MEDIA RELEASE
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Competition Commission recommends conditional approval of merger creating Coca-Cola Beverages Africa

The Competition Commission (Commission) has recommended to the Competition Tribunal (Tribunal) a conditional approval of the large merger whereby SABMiller Plc (SABMiller), Gutsche Family Investments (Pty) Ltd (GFI) and The Coca Cola Company (TCCC) are proposing to combine the bottling operations of their non-alcoholic beverages (NABs). If approved by the Tribunal, the merger will combine the bottling operations of four of the five authorised Coca-Cola bottlers in South Africa into one entity to be known as Coca-Cola Beverages South Africa (Pty) Ltd (CCBSA), which will be controlled by SABMiller, with GFI and TCCC as minority shareholders. The merger will also result in SABMiller transferring its Appletiser, Grapetiser, Fruitiser, Peartiser and Lecol brands to TCCC.

TCCC's authorised bottlers manufacture and supply a number of NABs which include carbonated soft drinks, fruit juices, water, sport and energy drinks. SABMiller manufactures, distributes and sells different types of alcoholic and non-alcoholic beverages. In South Africa, SABMiller operates its beer business through the South African Breweries (Pty) Ltd (SAB), which is its subsidiary. SABMiller's non-alcoholic beverages business is operated through Amalgamated Beverages Industries, a division of SAB.

The Commission's investigation revealed that this merger is likely to lead to certain competition and public interest concerns. In order to address these concerns, the Commission has recommended conditions to the Tribunal.

Impact of the merger on suppliers of the merging entities

The Commission found that the consolidation of different bottlers under one entity (i.e. Coca-Cola Beverages SA) is likely to have a negative impact on the suppliers of the merging entities. In this regard, the Commission found that a significant number of suppliers of the merging parties are likely to be put in a weaker position to negotiate sustainable prices post-merger. In other words, the merged entity is likely to gain significant bargaining power over its suppliers. These suppliers include producers of sugar, plastic bottles and closures, tin cans, glass and crates in South Africa.

To address the above concern, the merging parties have undertaken to purchase all tin cans, glass, plastic bottles and closures, packaging, crates and sugar from local suppliers, subject to certain terms and conditions.

Impact of the merger on employment

The Commission also found that the proposed merger is likely to have a negative impact on employment since a significant number of employees of the merging parties will lose their jobs. In order to address this public interest concern, the merging parties have undertaken not to retrench employees as a result of the merger, except for the identified category of employees who shall not exceed 250. Further, the merging parties have committed to put in place appropriate measures to mitigate the consequences of the possible job losses by providing, among other things, funding to re-skill affected employees, counselling and guidance on applying for alternative employment, and re-employment of some of the affected employees within the business of the merged entity.

Impact of the merger on small businesses

The merging parties have submitted that the proposed merger, among other objectives, is intended to develop new channels of distribution for their products. To achieve this, the merging parties have committed to invest R500 million to develop the downstream distribution and retail aspects of CCBSA as well as the development of additional black-owned retailers of CCBSA's products.

In addition, the merging parties have committed to establish a R150 million fund to support and train historically disadvantaged developing farmers and small suppliers of inputs to products of TCCC.

The Commission is however concerned that the new retailers to be supported by CCBSA may operate exclusively to CCBSA, but the merging parties have undertaken that these retailers will not be required to operate on an exclusive basis and shall be free to sell competing products. Further, the Commission has imposed a condition requiring that the there is a guaranteed space allocation of at least 20% for competing products in coolers and refrigerators in these new retail outlets.

Impact of the merger on Broad-Based Black Economic Empowerment

The Commission is concerned that the proposed transaction may have a negative impact on the broad-based black empowerment (B-BBEE) as it is likely to dilute B-BBEE shareholding. To address this concern, the merging parties have committed to increase the B-BBEE ownership of CCBSA and to divest a certain percentage of shareholding in Appletiser South Africa (Pty) Ltd to a black owned company or consortium to operate as an active industrial partner.

Production of Appletiser

The Commission is concerned that the proposed transaction may result in the fruit juice concentrate of the Appletiser brand currently sourced from South African producers being sourced by TCCC from suppliers outside of South Africa. Should the merged entity discontinue the sourcing of the fruit juice concentrate, this would have a negative impact on the growth of the local producers. This may also result in local producers shutting down and/or reducing their current workforce. To address this concern, the merging parties have committed that Appletiser SA and the current operations and facilities in South Africa for the production of Appletiser will be maintained and kept in place in line with the merging parties' commitment and intention to use and grow the operations to supply South Africa and as a base from which to export Appletiser.

“These conditions, in the main, address the competition and public interest concerns identified during the investigation and have been crafted to ensure that the merger does not negatively affect businesses in the value chain that previously benefited from the existence of the individual bottlers in South Africa. In addition, the development funds committed by the merging parties will not only ensure that South African suppliers grow from this consolidation but also be to the benefit of consumers in general,” said Acting Deputy Commissioner, Hardin Ratshisusu.

Ends.

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