COMPETITION TRIBUNAL

REPUBLIC OF SOUTH AFRICA

Case Number: 18/LM/Feb00

In the large merger between:

Ceramic Industries Ltd

and

The Vitro Punched Tile Business of Anglo Operations Ltd

Reasons for the Competition Tribunal's Decision

Approval

The Competition Tribunal issued a Merger Clearance Certificate on 3 May 2000 approving the merger between Ceramic Industries Ltd (CIL) and the Vitro Punched Tile Business of Anglo Operations Ltd without conditions. The reasons for our decision to approve the merger are set out below.

The merger transaction

The merger took effect on 19 May 1999. The transaction is part of Anglo American Corporation's restructuring and the target division was considered a non-core activity. Anglo's decision to sell Vitro was partly based on concerns that it could not compete against low priced tiles manufactured by Indonesian producers.

Prior to the merger CIL manufactured pressed and split glazed floor and wall tiles. Vitro, a considerably smaller firm, manufactured mainly extruded punched unglazed ceramic floor tiles, which are much cheaper than glazed tiles. The price range of tiles varies considerably from R28.50 to R80.30 for first grade tiles.

By acquiring Vitro, CIL increased its product range to include punched tiles, a product which was not previously manufactured by them. The merger also increased CIL's production capacity.

Evaluating the merger

The parties, as well as the Competition Commission, initially indicated to the Tribunal that the relevant market included other floor coverings such as carpets, wood and vinyl.

However, the Tribunal does not agree with this view and is of the opinion that the relevant market should be defined more narrowly, as the market for wall and floor tiles. We base this view on two facts namely 1) that the parties conceded at the hearing that they only take into account the prices of other tile products when pricing their own tiles and 2) product characteristics and consumer preference show that in certain instances, such as in shopping malls and bathrooms, substitute products will not be considered at all.

In considering this merger, the Tribunal was not only concerned about the horizontal effects in view of CIL's already dominant position in the domestic tile manufacturing market, but also the vertical effects because of the relationship between CIL and its downstream associated company Italtile.

<u>Horizontal impact</u>

The market shares in the tile market, before and after the merger, are as follows:

PRODUCER	MARKET SHARE BEFORE MERGER	MARKET SHARE AFTER MERGER
CIL	47%	50%
Johnson Tiles	15%	15%
Vitro Punched Tiles	3%	-
Imports	35%	35%

CIL's post-merger market share in the relevant market for tiles is 50% and

> its main competitor, Johnson tiles' market share is 15%. Several other domestic manufacturers have either closed operation or have been acquired in recent years. CIL attributes the decline in manufacturers to their outdated production methods and operational inefficiencies, which meant that these manufacturers were unable to remain competitive in the face of increasing foreign competition.

Although concentration in this market is extremely high, the Tribunal is satisfied that imports, which account for 35% of the market share, are adequate to discipline the pricing strategies of the domestic producers. The demand for imported tiles has increased despite the 20% tariff currently operative.

CIL, moreover, submitted evidence to show that the price of Vitro's main punched tile product, the Ibumba Rouge, has decreased by 15% since the merger, from R36 per square meter to R28.50 per square meter. This they attribute to production efficiencies introduced at the Vitro plant in Lekoa Vaal.

Vertical Impact

Although the links between Italtile and CIL are complicated we have assumed, for the purposes of our assessment, that CIL and Italtile are controlled by the same ultimate shareholders and can be said to form part of the same group.

Within this group CIL is the manufacturing operation and Italtile the retailing operation. Italtile, which is the largest tile retailer in South Africa, represents approximately 50%, of CIL's customer base. Italtile is also a significant importer of tiles. CIL, however, says an agreement exists between the two companies, which require them to conduct their business on an arms-length basis.

Despite the vertical integration of CIL and Italtile, Tile Africa Italtile's major competitor, has grown considerably over the past few years by selling imported tiles

Some of the tile retailers, who the Commission had interviewed, alleged that CIL applied certain restrictive practices in conducting its business. The Tribunal adjourned its first hearing to allow these firms and competitors of CIL an opportunity to make submissions to it on the merger. None of them did, and accordingly the Tribunal has no evidence before it that the merger will have any adverse effects on either competitors of CIL or Italtile.

In light of the above the Tribunal is satisfied that the merger does not substantially prevent or lessen competition in the relevant horizontal or vertical markets. The merger also does not raise any public interest concerns listed in section 16(3).

N.M. Manoim **12 May 2000**

Concurring: D.H. Lewis and S. Zilwa