

# **(Re)shaping markets for inclusive economic activity: Competition policy as an instrument to combat rising inequality?**

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[www.competition.org.za](http://www.competition.org.za)

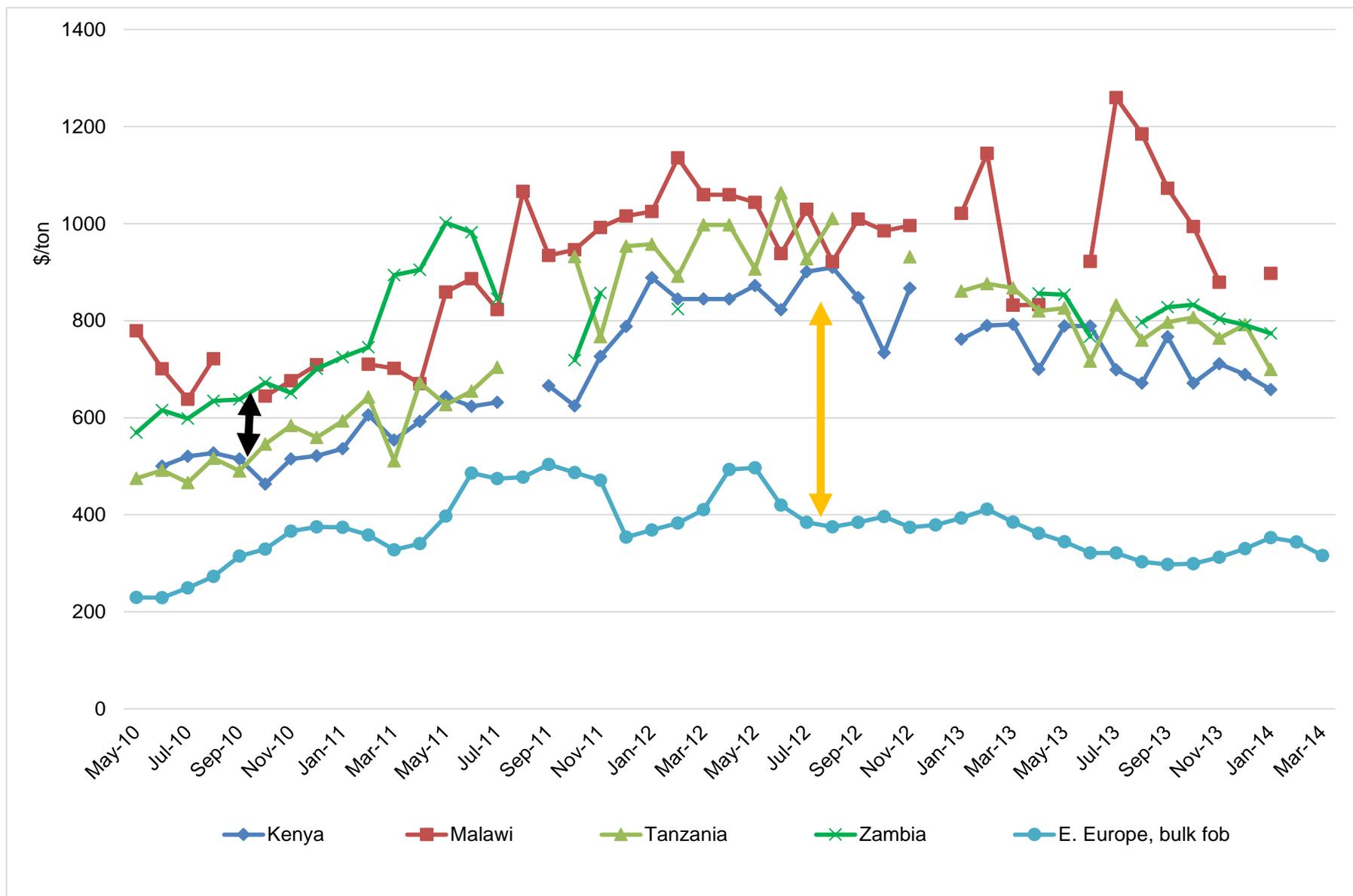


# Competition, markets & growth

- We want two main things:
  - Performance-based competition, stimulating investment in capabilities, learning; rewarding effort, creativity
  - Participation and share of returns (ownership and control matter)
- Dimensions:
  - Process and opportunity aspects of competition
  - Generating competition; 'optimal competition'
- Competition issues, competition policy and competition law  
→ 'Rules of the game' – links to patents, IP, illicit capital flows
- Consider markets relating to agriculture and agro-processing: inputs, outputs, processing, wholesale & retail

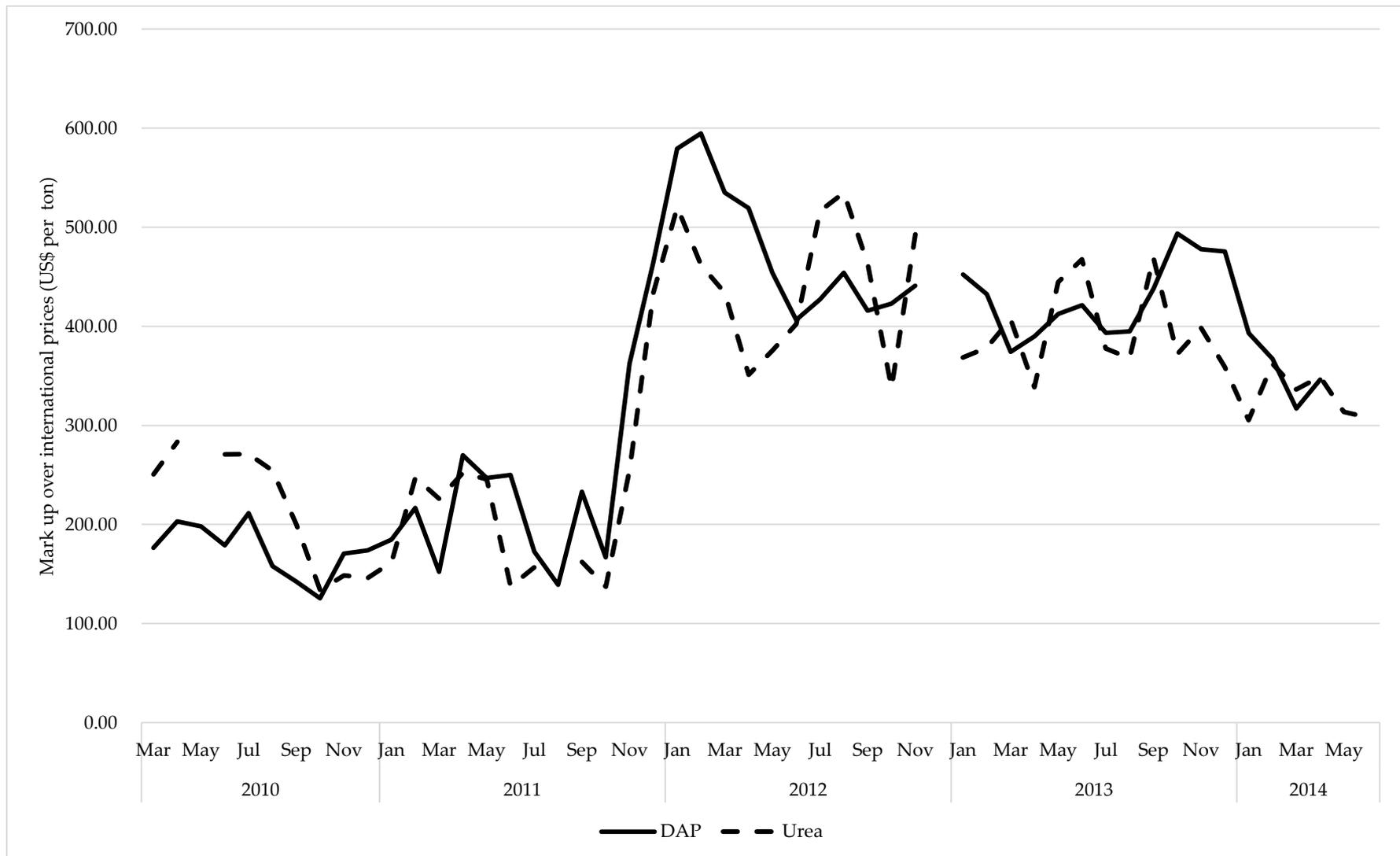


# Fertilizer inputs: Urea prices (avg \$/t retail)



# Kenya: mark-up of local DAP and urea over international benchmark prices

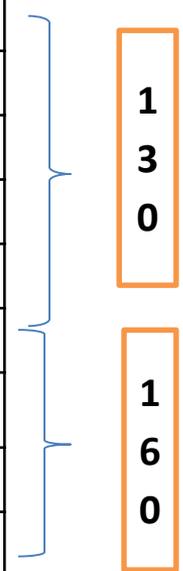
[2015, rivalry brought prices down further]



# Fertilizer price composition supply Mbeya, Tanzania

(rich agricultural area, 850km from Dar, close to Zambian border)

	TFC Q1 2014	ETG Q1 2014	Benchmark Q1 2014
FOB	352	350	<b>350</b>
CIF	402	400	400
Port charges	50	50	50
Bags, bagging and storage	18.15	-	
Importer margin	20	-	
Sub-total: ex-port warehouse (bagged)	490.15	450	<b>480</b>
Inland transport costs	43	60	50
Wholesale price	573	545	560
Final retail price	646.6	545	<b>640</b>
National average retail list price, source: AMITSA	<b>720</b>	<b>720</b>	<b>720</b>
Avg Retail List Price, Mbeya (Chimala agro-dealer)	882	882	882



# Fertilizer margins and competition

- Concentrated markets,
  - sourcing from TNCs, integrated into local supply
  - local traders, politically connected
- Cartels
  - Sasol, Omnia, Yara across southern Africa
- Control over port & logistics facilities, bagging, overland transport
- Fertilizer agenda heavily influenced by TNCs alliance w donors:
  - Beira Agricultural Growth Corridor (BAGC)
  - South Agricultural Growth Corridor of Tanzania (SAGCOT)
- Fertilizer subsidy programmes acting as price floor and/or being captured by special interests
- Smaller rivals undermine pricing where *can* compete (ETG, Greenbelt), altho Yara now bought out Greenbelt

# Agricultural commodity trading

- Traders: TNCs and local
- Margins from farm gate? Combination of costs and control, bargaining power in international value chains
- Commodity markets established to undermine local trading mark-ups, increase price transparency to farmers?
  - Experience in South Africa: SAFEX – concentration in traders
  - Ethiopia: ECX - margins have not declined; concerns about local primary markets; volatility and speculation
  - Ethiopia established state wholesaler
- Infrastructure, storage and transport costs within regions are critical to margins, access and control
- Dealing with price volatility and implications of global warming → need to manage markets

# Agro-processing

- Investment in learning and capabilities
- Substantial economies of scale and scope
- Global and regional value chains: understanding linkages, power and governance
- Internationalised companies
- Examples:
  - Poultry: animal feed production, transport, breeding stock; investments in production and processing
  - Sugar and confectionary (e.g. of Illovo)
- Barriers to entry to local participants?
  - Investments required for capabilities
  - Coordination of key inputs
  - Strategic behavior of incumbents
  - Consumer perceptions, brands
- Appropriate industrial and trade policies

# Retail

- Supermarkets and rapid urbanization – expanding chains
  - Shoprite, PnP, Walmart, Choppies, Nakumatt etc
- Concentration, and arrangements associated with space and distribution
  - Exclusivity in malls; property development influence
  - Major internal transport and logistics capacity
- Impact on suppliers
  - Effectively control upgrading opportunities
  - Standards and buyer power
  - Barriers to entry
- Very little analysis and information
- Several levers to use, including urban planning; procurement codes; cluster support
- Alternatives: buying groups & independents

# Implications and agenda

- Address barriers to entry – to generate competition, and support participation
- Opening up value chains and increasing bargaining power of local participants (impact of supporting challengers)
- ‘affirmative’ competition policy, complementing industrial policy, using established competition authorities?
- South Africa as example? Yes and No
  - Supplier development funds and commitments in merger decisions under ‘public interest’ criteria
  - Cartel enforcement, but very limited in abuse of dominance and vertical restrictive practices
  - Emphasis of chilling effect on incumbent investment; efficiencies
- Conceptual understanding, strengthening institutions; need for data & analysis
- What coalitions to build?

## Alternatives? Japan and South Korea?

- Analyse bargaining power in industries, along with industrial policies
- E.g. objectives of South Korea KFTC to encourage free and fair competition, prevent the concentration of economic power and thereby promote 'balanced development'.
- mandate included evaluating 'unreasonable' practices and 'unjustifiable' restrictions on competition, active monitoring of chaebols and relationships with subcontractors

'if the outcome of competition is to be accepted by the society at large, the process of competition itself must not only be free but also conform to a social norm, explicit or implicit. In other words, it must also be fair....competition policy must play the dual role of raising the power, within reasonable bounds, of underprivileged economic agents to become viable participants in the process of competition on the one hand, and of establishing the rules of fair and free competition on the other.' (Kyuck-Lee, 1997)

