

- 7 We then asked A if it is possible for a merchant to switch to supplying greasy wool and then switch back and the effect that this switch would have on relationships. A told us that a merchant's reputation very much stands on the quality of the wool he delivers. Any short-coming in the scouring process thus reflects badly on him. For a merchant to switch to exporting greasy wool would expose customers to the scourer's shortcomings. There is a lot of loyalty with existing customers and that the effect of switching would potentially damage these relationships.
- 8 Regarding certification of wool shipments A told us that there are certificates attached to all orders which the Chinese insist upon. There are no e-files, so if there is a mistake the paperwork is returned and must be sent back again.
- 9 A said Worst case scenario as a result of the merger there will be a major change in the merchant's business; there will be a shift away from providing a specialist product that involves the merchant's expertise to just supplying commodity wool. Merchants would need to make a decision to change the operation; and, once changed, could not go back as they would lose expertise/reputation.
- 10 GD asked how bad would things have to get to move to offshore scouring. A replied that if prices rose []% then there might be a move by some merchants to offshore scouring, but he would not take the risk to his reputation. There is no ability to pass the increased scouring cost back to farmers, so he would have to bear that increase.
- 11 The merchant knows that the ultimate buyer of wool needs to be satisfied with what it is getting before the wool is sent. There are too many issues regarding loss of the control of the finished product if it were scoured overseas.
- 12 A told us that there would be the similar concerns about scouring in Europe as there are to scouring in China. But very little wool goes unscoured to Europe.
- 13 A volunteered that there is already some shortage of local scouring capacity as a result of the shipping schedule. Capacity will max out when there are ships leaving, as everyone wants their orders done to meet the ships. Both Cavalier and NZWSI give preference to their own needs and favoured customers first; and other merchants' wool goes to the back of the line. Anyone who speaks out against the merger faces a real risk of being last.
- 14 Although A is familiar with the overseas markets, particularly China and India, he would be very hesitant to scour there.

File Note

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Client: Godfrey Hirst

Between: Grant David, Melissa Hay, Professor Graeme Guthrie

and: "B" being a wool merchant (by telephone)

at: Chapman Tripp Offices, Wellington

TELEPHONE INTERVIEW HELD ON 7 JULY 2015 AT 3.30PM

CWH/NZWSI

- 15 Currently all the small wool merchants have their scouring orders delayed when capacity is short. There wasn't any capacity in January and February of this year and that was with the two scours operating.
- 16 B said any further change to reduce capacity in New Zealand would adversely affect the wool industry, let alone a requirement to seek scouring overseas.
- 17 B stated that New Zealand merchants have, and apply, expertise, which would be lost if scouring occurred overseas. For example, wool is purchased here to ensure uniformity, and that would be lost if it were sent to China for scouring.
- 18 By moving scouring offshore we are losing the ability of add value by using merchants' skills in New Zealand.
- 19 B said that merchants would endure substantial increases in local scouring charges before they gave up their businesses and reputations to Chinese scours. Loss of control would put quality of wool supplied to customers at risk. The skill of local scourers is an important part of the service, as is the experience and knowledge of the merchant in selecting wool that meets spec. Rather than give up control over scouring, increased charge in excess of []% would be endured by merchants and these additional costs could not be imposed on farmers.