Competition and Poverty Reduction
Presentation to the OECD Global Forum on Competition
February 2013

Competition policy must suit its societal context

• Competition policy emerges out of a particular context - embedded autonomy
• Poverty: a key feature in a developing country’s context
• Historical legacies (e.g. political economy, apartheid)
• Important to align competition agenda with society’s priorities
Complicating factors

Hard to draw causation between competition law interventions and poverty outcomes:

• neutral or even counter-intuitive short-run effects in the market
• time lags between intervention and market outcomes
• multiple factors affect prices - domestic and global factors
• impact assessment rarely focused on the poor as discrete group

Poverty in South Africa

• Apartheid legacy
  • extractive institutions driven by the interests of the minority (mining and agriculture)
  • use of various legal and policy instruments led to a curtailing of competition in the economic sphere
  • policy intention was to create an elite class of white farmers and a class of black unskilled labour

• Poverty rate remained high in post-apartheid South Africa: 2008 – 54% of households still lived below the poverty line of US$ 121 per month but 1.25 dollar-a-day metric - 14%

• Race, gender, age, geography key determinants of poverty
• Poverty and inequality passed on to the next generation through lack of opportunity
Competition law and poverty in practice in South Africa

- Purpose of the Competition Act is to promote competition in order to realise goals related to:
  - efficiency, competitive prices and choice but also
  - employment creation and retention; equitable participation in the economy by SMEs; a broader spread of ownership and international competitiveness.
- Public interest considerations in the analysis of M&As and exemption applications.
- Prioritisation framework focuses Commission resources on sectors that affect the poor.
- Proactive measures in key consumer and input markets (poultry, bread, wheat and milling, animal feed, steel, polymers, fertiliser, cement, concrete pipes and bricks.)

Wheat to bread value chain cases

- Demand side considerations - food accounts for a significant portion of poor households’ expenditure
- Price fixing and market sharing by the 4 major firms dominating the bread value chain (from wheat and maize milling to bread baking)
- Penalties and unique settlement conditions offering direct relief to consumers and small bakeries (Pioneer), incl:
  - A R500 million penalty and the creation of an Agro-processing Competitiveness Fund of R250 million drawn from this penalty
  - Price adjustments with a reduction on the gross profit margin
  - Capital expenditure to be maintained and increased by an amount of R150 million
- Pioneer’s major competitors had responded to its price reductions - reducing the wholesale price or not passing through significant cost shocks
- Post sacrifice - prices for three of the four players increased for both brown and white bread products (international wheat prices)
Unemployment, inequality & poverty

• Supply side consideration – poor as workers and entrepreneurs

Unemployment rates by income decile (%)

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<td>Overall</td>
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Winners and losers

• Nationwide poles and the treatment of SMEs.

• Employment related conditions imposed in merger recommendations aim to restrict job losses and reskill workers affected by job losses.

• Walmart/Massmart - concerns about the impact on workers and local suppliers were resolved through the creation of a supplier development fund to help integrate small South African suppliers into the merged entity’s supply chain.

• SA Competition authorities’ mandate contested by various parts of society:
  • Labour and NGOs push for more weight to be given to public interest considerations (employment and SME development)
  • Business push for less intervention in employment, equity and industrial policy issues.

• Competition policy is only one instrument – needs to be complemented by wider and consistent govt. policies addressing poverty.
THANK YOU

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