

Big Retailers and Food Security: The danger of the Wal-Mart effect

Opinion editorial: Minister Tina Joemat-Pettersson

In May 2007 South Africa ran short of milk. Retailers across the country had very limited supplies of milk in stock and for a period of a few months consumers were not able to buy enough of or in some case any of what is undoubtedly a basic and essential product. The accusations were flying in the press about who was to blame.

What happened? Did South Africans wake up one day and decide to buy more milk? The shortage and the panic buying that took place did exacerbate the scarcity but other factors relating to the procurement strategies of the large retailers were a critical factor. In summary over a period of a few years large South African dairy processors did two things: firstly, they saw that they could source UHT milk cheaper internationally and started to import it; secondly, they put more pressure on local producers to supply milk at progressively lower prices to compete with the imports. All this sounds good for consumers until there is no milk on the shelves because many of the local dairies go out of business because it is no longer profitable for them to supply milk – South Africa saw the industry go from 7077 milk producers in 1997 to 4184 in 2006 (a decline of 41%); and an international drought saw imports dry up, as these international producers gave priority to their own markets.

One of the international trade challenges that South Africa and other developing nations have been fighting in the World Trade Organisation negotiations is the ongoing and massive support that developed countries give to their agriculture sector. The devastation that these subsidies (given by developed countries to their agriculture sector) have caused in some of the poorest developing countries who simply cannot afford to give such support to that sector is well documented. The oft cited example is that a cow living in Europe receives a subsidy of \$2 a day, while millions of people in Africa survive on an income of less than \$1 a day. The argument put forward to maintain these subsidies is premised on ensuring food security. There are many debates around comparative advantage and the harmful effects of the subsidies that are ongoing. As such, substitution of local agriculture and food products with the same products from countries that subsidise their agriculture would not constitute a level playing ground. It is against this background that what could appear as cheap imports may not necessarily be cheap imports other than heavily supported imports that create artificial price depression.

It is therefore not surprising that when Shoprite took the stand in the hearings on the Wal-Mart / Massmart merger they stated that part of their procurement policy is not only to source cheap prices but to ensure that there is a reliable source of supply, and supporting domestic producers is an essential part of their procurement approach – they have had first-hand experience of letting down their customers by not being able to put an essential product on their shelves.

In the Wal-Mart / Massmart hearings much was made of Wal-Mart's ability to bring low prices to consumers. How do they do it? They stated it is done through: improved efficiencies in their supply chain; shifting their import procurement by importing directly rather than using intermediaries; and shifting from local suppliers to imports. Part of the improved efficiencies in the supply chain comes from using their buying power to get better prices from their suppliers.

Much was made in the hearings about the extent Wal-Mart / Massmart will be shifting their procurement from local suppliers to imports. The state argued that "substitution of local procurement sources with foreign ones would negatively impact on the public interest by way of a reduction in domestic employment, a reduction in the output of particular sectors which economic policy is currently aimed at developing, and the eclipsing of SME and HDI firms." The state through its economic expert attempted to quantify some of the potential impact, contending that even a 1% shift from local to import content would cause up to 4000 job losses.

Wal-Mart disagreed with the view of the state and put their own argument forward but the corporation certainly has the capability, global procurement network and, from international examples given, the reputation of shifting their procurement offshore. The size, capability and scale of Wal-Mart should not be downplayed *"it has a turnover of some \$408 billion while the GDP of South Africa is no more than \$354 billion. In fact in 2004 it was, if it was measured as a country, Wal-Mart would have been China's 8th largest trade partner and would have had a GDP larger than 75% of all countries worldwide."*

Dependency on imports of agricultural or agro-processed goods creates a vulnerable situation for a country. This is one of the key reasons that government intervened in the proceedings, arguing in its intervening affidavit that: ***"If value chains disintegrate, and agriculture, agro-processing and food production become unviable, then the South African economy will become vulnerable to international price and currency fluctuations and more affected by international food shortages."*** An associated risk which was highlighted by one of the witnesses in the Competition Tribunal hearings was that Wal-Mart's procurement strategy has the potential to push their competitors to source products offshore – effectively resulting in the closure of South African companies.

Since the announcement of the merger Wal-Mart and Massmart have made vague undertakings that they would support local procurement and work with and build the capacity of local suppliers. The government through its intervention in the merger has sought to get binding undertakings from the company. The offer made by Wal-Mart and Massmart on the last day of the Competition Tribunal hearings to give support to the local industry is most welcome but the state has argued that the

commitment to local industry needs to go further to provide the assurances that arise from our very real public interest concerns.

Ends.