Measurement of Concentration and Participation in the South African Economy: Levels & Trends

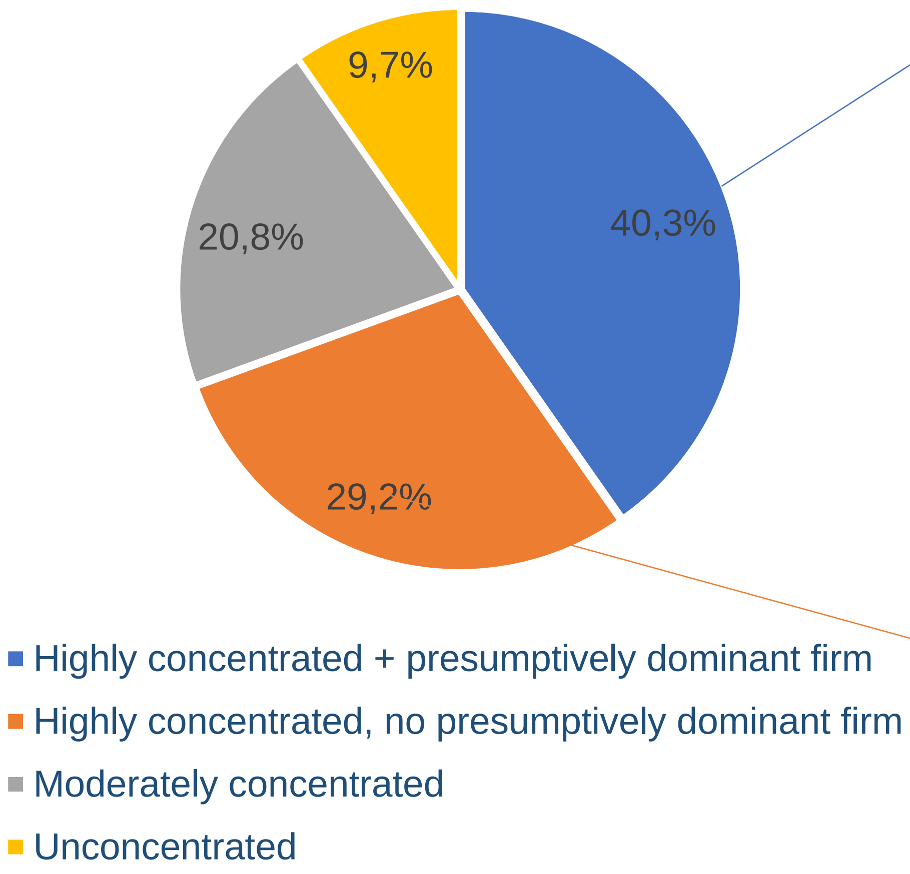
Study Launch

7 December 2021

competition commission south africa

Persistence of high levels of concentration

Summary of concentration across the economy using industry data



- Farming inputs (various seeds and seed treatment, fertiliser)
- Agro-processing (grain processing for human consumption, fisheries)
- "Sin" industries (alcohol, gambling and cigarettes)
- Healthcare (medical schemes and administration, pathology)
- Communications (mobile, FTTH, publishing and broadcasting)
- Upstream steel value chain (iron and ferrochrome mining, crude steel production) and chemicals (plastics, ethanol)

- Farming inputs (grain storage, fungicides and insecticides, animal feed)
- Agro-processing (grains processing for animal consumption, bread, poultry, sugar processing)
- Healthcare (hospitals and pharmacy)
- Transport (airlines and commercial vehicles)
- Financial services (all areas of insurance, banks)

Highly concentrated markets are becoming more concentrated

- Highly concentrated sectors 3 times more likely to see increasing concentration levels than declining concentration, with the opposite holding for unconcentrated or moderately concentrated markets
- Growing consolidation in licensed sectors such as fisheries, retail pharmacy, renewable energy and gambling where individual acquisitions do not cross the thresholds for prohibition

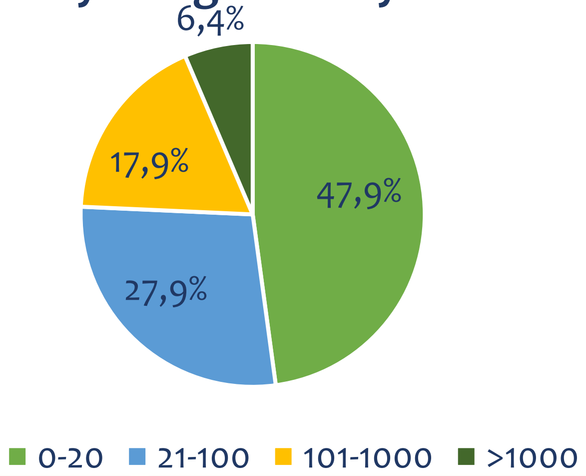
Percentage of industries with changing levels of concentration over the last 5-8 years

	Industries with increasing concentration	Industries with declining concentration	Relatively consistent (≤2 percentage points)	Total
Highly concentrated with a presumptively dominant market participant	59.5%	19.0%	21.4%	42
Highly concentrated without a presumptively dominant market participant	35.9%	35.9%	28.2%	39
Moderately concentrated	31.8%	45.5%	22.7%	22
Less concentrated	25.0%	41.7%	33.3%	12
Total	42.6%	32.2%	25.2%	115

Growing participation remains a challenge

- Low levels of participation more generally but especially in concentrated sectors
  - numerous concentrated sectors with broader participation of smaller fringe firms unable to scale
  - Declining participation in 38% of sectors, only 24% of sectors experiencing increasing participation
- SME's represent 95% of firms, 38% of employment but only 24% of value by tax-paying firms, compared to OECD average of 50-60% of value
  - In recent challenging times exit rates have climbed and even overtook entry rates in some years

Summary of participation across the economy using industry data



Percentage of industries with different concentration & participation

	0-20 participants	21-100 participants	101-1000 participants	>1000 participants
Highly concentrated with a presumptively dominant participant	32.7%	8.7%	1.0%	0.0%
Highly concentrated without a presumptively dominant participant	20.2%	7.7%	1.9%	0.0%
Moderately concentrated	1.9%	11.5%	2.9%	1.0%
Unconcentrated	0.0%	5.8%	3.8%	1.0%

There is a high degree of inequity in the distribution of firm income

- The top 10% of firms have 86% of total turnover compared to 1.6% for the bottom 50% of firms (SMEs)
- The Gini Coefficient for firm turnover distribution is 0.84 compared to the Gini for household income distribution of 0.63

Turnover share of top 10% and bottom 50%

	Turnover share of top 10%		Turnover share of bottom 50%	
Industry Classification	**2011**	**2016**	**2011**	**2016**
Agriculture	78.7%	80.7%	1.9%	1.3%
Catering, Accommodation and other Trade	64.1%	55.7%	5.4%	5.7%
Community, Social and Personal Services	65.5%	62.2%	6.4%	7.1%
Construction	72.4%	72.1%	3.4%	3.0%
Electricity, Gas and Water	93.0%	93.3%	0.8%	0.6%
Finance	75.5%	77.2%	4.9%	4.4%
Manufacturing	92.1%	92.6%	0.6%	0.5%
Mining and Quarrying	97.9%	97.0%	0.1%	0.2%
Retail, motor trade and repair services	85.0%	84.1%	1.3%	1.2%
Transport, Storage and Communication	92.1%	90.1%	0.9%	1.1%
Wholesale	86.1%	88.1%	1.0%	0.8%
All Firms	86.4%	85.8%	1.6%	1.6%

Food value chain shows concerning trends

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- High concentration of inputs and processing
  - Top 3 firms in seed varieties, seed treatment, fungicides, animal genetics, fertiliser and forestry control 60-90% of inputs
  - Top 3 processors for dairy, sugar and grains control 50-80% of processing. Even where there is broader participation like milling, the top 3 firms still hold a high share
- Placing small and emerging farmers in a squeeze
  - Rapid and sharp decline in commercial farmers for grain (24%), dairy (31%), commercial cattle (56%) and pigs (24%) in the past 4 years as get big or get out

Change in number of grain farm units

	2015	2019	% change
Maize	5 504	3 854	-30.0%
Sunflowers	1 604	1 389	-13.4%
Soybeans	1 974	1 545	-21.7%
Groundnuts	310	229	-26.3%
Sorghum	125	75	-40.2%
Dry beans	294	117	-60.2%
Wheat	1 486	1 331	-10.4%
Malting barley	381	320	-16.1%
Canola	485	368	-24.0%
Total	12 164	9 227	-24.1%

Grain processing for human consumption

	No. of processors		CR3		Number of processors with <2% share	
	2014/5	2018/19	2014/5	2018/19	2014/5	2018/19
Maize	175	162	34.4%	29.3%	168	151
Wheat	57	50	31.2%	30.9%	40	34
Sorghum	35	33	67.3%	65.5%	26	23
Oats	2	2	n/a	n/a	n/a	n/a
Sunflower	13	10	53.9%	58.4%	4	2
Soya bean	15	13	47.9%	50.9%	6	4
Groundnuts	48	53	46.2%	43.1%	36	41
Barley	3	4	n/a	99.7%	2	3
Canola	4	2	99.6%	n/a	2	1

Food value chain shows concerning trends cont.

- Emerging black farmers predominately small with barriers to scaling from small to large growers
  - Sugar can example: 95% of farmers black-owned but in total only account for 19% of cane production as only 1.4% large and that number is declining
  - In contrast, most white-owed farms are very large accounting for 65% of output
- Market structure adverse to small growers which may threaten land reform initiatives

Sugar cane farmers – delivered cane

	Number of farmers		Delivered cane (tons)	
	2018/19	2019/20	2018/19	2019/20
Large-scale farmers	6.0%	5.0%	73.7%	74.8%
- Black-owned	2.6%	1.4%	9.2%	10.0%
- White-owned	3.4%	3.7%	64.5%	64.9%
Small-scale farmers	93.1%	94.2%	8.7%	9.0%
- Black-owned	92.3%	93.5%	7.9%	8.5%
- White-owned	0.8%	0.7%	0.8%	0.5%
Projects and co-ops (black-owned)	0.6%	0.5%	2.6%	2.2%
Joint ventures (50% white owned, 50% black-owned)	0.0%	0.0%	7.7%	7.8%
Miller sugar cane estates	0.3%	0.2%	7.3%	6.2%
Total	1,269	1,157	15,418,100	15,591,784

Retail sector concentrated across all categories

- High and persistent concentration in most key categories, with retail pharmacy rapidly consolidating with implications for primary healthcare
- Commission's recent Retail inquiry found that not only did exclusive leases keep out small grocers but also those leases required developers to ensure 75-80% of space leased to national chains
  - Favourable supply agreements reinforce existing advantages

Retail segment	Incumbents	2015	2018
Supermarkets(i)	Shoprite, Spar, PnP, Woolworths (CR4)	57.1%	58.3%
Apparel(i)	Edcon, Woolworths, Foschini, Truworths, Woolworths (missing Pepkor) (CR5)	64.2%	57.9%
Building/Home improvement(i)	Massbuild, Spar's Build It, Cashbuild, Pepkor's The Building Company (CR4)	48.8%	50.7%
Pharmacy (i)	Clicks and Dischem (CR2)	38.3%	49.0%
Online(ii)	Takealot, BidorBuy, Superbalist, Onedayonly (CR4)		77.3% (Oct-2020)

Other key areas of the economy

- Infrastructure
  - Construction has seen many firms enter business rescue or exit, with just 3 firms accounting for 70% or more of civil and major building contracts valued over R200m in 2019
  - In steel, the top 3 producers supplied over 70% of steel products in construction and mining, with only 4 or fewer firms capable of producing for roofing, cables and pipes
  - Three PVC & HDPE pipe producers have a share of over 80%
- Energy
  - 50% of wind and solar power is generated by the top 3 firms
  - The top 3 refineries and LPG suppliers have a share of over 65%
- Communications
  - 3 firms provide 75% of home fibre connections, with 80% of consumers connected by the top 4 ISPs
- Healthcare
  - Top 3 firms control over 70% of acute hospitals, open schemes and administration
  - Pathology (incl. Covid PCR tests) dominated by 3 firms and in most provinces only 2 dominate as is the case with radiology practices too

Conclusions from the study

A number of conclusions emerge from the study that require strategic policy considerations

1. The study shows that once markets are concentrated, the trend is towards more concentration and so more deliberate action is required to change the trajectory
2. The South African economic conditions and structure are hostile to SMMEs and therefore undermine inclusion and the job creation potential of the economy

Changes have been made to the Competition Act in February 2020 to address these challenges and the Commission started implementation on this mandate

- Introduced contraventions for the abuse of buyer power and price discrimination against SMEs and HDIs with a lower fair trading or impeding participation threshold
- Strengthens market inquiries to enable the competition authorities to impose remedial action, including divestiture, and interventions that promote competition
- for the first time introduces structure (not only firm conduct) as a focus for the competition authorities
- Introduce a more stringent regulation of creeping mergers

Actions to address market concentration

- Recent actions by the Commission to address concentration and participation
  - Guidelines in the auto after-market to open up service/repair to independents
  - settlement agreements with two largest grocery retailers to end exclusive leases
  - Launched market inquiry into online commerce platforms (consumer goods; delivery; holiday rentals, apps) to address barriers to participation and concentration
- Portfolio of new initiatives to tackle economic structure
  - The Commission is considering a range of new initiatives to tackle the identified areas of concentration but also some of the cross-cutting lessons that have emerged in respect of SMEs
  - The study will also inform ongoing enforcement work including merger control, the initiation of investigations and inquiries
  - Future iterations of the study will assist in informing the success of any such initiatives

Recommend more coordinated government action

- Competition law cannot on its own achieve required transformation of economic structure
- Government levers impact economic structure and can be focused to address entrenched concentration They include:
    - Legislation and regulations; licensing and procurement; investment incentives and support services and technology development policies.
- A government wide competition policy is required to ensure a coordinated and systematic approach to competition policy across all spheres of government, and that government action don't favour incumbents and work against inclusion
    - Concentration study can aid prioritising initiatives and benchmark for target setting
    - Agricultural value chains warrant immediate focus to support broader land reform initiative
    - Greater coordination is required between regulators and public entities responsible for issuing of licenses and concessions is required, including required for Commission concurrency in ownership transfers.
- Consideration to more systematic funding and support to scaling SMEs and HDI firms including focusing DFIs and regulated changes to private sector funding patterns
- The Competition Commission will update the concentration report bi-annually