



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM256Dec17

In the matter between

Mondi Limited

Primary Acquiring Firm

And

**The Draycott and Greytown Plantations, currently
operated by World Hardwood (Pty) Ltd**

Primary Target Firm

Panel	: Ms M Mazwai (Presiding Member)
	: Ms A Ndoni (Tribunal Member)
	: Prof F Tregenna (Tribunal Member)
Heard on	: 18 April 2018
Order Issued on	: 18 April 2018
Reasons Issued on	: 10 May 2018

REASONS FOR DECISION

Approval

- [1] On 22 March 2018, the Competition Tribunal (“the Tribunal”) unconditionally approved a large merger whereby Mondi Limited (“Mondi”) intended to acquire the Greytown and Draycott plantations (“Target properties”) owned and operated by World Hardwood (Pty) Ltd (“World Hardwood”).
- [2] The reasons for the approval follow.

Parties to the transaction and their activities

Primary acquiring firm

[3] The primary acquiring firm is Mondi, a public company listed on the Johannesburg Stock Exchange. Mondi is an integrated paper and pulp producer with a number of forests that it owns, manages and leases to supply its milling facilities.

Primary target firm

[4] The Target properties are the Draycott and Greytown timber plantations owned and operated by World Hardwood. The target properties are involved in the production of hardwood pulpwood, used as an input in a number of paper milling activities, and untreated hardwood poles.

[5] World Hardwood is owned by the Woodworld Trust and forms part of the R&B Group. The R&B Group is involved in the harvesting, processing and pressure treatment of hardwood poles. These treated hardwood poles are used in transmission, telecommunications, fencing and construction industries.

Proposed transaction and rationale

[6] Mondi planned to acquire the target properties as a going concern in order to reduce acquisition costs of pulpwood used in its milling operations. The R&B group wishes to dispose of the target properties, not considered core to its operations, to generate cash.

Relevant market and impact on competition

Horizontal assessment

[7] The Commission's investigation revealed a notional horizontal overlap in the activities of the merging parties as both produce and supply hardwood pulpwood in Kwa-Zulu Natal. The horizontal overlap is limited as Mondi supplies the pulpwood only to itself and to some Sappi mills that are geographically closer than Mondi's Richards Bay Mill. The pulpwood provided to Sappi is made in terms of an exchange agreement between Sappi and Mondi that allows each of them to supply hardwood pulpwood to the others' mills and cut transport

costs. Mondi does not supply hardwood pulpwood to any other third party. In any case, the Commission carried out a market share analysis within a geographic radius of 150km and found that the proposed transaction would lead to a negligible market share increase, and was unlikely to substantially prevent or lessen competition in this market.

Vertical assessment

- [8] The Commission also assessed potential foreclosure concerns that may arise out of the proposed transaction due to an existing vertical relationship between the merging parties. This vertical relationship currently exists in the form of a long-term supply agreement whereby World Hardwood supplies Mondi with hardwood pulpwood from various plantations, including the Draycott and Greytown plantations.
- [9] Post-transaction Mondi will be unable to foreclose hardwood pulpwood as an input to downstream competitors as there are a number of rivals in the market that supply pulpwood in greater amounts than the target properties. Further, customer foreclosure is unlikely as the target properties are not capable of absorbing the entirety of Mondi's demand and post-merger Mondi will still need to procure pulpwood from third parties.
- [10] The merging parties have also agreed that, post-merger, Mondi will for a specified time period supply World Hardwood with an amount of untreated hardwood poles per month from the target plantations. The Commission is satisfied that it is unlikely Mondi will engage in any input foreclosure in the downstream market for treated hardwood poles as it does not compete in this market.


Public interest

- [11] The Commission was satisfied that the proposed transaction was unlikely to adversely impact employment or any other public interest concern.

Conclusion

[12] In light of the above, we accordingly agreed with the Commission's analysis that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market or to raise any public interest issues.

[13] Accordingly, we approve the proposed transaction unconditionally.



Ms Mondo Mazwai

Ms Andiswa Ndoni and Prof Fiona Tregenna

10 May 2018

Date

Tribunal Researcher: Jonathan Thomson

For the merging parties: Anton Roets of Nortons Inc

For the Commission: Hlumani Mandla