COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case No: 68/LM/Sep02

In the large merger between:

Prochem (Pty) Ltd

and

Duravin Chemicals (Pty) Ltd

Reasons for Decision

Approval

On 06 November 2002 The Competition Tribunal approved the merger between Prochem (Pty) Ltd ("Prochem") and Duravin Chemicals (Pty) Ltd ("Duravin") without conditions. The reasons for the decision follow.

The transaction

This is an acquisition by Prochem of 50% of the shares in Duravin, from the Brimacombe Family Trust ("The Trust"). Duravin is currently jointly controlled by Prochem and the Trust. Thus, pursuant to the acquisition, Prochem will have sole control of Duravin.

The Parties

The primary acquiring firm, Prochem, is controlled by Standard Corporate & Merchant Bank ("SCMB") and a management consortium. In addition to its interest in Duravin, Prochem has another subsidiary, Acol Chemical Holdings (Zimbabwe).

The primary target firm is Duravin, which does not have any other business interests.

Rationale for the transaction

The rationale for the transaction is to facilitate Prochem's growth into areas where it does not currently enjoy a significant presence, in particular, export opportunities in Africa and its expansion into the bulk chemical distribution market.

The relevant market

Product market
Prochem has three divisions namely, Chempro, Protea Chemicals and Montan Chemicals. Chempro is a speciality channel, supplying products for specific applications. Protea Chemicals is a commodity wholesaler and distributor, warehousing and distributing chemicals to a wide range of customers. Montan Chemicals supplies chemicals to the mining and water care industries.

Duravin operates as a bulk commodity chemical channel. It does not warehouse chemicals and supplies only larger customers within industrial sectors.

The parties' activities overlap in the distribution of the following chemicals and plastics[1]:

Plastics	**Chemicals**
High density polyethylene – HDPE	Monothylene glycol – MEG
Low density polyethylene - LDPE	
Linear low density polyethylene – LLDPE	
Polypropylene – PP	
Poly vinyl chloride - PVC	

The Commission identified the relevant product markets as the markets for the supply of each of the above products.

Geographic market
The parties distribute these products throughout South Africa.

The Commission accepted the relevant markets as the national markets for the supply of HDPE; LDPE; LLDPE; PP; PVC and MEG.

At the hearing of this matter, we questioned whether there are indeed separate product markets or a single market for the supply of distribution services in the chemical and plastic industries.

1 For an explanation of the constitution and use of these products see the following E U Competition Commission cases: Union Carbide/Enichem IV/M.550; Royal Vopak/ Ellis & Everard COMP/ M.2244 .

However, given the parties' relatively insignificant market shares, the relevant product market does not require a definitive answer.[2]

Effect on competition

According to the market share information submitted, the parties enjoy the following market shares:

Prochem

Product	% Market share
HDPE	**<1**
LDPE	2
LLDPE	<3
PP	<1
PVC	<1
MEG	3

Duravin

Product	% Market share
HDPE	3
LDPE	2
LLDPE	<1
PP	<1
PVC	<2
MEG	7

Vertically integrated firms such as Sasol and Dow are dominant in these product markets, while the merging parties' market shares are relatively insignificant. As can be seen from the table above the parties' post merger market shares do not exceed 10% in any of these product markets.

Furthermore, the barriers to entry are insignificant. In fact, product knowledge and expertise are probably the most significant barriers.

In our opinion the transaction does not result in the removal of an effective competitor, since Prochem has historically held a significant interest in Duravin[3], which has probably led to the parties differentiating their services and client base.

On the basis of the above the transaction does not give rise to competition concerns.

Public interest Issues

The transaction will not give rise to any loss of employment or other public interest concerns.

Conclusion

We conclude that the merger will not lead to a substantial lessening of competition and therefore unconditionally approve the transaction.

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2 A similar approach was adopted by the EU in Royal Vopak/ Ellis & Everard COMP/ M.2244 and Ashland/Superfos COMP/M.1682.

3 At the hearing Mr Brimacombe confirmed that Prochem was one of the founding shareholders of Duravin, initially holding a 40% interest in Duravin. Approximately three years ago, Prochem acquired a further 10% hence its current 50% interest.

19 November 2002

N.M. Manoim **Date**

Concurring: M. Holden, F. Fourie

For the merging parties:	Cliffe Dekker Attorneys
For the Commission:	J. Mokwana, Legal Services Division, Competition Commission