

Comments to Parliament on CAB

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STRUCTURE

- Prof Boshoff: focus on economics of competition issues in South Africa
- Prof Sutherland: competition law issues

THEMES

- Market concentration and its relation to competition
- Emphasis on the limits of market concentration as a predictor of economic behaviour
- Importance of accounting for developments in economic theory, while keeping the policy flexible

COMPETITION

- Competition influenced by many factors, of which concentration is only one
 - **Economic theory since 1960s: cannot assume high concentration = weak competition**
- Economic analysis of these issues differ
 - **Market concentration, which refers to number & size of firms**
 - **Ownership concentration, which refers to number & size of owners**

COMPETITION

- If one is interested in what is driving market concentration specifically, we need to consider
 - **In the absence of mergers, entry/exit will naturally increase concentration**
 - **Scale - the small size of the South African economy often allows only a few competitors**
 - **Role of government regulation, past and present**

COMPETITION

- Concentration is nevertheless useful
 - **Competition problems MAY occur in more concentrated markets**
 - **Competition problems don't (generally) occur in less concentrated markets**
- This is why we calculate concentration at start of a competition case and then proceed to analyse effects
 - **Structure does not give conclusive prediction about competitive effects**
 - **An effects analysis is necessary**

COMPETITION

- What implications for CAB?
 - **The amendments must not lead competition analysis to become primarily based on structure**
 - **This is the essence of the economics approach**
 - **Amendments should not be too specific about particular economic concepts (average variable cost)**
 - **Amendments should not assume harm when dealing with a large firm or place the burden on the large firm**

COMPETITION

- Of course, South African faces important competition challenge (IMF/World Bank)
 - **But we need to understand the sources**
 - **Impact of sectoral policies**

COMPETITION

- Another reason for weak competition: low levels of participation by foreign firms
- Investment by foreigners is absolutely critical
 - **No real alternatives**
 - **We are attracting too little**
- Relevance for competition policy? International investment = acquisitions of local firms
- Implications
 - **Rules of game must be clear**
 - **Amendments w.r.t. national security-related mergers vague / open for abuse/state capture**
 - **Rephrase and leave it to competition authorities**



PROF SUTHERLAND



Thank you