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Pakistan Increases Tariff on Milk Powder Import

Report Categories:
Dairy and Products
Trade Policy Monitoring

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Report Highlights:
Pakistan has increased its effective import tariff on imports of milk powder and whey powder from 20 to 45 percent with the imposition of a 25 percent "regulatory duty." Regulatory duties are designed to inhibit or block the flow of imports and are generally temporary. It is not clear how long the duty will be in place. The Government of Pakistan also took steps to roll back certain tax rebates that benefit milk processors.

General Information:

In response to rising imports of milk powder, the Government of Pakistan, as part of its annual federal budget process, announced that it would impose an additional "regulatory duty" of 25 percent on imports of powdered milk and whey powder. The "regulatory duty" is in addition to the existing tariff of 20 percent, bringing the total effective tariff rate to 45 percent effective July 1, 2016. "Regulatory duties" are considered temporary and intended to meet a short-term objective, typically to halt or slow imports of a particular product. It is not clear how long this regulatory duty will be in effect. As commodity prices have dropped in recent years, Pakistan has also imposed regulatory duties on both wheat and sugar in an effort to protect its farmers from imports. The increase is within the World Trade Organization bound rates that Pakistan has established.

The Government of Pakistan has also abolished the "zero rated tax regimes" for the milk and the dairy industry. Processors will not be able to get the refunds from the government for the 17 percent sales tax paid on certain raw materials and inputs (excluding raw milk, for which there is no tax). Abolition of this tax benefit is expected to drive up the cost of milk processing and processors have responded in kind, increasing the price of processed milk by five cents per liter, a three percent increase. Processed milk is generally consumed in urban areas and consumers will likely bear the brunt of resultant higher milk prices. The zero rating tax regime for infant formula will not be affected by this change.

Small-scale milk production is seen as a key diversifier of farm income (particularly for Pakistan's millions of small farmers). Processors are working to expand and improve their milk sheds by working directly with farmers to provide technical expertise; but infrastructure, frequent power outages, extreme heat, and a general lack of capacity among small farmers makes the development of a modern local supply shed a challenging process. With market demand for safe processed dairy products growing, processors have turned to imported milk powder to augment their local procurement. Note that Pakistan is among the world's largest dairy producers, but much of that milk is consumed on-farm or at the local village level and does not enter the modern marketing system.

The United States is the leading single-country supplier of milk powder to Pakistan and U.S. exports jumped from 5,000 mt in 2014 to 23,000 mt in 2015. Total exports of milk powder to Pakistan have increased steadily, climbing from 6,400 mt in 2005 to 66,000 mt in 2015 (a near 100 percent increase from 2014). New Zealand, the EU, and Australia are the other major suppliers.