

## COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 86/LM/Aug07

In the matter between:

**RIO TINTO PLC**

Acquiring Firm

And

**ALCAN INC**

Target Firm

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Panel : U Bhoola (Presiding Member), Y Carrim (Tribunal Member), and M Holden (Tribunal Member)

Heard on : 17 October 2007  
Decided on : 17 October 2007

Reasons issued on : 13 November 2007

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### REASONS FOR DECISION

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#### APPROVAL

[1] On 17 October 2007, the Tribunal approved the merger between Rio Tinto PLC (“**Rio Tinto**”) and Alcan Inc (“**Alcan**”).

#### THE TRANSACTION

[2] Rio Tinto, the primary acquiring firm, is an international mining group listed on the London stock exchange, with its headquarters in the United Kingdom. Rio Tinto’s

activities span the world, with a strong representation in Australia, North America, South America, Asia, Europe and Southern Africa. Rio Tinto does not have any controlling shareholder. It controls numerous firms world wide and has a number of subsidiaries in South Africa.<sup>1</sup>

[3] The primary target firm is Alcan Inc, a public company incorporated in Canada and traded on the Toronto, New York, London, Paris and Swiss stock exchanges. Alcan does not have a controlling shareholder. It controls a number of firms worldwide. It also has a number of subsidiaries in South Africa.<sup>2</sup>

[4] This is a global merger which has been filed with competition authorities around the world. To date it has been approved in Canada; the United States of America; Taiwan; South Korea; Serbia; Australia and Europe. In the instant transaction Rio Tinto has made an offer for a cash purchase of all of Alcan's outstanding ordinary shares. The transaction will only go ahead if accepted by shareholders holding no less than 66 percent of Alcan's issued share capital. Post merger Rio Tinto will exercise control over Alcan.

## **RATIONALE FOR THE TRANSACTION**

[5] Rio Tinto submitted that it believes that Alcan will be an excellent complement to its existing diversified portfolio and that Rio Tinto shareholders will benefit from the quality of Alcan's organization and asset portfolio; the favourable demand fundamentals of the aluminium sector and the synergies and enhanced development opportunities flowing from the transaction.

[6] According to Alcan, the transaction will provide value to its shareholders and will offer compelling opportunities to its employees in being part of an extremely strong and

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1 These Phalaborwa Holdings Ltd; Phalaborwa Mining Company Ltd; Rio Tinto South Africa Ltd; Kwezi Mining and Exploration (Pty) Ltd; Mzingwenya Mineral Sands (Pty) Ltd; Nozalela Mineral Sands (Pty) Ltd; Richards Bay Iron and Titanium (Pty) Ltd; Soil Sampling and Testing (Pty) Ltd; Tisand (Pty) Ltd; Tojan Holding Company (Pty) Ltd; and Zululand Titanium (Pty) Ltd.

2 These are Alcan International Network SA (Pty) Ltd; ECL Services Africa Engineering Ltd; and Coega Aluminium (Pty) Ltd.

diversified global organization.

## **THE PARTIES' ACTIVITIES**

[7] Rio Tinto mines aluminium, copper, diamonds, coal, uranium, gold, industrial minerals (borax, titanium dioxide, salt and talc) and iron ore globally. In South Africa Rio Tinto, through Phalaborwa Mining Company Ltd, produces copper, and titanium feedstock, through its operation in Richards Bay Iron and Titanium (Pty) LTD. The parties submitted that Rio Tinto has no mining, smelting or refining activities in South Africa in relation to aluminium.

[8] Alcan's main activities include bauxite mining; alumina refining, production of specialty alumina, aluminium smelting, manufacturing and recycling; engineering; flexible and specialty packaging and research and development. ECL Services Africa Engineering Ltd, a division of Alcan, supplies cranes and potroom equipment for the aluminium industry worldwide. In South Africa this business provides spare parts, technical assistance, maintenance and engineering services through its operation in Richards Bay. Alcan International Network SA (Pty) Ltd provides engineering services world wide and also has an office in Sandton, South Africa.

## **THE RELEVANT MARKET**

[9] Alcan has interests only in the aluminium industry and is involved in both the upstream and downstream of that industry. Rio Tinto's activities in the aluminium industry are confined to the upstream sector, namely the mining of bauxite, refining of alumina and smelting of primary aluminium.

[10] The parties submitted, in line with previous European Commission decisions,<sup>3</sup> that the relevant product markets are that of the mining of bauxite, refining of alumina

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<sup>3</sup> See EN/Glencore/Sua/UC Rusal COMP/M.4441 (2007) and Alumix/Alcoa IV/M.675 (1996).

and smelting of primary aluminium. We agree with the market definition adopted by the merging parties and the Commission.

[11] Tables 1 to 3 below indicate the five major competitors in the bauxite, alumina and primary aluminium markets and their estimated market shares:

**Table 1. Major competitors and estimated market shares: Bauxite market**

Company	Estimated market share
Alcoa	19.3%
UC Rusal	8.6%
BHP Billiton	7.3%
Rio Tinto	<b>[Confidential: 5% - 10%]</b>
Alcan	<b>[Confidential: 5% - 10%]</b>

**Table 2. Major competitors and estimated market shares: Alumina (SGA) market**

Company	Estimated market share
Alcoa	20.3%
UC Rusal	15.4%
Chalcoa	13%
Alcan	<b>[Confidential: 5% - 10%]</b>
Rio Tinto	<b>[Confidential: 3% - 9%]</b>

**Table 3. Major competitors and estimated market shares: Primary aluminium market**

Company	Market share: Standard Purity	Market share: High Purity
Alcoa	11.0%	13.4%
Rio Tinto	<b>[Confidential: 2% - 5%]</b>	<b>[Confidential: 15% - 20%]</b>
Dubal	2.3%	12.9%
Alcan	<b>[Confidential: 10% - 15%]</b>	<b>[Confidential: 4% - 8%]</b>
UC Rusal	11.6%	2.8%

## COMPETITION ANALYSIS

[12] Tables 1 and 2 reflect that the merged entity will have market shares of **[Confidential: 10% - 15%]** and **[Confidential: 10% - 15%]** in the bauxite and Alumina: SGA markets respectively. In these markets the merging parties submitted that they

both have no production capacities in South Africa, although Alcan has minimal sales.

[13] From table 3 it appears that the merger is likely to create the world's largest producer of primary aluminium, with **[Confidential: 10% - 15%]** and **[Confidential: 20% - 25%]** market shares in the standard and high purity aluminium markets, respectively.

[14] In the standard purity market, however, there are credible alternative suppliers such as UC Rusal and Alcoa with 11.6% and 11.0% market shares, respectively. In the high purity market there are also credible alternative suppliers such as Alcoa and Dubal with 13.4% and 12.9% market shares, respectively. As far as South Africa is concerned Rio Tinto has only two customers in the primary aluminium market and the volume of sales to these customers represents only **[Confidential: 0.1% - 0.9%]** of its total production worldwide. Alcan's main activities in South Africa on the other hand relates to its ECL<sup>4</sup> and AIN<sup>5</sup> businesses.

[15] Although the merged entity is likely to gain significant market shares in the high purity aluminium market, it is our view that the merged entity will not raise prices profitably due to high countervailing power exercised by customers over producers.

## **CONCLUSION**

[16] We find that the transaction does not raise any significant public interest issues and accordingly approve the merger without conditions.

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**Y Carrim**

**13 November 2007**

Date

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<sup>4</sup> In South Africa this business provides spare parts, technical assistance, maintenance and engineering services through its operation in Richards Bay.

<sup>5</sup> Alcan International Network provides engineering services world wide and also has an office in Sandton, South Africa.

U Bhoola and M Holden concurring.

Tribunal Researcher : P S Munyai

For the merging parties : Deneys Reitz Attorneys

For the competition commission : Hardin Ratshisusu  
(Mergers & Acquisitions)