

## IN THE COMPETITION TRIBUNAL OF SOUTH AFRICA

**CASE NO.: CASE NO: 56/LM/MAY08**

In the merger between:

**Macsteel Services Centre (Pty) Ltd**

Primary Acquiring Firm

and

**Harvey Roofing Products**

Primary Target Firm

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Panel : D Lewis (Presiding Member), N Manoim (Tribunal Member), and  
L Reyburn (Tribunal Member)

Heard on : 30 July 2008

Order issued on : 30 July 2008

Reasons issued on : 14 August 2008

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### REASONS FOR DECISION

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#### APPROVAL

[1] On 30 July 2008 the Tribunal unconditionally approved the merger between Macsteel Service Centre and Harvey Roofing Products. The reason for the decision follows:

#### THE MERGING PARTIES

[2] The primary acquiring firm is Macsteel Service Centre SA (Proprietary) Limited ("MSC") which is controlled by MSCSA Investments, which in turn is a wholly owned

subsidiary of Macsteel Holdings (Pty) Ltd. The primary target firm is Harvey Roofing Products (“HRP”), a business division of Murray and Roberts Limited (“M & R”).

## **THE TRANSACTION AND RATIONALE**

[3] In terms of the proposed transaction, MSC will acquire HRP as a going concern from M & R. The effect post merger is that HRP will be integrated into the business of MSC.

[4] For MSC this transaction is an opportunity to diversify its current portfolio of businesses. M & R Group regards HRP to be a non-core business, and HRP considers this transaction as an opportunity for synergies in marketing, distribution and exporting.

## **RELEVANT MARKET**

### *Horizontal overlap*

[5] According to the Commission and the parties, there is a limited horizontal overlap in the activities of the parties in the supply of pre-painted or textured steel sheeting and similar colour coated products such as sheeting or tiles. Macsteel Roofing produces products from pre-painted galvanized coil called Chromadek and Colorbond. The equivalent product that Harvey produces is Harveyspan or Tuffspan which are manufactured from galvanized coil to which a coloured sand coating is added.

[6] According to the Commission, the relevant upstream market is the market for the supply of galvanized steel material that is cut-to-size from galvanized coil for use in industries like the steel tile manufacturing industry. The Commission submitted that Macsteel obtains its product from Mittal, although there are a number of other merchants that also obtain coil from Mittal which they then cut and slit. In the downstream product market, the Commission submitted that there is also a limited overlap in the market for colour coated steel sheets and comparable tiles used for roofing.

### *Vertical Relationship*

[7] There is a vertical relationship between activities of the merging parties in that HRP sources galvanized steel sheets from MSC, which is the main input material in the manufacturing of its steel roof tiles.

#### *Geographic market*

[8] The geographical market is considered to be national for all the relevant products markets which are manufactured, distributed and supplied nationally.

### **COMPETITION EVALUATION**

[9] In the market for pre-painted or textured steel sheeting/ colour coated sheeting or tiles where there is a limited horizontal overlap, Macsteel Roofing has 22% market share pre-merger and HRP has less than 1% market share. Post merger, they will have a combined market share of around 23% in this market. There are no horizontal concerns given the insignificant market share accretion in this market.

[10] However, the Tribunal raised concerns that Harvey's tiles have 55% of the steel tile market. At the hearing, Miss Finesse from Harvey submitted that there are other domestic players such as Rollco which has 25% market share, Pro Roof 10%, Global Roofing Solution 5% and other domestic suppliers including international suppliers, which are highly competitive despite not having very high market shares. In addition the merging parties submitted that the steel tile market is not a capital intensive industry, and that the barriers to entry in this industry are low.

[11] The Tribunal further raised concerns about any possibility of margin squeeze that might arise due to Macsteel's relationship with Mittal. However the Commission submitted that other merchants also have access to Mittal's coil, and that there are no major concerns given Mittal's current best buy policy of smaller volumes which has had the impact of bringing in more merchants that are able to supply downstream tile manufacturers. There is also no evidence that Mittal is favouring Macsteel in the domestic market.

[12] At the hearing Mr Pimstein, Chief Executive of Macsteel also submitted that Mittal's policy of smaller volumes has invited in smaller customers to deal directly with

Mittal, and that this has resulted in smaller customers buying at higher volume levels, which means that even if this policy changed, it will not have any negative impact on them since they are already buying higher volumes at the most competitive levels in the Mittal matrix, which is easily accessible to all.

[13] In the vertical analysis, we concur with the Commission that there are no customer foreclosure concerns as Harvey does not purchase galvanized steel sheets from any other supplier other than from MSC. The merging parties submitted that there are no input foreclosure concerns as Harvey only purchases 13% of MSC's total supply of galvanized steel sheets and will be unable to absorb all of MSC's supply of galvanized steel sheets. The merging parties further submitted that there are other parties that could supply Pristine Tiles, MSC's only customer in this market, with its required product in this market. The Commission also interviewed several merchants in the market, such as Pro Roof, Trident Steel, Steelrode, and Gibb Steel who averred that they have capacity to supply the same service to independent tile manufacturers.

## CONCLUSION

[14] In light of the above, we find that this merger will not result in a substantial lessening or prevention of competition in any of the relevant markets. Accordingly, we approve the merger without conditions.

[15] There are no public interest issues.

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D Lewis

Tribunal Member

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14 August 2008

Date

N Manoim and L Reyburn **concur** in the judgment of D Lewis

For the merging parties : Webber Wentzel Bowens

For the Commission : T Mavhase  
(Mergers and Acquisitions)

Tribunal Researcher: L Xaba