FOB (free on board) for merchandise that will be withdrawn by the buyer. Make sure these delivery terms meet the needs of business before evaluating the final price.

Comparing Quotes with Different Information

If two quotes for the same goods or services present different information, the best thing to do is to break the quotation down, point by point. Take each category that are mentioned above and put together a table. Then, divide each quote into those points, fill in the individual price of each item, and enter the specifics as they appear.

(ii) Costs and Terms of Sale

Terms of sale define the obligations, risks, and costs of both the buyer and seller involving the delivery of goods that make up a transaction. In any sales agreement, it is important to have a common understanding of the delivery terms because confusion over their meaning may result in a lost sale or a loss on a sale. The terms in international business transactions often sound similar to those used in domestic business, but they frequently have very different meanings. For this reason, the exporters and importers must know and understand the terms before preparing a quotation or a pro forma invoice.

f Quarantine Requirements for Imported Goods

Quarantine requirements for imported goods in Pakistan are regulated by the Ministry of National Food Security & Research. Pakistan Plant Quarantine Act 1976 and Pakistan Plant Quarantine Rules 1967 were passed by the Government for preventing the introduction and spread of exotic pests and diseases which could be destructive to field crops, horticulture, floriculture and forests. Pakistan Plant Quarantine regulation is also in conformity with the recommendation of United Nations Agency for Food And Agriculture International Plant Protection Convention 1951. The Department of Plant Protection falls under the Ministry of National Food Security and Research and is the designated National Plant Protection Organization. It is responsible for regulating import and export of agricultural commodities with respect to sanitary and phytosanitary measures under Pakistan Plant Quarantine Act 1976 and Pakistan Plant Quarantine Rules 1967 and guidelines i.e., International sanitary and phytosanitary measures prescribed by International Plant Protection under World Trade Organization (WTO) for international trade of plant and plant material. Any imports in the agriculture, plant, seed etc. field will need to be in accordance with these rules.

g List of Banned and Restricted Imports to Pakistan

The Government of Pakistan has banned import of the following items: arms and ammunition, high explosives, radioactive substances, security printing, hazardous chemicals, currency and mint, and alcoholic beverages. Nonetheless anything contained in this order, the prohibitions, restrictions, conditions and requirements as prescribed under any other law, act or rules, for the time being in force, shall be applicable, on specified imports.

Prohibitions

43 items belonging to different categories are banned for import in Pakistan. The detail list of these goods is mentioned in Appendix 'A' of Import policy order 2016[4].

Restrictions

109 items belonging to different categories are restricted for import in Pakistan. These restrictions are of two types:

1. **Health and Safety** (74 items)
2. **Procedural Requirements** (35 items)

The detail list of these goods is mentioned in Appendix 'B' of Import policy order 2016*. All these good are importable subject to the conditions.

[4] http://www.commerce.gov.pk/wp-content/uploads/pdf/IPO-2016.pdf are banned for import.

Flow Chart Sequencing the Import Procedure

ANNEXURE A

Process Phases	Process Phases
First phase (Sourcing products)	▪ Documents/information Required ▪ Identifying potential suppliers ▪ Analyze the supplier's quotations and offers ▪ Terms of sale ▪ Place the order
Second phase (Ordering)	▪ Purchase order ▪ Order acknowledgment ▪ Performa invoice ▪ Letter of credit ▪ Shipment advice & plan
Third phase (Documentation)	▪ Commercial invoices ▪ Packing list ▪ Bill of lading/airway bill ▪ Weight note ▪ Health certificate ▪ Halal certificate ▪ Certificate of analysis ▪ Sanitary certificate ▪ Insurance cover note or marine insurance
Fourth Phase (Clearance)	▪ Bill of entry (goods declaration) ▪ Duty receipt ▪ Excise duty Receipt ▪ Transportation if any
Fifth phase (Remittance)	▪ Submission of documents ▪ Remittance telex ▪ Payment done

Documents Required for Importing Goods in Pakistan

ANNEXURE B

The following documents are required for imports:

1. Company Registration / Firm Registration / Business Individual
2. Company's NTN Number / Tax Number as well as Director's NTN
3. Business bank account
4. Packing list
5. Bill of lading
6. Invoices
7. Certificate of origin
8. Copies of letters of credit (triplicate)
9. Registration with Chamber of Commerce
10. Sales Tax Registration / GST Registration
11. WeBoc Registration / Web Custom ID
12. Insurance certificates
13. Any other special registration required by Custom Department

Conclusion

An import business is a business which requires international shipment of products and services. For import businesses to prosper, countries sign trade agreements with other countries to promote trade and commerce. To successfully start import business, SMEs must possess knowledge about relevant authorities and procedures, related rules and regulations and licensing requirements.

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