

# POLICY PAPER



## SHAPING EXPORT FRIENDLY POLICIES FOR POULTRY INDUSTRY OF PAKISTAN 2018



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## Introduction

The Agriculture sector of Pakistan is considered the backbone of Pakistani economy. This sector contributed 19.5 % to the GDP of Pakistan during last year 2016-17. Livestock is the main subsector of the Agriculture sector in Pakistan which contributed around 58.6% to the total Agricultural GDP during 2016-17. This Livestock subsector comprises of various industries including Poultry, Meat, Leather and Dairy industries etc.

The poultry industry of Pakistan has been performing extraordinarily well locally and internationally as compared to other Livestock businesses since last decade. It is the second largest industry of Pakistan which can be considered as the major contributor of Pakistan's economy as it contributes around 1.3% to the Pakistani GDP ( ), It has resulted in a mushroom growth of various poultry related businesses like broiler farming, layer farming, breeder and allied businesses. The irony of the situation is that besides the fact that poultry industry is contributing a lot socially and economically but it has been facing many problems in production, import and export. These problems are of multifarious nature and hindering in harnessing the full potential of this vibrant industry. In this policy paper all such problems which are faced by industrialists regarding production, import and export are separately explained. Finally, some prudent policy measures are given in the form of recommendation. It is claimed that if these policy recommendations will be implemented in the coming budget 2017-18, it can not only serve as a great of oxygen for this ailing industry but also reinvigorate it to its full potential.



## Poultry Production & Consumption-A Comparison

It has been reported that in 2009 on average, Pakistani consumed 14.7 kilograms of meat (FAO, 2013) and 72 eggs yearly while recommended annual intake of 250-300 eggs and 25-28 kilograms of meat ( , ). It is estimated that in the year 2016-17, around 1.276 million tons of poultry meat and 17,083 million eggs were produced in Pakistan (Economic Survey of Pakistan, 2016). The meat demand growth is mainly influenced by income status and population growth, especially in countries with large middle classes like Asia, Latin America, and Middle East. However, developed countries data showed increasing meat demand but at a slower rate due to the fact that they have already reached the saturation level than that of developing world and there is expected more increase in meat consumption and production as well in developing world. The following table shows the comparison of meat production between developing and developed world.

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**Figure 1: Meat Total Production**



It has been projected that global annual per capita meat consumption is expected to reach 35.3 kg retail weight equivalent (r.w.e.) by 2025 showing 1.3 kg r.w.e. increase compared to base period.

**Table 2–2 Projected food consumption trends of Livestock products to the year 2020**

Region	Projected Growth of consumption 1997-2020	Total Consumption		Percent of world total 2020	Per capita Consumption	
		1997	2020		1997	2020
	(%/y)	(Million metric tons)		(%)	(kg)	
<b>Developed world</b>						
Beef	0.5	30	34	40	23	25
Poultry	1.5	28	39	36	22	29
Meat	0.8	98	117	35	75	87
<b>Developing world</b>						
Beef	2.9	27	52	61	6	9
Poultry	3.9	29	70	64	7	11
Meat	3.0	111	217	65	25	36

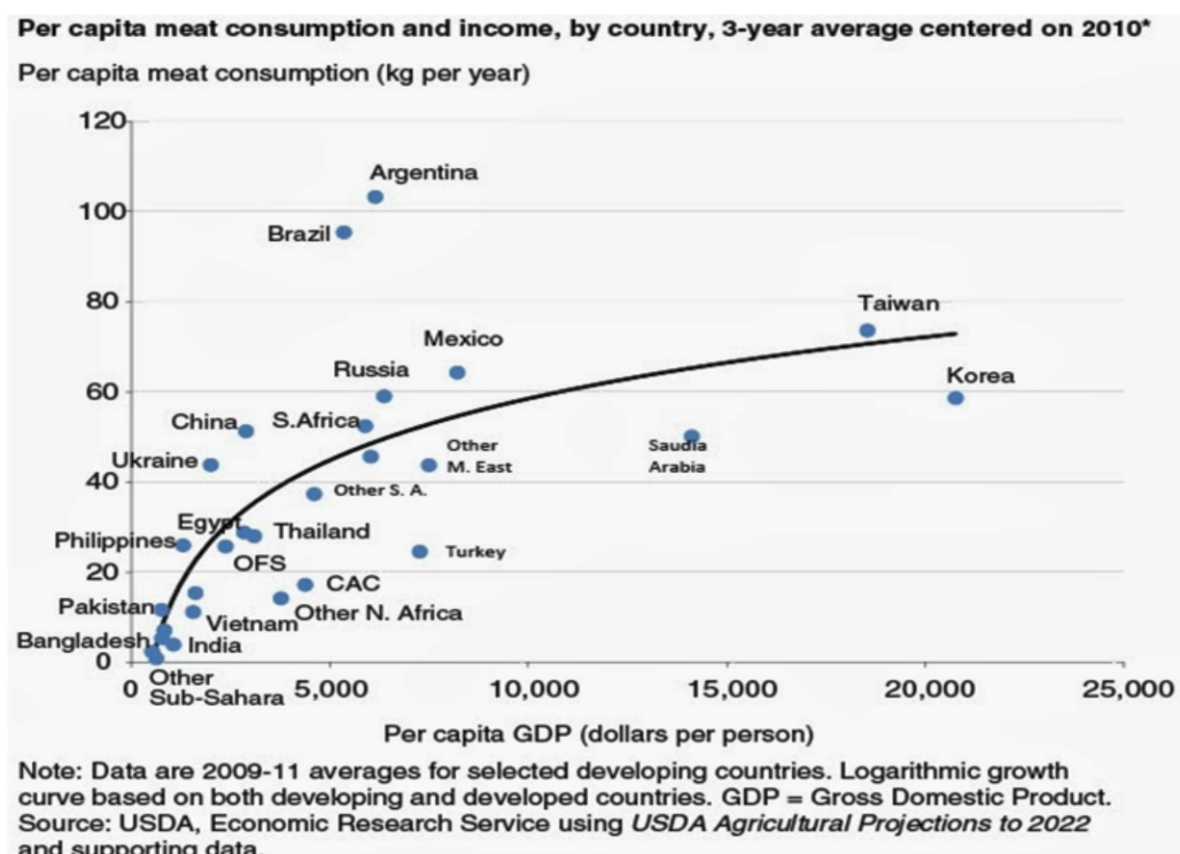
**Sources:**

Total and per capita consumption for 1997 are calculated from the United Nations Food and Agriculture Organization database (FAO), 2002 (11) and are 3-y moving averages centered on 1997. The 2020 projections are from the July 2002 version of the IMPACT mode



However, this additional demand will be contributed mainly from poultry due to its easy availability, cheaper price, shorter production time and convenient processing behavior (OECD-FAO agriculture outlook, 2016). The broiler consumption has seen tremendous growth in both developing and developed countries(). The per capita consumption of Broiler in Pakistan is still very low as compared to per capita consumption of broiler in developed countries. The following table illustrates this consumption pattern over the years among various countries.

**Figure 2.2 Per capita meat consumption and income, by country, 3-year average centered on 2010**



With reference to Pakistan per capita meat consumption in 1983 was 11 kg that was increased to 16 kg in 1993 and it may reach to 26 kg in 2020 as shown in table.



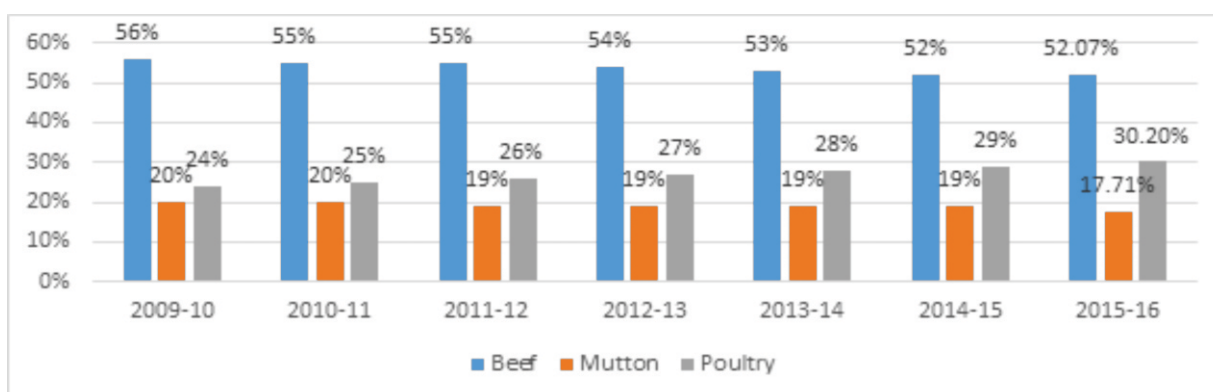
**Table 2.2 Per capita Meat Consumption (Kg) 1983-2020**

Countries	1983	1993	2020
Developed world	74	76	83
Developing world	14	21	30
Pakistan	11	16	26

Source: Delgado et al. 1999, Livestock to 2020, the next food revolution & GOP 2003, TCP-PAK-0168 Livestock Action Plan Draft Report MINFAL

If we look at the trend of meat consumption in Pakistan, it will illustrate that there is a continuous decrease in the beef and mutton consumption as compared to poultry meat which shows an increasing trend.

**Figure 2.3 A comparison of different type of meat commodity in Pakistan**



### 3 — Potential Of Poultry Industry of Pakistan

Poultry meat contributes 28% of the total meat production in the country (Mukhtar, 2016). According to the Pakistan Economic Survey (2015-16) Poultry sector has shown a robust growth at the rate of 8-10 percent annually which reflects its inherent potential. Population of broiler in Pakistan during 2016-17 was 962.5 million heads and production of broiler meat 1157.5 million Tons which shows a continuous increase in both commodities (Economic Survey of Pakistan, 2016). Quite recently this poultry meat industry has taken a new shape and moving to value addition. It is evident from the fact that many brands have been introduced in Pakistan which have started marketing value added and ready to eat poultry meat products. Notably, the names of K& N's, Big Bird foods, Sabroso and Menu can be mentioned as a big players in this list of brands.

Pakistani broiler industry is one of the technologically advanced industry of the country. That is the reason, this broiler meat is also exported to some countries but the need of the hour is that the quality standards must be increased and export markets must be diversified. The following table shows the comparison of meat export to various destinations.

**Table 3.1 Break-up of meat exports: Pakistan VS Brazil**

Break-up of meat exports:Pakistan vs Brazil		Pakistan		Brazil	
HS Code	Broad category of meat	FY15	FY16	2015	2016
201	Meat of Bovine Animals,Fresh or Chilled	27%	32%	5%	6%
202	Meat of Bovine Animals,Frozen	24%	33%	30%	28%
203	Meat of Swine,Fresh,Chilled or Frozen	2%	1%	9%	11%
204	Meat of Sheep or Goats,Fresh,Chilled or Frozen	42%	28%	0%	0%
206	Edible Offal of Bovine Animals;Swine,Sheep,	3%	4%	3%	3%
207	Meat and Edible Offal of Poultry,Fresh,Chilled	1%	1%	49%	48%
208	Other Meat & Edible Offal; Fresh, Chilled or	0%	1%	0%	0%
210	Meat and Edible Offal Salted,Driedetc.and	1%	0%	4%	3%
Memo:					
Total exports (\$ in mn)		<u>271</u>	<u>243</u>	<u>13,077</u>	<u>12,655</u>
Source: SBP for Pakistan; Trade Mapfor Brazil					

**Table 3.2 Category-wise meat imports in the region in 2015/2016**

Category-wise meat imports in the region in 2015/2016*				
HS Code	China	Afghanistan	Saudi Arabia	UAE
201	1%	0%	5%	15%
<i>Pakistan share in respective market</i>	<i>0%</i>	<i>n.a</i>	<i>22%</i>	<i>25%</i>
202	33%	0%	14%	12%
<i>Pakistan share:</i>	<i>0%</i>	<i>n.a</i>	<i>0.5%</i>	<i>0.15%</i>
203	21%	0%	0%	0%
204	11%	0%	11%	21%
<i>Pakistan share:</i>	<i>0%</i>	<i>n.a</i>	<i>13.5%</i>	<i>2.7%</i>
206	20%	0%	0%	0%
207	14%	90%	69%	47%
Memo:				
Total imports (\$ in mn)	<u>6,798</u>	<u>70</u>	<u>2,799</u>	<u>1,614</u>
<b>Latest available numbers</b>				
Source: BR Research calculations based on Trad Map data				

The above tables show that the share of Pakistan in poultry meat and related products under HS Codes i.e. 207 & 209 to various neighboring and other target markets is negligibly small whereas the potential in those markets is enormous. As a matter of fact, Poultry industrialists of Pakistan are facing numerous challenges regarding cost of production, sales taxes, withholding taxes and import duties related to their products and processes. All this scenario forces them out of global competition and markets.

#### **4 —Recent Government Policies Regarding Poultry Industry:**

Recently, the Government of Pakistan has taken following measures in recent Federal budget 2017-2018:

- The sales tax has been reduced from 17% to 7% on seven different types of imported machinery to be used in poultry control sheds.
- Withdrawn 5% regulatory duty on the import of Grandparent and parent stock of Chicken
- Reduced custom duty from 11% to 3% on that.
- Government has promulgated Punjab Poultry Production Act, 2016 and Poultry Production Rules 2017.

#### **5 — Problems Being Faced In Poultry Industry And Required Measures**

Though, Poultry industry has been given attention by the Pakistani Government in recent measures, however, the poultry industrialists are still facing a lot of problems ( )in import and export related activities which are rendering this vibrant industry unsuccessful within Pakistani market and Global markets. Thus, some prudent policies are urgently taken to save this debilitating industry and attached economy of Pakistan. The

##### **5.1 —Issues Faced In Production Of Poultry:**

The poultry industry of Pakistan has been developed mainly by private sector and attained a status of one of the most technologically advanced industry. However, it has been facing a lot of issues/problems as far as

production is concerned which renders it uncompetitive in global markets. The biggest expense of production and raising of poultry is maize which makes considerable portion of poultry feed. There is a dire need not only of sustainable provision of maize and pulses to be used in poultry feed rather prudent policies are also required regarding import and export of these ingredients. According to a recent report of Dawn() the consumption of pulses in Pakistan has sharply declined from about 15kg per person a year to about 7kg per person a year. Likewise, previously, another report of FAO ()also pointed out the meagre situation regarding pulses in this part of the world. Here is the need of devising and implementing effective policies regarding efficient utilization of such ingredients for larger interest of poultry industry in Pakistan. Below is the list of some issues regarding production:

1. The cost of production of poultry and its products is very high in Pakistan which makes Pakistani poultry uncompetitive in global markets.
2. Locally, poultry stakeholders have to face and fulfill the demands of around 33 different departments who intermittently create legal, tax, procedural and administrative hurdles in poultry production.
3. During 2011, turn over tax was increased from 0.5% to 01.00% for all industries by the FBR. Pakistan Poultry Association submitted to Federal Board of Revenue that payment of 01% turn over tax for the poultry sector is not viable, therefore in January, 2011 FBR issued notification to reduce turn over tax for Poultry Sector only from 1% to 0.5%. Afterwards in 2012 the turn over tax was reduced to half, whatever was being paid by the different industries. According to that turn over tax on poultry sector was required to be reduced from 0.5% to 0.25% w.e.f. June, 2012, which could not be reduced by the FBR and yet it is not notified.
4. Being agricultural product, withholding tax on poultry sector is exempted under Income Tax Ordinance 1979. The relevant exemption under serial No (v) of SRO 586(I)/91 of Income Tax Ordinance 1979 stated as under:  
"Persons receiving payments from a company exclusively for the supply of agricultural produce (including fresh milk, live chicken bird and eggs) by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market".
5. The sales tax @ 16% on the electricity bills is being charged under section 3 (1) of sale tax Act 1990 and withholding tax @ 10% under section 235(4) (A) of income tax ordinance, 2001. Poultry and its product being food item are exempted from levy of sale tax as per 6th schedule of sale tax act, 1990. Sales tax on electricity bill simply increases the cost of production of poultry products as this levy cannot be get refunded. Secondly we cannot pass it on to consumer because the price of poultry &

## 5.2—Issues Faced in Export of Poultry

The poultry meat and its products have been produced on scientific grounds after following all the necessary measures of quality standards. Thus poultry meat is also exported to some countries. However, the full potential of export of poultry meat has not yet been achieved due to many issues which are listed below:

1. Regarding export and import, FTA (Free Trade Agreement) is under process, but the local stakeholders are not being properly taken into confidence for setting the modalities with regards to safeguarding local industry.
2. To increase export of Poultry meat and eggs to a neighboring big Chinese market, there is no freight subsidy.
3. The facility of tax refund for poultry export is also missing.
4. Many products from poultry industry, such as wings and panjass, are smuggled to China through Vietnam. These malpractices are neither in favor of producers nor the country.
5. Worldwide, there are subsidies on export of processed chicken. Like European Union, most exporting countries provides an export subsidy of 0.325 Euro cents per kg of frozen chicken exported (Source: The Rural Payments Agency – [www.rpa.gov.uk](http://www.rpa.gov.uk)) but here in Pakistan there is no provision of subsidies.
6. Bilateral Trade Agreements such as FTAs and MFNs with countries which have different regulations, require those protocols to be met, defeat the principal of level playing field; for instance, Malaysia and China, for the production of Halal meat, allow stunning of animals before slaughter. In Pakistan, it is forbidden to stun the birds before slaughter. Non-stunning slaughter increases the cost by almost 8.5%. These countries also have a regulation of inspecting the processing plants of an intending exporter, as such, they pick the very best where obviously the cost is higher.

## 5.3—Issues Faced in Import of Poultry

The poultry industry focusses on production of quality chicken thus it has to import some ingredients for production of quality poultry feed and other items. The stakeholders have to pay heavy import duties and face many hurdles which create many problems for this industry. Here is the list of these issues:

1. Heavy import duties (upto 60 %) are imposed on crumbs, coatings, spices to be used on nuggets. It increases cost of production of processed poultry meat industry for value addition.
2. Pakistan can import from any producer, in fact, from a producer who is the

- cheapest and not necessarily who meets the standards of quality - this results in erosion of our capacity utilization.
3. Grandparents are a multiplying seed, which produce parents, which subsequently produce broiler chicks and end up in chicken meat on the table of the consumers. Seeds of all kinds have been exempted from any additional tax. Grandparents, though being seed have been taxed. While finished chicken meat and its value added products are allowed to be imported duty-free from Malaysia and on preferred lower rate of import duty from China and at only five percent duty from India, Even though India has placed imports from Pakistan on their Sensitive List, yet further encouragement is being given to imports by increasing the cost locally-produced chicken meat and poultry products. The imported raw materials, which are used for the production of value-added chicken products, have been subject to an additional import duty of five percent. While raw materials have been generally exempted from additional tax, wrath of the government has fallen upon the poultry sector.

## 6—RECOMMENDATIONS:

Based on the superscript, following recommendations are made:

1. Adequate measures should be taken to reduce the cost of production of processed poultry and its products for local as well export purpose.
2. The export subsidy should be extended to processed (frozen) Chicken.
3. While signing the bilateral trade agreements such as FTAs and MFNs with countries like China, Malaysia etc. it must be kept in mind that our industrialists must be relaxed as per their requirements regarding processes and products. For instance some importing countries require stunned poultry but here in Pakistan stunning is not allowed which add up 8.5% in its cost. Thus it needs a careful analysis of involved production procedures and cost effectiveness. Likewise, no care is given to import of chicken from other countries with respect to stunning and quality of meat.
4. The turnover tax should be reduced from 0.5% to 0.25% to make this industry competitive.
5. The sales/withholding tax on import of various vegetable protein sources (e.g. Millet meal, Linseed Meal, Sesame seed meal, Coconut meal and other vegetable protein meals) should be exempted.
6. The sales tax @ 16% on electricity bills and withholding tax @ 10% under income tax ordinance, 2001 should be exempted on poultry and its products.
7. 10% import duty imposed on Seeds of chicken (GP) and 30% Regulatory Duty on import of Corn is withdrawn immediately.

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