



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

Presented by

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3rd Annual Competition & Economic Regulation (ACER) Conference

Dar es Salaam, Tanzania, 14-15 July 2017

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Introduction

- Agriculture is the main stay for both developing and developed countries' economies and a major source of livelihood for the world's poor
- Significantly contributes to economic development through forward and backward linkages
 - USA agric contributes US\$ 1trillion to GDP and 15% of the workforce
 - Brazil agric contributes 22% to GDP
 - Zimbabwe agric contributes 14% to GDP, major contributor to exports and 30% of formal employment.
- A healthy agricultural sector is crucial for overall performance of the Zimbabwean economy.
- Zimbabwean agric sector underwent major structural changes in 2000
- The transformation saw the demise of large scale commercial farmers who had significant bargaining power and being replaced by fragmented and vulnerable small scale farmers in agricultural markets such as tobacco, cotton and cattle.

Objectives

- explores the structure of agric markets and the behavior of individual players.
- Investigating the role of competition policy in promoting inclusive growth in agricultural markets, basing on CTC intervention and its effects on agricultural productivity, agricultural profits and smallholder incomes.
- informed from recent studies conducted by the Competition and Tariff Commission in the tobacco, beef and cotton markets in Zimbabwe.

Inclusive Growth defined

- 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
- Agriculture-induced growth has the potential to deliver significantly greater positive impact on poverty reduction than growth based on other sectors
- Thirtle et al (2003) asserts that 1% increase in agric yields reduces the number of poor people by 0.72% in Africa and 0.48% in Asia.
- Inclusive growth leads; reduced unemployment, reduction in food aid and state subsidies and increased public revenue from taxes, higher incomes resulting in reduced crime and political instability, which are vital for attracting foreign direct investment

Competition and Regulatory Issues in Agric Markets

- Agriculture promotes inclusive growth, it is critical that the sector operates effectively and efficiently at all levels of the value chains. **How?** Through vibrant competition among the players.
- Competition leads to cost-effectiveness wherein a reduction in costs would be passed on in the form of lower or higher prices to consumers or producers respectively. 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.
- To limit the effects of the weaker bargaining power of small holder farmers, when dealing with input suppliers as well as buyers of their produce, farmers are authorized to organize themselves into cooperatives
- 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.

Zimbabwe Agriculture Markets

Tobacco

- Tobacco accounts for approximately 26% of agricultural GDP and 61% of agricultural exports
- Players in the value chain;
- Seed producers
- Growers,
- Merchants,
- Auction Floors
- Regulation

Cotton

- 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
- predominantly grown by smallholder farmers, on an average of between one and two hectares under rain-fed conditions
- Players in the value chain;
- Seed producers
- Cotton Farmers,
- Merchants,
- Regulation

Zim Markets Conti..

Beef

- The Zimbabwe beef sector transformed from a state controlled export-oriented to a fragmented system where private abattoirs became the mainstay of the sector.
- Beef farming is no longer based on massive individually owned ranching operations, but instead became anchored by small farms with disintegrated operations.
- Cattle Production
- Cattle Marketing:- Pvt treaty, Auctions (RDC &Pvt)
- Regulation
- Levies and charges

Competition Concerns: Tobacco & Cotton Sectors

- Both crops are mainly produced under contract farming;
 - Contract farming has been discussed as having the potential to catapult low-income farmers into the modern sector
 - critiqued as being a tool for agro-industrial firms to exploit an unequal power relationship with growers
- Defective Contracts
 - Tacit Producer Price Suppression
 - Inflated Input Prices
 - Rampant Side Marketing
 - Seed Production Monopoly

Competition Concerns in Beef production

Beef

Issues

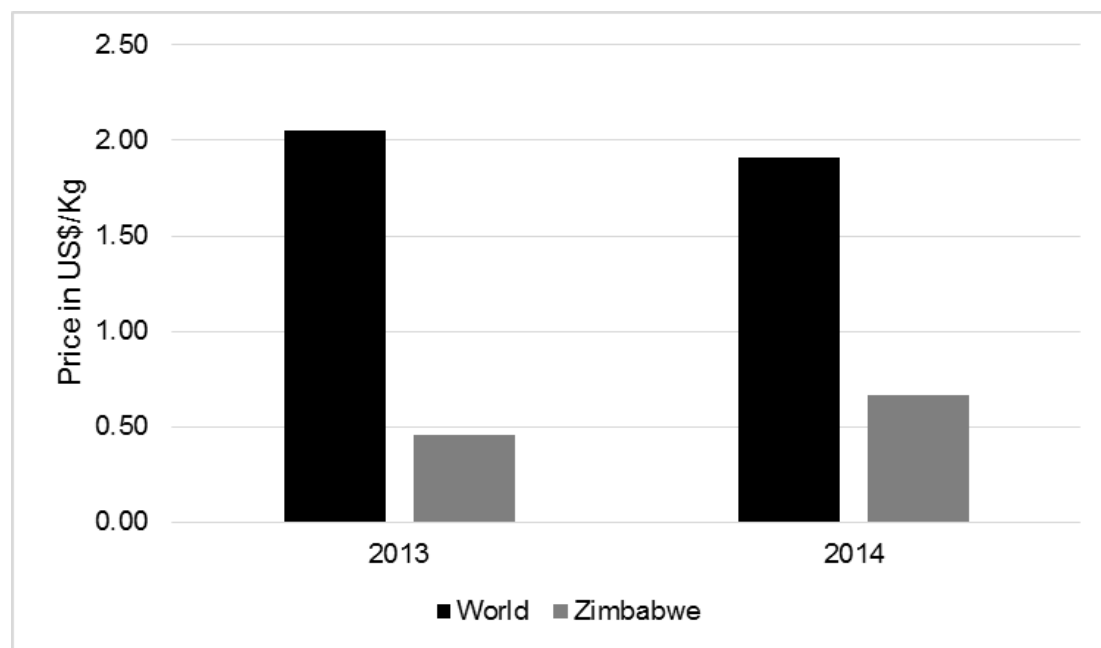
- Non-payment for the Fifth Quarter
- Carcass grading system
- High Compliance Costs

Impact of interventions by the Commission

Cotton

- To promote competition;
- SI 142 reviewed and replaced by SI 163 remove common input distribution points
- Ginners were ordered to “...individually negotiate such prices with their contracted farmers...”
- Quton now produces and distribute cotton seeds in smaller proportions in all cotton producing regions
- In 2015 and 2016, the cotton sector witnessed a significant shift by ginners wherein they offered farmers a price adjustment , a practice that was last done before the adoption of the use of multicurrency.

- Cotton prices before and after Commission intervention



- there was a 55% increase in domestic price despite a 7% fall in the world price at international market.

Impact Conti..

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	*

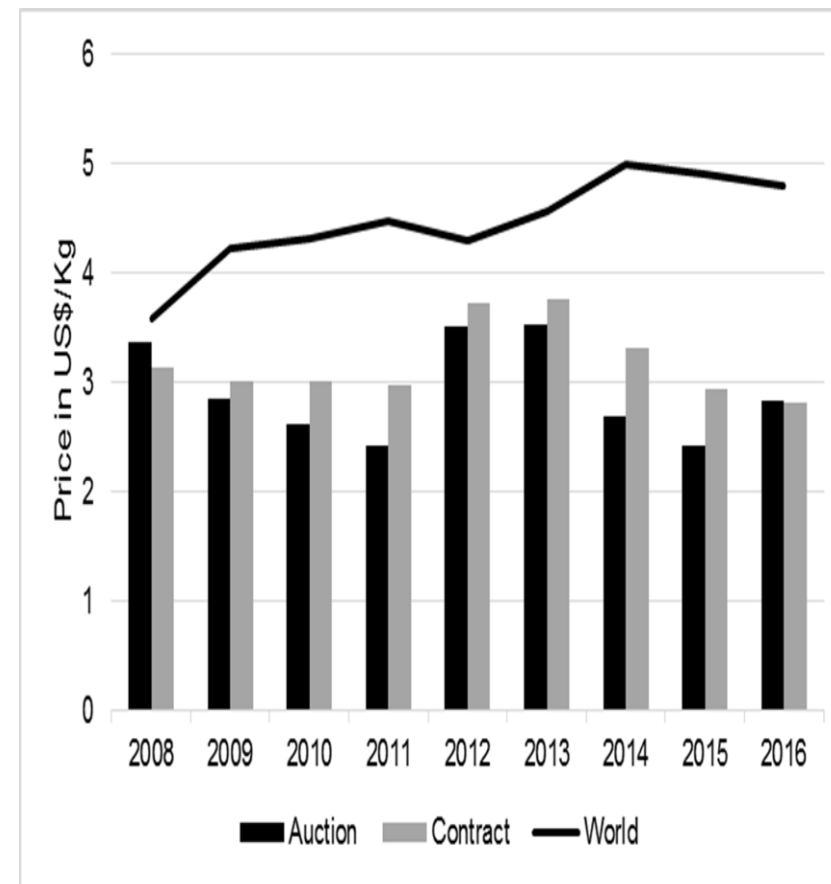
Impact of Intervention conti..

Tobacco

- 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
- 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
- TIMB reviews Grade Price Matrix apply it across all markets;
- The Contracting schemes needs to be reviewed
- All contractors should disclose all inputs costs and interest rates levied to farmers before signing relevant contracts.
- TIMB may need to find ways to ensure that auction tobacco remains in existence
- Growers are encouraged to open bank accounts.
- 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.

Impact Conti..

- 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).
- 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
- 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



Impact Conti..

- 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
- 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.

Impact Conti..

Beef

- 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 main mode of cattle marketing should be through decentralized RDCs auctions.
- A downward review of the compliance/regulatory costs or levies..
- Commission recommended for abattoirs to pay for the 5th quarter to farmers.
- Overallly, farmers should coordinate, value add and market their cattle as a group.

Conclusion

- 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.
- 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.

The End

Thank You

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