Regulation and rivalry in transport and fertilizer supply in Malawi, Tanzania and Zambia

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TIPS Annual Forum

15 July 2015

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Overview

- Study for SADC Competition Committee, funded by GIZ
- To assess the nature and extent of competition in the road freight sector in Malawi, Tanzania and Zambia
- To focus the study on a key sector, we evaluate fertilizer trading and transportation across the three countries
- Focus on two key areas to evaluate whether prices are higher than could/should be relative to competitive benchmarks:
  - Impact of regulation, restrictions
  - Effect of concentration and state of competition
- Entry and contestability matter, and
- Understanding role and behaviour of large firms critical to integration

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Overview

- Fertilizer largely imported – Norway, US, Black Sea, Middle East
- Bagged and cleared at ports, and distributed by importers
- Homogenous good, few large regional MNCs across the region – Yara, Omnia, Export Trading Group, Sasol
- History of global cartels in fertilizer, and in the region:
  - Price fixing in SA until 2006 affected SADC
  - Allocation and price fixing in Zambia on subsidy supply (2012/3)
- Firm strategies are regional and linked with control of key infrastructure at ports, distribution
- Transport costs around 30% of price of a bag of fertilizer

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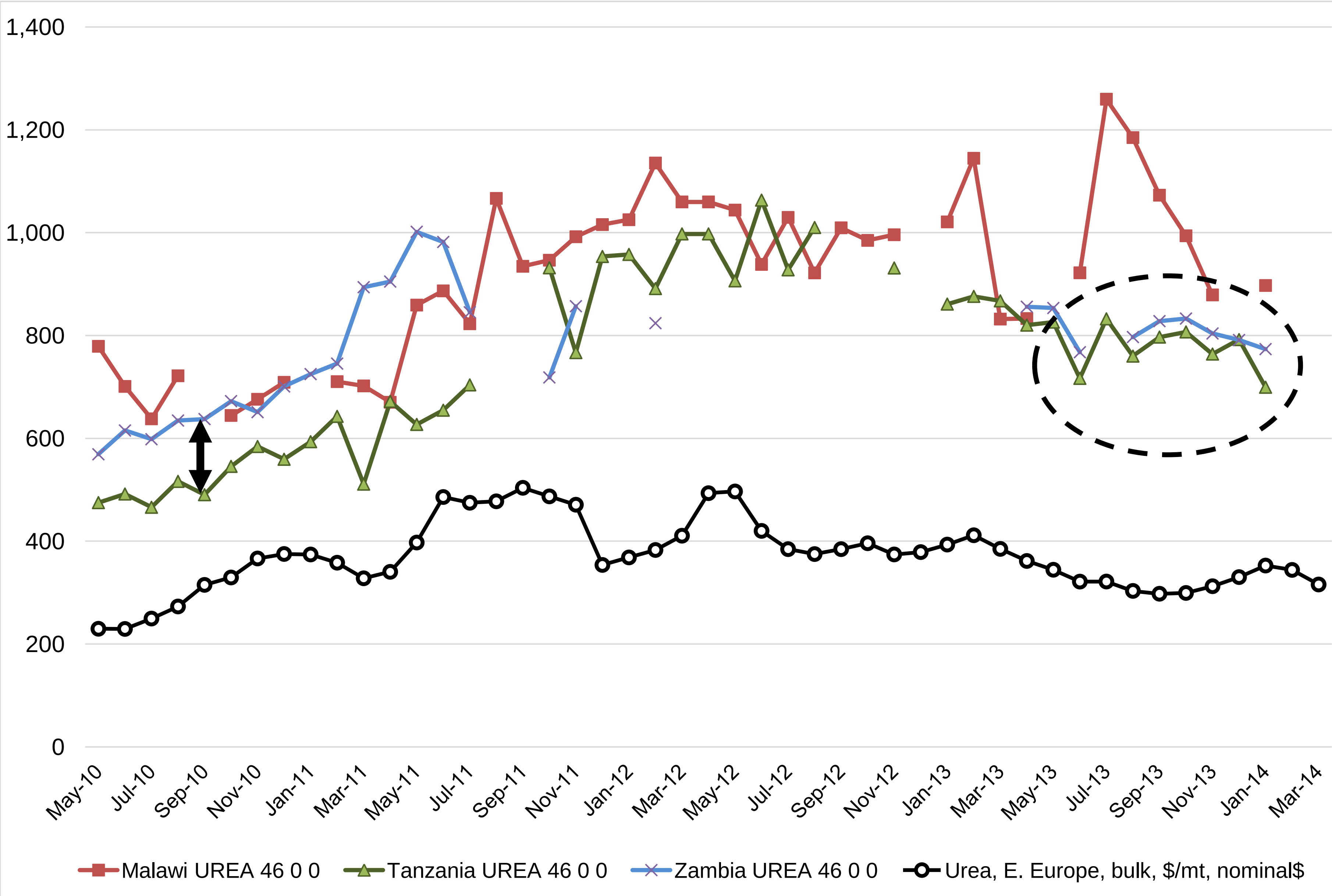
Urea prices ($/t): 2010-2014



Relative price changes: 2010-2014

1. Gap between all local prices and international fob widened

2. In 2010, Zambia prices in line with Malawi and $150/ton above Tanzania – additional transport distance

   By 2013, Zambia prices in line with Tanzania and well below those in Malawi!

3. Entry in Tanzania making a difference in 2014? Evidence that new rivals may be undercutting incumbent (Yara) by 2014 – possibly more competition in future

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Findings

- Zambian fertilizer has become cheaper relative to peers - WHY?
  - Cartel bust in 2011/12 by CCPC – Omnia and Nyiombo bid rigging 2007-11 (allocation and price agreements) on subsidy
  - ETG, Greenbelt growing market share, incumbents declining
  - Increased competition in Zambia road transport - single permit system, no duty on truck imports, foreign rivalry
- Volumes opened up after cartel, possibly greater scale for rivals = prices in line with competitive benchmarks
- Large effect on relative Zambia prices – estimated savings (urea) for farmers and government at least $21-38mn in 2013

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Findings

- Tanzania, Malawi - not competitive in transport and fertilizer trading
- Tanzania prices around $150/ton more expensive than competitive cost benchmarks
  - Accumulation of rents at various levels – transport, trader margins, wholesale/retail margins
  - ETG growing its share more recently – around 10% cheaper due to cost advantages in sourcing, transport and handling
- Malawi prices higher by around $200/ton despite presence of ETG, Yara, Farmers World, Omnia and others
  - Low rivalry in road transport (CFTC inquiry ongoing) and price recommendations by transport operators association

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Implications

- Both small and large interventions matter, especially where key input markets are affected
- Integration agenda must consider firms as being at the centre of investment, innovation and diversification
- Integration agenda must consider local policy context e.g. input support programmes
- Dynamic gains from integration are affected by both regulation and firm conduct which cuts across sectors – e.g. competition in transport affects price of fertilizer
- Need for monitoring of prices at a regional level

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