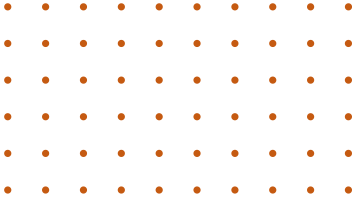




**Federation of Pakistan  
Chambers of Commerce &  
Industry**

**Policy Research Unit**



# **GST ON PACKAGED MILK**

**Federal Budget 2024-25**

**Prepared by:  
FPCCI Policy Research Unit**



**The imposition of an 18% GST on packaged milk will exacerbate the malnutrition crisis in Pakistan, driving up milk prices, and disproportionately burdening low-income households. While the government aims to generate PKR 69 billion in tax revenue, raw milk producers and suppliers stand to derive an undue gain of an additional PKR 1,319 billion, highlighting the need to reconsider this tax to ensure milk remains accessible and affordable for all, safeguarding public health and economic stability.**

According to the **Food and Agriculture Organization (FAO)**, approximately 150 million households worldwide are involved in milk production. In recent decades, developing countries have seen an increase in their share of global dairy production. This growth is mainly due to an increase in the number of producing animals rather than an increase in productivity per animal. In many developing countries, dairy productivity is limited by poor-quality feed resources, diseases, and limited access to markets and services such as health, credit, and training.

Pakistan, as one of the largest milk producers in the world, faces similar challenges. The country's dairy sector suffers from low productivity due to inadequate feed quality, prevalent diseases, and restricted access to essential services. Instead of imposing an 18% GST on packed milk, the government should focus on addressing these fundamental issues to enhance dairy productivity. Milk is a basic necessity for children under the age of five. Due to the decline in breastfeeding, the proposed GST on packed milk will only worsen the situation by making quality milk less accessible to poor people, ultimately increasing the risk of malnutrition in the country. By improving animal productivity and supporting the dairy sector, Pakistan can ensure better nutrition and health outcomes for its population and may gradually impose GST on packed milk.

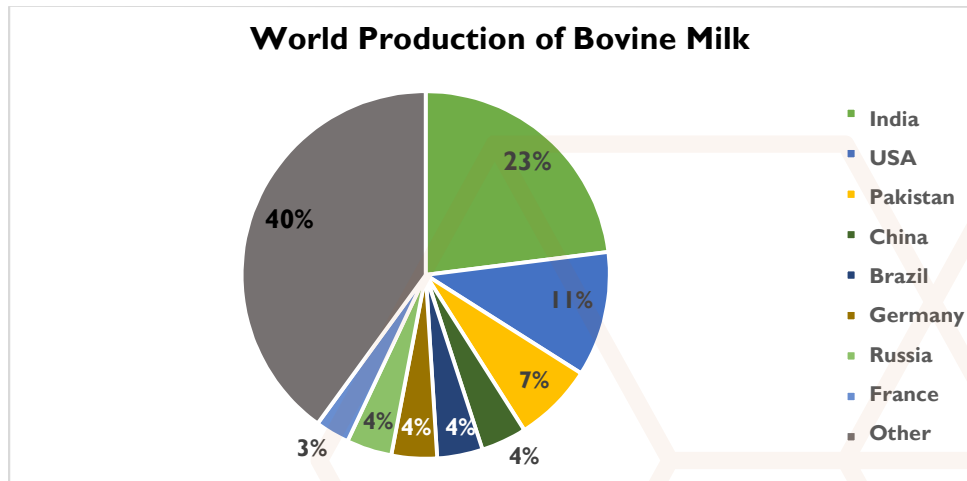
**Milk Facts:** A 250 ML glass of whole milk from cows can provide a 5-6 year old child with about:

Key Nutrients		Milk Provides Us	
1	48% of Protein requirements	1	Calcium
		2	Magnesium
2	9% of calories	3	Selenium
		4	Riboflavin
3	Key Micro-Nutrients	5	Vitamin B12
		6	Vitamin B5

<sup>1</sup> <https://openknowledge.fao.org/server/api/core/bitstreams/6e04f2b4-82fc-4740-8cd5-9b66f5335239/content>

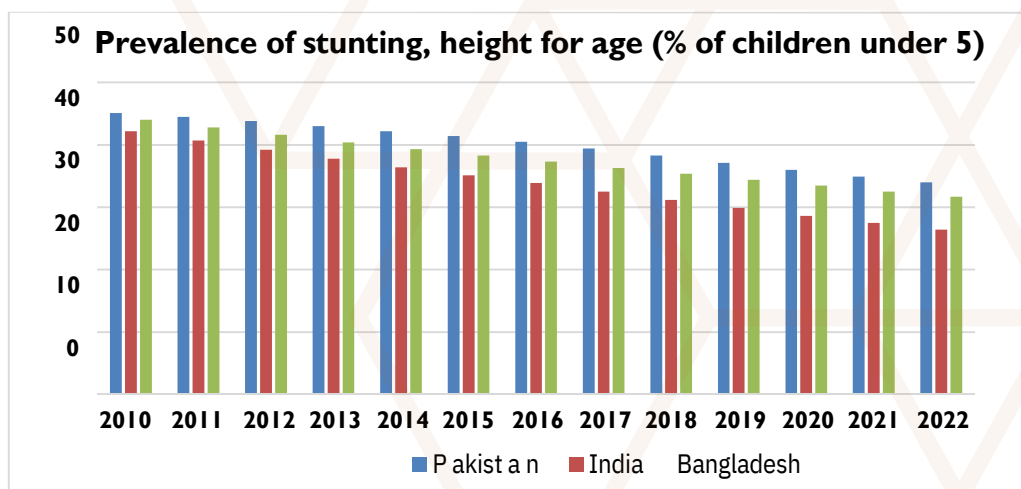
**Raw Milk:** Is the untreated loose milk

**Milk Production:** Pakistan is the 3rd largest bovine milk producer after India and United States of America



**Issue of Malnutrition in Pakistan:** Despite being one of the world's largest milk producers and consumers, Pakistan faces a troubling nutrition crisis. In 2022, a staggering 34% of children under the age of 5 suffered from stunting, highlighting the persistent issue of malnutrition. Moreover, in 2019, about 53% of children under 5 were affected by anemia, revealing a dire need for nutritional interventions. The dietary intake of essential foods and by examining the latest available data on nutrition indicators from regional countries, it becomes evident that Pakistan has a higher rate of stunting among children under 5, a key measure of malnutrition. Over the past 12 years, Pakistan has shown the slowest progress, with stunting rates decreasing from 45% in 2010 to 34% in 2022. In comparison, India and Bangladesh have made significant strides in the same period.

Prevalence of stunting, height for age (% of children under 5)													
Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Pakistan	45.1	44.5	43.8	43	42.2	41.4	40.5	39.4	38.3	37.1	36	34.9	34
India	42.2	40.7	39.2	37.8	36.4	35.1	33.9	32.5	31.2	29.9	28.6	27.5	26.4
Bangladesh	44	42.8	41.6	40.4	39.3	38.3	37.3	36.3	35.4	34.4	33.5	32.5	31.7



Source: World Development Indicators

**A Significant Price Hike:** Milk as a staple food is naturally rich in protein, calcium, vitamins, and other vital nutrients. Being a complete meal, it has the potential to significantly improve Pakistan's nutritional profile. However, the recent price hike due to the imposition of 18% sales tax on packed milk has further threatened the malnutrition crisis in the country. The price of packed milk has recently risen from Rs 300 to Rs 370 per litre, making it increasingly unaffordable for low-income individuals.

This price hike is also expected to have profound implications for the health of marginalized segments of society, particularly the poor, children, and women, who are already vulnerable to malnutrition. It is strongly apprehended that this will influence consumer behavior, disrupt the dairy market, and contribute to overall inflation. The imposition of 18% GST on packed milk is significantly high compared with countries like Canada, India, and Bangladesh as they offer zero or low VAT on milk and dairy products, ensuring the accessibility of essential nutrients to consumers. These countries maintain a balance in their revenue generation and affordability to keep dairy products within the consumers' reach.

VAT Rates on Packaged Milk by Country	
USA	0%
Canada	0%
India	0%
Bangladesh	0%
Sri Lanka	8%
Malaysia	10%
Pakistan	18% (Packed Milk)

The per liter price of UHT Milk pack in Pakistan is comparatively higher than India, Bangladesh, Australia, France, and the Netherlands, while Pakistan is facing the lowest per capita income in comparison to the below-mentioned countries.

Packaged Milk Pack (1 liter)						
Description	Pakistan	India	Bangladesh	Australia	France*	Netherland*
Price in US \$	1.33	0.78	1.02	1.07	1.23	1.29
Per Capita Income (US \$) – Country	1,680	2,485	2,657	51,070	47,360	62,537

\*Paris & Amsterdam

As per the Food and Agriculture Organization (FAO), ensuring adequate intake of essential nutrients like calcium and vitamin D requires a specific daily intake of milk. The per-day milk intake is as recommended:

Milk needed for adequate intake of essential nutrients			
Description	Daily	Monthly	Annually
Children (1-3 years)	1.5 cups (375 ml)	11.25 liters	136.88 liters
Children (4-8 years)	2 cups (500 ml)	15 liters	182.5 liters
Adolescents (9-18 years)	(500-750 ml)	18.75 liters	228.13 liters
Adults	(500-750 ml)	18.75 liters	228.13 liters

**Considering a family of four (husband, wife, a 2-year-old child, and a 5-year-old child), they would need 64 liters of milk monthly to ensure adequate intake of essential nutrients which will cost them PKR 23,680. Based on the minimum wage, if both the husband and wife are working, their monthly earnings would be PKR 74,000. Therefore, they would be spending 32% of their monthly income on purchasing milk, or else they could potentially be at risk of health issues.**

The recent surge in packed milk prices is anticipated to intensify inflationary pressure in Pakistan, exacerbating an already challenging economic landscape characterized by stagnant wages and diminishing purchasing power. As one of the South Asian nations grappling with elevated inflation rates, Pakistan faces a significant socioeconomic dilemma. With a poverty rate hovering around 40%<sup>[1]</sup>, approximately 98 million Pakistanis are already contending with the harsh realities of poverty. This price increase in a staple commodity like milk is likely to deepen the financial strain on these vulnerable individuals, further constraining their economic resilience.

Comparative Analysis of Inflation and Policy Rate for June 2024			
Description	Pakistan	India	Bangladesh
General Inflation (%)	12.6	4.8*	9.9*
Policy Rate (%)	20.5	6.5	8.5

\*Shows May figures

**Market Dynamics:** Due to the imposition of 18% sales tax on packaged milk, it is estimated that its incidence would be PKR 70 per liter. This situation allows raw milk producers and suppliers to increase their prices by the same amount without any corresponding rise in their production costs. **Consequently, while the government is projected to generate only PKR 69 billion annually from this sales tax, raw milk producers/suppliers stand to gain an additional PKR 1,319 billion per year.** The imposition of 18% GST will put an undue burden of PKR 1,388 billion on Pakistanis.

Description	Production (%)	Milk (billion liters)
Milk Production (a)	100%	62
Wastage due to supply chain limitation (b)	20%	12.4
Gross Milk Available (c)		49.6
Self/Barter Consumption (d)	60% of (c)	29.7
Milk Sold in Market (a-b-d)		19.8
- Market Share of raw Milk	95%	18.8
- Market Share of packaged milk	5%	992 million
Government Revenue from Sales Tax @ 18%		PKR 69 billion
Additional income for raw milk producers/suppliers		PKR 1,319 billion

**Source:** Author's Calculations based on Data provided by Pakistan Dairy Association

<sup>2</sup> <https://www.worldbank.org/en/news/press-release/2024/04/01/pakistan-implementing-an-ambitious-credible-and-clearly-communicated-economic-reform-plan-critical-for-robust-recovery-p>



The imposition of sales tax significantly skews the market dynamics. While it ostensibly aims to generate government revenue, it disproportionately enriches raw milk producers and suppliers at the expense of consumers. The sharp rise in packaged milk prices from PKR 300 to PKR 370 per liter makes it less accessible to poorer segments of society, exacerbating existing nutritional challenges.

Given the structure of the milk market, where raw milk holds a 95% share, the burden of this tax on packaged milk is unlikely to translate into substantial government revenue but will rather inflate the profits of raw milk suppliers. This scenario highlights the inefficiencies and unintended consequences of the new tax policy, necessitating a reevaluation to mitigate its impact on low-income populations and to ensure a fairer distribution of economic benefits.

As already mentioned, raw milk holds a 95% market share in Pakistan, whereas packaged milk only accounts for 5%. Packaged milk goes through multiple quality tests from the raw milk stage to the final packaging stage in the supply chain to ensure it meets strict regulations for health and safety standards. On the other hand, raw milk usually does not undergo any quality testing, which poses significant health risks to consumers. Furthermore, there is a 20% loss (12.4 billion liters annually) of milk due to limitations in the supply chain. By promoting the use of hygienically packaged milk, not only can public health improve, but the 20% wastage worth an estimated PKR 3.7 trillion annually could also be greatly reduced. This would also increase the annual availability of this essential commodity for an additional estimated 16.1 million families (size of 4), enhancing overall health and nutrition.

**Conclusion:** The imposition of an 18% GST on packaged milk is leading to significant price increases not only for packaged milk but also for raw milk, making both kinds of milk unaffordable for low-income families and exacerbating malnutrition across Pakistan. The government aims to generate revenue of PKR 69 billion from this tax imposition, but it will primarily benefit raw milk producers and suppliers, as they will have room to increase the prices of raw milk, resulting in an additional benefit of PKR 1319 billion. This will put an undue financial burden on consumers. To address this issue, the government should focus on enhancing dairy productivity and reconsider the GST on milk to ensure fair pricing and access to essential nutrients for all Pakistanis. The unintended consequences of the current policy highlight the need for change to a more balanced and equitable approach.

**This document is prepared by the Policy Research Unit (PRU) of the Federation of Pakistan Chambers of Commerce & Industry under the supervision of the Chairman Policy Advisory Board, FPCCI dated July 2024.**

## Research Team

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