



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: LM006Apr16

In the matter between:

REUNERT LIMITED

Primary Acquiring Firm

and

METAL FABRICATORS OF ZAMBIA PLC

Primary Target Firm

Panel : Andreas Wessels (Presiding Member)
: Fiona Tregenna (Tribunal Member)
: Andiswa Ndoni (Tribunal Member)
Heard on : 29 June 2016
Order Issued on : 29 June 2016
Reasons Issued on : 22 July 2016

Reasons for Decision

Approval

- [1] On 29 June 2016, the Competition Tribunal ("Tribunal") approved the proposed transaction involving Reunert Limited and Metal Fabricators of Zambia Plc.
- [2] The reasons for approving the proposed transaction follow.

Parties to proposed transaction

Primary acquiring firm

- [3] The primary acquiring firm is Reunert Limited ("Reunert"), a public company incorporated according to the laws of the Republic of South Africa. Reunert is listed

on the Johannesburg Stock Exchange ("JSE") and is not controlled by any single shareholder.

- [4] Reunert manages a portfolio of businesses in the fields of electrical engineering, information communication technologies and applied electronics. Relevant for the competition assessment of this proposed transaction are Reunert's activities through its Electrical Engineering business. CBI Electric: African Cables ("African Cables") is housed within this division.
- [5] African Cables is involved in the manufacture and supply of cable and conductor products from copper rod. Particularly, African Cables designs and manufactures a comprehensive range of electrical energy cables up to 132 kV and conductors up to 765 kV. It is also involved in the installation and maintenance of medium and high-voltage cable systems. The cables and conductors designed and manufactured by African Cables can be classified as: low voltage (LV) cables, medium voltage (MV) cables, high voltage (HV) cables, overhead conductors and aerial bundled conductors (ABC).
- [6] In addition, African Cables also manufactures copper rod for its own internal use. The copper rod is used to manufacture its cable and conductor products.
- [7] Reunert also has an interest in a South African joint venture, CBI-Electric Aberdare ATC Telecom Cables (Pty) Ltd. However, this company only supplies telecommunications cables and does not compete in the electrical power industry.

Primary target firm

- [8] The primary target firm is Metal Fabricators of Zambia Plc ("Zamefa"), a company incorporated in accordance with the laws of Zambia. Zamefa is ultimately controlled by General Cable Corporation ("General Cable"), a company incorporated in Kentucky, United States of America which holds 75.4% of the shares in Zamefa.
- [9] General Cable controls various firms around the world. In South Africa, General Cable controls National Cable (Pty) Ltd ("National") and General Cable Phoenix S.A (Pty) Ltd ("Phoenix"). We note that the Commission however found that National and Phoenix have closed down and are not part of the proposed transaction.

- [10] In South Africa, Zamefa controls Zamefa Metal Fabricators of South Africa (Pty) Ltd (“Zamefa SA”) which holds some copper rod inventory for Zamefa in South Africa and this enables Zamefa to service smaller orders in South Africa on shorter lead times.
- [11] Zamefa is a manufacturer of copper rod based in Luanshya on the Zambian copper belt. It is a largely an export driven business.
- [12] Zamefa also produces and distributes certain kinds of low voltage (LV) cables, building wire, overhead conductors and bare copper conductors, some of which have been sold into South Africa. These products were supplied to Phoenix and National.
- [13] Cables and wire products are also manufactured at the Phoenix plant in KwaZulu-Natal. Zamefa can however not produce medium voltage (MV) cables since it does not have the appropriate manufacturing plant. Zamefa is also not active in the manufacturing of HV cables.
- [14] Zamefa further has the capacity to produce aerial bundle conductors (ABC) although it did not do so in 2015.

Proposed transaction and rationale

- [15] According to the Purchase Agreement entered into between Reunert and General Cable, Reunert intends to acquire General Cable’s entire shareholding in Zamefa. Following the proposed transaction, Reunert will hold approximately 75% of the issued share capital in Zamefa and will exercise control over Zamefa.
- [16] Reunert submitted that the proposed transaction will *inter alia* enable it to vertically integrate its cable manufacturing distribution business with a reliable supplier of copper rod and generate efficiencies.
- [17] Zamefa submitted that the proposed transaction will *inter alia* increase production and enable its plant to run more productively.

Impact on competition

- [18] The Competition Commission (“Commission”) identified a vertical overlap between the activities of the merging parties since certain of the cables manufactured by the acquiring group are produced from copper rod. The acquiring group however does not purchase copper rod from Zamefa pre-merger.

- [19] In relation to the manufacture and supply of copper rod, the Commission found that African Cables manufactures copper rod exclusively for its own internal use, i.e. the copper rod is not supplied to any third party. The Commission therefore did not consider this any further.
- [20] The Commission did however identify a horizontal overlap between the activities of the merging parties in the national market for the manufacture and sale of low voltage (“LV”) cables. The Commission found that the merging parties’ combined market share in 2015 in this market is below 20%. The Commission further stated that Aberdare is the market leader in this market whereas firms such as SOEW and M-Tec are also prominent players. Several competitors and customers confirmed that Zamefa (and General Cable) are not significant players in this market. The Commission therefore concluded that this horizontal overlap is unlikely to result in a substantial prevention or lessening of competition. We concur with this finding.
- [21] As a result of the abovementioned vertical overlap, the Commission also considered an input foreclosure theory of harm. The Commission however found that the merged entity will not have the ability to foreclose rivals. The customers contacted by the Commission indicated that they have a sufficient number of alternative suppliers that can supply copper rod to them.
- [22] The Commission further found that the merged entity is unlikely to have the incentive to foreclose given that Zamefa has substantial excess capacity in the manufacturing of copper rod. Zamefa’s likely incentive is to sell more copper rod to third parties in order to utilize more of its capacity. Furthermore, since African Cables manufactures its own copper rod, it is unlikely that it would be able to absorb all of Zamefa’s supply. The Commission therefore found that an input foreclosure strategy was unlikely to result from the proposed transaction.
- [23] The Commission further found that the proposed transaction was unlikely to result in customer foreclosure given that African Cables largely manufactures its own copper rod and only purchases a small proportion of its copper rod requirements from third parties.
- [24] We concur with the Commission’s finding that the proposed transaction is unlikely to substantially prevent or lessen competition either from a horizontal or a vertical perspective.

Public interest

[25] The merging parties confirmed that the proposed transaction will not have any negative effect on employment.¹

[26] The proposed transaction further raises no other public interest concerns.

Conclusion

[27] 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.



Mr. AW Wessels

22 July 2016
DATE

Prof Fiona Tregenna and Ms Andiswa Ndoni concurring

Tribunal Researcher:	Busisiwe Masina
For the acquiring firm:	Mr Judd Lurie and Mr Burton Phillips of Bowman Gilfillan
For the target firm:	Ms Lara Granville and Ms Marianne Wagner of Norton Rose Fulbright
For the Commission:	Ratshidaho Maphwanya

¹ Merger Record, *inter alia* page 8.