

ISSN NO. 0114 - 2720

COMMERCE COMMISSION

DECISION NO. 293

Determination pursuant to the Commerce Act 1986 (the Act), and in accordance with a delegation given in terms of s105 of the Act, in the matter of an application for clearance of a business acquisition involving:

COATS SPENCER CRAFTS LIMITED

and

ALLIANCE TEXTILES (NZ) LIMITED

and

COATS PATONS PTY LIMITED

and

COATS PATONS (NZ) LIMITED

The Commission: P C Allport

Summary of Proposed Acquisition: The proposed acquisition by a new company to be called Coats Spencer Crafts Limited, and which is to be owned as to 50% by Alliance Textiles (NZ) Limited and as to 50% by Coats Patons Pty Limited and Coats Patons (NZ) Limited, of:

- (a) the Knitting Yarns Division of Alliance Textiles (NZ) Limited; and
- (b) the Coats Enzed Crafts Division of Coats Patons (NZ) Limited.

Determination: Pursuant to s66(3)(a) of the Act, and in accordance with a delegation granted under s105 of the Act, the Commission determines to give a clearance for the proposed acquisition.

Date of Determination: 8 May 1997

AUT/BA-C10/1
M2335

MEMORANDUM

To: Peter Allport

From: Jeff Hamilton
Jane Chilcott
John Preston

Date: 8 May 1997 (Working Day 16)

Subject **Commerce Act 1986: Business Acquisition: Alliance Textiles NZ Ltd/Coats Patons Pty Ltd/Coats Patons (NZ) Ltd**

Working Day 10: 30 April 1997

Working Day 18: 12 May 1997

Confidential material in this report is contained in square brackets.

THE PROPOSED ACQUISITION

- 1 On 15 April 1997, the Commission registered a notice in which clearance was sought for a new company, to be called Coats Spencer Crafts Ltd (Coats Spencer), to acquire:
 - the Knitting Yarns Division of Alliance Textiles (NZ) Ltd; and
 - the Coats Enzed Crafts Division of Coats Patons (NZ) Ltd.
- 2 The parties to the proposed acquisition intend establishing a combined business to manufacture wool, acrylic and special yarns for hand knitting, and industrial yarn and craft tapestry kits, for distribution in Australia, New Zealand and overseas markets. To this end, Coats Spencer, acting as trustee for the Coats Spencer Crafts Trust, proposes to acquire the assets described in para 1. Coats Spencer also proposes to acquire the worsted yarn spinning and processing, threads and

craft business of Coats Patons Pty Ltd (Coats Patons), Australia. That business includes a yarn spinning and processing plant in Launceston, Tasmania. It is intended that the Tasmanian plant will be progressively closed, with production being switched to Alliance's plant at Mosgiel. A diagrammatic representation of the proposal is provided in Appendix A.

PROCEDURES

- 3 Section 66(3) of the Commerce Act 1986 (the Act) requires the Commission either to clear or to decline to clear a notice given under s66(1) within 10 working days, unless the Commission and the person who gave the notice agree to a longer period.
- 4 In the notice, the applicant sought confidentiality for the fact of the proposed acquisition. However, after discussions between Commission staff and the solicitors acting for Alliance, it was agreed that exceptions from a confidentiality order would be made to allow contact with a limited number of parties for comment and information on the proposed acquisition. On 6 May 1997, confidentiality as to the fact of the proposed acquisition was lifted.
- 5 By agreement, the date for final determination was extended from 30 April 1997 to 12 May 1997 to enable the Commission to discuss the proposed acquisition with competitors, and other interested parties. Additional information was requested and supplied by the parties to the proposed acquisition, while the Ministry of Commerce provided information on tariffs and related issues.

THE PARTIES

Coats Spencer Crafts Ltd

6 Coats Spencer is a new company which has been formed to acquire the industrial and hand knitting yarns business of Alliance, and the Coats Enzed Crafts Division of Coats NZ. The company is to be owned as to 50% by Coats Patons and Coats Patons (NZ) Ltd (Coats NZ)¹, and as to 50% by Alliance Textiles (NZ) Ltd (Alliance).

7 Following implementation of the proposal, Coats Spencer will comprise:

- Coats Enzed Crafts, the crafts division of Coats NZ;
- the industrial yarns and hand knittings division of Alliance; and
- Coats Patons Crafts, the Australian crafts business of Coats Pty.

Alliance Textiles (NZ) Ltd

8 Alliance, which has its head office in Mosgiel, manufactures and/or distributes worsted and woollen industrial and hand knitting yarns. The company also manufactures woven apparel, knitwear, blankets, and upholstery, and distributes non-woven products. Alliance is ultimately owned by the P A Spencer family trust.

9 On 14 January 1997, the Commission gave clearance for Alliance to acquire the yarn business and assets of BTR Operations NZ Ltd, which at the time was the second largest manufacturer and distributor of industrial and hand knitting yarns in New Zealand. That proposal has now been implemented.

¹ In this report, Coats Patons and Coats NZ will be collectively referred to as “Coats”, unless otherwise specified.

Coats Patons Pty Ltd/Coats Patons (NZ) Ltd

- 10 The business activities of Coats in New Zealand are organised into two divisions: Coats Industrial is a wholesale distributor of sewing threads and accessories, while Coats Enzed Crafts is a wholesaler of sewing threads, haberdashery and other home sewings and handicrafts, and hand knitting yarns and patterns to the retail trade. Coats Industrial will not form part of Coats Spencer, but will continue to be owned by Coats, and trade independently from its present sites.
- 11 Coats is ultimately owned by Coats Viyella Plc of the United Kingdom.

THE RELEVANT MARKET

Overview

- 12 The proposed acquisition will result in aggregation of market share for hand knitting yarns made from wool and synthetic fibres. Alliance and Coats each distribute a range of woollen and worsted yarns, synthetic yarns and woollen/synthetic and worsted/synthetic blends.
- 13 The distinction between woollen and worsted yarns is that worsted yarns are “spun from fibres that have been combed and are fairly parallel”², whereas woollen yarns are spun from “slubbings”, which are “relatively thick, open but coherent strands of fibres”³. The difference in the spinning process means that worsted yarns are smoother, finer and stronger than woollen yarns. There is another category of yarns called “semi-worsted”, which appear to be similar to worsteds in character.
- 14 Hand knitting yarns which are sold in New Zealand can be divided into three broad categories:

² Larousse Dictionary of Science and Technology, 1995, p 1196

³ “ “ “ “ “ “ “ “ p 1009

- wool containing 100% wool;
 - wool/synthetic blends (e.g. mixtures of say 80% wool and 20% nylon);
and
 - synthetic yarns, including acrylic.
- 15 Hand knitting yarn is used for knitting with knitting needles. Most demand is for worsted rather than woollen yarn. There is also demand for acrylic and other synthetic yarns.
- 16 The major end uses for hand knitting yarn are jumpers, cardigans, other outerwear, other miscellaneous garments, baby clothes, and some non-clothing items.
- 17 Yarn is packed in relatively small quantities: generally 25 or 50 gram balls for yarns for knitting baby clothes, 50 and 100 gram balls for ‘double knitting’ (normal) yarns, and 100 and 200 gram balls for ‘natural’ yarns. ‘Natural’ yarns are produced in the colours naturally found in sheep wool, either a single colour, or a blended colour (e.g. a mixture of black and white wools), and are either undyed or are only lightly dyed to maintain colour consistency. Double knitting yarns are produced in a range of weights, e.g. 8 ply and 10 ply.
- 18 The demand for hand knitting yarns has fallen considerably over recent years. This appears to be partly the result of a reduced interest in knitting as a craft, and partly because of the availability of relatively inexpensive knitted garments. Knitting a garment (such as a jumper) by hand is often considerably more expensive than purchasing a finished garment, after taking into account the cost of the yarn, and the time taken to knit the garment.

Yarn Composition

- 19 Traditionally, there has been a strong preference by New Zealand consumers for yarns made of wool or wool blends. As a consequence, wool or wool blends have accounted for a high percentage of total sales. This is because New Zealand has a long established wool growing industry, with wool being readily available from local suppliers and promoted extensively.
- 20 Alliance contends that wool, and wool blends, compete in the same market as acrylic and other yarns, and are substitutable. The company considers that there is a range of factors which influence consumer purchasing behaviour in relation to the composition of yarn. These include:
- end use;
 - colour;
 - design;
 - price;
 - climatic conditions;
 - season;
 - machine washability; and
 - ease of care.
- 21 Most parties contacted during the investigation of the proposed acquisition essentially confirmed the view put forward by Alliances that there is a high degree of substitution between the various yarn types. However, it was noted by some parties that the ultimate purchasing decision is determined by a range of factors, including those outlined above.
- 22 Taking into account the comments of industry participants, our view is that from the “demand side”, wool, synthetic and wool/synthetic blends are broadly substitutable. The extent to which the different categories of yarn compete will depend on a range of price and non-price factors.

- 23 Further, we consider that it is possible to include yarns made from wool, synthetic yarns and wool blends in the same market when analysing the market from the “supply side”. This is because most suppliers of hand knitting yarns carry a comprehensive range of yarns, including wool, wool blends and synthetic yarns, and can alter the proportions they sell with relative ease to meet changes in demand. Indeed, Alliance contends that the consumer demands that each and every range of hand knitting yarn must contain the full range of hand knitting qualities, which includes 100% wool to 100% acrylic. If not, Alliance considers that the market interprets that the distributor is not totally committed to hand knitting yarn, and the distributor restricts its own ability to gain market share.
- 24 Having regard to the “demand” and “supply” side factors discussed above, we propose to define the relevant product market in this report as that for worsted and woollen hand knitting yarns, synthetic hand knitting yarns and woollen/synthetic and worsted/synthetic hand knitting yarns.

Functional and Geographic Markets

- 25 The relevant functional level is wholesaling, while the geographic market is New Zealand.

Conclusion on Market Definition

- 26 It is concluded that the relevant market is that for the wholesale supply in New Zealand of worsted and woollen hand knitting yarns, synthetic hand knitting yarns, woollen/synthetic and worsted/synthetic hand knitting yarns.

ASSESSMENT OF DOMINANCE

27 Section 66(3) of the Act, when read in conjunction with s47(1) of the Act, requires the Commission to decline to give clearance to a proposed acquisition if it is not satisfied that the proposed acquisition would not result, or would not be likely to result, in a person acquiring or strengthening a dominant position in a market.

Existing Competition

28 Alliance is by far the major producer and distributor of hand knitting yarn in New Zealand. As noted previously, the company manufactures and/or distributes woollen and worsted spun yarns in wool, acrylic and wool blends. The balance of local production of hand knitting yarn is accounted for by Design Spun Ltd⁴, Napier, and to a lesser extent by smaller spinners, including Manukau Wools and Wadsworth Wools Ltd, Christchurch. However, these companies produce only small quantities of hand knitting yarns, and often within a relatively limited range. For instance, Wadsworth Wools produce a range of ‘natural’ hand knitting yarns.

29 The other significant category of suppliers of hand knitting yarns are importers. There are currently four major importers of hand knitting yarns:

- Coats NZ, which imports yarns primarily from Coats Patons;
- Wendy Wools NZ Ltd (Wendy Wools), which imports yarns mainly from the United Kingdom;
- Panda Cleckheaton Wools (NZ) Ltd (Panda NZ), which imports yarns from its Australian parent, Australian Country Spinners; and
- MacEwan Enterprises Ltd (MacEwan), which imports yarns mainly from the United Kingdom.

⁴ Unlike Alliance, Design Spun does not supply the retail trade directly. Rather, it supplies product to certain wholesale distributors, who in turn sell to the retail trade.

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- 30 In addition to importing hand knitting yarns, some of the companies outlined in para 29 purchase some of their yarns from certain local producers, including Alliance and Design Spun.
- 31 At the retailing level of the hand knitting market, there are three major companies:
- Woolmart Wools Ltd, [], and which operates a chain of stores in the North and South Islands;
 - J Q Goldingham Ltd, which is a private independent, and which runs 13 outlets; and
 - Masco Ltd, which is a private independent, and which has stores in Auckland and Whangarei.
- 32 The balance of sales at the retail level is handled by a range of other retail outlets, including K Mart and Spotlight, and some 300-400 individual stores.

Market Shares

- 33 There is no market share information on hand knitting yarns collated on an industry basis. However, staff have estimated market shares based on annual sales turnover figures provided by market participants. The estimates, which are detailed below, are based on the total size of the market being in the order of [] at the wholesale distribution level, although there is a considerable divergence of opinion among industry participants as to the actual size of the market .

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%
(Approx)

Alliance	[
Coats	
Wendy Wools	
Panda NZ	
MacEwan	
Others (including	
Wadsworth Wools	
Manukau Wools,	
K Mart and	
J Q Goldingham)]
	100

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Constraints from Existing Competitors

- 34 The proposed acquisition would consolidate the position of Alliance as the largest distributor of hand knitting yarns in New Zealand. It would also have the effect of reducing the number of actual and potential supply outlets at the wholesale distribution level of the market.
- 35 Nevertheless, on the basis of our discussions with industry participants, we consider that there would remain strong competition (actual and potential) from existing importers/distributors of hand knitting yarns. Our view is that the availability of imports significantly constrains domestic manufacturers, and that the elimination of Coats as an independent supplier would not lessen that constraint to any significant degree.
- 36 While the proposed acquisition would remove one large Australian-based hand knitting yarn manufacturer/supplier, there would remain one other significant Australian supplier (Australian Country Spinners), which distributes hand knitting yarns on the New Zealand market on a duty free basis through a subsidiary, Panda

NZ. There do not appear to be any factors which prevent Panda NZ from expanding its existing sales.

37 There is currently a normal import duty on hand knitting yarns of 13%. However, despite this duty, and the additional costs associated with importation (e.g. shipping), it appears that overseas-produced yarns can be landed at prices which are competitive with domestically produced yarn. We note that imports already account for a significant percentage of hand knitting yarn sales (around 45-50% in value terms), and there is a significant volume which is brought in by several wholesale distributors and retailers (e.g. Wendy Wools, MacEwan, and K Mart). Further, there appears to be some scope for imports to increase as a proportion of total sales, especially as tariffs reduce. The normal duty on hand knitting yarns is scheduled to fall to 11% with effect from 1 July 1997, and eventually to 5% by 1 July 2000.

38 Aside from imports of hand knitting yarn, we consider that a strong constraint will continue to be provided by imports of woollen and worsted fabrics and finished garments. Our enquiries reveal that imports of finished knitted garments from low-cost suppliers, including China, have been a major contributing factor to the decline in the sales of hand knitting yarns.

39 We consider that the availability of hand knitting yarns from smaller spinners, such as Design Spun, will provide some constraint on the combined entity, although the ability of such companies to provide any significant competition is likely to be limited by the small volumes they currently produce. We have, however, been advised that Design Spun has scope to substantially increase its existing output.

40 Although there do not appear to be any onerous conditions for entry into yarn spinning, we have not put any weight on this prospect. The number of medium sized or larger mills which spin hand knitting yarns appears to have decreased over a number of years, and new entry, at least on a significant scale, does not seem likely in the short to medium term.

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CONCLUSION

- 41 Implementation of the proposed acquisition would result in the combined entity accounting for around [] of the hand knitting yarn market. However, we consider that actual and potential imports both for yarns and finished garments would provide substantial constraint. Some competition would also continue to be provided by local spinners.
- 42 Accordingly, we conclude that implementation of the proposal would not result, or would not be likely to result, in any person acquiring or strengthening dominance in the market for the wholesale supply in New Zealand of worsted and woollen hand knitting yarns, synthetic hand knitting yarns, and woollen/synthetic and worsted/synthetic hand knitting yarns.

RECOMMENDATION

- 43 It is recommended that, pursuant to section 66(3)(a) of the Act, and in accordance with a delegation granted under s 105(1) of the Act, that clearance be given to the proposed acquisition.

Investigator

Investigator

Chief Investigator

Manager

**DETERMINATION TO GRANT NOTICE OF CLEARANCE:
COATS SPENCER CRAFT LIMITED/ALLIANCE TEXTILES (NZ)
LIMITED/COATS**

I agree/disagree with the recommendation.

I am satisfied/not satisfied that implementation of the proposal would not result, or would not be likely to result, in any person acquiring or strengthening a dominant position in a market.

Accordingly, pursuant to s66 (3) (a) of the Commerce Act 1996 (the Act), and in accordance with a delegation given under s105 (1) of the Act, I hereby give clearance for a new company to be called Coats Spencer Crafts Limited, or any interconnected body corporate thereof, to acquire:

- (a) the Knitting Yarns Division of Alliance Textiles (NZ) Limited; and
- (b) the Coats Enzed Crafts Division of Coats Patons (NZ) Limited.

In terms of s66(5) of the Act, this clearance shall expire twelve months after the date of this notice. Brief particulars of this clearance will appear in the Commission's public register.

This clearance is given only to the proposed acquisition described in the notice seeking clearance dated 15 April 1997.

Dated at Wellington this day of 1997

P C Allport
Member