



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM231Mar15 (021030)

In the matter between:

Chemical Services Limited

Primary Acquiring Firm

and

Resinkem Proprietary Limited

Primary Target Firm

Panel : Yasmin Carrim (Presiding Member)
: Fiona Tregenna (Tribunal Member)
: Medi Mokuena (Tribunal Member)
Heard on : 3 June 2015
Order Issued on : 3 June 2015
Reasons Issued on : 2 July 2015

Reasons for Decision

Approval

- [1] On 3 June 2015, the Competition Tribunal ("Tribunal") unconditionally approved the merger between Chemical Services Limited ("CSI") and Resinkem Proprietary Limited ("Resinkem").
- [2] The reasons for approving the proposed transaction follow.

Parties to transaction

Primary acquiring firm

- [3] The primary acquiring firm is CSL, a firm incorporated in accordance with company laws of South Africa. Prior to implementation of this transaction CSL controlled 50 percent of the shareholding in Resinkem.
- [4] CSL is a wholly-owned subsidiary of AECI Ltd which is a public company listed on the Johannesburg Stock Exchange. AECI is a South African- based explosives and speciality chemicals group which services the mining and manufacturing sectors.

Primary target firm

- [5] The primary target firm is Resinkem which is jointly controlled by GP Chemicals International Holding Sarl (GP Chemicals) and CSL.
- [6] Resinkem is involved in the manufacture and supply of formaldehyde solutions, urea formaldehyde resins and phenolic resins. In addition to this, Resinkem also toll manufactures the following products: phenolic resins, animal feed supplements, pulp and paper additives and extenders and scavengers. Resinkem is also involved in the trade of industrial urea.

Proposed transaction and rationale

- [7] The proposed transaction involves CSL, who already holds 50% of Resinkem acquiring the remaining 50% from GP Chemicals. The proposed transaction will therefore constitute a change from joint to sole control.
- [8] The proposed transaction was as a result of Resinkem losing its largest and only significant contestable customer of formaldehyde resin which resulted in the business no longer being economically viable as a self- standing business. GP Chemicals therefore intends to exit the joint venture as a result of this. Sole control would allow AECI more manoeuvrability in incorporating Resinkem into its existing and planned operations.

Impact on competition

- [9] The Competition Commission ("the Commission") found that the proposed transaction resulted in a vertical overlap as Resinkem supplies to a number of AECI subsidiaries. It found that the vertical overlap would not have any effect on the proposed transaction and instead focused on the supply of chemical products to customers outside the AECI Group. The Commission therefore focused its analysis on the following affected markets; urea formaldehyde resins, formaldehyde and Salcurb S. The Commission concluded that the proposed transaction would not result in input foreclosure in the abovementioned markets. Furthermore the Commission found that there are alternative suppliers in the market which would be capable to supply customers in the event of input foreclosure.
- [10] The Commission also investigated the possibility of a change in incentives. It found that the proposed transaction did not alter the structure of the market and a change in incentives is unlikely as Resinkem had lost a significant proportion of its business. The Commission concluded that the proposed transaction would unlikely result in Resinkem raising prices or decreasing output.
- [11] We concur with the Commission's competition assessment that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market. We further agree that it is unlikely that the proposed transaction would result in input foreclosure or a change in incentive for Resinkem to increase prices or decrease output.

Public interest

[13] The merging parties brought attention to the fact that as a result of losing significant business that 12 retrenchments were affected. The merging parties submit that these retrenchments were not merger specific. The merging parties further submitted the possibility that save for the proposed transaction Resinkem would face eventual liquidation which would result in approximately 21 more jobs being lost. The merging parties confirmed that the proposed transaction will not result in an adverse impact on employment.¹ The proposed transaction further raises no other public interest concerns.

Conclusion

[14] In light of the above, we conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market. In addition, no public interest issues arise from the proposed transaction. Accordingly, we approve the proposed transaction unconditionally.



Yasmin Carrim

02 July 2015
DATE

Fiona Tregenna and Medi Mokuena concurring

Tribunal Researcher: Aneesa Ravat
For the merging parties: Derek Lotter and Claire Avidon of Bowman Gilfillan
For the Commission: Relebohile Thabane and Nompucuko Nontombana

¹ *Inter alia* merger record page 3.