NOTICE 2732 OF 2004

COMPETITION COMMISSION

NOTIFICATION TO PROHIBIT THE TRANSACTION INVOLVING:

GREIF SA (PTY) LTD

AND

RHEEM SA (PTY) LTD

The Competition Commission hereby gives notice, in terms of Rule 38 (3)(c) of the 'Rules for the Conduct of Proceedings in the Competition Commission, that it has prohibited the transaction involving the above-mentioned firms on 28 July 2004.

The Commission prohibits the proposed merger between Greif South Africa (Pty) Ltd ("Greif") and Rheem South Africa (Pty) Ltd ("Rheem"), a company owned by previously disadvantaged persons. The Commission has found that the merger is likely to substantially prevent or lessen competition and that the alleged efficiency gains resulting from the proposed merger are not likely to offset its anti-competitive effects. Furthermore, the Commission has found that the proposed merger cannot be justified on substantial public interest grounds.

The proposed transaction entails Greif's acquisition of control over the business of Rheem. The empowerment shareholder in Rheem will, however, hold a significant stake in the proposed merged entity.

Rheem is a South African manufacturer and supplier of a variety of steel containers, including cans, pails and drums. Greif is the South African subsidiary of the multinational group, Greif Inc. In South Africa Greif manufactures and distributes a wide range of steel and plastic containers including bottles and drums.

The Commission found overlaps in the activities of the parties in the manufacturing and supply of cans and bottles, small, intermediate and large containers. In respect of the manufacturing and supply of cans and bottles, small and intermediate containers the Commission found substitutability between steel and plastic containers within the respective sizes. However, in respect of the supply and manufacturing of large steel drums, the Commission found limited substitutability between plastic and steel drums,

The Commission thus found that large steel drums and large plastic drums are not part of the same product market, in that plastic drums do not pose a competitive constraint on the activities of the parties in the new steel drum market. The reasons are, first, that the price difference between plastic and steel drums are between 15 – 30%, with plastic drum being more expensive. Second, the Cornmission found that, unlike in respect of smaller containers, the price of steel and plastic containers do not move in parallel. Third, there are functional differences between large steel and plastic drums. The differences relate to the types of products that can be packed in either, and stacking properties of steel and plastic drums. Fourth, plastic drum manufacturers require longer lead times than steel drum manufacturers, as the manufacturing process is slower for plastic drums than for steel drums. This affects the ability of plastic drum manufacturers to deliver timely to customers who operate on a basis of just-in-time delivery. Furthermore, users of drums indicated that their customers and their multinational parent companies determine packaging formats and that they would be unlikely to switch to plastic drums in reaction to unilateral steel drum price increases by the merged entity.

In addition, the Commission found that reconditioned drums, although cheaper than new steel drums, are unlikely to constrain the behaviour of parties in the market, as customers indicated that, due to qualitative prescriptions by their customers, they are not able to substitute new steel drums with reconditioned steel drums.

The Cornmission thus found new steel drums to be the relevant product market for the purposes of analysing the transaction.

In terms of the relevant geographic market the Commission found overlaps in the activities of the parties in KwaZulu Natal and Gauteng. The Commission found that significant transport cost impede the national sourcing of drums. In addition, customers demand drums on a daily basis, which necessitates a local source of supply. The Commission thus found the relevant geographic markets to be KwaZulu Natal and Gauteng.

In its analysis of the impact of the transaction on the markets for new steel drums in Gauteng and KwaZulu Natal, the Commission found that the parties would post merger be the only supplier of new steel drums in Gauteng and be the only significant supplier in KwaZulu Natal. The Commission views the transaction as essentially a merger to monopoly in the relevant markets.

In terms of the ease of entry the Commission has found that capital outlay, expertise and technical knowledge are not prohibitive. However, customers indicated that they would be unlikely to switch to a new entrant as certainty of supply, reliability and reputation play a significant role when choosing a supplier. In addition, the Commission considered that in Gauteng there has not been any new entry into the market during the last decade. With respect to KwaZulu Natal, a recent new entrant is Thekweni Drums, which started production in the first half of 2004.

The Commission considered the ability of the new entrant to constrain the behaviour of the parties post-merger. It found that the new player is not likely to significantly discipline the behaviour of the proposed merged entity, as its capacity to supply the market is limited and it is not a proven player.

Due to high transport costs and short delivery times, the Commission found that imports do not pose a competitive constraint.

In its consideration of the countervailing power of customers of new steel drums the

Commission found that the countervailing abilities of customers are likely to be eroded when customers have no reasonable alternative suppliers. The Commission found that pre-merger Rheem is the supplier most likely to enter into negotiations with customers. The merger thus results in the removal of an effective competitor.

The parties submitted that that they would be able to realise supply production efficiencies relating to the procurement and handling of steel and certain plant-reorganisation efficiencies through the proposed merger. They estimate that it would enable them to increase discounts to customers.

As the proposed transaction creates a market structure that is likely to enable the merged entity to increase prices unilaterally, the Commission found that it is unlikely that the alleged efficiency gains resulting from the proposed merger would be passed on to customers. The alleged efficiency gains are thus not likely to offset the anti-competitive effects of the proposed merger.

The parties presented the transaction as having a positive effect on the ability of firms controlled and owned by previously disadvantaged persons to become competitive and as promoting a greater spread of ownership in the South African economy. Pre-merger Rheem is an entity owned by a previously disadvantaged person with activities in the steel container industry. Post-merger, a previously disadvantaged person will hold a significant shareholding in Greif and have access to the markets of Greif. The Commission found the effect of the proposed transaction on the ability of firms controlled and owned by previously disadvantaged persons to become competitive not to outweigh the anti-competitive effects of the proposed merger.

The Commission therefore prohibits the transaction.

Enquiries in this regard may be addressed to Mr. M. van Hoven at Private Bag X23, Lynnwood Ridge, 0040. Telephone: (012) 394 3293, or Facsimile: (012) 394 4293. (Reference: 2004Jan839)