BRIEF ON COMPETITION IN THE SOUTH AFRICAN AGRICULTURAL SECTOR

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The extent of market concentration in South Africa's agriculture sector is a perennial topic for debate, no doubt because of the complexity of the country's food system and hence the danger of generalisation, and because of some debilitating data problems. Some analysts believe that the sector is already overly concentrated, some see increasing concentration, and some think that there is no real problem with the manner in which markets in the sector function. Since BFAP has been active in conducting applied policy research in this sector for around two decades, we present this short brief to add to the current debate. In the process, we emphasise that the main objective of agricultural policy must be to get rid of the dualism that pervades the sector, and that removing structural barriers that limit competition are an integral part of this process. However, this process must account for the complexities of the sector.

In this regard, it is firstly necessary to agree on the components of the agricultural value chain that constitute such an important part of the larger South African food system. Agriculture with its upstream and downstream linkages consists of more than just the input supply industries (fertiliser, seed, agrochemicals, mechanisation services, etc.) and the food and beverage sector. In reality, the tentacles of the industry are spread throughout the rest of the economy and encompass elements of the transport and storage sectors, and the retail, personal services, financial services, wholesale, and accommodation sectors, to name just a few. These all need to be taken into consideration when assessing the extent of market concentration.

Figure 1 provides an indication of concentration levels in various sectors in South Africa by comparing the income share of the top 20 enterprises in that industry to its total income. The data were obtained from the various industry surveys conducted by StatSA. Unfortunately, industries such as electricity, gas and water supply, which are highly concentrated, cannot be included because of the lack of data.

Clearly both agriculture and the agro-processing sector are not the most concentrated sectors in the economy. And concentration is driven by SOEs and the other resource-based industries (mining, forestry and fisheries). Furthermore, while the 20 largest agro-processing firms had 52% of market sales, this was in the same order of magnitude as "other manufacturing" (e.g., chemicals, glass, metals) and retail trade. It might come as a surprise that the primary farm sector had the lowest level of concentration amongst all sectors, with a mere 12% of income being produced by the 20 largest firms, which include the corporate sugar, poultry meat and egg producers. Using this metric clearly does not support inferences about widespread concentration of the farm economy. Of course it is possible that even if the sector does not seem to be concentrated, some parts of it may be. For example, StatsSA data show that the food retail sector had a comparatively low level of concentration of 27%. However, within this sector, the smaller catering services industry had a concentration level of 65%. Furthermore, either some parts or all of the sector may be becoming more concentrated over time: further analysis is required to establish either of these two points.

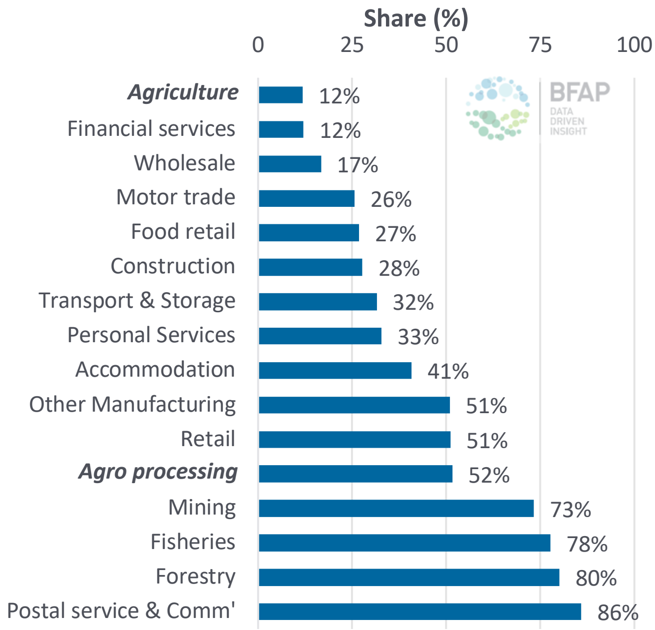

Figure 1: Concentration in RSA economic sectors according to share of income of the top 20 firms

Second, some analysts argue that declining farm numbers are driving rising concentration in primary agriculture, and that this seeming rise in concentration constitutes a threat to small enterprises generally or specifically to black farmers at any scale.

To assess whether this is in fact true, it is necessary to look at the market dynamics as well as the impact of the policy environment. Let's use the example of the declining number of dairy producers, as the Competition Commission has done recently. Since 2007 the number of dairy farmers declined from around 3 899 to just above a 1 000, the result of farmers leaving the industry. Instead of assuming that this decline is caused by the prevalence of market domination, we assess the prevailing market dynamics in this period.

The real farm gate price of milk have mainly declined since 2007, while output has increased (**Figure 2**). Due to the

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declining real price levels, dairy farmers constantly face tightening margins which they must overcome in order to remain in business. There are many ways of doing this: increase productivity by getting bigger, switching out of dairy to other commodities, and even moving to other parts of the country that are more conducive to low-cost production. In the case of dairy this has been a strong trend for more than a decade now: farmers in the interior of the country, i.e., where feed and fodder must be purchased, are exiting the milk industry while the number of dairy farmers in the coastal areas where animals graze on pasture, has not declined to the same extent. The first of these is a legitimate concern when addressing market concentration, but the second and third not, mainly because they do not in most cases result in larger farms.

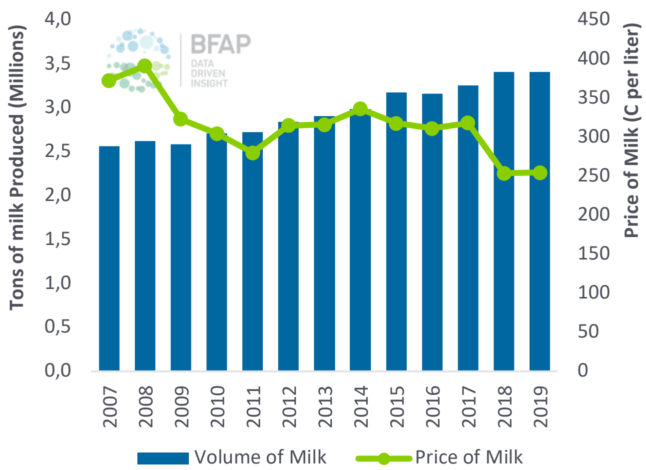

Figure 2: Milk production and the real milk producer price: 2007-2019

The solution would be to look at the trend in the number of all farmers in the country, but here the problem is data. Wandile Sihlobo and Johann Kirsten have prepared a chapter on South African agriculture for the forthcoming Oxford Handbook of the South African Economy where they address this data issue. Fortunately, they have also tried to get around the problem by recourse to StatsSA's 2011 Population Census and 2016 Community Survey. According to this calculation, there were more than 137 000 households in South Africa whose main source of income was primary agriculture in 2016, compared to some 40 000 VAT-registered farmers from the 2017 Agricultural Census of StatsSA. Until these data problems are sorted out, in other words, only the brave will make definitive statements about concentration amongst primary producers in agriculture.

Third, the dynamics within agricultural markets and between agriculture and broader economic development pathways also need to be considered in the current debate. It's been exactly 60 years since Bruce Johnson and John Mellor published their landmark paper on the Roles of Agriculture in Economic Development in the American Economic Review. Here they stressed the importance of agricultural sector in facilitating development in the wider economy. They highlighted five inter-sectoral linkages and proposed that a "balanced growth" strategy is needed to simultaneously promote agriculture and industrial development, since change in the agricultural sector has historically preceded economic growth in other sectors in all countries bar the city-states such as Hong Kong and Singapore. Thus, as a country develops, resources (capital and labour) are pulled away from the farm into industry and other sectors which then grow faster, leaving agriculture's share of the economy declining over time even while the sector itself grows.

Once again, this growth can be achieved in a number of different ways, one of which will always include the exploitation of scale and therefore lead to larger farms. In fact, international evidence suggests that farm numbers do actually decline, and hence that farming units are getting bigger. Yet this evidence also shows that the rate at which this happens depends largely on the nature and extent of government support to agriculture. Farm subsidies such as those of the EU can shield smaller enterprises from prevalent competitive global market forces and therefore retain their viability and avoid problems of concentration. But they can also lead to worrying levels of concentration, such as is found in the USA, where farm subsidies are smaller than in the EU, but also very different in nature. In the South African case, commercial farmers have no such luxuries with most, if not all, direct state support withdrawn by the end of the period of the deregulation of agricultural markets in 1998. The resultant drive towards international competitiveness and open markets is the main driver of productivity growth and declining farm numbers in our case.

There are a number of other points that can be made about this important topic, and BFAP intends to address them in forthcoming publications. Since the agricultural sector is currently in another planning phase, with fast-tracked policy implementation being drafted under the Agriculture & Agro-processing Master Plan (AAMP), it is critical that evidence-based analysis be used to shaped and inform strategic decisions throughout this process. In essence, future growth in agriculture, in both large and small enterprises, should contribute to developing South Africa's economy, both on-farm and beyond the farm. To this end, we also need to improve the database upon which these decisions are made in order to avoid over-hasty conclusions about the extent of concentration in the sector. It is as dangerous to argue that there is too much concentration as that there is no real problem to address.