



competition commission
south africa

Press Release

For Immediate Release

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**COMPETITION COMMISSION PUBLISHES FINAL
REPORT ON ITS FORESTRY SECTOR IMPACT STUDY**

The Competition Commission (Commission) has published its final report on the forestry sector impact assessment study. The report details the Commission's final views on findings and recommendations regarding the impact of vertical integration and long-term contracting on security of supply and access to timber and the implications for the ability of Small Medium sized Enterprises (SMEs) and new Historically Disadvantaged Person (HDP) firms to successfully participate and compete in the South African forestry industry.

The release of the final report follows the publication of the Commission's preliminary report issued on 31 July 2020. The final report is a culmination of numerous submissions the Commission received from industry stakeholders and government. In addition, the Commission held several consultative engagements with various national government departments regarding its preliminary findings and recommendations.

In the main, the study established that secure and consistent access to input resources (logs) is a critical factor for competition in the forestry sector. The forestry sector is characterised by a few large vertically integrated firms which tend to dominate both upstream log supply and downstream milling and processing operations. If such firms are to participate effectively in this sector, then secure long-term access to logs is a prerequisite. The recommendations from the report seek to ensure such access.

The study makes several recommendations relating to competition regulation and industrial policy which are aimed at ensuring the sustainable entry, expansion, and competitiveness of small vertically integrated and non-vertically integrated SMEs and HDP firms and claimant communities in the sector. The recommendations address competition regulation and the industrial policy in respect of both the upstream (plantation) and downstream (processing) levels of the value chain.

In relation to competition regulation, the recommendations seek to:

- Ensure that a pro-small business environment exists in merger control and that appropriately designed co-operative frameworks aimed at ensuring security of supply are encouraged.

In relation to industrial policy, the recommendations seek to:

- At the **upstream (plantation) level**: facilitate the long-term expansion of production through allocation of land parcels and development finance to SMEs, HDP firms and claimant communities to facilitate plant acquisitions and mills upgrades; and
- At the **downstream (processing) level**: ensure security of supply through the promotion of long-term supply arrangements and log supply allocations by SOEs and other vertically integrated players for SMEs, HDP firms and non-vertically integrated firms and claimant communities. In addition, ensure security of demand through the allocation of State and private sector procurement for SMEs, HDP firms and non-vertically integrated firms and claimant communities.

The study, *“The Impact of Vertical Integration on Competition and the Participation of SMEs and HDPs in the Forestry Sector”*, is now available on the Commission’s website www.compcom.co.za.

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BACKGROUND

The Commission initiated a study under the new Section 21(a) of the Competition Act no 89 of 1998 (as amended) which endows the Commission with powers to study and report on the impact of past decisions by the competition authorities. The study, “*The Impact of Vertical Integration on Competition and the Participation of SMEs and HDPs in the Forestry Sector*” specifically, assessed the cumulative impact of decisions by the Commission and Competition Tribunal on merger transactions and conduct complaints which typically involved the deepening of vertical integration in the forestry sector and log supply access concerns, particularly by small integrated and non-vertically integrated businesses.

SUBMISSIONS ON THE PRELIMINARY REPORT

Following the publication of its preliminary report on 31 July 2020, the Commission received numerous submissions from industry stakeholders and government. In addition, the Commission held several consultative engagements with various national government departments regarding its preliminary findings and recommendations. The submissions received affirmed the Commission’s findings in relation to the critical importance of access to a stable, secure, and consistent supply of logs as a prerequisite for sustainable competitiveness in the forestry sector. The submissions also expressed support for the recommendations proposed in the preliminary report, noting the complementarity with the current policy framework, the potential to enhance existing industry charters and master plans and provide direction to State-Owned Enterprises (SOEs) in this sector. The submissions further cautioned that the recommendations ought not undermine the competitiveness of larger operators in the sector.

KEY FINDINGS

The study established that secure and consistent access to input resources (logs) is a critical factor for competition in the forestry sector. The forestry sector is characterised by a few large vertically integrated firms which tend to dominate both upstream log supply and downstream milling and processing operations. Vertical integration and/or long-term contracting enable the facilitation of such security and consistency of supply. As such, the continued vertical integration and/or long-term contracting by large vertically integrated firms confers a competitive advantage upon these firms in that it enables them to stabilise both supply and demand dynamics, invest in their operations (given their appreciable insights into long-term market forecasting), plan and optimise their production activities and, in some instances, engage in cost-saving strategies such as product swapping.

However, small vertically integrated and non-vertically integrated SMEs and HDP firms at the processing level of the value chain are not able to enjoy such benefits and have to contend with the lack of security of

supply and, more often than not, higher priced products procured in the spot markets. If such firms are to participate effectively in this sector, then secure long-term access to logs is a prerequisite. The recommendations from the report seek to ensure such access.

KEY RECOMMENDATIONS

The study makes several recommendations relating to competition regulation and industrial policy which are aimed at ensuring the sustainable entry, expansion, and competitiveness of small vertically integrated and non-vertically integrated SMEs and HDP firms and claimant communities in the sector.

In relation to competition regulation, the recommendations seek to:

- Ensure that a pro-small business environment exists in merger control and that appropriately designed co-operative frameworks aimed at ensuring security of supply are encouraged.

In relation to industrial policy, the recommendations seek to:

- At the **upstream (plantation) level**: facilitate the long-term expansion of production through allocation of land parcels and development finance to SMEs, HDP firms and claimant communities to facilitate plant acquisitions and mills upgrades; and
- At the **downstream (processing) level**: ensure security of supply through the promotion of long-term supply arrangements and log supply allocations by SOEs and other vertically integrated players for SMEs, HDP firms and non-vertically integrated firms and claimant communities. In addition, ensure security of demand through the allocation of State and private sector procurement for SMEs, HDP firms and non-vertically integrated firms and claimant communities.