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PRESS STATEMENT

Competition Authority Releases Research Studies on Poultry, Cement and Retail

The Competition Authority has over the past few months been inundated with a lot of requests pertaining to the poultry, cement and retail industries in Botswana. Countless businessmen and members of the public have also made inquiries around these sectors in the recent past.

As you are aware, the Authority, in collaboration with the African Competition Forum (ACF) which is an association of competition authorities in Africa, in 2014 carried out research studies which were partially made public. In response to these inquiries, the Authority is making all these studies public and our partners, the media, is encouraged to share the reports with the wider public.

The Research studies were in the areas of Poultry, Cement and Sugar, although in Botswana we only undertook studies in poultry and cement. The study on commercial poultry meat industry, commonly referred to as chicken, was part of a research programme on competition dynamics and regional trade flows conducted under the ACF was undertaken in Botswana, Namibia, South Africa and Zambia. This study focused on the links between competition and development.

The major finding of this study is that the poultry industry in the region is oligopolistic in nature. Differently put, ownership in this sector is concentrated on a few players.

The study further established that some of the dominant players operated at the different stages of production across all the four countries involved.

With regard to Botswana, the study revealed that ownership in the poultry sector is unique and complex. The largest poultry producers in Botswana have ties to South African producers, and domestic producers are no match to these huge firms at the breeder and processing levels. Further, the tight trade restrictions protect these dominant players from competition.

According to the poultry report, the relationships between the poultry abattoir and processing plant with contract growers places smaller farmers in a challenging position as they appear to be set up to fail. The cost of poultry feed in Botswana is one sore area. The report reveals that there is a high likelihood that feed costs could be driven high by government restrictions on feed importation as broiler producers have to source at least 70 percent of their feed locally and in instances where there is shortage of domestic supply; a producer needs to obtain an import permit.

The report also highlights the requirement to use of Halaal certificates as a potential barrier to trade in processed poultry products. Regarding excessive pricing, Botswana and Zambia have been identified as the two countries where dominant countries could engage in unilateral conduct bordering on over-pricing of poultry products at both feed and broiler breeding levels.

With regard to cement, the study that was conducted in six countries (Botswana, Namibia, Kenya, South Africa, Tanzania and Zambia) revealed that the market structure of cement is oligopolistic, just like in the poultry sector. Many of the firms that trade in these countries are multinationals, e.g Lafarge, PPC and Afrisam. Although cement is a low value, high weight product which makes it bulky to transport, many of the firms involved in the cement trade view it as regional trade other than a country to country trade, and as such complex transportation and distribution systems are integrated in the cement trade.

Limestone is the chief raw material in cement production, unfortunately there are low deposits of limestone in Botswana and as a result the three cement production companies in Botswana (PPC, MPC and Botsino) are unable to meet the national capacity. As a consequence, Botswana imports cement and even other crucial cement inputs such as clinker and fly ash mainly from South Africa and other African countries and even as far away as Asia. According to the report, it is the unavailability of these raw material that impedes access and expansion of the cement industry in Botswana.

With regard to price, the report observed that Botswana had been witnessing an increase in the price of cement until 2009 when this flattened, possibly due to government intervention or the bursting of a cement cartel in South Africa.

A third study which was done by the Authority without the aid of the ACF was the study on the competitive analysis of the retail and wholesale sector in Botswana, with specific focus on food and groceries. Amongst some of the study's major findings is that the retail and wholesale sector has grown exponentially; general dealers have experienced a sharp decline and could not face the stiff competition imposed by large retail chain stores; shopping malls with anchor tenants is now the common feature of the retail landscape. The majority of businesses in the food and grocery sector are owned by citizens, mainly small stores while non-citizens own large chain store shops. The study noted that there is considerable lack of knowledge to run the stores by employees placed in charge.

The linear vertical supply chain with producers or manufacturers at the apex, followed by distributors, then retailers and then consumers at the downstream has now been disturbed. Wholesale businesses now sell products directly to consumers in small and single items. One of the major findings of the study is that wholesalers in Botswana practice resale price maintenance through their banner groups. The banner groups are formed by wholesalers and set prices which retailers should stick to and this does not benefit consumers, in fact it harms consumer welfare. Botswana are generally concerned about the licensing of franchises and there does not seem to be any policy to regulate licensing of franchises.

These findings are discussed in-depth in the studies which are attached.

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