Stop merging and compete for your market

And here we go again, this time in the Chilean food industry: a proposal to merge the Chilean productive operations of Nestle, the Swiss food giant and Fonterra, a world dairy producer, following a worldwide agreement between both companies. It so happens that in Chile they are too big and determinant even under individual terms, making impossible to have a post merger healthy competitive market. For this reason, the merger proposal should not be allowed to go on and perhaps, going beyond the expected, further require them to dispose of any one of their domestic businesses to avoid or minimize possible anticompetitive practices that could be born out of this worldwide transaction, now wholly transparent.

The basic figures, as presented by them, are that they would be buyers for over 40% of domestic milk production and sellers of more than 40 % of processed fresh milk and 50% of some other dairy products that are sold in the fresh market, markets which are not competitively replicable from foreign providers due to their perishable and logistical costs restrictions. The distribution would be mainly done, over 80%, under supermarket chains that themselves have been undergoing a dangerous concentration trajectory. Proposals for partially independent management over their operations – with no punishments if later unobserved - are well intended but like gravitational force, they are unable to control the inner forces of economic incentives in oligopolistic markets, as an apple would inevitably fall to the earth from the tree, after successive and permanent day to day interaction.

Merger proposals usually show estimates over some expected additional productive efficiencies, but these are most of times relatively irrelevant with respect to the unrecognized grab of market power that takes place in the short term wherever they operate, be it in the supplier chain or in the consumer one. Also, they frequently try to explain that markets continue being challengeable, even after mergers or structural changes have occurred, but the reality is that they are much difficult to oppose and in fact there appears a bigger incentive inside those markets to follow them, more so when possible competing actors are following the same path in other sectors as well. It is this an implicit game where big groups end “allowing” this concentration here while at the same time they are “allowed” to continue with their own unchallenged economic yards somewhere else. In Chile, we have come to a point where there is too much complicity among the few existing economic groups and authorities that do not dare to raise credible objections to this suffocating economic environment. Under this scenario, any merger will most probably involve a social loss and higher prices that will be primarily burdened on consumers.

Let us just remind what has happened during this last year, to stress the point: a domestic airline is trying to merge with a Brazilian one, carrying a history of anticompetitive practices while at the same time keeping de facto entry barriers to air routes; a recent initial public offering of a fishing company incredibly pleases itself with high artificial barriers of entry as an essential part of its equity value; even after clear antitrust challenges, incumbent ports publicly tried to stop further openings to other competitors for new capacity; fishing quotas are stubbornly opposed by incumbents to be given under open bids; the structural dominance by a few in electricity generation capacity is only signaling and consolidating higher than competitive prices; antitrust verdicts in the phone area have been reiteratively ignored or reluctantly upheld; banks continue working with information asymmetry, lack of precise information of their products, tie in sales bundles and other practices that clearly inhibit competition that gets reflected in the cost and allocation of credit, despite increasing criticism; a publicly traded mining company partners under no competitive pressure and incomplete information with a controlling shareholder; etc, etc, etc.

In other words, what we are looking at is not just an unusual and unique merger between two firms in some market to be evaluated independently of others, but a common practice that one is surely to recognize wide and rampant over the whole economic system, a system that was and is supposed to be competitive.

It is not beneficial to our economy to have these mergers and commercial practices as if nothing big would happen in their specific markets and we were asked to assume as normally accepted to have most of economic activity in so few hands. What is proposed in the food sector is also happening in the aggregate and there is only one answer: stop merging and start competing with everybody in the field, if we want to be a developed nation sometime in the future. The present trend is slowly cornering Chile into an unsustainable position that will be solved only when all markets are effectively competitive, starting with the capital market, and authorities clearly and loudly say no to any transaction if reasonable doubts are raised about competitive levels and also demand respect for the word and spirit of their past resolutions.

As of now, a moratorium of mergers of this nature is urgently needed.

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