Ensuring food security and inclusive development by identifying and addressing barriers to competition in the regional food supply chain

ACF Workshop

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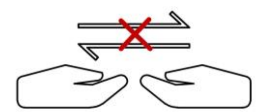
www.competition.org.za/africanmarketobservatory

Agri-Food market issues?

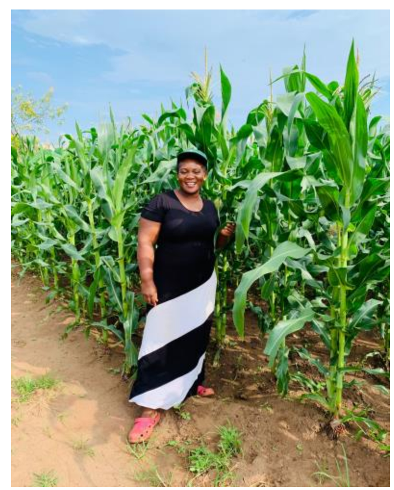
Why are African countries net food **importers**, with **high food prices**

when continent has huge **GROWTH POTENTIAL**,

with 60%* of the world's remaining available arable land?



Markets **NOT** working,



Especially for female small-farmers, the engine of food production

** Source: FAO*

Competition concerns

- Highly concentrated international markets:
  - Inputs: fertilizer, seed, agro-chemicals (4 account for ~60-70%)
  - Major commodity traders (4 companies account for 70% in agri-food)
  - Meat production: 3 to 4 companies; 2 in poultry breeding
- Conduct and impacts?
  - Networks of agreements, increasing vertical integration, mergers
  - Cartels e.g. in poultry and other meat
  - Lobbying & incumbents blocking rivalry, including NTBs in cross-border markets
- Sustainable food systems debates not taking into account competition
- What are implications for Africa?

African Market Observatory: unlocking potential in East and Southern Africa

Current path

Broken food markets leading to rapidly worsening food security

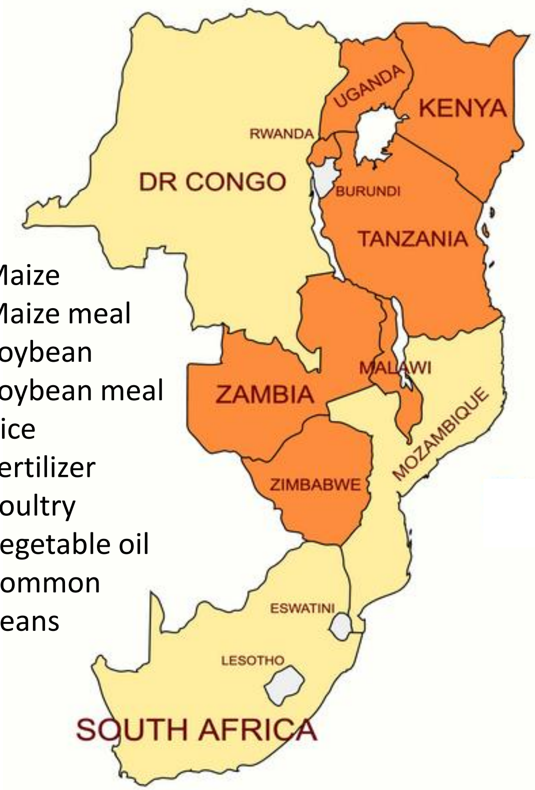
UNLOCK potential

AMO's contribution to healthy markets

- Market intelligence
- Price tracker
- Support smaller market participants
- Regional analysis
- Policy briefs
- Support for national and regional competition authorities as referees

Next steps: **broadening** & **deepening**

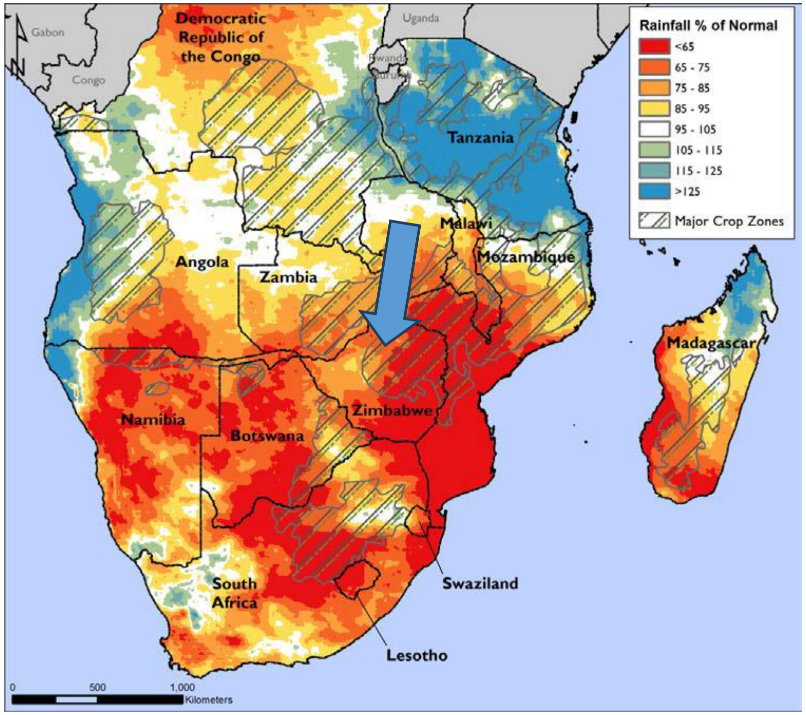
- ✓ Maize
- ✓ Maize meal
- ✓ Soybean
- ✓ Soybean meal
- ✓ Rice
- ✓ Fertilizer
- ✓ Poultry
- ✓ Vegetable oil
- ✓ Common beans



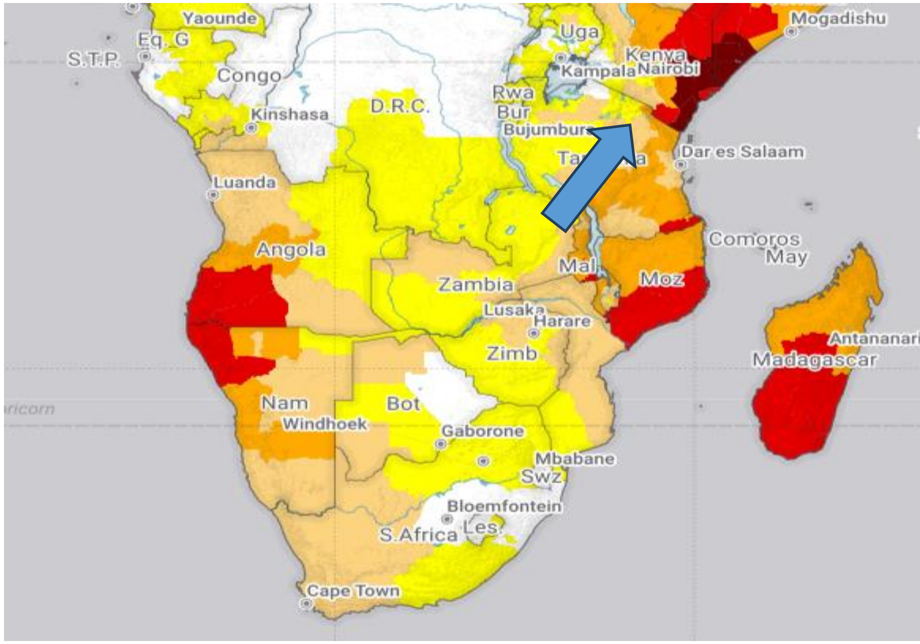
Supported by COMESA CC, Shamba Centre, and working closely with national authorities

Climate change means regional trade is even more important

2015/16: Southern Africa El Niño drought (2023/24?)



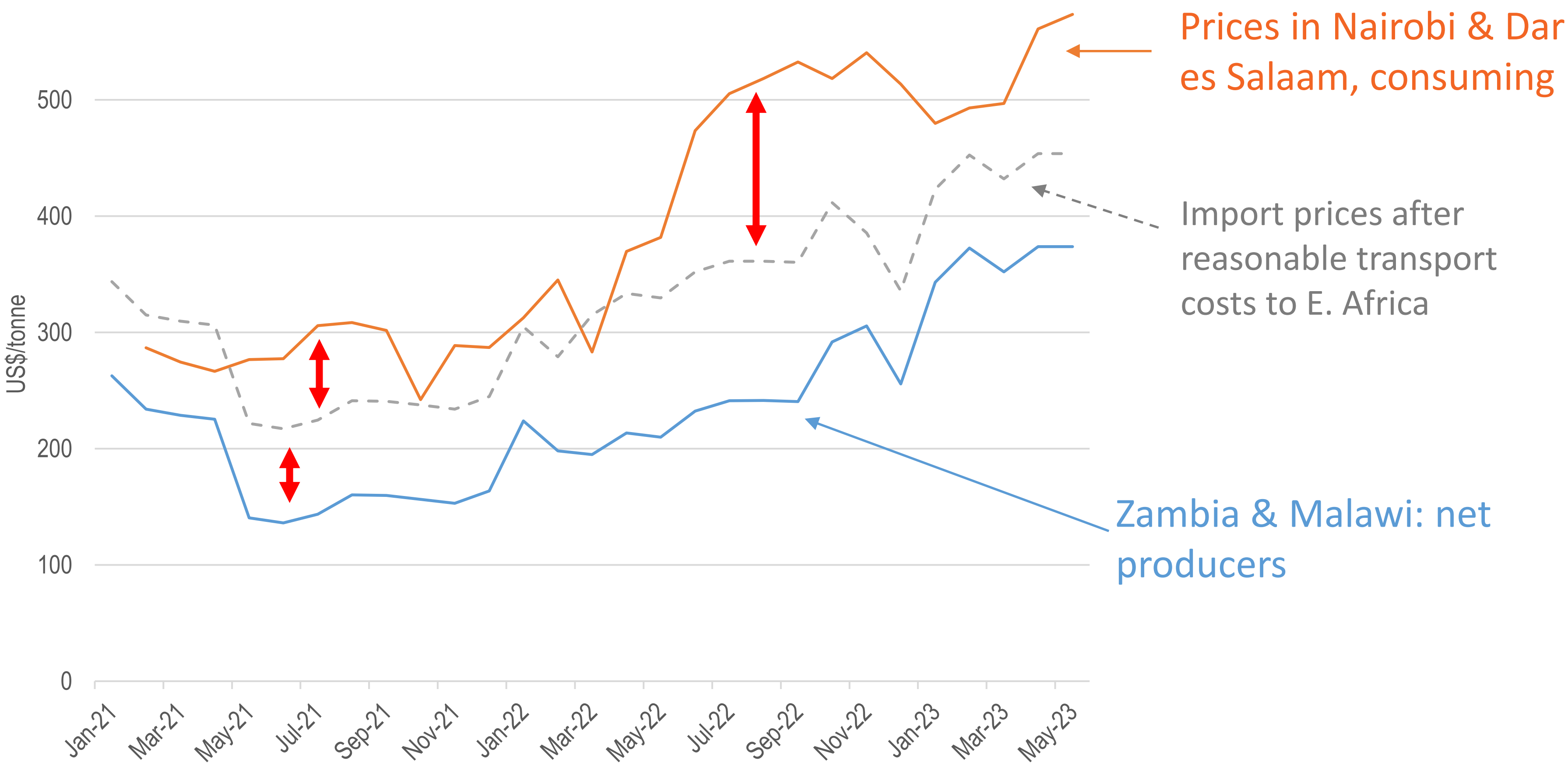
2021/22 La Niña drought in East Africa



The Gro Drought Index (GDI) provides measurements of drought severity on a scale from yellow: no drought, to red: severe drought.

- High prices blamed on Russia – Ukraine war, but increases in Africa much bigger than international
- Extreme weather in different parts can be mitigated by trade: drought in one part of the region with good rains in other areas
- But: huge market swings, shocks being exploited and not mitigated by traders
- Potential to sustainably expand production being undermined

Reality check? Maize prices (bulk, wholesale)

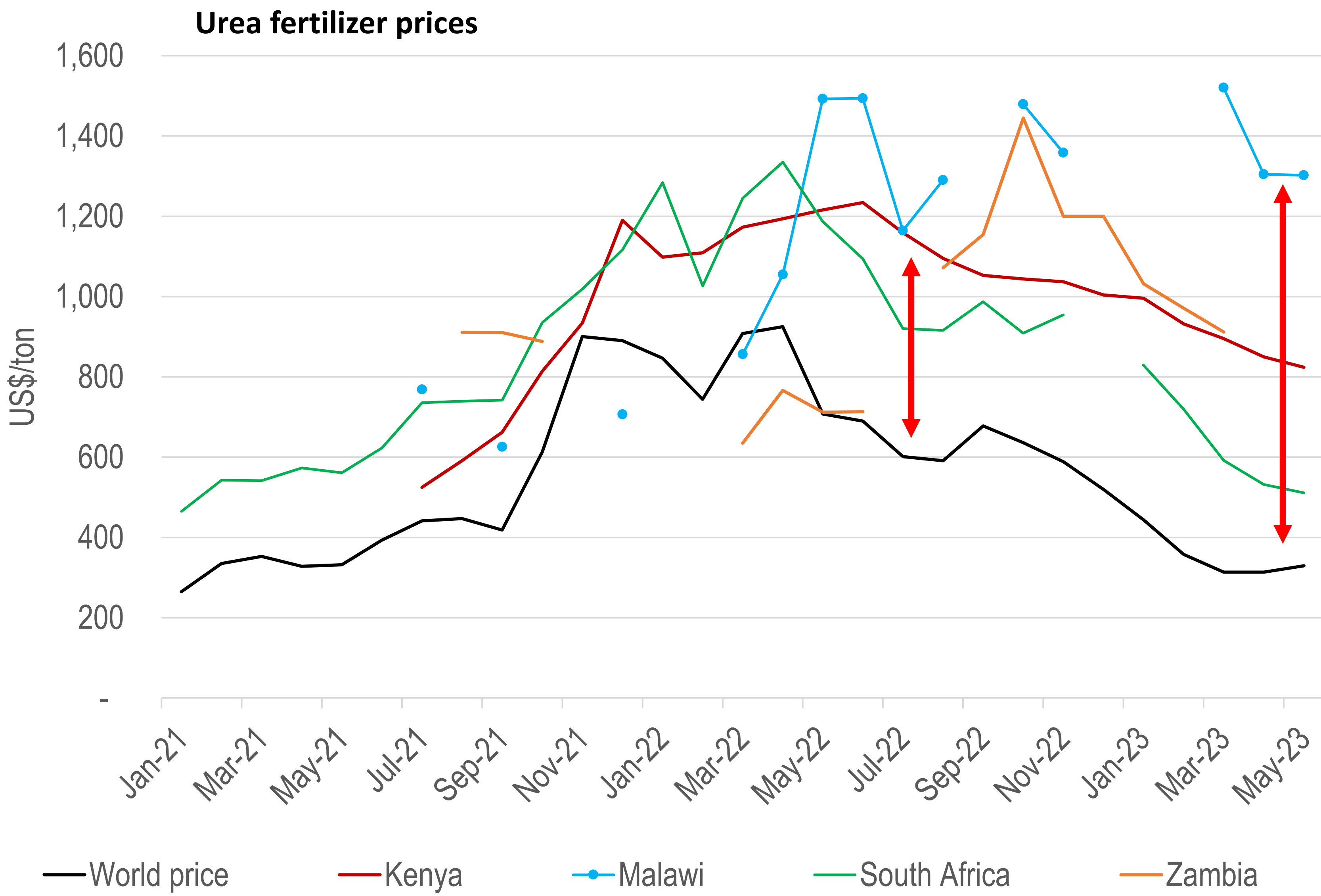


- Excess margins = around **$1bn/year** of household spending across Kenya & Tanzania cities
- Undermining production, squeezing farmers in e.g. Zambia – production declined in 2022, even while good rains, and big deficits in Kenya and Horn of Africa

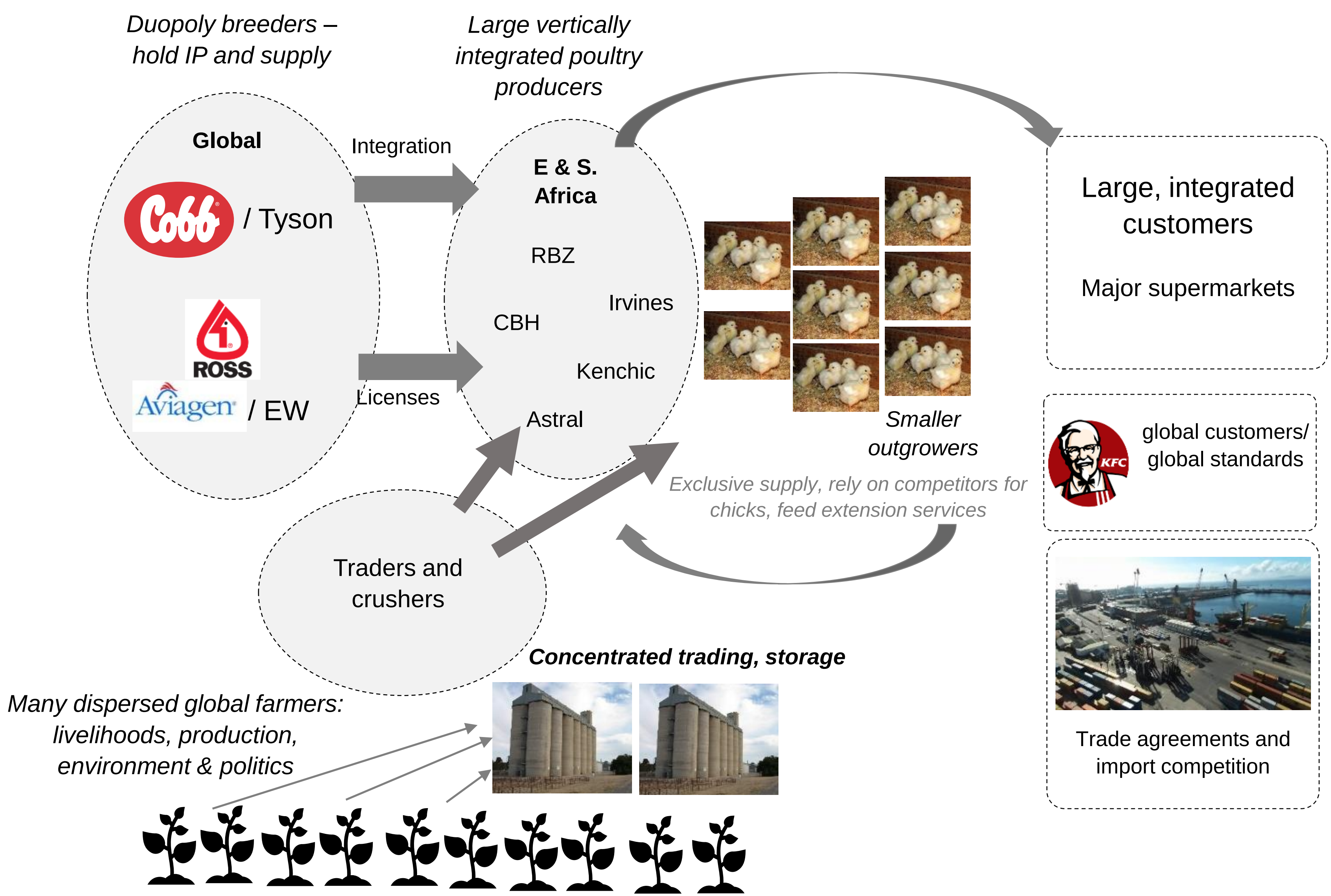
Soybeans (bulk, wholesale)

- Excess margins of ~ $400/t or **US$320mn/yr** on ***existing production*** in Malawi & Zambia
- **Undermining** feed to poultry and fish industries downstream; many **SME** producers
- Extensive **signals of coordination**, information exchange, multi-market contact

Fertilizer Prices

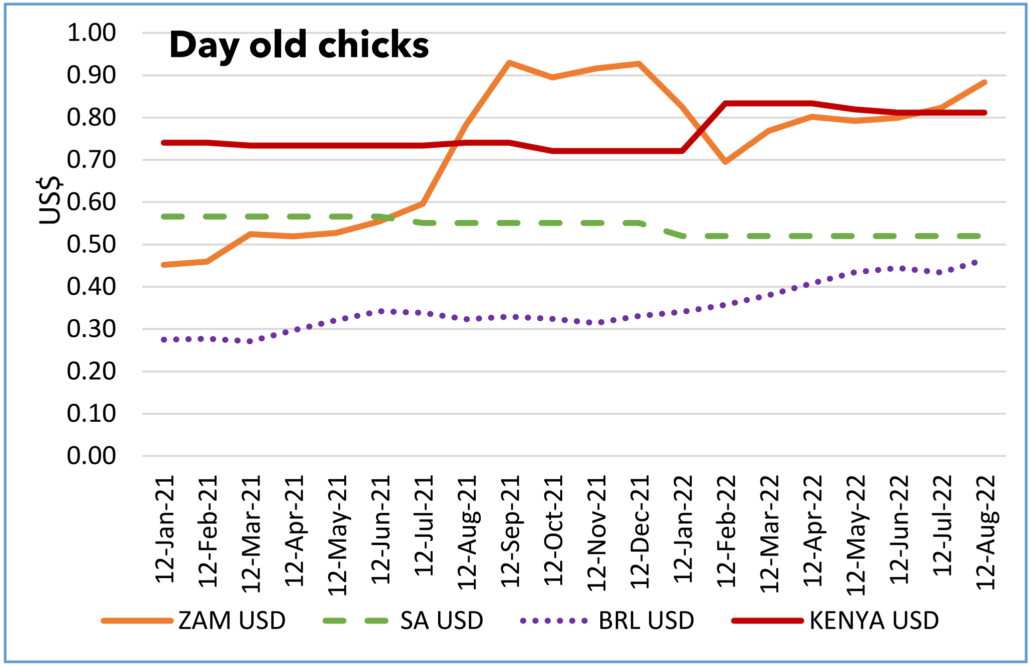


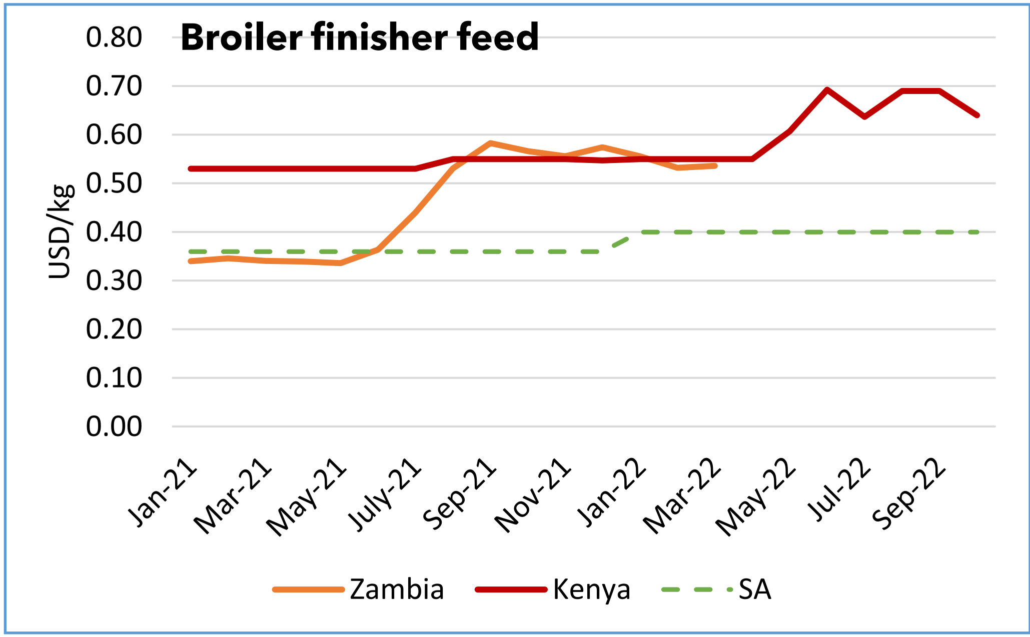
Value chain analysis: poultry



Market outcomes?

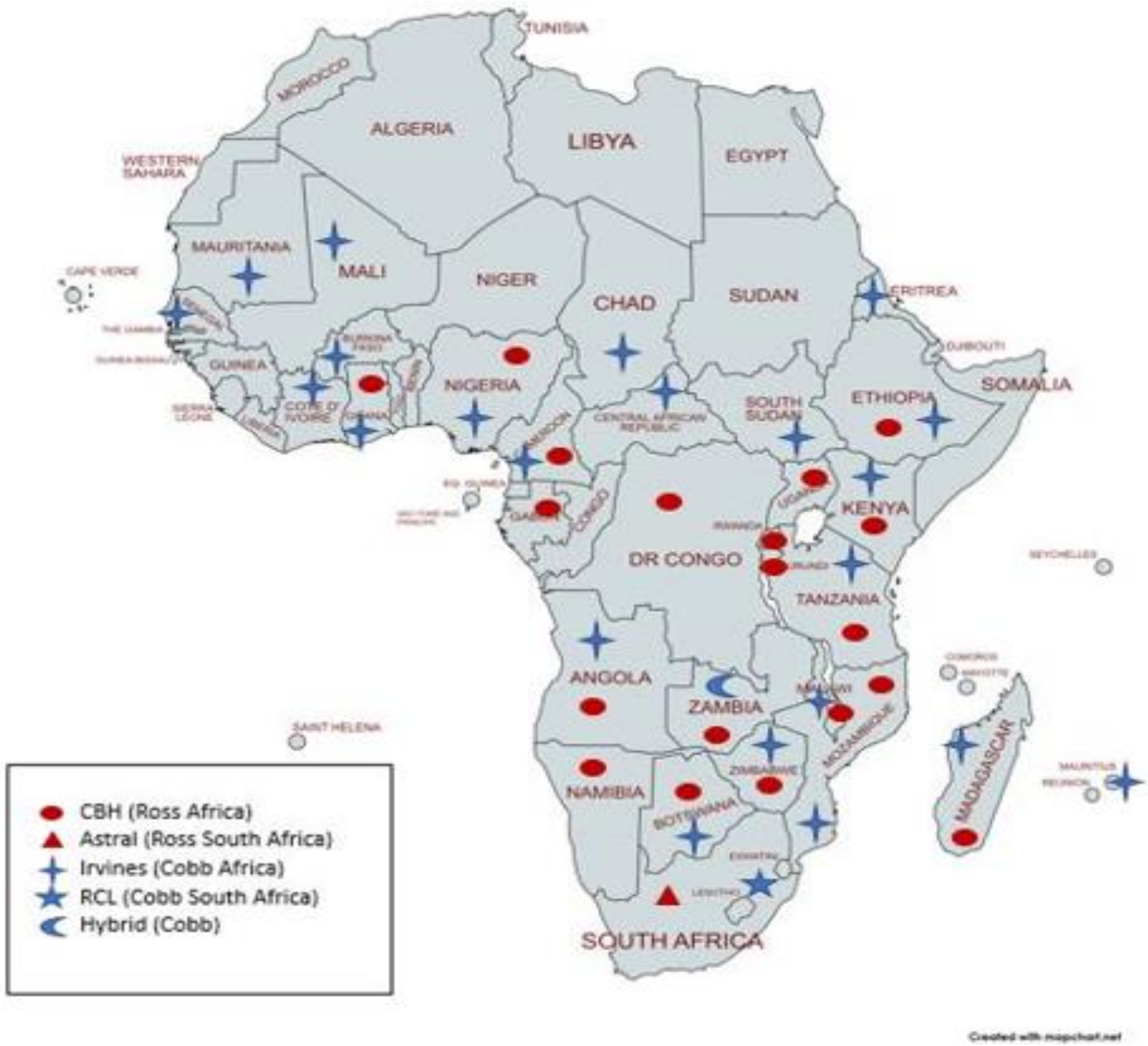
- Zambia: exports of day-old chicks, soybeans/cake
- One company with >50% regional trade in soy
- But: v high local feed and DoC prices?
- Trade *deficits* in poultry
  - E.g. Zambia $23mn imports 2021 (exports of $14mn)
  - from USA, Netherlands, Brazil
- ***Broken markets*** in value chain, increased food prices



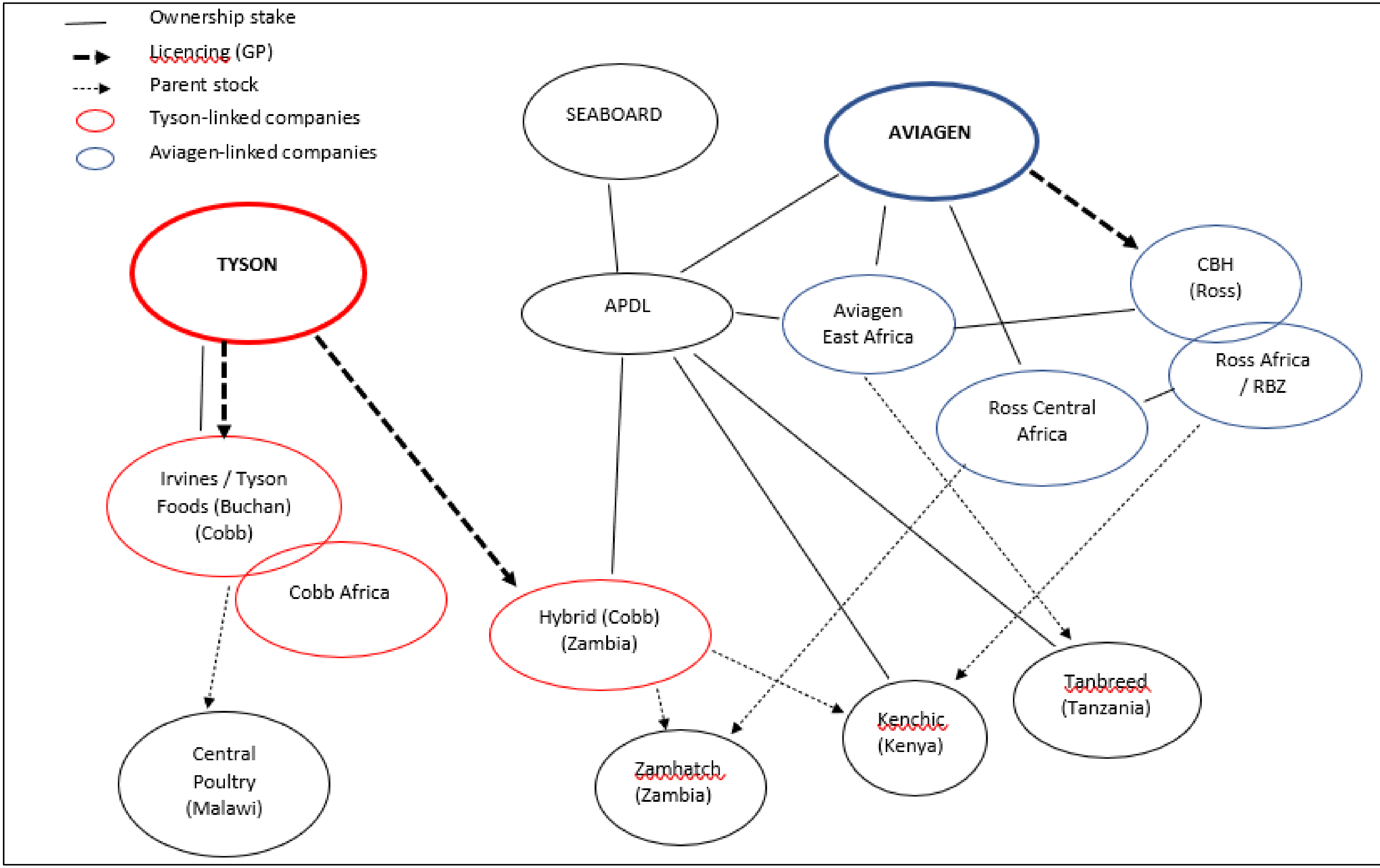


Global duopoly: African rights for EW and Tyson breeds

- Regional mergers
- Increasing integration of TNCs with partners
- JVs, holding companies and cross-shareholdings
- Links with oil seed crushing and vegetable oil
- Competition authorities not seeing international picture?



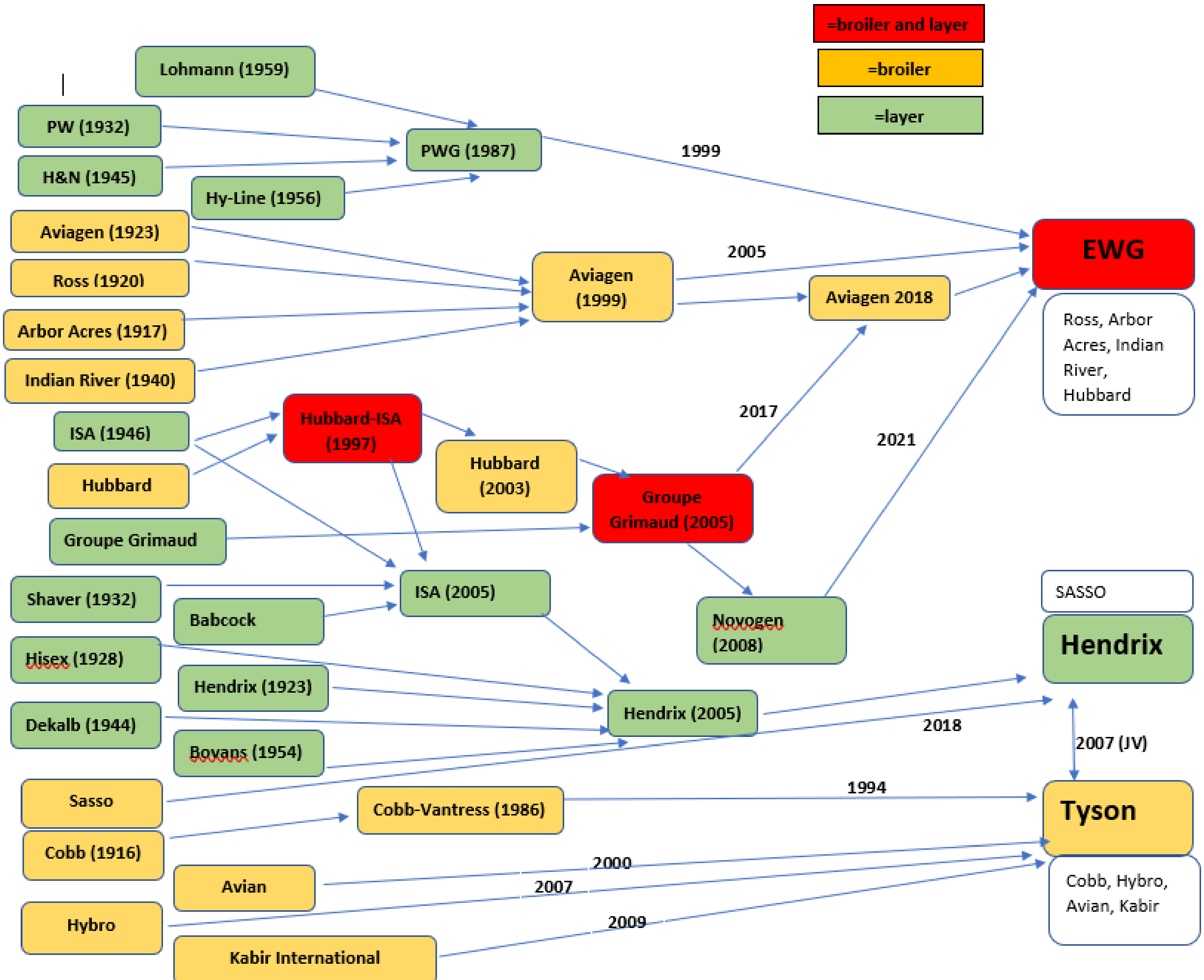
Global to regional: ownership and licencing links



Regional mergers: Aviagen E. Africa, March 2021 (APDL, Aviagen, CBH); RBZ Central Africa (APDL, RBZ)

Competing global breed suppliers brought together: Hybrid & RBZ with common shareholdings; Kenchic (both breeds); Silverlands, Tanzania (Ross and Sasso DOCs)

Back-up: global mergers to duopoly



Back-up: Markets and corporate power: mergers

A) Aviagen – Hubbard (Groupe Grimaud) approved by UK's CMA in 2018 after initial assessment finding no significant overlap

- Aviagen 70-80% of 'conventional' in UK
- Hubbard 80-90% of 'slow-growing' in UK (Aviagen's Rowan Ranger had attained share of 20-30% but then 'not performing well')
- No apparent merger evaluation in any other jurisdiction

B) Cobb-Vantress series of JVs (2007-) with Hendrix Genetics

- including Hybro and Sasso slow-growing breeds:
- not apparently reviewed

- Impact on Africa? slow-growing breeds more robust, less prone to disease, not requiring antibiotics
- Vertical integration into feed, chicken production & processing
- Series of mergers extends control in East & Southern Africa

Markets and corporate power: cartels?

- USA poultry cartels (2021)
  - involving largest global: meat producer (JBS), poultry producer (Tyson), agro-trader (Cargill), and others (such as Seaboard)
  - collusion to: raise prices of poultry (by est. 50%); suppress wages in processing plants; suppress returns to broiler farmers (and raise entry barriers)
  - vertical & horizontal arrangements, with linkages to feed and processing
  - information and data flows are central to alleged arrangements
  - similar arrangements alleged in pork & beef

- Poultry cartels in many other countries, e.g. Zambia (2018)

- Competition law paradigm & institutions? Discrete arrangements; national laws & authorities, **but:**
  - International companies & arrangements
  - Through information exchange and data: authority detection & prosecution?

Implications for regional competition enforcement

- Regional oligopolies, with a very few large companies:
  - with cross-border logistics, and integrated into processing
  - implications for enforcement; merger review
- Merger review?
  - geographic markets and potential competition
  - vertical & horizontal unilateral effects? Coordinated effects?
- Collusion?
  - Firms must be able to agree, monitor, punish deviation
  - Regional markets means coordination includes trade flows
  - Information exchange & market division are key dimensions
- Building effective regional enforcement requires information and cooperation between authorities

Challenges

- Research into action?
- Building knowledge base and skills pool for authorities on these critical markets
- Continental, regional and national levels
- Linking-up and linking across through networks:
  - Role of the ACF?
    - Recognising huge disparities in resources of authorities
    - Project by project, or longer-term strategic partnerships
  - ICN Special Project on food and agriculture

- Recall: **huge** potential for growth of agriculture and food in Africa!