

In the large merger between:

Namitech Holdings Limited

and

Integrated Card Technology (Pty) Ltd

Reasons for Decision

APPROVAL

On 7 August 2002 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Namitech Holdings Limited and Integrated Card Technology (Pty) Ltd in terms of section 16(2)(a). The reasons for the approval of the merger appear below.

The Parties

1. The acquiring firm is Namitech Holdings Limited ("Namitech"), a subsidiary of Nampak Products Limited ("Nampak Products"), which, in turn, is a wholly owned subsidiary of Nampak Limited ("Nampak"). Namitech is a public company but is unlisted.
2. The target firm is Integrated Card Technology (Pty) Ltd ("ICT"), a private company. It was initially set up as Namitech's smart card manufacturer. Its primary business is therefore the manufacture of smart cards for the cellular industry (also known as SIM cards).

Rationale for the Transaction

3. The German Shareholders, Orga Kartensysteme ("Orga") and Gieseke & Devrient GMBH ("G&D"), are leading international smart card technology suppliers. They are required to provide technology to ICT. However, since they compete with each other globally, having joint shareholding in ICT poses a problem, insofar as they both provide smart card technology to ICT, they are afraid the other will gain access to confidential information of the other. At the time when the shareholders agreement was signed in

1997, this arrangement seemed commercially feasible, since the market was less sophisticated than it is now and the German shareholders had separate customers.

With the merger, and the removal of confidentiality breaches, G&D will be able to grant ICT access to technology and resources, providing it with a competitive advantage since it will enable ICT to develop new smart card applications and enhance its service to its customers.

The Merger Transaction

4. Namitech currently holds 48% in the target firm, ICT and also has management control. Under the merger, Namitech is acquiring Orga's 24.25% share in ICT. Post-merger, it will thus hold approximately 72.25% in ICT.

The Relevant Market

5. The affected market is the market for smart card technology. There is no market share accretion since while ICT is a leading manufacturer and provider of smart cards, principally to the cellular phone industry, Namitech itself does not produce any smart cards (other than through ICT). Namitech's telecommunications business unit services the total needs of a network operator, including the provision of starter packs comprising SIM card, prepaid voucher, explanation booklet and PIN/PUK details.¹ Namitech does produce other types of cards, termed magnetic stripe cards, which are apparently different in terms of storage capacity, price and functionality, therefore not substitutable with smart cards.²
6. Namitech sources all of its smart card requirements from ICT and merely on-sells or exports³ them outside South Africa. ICT supplies smart cards only domestically, its one major domestic customer is Vodacom, its sales to Namitech are for sale/export outside South Africa, since it is prohibited in terms of the shareholder agreement from selling smart cards itself outside South Africa. This was arranged initially in order to restrict ICT's competing with its German shareholders.⁴

¹ Namitech's other business units include Gaming and Leisure, New and Emerging Business, Financial services, but these are not relevant to this transaction.

² Typically, ATM cards, are less technologically sophisticated than Smart cards. Magnetic cards ("magstripe") are ATM or Visa-type credit cards with less security than on SMART cards. The latter typically contain more data information and enhanced security features. An example is the SIM cards we put in our cell phones.

³ Namitech is prohibited in terms of the Shareholders Agreement from producing Smart Cards in SA and the SADC countries, therefore sources all its smart card requirements from ICT

⁴ Likewise the German shareholders were also prohibited, in terms of the Shareholders Agreement from setting up a smart card operation in SA.

7. Notwithstanding the lack of overlap , the market shares for smart card market of ICT and its local and international competitors are as follows:

ICT	25%
Altech ⁵	5%
Prism	5%
Schlumberger (offshore supplier)	25%
Gemplus (offshore supplier)	40%

Vertical Issues

8. Namitech sources all its smart card requirements from ICT. Smart cards themselves are relatively easy to import (as accounted for by the large market share of the foreign competitors above), since import duties are only 5% and approximately 65% of all smart cards used in SA are imported.
9. In turn, Namitech supplies ICT with PVC base cards, which are essentially just plastic cards, to which ICT then applies the technology to make it into a smart or SIM card. Namitech has 40% of the base card PVC market, with Altech having 50%, the only two local providers of these cards, the rest are imported from Gemplus and Schlumberger. The merging parties stated at the hearing that locally, Altech produces base cards for its own use, but can also produce beyond its own needs. Altech presently has various banking and retail customers. Therefore it seems unlikely for Namitech to foreclose or raise prices in respect of the market for base cards, as there are other suppliers – both local and international and the parties claim that its price is competitive.
10. Namitech does supply PVC base cards to Prism, a competitor of ICT. We raised at the hearing concerns that the merger might lead to Namitech raising its prices to Prism. The merging parties advised us that as the supply of PVC base cards to the sim/smart card segment of the industry was a small part of the industry such a strategy would be unlikely and unprofitable. Furthermore prices in the market are transparent. Even if Namitech engages in transfer pricing to prefer ICT to Prism, Prism has other sources of supply to turn to. The PVC card furthermore constitutes approximately 4% of the cost of a final smart card.

Impact on competition

11. There is in fact no change in the status quo as Namitech has been managing ICT since 1997 in any event. The vertical considerations are not a concern, since there are alternate sources of supply in South Africa, both of PVC and Smart cards. In addition, there is strong countervailing power in
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this market, since each customer, one of the large cellular firms in South Africa, sources their Smart/SIM cards from one of the other providers.

12. The merger will improve ICT's ability to offer enhanced services and products to customers.

Conclusion

We conclude that the merger will not lead to a substantial lessening of competition. The Tribunal therefore approves the transaction unconditionally. There are no public interest concerns which would alter this conclusion.

N. Manoim

23 August 2002
Date

Concurring: D.H. Lewis, U. Bhoola

For the merging parties: Bowman Gillfillan Attorneys

For the Commission: A. Chetty, Mergers Division, Competition Commission