Competition Policy and Poverty Alleviation

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Poverty Defined

- Poverty can be simply defined as *social disadvantage vis-à-vis* various necessities of life. Poverty is usually measured through a consensus based on the minimum income question, which is used to derive the "Poverty Line"

Poverty Classified

- Poverty may be classified into three different categories:
- Extreme/absolute/chronic poverty: households cannot meet basic survival needs.
- Moderate/transitory poverty: basic needs are barely met; people must often forgo education and health care. The smallest misfortune (health issue, job loss, etc.) threatens survival.
- Relative: household income level is below a given proportion of average national income; people lack access to quality health care, education and prerequisites for upward mobility

Poverty Alleviation

- Millennium Declaration – First Goal:" spare *no effort to free . . . fellow men, women and children from the abject and dehumanizing conditions of extreme poverty*"
- Amartya Sen: poverty eradication policies "*must focus on creating environments in which people have the opportunities to 'lead the lives they have reason to value and to* ***enhance the real choices they have'***"

Competition Policy

- Competition policy and law provide a necessary framework that supports and complements measures aimed at alleviating poverty. Competition policy, where it exists, hovers over all economic activity within a country, promotes rivalry among businesses, and keeps a check on rent-seeking and anti-competitive practices, which could stall any poverty-alleviation programmes

How Anti-Competitive Practices Affect Poverty

- Collective price fixing – raising prices artificially thereby harming poor consumers;
- Restricting the supply/output of essential commodities in the market and thereby depriving the consumers of the basic necessities;
- Bid rigging: especially in government contracts for infrastructure projects. Bid rigging raises the cost of state projects thus misappropriating public funds, which could be used for other development and poverty reduction projects.
- Tied selling – forcing people to buy items they do not need, thus depriving them of their scarce funds.
- Cartelization in essential supplies, e.g. wheat, sugar, cooking oil, cement, etc.

How Competition Policy Can Help In Poverty Alleviation

- Competition policy can directly and indirectly address five broad concerns:
  - access to social services,
  - unemployment,
  - labour market inequalities,
  - unequal distribution of power, and
  - vulnerability.
- A competitive market demands multiple service providers for the provision of social services and other sectors *hitherto* in the exclusive control of the state.

How Competition Policy Can Help In Poverty Alleviation

- Competition law by ensuring fair market play encourages trade, which in turn can generate employment, and reduce labour market inequalities.
- Competition law also prohibits and penalizes abuse of dominant position (unequal distribution of power), and it provides a shield to vulnerable persons against artificial price hikes and other anti-competitive practices affecting prices.

Competition Law in Pakistan

- In December 2003, the Poverty Reduction Strategy Paper (PRSP) was completed and published. The PRSP was based on four pillars: (i) achieving high and broad-based economic growth while maintaining macroeconomic stability; (ii) *improving governance*; (iii) investing in human capital; and (iv) targeting the poor and vulnerable

Competition Policy in Pakistan

- The Strategy is part of the Poverty Reduction and Growth Facility given by the International Monetary Fund (IMF) and the World Bank to the government.
- Under the PRSP I, the government of Pakistan designed a new competition policy and Competition Ordinance, 2007, which was promulgated on 2 October 2007. The Ordinance was promulgated as an Act of Parliament in 2010.

Banks Cartel Case: Impact on Poors' Vulnerability

- The Pakistan Banks' Association (PBA) advertised on 5 November 2007 in the daily press that "*under the auspices of Pakistan Banks' Association, all scheduled banks introduced the Enhanced Saving Account (ESA)*" for all saving accounts with a maximum deposit of Rs.20,000. Under the ESA, small account holders will get a fixed interest of 4 per cent per annum.
- The Competition Commission took notice of the advertisement and issued notices to PBA

Banks Cartel Case

- In April 2008, the CCP ordered against the bank cartel requiring PBA to desist from collusive price-fixing and imposed a penalty of Rs. 30 million on it and Rs. 25 million each on seven leading banks.
- Fixing the interest rates, apart from killing the competition, directly impacts the account-holder's potential to save, and thus enhances his/her vulnerability. Such conduct is clearly adversely affecting the efforts to alleviate poverty in the country.

Bahria University Case: Affecting Human Capital

- Bahria University, run by Pakistan Navy and having campuses in Karachi and Islamabad, imported 4,500 laptops in 2006 to sell to students. However, when the laptops were not sold as expected, the University administration made it mandatory for all new entrants to purchase the computers

Bahria University Case

- The CCP took notice of this practice, after picking it from the press, and initiated an inquiry as the practice is violating Section 3(3)c of the Ordinance, which prohibits “tie-ins”, that is where the sale of goods or services is made conditional on the purchase of other goods or services

Bahria University Case

- The practice of tie-in was putting an unnecessary burden on the poor students by: i) forcing them to purchase a laptop even if they already have one; and ii) selling the laptops at a price that is at least 45 per cent more than the market price in the case of a lump-sum purchase and over 100 per cent more in case of purchase by instalments.
- This anti-competitive practice is clearly a tax on students, who wish to improve the **human capital** thereby reducing the incidence of poverty

Bahria University Case

- In response to the CCP's notice, the University has voluntarily agreed to stop the practice of mandatory purchase of laptops immediately

Murree Berwery Case: Employment Opportunities

- Murree Brewery Company Limited (MBCL), a local producer of alcoholic and non-alcoholic beverages, complained against McDonalds, Kentucky Fried Chicken (KFC), and Pizza Hut for exclusive dealing with cola companies and selling only cola drinks at their outlets, thereby refusing to deal with it and other local beverage manufacturers.

- McDonalds, KFC, and Pizza Hut together enjoy the dominant position in the foreign fast-food restaurants market. Their refusal to deal with MBCL forecloses a local competitor from the relevant market. Such agreements by restricting competition indirectly restrict an undertaking's potential to grow thereby limiting potential employment opportunities, in addition to limiting choices to consumers.

Cement Cartel Case: Misappropriation of Public funds

- Sudden Increase in Prices by 30 to 40 % per bag.
- CCP took notice and issued show cause, and after hearing concluded there that cement manufacturers colluded to raise prices.
- The prices came back to competitive level after the ruling by the Commission
- The uncompetitive prices of cement has the affect of misappropriation of public funds,(as state is the largest consumer of cement) which could have been used to meet the needs of poor such as by providing health services

Thank you for your attention