BUSINESS RECORDER
Founded by M.A. Zuberi
RECORDER REPORT

9th June, 2020

Promotion of export, PBC identifies some key issues

KARACHI: The Pakistan Business Council (PBC) has identified some key issues and proposed the way forward for the export promotion through branding and overseas presence.

In its report titled 'Export promotion through branding & overseas presence' the business advocacy body has said that building further on the potential of maximising export earnings, this proposal addresses the opportunity of using Pakistan owned brands and other marketing and distribution assets and initiatives. Brands fetch a premium. Yet there is no Pakistan owned brand in international markets other than some food brands targeted at the diaspora. Even these are sold mainly through ethnic shops and not through the mainstream retail chains.

As consumers move from high street to on-line shopping, it is vital that Pakistani branded and other exports are made available on platforms such as Amazon. This entails warehousing in the markets where such platforms are located so that shipments can be affected to shoppers within 24-48 hours.

PBC said that Pakistan's export rules were designed for commodities and need to be modernised to address the present day realities.

With the downturn in demand and disruption in distribution post-Covid, there will be opportunities to acquire brands and strengthen the distribution presence, especially on on-line platforms.

Regulatory agility is therefore called for to facilitate acquisition of and development of brands and regulations that permit overseas warehousing and deferred export realisation.

For the acquisition of overseas assets, the business advocacy body has proposed that no prior permission should be required from either the SBP or the ECC, if the sum to be invested in acquiring capital assets is fully funded from the accumulated market development retention balance available to the exporter. Banks should be permitted to remit the sums so requested. Exporters availing this facility will maintain normal books of accounts and comply with taxation and other rules applicable, both in and outside Pakistan. Where the intended overseas investment exceeds the accumulated balance available to the exporter in the retention account and the exporter has in the previous three years exported goods or services of at least US$10 million per annum, prior permission would be required as follows: From the SBP, if the shortfall between the investment and the balance available to the exporter in the retention account does not exceed US$5 million. Such permission may be sought direct from the SBP without involving an authorised dealer. The SBP should revert with a "Go/No Go" decision within 10 working days.

PBC said exporters are presently allowed to retain 10 percent of their export earnings and to spend this as they deem fit for market development. However, if they wish to acquire capital assets to strengthen and sustain their exports, they are required to seek prior permission from the SBP for investment of up to US$5 million and the ECC for larger investment.

Regarding Building Brands Abroad, PBC said Pakistani brand exporters desirous of investing more than 10 percent of the annual exports to establish and entrench their share abroad would be required to present their proposals to obtain permission from the State Bank of Pakistan. The proposal should outline the expected benefits over a three-year period. SBP will use the following guidelines for evaluating such proposals:

The brands covered must have audited annual sales of an average of Rs500 million in Pakistan over the three most recent full years. They should have achieved an average annual growth of 10 percent over three years, of which at least a third should have been derived from volume growth.

The brand owners must possess or have access to professional marketing and sales expertise suitable for the categories and the markets intended to be developed. The proposal should address all key components of brand development and outline the sales plan and projections for three years in each of the markets abroad. It should explain why the plan would be successful and itemise the outlay, both in amount and as percent of projected sales.

Strong brands are able to command premium prices. Brand-led exports will maximise the country's foreign exchange earnings. Exporters are presently permitted to retain and utilise 10 percent of annual export earnings for market development. Proper brand building entails investment beyond this 10 percent allowance and involves key tasks such as Market research, supermarket listing fee, supermarket shelf rental costs, advertising and promotion costs, hiring a sales force and running an overseas office, warehousing and logistics expenses, product spoilage and bad debts. Exporters of strong brands willing to invest more than 10 percent of annual exports in brand building and sales development may be permitted to this within a framework which balances ambition with risks.

For the warehousing abroad, the business advocacy body has recommended that the exporters should be allowed to ship goods either to their own warehousing facilities or to third parties to hold until sold to a customer. There should be no restriction on the period of such warehousing provided an independent auditor's certificate of stock is submitted on a quarterly frequency. However, exporters availing this facility will be bound to manage annual sales from the warehouse equal to 4 times the average inventory during the year. Exporters should also be bound to arrange remittance to Pakistan an amount equal to sales less the custom duty & taxes paid in the warehousing country less 20 percent of sales value to cover warehousing and distribution expenses or the FOB value of goods sold during a year, whichever is higher.

It said that the overseas subsidiaries of Pakistani companies are presently required to remit their entire annual profit to the parent company in Pakistan. Failure to do so risks criminal action against the owners of the parent company.

Whilst the principle of remitting profit to the parent company from which the investment was originally funded and to the country that provided the foreign exchange are sound, it proposed that a period of five years must be allowed for the investment to be entrenched. Thereafter, if profit does not materialise or is insufficient due to ongoing expansion to remit, the parent company should explain the reasons. The SBP should review and allow more time depending on the strength of the case.