

NOTICE 241 OF 2012**COMPETITION COMMISSION****NOTIFICATION TO PROHIBIT THE TRANSACTION INVOLVING:****SENMIN INTERNATIONAL (PROPRIETARY) LIMITED****AND****CELLULOSE DERIVATIVES (PROPRIETARY) LIMITED****CASE NUMBER: 2011OCT0316**

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:

The primary acquiring firm is Senmin International (Proprietary) Limited ("Senmin"), a wholly owned subsidiary of Chemical Services Limited ("Chemserve"). Chemserve in turn is controlled by AECI Limited. Senmin is involved in the manufacture, marketing and distribution of mining chemicals. Specifically, its chemicals are used for the froth flotation and tailings treatment segments of the mining sector. The other specialty chemicals in Senmin's portfolio find application in fuel additives, agricultural and tannery industries.

The primary target firm is Cellulose Derivatives (Proprietary) Limited ("Cellulose Derivatives"), a company controlled the by Shannon Trust, a family Trust. Cellulose Derivatives manufactures and sells carboxymethylcellulose ("CMC").

CMC is used in the mining industry, detergent, textile, construction and food industries. However, the CMC that Cellulose Derivatives manufactures is mainly used in platinum extraction by the mining industry. Cellulose Derivatives is the only manufacturer of this CMC (technical mining grade CMC) in South Africa, upstream market. Whilst Senmin is active downstream as one of two major distributors of CMC in South Africa.

The Commission in February 2009 prohibited the acquisition of Cellulose Derivatives by Senmin. This was based on substantial foreclosure concerns that were brought to bear by the transaction.

The parties submit that market conditions have changed since 2009 with greater presence of imports and hence no foreclosure should be evident. The Commission's investigation has found no evidence of increased imports into RSA that are sufficient to constrain Cellulose Derivatives. The proposed acquisition of Cellulose Derivatives by Senmin raises significant foreclosure concerns as the merged entity will be able to extend its market power in the upstream market to the downstream market. Due to this market power in the upstream market, the merged entity will be in a strong position to foreclose its main rivals downstream or raise their costs.

The parties presented to the Commission potential conditions to address the foreclosure concerns raised by the Commission. The Commission is however of the view that the conditions tendered do not address the real issue of foreclosure as the merged entity can still effectively foreclose competitors.

Most important, it is the view of the Commission that the merger will fundamentally change the structure of the industry. The merged entity, as the monopoly provider of CMC, will be the only source of supply of this critical input for its most significant competitor downstream. The elimination of the merged entity's most significant competitor will result in a substantial lessening of competition. Therefore behavioural remedies will be inadequate to address the fundamental structural problem raised by this acquisition. The Commission therefore finds that the acquisition of Cellulose Derivatives by Senmin is likely to substantially prevent or lessen competition in the affected markets.

Upon filing the merger, the parties submit that they do not anticipate any retrenchment as a result of the proposed acquisition. However, subsequent to the Commission informing the parties that the merger raises significant foreclosure concerns and the proposed conditions do not ameliorate the competition issues particularly the structural change brought to bear by acquisition, they submit that this correspondence prompted Cellulose Derivatives to shut down one of its production lines. The Commission requested supporting information for the claims. The parties however have not made any substantial submissions other than to state that the closure is inevitable should the merger be prohibited. There is thus no credible information before the Commission to support that the firm has to shut down. As such the Commission is of the view that the acquisition of Cellulose Derivatives is unlikely to raise substantial public interest issues.

Based on the competition concerns that arise as a result of the proposed merger, the Commission prohibited the proposed transaction.

Enquiries in this regard may be addressed to Manager: Mergers and Acquisitions Division at Private Bag X23, Lynnwood Ridge, 0040. Telephone: (012) 394 3298, or Facsimile: (012) 394 4298.