<u>News Coverage for Website</u>

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The News

Cartels, mafias, and monopolies

Pakistan has long grappled with the pervasive influence of monopolies, cartels, mafias, and vested interests across its economy. From industry and trade to services, powerful groups have consistently stifled competition, undermining economic fairness and efficiency.

These monopolistic practices span production, sales, supply chains, distribution networks, transportation, banking, aviation, and even healthcare. Key sectors such as cement, sugar, pharmaceuticals, wheat flour, automotive, fertilisers, oil and gas, power, and poultry are dominated by influential associations. These entities frequently manipulate prices, employ deceptive marketing tactics, and violate competition laws to enrich themselves at the expense of consumers and the broader economy.

To address these issues, the Competition Commission of Pakistan (CCP) was established in 2007 under the Competition Ordinance, later enacted as the Competition Act 2010. The CCP's mandate includes promoting fair competition, curbing cartelisation, and regulating anti-competitive practices. Between 2007 and 2023, the CCP imposed penalties totalling Rs74 billion across various sectors for violations of the Competition Act.

However, only a meagre two per cent of this amount has been recovered, with substantial sums tied up in lengthy court proceedings. Despite its efforts, cartelisation persists in major sectors, including sugar, cement, fertiliser, telecoms, automotive, oil and gas, and essential commodities like poultry, dairy, wheat, and edible oil. Service sectors, including healthcare, banking, and shipping, as well as the power sector, are similarly dominated by politically connected groups, creating significant barriers to reform and enforcement.

The sugar and cement industries exemplify entrenched cartel behaviour. Allegations of price-fixing and artificial shortages have persisted for years, with a few powerful players controlling supply chains from production to distribution. Investigations have revealed coordinated pricing among producers, leading to inflated costs for consumers and disrupting economic activity. While the CCP has intervened on multiple occasions, industry players have effectively used legal stay orders to block penalties and regulatory measures.

In 2008, the CCP issued show-cause notices to the All Pakistan Cement Manufacturers Association (APCMA) and its 22 member companies for alleged price-fixing and production quotas. Penalties amounting to Rs6352 million were imposed on 20 cement producers and Rs50 million on APCMA in 2009. However, these penalties were contested in court, where stay orders shielded the companies from enforcement. A similar case in 2012 also resulted in significant penalties, but legal challenges neutralised the CCP's efforts. Renewed action in 2020 led to raids on APCMA offices and two cement companies, uncovering evidence of cartel behaviour. Despite these efforts, meaningful enforcement remains elusive.

While the Competition Commission of Pakistan (CCP) has made notable strides in tackling anti-competitive practices, its impact remains constrained by legal, political, and resource-related hurdles. The persistence of cartelisation in Pakistan's economy underscores the urgent need for reforms. Strengthening the CCP is essential for fostering a fair and competitive economic landscape The sugar industry presents a parallel scenario. In 2013, the CCP exposed extensive price manipulation by leading producers. However, penalties were delayed through prolonged legal appeals. By 2020, another CCP inquiry confirmed that cartel behaviour persisted, with sugar mills engaging in practices like price hikes, supply shortages, coordinated suspension of crushing activities, and collusion on export quantities. In August 2021, the CCP imposed penalties totalling Rs44 billion on 81 sugar mills and Rs300 million on the Pakistan Sugar Mills Association (PSMA).

Yet, as of 2024, these penalties remain largely unrecovered, with 127 petitions pending in courts. Meanwhile, sugar shortages and price hikes continue to burden consumers, reflecting the CCP's limited capacity to deter anti-competitive behaviour effectively. Other industries also illustrate the CCP's struggles. In 2019, the Pakistan Flour Mills Association (PFMA) was fined Rs75 million for price-fixing, while similar allegations have been levelled against the Pakistan Automotive Manufacturers Association (PAMA).

The fertiliser sector faced scrutiny in 2024 when the CCP issued show-cause notices to six leading companies for allegedly fixing urea prices. Despite these efforts, legal challenges and resource constraints hinder the CCP's effectiveness. The power sector, particularly independent power producers (IPPs), also underscore the CCP's broader limitations. Exclusive power purchase agreements and guaranteed high returns for the IPPs stifle competition and inflate tariffs, straining consumers and the economy. The CCP has struggled to assert authority in this sector, leaving monopolistic practices unchecked.

Structural and operational challenges compound the CCP's difficulties. Dominant players wield significant political and economic influence, undermining regulatory oversight. Although the CCP is mandated to operate independently, external pressures often compromise its efforts. Additionally, the CCP's limited resources — both financial and human — hamper its ability to conduct thorough investigations, particularly in industries with complex supply chains.

Legal challenges further complicate enforcement. Powerful entities frequently appeal CCP decisions, securing stay orders that delay or nullify penalties. This undermines the commission's authority and weakens the deterrent effect of its actions. The cement and sugar industries, in particular, have exploited these legal loopholes, highlighting systemic weaknesses in the CCP's framework. Addressing these challenges requires comprehensive reforms to empower the CCP.

Legislative changes must enable swift enforcement of penalties and limit delays caused by stay orders. Enhancing the CCP's budget would improve its investigative capacity and allow for the recruitment of specialised personnel. Transforming an efficient appellate process within the CCP could expedite case resolutions. Transparency reforms in sectors like sugar, cement, textiles, and power are also critical to fostering a competitive market environment.

Thus, while the CCP has made notable strides in tackling anti-competitive practices, its impact remains constrained by legal, political, and resource-related hurdles. The persistence of cartelisation in Pakistan's economy underscores the urgent need for reforms. Strengthening the CCP is essential for fostering a fair and competitive economic landscape that benefits businesses, consumers, and the broader economy.
https://www.thenews.com.pk/magazine/money-matters/1257035-cartels-mafias-and-monopolies

Profit by Pakistan Today

The case for the Ufone-Telenor merger

Why, counterintuitively, fewer competitors might mean better choices for mobile telecommunications consumers in Pakistan.

Conventional wisdom has it that the more choices consumers have, the better off they will be. So when a competition regulator like, say, the Competition Commission of Pakistan, is examining a merger, one would expect them to examine the transaction on the basis of a single question: will this increase or decrease market competition? But an examination using metrics like the number of competitors, or even the more sophisticated analytical tools like the Herfindahl-Hirschman Index would be simplistic, and lead one to arrive at precisely the wrong conclusion.

It is our contention that an analysis of the market structure of mobile telecommunications in Pakistan – and the world – would lead one to conclude that the acquisition of Telenor Pakistan by Pakistan Telecommunication Company Ltd (PTCL) is more likely that not going to benefit consumers in the country.

PTCL formally made its bid to acquire Telenor Pakistan in December 2023, and the Competition Commission of Pakistan (CCP) naturally had some questions. They are expected to rule on the matter in latter half of December 2024, and while we have no indication of which way the ruling is headed, we would argue that a ruling that allows the transaction to go through would benefit Pakistan's consumers.

Our analysis will examine the dynamics of the industry, why competition has been going down over the past decade or so, and why a PTCL acquisition of Telenor Pakistan – specifically the merger of Ufone and Telenor – will likely be a net positive for Pakistani consumers.

The punchline: Jazz is far too dominant in the Pakistani market right now, and this merger will add heft to its competitors in a highly capital-intensive industry where scale is the key to being competitive.

And if the CCP is looking for case studies to bolster a decision to allow the merger, we will offer evidence from the United States where the exact same situation occurred (four players consolidating into three) and both prices and quality of services improved from the consumer perspective.

But first, a brief overview of how to think about competition in an industry.
https://profit.pakistantoday.com.pk/2024/12/02/the-case-for-the-ufone-telenor-merger/