Competition Commission blocks Corruseal-Neopak acquisition

The Competition Commission has prohibited the proposed merger whereby Corruseal Group intends to acquire Neopak Holdings, on the grounds that the merger is likely to result in "a substantial prevention and lessening of competition".

Source: Pexels

Neopak and Corruseal are both paper and packaging companies, and are both active in the recycled paper value chain.

In December last year, Ethos Private Equity announced that its Ethos Fund VI agreed to sell 100% of Neopak Holdings for an undisclosed sum to 100% Black-owned Corruseal Group.

In South Africa, Corruseal's activities include the collection and recycling of wastepaper; the manufacture and supply of recycled containerboard paper (the 'upstream' market), and the manufacture of corrugated sheets/box packaging products using recycled containerboard paper as an input (the 'downstream' market).

Neopak is a manufacturer and supplier of recycled containerboard paper. Neopak is only active in the upstream market for the manufacture and supply of recycled containerboard paper and does not have its own downstream operations. Prior to the merger, Neopak supplies recycled containerboard paper to third parties that are vertically integrated (such as Corruseal) and smaller firms that are not vertically integrated.

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Merger concerns

"The Commission found that Neopak is considered an important independent (non-integrated) supplier of recycled containerboard paper to firms that manufacture packaging products. The merger would thus result in the loss of the Neopak as a non-integrated firm," the Commission said.

Its investigation shows that the merger will result in the merged entity having high market shares irrespective of whether production capacity, production volumes or domestic sales volumes are used to measure their size. The Commission said it found that the merged entity will have the ability to act unilaterally by, for example, raising the prices of recycled containerboard, refusing to supply competitors of Corruseal who also rely on Neopak for recycled containerboard, or supplying downstream competitors on poor terms.

"The increase in concentration brought about by the merger is of particular concern given that it would further increase concentration in an already highly concentrated upstream market (at the paper manufacturing level), where there is a history of cartel investigations," the Commission added.

This Commission further found that barriers to entry into the upstream market are high. There has been no significant production capacity installed in the upstream market for at least the last five years. Moreover, the Commission found that supply of recycled containerboard paper from the upstream market to the downstream market is tight.

"This lack of capacity means that vertically integrated companies such as Corruseal, prioritise supplying their own downstream market activities with inputs as opposed to supplying external customers (i.e., companies that don’t have an integrated value chain)," the Commission said.

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Furthermore, the Commission found that imports of recycled containerboard paper is not a viable alternative for downstream market participants due to the prohibitive price of imports. The current global supply chain constraints add to costs and uncertainty.

The Commission also found that in the event of being denied inputs by the merged entity post-merger, it is likely that some players in the downstream market would likely exit the market, as a result reducing competition and discouraging entry in that market.

Consequently, the Commission found that the merger is likely to result in a substantial prevention and lessening of competition in the upstream and downstream markets. It also found that neither the efficiencies raised, nor the remedies offered by the merging parties, countervail the anti-competitive effects of the merger.

The Commission also found that the merger cannot otherwise be justified on public interest grounds.