

MEDIA RELEASE

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Competition Commission prohibits chemicals merger

The Competition Commission has prohibited the proposed acquisition of Cellulose Derivatives (Pty) Ltd (“Cellulose Derivatives”) by Senmin International (Pty) Ltd (“Senmin”). The merger filed with the Commission was essentially the same transaction that was previously prohibited by the Commission in February 2009.

The Commission then was concerned about the likelihood of foreclosure resulting from the merger. In the investigation of the new transaction, the Commission found that market dynamics have not substantially changed since 2009 and concerns of foreclosure remain.

The acquiring firm, Senmin is a wholly-owned subsidiary of Chemical Services Limited, which is controlled by AECI Limited and is involved in the manufacture, marketing and distribution of mining chemicals. The target firm, Cellulose Derivatives is the only local manufacturer of technical grade carboxymethylcellulose (CMC) which is mainly used in platinum mines for mineral extraction. Cellulose Derivatives sells this product to distributors in the country, with Senmin being the biggest distributor.

A striking feature of this industry is that there is no direct interaction between the end-customers and the manufacturer as all mining houses source their CMC requirements through distributors. This is largely because Cellulose Derivatives which manufactures the base CMC does not have chemical engineers who are required to blend the CMC to the mines specifications. Distributors such as Senmin have chemical engineers who ensure that the CMC meets its customers' requirements.

As such, the merger will create a market structure in which Senmin, a dominant distributor of CMC, will be vertically integrated with the only producer of CMC in South Africa. Consequently, the Commission is concerned that the transaction presents substantial foreclosure concerns in that the merging parties are likely to deny Senmin's competitors access to an essential input, CMC.

ENDS

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