



competition commission
south africa

Press Release

For Immediate Release

31 July 2020

COMMISSION PUBLISHES FORESTRY SECTOR IMPACT STUDY FOR PUBLIC COMMENT

The Commission has published for public comment the forestry sector impact assessment study. Stakeholders are invited to make submissions on the preliminary findings of the impact study and the recommendations by 31 August 2020. The study was initiated under the new Section 21 (a) of the Competition Act which enhances the Commission's powers to study and report on the impact of past decisions by the competition authorities in order to gain insights that may inform future action or direction within enforcement and advocacy.

KEY FINDINGS

The forestry sector is characterised by a few large vertically integrated firms which tend to dominate both upstream log supply and downstream milling & processing operations. The study found that numerous approved mergers and plantation acquisitions that fall below the mandatory merger notification thresholds have deepened this vertical integration over the past 15 years. In addition, these large integrated firms also engaged in swap and long-term contracting arrangements, including with small claimant communities, which secured log supply for themselves. The study found that cumulatively these have provided an advantage to the integrated firms, as a stable supply of own plantation logs reduces costs and enables them to invest in more efficient equipment. Stability in supply also enables them to develop markets for their products as they can assure customers of ongoing supply.

However, the study found that such integration through acquisitions and contracting also threatens the supply of logs to existing smaller, non-integrated forestry firms, including those owned and controlled by historically disadvantaged persons (HDP). This is in the context where plantation land has reduced over time and the occasional large wildfires can dramatically change log supply for years. The study found that as a result these smaller non-integrated firms are placed in a structural disadvantage, preventing expansion as well as new entry. In essence, the lack of a secure log supply restricts the firms in developing new markets and excludes them from financing for new equipment. The higher costs of securing logs on the spot market also unduly raises their costs. The study concludes that the continued integration and the vicious cycle of insecure supply that smaller non-integrated forestry firms find themselves in has

perpetuated concentration and reduced greater participation in an industry built around a national resource. This in turn has frustrated plans by national government to broaden participation in this sector.

KEY RECOMMENDATIONS

In light of these findings, the impact assessment makes a number of recommendations for future action on the enforcement side and broader competition policy in order to facilitate entry, participation and expansion of SMEs and historically disadvantaged person firms in the sector. These will also enhance competition and reduce concentration over time. These recommendations include:

- Mandatory notification of all acquisitions of plantations by the larger integrated forestry firms to gain a handle on merger creep within the sector;
- A greater focus on public interest in merger control focused around ensuring continued access to log supply by SMEs and HDP firms;
- Support for collaboration by smaller firms that may enhance greater security of log supply, joint innovation and investment;

Given that the state is actively involved in the forestry sector through plantation ownership but also demand for forestry products (such as transmission poles and furniture), the study also advocates for state action which can assist in breaking the vicious cycle small non-integrated firms find themselves in so as to achieve the target of greater participation in this natural resource. This includes claimant communities which battle to move into the higher value add downstream forestry business for the same reasons. These recommendations include:

- The mandate of SAFCOL include an allocation of log supply to long term contracts with SMEs and historically disadvantaged person firms in the downstream processing, and assist in facilitating new entry and participation rather than its own expansion;
- State procurement, including that of state-owned enterprises, focus more on SME and historically disadvantaged person firms, but also longer contract lengths for these firms to enable them to secure finance for investment and enter into long term log supply contracts;
- Development finance institutions direct financing to smaller non-integrated firms in the sector where private finance has failed; and
- Any future deals to lease plantations long-term include smaller parcels to a larger number of industry participants rather than deals with one or two big players.

The Commission invites stakeholders to make submissions on the preliminary findings of the impact study and the recommendations by 31 August 2020. The study is now available on the Commission's website www.compcom.co.za. Submissions should be sent to Mr Yongama Njisane (yongaman@compcom.co.za).

[ENDS]

Issued by:

Siyabulela Makunga, Head of Communication/Spokesperson

On behalf of: The Competition Commission of South Africa

Tel: 012 394 3493 / 072 768 0238 / 067 421 9883

Email: SiyabulelaM@compcom.co.za

Find us on the following social media platforms:

Twitter: @CompComSA

Instagram: Competition Commission SA

Facebook, LinkedIn and YouTube: The Competition Commission South Africa