

**COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA**

Case No: 93/LM/Sep05

In the large merger between:

Steinhoff Africa Holdings (Pty) Ltd

and

**North Eastern Cape Forest Joint Venture and
Goeiehoop Farming (Pty) Ltd**

Reasons for Decision

APPROVAL

On 15 December 2005 the Competition Tribunal issued a Merger Clearance Certificate approving the merger between Steinhoff Africa Holdings (Pty) Ltd and North Eastern Cape Forest Joint Venture and Goeiehoop Farming (Pty) Ltd in terms of section 16(2)(a) of the Act. The reasons appear below.

The Parties

1. The acquiring firm is Steinhoff Africa Holdings (Pty) Ltd ("Steinhoff"), a private company incorporated in South Africa. It is a subsidiary of Steinhoff International Holdings Limited ("Steinhoff IH"), a public company incorporated in South Africa. Steinhoff controls over forty subsidiaries within South Africa which are listed on page 2 of the Commission's report.
2. The primary target firms are the North Eastern Cape Forest Joint Venture ("NECF") and Goeiehoop Farming (Pty) Ltd ("GF").
3. NECF is a joint venture between the Industrial Development Corporation of South Africa Ltd ("IDC"), Goeiehoop Farming (Pty) Ltd and Mondi South Africa Ltd ("Mondi") and jointly controlled by these entities in a partnership.

The Merger Transaction

4. To facilitate this, two agreements will be entered into:-
 - a. the existing agreement constituting the NECF will be amended to account for the change in the business of NECF. ¹
 - b. Steinhoff will acquire from Mondi its undivided interest in the assets, liabilities of the NECF as well as Mondi's claims against Goeiehoop and ordinary shares in the issued share capital of Goeiehoop. The existing management agreement between the NECF, Goeiehoop and Mondi is to be ceded to Steinhoff.
5. In effect therefore, Steinhoff is replacing Mondi as a partner in NECF.

Rationale for the Transaction

6. Mondi had planned to develop and maintain commercial forestry plantations on the land owned by Goeiehoop to produce paper pulp for use in its paper production, this never materialised. The reason being that the plantations were located too far from Mondi's paper production facilities. Mondi now wishes to exit and accordingly is disposing of its interest in the NECF and Goeiehoop.
7. The primary reason cited by Steinhoff is that it hopes to achieve certain efficiency benefits arising from a cluster development it intends to undertake in the North Eastern Cape. ²

The NECF Cluster Development

8. Various activities in the forest-to-finished timber product-to-waste value-chain will be combined in a cluster development. The main participants will be Steinhoff, the IDC, the Eastern Cape government and several black economic empowerment groupings. The parties claim various efficiency benefits for this cluster development.³ The assets and activities undertaken at the cluster will include:

☞ Acquisition of timber resources, namely the North East Cape forests owned by the NECF totalling 78 860 hectares;

☞ Installation of a saw mill to provide for the manufacturers;

☞ Other activities:

¹ That is, whereas the NECF initially used its forest timber to produce pulpwood, Steinhoff and the IDC will henceforth use it to produce sawlogs and pulp grade logs for use in the cluster development.

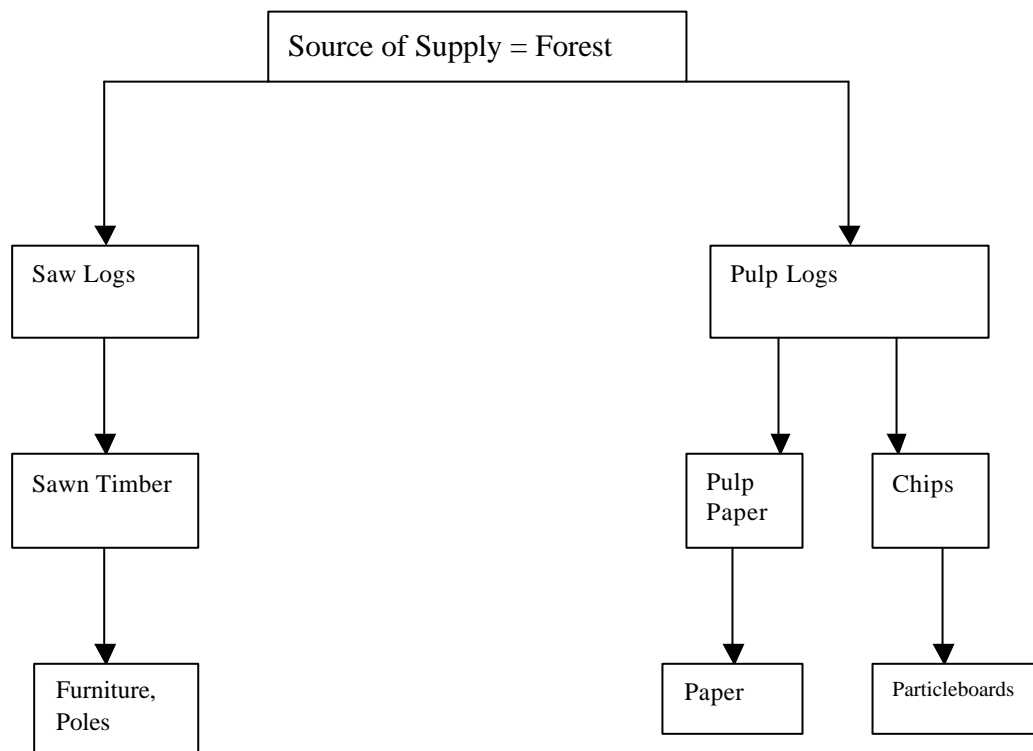
² See in this regard Inzuzu Furniture Manufacturers (Pty) Ltd and PG Bison Holdings (Pty) Ltd – 12/LM/Feb04

³ Commission's Recommendations page 8

- Erection of a **new particleboard manufacturing plant**, envisaged to optimise tree utilisation by consuming the waste from the forest, saw mill, etc.
 - Establishment of **manufacturing facilities** to make doors, pine household goods and components for export;
 - Utilisation of **lower grade timber** for pallets;
 - Miscellaneous services by SMMEs relating to **ancillary activities** such as transport, security, canteen, maintenance and waste removal.
9. Post-merger, Steinhoff and the IDC have agreed to use the timber for the production of sawlogs and pulp grade logs. Steinhoff asserts that it will only use 25% of the relevant forest yield from NECF's forests for sawlogs. The remainder will be utilised for the production of pulp grade logs.P 14

The Flow of the Industry

10. At this stage it is useful to examine the interaction of various markets comprising this sector.



The relevant product and geographic markets

11. Steinhoff IH is an integrated saw milling, wood processing and furniture and bedding manufacturing firm which conducts business through its various subsidiaries, including Steinhoff Africa. Its specific business activities are as follows:
 - ✂✂ Furniture and bedding manufacture
 - ✂✂ Foam and textile manufacture
 - ✂✂ Production of processed timber products, such as particleboard
 - ✂✂ Saw milling
 - ✂✂ Forestry
12. The only business activities that are relevant to this transaction are those of forestry, saw milling and the production of processed timber products, in particular, particleboard. In this regard, Steinhoff owns and operates various saw mills throughout South Africa. It further owns and manages around 7 039 hectares of forests in South Africa, all situate in the Southern Cape region.
13. NECF is an unincorporated joint venture, formed to establish, develop and maintain commercial forestry plantations and additional fibre sources in the North Eastern Cape on the land owned by Goeiehoop. The NECF was formed to establish a beneficiation project in the paper and pulp industry. However, as discussed above, this project never materialised. However, these plantations are effectively unused, since NECF maintains that in 2003, 6 000 out of 34 752 hectares were destroyed by fire.
14. Goeiehoop is the owner of the farm comprising the plantation land operated by NECF. It was not actively trading at the time of this merger.
15. The merging parties and commission assert that there is no product overlap insofar as neither NECF nor GH were trading at the time of the transaction. Therefore they do not compete with the Steinhoff Group.
16. Therefore, this transaction essentially entails the acquisition of commercial plantation land by a dominant, integrated manufacturing and wood processing firm. It has both horizontal and vertical effects, which we proceed to examine in the next section.
17. The Commission identified four relevant markets:
 - i. The upstream market for sawlogs
 - ii. The downstream market for sawn timber
 - iii. The upstream market for pulp logs
 - iv. The downstream market for particleboard.

18. We do not deem it necessary to take a view on whether each market is national or regional as competition concerns do not arise on either definition.

Impact on Competition

Horizontal Effects

19. Steinhoff is acquiring its first plantation in the Eastern Cape. Nationally, the market share increment is not large, since though the Goeiehoop farm constitutes 5.8% of the total area under plantation in South Africa, the Commission found that only 2.5% of the plantation area comprised trees that were planted. Nevertheless, on a conservative estimate, they state that post-merger, Steinhoff will own the equivalent of **6.4%** of the total area under plantation in South Africa. This national market share held by Steinhoff is therefore not large enough to raise any competition concerns.
20. Even on a regional market definition, we do not find that the transaction raises concerns. Steinhoff does not currently own forest plantations in the Eastern Cape region. However, through NECF, it is acquiring **21%** of the area under plantation in the Eastern Cape.
21. Notwithstanding Steinhoff's acquisition of additional forestry plantations, this does not change the competitive state of the market. The NECF has never been a player in the market at large. As far as the supply of saw logs and sawn timber are concerned, the NECF has therefore never been an existing competitor. The NECF never sold sawlogs since their plantation was only used for purpose of producing pulp logs. As far as the downstream national market for sawn timber is concerned, Steinhoff's national market share for the sale of saw logs is only 7.5%. On a regional definition of the market, there is no overlap, since the NECF never sold sawn timber nationally, again because their production was that exclusively of pulp logs for use by Mondi to make paper.
22. Similarly, as far as pulp grade logs are concerned, NECF have not sold pulp logs at all in the market but dedicated the supply of pulp logs exclusively for the internal use by Mondi. Therefore, in respect of both pulp logs and sawn timber, the NECF have never produced anything for sale to the existing market. Similarly, Steinhoff has not sold any pulp logs in the market nationally.
23. Therefore, on either the narrower or broader definition of the market, this transaction raises no competition concerns.

Vertical Effects

The downstream market for particleboard

24. Though the market share of Steinhoff in this market is quite high at 50.4%, this is not a merger-specific occurrence since this high market share existed pre-merger. As stated before, the NECF is not active in this market at all.
25. In order to produce particleboard, two key inputs are required, namely pulp logs and wood waste. The latter is derived from the clearing of trees and through the sawn timber process. It can be obtained from forests or from sawmills. At present, Hans Merensky (Singisi), NECF, MTO, DWAF and Amatolga provide these key inputs in the relevant Eastern Cape area. Singisi is the largest supplier hereof.
26. Magnaboard, a Steinhoff competitor in this market, indicated a concern with the merger. Its concern related to the continued supply to it of the raw materials, particularly the wood supply, from surrounding plantations. It submitted that once Steinhoff's particle-manufacturing plant was established, Steinhoff's share of the particleboard market would increase with this merger, giving it a near monopoly, thereby enabling it to exclude Magnaboard from the market. Notwithstanding an invitation to participate in the hearing, Magnaboard elected to stand by its written submission. In its submission, it indicated that Steinhoff (through PG Bison, its subsidiary) had previously made various overtures to the owners of other plantations and offered to buy the pulp wood (supply) of one such plantation which would otherwise go to Magnaboard.⁴
27. The merging parties' response to this was that the NECF plantation would be able to sufficiently supply Steinhoff's needs at its new particleboard plant, even though they had traditionally sourced from other suppliers for those regions where they already had mills. They maintained that they are not presently buying raw materials from the largest supplier, Singisi, and in any event, would not require to with the establishment of the plant. Of note too, so the commission pointed out, is that the NECF had never produced for the open market therefore its supply of raw materials was not being denied to the open market, since it was never available to them. Therefore, Magnaboard never received supply from the NECF and were unlikely to do so in the future. We were further reassured by the parties at the hearing that Magnaboard was not dependent on Singisi as its sole supplier of raw materials. According to Mr Van Niekerk, Magnaboard had previously gone to other suppliers when attempting to get a better price out of Singisi.
28. The Commission too dispelled Magnaboard's concerns. They do not see the transaction as problematic as they state that the entire output of raw materials of this plantation had previously been used to supply Mondi for the production of paper and had not been supplied in the market. Further, that even though post-merger, the NECF forest would supply in the market, it was apparent that Steinhoff would need to absorb its entire raw materials to produce particleboard.

⁴ Page 676 of record

29. Regarding the possibility of any negative competition concerns downstream, the commission found that it would not make commercial sense for Steinhoff to foreclose independent manufacturers of particleboard (prospective new customers) after having invested heavily in a new plant precisely for this reason.
30. The commission also concluded that, since Steinhoff's particleboard manufacturing capacity would be increased by the establishment of the Eastern Cape plant, they would be able to replace supply shortages enabling them to produce enough particleboard for the supply to the local market.
31. Accordingly, for the reasons stated above, we do not see this transaction as likely to give rise to any competition concerns. We are persuaded by the merging parties' arguments and contentions that the new particleboard plant in this region will increase the supply of particleboard output to the entire domestic market at large. We are further satisfied that neither Magnaboard, nor other independent manufacturer will be foreclosed by any action of the merged entity as a result of this merger.
32. We accordingly agree with the commission that there is unlikely to be any negative downstream effect in the particleboard market.

Public Interest Issues

33. There are no public interest concerns raised by this transaction. In fact, there are positive employment creation prospects insofar as the new cluster development will create approximately 4,500 new jobs in the North Eastern Cape region.

Conclusion

We are satisfied that this merger is not likely to prevent or substantially lessen competition in any market. The merger is therefore approved unconditionally.

N. Manoim

19 January 2006
Date

Concurring: Y. Carrim, M Mokuena

For the merging parties:	Johan Roodt, Roodt Incorporated
For the Commission	M. Mahlala, Mergers and Acquisitions