

**REPORT OF
THE INQUIRY COMMITTEE
CONSTITUTED BY
THE PRIME MINISTER OF PAKISTAN
REGARDING
INCREASE IN SUGAR PRICES**

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- A. The Prime Minister of Pakistan vide; SPM letter No. 755/A/M/SPM/2020 dated 20.02.2020 constituted an Inquiry Committee to probe into the sugar crisis in the country. The committee consisted of:
- | | |
|---|----------|
| i. Director General, FIA | Convener |
| ii. Representative of IB not below BS-20/21 | Member |
| iii. Director General, Anti-Corruption Punjab | Member |
| iv. Any other member Co-opted by the convener | |
- B. The inquiry was to be conducted as per following TORs fixed vide above mentioned letter:
- a. Whether the production, this year, was low as compared to past years? Was low production the primary reason for increase in prices?
 - b. Was the minimum support price sufficient?
 - c. Did the Mills purchase sugarcane at exorbitantly higher prices than the minimum support price? If yes, then reasons thereof;
 - d. Reasons for mills not purchasing sugarcane, for a limited period of a few weeks, from the farmers and its impact, if any, on sugar prices;
 - e. Basis for determination of Ex-Mill price? Reasons for increase in Ex-Mill price;
 - f. Market manipulation/cartelization by sugar mills, if any;
 - g. Impact of forward contracts on the prices of sugar and whether any malafide is involved;
 - h. Whether margins between Ex-Mill and retail prices increased, compared to previous years, or otherwise. If yes, reasons thereof and potential beneficiaries;
 - i. Impact of tax increase on sugar prices at Ex-Mill/Retail level;
 - j. Hoarding at whole sale/Retail level and within sugar mills vis- &-vis stocks of last year;
 - k. Was export of sugar justified? Any subsidy given on export and its impact, with potential beneficiaries;
 - l. Basis for determination of retail price of sugar;
 - m. Role of various stakeholders, including government institutions and private sector in increase in sugar prices, including timely/preventive/ pre-emptive remedial measures to control sugar prices and malafide, if any, of any stakeholder; and,
 - n. Any other issue, deemed appropriate, related to the increase in recent sugar prices;
- C. In order to inquire into the sugar crisis as per the TORs, the Inquiry Committee held a series of meetings/briefings with the relevant Federal stakeholders such as the Ministry of National Food Security, Ministry of Industries, Ministry of Commerce, Utility Stores Corporation, Federal Board of Revenue and others. A meeting-briefing was held also with the delegation of the Pakistan Sugar mills Association (PSMA) on

their request during the inquiry proceedings. Record of all the meetings is available for perusal.

- D. Record was also sought from the relevant provincial departments i.e., agriculture, food department, Cane Commissioners etc., through their concerned Chief Secretaries to obtain details about the growth, production, enforcement, reporting mechanism of sugarcane growth and production of sugar. In addition, the Provinces were also asked to provide their input regarding the TORs.
- E. The analysis of each TOR along with findings is as below:

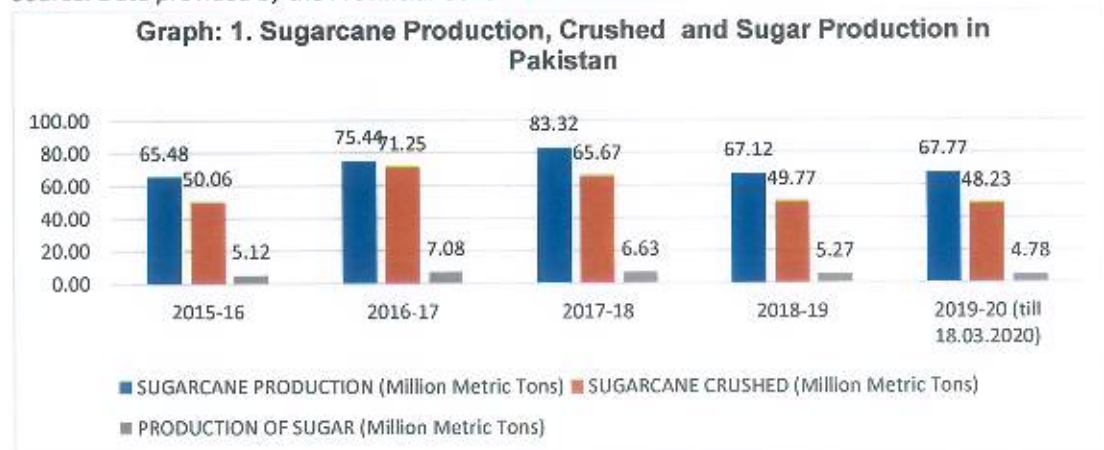
(a) Whether the production this year was low as compared to past year? Was low production the primary reason for the increase in price?

1. The total area under cultivation of sugarcane in the country has decreased as compared to the previous year, that is, 2.68% less area was cultivated; however, the production of sugarcane has increased by 1%. Last year, Pakistan produced 5.268 Million Metric Tons of sugar while during the current year 3.969 Million Metric Tons of sugar were produced till 25-02-2020: as per the data provided by the Provincial Governments. As per the latest data provided by the FBR, the production of sugar on 18-03-2020 is 4.78 Million Metric Tons and 18 sugar mills were still operational.

Table: 1. Area under cultivation of sugarcane and sugarcane produced in Pakistan

CRUSHING SEASON	CULTIVATION OF SUGARCANE (000 Acres)	SUGARCANE PRODUCTION (Million Ton)	SUGARCANE CRUSHED (Million Ton)	PRODUCTION OF SUGAR (Million Ton)
2015-16	1743.426	65.482	50.056	5.123
2016-17	1922.439	75.438	71.247	7.080
2017-18	2123.482	83.322	65.669	6.631
2018-19	1756.390	67.123	49.768	5.268
2019-20 (till 18.03.2020)	1709.403	67.769	48.23	4.78

Source: Data provided by the Provincial Governments & FBR



Source: Data provided by the Provincial Governments

2. In addition to the production of sugar, sugarcane is utilized as seed in production, for production of "Gurr", and also consumed in raw form. The substantial difference in the quantity of sugarcane produced and the sugarcane crushed by the sugar mills is not verifiable as there is no record of the quantities of *Gurr* produced and other consumptions. According to various sources, sugarcane is also purchased *off-the-books* and resultantly *off-the-books* sugar is produced and sold in the market. This alleged practice is not only a loss to the Government exchequer in terms of GST, but is also not accounted towards GDP. It is the responsibility of the Cane Commissioner to ensure that all sugarcane purchased is documented and FBR to ensure that all sugar produced and sold is properly recorded. Calibration of weigh bridges also needs to be verified to check for accuracy in weight measurement at the time of procurement of sugarcane.
3. The area under cultivation of sugarcane, and the quantity of sugarcane produced, started increasing since 2015-2016. The years 2016-2017 and 2017-2018 were peak years and record quantities of sugarcane were produced. Resultantly, quantity of sugar produced was much higher than the national requirement. Moreover, the prices of sugar remained low due to abundant quantity of sugar. Since, the production of sugar was more than the national requirement, the carryover stocks in the pursuing years were also high.
4. This year the area of cultivation decreased and the production of sugarcane actually increased marginally as compare to last year. However, the perception created by rumors about lesser area of cultivation, low carryover stocks and less production of sugarcane did contribute to the increase in purchase prices of sugarcane.
5. Since all the data is provided by the sugar mills and there is no other independent source of information, on-site forensic audits of the sugar mills are important to ascertain and verify these facts.
6. As explained in detail under para 39 of TOR (I), the retail price of sugar increased from Rs. 55.99 per Kg in December 2018 to Rs. 74.64 per Kg in January 2020. However, the major portion of the increase was between the period January 2019 to June 2019 when it rose from Rs. 55 to Rs. 71 per kg. This was well before the production cycle this year and, therefore, the correlation between less production and recent increase in price does not exist.
7. **Findings:**
 - i. The production of sugarcane is slightly higher than the previous year but the production of sugar is expected to be marginally lower than the previous year. Keeping in view the carryover stocks, the quantity of sugar produced seems to be sufficient for annual national consumption (as per data of national consumption provided by Statistics Bureau of Pakistan).
 - ii. The retail price of sugar increased from Rs. 55.99 per kg in December 2018 to Rs. 74.64 per kg in January 2020. However, the major portion of the increase was

between the period January 2019 to June 2019 when it rose from Rs. 55 to Rs. 71 per kg. This was well before the production cycle this year and, therefore, the correlation between less production and recent increase in price does not exist.

(b) Was the minimum support price sufficient?

8. The support price was increased to Rs. 180 per 40 Kg in 2015-2016 and remained the same till the start of the current crushing season. The Government of Punjab, KP and Sindh announced the enhancement of the support price to Rs. 190 for Punjab and KP and Rs. 192 for Sindh. The announcement was made just before the start of the crushing season on 29-10-2019, by Punjab, on 04-12-2019 by KP and on 09-12-2019 by Sindh.

Table: 2. Support price of sugarcane per 40 Kg in Pakistan

CRUSHING SEASON	Support Price of Sugarcane (Per 40 KG)		
	Punjab	KP	Sindh
2015-16	180	180	172
2016-17	180	180	182
2017-18	180	180	182
2018-19	180	180	182
2019-20	190	190	192

Source: Data Provided by the Provincial Governments

9. As per the responses sent to Inquiry Committee by the Provincial Governments, the support price was sufficient which has also been endorsed by the Agricultural Policy Institute (API). The API uses an elaborate system of calculation of support price and sends it non-binding recommendations to the Provincial Governments. The data shows that the support price had not been enhanced since 2015-2016 but the announcement to enhance it was made at a very late stage in 2019.
10. The support price of sugarcane is fixed by the Provincial Governments to motivate farmers to increase cultivation of sugarcane. The increase is supposed to be announced in the beginning, or before the start; of the sowing season. However, the increase in support price was announced just before the start of the crushing season in Punjab and after the start of the crushing season in Sindh and KP. The timing of announcement of the support price was much delayed and did not serve the purpose to encourage the farmers to cultivate more sugarcane.
11. Sugarcane Control Board is established in each province under the Sugar Factories Control Act 1950. These Boards are composed of all the stakeholders, including the representatives of the growers, and decide the support price. According to the reports from the Provincial Governments of Punjab, Sind and KP, all the stakeholders were taken on board and agreed upon the current support price.
12. The representatives of the farmers however do not agree about the sufficiency of support price as they claim that the minimum support price should be Rs. 250 per 40

Kg. The Inquiry committee suggests that a joint working of experts of API and the growers' representatives should be held each year before the cultivation season to agree on the support price. The government should also consider proper calculations to earmark the target area for sugarcane. A cycle of less production like this year of sugarcane resulting in higher prices followed by excess production resulting in low prices is not good for the price stability of sugar.

13. Finding:

The API calculated the cost of production of sugarcane at Rs. 139.54 per 40 Kg. for self-cultivated land and Rs. 186.74 for rented land at mill gate for Punjab. For Sindh, this cost was worked out as Rs. 147.59 per 40 Kg. and Rs. 192.63 per 40 Kg. for self-cultivated and rented land at mill gate, respectively. The last increase in the support price was in 2015-2016 to about Rs. 180 per 40 Kg and remained the same till the start of the current crushing season where it was increased to Rs. 190 per 40 Kg. Keeping in view the calculations of API and historical data the support price seems to be sufficient. However, the timing of announcement of increase in support price was delayed and did not serve the purpose of allowing the farmers to make an informed decision.

(c) Did the mills purchase sugarcane at exorbitantly higher prices than the minimum support price? If yes, then reasons thereof:

14. There are differences in day to day purchase price of sugarcane of every sugar mill. Some sugar mills have purchased sugarcane at higher price while the purchase price of other sugar mills is comparatively low. The average seasonal purchase price of sugarcane for the whole of Pakistan (the data of 5 sugar mills of Sind not included) is Rs. 218.85 per 40 Kg. The support price was Rs. 190 per 40 Kg in Punjab and KP and Rs. 192 per 40 Kg in Sindh. The sugarcane was purchased at about 15% higher than the support price in whole of the country.

Table: 3. Seasonal average purchase price per 40 Kg: Figures till 25-02-2020

Description	Support Price Rs. per 40 Kg	Seasonal Average Purchase Price Rs. Per 40 Kg	Difference Rs. Per 40 Kg	Percentage Increase
Punjab	190	217.90	27.90	14.68%
KP	190	211.37	21.37	11.25%
Sindh	192	227.29	35.29	18.38%
Pakistan		218.85		14.77%

Source: Data Provided by the Provincial Governments



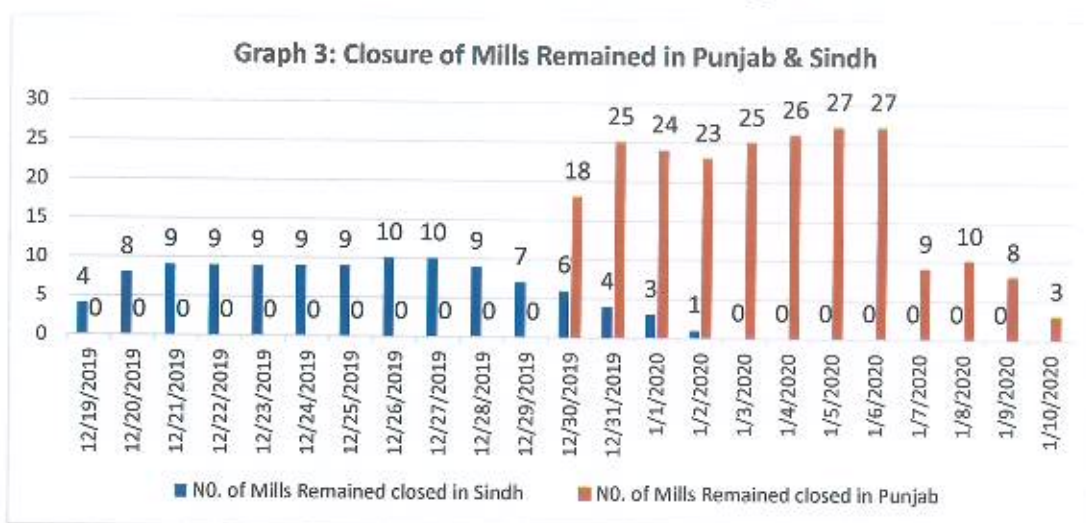


Source: Data Provided by the Provincial Governments

15. Speculation of low area of cultivation and low production of sugarcane meant that farmers were expecting prices higher than the support price. During the previous crushing seasons of 2016-2017 & 2017-2018, the production of sugarcane and sugar was much higher than the national requirement but the production of sugarcane has been decreasing since then. There was competition between the mills to purchase the sugarcane in this crushing season and due to low availability, as compared with the bumper crop years, the mills were willing to pay higher prices.
16. **Findings:**
The actual production of sugarcane increased marginally this year and therefore, the reason for the increase in the price of about 15% above the support price can best be explained by the perception in the market about low production of sugarcane and, therefore, unwillingness of the growers to sell it at the support price. There is also another phenomenon of the mill owners also being large growers through owned or leased land. This potentially can also be one reason for the higher than support price buying of sugarcane. There is, therefore, a requirement for proper forensic audit to examine this possibility.
- (d) **Reasons for mills not purchasing sugarcane, for a limited period of a few weeks, from the farmers and its impact, if any, on sugar prices?**
17. Sugar mills in Sindh started the closure of mills on the call of sugar mills association and also citing the availability of low cane. They started the closure on 19th December 2019 and continued till 1st January 2019. However, the stoppage of purchase of sugarcane began in Punjab on 30th December 2019. Out of a total number of 39 sugar mills which are operational in Punjab the maximum number of 27 participated in the

strike on 5th and 6th of January. The Pakistan Sugar Mills Association (PSMA) was engaged by the Punjab Food Department on 30th and 31st December and on 2nd and 3rd January to call off the closure of the mills but in vain. Finally, the Cabinet Committee on Sugar Sector held a meeting with PSMA on 06-01-2020 and it was resolved that the sugar mills shall resume the operations. This meeting had a positive effect, the number of mills closed was reduced but all mills were finally opened on 11th January 2020. No sugar mills were closed in KP during the strike period.

18. It is pertinent to mention here that, as per report of Punjab Government, “no provision exists under the current set of laws on sugar sector that can be invoked in case of crushing operation is temporarily stopped by the sugar mills”. Same Sugar Factories Control Act of 1950, with few amendments, is also in vogue in Sindh.



Source: Data Provided by the Provincial Governments

19. Reason put forth by the PSMA during the meetings with the Punjab Food Department and the Cabinet Committee on sugar sector for temporary closure of crushing operation was low cane supplies. The low cane supply was causing increased overhead expenses and losses of sugarcane juice in the mills system. Sindh Government stated that the reason for mills closure was late harvesting by the farmers. But this doesn't seem plausible as the harvesting season and the crushing season starts early in Sindh and the sugar mills were operational till 19th December due to the availability of the sugarcane. Also, only up to 10 sugar mills closed their operations out of 32 mills that remained operational in Sindh this year.

Table: 4. Average purchase price of sugarcane before, during and after the sugar mills strike

Period of purchase of sugarcane	Average purchase price of sugarcane: Rs. Per 40 Kg	
	Punjab	Sindh
30-11-2019 to 19-12-2019 (before mills closure)	200.73	198.58
20-12-2019 to 01-01-2020 (During mills closure in Sindh only)	200.73	211.36
30-12-2019 to 10-01-2020 (during the mills closure in Punjab only)	203.83	243.29
11-01-2020 to 25-02-2020 (after the mills closure)	229.48	243.29
30-11-2019 to 25-02-2020 (Seasonal Average)	217.90	226.52

Source: Data Provided by the Provincial Governments

20. As can be seen in the table, the average purchase price of sugarcane before the closure period of sugar mills in Punjab was Rs. 200.73 per 40 Kg and in Sindh it was Rs.198.58. This price was above the support price which in the past had not been the case. In fact, the farmers had to sell their produce below the support price in the past. This seems to be the major reason for the mill owners to go on strike in a bid to bring down the sugarcane prices as closures puts pressure on the farmers. The sugar mills in Punjab remained closed from 30-12-2019 to 10-01-2020 while in Sindh from 20-12-2019 to 01-01-2020. The average purchase price for sugarcane during this closure period, for the sugar mills that remained operational in Punjab was Rs. 203.83 per 40 Kg and in Sindh Rs.211.36. This indicates clearly that the farmer was not ready to sell the sugarcane at a lower price despite the strike. In fact, the average purchase price for sugarcane after the strike in Punjab increased to Rs.229.48 per 40 Kg and in Sindh it went up to Rs. 243.29. This seems to be the result of intense competition amongst the sugar mills to entice the farmers for sugarcane purchase.
21. According to the report of Government of Punjab, the average ex-mill price on 29-12-2019 was Rs. 68.30 per Kg while it was Rs. 69.58 per Kg on 11-02-2020. Therefore, the impact of temporary closure of cane crushing on sugar price was Rs. 1.28 per Kg in Punjab.
22. **Findings:**
The sugar mills ceased operations citing the low availability of sugarcane which is not plausible as sugarcane was available in ample quantities before and after the closure of the mills. Apparently, it was an attempt to bring down the prices of sugarcane. Although there was a significant impact on the price of sugarcane but hardly any on the sugar prices but it is expected that the mills will incorporate higher prices of sugarcane into their cost of production leading to higher ex-mill prices in the forthcoming months.



(e) **Basis for Determination of Ex-Mill Price? Reasons for increase in Ex-Mill Price:**

23. The Inquiry Committee asked the Provincial as well as the Federal Governments about how the ex-mill price is calculated and the system in place by the governments that the ex-mill is properly verified. It is shocking to note that neither the provincial nor the Federal Government had any clue how the calculations were made nor any mechanism is in place to verify it. The Prime Minister's office had tasked the Ministry of Industries to get this exercise done very recently. The Ministry of Industries tasked the Competition commission of Pakistan to calculate the ex-mill price of sugar. The Inquiry Committee was provided the formula for calculation by the CCP and also by PSMA. Both calculations are placed side by side in the table below:

Table: 5. Ex-Mill price calculations by M/o Industries & Production and PSMA

Sr. No	Ministry of Industries & Production		PSMA	
1	Recovery Ratio	10%	Recovery Ratio	10%
2	Price of Sugarcane	191.00	Price of Sugarcane	190.00
3	Sales value of Molasses	27.50	Sales value of Molasses	20.40
4	Sales value of Begasses	4.30	Sales value of Begasses	4.36
5	Sales of Mud	0.76	Sales of Mud	0.76
6	Net Cost of Raw Material	158.44	Net Cost of Raw Material	164.48
7	Development Cess	1.50	Development Cess	1.52
8	Market Committee Fee	0.40	Market Committee Fee	0.40
9	Freight	2.00	Freight	2.00
10	Total Cost of Raw Material	162.34	Total Cost of Raw Material	168.40
11	Sugar Obtained from 40 kg of Sugarcane	4.00	Sugar Obtained from 40 kg of Sugarcane	4.00
12	Cost of Raw material per kg of sugar	40.59	Cost of Raw material per kg of sugar	42.10
13	processing and other Overheads	12.90	processing and other Overheads	19.28
14	Manufacturing Cost (Excluding Mill Owner Margin, & GST)	53.49	Manufacturing Cost (Excluding Mill Owner Margin, & GST)	61.38
15	Sugar Mills Margin @15% of Manufacturing cost	8.02	Sugar Mills Margin @7.7% of Gross Ex-Mill	6.44

16	Ex-Mill price with margin, but without GST	61.51	Ex-Mill price with margin, but without GST	67.82
17	GST @17% of Ex-mill	10.46	Sales Tax, Income and Withholding Tax	15.20
18	WPPF &WWF	0.00	WPPF &WWF	0.57
19	Gross Ex-mill Price	71.97	Gross Ex-mill Price	83.59

Source: PSMA and Ministry of Industries & Production

24. The calculations are based on the assumption of Rs. 190 per 40 Kg. price of sugarcane and 10% recovery ratio. As can be seen in the table above, there are certain differences between the two calculations.

- i. Mo I&P calculated the value of molasses at Rs.26.90 and Bagasse at Rs. 4.30, extracted from 40 Kgs. of sugarcane, whereas PSMA calculated the same at Rs. 20.40 and Rs. 4.40, respectively.
- ii. The net cost at serial no. 6 and total cost at serial no. 10 are therefore different by a margin of Rs. 6.50 in calculations by the Mo I&P and PSMA.
- iii. The cost of raw material at serial no. 12 is also different being the result of total cost of material (serial no. 10) divided by 4 to obtain the per kg. cost of the raw material.
- iv. The processing and overhead (serial no. 13) have been calculated differently where Mo I&P seems to have taken a figure of Rs. 12.9 which PSMA calculated in detail as Rs. 19.30. The Mo I&P has not provided any detail or means to calculate the figure.
- v. The sugar mills margins (serial no. 15) have also been calculated differently as Mo I&P has provided for 15% profit on cost whereas PSMA on 7.7% gross ex-mill.
- vi. Both Mo I&P and PSMA have allowed for inclusion of GST @ 17% (serial no. 17) but the CCP has not rightly allowed for inclusion of income and withholding taxes.
- vii. The WPPF and WWF is not included by Mo I&P whereas the Committee feels is rightly included by PSMA.

25. The Inquiry Committee has found that:

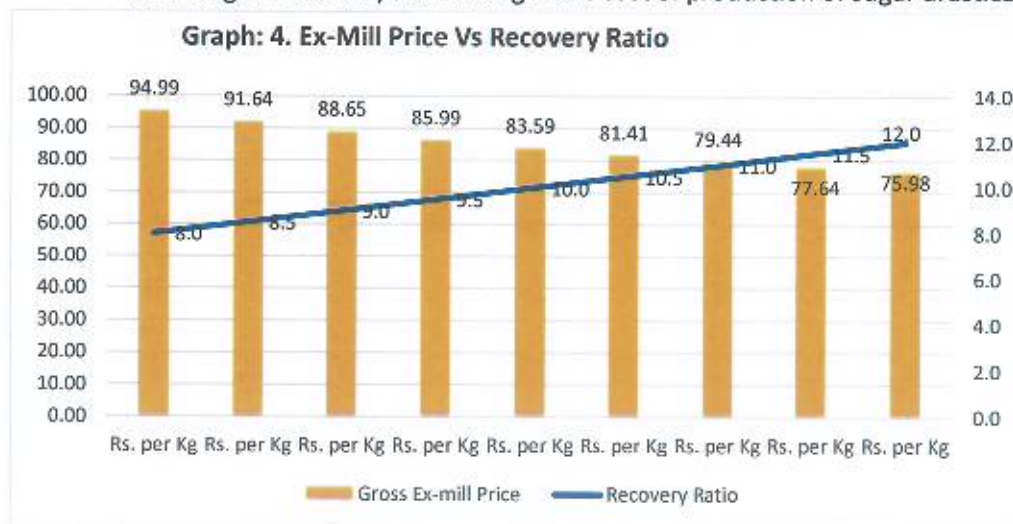
- i. The practice of inclusion of taxes in the sugar ex-mill price and then calculating the profit margins is unfair.
- ii. The figure of Rs. 19.3 reduces to Rs. 12.9 as processing and overheads after taking out the sale of by-products. No break-up of this figure is provided. This is a major component of the cost of production and ex-mill price. During the meeting with PSMA, their representatives stated that this includes the financial cost of about Rs. 7.0 and other overheads. There is a need to verify this head of account through forensic audit.



iii. The PSMA has included their profit margin @ 7.7% on gross ex-mill price. When asked to explain why the ex-mill price, which includes the profit margin, should not be considered the final ex-mill price, irrespective of the change in demand. The representatives stated that the ex-mill price changes with the increase or decrease in demand. The Inquiry Committee finds it difficult to comprehend that once a fair profit margin is already added in the ex-mill price, then how can the mills change their ex-mill price due to change in demand. This opens up the possibility of manipulation of prices by creating artificial demand by withholding supply. The government needs to work out a clear standard ex-mill price calculation method with PSMA whereby there should be profit margin added in calculating the ex-mill price. Then no allowance should be allowed to escalate the price further on the pretext of increase in demand. Conversely, if the demand is to be one of the factors to fix the ex-mill price then the Profit Margin should not be part of the Ex-Mill Price.

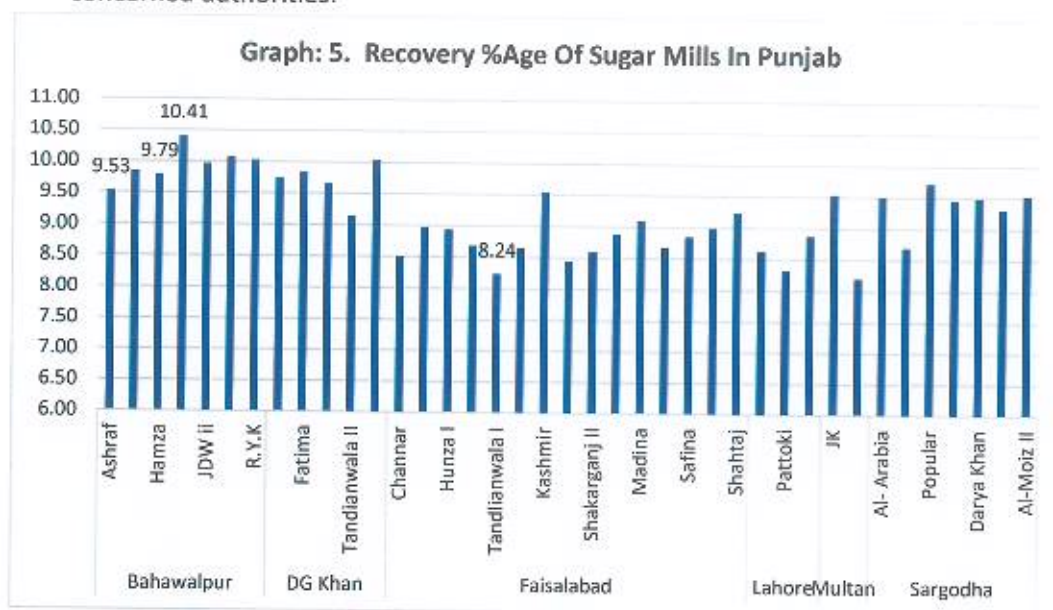
26. There are two important components of cost of production that also need to be explained. The cost of sugarcane and recovery ratio.

- i. **Sugarcane cost:** the purchase price of sugarcane is higher during the current crushing season than the previous crushing seasons, as already explained above. PSMA claims that cost of sugarcane constitutes 58-61% of the ex-mill price of sugar. While according to the Competition Commission of Pakistan's analysis¹, this percentage is 76.16% on the average in Pakistan. Hence, the increase in purchase price of sugarcane affects the cost of production of sugar: which resultantly affects the ex-mill price of sugar.
- ii. **Recovery Ratio** from sugarcane is another major factor in determining the cost of production. Keeping the rate of purchase of sugarcane at Rs. 190 per 40 Kg, the change in recovery ratio changes the cost of production of sugar drastically.

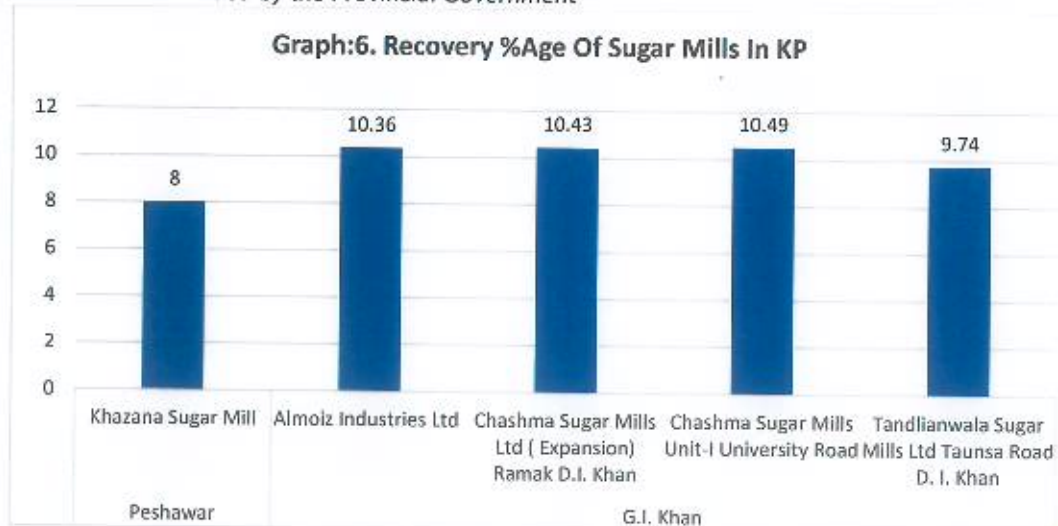


¹ CCP Report "Competition Concerns in Sugar Sectors of Pakistan", April 25, 2018, Table 3 page 15

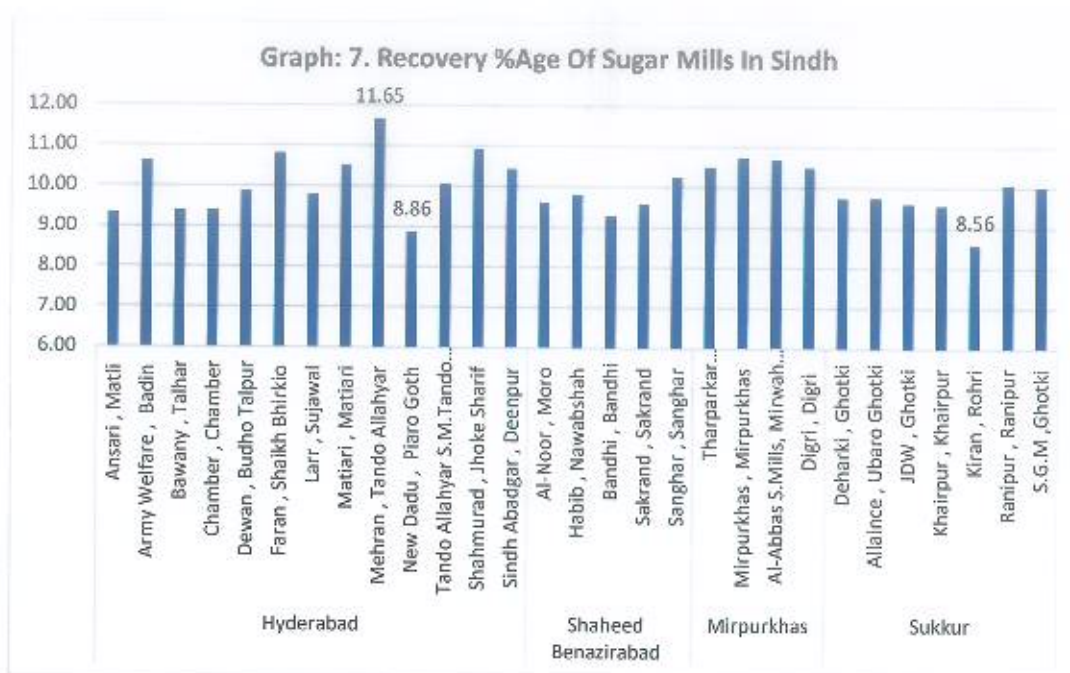
27. Recovery ratio is the vital factor in calculating the amount of sugar produced and the cost at which the sugar is produced. A 1% change in sugar recovery ratio mean 10% change in the amount of sugar produced. The recovery ratio is determined through laboratory testing and reported by the sugar mills and there is no independent way of ascertaining whether the report is correct or not. There are differences in the recovery ratio of the sugar of the same region where similar variety of sugarcane is cultivated. During the discussion with different sources, it has come to notice that the sugar mills allegedly manipulate the recovery ratio and the sugar produced, by showing the reduced recovery ratio, and the entire sugar so produced is sold *off the book*. This is major tax evasion but cannot be verified without independent testing by the concerned authorities.



Source: Data Provided by the Provincial Government



Source: Data Provided by the Provincial Government



Source: Data Provided by the Provincial Government

28. As is clear that the sugar mills situated in the same region, crushing the similar kind of varieties of sugarcane, have different recovery ratio. It is surprising the government departments take the sugar recovery ratio data from the sugar mills and accept it without any verification or check. The cane commissioner Punjab does have a mobile lab but that provides result for sugarcane only and cannot be compared with the mills lab results due to technical differences in testing methods and processes. There is need for independent verification and authentications of lab results to ensure that the sugar recovery ratio is properly determined and, therefore, the actual production can be calculated.
29. The on-site forensic audit can also provide corroborative data to calculate the cost of production by analyzing the following.
 - i. Sugar production requires the chemicals to be utilized. The amount of chemicals used can indicate the amount of sugar produced. Verification of quantities of chemicals purchased, consumed during the production process and the balance present in the stock.
 - ii. Number of sugar bags purchased and utilized by the mills,
 - iii. Amount paid to the packing and loading contractors (the payment is made at the rate of per bag),
 - iv. Data is also required to be obtained from the banks to verify the financial liabilities (in the form of loans, running finance, over draft) and their utilization. As the cost of financial liabilities is added to the cost of production and its amount due and proper utilization needs to be checked.

30. **Findings:**

- i. The cost of procurement of sugarcane, overhead and financial charges, taxation as well as efficiency of the mill with regards to the recovery ratio are the main determinants of the ex-mill price of sugar. The Committee notes that the calculation of the ex-mill price provided by PSMA cannot be relied upon unless a full audit of all determinants of ex-mill price are calculated in a financial audit as explained in detail in the paras of this TOR.
- ii. The reasons of increase in ex-mill price have been explained in detail in TOR (i) & (k).
- iii. The major increase in ex-mill price occurred between December 2018 to June 2019 when it increased by almost Rs. 12 per kg which is from Rs. 51.64 to Rs. 63.59 per kg. This period saw no increase in sales or other taxes and the price of sugarcane, the major input, was also stable. The only factor that stands out was the export of sugar which coincides with this period.

(f) **Market manipulation/cartelization by sugar mills, if any:**

31. To establish the manipulation and cartelization of sugar mills concrete evidence is required which can be possible through a proper forensic audit of the mills. However, as per the data provided by the SECP and PSMA, following facts stand out showing control of very few on the industry.
32. Six groups control about 51% of the production of sugar in Pakistan as shown in Table 10. These groups have the capacity to manipulate the market by joining hands for cartelization and subsequent manipulation. The control of so few, mostly with political background, of the sugar industry shows the strong influence they can exercise on Policy and Administration.

Table: 6. Percentage Share of Big Groups in National Production In 2018-19

Name of Group	No. of Mills	Production (Tons)	Recovery Ratio %age	%age of Total National Production
JDW Group	6	1,040,382	11.15%	19.97%
RYK Group	5	637,691	10.67%	12.24%
Al-Moiz Group	5	354,231	10.26%	6.80%
Tandlianwala Group	3	255,375	9.43%	4.90%
Omni Group	10	86,394	10.50%	1.66%
Sharif Family Mills	9	236,717	9.64%	4.54%
All Other	51	2,599,960	10.39%	49.90%
Grand Total	89	5,210,750	10.47%	100.00%

Source: PSAM Annual Report 2019

33. The sugar mills have their own association called Pakistan Sugar Mills Association (PSMA). Many policies are conveyed to the sugar mills from the platform of PSMA. The call for the closure of the sugar mills in Punjab, for instance, from 30-12-2019 to 10-01-2020 was also given from the platform of PSMA. Later on, PSMA held meetings

with the Punjab Government and then the strike was called off. All the mills did not participate in the strike but this platform can be used for acting in unison in order to obtain their objectives by using pressure tactics.

34. In the strike call 04 mills of Sharif Group, 04 of Al-Moiz Group, 02 of Tandlianwala Group, 02 of RYK group, 01 mill of JDW group and many other mills participated. The maximum number of mills participating in strike were 25 on one particular day. Since the strike was called off on the call of PSMA, it can be safely assumed that PSMA initiated the strike as well. This is a sign of cartelization: not all sugar mills are part of it but there are groups of sugar mills with common intentions.
35. Utility Stores Corporation published the tenders for the purchase of sugar on different date with different quantities. The sugar mills participated and quoted the prices as shown in the table below:

Table: 7. Tender of sugar advertised by Utility Stores Corporation

Tender Date	Quantity (MT)	Bidder	Price Offered Rs. Per Kg	Quantity Offered (MT)	Prices after negotiation
24.12.2019	50,000	Faran Sugar Mills	71.1	20000	Withdrew
		Al Moiz-I	72	5000	71.1
		Al Moiz-II	72	5000	71.1
		Thal Industries-I	72	5000	Refused
		Thal Industries-II	72	5000	71.1
Tender Date	Quantity (MT)	Bidder	Price Offered Rs. Per Kg	Quantity Offered (MT)	Prices after negotiation
14.01.2020	60,000	Faran Sugar Mills	77.1	3000	Refused
		Fatima Sugar Mills	74	2000	To be lifted
		Thal Industries-I	75	5000	Refused
		Thal Industries-II	75	5000	Refused
		Al Moiz-I	75	5000	Refused
		Al Moiz-II	75	5000	Refused

Source: Data provided by Utility Stores Corporation

36. Almost all the sugar mills offered the same price (except one). This kind of offers indicate that there are some collusive practices. The cost of production of each and every sugar mill is different and it is almost impossible to offer the same price with varying cost of production.
37. **Finding:**
Although there are signs of cartelization/manipulation by the sugar mills, the concrete evidence can only be obtained through detailed forensic audit.

(g) **Impact of forward contracts on the prices of the sugar and whether any malafide is involved:**

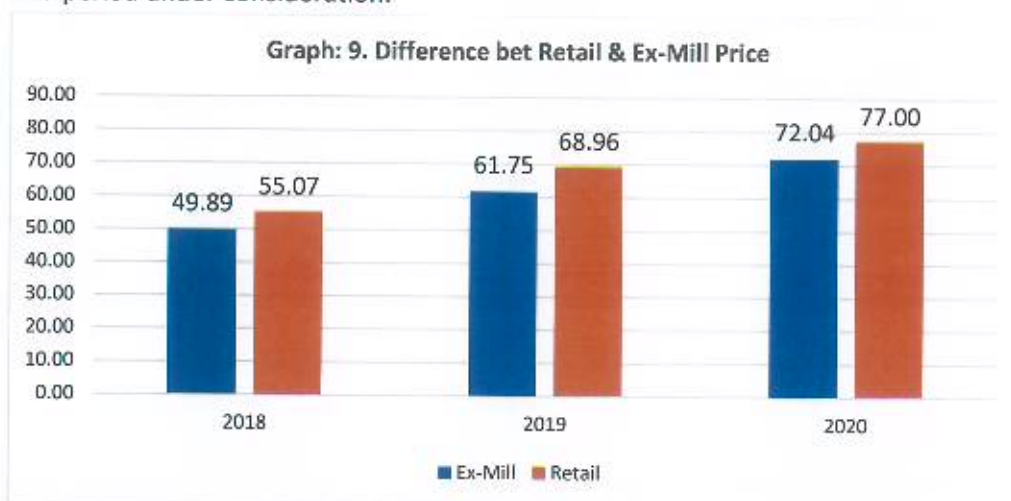
38. Forward contract is the advance sale of sugar by the sugar mills. The buyers buy the sugar to be lifted at some point in future. There are multiple reasons for sugar mills or adopting this practice. Forward contract fetches business capital for the sugar mills and whereas they don't have to deliver sugar immediately. According to the discussion with different stakeholders, there are two kinds of forward contracts:
- a. The buyer, who is normally a whole sale dealer, stockists or investor, buys the sugar to be lifted at a later time as per agreement. The payment is made in advance and normally the rate is set lower as compared to the current rate. In this situation the buyer makes profit if the sugar price goes up. This kind of forward contract seems justifiable as the money is paid in advance for a small discount.
 - b. The buyer enters into an agreement, written or verbal, with the sugar mill to purchase sugar. The sugar is to be lifted at a later stage of time but no payment is made. In this case the rate is normally set higher than the current rate. In this situation, again the buyer would make profit if the price of the sugar goes up. This kind of contract lends itself to the possibility of *Satta* which is explained below.
39. As discussed, in both cases of forward contract, the buyer has advantage when the sugar price goes up. But the forward contract requires the participation of the sugar mill and the transfer of physical sugar quantity is involved at some later stage of time.
40. **Satta** (imaginary/virtual advance sales) is the speculative sale and has become common practice in sugar market throughout Pakistan. A person Mr. A might be the owner of sugar mill, whole sale dealer or simply a salesman who sells virtual sugar to Mr. B. If the current price of sugar is Rs. 70 per kg then Mr. B offers Mr. A to book 100 truck load of sugar @ Rs 72 / Kg for 15th April. Now on 15th April, if the price of sugar becomes Rs 68/Kg in the market then Mr. B will pay Rs 4/Kg to Mr. A for the quantity of 100 truck load. If price of sugar on 15th April becomes Rs 74/kg then Mr. A will pay to Mr. B Rs 2/Kg on quantity of 100 truck load. No actual investment or sale or lifting of sugar is involved in *SATTA*. It is simply a form of gambling.
41. Forward contracts and more so *SATTA* sales affect the market. Speculation about the increased or decreased rates of *Satta* in the market affects the price accordingly. The upward speculation results in perception of increased demand against the supply which will result in price hike.
42. **Findings:**
- i. The detailed analysis of forward contract can be carried out with the availability of full information from the sugar mills. The data, so far obtained from the sugar mills, show that 16 mills of Punjab, 1 of KP and 5 of Sindh (data provided for only 13 sugar mills) have entered into forward contracts for sale of sugar. The details of buyers in these contracts and the mode of payment needs to be analyzed with the help of FBR. The authenticity of forward contracts also need verification. All these

verifications require in-depth analysis with all the pre-requisite information which can be obtained through a detailed audit.

- ii. *SATTA* on the other hand is absolutely illegal and a menace to control the prices of sugar. This requires strict legal action by the provincial governments which should be started immediately as people involved in such business are speculating a severe price hike in the Holy Month of *Ramadhan*. The *Satta* rates are now about Rs. 100 per Kg for *Ramadhan*. The Provincial Governments have information available through their Special Branch about the *Satta* dealers and action can be taken immediately.

(h) **Whether margins between Ex-Mill and Retail prices increased, compared to the previous years, or otherwise. If yes, reasons thereof and potential beneficiaries:**

43. The details of ex-mill and retail prices were obtained from the Provincial Governments and the Pakistan Bureau of Statistics. The data was then averaged out over the year and period under consideration.



Source: Data provided by the Provincial Governments and Pakistan Bureau of Statistics

As can be seen there is a difference of about Rs. 5-7 per kg between the ex-mill price and the retail price. The margin is at the lower side, at about Rs. 5 per kg, for the current year. The bulk of the margin, however, goes to retailer who has to bear the cost of packing and loss during the sale.

44. **Finding:**

The difference is of about Rs. 5-7 per kg between the ex-mill price and the retail price. The margin is at the lower side, at about Rs. 5 per kg, for the current year. The bulk of the margin, however, goes to retailer who has to bear the cost of packing and loss during the sale

(I) **Impact of Tax on sugar prices at Ex-Mill/Retail level:**

45. GST in the financial year 2018-2019 was 8% for the filers and 11% for the non-filers purchasing sugar from the sugar mills. But since majority of the buyers were non-filers so the GST was charged at 11% in majority of the cases. In the current financial year 2019-2020 the Government has increased the GST to 17% across the board. The revenue of FBR from sugar sector, in terms of sales tax, has increased 62.3%; the increase in revenue is not proportionate to increase in GST. The same increase is transferred to the consumers ultimately as it is included in the ex-mill price calculations of PSMA. Furthermore, the FBR calculates the minimum ex-mill price of sugar at Rs. 60 per Kg irrespective of the fact that it may be lower. Hence the GST on sugar is Rs. 10.20 per Kg at the rate of Rs. 60 per kg ex-mill price. Any additional price over the minimum baseline is to be proportionately added @ 17% for the additional price.
46. The prices of sugar had started to increase from December 2018. The retail price of sugar in December 2018 was Rs. 55.99 per kg and started to increase with every passing month and reached to Rs. 71.44 per kg in June 2019. It is pertinent to mention here that there was no increase of GST at that time. As can be seen the real increase in the retail price happened between December 2018 to June 2019 when it went up by about Rs. 16 per kg. Similarly, the major increase in ex-mill price occurred between December 2018 to June 2019 when it increased by almost Rs. 12 per kg which is from Rs. 51.64 to Rs. 63.59 per kg. This period saw no increase in sales or other taxes and the price of sugarcane, the major input, was also stable. The increase in retail price between July 2019 to January 2020 is from Rs. 71 per kg to Rs. 74.64 per kg. The data, therefore, does not show any major affect of GST on retail price.

Table: 8. Comparison of Ex-Mill & Retail Prices of Sugar

Sr. No	Months	Ex-Mill Price PKR	Retail Price PKR
1	Nov-18	50.05	55.47
2	Dec-18	51.64	55.99
3	Jan-19	54.30	59.30
4	Feb-19	54.73	59.37
5	Mar-19	57.46	61.15
6	Apr-19	60.49	65.03
7	May-19	62.48	67.31
8	Jun-19	63.59	71.44
9	Jul-19	65.73	71.93
10	Aug-19	68.62	75.14
11	Sep-19	68.56	75.39
12	Oct-19	68.30	74.46
13	Nov-19	67.42	73.26
14	Dec-19	67.48	71.71
15	Jan-20	69.14	74.64
16	Feb-20	71.56	79.86

Source: Data Provided by Pakistan Bureau of Statistics and Provincial Governments
(Incomplete Data was provided by Sindh Government)



Source: Data Provided by Pakistan Bureau of Statistics and Provincial Governments (Incomplete Data was provided by Sindh Government)

47. Finding:

The real increase in the retail price occurred between December 2018 to June 2019 when it went up by about Rs. 16 per kg. Similarly, the major increase in ex-mill price occurred between December 2018 to June 2019 when it increased by almost Rs. 12 per kg which is from Rs. 51.64 to Rs. 63.59 per kg. This period saw no increase in sales or other taxes and the price of sugarcane, the major input, was also stable. The increase in retail price between July 2019 to January 2020 is from Rs. 71 per kg to Rs. 74.64 per kg. the data, therefore, does not show any major effect of GST on retail price.

(j) Hoarding at whole sale/ Retail level and within sugar mills vis-a-vis stocks of last year:

48. Normally, the sugar is purchased by the whole sale dealers, through the Mill agent/brokers. Other industrial buyers mostly buy directly from the mills. The sold sugar mostly remains stocked within the sugar mills and is lifted as per the requirement of the buyer. The sugar is stocked in the warehouse/go-downs by the brokers/agents/stockists in some of the cases. This stocking of sugar is not being monitored despite the law, in Punjab and Sindh, which requires the registrations of go-downs for essential items. The provincial governments seem to be unaware of the provision of these legislations with the result that no record of stockists of essential commodities like sugar is available with the government. This again leads to the complete dependence on PSMA for assessment of the stock position in the country. The absence of accurately verifiable data about the stock position leads to the

manipulation of the sugar price. As is clear from the table, the sugar mills are providing different data on different dates which shows large discrepancy in quantity of the sugar sold and lifted from the mill. On the first date, the lifting percentage is very low whereas in the second date the lifting is almost equal to the sale. This, therefore, necessitates the verification of stocks to ascertain the correct position.

Table: 9. Quantity of sugar sold and lifted: Data provided by sugar mills on different dates

	Sugar Production Annex B (M Ton)	Quantity Sold Annex B (M. Tons)	Quantity Sold Annex G (M Ton)	Quantity Lifted Annex C (M Ton)	Quantity Lifted Annex G (M Ton)	Difference of Quantity Lifted (M Ton)	Difference of Quantity Sold (M Ton)
	1	2	3	4	5	(5-4)	(3-2)
Punjab	2,334,246	784,993	814,643	1,489	694,913	693,424	29,650
KP	268,458	73,508	73,508	33,771	94,768	60,997	0
Sindh	1,255,293	352,856	437,738	Incomplete data	412,891		84,883

Note: Annex B, and C was requested on 25.02.2020 from Provinces, whereas, Annex G was requested on 29.02.2020

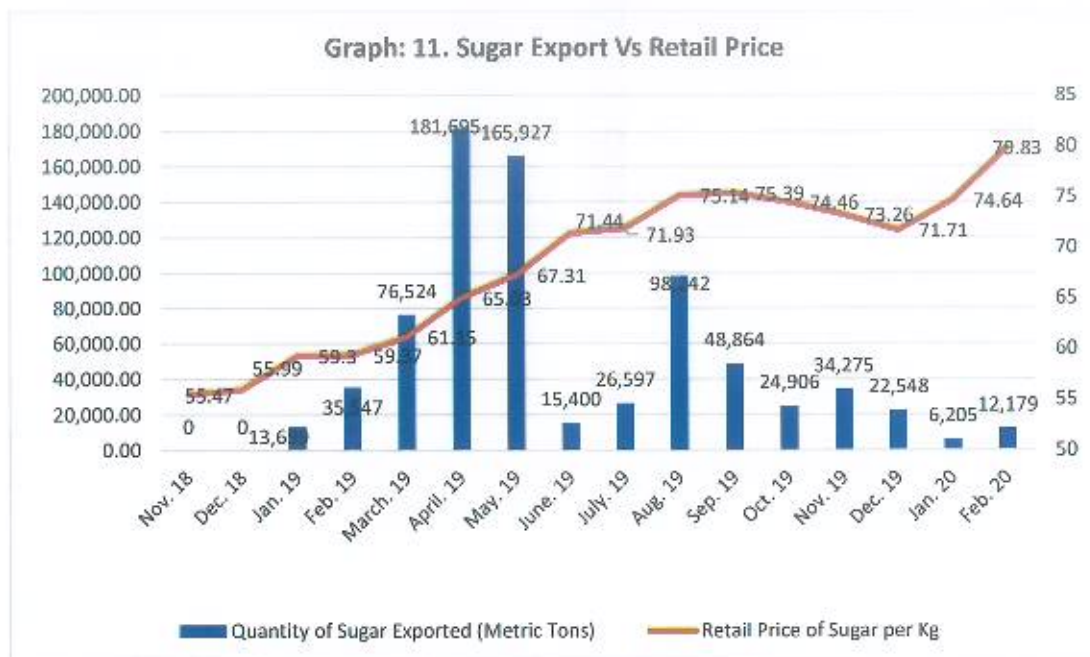
49. Finding:

Despite the availability of relevant laws (Registration of Go-downs Acts in Punjab and Sindh) no data of stocking of the sugar is being maintained. The hoarding of sugar at the level of mills is also a possibility as the mills have very large go-downs where stocks are kept after sales. The phenomenon of hoarding at the mills and the whole-sale level can only be identified by the forensic audit.

(k) Was the export of sugar justified? Any subsidy given on export and its impact, with potential beneficiaries:

50. The export of 1.00 Million Tons of sugar was recommended during the Sugar Advisory Board (SAB) meeting held on 11th September 2018 as excess sugar was available. The ECC approved the export of 1.00 and 0.10 Million Tons of sugar on 2nd October and 4th December 2019 respectively. However, during the same meeting Secretary Ministry of National Food Security raised the issue that low production of sugarcane was expected in the upcoming season due to water shortage. Despite that the export was recommended and without making it time-bound. In the meeting of SAB held on 15th April 2019 and 6th May 2019, Punjab raised concern over the rising prices of the sugar in the local market. The issue of increasing price of sugar was discussed in the subsequent meetings in June 2019 as well but no decision was taken recommending ban on export despite the fact that estimated stocks calculation presented during the

meeting showed net stocks as negative 0.191 Million Tons (excluding the stocks of 7 sugar mills of Sindh). Finally, the ban on export was recommended on 28th January, 2020 and the ban was imposed on 19th February 2020.



Source: Pakistan Bureau of Statistics and State Bank of Pakistan

51. Analysis shows that prior to permission of sugar export, the retail price of sugar was around Rs. 55 per kg. But as the export of sugar started, the price of sugar started to increase and kept on increasing with the increase in the export quantity. The market players knew that the sugar stocks are running low in the country, hence with increasing exports the price kept on increasing consistently every month. In April and May 2019, maximum quantities were exported and price jumped accordingly.
52. It is pertinent to note here that in October 2019, Secretary Mo I&P wrote a letter to all the Provincial Chief Secretaries and showed his concern over the increasing prices of sugar: after the meeting of Sugar Advisory Board. But even then, no decision was taken to ban the export of sugar. Rather the rising prices of sugar were considered to be a result of hoarding and not of export of sugar.
53. As mentioned above, the Punjab Government summaries stated that the prices had increased and the export should be banned but no mention of this fact is reflected in the minutes of the SAB meetings held in 2019. It is also very noticeable that the SAB in its meeting dated 20-06-2019, despite the clear calculations that the stock position will be negative after deducting the strategic reserves still did not ban the export of sugar.
54. This year only the Punjab Government allowed subsidy of Rs. 5.35 Per Kg and a total amount of Rs. 3.00 Billion was allocated on the export of sugar. Hence, only the sugar

mills of Punjab were entitled to subsidy this year for period from 1st October 2018 to 20th February 2020. However, in the wake of increasing price of sugar in the market, the subsidy was withdrawn on 24th May 2019 by the Government of Punjab. The amount of sugar exported and subsidy paid to each sugar mills is as shown in the table below.

Table: 10. Details of Sugar Exported by and Subsidy Awarded December 2018-2019

S No	SUGAR MILLS	SUGAR PRODUCTION TONS	SUGAR EXPORT TONS	% OF PRODUCTION EXPORTED	% SHARE IN NATIONAL EXPORT	SUBSIDY Rs.	% SHARE IN TOTAL SUBSIDY
1	J.D.W. SUGAR MILLS	640,278	121,621	19.00%	15.53%	556,206,578	22.52%
2	JK (COLONY- II)	70,815	1,000	1.41%	0.13%	4,830,840	0.20%
		711,093	122,621			561,037,418	22.71%
	GROUP % EXPORTED	17.24%					
3	AL-MOIZ INDUSTRIES LIMITED	148,831	69,672	46.81%	8.89%	241,778,417	9.79%
4	THAL INDUSTRIES CORPORATION	204,416	34,886	17.07%	4.45%	164,755,805	6.67%
		353,247	104,558			406,534,222	16.46%
	GROUP % EXPORTED	29.60%					
5	R.Y.K. MILLS LIMITED	155,186	24,600	15.85%	3.14%	88,806,218	3.60%
6	ETIHAD SUGAR MILLS	183,332	58,786	32.07%	7.50%	183,908,010	7.45%
7	TWO STAR INDUSTRIES	131,553	63,129	47.99%	8.06%	179,629,468	7.27%
		470,071	146,515			452,343,696	18.31%
	GROUP % EXPORTED	31.17%					
8	HUNZA SUGAR MILLS	123,095	91,041	73.96%	11.62%	429,840,177	17.40%
9	INDUS SUGAR MILLS	102,522	53,821	52.50%	6.87%	148,315,247	6.00%
10	FATIMA SUGAR MILLS	107,116	72,651	67.82%	9.27%	248,395,600	10.06%
11	HUSEIN SUGAR MILLS	48,251	19,171	39.73%	2.45%	88,579,661	3.59%
12	SHEIKHOO SUGAR MILLS	146,505	17,750	12.12%	2.27%	56,854,494	2.30%
13	NOON SUGAR MILLS	63,098	13,353	21.16%	1.70%	48,610,446	1.97%
14	JAUHARABAD SUGAR MILLS	44,776	9,000	20.10%	1.15%	26,747,218	1.08%
15	HUDA SUGAR MILLS	35,775	8,758	24.48%	1.12%	2,754,372	0.11%
16	OTHERS		124,067		15.84%	179,629,468	7.27%
	TOTAL		783,307			2,470,012,55	100%

55. Following are the major beneficiaries,

- The companies at serial nos. 1 and 2, owned and controlled by Mr. Jahangir Khan Tareen (JDW), exported 17.24% of its total production and availed 22.71% of the total export subsidy amounting to Rs. 561,037,418.

- ii. The companies at serial nos. 3 and 4, owned and controlled by Mr. Shamim Ahmed Khan (Al-Moiz Group), exported 29.60% of its total production and availed 16.46% of the total export subsidy amounting to Rs.406,534,222.
 - iii. The companies at serial nos. 5, 6 and 7, owned and controlled by Mr. Makhdum Omer Sheryar (relative of Mr. Makhdum Khusro Bakhtiar) RYK Group, exported 31.17% of its total production and availed 18.31% of the total export subsidy amounting to Rs. 452,343,696. It may be noted that Chaudhry Munir and Mr. Monis Elahi are also partners in this group.
 - iv. The aforementioned three groups of companies availed a total subsidy of 57.49% that amounts to Rs.1,419,915,336 out of the total subsidy of Rs.2,470,012,551.
 - v. The company at serial no. 9, owned and controlled by Mr. Ghulam Dastagir Lak, exported 52.50% of its total production and availed 6.0% of the total export subsidy amounting to Rs. 148,315,247.
56. The Punjab Government was providing the subsidy for export of sugar at a time when the price of sugar was increasing in the domestic market. Out of 0.762 Million Tons of sugar exported, 0.474 Million tons (62%) was exported before the withdrawal of subsidy and the remaining 38% was exported after the withdrawal of subsidy. It is also worth mentioning here that Rs. 3.0 Billion were allocated by the Punjab Government for the subsidy (From January 2019 to onwards) but Rs. 2.47 Billion were utilized from 1st January to 24th May 2019. It can be seen that the sugar mill owners who availed maximum subsidy had political clout and influence in decision making and they tried to gain maximum benefit in a very limited time. A deeper assessment of the reasons for awarding of subsidy after associating the Government and the mill owners/beneficiaries is required which would be done by the Commission.
57. **Finding:**
- (a) The Committee is of the considered opinion based on documentary evidence that:
- i. The export of sugar was not justified as the sugarcane production was expected to be low in the upcoming harvesting season 2018-2019,
 - ii. With the Export of sugar in January 2019, the price of sugar started increasing immediately in the local market.
 - iii. The exporters of sugar gained benefit in two ways: first they were able to gain subsidy and secondly, they made profit from the increasing sugar prices in the local market (the price increased from Rs. 55 per kg in December 2018 to Rs. 71.44 per kg in June 2019 although the GST increase was implemented from 1st July 2019)
 - iv. No other Government, except the Government of Punjab, provided the subsidy. The financial layout of subsidy was Rs. 3 Billion,
 - v. Sugar Advisory Board failed to take the timely decision to ban the export of sugar,
- (b) Following sugar mills are the beneficiaries of subsidy on sugar export
- i. JDW Sugar Mills Limited



- ii. HUNZA Sugar Mills Limited
- iii. M/s FATIMA Sugar Mills Limited
- iv. AL-MOIZ Industries Limited
- v. ETIHAD Sugar Mills Limited
- vi. TWO STAR Industries Pvt Ltd
- vii. THAL Industries Corporation Limited
- viii. INDUS Sugar Mills Limited
- ix. RYK Mills Limited
- x. HUSEIN Sugar Mills Limited
- xi. SHEIKHOO Sugar Mills Limited
- xii. NOON Sugar Mills Limited
- xiii. JAUHARABAD Sugar Mills Limited
- xiv. JK Sugar Mills Pvt Limited
- xv. HUDA Sugar Mills (Pvt) Ltd

(c) Major Beneficiaries;

- i. The companies owned and controlled by Mr. Jahangir Khan Tareen, exported 17.24% of its total production and availed 22.71% of the total export subsidy amounting to Rs. 561,037,418.
- ii. The companies owned and controlled by Mr. Shamim Ahmed Khan, exported 29.60% of its total production and availed 16.46% of the total export subsidy amounting to Rs.406,534,222.
- iii. The companies owned and controlled by Mr. Makhdum Omer Sheryar (relative of Mr. Makhdum Khusro Bakhtiar), exported 31.17% of its total production and availed 18.31% of the total export subsidy amounting to Rs. 452,343,696. It may be noted that Chaudhry Munir and Mr. Monis Elahi are partners in this group.
- iv. The aforementioned three groups of companies availed a total subsidy of 57.49% that amounts to Rs.1,419,915,336 out of the total subsidy of Rs.2,470,012,551.
- v. The company at serial no. 9, owned and controlled by Mr. Ghulam Dastaghir Lak (Ex-MPA of PML-N / 2013-2018), exported 52.50% of its total production and availed 6.0% of the total export subsidy amounting to Rs. 148,315,247.

(I) **Basis for determination of retail price of sugar:**

58. Retail price of sugar in the market is dependent mainly on the following factors:

- a. Ex-Mill price
- b. Commission of Agent
- c. Transportation cost
- d. Profit Margin Wholesaler or broker
- e. Profit margin of retailer

59. **Findings:**

As per discussion with different stakeholders, the Agent charges Rs. 0.08 per kg. Further wholesaler or broker charges his profit which is 0.5 to 1.0 Rs per kg.


Conventionally the margin between ex-mill and retail price is Rs. 5-7 per kg on the average.


Way Forward:

62. The Committee after its assessment of the situation had requested for the setting up of the Commission of Inquiry under the Commission of Inquiry Act 2017 vide letter no. PS/DG/FIA/2020/417 Dated 9th March, 2020 (Annexure -A)
63. The Federal Government has set up the Commission with amended TOR vide Notification No. F.5/14/2020-FIA Dated 16th March 2020 (Annexure-B)
64. The Commission of Inquiry has started its work and 09 teams are already on the ground for the forensic analysis of the following 10 sugar mills.
 - i. Alliance Sugar Mills, Ghotki
 - ii. Al-Arabia Sugar Mills Sargodha
 - iii. Al-Moiz 1 Sugar Mills DI Khan
 - iv. Al-Moiz 2 Sugar Mills Mianwali
 - v. Hamza Sugar Mills RY Khan
 - vi. Hunza 1 & Hunza 2 Sugar Mills Faisalabad & Jhang
 - vii. JDW 1, 2, & 3 Sugar Mills RY Khan and Ghotki
65. Due to the limited time available to the Commission a reasonably large sample of above-mentioned sugar mills, which produce about 26% of the total sugar production in Pakistan, and are located in the three provinces of the country, has been selected.
66. Each team comprises of the officers from the following departments
 - i. Federal Investigation Agency
 - ii. Anti-Corruption Establishment, Punjab
 - iii. Securities and Exchange Commission of Pakistan
 - iv. State Bank of Pakistan
 - v. Auditor General of Pakistan, DG Commercial Audit
 - vi. Federal Board of Revenue
 - vii. Intelligence Bureau
 - viii. ISI
67. The Commission of Inquiry has been given the time frame of 40 days for completion of its work. The report of the Commission shall be submitted accordingly.
68. The Committee, however, highlights the following for consideration of the Government about possible increase in sugar price in the coming next month when Ramadan also starts.
 - i. The PSMA calculations of Ex-Mill price of sugar, at the sugarcane purchase rate of Rs. 190 per 40 kg, is Rs. 83.59 per kg. Keeping in view the margin of Rs. 5-7 per kg between ex-mill price and the retail price would be around Rs. 89-91 per kg. with the addition of increased sugarcane average price of this season, which is Rs.218.85 per 40 kg, the ex-mill and retail price of sugar would further go up.

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- ii. *Satta* being played at major sugar markets is already crossing Rs. 100 per kg for Ramadan.
 - iii. The lifting of already sold sugar is very slow and, therefore, supply is not going to match the demand.
69. The Committee recommends that the Provincial Departments may be made aware of the situation and it should be stressed that the following measures to be taken well ahead of Ramadan to keep a check on the retail price of sugar.
- i. Immediate crackdown on the *Satta* players who are known well to the Provincial Special Branch and Intelligence Agencies.
 - ii. Ensuring that the sold sugar is lifted in appropriate amount so that the supply remains adequate.
70. Total sugar production till 18-03-2020 was 4.78 Million Metric Tons with a carryover stock of approximately 0.52 Million Metric Tons. The total sugar stock would be about 5.3 to 5.4 Million Metric Tons: which is almost equivalent to the domestic annual consumption. This narrow margin would provide opportunity for the hoarding and manipulation of the sugar market. Keeping in view of this situation, the Federal Government may consider the import of sugar for strategic reserve to ensure the stability of prices in the market.


(Ahmad Kamal) PSP
Deputy Director General
Intelligence Bureau


(Muhammad Goher Nafees) PSP
Director General
Anti-Corruption Establishment, Punjab


(Wajid Zia) PSP
Director General
Federal Investigation Agency



OFFICE OF THE DIRECTOR GENERAL
FEDERAL INVESTIGATION AGENCY
ISLAMABAD

No. PS/DG/FIA/2020/417

Dated: 09.03.2020

To,

The Secretary to Prime Minister,
Prime Minister's Office,
Islamabad.

Subject: **INQUIRY COMMITTEE TO PROBE THE INCREASE IN SUGAR PRICES**

Reference Prime Minister's office Islamabad vide Letter No. 755/A/M/SPM /2020 dated 20.02.2020 and Letter No. 930/M/SPM/2020 dated 05.03.2020 on the above noted subject.

2. The inquiry committee during the course of proceedings has collected information from different Federal and Provincial Government Departments, Pakistan Sugar Mills Association and other stakeholders for providing answers to the questions in the TORs.
3. The information collected thus far reveals that the whole information system used for decision making by the Government Department is totally dependent on the information provided by the Sugar Mills. This includes information about the pricing of Sugarcane, the amount of sugarcane crushed, recovery ratio, the sugar produced, sugar sold, lifted and pledged etc.
4. The inquiry committee has been able to form a reasonable picture of the possible ways in which the malpractices in sugar sector can be used to hide the real production and possible off the record sales. According to some source reports, the supply of sugar is controlled by few sugar mills for manipulation of the market sale price.
5. Further verification of these reports can only be made through Forensic Audit and physical stocktaking of a few selected mills by

a team of experts from SECP, FBR, State Bank of Pakistan and others conducted on site to analyze and prepare reports on the following matters;

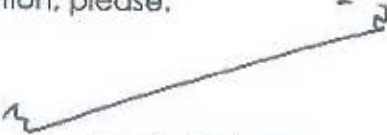
- a. Verify the sales of sugar to find out malpractices of hoarding & manipulation of supply to the market to maximize profiteering.
- b. Physical verification of stock to find whether there is any excess / shortage of stock as shown in the books and the verification of the genuineness of the sale record.

6. The Forensic Audit teams would be assisted by the FBR, State Bank of Pakistan, FIA, ACE Punjab officers. It is estimated that at least 6 such teams would be required to carry out the detailed forensic audit of largest players in the Sugar Mills industry. Although this exercise would take considerable manpower & time, it would be able to provide credible evidence to establish any wrong doings/manipulation.

7. It is suggested that the existing inquiry committee may be further expanded to include a Grade 21 or equivalent officers of SECP, FBR and State Bank of Pakistan with the additional TOR's at para 5 (a) and (b) also assigned to it.

8. The inquiry committee feels that In order to carry out on site forensic audit and deploy technical teams to carry out this exercise, the legal cover would also be required to be provided.

9. Submitted for favor of consideration, please.


(Wajid Zia), PSP
Director General FIA

Government of Pakistan
Ministry of Interior

Islamabad, the 16th March, 2020

NOTIFICATION

No.F.5/14/2020-FIA: In exercise of the powers conferred by Section 3 of Pakistan Commissions of Inquiry Act, 2017, the Federal Government is pleased to constitute Inquiry Commission under Pakistan Commissions of Inquiry Act, 2017 to probe into the increase in sugar prices.

2. The Commission shall comprise the following Officers:-

i.	Mr. Wajid Zia, Director General, FIA	Chairman
ii.	Mr. Gohar Nafees DG, Anti-Corruption Establishment, Punjab	Member
iii.	Mr. Ahmad Kamal DDG, IB,	Member
iv.	Mr. Bilal Rasool, Executive Director (SECP)	Member
v.	Mr. Majid Husain Chaudhry, Joint Director, SBP	Member
vi.	Dr. Bashirullah Khan, DG, Directorate General of Intelligence and Investigation, FBR, Islamabad	Member

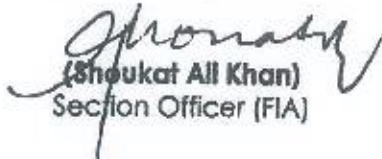
3. The following shall be the Terms of Reference (ToRs) of the Commission:-

- a. Whether the production, this year, was low as compared to past years? Was low production the primary reason for increase in prices?
- b. Was the minimum support price sufficient?
- c. Did the Mills purchase sugarcane at exorbitantly higher prices than the minimum support price? If yes, then reasons therefore;
- d. Reasons for mills not purchasing sugarcane for a limited period of a few weeks, from the farmers and its impact, if any, on sugar prices;
- e. Basis for determination of Ex-Mill price? Reasons for Increase in Ex-Mill price;
- f. Market manipulation/ cartelization by sugar mills, if any;
- g. Impact of forward contracts on the prices of sugar and whether any malafide is involved;
- h. Whether margins between Ex-Mill and retail prices increased, compared to previous years, or otherwise. If yes, reasons thereof and potential beneficiaries;
- i. Impact of tax increase on sugar prices at Ex-Mill/Retail level ;
- j. Hoarding at whole sale/retail level and within sugar mills vis-à-vis stocks of last year;
- k. Was export of sugar justified? Any subsidy given on export and its impact, with potential beneficiaries;
- l. Basis for determination of retail price of sugar;
- m. Role of various stakeholders, including government institutions and private sector in increase in sugar prices, including timely/preventive/pre-emptive remedial measures to control sugar prices and malafide, if any, of any stakeholder;
- n. Verification of the sale of sugar to find out malpractices of hoarding & manipulation of supply to the market to maximize profiteering;
- o. Physical verification of stock to find whether there is any excess / shortage of stock as shown in the books and the verification of the genuineness of the sale record; and,

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- p. The role of Competition Commission of Pakistan in this crisis;
- q. Benami transactions and profits (approx.) earned during the sugar crisis;
- r. The Commission shall submit its report to the Prime Minister within forty (40) days after issuance of this notification.
- s. Any other issue, deemed appropriate, related to the increase in recent sugar prices;

4. This Commission will also be empowered under section 10(b) of the Act ibid to constitute special teams consisting of officers from executive authorities and experts in specific fields, for the purposes of assisting the Commission in conducting an inquiry. The special teams shall have such power as may be prescribed under this Act.


(Shoukat Ali Khan)
Section Officer (FIA)

The Manager,
Printing Press Corporation of Pakistan,
Islamabad.

Distribution:

1. Secretary to the Prime Minister, Prime Minister's Office, Islamabad.
2. Secretary, Cabinet Division, Islamabad.
3. Dte. Gen. Intelligence Bureau, Islamabad.
4. Director General FIA, Islamabad.
5. Director General, Anti-Corruption Establishment, Punjab, Lahore.


Section Officer (FIA)