LAO PEOPLE'S DEMOCRATIC REPUBLIC

PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

Final Report

Review of Policy Measures for Maintaining Price Stability of Key Sensitive Products in Lao PDR

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Client

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List of Abbreviations

AEC	ASEAN Economic Community
AER	American Economic Review
ASEAN	Association of South East Asian Nations
ATIGA	ASEAN Trade in Goods Agreement
BOL	Central Bank of Laos
DDT	Department of Domestic Trade
EU	European Union
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
Lao PDR	Lao Peoples Democratic Republic
MoIC	Ministry of Industry and Commerce
NSEDP	National Socio-Economic Development Plan
PMO	Price Management Organization
WTO	World Trade Organization

Executive Summary

For Laos, a small landlocked economy, with long porous land borders with China, Vietnam, Cambodia, Thailand and Myanmar, increasing international competitiveness and advancing regional integration are necessary for achieving sustainable growth. The economy of Lao has grown rapidly over the past decade and the IMF (2018) forecast the economy will continue to grow at 6.8 per cent per annum through to 2019. This rapid growth has principally been based on the development of Lao's mineral and water resources. These natural resource developments have stimulated growth in construction and services and reduced the poverty rate. Extreme poverty declined from 46 per cent in 1992 to 23 per cent in 2012/13. Going forward Laos needs to increase growth in agriculture, manufacturing and services and reduce dependence on natural resources. Realizing broader based and more sustainable growth requires increasing agricultural productivity since almost 75 per cent of the population are dependent on agriculture for their livelihood.

The cost of doing business and trade costs remain high relative to comparator countries at similar levels of development. Reforming the business and trade environment will encourage increased regional and global competitiveness. Price stability and the availability of price information to all interested parties- producers, commercial buyers, distributors, and consumers- are key features of efficient markets. The Government of Laos recognizes the importance of ensuring price stability for key sensitive products and has put in place regulations aimed at delivering price stability while limiting market distortions.

This report assesses the existing instruments and mechanisms aimed at promoting price stability for key consumer products. Since large unexpected price spikes in staple products have the potential to spark rioting and civil unrest, governments seek to minimize price fluctuations with the aim of maintaining political, economic and social stability. Price controls were used widely in many developed economies during wartime or periods of significant national stress. When used in peacetime, price controls have, generally, been justified as an attempt to reduce inflation as part of a package of macroeconomic reforms, rather than attempts to set minimum or maximum prices for selected products.

Sound macroeconomic fundamentals with a very low inflation rate removes the justification for government intervention in price setting. The IMF (Article IV Review, 2018) forecasts annual changes in the composite price index of less than 2 per cent. This is very low. Laos is not experiencing macroeconomic inflation. This removes a key argument for government intervention in price setting.

Price fluctuations relating to specific products are best addressed through strengthening market infrastructure and lowering trade costs. Since macroeconomic inflation is very low, price fluctuations relate to changes in specific commodities stemming from demand and supply side adjustments in specific commodity and product markets. These are best addressed through measures aimed at strengthening domestic market infrastructure and increasing integration into regional and global markets through reducing trade costs.

The report is organized in four sections.

Section 1, the introduction, sets out the context for the report and provides an overview. In Lao PDR the principal products, subject to government recommended prices, include food commodities, fuel, agricultural inputs and constructions materials. Stable prices are important because rapidly increasing prices of essential products will increase the number of people living in poverty. In Lao PDR, with its large agricultural sector, smallholder farmer incomes are primarily determined by the level and stability of agricultural commodity prices. Rice production is closely associated with the national food security and welfare of both the farming population and low income urban consumers. Rice producers want prices stabilized at levels that provide ‘adequate’ returns to farmer and millers. Establishing government mandated prices risks being expensive to both consumers and tax payers, while also discouraging investment and reducing growth.

Section 2 describes the existing price regulations in Lao PDR and reports on interviews with both government officials and the private sector in Vientiane capital and the provinces of Luang Brabang and Savannakhet. In Lao PDR price management is understood as setting minimum or maximum prices based on surveying the price structure of the sub-sector or product at the province, district and sub-district level. The Department of Domestic Trade in the MoIC is responsible for determining minimum or maximum prices based on existing price structures, the demand and supply of the product or service, existing prices in the domestic and international market and socio-economic issues. The review of the existing regulations identified serious gaps in the availability of data (6 provinces accounting for 25 per cent of total population provided no price information), the absence of a coherent and representative statistical sample and a methodology based on simple averages, and the use of outdated data.

Section 3 discusses the experience of other countries with price controls. This section reports on the findings from studies evaluating government policies aimed at promoting price stability for essential staple foodstuffs in Eastern and Southern Africa, Bangladesh, South Asia, and Thailand as well as more global assessments.

The comparative literature consensus cautions against government directly intervening to set prices. Government price setting does not suppress price movements in the medium to long run. Furthermore, direct price setting discourages investment. Enforcing regulated prices at the national level when they substantially diverge from import parity prices requires trade restrictions. Limiting competitively priced imports slows down productivity growth and acts as a brake on aggregate growth. Opening the economy to trade and implementing interventions aimed at improving market efficiency is much more effective in promoting stable prices. Further, addressing specific social concerns for the most vulnerable are best met through providing targeted safety nets.

Section 4 puts forwarded policy recommendations for addressing price stability for sensitive products in Laos. This section draws on the comparative analysis and the review of existing policies in Lao PDR to recommend that the government of Lao PDR amend the existing legislation to end the policy of recommending minimum and maximum prices for selected ‘sensitive’ products. The report recommends eliminating price support and moving to less distorting types of support for farmers that promote investment and growth. Priority should be given to investing in domestic market infrastructure and ensuring policies reduce trade costs. Lao PDR will benefit from increased integration with regional and international markets. Increased integration will reduce price volatility while also supporting

investments in activities in which Lao PDR has a comparative advantage. The Department of Domestic Trade can promote increased market efficiency through reducing barriers to entry, promoting competition and collecting price and cost information to enable more efficient price discovery.

Policy Recommendations

1. Eliminate all statutory minimum and maximum prices.

2. Government intervention to improve market efficiency -through investment in hard and soft infrastructure, and improve the business enabling environment.

3. Strengthen the availability, quality, and timeliness of price information - focus on rice, meat, essential products. For key commodities strengthen the Department of Domestic Trade to develop a sound statistical sample for collecting good quality and timely data on prices, stocks and price forecasting.

4. Identify the most vulnerable groups and design a program for providing targeted assistance.

Background and Acknowledgements

This report has been prepared with funding from the Second Trade Development Facility (TDF-2), which is a multi-donor program financed by Australia, the European union, Germany, Ireland, USAID, and the World Bank focusing on improving trade and private sector development in Lao PDR. The development objective is to support the implementation of the government's trade and integration priorities outlined in the 2012 Diagnostic Trade Integration Study (DTIS) Roadmap, and in particular to contribute to improved competitiveness and diversification. This part of the project provides technical assistance for reviewing the MOIC's Policy Measure to Maintain Price Stability of Key Sensitive Products.

The report has benefited from the comments received from participants at a Workshop held in Laos on June 5, 2018. This includes the opening and closing remarks from Mr. Sirisamphanh Vorachith, Director General, Department of Planning and Cooperation, Ministry of Industry and Commerce (MOIC), and Mr. Bounthiam Keosipha, Director General, Department of Internal Trade, MOIC. The report owes a great deal to Ladmany Chithtarasi for translating many official documents and other reports including price data.

I would also like to thank Pinphakone Xayavong for administrative and logistical support, and Senggxay Phousinghoa, and Mombert Hoppe for their constructive comments and advice. This report benefited substantially from the support and information provided by the MOIC, the Ministry of Agriculture, the Provincial Ministries of Industry and Agriculture in Luang Brabang and Savannakhet, the Lao National Chamber of Commerce and Industry, and private sector firms,

1. Introduction

The consultancy reviews the scope, objectives, mechanisms, effectiveness, unintended impacts, and shortcoming of the existing instruments and mechanisms used by the Ministry of Industry and Commerce (MoIC) to promote price stability for key sensitive consumer products. The report also summarizes the experience of other countries approaches to ensuring price stability, based on international best practices, prior to making recommendations for Lao PDR.

Price instability may cause political, economic and social problems. With basic food staples accounting for a relatively high share of total expenditure by lower income and more vulnerable income groups, rapidly increasing prices have the potential to cause both increased hardship and political instability. Against this backdrop many governments aim to pursue policies that ultimately deliver stable prices to their citizens. This can extend to policies that attempt to directly determine the level and stability of food and other prices.

In some cases, the government intervenes to directly sets prices, asserting that this will promote welfare and discourage excessive profiteering by the private sector. Generally, this occurs in economies with serious macroeconomic imbalances which discourage private sector investment, and relations between the government and the private sector reflects lack of trust. This approach was used in Zimbabwe during the 2006-8 hyperinflation, when retail bread prices were fixed, and most recently in Venezuela. In both cases, with the prices set below the market clearing price, the intervention worsened the situation for lower income consumers, as supply diminished and 'unofficial' prices rose further.

In economies with a large agricultural sector, smallholder farmer incomes are largely determined by the level and stability of agricultural commodity prices. Price volatility of essential commodities, particularly grains and rice, remains a concern in many economies. In Laos, rice production is closely associated with national food security and welfare of both the farming population and low income urban consumers. Rice producers want prices to be stabilized at levels that guarantee adequate returns to farmers and millers; however, interventions explicitly aimed at achieving this through direct price intervention risk being costly to both consumers and tax payers, while also discouraging investment and retarding growth.

Generally, the prices of agricultural commodities are more volatile than non-agricultural products. Historically this has been explained by agriculture's specific characteristics. These include:

- vulnerability to supply shocks (resulting from adverse weather/insects etc.);
- inelastic supply and demand;
- production decisions based on current prices (resulting in cobweb effects); and
- unforeseen policy changes.

In many developing countries the price impact of fluctuations in output may be exacerbated by the dearth of market infrastructure and institutions that limit storage and other mechanism for smoothing supply over time. Further, restrictions on accessing export markets, or importing from regional neighbors and the rest of the world, will amplify price volatility within the domestic market.

Ensuring open borders (trade liberalization) will protect a national food market against domestic supply shocks by permitting imports during shortages and allowing exports during bumper years. Promoting food security essentially requires more trade; as there is not a global or even a regional food shortage in ASEAN. The challenge is moving food supplies from areas of surplus production to areas with a production deficit. Without government intervention food price dynamics in a small, open, developing economy will be driven by domestic supply and international prices.

Economy wide price stability is related to the macroeconomic fundamentals, the market structure and the openness of the economy. The government of Lao PDR continues to be committed to controlling inflation and maintaining exchange rate stability. To date, the Bank of Laos has succeeded in maintaining low inflation (0.2 percent in December 2017) and a stable exchange rate. The high current account deficit, at 13 percent, largely reflects imports for major infrastructural projects. The government budget deficit remains high although tax and administrative reforms aim to reduce this to sustainable levels. Annual growth is expected to continue at 7 percent and the government remains committed to implementing both the ASEAN integration agenda, and WTO obligations. Ensuring stable prices for the macroeconomic variables is a key element of government monetary and fiscal policies. Lao PDR is committed to ensuring stable macroeconomic fundamentals.

The report focuses on the existing laws, regulations and procedures relating to price setting applied by the Lao PDR. Section 2 outlines the existing policies to price setting aimed at reducing price volatility before discussing existing practices, with specific reference to experiences in Luang Brabang and Savannakhet provinces. Section 3 presents brief summaries of the lessons from other countries experience with direct price interventions aimed at reducing price instability. The section outlines specific examples from Eastern and Southern Africa and Bangladesh, South Asia. Finally, section 4 summarizes the policy implications for Lao PDR.

2. Current Approaches to Maintaining Price Stability in Lao PDR

Background

The Eighth National Socio-Economic Development Plan (NSEDP) 2016-2020 seeks to deliver strong economic growth, increased resilience to weather shocks, reduce poverty and increase the quality of life. Over the past decade Lao PDR has achieved an average growth rate of 7.8 percent per year. The high growth rate has been driven by natural resource extraction (in mining and timber) and energy generation projects. The agricultural sector which accounts for two-thirds of the labor force has grown at 3.7 percent over the past decade. This was primarily a result of increasing the area under cultivation, rather than from increasing productivity. Agricultural productivity levels in Lao PDR remain low relative to neighboring Thailand and Vietnam. Manufacturing, outside of the special economic zones, lagged during the same period. Ensuring more inclusive growth requires the agricultural sector to transition away from subsistence to commercial farming through increasing productivity.

Removing the constraints to competitiveness facing private farmers, producers, distributors and service providers requires:

- the continued investment in infrastructure (by improving transport corridors[1] and expanding access to power);
- strengthening education and health delivery to improve human capital; and
- ensuring government policies nurture a positive business enabling environment including access to competitively priced goods and services.

It is against this background that the current report reviews the existing measures and procedures aimed at setting prices for essential commodities in Lao PDR.

Existing Price Control Measures and Procedures

During the WTO Accession process, the representative of Lao PDR stated that "prices for most goods and services were set by market forces".[2] Government intervention in price setting, following the transition to a market economy, was based on the Prime Minister's Decree of October 2001[3] which authorized the Ministry of Industry and Commerce (MoIC) to monitor prices or institute price controls.

In November 2010 this was replaced by the Prime Minister's Decree 474/PMO which set down three principles for price management. These included:

- prices in Lao PDR should be determined by the market mechanism which is adjusted and managed by the Government;
- the Government should respect the right of price determination and price competition of business operators in accordance with the laws and regulations; and,

[1] Laos transport costs are two to three time higher relative to Vietnam and Thailand. The cost of sending a standard 20 foot container from Thailand/Vietnam to the EU is $500-600. From Laos to the EU the cost increases to $2,000. Given the proximity of Thailand and Vietnam to Laos these additional transport costs are very high.

[2] WT/ACC/LAO/45 page 10

[3] No. 207/PM "On the Administration of Prices of Goods"

- the Government might apply measures to administer prices as necessary and should adhere to the non-discriminatory and transparency principles.

Based on these three principles the MoIC issued guidance in the November 2010 Decree (No 1029/MoIC/DDT). This set down the procedures for price management (in Chapter 2) by private business operators and 'Price Management Organizations' (PMO). A PMO is defined as consisting of the Ministry of Industry and Commerce, Capital, Provincial Industry and Commerce Department, Municipality, District Industry and Commerce Department and Other relevant sectors. A PMO may implement price management and price monitoring.

Price management is understood to include setting the minimum or maximum price, researching the price structure of the sub-sector or product, and managing the price in specific provinces, districts or sub-districts. Business operators are required to submit detailed cost and price data to the PMO before changing their prices. The information includes both production and distribution costs and the expected profit. The MoIC DDT determines the maximum and minimum prices based on the existing price structure, the demand and supply for the product or service, existing prices in the domestic and international market and socio-economic issues. Provision is also made for the use of subsidies (Article 10).

The MoIC is responsible for carrying out the research on price management, making minimum and maximum price recommendations for the 30 listed products, and monitoring prices and costs for the 300 named products. They are also charged with assessing the potential welfare losses from price setting, for monitoring implementation and promoting compliance through the power to levy fines (see Box 1, Article 26). The MoIC is also charged with providing guidance and advice to the Provincial and District departments of industry and commerce on price monitoring and price management.

Box 1: Penalties for Non-Compliance with Price Setting

Article 26 Fines

A business operator violating the decree will receive two written warnings, subsequent failures to comply will result in a fine.
Failure to Display Prices -Fine of 500,000 to 1 million Kip.
Failing to provide any costs information or Submitting false information on cost structure -Fine of 1-3 million Kip
Distribute a 'sensitive product' without permission from the PMO -fine 1-3 million Kip
Stop or delay distributing a 'sensitive product' -fine 1-3 million Kip
Source: 1029/MoIC/DDT 18 November 2010

In 2012 30 products were subjected to price controls with a further 25 subjected to price surveillance. The essential utilities, water and electricity, were also subjected to price administration. These are shown in the tables 1-3 below.

Table 1: Price Controls in LAO PDR, 2012

HS Number	Product Description	Measure
2710, 2711	Fuel and Gas	Maximum Price
7213-7215	All kinds of steel for construction	
2523	Cement	
1006	Rice	Minimum Price

Source: Report of the Working Party on Accession of Lao PDR to the WTO, 1 October 2012, WTO/ACC/LAO/45, p. 72, Table 6(a)

Table 2: Price Administration on Essential Utilities (Services), 2012

Sector/Subsector	Measure
Electricity (CPC 1710)	Tariff is based on Notification No. 302/MoIH, dated 24 June 2005
Water supply (CPC 1800)	Tariff is based on Decision No. 494/VT,

Source: Report of the Working Party on Accession of Lao PDR to the WTO, 1 October 2012, WTO/ACC/LAO/45 p.72 Table 6(c)

Table 3: Price Surveillance in Lao PDR, 2012

HS Number	Product description
39,18, 4409, 6904, 6905, 6907, 6908	Roof, floor and wall tiles
7907	Roof made of zinc
4407	Sawn wood
3208-3210	All kinds of house paint
3917	PVC pipes
8701	Tractors
8413	Water pumps
8432, 8433	Harvesting or threshing machines
31	Fertilizer
2309	Animal feed
8437	Milling machinery (of cereals and rice)
8437.20	Milling machinery (of rice)
8712	Bicycles
8711	Motorcycles
	Student clothing
	Writing tools (pens and pencils)
	Raw materials for factories
30	Medicines
1701, 1702	Sugar
2103.10.00	Soya sauce
2103.90.00	Fish sauce
2922.42.20	Monosodium glutamate
1507, 1511, 1512, 1513	Vegetable oil
1101, 1102, 1106	Flour
0201, 0202, 0203, 0207, 0209, 0210, 1602	Meat (cattle, pork, poultry)
03	Sea fish and fresh water fish

Source: Report of the Working Party on Accession of Lao PDR to the WTO, 1 October 2012, WTO/ACC/LAO/45 p.72 Table 6(b)

The government of Lao PDR asserted that their pricing regulations were consistent with the national treatment provisions of Article III (4) of GATT 1994, Article 4 of the Agreement on Agriculture (AOA), and Article VIII of the General Agreement on Trade in Services (GATS). Article III GATT 1994 aims to ensure equal treatment for imported 'like products' with domestically produced goods. Article 4 of the AOA references market access, and Article VIII of the GATS allows Monopolies and Exclusive Service Providers to operate subject to their obligations under Article II (MFN) and their specific commitments.

Article III requires that once imports have entered the territory of a member country, they must be treated no less favorably than similar domestically produced goods.[4] Article III states that products from other member countries should not be subject to internal taxes or other charges, or other regulation that are more onerous those applicable to similar domestically produced goods. Specifically, Article III (4) reads

The products of the territory of any Member imported into the territory of any other Member shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.

A country is in violation of Article III (4) when a complainant country can demonstrate that:

(i) a *measure* (law, regulation, or requirement);
(ii) *affecting* internal sale, offer for sale, purchase, transportation, distribution or use;
(iii) is affording the foreign *like product*;
(iv) *less favorable treatment*.

Article III aims to prevent WTO Members are applying internal regulations in a manger which affects the competitive relationship between domestic and imported products in a way that provides protection to domestic producers.

Lao PDR is also a signatory to the ASEAN Trade in Goods Agreement (ATIGA) with Article 6 addressing National Treatment on Internal Taxation and Regulation and explicitly committing to Article III of GATT 1994.

Each Member State shall accord national treatment to the goods of other Member States in accordance with Article III of GATT 1994. To this end, Article III of GATT 1994 is incorporated into and shall form part of this agreement, mutatis mutandis.

The rice price controls are justified as supporting farmers' incomes. Each year the government determines a minimum (floor) price for glutinous rice to serve as 'an optional reference' for the sale and purchase of glutinous rice between farmers and the millers. During the WTO Accession process (in 2010-2012) the government confirmed that the minimum price was not compulsory and did not apply to imported rice. In the Accession negotiations the Government of Lao PDR asserted that the price control on rice had no impact on the import and export regime.

The government also sets maximum prices for fuel and gas which are all imported, and for domestically produced and imported construction steel and cement. The maximum prices are prepared from the cost and profit information supplied by suppliers and importers to the Department of Domestic Trade (DDT)

[4] Note that *more* favorable treatment to foreign goods than to similar domestically produced goods is permitted.

in the MoIC. Since these maximum prices are significantly higher than import parity prices the pricing policy is largely redundant. However, to the extent provinces delay or limit the issuing of import permits the maximum price preferences domestic producers who may be able to sell at higher prices than import parity. Maximum price setting above the free market clearing price may also encourage importers to raise their prices above import parity.

In March 2017 (No.0346/MoIC/DDT) published updated price management regulations, replacing the earlier 2012 regulations (No. 1064/MoIC/DDT). The new regulations required prices to be set for 8 product types (shown below in Table 4) and price information to be collected monthly on a further 199 items (see Annex). The items listed for price management are deemed 'highly sensitive' because of their importance to economic welfare. This extended the number of items subject to price management beyond those applicable during the WTO Accession negotiations. The regulation also provides for the 'wide publication' of prices. Article 6 explicitly references the Vientiane Capital, Provincial Industry and Commerce Departments, and District Industry and Commerce Departments to 'acknowledge and strictly implement the Agreement'.

Table 4: Products Price Management, 2017

No.	Product Items	Legislation/Regulations
1	Fuel	Agreement No 1785/MOIC.DDT 7/9/09
2	Rice (Paddy, Sticky and Hulled Rice)	Recommendation 0312/MOIC.DDT 13/2/2012
3	Meat (Pork and Beef)	Recommendation 0312/MOIC.DDT 13/2/2012
4	Fish (Tilapia)	Recommendation 0312/MOIC.DDT 13/2/2012
5	Steel Bar	Decree No 474/PM, 18/11/2010 on the Management of Product price and Services
6	Cement	Decree No 474/PM, 18/11/2010 on the Management of Product price and Services
7	Cooking Gas (4, 15 and 48 Kg tanks)	Regulation No 0756/MOIC.DDT 20/7/2001 on the Importation and Distribution of Cooking Gas
8	Chicken (ready to cook)	Recommendation 0312/MOIC.DDT 13/2/2012
8 product types and 23 product lines.		

Source: Agreement on Identification of Product Items, Price Management of the MOIC, No. 0346/MOIC.DDT 15 March 2017

Implementation

The DDT in the MoIC is organized in two main departments: Price Management, and Marketing Analysis & Forecasting. The Price Management Division makes recommendation to the Director DDT on the recommended prices for sensitive products and prepares an annual summary of the gap between domestic production and demand for 18 products in four sectors[5]. The Price Management Division also has responsibility for monitoring compliance. The Marketing Analysis and Forecasting Division is responsible for collecting and collating weekly and monthly price and cost information for all the products listed in No. 0346/MOIC/DDT dated March 15, 2017.[6]

[5] Fuel and Gas, Food Category (rice, meat, fish, vegetables, and fruit), Construction Materials (cement and steel bars), and Agricultural Inputs (fertilizer and feedstock)
[6] The full list of products is shown in Annex 2.

The DDT, MoIC recommends minimum buying prices for rice from farmers, maximum selling prices for meat from the market, and maximum prices for fuel and diesel, and cement and steel products (used for construction). They also collect information on the expected domestic supply and domestic demand of the same products and provide this information to the Department of Imports and Exports where it appears to be used to control the issue of import permits. Although, during the WTO Accession negotiations the Government representative stated that this was for information purposes only and would not be used to restrict imports[7]. The information on market supply and demand is provided to the MoIC by the various Provincial Departments of Industry and Commerce, and for rice and meat products the Ministry of Agriculture which, in turn, obtains the data from the Provincial Departments of Agriculture.

Collecting Cost and Price Information

Cost and Price Information is collected by the designated Price Management Organizations weekly, monthly and annually. Price and cost information for sensitive products is sent from the Provincial Departments of Industry and Commerce to the Department of Domestic Trade, MoIC in Vientiane. The DDT makes a recommendation based on this information and in the case of Rice based on the price calculated by the Ministry of Agriculture. Not all the Provinces provide price data to the MoIC[8]. Weekly price data is collected for 5 categories[9] which covers 129 items that are considered essential for daily consumption. Monthly price data is collected on eight categories[10] which covers 199 items (these are listed in Annex 2).

Table 5: Cost and Price Information Responsibilities

Price Management Organization (PMO)	Information Collected	Frequency of Collection
Vientiane Capital, Provincial Industry and Commerce Department	Weekly Product's Price (129 products)	Every Wednesday
	Monthly Product's Price (199 products)	Not later than 20th monthly
	Status of supply and Demand (17 products)	On the 25th of December annually
District Industry and Commerce Department	Weekly Product's Price (129 products)	Every Tuesday
	Monthly Product's Price (199 products)	Not later than 15th monthly
	Status of supply and Demand (17 products)	On the 10th of December annually

Source: Information received from DDT, MoIC

7 Report of the Working Party on Accession of Lao PDR to the WTO, 1 October 2012, WTO/ACC/LAO/45 p.10
8 Price data is received from 11 Provinces. No data is received from Phongsaly, Odomxay, Huaphan, Khammuan, Saravanh, and Attapue.
9 The five categories include food, fuels and gas, construction materials (steel and cement).
10 The eight categories are: food, materials for the construction and maintenance of buildings, education, clothing and footwear, agricultural inputs, household materials, fuels and gas and precious objects and jewelry.

The legislation allows for the MoIC to consider the existing supply and demand in the market. The DDT currently collects information on the supply and demand of 18 items in four categories. It appears that, notwithstanding the commitment to the WTO, the estimation of supply and demand is used to restrict imports with the objective of favoring demand for domestic production at the provincial level.

DDT estimates the annual demand and domestic supply for selected 'sensitive' products including rice, cement, and steel products[11], and sends this information to the Department of Import and Export in the MoIC. Based on interviews with staff from the Dept. of Imports and Exports it is understood that the Department of Domestic Trade makes a recommendation on the quantity of 'sensitive' imports to be granted permits. The quantity is based on the estimated gap between total Lao demand and total domestic production. These estimates are based on data assembled from each of the Provincial Departments of Industry and Commerce.

Such a policy does not consider the possibility that some Districts/Provinces may have a surplus (or deficit) and find it cost effective to sell (import) to a neighboring country rather than sell (buy) domestically. Further, it appears that not all the Districts/Provinces provide timely information. There are also concerns over the quality of the information given staff shortages in the two provinces visited (Savannakhet and Luang Brabang).

Box 2 Data Collection for Steel Fabrication

The MoIC sends questionnaires to all 17 steel fabrication factories based in Lao PDR. The questionnaires request detailed cost and price information. The questionnaires are followed up with telephone interviews. However, the response rate is low and DDT does not conduct follow up interviews at the factories.

The Minister of Industry and Commerce chairs the Inter-Ministerial Committee on Price Management which recommends the minimum price that millers may buy rice and maximum selling price for other foodstuffs (meat, fish, vegetables, and fruit), building materials and diesel and fuel.

The Rice Value Chain

Over the past decade world food prices have spiked several times to the detriment of urban lower income net food consumers. Many governments responded to these price fluctuations by intervening in markets to try and stabilize prices. In 2010 glutinous rice prices increased by more than 50 percent. In Lao PDR rice is the main staple food, accounting for approximately 70 percent of total calorie and protein intake. Against this backdrop the government sought to understand the causes of the price inflation and to implement measures aimed at delivering more stable prices.

Rice production has grown significantly since the 1990s and Lao PDR grows more than total domestic demand. However, at the regional level there are considerable differences in self-sufficiency across the provinces. Food security is a localized problem in Laos, mainly in the upland mountainous areas in the north of the country. Most of Lao PDR rice production is grown in the '7 Plains' with the province of Savannaket, Khammouan and Vientiane in the central region and Saravanand Champasak in the southern

[11] The data for the steel cost structure is based on 2008 data from the Xiengkuan Factory, and cement from Viengvung 1 and 2 plants in 2011.

region accounting for 83 percent of the rice surplus. Rice accounts for 80 percent of land use. While productivity has increased, it remains low relative to Thailand and Vietnam.

The global trade in rice is dominated by South and East Asian economies, but only 6-7 percent of global production is traded (Gillson and Busch, 2014). Four of Laos' neighbors account for 55 percent of total global trade in rice with Thailand (31%) and Vietnam (18%) being the largest global exporters. The rice markets of Thailand, Lao PDR and Vietnam are quite well connected (Lao PDR Rice Policy Study) which limits attempts to practice self-sufficiency. Lao PDR paddy rice prices are generally cheaper than Vietnamese or Thai prices at the farmgate level, and the Lao milled glutinous rice is generally of lower quality. There are opportunities to export glutinous rice to Vietnam and Thailand for milling.

Table 6: A Rice Growing Cost Structure for 1 hectare, 2015-2016

Category	Item/Service	Unit	Amount	Price	Total Price
1	**Preparation of land to plant seeds**				**910,000**
	Petrol for ploughing	Kip/liter	5	10,000	
	Labor for sowing seeds	Kip/person	1	35,000	
	Fertilizer (46-0-0)	Kip/bag	1	240,000	
	Seed	Kip/kg	80	480,000	
	Labor for seeding (removing weeds)	Kip/person	3	105,000	
2	**Preparation for ploughing to grow rice**				**1,880,000**
	Petrol for ploughing	Kip/liter	45	450,000	
	Labor for growing rice	Kip/person	20	700,000	
	Fertilizer	Kip/bag	50	250,000	
	Chemical Fertilizer (16-20-0)	Kip/bag	2	480,000	
3	**Application of Fertilizer**				**590,000**
	Labor	Kip/day	10	35,000	
	Application of Fertilizer (46-0-0)	Kip/day	1	240,000	
4	**Harvesting and Storage**				**1,889,000**
	Harvesting by Machine	Kip/ha	1	500,000	
	Labor for shearing	Kip/person	15	35,000	
	Spinning and storage	Kip/ha	1	864,000	
5	**Depreciation of Machinery and Interest**				**1,000,000**
	Tractor and tools (hoes, shovels)	Kip/year	1	800,000	
	Interest 7% per season (14% per annum)			200,000	
6	**Cost of Product**	Kip/ha			**6,269,000**
		Kip/ton			**2,089,667**
		Kip/kg			**2,090**
7	**Farm Profit (assume 30%)**	Kip/ha			**1,880,700**
		Kip/ton			**626,900**
		Kip/kg			**627**
8	**ex Farm Price**	**Kip/kg**			**2,717**

Note: The MoIC is assuming average productivity of 3 ton per hectare.
Source: Data received from the Provincial Department of Industry and Commerce

The MoIC compiles cost and price data for the rice value chain which includes, rice farming, rice milling, wholesale and retail sales. Data for 2015-16 was provided for rice farming. This represents a 'typical' small farmer and breaks down the costs for producing rice on one hectare. It is assumed that the farm produces 3 tons of rice per hectare. A recent report[12] on the rice value chain estimates the average yield at 3.5 tons/hectare and calculates the net profit per hectare move than 42 percent larger than the data provided by the MoIC. This divergence may reflect price changes between 2015 and 2018, however, it also illustrates the extent to which estimating costs and prices at the national level for a 'representative' rice farmer is flawed, as efficiency levels within the sector will vary widely, both across the country and within individual districts. A private miller in Savannakhet stated that the price set by the government for milled rice was too high. He indicated that it was 'not relevant for him' as he would not be able to find any buyers. In this case it was clear the private miller and the buyer ignored the 'set' price with the transaction taking place at the agreed market price. The miller also stated that the purchase price from the farmer will vary depending on the quality and the distance travelled to collect the rice.

Current pricing policy requires millers to pay a minimum price of 2,500 Kip ($0.31) per kg for glutinous rice throughout the year, during both the wet and dry seasons. Larger scale buyers including Rice associations, mills and other business establishments are required to pay the farmer 3,000 Kip per kg.

Table 7: B: Rice Milling Cost Structure (for 1 ton)

Category	Item/Service	Unit	Amount	Price	Total
1	**Purchase of Paddy Rice from Farmer/Aggregator**				**5,169,980**
	Purchase Price from Farmer	Kip/kg	1,670	2,864	
	Carrying cost (from farm to mill)		1,670	30	
	Transport Cost (from farm to mill)	Kip/kg	1,670	150	
	Bag for Storing Paddy Rice	Kip/bag	45	1,500	
	Ties and Ropes	Kip	1	3,000	
	Salary for Mill Staff	Kip/ton	1	16,000	
2	**Labor for milling of Paddy Rice**				**301,000**
	Labor of Employee	Kip/ton	1	120,000	
	Electricity	Kip/ton	1	30,000	
	Machine Depreciation	Kip/ton	1	50,000	
	Milling Duty (tax)	Kip/ton	1	5,000	
	Bag for milled rice	Kip/ton	20	2,200	
	Drying Costs (14%)	Kip/ton	1	52,000	
3	**Total Milling Costs**	**Kip/ton**		**5,470,980**	**5,470,980**
4	**Total Cost Structure**	**Kip/kg**		**5,471**	

Note: Rice Husk 16% and broken rice 1% of Paddy rice, for 1000kg (1 ton). Milling 1 ton of Paddy rice will yield 600kg of rice for sale.
Source: Data received from the Provincial Department of Industry and Commerce

Delivering price stability is best realized through boosting domestic production and increasing trade integration with neighboring countries. This promises to provide increased returns to farmers while also reducing price spikes. Opening up the economy to trade protects the local market against domestic supply shortfalls, as imports from Thailand or Vietnam can be imported whenever there are shortages. Further, as

[12] Understanding linkages among agricultural input and output markets in Lao PDR-studying the challenges, Anke Reichhuber and Kenekeo Sayarath, 2018.

noted above, when transport costs are included it may be more cost effective to import from a neighboring economy than from elsewhere inside the country.

Table 8: C: Cost Structure of Wholesaler 2011-12

Category	Item/Service	Unit	Amount	Price	Total
1	Purchase price of milled rice	Kip/kg	1000	5,471	5,471,000
2	Electricity cost	Kip/kg	1,000	80	
3	Transport Cost to the market	Kip/kg	1,000	50	
4	Carrying cost	Kip/kg	1,000	20	
5	Loan interest (14% per annum)	Kip/kg	1,000	60	
6	Profit (5%)	Kip/kg	1,000	274	
	Total Capital Cost Type 2	Kip/ton	1		5,954,550
I	**Price of Rice for Wholesale (Type 2)**	**Kip/kg**	**1**		**5,695**
	Total Capital Cost Type 1	Kip/ton	1		6,700,000
II	**Price of Rice for Wholesale (Type 1)**	**Kip/kg**	**1**		**6,700**

Source: Data received from the Provincial Department of Industry and Commerce

Table 9: D: Cost Structure of Retailer for Sticky Rice Type 1, 2011-12

Category	Item/Service	Price Kip/kg	Total Kip/kg
I	**Wholesale rice (Type 1) to market**	**6,700**	**6,700**
II	**Expenses in Retail Sale**		**890**
	Electricity cost	80	
	Cost of table	100	
	Security and cleaning of waste	150	
	Plastic bag	200	
	Parking and use of facilities	100	
	Carrying cost	80	
	Other expenses	180	
III	**Total Price**		**7,590**
IV	**Profit (3 %)**		**228**
	Retail price of rice		**7,818**

Source: Data received from the Provincial Department of Industry and Commerce

Other Products -Pork Meat

The MoIC and the Ministry of Agriculture have set up a Task Force on Pork with the objective of recommending prices along the value chains. They are collecting cost information from farmers, slaughterhouses and wholesalers/retailers/market sellers. Prices for slaughter are set at the Provincial level (by the Department of Agriculture), the sale price of the live animal from the farmer is set by the Ministry of Agriculture, and the price of meat is set by the MoIC. The Department of Livestock and Fisheries in Luang Prabang confirmed that their aim was to increase domestic production and reduce imports. Similar views were expressed in Savannakhet, and it appears that the decision to allocate import permits for rice and meat is based on the concept of 'market balancing' (where imports are limited to the shortfall between estimated total demand in the province and estimated total domestic production). One official spoke of 'protecting supply and demand in the province'.

Price Setting at the Provincial level

Savannakhet Province

In Savannakhet the DoIC allowed each of the 15 districts to set its own price for paddy rice to reflect the differing cost structures. Each district then notified the provincial DoIC. The provincial DoIC has four staff responsible for the collection, monitoring, and analysis of price data and each district has two staff. Price setting is implemented in 6 districts with ex farm rice prices ranging from Kip 1,900 to 2,300. The miller has to buy from **within** his district, should the mill wish to purchase rice from outside his district they are required to discuss with other millers and officials in the neighboring district and cannot pay below the price set for their own district.

The Savannakhet DoIC stated they maintained a 'hotline' which consumers could call to report on price increases.

The DoIC confirmed that traders importing steel are required to state the purchase prices, taxes and transportation and to indicate the price they intend to sell in the Laos market.

The officials confirmed that the price analysis does not take quality into account.

Luang Prabang Province

The Provincial Department of Industry and Commerce in Luang Brabang are preparing to establish a committee to implement the prices listed for the items on the sensitive list. They are currently drafting the regulations for price monitoring. The DoIC stated that they currently rely on volunteers to provide price information, as they only have 2 staff responsible for price control.

The DoIT stated that they checked market traders displayed the prices for their food products. A trader not displaying prices would receive two warnings after which a fine would be imposed.

The Luang Prabang Provincial Department of Agriculture stated that they issue a permit for imports from other provinces and only approve 30 percent of the requests. For an import permit the traders has to obtain a trading license from the DoIC and then submit a request to import to the DoIC. They must specific the quantity to be imported and each transaction requires a separate permit.

The DoA in Luang Brabang stated that they would only issue an import permit when the demand in the province exceeded their estimate of domestic supply. They estimate demand by assuming each person consumers 57kg of meat per annum. Provincial supply of pig meat was estimated at 27,000-30,000 per annum on 10 commercial farms.

Porous Borders and Informal Trade

Unfortunately, many economies focus on self-sufficiency and impose restrictions on both imports and exports. Attempts to isolate national markets from world prices fail. As a landlocked nation encircled by five countries[13] Laos has porous borders. This is consistent with the anecdotal evidence of a substantial informal cross border trade in a wide range of products. A recent report (IMF, 2017) concluded that the

[13] Vietnam, Cambodia, Thailand, Myanmar, and PRC.

MoIC significantly undercounts the value of imports from major trading partners, specifically Thailand and China. Trade data is captured by both the MoIC and the Central Bank of Laos (BOL). The BOL data for imports is 12 percent larger than the MoIC, while the MoIC data for exports is 20 percent larger than the BOL data. Both the BOL and the MoIC import and export data is significantly lower than the mirror data estimates. Based on mirror estimates the IMF estimated that Laos exports could be underreported by 8-50 percent and imports underreported by 30-70 percent. While the underreporting of exports is concentrated in wood and wood products, imports are underreported across a wide range of products including food, fuel, vehicles, machinery, chemical products, plastics and rubber and construction materials.

These findings using 2014/15 data (in 2017) are consistent with the earlier work of Hamanaka (2011) using 2008/9 data. Hamanaka also found widespread variances using mirror trade data in the flows from Thailand, China and Vietnam. This indicates a long standing systemic problem with underreporting of trade data. The underreporting of wood and wood product exports reflects attempts to evade the quotas and restrictions on exports aimed at protecting Lao industry and also for environmental concerns. The unrecorded imports of fuel seek to exploit the large price differential between the regulated price in Laos and international prices, or more specifically the price in Thailand.

The IMF estimated the informal border trade in food products (processed food, animals and meat from Thailand) at $586m in 2014/15, approximately one fifth of imports from Thailand and 13 percent of total imports.

The evidence of systemic under reporting of imports for food products and fuel raises serious questions on the ability of the Lao authorities to effectively enforce the stated policy of setting prices. When Lao PDR sets prices significantly higher than import parity this creates significant incentives for rent seeking from informal imports primarily from Thailand and Vietnam, and to a lesser extent from China and Cambodia. Limiting official imports through non-tariff measures in order to protect domestic producers will permit unofficial imports to raise prices to the domestic price.

Imports of Fuel and Diesel

Lao PDR imports all its gasoline and diesel requirements. The domestic price of gas and diesel is significantly higher than the import parity price from Thailand. Much of the higher cost is accounted for by taxes as well as transport and distribution costs. The Lao State Fuel Company (www.laostatefuel.com) publishes the maximum prices for Super, Regular and Diesel for each province. In 2017 the government reduced the number of companies allowed to import fuel. Following concerns over the diversion of fuel registered as transiting to a third country, three companies were banned from importing fuel through Laos and it was announced that the total number of companies approved to import petroleum would be reduced from 22 to 5[14]. The widespread trade in illegally imported fuel appears to have encouraged a large increase in the number of gas stations along the major transport corridors. Although the government sets the prices for fuel, since all fuel is imported the major policy issues relate to ensuring registered importers pay the appropriate taxes, and the competitive relationship between the state-owned fuel companies and private firms

[14] http://www.xinhuanet.com/english/2017-02/23/c_136080572.htm

3. The experience of Price Controls in Selected Other Countries

With basic food staples accounting for a relatively high share of total expenditure by lower income and more vulnerable income groups, rapidly increasing prices have the potential to cause both increased hardship and political instability. Against this backdrop many governments pursue policies that seek to deliver stable prices to their citizens. Price volatility also creates uncertainty for producers and discourages farmers from increasing production.

It is important to distinguish between policies which regulate prices and restrict trade, from those that focus on addressing fundamental constraints, while opening markets to regional and international trade. Economies that set prices and restrict trade in attempting to enforce, either an artificially low (floor) or high (ceiling) price will create shortages or a glut respectively while also discouraging productivity enhancing investment.

In economies experiencing serious macroeconomic imbalances the government may be tempted to set minimum prices in a misguided attempt to promote welfare and discourage 'excessive profiteering'. This approach was used in Zimbabwe during the 2006-8 hyperinflation when retail bread prices were fixed, and most recently in Venezuela. In both cases the prices were set below the market clearing price which resulted in rapidly shrinking supply and a sharp rise in the 'unofficial' (and illegal) price for the commodity.

Trade Policy and Food Security

Most developing countries are price takers and need to respond to international prices to ensure efficient allocation of domestic resources. There is a significant body of evidence that large and sustained variations between domestic prices and world prices (both higher and lower) leads to a misallocation of resources and a slower growth rate. In the case of food products international commodity prices reflect global trends and transmitting this to domestic prices will assist with the responsiveness to food shocks.

Serious price shocks are endemic to closed economies and can be considerably reduced by encouraging trade openness. Opening up to trade does not result in increased vulnerability to price shocks. However, trade policy interventions that seek to close markets and protect individual economies risk creating a 'beggar-thy-neighbor' impact and can, when adopted by multiple large economies, destabilize world prices.

In many developing countries trade policies are adjusted frequently (and often at very short notice) in response to exogenous changes in world prices. Ivanic and Martin (2014) studied the response of domestic prices to changes in world prices. They found that when international prices increased rapidly, policy makers in developing countries intervened and almost fully insulated their domestic markets from the increases. Yet, in the longer term the trends in domestic and international prices were found to be almost identical. In other words, without exception the longer-term trend in international prices is passed through to the domestic market. On average, attempts to insulate prices are ineffective in stabilizing domestic prices. It merely redistributes volatility from one country to another. Moreover, intervention is contagious and puts pressure on other countries to also try and insulate themselves. This is a specific problem for the poorer countries which are net food importers, as they are more likely to already have low or zero tariffs, and limited resources for targeted subsidies to offset increases in import prices. Anderson, Ivanic and Martin (2014) found that in aggregate all the interventions by countries during the 2006-8 commodity boom were ineffective in reducing poverty.

A more open trade policy will protect national food markets against domestic support shocks as it will permit more food to be imported when domestic production declines and to export when production exceeds domestic demand. Increasing food security is linked with increasing more trade. The commitment of ASEAN members to implement the ASEAN Economic Community (AEC) represents a positive approach to advancing more effective regional integration that promises to contribute to increasing food security.

Trade policy actions by exporting and importing countries can have indirect effects on food markets and can impact food prices. An export restriction on rice exports, even if it does not directly affect the work prices, can lead to market behavior that indirectly affects the world price. For example, an export restriction by a key exporter may result in other rice exporters also imposing restrictions. Changes in the price of key commodities are correlated, with disruption in the market for rice affecting the price of close substitutes (wheat and maize).

In addition to changes in global or regional markets other factors also need to be considered when account for differences in domestic food price fluctuations across countries. These include:

- exchange rate changes as key commodity prices are all generally priced in USD;
- domestic and internal logistics and transport costs,
- market distortions,
- trade barriers,
- sudden increases (or decreases) in global supply.

Price controls can also contribute to domestic prices diverging from international prices.

Trade restrictions are not a cooperative way to address price volatility and can, when adopted by multiple countries, as during the economic crisis of 2007-8, may even exacerbate the problem.

Within Asia (and more widely across Africa) countries approach to the market mechanisms to deliver price stabilization have ranged from complete reliance for procurement and distribution to forced procurement and rationed sales and government determined fixed prices. **The evidence of international experience suggests that market mechanisms are more efficient over time in delivering price stabilization.** This is consistent with economic theory.

The next section presents brief examples from Eastern and Southern Africa, South Asia and Thailand on their experience of intervening in the market to minimize price instability.

Eastern and Southern Africa

Jayne (2012) summarizes recent applied economic assessments of approaches to managing food price instability in Eastern and Southern Africa. He highlights three structural characteristics. Firstly, in Eastern and Southern Africa marketed grain output is concentrated among a very small number of commercial farmers. Secondly, more than half of small farmers produce for their own subsistence and sell little or no food grains. Approximately half of rural farm households are only buyers of food and these are poorer than the households that sell at least 100kg (of maize) to the market. Higher food staple prices tend to transfer income from the poorer rural households (net buyers) and urban consumer to a relatively small group of more affluent commercial farmers. Thirdly, survey data shows that smallholder farmers are responsive to output price incentives, however, the poorer farmers are financially constrained.

Government intervention in the cereal market, through price supports or other policies that adjust the price level, risk harming the more vulnerable poor rural farmers and working against agreed poverty alleviation goals. Over the past two decades there has been an increase in the importance of other food staple crops (rice, cassava, wheat) which are available at import parity. This has resulted in increased diversification and contributed towards more stable food consumption patterns.

Jayne identifies three main policy options, for increasing food security, that have been considered in Eastern and Southern Africa over the past decade. These are essentially:

- using the State to create efficient markets;
- rules-based intervention aimed at ensuring stable markets; and
- discretionary interventions (including policy reversals) aimed at achieving State objectives.

These approaches are described in more detail below.

Option 1 State role restricted to providing public goods to strengthen market efficiency
This approach relies on the price sector to implement all the marketing tasks with government focusing solely on the provision of public goods such as market rules and regulations, physical infrastructure, market information, extension services (advising on new seeds/fertilizer etc.). Here price instability is addressed through opening markets and improving efficiency.

Option 2 Rules based state intervention to stabilize market activity
Private markets carry out most of the direct marketing functions with the state implementing a direct marketing operation which manages food buffer stocks, the release of stocks to the market, and requires import controls. Proponents of this approach argue that rules-based state intervention is necessary to stop private markets from experiencing serious price instability. The rules are determined in advance, publicized and implemented in a non-discretionary manner. In practice implementing parastatal price stabilization schemes, through bulk stock purchase and market release, requires considerable technical and managerial expertise that would be challenging for most parastatals (as the experience in Eastern and Southern Africa demonstrates). Furthermore, given the widespread practice of discretionary state intervention agreeing ex ante rules-based state intervention would lack credibility.

Option 3 Discretionary state intervention to provide the state with maximum flexibility to achieve state policy objectives
This option is similar to Option 2 except the rules are not publicized in advance. Most of the governments in Eastern and Southern Africa have pursued this option which maximizes policy discretion. However, such a discretionary approach to the market is highly unpredictable as export and import restrictions/bans are announced without warning, tariffs are changed at short notice, government tenders are issued for the importation of subsidized grain, and sales from public grain stocks are sold into the domestic prices at lower prices (and often to preferred buyers). The likelihood of government intervention in markets results in a high level of policy uncertainty which discourages private investment.

In Eastern and Southern Africa most governments have followed Option 3 implementing highly discretionary market and trade interventions. This mixed policy environment of legalized private trade with strong government intervention in food markets has been identified as one of the principal factors retarding increasing productivity for small and medium sized farmers throughout the region. Chapoto and Jayne (2009) conclude that price instability appears to be larger in economies where governments rely heavily on marketing boards and discretionary trade policies to stabilize prices. They argue that discretionary interventions by the state to stabilize prices have not succeeded.

Bangladesh South Asia

In the 1970's and 1980's Bangladesh intervened in grain and rice markets through offering low prices through ration shops with the stated objective of ensuring stable prices. In many ways Bangladesh was following India's policy, which also practiced a combination of domestic procurement and government buffer stocks to stabilize prices. However, Bangladesh faced serious budget constraints which limited their ability to provide subsidize prices. Beginning in the 1990's Bangladesh began to liberalize its domestic and international trade which allowed private sector imports to play an important role in price stabilization when domestic shortfalls occurred following serious flooding.

Bangladesh focused on increasing domestic production to reduce the role of food aid in domestic food supplies, through improving the incentives for investing in irrigation, increasing the use of fertilizer and improved seeds. While domestic production of rice increased from 13.1 million tons in 1980/81 to 34.5 million tons in 2010/11 stability in food prices was realized through allowing private traders to import rice to meet market demand. Increased domestic production has also resulted in increased volumes being marketed, while the share of government distribution in the total marketed food grain has declined to only 5 percent in 2000.

Following the severe flooding in Bangladesh in 1998 private sector rice imports were able to stabilize market supplies and prices. As the floods spread across Bangladesh rice prices increased to import parity levels[15]. This encouraged a large inflow of rice by hundreds of small traders which was more than 6 times larger than the government rice distribution. Had the government imported the grain through parastatals the lower efficiency would have cost $50-100m more than the private traders. Equally, if the government had subsidized the rice by selling it as the sale price used for targeted groups in urban centers the total fiscal cost would have been $160-201m. **The liberalized trade policy resulted in price stabilization without the government having the maintain large stocks**.

Following the liberalization of the rice and wheat sectors in the early 1990s Bangladesh had also encouraged investments in market infrastructure. Increased investment in winter (boro) season rice and wheat assisted in shortening the length of time between the major domestic harvests, which reduced seasonality and assisted with smoothing prices. Improvement in public investments and liberalizing internal trade encouraged private investments. This included investments in roads and bridges, removing restrictions on internal grain movements and allowing traders access to foreign exchange. These all contributed to Bangladesh's ability to stabilize prices through a domestic supply shock. At the same time Bangladesh strengthened household food security through expanding safety net programs.

Thailand Rice Support Policy 1975-2014

Thailand produces around 25 million tons of rice annually and provides employment for more than half the total labor force. Thailand exports between 40-50 per cent of total production, with approximately half destined for African markets. For the past four decades successive governments have intervened to support rice farmers. Notwithstanding significant domestic policy divergencies between opposing political groups debate has focused on the degree of price support, rather than whether the government should provide rice farmers.

[15] Defined as the export price of rice in the exporting country plus transport and marketing costs.

Thailand introduced price support in 1975 and in 1981-82 introduced the paddy pledging scheme which allowed farmers to mortgage their harvested rice at the Bank for Agriculture and Agricultural Cooperatives (BAAC) for 80 per cent of its value. Initially the scheme was not particularly attractive as interest rates were high at 13 per cent. The government also introduced paddy purchasing schemes via government agencies and provided cheap credit to millers and exporters. In 1991 the government expanded the paddy mortgage program to 90 per cent of the crop's value and reduced the interest rate to zero. By 1995 the paddy pledging program was covering 2.5 million tons of rice which required a government subsidy of $1.61 billion. Rice millers were the main intermediaries rather than direct contact between the farmers and the government. Rice millers benefited from these rice price interventions and over time became dependent on cheap loans and government subsidies. Improving farmer welfare was the stated goal of the government's price intervention policies, but the real beneficiaries were the Ministers controlling Agriculture and Commerce since they determined rice purchases, millers who obtained cheap credit and rents from storing and milling government purchased rice, and rice exporters who enjoyed subsidies before the 1997 financial crisis.

The election of Thaksin Shinawatra and his TRT party in 2001 witnessed a large increase in government subsidies to rural farmers through expanding the paddy mortgage program to cover the second season rice crop harvested from April through June. Further, TRT increased the loan rate to the full paddy price (100%), and most significantly by changing the basis for the value of the paddy mortgages from the projected price to one based on a guaranteed premium[16]. The amount of paddy eligible for mortgaging increased more than threefold to 8.7 million tons, or one third of total production. In 2004/5 and ahead of the election the government increased the target price to 20-30 per cent above market value. The Thai government became the largest single purchaser of rice. The paddy pledging scheme became the key policy tool influencing the rice market and linked the TRT party to higher prices in the minds of rural rice farming households. As domestic prices increased, Vietnamese rice became more competitive and the millers increased their dependency on government subsidies.

Following the September 2006 coup target prices were reduced and the paddy pledging program was investigated. By the time Thailand returned to democracy (in 2008) rice subsidies had declined, however, as global prices surged millers cut back on purchasing Thai farmers' second season paddy, and the banks declined to extend credit to the millers. With a bumper crop, farmers found they could only sell at below market value. In the ensuring protests the government began to restore the paddy pledging subsidies through agreeing a guaranteed price above the market price.

In 2009/10 the government replaced paddy pledging with a new insurance program which aimed to provide a direct subsidy to farmers rather than through influencing prices. Under the new program farmers would receive a guaranteed price for up to 20 tons of rice per family. If the market value fell below the set price the government would pay the difference to the family for up to 20 tons of paddy. The government also arranged for direct rice purchases, loans to rice millers and farmers. In 2010 domestic paddy prices declined by 40 per cent. This resulted in growing protests (by the red shirts) against the government. Following further unrest and continued low paddy prices in 2011 the government agreed to raise price, to double the size of the insurance program to 40 tons per family, and to directly purchase paddy in provinces where prices were particularly low.

In 2011 the Pheu Thai party won the election repealed the insurance scheme, restored the paddy pledging scheme and offered rice producers 50 per cent more than the market price. This policy of widespread

[16] In May 2001 the government offered 4,300 Baht/ton for low-grade paddy while the market price averaged 3,700 Baht/ton.

farmer subsidies continued across five cropping seasons before the Pheu Thai government was deposed in May 2014. While supporting local farmers, the government had hoped to raise world prices by withholding supplies and then selling the stock at a higher price. However, the intervention cost the Thai government hundreds of billion dollars, depressed world prices and left the government with a mountain of deteriorating rice. Further, informal imports increased to benefit from the inflated prices and Thai exporters lost market share to competitors. The World Bank estimated the policy cost the government about 1 per cent of GDP per year.

4. Best Practice Approaches to ensuring price stability

Ensuring price stability for sensitive products, including food prices, remains a key policy objective for the Lao PDR as it seeks to deliver economic growth and provide food security. The government collects price and cost information on a wide range of products and sets prices for rice, meat products, building materials, steel products and cement. Using price controls as a policy instrument to realize stable prices does not have a good track record of success.

Laos PDR could reduce price instability through Implementing an open border policy with neighboring states as agreed under the ASEAN Free Trade Agreement and the ATIGA. Regional trade promotes the stabilization of markets. Reducing transport costs will also assist both farmers and consumers as they are the ones bearing the costs.

The most effective policy for addressing the social concerns over price instability in sensitive products is to deliver higher real incomes through realizing economic growth. This means promoting advances in agricultural productivity as this will raise farmer's incomes (whatever the price level), reduce the cost of food and increase real wages. Small scale farmers represent a significant proportion of the poor, improving their productivity promises to deliver a significant reduction in poverty. Furthermore, agricultural production is labor intensive, so productivity increases may be expected to increase the wages of poor farm laborers. Further, agricultural productivity growth may be expected to reduce the cost of basic staples and other foodstuffs which represent a large share of farmworkers expenditure.

Opening up a country to trade more both internally and with neighboring economies can significantly increase food security. Recent work by Donaldson (AER, 2018) on the expansion of the railway network in India during the nineteenth century concluded that improved transportation decreased trade costs and interregional price differences, increased both interregional and international trade, and increased real incomes. Prior to the railroads internal transport costs would be very high. This finding highlights the critical role of trade in reducing the volatility of agricultural products and lowering the risks of food insecurity.

Price controls target the symptom -volatile prices- while ignoring the root causes of the instability. Ultimately specific market and macroeconomic characteristics determine price volatility. This may include, at the economic level large macroeconomic imbalances resulting in inflation. At the sector level, it is essential to address the supply side constraints keeping agricultural and industrial productivity low, to intervene to reduce high trade costs resulting from non-tariff measures, and to promote market efficiency through investing in human and physical capital. Improving market efficiency may be realized through a multiplicity of interventions. They may include
:

- establishing grading systems;
- removing impediments to investments in warehousing and storage;
- expanding irrigation and electrification;
- lowering the cost of improved seeds; and
- transferring knowledge on improved farming practices.

It is notable that the diverse range of possible interventions that will encourage investment and stimulate increased productivity does not include price setting.

Continuing to set maximum prices on sensitive products is on one level irrelevant since, when the market price is below the maximum it will have no impact. Equally, if the minimum price is below the market price and farmers have the freedom to sell at the market price all goods will be traded at market prices. However, when price setting is combined with estimating market demand and a policy of attempting to limit imports to the gap between domestic supply and total domestic demand the impact is harmful to welfare and growth. With restrictions on imports (for example, through licensing delays or rejections) domestic producers may be able to raise their prices.

Establishing a fixed price for a product will also discriminate between producers. Production costs vary substantially within specific production activities for both farms and industrial firms. Discouraging more productive farms from offering lower prices to take advantage of economies of scale (or simply higher productivity) will discourage investment and will constrain productivity growth within the sector. Further, price setting by commodity gives insufficient attention to quality differences, which will discourage investments aiming at delivering value-added quality enhancements.

Recommendations

The MoIC should move away from statutory price controls to focus on interventions that will increase market efficiency.

The MoIC collects data on value added along the value chain with the aim of recommending purchase prices at each stage. Data was provided for the rice and pork meat value chains. Colleting data on costs and prices along major value chains is an important exercise and should be encouraged. However, it should not be used for setting prices, its value lies in making essential price information available to a wide range of stakeholders. **This price discovery exercise should be the sole function of the Department of Domestic Trade in relation to price.** Other valuable functions include identifying the constraints to enhancing market efficiency, and barriers to entry and investment. This does not include setting minimum and maximum prices.

Policy Recommendations

5. Eliminate all statutory minimum and maximum prices.
6. Government intervention to improve market efficiency -through investment in hard and soft infrastructure, and improve the business enabling environment.
7. Strengthen the availability, quality, and timeliness of price information -focus on rice, meat, essential products. For key commodities collect good quality data on stock levels and prepare price forecasts.
8. Identify the most vulnerable groups and design a program for providing targeted assistance.

It is important to address the legitimate policy concern of ensuring the most vulnerable groups in society are insulated from short term adverse price movements in essential food products. Widespread experience from both within the region and around the world indicates this is most cost effectively delivered through introducing a targeted social safety net rather than direct government intervention in markets by setting prices or purchasing buffer stocks. This is illustrated through the Bangladesh experience, which promoted private sector imports to meet domestic demand and stabilize rice prices at import parity levels, shows the benefits of trade liberalization in promoting food security. Attempts to restrict trade and set minimum prices for domestic sale have a poor record of delivering stable prices in the medium term, while also creating a lack of trust between government and the private sector, which discourages investment.

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3. Mr. Buaphan, Pork Slaughterhouse
4. Mrs. Buangern, Pick Farm

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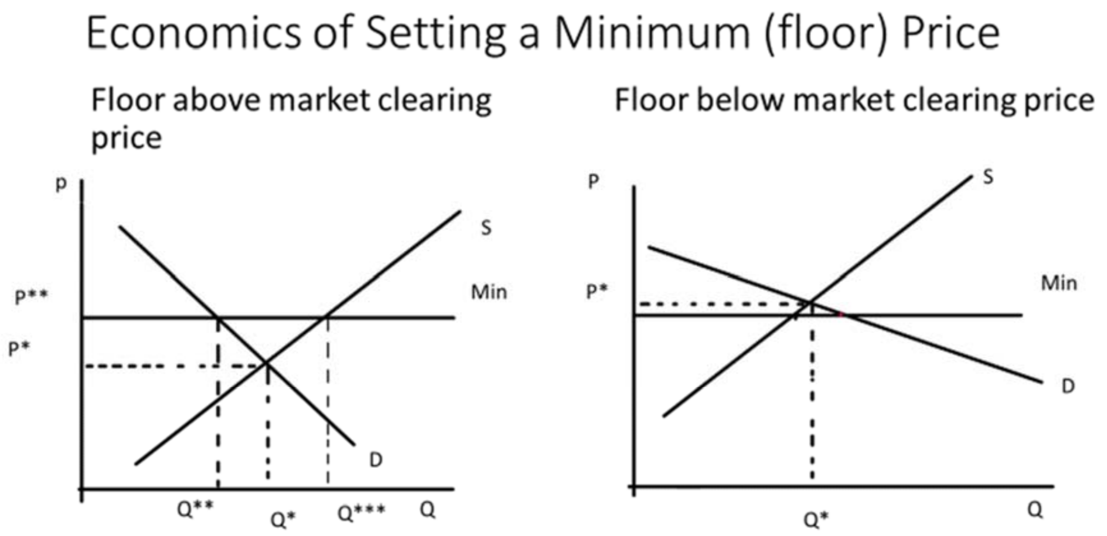
Annex 1 The Economics of Price Controls

Minimum price

When the government sets a minimum price, if this is higher than the market clearing price there will be a surplus of supply assuming an upward sloping supply curve. For the supplier to continue receiving a price higher than the equilibrium price it will be necessary for the buyer to provide a subsidy. If the government or private buyers are unwilling to provide subsidy producers will be unable to realize the published minimum price. This is really the inverse of the maximum price case. When the equilibrium price is higher than the government set minimum price, it will be redundant.

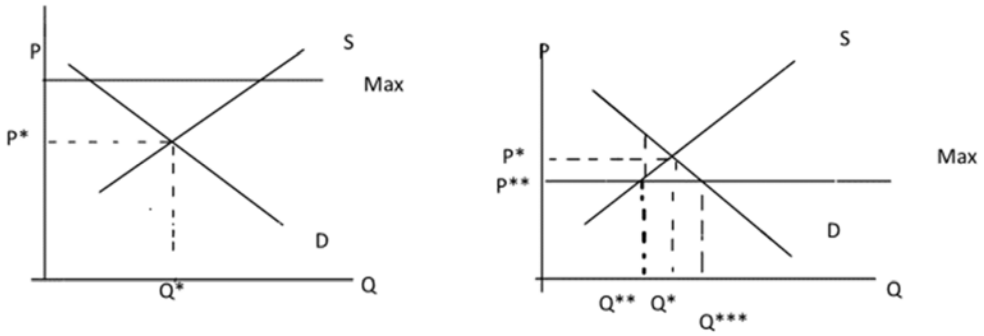


Maximum Price

When the government sets a maximum price of P^{**} for a commodity/product that is lower than the market clearing price there will be two efficiency costs. The right-hand figure below shows the total quantity supplied at different prices (Supply curve) and the demand curve (D shows the total demanded at different prices on the vertical axis. If the government sets a maximum price (price ceiling) at P^{**} which is below the market clearing (or equilibrium) price of P^{*} there is unmet demand. Assuming that in the short run supply is fixed at Q^{*} the price control will not impact on supply, but demand will expand from Q^{*} to Q^{***} and there will be a shortage. Prior to the setting of the maximum price demand was in equilibrium with supply at a higher price of P^{*}. If we permit supply to be variable (assume the upward sloping Supply curve) there will be a further efficiency cost (referred to as a deadweight loss). Demand will exceed supply and producers will cut back on production to Q**. The impact of the maximum price in this example reduces the quantity supplied from Q*** to Q**.

Economics of Setting a Maximum (ceiling)Price

Maximum Above Market Clearing Price | **Maximum Below Market Clearing Price**



When the maximum price exceeds the market price the regulation is completely redundant as all the products will be sold below the maximum price. However, if total supply consists of domestic production plus imports and the domestic production price exceeds import parity pricing the maximum price may serve to increase prices for consumers who are unable to purchase imports.

Annex 2 List of Products Monitored for Price Changes

Follow up the Movement of Product's Price (Ac. B)

No	Product Items	Legislation/Regulation
I	**Food Products**	
1	Unhooked sticky rice	Decree 474/PM-18/11/2010
2	Unhooked rice	
3	Lao hulled sticky rice 1	
4	Lao hulled sticky rice 2	
5	Lao hulled rice 1	
6	Lao hulled rice 2	
7	Lao Mali hulled rice	
8	Thai Mali hulled rice	
9	Pork 1 (Fresh meat)	
10	Pork 2 (3 levels meat)	
11	Beef 1 (fresh meat)	
12	Beef 2 (Mixed meat)	
13	Buffalo 1 (fresh meat)	
14	Buffalo 2 (Mixed meat)	
15	Local chicken with hair removed (chicken with readiness for cook)	
16	Local chicken with hair removed (chicken with readiness for cook)	
17	Chicken with hair removed (chicken with readiness for cook)	
18	Duck with readiness for cook	
19	Egg (No 0)	
20	Tilapia	
21	Cat fish	
22	Natural snake head fish	
23	Feed snake head fish	
24	Peppermint	
25	Onion leaf, fresh	
26	Salad	
27	cabbage	
28	Smell mustard	
29	Mustard	
30	Cauliflower	
31	Chinese cabbage	
32	Morning glory	
33	Coriander	
34	Fresh Oyster mushroom	
35	Dry rate's ear mushroom	
36	Dry shitake	
37	Carrot	
38	Fresh chili	

39	Dry chili	
40	Tomato	
41	Pumpkin	
42	Eggplant	
43	Lemon	
44	Yard long bean	
45	Pea	
46	Cucumber	
47	Chayote	
48	Gourd	
49	Large gourd	
50	Boiled bamboo	
51	Potato	
52	Sweet potato	
53	taro	
54	Sweet corn	
55	Dry Onion	
56	Dry Garlic	
57	Bread	
58	Dry noodle	
59	Fresh vermicelli	
61	Rice noodle	
62	Kaosoy noodle	
63	Salt(IO Din salt)	
64	Lao fish sauce	
65	Thai fish sauce	
66	Lao soy sauce	
67	Thai soy sauce (Phoukaothong)	
68	Oil from palm 1 liter glass	
69	Oil from soy 1 liter glass	
70	Oil from husk 1 liter glass	
71	Red sugar	
72	White sugar	
73	Mali condensed milk	
74	Bear condensed milk	
75	Small bowl noodle soup	
76	Big bowl noodle soup	
77	Small bowl rice noodle soup	
78	Big bowl rice noodle soup	
79	Single dish food	
80	Tilapia grilled	
81	Chicken grilled	
82	Large glass of Lao beer	
83	Big glass of Lao tiger beer	
84	Small glass of Lao Soft drink	
85	Big bottle of Lao Soft drink	

86	Small bottle of Lao soft drink	
87	Apple	
88	Orange	
89	Grape	
90	Water banana	
91	Long banana	
92	Ripe papaya	
93	Raw papaya	
94	Pomelo shaddock	
95	Fresh coconut	
96	Ripe tamarind	
97	Lao Pineapple	
98	Lao watermelon	
II	**Construction Materials**	
99	Lao mixed cement (sky wild ox P425)	Decree 474/PM-18/11/2010
100	Lao mixed cement (green wild ox P425)	
101	Lao mixed cement (Red wild ox P425)	
102	Lao mixed cement (gold wild ox P42.5)	
103	Lao Portland cement (Red wild ox P525)	
104	Lao Portland cement (copper wild ox P/L1.ASTI)	
105	Lao cement (Red lion)	
106	Lao cement (green lion)	
107	Thai mixed cement (Bird)	
108	Thai mixed cement (tiger)	
109	Green Thai mixed cement TPI	
110	Thai Portland cement (Elephant)	
111	Thai Portland cement (Diamond)	
112	Red Portland cement TPI	
113	Thai Portland cement P525	
114	Vietnam Portland cement	
115	Round bar dimension 6	
116	Round bar dimension 8	
117	Round bar dimension 10	
118	Deformed bar dimension 10	
119	Deformed bar dimension 12	
120	Deformed bar dimension 14	
121	Thai round bar dimension 6	
122	Thai round bar dimension 8	
123	Thai deformed bar dimension 10	
124	Thai deformed bar dimension 12	
125	Thai deformed bar dimension 14	
126	Vietnam round bar dimension 6	
127	Vietnam round bar dimension 8	
128	Vietnam deformed bar dimension 10	
129	Vietnam deformed bar dimension 12	
130	Vietnam deformed bar dimension 14	

131	White tile of Lao	
132	Green tile of Lao	
133	White tile of Thai	
134	Green tile of Thai	
135	Lao white zinc	
136	Thai white zinc	
137	Internal paint U90 18 liter tank of Lao	
138	External paint U90 18 liter tank of Lao	
139	Internal Paint ATM 18 liter tank of Lao	
140	External Paint ATM 18 liter tank of Lao	
141	Internal Paint TOA 18 liter tank of Thai	
142	External Paint TOA 18 liter tank of Thai	
III	**Education Materials**	
143	Note book (100 pages)	Decree 474/PM-18/11/2010
144	Pen (Horse)	
145	Pencil (Horse)	
146	Student uniform for girl	
147	Student uniform for boy	
IV	**Clothing**	
148	Short trousers for boy	
149	Long trousers for boy	
150	Jean for man	
151	Long trousers for man	
152	Shirt for man	
153	t-shirt for man	
154	Lao Cotton skirt	
155	Jean for woman	
156	Shirt for woman	
157	Short t-shirt for woman	
158	Shoes for man	
159	Shoes for woman	
160	Shoes for boy	
VI	**Agricultural Inputs**	
161	Food for broiler No 105M of Lao	Decree 474/PM-18/11/2010
162	Food for broiler No 201C of Lao	
163	Food for broiler No 202P of Lao	
164	Food for first birth pig No 302M/P of Lao	
165	Food for pig No M/P of Lao	
166	Mix feed for pig No 805M of Lao	
167	Food for chick No 440 of Thai	
168	Food for chicken 441 of Thai	
169	Food for small pig No 240 of Thai	
170	Food for pig No 241 of Thai	
171	Food for pig No 242 of Thai	
172	Food for pig NO 243 of Thai	
173	Meal for fingerling No CP9931 of Thai	

174	Fish meal No CP9932 of Thai	
175	Meal for fingerling NO 700 of Thai	
176	Fish meal No 702 of Thai	
177	Fertilizer 16-20-00 50Kg bag	
178	Fertilizer 46-00-00 50Kg bag	
179	Fertilizer 15-15-15 50Kg bag	
VII	**Household Materials**	
180	Powdered soap Viso 400g	Decree 474/PM-18/11/2010
181	Thai Powdered soap	
182	Lao soap	
183	Thai soap	
184	Lao shampoo	
185	Thai shampoo	
186	Lao toothpaste	
187	Thai toothpaste	
188	Lao dishwasher	
189	Thai dishwasher	
190	Thai toilet cleaning liquid	
191	Thai floor cleaning liquid	
VII	**Fuel and Gas**	
192	Premium Gasoline	Decree 474/PM-18/11/2010
193	Regular Gasoline	
194	Diesel	
195	Gas for cooking	
VIII	**Precious objects and jewelry**	
196	Gold for buy in	Decree 474/PM-18/11/2010
197	Gold for sell out	
198	Silver for buy in	
199	Silver for sell out	
Total: 8 Categories, 199 Product Items		

Annex 3 Pig Production Value Chain Cost and Price Structure

Pork Cost Breakdown from Farm to the Slaughterhouse

Category	Item/Service	Price (Kip) per Pig	Comment
1	**Pig purchased at farmgate**	**1,800,000**	Live pig weighing 100kg after slaughter the weight is reduced by 12 percent to 88kg. Assuming an average weight of 88kg the total ex Slaughterhouse price including profit of 2% is Kip 21, 805 per kg
	Tax	2,679	
	Veterinary Fee	5,000	
	Slaughter Fee	38,500	
	Transport Tax	15,000	
	Transport Fee from Farm to Slaughterhouse	20,000	
	Other Expenses	20,000	
2	**Total Expenses**	**81,179**	
3	Total	1,881,179	
	Profit at 2 percent	37,624	
4	**Total Price including Profit**	**1,918,803**	

Note: The farmgate purchase price is Kip 18,000 per kg. The derived profit and total price figures have been marginally adjusted by Kip 400 ($0.05) to be consistent with the calculated percentage.
Source: Adapted from Information received from DDT, MoIC

Pork Cost Breakdown from the Slaughterhouse to the Market Seller

Category	Item/Service	Price (Kip) per Pig	Comment
1	**Cost of Slaughtered Pig**	**939,168**	Assumes the slaughtered pig weighs 88kg but then loses 3 kg before being sold to the market -85kg At a price of Kip 26,502 per kg
1	Transport to the market	10,000	
2	Electricity	13,000	
3	Water	5,000	
4	Table Fee	10,000	
5	Veterinary Fee	2,000	
6	Cleaning of Waste	10,000	
7	Removal/cleaning of Hair	15,000	
8	Ice Fee	20,000	
9	Plastic Bag	30,000	
10	Knife maintenance	10,000	
11	Parking and Use of Facilities	10,000	
12	Plastic for covering table	10,000	
13	Labor Fee	30,000	
14	Other Expenses	30,000	
2	**Total Expenses**	**205,000**	
3	**Risk (2% of total cost of 1 and 2)**	**42,883**	
4	**Total Costs**	**2,187,051**	
5	**Profit (assumed to be 3% of 1,2 and 3)**	**65,612**	
	Total Price (4+5)	**2,252,663**	

Source: Adapted from Information received from DDT, MoIC

Price of Pork Meat in the Market

Category	**Cut of Meat**	**kg**	**Price/kg**	**Total Price**
1	Meat quality 1	14	36,000	504,000
2	Meat quality 2	12	33,000	396,000
3	Third level meat	6	35,000	210,000
4	Rib	6	35,000	210,000
5	Leg and Bone	7	26,000	182,000
6	Liver	2	30,000	60,000
7	Organ	6	25,000	150,000
8	Leg	4	20,000	80,000
9	Head	6	20,000	120.000
10	Fresh oil	4	10,000	40,000
11	Skin	4	20,000	80,000
12	Blood	2	10,000	20,000
13	Small Piece of meat (mixed with oil)	2	20,000	40,000
14	Front thigh and bone	7	25,000	175,000
15	Big Bone	3	25,000	75,000
Total		**85**		**2,342,000**

Source: Adapted from Information received from DDT, MoIC