Competition Commission approves steel merger with conditions

By Naasha Loopoo

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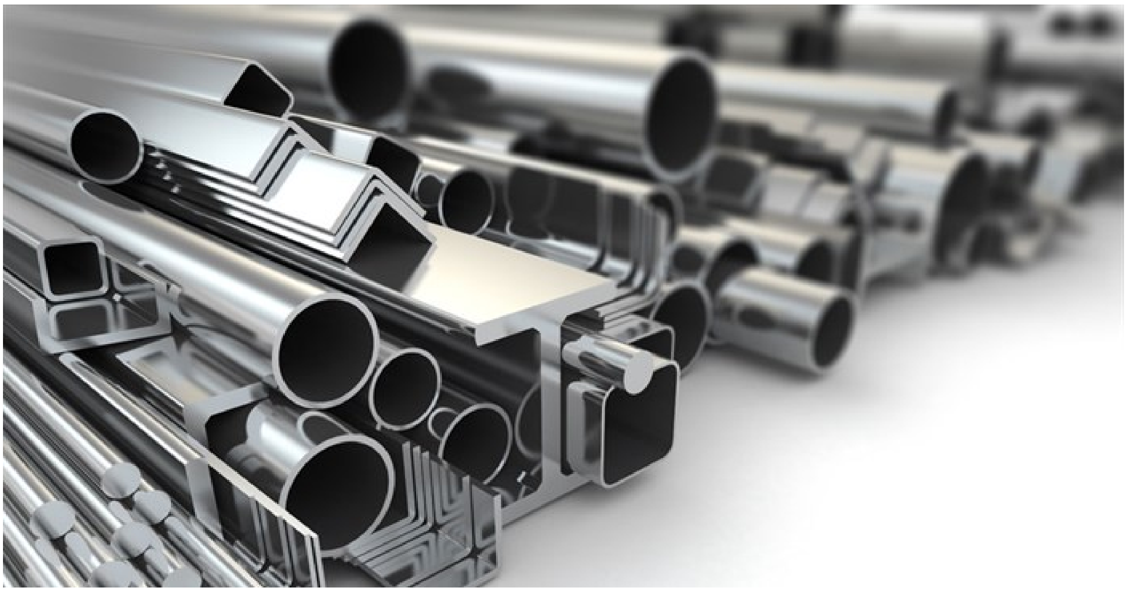
On 11 June 2015, the Competition Commission conditionally approved an intermediate merger between Hebei Iron and Steel Group Co. Limited (Hebei) and Duferno International Trading Holding SA (Duferno).



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To address and allay its concerns on public interest considerations, the Commission imposed employment conditions and investment conditions.

Hebei manufactures iron and steel through its subsidiaries. Duferno trades and distributes steel globally. In South Africa, Duferno's activities are undertaken by Duferno Steel Processing Proprietary Limited (DSP) and Duferno Distribution Services Proprietary Limited (DDS). Following the implementation of the proposed transaction, Hebei will acquire a majority stake in Duferno.

Public interest concerns

The Commission found that the merger is likely to raise public interest concerns in the steel sector. These concerns stem from Hebei's intention to sell its product beyond China which could increase the tendency for DSP and DDS to import the product. The Commission found that it would be easier for Hebei to import the finished product directly from China, given that it has the ability and capacity to manufacture the products that both DSP and DDS currently manufacture and distribute respectively in South Africa.

From an employment perspective, the Commission imposed an indefinite condition on merger-related retrenchments for DPS and DDS employees. Furthermore, the merged entity is prohibited from changing the terms and conditions of employment for these employees as a result of the merger.

Local sourcing

From an investment perspective, the Commission imposed an indefinite condition on the merging parties to ensure that the businesses of DPS and DDS continue to operate post-merger. Moreover, Hebei may not change its plans of developing a steel plant in South Africa and Hebei must invest in DSP's steel processing plant in Saldanha in order for the plant to continue operating efficiently. Furthermore, Hebei undertook to continue sourcing from local suppliers of DSP and DDS provided it is economically feasible to do so.

Deputy Commissioner Hardin Ratshisusu noted that these conditions address the public interest concerns arising from the merger and will ensure that DSP remains a viable entity that contributes to the development of the domestic steel market. Interestingly, this decision comes after Economic Development Minister Ebrahim Patel's announcement on 12 May 2015 to establish an independent panel of steel industry experts to provide advice towards a more competitive steel price for downstream users and stimulate local demand for steel.

ABOUT THE AUTHOR

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