

CASE STUDY ON CUTLERY

Draft Report

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	<u>TABLE OF CONTENTS</u>	1
1.	INTRODUCTION	2
1.1	<i>Meaning of Cutlery</i>	2
1.2	<i>Discovery of Stainless Steel</i>	3
1.3	<i>Evolution of the Cutlery Industry</i>	3
1.4	<i>Development of Cutlery Industry in Pakistan</i>	4
2.	TRADE LIBERALIZATION	6
2.1	<i>Cluster Development</i>	7
2.2	<i>Lending Scheme for Cutlery Manufacturers, Wazirabad</i>	8
2.3	<i>Marketing</i>	9
2.4	<i>Addition of AISI-200 Series of Stainless Steel to Importable List</i>	9
2.5	<i>Allowing Import of Used Lab, surveying Equipment</i>	9
2.6	<i>Finance</i>	9
2.7	<i>Decentralization</i>	10
3.	STATISTICAL RESEARCH	10
3.1	<i>Exports</i>	10
3.2	<i>Imports</i>	13
3.3	<i>Global Trade of Cutlery</i>	15
3.4	<i>Pakistan</i>	15
3.5	<i>UNIDO Report</i>	16
3.6	<i>Perception surveys</i>	18
4.	CRITICAL PERSPECTIVE	25
4.1	<i>Problems in the Cutlery Sector</i>	26
4.2	<i>Characteristics of Cutlery Industry</i>	28
4.3	<i>Barriers to growth</i>	28
5.	SUGGESTIONS FOR REFORM	29
6.	CONCLUSION	32
	Annexure I	35
	Annexure II	36

1. INTRODUCTION

1.1 Meaning of Cutlery

Cutlery¹, in general usage, is the term applied collectively to all types of cutting instruments. Cutlery refers to cutting implements, which can be used for industrial, commercial and domestic purposes. Specifically, it refers to utensils employed in the household like flatware utensils, including knives, spoons forks and other specialized implements, for eating and serving food. The swords, scissors, manicure and pedicure sets & instruments and non-electric razors are also classified as cutlery. It is broadly divided into two categories i.e. kitchen and table cutlery and non-kitchen and non-table cutlery.

According to International Trade Center's classification, following items fall under the umbrella of cutlery.

- Sets of different knives/art (821110)
- Table knives with fixed blades (821191)
- Other knives and swords etc (821192)
- Pocket & Pen Knives with folding blades (821193)
- Blades for knives (821194)
- Handles for knives of base metal (821195)
- Razors including safety razors & open blades (821210)
- Safety razor blades, blanks in strips (821220)
- Parts of non electric razors (821290)
- Scissors, tailors (821300)
- Paper knives, letter openers, erasing knives, pencil sharpeners etc (821410)
- Manicure and pedicure sets and instruments (nail files) (821420)
- Kitchen chopper, cleavers & mincing knives & other articles (821490)
- Table ware sets plated with precious metal (821510)
- Tableware sets without plating (821520)
- Plated tableware articles not in sets (821591)
- Tableware articles without plating (821599)

Cutlery is a branch of engineering industry which involved in the business of manufacturing of different kinds cutting instruments. The progress of manufacturing industry has, however, detached from it the fabrication of several kinds of edge-tools, saws and similar implements, the manufacture of which is now regarded as forming distinct branches of trade.

¹ Cutlery means knives, forks and spoons of any metal, and steels. It also includes the razors & blades and the swords often used for decorative purposes.

On the other hand modern cutlery includes a great number of articles which are not strictly cutting instruments, but which, owing to their more or less intimate relation to table or pocket cutlery, are classed with such articles for convenience sake. A steel table or carving fork, for example, is an important article of cutlery, although it is not a cutting tool. Some of the cutlery items are prepared to serve the decoration purpose such as swords of different kind.

1.2 Discovery of Stainless Steel

The original cutting instruments used by the human race consisted of fragments of flint, obsidian, or similar stones, rudely flaked or chipped to a cutting edge; and of these tools numerous remains yet exist. Stone knives and other tools must have been employed for a long period by the prehistoric races of mankind, as their later productions show great perfection of form and finish. In the Bronze period, which succeeded the Stone Age, the cutlery of our ancestors was fabricated of that alloy. The use of iron was introduced at a later but still remote period; and it now, in the form of steel, is the staple article from which cutlery is manufactured.

Henry Brearley was the inventor of stainless steel. Brearley was looking for steel with better resistance to erosion, not corrosion.² The first true stainless steel was melted on August 13, 1913. It contained 0.24% carbon and 12.8% chromium. At the time, cutting knives were made of carbon steel which had to be thoroughly washed and dried after use, and even then rust stains would have to be rubbed off using Carborundum stones. Today stainless steel is a generic term for a family of corrosion resistant alloy steels containing 10.5% or more of chromium.³

Stainless steel's one unique advantage over carbon steel is its high resistance to corrosion. This resistance to corrosion is due to the naturally occurring chromium-rich oxide film formed on the surface of the steel. Over a period of years a stainless steel knife can literally be worn away by daily use and by being re-sharpened and will still remain stainless. Silver plated cutlery will eventually wear through to the base alloy, but stainless steel cutlery cannot wear through.

1.3 Evolution of the Cutlery Industry

² He decided to experiment with steels containing chromium, as these were known to have a higher melting point than ordinary steels. Chromium steels were already being used for valves in early aircraft engines. Iron has an atomic weight of 56, chromium 52, so chromium steel valves are lighter than their carbon steel counterparts, a key reason why they were adopted so quickly by the emerging aircraft industry. Using the crucible process first, and then more successfully an electric furnace, a number of different melts of 6% to 15% chromium with varying carbon contents were made.

³ In just over ten years, the Brearley discovery had led to the "400" series of martensitic stainless steel (commonly used for knife blades, surgical instruments, shafts, spindles and pins) and the "300" series of austenitic stainless steel. Austenitic stainless steel accounts for more than 70% of stainless steel production today.

The cutlery industry was not able to simply take stainless steel as it was invented and use it with total success initially. The first stainless steel did not produce blades that held an edge nor could edges be put onto blades easily. It took almost 30 years of expensive research by large cutlery manufacturers to develop the right combination of alloys to produce the grade of stainless steel that is still used today.

Today, with more than 75 years of cutlery steel technology behind it, the cutlery steel industry is highly sophisticated and constantly experimenting with new and improved methods. Today's cutlery steel manufacturers have fully integrated operations, computerized processes and control procedures that enable them to produce the highest quality medical and cutlery grade steels, at a lower cost than ever before. For example, recent developments have resulted in the volume of steel ground away in the grinding operation being reduced, resulting in a more economically finished blade.

Since World War II the cutlery industry has undergone major structural changes and attracted new global competitors. Famous brand names disappeared if management did not embrace the new technology and processes necessary to stay competitive.⁴

At the same time, manufacturers from Japan, Portugal, Italy, Thailand and Switzerland have added a new degree of competitiveness to the quality cutlery market. Today, quality knives can be made almost 100% by machine or they can still be made using the skills of a master cutter.

With two breakthroughs (stainless steel and mass production) cutlery was within the means of even the poorer classes. In Pakistan the cutlery industry has not experienced technological evolution and thus has not benefited from the economies of scale. The industry comprises of small and medium scale industries and this aspect will be discussed in detail later.

To summarize, cutlery design⁵ has not evolved in a vacuum, but rather under the heavy influence fashion, society and technology. The functional aspects of cutlery's shape have changed dramatically in response to changes in its manner of use. Perhaps the most notable shift in cutlery design was as a result of the societal shift towards meals as a social occasion.

1.4 Development of Cutlery Industry in Pakistan

The cutlery sector is an important one.⁶ The industry structure reflects that it is purely SME in nature, and is lacking in modern technology. The major portion of this industry is situated in the locality of Wazirabad, Nazimabad and Allahbad in Gujranwala district.

4 Other Solingen manufacturers rationalized their cutlery operations by subcontracting their production to smaller, more efficient firms, much like those that existed prior to the turn of the 20th Century.

5 The factors which have influenced cutlery's evolution can be examined in three realms: Fashion and Society; Eating Habits; and Technology.

6 It is a multi billion dollar industry globally. It is one of the important commodities of engineering sector in Pakistan.

There are approximately 300 units present in this region - about half of them are registered Small and Medium Enterprises (SMEs) with Pakistan Cutlery & Stainless Steel Utensils Manufacturers & Exporters Association (PCSSUMEA). 25,000 people are associated directly or indirectly to this sector producing 5000 pieces per day manually.

Cutlery Cluster of Wazirabad is recognized all over the world for its products. This is situated in the North of Lahore at the Triangle of cities of Gujranwala, Sialkot and Gujrat. There is high concentration of small-scale metal/light engineering industrial units. These are mainly concentrated at its suburb areas.

It is confirmed through history that Hakim Ilm ud Din or Wazir Khan, the Governor of Lahore under Mughal emperor Shah Jehan, established Wazirabad in 1640 and named it after him. He has also setup a family of armourers or cutlers in new township, for just under 200 years later we hear of a great prowess: a set of cuirasses sent as a gift from King Louis Philippe of France to Maharaja Ranjit Singh was replicated by armourers and leather workers of Wazirabad with perfection as to earn the admiration by Maharaja.

Not long afterwards, the Gazetteer of the Gujranwala Distt (1884) has appraised that travelers staying at hotels and rest houses in Wazirabad were offered many bladed pocket knives bristling with hooks, screw drivers and other contrivances thus revealing the origin of trade.

The cutlery Industry faced serious crisis after partition because the main business centers were Bombay, Calcutta and Delhi. As the largest home market was lost, the financiers immigrated to India. But the hard working labor force and craftsmen recaptured their fame within a very short span of time.⁷

In the year 1952, the government of Pakistan realizing the strong and proud inheritance paid attention to revive the industry. In spite of the substantial progress of the industry after independence, it has not played a role to its potential and has been unable to contribute in a substantial manner towards the economic development of the country.

The average capacity utilization in its sector amounts to only 30 to 40%. The export of cutlery from Pakistan started in 1952. During that period, the exporters exported pocketknives, kitchen knives and scissors. After 1958, tableware cutlery in stainless steel became the major items of productions of Wazirabad and controlled the whole domestic market. But the export of that item to Middle East and some African countries was very limited in quantity. With the passage of time the knife and sword industry progressed and now it has become 100% export oriented industry.

The cutlery industry in Pakistan is one of the sectors which have failed to benefit from trade liberalization. The cutlery industry falls under the Small and Medium-sized

⁷ Mr. Ibrahim, considered a specialist in swords, daggers and hunting knives said that after partition the cutlery industry faced a huge crises, as the main market centers were all situated in Bombay, Calcutta and Delhi. "But the people of the area worked very hard to recapture their lost fame," he said.

Enterprise Category. Though cutlery exports increased by 11.4 between 2001 and 2003, the rate of growth of exports has decreased progressively since 28.6% in 1999-2000⁸.

One of the major reasons why the cutlery industry has not grown is due to lack of technological progress. Furthermore the business operations in the industry are small and medium scale thus they have not benefited from mass production. The province of Punjab houses about 65% of the total number of small industrial units (about 280,000) in the country, which includes, amongst others, cutlery.

Within the SME sector, the bulk of enterprises are small entities that have less than 35 employees and have productive assets in the range of Rs 2-20 million. Punjab being a thickly populated province has the greatest concentration of small enterprises, most of which are operating in the informal sector. Some SMEs in Punjab employ women workers and few of them are also being managed by women. The Government of Punjab is striving to improve the business climate for firms by rationalisation of and reduction in taxes, rationalisation of labour laws to promote employment, and revamping industrial regulations including inspections relating to boilers, buildings, electricity, etc.

2. TRADE LIBERALIZATION

Pakistan in the last few years has undergone substantial trade liberalization. The cutlery industry has not been affected in a direct manner as custom duties on exports have remained the same substantially.

No import or export license is required to import or export cutlery products or stainless steel from or into Pakistan. Export of metals by foreign enterprises will be governed by a special mechanism identified by Ministry of Petroleum Natural Resources for checking the price etc.

So far as, Federal Excise Duty is concerned, it is not applicable on import or export of Cutlery products or stainless steel. However, Customs duty, sales tax and income tax are applicable according to Chapter 82 of the Customs and Tariff and Trade controls which provides for Duties and Tax structure on import of cutlery products.⁹ Custom duties on import of cutlery items ranged from 35% to 65% in 1995-1996. These were reduced considerably to a range of 5% to 25% by 2003-2004 with most items in the 25% category. Custom duties on imports of many items such as paper knives, letter openers,

⁸ Ali, N; Feature: Cutlery business rusting on rising costs; Daily Times Newspaper Wednesday, 3rd September, 2003

⁹ Through some SROs Government has offered duty concession. One can avail this concession by fulfilling conditions mentioned in the particular SRO. In case of goods imported into Pakistan from Kenya, a fee at the rate of fifty dollars (US) per document or 0.5% of the invoice value of goods, whichever is higher, shall be charged by the Pakistan High Commission, Nairobi, Kenya, for attestation of the Certificate of the Origin and invoice related to such goods. Cutlery products are not allowed to import from India and Israel. Product falling under H.S. Code 8209.000 is allowed to import from India. However, in case of stainless steel some H.S. Codes are allowed to import from India.

erasing knives, kitchen chopper, cleavers & mincing knives has now been reduced to 20% in 2005-2006.

Chapter 72 and 73 of the Customs and Tariff and Trade Controls provides duty structure on import of stainless steel and its products. Custom duties on import of stainless steel raw materials ranged from 15% to 65% in 1995-1996 with most items within the 45% to 65% range. These were reduced considerably to a range of 5% to 25% by 2005-2006 with most items within the 5% and 10% bracket.

In respect of import of cutlery and stainless steel, sales tax and income tax are charged at the rate of 15% and 6% respectively. These figures have not changed in the last ten years.

Export of cutlery products and stainless steel is free from customs duty. Whoever, zero rated sales tax and income tax at the rate of 0.75% of the proceeds of the export of cutlery products shall be applicable. While income tax at the rate of 1.25% of the proceeds of export of stainless steel shall be levied.

Some of the other important trade liberalization measures are discussed here.

2.1 Cluster Development¹⁰

Since its introduction in 1993, the UNIDO Cluster Programme has improved the competitiveness of small and medium-sized industries (SMEs)¹¹ in India, Indonesia, Malaysia, Mexico, Nicaragua, Honduras, Jamaica, Bolivia, Madagascar, Morocco and Tunisia. In June 2001, the Programme got underway in Pakistan, with a mission to identify a critical mass of SMEs sharing similar growth constraints, create awareness of the advantages of clustering and to identify counterparts and partners. As indicated earlier most of the cutlery businesses in Pakistan are SMEs.

SMEs are characterised as the building blocks of the economy. They account for about 30% of Pakistan's GDP, 80% of employment, with a 15% share of investment.¹² The economic and social contribution of SMEs can be greatly increased through a Cluster Development Programme, which increases productivity, competitiveness and international market penetration. This in turn has an impact on poverty eradication.

By November 2001, five clusters were identified that met the criteria of the Programme, one of which is the willingness of partners and counterparts to share the costs. The

¹⁰ <https://www.unido.org/periodical.cfm?did=491749&pername=UNIDOSCOPE>

¹¹ This definition is used by the Small and Medium Enterprise Development Authority (SMEDA). Other institutions use similar but varying definitions for small enterprises. The Punjab Small Industries Corporation (PSIC) considers the entities with a total fixed investment of up to Rs 20 million, excluding land and building, as small enterprises. A clear definition for better targeting is one of the issues regarding this sector.

¹² Information obtained from SMEDA, Gujranwala, Pakistan.

clusters chosen for the programme included the cutlery industries at Wazirabad (300 units, employing 10,000).

Stakeholders were the respective industry associations, the Pakistan Ministry of Science and Technology, the Pakistan Export Promotion Bureau and the Pakistan Ministry of Commerce. The next step was for prospective "Cluster Development Agents" (CDAs) from each of the clusters to commence training in the UNIDO methodology for the preparation of a diagnostic survey and action plan for their respective industries at the Entrepreneurship Development Institute at Ahmedabad, India.

Small and Medium Enterprise Development Authority (SMEDA) with collaboration with Punjab Small Industries Corporation (PSIC) and United Nations Industrial Development Organization (UNIDO) and has started "Cluster Development Program¹³ for SMEs" in Punjab. The objective of this program is to help in developing different SME clusters of Punjab.¹⁴

Different interventions would be made like strengthening of Associations, creation of SMEs networks, cluster website, joint training program etc. All these interventions would lead to more productivity and in some clusters would result in more exports.

In the year 2005-2006, diagnostic study would be completed and action plan would be prepared. Soft interventions in clusters i.e. strengthening of association, creating networks, cooperation among SMEs and such type of activities would be the focus of this project. Physical projects like design, testing and training facilities for the clusters would also be prepared.¹⁵

For a number of export products, in which Pakistan has or can create a competitive edge, the scheme of industrial clusters has been eminently successful in cities where the production of these goods is traditionally concentrated. In collaboration with UNIDO, such a cluster is already in operation in Wazirabad for cutlery.¹⁶

2.2 Lending Scheme for Cutlery Manufacturers, Wazirabad¹⁷

Majority of the cutlery manufacturers purchases steel on credit of 60 days bearing 5% higher cost which on annually add up to 30% on nominal basis. Due to the unawareness of these manufacturers regarding different credit options available in the form of

13 Clusters are backbone of any economy and in Pakistan, importance of clusters is much more because of its contribution in employment generation and exports. Looking at clusters potential, experience of SMEDA in cluster development programs in Pakistan and very rich and international exposure and experience of UNIDO in cluster development programs, SMEDA proposed a "Cluster Development Program" jointly with UNIDO in Pakistan.

14 Progress Report --- Provincial Office (SMEDA --- PUNJAB) SME Cluster Development Projects

15 Information obtained from SMEDA: Regional Office, Gujranwala, Punjab

16 Speech by Hamayan Akhtar Khan (Federal Minister for Commerce) Trade Policy 2003-2004; 19th July 2003; Ministry of Commerce, Government of Pakistan

17 Progress Report – Provincial Office (SMEDA – Punjab) SME Cluster Development Projects; www.smeda.org.pk

formal/bank credit, they avail supplier credit (30%) instead of bank credit (10-12%). By replacing the supplier credit with bank credit the manufacturers can significantly reduce their cost of operations. The proposed customized lending program for SMEs working in Cutlery Sector Wazirabad will help to meet their working capital requirement.

SMEDA along with All Pakistan Cutlery and Stainless Steel Utensils Manufacturers and Exporters Association (PCSUMEA) and Bank of Punjab (BoP) prepared a customized lending scheme proposal. The scheme was successfully launched. More than 40 applications were submitted to Bank of Punjab. Bank of Punjab approved 20 applications and Rs. 5 million disbursed. Further more 15 cases are under process.

2.3 Marketing

Marketing has always been a major problem for SMEs, its intensity varying from industry to industry and from enterprise to enterprise. SMEs in Pakistan have always faced some kind of marketing constraints due to lack of support services or their lack of adequate budgeting for it. Furthermore, the scarce awareness, absence of information and time to take advantage of existing services results in weak demand for their products.

Keeping in view the marketing need of Clusters, SMEDA Punjab has initiated to develop and launch cluster specific websites. These websites will be developed with the collaboration of trade associations. SMEDA will help develop the websites and association will be responsible for maintaining and running the websites. Initially websites will be developed for Cutlery Cluster Wazirabad.

2.4 Addition of AISI-200 Series of Stainless Steel to Importable List

Presently import of waste, seconds, and cuttings of stainless steel sheets and plates of AISI-300 and AISI-400 series are importable. The manufacturers have approached this Ministry to allow import of AISI-200 series stainless steel sheets and plates recently developed by USA for use in various components of foods, utensils, surgical, swords, knives and other items in the cutlery industry. It has been decided to add AISI-200 series in the list of importable items also.

2.5 Allowing Import of Used Lab, surveying Equipment

Currently used instruments and equipment for laboratory, surveying and other purposes are banned for import. New apparatus/equipments are expensive and are also not manufactured locally. After consulting Ministry of Industries & Production and Engineering Development Board, import of these equipments will be allowed used for laboratory, surveying and other purposes.

2.6 Finance

The banking community has agreed to extend financing facilities to the table cutlery sector on easy terms and conditions. According to a recent press release by the Small and

Medium Enterprise Development Authority (SMEDA), the consensus in this regard was developed at a joint meeting of the bankers and Pakistan Cutlery Association with Shahab Khawaja, chief executive officer SMEDA in the chair.

Six banks including HBL, Bank Al-Falah, MCB, Allied Bank, Soneri Bank and Meezan Bank have promised to honour SMEDA's scheme to finance cutlery sector.

2.7 Decentralization

Pakistan has, in the last few years, devolved and decentralized local government structures. As the very representatives of grass root level newly established local governments are interested in culture development but are, to some extent, unable to get proper steps for its development. The main causes of these limitations are lack of theoretical basis and skills regarding cultural development, lack of sound human resources that can play a vital role in community mobilization, indigenous resources utilization and partnership building between local governments and communities.

New governance system of local governments is open and supportive in the utilization of indigenous resources and culture-based goods promotion that can give birth to the cultural districts concept in Pakistan.

3. STATISTICAL RESEARCH

3.1 Exports

Pakistan is among top twenty-five exporting countries of cutlery. The major exporting markets of Pakistan are United States and European Union. The exports of cutlery have witnessed an average 11% growth in year 2002 from the base year 1998. Table 1 shows the exports of Pakistani cutlery industry whereas figure 1 is the graphical representation of the same.

Years	1,998	1,999	2,000	2,001	2,002
Exports	18,270	20,678	26,819	24,947	26,464

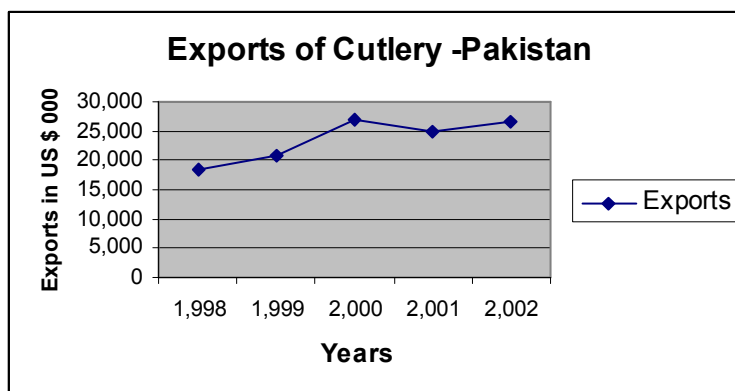


Figure 1

Pakistan is mainly exporting knives and swords etc, USA being the largest export market for the Pakistani exports.¹⁸

Table 2 Exports of Cutlery	Value in US \$ m				
Pakistan					
Product Description	1998	1999	2000	2001	2002
Knives, swords etc	15.843	17.845	20.574	17.223	16.270
Razors including safety razors & open blades	1.103	0.556	1.171	1.425	1.672
Safety razor blades, blanks in strips	0.139	0.118	0.360	0.258	0.758
Parts of non electric razors	0.000	0.000	0.000	0.000	0.051
Scissors, tailors	0.360	0.908	1.139	1.031	0.831
Paper knives, letter openers, erasing knives, pencil sharpeners etc	0.000	0.000	0.000	0.000	0.000
Manicure and pedicure sets and instruments (nail files)	0.000	0.009	1.519	3.508	5.054
Kitchen chopper, cleavers & mincing knives & other articles	0.686	0.870	1.598	0.951	0.736
Table ware sets plated with precious metal	0.000	0.000	0.000	0.000	0.054
Tableware sets without plating	0.001	0.003	0.000	0.001	0.058
Plated tableware articles not in sets	0.000	0.000	0.000	0.000	0.000
Tableware articles not in sets (without plating)	0.137	0.363	0.447	0.549	0.980

¹⁸ Statistics Obtained from Engineering Development Board, Ministry of Industries, Islamabad, Pakistan

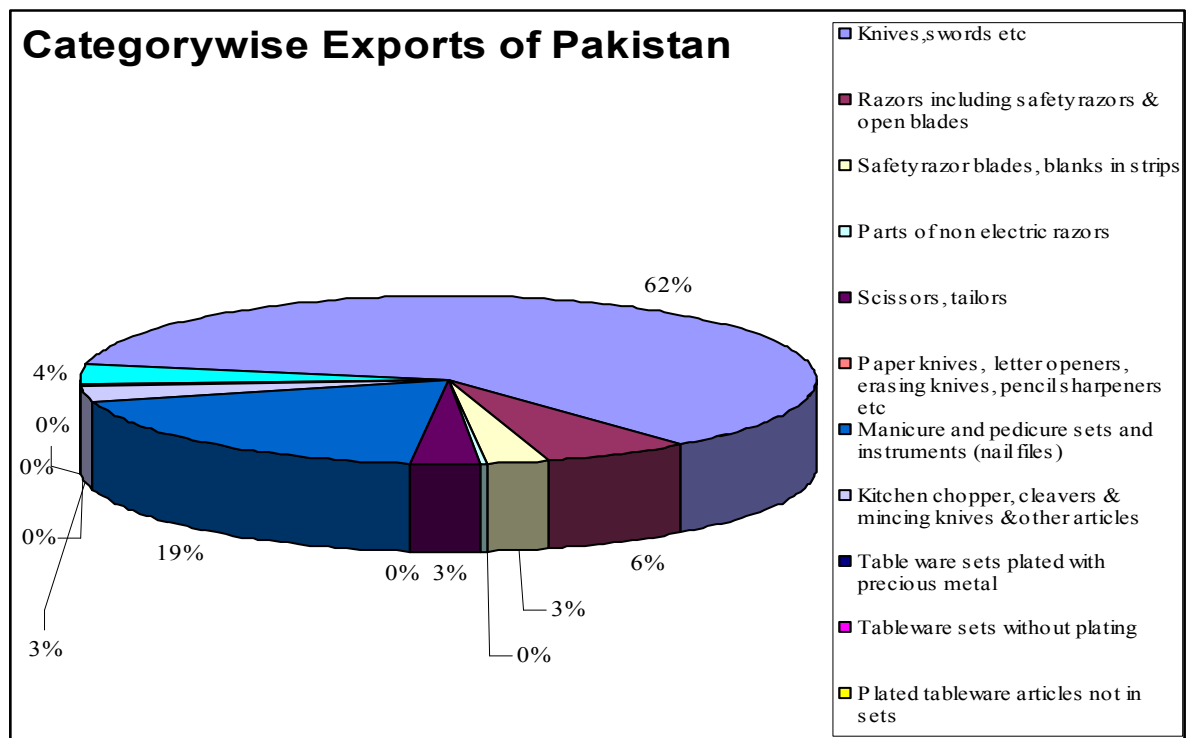


Figure 2

In a statement showing trends of selected commodities during July 2005 to April 2006 by the Export Promotion Bureau (EPB), it was stated that Cutlery (Category C-5) that the Cutlery sector experienced exports worth \$ 28,423,000 in the period July 2005 to April 2006 which was up by \$ 2,425,000 from \$ 25,998,000 in the period July 2004 to April 2005. This reflected a growth of 9.33% in exports.¹⁹

July 2000- June 2001	July 2001- June 2002	July 2002- June 2003	July 2003- June 2004	July 2004- June 2005	July 2005- Dec.2005
26,425	24,504	29,570	29,669	34,264	17,745

A Product Increasing Trend report by the Export Promotion Bureau reflected that in the period July 2004-May 2005 the total manufacturing of Cutlery (Category C-3) was \$ 28,862,000 which was up by \$ 2,373,000 (8.96%) from the comparative period of July 2003 –May 2004 when the total manufacturing value was \$ 26,489,000. In the period July 2004-May 2005, the exports were \$ 6 million less than the targeted exports in this

¹⁹ Information obtained from Export Promotion Bureau, Karachi, Pakistan

sector by the EPB. Cutlery items only amounted to 0.22% of the total exports in the same period.

In a report published (Table 4) by the United Nations²⁰ the following figures were stated.

Table 4 Exports 2000-2004					
Product group: 696 - CUTLERY					
Reporter	Value 2000	Value 2001	Value 2002	Value 2003	Value 2004
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Pakistan	26,819	24,947	26,464	29,592	30,881

3.2 Imports

Pakistan is also importing the cutlery items. The value of imports has decreased as compared to the imports in 1998. Table 5 below shows the Pakistani imports of cutlery items where as the import trend is shown in figure 3.

Table 5 Imports in USD 000					
Years	1998	1999	2000	2001	2002
Imports	1,945	2,285	2,589	2,309	1,872

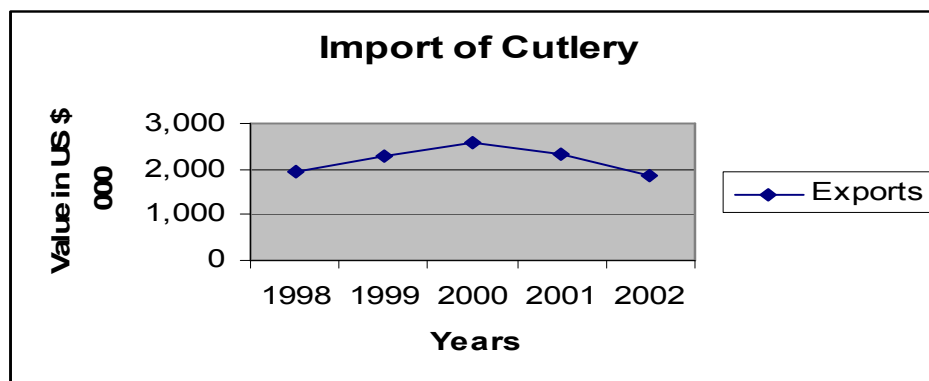


Figure 3

CATEGORY WISE IMPORTS

Table 6 Imports of Cutlery-Value in US \$ m	Pakistan
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²⁰ www.intracen.org ----- Product group = 3 digits group of the Standard International Trade Classification (SITC, Rev.3). Data in the table is taken from the COMTRADE database of the United Nations Statistics Division.

Product Description	1998	1999	2000	2001	2002
Knives, swords etc	0.000	0.000	0.000	0.000	0.000
Razors including safety razors & open blades	0.902	2.001	1.830	1.752	0.924
Safety razor blades, blanks in strips	0.335	0.059	0.536	0.271	0.715
Parts of non electric razors	0.537	0.093	0.000	0.003	0.000
Scissors, tailors	0.005	0.025	0.010	0.050	0.021
Paper knives, letter openers, erasing knives, pencil sharpeners etc	0.089	0.036	0.045	0.049	0.050
Manicure and pedicure sets and instruments (nail files)	0.000	0.000	0.000	0.000	0.000
Kitchen chopper, cleavers & mincing knives & other articles	0.019	0.006	0.002	0.040	0.006
Table ware sets plated with precious metal	0.000	0.000	0.000	0.000	0.000
Tableware sets without plating	0.000	0.000	0.000	0.000	0.000
Plated tableware articles not in sets	0.000	0.000	0.000	0.000	0.000
Tableware articles not in sets (without plating)	0.016	0.015	0.081	0.066	0.058

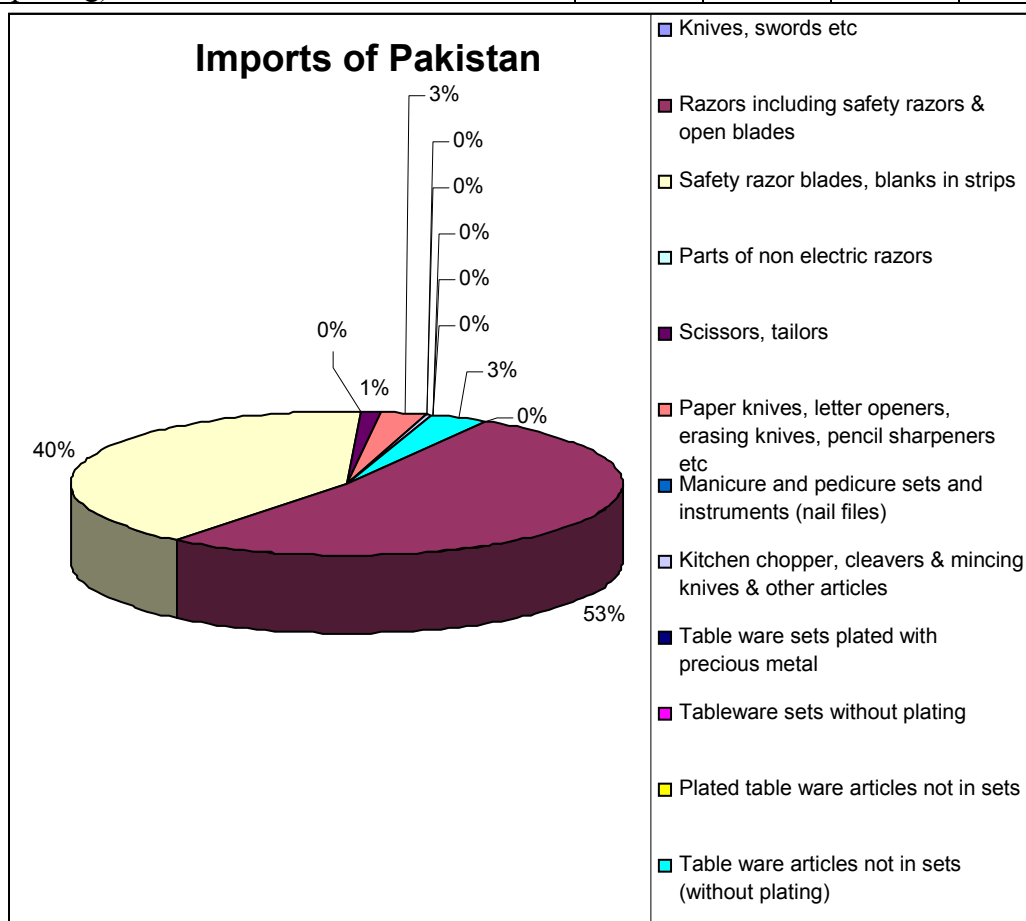


Figure 4

In a report published (Table 7) by the United Nations²¹ the following figures were stated.

Table 7 Imports 2000-2004					
Product group: 696 - CUTLERY					
Reporter	Value 2000	Value 2001	Value 2002	Value 2003	Value 2004
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Pakistan	2,589	2,309	1,872	3,001	2,979

3.3 *Global Trade of Cutlery*

In 1999 the international cutlery trade value was above US\$ 4.5 billion.²² Major exporters of cutlery include China, UK, Germany and USA exporting nearly 45% of the total international market of cutlery products. Major importers include USA, UK, Germany and France accounting for 45% of total cutlery imports.²³

China is the main exporter of cutlery as a whole and exported 16.59% of the cutlery trade in 1999. UK, which had 14.96% of the export share and Germany, capturing 13.98% of cutlery market in 1999 were other major exporters.

U.S.A. has been the largest importer of cutlery products for the last five years and accounted for 21.4 % of total imports with a value of US\$ 1.045 billion in 1999. UK was second with approximately 9.4 % of world imports of cutlery.

3.4 *Pakistan*

Looking at the break-up of Pakistan's cutlery exports, it has been found that the lion's share of total value exported is accounted by just one category which is 'knives' i.e. 70% of the total cutlery exports. This ratio has come down from above 80% and there is increase in export of other articles of cutlery (6965) i.e. from 4.3% to 16.5% which is in line with the world trend since this category is the largest category in the global exports with 44% share. The export of cutlery products from Pakistan is rusting as rising manufacturing costs and stiff competition from China have knifed into local manufacturers' global market share.²⁴

21 www.intracen.org ----- Product group = 3 digits group of the Standard International Trade Classification (SITC, Rev.3). Data in the table is taken from the COMTRADE database of the United Nations Statistics Division.

22 This can be divided into five major categories i.e. Cutlery-Razors & Razor Blades; Cutlery- Scissors, Tailors' Shears and Similar Shears; Other Articles of Cutlery; and Knives, Spoons, Forks etc, among which the first category had the lion's share in total cutlery exports.

23 World trade of cutlery is reported under different SITC codes. For the purpose of analysis, all these codes have been summed up to get the overall picture of the world's trade of cutlery.

24 http://www.pakconhk.com/pakistan_chamber_of_commerce.htm

According to data compiled by the Pakistan Cutlery and Stainless Utensils Manufacturers and Exporters Association (PCSUMEA), cutlery exports in 2002-03 were worth Rs 1.938 billion, compared to Rs 1.739 billion in 2001-02. And while this represents an increase of 11.4 percent, the rate of growth of exports has slowed progressively from 28.6 percent in 1999-2000.

3.5 UNIDO Report

In a report prepared by United Nations Industrial Development Organization (UNIDO) on the *Cluster Development Program for Small and Medium Enterprises: Cutlery Cluster, Wazirabad, Punjab, Pakistan in Collaboration with Export Promotion Bureau (EPB), Pakistan in November 2001* the following facts and figures were stated.

Name & Place of Cluster: Cutlery Industry, Wazirabad, Punjab, Pakistan.

Sector of Industry: Cutlery Sector

What is the size of Cluster: 250 Approximately

How many units in your cluster: 141

How many people are employed in your cluster: Approx. 8000

How many units of the cluster fulfills the criteria of SMEs:

- a) (Up to 9 Employees & Productive assets up to Rs. 2 million): 100
- b) (Up to 10-35 Employees & Productive assets up to Rs. 2-20 million): 90
- c) (Up to 36-99 Employees & Productive assets up to Rs. 20-40 million): 50
- d) (Beyond 100 Employees & Productive assets over Rs. 40 million): 10

Total Exports of the cluster: Approx. 21.5 million US Dollars (2001 figures)

Total percentage of exports to the local sales: 100%

Estimated revenue of the cluster: 50 million US Dollars

Market share (contribution to local economy) of your cluster in percentage: Less than 1% of total export of Pakistan

Raw material used in the cluster (list down according to the quantity)

- a) Stainless Steel
- b) Camel Bone
- c) Recycle brass road

d) Densified woods

Raw material being imported in the cluster:

- a) Stainless Steel (High Quality)
- b) Steel wire Magnetite self dressing wheels
- c) Plastic
- d) Densified woods

The report mentioned five positive points (strengths) of the cluster as:

- a) Cluster actors are well motivated.
- b) 100 % export oriented industry.
- c) Skilled labors are available because of cutlery training institute of Pakistan at Wazirabad.
- d) Comparatively well-organized sector.
- e) Platform of cutlery association is available for product development & for solving the mutual differences.

The report mentioned six negative points (weaknesses) of the cluster as:

- a) Poor infrastructures like roads and telecommunication
- b) High cost of utilities bills such as Electricity, Sui Gas (Natural Gas) etc.
- c) Undue interference of various Government Dept.
- d) Cut throat competition among business community of this sector.
- e) Lack of quality manufacture.
- f) Lack of design system & designers for the cutlery industry.

The workforce in the largest unit in the cluster was 250 Workers and the productive assets were 72000 per month. The workforce in the smallest unit in the cluster was 10 Workers and the productive assets were 6000 per month.

In the UNIDO Report 2001 with statistics updated until 1996 it was stated that the cutlery²⁵ sector in Pakistan has 13 major establishments with 481 employees and wages and salaries amounting to Rs. 44.8 million.²⁶

Although there no official statistics, neither formal nor informal, on the cutlery industry, it has been ascertained through field research that the figures and facts stated above in the UNIDO report have remained considerably stagnant. The size of the industry's output has not increased substantially and as it totally dependant upon exports, this index of manufacturing output is reflected in the exports statistics.

25 (UNIDO Code 2800133)

26 Information obtained from United Nations Information Centre (UNIC)

Employment statistics in general and equal opportunities in specific have remained unaltered. The number of personnel employed in the industry has remained the same essentially and their salary and wages have not increased by any significant amount. The SMEs nature of the industry has prevented expansion and no benefits for poverty alleviation are visible.

The industry remains susceptible to competition in the domestic market to imports from China. Furthermore the quality of the goods produced has not improved dramatically and this issue needs redress. Access to high quality stainless steel which has to be imported remains significantly difficult.

3.6 *Perception Surveys*

In order to analyze the post liberalization scenario, the perception survey of the stakeholders was conducted. The major objective of this survey was to fully understand the economic impacts of reforms on the related enterprises, workers and individuals. (See annex I for the list of stakeholders.) Performance of cutlery sector, effects on the labour market and benefits, if any, for consumer were the major aspects covered in the survey.

The questionnaire used for the survey (annex II) has four parts, part 1 and 2 are concerned with the impact of trade liberalization on the sector's performance. Part 3 relates to the labour market where as part 4 concerns with the effects on consumers. 10 enterprises were contacted for part 1 and 2 of the questionnaire, of which 7 opted to respond. Similarly for part 3, 14 employees of various cutlery manufacturers were asked to fill the questionnaire.

For assessment of the impact on the consumers of all income groups, a sample of 100 individuals was chosen on the basis of poverty profile of the population provided by Center for Research on Poverty Reduction and Income Distribution²⁷. These estimates are based on the poverty line of Rs. 878.64 per adult equivalent per month. The following table shows the composition of sample on the basis of poverty profile of the population:

Table 8: Composition of Consumers Sample on the Basis of Income:

Income Groups	Number
Very Poor	8
Poor	16
Lower Middle class	21
Upper Middle class	35
Wealthy	20
<i>Total</i>	<i>100</i>

Source: CRPRID/ Planning Commission

²⁷ Economic Survey of Pakistan 2005-06

It is clear from the above survey that manufacturers feel that they have not benefited from the trade liberalization process. Some of the manufacturers feel that the non tariff barriers have actually increased. Furthermore they feel that there has been no reduction in the custom duties on the raw materials and machinery used by them.

Manufacturers are unanimous in their view that the sector has not benefited from trade liberalization. They feel that production has decreased and that the return on their investment has also decreased. 100% of the manufacturers, who were surveyed, feel that exports have not increased significantly, there have been no technological advancements and the sector has not experienced growth.

1. EFFECTS OF TRADE LIBERLIZATION SINCE 2001					
a.	Has there been a change in Custom Duties on Exports of cutlery?	Substantially increased <input type="checkbox"/>	Substantially decreased <input type="checkbox"/> 43%	Constant <input type="checkbox"/>	No response <input type="checkbox"/> 57%
b.	Has the change been beneficial to the manufacturers?	Yes <input type="checkbox"/>	No <input type="checkbox"/> 43%		No response <input type="checkbox"/> 57%
c.	Has there been a reduction in non tariff barriers (quotas, import/export licenses, inspection requirements)?	Significant reduction <input type="checkbox"/>	Increase in barriers <input type="checkbox"/> 43%	No change <input type="checkbox"/>	No response <input type="checkbox"/> 57%
d.	Has there been a change in barriers to investment?	Substantially increased <input type="checkbox"/>	Substantially decreased <input type="checkbox"/>	Constant <input type="checkbox"/> 43%	No response <input type="checkbox"/> 57%
e.	Has there been a change in custom duties on imports of raw materials (including stainless steel) for the cutlery industry?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/> 43%	No response <input type="checkbox"/> 57%
f.	Has there been a change in custom duties on imports of	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/> 43%	No response <input type="checkbox"/> 57%

	machinery for the cutlery industry?				
2.	SECTOR PERFORMANCE SINCE 2001				
a.	Has the sector performed better due to trade liberalization?	Yes <input type="checkbox"/>	No <input type="checkbox"/> 100%		No response <input type="checkbox"/>
b.	Has the return on investment improved?	Improved Significantly <input type="checkbox"/>	Deteriorated <input type="checkbox"/> 100%	Constant <input type="checkbox"/>	No response <input type="checkbox"/>
c.	Has there been a change in production?	Increased substantially <input type="checkbox"/>	Decreased substantially <input type="checkbox"/> 100%	Same as before <input type="checkbox"/>	No response <input type="checkbox"/>
d.	Has competition increased?	Increased <input type="checkbox"/> 100%	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>	No response <input type="checkbox"/>
e.	Has the quality of goods improved?	Improved <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Same as before <input type="checkbox"/> 100%	No response <input type="checkbox"/>
f.	Have exports increased in value?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/> 57%	Constant <input type="checkbox"/> 43%	No response <input type="checkbox"/>
g.	Have exports increased in quantity?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/> 43%	Constant <input type="checkbox"/> 57%	No response <input type="checkbox"/>
h.	Has the investment in the sector increased?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/> 57%	Constant <input type="checkbox"/> 43%	No response <input type="checkbox"/>
i.	Is the sector performing to its capacity?	Yes <input type="checkbox"/>	No <input type="checkbox"/> 100%		No response <input type="checkbox"/>
j.	Have the working environment improved?	Improved <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Same as before <input type="checkbox"/> 100%	No response <input type="checkbox"/>
k.	Has the sector experienced growth?	Yes <input type="checkbox"/>	No <input type="checkbox"/> 100%		No response <input type="checkbox"/>
l.	Have there been technological advancements?	Yes <input type="checkbox"/>	No <input type="checkbox"/> 100%		No response <input type="checkbox"/>
m.	Has there been a change in	Increased substantially <input type="checkbox"/>	Decreased substantially <input type="checkbox"/>	Same as before <input type="checkbox"/>	No response <input type="checkbox"/>

	productivity per unit of labour?			100%	
n.	Has the access to credit facilities improved?	Increased substantially <input type="checkbox"/>	Decreased substantially <input type="checkbox"/>	Same as before <input type="checkbox"/> 100%	No response <input type="checkbox"/>

Chart 1 Perception Survey: Cutlery Manufacturers²⁸

Most of the Consumers (88%) felt that the prices of cutlery items have decreased and that quality has increased. Some consumers (37%) expressed that they have switched to imported cutlery items.

EFFECT ON CONSUMERS					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 30%	Increased substantially <input type="checkbox"/> 68%	Constant <input type="checkbox"/> 1%	No response <input type="checkbox"/> 1%
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/> 46%	Deteriorated <input type="checkbox"/> 33%	Constant <input type="checkbox"/> 20%	No response <input type="checkbox"/> 1%
c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 51%	No <input type="checkbox"/> 48%		No response <input type="checkbox"/> 1%
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 59%	No <input type="checkbox"/> 19%	Same as before <input type="checkbox"/> 21%	No response <input type="checkbox"/> 1%
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 45%	No <input type="checkbox"/> 54%		No response <input type="checkbox"/> 1%
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 32%	No <input type="checkbox"/> 66%		No response <input type="checkbox"/> 2%

Chart 2: All Consumers²⁹

Charts 3 to 7 show the responses of individuals from all the income groups separately.

EFFECT ON CONSUMERS					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 88%	Increased substantially <input type="checkbox"/> 12%	Constant <input type="checkbox"/>	No response <input type="checkbox"/>
b.	Has the quality of the	Improved	Deteriorated	Constant <input type="checkbox"/>	No response

²⁸ Based on survey of seven manufacturers

²⁹ Breakdown of consumers based on percentage representation in the country according to poverty indicators. Approximately Based on the Comparative Poverty Profile 2001 and 2004-05 (Percentage of Population); source CRPRID/Planning Commission

	cutlery goods improved?	significantly <input type="checkbox"/> 88%	<input type="checkbox"/>	12%	<input type="checkbox"/>
c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 37%	No <input type="checkbox"/> 63%		No response <input type="checkbox"/>
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 25%	No <input type="checkbox"/> 63%	Same as before <input type="checkbox"/> 12%	No response <input type="checkbox"/>
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 63%	No <input type="checkbox"/> 37%		No response <input type="checkbox"/>
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 63%	No <input type="checkbox"/> 37%		No response <input type="checkbox"/>

Chart 3 Consumers (Category A: Very Poor)

EFFECT ON CONSUMERS					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 69%	Increased substantially <input type="checkbox"/> 31%	Constant <input type="checkbox"/>	No response <input type="checkbox"/>
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/> 69%	Deteriorated <input type="checkbox"/> 25%	Constant <input type="checkbox"/> 6%	No response <input type="checkbox"/>
c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 69%	No <input type="checkbox"/> 31%		No response <input type="checkbox"/>
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 38%	No <input type="checkbox"/> 31%	Same as before <input type="checkbox"/> 31%	No response <input type="checkbox"/>
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 50%	No <input type="checkbox"/> 50%		No response <input type="checkbox"/>
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 31%	No <input type="checkbox"/> 69%		No response <input type="checkbox"/>

Chart 4 Consumers (Category B: Poor)

EFFECT ON CONSUMERS					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 5%	Increased substantially <input type="checkbox"/> 90%	Constant <input type="checkbox"/> 5%	No response <input type="checkbox"/>
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/> 33%	Deteriorated <input type="checkbox"/> 38%	Constant <input type="checkbox"/> 29%	No response <input type="checkbox"/>

c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 33%	No <input type="checkbox"/> 67%		No response <input type="checkbox"/>
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 76%	No <input type="checkbox"/> 10%	Same as before <input type="checkbox"/> 14%	No response <input type="checkbox"/>
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 48%	No <input type="checkbox"/> 52%		No response <input type="checkbox"/>
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 38%	No <input type="checkbox"/> 62%		No response <input type="checkbox"/>

Chart 5 Consumers (Category C: Lower Middle class)

EFFECT ON CONSUMERS					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 11%	Increased substantially <input type="checkbox"/> 89%	Constant <input type="checkbox"/>	No response <input type="checkbox"/>
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/> 26%	Deteriorated <input type="checkbox"/> 40%	Constant <input type="checkbox"/> 34%	No response <input type="checkbox"/>
c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 43%	No <input type="checkbox"/> 57%		No response <input type="checkbox"/>
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 66%	No <input type="checkbox"/> 11%	Same as before <input type="checkbox"/> 23%	No response <input type="checkbox"/>
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 40%	No <input type="checkbox"/> 60%		No response <input type="checkbox"/>
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 14%	No <input type="checkbox"/> 86%		No response <input type="checkbox"/>

Chart 6 Consumers (Category D: Upper Middle class)

EFFECT ON CONSUMERS					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 35%	Increased substantially <input type="checkbox"/> 60%	Constant <input type="checkbox"/>	No response <input type="checkbox"/> 5%
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/> 60%	Deteriorated <input type="checkbox"/> 35%	Constant <input type="checkbox"/>	No response <input type="checkbox"/> 5%

c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 75%	No <input type="checkbox"/> 20%		No response <input type="checkbox"/> 5%
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 60%	No <input type="checkbox"/> 15%	Same as before <input type="checkbox"/> 20%	No response <input type="checkbox"/> 5%
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 40%	No <input type="checkbox"/> 55%		No response <input type="checkbox"/> 5%
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 45%	No <input type="checkbox"/> 45%		No response <input type="checkbox"/> 10%

Chart 7 Consumers (Category E: Wealthy)

Restaurants also felt that the prices had decreased and that the quality of the items had increased. 30% of the restaurants surveyed stated that they had switched to imported goods.

EFFECT ON CONSUMERS (RESTAURANTS)					
a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/> 100%	Increased substantially <input type="checkbox"/> 100%	Constant <input type="checkbox"/>	No response <input type="checkbox"/>
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/> 60%	Deteriorated <input type="checkbox"/> 10%	Constant <input type="checkbox"/> 30%	No response <input type="checkbox"/>
c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/> 30%	No <input type="checkbox"/> 70%		No response <input type="checkbox"/>
d.	Have the goods become more accessible?	Yes <input type="checkbox"/> 100%	No <input type="checkbox"/>	Same as before <input type="checkbox"/>	No response <input type="checkbox"/>
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/> 90%	No <input type="checkbox"/> 10%		No response <input type="checkbox"/>
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/> 80%	No <input type="checkbox"/> 20%		No response <input type="checkbox"/>

Chart 8: Restaurants³⁰

In respect of employees, majority of them (57%) felt that there had been increase in employment opportunities. All of them expressed that working conditions had improved

³⁰ (Based on survey from 10 Restaurants of different style, cost and ambience)

and that wages had increased. 43% of the workers felt the technological advancements had not benefited them.

IMPACT OF LIBERLIZATION ON LABOUR MARKET					
a.	Has there been any change in employment opportunities?	<input type="checkbox"/> Substantial Increase 57%	<input type="checkbox"/> Substantial decrease 43%	<input type="checkbox"/> Constant	No response <input type="checkbox"/>
b.	Has there been any change in wages in real terms?	Increased <input type="checkbox"/> 100%	Decreased <input type="checkbox"/>	<input type="checkbox"/> Same as before	No response <input type="checkbox"/>
c.	Have the working conditions improved?	Yes <input type="checkbox"/> 100%	No <input type="checkbox"/>		No response <input type="checkbox"/>
d.	Has there been any change in training and education facilities?	Improved significantly <input type="checkbox"/> 57%	Deteriorated <input type="checkbox"/>	Constant <input type="checkbox"/> 43%	No response <input type="checkbox"/>
g.	Has there been any change in the skill level of employees?	Increased <input type="checkbox"/> 100%	Decreased <input type="checkbox"/>	<input type="checkbox"/> Same as before	No response <input type="checkbox"/>
h.	Has there been technological progress in the sector?	Yes <input type="checkbox"/> 100%	No <input type="checkbox"/>		No response <input type="checkbox"/>
i.	If yes, has there been any benefit for the employees?	Yes <input type="checkbox"/> 57%	No <input type="checkbox"/> 43%		No response <input type="checkbox"/>

Chart 9: Employees³¹

4. CRITICAL PERSPECTIVE

One of the most critical economic issues faced by Pakistan is the existence of widespread poverty. Whether poverty is defined using the narrow definition of lack of adequate food or income, or the broader definition of lack of access to opportunities, a quarter to a half of the total population falls below the poverty line.

Pakistan being a member of the UN has made international commitment to eradicate poverty. The proposed strategy of the Poverty Reduction Strategy Paper (PRSP) focuses on attainment of Millennium Development Goals (MDGs) for sustainable development and poverty reduction. For this purpose, the strategy aims at forging an alliance with civil society and private sector to reduce poverty and accelerate growth. The PRSP includes guidelines to address issues of gender, employment, and the nexus of environment with poverty. Vital elements of the PRSP include devolution program, human development and rural development strategy³².

³¹ Based on survey of 14 employees from 2 enterprises

³² Accelerating Economic Growth and Reducing Poverty: The Road Ahead (Poverty Reduction Strategy Paper) 2003

The reforms in the cutlery sector are part of the economic reforms that are expected to benefit the economy in general and the poor in particular. Policy makers around the world are hoping for the positive outcome from trade liberalization i.e., promotion of economic growth and reduction of poverty.

Although it is clear from the above mentioned statistics that Exports have increased over the last few years, the increase has not been significant especially in reference to other indicators such as the increase in the total exports in Pakistan and the targets set by the Export Promotion Bureau (EPB) of Pakistan.

The EPB set an export target of US \$ 35,000, 000 for financial year 2003-2004. However the exports for that year were far below that target. The exports for the fiscal period July 2004- June 2005 have come near that target. The industry has shown some signs of a renaissance; however, the initial indicators had not reflected that the industry has benefited from trade liberalization. The industry has not grown and has remained stagnant in most aspects. It remains to be seen whether the steps taken are sufficient or further measures of trade liberalization need to be taken to achieve further progress.

4.1 Problems in the Cutlery Sector

In a recent news article³³ the problems facing the cutlery industry were identified. *“The cutlery sector of Pakistan falls in the SME category, and lacks modern equipment, which is one of the main reasons for the decrease in its annual growth,”* said Sheikh Iqbal, acting chairman, PCSUMEA.³⁴

A large chunk of the cutlery industry of the country is situated within the triangle of Wazirabad, Nazimabad and Gujranwala districts, of which Wazirabad is considered to be the hub. Wazirabad and its suburbs have a concentration of cutlery manufacturers, which cater to the local demand of kitchen or table cutlery, and swords and knives for export.

Pakistan’s cutlery products include table, kitchen and other cutlery items and knives of all types, which fall in Pakistan Standards Industrial Classification (PSIC) No 3801, and a bulk of cutlery exports consists of hunting and pocket-knives, swords and table cutlery.

“There are approximately 300 major units in this region, half of which are registered with PCSUMEA as SMEs,” said Muhammad Ibrahim, 80, and owner of a small local unit. *“Almost 25,000 people are associated directly with this sector, manually producing some 5,000 pieces daily.”*

He said that there are a total of approximately 2,000 small and medium sized

33 Ali, N; Feature: Cutlery business rusting on rising costs; Daily Times Newspaper Wednesday, 3rd September, 2003

34 Mr. Iqbal’s family has been involved in the cutlery industry since the Mughal era, and he claims to be one of the oldest cutlery manufactures of Wazirabad.

manufacturers, plus more in the informal sector, engaged in producing various types of cutlery and utensils.

“The average capacity utilization in this sector is only 30 to 40 percent and the unutilized capacity is enough to meet the demands from any where in the world,” said 55-year-old Muhammad Hanif, a machinist and designer of swords, knives and daggers. *“90 percent of these products are sold locally which plugs the hole of cutlery imports.”*

He added that China is getting majority share in the international cutlery market, as bulk production allows it to export at more competitive rates.

“High utility bills have considerably increased the production costs of cutlery products, as a result the exporters are unable to compete in the international market,” said Muhammad Habib, a cutlery manufacturer.

Also, Mr. Habib pointed out that sales tax, social security, old age benefit, and professional taxes are among the many hindrances to manufacturers/exporters. He suggested that a mechanism be set for the collection of taxes at one window for small businessmen.

The basic raw materials for manufacturing cutlery items, such as stainless steel, are imported by commercial importers and sold to individual small units with the addition of taxes and higher profits, leading to the a rise in price of the end-product.³⁵

Muhammad Rafique, another manufacturer, asked the government to give permission for free import of moderated machinery for cutlery since manual production cannot compete with China’s bulk production. *“This will not lead to a decline in manual labour, but will in fact raise jobs as the cutlery market will flourish,”* he said.

Pakistan has already lost the table and kitchen cutlery market and will also lose out on the pocket and hunting knives market if drastic measures are not taken, said Khalid Chadda, an exporter. *“Pakistani exporters should explore new markets for cutlery especially in neighbouring countries like Dubai, Saudi Arabia, Sri Lanka and Bangladesh.”*

Mr. Chadda added that Wazirabad has the only institute in Pakistan for cutlery education, which was established a couple of years ago. But he said that it is about to close, as they don’t have modern courses or training like CAD/CMA (a computer software for designing etc).

The head of Small and Medium Industry Development Authority (SMEDA) Punjab, Khalid Kifah, said so far no study has been undertaken for the pricing, branding, and designing of cutlery products, or for exploring the potential markets.

³⁵ This sector is blessed with number of positive attributes like skilled labour, foreign exposure, training centers, raw materials and export-friendly government policies. But there are many weak areas such as lack of technology, low quality, poor infrastructure, inadequate exposure to international market, lack of designing and common branding.

Mr. Kifah said the industry has no designers or branding, and added that the products lack quality because of low-level modernization. “*If special attention is not paid to the up-gradation of technology we might see the demise of the industry.*”

It is evident that one of the main reasons why the Cutlery industry has suffered is due to the fact that it has experienced technological development and the benefits of mass production. It would be appropriate to analyze the characteristics of SMEs³⁶ in the Cutlery industry.

4.2 Characteristics of Cutlery Industry

- Owner is the manager & few employees
- Owned & operated independently
- Relatively small investment, production, sales, dealings etc.
- Inadequate efficiency of business operations - no relationship with other firms or parties for investment, management, finance, tax, and accounting
- Most manufacturers operate through Self-Financing or Retained Earnings
- They do not make use of Trade Finance for Expansion
- Fear of regulations discourages them to come in the formal fold; none of the leading cutlery manufacturers are limited companies.
- Access to formal credit is strongly correlated to firm size & age of the firm and thus these small enterprises have limited access to low interest credit facilities.

4.3 Barriers to growth

SMEDA³⁷ has identified the following factors as barriers to growth of enterprises in the Cutlery industry.

- Govt. & SME Interaction
- Taxation
- Finance
- Labour Legislation
- Human Resource Development
- Technology
- Market & Industry Information
- Lack of Infrastructure
- Environmental issues & compliance
- Social compliance issues

36 See Further; Keith Stuart-Smith; Trade Policy 2004-2005: Short, Medium and Long-Term Strategies, Based on Trade Exports, Industry Sector Issues and Recommendations; Prepared for The Ministry of Commerce, Government of Pakistan; by UNDP under Trade Initiatives from Human Development Perspective (TIHP) PAK/03/013; 24th August 2004.

37 Progress Report --- Provincial Office (SMEDA --- PUNJAB) SME Cluster Development Projects

- Intellectual Property Rights

A major reason for lack of progress in this industry has been attributed to the regulatory framework in Pakistan.

- Missing links between SMEs and the financial institutions in respect of Credit Guarantee and Insurance (Laws & Institutions)
- Inconsistent government policies in relation to taxation
- No policy or legal support for business Start-ups or projects backed by only sound business plans

5. SUGGESTIONS FOR REFORM

a) *Marketing*

The cutlery sector with the exception of tableware is 100% export oriented industry. There is great potential of growth in this sector.³⁸ The cluster is already well defined and organized in Wazirabad area. Some of the enterprises do not have problems of finance, labors, technology, and production. But they are not marketing their products properly. Most of the firms don not have awareness and channels of how to market their product across the border.

Some of the large firms have set up their own ware houses in U.S.A. and have captured some market share, whereas, mostly firms get the buyers by participation in Trade Fairs and personal visits abroad. This is the area where a collective effort is needed in order to explore new markets as the industry completely depends upon exports. There has been no significant effort to develop some common brand for Wazirabad made cutlery and foreigner customers are enjoying the low purchase prices and selling the products under their own brand names abroad.

Government sponsored trade delegations and exhibitions should be organized. Keeping in view modernization, a cutlery web site should be developed and launched. The commercial counselor should be asked to put efforts in order to explore the new market and organize meetings with potential importers. Common warehouses should be arranged for firms operating in USA and Germany.

b) *Quality*

Most of the firms are not aware about the significance of quality; only two or three firms have taken certification of ISO 9000. Due to lack of quality, cutlery products are priced at low level internationally. There should be seminars and workshops to motivate businessmen about quality manufacturing. A quality review cell should be set up in order

³⁸ The total production of Wazirabad Cutlery Sector is approximately 5000 pieces per day.

to monitor it. There should be fixation of minimum price per unit of cutlery products as done in rice sector by EPB, Government of Pakistan.

c) Raw Materials

The industry is purchasing the raw materials from mainly from Gujranwala; both local & imported materials are available. There is no mechanism to buy raw material from some common source as the firms approach different sources of their choice on cost and quality issues. The manufacturers utilize local Stainless Steel Sheet even for the production of export-oriented goods because of cost effectiveness.

d) Technological Progress

Most of the firms are manufacturing their products by traditional manual methods. The automation and economies of scale can reduce their cost. They do not go for technology-oriented methodology to improve the quality and standards of their products. The concept of economies of scale is apparently missing in the industry. The cutlery units in Wazirabad are decentralized into some branches. The industry attributes this to the undue involvement of various departments which leads to inferior productions. Automation is of great importance as they are facing the price competition from the foreign world especially China.

e) Training of Labour

There are two institutes present in this region with the objective to provide skilled labor that can operate modern machinery. There is a need to develop human resources in the fields of export marketing, quality control and general skill enhancement. This will enhance the productivity and quality improving competitiveness of exports. There is also a need to train people in international fashion to keep in touch with the ever changing trend and to cater to the needs of the developed nations.

Cutlery Institute of Pakistan has been established in order to provide skilled labor to the industry, but the machinery installed there cannot be regarded as modern one. There is a need of designer and CAD/CAM design system for this institute.

f) Government Intervention

There is excessive involvement of different government department like social security, labor, old age benefits etc. in the industry. Usually the official of these department display non-cooperative attitude and waste the precious time of the industry peoples. It is suggested that there should be a mechanism for the collection of all these taxes at one window, as the businessmen have no objection in paying the taxes. On the other hand the job is assigned to some official of association under common facility head to tackle these departments efficiently and tactfully without bothering the proprietor of the firms.

g) Revenue Matters

Mostly SMEs are complaining about the policies of CBR (Central Board of Revenue). They also criticize the attitude and behavior of its officials. The exporters are suffering great hard ship due to the non-availability of their own refund claim. Similarly the sale tax refund is the matter of great concern for them. There is an urgent need to resolve these issues amicably on priority basis.

h) Levy on Imports

There is the feeling that the industry should be allowed to *import duty free raw materials* and machinery to facilitate good quality products at a comparative cost. A pilot project for the import of duty/taxes free raw material at the level of association on cooperative basis is also under consideration.

i) Infrastructure

The industry is facing severe lack of infrastructure in this region. The roads are not in proper condition. Power failures are common. The concerned authorities should be pursued to provide the necessary facility to the industry.

j) Brand Development

Despite the fact that Pakistani companies have a strong export base in textiles they have not invested in developing their own brands and labels. The highest level of value addition occurs when products are sold under a brand name. Though this requires investment on the part of the manufacturer, the returns are considerable with an enormous potential for the bigger players to invest in brands for the domestic, regional and global markets. The encouragement of brand development should be supported by the Export Promotion Bureau.

k) Awareness

There is a big threat from China, which is gradually holding the entire global market. We must get rid of traditional manufacturing methodology, unethical business practices, environment of mistrust and price-based competition within industry in order to become competitive at international market. For this purpose, various seminars and awareness programmes have been launched successfully in Wazirabad for the benefit of the local manufacturers.

l) Role of Trade Commissioners

Pakistan is one of the very few countries in Asia Pacific where its Trade Promotion Organization (EPB) does not have its representation and offices abroad. The trade commissioners need to play a more active role in promoting trade with Pakistan and interacting with the international importers cutlery in order to secure business for the

local exporters. The Trade Commissioners need to be energetic professionals who can promote country's image and secure orders for exporters.

m) Diversification of Markets

Pakistani exporters have been exporting low quality and low price products whereas it has the potential to enhance export proceeds by producing better quality made-ups of international standards which can fetch higher price. Pakistan's exports are concentrated in just few markets namely USA, Germany, Japan, U.K, Hong Kong, Dubai and Saudi Arabia. There is a dire need to get exposure to new markets like African Countries and countries like Brazil, Mexico and Argentina.

n) Joint Ventures

While many of its competitors have been collaborating with foreign partners and are forming joint ventures and are reaping the benefits of transfer of technology and marketing expertise, Pakistani companies have not taken advantage of this opportunity. The companies in countries that have a scarcity of labour and / or raw material look for countries that have an abundance of these factors of production. Pakistan fits the bill for these requirements.

For this too, the EPB and the Trade Commissioners will have to play a very active role, as individual exporters would be unable to negotiate these deals with large conglomerates. Foreign partners have played a role in production relocation in clothing sector through outsourcing. Brand-name merchandisers and large retailers of standardized products are the ones to be targeted. Foreign joint ventures can provide marketing design, logistics, financing while the production can be handled by the domestic firms.

6. CONCLUSION

The promotion of goods based on material culture needs development within the local communities. In countries like Pakistan, culture-based goods are not produced, developed and promoted on a very formal level. In the public sector, although a department of small industries has its institutional basis, its access is just limited to some urban communities while far-flung rural communities are deprived from it. In rural communities individuals are producing some culture-based goods, but they are of low quality, poor designs and with a little consumption on local level. The whole process of this production is very informal and the producers are just involved in it for their survival, to earn some money and poorly sustain their livelihood. But most of the local producers are living in a despair situation. Craftsmen guilds and associations are absent and individuals are producing goods but vastly exploited by the local middlemen.

The new generation is alien from their ancestor's occupation. Once they have gone through the modern schooling then they never go near to their ancestor's occupation, just looking towards a job in any public department. The school curricula have no space for

the indigenous skills; local productions and resources. There are some institutions in Pakistan offering courses in arts and crafts design but to most extent these are not fulfilling the needs of rural communities particularly. The elitist style of these institutions has made it very costly which limits it only to the elite populations of the urban communities.

Economic globalization is taking place through its technological tools and systems. To compete in such a technological era, someone has to be more developed and innovative in technology to survive. But countries like Pakistan are far away from developed countries in this regard. Most significantly cutlery items from China have taken over the world market. Chinese cutlery item imports into Pakistan have also increased reducing the domestic market share of local manufacturers.

The developing consumer culture needs more luxury goods to consume on a mass level. Locally produced goods are not of the needed quality because design strategies and creative mechanisms are absent. The products are not aligned with the fashion trends and developing consumption need.

Culture based goods of Pakistan are deprived from the appropriate export policies and practices. A very little concentration is given to it, which is not enough for the promotion and distribution of these goods on a global scale.

All the above-mentioned reasons are causing a serious decline of culture-based goods production in countries like Pakistan. On one hand the indigenous skills are obsolescing, and on the other hand the economic status of local communities is worsening day by day. Local communities are badly becoming dependent on the global market for their needs and local interdependency and self-reliance are vanishing in illusions. This entire situation is not so encouraging for the local economy.

To develop these potentials of cultural districts it is imperative to assemble the local artists and make strong partnerships with the newly established local and district governments to formulate sustainable strategies and favorable policies. NGOs can play role of catalysts and a bridge between artists' communities and district governments for the promotion of cultural districts.³⁹

Low technology, low quality, poor raw materials and high production cost are among the main reasons due to which this Sector has not been able to meet the expectations. The Government should increase labour productivity through education, on-the-job training, skill upgradation and dissemination of new knowledge and latest techniques. This will translate into higher value-added and low unit labour cost. The exporters need to invest in this area, however, given the fact that there are many small companies in this business

39 Moreno Y. J., Santagata W. and A. Tabassum; Working Paper Series: Material Cultural Heritage and Sustainable Development; Dipartimento di Economia "S. Cogneetti de Martiis", International Centre for Research on the Economics of Culture, Institutions, and Creativity (EBLA)

segment the government has to take an active role to ensure that training is available to all the exporters.

The Government needs to take measures to improve physical and financial infrastructure including shipment, clearance, cargo space, handling etc at the ports and airports. Reliable and low cost supplies of power, water, gas telecommunications etc should be assured for the export industries. Long-term financing and hedging products need to be developed by the financial institutions. The government must ensure that the exporters are educated and are aware of all the challenges and requirements.⁴⁰

There are many proposals for reform in the cutlery sector especially in face of competition from China and the lack of technological development in the cutlery sector in Pakistan. The Government of Punjab is initiating programmes to:

- a. Create institutions for developing technological skills and design capacities (i.e. human resource development),
- b. Provide high quality infrastructure,
- c. Provide high quality common services (such as, research and testing, setting up of quality standards, etc)
- d. Create an image of and marketing the sector/products, and
- e. Help the industries to catch-up on account of competitiveness vis-à-vis other countries in the region.

The cutlery industry has a lot of potential but has remained stagnant despite trade liberalization. In order for it develop, certain measures are required. Whether these will create more employment and alleviate poverty will depend on the expansion of the industry in general and the entrepreneurs in specific.

⁴⁰ Speech by Hamayan Akhtar Khan (Federal Minister for Commerce) Trade Policy 203-2004; 19th July 2003; Ministry of Commerce, Government of Pakistan

ANNEXURE I

STAKEHOLDERS

1. Manufacturers

- A. H. Impex
- Evergreen Enterprises
- Kent Industries
- M. Ashraf & Sons Cutlery Works
- New Stainless Industries
- Rafique Industries
- Shoaib and Company
- Prime Steel Industries
- Japan Dynamic Industries

2. Consumers: Institutions and Individuals

Institutions

- Restaurants

Individuals: all income groups

- Very Poor
- Poor
- Lower Middle Class
- Upper Middle Class
- Wealthy

3. Governmental Institutions

- Ministry of Commerce
- Ministry of Industries
- Engineering Development Board
- Export Promotion Bureau
- Central Board of Revenue
- Government of Punjab
- Gujranwala Chamber of Commerce & Industry
- The Federation of Chamber of Commerce & Industry
- Small and Medium Enterprises Development Authority

4. Cluster Organization

- PCSUMEA

ANNEXURE II

CUTLERY LIBERLIZATION

PERCEPTION SURVEY: QUESTIONNAIRE

Name: _____
Occupation: _____
Organization: _____
Telephone # _____
Email: _____
Address: _____

Check the relevant box:

1.	EFFECTS OF TRADE LIBERLIZATION SINCE 2001			
a.	Has there been a change in Custom Duties on Exports of cutlery?	Substantially increased <input type="checkbox"/>	Substantially decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
b.	Has the change been beneficial to the manufacturers?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
c.	Has there been a reduction in non tariff barriers (quotas, import/export licenses, inspection requirements)?	Significant reduction <input type="checkbox"/>	Increase in barriers <input type="checkbox"/>	No change <input type="checkbox"/>
d.	Has there been a change in barriers to investment?	Substantially increased <input type="checkbox"/>	Substantially decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
e.	Has there been a change in custom duties on imports of raw materials (including stainless steel) for the cutlery industry?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
f.	Has there been a change in custom duties on imports of machinery for the cutlery industry?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
2.	SECTOR PERFORMANCE SINCE 2001			
a.	Has the sector performed better	Yes <input type="checkbox"/>	No <input type="checkbox"/>	

	due to trade liberalization?			
b.	Has the return on investment improved?	Improved Significantly <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Constant <input type="checkbox"/>
c.	Has there been a change in production?	Increased substantially <input type="checkbox"/>	Decreased substantially <input type="checkbox"/>	Same as before <input type="checkbox"/>
d.	Has competition increased?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
e.	Has the quality of goods improved?	Improved <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Same as before <input type="checkbox"/>
f.	Have exports increased in value?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
g.	Have exports increased in quantity?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
h.	Has the investment in the sector increased?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Constant <input type="checkbox"/>
i.	Is the sector performing to its capacity?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
j.	Have the working environment improved?	Improved <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Same as before <input type="checkbox"/>
k.	Has the sector experienced growth?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
l.	Have there been technological advancements?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
m.	Has there been a change in productivity per unit of labour?	Increased substantially <input type="checkbox"/>	Decreased substantially <input type="checkbox"/>	Same as before <input type="checkbox"/>
n.	Has the access to credit facilities improved?	Increased substantially <input type="checkbox"/>	Decreased substantially <input type="checkbox"/>	Same as before <input type="checkbox"/>
3.	IMPACT OF LIBERLIZATION ON LABOUR MARKET			
a.	Has there been any change in employment opportunities?	Substantial Increase <input type="checkbox"/>	Substantial decrease <input type="checkbox"/>	Constant <input type="checkbox"/>
b.	Has there been any change in wages in real terms?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Same as before <input type="checkbox"/>
c.	Have the working conditions improved?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
d.	Has there been any change in training and education facilities?	Improved significantly <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Constant <input type="checkbox"/>
g.	Has there been any change in the skill level of employees?	Increased <input type="checkbox"/>	Decreased <input type="checkbox"/>	Same as before <input type="checkbox"/>
h.	Has there been technological progress in the sector?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
i.	If yes, has there been any benefit for the employees?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
4.	EFFECT ON CONSUMERS			

a.	Has the domestic price of the cutlery goods come down?	Decreased substantially <input type="checkbox"/>	Increased substantially <input type="checkbox"/>	Constant <input type="checkbox"/>
b.	Has the quality of the cutlery goods improved?	Improved significantly <input type="checkbox"/>	Deteriorated <input type="checkbox"/>	Constant <input type="checkbox"/>
c.	Has the consumer switched to imported goods?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
d.	Have the goods become more accessible?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Same as before <input type="checkbox"/>
e.	Are the cutlery products properly marketed?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
f.	Is there any brand loyalty in the cutlery industry?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	

NOTE: According to International Trade Center’s classification, following items fall under the umbrella of cutlery.

- Sets of different knives/art (821110)
- Table knives with fixed blades (821191)
- Other knives and swords etc (821192)
- Pocket & Pen Knives with folding blades (821193)
- Blades for knives (821194)
- Handles for knives of base metal (821195)
- Razors including safety razors & open blades (821210)
- Safety razor blades, blanks in strips (821220)
- Parts of non electric razors (821290)
- Scissors, tailors (821300)
- Paper knives, letter openers, erasing knives, pencil sharpeners etc (821410)
- Manicure and pedicure sets and instruments (nail files) (821420)
- Kitchen chopper, cleavers & mincing knives & other articles (821490)
- Table ware sets plated with precious metal (821510)
- Tableware sets without plating (821520)
- Plated tableware articles not in sets (821591)
- Tableware articles without plating (821599)