

Subject: RE: CWH/NZWSI - Provision of Central Region Alpaca Association submission to Commerce Commission on Andra scour.PDF [CCNZ-iManage.FID178757]

Mya,

We set out below CWH's response to the submission from the Central Region Alpaca Association and Mr Houston's email (with confidential information highlighted in yellow).

As the submission by the Central Region Alpaca Association indicates, there is currently no competition between NZWSI and CWH for the scouring of alpaca fibres that would be lessened by the merger (as CWH has previously advised the Commission, it currently washes 99.9% of all specialty fibre). The submission argues that the service currently provided by CWH is unsatisfactory and that the merger will not improve this service, rather than pointing to any detrimental effect on this service brought about as a result of the merger. The only concern that does seem to be expressed is in regard to the level of capacity following CWH's rationalisation plans. As noted in the authorisation application, CWH will retain plenty of excess capacity, with approximately [REDACTED]% spare capacity in the North Island and [REDACTED]% spare capacity in the South Island (based on 2015/16 forecast wool clip volumes).

CWH does not expect its current practice in regard to the scouring of specialty wool to alter in any way as a result of the merger to the detriment of Alpaca breeders. Due to the potential for contamination arising from the scouring of black and coloured wools, CWH generally lets the volume build up to an economic batch for specialty wools and then scours it, depending on volume levels, periodically throughout the year. For example, in the period January to December 2014, CWH scoured 75 scourments of alpaca or mohair fibres across its 2.4m and 3.0m Timaru lines in eight different months. For further information please see the attached summary of specialty fibres scoured at the Timaru site since July 2013.

CWH is experiencing a growing demand for the scouring of specialty fibre from Australia, and as this volume increases it will become efficient for CWH to more regularly scour such wool. In any case, the Central Region Alpaca Association has stated that "Australian breeders send their fleeces to China where is it scoured, processed into yarn and often knitted in to products and then returned to Australia." There does not appear to be anything that would prevent New Zealand breeders from also sending their fleeces to China for scouring (or indeed Peru which is the most common place for scouring of alpaca fibres) should CWH increase the price or decrease the service levels of the scouring of alpaca or other specialty wools post-transaction. Alternatively, New Zealand alpaca breeders could join together to set up their own scour line in New Zealand to scour their alpaca requirements. CWH understands there is an Australian alpaca carpet producer who scours alpaca fibres on its own account, indicating this can be viable. Indeed, it appears to CWH that this producer could also scour New Zealand alpaca breeders' requirements.

Overall, the transaction will not change or lessen any competition for alpaca scouring in New Zealand and CWH will continue to scour this fibre at regular intervals (as it will retain plenty of excess capacity). Alpaca breeders have alternatives should they no longer wish to use CWH for scouring, such as entering the scouring market with a small scour on their own account, or having alpaca wool scoured overseas.

Please let us know if you have any further queries or concerns about the scouring of alpaca fibres.

Kind regards

Phil/Penny