



competition commission
south africa

Competition and Poverty Reduction

Presentation to the OECD Global Forum on Competition

February 2013

Competition policy must suit its societal context



competition commission
south africa

- 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

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL

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

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL

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

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL

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.)

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL

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)

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL

Unemployment, inequality & poverty



- Supply side consideration – poor as workers and entrepreneurs

Unemployment rates by income decile (%)

Decile	1993	2000	2008
1	49	44	69
2	34	44	46
3	27	41	47
4	22	39	37
5	23	34	30
6	19	33	26
7	15	26	20
8	9	21	16
9	4	13	9
10	2	4	5
Overall	14	26	24

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL

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

TOWARDS A FAIR AND EFFICIENT ECONOMY FOR ALL



competitioncommission
south africa

THANK YOU

Tel: 012 – 394 3200

Website: www.compcom.co.za