

### **COMPETITION TRIBUNAL OF SOUTH AFRICA**

Case No: LM123Oct19

In the matter between:

Barnes Group Holdings (Pty) Ltd

**Primary Acquiring Firm** 

And

Barnes Reinforcing (Pty) Ltd

**Primary Target Firm** 

Panel

Yasmin Carrim (Presiding Member)

: Andiswa Ndoni (Tribunal Member)

Halton Cheadle (Tribunal Member)

Heard on

15 January 2020

Order Issued on

15 January 2020

Reasons Issued on

20 February 2020

#### **Reasons for Decision**

# **Approval**

- [1] On 15 January 2020, the Competition Tribunal ("Tribunal") unconditionally approved the transaction involving Barnes Group Holdings (Pty) Ltd and Barnes Reinforcing (Pty) Ltd.
- [2] The reasons for approving the proposed transaction follow.

# Parties to the proposed transaction

Primary acquiring firm

[3]	The primary acquiring firm is Barnes Group Holdings (Pty) Ltd ("Barnes Holdings"), a private company incorporated in accordance with the laws of the Republic of South Africa.
[6]	Barnes Holdings and the firms indirectly and directly controlled by it will be hereinunder collectively be referred to as the Barnes Group.

Primary target firm

[9] The primary target firm is Barnes Reinforcing (Pty) Ltd ("BRI"), a private company incorporated in terms of the company laws of South Africa.

- [10] BRI is jointly controlled by Group Five Construction (Pty) Ltd ("Group Five")
- [11] BRI controls Titan Reinforcing (Pty) Ltd ("Titan) and Vulcania Reinforcing Solutions (Pty) Ltd ("Vulcania"). BRI and all the firms controlled by it will be collectively referred to as the Target Group.
- [12] The Target Group manufactures and supplies reinforcing steel and mesh products, it cuts, bends and installs reinforcing steel products and supplies reinforcing and wire products.

## Proposed transaction and rationale

- The Commission and the merging parties submitted that the proposed transaction would take place in two steps. Firstly, as part of the first transaction would acquire Group Five's 50% shareholding in BRI and thereafter, as part of the second transaction, shareholding in BRI to Barnes Holdings by way of intragroup transfer of shares. Post-merger, BRI will be solely controlled by Barnes Holdings.
- The Acquiring Firm submitted that Group Five is unable to comply with its obligations as shareholder towards BRI, nor is it able to pay its debts. This has triggered an involuntary sale in terms of the shareholders agreement, providing for to acquire its shareholding in BRI.
- [15] According to the Target Group, the sale of BRI to the existing shareholder is a commercial imperative in order to ensure its own business rescue strategy is complied with and further ensures the continuity of the existing employees' gainful employment within the Target Firm's own continued existence and keep costs competitive.

## Impact on competition

The Commission considered the activities of the merging parties and found that the proposed transaction presents a horizontal and vertical overlap. The horizontal overlap occurs in that Barnes Group's subsidiaries, and the Target Group are active in the production and supply of rebar (cut and bend); rebar (straight and cut), mesh and wire.

- [17] The vertical overlap occurs in that the Target Group procures various steel products from Barnes Group. The steel products by the Target Group from Barnes Group includes rebar and mesh products. The Target Group uses these products to produce rebar (cut and bend); mesh and binding wire; and rebar (straight and cut).
- [18] The Commission did not conclude on the relevant geographic market but assessed the effects the proposed merger would have on a national basis in the following markets:
  - [18.1] The national upstream market for the production and distribution of (i) reinforcing steel (rebar) and (ii) mesh & wire products;
  - [18.2] The national downstream market for the supply of (i) rebar products (cut & bend); (ii) rebar (straight & cut); and (iii) mesh & wire products.<sup>1</sup>
- [19] The Commission found that the merged entity will have an estimated combined post-merger market share in the production and supply of mesh and wire; in the production and supply of rebar (cut & bend); and in the production and supply rebar (straight and cut).

<sup>&</sup>lt;sup>1</sup> Please see Table 1 page 17 of the CC recommendations

- [20] The Commission submitted that the horizontal overlap between the activities of the merging parties was unlikely to substantially prevent or lessen competition as the merging parties are relatively smaller players. the Commission also found that the merged entity would continue to face competition from various other players such as Reinforcing Steel Contractors, Reinforcing & Mesh Solutions and Steel and Reinforcing Suppliers.
- [21] With respect to vertical overlap, the Commission assessed whether the merging parties would have the ability and incentive to foreclose the downstream competitors of the Target Group from accessing rebar and mesh products required in the downstream production.
- [22] The Commission found that Barnes Group is not a dominant supplier of rebar steel and mesh and would continue to face competition from other players such as Arcelor Mittal SA, Cape Gate, SA Metal and Fortune Steel. Thus it did not have the incentive or ability to foreclose downstream competitors.
- [23] Given the above, the Commission concluded that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market in South Africa.

#### **Public interest**

[24] The merging parties confirmed that the proposed transaction will have no adverse effect on employment in South Africa and raises no other public interest concerns.<sup>2</sup>

#### Conclusion

[25] In light of the above, we concluded that the proposed transaction is unlikely to substantially prevent or lessen competition in any relevant market. In addition,

<sup>&</sup>lt;sup>2</sup> Merger Record, pages 17.

no public interest issues arise from the proposed transaction. Accordingly, we approved the proposed transaction unconditionally.

Ms Yasmin Carrim

06 February 2020

DATE

Ms Andiswa Ndoni and Mr Halton Cheadle concurring

Tribunal Case Manager

Ms Busisiwe Masina

For the merging parties

Mr Greg Shapiro of Eversheds Sutherland

**Attorneys** 

For the Commission

Ms Rethabile Ncheche