

# Post- Parliamentary Submission on Walmart

## 1. INTRODUCTION AND BACKGROUND

FAWU was not part of the initial Competition Commission proceedings considering the transactions because only labour unions having a direct interest (membership in Massmart) were informed of this intended transaction as required by the Competition Act (1998) as amended.

However, the union (FAWU) had subsequently expressed interest to form part of Competition Tribunal hearings for reasons relating to the obvious impact of the transaction on the food production and supply chain in the country, including on potential job losses as it will be demonstrated later in this submission.

## 2. SUBSTANTIVE AREAS OF CONCERNS

FAWU is a labour union mainly organizing workers across the food production and supply-chain before the retail and other food services stage. This stretches from farms and sea-going fishing, to food processing and beverage manufacturing, to warehousing and distribution, up to sales and merchandising.

It is therefore our submission that the scale and scope of this transaction (merger) will have a major impact on this value-chain in terms of job losses and industrial capacity of food manufacturing in the country.

### 2.1 'Narrow' Interpretation of the Competition Act

It is our submission that competition authorities (both the Competition Commission and Competition Tribunal) have erred in applying a narrow interpretation of the Competition Act on considering this transaction. While the primary object of the Act is to maximize consumer benefits arising out of increased competition and reduced or eliminated anti-competitive conduct, the Act is equally alive to important considerations of industrial development, job retention and creation, and increased participation in the economy by additional players, particularly the small and historically disadvantaged entities.

Therefore, in weighing the consumer benefits of any transaction the 'de-industrialization' and employment costs of such a transaction should have weighed even more in the final analysis.

As it will be pointed below, potential job losses in the 'up-stream', or in the primary and manufacturing stages of the food value-chain, far outweigh the 'lower' consumer prices that may be likely from this transaction.

In any case, history has taught us that a giant player can engage in predatory pricing (i.e lowering of prices) which will benefit consumers in a short-run. However, in a medium-term, when competitors are eliminated or potential competitors fail to enter, consumer prices begin to steeply rise and consumer welfare/benefits gets quickly and deeply eroded.

In the beginning of the 1990s, The Coca Cola Company (TCCC) did not provide breathing space to the entering Pepsi Cola Company (PepsiCo) when it employed predatory pricing. While consumers benefited from lowered prices, both of Coca Cola and that of Pepsi Cola products, the consequence was the 'death' of PepsiCo which even closed the only factory it has built – an example of 'de-industrialization'.

It could be further argued that Massmart is the national champion or at least national asset that should not have been allowed to fall into ownership of foreign hands. Even more compelling, is that Massmart was in 'adequate' competition with other local retailers.

## **2.2 Industrial Development-related Considerations**

FAWU is of a view that Walmart-majority owned Massmart will use its massive global supply-chain to procure food products, which have some longer shelf-span, from foreign manufacturers. Examples in this regard include but not limited to cereals, tin-canned products, frozen food, and sweets among others.

Even worse, some of these foreign procured products will be manufactured from so-called low-wage economies, which may be regarded as 'sweat-shops' with little labour protection standards.

Therefore, it is our submission that a process of 'de-industrialization', reduction of manufacturing due to factory closures or downsizing or liquidations, will result as more of locally manufactured food products find it difficult to compete with foreign products manufactured in foreign 'sweat-shop' or low-wage economies.

In terms of value and volume, food products constitute a larger percentage of business of Massmart and, by implication, a sizable chunk of its revenue stream. Therefore, the country will witness retail shelves of Massmart stores packed with foreign products, including frozen chickens, tin-stuff, sweets and chocolates, and other long shelf-life food items.

## **3. CONCLUSION AND WAY-FORWARD**

The only conclusion one will arrive at is that this merger, if allowed to prevail at those next-to-nothing conditions, will certainly bring consumer benefits but at the expense of a de-industrializing food manufacturing and increased unemployment rate.

At a horizontal level, competitors of Massmart will either react proactively by reducing 'wastage-costs' and increasing their competitiveness or react negatively by closing plants, retrenching workers and casualizing labour in the wake of predatory pricing by Massmart.

At a vertical level, we will witness manufactures or even primary producers overlooked from Massmart's procurement and the horizontal competitors to Massmart may follow suit in opting to procure abroad whenever they can to keep up with survival with foreign 'competition' or dumping channeled through Massmart global supply-chain.

It is therefore our submission that the first prize for us is for parliament to ensure its prohibition or to place stringent conditions, including on local procurement target, as a second prize. The so-called conditions attached to the merger is nothing but volunteered 'charity' gesture on the part of Walmart and they are very far from being reasonable and stringent.

**Katishi Masemola, General Secretary**