WERKSMANS
ATTORNEYS

COMPETITION

The potential for competition law enforcement to revive and promote faster economic growth in South Africa

2 March 2016 *5 min read*

On 2 February 2016, the World Bank released its annual economic update report, titled "*South Africa Economic Update, Promoting Faster Growth and Poverty Alleviation Through Competition, World Bank Group, Edition 8, February 2016*" (**"World Bank report"**). The World Bank's study cited competition policy as one of several reforms that have the potential to accelerate South Africa's weak economic growth rate and reduce poverty.

INTRODUCTION

It is clear from the World Bank report that South Africa's competition authorities have been highly proactive in detecting cartels in various industries and imposing sanctions. It is generally accepted across the world that cartel conduct ranks amongst the most harmful of anti-competitive conduct as it results in firms producing less i.e. output reduction, higher prices for consumers, limited consumer choice and a reduction in incentives for firms to improve efficiencies and innovation.

At the heart of competition law are two basic concepts being price of product and quality of product. The World Bank report clearly indicates and gives examples as to the impact competition regulation has had on prices paid by consumers in the South African market as well as the impact competition regulation has had on the availability of products in South Africa.

It cannot be denied that in South Africa, one aspect that significantly impacts on competition in the market place is the high levels of concentration within the South African economy. The South African economy is characterised by few players, high input costs and restrictive regulations. All of this impacts on innovation in the market place and vigorous competition that will drive prices down and result in the increased quality of products to the benefit of the South African consumer.

The World Bank report, in a detailed analysis of competition law interventions in the South African market between 2005 and 2015 analysed the impact that the competition authorities have had on GDP growth, lower transaction costs in the overall South African economy as well as the impact on poverty reduction as such.

Excluding the construction industry, the South African competition authorities detected and sanctioned 76 cartels between 2005 and 2015 with great success.

COMPETITION ENFORCEMENT AS A MEANS TO PROMOTE A FASTER GROWING ECONOMY AND ALLEVIATE POVERTY

The World Bank report analyses and details, amongst other things, the competition authorities' findings of cartels in the wheat, flour and cement markets in relation to competition law enforcement.

Food constitutes a high share of households' consumption and prices of such necessities have a crucial impact on disposal income. The World Bank report found that spending on wheat, maize, poultry and pharmaceuticals accounts for 15.6% of the consumption basket of the poorest 10% of the South African population. It is estimated by the World Bank report that by disbanding cartels in wheat, maize, poultry and pharmaceuticals, about 202 000 people stand to be elevated above the national poverty line because of the elimination of cartel overcharges.

It is insightful to note that the World Bank report quotes empirical evidence that suggests that a 10% reduction in firm price-cost margins in South Africa, has the potential to boost productivity growth by as much as 2% to 2.5% a year, which could clearly contribute to productivity growth instead of a decline in South Africa.

Through the successful intervention of the competition authorities in 76 cartels over the past decade, cartel overcharges were eliminated in our economy which in turn reduced price-cost margins. This is particularly important in sectors such as food and construction which are significant role players in the economy.

One of the case studies focused on by the World Bank related to cement as a key input into the South African economy. The report finds that cement together with plaster represents 2% of the value of inputs to the country's construction industry and that enforcement action by the competition authorities prevented overcharges on the price of cement of between 7.5% to 9.7% or stated differently, brought about savings of between R1.1 billion to R1.4 billion a year in input costs for the economy. What is also noteworthy is that the first new greenfield entry into the sector in over 80 years followed the breakup of the cement cartel.

More importantly and on a completely different level to the normal considerations and discussions as to competition regulation in South Africa, the World Bank report addresses the ability of competition enforcement to assist in poverty reduction.

The World Bank report suggests that comprehensive competition policies that address anti-competitive behaviour and encourage the enhancement of competition, is a measure by which South Africa can address its ability to grow the economy and bring about poverty alleviation.

CONCLUSION

The elimination of cartels in basic food products and commodities can, at the very least, accelerate advancement towards the objectives of GDP growth, lowering of transaction costs and contribute to poverty reduction in the South African economy. Although it is at its inception, there certainly lies a new avenue of enhancing economic growth by the ability of competition law enforcement to boost competition in South Africa through eliminating anti-competitive behaviour for the benefit and betterment of all South Africans.

This will however only be achievable through enhancement of effective competition based on robustness, innovation and efficiency.

May robust competition prevail to the benefit of the South African economy. And may our competition authorities indeed contribute to promote faster economic growth to the benefit of consumers.



Ahmore Burger-Smidt

Head of Regulatory

View Profile

Keep us close