OPENINING REMARKS BY THE COMPETITION COMMISSIONER TEMBINKOSI BONAKELE, ON THE OCCASION OF THE UNVEILING OF MEASURING CONCENTRATION AND PARTICIPATION IN THE SA ECONOMY REPORT, HELD VIRTUALLY ON TUESDAY 7 DECEMBER 2021

THEME: *Measuring Concentration and Participation in the South African Economy: Levels and Trends*

PROGRAMME DIRECTOR,

HONOURABLE MINISTER OF TRADE, INDUSTRY AND COMPETITION EBRAHIM PATEL,

MEMBERS OF THE EXECUTIVE COMMITTEE OF THE COMPETITION COMMISSION,

SENIOR OFFICIALS FROM THE DTIC AND THE GCIS,

MEMBERS OF THE MEDIA,

South Africa's young democracy is alive to the increasing levels of inequality and slow economic growth while navigating economic recovery during the state of a world pandemic. These are among many of the challenges facing South Africa's economy today. The country's economic levels and trends remain skewed as it doesn't reflect the demographics of South Africa's populace.

A growing body of international work has highlighted concerning increases in concentration in many of the leading global economies over the past 10-15 years. Whilst concentration may not necessarily always be bad, that narrative has sought to differentiate between efficient periods of growing concentration and inefficient periods. Generally, efficient periods of growing concentration are associated with 'tougher price competition, investment and increasing productivity of leaders' which results in growing shares for efficient leading firms but which occur off low levels of concentration to begin with.

Honourable Minister,

Inefficient concentration growth occurs where there are entrenched leaders resulting in lower levels of competition and higher entry barriers, and where concentration is associated with 'lower investment, higher prices and lower productivity growth'. US studies have also associated recent increased concentration with a lower labour share of GDP, contributing to wealth inequality as the rewards to capital outstrip those to labour.

In his thought-provoking article themed *"Is South African transformation dead?",* David Thomas reminds us of what *Isithwalandwe* Nelson Mandela said to business leaders on 23 May 1990, that "if we are genuinely interested in ending the old social order and bringing in a new one, characterised by notions of justice and equity, it is obvious that the economic power relations represented by the reality of the excessive concentration of power in a few white hands have to change. We make this demand not as a result of any imperative that might be said to drive from ideological convictions. We make it because we cannot see how it would be possible to pull our country out of the economic crisis, in part caused and exemplified by white control of economic power while, at the same time, we perpetuate this power structure….one of these imperatives is to end white domination in all its forms, to deracialise the exercise of economic power."

Madiba's clarion call placed before South Africans, an inevitable path of economic transformation agenda which remains relevant in today's economic landscape.

Programme Director,

In the South African context, concentration is of particular concern because it is generally not associated with efficient forms of growing concentration, but rather inefficient forms. The Preamble to the Competition Act No.89 of 1998, begins by recognising that Apartheid had left the country with an economy characterised by excessive levels of concentration of ownership and control, as well as a lack of participation by all South Africans. The Apartheid regime actively promoted national champions in different sectors, developed industrial state-owned-enterprise (SOE) monopolies and agricultural cooperatives that were later privatised and condoned industry cartels in its efforts to promote self-sufficiency and the economic interests of a minority. Whilst the conglomerates were generally unbundled in the initial post-Apartheid period, selling off non-core businesses, the individual businesses that dominated particular industries often remained intact.

The Competition Commission's previous pioneering research on concentration levels based on 2,150 merger filings found that the economy remained highly concentrated fifteen years since the Act was promulgated. This is despite the substantial growth in the economy over this period which could have promoted a greater spread of ownership. That research was the foundation for amendments to the Act which were promulgated in 2019.

Following the amendments, this study seeks to deepen our understanding of the patterns of concentration and participation in the South African economy. It does so through a detailed assessment of both the levels and trends in concentration and participation over the past 5-10 years across 178 industries. The study has sought to provide measures at a detailed sub-sector level and across the various layers of the value chain for all major sectors of the economy. This has been achieved through the assistance of more than 80 industry bodies, regulatory bodies, and government departments that collect data on the economy as part of their duties. The study's detailed sectoral analysis is complemented by national datasets to provide broader insights around the level of concentration at a broader sectoral level, the distribution of firm income across firm sizes, the level and trend in the participation of SMEs, the evolving entry/exit of firms across firm size categories and the transitioning between firm size categories. Specifically, the study has made use of the Administrative Tax Data based on the South African Revenue Services ("SARS") database.

We would like to thank industry role players, organised business, regulatory bodies and government departments for sharing credible data and insights during the course of this important exercise.

Members of the media,

By using data sources that are consistently collected by organisations and government, the study is able to consistently examine trends and not just levels of concentration. This is important as it provides insights into the trajectory of different markets. It also means that the study can be updated in future to continue tracking those trends.

The main study itself is lengthy at over 400 pages. For this reason, there is also a Summary report that we will share with you, which seeks to highlight some overall insights across the multiple markets that are studied, as well as quick takeaways for the individual markets.

The main findings of the study will now be outlined by the Chief Economist, James Hodge.

Programme Director, I now wish to invite James to share with us detailed findings and recommendations of this report:

Before I handover to James, it is important to announce that the Competition Commission will henceforth update the concentration report bi-annually in order to track trends in market concentration and participation in order to inform our own work and that of government more broadly.

I thank you.