

COMPETITION TRIBUNAL

REPUBLIC OF SOUTH AFRICA

Case Number: 12/LM/Feb00

In the large merger between

Pioneer Foods (Pty) Ltd

and

The cereal breakfast division of National Brands Ltd

Reasons for the Competition Tribunal's Decision

Approval

The Competition Tribunal issued a Merger Clearance Certificate on 19 April 2000 approving the merger between Pioneer Foods (Pty) Ltd and the cereal breakfast division of National Brands Ltd without conditions. The reasons for our decision to approve the merger are set out below.

The merger transaction

Pioneer acquired the entire ready to eat, hot cereals and infants' breakfast cereals division of National Brands, which consisted of ProNutro, Maltabella and Kreemy Meel.

Evaluating the merger

The Tribunal agrees with the Competition Commission that the relevant market should be defined narrowly as the market for breakfast cereals, which can be subdivided into three sub-markets namely hot breakfast cereals, ready to eat cereals and infant cereals in South Africa. Although one can argue that ready to eat and hot cereal categories are one relevant product market if one considers

that cereals can be eaten with hot milk, the difference in price and taste suggest that the two products do not compete.

In both the ready to eat cereal and the hot cereal markets the merged entity is, according to AC Nielsen, the second largest market player. In the ready to eat market the post-merger market share of Pioneer is 31,7%. Its main competitor in this market is Kellogs' with a market share of 53,2%, which is also the largest player. In the hot cereal market Jungle Oats is the largest with a market share of 68,8% whereas the merged entity has 14,8% of the market. Pioneer has never been involved in the production of infant cereals prior to the merger.

Although concentration in the ready to eat cereal market is high, the Tribunal is satisfied that adequate countervailing power exist in the bargaining power of supermarket stores such as Pick 'n Pay, Spar and other large buyers. These companies are also in a position to import products and are already in some cases doing so. Moreover, the customers informed the Competition Commission that they have not noticed any changes or effects in terms of prices and sales of any cereal products following the implementation of the merger in June 1999.

The Tribunal agrees with the Competition Commission that the merger does not substantially affect competition in the hot cereal breakfast market.

The Tribunal is also satisfied that the merger does not raise any public interest concerns listed in section 16(3).

D.H. Lewis

4 May 2000

Date

Concurring: N.M. Manoim and S. Zilwa