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Competition in the Food Supply Chain – Contribution from UNCTAD

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Competition in the Food Supply Chain

- Contribution from UNCTAD –

1. Introduction and Background

1. Competition in food supply chains is of key importance for development today for several reasons. First, the food supply chain connects three economically important sectors: the agricultural sector, the food processing industry, and the distribution sectors. As the food processing industry and the distribution sectors have many interactions with other sectors, market malfunctioning along the food supply chain can have significant repercussions for food security, for employment, for equality and for economic growth, among others. Second, important changes have taken place in this industry in recent years. Technological development in the food production, processing and distribution has changed the way food value chains operate, at the same time resulting in changes in both vertical and horizontal relations in these value chains. Similarly, significant changes in the preferences of consumers, especially those of some developing and emerging countries which have seen their disposable income rise significantly in recent years, have also resulted in horizontal and vertical changes, for example as a result of the increasing importance of differentiation in food products and of quality in general. Finally, more general societal trends (e.g. healthy food, organic food, e-commerce, m-commerce) have inevitably affected the structure of the industry and the behaviour of the different actors.

2. This contribution examines some of the key issues that confront competition authorities in connection with competition in the food supply chain, notably including inputs. In particular, the contribution explores some of the developments that emerge to address challenges faced by competition, in order to guarantee a smooth functioning of the global food systems. It also proposes some recommendations on policy options for developing countries.

2. The State of Corporate Consolidation in the Agri-food System

3. The global food value chain and its regulation constitute a critical area of study for competition policy. Indeed, during the last decades the agrifood global supply chains witnessed rapid and profound changes, including a strong increase in agri-food trade and a consolidation of supply chains¹. These changes have had a huge impact on smallholder farmers: positive if they are able to participate in the global value chain and benefit from the opportunities it offers in terms of access to new markets for inputs and/or products; and negative if they are excluded from global value chains because they are unable to meet the requirements for entry. Reaching those markets is often not direct and necessitates intermediaries that may act as gatekeepers of the global value chain.

4. Growing corporate concentration in the agri-food system has followed patterns of corporate consolidation in the broader economy in recent decades². In this period, for example, some of the biggest corporate mergers have been in the agri-food sector as witnessed by giant deals such as the combinations of Kraft and Heinz, Dow and Dupont,

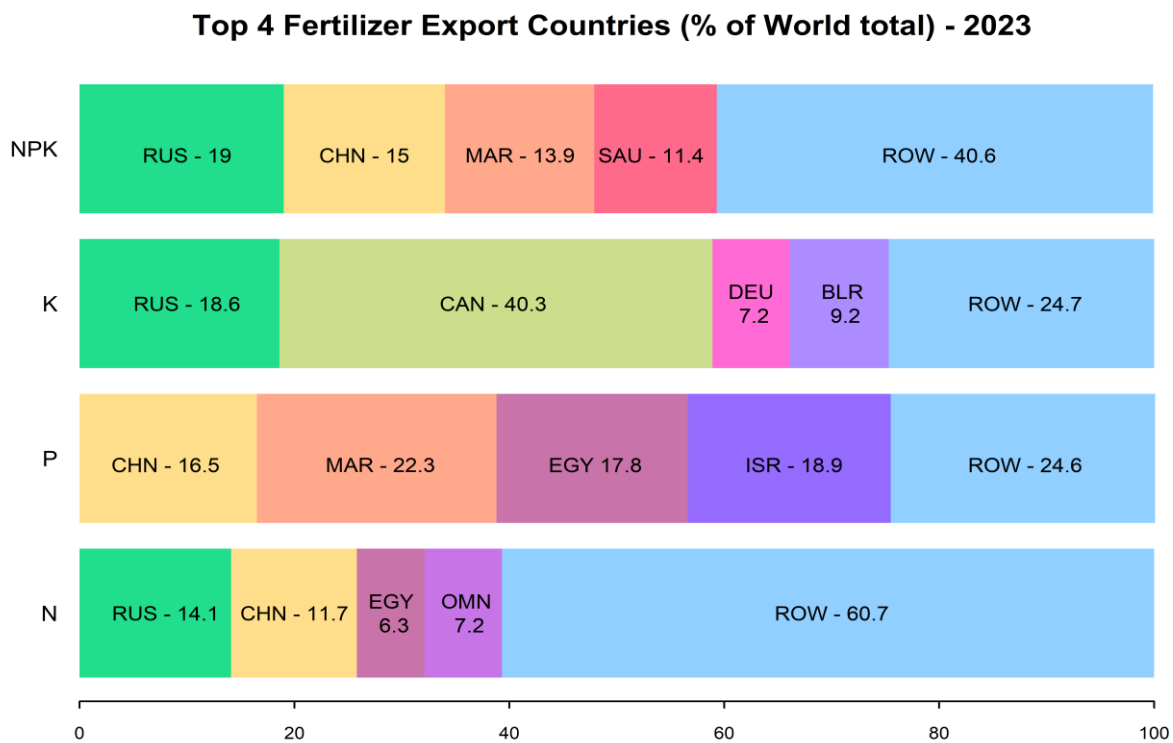
¹ UNCTAD (2020) “Maximizing sustainable agri-food supply chain opportunities to redress COVID-19”.

² I. Lianos, A. Ivanov & D. Davis (2022) “Global Food Value Chains and Competition Law”, CUP.

and Anheuser Busch In-Bev and SAB Miller, each of which formed firms worth over US\$100 billion³. Alongside these massive deals, a series of other mergers and acquisitions have also occurred in recent decades such that today agri-food supply chains are quite concentrated.

5. The market for agricultural inputs, particularly seeds and agro chemicals, is highly concentrated and dominated by a small number of major multinational corporations. For example, in the global seed market corporations like Bayer, Corteva, and Syngenta hold a substantial share of seed production and sales in both developed and developing countries. Similarly, fertilizers are sourced from a very small number of countries and firms. The figure below shows the four largest country sources of fertilizers imports to the world in 2023, including nitrogen (N), potassium (K), phosphorous (P) and combinations of the three (NPK)⁴. The Russian Federation, Canada, Marocco and China are among the largest exporters of fertilizers, for example with the four largest exporters concentrating three quarters of all potash exports in 2023.

Figure 2.1. Top 4 Fertilizer Export Countries (1% of World total) - 2023



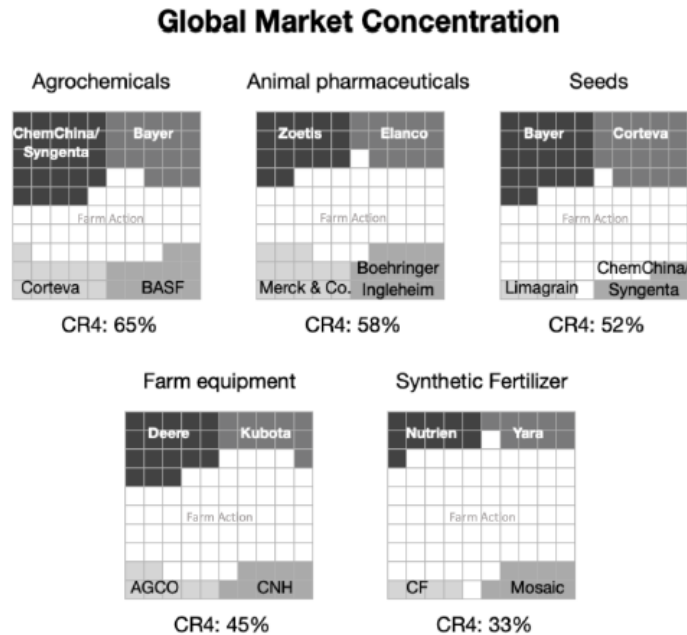
6. In addition, the four firm concentration ratios (CR4), which add up the market share of the four largest companies in a given industry, can range from 33% to 65% for agrochemicals, animal pharmaceuticals, seeds, farm equipment and synthetic fertilizer⁵.

3 Heinrich Boll Foundation et al. (2017) “AGRIFOOD ATLAS- Facts and figures about the corporation that control what we eat”.

4 UNCTAD elaboration using COMTRADE import data for 2023, for HS codes 3102 to 3105.

5 Hendrickson, Howard et al (2021) “The food system: concentration and its impacts”.

Figure 2.2. Global Market Concentration



7. Merger control is particularly important in the presence of high market concentration and high barriers to entry into certain segments (e.g., in the presence of high infrastructure costs, endogenous sunk costs into research and development, and transaction costs). However, the specific competitive impact of mergers is conditional on the geographic market of the entities (and the assets) affected and the specific competitive segments (i.e., the market definition) that the former operate in. For example, in the upstream sector of grains, the merger of Bunge and Viterra was approved by the European Commission subject to some conditions⁶, but was referred by the Competition Bureau of Canada to the Ministry of Transport indicating that the proposed merger “[...] is likely to result in substantial anti-competitive effects in agricultural markets in Canada, and a significant loss of rivalry between Bunge and Viterra in a number of markets”.⁷

8. Importantly, the Competition Bureau of Canada took into consideration the possibility of the merger resulting in post-merger coordinated effects for buying grains and indicated that “Bunge has the ability to materially influence G3 and receives commercially sensitive confidential information from G3. Bunge’s acquisition of G3’s largest rival will provide Bunge additional incentive to use this influence and access to confidential information to the detriment of competition in agricultural markets in Canada, particularly given evidence suggesting that G3 is a particularly aggressive rival for the purchase of grain. This has the potential to result in harm to farmers who would otherwise benefit from competition between G3 and Viterra when they sell their grain.”⁸

6 See Commission clears Bunge's acquisition of Viterra subject to conditions, available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_24_4103.

7 See Competition Bureau Canada (2024) “Report to the minister of transport and the parties to the transaction pursuant to subsection 53.2(2) of the Canada Transportation Act”, available at: <https://competition-bureau.canada.ca/how-we-foster-competition/education-and-outreach/report-minister-transport-and-parties-transaction-pursuant-subsection-5322-canada-transportation-act>

8 Ibid.

9. Another study into the Bunge-Viterra merger, by the Inclusive Competition Forum (ICF)⁹ sheds some light about the potential for different competition challenges resulting from this merger and other recent ones in the food system, including:

- Higher prices, lower quality, and less choice, both through non-coordinated, unilateral effects, and through more deliberate co-ordinated “tacit collusion and coordinated input foreclosure.” This, amid a severe global cost of living crisis;
- Hurt vulnerable stakeholders at different levels, including small farmers, co-operatives, and rural communities;
- Horizontal and vertical integration, combined with the accumulation of large amounts of data, further increases the economic and technological dependence of farmers on single platform solutions offered by a few large entities. This is particularly the case for providers of key agricultural inputs like seeds and fertilizers;
- Less innovation and product diversification, deter new players with new agricultural technologies and systems;
- Harm to the environment and biodiversity by further entrenching the existing agro-chemical model of agricultural production;
- Reduce the resilience of our food systems, risking market instability, making us more vulnerable to cascading shocks, and increasingly giving these players “too big to fail” status.

10. Mergers in highly concentrated upstream segments also may increase the returns for the remaining entities to either coordinate their actions or to engage in mergers of their own.

Figure 2.3. Food systems actors



Source: Lianos, Makris, Maisin, 2024

3. Why competition matters to food supply chains

11. A range of actors are at play when it comes to global food systems – producers, input providers, processors, exporters, logistics partners, sellers, and consumers, to name a few. Competition, a driving force for innovation and efficiency, brings benefits not for some, but for all.

12. In particular, competition can increase the quality, the availability, and lower the prices of agricultural inputs like fertilizers, seeds, and agro chemicals, as well as that of food. In developing countries, this is particularly important for food security, health, and

⁹ Lianos I. & all (2024) “A new merger wave in the agri-food value chain? Some reflections on the Bunge/Viterra merge”- Making Markets work for people”, Inclusive Competition Forum.

development and for ensuring access to food, diversity of choice and quality, including safe, nutritious and environmentally sustainable food.

13. Increasing competition in agricultural value chains is essential for reducing input costs, which directly influences food prices and affordability, especially small and medium-sized farmers, including women. Increased competition can lead to reduced prices, as firms compete for sales. Also, lower input costs upstream enable farmers to produce food at a lower cost, which in turn makes essential food items more accessible to consumers. Moreover, the downward pressure on prices contributes to food security in low-income countries and regions, both urban and rural, where people often spend a large portion of their income on food.

14. Additionally, increased competition also leads to better-quality products and greater variety, as firms innovate to attract farmers' and consumers' purchases. Competition in upstream value chains leads to better quality inputs like more productive seeds, less polluting and more effective agro chemicals like pesticides. This also provides farmers with a wider selection of inputs and production techniques, fostering agricultural development and resilience. Competition in food markets downstream that increases quality and choice is particularly important in middle income developing countries, where the demand for food has led to an increasing focus on food quality. Together, these benefits help drive the broader development in rural areas, supporting different Sustainable Development Goals including 1 (No Poverty) and 8 (Decent Work and Economic Growth).

4. Competition authorities experience regarding food markets

15. Competition law and policy addresses abuse of market power and unfair trade practices¹⁰.

16. For example, the Austrian Federal Competition Authority (AFCA)¹¹ has launched investigations into vertical price fixing in the food sector, where powerful retailers attempted to control resale prices to the detriment of small and medium producers.

17. Following around 50 dawn raids the AFCA has concluded 27 cases where perpetrators were fined nearly €70 million. It also devised guidelines on resale price maintenance in 2022.

18. Turning to Africa, the Competition Authority of Kenya recently found that a large supermarket chain engaged in practices constituting an abuse of buyer power towards

¹⁰ UNCTAD (2015) "The role of competition policy in promoting sustainable and inclusive growth" (TD/RBP/CONF. 8/6).

¹¹ N. Harsdorf-Borsch (2024) "Global Food Markets and Competition and Consumer Policies Challenges" (https://unctad.org/system/files/non-official-document/ccpb_IGE2024_RPP_food_security_Harsdorf-Borsch_en.pdf), paper submitted to the fifteen meeting of the UNCTAD Research Partnership Platform (July 2024) - <https://unctad.org/meeting/fifteenth-meeting-unctad-research-partnership-platform>.

suppliers, and imposed fines and requested to amend contract clauses that facilitate the abuse¹². In South Africa, a cartel case on margarine and edible oils was settled with fines¹³.

19. The Common Market of Eastern and Southern Africa (COMESA) Competition Commission in collaboration with the University of Johannesburg's Centre for Competition Regulation and Economic Development (CCRED) on the African Market Observatory (AMO) have produced research studies in the agriculture and food markets, such as on fertilizer markets and vegetable oils¹⁴.

5. Need for “pro-poor” policy and legislation

20. During the fifteenth meeting of the UNCTAD Research Partnership Platform which discussed issues related to competition and consumer protection in the global food system, experts underscored the need to develop “pro-poor” competition policies and legislation to address significant bargaining imbalances within and among countries¹⁵.

21. This entails a level playing field where small businesses that often employ, or are owned by, poorer individuals can compete fairly against larger companies and mitigate the effects of exploitative practices that disproportionately harm them.

22. Competition in the agriculture and food sectors has garnered global attention. Multiple competition authorities are prioritizing these areas in enforcement, monitoring, or market studies, and some of them have enforcement cases against abuse of dominance and unfair trade practices in these industries. For developing countries, where small farmers and consumers are particularly vulnerable to food prices volatility and the repercussions of anti-competitive practices, there is an urgent need to strengthen market information and to effectively monitor markets and to enhance competition enforcement capabilities.

¹² Competition Authority of Kenya (2023) “The Competition Authority of Kenya sanctions Majid Al Futtaim hypermarkets limited (Carrefour) for abuse of buyer power”, available at: <https://cak.go.ke/sites/default/files/2024-01/PRESS%20RELEASE%20-%20CAK%20Sanctions%20Carrefour%20for%20Abuse%20of%20Buyer%20Power.pdf>

¹³ Competition Commission South Africa (2017), Competition Commission charges South Africa (Pty) Ltd for cartel conduct, available at: <http://www.compcom.co.za/wp-content/uploads/2017/01/Unilever-media-release-1.pdf>

¹⁴ COMESA (2024) “Competition, concentration, and market outcomes in fertiliser markets in East And Southern Africa”, available at: <https://comesacompetition.org/resources/publications/competitionconcentrationand-market-outcomes-in-fertiliser-markets-in-east-and-southern-africa/>; and COMESA (2024) “Concentration, market structure and barriers to entry in the vegetable oil value chain in East and Souther Africa”, available at: <https://comesacompetition.org/resources/publications/concentrationmarket-structure-and-barriers-to-entry-in-the-vegetable-oil-value-chain-in-east-and-souther-africa>

¹⁵ https://unctad.org/system/files/non-official-document/ccpb_IGRRPP2024_presentation_Carcamo_en.pdf ;

https://unctad.org/system/files/non-official-document/ccpb_IGRRPP2024_presentation_Ivanov_en_0.pdf

https://unctad.org/system/files/non-official-document/ccpb_IGRRPP2024_presentation_Waked_en.pdf ;

and https://unctad.org/system/files/non-official-document/ccpb_IGE2024_RPP_food_security_Coll_en.pdf .

23. Beyond the competition policy dimensions related to the issue at stake, regulation of a complex and interconnected industry like the global food system in developing countries needs to consider improving food security and economic diversification through reducing food imports dependence and promoting domestic food production at national and regional levels. Crucially, and considering the lessons of past crises and the analysis presented above, reforms need to be conceived in an integrated way, targeting key priorities across the system¹⁶. More specifically:

- (a) Merger control needs to be improved in developing countries. The availability of granular data (e.g., transactions-level), and the institutional capacity to analyse it need to be significantly strengthened;
- (b) The issue of corporate control over key markets cannot be resolved only by anti-trust measures alone but requires a coherent framework of national policies, notably including international trade and agro-industrial regulatory policy frameworks;
- (c) Successfully addressing anticompetitive practices in the agriculture and food sector in developing countries requires institutional overhaul and strengthening, as well as exchange of experiences and peer-learning;
- (d) International cooperation and commitment are critical in the effort to enhance data quality and transparency in both input and food value chains and curb the risks posed by the observed very high concentration in these sectors, across different segments.

24. To conclude, given the global nature of the food supply chains, which include a variety of market actors, different forms of trade practices competing with each other, different means of self-regulation (standard setting and certification), various groups of consumer and non-governmental organizations (some focusing on price, while others on quality, including organic and fair-trade food), various types of suppliers (e.g., industrial, farmers) there is a complex web of societal relations built to guarantee the production and distribution of food, and the disruption of this industry deriving from its consolidation and concentration during the last decades cannot be fixed only with the enforcement of competition law and policy. Public action in this area should be combined with a mix of policies aiming to build a global sustainable food system that will end hunger in the world as required by the United Nations Agenda 2030¹⁷.

25. UNCTAD, thanks to its wide mandate on all issues related to international trade and development, provides a platform for the sharing of information and best practices, while supporting developing countries to define and implement competition policies specific to their priorities, calling for stronger international cooperation among member States and relevant stakeholders and encouraging regional organizations in the developing world to take further joint action on this important subject.

¹⁶ See UNCTAD Trade development Report 2023, Chap. 3 op cit.

¹⁷ <https://sdgs.un.org/2030agenda>.

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