

Massmart competition tribunal update, welfare benefits

In an update on the Competition Tribunal case on the proposed merger between Wal-Mart Stores and Massmart Holdings, RBB Economics co-founding partner and expert witness, Simon Baker, has cautioned against attempts to address perceived weaknesses in the South African manufacturing base or failings in the enforcement of labour law elsewhere in the world, by imposing onerous and asymmetric obligations on a non-dominant retail business.

In a comprehensive report prepared in response to allegations by various parties about the economic impact of the proposed merger, Baker argues that some of the conditions that are being proposed are poorly suited to achieving the desired outcome and warns of unintended consequences should these be imposed on the merged entity.

"Such obligations will introduce major distortions into the operation of an otherwise competitive market, potentially disadvantaging many of the groups whom the complainants seek to help," he says.

Baker acknowledges that South Africa is grappling with complex industrial and social policy issues, but points out that the government has the power to formulate policy to deal with any adverse consequences that it perceived to flow from the competitive operation of domestic markets and to liaise - bilaterally or multilaterally - with other governments on international trade policy.

Detailed account of competition in market

The report also provides a detailed account of the state of competition in the wholesale and retail markets in which Massmart is active in South Africa, concluding that Massmart does not hold a position of market power in any of these markets and that this will not change as a result of the transaction.

Particular emphasis is placed on the considerable welfare benefits of providing poor consumers with lower priced food and basic household items. According to Baker, although much of the alleged harm that the opposing statements suggest will arise from the transaction is the result of Wal-Mart charging significantly lower prices for food and household consumables, almost no weight has been given to the considerable welfare benefits those lower prices will bring to consumers.

"It is clear that any consideration of the transaction must take into account the benefits which those price reductions will bring, especially to poorer consumers, in light of the benefits which Wal-Mart's entry has brought to similar consumers in other countries. These must be assessed against any potential adverse effects of the transaction, and should not be dismissed lightly, particularly where the potential effects identified are so speculative in nature," says Baker.

Domestic concerns already addressed

Responding to concerns that Wal-Mart's entry would have a detrimental impact on domestic suppliers, Baker argues in the report that South African producers are already exposed to international competition. "South African manufacturers and distributors seeking to supply South African wholesalers and retailers look to source their products or components in the most economic way," he says, adding that South African producers that have remained viable during liberalisation are likely either to be internationally competitive or to be protected by fundamentals that favour domestic production.

"Conversely, the merger may present local producers with new opportunities, particularly in the supply of food, including private-label, which will be a growth area for Massmart, and where the evidence shows that fundamentals strongly favour domestic producers," he says.

Informal retail already in decline

The report dismisses claims that informal and formal retailing will be detrimentally affected by the transaction as misleading, given that informal retailing has been in decline for some time, as a result of expansion by existing formal retail chains.

"Whilst the trend will continue with or without Massmart, the involvement of Massmart will bring further competition for the established chains and ensure that the poorest South African consumers gain the greatest benefit from the formalisation of retailing in their communities," says Baker.

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