Competition and IIP in SACU: The Case of UHT Milk in Namibia

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Outline

• Introduction
• Provisions of SACU 2002 Agreement
• Theory
• Asymmetry of Industry within SACU
• Case Study: Namibian Dairy Industry
• Main Findings/Conclusions
• Way forward
Introduction

- Objective = economic growth & devt
- Uneasy relationship within SACU
- Asymmetric levels of development
  - Hindrance to competition within SACU
  - teams in the same league = competition
- Relationship between Articles 26, 38, 40 and 41
- Case study: Namibian dairy industry
Theory

- RI benefits well supported by theory
- Traditional trade benefits
  - RI causes demand for substitutes to decrease, prices will go down
  - Outside firms reduce prices to export to region
  - Member countries enjoy positive welfare effects
Theory (cont…) 

• Growth process must lead to greater equality between members 
• Greater openness & **competition** is the vehicle to positive welfare effects 
• Economic convergence a prerequisite 
• Greater risk of polarization from asymmetric levels of development
Theory (cont…) 

• **Protection** necessary to achieve balanced development 
• BUT soc welfare depends on aggregate consumption streams of all goods 
• Protection rendered to more than one industry makes more sense 
• Thus a common industrial policy for SACU will ID industries for IIP
Asymmetry of Industry within SACU

• Giants in RSA & midgets in BNLS
• Competition vs. Protection?
• Article 40 vs. S&D for BNLS, Article 26 IIP
• Article 40 amidst Asymmetry (strange bed fellows)
• Article 41 Unfair trade practice?
Namibian Dairy Industry

- Very small: Dairy volumes in Nam is 1% of RSA dairy market
- Under threat from RSA UHT milk
- Existence of IIP for UHT milk under Article 6 of SACU 1969 in 2001 for 8 years (exp 2008)
- Extension of IIP - Submission by Namibia
MTI Submission

- Extend IIP by more 3 more years (2012)
- Specific (42.5 cents/litre) to *ad valorem* tariff (40%)
- Rationale:
  - WTO compliance
  - Current protection not adequate
Pro-protection Argument

- 14% decline in Nam dairy due to upsurge in UHT milk from RSA
- Development imbalances/short time of IPP
- Strategic
  - Jobs (740 jobs at stake)
  - Future exports
- Protected to become competitive
Anti-protection argument

- Importers: threaten court action
- “Maturity never comes” for Nam dairies
- Namibia Dairies crying wolf to protect its overcapitalization (UHT processor)
- Consumers? (No voice?)
Economics of protection

- 740 jobs = loss of income for 4440 Nams
- Conversion from specific to *ad valorem* tariff
- Hypothetical example (cost to consumer)
  - Current: N$7 instead of N$6.58 (42 cents more)
  - Proposed: N$9.20 instead of N$6.58 (N$2.63 more)
- Importers
  - Jobs, tax revenue etc
- Full multiplier effects not computed
  - FULL CBA IMPORTANT
The Jury Is Still Out

• IIP Granted by SACU
• MTI’s internal consultations
• Final decision SHOULD be on CBA and not lobby
• WHO to investigate? (NCC or ITAC?)
• jury still out - to Gazette or NOT
Main Findings/Conclusions

• Asymmetry poses threat to competition
  – Protection on sectoral basis without comprehensive industrial policy no solution
• Article 26, no solution **WITHOUT**
  – Implementation of Article 38
  – Proposed annexure on competition law and regulations
• Article 40 is a function of Article 38
Way forward

• Speed up drafting of common industrial dev policies for SACU (Art. 38)
• accelerate drafting of annex to explain the concept of ‘common industrial policies’
• BUT = “squeezing water from stone”
• Speed up ongoing efforts of annexure on competition to Agreement
Thank you very much