
Information exchange, food and regulated prices: Some perspectives

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Setting the table

Issues to be highlighted today

- Why the discussion is necessary
- Some issues emerging from literature
- Uses of data
- The need for action
- Industry Associations
- Food and administered/regulated price trends

Why the discussion is necessary

- Several authors agree on the following regarding information exchange:
 - Assessment of whether information exchange contravenes competition law may vary according to the structure and characteristics of the industry, the type of information exchanged, whether it contributes to consumer welfare or not, etc.
 - “... a case-by-case approach is fundamental for the assessment of whether an information exchange system is restrictive of competition” *(Capobianco, 2004)*
- “there is virtually no South African case law in existence to give guidance to firms and competition law practitioners as to the legality or otherwise of certain types of information exchanges” *(Morphet & van Dijk, 2009)*
 - Although internationally considerable progress has been made
- Currently a great deal of uncertainty on what is allowed and what not

Some issues emerging from literature

- Economic thinking on information exchange and market transparency – two sided: *(Capobianco, 2004)*
 - **Benefits:**
 - The ideal model of perfect competition
 - Premised on perfect info on the demand and supply side about the market.
 - It facilitates development of efficient and effective strategies
 - New entrants will benefit
 - Beneficial to consumers
 - Lowers search costs
 - According to Niche & Von Hinten-Reed (2004) the following benefits can amongst others be derived:
 - Improve investment decisions
 - Improves product positioning
 - Organisational learning (e.g. benchmarking)
-

Some issues emerging from literature

- Economic thinking on information exchange and market transparency – two sided: *(Capobianco, 2004)*
- **Detrimental impacts:**
- Increased transparency one of the facilitating factors required for tacit collusion to be sustainable
 - The foundation of market coordination requires detailed knowledge about competitors strategies (price, input, etc)
 - Artificial removal of uncertainty can eliminate normal competitive rivalry
 - Particularly the case in highly concentrated markets
- According to Niche & Von Hinten-Reed (2004) the following detrimental effects can transpire:
 - Keeping prices above the competitive level
 - Limit production or the amount of new capacity
 - Sharing the market

Some issues emerging from literature

- A number of questions ought to be considered when assessing an exchange of information: (Overgaard and Møllgaard, 2008 in *Morphet & van Dijk, 2009*)
 - ❑ is the information sharing necessary for the correct functioning of certain industries;
 - ❑ is the information in fact kept proprietary by existing firms, or does it flow from the public;
 - ❑ at what stage do the different parties gain access to the information exchanged and can the information exchanged subsequently be retracted or revised;
 - ❑ who has access to which pieces of information;
 - ❑ how readily available is the information?
 - ❑ Etc.

Some issues emerging from literature

- Criteria used by EC include amongst others:
 - Structure of the market
 - In oligopolistic situations it is easy to monitor and anticipate competitor behaviour and adjust accordingly
 - Ability to enforce collusion
 - The nature and scope of information exchanged
 - Affects the likelihood/ability of market participants to coordinate market activity
 - Age and frequency of the information
 - Level of aggregation or disaggregation
 - Whether it relates to homogeneous or differentiated products
 - Sensitivity towards whether information is quantitative or qualitative
 - Is information exchange of a public or private nature
 - In private information exchange only the sellers get information
 - In public information exchange sellers and buyers get the information
 - Who is managing the information – preference towards independent parties
-

Some issues emerging from literature

- Capobianco (2004) mentions the following qualifications to determine whether information exchange is a factor leading to collusion or whether it is pro-competitive:
 - Credible communication about future conduct facilitates collusive practises
 - Private communications increase likelihood of collusive practises as apposed to public communications
 - Exchanges of information on price and quantity of much greater importance since it reveals competitors actions directly
 - Disaggregated information helps firms in sustaining collusive equilibria
 - Information on homogeneous product markets is more likely to increase the risk of tacit collusion

Some issues emerging from literature

- No clear cut answers to certain issues, e.g.
 - Information about prices:
 - Kuhn and Vives (1995) –
 - information relating to future prices and production plans which are made **exclusively between competitors** should be prohibited
 - the distribution of such information **to the public** may in fact increase efficiency and outweigh the possible anticompetitive effects experienced by consumers
 - Capobianco (2004) –
 - Confidential information (e.g. prices) generally can't be disclosed to competitors (in line with EC regulations)
 - Possible exception is if the information is delivered to independent body
 - **Public disclosures** of sensitive information (such as price) make demand more elastic and therefore reduce the likelihood of coordination of the supply side

Some issues emerging from literature

- No clear cut answers to certain issues, e.g.

- Information about prices:

- Nitche & Von Hinten-Reed (2004) –

- Commissioner of the US Federal Trade Commission -

- “Information about prices helps businesses make informed decisions about the prices at which they will offer products and services, eliminating the need for a more costly trial and error process. Price information is useful to both consumers and businesses to inform buying decisions” (Azcuenaga, 1994)

- OECD (2001) –

- “As a general rule, increased price transparency will benefit buyers unless it results in considerably increased risks of collusion among sellers”

Uses of data – the example of the grain industry

- ❑ Calculating GDP
- ❑ Calculating SA's private consumption expenditure
- ❑ Contribute to Stats SA basket of food products for CPI & PPI (brand names, popular pack sizes and most popular types of products, mass of bread)
- ❑ Packaging companies planning which sizes are growing/declining for sales and investment purposes
- ❑ National logistics planning - quantities per corridor: Transnet, DoT, Agro-logistics, Ports
- ❑ Annalists doing research for Fund Managers considering investments in food companies
- ❑ General information dissemination to government, farmers and public at presentations, farmer's days
- ❑ Food price monitoring committee
- ❑ Collaboration with international organisations (food security)
- ❑ Employment numbers for Stats SA survey
- ❑ BEE employment numbers to monitor progress with transformation
- ❑ Database to respond to questions from Parliament
- ❑ Data used to do multilateral trade negotiations at WTO
- ❑ Nedlac negotiations
- ❑ Disaster management

The need for action (short run wins and long run sustainability)

- Acknowledge information needs of different stakeholders (private and public sector)
 - Guidelines on who can gather information and promote information exchange
 - Information sharing between competitors or in the public domain
 - Associations, consultants, information houses
 - Level of disaggregation or aggregation
 - The type of information reported
 - Importance of the information to make the market function
 - Frequency of information exchange
 - Historical vs current vs future
 - Methodological issues in gathering and disseminating information
 - Consideration of the intention why information is needed

Industry Associations' (IA) dealings with information

- Purpose for collecting, analysing and dissemination of information by IAs
 - ❑ Over and above those already mentioned, IA need information to:
 - ❑ Determine **levies** payable by members;
 - ❑ Determine **voting rights** of members;
 - ❑ Determine **representation** on the board of directors

General Guiding Principles

- According to the **Office of Fair Trading (UK)** -
“The exchange of information (i.e. the collection and publication of statistics) is a **legitimate function** of associations undertakings”
- BUT: It can have an adverse effect on competition where
 - **it serves to reduce or remove uncertainties inherent in the process of competition; or**
 - **Where it inhibits individual undertakings’ commercial and competitive independence; or**
 - **Influence future competitive behaviour.**

General Guiding Principles

■ Guidelines:

- a. *The **number** of undertakings in the market:* the smaller the number the more likely the sharing of information will have an appreciable effect on competition;
- b. *The **frequency** of the exchange:* the more frequent the exchange the more likely the sharing of information will have an appreciable effect on competition;

General Guiding Principles

- Guidelines (continue)
 - c. *The sensitivity, **detail** and confidential nature of the information*: the more sensitive, detail (disaggregated) and of a confidential nature the information is the more likely the sharing of information will have an appreciable effect on competition;
 - d. *The **scope of dissemination** of the information*: the more limited the scope of dissemination of the information is to the exclusion of competitors and consumers the more likely the sharing of information will have an appreciable effect on competition;

General Guiding Principles

- Guidelines (continue)
 - e. *The **historical nature** of the information: the more recent or current the information, the more likely the sharing of information will have an appreciable effect on competition;*
 - f. *Whether or not the information can **influence** future competitive market **behaviour**; and*
 - g. *The **independence** of the collector and collator of information.*

Advice to industry associations

- Revisiting constitutional provisions dealing with collection and collation of data and dissemination of information;
- Consider a new theoretical basis for determining levies payable, voting rights and representation on boards;
- Creating awareness of the scope and impact of competition policy among members

Good examples include SAGIS and SAMPRO

A final word on Information Exchange

**“It is a capital mistake to theorise before one
has data”**

- Sir Arthur Conan Doyle (1930)

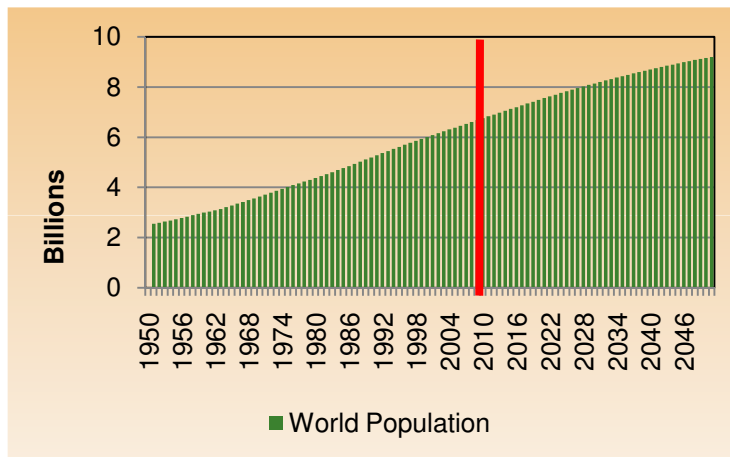
**“The cost of knowing is nothing compared to
the cost of not knowing”**

- Unknown

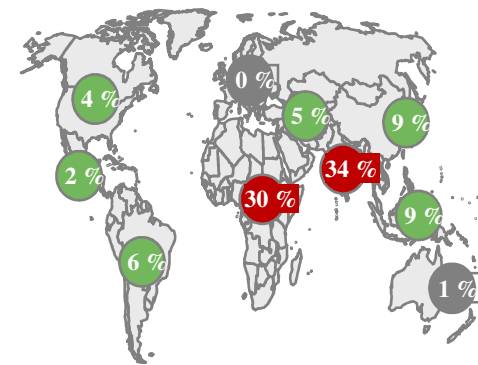
Food prices and administered/regulated prices

The realities that will affect the food industry...

- Population, income growth and the changing consumer base



U.S Census Bureau (International Data Base), 2010



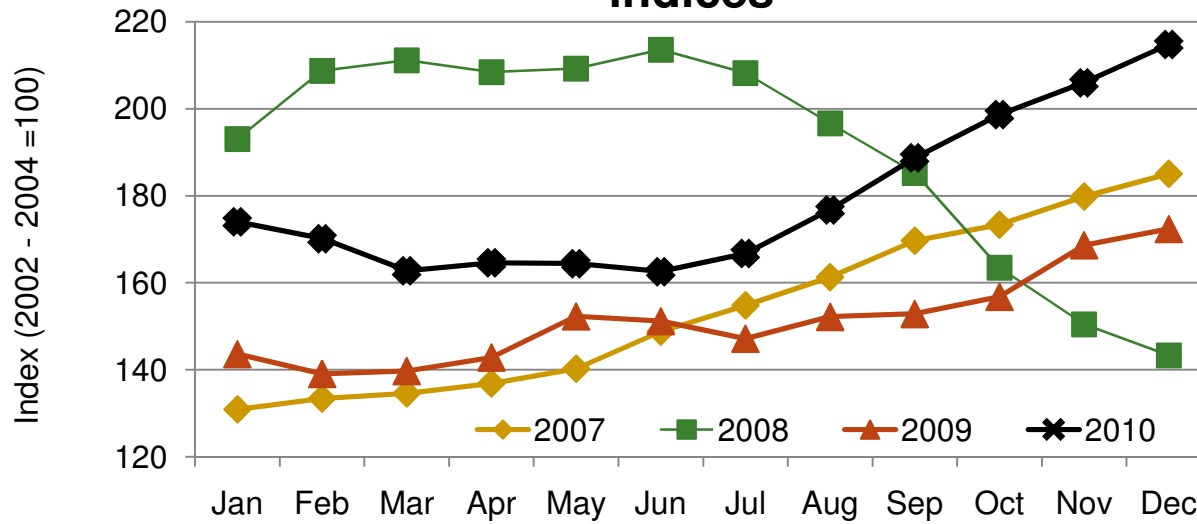
The realities that will affect the food industry...

- ❑ The uncertain international trade environment
- ❑ Changing power position in the global economy,
 - China
 - Brazil
- ❑ Climate change
- ❑ Energy availability; Oil prices
- ❑ The global economic “babalaaas”
- ❑ Strong government programmes
- ❑ Investment funds
- ❑ Etc...



International Food Prices

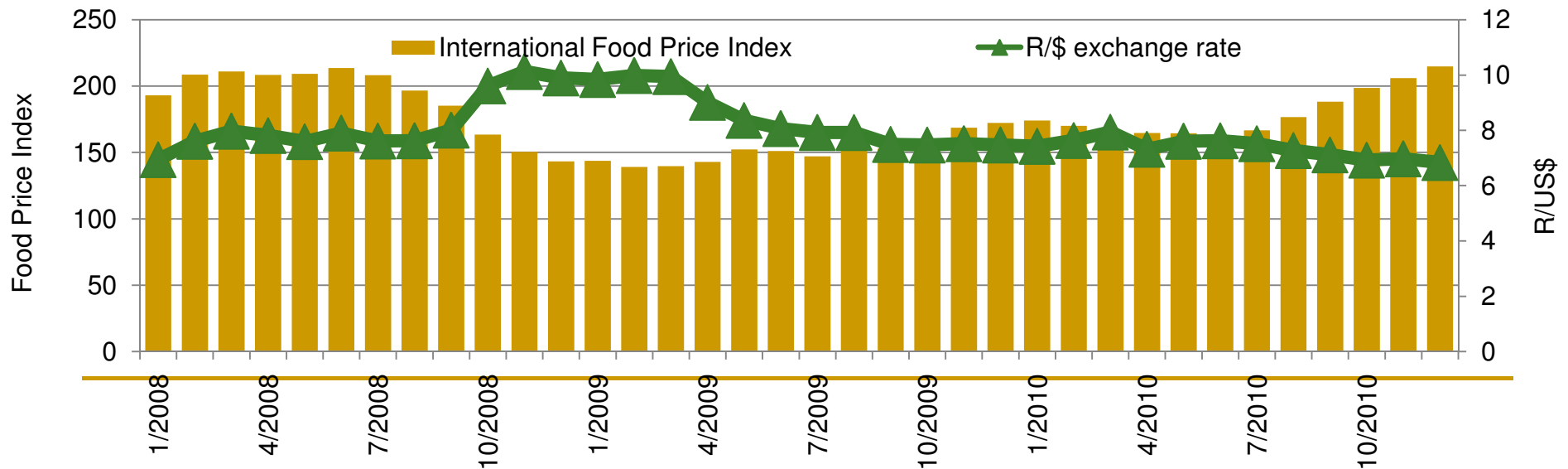
FAO – Annual deflated food price indices



FOOD PRICE INDEX

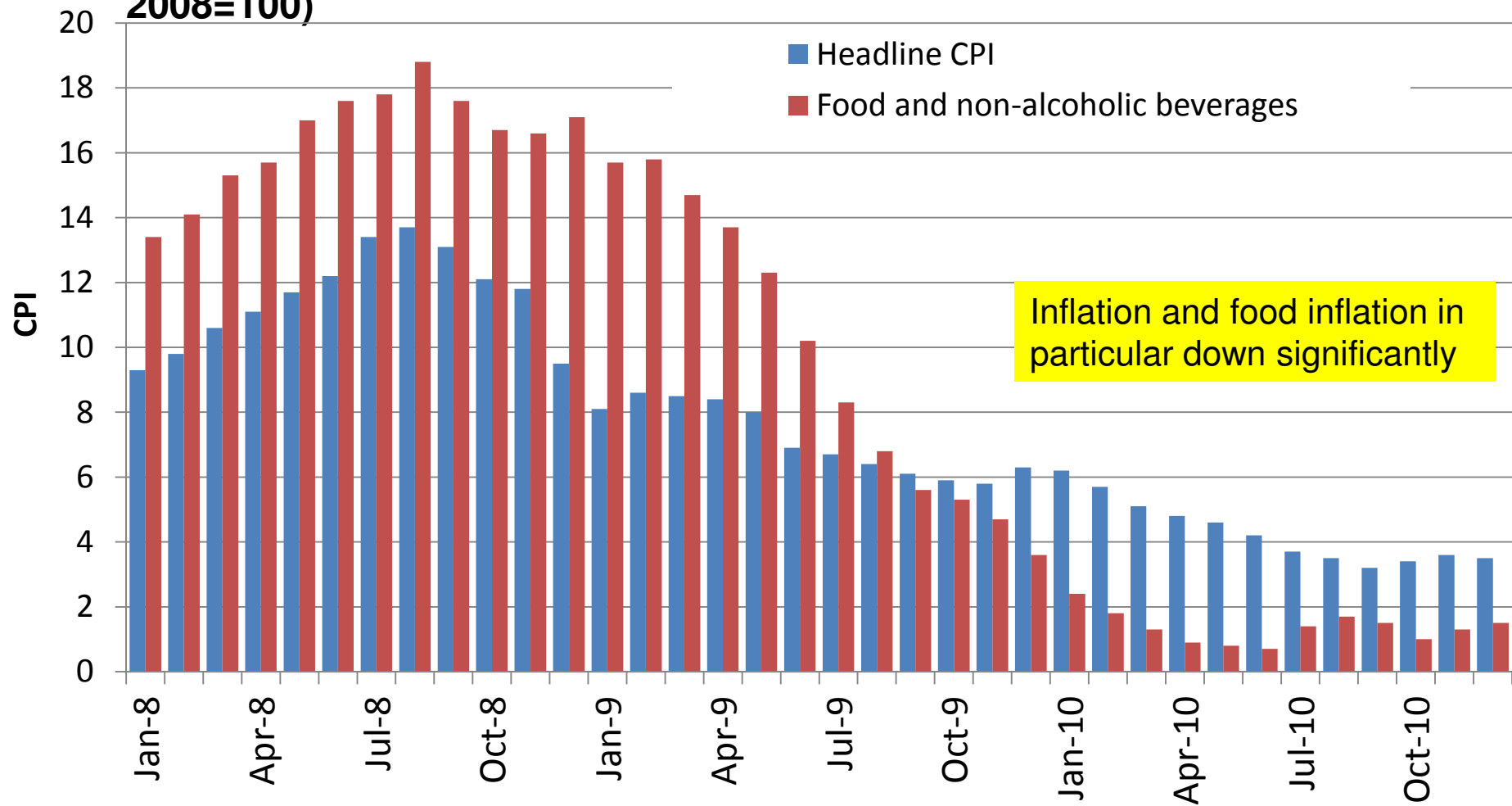
Percentage change

- Jan 07 – Dec 07: ▲ 41.34 %
- Jan 08 – Jun 08: ▲ 10.36 %
- Jul 08 – Dec 08: ▼ 31.14 %
- Jan 09 – Dec 09: ▲ 20.03 %
- Jan 10 – Jun 10: ▼ 6.57 %
- Jul 10 – Dec 10: ▲ 28.80 %



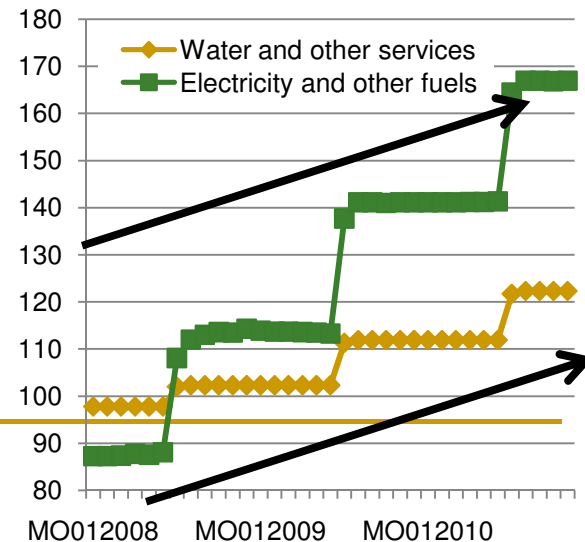
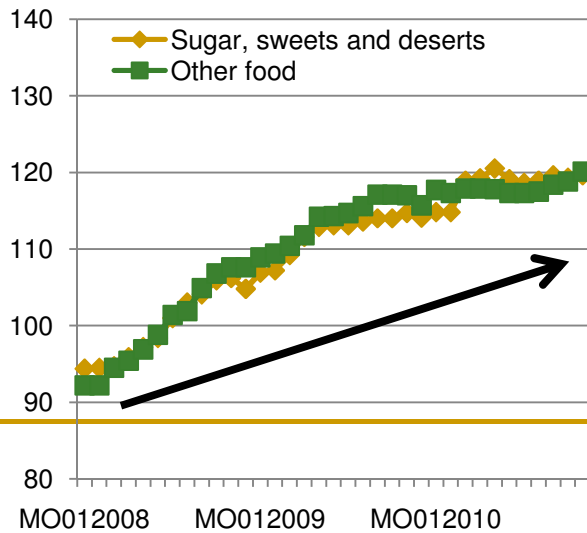
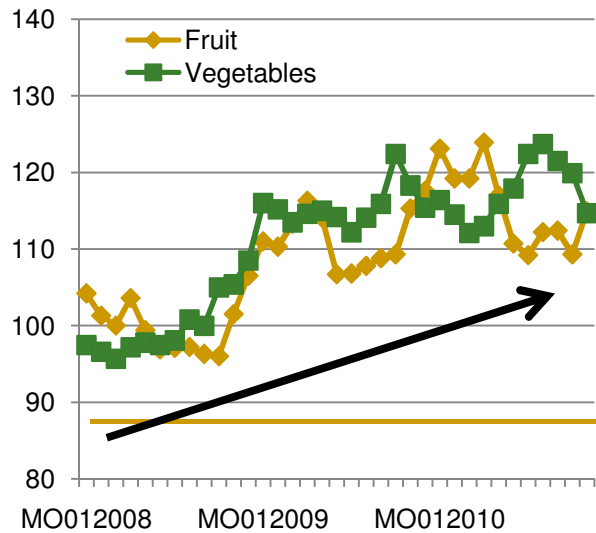
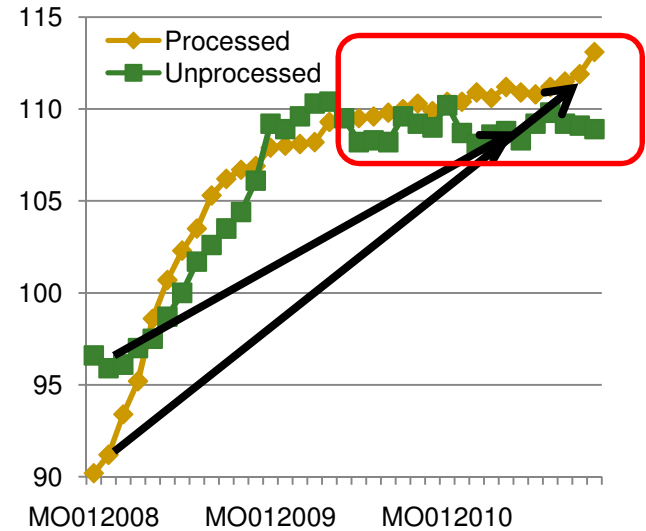
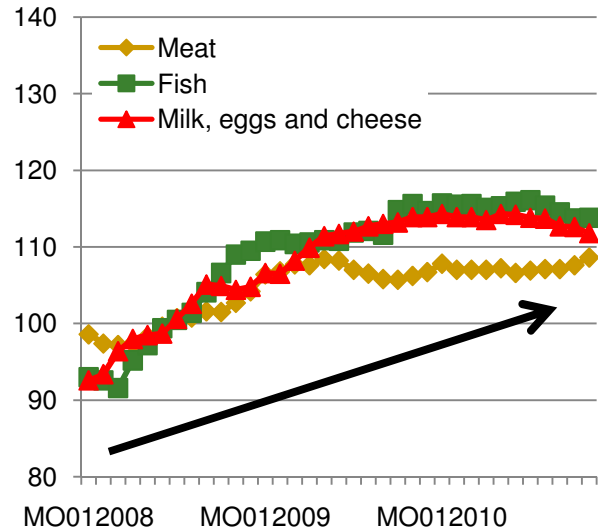
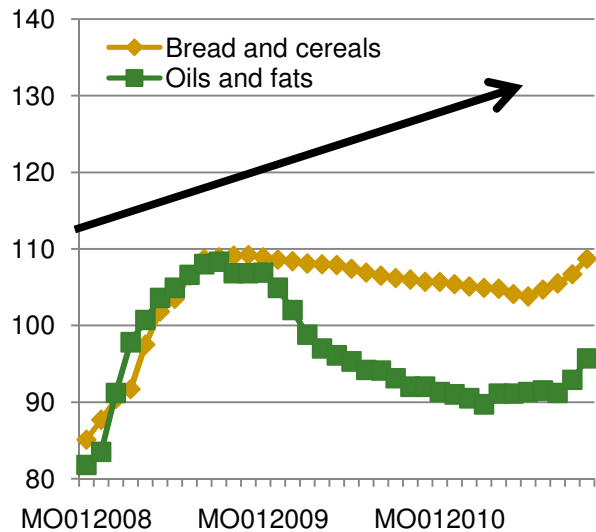
South African – Consumer Price Index

Headline CPI and Food and Non-alcoholic Beverage CPI from (year-on-year, 2008=100)

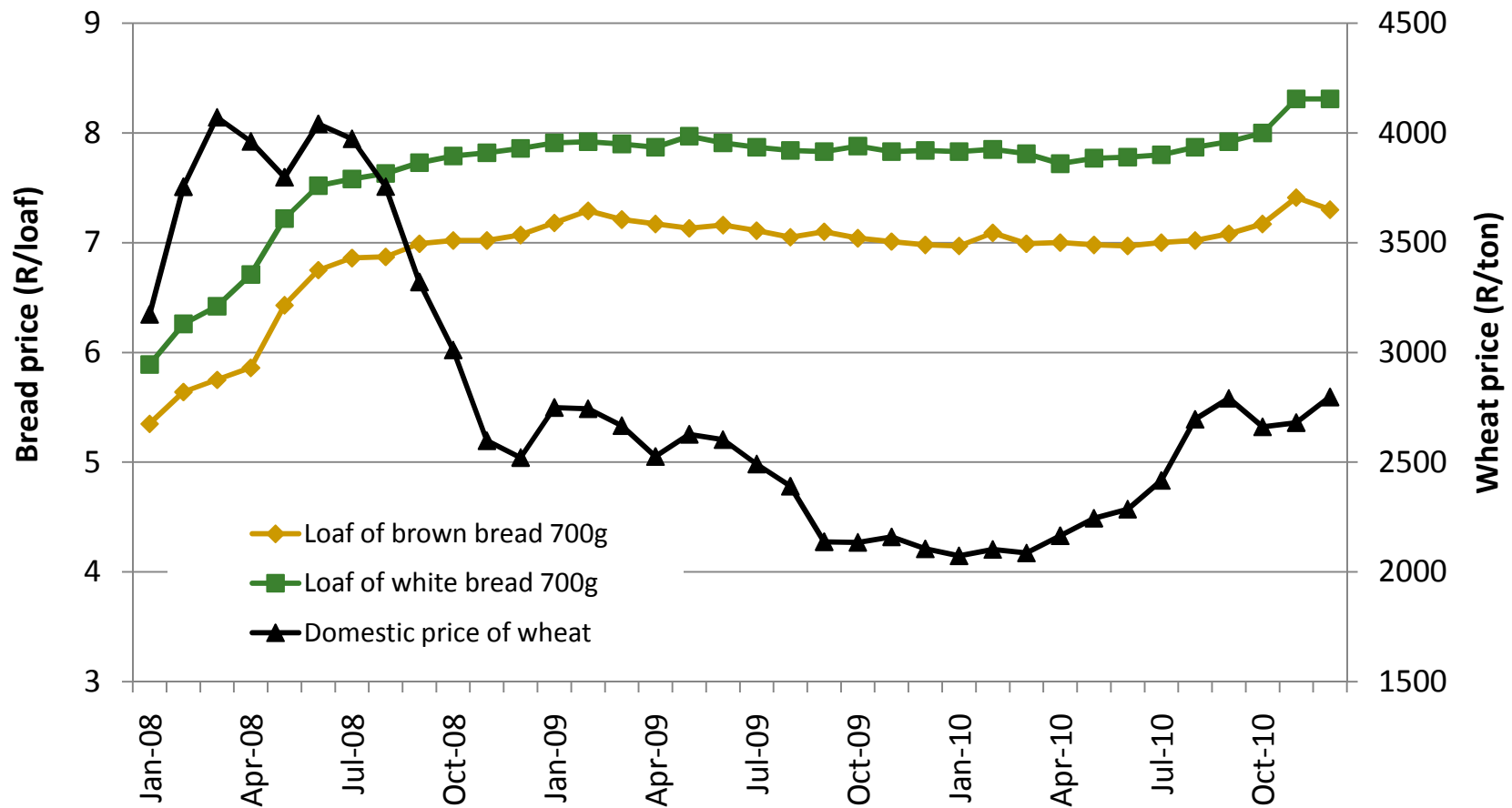


South African – Consumer Price Index

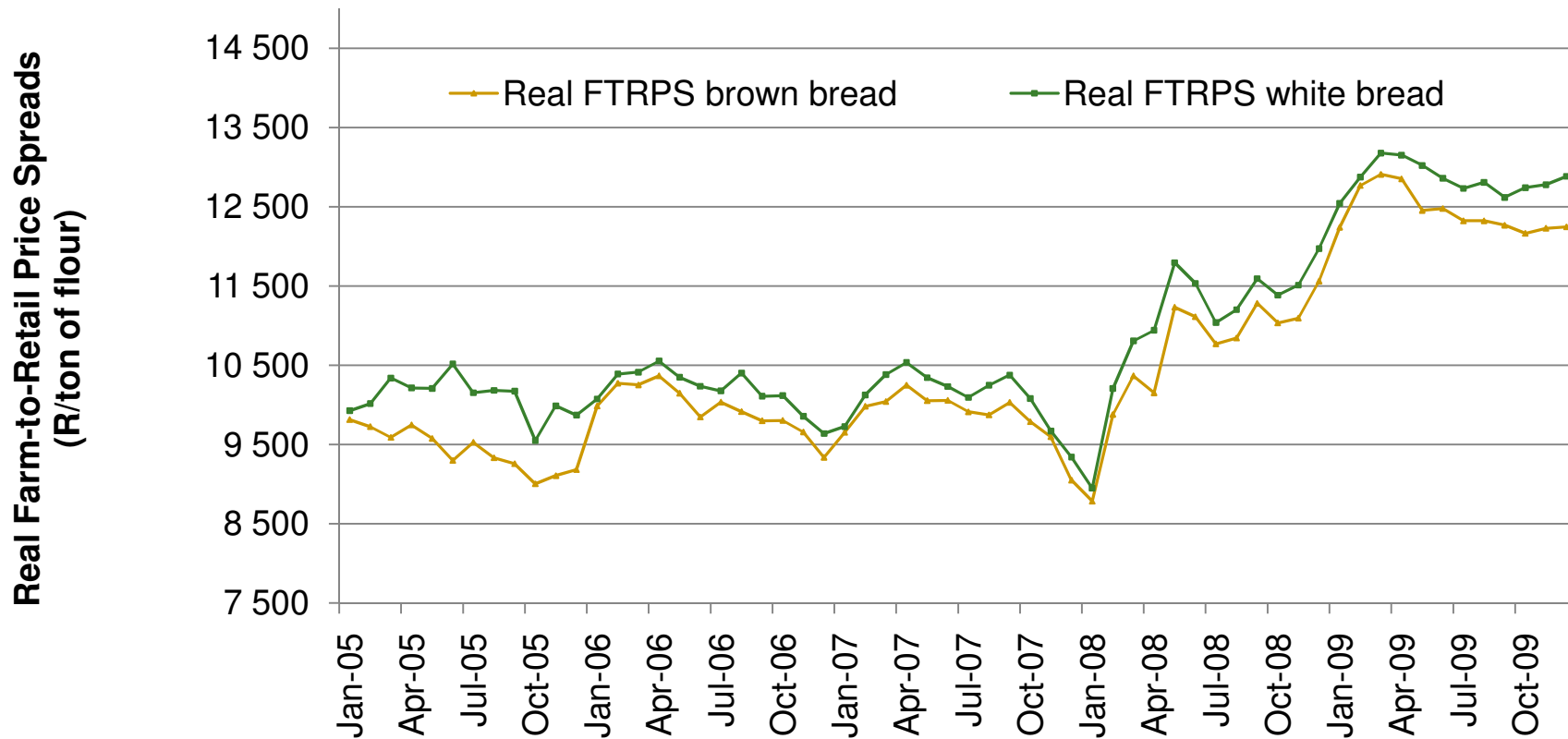
CPI for different food groups and items (2008=100)



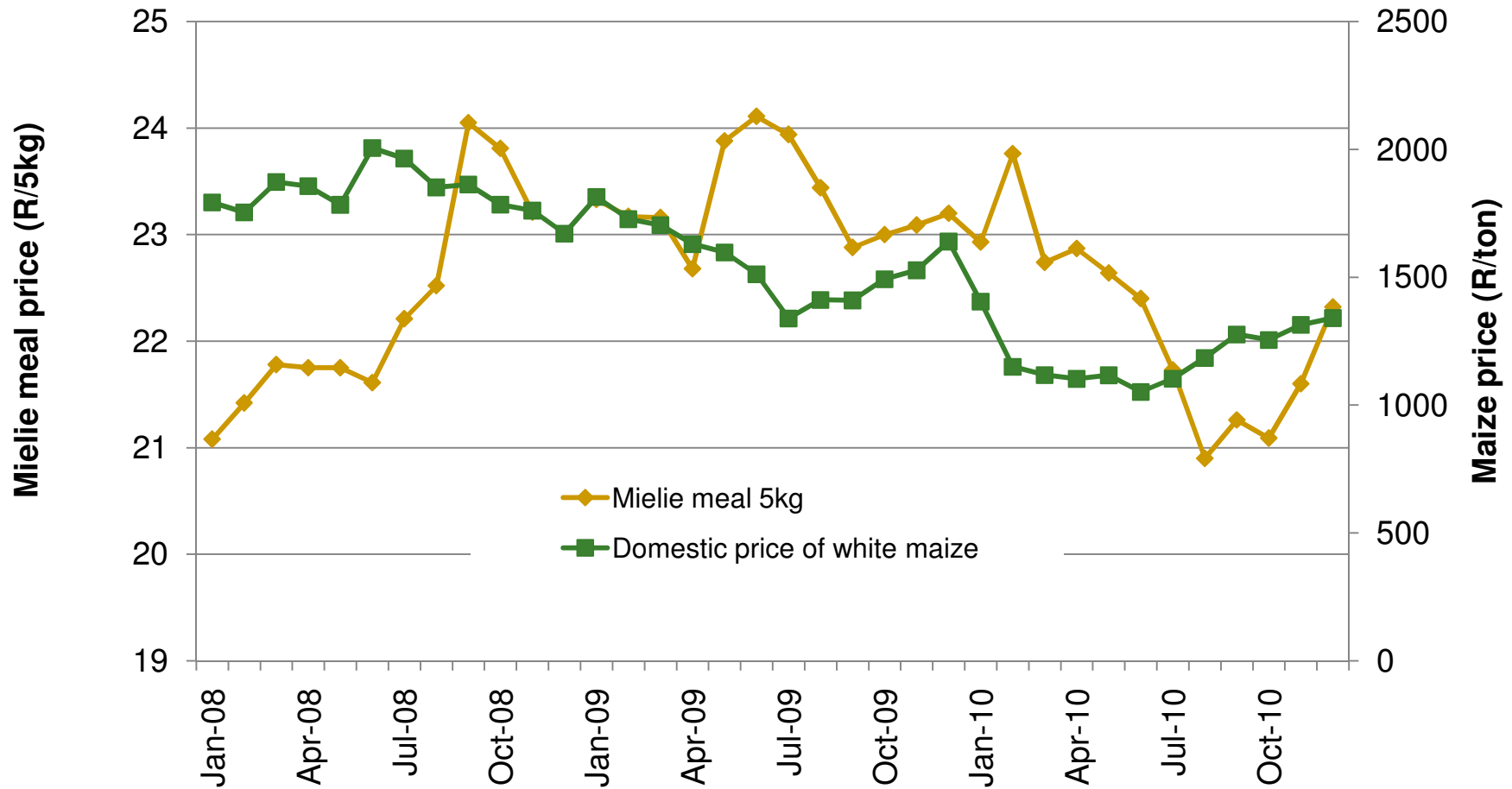
Bread and Wheat prices



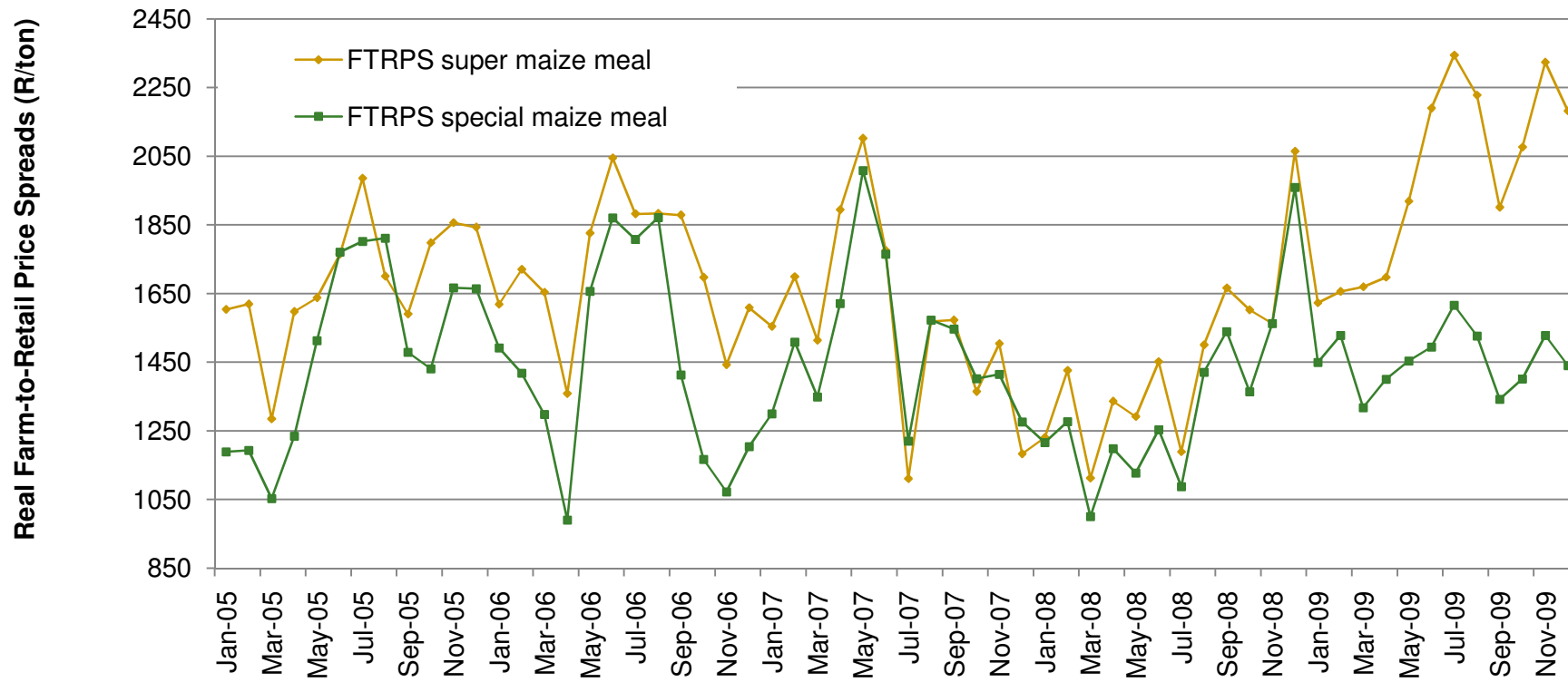
Wheat Value chain: Price Spread



Maize and Maize Meal Prices



Maize Value Chain: Price Spread



Administered and regulated prices: Some general trends

Administered and regulated prices

- **Administered price:**

The **price of a product, set consciously** by an individual producer or a group of producers and/or **any price, which can be influenced by government**, either directly or through one or other government agencies **without reference to market forces.**

Examples:

- Sanitary fees
- Refuse removal
- Water & electricity
- Paraffin & fuel
- Public transport
- Telephone fees, postage

- **Regulated prices:**

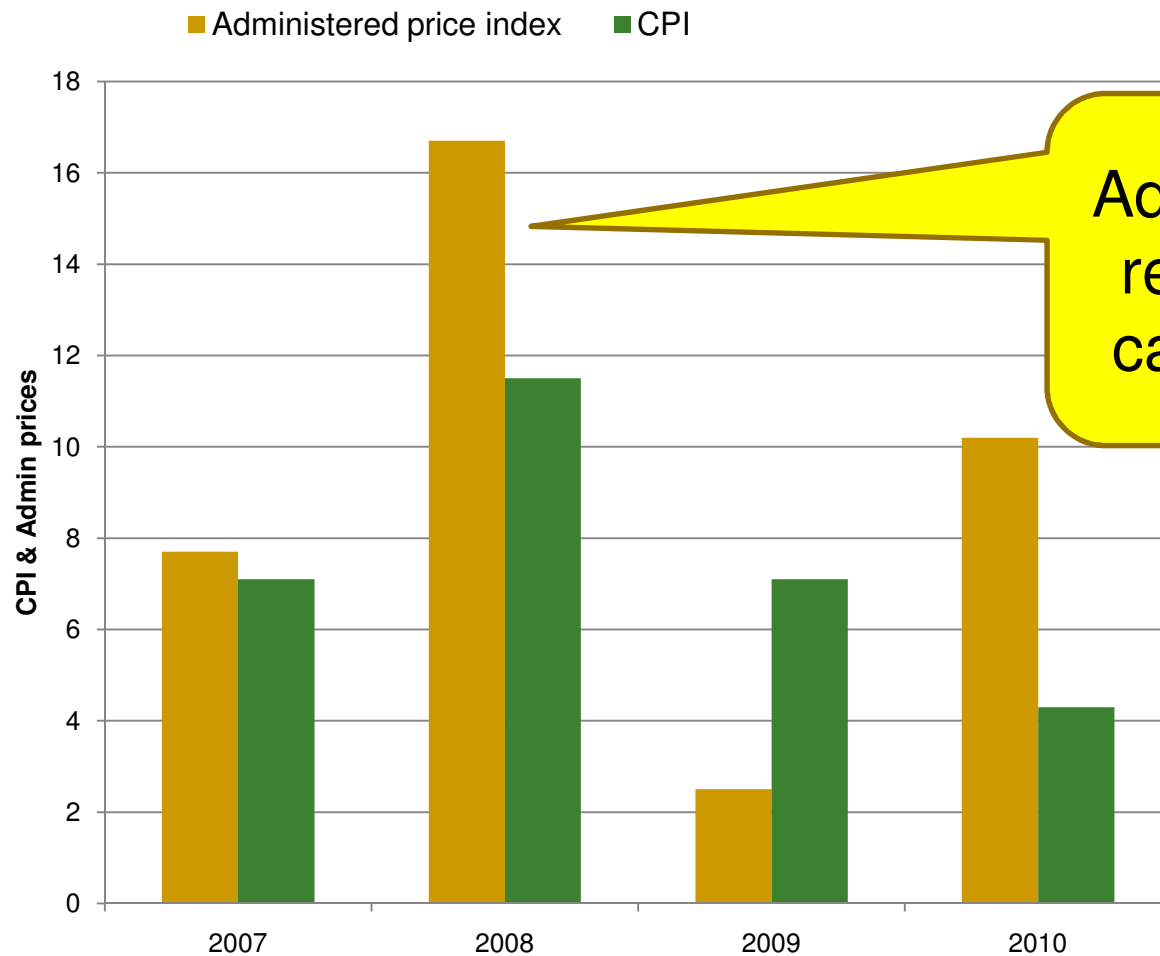
Those **administered prices that are monitored and controlled by government policy.**

Prices may vary, depending on government's policy objective.

Examples:

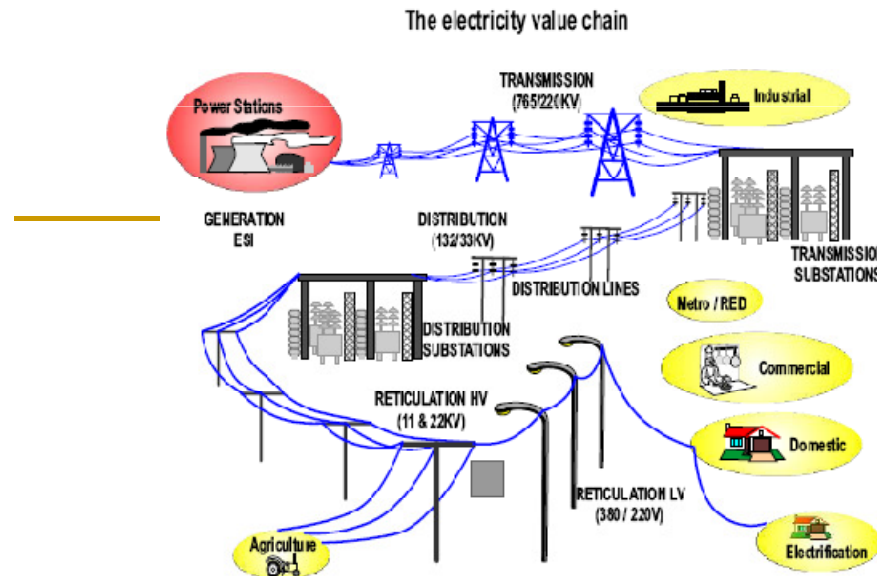
- Water & electricity
- Paraffin & fuel
- Telephone fees, postage

CPI & administered price index

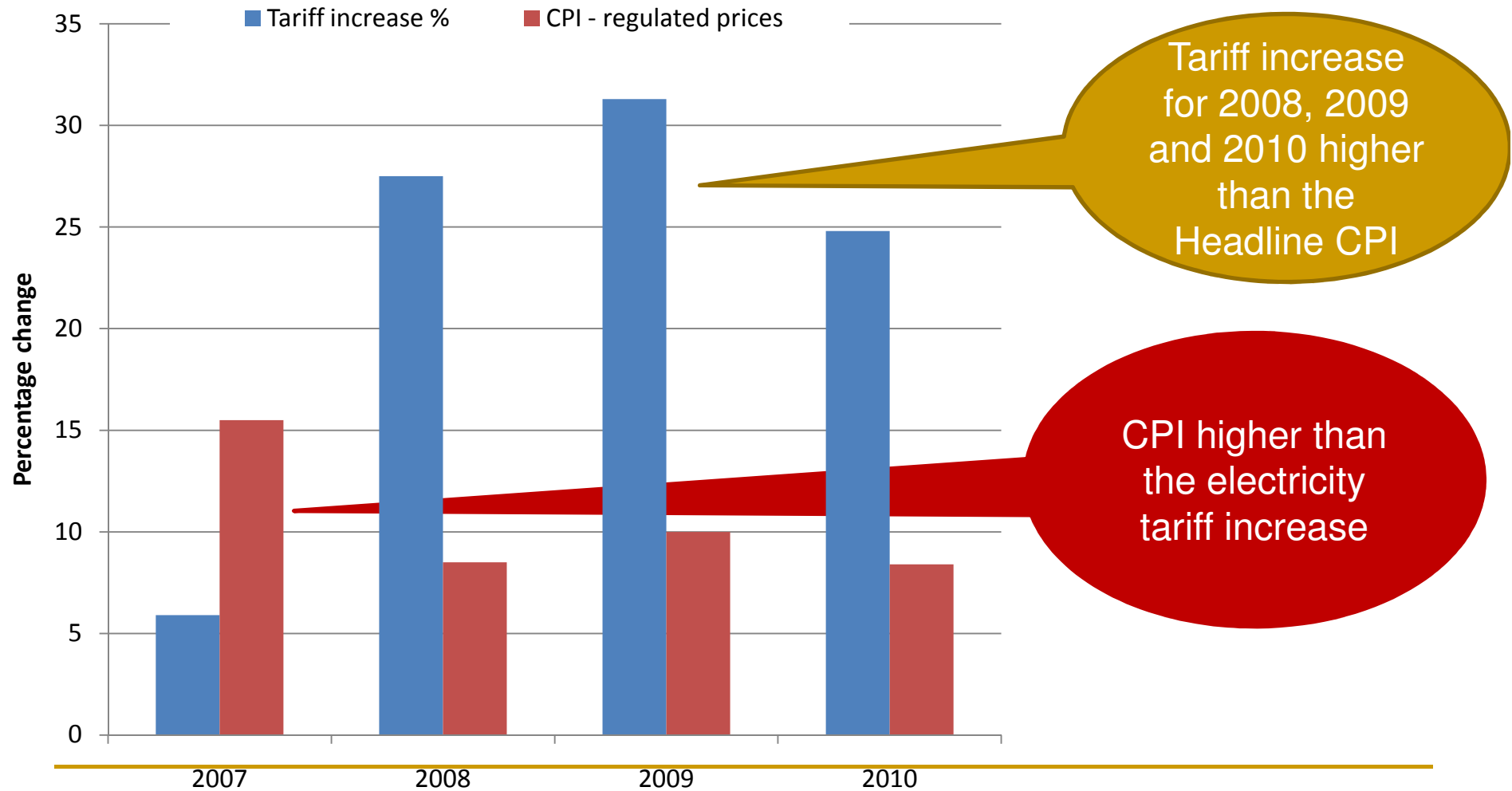


Administered price trends regularly above the CPI causing a cost squeeze.

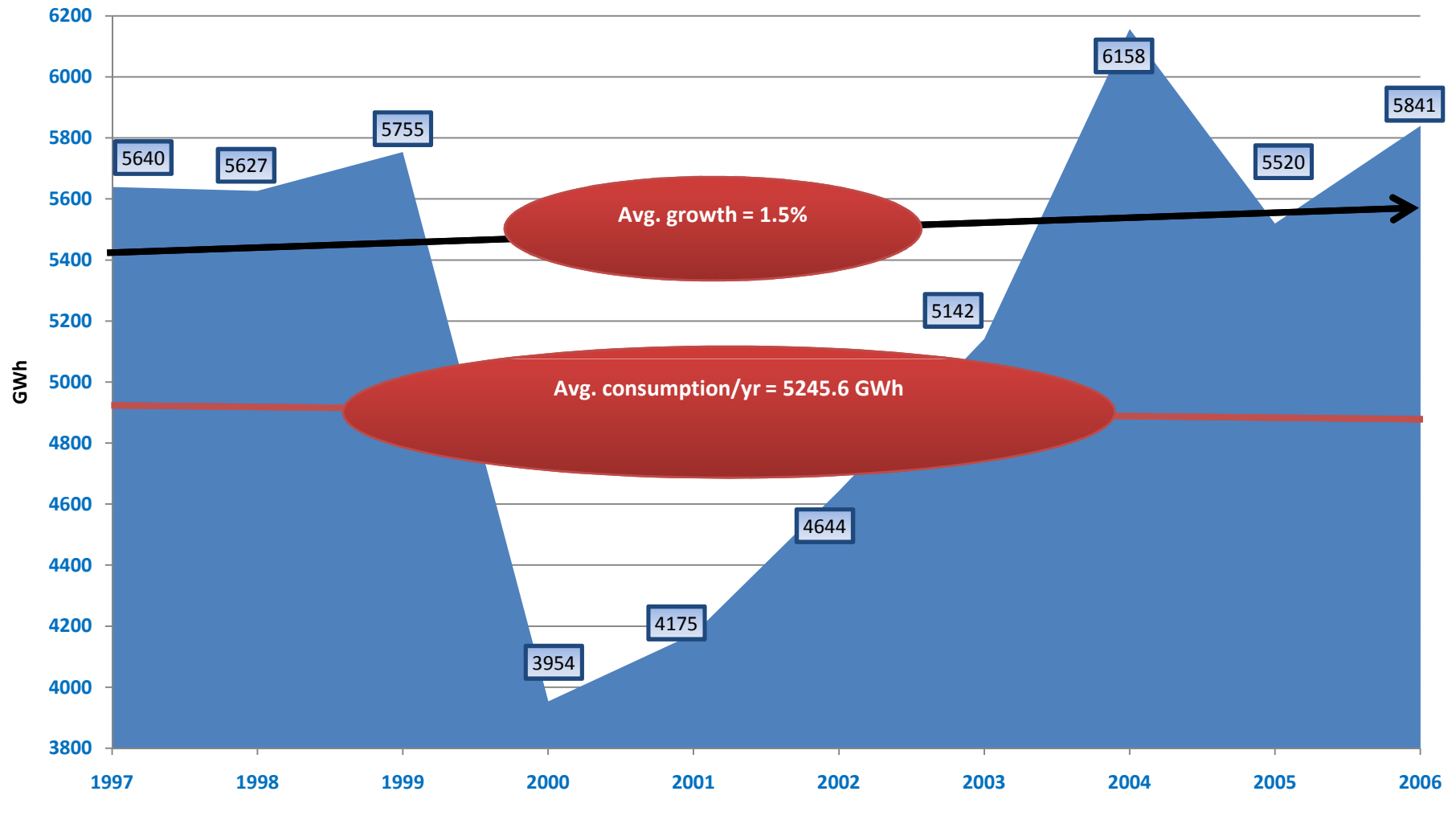
Administered and regulated prices: Electricity



Electricity tariff increase compared to CPI



Consumption for the primary agricultural sector in RSA



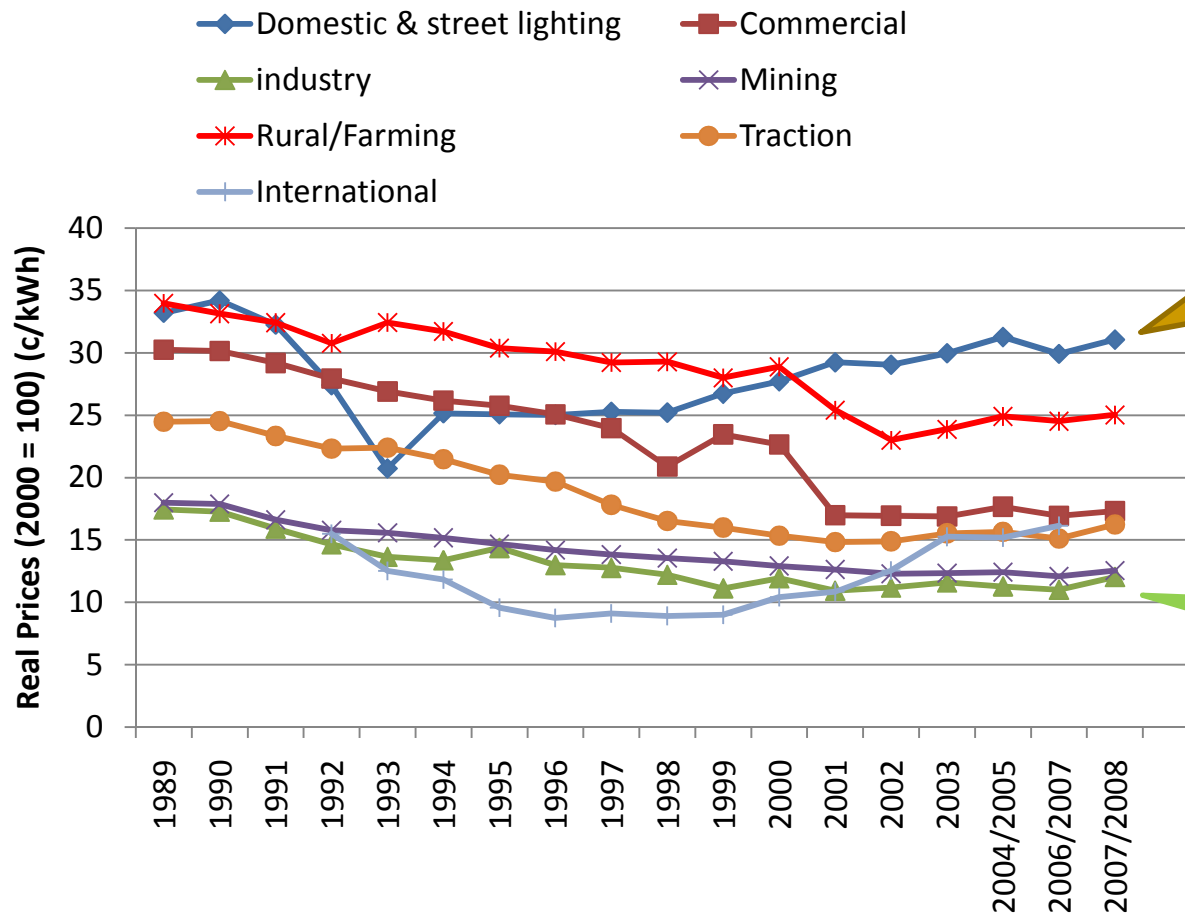
Estimated consumption and cost of electricity for the primary agricultural sector

Year	Average consumption in GWh	Estimated consumption in GWh
2006/07	5246	
2007/08		5324.340
2008/09		5404.262
2009/10		5485.384
2010/11		5567.723
2011/12		5651.298
2012/13		5736.128

Year	Price of electricity in GWh	Increase (%)
2009/10	R336,000	34.8
2010/11	R415,000	24.8
2011/12	R523,000	25.1
2012/13	R658,000	25.9

Year	Price of electricity	Estimated usage in GWh	Total estimated cost
2009/10	R336,000	5485.384	R1 843 088 871
2010/11	R415,000	5567.723	R2 314 502 390
2011/12	R523,000	5651.298	R2 955 628 921
2012/13	R658,000	5736.128	R3 777 240 239

Eskom's Revenue per kWh by Customer category- Real values

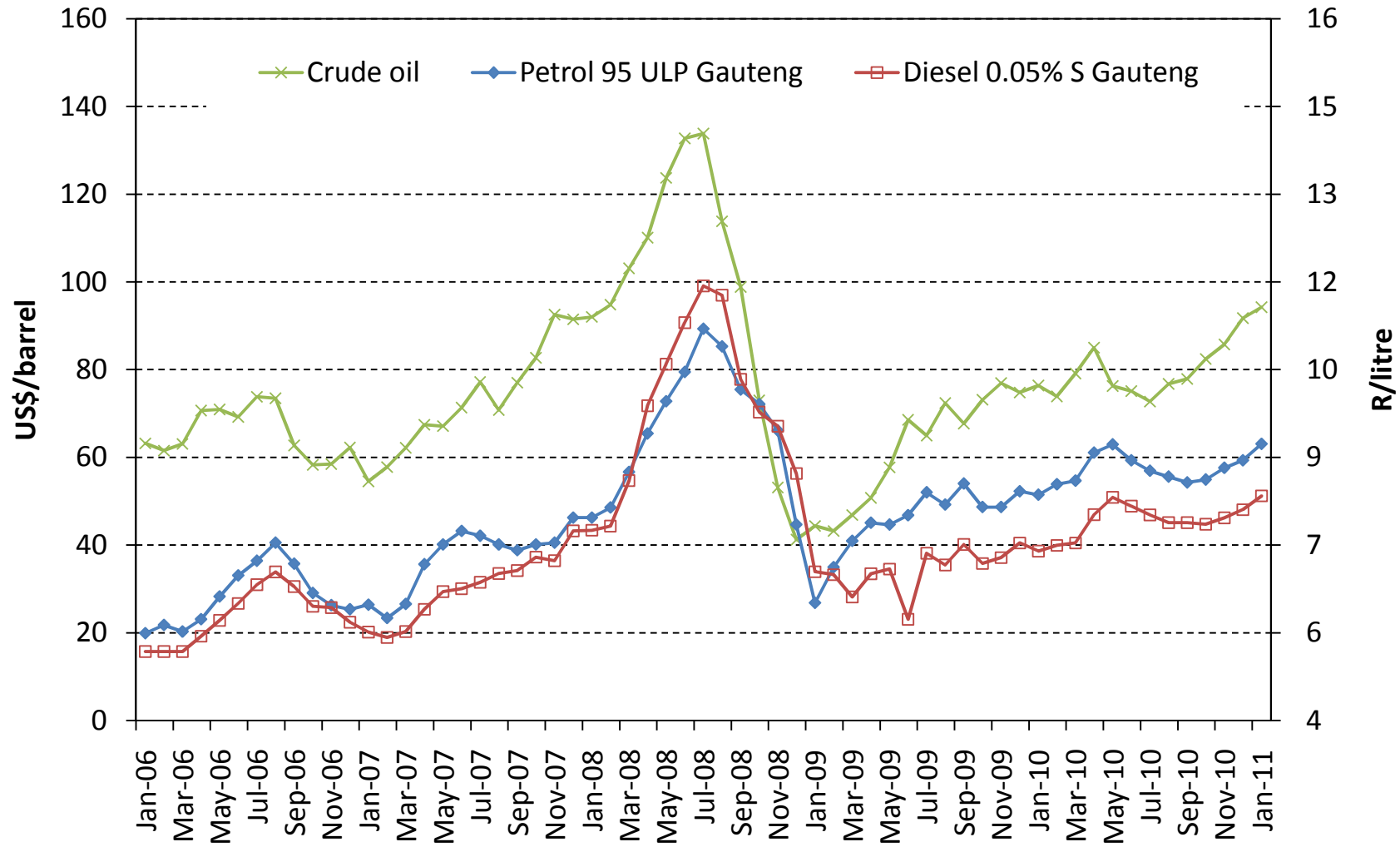


Rural/farming and domestic & street lighting are the least consumers yet provide high revenue to Eskom???

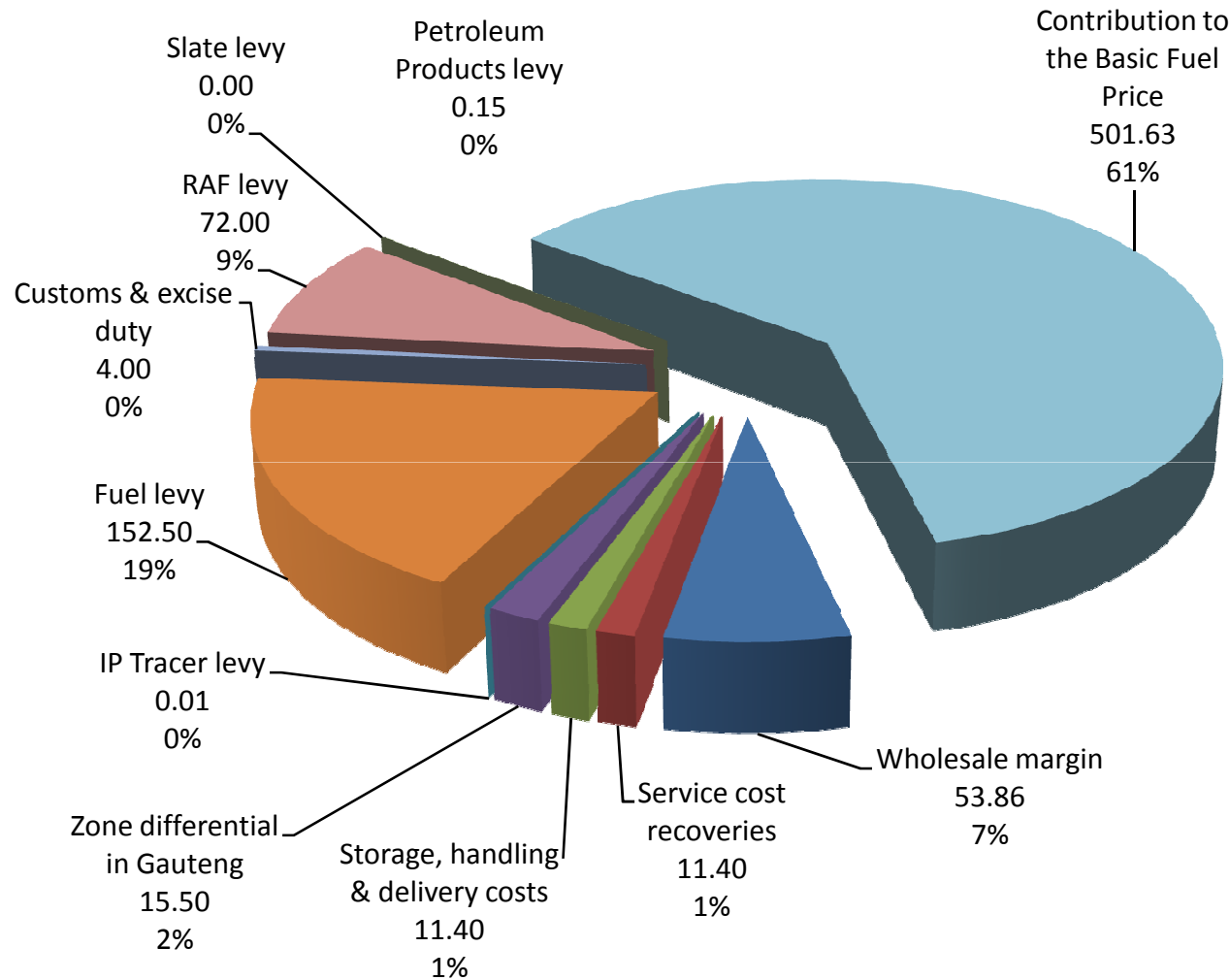
Low revenue from industry

Administered and regulated prices: Transport

Fuel & Oil



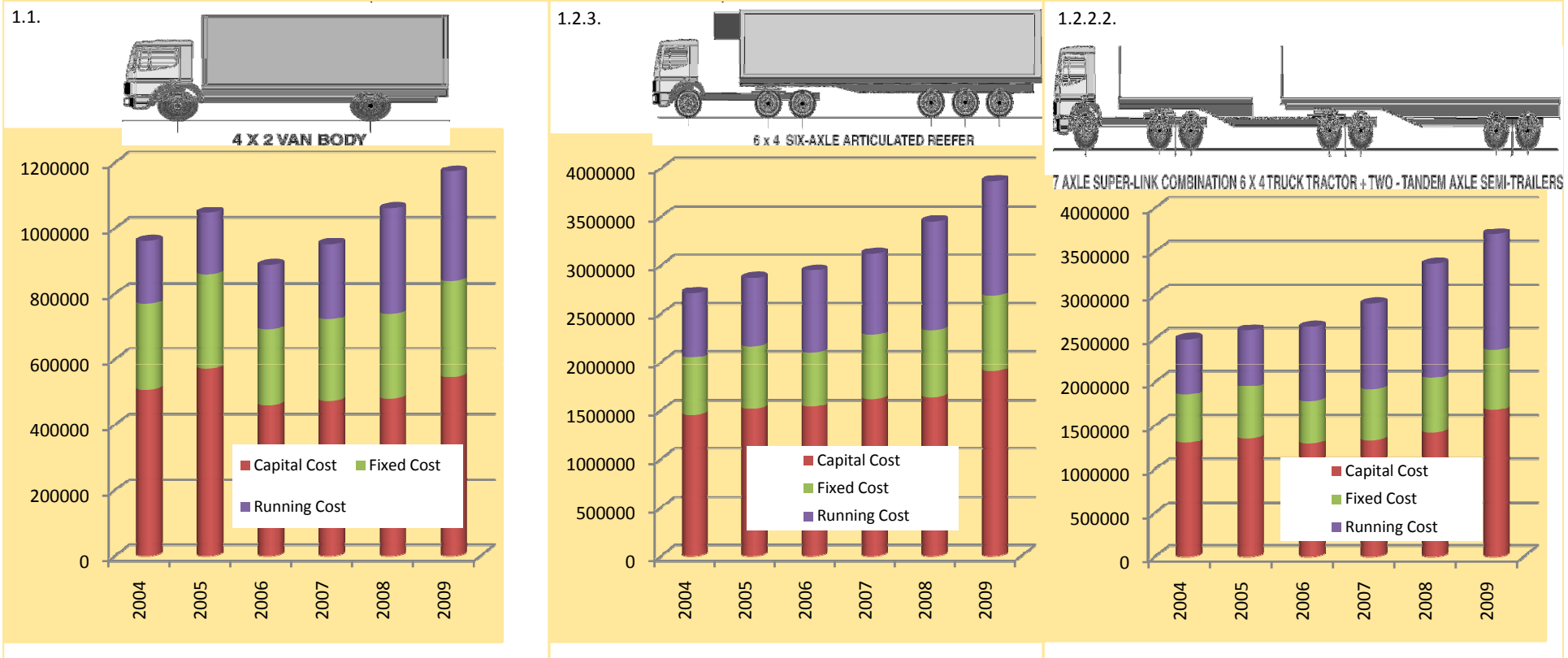
Composition of Diesel Price (current c/l and % contribution)



The composition of the wholesale price of 0.05 % sulphur diesel in Gauteng, which is currently 814.05 cents per litre.

- The Basic Fuel price (BFP) is the sum of the FOB value, freight, demurrage, insurance, ocean loss, cargo dues, coastal storage and stock financing.
- The BFP is currently 501.63 c/l or 61 % of the wholesale price.
- Other items listed are **levies and taxes that currently amount to 312.42 c/l or 38.4 % of the wholesale price.**

Vehicle costs over time for different sized vehicles (2004–2009)



2-axle vehicles:	6-axle vehicles:	7-axle vehicles:
Capital cost: 7.9 %	Capital cost: 30.8 %	Capital cost: 28.2 %
Fixed cost: 10.9 %	Fixed cost: 31.3 %	Fixed cost: 26 %
Running cost: 74.9 %	Running cost: 78.2 %	Running cost: 108.8 %

Thank you

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