**ECONOMIC DEVELOPMENT DEPARTMENT**

**NOTICE 850 OF 2015**

**COMPETITION COMMISSION**

**NOTIFICATION TO APPROVE WITH CONDITIONS THE TRANSACTION INVOLVING:**

**HEBEI IRON & STEEL GROUP CO.LTD**

**AND**

**DUFERCO INTERNATIONAL TRADING HOLDING S.A**

**2015MAR0109**

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:

**Background**

1. On 12 March 2015 the Competition Commission (Commission) received notice of an intermediate merger whereby Hebei Iron and Steel Group Co. Ltd (Hebei) intends to acquire control of Duferco International Trading Holding SA (Luxembourg) (DITH). Post-merger, Hebei will control DITH.

**Parties and their activities**

2. Hebei is a state owned company incorporated under the laws of China. Its sole shareholder is the state owned Assets Supervision and Administration Commission of the People's Government of Hebei Province (ASAC). Hebei is active as a manufacturer of iron and steel products.
3. The primary target firm, DITH, is a private company incorporated in Luxembourg. DITH is active as a steel trader and distributor worldwide. The activities of DITH relevant for the purposes of assessing the effect of the proposed transaction in South Africa are

undertaken by Duferco Steel Processing (Pty) Ltd (DSP) and Duferco Distribution Services (Pty) Ltd (DDS). DSP is a joint venture between DITH and the Industrial Development Corporation of South Africa Limited (IDC). DSP's activities involve the processing of Hot Rolled Coil (HRC) into galvanised steel and cold rolled steel. DDS is wholly-owned and controlled by DITH and its activities in South Africa are related to the sale and distribution of steel.

**The transaction**

4. Currently Hebei has shareholding in DITH through its subsidiary Tangshan Iron and Steel Group (Tangsteel). The proposed merger entails a move from minority shareholding to majority shareholding in DITH. Hebei may form a special purpose vehicle through which it acquires the shares in DITH. Similarly, Tangsteel may instead transfer its shareholding to the special purpose vehicle as well. However, the ultimate result of the proposed transaction is that Hebei will own, directly and/or indirectly, the shares in DITH.

**Areas of overlap**

5. The Commission finds that the proposed transaction raises a horizontal overlap between the activities of the merging parties with respect to the manufacture and supply of flat steel products. The proposed transaction also presents a vertical overlap between the activities of the merging parties because Hebei supplies DSP with HRC which is used to manufacture the cold rolled steel and galvanised steel.

**Competition assessment**

6. The Commission finds that the upstream market for the manufacture of HRC is national. However, given that Hebei supplies HRC to DSP in South Africa, the Commission considers the geographic scope of this market to be national with imports. The Commission finds that in the manufacture and supply of HRC into South Africa, Hebei has low market shares. Therefore the proposed transaction is unlikely to substantially prevent or lessen competition in the upstream market for the manufacture and supply of HRC.
7. The Commission finds that there are two downstream markets being the market for the manufacture and supply of cold rolled steel; and the market for the manufacture and

supply of galvanised steel. The Commission finds that the geographic scope of both downstream markets is national. However, in order to assess the impact of the proposed transaction in South Africa, the Commission assesses the geographic scope of this market as national with imports as a worst case scenario.

8. In relation to input foreclosure, the Commission assesses the impact of the proposed transaction on the market for the manufacture and supply of HRC in South Africa.
9. The Commission finds that it is unlikely that the proposed transaction will result in input foreclosure, however, required an undertaking from the merging parties, to continue sourcing from local suppliers provided they are able to provide competitive pricing.

**Public interest analysis**

10. The Commission finds that the proposed transaction does not raise any duplication of functions at DSP and DDS. However, the Commission finds that the likely impact of the proposed transaction on employment may not necessarily result from a duplication of functions.
11. The Commission requested Hebei's plans regarding the post-merger business of DSP and DDS. The main objective was to assess whether or not Hebei has intentions to continue with the businesses of DSP and DDS post-merger.
12. The Commission finds that Hebei is likely to increase its export of the HRC and other finished steel products into South Africa. As a result, Hebei is likely to stop the production of some steel products currently produced by DSP. This is likely to affect employment at DSP and DDS. The Commission is of the view that a condition is required to ensure that DSP and DDS continue to operate and do not retrench any employees, post-merger.
13. The Commission therefore required the merging parties to make a financial investment in the business of DSP such that it continues operating, post-merger. The merging parties have agreed to this undertaking. The Commission is of the view that a condition on this undertaking will be sufficient to address any concerns likely to arise from the merger.
14. The merging parties also indicate that Hebei has plans to develop a steel mill in South Africa.

15. Therefore, the Commission finds that it is unlikely that the development of this steel mill is unlikely to raise significant competition concerns within South Africa. There are no further investment plans by Hebei in the South African market.
16. The Commission further required the merging parties to make an undertaking that the proposed merger will not change Hebei's plans regarding the development of the steel mill in South Africa.

**Conclusion**

17. The Commission concludes that the proposed transaction does not raise competition concerns. The Commission however finds that the proposed transaction is likely to raise public interest concerns related to the effect on the steel sector as well as the effect on employment. The Commission required the following undertakings, which were subsequently accepted as the Conditions by the merging parties in order to address public interest concerns:
    - The businesses of DSP and DDS will continue operating post-merger.
    - Hebei will not change its plans of developing a steel plant in South Africa.
    - Hebei does not retrench any employee of DDS and DSP as a result of this proposed transaction.
    - Hebei does not change the terms and conditions of employment of the employees of DSP and DDS.
    - Hebei shall make financial investment in the business of DSP such that it continues to operate, post-merger.
18. The Commission finds that these conditions will be sufficient to address the public interest concerns raised by the proposed transaction.
19. The Commission therefore approves the proposed transaction with the Conditions to address the public interest concerns.
20. An apparent breach by the Merging Parties of any of the Conditions shall be dealt with in terms of Rule 39 of the Rules for the Conduct of Proceedings in the Commission.

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.