

MEMORANDUM

BELL GULLY

TO **Mya Nguyen**
OF New Zealand Commerce Commission

FROM **Phil Taylor / Penny Pasley**
PARTNER Haydn Wong

BY EMAIL

MATTER NO. 400-4888

DATE 2 March 2015

The domestic wool grease market

1. Domestic wool grease market

1.1 The vast majority of wool grease produced in New Zealand as a by-product of wool scouring is exported. The largest New Zealand purchaser, Shamrock (who uses wool grease in the manufacturing of kicking oil, a specialty softener of animal skins) purchased [REDACTED] tonnes from CWH in the period July 2014 to January 2015 (out of a total New Zealand estimated wool grease production for a full year of [REDACTED] tonnes). CWH's remaining domestic sales for that period accounted for [REDACTED] tonnes across all purchasers, with CRC and Prolan (who use wool grease in the supply of rust preventatives) purchasing [REDACTED] tonnes and [REDACTED] tonnes respectively between July 2014 and January 2015¹ respectively. Apart from these customers, there are occasional one-off purchases in extremely minor quantities. For example, some equestrian riders buy wool grease for painting horses' hooves (but paint, lanolin or other options are readily available).

2. Imports

- 2.1 Should CWH attempt to raise the price to Shamrock post-merger, Shamrock could easily switch to importing its requirements, most likely from Australia, China, India or Malaysia. A large amount of lanolin is imported into New Zealand, and there is no reason why wool grease could not also be imported. Indeed, [REDACTED] Certainly, CWH sees the threat from overseas suppliers of wool grease as very real.
- 2.2 Smaller customers could also purchase wool grease from Shamrock (Shamrock does not compete with the remaining domestic purchasers so CWH can see no reason why it would not on-supply). Alternatively, these smaller customers could import on their own behalf. Even if these customers were required to purchase more than their immediate demand (such as a full 220kg drum at a minimum), wool grease does not expire and could be stored until needed. Importing at low volumes could be rendered more economic by using a LCL (Less than Container Load) service. A freight forwarder, such as Mainfreight or DHL, would make up a container load with other imported products, lowering freight cost. CWH on occasion airfreights relatively small amounts of wool grease to overseas customers, showing that such transport is viable. For example, [REDACTED]

3. Domestic price set by international price

3.1 Domestic wool grease prices are driven by the prices achievable by CWH in the international market, which is set via individual negotiations between suppliers and customers according to current world trends. CWH takes into account a range of factors when considering what world wool grease prices are likely to do in the year to come and therefore what prices CWH is able to obtain for exports (informing its domestic price). This includes factors such as the

¹ This period is used because it is the first period in which CRC acquired wool grease from CWH in 2014 (it did not acquire from CWH in the financial year ending June 2014), and Prolan did not acquire wool grease from CWH in the financial year ending 2013.

world price for cholesterol, the world price for lanolin, how world shrimp farmers are faring (wool grease is fed to shrimp) etc. World wool grease prices therefore fluctuate dramatically. For example, in June 2011 the weighted average return per kilogram of wool grease sold through the Lanolin Trading Company (less freight and FOBs) was \$[REDACTED]. In June 2012 this was \$[REDACTED] and in June 2013, \$[REDACTED].² The world price has since decreased, driven by a reduction in demand due to the disease that destroyed Asian fish farms, and taking account of that decrease, in the period July 2014 to January 2015 CWH sold to Shamrock and Prolan at an average price per kilogram of \$[REDACTED] and to CRC at an average price per kilogram of \$[REDACTED].³

3.2 While domestic prices are influenced by what CWH can achieve with exports, like any traded commodity for which prices fluctuate, customers have the option to manage that volatility through contracts. For example, [REDACTED] has a 12 month fixed contract. This means that at any given point in time during the contract, the contract price paid by [REDACTED] may differ from CWH's average export price. However, when the price for the contract is set (and when it comes up for renewal) it is constrained by the prices CWH is currently receiving for exports and will be set with reference to forecasts of those prices over the next 12 months. This is no different to customers using forward contracts to manage foreign exchange rate risk.

4. **Contact details and quantity purchased in the period July 2014 to January 2015**

Shamrock Group	Prolan	CRC
Quantity purchased: [REDACTED] tonnes	Quantity purchased: [REDACTED] tonnes	Quantity Purchased: [REDACTED] tonnes
Contact: John Quigley, 179 McLeod Road, Te Atatu, Waitakere 0610 Auckland	Contact: Murray Shaw, Aria Investments Ltd T/A Prolan 1357 State Highway 2, Omokoroa, Tauranga	Contact: Kerry Simmons, CRC Industries, Highbrook, Manukau 2161, Auckland
09 838 4991	07 548 0823	09 272 2700

4.1 To put these quantities in context, CWH produces approximately between [REDACTED] tonnes and NZWSI produces approximately between [REDACTED] tonnes per year (estimated). Overall, industry production is approximately [REDACTED] tonnes depending on wool volumes, types and recovery rates.

² The Lanolin Trading Company ceased trading 31 December 2013.

³ As stated in footnote 1, CRC and Prolan did not both acquire in FY2013 or FY2014 and so the latest incomplete financial year has been used.