COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No.: 65/LM/May00

In the large merger between

Nasmedia

and

Paarl Post Web Printers (Pty) Ltd

Reasons for the Competition Tribunal's Decision

Approval

1. The Competition Tribunal issued a Merger Clearance Certificate on 26 July 2000 approving the merger between Newprint (a company to be formed) and Paarl Post Web Printers (Pty) Ltd without conditions. The reasons for our decision to approve the merger are set out below.

The Transaction

2. Paarl Post Web ("PPW") and Nasmedia Limited ("Nasmedia") are, through a series of transactions, forming a new printing company to be known as New Print which will own –

    a) The business of PPW (acquired through a purchase of 100% of its shares)
    b) The printing interest of Nasmedia's NTD division (acquired through a purchase of assets)

3. It is envisaged that the shareholding in Newprint will be:

Naspers	65%
Eagle Media (PPW's Holding company)	25%
MICEF (Mineworkers Investment Company Empowerment Fund)	5%
Employees	5%

4. Nasmedia will appoint 50% of the Board members of Newprint, with a maximum of four including the chairperson who will not have a casting vote. PPW will appoint two directors and MICEF shall appoint one director. One further

independent, non-executive director shall be appointed by the directors representing Nasmedia, PPW and MICEF and will hold office for a period of two years, with a possibility of re-appointment. Lambert Retief, currently the chairman of PPW, shall be the Chief Executive Officer and shall be responsible for managing Newprint. He will report to the Newprint Board.

Background

5. PPW who initiated the merger gave two different reasons for the transaction. Firstly a recent change in PPW 's shareholding had led to the introduction of an empowerment shareholder backed by an institution. The institution was reluctant to back an investment in an unlisted company but feared that PPW was too small to list.

6. Moreover PPW felt vulnerable because excess capacity already existed in this market. It was aware that Nasmedia was planning to introduce additional printing capacity in the form of a 48-page litho-web press, which would have enabled Nasmedia to print some of its in-house magazines itself, thereby affecting approximately 13% of PPW's business.

7. In light of the above PPW then decided to approach Nasmedia with a view to merge their printing facilities. This coincided with Nasmedia's process of re-evaluating its business in order to focus on publishing, which it regards as its core business.

The Relevant Market

8. This transaction represents the merging of two printing facilities, NND and PPW. NND is the in-house printer for Nasmedia, which, apart from its in-house publications, is also a publisher, printer and distributor for several independent publishers and other clients. PPW is an independent printer.

9. According to the Commission the product overlap in this transaction occurs in the printing of magazines, advertising inserts and catalogues. However, argues the Commission, within this broad market one needs to distinguish between the different print processes used by printers. Some printing processes, such as gravure, are more cost efficient for long run, high pagination commercial quality publications and others, such as sheet fed and commercial web, are best suited for shorter run, low pagination niche publications with higher quality demands.

10. According to the parties factors such as print order (quantity) and pagination (total number of pages) are taken into account when deciding which printing process should be used. Furthermore sheet-fed uses sheets of paper, prints one side at a time and delivers flat sheets at the end of the printing process, which needs to be

folded off-line before binding. Web and gravure use reels of paper, print on both sides of the paper in one process and deliver folded sections at the end of the printing process.

11. The Tribunal was provided with a price matrix, which illustrated that sheet fed is the dominant printing process used for quantities of less than 10 000. At 30 000 litho-web is dominant because the sheet-fed price becomes uncompetitive. Gravure will typically not quote for quantities below a 100 000 because from 100 000 gravure offers the best pricing structure. As the quantities increase the price differential between web and gravure will increase.

12. There are only two firms in South Africa, NTD and Republican Press, the in-house printing facility of CTP, that use gravure presses. PPW only uses litho-web whilst neither PPW nor NTD use sheet-fed presses. The product overlap is therefore only in products printed on litho-web presses.

13. According to the parties **CTP** has four 32-page litho-web presses, nine 16-page litho-web presses and five 8-page litho-web presses. **NTD** has only one 16-page litho-web press and **PPW** has one 32-page litho-web press and four 16 page litho-web presses.

14. Based on the above the Tribunal regards the relevant market as the printing market for magazines, brochures and advertising inserts printed on litho-web presses. The geographic market is South Africa since the consumers of the products and the merging parties' competitors are based across the entire country.

Impact on Competition

15. With regard to the printing of advertising inserts and brochures the Tribunal is satisfied that the merger will not substantially reduce competition since there is adequate printing capacity apart from Newprint in this sector of the market.

16. However, since magazine printing constitutes a major component of the print businesses of NTD and PPW (59,49% of NTD's total revenue and 49,75% of PPW's total revenue) as well as of printing in general, competition in this segment of the market needs to be analyzed in greater detail.

17. Apart from NTD, Paarl Post Web also competes with CTP, Derrick Butcher, Seculo Triweb and Universal Web in the litho web magazine print market.

18. In the absence of adequate turnover data the Tribunal followed the Commission and based its analysis of the market shares on magazine circulation data, collected by The Audit Bureau for Circulation of South Africa (ABC). The in-house publications of Caxton and Naspers are excluded since it is argued that these

publications, except in unusual circumstances, do not form part of the market for print for which independent printers can compete.

19. Based on the above, the percentage magazine market shares, pre-merger, are as follows:

Printer	Total copies per title, per issue (%)	Total copies per title, per annum (%)
NTD	18	16
CTP	35	51
PPW	30	21
Others	17	12
Total	**100**	**100**

20. Newprint's post-merger market share in terms of copies printed **per issue** will, therefore, be 48% and CTP's 35%. If one considers the total copies printed per title **per annum**, Newprint's market share will be 37% and CTP's 51%.

21. It is argued that CTP has a geographic advantage in the market because it is represented in both Gauteng and the Western Cape. According to the parties CTP (Gauteng) is currently printing some of Nasmedia's publications because this facility is closer to its specific end market.

22. It is clear from the above that Newprint and CTP are competitors of similar size with CTP being the larger of the two. Newprint would, therefore, not be able to control prices, exclude competition or behave to an appreciable extent independently of its competitors in the magazine printing market.

23. Moreover, the Tribunal was also told that there is a trend towards proliferation of magazine titles because niche markets are identified and increasingly catered for by specific publications. According to the Printing and Publishing Handbook, 1999, there were 180 consumer magazine titles in 1977 in South Africa, by 1987 this number had increased to 200, and by 1999, there were 510 titles.

24. The increase in the number of titles in the market has lead to a decline in circulation of the large-volume titles, which means that consumers of magazines are becoming more discerning, moving away from the general magazine and demanding more focused, specialist-type magazines. For printers, the result of this trend will be that short print runs and thus competition in the shorter-run segment of the market (litho-web offset) will be increasing.

25. Furthermore, although the magazine printing market is presently concentrated the dynamic characteristics is such that publishers who wish to enter the market can easily be accommodated by smaller printers such as Dereck Butcher in Cape

Town, Universal Web in Durban, Sekulo Triweb and Quick Colour in Gauteng that currently compete with PPW and Caxtons in the litho-web market. There are, therefore, strong indications that concentration could in future decrease as competition increases, which would also lessen the possibility of collusion.

Vertical integration

26. Nasmedia's main competitor is Caxton, which is, like Nasmedia, vertically integrated into magazine publishing, printing and distribution. In light of this fact the Tribunal asked the Competition Commission to enquire from PPW's clients, specifically the independent publishers, whether they were concerned about the effect that the proposed merger would have on their freedom to choose with whom they wanted to print and distribute their magazines. In addition the research division of the Tribunal also contacted the independent publishers to ask them whether the merger would prohibit them from introducing new magazines to the South African market and whether there are sufficient competitors in the printing and distribution market that could print and distribute new magazines.

27. The Tribunal was, subsequent to these further inquiries, not presented with any evidence to indicate that independent publishers were worried about introducing new magazines to the market or that the merger would impair their freedom of choice. To support this the parties mentioned that four new magazines published by independent publishers had entered the magazine market in the recent past namely *House and Garden, GQ, FHM* and *Men's Health* and that they were aware of two new magazines that would enter soon namely *Shape* and *Maxim*.

28. All the independent publishers did, however, indicate that distribution was a problem but that this problem had existed before the merger and would not be exacerbated by the transaction. However, while not providing grounds for imposing conditions on the transaction, the Tribunal is concerned about the possible impact of vertical integration, in particular on the ability of the large integrated companies to use their dominant position in distribution to exclude new competitors in publishing.

Control

29. The parties made much of the fact that the merger agreements did not give Nasmedia, the largest shareholder with 65% of the shares, management control of the company because in terms of the agreements Mr. Retief of PPW would be employed for a minimum of five years as the Managing Director of Newprint. The agreement gives him a large measure of autonomy in the running of the company. This they say means that Mr. Retief and not Nasmedia controls the

company and any concerns over Nasmedia's dominance is alleviated because Mr. Retief would not allow the company to be run in a manner contrary to the best interests of Newprint where those interests conflicted with those of Nasmedia. This may be so but to argue that a 65% shareholder does not have control for the purposes of the Act is hardly credible more especially as the Act in section 11(2)(a) states categorically that a person controls a firm if they beneficially own more than half of the issued share capital of the firm. We have proceeded to analyse this transaction on the assumption that Nasmedia controls Newprint.

Conclusion

30. In light of the above the above the Tribunal is satisfied that the merger does not substantially prevent or lessen competition in the relevant horizontal or vertical markets, nor does it raise any of the public interest concerns listed in section 16(3) of the Act.

D. Lewis

22 August 2000
Date

Concurring: N.M. Manoim and U. Boohla