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Commission wants IDC to honour merger conditions

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THE Competition Commission accused the Industrial Development Corporation (IDC) yesterday of trying to wriggle out of firm commitments the development financier had given during the merger investigations into its acquisition of Anglo American's steel interests in Scaw SA and Consolidated Wire Industries.

The head of mining and minerals beneficiation at the IDC, Mbuyazwe Magagula, testified before the Competition Tribunal that the IDC had only done "prefeasibility studies" on its intention to position Scaw as a credible supplier of cheap steel and a credible competitor to Arcelor Mittal SA.

However, the studies showed that their plans were "workable" and they were "reasonably confident" that it could be done. The ideas and initiatives were at a conceptual stage and would still require at least 18 to 24 months of work, he said.

Mr Magagula said the final decision remained with the management and board of Scaw, which would not be changed at this stage.

The IDC intends to acquire a majority interest in Scaw as well as Mittal's interest in Consolidated Wire Industries. Scaw is involved in the upstream steel market, while Consolidated Wire Industries is a player in the downstream market.

Mr Magagula told the tribunal that the IDC intended to reduce its majority shareholding in Scaw within the next couple of months, as discussions with a technical partner, due to carry out a partial buy-out, were at an advanced stage.

Rafik Bhana SC, appearing for the commission, wanted to know why the IDC was willing to make such a huge investment for only three or four months.

He wanted to know how the IDC's strategies would come to fruition if it had a minority stake in Scaw and little influence over the direction of the company.

Many of the "lofty ideas" presented to the commission might not even see the light of day, Mr Bhana suggested to the IDC's witness.

Mr Magagula said the acquisition of Scaw and Consolidated Wire Industries allowed the IDC quick access into the market and provided access to an existing distribution network. It was a defensive strategy to prevent the assets from landing in the hands of the dominant player (Mittal), or being dispersed.

Mr Magagula also said the IDC would achieve the stated objectives by getting access to cheaper raw materials, apply appropriate technology in order to lower the cost of production and by refraining from introducing unfair profit margins on the distribution costs. The objectives would form part of the shareholders agreement and would be "sold" vigorously to the board.

The commission asked the tribunal to consider an additional condition for the approval of the merger that would see the IDC supplying the cheaper steel to all the downstream players in the market on a nondiscriminatory basis.

Hamilton Maenetje SC, for the IDC, said the condition was not competent in law, as only dominant firms were required to supply products on a non-discriminatory basis and Scaw was by no means dominant.

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