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Competition Commission's ongoing focus on Agriculture and Food value-chains

Second Economy Strategy Project Rhuslancea

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Mapato Rakhudu

Oupa Bodibe

Overview of Presentation



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- Competition policy, the competition authorities and their functions.
- Commission's approach to agriculture and food as a priority area.
- Competition Concerns.
- Conclusion and Implications

Competition Policy



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- Competition Policy:
 - heart of development
 - economic efficiency
- To compete in a market economy means:
 - opportunity to effectively participate,
 - competitive rivalry through effective participation is part of a more dynamic and broad-based development trajectory,
 - ensuring that goods produced are responsive to people's needs and sold at affordable prices.
- The objectives of the South African Competition Act encapsulate the broad and diverse benefits from promoting and maintaining competition.

Main sections of the Competition Act



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- Merger review, where merger is defined as a change of control
 - Key test is whether merger likely to substantially prevent or lessen competition
- Restrictive vertical practices prohibited – vertical agreements that substantially prevent or lessen competition
- Abuse of a dominant position, such as:
 - Excessive pricing
 - Refusing access to an essential facility
 - Exclusionary acts, including refusal to supply scarce goods, pricing below marginal or variable cost (predatory pricing)
 - Price discrimination

Approach to Agriculture & Food



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- Prioritisation process undertaken by Commission focused on:
 - Accelerated and Shared Growth
 - Poor consumers
 - Where strong indications of anti-competitive conduct
- Food and agro-processing identified as very important focus
- Others: banking; infrastructure & construction; intermediate industrial products

Context to agriculture & food



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- Anti-competitive conduct in bread, milling, dairy
- Public attention because of high food price increases currently.
- High levels of poverty, malnutrition and stunting makes staple food prices extremely important.
- Wider debates - liberalisation of agricultural markets with expectation of improved efficiency and lower consumer prices
- Previous studies found no anti-competitive behaviour.
- Staple foods identified through looking at consumption baskets.
- Competitive outcomes also driven by competitive agricultural production and costs.

Changes since 1994



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Policy changes

- Complete deregulation and liberalisation
- Introduction of the Marketing of Agricultural Products Act, No. 47 of 1996.
- Promotion of market efficiency and competitiveness
- Addressing of Socio-Economic issues:
 - Participation by HDI's.
 - Equitable access by emerging producers.
 - Implementation of land reform.

Outcomes

- Mixed outcomes at best, partly because of low levels of effective competition:
 - High concentration levels across the supply chain
 - Concentration of ownership by few firms
 - Vertical integration
 - High barriers to entry
 - Anti-competitive Conduct
 - Supra-competitive pricing

Competition concerns & current cases?



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- Inputs: fertilizer
 - Two complaints have been referred to the Competition Tribunal
 - Addressing alleged collusive behaviour and abuse of dominance on part of producers resulting in import parity pricing to detriment of farmers
- Bulk storage (Silos)
 - Former cooperatives – now privatised
 - Referred complaint on exclusionary acts and inducement
 - Dominated by three main firms (Senwes, OTK/Afrgi, Noordwes)
 - Regional dominance
 - Also involved in trading activities in the derivative market (Safex)



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- Baking:
 - Four main producers fixing prices
- Milling:
 - Same four as in baking
 - Vertical integration: milling, bread & grain products
 - Animal feed milling: Rainbow Epol, Astral Meadow, Senwesco
- Dairy
 - Collusion, including price suppression, and surplus extraction

Barriers to Entry



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- *Significant* across the value chain
 - R&D, IP, capital outlay, economies of scale, transport & logistic costs, branding and retail experience.
- Entry of new products e.g. silo bags, smaller scale millers and bakers.
- However questions around effectiveness of entry and competitive discipline.
- Potential for complementary actions by competition authorities and government in proactively supporting entry and at the same time guarding against exclusion.
- Entry creates employment, diversifies economy and leads to cheaper prices.

Impact on food prices



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- Mark-ups inflating prices through value chain
- Compounds directly to food inflation, particularly on staples eg. bread, maize-meal.
- Serious consequences for poor households.
 - Spend significant % of income on food.
- Asymmetries in transmission
 - Increases in the input prices are largely transferred to consumer prices.
 - Decreases in input prices are not reflected in decreases to the end consumer.

Conclusions & Implications



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- High concentrations levels prevail, leading to poor competitive outcomes:
 - still significant concentration, high barriers to entry and oligopolistic market structures across the value chains
- State regulation appears to have been replaced by private regulation in many sectors → liberalisation has benefited processors
- Directly contributes to higher food prices
- Anti-competitive conduct affecting farmers contributes to lower production.
- Impact on poorest households.
- Developmental policies and strategies undermined by anticompetitive market structures and conduct.
- Constrain entry and building of a more inclusive economy (BEE/SMME/Cooperatives).
- Sector is an ongoing focus for the Commission.