

PAKISTAN INSTITUTE OF TRADE & DEVELOPMENT

Sector Brief on Fan Industry

Pakistani Fan Industry

98% of Pakistan's fan production takes place in the cities of Gujrat and Gujranwalla however there are some units in Lahore and Karachi as well. Table 1 below summarizes the major characteristics of Pakistan's fan industry¹.

Table 1:

Characteristic	Value
Number of Units	450
Total Installed Capacity	9.5-10 million fans
Production (2010)	8 million fans
Share in exports (2011-12)	0.15%
Share in GDP	0.27%
Employment	25-30,000
Capital to labour ratio	6 workers for every Million Rs.
Total Investment (2010)	Rs.5 billion
Total Sales Revenue(2010)	Rs. 17 billion

There are 5-6 large scale companies which have a high level of investment, have modern equipment and conduct most of their operations in-house. The sector also has medium sized firms which employ around 40-50 persons with the remaining firms falling under the category of Small and Medium sized Enterprises (SMEs). Since the industry is dominated by small firms it cannot benefit from economies of scale. The average capacity of a typical Pakistani firm is 200-300 fans per day whereas the capacity of Chinese fan units is 45-50,000 fans per day. Pakistani firms are small and therefore do not benefit from economies of scale and for this reason they cannot compete in the international market.

The product composition of Pakistan's fan industry is as follows: 60% ceiling fans, 30% are pedestal fans and 7% bracket fans. 80% of the cost of production consists of raw material. Out of this 50% of the raw material is imported which means that the industry is vulnerable to fluctuations in the exchange rate movements and international prices of metals.

Standards in the fan industry are of two types: quality standards and safety standards. There are no quality or safety standards for fans in Pakistan. Firms who are exporting are aware of the different certification requirements mainly CE for Europe; UL for the USA; SASSO for Saudi Arabia; SABS for South Africa; SONCAP for Nigeria and SIRIM in Malaysia and Sri-Lanka. Firms who export also have in-house capacity for testing requirements.

According to a survey conducted by UNIDO the industry believes that the biggest barriers for entering/ exploring new market access opportunities are: lack of information on new markets and limited capacity to meet quality standards and compliance requirements.

¹ This section is based on the information from UNIDO's Report on Industrial Sectors under TRTA II Programme.

Indian Fan Industry

Due to India's tropical climate there is a large demand for fans which is estimated to be around 2.5 million units per month and is growing at a rate of 10% per annum². The Indian fan industry comprises of large scale manufacturing units such as: Usha, Orient, Bajaj and Polar and then there are small scale manufacturers that are in the unorganized sector and operate mostly during the peak season. According to the Indian Fan Manufacturers Association (IFMA) one of the biggest problems faced by the industry is counterfeit products produced by small scale manufacturers. Some of these manufacturers are also exporting counterfeit products for which IFMA and the Indian Customs authority maintain surveillance at the ports.

Pakistan and India Fan Exports

Pakistan's exports of fans to the world, in 2011, were US\$ 35.5 million (as shown in Table 2 below). Pakistan's share in world exports of fans was just 1.1% and it ranked 13th. Pakistan's fan exports have also grown in the last five years. The largest exporters of fans in the world include: China with a share of 67.1% share. India's export of fans, in 2011, was US\$ 36.6 million and it ranked 12th in the world with its exports achieving a 7% growth in the last five years.

Table 2:

Pakistan Exports of Fans to World (US\$ 000)						
Code	Product label	2007	2008	2009	2010	2011
'841451	Fans: table, roof etc w a self-cont elec mtr of an output nt excdg 125W	23387	27516	32041	33666	35563
'841490	Parts of vacuum pumps, compressors, fans, blowers, hoods	1860	3559	3082	3672	7802
'841430	Compressors of a kind used in refrigerating equipment	710	1094	2551	93	1008
'841440	Air compressors mounted on a wheeled chassis for towing	22	134	472	376	717
'841480	Air or gas compressors, hoods	275	1159	428	1379	316
'841410	Vacuum pumps	61	111	170	524	284
'841459	Fans nes	148	137	88	238	122
'841420	Hand or foot-operated air pumps	0	147	12	38	9

² According to Indian Fan Manufacturers' Association

'841460	Hoods having a maximum horizontal side not exceeding 120 cm	4	0	0	0	0
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Source: Trade Map

Pakistan's fans were exported mainly to Asian and African developing countries. Bangladesh was the largest market for Pakistani fans accounting for 21.4% of all exports. Other export partners were: Sudan (13.8%), Afghanistan (13.1%), UAE (11.4%), Yemen (10.8%) and Saudi Arabia (8.1%). India is exporting fans to the UAE (34% of all fan exports), Sri Lanka (15.4%), Ghana (13.3%) and Nepal (5.3%).

The average export price of Pakistani fans, in 2011, was US\$ 21.98, whereas Chinese and Indian fans had average unit prices of US\$12.03 and US\$ 15.98 respectively. The Indian fan industry believes that it is difficult to compete with China because the Chinese government provides a subsidy of 10-17% on metals and the Indian government provides a subsidy on metals of 3-5%³.

India's average export price for fans is US\$ 15.98. Pakistan's tariff for fans is 30%. Since Pakistan has placed fans in its sensitive list for SAFTA, after trade liberalization it would face tariffs of 30% this would mean that after tariffs the price of Indian fans would be US\$ 20.7 which is still below the average Pakistani price of US\$ 21.98. Indian exports will have to pay regulatory duty (15%), sales tax (16%) and special federal excise duty of 1%.

Pakistan's import of fans was negligible with imports of around US\$ 5 million mainly from China. India also imported fans worth US\$77.4 million in 2011. These fans were imported mainly from China i.e. 78.8% of all of India's fan imports were from China.

Liberalization status under SAFTA

India has included HS 84145190⁴ in its 614 item SAFTA sensitive list for Non-LDCs. Pakistan has included fans in its negative list for trade with India (See Table 3) and it has included fans in its sensitive list for SAFTA.

HS Codes for Fans Included in Pakistan's Negative List for Trade with India	
HS Code	Description
84145110	--- Ceiling fan
84145120	--- Pedestal fan
84145130	--- Table fan
84145140	--- Exhaust fan
84145190	--- Other

³ Global Downturn Affects Indian Fan Industry, IBNS, 2011.

⁴ Fans: table, roof etc w a self-cont elec mtr of an output nt excdg 125W

Tariffs and Para Tariffs

Indian tariffs and para tariffs on fans are as follows:

HS Code	Description	Tariffs	Adl.CVD	Special CVD	Custom Cess
84145110	Table fans	10%	12%	4%	3%
84145120	Ceiling fans	10%	12%	4%	3%
84145130	Pedestal fans	10%	12%	4%	3%
84145140	Railway carriage fans	7.5%	12%	4%	3%
84145190	Other	7.5%	12%	4%	3%

Source: CBEC and EXIM Guru

Conclusion

- Pakistan's fan sector consists of 5-6 large scale firms with the rest of the sector comprising of small-scale units. Due to the small size of firms the industry does not benefit from economies of scale and hence is not competitive in the international market as compared to China.
- Pakistan exports fans to mainly low income countries where their product standards are lacking or non-existent.
- Pakistan ranks 13th in terms of world export of fans and India ranks number 12.
- Pakistan's average export price for fans is US\$ 21.98. The average export price for China and India is US\$ 12.03 and US\$ 15.98 respectively.
- Pakistan has included fans in the negative list for trade with India and these products are placed in Pakistan's sensitive list for SAFTA. This means that there even if the negative list is abolished Indian fans would face a tariff of 30% in the Pakistani market.
- India places fans on its sensitive list for SAFTA and so Pakistani fans would face custom duties ranging from 7.5-10%. In addition India also applies para tariffs in the form of Additional CVD, Special CVD and Custom Cess of 12%, 4% and 3% respectively.
- The Indian fan industry receives subsidies on raw materials this fact coupled with the benefits of economies of scale means this would make them more competitive than their Pakistani counterparts.
- Currently there are no quality or safety standards for the sale of fans in the Pakistani market. If trade with India is liberalized then Indian manufacturers would not have to comply with any standards (hence no compliance costs) which would give them an additional cost advantage. Pakistani fans on the other hand would have to comply with Bureau of Indian Standards (BIS) standards in order to sell in the Indian market.