



**Competition Commission of Pakistan**  
Creating a level playing field



**Review of Framework Relating to Control of**

# **PRICING & SUPPLY OF ESSENTIAL FOOD COMMODITIES**

**September, 2015**

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### About the report:

1. In the meeting of the National Price Monitoring Committee (NPMC) held on 17 February 2015, chaired by the Honorable Minister for Finance, the Competition Commission of Pakistan (CCP) was advised to take effective measures to control hoarding, profiteering and breaking cartelization in the essential food commodities markets for the benefit of general consumers and to submit a status report in the next NPMC meeting.
2. Accordingly, a status update report was submitted to the NPMC on 28 April 2015 detailing therein the steps taken by CCP to identify the mechanism for supply and control of essential food commodities in Pakistan, the anticompetitive practices and elements involved in such practices. The findings of the interim report were presented during the NPMC meeting held on 25 June 2015. The Commission was then directed to conduct further research and suggest a proactive mechanism for the control of pricing and supply of essential food items including pulses in order to protect consumers from anti-competitive practices.
3. The report on Review of Framework relating to Control of Pricing and Supply of Essential Commodities was presented in the NPMC held on 03.09.2015 after which it was decided that the CCP will share the findings of its report with the provinces and other stakeholders and come up with recommendations and implementation plan. In compliance with this directive a follow-up meeting was held at the Commission on 15.10.2015. The Commission presented the findings of its report and the participants were asked to provide their feedback and comments on the contents of the report. The comments and suggestions have been incorporated in the final draft of the report.
4. This report aims to identify the significant gaps in the existing policy framework relating to the pricing and supply of essential food commodities in Pakistan and suggests short term and long term measures for improving the said framework.

5. It is important to highlight that apart from policy measures suggested in the report, the Commission will continue pursuing enforcement actions against the undertakings involved in cartelization or abusive practices in the essential food commodities market, as a part of its mandate envisaged under the Competition Act, 2010. The Commission in the past has taken actions in sectors such as sugar, jute bags, milk, poultry, ghee, infant formula and baby food.

#### Background:

6. The Commission initiated a probe into the essential food commodities sector after concerns were raised by the consumers and the government that the fall in the prices of petroleum products did not lead to a proportional fall in the prices of essential commodities and that certain undertakings in the informal food sector are manipulating supply and prices of these products.
7. To ascertain facts, the Commission initiated a large-scale nation-wide exercise to gather data on the mechanism for determining prices and identify the main undertakings/associations that are involved in the trade of essential food commodities.
8. For preliminary data gathering letters were sent to DCOs of 19 districts, spread across Punjab, KPK, Balochistan and Sindh requesting them for the following information:
  - a. Mechanism for setting prices at the district level;
  - b. List of members of the District Price Control Committee (DPCC);
  - c. Price lists; and
  - d. Minutes of DPCC meetings.
9. Responses from 14 districts were received. The officers of the Commission held extensive meetings with the DCO office of major districts i.e Rawalpindi, Islamabad, Sialkot and Gujranwala. During these meetings, emphasis was laid on timely and effective sharing of

information and coordination between district administration and the Commission to check anti-competitive actions, and recommended remedial measures in this regard.

### Legislative Framework

10. The following is a list of major laws which form the legal framework in which the provincial governments and district administration exercise supply and pricing controls for food commodities. These are:
  - a. Food Stuffs (Control) Act, 1958
  - b. Price Control and the Prevention of Profiteering and Hoarding Act, 1977
  - c. Agricultural Produce Market Ordinance, 1978
  - d. Essential Articles (Control) Act, 1973
  
11. These laws are in operation in all provinces with slight variation in titles. The substantial provisions, however, largely remain the same.

### Price Trends

12. The Commission initiated a probe in the Food Commodities sector in March 2015 and a declining trend in the prices of essential food items is being observed since then. According to figures released by the Pakistan Bureau of Statistics (PBS) (and corroborated by the price data received from DCOs) the Consumer Price Index (CPI) increased by 2.5% on year-on-year basis in March 2015 which is the lowest level since the last 10 years.
  
13. As Table 1 shows, between 2013 and 2015 prices of wheat, rice, tomato, potato and beans have declined significantly whereas the prices of onions, pulses, fresh vegetables, meat, sugar and milk have increased.

### The Supply Side--Production and Yield trends

14. If we juxtapose the price data in Table 1 with the data on production and yield we can see that there seems to be a correlation between prices and production. Prices of pulses

have shown an above average increase which directly corresponds to a fall in production and yield.

**Table 1**

<b>Commodities</b>	<b>Change 13-14</b>	<b>Change 14-15</b>	<b>Total Change 2013-15</b>
<b>Wheat</b>	-3.62%	-4.85%	-7.17%
<b>Rice</b>	2.58%	-11.20%	-7.96%
<b>Onion</b>	-27.91%	17.62%	12.16%
<b>Tomato</b>	-176.90%	19.99%	-35.14%
<b>Potatoes</b>	47.68%	-184.81%	-21.86%
<b>Fresh Vegetables</b>	-4.29%	-0.60%	5.77%
<b>Pulse Masoor</b>	12.87%	7.70%	24.02%
<b>Pulse Moong</b>	21.24%	3.19%	31.37%
<b>Pulse Mash (Washed)</b>	10.68%	17.75%	35.81%
<b>Pulse Gram</b>	-6.19%	21.61%	18.73%
<b>Gram Whole</b>	-4.10%	7.30%	3.26%
<b>Beans</b>	5.09%	-1.39%	-3.80%
<b>Meat</b>	5.29%	3.59%	9.92%
<b>Sugar</b>	-0.31%	8.80%	12.64%
<b>Milk Fresh</b>	6.67%	4.15%	12.25%

*Source: Pakistan Bureau of Statistics*



**Table 2**

Crop	2012-13				2013-14				% Change		
	Area ( <sup>'000'</sup> Ha)	Production ( <sup>'000'</sup> ton)	Yield		Area ( <sup>'000'</sup> Ha)	Production ( <sup>'000'</sup> ton)	Yield		Area	Prod.	Yield
			(Kgs/ Ha)	(Mds/ Acre)			(Kgs/ Ha)	(Mds/ Acre)			
Wheat	8660.2	24211.4	2795.7	30.3	9199.4	25979.4	2824.0	30.6	6.2	7.3	1.0
Rice	2308.8	5575.9	2415.1	26.2	2789.2	6798.1	2437.3	26.4	20.8	21.9	0.9
Sugarcane	1128.8	63749.9	56475.8	612.3	1172.5	67460.1	57535.3	623.8	3.9	5.8	1.9
Gram	992.0	751.0	757.1	8.2	949.6	399.0	420.2	4.6	-4.3	-46.9	-44.5
Mung	135.9	90	662.3	7.2	130.9	92.9	709.7	7.7	-3.7	3.2	7.2
Mash	23.2	10.9	469.8	5.1	20.9	10.4	497.6	5.4	-9.9	-4.6	5.9
Masoor	19.3	10.8	559.6	6.1	18.2	8.1	445.1	4.8	-5.7	-25.0	-20.5
Mattar	45.4	30.8	678.4	7.4	45.8	30.1	657.2	7.1	0.9	-2.3	-3.1
Onion	126.0	1660.8	13181.0	142.9	143.9	1740.2	12093.1	131.1	14.2	4.8	-8.3
Potato	172.8	3785.9	21909.1	237.5	158.3	2883.8	18217.3	197.5	-8.4	-23.8	-16.9
Tomato	58.2	500.9	8606.5	93.3	63.9	599.7	9385.0	101.8	9.8	19.7	9.0
All Vegetables*	255.9	2922.0			230.7	2716.9	11776.8	127.69	-9.8	-7.0	
All Fruits	805.1	6564.2			776	6423.9					

*\*Excluding potatoes*

*Source: Ministry of National Food Security & Research*

15. Pakistan Bureau of Statistics (PBS) collates data on crop estimate. For example the first crop estimates for rice are reported on 1<sup>st</sup> September, the second estimates on 1<sup>st</sup> December and the final estimates on 1<sup>st</sup> February. Figure 1 shows the supply period for field grown fruits and vegetables. With these forecasts available there can be a reasonable estimate of the supply situation, when would there be a supply shortage and when the prices of a particular commodity would face upward pressures.

**Table 3**

Commodity	Harvest time	Source Local	Source Intl'
<b>Wheat</b>	April	Punjab, Sindh	Ukraine, Russia, USA
<b>Rice</b>	Nov.	Punjab, Sindh	--
<b>Potato</b>	April	Punjab, Sindh, KPK	India
<b>Onion</b>	Balochistan: Sept-Nov Upper Sindh: Mar-May Lower Sindh: Oct-Feb	Balochistan, Sindh	India, China
<b>Maash</b>	Oct.	Balochistan, KPK	Canada, Burma
<b>Moong</b>	Nov.	Punjab	Burma
<b>Channa</b>	End March-Apr	Thal (Punjab)	Canada, India, Ethiopia, Iran, Afghanistan

## Pulses

16. Pakistan is importing approximately 80% of its requirement of pulses to meet growing demand and dwindling local production. According to Faisalabad's district administration the dwindling local production is due to lack of farmers interest, increasing costs of production, lack of new seed varieties, and discriminatory support of the governments towards other crops. The only type of pulse being cultivated in Pakistan is Black Channa in the Thal area.

17. Faisalabad is the main *mandi* for pulses in Pakistan. Out of imports reaching Karachi approximately 50-60% are destined for Faisalabad. Other *mandis* are Hyderabad,



Sargodha and Lahore. There are almost 6-7 main importers in Faisalabad while there are an estimated 200 importers in the whole of Pakistan.

18. Once pulses are imported they are processed - split, polished, and packaged. Faisalabad has 54 processing mills. A mill is capable of processing various types of pulses. There are over 500 wholesale dealers of pulses in Faisalabad who supply pulses to a large area of the country.

19. The following varieties are available in Pakistan:

- a. White gram (3-4 varieties): these range from *bareek channa* to *motta channa*.
- b. Black gram (3-4 varieties): *motta channa* used for cooking, *channa daal* is obtained from this, *besan* is made from the more *bareek* variety.
- c. Other pulses: *masoor*, *moong* and *maash* there are only 2 grades (*moti* and *bareek*).

20. Import sources are as follows:

Variety	Source
<b>White Channa</b>	Canada, India, Ethiopia, Iran, Afghanistan, Local
<b>Black Channa</b>	Local
<b>Masoor</b>	Canada, Australia, USA, Afghanistan
<b>Maash</b>	Canada, Burma
<b>Moong</b>	Local, Burma

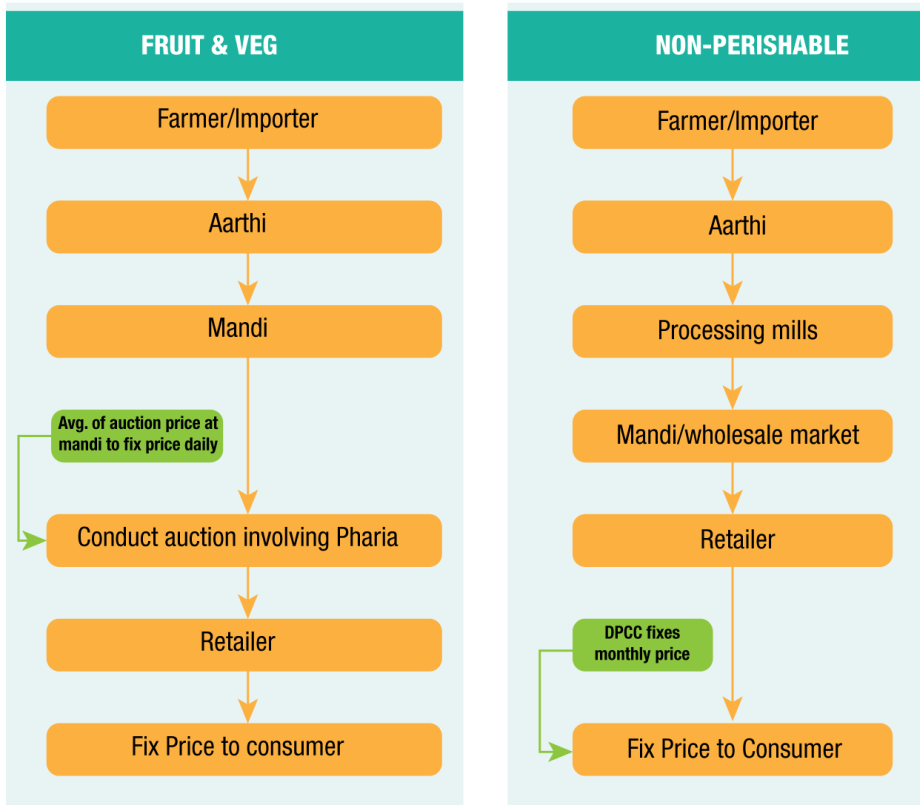
21. This year the pulses crop in India and Pakistan was damaged due to rains. India has a very high consumption of pulses and is now buying pulses internationally. An increase in demand from India has led to an upward increase in international prices for pulses.

22. Since there are different varieties of pulses the DPCC fixes price for fair average quality. The Punjab government has fixed the varieties of pulses for which rate is fixed. The district government before fixing price takes a sample of wholesale prices to calculate the average price. It is pertinent to mention that the Utility Stores, military and other public sector bodies purchase pulses at rates other than that set by the DPCC.
23. **Onion:** The main production areas for onions are Sindh and parts of Balochistan. The main *mandis* for onion are Hyderabad and Lahore. If we look at the supply side we can see that the production of onions increased by 1.3% between 2013-14 and 2014-15 however over the last 5 years production on average has declined. The prices of onion have been on an upward trend since 2010-11 when the prices of 40kg bags in the main *mandis* increased on average of 60%. For example the price of 40kg bag in Lahore *mandi* was Rs. 725.92 in 2009-10 but increased to Rs. 1164 in 2010-11 and this has been the price range to date. Import data shows that Pakistan's onion import spiked from 2009-10. Onions are currently being imported from China and India.
24. **Potato:** The main production areas for potatoes are Punjab and some parts of KPK with Punjab accounting for approximately 90% of overall production. If we look at the supply side we can see that the production of potatoes has increased by 6.3% between 2013-14 and 2014-15. This increase in production has led to a record fall in prices of potatoes. The reasons for higher production levels were higher prices for example in 2012-13 the average wholesale price of 40kgs of potatoes in Lahore *mandi* was Rs742 which rose to Rs. 1387 in 2013-14. However, it is important to note that economic theory suggests that this fall in prices means that farmers would not be incentivized to cultivate potatoes in the next season which would lead to a fall in supply and a rise in prices. Pakistan exports potatoes to Afghanistan and Sri Lanka and in times of shortage potato has been imported from India.

## Description of Current Price Control Mechanisms

25. Essential food commodities can be bifurcated into two broader categories i.e Perishable items and Non- Perishable items.
26. Non-perishable items include: wheat, pulses, ghee, sugar and rice etc. Prices of non-perishable food items are determined on a monthly basis by the DPCC.
27. Perishable items include fresh fruits and vegetables the prices of which are determined on a daily basis at the *sabzi mandi* with involvement of market committees.

**Figure 1: Current supply chain**



28. It has been understood that official prices are determined at the beginning of each month by the notified District Price Control Committee (DPCC). The DPCC usually comprises of:
- a. official members;

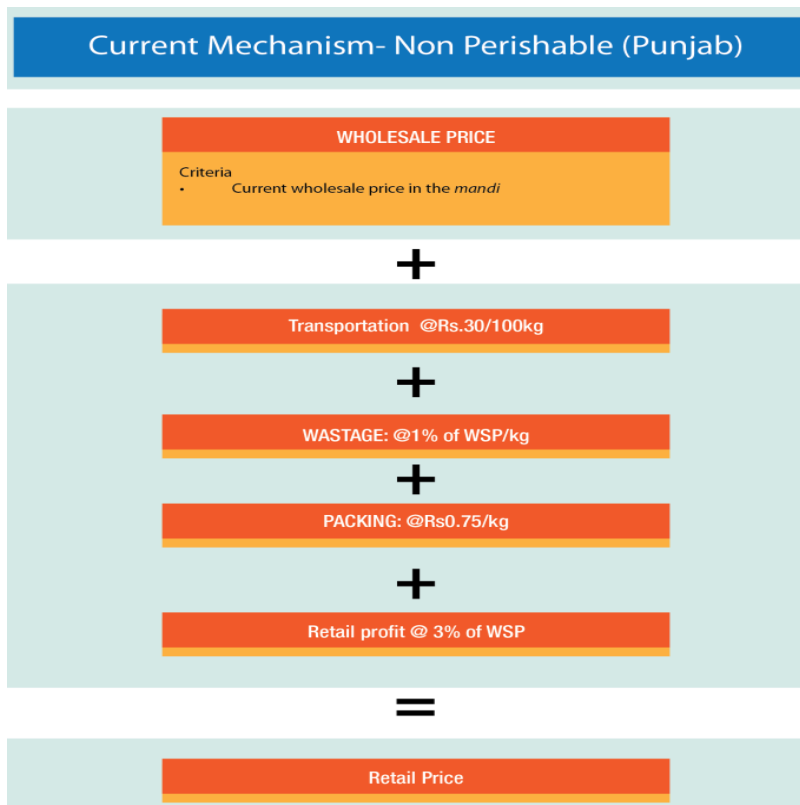
- b. non-official members which includes representatives of various traders associations/dealers.; and
  - c. consumer representatives.
29. While all the districts work under the same legal policy framework, various approaches to monitor and control prices have been noticed.
30. The mechanism for controlling prices of essential commodities varies from district to district with some districts focusing on price control with other districts focusing on ensuring adequate supplies. The prices of non-perishable essential commodities are determined on a monthly basis by the DPCCs whereas the prices of perishable commodities like fruits and vegetables are determined on a daily basis.
31. Initial findings indicate that the *mandi* of Gujranwala is one of the main market for fruits, vegetables and meat in upper Punjab and Islamabad Capital Territory. Similarly, the *mandi* of Lahore and Faisalabad are the main markets for pulses and other food items in the province.
32. From the meetings of CCP officials and data received from various districts it was noted that the Industries Department, Government of Punjab has prescribe and circulated a uniform criteria and format for standardized rate list and classification of non-perishable essential commodities. As per the formula, the starting point for determining retail prices is the wholesale price. For example in district Gujranwala the main source of pulses is from the *mandi* in Faisalabad and Sargodha. Prices are determined by taking the wholesale price in Faisalabad+ freight cost from Faisalabad to Gujranwala+ 4% profit margin for retailers. A comparison is also made with the retail rates prevailing in adjoining districts, retail rates fixed by the DPCC in its previous meeting and the current wholesale rates.

33. Faisalabad follows a similar pattern but with some slight variations. The starting point is the wholesale price (WSP) in the *mandi* to this price the following elements are added to reach the Retail Price (RP) per kg:
- Wastage@1% of WSP/kg.
  - Packing@Rs.0.75/kg.
  - Transport@ Rs 30/100kg.
  - Retail profit(%)and PKR/kg@3% of WSP
  - This retail price is also compared with the previous months prices and with the prices fixed in neighboring districts. Note that this formula is for essential commodities except fruits and vegetables.
34. Rawalpindi and Islamabad follow a different pattern whereby before the meeting of the DPCC an informal survey of shops in the district is conducted to ascertain a base level for prices. The prices are then fixed in consultation with the various traders representatives with an allowance of a profit margin on 15%.
35. In KPK there is no standardized format for price determination. From data received we can observe that prices are set in the DPCC by observing wholesale prices in neighbouring districts and negotiations with traders representatives. For example the DPCC in Abbottabad compares the rates in Haripur and Mansehra districts.
36. For fruit and vegetables prices are fixed at the *mandi* on a daily basis. In Gujranwala one of the biggest *mandi* in the region the prices of fruits and vegetables are determined by auctions at the *mandi*. Auctions are conducted by commission agents (*phariyya*) who receive commissions from the farmers. The auction process is monitored by Market Committees which monitors and note down the proceedings of at least 5 auctions of every commodity (minimum and maximum auction rates). The per kg cost is the calculated by dividing the auction rate by the weight of the commodity. The Secretary of the Market Committee then calculates the retail price based on the formula prepared by the Government of Punjab which is by adding 10% profit. Out of this 10%, 70% is for the

retailer and the remaining 30% is for the *phariyya*. The *phariyya* is the middleman who buys from the farmers and then sells in smaller quantities to the retailers.

37. In Islamabad a representative from DC office is usually present when items are being auctioned to ensure that the prices are kept to a minimum.

**Figure 2: Current Pricing Mechanism**



### Issues with the Current Price Control Mechanism

38. Various issues and problems with the existing price control mechanism were highlighted during the discussions with stakeholders. Literature also suggests that implementation and

monitoring of price controls is difficult as it is against the principles of free market. Research has also found that price controls reduce entry and investment in the long run. The controls can also reduce quality, create black markets, and stimulate costly rationing<sup>1</sup>.

39. In both the cases of non-perishable and perishable products we can observe that there is no uniform/standardized format for calculating retail prices at the district level. This leads to large variations in prices between districts which resultantly leads to distortions in supply. For example if the prices of onions are fixed at Rs.10/kg in Lahore and Rs. 15/kg in Gujranwala then market forces will divert the supply from Lahore to Gujranwala to take advantage of higher prices.
40. Another major issue in the enforcement of price lists is that it is only applicable to the retail level and the most common excuse of the retailer for not abiding by the price list is that the wholesalers/*aarthis* are selling to them at a higher price. Also it has been observed that there are large variances in costs of retailers for example shop rents for retailers differ widely between different localities.
41. The commodities sold at official rate lists are of inferior quality and a common excuse of retailers for not abiding by price lists is that the product is of better quality.
42. It is a basic principle of price discovery that the prices depend on demand and supply and there is no centralized mechanism at district/provincial or national level for mapping of supply and demand that results into fixing of unrealistic prices because the factors of demand and supply are not considered while fixing prices.
43. It is observed that due to their very nature, hoarding of perishable items is difficult however, for non-perishable items hoarding and cartelization by some big players in the wholesale markets could be suspected in anticipation of creating shortage and minting

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<sup>1</sup> The Problem of Price Controls by Fiona Scot Morton, Cato Review of Business & Government, 2001



undue profits. At the retail level, however, cartelization is difficult due to the involvement of large number of players in the market.

44. The subsidy at Utility Stores may be prone to abuse since some elements buy subsidized items at a lower price and sell it in the open market at higher rates.

### International Practice in Fixing and Monitoring Prices of Essential Food Items:

45. Price controls have a long history dating back to ancient Egypt where the state regulated grain production and distribution. Most developed jurisdictions including the US have had price controls on food commodities. Most developing jurisdictions have price control laws for example Malaysia, Indonesia, India, Philippines, Bangladesh, Kenya and Zimbabwe. Developed jurisdictions including the US have a history of price controls however, this has been replaced with greater emphasis on price regulatory and monitoring commissions. One of the reasons that governments invoke price controls is to ensure that goods and services are sold at a 'fair' price. It may be noted that Pakistan is the only jurisdiction studied that undertakes price fixing on a continuous basis.

46. **Price Control practices in India:** Aim of price control is two pronged i.e. to protect consumers and to induce farmers to increase agricultural output. The Government of India (GoI) has a Minimum Support Price (MSP) scheme for wheat, rice, bajra, jowar, maize and pulses. Procurement is done through the Food Corporation of India and State agencies. The Essential Commodities Act, 1955 empowers state governments to control production, supply, distribution etc. of essential commodities for maintaining or increasing supplies and for securing their equitable distribution and availability at fair prices. Under this law the government has among others the power to control the prices at which an essential commodity is bought and sold. Essential commodities are defined in the schedule to the Act and includes foodstuffs. Although the Act gives the government the power to control prices we can observe that this is seldom resorted to. Instead the GoI has focused its

attention on MSP, agriculture productivity and on the supply chain in addition to giving targeted food subsidies to low income households. There is also a public distribution system via ration cards to provide affordable food grains and commodities to poor people.

47. **Price Control practices in Indonesia:** In Indonesia the Bureau of Logistics (Bulog) set minimum farm prices and maximum consumer prices for key staple commodities i.e. rice, soybeans, sugar, corn and meat. This authority was dismantled in the wake of the financial crisis of 1997-98. However, after the 2010-11 spike in grain costs the government reinstated Bulog. Under new legislation Bulog has been converted to a State Owned Enterprise (SOE) that is involved in throughout the food supply chain. It is involved from working with farmers to processing and finally in distribution through its Bulog Mart.

## Improvements in current price control mechanism

### Short-term Recommendations

48. **Uniform Pricing Formula:** As an immediate measure it is proposed that a uniform formula for fixing a range of prices throughout the province or even the country should be adopted. This will discourage traders from diverting and hoarding supplies to places where better prices and margins are available. It may be noted that the formula devised by the Industries Department, Government of Punjab is a step in this direction and this formula may be replicated in all the provinces to ensure uniform prices. To implement such a scheme, there needs to be greater inter-district and inter-provincial coordination and information sharing.

49. The following is suggested for possible improvements in the price control mechanism:

- a. **Fixing prices at the wholesale level:** The analysis of data received from various districts indicate that it has been extremely difficult and impracticable to enforce

uniform prices at retail level. The prices specified in the rate list are rarely followed due to the fact that there is a huge disparity in the cost of doing business for each retailers. Shop rents and other operating expenses vary from retailer to retailer and from market to market. Furthermore, in case of wholesaler increasing prices or limiting supplies, it is impractical for the retailer to follow the price list. Some retailers associations concerned that they cannot follow official rate lists because wholesalers increase their prices. Practically the only place where these rate lists are being observed are the 'weekly bazaars' set up by the district/tehsil administration or at the 'mandis'.

Enforcement of retail prices has also proved to be expensive and difficult because it involves thousands of retailers within a single district. Enforcing rates at the wholesale level in comparison, would be easier since most wholesalers of a particular commodity are usually located in 'mandis' or a similar vicinity and have relatively uniform operating cost and business models.

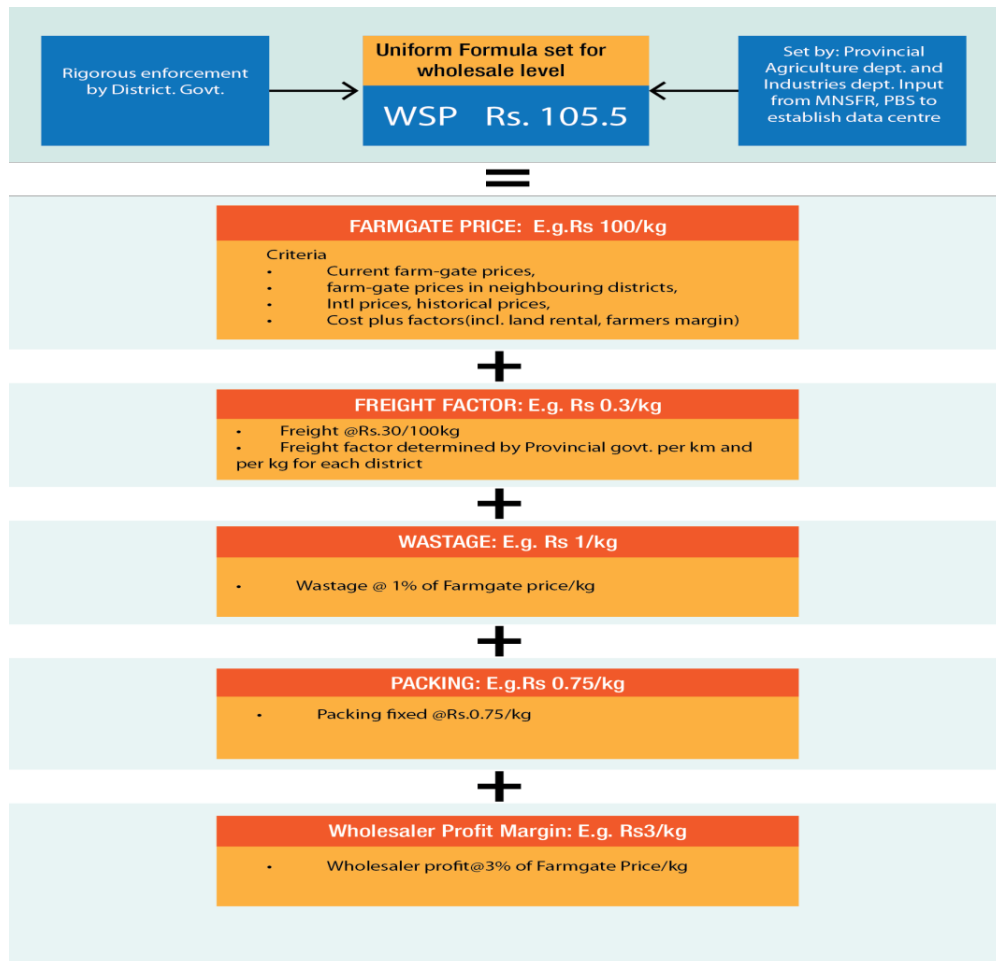
- b. For determining prices at wholesale level, a standardized format should be adopted at provincial level. The formula/format may be determined by the respective Provincial agriculture Department with input from Provincial Industries Department .Ministry of National Food Security & Research (MNFSR) may also provide input from a national perspective to the provincial departments and Pakistan Bureau of Statistics (PBS) may provide all relevant statistic, particularly international trends in the prices of relevant essential items. It is suggested that PBS may establish a data centre and allow access to the relevant departments to the required data. Following elements may be considered for determining the whole sale price:
  - i. The base price may include Farmgate prices based on current prices in district as compared to prices in neighbouring districts and price history in last 6 months. It may also include cost plus factors (including land rental and farmers margin). Farmgate prices may be determined by MNSFR in collaboration with provincial industries and agriculture departments and Pakistan Bureau of Statistics (PBS) especially relation to international

prices and previous season price trends. Fixed charge for, wastage, packaging and margin to the wholesalers may be added to the farmgate price to arrive at the wholesale price.

- ii. The current practice in Punjab is to have a fixed charge for freight i.e. Rs.30/100kg this may be applicable for movement within a district however, for movement between districts freight charges need to vary for depending on distances. Freight factor may be determined by Provincial industries department per kilometer per kg for every district which would vary depending upon the distance of district from main *mandi*. A possible formula could be:
- iii.  $WSP = \text{Farmgate prices} + \text{Freight @Rs.XYZ/100kg} + \text{Wastage } 1\% \text{ of farmgate price} + \text{Packaging @Rs.0.75/kg} + 3\% \text{ margin for Wholesaler}$ ; The Wholesale Price(WSP) thus computed may then be compared to past trends in the WSP and international prices(if relevant) for the commodities to arrive at a final price to be fixed at district level.

**Figure 3: Pricing Mechanism for Wholesale Level**

## Review of Framework Relating to Control of Pricing & Supply of Essential Food Commodities



- c. **Role of Trader's associations:** Trade Associations should not be involved in fixing prices. Agriculture departments may take input of these associations regarding the demand and supply situation however, these associations should not be present when prices are being fixed. Instead of involving associations price could be determined on the basis of criteria described in (i) above.
- d. **Frequency of price determination:** Provincial governments may decide on the frequency of price determination considering relevant factors such as:
- Time of arrival of new crop;
  - Timeliness of inputs;
  - Nature of product i.e. perishable and non-perishable;
- Monitoring could be done at regular intervals say monthly.

- e. **Specify minimum quality standard:** It has been observed that items sold at the official rate list are of substandard quality and the common excuse for retailers not abiding by the rate list is that the product is of superior quality. It is therefore recommended that a minimum quality should also be specified alongwith the rate list. Some districts are already practicing this and fix different prices for each quality for example "*Daal maash washed special and daal maash washed bareek*".
- f. **Specify a price range/band of prices:** A range or band of prices should be specified which is less restrictive on competition than a single price. Basic quality standards should be identified and the minimum range in the price band would be for average quality and the maximum band could be for higher quality.
- g. **Rigorous enforcement:** The district administrations may enforce rate lists at wholesale level on a rigorous basis as it involves less resources as compared to enforcement at retail level. Based on our observations, there is a need to have a specialized body tasked exclusively with the enforcement of these lists since the district administration does not have the capacity to handle this task on a regular basis. The District Administration using its powers under the Price Control and the Prevention of Profiteering and Hoarding Act, 1977, may act in case of any complaints of excessive pricing by retailers.
- h. **Display of available Quantity:** Display of quantity should be made mandatory alongwith prices at stalls at *mandis* and other bazars. This would help keep a check on supplies and can help prevent hoarding or shortage of commodities.

## Long-term Recommendations

### Objectives of Price control

50. Identifying and setting out objectives of a price control mechanism is extremely important to make it viable for all stakeholders. For any governmental entity the main objective of intervention in the market is usually to ensure food supply at an affordable price. There are certain opposite forces of play here because lower prices for consumers may result in

lower returns to farmers who would in turn cultivate more profitable products which would reduce future supply the commodity with lower returns. Therefore, price control needs to be balanced with ensuring adequate supply. Study of international jurisdictions shows two divergent examples of price stabilization. The Indonesian model with a vertically integrated SOE and the Indian model that concentrates more on Minimum Support Prices and targeted subsidies rather than direct price control (although the law does empower the government to control prices and regulate supply).

### Focus on Supply side

51. The country-wide exercise of the Commission indicated that supply side factors are the most important factor in contributing to higher prices. Price controls are a stop-gap measure and unless the supply side situation is addressed or in other words availability of commodities is not ensured prices continue to fluctuate, following the principle of demand and supply. It is therefore important that the Government needs to provide incentives to farmers/suppliers to increase supply and these incentives could take the following forms:
- a. Minimum Support Prices for farmers (MSP); and
  - b. Other factors such as improvements in agriculture research, service delivery to farmers, productivity enhancement programmes and etc.
  - c. Improving supply chain by increasing access to market and minimizing role of middleman/intermediaries

### Minimum Support Price Mechanism (MSP)

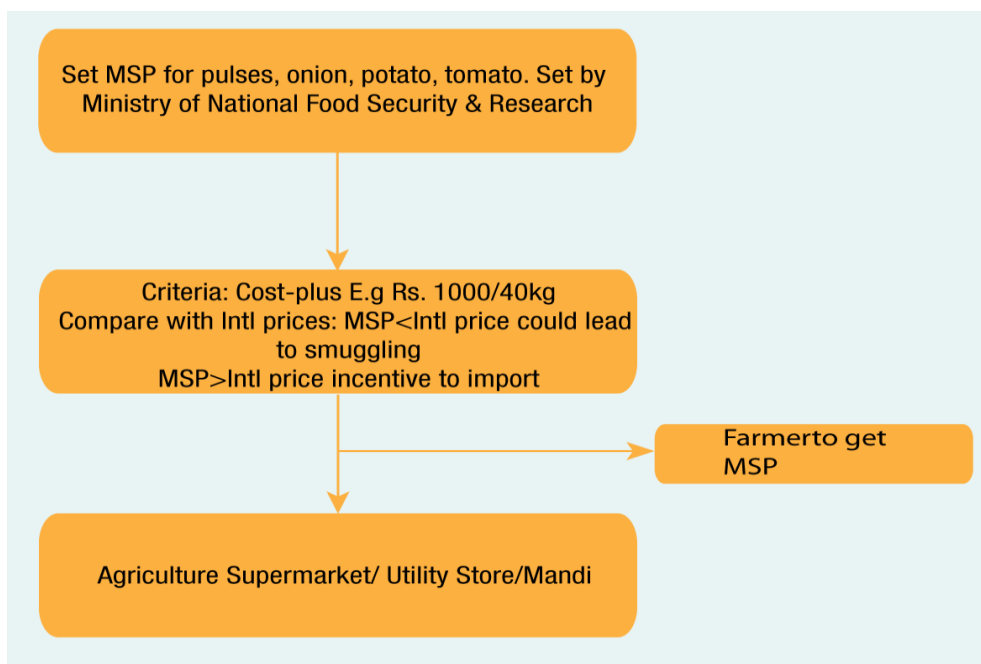
52. It has been observed that over a period of time, cultivation of crops such as pulses has diminished in Pakistan and resultantly the country is meeting most of its demand for pulses through imports. Similarly the prices of crops like rice and potatoes has also faced downward trend and it is expected that lesser people will grow these crops coming years. Therefore, there is a need to incentivize farmers to revive cultivation of these crops and one of such incentives could be announcing minimum support price for these. As a long



- term suggestion it is proposed that a mechanism to determine and fix the MSP should be introduced to incentivize farmers to cultivate crops that are high in demand and are volatile or price sensitive such as: onions, potatoes, tomatoes, masoor, moong, maash and channa.
53. Because such a measure needs to be supported by government procurement and monitoring MSP should be introduced for a limited time period which should be announced in advance. In the EU for example price supports are eventually phased out and replaced with other hybrid support schemes.
54. The MSP may be determined by the Ministry of National Food Security and Research with the input of respective Provincial agriculture departments and may be announced before the cultivating season. A specialized cell may be established in the Ministry for this specific purpose. Past practice for setting MSP involved a cost-plus approach however, considering the following factors while setting MSP may further improve the mechanism and ensure a more realistic price is set:
- a. Cost-plus factors;
  - b. Supply trends in previous periods (moving averages);
  - c. Close monitoring of international supply and price trends; and
  - d. Demand forecasting.
55. The Federal Government would also set a minimum quality level for the MSP. The setting of the MSP therefore, would include a number of variables one of which is international supply and price trends. If the MSP is less than the international market price then the commodity would be cheaper in Pakistan and a large difference between the two would lead to smuggling or on the other hand it could lead to an incentive to export as the commodity would be competitive in the international market.
56. If the MSP is higher than the international price it would mean that there would be an incentive to import rather than buy locally as the commodity is cheaper in the international market leaving no incentive to purchase from the farmers at the higher MSP.
57. **India:** It may be noted that in other jurisdictions such as India the MSP is determined by Commission for Agricultural Costs and Prices (CACP) also uses a number of variables including market price trends.

58. **United States:** In the United States support prices are accompanied by import quotas. The US Department of Agriculture's Commodity Credit Corporation (CCC) would determine farm support price of milk which were accompanied by an import quota which limited milk imports to 3% of domestic consumption. The US has employed a hybrid price support programme that also involves loans. At harvest the CCC gives grain farmers nine-month loans equal to their production times the support price. The CCC accepts the grain as collateral for the loan. If, during the term of the loan, the market price rises above the support price, farmers repay the loans with interest and sell the grain in the market. If the market price remains at or below the loan rate, farmers forfeit the grain to the CCC, keep the money, and have no further obligation. Such loans are called nonrecourse loans, meaning that the lender has no claim on the borrower beyond the collateral (in this case the crop).
59. Therefore, summarizing the discussion above we can say that the MSP should take into account different variables which among other factors should also include international price trends. MSP sometimes need to be accompanied by other measures such as import/export restrictions and government procurement.

**Figure 4: MSP Determination**



### Agriculture Supermarkets

60. In order to improve the access of the farmer to the market and to minimize the role of the middleman, it is proposed that 'agriculture supermarkets' may be established across Pakistan where farmers can directly display and sell their products at the price set out by the government. These agriculture supermarkets can be a counterpart to the traditional *mandis* and the final price to the consumer would be kept open. The salient features of these supermarkets would be:

- a. Ownership: Run on a public-private-partnership basis (PPP) and majority privately owned and privately operated. The contracting authority would be the respective provincial government or the district administration.
- b. Business Model: The agriculture supermarket would purchase directly from the farmer at the MSP (for products which have an MSP) or ideally may enter into a long term supply contract with the farmers that would guarantee them sale of their

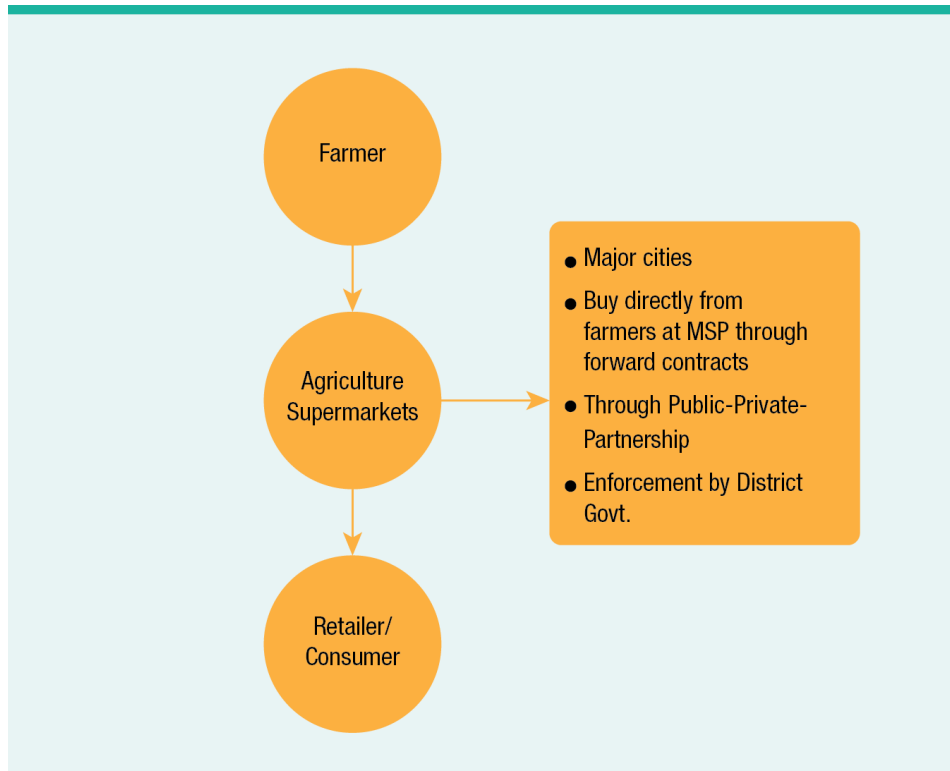
crop at a predetermined price. The supermarket may develop its own trucking fleet or contract to a third party. Bulk buying and removing the margin of the different middlemen would enable the supermarket to sell at lower prices. Product mix would initially include perishable and non-perishable food items. The estimated margin for a supermarket on food and groceries is 7%<sup>2</sup> and the company would be allowed to sell other non-food household products (which have higher margins) to improve its financial viability.

- c. Revenue generation: This is a financially viable project with the supermarket generating its own revenue stream in the form of sales. Furthermore, the market may charge some suitable commission from the seller as well.
- d. Intended GoP support: The government may provide land or provide access to long-term funding for purchase of land/premises, warehouses/cold storage. Furthermore, other incentives such as lower mark up or tax benefits may also be considered.
- e. Floor space: Sizes could vary depending on local population. Range of large (10,000-16,000 sq metres), medium (7,000-9,000 sq metres) and small (2,500-4,000 sq metres). The premises would include main shop floor, warehouse/storage area, parking space and management offices.
- f. Location: Initially in main urban areas like: Lahore, Rawalpindi, Peshawer, Karachi, Quetta, Multan, Bahawalpur, Gujranwala and Hyderabad. Different parties could be asked to bid for a particular region. The location within each urban area would be decided based on availability of land/reclaimed premises, and access to highway.
- g. Private sector: parties selected would have prior experience in retail/supply chain and logistics.
- h. Monitoring: of final prices would be undertaken by District Governments it may noted that monitoring of a single large supermarket would be easier.

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<sup>2</sup> Estimated by SMEDA in Feasibility study for supermarket stores in Pakistan

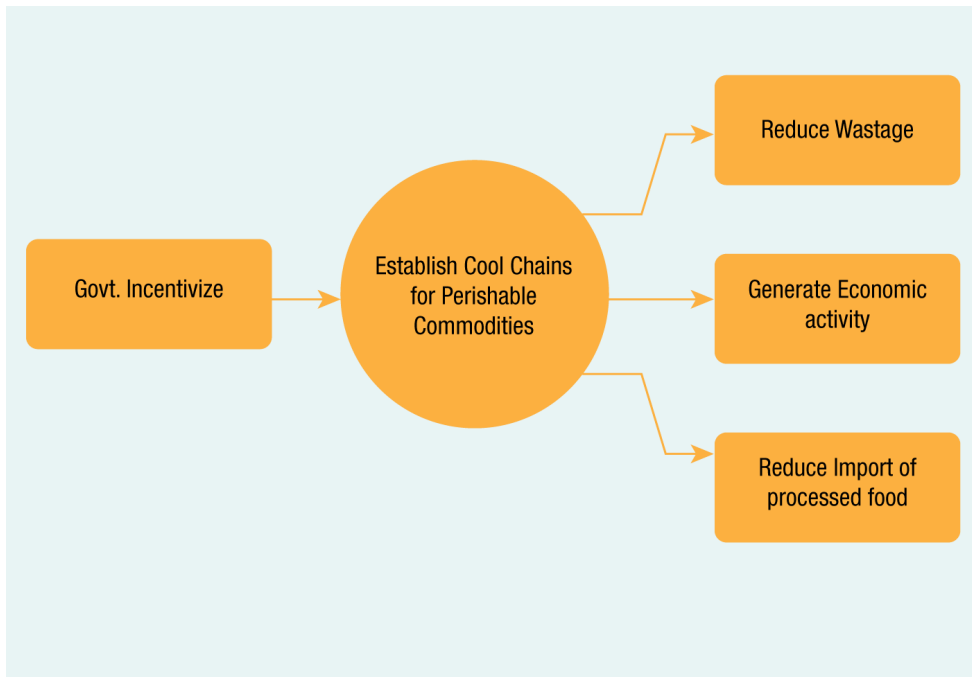
**Figure 5: Proposed Supply chain**



### Incentivize Food Processing

61. Encourage food processing and allied industries through the establishment of cool chains for perishable commodities. This would reduce wastage of perishable commodities and also generate economic activity. It would also reduce the import of processed food. The food processing industry can be encouraged through the provision of tax incentives.

**Figure 6: Benefits of Cool Chains**



### Utility Stores

62. The Federal Government should increase the number of Utility Stores throughout the country so as to ensure the availability of essential commodities at a lower price. It is suggested that Utility Stores should also sell perishable commodities like fruits and vegetables. The USC could be run on a franchise model. Private sector partnership would ensure good performance and public ownership would ensure that excessive prices are not charged. Alternatively the government should appoint a committee to monitor the prices charged by Utility Stores and quality of items on sale.

### Effective utilization of Statistics and data for planning and decision making

63. The Pakistan Bureau of Statistics (PBS) collect statistics on the supply and demand situation of essential food commodities in the country. Additionally in order to map the

supply and demand following statistics may be gathered and circulated to the relevant departments on fortnightly basis to facilitate planning.

- a. Identification of main sources of supply i.e. main production regions and *mandis*;
- b. Who are the major dealers of the product;
- c. If the products are imported what are the main sources of import;
- d. If the product is being exported examine the demand and production trend in neighbouring countries;
- e. How to control exports (if applicable).

### Centralized Monitoring of Supply

64. A central body established at the Federal level may monitor the supply situation and recommend export controls in case of shortages or opening up of exports in case of excess supply. The federal government can greatly assist in ensuring adequate supply by continuing to take timely decisions to bar export of commodities when a shortfall is expected. If commodities cannot be taken out of the country in times of crisis, shortages can be avoided and traders will be encouraged to ensure supply in the domestic market. This will have a positive impact on prices. A centralized monitoring authority would enable the timely identification of import needs in case of insufficient domestic supply. Emergency procurement has led to losses to the exchequer which could be avoided if there is a centralized authority monitoring the supply and demand situation and can thus accurately forecast import needs.

### Amendments to Food Laws

65. The current food laws were archaic and needed to be updated. Since the 18th Amendment the subject was devolved however, the provincial laws have not been changed to reflect this. We also suggest that the Agriculture Produce Market Ordinance, 1978 needs to be amended for establishment of Agriculture Supermarkets.



### Establish Working Group at MNSFR

66. It is suggested that a working group may be established at MNSFR for implementation of the proposed mechanism.

### Recommendation Implementation Responsibility Matrix

Sr.No	Recommendation	Actions	Implementation Responsibility
1.	Improvements in current price control mechanism	<ul style="list-style-type: none"> <li>i. Standardized format;</li> <li>ii. Fix wholesale prices considering demand and supply situation, prices in previous months, international prices;</li> <li>iii. No involvement of traders' association in price determination instead sampling of costs at district level may be done;</li> <li>iv. Specify price band/range;</li> <li>v. Specify minimum quality standards;</li> <li>vi. Frequency: When new crop is due in the market.</li> <li>vii. Monitoring and rigorous enforcement;</li> <li>viii. Take action under Price Control and the Prevention of Profiteering and Hoarding Act, 1977 in case of complaints of excessive pricing.</li> </ul>	<p>Respective Provincial Agriculture departments with input from Provincial industries Department in collaboration with Ministry of National Food Security &amp; Research (MNFSR) and Pakistan Bureau of Statistics(PBS)</p> <p>Prime responsibility with DCOs</p>

## Review of Framework Relating to Control of Pricing & Supply of Essential Food Commodities

2.	Minimum Support Price (MSP)	Set MSP at Federal level for essential commodities	Main responsibility of Ministry of National Food Security & Research
3.	Encourage investment in Agriculture supermarkets	Under PPP format.	Ministry of Finance; Provincial governments.
4.	Encourage investment in food processing industry	Tax incentives for establishing cool chains.	Ministry of Finance
5.	Expand Utility Stores Network	Run on a public-private partnership/franchise basis.	Ministry of Industries and Production.
6.	Effective utilization of Statistics and data for planning and decision making	Mapping exercise for all essential commodities.	Pakistan Bureau of Statistics(PBS)
7.	Centralized Monitoring of supply	Decisions on export controls;  Decisions on import/procurement of commodities.	Ministry of National Food Security & Research (MNFSR) alongwith provincial agriculture departments Pakistan Bureau of Statistics(PBS) and Federal Board of Revenue(FBR) (for custom data on imports).
8.	Improving agriculture productivity and yields	Availability of seeds, extension services, improvement in groundwater management etc.	Provincial departments of agriculture, Pakistan Agriculture Research Council (PARC), Ministry of National Food Security & Research (MNFSR)

## Review of Framework Relating to Control of Pricing & Supply of Essential Food Commodities

9.	Establish Working Group at MNSFR	For implementation of proposed mechanism	Ministry of National Food Security & Research (MNFSR) Competition Commission of Pakistan (CCP), Provincial agriculture departments & Pakistan Bureau of Statistics (PBS)
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