

NOTICE 250 OF 2012**COMPETITION COMMISSION****NOTIFICATION TO CONDITIONALLY APPROVE THE TRANSACTION INVOLVING:****THE INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA LIMITED****AND****EERSTE FLAMBEAU HUUR (PROPRIETARY) LIMITED****2011NOV0357**

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 conditions as set out below:

The primary acquiring firm is the Industrial Development Corporation of South Africa ("IDC"), a public firm incorporated in terms of the laws of the Republic of South Africa. The IDC is wholly owned by the South African government under the supervision of the Economic Development Department. The IDC has interests in various companies in different sectors of the economy, including *inter alia* chemicals, tourism, agriculture, financial services and textile and clothing.

The primary target firm is Eerste Flambeau Huur (Pty) Ltd ("Eerste Flambeau "), a firm incorporated in terms of the laws of the Republic of South Africa. Eerste Flambeau is a holding company which controls Tweede Flambeau (Pty) Ltd and Belgo Textile (Pty) Ltd and ultimately controls the Colibri Group of companies. The Colibri Group is involved in the full spectrum of terry towelling manufacturing, importing, exporting and distribution, all under the Colibri brand, with factories in Eastern Cape and Western Cape.

The activities of the merging parties overlap in the market for the retail of terry towelling in the Western Cape and Eastern Cape region. There is also a vertical dimension to the transaction as Colibri acquires inputs from Prilla.

The Commission identified an upstream market for the manufacture and supply of yarn. Downstream to this market are two markets which complete the value chain, namely: the midstream market for the manufacturing of terry towelling products and the downstream market for the retail of terry towelling products. For the purpose of this assessment the Commission defined a geographic market for manufacturing of yarn, manufacturing of terry towelling and retail of terry towelling as national.

The Commission's investigation revealed that Prilla, which manufactures and supplies yarn to downstream competitors, is the only manufacturer of good quality yarn in South Africa currently. Colibri's market share in the downstream market is estimated to be 20% while Prilla's market share in the upstream market is estimated to be 27%. In the downstream market for retail of terry towelling, the IDC controls Sheraton which competes with Colibri through their factory shops, and the post-merger market share is estimated to be less than 1% in this market.

The proposed transaction also gives rise to the vertical integration of Prilla and Colibri's activities. Prilla is also the only company in South Africa that produces good quality yarn. As such the Commission's investigation sought to find out if there would be possible foreclosure concerns, as a result of the proposed merger.

The Commission's investigation revealed that the IDC, through Prilla, might have the incentive to foreclose Colibri's competitors in a bid to revive Colibri's business activities. However, the Commission is of the view that customer foreclosure is not a concern since Colibri has 20% of the manufacturing market. Therefore, should rivals of Prilla be foreclosed from supplying Colibri's yarn requirements, these suppliers would still have access to other terry towelling manufacturers, which comprise the remaining 80% of the relevant market.

The Commission also found that there might be possible information exchange between Colibri and Prilla post merger. A competitor of Colibri (customer of Prilla) indicated that over the years they have been in partnership with Prilla and they have developed new yarn technology together. As such the current transaction would imply that Colibri, which is a major competitor, might benefit from new technology developed by its major competitor.

The competitors of Colibri also indicated that the proposed merger will result in unfair competition between themselves and Colibri. One Competitor indicated that post merger, IDC will be their financier, supplier of yarn and then competitor in manufacturing of terry towelling. Other competitors supported the proposed transaction stating that if the transaction is not approved, then two local manufacturers will dominate the market for the manufacturing of terry towelling.

With respect to public interest concerns, the Commission found that the proposed transaction will result in about 50 jobs being lost in Colibri. Despite the anticipated job losses, the public interest outcome of the proposed merger is positive, since it is ultimately intended to save about 277 jobs with real prospects of jobs lost in the Eastern Cape being replaced by similar appointments in the Western Cape.

The Commission is of the view that the public interest outcomes in this matter, i.e. saving jobs, outweigh the concerns raised. However, the potential for information exchange between Prilla and Colibri is a concern which is remedied by the conditions to prevent cross directorships. The conditions have been by agreement between the Commission and the IDC.

1. Conditions

- 1.1 For as long as the *IDC*, either directly or indirectly through any controlled entity, has control over *Prilla*, and also controls *Colibri*, the *IDC* shall not appoint the same executive to serve on the board of *Prilla* and *Colibri*, simultaneously.
- 1.2 The *IDC* will ensure that, only the *specified employees* are retrenched, as a result of the merger.

2. Monitoring of compliance with this Conditions

- 2.1 The *IDC* shall submit to the Commission an affidavit by a senior official confirming compliance with the conditions in paragraph 3.1. and 3.2. above on an annual basis. The first such affidavit to be submitted on 1 March 2013.
- 2.2 The *IDC* shall report to the *Commission* on a 6 monthly basis on retrenchments of employees, for a period of 1 year after the *Approval date*.

- 2.3 In the event that the *IDC* relinquishes control over either *Prilla* or *Colibri*, it must inform the *Commission* in writing, within 1 month of concluding the sale agreement. The *IDC* must at the same time produce a signed copy of any sale agreement to the *Commission*.
- 2.4 The reports and/or documents referred to in paragraph 4.1; 4.2. and 4.3 must be submitted to the following email address: mergerconditions@compcom.co.za

3. Duration of the Conditions

- 3.1 The Conditions contained herein shall be effective as long as the *IDC* has either direct or indirect control over both *Prilla* and *Colibri*.

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.
