6. Recent developments in the LPG sector

6.1. Since the commencement of the LPG market inquiry in September 2014, several developments occurred in the LPG sector.

Changes in refinery production

6.2. In April 2016, PetroSA issued a statement outlining the company's decision to halt LPG production at its Mossel Bay refinery.[75] PetroSA attributed this decision to a change in its operating model at the refinery necessary to expand the lifespan of the refinery. The company consequently had to reduce its throughput of gas feedstock into the refinery.

Merger between Easigas (Pty) Ltd and Reatile Gaz (Pty) Ltd[76]

6.3. In December 2015, the Commission conditionally approved an intermediate merger between Easigas (Pty) Ltd ("Easigas") and Reatile Gaz (Pty) Ltd ("Reatile"). Both companies are wholesalers of LPG in South Africa and supply the product in both bulk and cylinder form, although Reatile is more active in the supply of bulk LPG.

6.4. In its assessment, the Commission found the removal of Reatile from the LPG market could cause in a significant prevention or lessening of competition. Reatile is majority-owned by historically disadvantaged South Africans. After the merger Reatile would be a minority shareholder in the merged entity, which would overall no longer be majority-owned by historically disadvantaged South Africans. The merger represented a dilution of ownership by historically disadvantaged South Africans in the LPG market.

6.5. The merger was approved on condition that the merging parties address the public interest concerns by requiring that the Board of Directors and Executive Committee to include a reasonable number of historically disadvantaged South Africans. A further condition required that Reatile must be involved in certain key decisions relevant to competition. This condition sought to mitigate the effects of the removal of Reatile from the LPG market by ensuring that its strategic inputs are incorporated into the merged entity's activities.

75 http://www.iol.co.za/business/news/lpg-shortages-prompt-more-expensive-imports-2007492 accessed on 2016.09.12
76 Statement on the decisions of the Competition Commission, 10 December 2015. Available from http://www.compcom.co.za/wp-content/uploads/2015/01/Commission-Statement-10-December-2015.pdf.

Merger between Totalgaz Southern Africa (Pty) Ltd and KayaGas[77]

6.6. On 16 February 2016, the Commission conditionally approved a merger between Totalgaz Southern Africa (Pty) Ltd ("Totalgaz") and Kaya Gas (Pty) Ltd ("KayaGas"). Totalgaz and KayaGas are both wholesalers and resellers that supply LPG in bulk and cylinder form. While Totalgaz is active in all provinces in South Africa, KayaGas' operations are predominantly located in the Western Case, with a limited presence in Gauteng, KwaZulu-Natal and the Eastern Cape.

6.7. [✂], and the approval of the transaction would allow some of the assets to be used in the industry. The merger raised competition and public interest concerns.

6.8. Concern was raised regarding the impact of the merger on the supply of 5 kg LPG cylinders, being an important source of energy for low-income households in Western Cape townships. [✂], KayaGas had a substantial distribution network through which it supplied LPG directly to spaza shops and retail outlets in low-income areas. The Commission was concerned Totalgaz may not have the incentive to continue to supply LPG in 5 kg cylinders to spaza shops.

6.9. The Commission imposed a condition that the merged entity may not withdraw any five kg cylinder stock from the townships in the Western Cape for a period of [✂] years. This will ensure that spaza shops continue to receive LPG supply from Totalgaz.

Implications of mergers for LPG sector

6.10. Mergers contributed to market concentration amongst wholesalers. The recent mergers between Easigas/Reatile and Totalgaz/KayaGas resulted in an increase in concentration at the broader wholesale, bulk and cylinder levels of the value chain. The Easigas/Reatile merger saw Easigas' market share increase by [between 0-10%] to [between 30-40%], while the market share accretion following the Totalgaz/KayaGas merger resulted in Totalgaz's market share increasing to [between 10-20%].

77 Totalgaz/KayaGas Merger Filing, Competitiveness Report, Case No. 2015Nov0629.

6.11. The mergers also reduced the number of competitors in the market; [between 50-70%] of the LPG wholesaler market is now accounted for by Afrox and Easigas, with Oryx and Totalgaz jointly accounting for [about 20-30%]. This leaves approximately one per cent (1%) of the market accounted for by smaller firms.

6.12. The increase in market concentration amongst the wholesalers may facilitate an environment conducive to collusive outcomes at the broader wholesale, bulk and cylinder levels of the value chain.