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## GENERAL NOTICES

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### NOTICE 504 OF 2011

#### COMPETITION COMMISSION

#### NOTIFICATION TO CONDITIONALLY APPROVE THE TRANSACTION INVOLVING:

**STEINHOFF SOUTHERN CAPE (PTY) LTD**

**AND**

**PJ VAN REENEN (PTY) LTD**

**CASE NUMBER: 2011JAN5604**

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 approved the transaction involving the above mentioned firms subject to the conditions as set out below.

Steinhoff Southern Cape (Pty) Ltd ("SSC"), is the primary acquiring firm, which is a wholly owned subsidiary of PG Bison Holdings (Pty) Ltd ("PG Bison"), and through number of institutional structures is ultimately controlled by Steinhoff International Holding limited.

SSC in turn 100% controls Thesen Saw Milling (Pty) Ltd and Woodline Timber Industries (Pty) Ltd. PJ van Reenen (Pty) Ltd ("Van Reenen") which consist of the its main timber operation, general dealer store, farming and property management all form part of the transaction.

The SSC and Van Reenen's activities are both vertically and horizontally related. Horizontally, there is an overlap in their operations for the supply of saw logs and the manufacturing & supply of treated poles. Vertically, PJ Van Reenen supply saw logs to saw millers such as the Thesen sawmill of SSC.

The Commission concluded on the following relevant markets:

- Upstream market for the production and supply of saw logs and poles within a 150km
- Downstream market for the production and supply of structural sawn timber within Western, Eastern, Southern Cape regions possibly including parts of Southern KZN
- Downstream market for the manufacture of treated poles in the Western, Eastern, Southern Cape regions possibly including parts of Southern KZN

The upstream market for the supply of saw logs and poles is highly concentrated with MTO being dominant player with an estimated market share of over 60%. Post-merger market shares for SSC is estimated at about 16%. Despite the relatively low market share, the Commission continued to assess the impact of the transaction given the dynamics that prevail.

Barriers to enter both the upstream and downstream market were found to be high. These largely relate to the lack of new afforestation in the Southern Cape, the high cost of starting both a plantation and sawmill and scale ones needs to operate at, in order to be profitable. Critical for a sawmill is the sustainable and definite supply of timber. Given the severe shortage of softwood in the region, there is no incentive for any entry in the foreseeable future.

The chronic timber shortage also reduces alternatives for customers in the Southern Cape. Foreclosure analysis illustrates both ability and incentive for SSC to stop supplying competitors in the downstream market. Based on the age distribution of the trees on the PJ Van Reenen plantation, it is evident that it will be unable to supply certain classes of timber (Cs and Ds) to customers in the near future. Moreover the yield of A and B class logs will also be reduced because the plantation has not been managed on a sustainable rotation plan.

The Commission also considered the potential of coordination as a result of the transaction. The findings indicate that the acquisition is unlikely to significantly change the current market circumstances in terms of coordination. The market is already significantly transparent and concentrated which enable monitoring of competitors behavior.

Customers contacted during the course of the investigation generally raised concerns that SSC will self-supply its own operations and not supply the open markets. It is apparent that with or without the instant transaction current customers of PJ Van Reenen will not obtain the volume and classes of timber they used to obtain from the plantation. The treated pole customers contacted in the main identified alternatively sources of supply such as PSP and Humansdorp Kooperasie, CJ Rance and South Cape Sawmills. The geographic scope for treated poles extend at least as far as 500km giving greater scope of sourcing material inland.

The Commission concludes that despite the ability and incentive to foreclosure being a reality, the market dynamics (shortage timber, young age trees, no afforestation, government's exit policy) makes its unrealistic to impose conditions to alleviate the concerns of customers without prejudicing SSC.

With respect to public interest considerations, the parties submit that they do not anticipate retrenchments in the foreseeable future and that unless the economic conditions improve both pole yards may have to rationalise their operations. It does however appear that the rationalisation of their business activities into one, the duplication of functions will arise which will result in potential retrenchments. The Commission requested the parties to undertake not to retrench any workers to which they are amenable.

In order to ensure that the acquisition of PJ Van Reenen does not worsen the scarcity of timber in the Southern Cape region, the Commission requested the parties to invest in the plantation in order for it to become a sustainable plantation in the long-run.

Based on the aforesaid, the Commission conditionally approves the acquisition of PJ Van Reenen subject to the following conditions:

1. SSC will invest in the Van Reenen plantation, in the normal course of operations, on a long-term basis, in order to ensure the future sustainability of the van Reenen plantations, unless there are unforeseen circumstances that prevent SSC from adhering to this undertaking; SSC will consult with the Commission before terminating any further investment, and justify why this is the case.
2. Not to retrench any employee for a period of 3 years due to redundancies as a result of duplications of positions arising from the acquisition of PJ Van Reenen. Should the need arise for the parties to retrench employees due to factors extraneous to the acquisition of PJ Van Reenen, they must inform the Commission and submit reasons why the retrenchments are not merger related before effecting any retrenchments.

Enquiries in this regard may be addressed to Mr. Maarten van Hoven at Private Bag X23, Lynnwood Ridge, 0040. Telephone: (012) 394 3295, or Facsimile: (012) 394 4295.