Group Case Work

Real Case

Price Discrimination in Kenya's Steel Industry

Background

In a press release of Tuesday, May 4 1999, a business writer in the Financial Standard alleged an existence of a powerful cartel involved in fixing prices in steel industry.

The writer alleged that a price fixing cartel operated by Kenya's five biggest firms in the steel industry has been choking competition from small players operating or trying to enter this multi-billion industry for the last five years.

Investigations by The Financial Standard revealed that the industry is a tightly controlled, closely knit cartel which determines pricing levels and makes it well high impossible for others to enter in the industry.
The cartel is said to be holding regular meetings to fix prices. Industry sources said that the cartel wages fierce price wars on new entrants and categorizes business along racial lines.
Contacted for comment about a scheduled meeting, managing directors of two firms alleged to be involved in the practice refused to either comment or deny that such meetings take place.

Features of the case

1. Meetings every first Monday of the month to fix prices and discount structures for the product lines by the five biggest steel firms all owned by businessmen from a particular race
2. Last meeting was held around Easter holidays and the prices went up by 20% across the board for all categories of customers. The operational prices effective a week later of such products like steel square sections, rectangular sections, black pipes, round steel tubes and red purlins are identical to the cent. Also, the maximum amount of discounts that can be enjoyed by customers was reduced to 5%. Prices are further to be reviewed following the volatility of the shilling against the dollar.
3. Customers are divided into two categories. The best is category "A" enjoying the biggest discounts and hence the best prices. These include major steel traders, fabricating and engineering firms owned by business people from a similar race as that of the owners of steel firms. Other steel buyers are lumped together and charged a much higher price with no credit terms and a lower discount.
4. Categorization of clients has led to extra costs to some leading users.
5. The five firms are alleged to practice limit pricing and even selling commodities at an artificially low price to deter competition, threats of offering money to some firms so as to marginalize competitors and ensure that they remain secure in the market.
6. In Nairobi, 23 firms are on the category "A" list. Starkly missing on the category "A" discount list are big fabricators and engineering firms which according to insider sources are some of the major steel buyers but they fail to qualify on racial grounds.

Assuming you are the case officer, how would you go about investigating and analysing the allegation using the Ethiopia Competition Law?