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Promoting Inclusive Growth through Competition Regulation: The case of Tobacco, Cotton and Cattle Marketing in Zimbabwe

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Abstract

Agriculture is the main stay of many developing countries' economies and a major source of livelihood for the world's poor. The transformation of agricultural markets integrates large scale and communal agricultural producers into competitive value chains. Such transformation is critical since it can result in increased income levels for smallholder farmers, increase in employment and poverty reduction, amongst others, thereby fueling a process of economic growth (Dunn 2014). Competition regulation facilitate markets transformation and play a significant role in achieving sustainable and inclusive growth and development. Zimbabwe's agricultural sector underwent significant change after the land reform programme implemented by Government in 2000. This resulted in significant structural changes which saw the demise of large scale commercial farmers who had significant bargaining power in agricultural markets such as tobacco, cotton and cattle. Large scale farmers have since been replaced by fragmented small scale farmers. Markets for tobacco, cotton and cattle in Zimbabwe have been susceptible to abuse of buyer power. Such practices include, among others, unfair and unfavorable payment terms for supplied goods or services and unfair discrimination. This paper investigates the role of competition policy in promoting inclusive growth in agricultural markets, drawing from recent studies conducted by the Commission in the tobacco, beef and cotton markets in Zimbabwe. The paper explores the structure of these markets and the behavior of individual players. Lessons are drawn on the intervention of the Zimbabwe Competition and Tariff Commission and its effects thereof relating to agricultural productivity, agricultural profits and smallholder incomes.

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1. Introduction

Agriculture is the main stay of many developing countries' economies and a major source of livelihood for the world's poor. It also plays a very important part in many countries in terms of its contribution to economic development. The sector's linkages with other sectors through both backward and forward linkages makes it key for economic development. In developed countries such as the United States of America for instance, the agricultural sector and its related sectors contribute US$ 1 trillion to Gross Domestic Product annually and employ more than 15% of the total work force (Monke, 2004). Similarly, in Brazil agriculture plays a much bigger role contributing about 22% to the country's GDP in 2010 (Spolador and Roe, 2012). Thus agriculture plays a key role in the overall development of many countries.

In Zimbabwe it is regarded as the back bone of the Zimbabwean economy and is key to the country's economic stability and growth (Maiyaki, 2010; Ward *et al*, 2012). The agricultural sector contributed about 14% to total GDP in 2014. The sector is also important as a major source of foreign currency. Foreign earnings has become more important as a source of liquidity into the economy after dollarization in 2009. Major agricultural exports include; tobacco, sugar and sugar confectionary, cotton, coffee and hides among others. In 2016, the agricultural sector was the second largest source of foreign currency into the economy after mining contributing US$1,12 billion to the total exports of about US$ 2,8 billion. The sector is also important as a source of employment. In 2010 the sector constituted about 30% of formal employment (Kapuya *et al*, 2010). Given the above, a healthy agricultural sector is crucial for overall performance of the Zimbabwean economy.

Despite the crucial role that the agricultural sector plays in Zimbabwe, the sector has undergone major structural changes over the past years. In the year 2000, government implemented the fast track land reform programme which saw major institutional changes taking place (Mugabe and Etienne, 2016). Prior to 2000 agricultural production land was composed of large commercial farms held by a few farmers and after the land reform, a new model of farms was created leading to entry of more farmers in the form of A1 and A2 farms replacing the large commercial farms (Mugabe and Etienne, 2016). A1 model farms are small plots of less than 10 hectares and A2 are large plots above 10 hectares and are further subdivided into small, medium and large farms (Cliffe et al 2014). The transformation brought about by the land reform has an impact on agricultural markets in Zimbabwe which has not been investigated to date. This is mainly due to the fact that large scale commercial farmers had significant market power and their demise after land reform meant an increase in participation in concentrated markets such as for tobacco, cotton and cattle.

Given the above background, this study investigates the role of competition policy in promoting inclusive growth in agricultural markets, drawing from recent studies conducted by the Competition and Tariff Commission (Commission) in the tobacco, beef and cotton markets in Zimbabwe. The paper explores the structure of these markets and the behavior of individual players. Lessons would be drawn on the intervention of the Commission and its effects on agricultural productivity, agricultural profits and smallholder incomes.

2. Inclusive Growth: Competition and Regulatory Issues in Agriculture Markets

Understanding competition in agricultural markets is crucial because it helps in assessing the effectiveness of government policies aimed at promoting food security. Since competition helps us to understand how markets work in practice that enables us to evaluate the impact of merchants behavior on both farmers and consumers. Tobacco, cotton and beef sectors significantly contribute to the well-being of rural communities by raising rural incomes and improving the purchasing power of smallholder farmers. Therefore agriculture has the potential to maintain equitable and comprehensive economic growth and contribute to sustainable reduction of poverty.

Growth is inclusive when it enables the majority of the members of a society to participate in, benefit from and contribute to the growth process (Kanu et al 2014). Literature is awash with evidence to the effect that agriculture-induced growth has the potential to deliver significantly greater positive impact on poverty reduction than growth based on other sectors (de Janvry and Saddoulet, 1996; Gallup et al, 1997; Timmer, 1997; Bourguignon and Morrisson, 1998; Thirtle et al, 2003; DFID, World Bank, 2005; Salami et al, 2010). In their study on the impact of agricultural productivity growth on poverty reduction, Thirtle et al (2003) discovered that a percentage increase in agricultural yields reduces the number of poor people by 0.72% in Africa, far above the 0.48% in Asia.(Kanu et al 2014).

The long-term impacts of inclusive growth include, *inter alia*, reduced unemployment, reduction in food aid and state subsidies and increased public revenue from taxes. Higher employment and incomes is often accompanied by reduced crime and political instability, which amongst other things, are vital for attracting foreign direct investment (Kanu et al 2014). Having realised the importance of agriculture in promoting inclusive growth, it is critical that the sector operates effectively and efficiently at all levels of the value chains. Market efficiency and effectiveness is enhanced mainly through vibrant competition among the players. Competition exerts pressure on firms to operate at the most cost-effective levels, wherein a reduction in costs would be passed on in the form of lower or higher prices to consumers or producers respectively. The presence of market pressures forces firms to offer best trading terms and conditions as well as better quality. Accordingly, agricultural markets, like any other markets, need to be subjected to competition regulation.

Proponents of competition policy and law highlight that its major aim is to increase competitive market pressures. By disciplining the behavior of firms and correcting market failures, effective competition policies may lead firms to become more efficient, increase innovation and offer better trading terms and conditions thereby improving producers' welfare. Therefore, competition fosters economic growth, productivity, employment creation, equitable outcomes, alleviating poverty and indirectly promoting sustainable and inclusive development. Focusing on agriculture markets, effective competition policies might result in better access by small farmers to agricultural inputs such as fertilizers, seeds and agrochemicals as well as better prices in markets eventually contributing to poverty reduction by enhancing small farmers' productivity and income growth.

The agriculture sector, in some instances, is exempted from the applications of some provisions of competition laws pertaining to anticompetitive agreements. The weaker bargaining power of small holder farmers, when dealing with input suppliers like fertilizer and agrochemicals as well as buyers of their produce, require special attention in competition policy. To limit the effects of such disparities, farmers are authorized to organize themselves into cooperatives. Cooperatives may collect, process and market the farmers' products, negotiate prices with buyers on their behalf, enable them to purchase inputs at lower prices and provide them with access to credit and other financial services.

The anticompetitive behavior of input suppliers' .e.g. excessive pricing is covered under competition laws in many developing countries, including Zimbabwe, under abuse of dominance. Reverse behaviors, such as price suppression, by agricultural buyers likely attributed to superior bargaining power, are not adequately covered. Most competition laws address abuse of dominance and not abuse of bargaining power.

Abuse of bargaining power refers to a situation in which a party takes advantage of its superior bargaining position *vis-à-vis* another party and engages in unjust conduct compared to normal business practices, through acts including but not limited to (i) setting or changing transaction terms in a way disadvantageous to the other party, (ii)imposing a disadvantage on the other party regarding terms or the execution of transaction, (iii) unfair and unduly long payment terms for supplied goods or services, (iv) unfair and unjustified provisions concerning the return of goods and (v) unfair discrimination (UNCTAD, 2015).

In competition law, the abuse of dominant position requires a firm to have significant market power in the relevant market. This is a necessary but not sufficient condition to prove abuse. Different from abuse of dominance, abuse of bargaining power does not require a party to have a dominant position in the market, but it does require that it has a superior bargaining position compared to the other party in a business relationship.

According to a report by the International Competition Network, the criteria used by some countries to assess the abuse of a superior bargaining position include (i) degree of trade dependence on the firm by the other; (ii) probability of finding an alternative trade partner, (iii) supply and demand forces of the product or service, (iv) difference in scale of business between the parties and (v) position of the abusing firm in the industry. Such provisions are absent in most developing countries, and in particular in Zimbabwe, let alone the criteria to assess such practices as is the case with abuse of dominance. The Republic of Korea's competition authority, through (Article 23(1)4) of the Monopoly Regulation and Fair Trade Act, addresses imbalances in the bargaining power between parties by prohibiting *"trading by unjustly using a superior bargaining position".* It is therefore imperative for developing countries like Zimbabwe, to adopt such provisions that explicitly deal with the abuse of buyer power.

Notwithstanding this, the issue can be addressed by allowing farmers to organize themselves into cooperatives. Alternatively, competition authorities can formulate specific provisions in their competition law. In addition, for competition authorities to be able to prosecute the abuse of buyer power, competition law needs to prohibit the abuse of buyer power and provide criterion, similar to those for abuse of dominance, on how to establish buyer power and assess whether there is abuse of such power. However, it should be noted that cases that deal with the abuse of market power are very difficult to prove in practice. Therefore, remedying the abuse of buyer power through the competition law provisions should not be seen as the sole and best option. Other policies and mechanisms to eliminate such distortions and provide support to smallholder farmers should be put in place. Accordingly, undertaking studies and making recommendations that try to limit the extent of the bargaining power of some of the market players and enhance competition in the given market is helpful. In this context, to address competition concerns in the agriculture markets, studies in the cotton, tobacco and beef sectors were undertaken and a number of cross cutting issues were identified.

3. The Zimbabwean Agricultural Markets

Zimbabwe produces a diversity of agricultural commodities which can be categorized into subsistence and commercial sub-sectors. Cereal crops, like maize and small rains are mainly for subsistence purposes while tobacco, cotton, wheat, beef, sugar cane, horticultural crops, coffee and tea are mainly commercial. Pursuant to the objective of this paper, cotton, beef and tobacco markets would be discussed starting with the structure and operations of the markets.

3.1 Tobacco

Tobacco is Zimbabwe's most valuable agricultural commodity, accounting for approximately 26% of agricultural GDP and 61% of agricultural exports (Ruzivo Trust 2016). The crop is largely grown in Mashonaland East, Mashonaland Central, Mashonaland West and Manicaland Provinces. Hurungwe is the highest flue-cured tobacco producing district in Zimbabwe (TIMB 2015). Approximately 98% of tobacco produced in Zimbabwe is exported to over 80 countries. The remaining 2% is processed locally by four cigarette-manufacturing plants, of which three produce for export (Anseeuw et al 2012).The tobacco value chain in Zimbabwe comprises of 5 stages namely input suppliers to growers, leaf growing, leaf marketing, manufacturing, and tobacco product sales. This paper focuses only on the first 3 stages on the value chain where the vulnerable value chain players participate.

Tobacco seed production in Zimbabwe is carried out by two players namely Kutsaga Seed Association - a division of the Tobacco Research Board (TRB) and the Zimbabwe Tobacco Seed Association (ZTSA). The Tobacco Research Act [*Chapter 18:21*] bestows TRB with exclusive Plant Breeder's Rights (PBR) and exclusive rights to flue-cured tobacco research in Zimbabwe. It certifies all varieties of tobacco grown in-country and approves all agro-chemicals used in tobacco growing, consistent with the Tobacco Marketing and Levy Act [*Chapter 18:20*].

Tobacco growers in Zimbabwe are classified into A1, A2, communal and small scale commercial growers. Historically, before 2000, production was dominated by large-scale commercial growers. This situation significantly changed after the Land Reform Programme wherein small scale holders started to venture into tobacco production. Since then production has shifted in favor of the smallholder sector, accounting for 60% of the crop area and 30% of production. The number of tobacco farmers grew consistently from 8 537 in 2000 to 31 761 in 2005, and almost 40 000 in 2010 (Sukume & Guveya, 2009).

Growers are required to register with TIMB in terms of the Tobacco Marketing Act [*Chapter 18:20*]. They are given a grower's number used for identification purposes when marketing the crop. The registration requirements are the farmers' national identity card, proof of access to land, i.e. offer letter from Government, letter from Councillor or Headman and a recommendation letter from the Ward Agritex Officer. Growers can register as individuals or represented by a Union or Association. The registration requirements are a fee of US$10, a levy of 0.875% of value of sales, and US$0.875c/kg. The levy is used for orderly marketing, research and training. A total of 75% of the levy is allocated to TRB and TIMB retains the balance of 25%. Associations that represent farmers include Zimbabwe Tobacco Association (ZTA), Zimbabwe Farmers Union (ZFU), Zimbabwe National Farmers Union (ZNFU) and Zimbabwe Commercial Farmers Union (ZCFU).

Growers are divided into two categories namely contract and auction growers. Contract growers are financed by contractors who are the tobacco buyers. A grower and a contractor sign a private agreement, in which the contractor finances the growing of the crop on specific terms and conditions. These differ from one contractor to the other. Some contractors finance the crop 100% while others finance to varying percentages ranging from 80% upwards. However, there are two common conditions attached to the contract; the grower delivers at own cost the whole crop to the contractor and growers are not supplied with seed. The price for the contracted tobacco is agreed between the grower and the contractor guided by a minimum price set by TIMB based on a Price Matrix[3]. Auction growers finance themselves from their personal savings or alternatively borrow from financial institutions. Auction tobacco is sold by auction at the Auction Floors. The auction process is a free market process where the highest bidder gets the tobacco.

Merchants and Contractors

Tobacco merchants are categorised into two *viz* ''A'' Class buyers- who buy from auction floors and contractors. "A" Class buyers totalled 17 in 2017 and previously have been 16, 15, 13, 12, 12 for the years 2016, 2015, 2014, 2013, 2012 respectively. In 2017, Zimbabwe Leaf Tobacco (ZLT) is the biggest and followed by Pamuka, Mashonaland Tobacco (MTC), TianZe and Premium. Contractors are those who finance the production of tobacco and subsequently buy from the contracted growers. Buyers are licenced by TIMB upon payment of a US$2 000.licence fee. Their numbers fluctuate on a yearly basis with 18 contractors having participated in the 2016/2017 season.

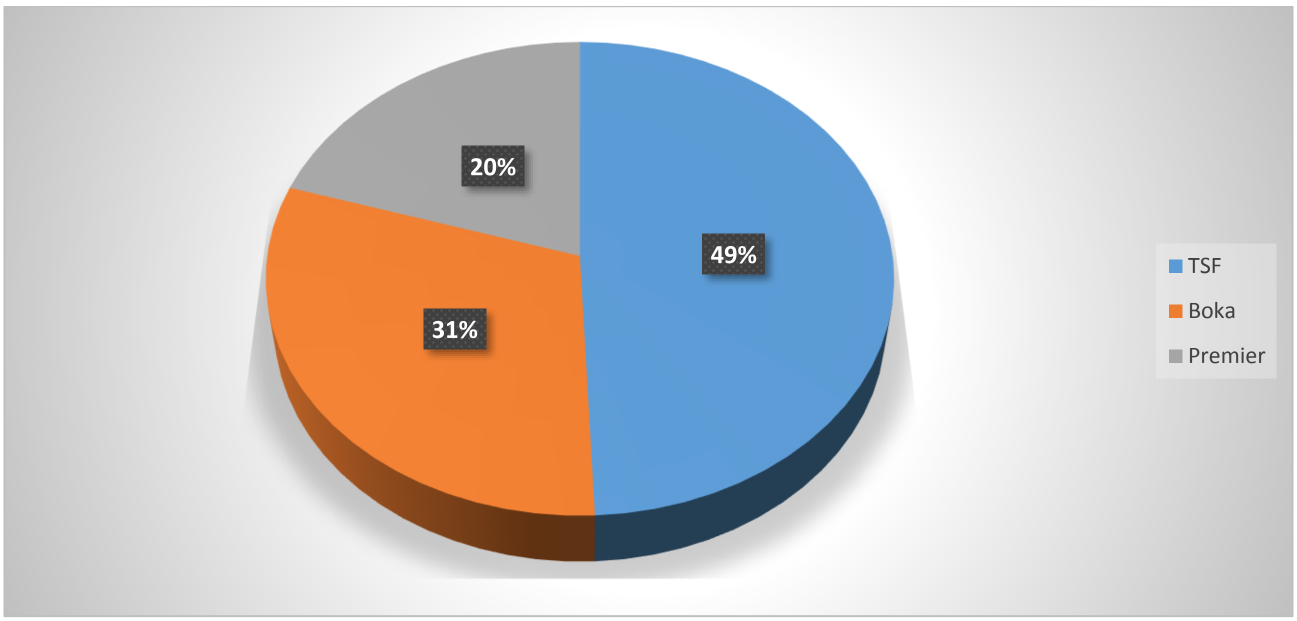
11 out of the 18 contractors do not buy from the auction floors. The top 5 contractors in terms of contract purchases are led by MTC followed by Northern Tobacco, Premium, TianZe and ZLT. According to Statutory Instrument (SI) 61 of 2004, tobacco is bought using offshore finances, thus for one to be an approved as a buyer they need Reserve Bank of Zimbabwe (RBZ) approval.

[3] Price Matrix is based on the average per grade price at the auction market of the previous trading day.

Contractors finance the production by offering funds for the procurement of inputs like fertilisers, chemicals and coal, packaging material and technical expertise to the farmers. After harvesting, the contractor purchases all the tobacco from the contracted farmers at a price negotiated between the grower and the contractor. Contractors mainly operate from own premises.

Auction floors are statutorily required to register with the TIMB to be operational. Since 2014, the market had three registered auction floor players namely TSF, Boka and Premier with installed capacity to handle 20 000, 25 000 and 7 000 bales per day respectively. TSF is the biggest player followed by Boka and Premier is the smallest according to 2015 traded volumes. The three floors are situated in Harare with one branch each. Auction floor business is very volatile with limited volumes going through auction system. Resultantly, auction floors have been facing viability problems over the years since 2012. The auction floor market structure is reflected in Figure 1.

Figure 1: Auction Floors Market Structure



Source: TIMB 2015 Statistical Book

3.2 Cotton

Cotton is the second most important cash crop in Zimbabwe after tobacco and is predominantly grown by smallholder farmers, on an average of between one and two hectares under rain-fed conditions. The crop is grown in three main regions of the country that are relatively hot and receive rainfall of between 400mm and 600mm per annum (Dirk 2016). Cotton is mainly produced in central and north-western parts of the country in Midlands[4], Mashonaland West[5], and parts of Mashonaland Central[6], provinces.

[4] Covering the following areas; Gokwe North, Gokwe South, Sanyati and Patchway
[5] Covering the following areas; Kadoma, Chegutu and Hurungwe.
[6] Covering the following areas; Guruve, Centenary, Mt Darwin, Mahuwe, Muzarabani and Mushumbi

Cotton is a major source of income for rural communities in these areas and at its peak cotton also accounted for close to a fifth of Zimbabwe's agricultural exports (Jarvis 2008). The cotton value chain, like tobacco, comprises of 5 stages namely inputs suppliers (i.e. seed, fertilizer and chemical suppliers) cotton growing, ginning and marketing, manufacturing and cotton products sales.

Cotton seed production and sales is monopolized by Quton (Pvt) Ltd. About 98 % of the cotton crop in Zimbabwe is grown under contract farming arrangements which have been in place since the 1970s. Contractors supply production inputs (seed, fertilizer and chemicals) to farmers and in return the contractor buys back the cotton and deducts costs of the inputs from total sales before paying the balance to the contracted farmer. All contractors, are required to register with Agricultural Marketing Authority (AMA) at the beginning of each farming season their intended volume of purchase. AMA is the regulatory body mandated to ensure an orderly production environment and fair marketing of cotton. For the past 4 seasons, eight ginners and merchants were registered by AMA as contractors, namely Cottco, Alliance Ginneries, China Africa, Sinotex, ETG Parrogate, Graphax, Olam Zimbabwe and Sino Zimbabwe. Over the years, the number of contractors have declined from 30 in 2006/07, to 16 in 2012/13 and to the current eight of the 2016/17 season.

The number of farmers has been fluctuating over the years. The estimated number of cotton contract farmers in the 2016/17 season was 200 000, an increase from the 2015/16's 125,000 which had fallen by six percent from 133,333 farmers in the 2014/15 season (AMA 2017). The main contributors to this decline were the drought and the low price of seed cotton compared to other cash crops such as tobacco and soybeans. Seed cotton production in the 2015/16 declined to around 80,000 MT from 104,000 MT in the 2014/15 season. The main reasons for the decline in production were the late start of the season and the El Niño induced drought that caused erratic and poorly distributed rainfall in the country. The El Niño induced drought is the second consecutive drought in Zimbabwe after the 2014/15 season's drought.

Generally, cotton production has been on a downward trend for the last four years. In the 2013/14 season, the country produced 136,000 MT seed cotton, a 5% decline from the 143,849 MT produced in the 2012/13 season. The problem of side marketing led to poor loan recovery by contractors and threatened the viability of contracting companies. SI 63 of 2011 regulates the entire cotton value chain from production to marketing and prohibits a buyer to buy cotton from a grower contracted by another merchant. However, poor enforcement of compliance by AMA has led to the reluctance by contractors to commit large financial resources to contract farming. The contractors have either scaled down investment in cotton contract farming or exited the sector.

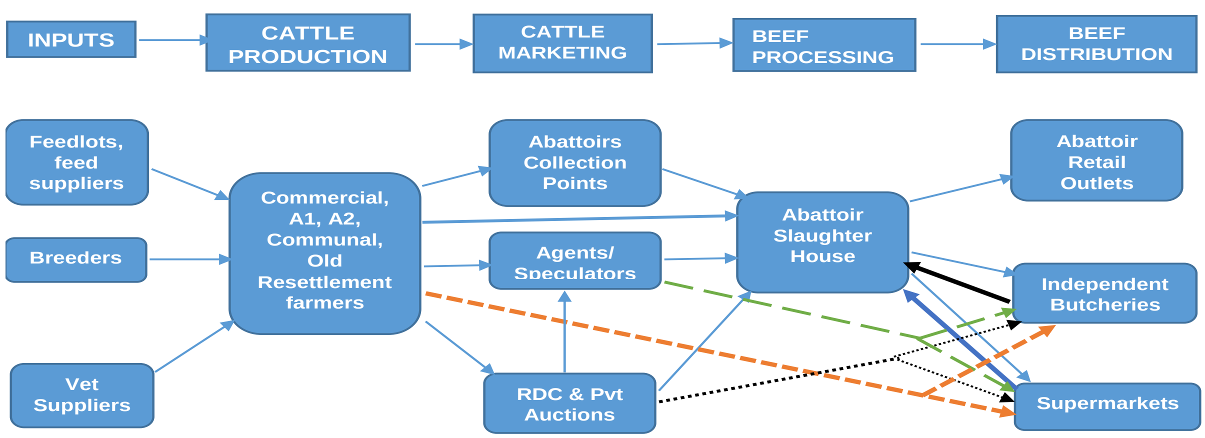
3.3 Beef

The Zimbabwe beef sector also significantly transformed from a state controlled export-oriented to a fragmented system where private abattoirs became the mainstay of the sector. New value chains were created. Beef farming is no longer based on massive individually owned ranching operations, but instead became anchored by small farms with disintegrated operations. In tandem with this, were changes in the patterns of meat retailing and cattle purchasing.

The sector has many stakeholders with different roles in order to deliver beef to the market namely; farmer/producer, feedlot, abattoir, wholesaler, processor, distributor and retailer. Other indirect participants include farmers associations (e.g. Zimbabwe Commercial Farmers Union (ZCFU), Zimbabwe Farmers Union (ZFU)) and Government departments (Department of Veterinary Field Services (DVFS), Department of Livestock Production Development (DLPD), Rural District Council (RDC), Agricultural Marketing Authority (AMA), Environment Management Authority (EMA), Ministry of Agriculture, Mechanisation and Irrigation Development (MAMID), Zimbabwe Republic Police (ZRP) and Department of Public Health under Ministry of Health and Child Care (MoHCC).

The beef value chain has become increasingly vertically integrated, driven by abattoirs who either own feedlots and/or wholesalers or sell directly to the consumer through own retail outlets. Figure 2 below gives an overview of the Zimbabwean beef industry value chain, which broadly comprises of inputs suppliers, cattle production, cattle marketing, beef processing and beef distribution.

Figure 2: Beef Value Chain



Source: Author's formulation

Production comprises of smallholder and large scale farmers. The beef industry utilises both extensive and intensive farming production systems. The systems adopted by a farmer depends on the regional climate, cattle farming knowledge and resources availability.

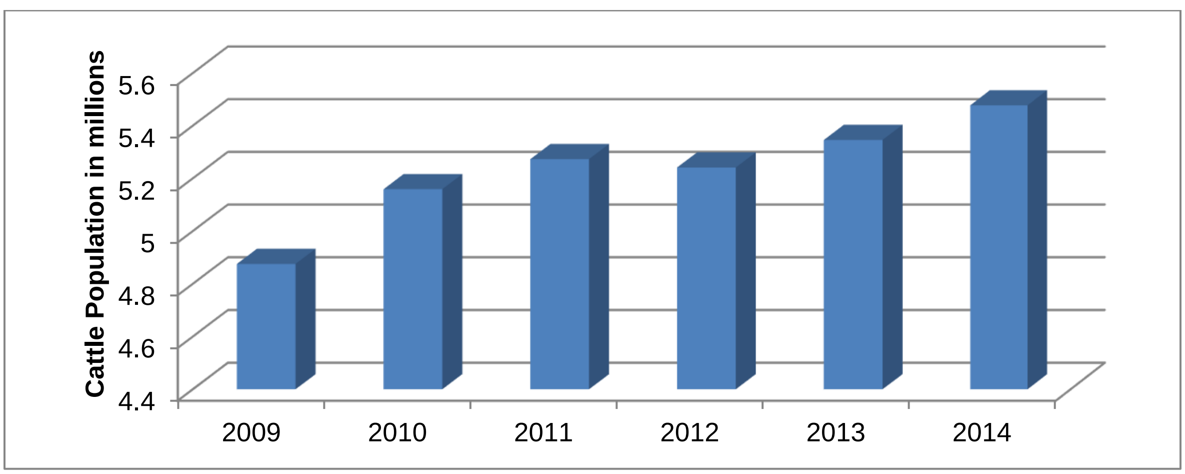
The dominant production system is extensive cattle farming characterised by use of large grazing areas. Pure intensive cattle production system does not exist in Zimbabwe. All abattoirs namely Koala, MC Meats, Bellevue Abattoirs, Surrey Meats, Grills and Mbokodo, practice semi-intensive cattle production at own feed lots. Stud breeders producing pure breeds also practice semi-intensive production whereby cattle are fed on grass and then intensively fed using stock feeds in the last 3 months before marketing.

Cattle destined for formal slaughter markets come from all farming sectors, broadly categorised into two segments namely small and large scale producers. Small-scale producers include farmers from the Old Resettlement Schemes (ORS)[7], small-scale commercial farmers (SSCF), A1 farmers and communal farmers. In 2011/12, communal farmers accounted for 69%, A1 farmers – 11%, large scale commercial farmers -10%, ORS – 6% and small scale – 4%, of the national herd (Sukume and Maleni, 2012).

In 2009, cattle population was estimated at 5.3 million and 92% were owned by smallholder farmers (Sibanda, 2009). According to Technoserve (2014), 90% of the national herd is owned by smallholder famers, communal or small scale commercial farmers. The value chain suffers from weak market linkages between smallholder farmers and abattoirs, exacerbated by lack of transparency and information. The national herd size and number of pedigree[8] animals is diminishing due to insufficient animal husbandry techniques and training. The major challenge in cattle farming is that most farmers are not conversant with its business dynamics as they consider cattle as a store of wealth rather than a cash generating business. This has greatly affected the calving rate in the country as shortage of breeding bulls leave many fertile cows fallow.

Pre-land reform, white commercial farmers owned about 30% of cattle while the remainder was owned by the rural/communal farmers. Commercial farmers had a slaughter off-take[9] of 20% to 25% averaging 500 000 to 600 000 slaughters annually, while communal farmers had between 3% to 5% and an off-take averaging 280 000 slaughters annually. Cattle population remained fairly stagnant particularly during the period 2009 to 2014. Thereafter, the population hovered within 4.8 to 5.5 million range. Fig. 3 shows the cattle population based on the census statistics provided by the DLPD over a period of 6 years.

Figure 3: Cattle Population 2009 to 2014



[7] Farmers who were resettled in the early 1980s
[8]The line of descent of a purebred animal

[9] Off-take is defined as the proportion of animals sold or consumed in a year

Source: DLPD 2015

Cattle buying is carried out through either a one or three stage processes. The one stage process is when the farmer sells cattle direct to the abattoir. The three stage process is when the farmer sells cattle to either another farmer or feed lots or cattle dealers, who in turn sell to the abattoir. Three methods are used when buying cattle i.e. open auction, private treaty, and bookings. Open auctions are carried out either through, commercial/private sector auctions[10], and Rural District Council (RDCs) auctions. The Private Treaty sale is a direct sale between the abattoir and the farmer, and is initiated by the abattoir.

The Bookings Sale is also a direct sale between farmer and abattoir but is initiated by the farmer. This method is used to a lesser extent than the other two. Before the land reform, open auctions constituted 50% of cattle sales while Private Treaty Sales constituted 40% and the remainder were Bookings Sales. Cattle marketing involves many stakeholders who play different roles and these include Government departments, farmers/producers and buyers (abattoirs, butcheries, middlemen/speculators and individual persons), etc. Currently, three cattle marketing systems are predominantly used in Zimbabwe namely; RDCs auctions, private auctions and private treaty.

Auctions are markets for live cattle sold to the highest bidder on a willing seller –willing buyer basis (Sukume and Maleni, 2012). RDCs are the custodians of all the resources in respective districts as empowered by the Rural District Councils Act [*Chapter 29:13*]. After the liberalisation of the beef industry in 1995, Rural District Councils (RDC) assumed the mandate of organising cattle markets in conjunction with DLPD, from CSC, in order to create a level playing field. Under RDC Auctions, DLPD in full and the RDCs agree on the annual cattle marketing calendar .i.e. the dates and places on which cattle marketing would take place throughout the district. RDCs organise markets by advertising the dates and areas to buyers and producers of cattle. They offer renewable contracts on a yearly basis to auctioneers who are independent from cattle buyers and producers, through a tender process. Each RDC awards a contract to only one auctioneer who pays registration fees at the beginning of the contract on yearly basis.

RDCs auctions are conducted in collaboration with DLPD, DVFS and the police. At auctions, DLPD’s function is to conduct live animal grading and weighing as prices offered will depend on grades and weight. Due to the high rates of stock theft, police have been roped in to offer cattle clearance services and ensuring that all cattle sold is not stolen.

Cattle marketing inevitably involves cattle movement within and across districts and provinces and therefore precautions are taken to curb the spreading of diseases. DVFS is responsible for inspecting and certifying animal health status, the region of origin and destination. It therefore issues cattle movement permits and disease free certification. In the event of a Foot and Mouth Disease (FMD) outbreak, the DVFS offers slaughter stock permits stipulating the particular markets where cattle will be sold at and thereafter direct to the abattoir. Such cattle are branded ‘S’ and do not to return to the farms.

[10] Currently there are two such auctions namely CC Sales and Agri-Auctions.

RDCs provide auction centres and own most of the sales pens. Auction centres are located at places convenient to farmers, particularly smallholders. This market often provides higher prices to smallholder farmers and communal farmers, as it is relatively competitive than private treaty. RDCs auctions are expedient for communal farmers, in terms of proximity, as they can easily ferry their cattle to auction markets and/or coordinate and aggregate transport.

Under this marketing system, buyers are obliged to pay a cattle levy of 10.5% of the value of the beast to the RDCs, consistent with Circular 7 of 2006 issued by the Ministry of Local Government Public Works and National Housing. The levy is distributed amongst the RDC, DLPD, sales pen owner and the auctioneer, with each getting 4.5%, 3%, 1.5% and 1.5% of the cattle value respectively. In most districts, sales pens belong to RDCs hence they receive 1.5% for sales pens in addition to the 4.5%. Statutorily, the RDC cattle levy is supposed to be paid by buyers but in practice, it is borne by farmers as it is factored in the cattle price. The levy is a subject of debate as farmers and buyers allege that it is exorbitant, yet RDCs are not providing services commensurate with the levies being paid. Furthermore, auctions happen on specific dates, implying that farmers cannot sell as and when the need arises (Technoserve, 2014). This leaves farmers with no option but to dispose their cattle through private treaty sales where they are likely to be exploited.

The closure of some auctions centres has been occasioned by farmers shunning the higher RDCs levies when marketing their cattle through RDCs auctions. Resultantly, RDCs auctions handle few cattle and therefore attract few buyers with a tendency to collude and suppress prices. Buyers also shun RDCs markets as the livestock marketed is of inferior quality, the dilapidated state of infrastructure at the markets particularly roads and the long distances travelled to the auctions. Coupled with this, the number of cattle auctioned at these auctions is insignificant and not worth travelling long distances for. Therefore, active buyers at RDCs markets are oftentimes middlemen with a motive to suppress prices for purposes of reselling to abattoirs or private auctions

Private auction and RDCs auctions sales activities are synonymous except that the former is wholly operated by a private auctioneer and excludes RDC cattle levies. The number of live cattle auctioneers has declined since 2000 mainly as a result of the decline in the size of the commercial herd and limited cattle sales by communal farmers (Sukume and Maleni, 2012). Private cattle auction sales are conducted by three major auctioneering companies nationwide namely i) Cattle Company (CC) Sales in Mt Hampden, Matebeleland and Midland; ii) Agri-Auctions in Matebeleland; and iii) CK Holland in Manicaland. These usually target large scale and smallholder farmers who view cattle rearing as a business. Unlike RDCs auctions, private auctions oftentimes are centrally located for the convenience of both the auctioneers and buyers. This disadvantages smallholder farmers as they have to ferry their cattle for long distances to the market.

Private auctions flourished at the expense of RDCs auctions as big buyers, such as abattoirs, are attracted to them. The attractions stems from the short distances to the private auctions markets, better road networks, absence of an exorbitant levy, accessibility and the availability of favourable[11] credit terms to abattoirs.

4. Competition Concerns Arising from the Sectors

The study's findings reveal a number of competition, structural, regulatory and behavioral anomalies which seem to hamper the growth and productivity of the sectors.

4.1 Competition Concerns in Cotton and Tobacco Production

Contract farming is perceived as one of the ways through which the private sector invests and participates in the agriculture sector. It is explained as an institutional response to imperfections in markets for credit, insurance, information, factors of production, and raw product; and in transaction costs associated with search, screening, transfer of goods, bargaining and enforcement (Key and Runsten, 1999).

Contract farming has been discussed as having the potential to catapult low-income farmers into the modern sector. It has been argued that agro-industrial firms can provide, via contracts, the credit, inputs, information and services smallholders need to cultivate and market lucrative non-traditional crops (Morrissy, 1974; Glover, 1984; Goldsmith, 1985; Williams and Karen, 1985). In addition to raising grower's incomes, contract farming may also create positive multiplier effects for employment, infrastructure and market development in the local economy. While contract farming promises significant benefits for growers in many instances, recent studies have highlighted circumstances in which members of the rural population have realized only limited gains, or have been directly or indirectly harmed by contract farming (e.g.,Glover and Kusterer, 1990; Little and Watts, 1994).

Contract farming has also been critiqued as being a tool for agro-industrial firms to exploit an unequal power relationship with growers. While farmers usually enter into contracts voluntarily, they may, over time, invest fixed resources into production or alter their cropping patterns so as to become overly dependent on their contract crops. In such instances, growers face limited exit options and reduced bargaining power *vis-_a-vis* the firm, which may force them to accept less favorable or "*exploitative*" contract terms. Moreover, African private agents are often uncompetitive due to institutional, structural and policy constraints, etc. (Kanu et al 2014).

Cotton and tobacco growers are confronted with contracts skewed in favour of contractors and merchants. The contracts signed between growers and contractors have clauses that bar the grower from selling excess crop. In most cases, farmers just sign the contracts without understanding the contents of the contract and worse still they are left without a copy of the contract. Merchants and contractors do not supply the full package of inputs but still tie down farmer to contracts and still expect them to deliver all their produce under the contract. For cotton production a full package for 1000-1200kgs/ha output comprises of 150-200kgs of fertiliser, 15kg

[11] Abattoirs can be given payment terms whereby they can pay after 7 days or even after selling the beef.

seed, and a full set of 5 chemicals (Carbarayl, Acetmac, Mitec, Fenverelate, Lambda). So some merchants just supply seed only while others supply only 100kgs fertiliser, seed and possibly 2 chemicals but they still insist on the output. Moreso, the contracts do not provide for risk sharing between growers and merchants in cases of low yields due to drought. Ultimately, farmers end-up losing some of their assets to merchants due to accumulated debts. Media reports[12] highlighted that cotton farmers especially in Gokwe area lost scotch carts, roofing materials and livestock to contractors for failure to payback loans. Rather than transforming them from poverty, contract farming in most instances leave growers poorer. Concerns in the sector include the following:

4.1.1 Tacit Producer Price Suppression

It was also evident in both the cotton and tobacco markets. Cotton Ginners Association (CGA) monopolisation of the cotton sector resulted in the merchants lobbying for regulations to manage the operations of the sector which culminated in the promulgation of Statutory Instrument (SI) 142 of 2009 (SI, 2009). The SI section 9 and 10, provided for differentiated registration fees for cotton merchants and buyers. The fees were stipulated as US$ 15 000 for application for registration as a contractor belonging to a buyers or contractors association, US$ 10 000 on renewal of registration. Application for registration as a contractor who neither belongs to a buyers nor contractors association costs US$ 25 000 and US$ 20 000 on renewal of registration. Application for registration as a buyer not belonging to neither buyers nor contractors association costs US$ 30 000 and US$ 25 000 on renewal of registration. Application for registration as a buyer belonging to either a buyers or contractors association costs US$ 15 000.

The differentiated fee structure made it cheaper to register as a member of an association than as an individual company. Literally, the provision coerced new entrants to join the CGA. It also provided for the creation of common input distribution and buying points and negotiated producer prices in section 13. These provisions and practices significantly eliminated competition among CGA members resulting in low and unviable producer prices. This led to many farmers abandoning the production of cotton to other crops like sorghum. The practice were tantamount to collective abuse of dominance and market cartelisation through the CGA. However, the effect of the international prices were also a factor to a certain extent.

The same behaviour of tacitly setting prices was evident in the tobacco sector herein as merchants have too much control on the auction floors. This can be evidenced by the current ‘ceiling’ price of US$ 4.99 for auction tobacco. It implies that merchants covertly predetermine the maximum ceiling price to be paid for a given grade of tobacco beyond which they will not buy. Furthermore, TIMB sets a minimum price for the contract tobacco using a Grade Price Matrix. The Grade Price Matrix is based on the average of the previous day trade under the auction system. Such price determination methodology disadvantaged the auction tobacco as there was no way it could surpass the contract tobacco price. Consequently, many growers were propelled towards contract tobacco.

[12] Herald, Monday 15 July 2013, Newsday, Wednesday 7 August 2013

4.1.2 Inflated Input Prices

Loan scheme inputs prices were inflated under the contract system. Inputs provided by merchants or contractors were priced with a margin ranging from 30% to more than 100% in some instances. This was despite the fact that the merchants would have provided for interest of between 8%-12% on the total loaned amount as a cost of capital. In other words, merchants were profiteering on the inputs. The high input prices led to farmers using the entirety of their production to cover the debts.

4.1.3 Rampant Side Marketing

Side marketing was rampant both in cotton and tobacco marketing and this had threatened continued investment into the sectors particularly in cotton production. Side marketing is perpetrated by both merchants and farmers themselves. Merchants buy the side marketed crop. Some of the merchants commit very little investment in the sector possibly by providing only cotton seed excluding fertilisers and chemicals but would want to buy all the produce by the farmer. On the other hand, the low producer prices and inflated input prices entices the farmers to side market as all their produce would, in some instances, be inadequate to cover their debts.

4.1.4 Unfavourable Auction and Contract Systems

Price differentials between auction and contract prices also tempt auction tobacco farmers to divert their crop to the contracts system, while debts also drive contract tobacco farmers to auction their crop. The main justification for the price differentials was that contract tobacco is always regarded as of higher quality than auction tobacco as contracted farmers access all the requisite inputs. Furthermore, international buyers prefer traceable tobacco, a characteristic normally associated with contract tobacco (CTC, 2015). Weak regulation particularly on farmer registration mechanisms by TIMB and AMA also further perpetrate side marketing. Despite justifications for side marketing, the imminent problem is the dearth in investment into the sectors thereby further barring inclusive economic growth in the sectors.

4.1.5 Seed Production Monopoly

There is seed production monopolization in cotton and tobacco sectors. Cotton seed is monopolised by Quton in the country. Cotton seed distribution inefficiencies are a reflection of the monopolisation of the market. Exacerbated by the CGA’s need to monopolise the market, Quton distributes its seed only through merchants hence denying farmers who want to produce non-contracted crop access to the seed. Concurrently, tobacco seed breeding is monopolised by the TRB. The abuse of the monopoly is manifested in the seed production level in which TRB offers Plant Breeding Rights at unfavourable terms and conditions to cripple ZTSA. ZTSA struggled to the extent of nearly closing its operations.

4.2 Competition Concerns in Beef production

The beef sector had a fair share of constraints impeding productivity and growth. Lack of farmer coordination was apparent. Most farmers particularly smallholder farmers, are not coordinated. Smallholder farmers, operating individually, are constrained by resources. Further, costs associated with selling cattle are relatively high compared to those in co-operatives.

4.2.1 Non-payment for the Fifth Quarter
Due to the buying power and dominance that abattoirs have, the fifth quarter[13] is taken for free on the justification that the system was inherited from the Cold Storage Commission; and that it covers the service slaughter fees under the private treaty system. However, the current practice has compellingly diverted from what CSC used to do whereby it bought cattle using the farm-gate price. Currently, the value which the farmer losses due to lack of payment for the fifth quarter depends on the size of the hide i.e. small, medium and large. Respectively, on average, farmers lose $48.09, $57.24 and $83.50 in respect of fifth quarter depending on the size. This is a significant amount sufficient to cover transport cost of the beast from the farm to abattoir.

4.2.2 Carcass grading system
The grading system has discriminatory components against indigenous breeds i.e. carcass length and weight. Some abattoirs operate without a government grader while some abattoirs employ own graders. The negative implications to the beef industry are that abattoirs may raise grades in order to make more money or to meet demand. Meat inspection has also been problematic in areas where both DVFS and MoHCC Public Health officers duplicate their services, and independently levy their fees for similar services, to the detriment of abattoirs.

4.2.3 High Compliance Costs
The beef industry is regulated by six Government departments namely DLVS (LPD and DVFS), RDCs, AMA, EMA, ZRP and Public Health (MoHCC) in full. After assessing compliance costs associated with raising a beast, it was observed that the sector is heavily regulated. Compliance costs per beast amount to $98.66 per annum added to other cattle rearing costs which average $75.85 (for an animal produced under extensive farming) relative to an average producer price of $ 300. This would leave the farmer with an average disposable income of $125 and this is unsustainable. The majority of these costs are ultimately borne by the farmer as abattoirs shift the burden to them through price suppression. This has a negative impact on the development of the beef industry.

Government departments are not efficiently and promptly delivering services to the sector yet they receive fees. The sector was discovered to be prone to some activities which are unofficial and informal. Farmers also alleged that they also have to provide transport to the Zimbabwe Republic Police in order to receive services which are meant to be delivered freely. The obtaining staff constraints in the DLPD countrywide has also culminated in one officer covering three wards; whilst three AREX officers cover one ward. Furthermore, the separation of the function of DVFS and DLPD is not clear. As such, it is critical for the MAMID to rationalise these departments, where necessary, given the budgetary constraints to recruit a full staff compliment. In addition, Circular 7 of 2006 empowers RDCs to collect cattle levies of 10.5% of the value of a beast sold. This levy is subject to criticism by many stakeholders as it is deemed high by stakeholders.

[13] In the beef industry Fifth quarter refers to the heart, liver, kidneys, tongue, skirt, tripe, cheek, tails, hides, stomachs & intestines, runners, tallow, sinews, pizzles, bones, blood, embryonic fluids, heels, head mounts, horns, rendered products, nutraceutical, bioactives and pharmaceutical products, hooves, tendons, ears, glands, etc

5. Assessing the Impact of interventions by the Commission

5.1 Cotton Sector

Having observed the anti-competitive provisions in SI.142 of 2009, the Commission advocated for a review of the SI removing the differentiated registration fees as well as the abolishment of the common input distribution scheme and common buying points (CTC, 2011). The intention was to reduce the amount of transparency among the merchants which seemed to promote abusive and cartel-like behavior. After the conclusion of the investigation in 2013, the Commission made a determination with regards to the setting of prices by the industry. The Commission's determination was later registered with the High Court on 27 February 2014. The Order provided as follows:

"THAT members of the Cotton Ginners Association of Zimbabwe forthwith cease and desist from engaging in the restrictive practice of setting uniform prices of seed cotton bought from cotton farmers, and that the members individually negotiate such prices with their contracted farmers…"[14]

The Order was meant to promote competition and ensure enhanced productivity in the cotton industry. It entailed that ginners shall cease and desist from collectively agreeing on prices of seed cotton, negotiating such prices with the farmers unions as a single undertaking and setting uniform prices on seed cotton. Prohibition of the setting of uniform prices entailed that in terms of the Order, inputs and seed cotton should not be bought or sold at common buying points. Instead each individual ginner should negotiate prices with its contracted farmers. The Commission after issuing the Order embarked on an awareness campaign to all cotton producing regions of the country.

During the course of the investigation, AMA amended the SI 142 of 2009 through SI 63 of 2011 which addressed some of the concerns observed by the Commission such as the abolition of the Common input distribution points and arrangements. During the course of year 2014 cotton marketing season, the Commission revisited the cotton growing regions to assess the effect of its February 2014 Order. Factors assessed were whether cotton merchants were individually negotiating prices and operating in the common buying points. The following were the findings:

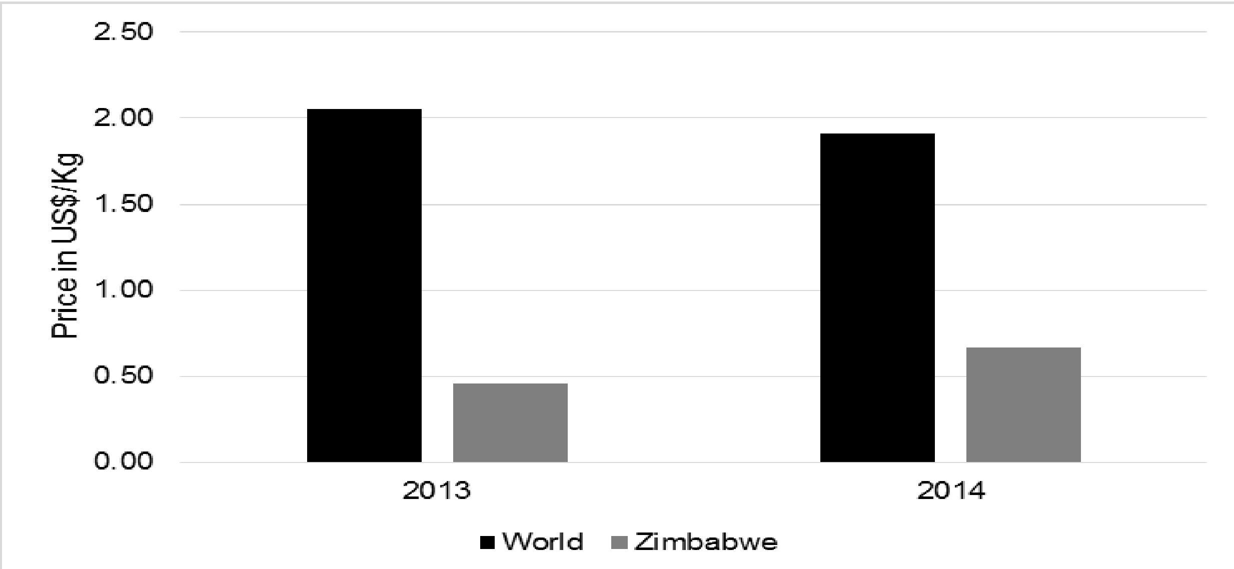
Farmers in all the areas, save for Gokwe, reiterated that the Cotton Ginners were individually negotiating prices with the farmers. The ginners were competing on prices. At Checheche Growth Point, each ginner was operating from its own depot and thus the ginners were offering more competitive prices ranging from 55 to 62 cents/kg. Ginners were going further offering transport to the farmers to ferry their cotton to the depots a practice that had never happened before.

In Muzarabani and Mount Darwin, ginners were also negotiating prices with their contracted farmers. The prices ranged between 60-75 cents/kg. In Gokwe, the situation has not improved

[14] Commission's Order (Order No. H.C 1655/14) which was registered with the High Court on the 27th of February 2014

from the time the Commission visited, ginners were buying at a price of 40 cents/kg[15]. The farmers were told that the Commission's order was fake. They were also being told that 40cents/kg was the price gazetted by Government and that there was no negotiations on prices whatsoever. Farmers admitted that their lack of unity was making them easy target for manipulation by the ginners. All in all, farmers were grateful in the manner the Commission educated farmers of the new developments in the cotton sector and where they stand as farmers (CTC, 2014).

Figure 4: Cotton prices before and after Commission intervention



Source: CTC Cotton Sector 2014 Status Report, UNCTAD statistics

The opening up of the sector to competition after 2013 resulted in average increase in domestic prices of 55%. The increase in price was despite a 7% fall in the world price of cotton at the international market as shown in the graph above. The Commission's intervention increased farmers' earnings and their ability to pay back the loaned inputs concurrently remaining viable. In 2015 and 2016, the cotton sector witnessed a significant shift by ginners wherein they offered farmers a price adjustment[16], a practice that was last done before the adoption of the use of multicurrency. This is a demonstration of the effect of competition where individual ginners were trying to lure more farmers in the following marketing season by showing commitment and proving their trustworthy to the farmers. According to AMA, the adjustment in 2015 ranged from 2 to 3 cents per kg and in 2016 it increased to 5 cents per kg according to ZFU 2017.

5.2 Tobacco

Through a study concluded in 2015 in the tobacco sector, the Commission made the following recommendations to the MAMID, TIMB and Farmer Organization:-

Box 1: Summary of Recommendations for the Tobacco Study

[15] See appendix 1 for a detailed prices by company

[16] Adjustment are additional payments paid by the ginner to the farmers after cotton grading.

A. TIMB

The following measures among others, would ensure that same quality tobacco attains similar prices whether under auction or contract, may also help minimise side marketing and help maintain the existence of auction tobacco to facilitate enhanced competition. The current trend of continued decline in auction tobacco sales is unhealthy for the sector,:-

i) Ensuring that auction tobacco becomes traceable through:-
   - proper registration --including thorough vetting and use of Global Positioning Systems to eliminate bogus growers who are not land owners but just promote side marketing;
   - intensive training on good agricultural practice in handling tobacco;
   - Improved crop monitoring – to ensure use of recommended chemicals; and
   - advocating to international buyers on the traceability of auction tobacco.

ii) TIMB reviews the grading system standardising it across all markets
iii) TIMB reviews Grade Price Matrix apply it across all markets;
iv) The Contracting schemes needs to be reviewed.
v) To mitigate against auction floors incurring excessive costs due to the different provisions in terms of remittances by the Income Tax Act and the Tobacco Industry and Marketing Act it is recommended that Tobacco buyers should pre finance their purchases at the auction floors. Alternatively the two Acts have to be aligned to stipulate the same time frame.
vi) All contractors should disclose all inputs costs and interest rates levied to farmers before signing relevant contracts.
vii) TIMB may need to find ways to ensure that auction tobacco remains in existence. This would offer a counter check mechanism on the contract system.

B. Farmer Organisations

(i) Farmer organisations (ZTA, ZFU) should avail more information to farmers so that they can make informed decisions
(ii) Growers are encouraged to open bank accounts.

C. Ministry of Agriculture

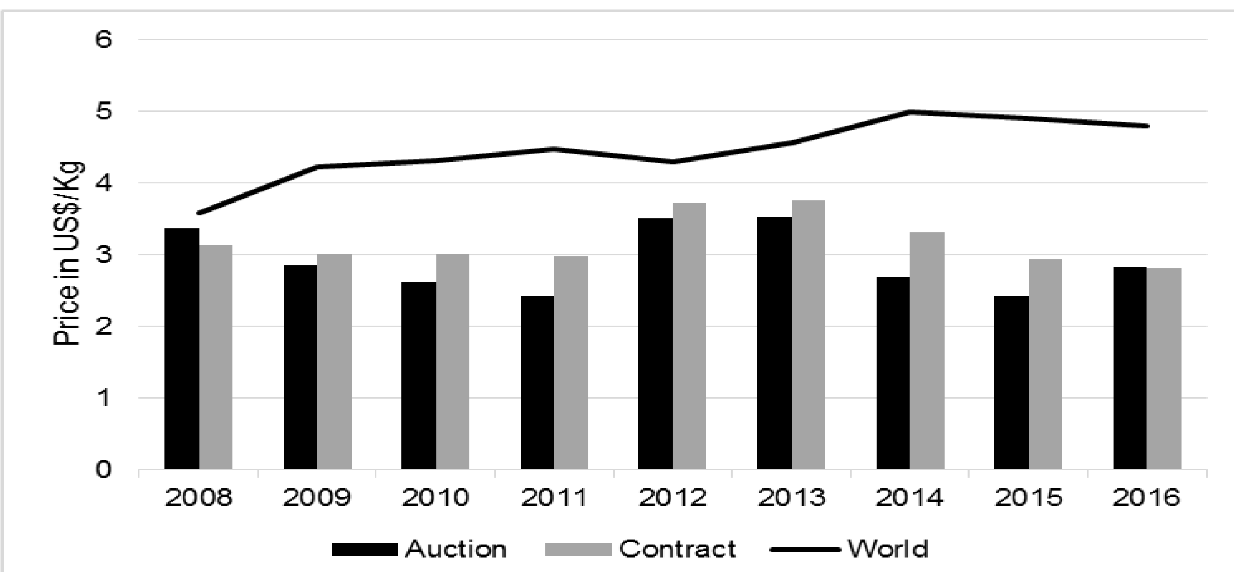
(i) In the short run the Ministry can consider the separation of the research and regulatory functions of TRB from seed production. i.e. separate Kutsaga Seed Association from TRB to allow the entry of new players into seed production facilitating competition. In the long run seed breeding can be liberalised as well.
(ii) Furthermore, access to PBR should be liberalized such that Kutsaga Seed Association, and ZTSA and any new player can access the PBR on same terms and conditions.
(iii) Concurrently, Government should ensure adequate funding for the TRB

Source: CTC Tobacco Study

As highlighted earlier, the Commission's recommendations in the tobacco sector were aimed at improving the level of competition in the sector by sustaining the existence of tobacco auctioning in an open market. This method of tobacco marketing provides a counter check on contract tobacco marketing wherein contract merchants would not want only to suppress prices for fear of growers diverting the tobacco to the auction. Auction tobacco was at the risk of extinction considering the pace it was decreasing in terms of proportions relative to contract output. The decreasing trend was attributed mainly to the price differentials between the auction system and contract prices, wherein the latter always fetched a higher price. The higher price for contract tobacco was attributed mainly to the perception that it is of higher quality relative to auction and that it is traceable. Also the grade price matrix contributed to the price differences in that the minimum contract price is based on the average of the previous day auction prices.

TIMB introduced tobacco E-Marketing in the 2016/2017 marketing season. The automation of tobacco auctioning was intended to minimize buyer collusion, reduce marketing costs and result in better returns for the farmers. Consequently, a lot of improvement have been witnessed compared to the previous season. A significant increase in new grower registration was recorded in 2016/17 season, increasing by 90%, from 8 494 in 2016 to 18 826 in 2017. Total registrations for 2017 increased by 27% to 97 128 (TIMB, 2017). As at 12 May 2017, contract floors contributed 81% of seasonal total tobacco sales against 19% for the auction floors which shows a proportional increase in the contribution of auction tobacco in 2016/17 relative to the 2015/16 season's 18% (TIMB, 2017). As at 12 May 2017, the average price for auction tobacco has been higher than contract tobacco system at $2.83/kg compared to $2.82/kg respectively (TIMB, 2015). This is the first time it has happened since the adoption of the multi-currency regime in 2009 as shown on Figure 5. By the same period, farmers had realized $306.7 million (27% higher), against $239.9 million during the same period 2015/2016 season. These developments are highly attributed to the collaborative work by the Commission and TIMB following the former's study recommendations.

Figure 5: Auction versus Contract Prices

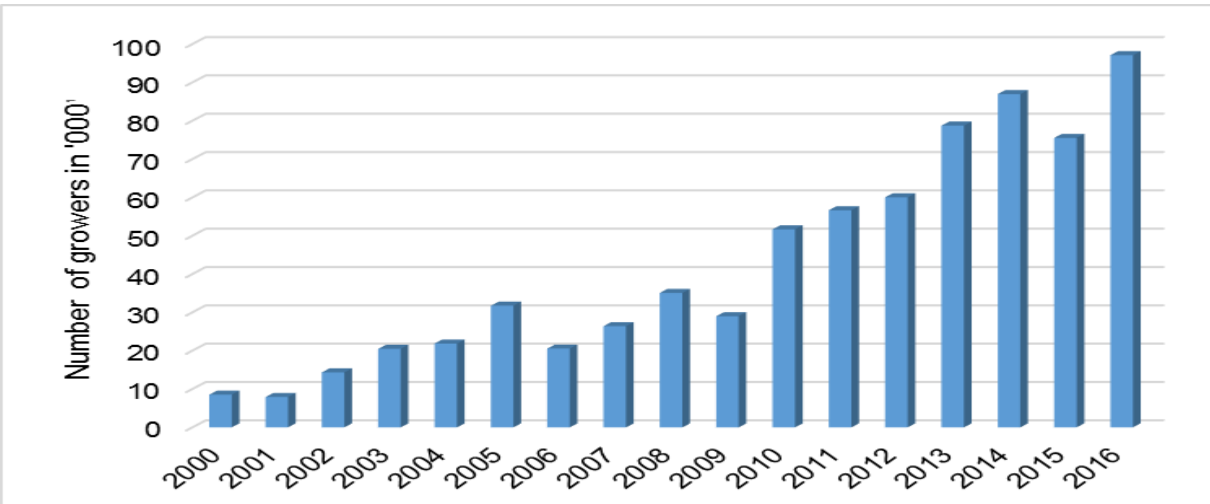


Source: TIMB Statistical Books, UNCTAD statistics

Market sentiments were that the discrepancy between auction and contract prices was a deliberate ploy by buyers and merchants to push more farmers towards contract farming. The price differences are shown on Figure 5. Contract farming is easy to manipulate from the buyers' perspective as farmers can be regarded as captured supplier of tobacco. Moreso, TIMB- the sector regulator is poised to control more auction marketing and does not have the legislative and regulatory instruments to manage contract growing and buying (Muir-Leresche and Muchopa, 2006; Sukume and Guveya, 2009 in Muir-Leresche, K & Muchopa, C, 2006).

Evidenced by increased tobacco seed sales, the intervention by the Commission seem to have promoted the growth of the tobacco sector as more growers entered the sector. Seed sales as at 5 May 2017 increased significantly compared to sales recorded during the same period last year. Sales increased by 329% from 24 080g in 2016 to 103 425g in 2017 (TIMB, 2017).

Figure 6: Tobacco Registered Growers 2000 to 2017



Source: TIMB 2015 Statistical Books and 2017 Weekly Reports

The growers' numbers exponentially increased thereafter as shown on Figure 6. However, the dip in grower registration in 2015 was attributed to skirmishes that characterized the 2013/2014 and the 2014/2015 seasons, wherein farmers demonstrated at the auction floors against prices that were being offered by merchants before the Commission's intervention. For instance, the *Daily News* edition of the 25th March 2014 carried a story in which farmers accused buyers of swindling them, buying at low prices – as low as 60 cents/kg - and later selling the same tobacco for US$ 3/kg. Farmers complained of unfair and uneconomic prices offered by buyers. The *Financial Gazette* edition of the 5th March 2015 reported that buyers were offering contracted farmers a higher price signalling that there was deliberate effort to covertly coerce farmers into contract farming.

5.3 Beef Sector

Interventions in the beef sector were in the form of 2016 study recommendations which were to the extent that:-

The Ministry of Agriculture, Mechanization and Irrigation Development should craft a Beef Industry Policy which governs the entire cattle value chain .i.e. from production to beef distribution. The Policy should, amongst others, incorporate the following: - (i) direct and regulate the industry's operations, (ii) streamline the various costs paid in the sector, (iii) should also focus on compliance encouragement and multi-stakeholder involvement to ensure that the viability of the industry, (iv) clearly articulate how the regulating departments should interoperate, (v) establishment of the one-stop-shop concept for various registrations, payment of fees and levies to lessen the burden on the value chain players.

To enhance competition and reduce incidences of producer price suppression and relieve farmers of the huge transport cost burden, the Commission recommended that the main mode of cattle marketing should be through decentralised RDCs auctions. There is need to review the compliance/regulatory costs or levies downwards. The $98.66 compliance cost per beast per year is relatively high and this discourages farmers from investing in this industry. Other levies or fees should be scrapped .e.g. the AMA registration fees, and some like EMA fees should be a once off payment not an annual fee, and the RDC levy has to be reduced to be at least not more than 5%. In tandem with this, some of the levies should also be channelled towards the purchase of vaccines to eradicate diseases which the country is having persistent outbreaks of, such as FMD and Anthrax.

With regards to the 5th quarter, the Commission recommended for abattoirs to pay for the 5th quarter to farmers. Under this recommendation, there are alternative options which sector regulators and players can also adopt as follows:- (a) Abattoirs pay farm-gate prices to farmers, provide transport for ferrying the cattle and retain the 5th quarter; or (b) Attach value on the 5th quarter of not less than $60.00 since on average at wholesale the value is $112.00; or (c) The hide and red offals be included on the cattle carcass price. Overally, farmers should coordinate, value add and market their cattle as a group.

The beef study is still to be validated but its recommendations are expected to have positive effects in the market for the reasons outlined in the subsequent paragraphs.

Decentralized RDC auction markets if adopted in cattle marketing are expected to increase competition among abattoirs. Cattle producer prices would increase and farmers would also move short distances hence incur minimum transport costs therefore farmers would end up with more disposable incomes. The same would apply if the regulatory fees are reviewed downward.

Farmer coordination is critical in enhancing inclusive growth in the agriculture sector as evidenced by one Mangwe Farmers Association whose program improved the livelihoods of its members. The scheme is highlighted in Box 2.

Box 2: Mangwe Farmers Association Scheme

Mangwe district farmers, realising the benefits of co-ordination, formed a 300 members Association which not only strengthens their bargaining power but also helps them produce good quality beef cattle. The Association and its members are very much co-ordinated to the extent that they conjointly source inputs, produce and market their cattle.

In 2009, the Association entered into an Agreement with Bulawayo Abattoirs, such that the farmers would collect all cattle from members intending to sell their cattle/steers within a period of three months and fatten them before marketing. Thereafter, they would estimate the amount of feed required for the fattening process through an agreed formula and procedure. First, the cattle would be weighed and the amount of feed required by steers is calculated as follows:-

- Induction weight x 3.3% x number of days to give the amount of feed per beast.

According to the Agreement, farmers would receive feed consistent with their requirements from feed producers. For 2015, feed was provided at cost by National Foods and farmers bore the costs of transporting it to their farms. In total, feed cost to farmers ranges between $12.50 and $13.00/bag, made up of $11.50/50kg plus $1 - $1.50/bag to transport the feed up to a distance of 200km. The abattoir then paid for the feed, on behalf of farmers, to National Foods and recovered the feed cost through relevant deductions at the time of sale. The fattened/inducted herd is tied to Bulawayo Abattoir for cost recovery purposes. In 2015, a total of 600 cattle were sold under the Agreement at prices obtaining on the date of sale.

Through this arrangement, famers accessed feed enhancing their cattle value prior to marketing thus helping them attain more value through getting better grades. In addition, farmers avoided paying the exorbitant RDCs or Auctioneer fees and any other fees associated with cattle marketing and their beasts had a ready market. Simultaneously, abattoirs also benefitted through accessing a big number of better quality beef cattle at once.

Source: Competition and Tariff Commission Beef Study

6. Concluding remarks

Agriculture markets are prone to abuse of buyer power. Therefore, there is need to include explicit provisions in the competition law to address abuse of buyer power, in addition to the existing abuse of dominance provisions. Regulatory requirements can be an impediment to investment into and the growth of the agricultural sector particularly regulatory fees. Accordingly it is necessary for competition authorities to constantly engage economic and other regulators for a review of regulatory fees and other requirements to limit barriers to entry and expansion in the agricultural markets.

Competition is necessary particularly through auctioning to enhance producer prices. Contract farming schemes requires strong regulations to avoid farmer manipulation. Furthermore contract farming needs to be supplemented by auction markets for all agricultural markets such that there would be a counter check to the activities and behavior of merchants. Competition regulations in most jurisdictions do not have explicit provisions governing abuse of buyer power as is the case with abuse of dominance provisions. Farmer coordination is critical in countering buyer power. Industry standards enactment should be enforced by Government or its departments and not individual players to ensure neutrality and fairness. Statutory provisions governing the operations of agricultural sectors as well as the activities of associations require scrutiny to avoid incidences where they promote market cartelization.

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Appendix 1

Table 1: A Price Comparison and after the Commission Order

Company	**Price before Before Order (US$ c)**				**Price after Order (US$ c)**			
	Guruve	**Gokwe**	**Checheche**	**Middle Sabi**	**Guruve**	**Gokwe**	**Checheche**	**Middle Sabi**
Cottco	40	40	45	50	90	65	70	70
Cargill	50	40	*	*	80	65	*	*
Parrogate	50	40	40	*	65	60	70	*
Alliance	50	40	50	*	70	65	70	*
Graffax	50	40	50	*	65	60	65	*
Sino Zimbabwe	40	40	50	*	60	60	65	40
Romsdale	50	40	45	*	70	65	65	*
Sinotex	50	40	50	50	70	65	70	65
China Africa	50	40	50	*	70	65	70	*
Insing	*	50	50	*	*	70	70	*

Source: CTC Cotton Sector 2014 Status Report

*-ginner not operational in that area