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Anti-Monopoly Commission Investigates Wal-Mart Affiliate in Mexico

by LADB Staff

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The government's anti-monopoly agency Comision Federal de Competencia (CFC) has launched an anti-trust investigation against Walmex, a subsidiary of US-based retailer Wal-Mart Stores Inc. The investigation was announced May 29 in the government's daily register (Diario Oficial de la Federacion).

The CFC agreed to review the company's practices after a group of distributors and suppliers accused Walmex of using its market power to pressure them into selling products to Walmex at lower prices than to competitors. Mexico's anti-monopoly laws prohibit any contracts or agreements whose sole purpose is to remove or block competitors from the market or establish exclusive advantages for any of the parties involved in the contract.

The company has denied putting any pressure on its suppliers. "We're puzzled because we have healthy market practices with all our suppliers," said Walmex's vice president for public relations Mercedes Aragonés. Aragonés acknowledged that her company asks suppliers for lower wholesale prices, but this is because it purchases in large volume. "Of course we have asked for better prices, because we buy in large quantities and we save our suppliers money through our distribution system," Aragonés said.

Some private analysts said the CFC may have a weak case against Walmex because its relationships with distributors are not that much out of the ordinary. "The practice of finding the best prices is inherent in the retail and wholesale sectors," a recent Grupo Financiero Banamex-Citibank analysis said. Still, Walmex says the company will cooperate fully with Mexican authorities in the investigation. "We want to provide assistance in resolving this concern," said company official Jose Angel Gallegos.

Rapid expansion in Mexico creates some concerns

The company's rapid expansion in Mexico in the past two years has raised eyebrows because it has increased its market share at the expense of other retail companies. Walmex, which recently acquired competitor Grupo Cifra, now operates more than 500 commercial outlets and restaurants in Mexico.

The announcement of the CFC investigation did not mention the providers that filed the complaint against Walmex. But analyst Ismael Capistrán Bolio of Valmex Casa de Bolsa suggests that other retail chains may have influenced the anti-trust probe. "We have to examine whether the complaint is actually promoted by the distributors or whether the large retail chains are behind them," said Capistrán Bolio. Some political leaders are not as worried about Walmex's impact on other retailers as they are about the negative effect on small businesses.

The center-left Partido de la Revolucion Democratica (PRD) is planning to ask the permanent joint committee of the Chamber of Deputies and Senate (Comision Permanente) to launch its own investigation into Walmex's business practices in Mexico. "This chain has displaced hundreds of small and medium-sized businesses in Mexico," said PRD Deputy Jose Antonio Magallanes Rodriguez. Magallanes urged the committee to especially consider the impact of Walmex's monopolistic powers, especially with its plans to open another 60 outlets in the next few years. "In 2001 alone, the company earned more than US\$9 billion, which is more than Mexico's annual earnings from tourism or from petroleum exports."

Some opposition legislators noted an irony in the PRD complaint against Walmex and its parent company Wal-Mart. "This company that is under attack by the PRD is the same one that received an exclusive contract from the Mexico City government under former PRD mayor Rosario Robles Berlanga, who is now the party's president," Mexico City legislators Jose Luis Luege and Ernesto Herrera, both of the center-right Partido Accion Nacional (PAN), said in an interview with the Mexico City daily newspaper Novedades. (Sources: Reuters, 05/28/02, 05/29/02; Associated Press, 05/29/02; Reforma, 05/28-30/02; The News, Milenio Diario, El Universal, 05/30/02; Notimex, 06/04/02; Novedades, 06/04/02, 06/05/02)

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