

## **PRESS STATEMENT**

8 September 2008

### **Competition Commission prohibits mergers in the steel-sector to prevent the strengthening of cartels**

The Commission has made its findings following investigations into various mergers in the steel sector. The mergers involved separate acquisitions by the Aveng Group and the Cape Gate Group. The Commission established that there is widespread collusion in some markets that would be affected by the mergers, and the mergers would lead to the strengthening of these cartels.

#### **Aveng Africa**

The Competition Commission has prohibited three intermediate mergers involving acquisitions by Aveng (Africa) Ltd of Koedoespoort Reinforcing Steel (Pty) Ltd, Witbank Reinforcing & Wire Products (Pty) Ltd and Nelspruit Reinforcing Supplies (Pty) Ltd. The Commission also recommended to the Competition Tribunal, the prohibition of a large merger involving the acquisition of Silverton Reinforcing and Wire Products (Pty) Ltd by Aveng Africa.

The Commission found that there is widespread collusion in the steel reinforcing market. The investigations revealed that major competitors met and exchanged information and fixed prices. The Commission's investigations also revealed that all parties to the above mentioned mergers were involved in this cartel activity. The removal of four independent companies from the relevant markets, results in a clear increase in concentration, and is likely to make a collusive outcome easier to achieve.

The merger would also lead to the creation of a vertically integrated firm in that, apart from its steel businesses, Aveng is also a major construction company, while all the target firms process and supply reinforced steel bars, mesh and hard drawn wire for use in the building and construction industry. The Commission believes that the vertical integration of these firms would also make collusion easier to achieve.

Accordingly, the Commission found that the mergers are likely to lead to a substantial lessening of competition in the steel reinforcing market.

#### **Cape Gate**

Pursuant to a separate investigation, the Commission has also prohibited a proposed transaction between Cape Gate (Pty) Ltd (acquiring firm) and Cape Africa, Transvaal Gate & Wire and Fence Products. The transaction would result in Cape Gate taking ownership and control of the business of Transvaal Gate.

Cape Gate and Transvaal Gate both manufacture and supply certain steel products, including commercial link fencing. The Commission is concerned that the merger would lead to substantial accretion in the market for commercial chain link fencing, with the creation of the largest competitor with market share of more than 40%.

In addition to the above, the Commission has also uncovered widespread collusion for wire and wire products. Cape Gate and Transvaal Gate operate a joint venture in the Limpopo region, and Transvaal Gate also distributes Cape Gate products in other regions. The Commission has found that there is price fixing involving Cape Gate and Transvaal Gate in Limpopo, and probably other regions. Cape Gate has also admitted to holding meetings with competitors with the intention of colluding. Cape Gate is present at all levels of the supply chain of various steel products, and this transaction further strengthens their presence in the retail market, which would make collusion easier across the entire supply chain.

Accordingly, the Commission found that the merger would result in the strengthening of existing collusion.

The Manager of Mergers and Acquisition at the Commission, Tembinkosi Bonakele said that "collusion in the steel market is a big concern to the Competition Commission, as it artificially keep prices of construction material high. Our country cannot afford to have this type of behaviour continuing, especially in the context of the major construction projects that are currently taking place".  
ENDS

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