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ANTI-COMPETITIVE PRACTICES AND FOOD PRICE INFLATION IN SOUTH ASIA

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Presentation OUTLINE

- Introduction
- Trajectory of food inflation in South Asia
- Competition Issues in Agro-Food Sector
- Anti-competitive Practices
- Conclusion
- Recommendations
- Future Research Agenda
- References
Introduction

- Traditional IO Approach: SCP Paradigm: market structure is responsible for product-price determination
- Competition Distortions leads to market failure results in price instability
- Competition Policy and Law – a tool to alleviate market failure
  - Competition policy: affect structure and conduct of firms
  - Competition law: prevent anti-competitive business practices or market failure
- Food market structure - coexistence of organised and unorganised sector. E.g., Foodgrains, Food Retail
- Food Price inflation in South Asia is a structural problem

The Trajectory of Food Inflation in South Asia

General Inflation and Food Inflation in Major South Asian Economies
(y-o-y change in percent)


Growth Rates* (in %)

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<tbody>
<tr>
<td>Bangladesh</td>
<td>7.0</td>
<td>8.3</td>
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<tr>
<td>India</td>
<td>6.0</td>
<td>10.5</td>
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<tr>
<td>Nepal</td>
<td>8.0</td>
<td>13.3</td>
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<td>Pakistan</td>
<td>11.0</td>
<td>15.4</td>
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<td>Sri Lanka</td>
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* Significant at 5% level of significance.
**Competition Issues**

- Market distortions in the sector lead to anti-competitive practices
  - **Impact:** Increase the price differential between farm gate and the retail level
- Typical market distortions include:
  - State intervention in the market
  - Inadequate marketing, storage and transport infrastructure
  - Barriers to entry in domestic trading services
    - Traders/intermediaries dominance, more market power
  - **Impact:** Increasing integration affects competition in the sector
- Barriers to intra-country commodity movements

**Anti-competitive Practices**

- **Collusive Practice**
  - **Examples:**
    - Collusion among ghee and oil manufacturers and their association to fix their prices at a higher level in Pakistan
    - Collusion among intermediaries/middlemen in vegetable farming in Bangladesh
    - Buyers’ Concentration and collusion in wheat market of North India
Anti-competitive Practices

- Cartelisation
  *Example:*
  - Cartels in the poultry industry in Pakistan
  - Cartels in onion trade across Maharashtra, Punjab and Haryana in India

- Barriers to Entry
  *Example:*
  - Entry barrier by large conglomerates in Sugar Industry in Bangladesh

Conclusion

- Food sector: mostly unorganised which leads to market imperfection
- Limited scope of competition regulation so far in South Asian countries
- Agro-food market in the region is performing inefficiently due to state intervention in pricing, entry barriers and lack of effective regulation in retail sales
- Promoting competition will help improve resource allocation by farmers, as well as allow consumers to benefit from competitive prices of food
**Recommendations**

- Necessary government intervention in terms of regulatory/legislative reform
- Addressing food inflation requires a strong governance of the food production and policy system
- Need for adoption and effective implementation of competition and regulatory regime in South Asia

**Future Research Agendas**

- Competition Impact Assessment: whether the existing legislation is encouraging anti-competitive practices or not
- Role of Private investment in enhancing competition in the sector: investment – competition interlinkages, regulatory issues
- Promoting regional agricultural trade: trade- competition interlinkages, regulatory issues
References

- Research Paper/Articles:

Thank You

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