COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 28/LM/Apr04

In the large merger between:

The Industrial Development Corporation of South Africa

and

Prilla 2000 (Pty) Ltd

Reasons for Decision

APPROVAL

On 17 June 2004 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between the Industrial Development Corporation of South Africa and Prilla 2000 (Pty) Ltd in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

<u>The Parties</u>

1. The primary acquiring firm is the Industrial Development Corporation of South Africa ("IDC") a self-financing, public corporation which supports local industry through the provision of development finance.

2. The primary target firm is Prilla 2000 (Pty) Ltd ("Prilla"). It is a subsidiary of Tolaram Corporation (Pty) Ltd, which is incorporated in Singapore. Prilla is engaged in the business of spinning cotton yarns for knitting and weaving applications.

The Merger Transaction and Rationale

3. Prilla is unable to repay its debt to the IDC. Therefore, in lieu of payment, the debt is being converted into equity resulting in IDC holding an additional 30% of the issued shares of Prilla. Also, IDC is acquiring the remaining 30% stake in Prilla from Tolaram, thereby acquiring Prilla in its entirety.

4. The IDC hopes by this transaction to create an independent cotton yarn spinner that can achieve critical mass and scale economies to compete internationally. This is essential in SA market specifically as this sector has come under increasing pressure in the wake of cheaper imports of both cotton yarn and clothing. This has harmed the financial viability of local cotton yarn producers. There are therefore convincing pro-competitive aspects to this merger.

Relevant Product and Geographic Markets

5. The IDC also controls Dynasty, which competes with Prilla in the manufacturing and sale of cotton yarn. This firm is therefore taken into account in computing combined post-merger market share.

6. The relevant market is defined as that for the manufacture and sale of cotton yarn in South Africa. Prilla sells all the cotton yarns that it spins to third parties in the textile industry.[1] Its competitors consume most of the cotton yarns internally, selling only a portion in the open market. The Commission further analysed this as a national market since cotton spinners and textile manufacturers both source from suppliers country-wide, as well as operate throughout South Africa.

Impact on competition

7. The commission evaluated market shares based on three different aspects:

Market share based on output

8. In the market for the sale of spun cotton to third parties, the combined market share is 37%. This makes the merged entity the largest non-vertically integrated cotton spinner which sells finished cotton yarns to the open market, along with the Frame Group.

[1] The Commission noted that whilst both Prilla and Dynasty spin cotton yarn for knitting and weaving applications as well as spinning polyester and blend cotton and polyester, cotton spinning is materially different from the spinning of other fibres, therefore the focus is limited to the cotton spinning market.

Market share based on input

9. Based on consumption of cotton in South Africa, the merged entity will have a post-merger market share of 17%. This means that they are the second largest consumer of cotton behind the Frame Group[2].

Market share based on equipment used in spinning plants

10. The Commission based these computations of capacity on the basis of the amount of spindles and rotors used in each plant. It emerged that the merging parties combined post-merger market share based on spindles used is 15.7% and 11.9%, on the basis of rotors[3].

11. Based on combined market shares, the merger presents no concerns of a substantial lessening or prevention of competition. Though the merging parties will, along with the Frame Group, account for a large proportion of spun cotton yarn sold to third parties, there are other pertinent market factors which the Commission correctly considered which indicate competition in the cotton spinning market will not be compromised:

(a) **Market dynamics:** Over the last few years, there has been increasing importation of clothing and cotton yarn from abroad. Although these imports have to an extent led to the demise of local manufacturers they will still constitute a competitive constraint that limits the ability of the merged entity to increase prices in the post-merger environment.

(b) **Other Players:** The two other major competitors in the market for the manufacture and sale of cotton yarn are the Frame Group and Da Gama Textiles. Both are vertically-integrated firms, using the yarns for internal purposes and both are controlled by not insignificant companies, namely the Seardel and Kap Groups respectively. Competitors and customers of the merging parties who were consulted during the Commission's investigation, had no reservations regarding this merger.

Public interest Issues

12. SACTWU asks that the merger be made subject to a condition that the IDC abide by any agreements with the National Textile Bargaining Council. We agree with the Competition Commission's view that a condition to this effect is unnecessary, since the merger doesn't alter the validity or enforceability of this agreement/s with the National Textile Bargaining Council. There are no other public interest concerns which arise.

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[2] Information sourced from Cotton South Africa.
[3] Information sourced from South African Textile Federation.

Conclusion

We conclude that the merger will not lead to a substantial lessening of competition and therefore approve the transaction unconditionally.

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N. Manoim	Date

Concurring: P. Maponya, T.Orleyn

For the merging parties:	Bowman Gilfillan Attorneys
For the Commission:	M. van Hoven and E. Ramafamba, Competition Commission