

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

Omu Kakujaha-Matundu, PhD
Namibian Competition Commission
(University of Namibia, Economics Dept)

TRALAC and UNCTAD Competition Workshop
Cape Town, South Africa
4 October 2006

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)
- Govt Gazette No 23876, Notice 187 of Aug 1, 2000.
- 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