

**Subject:** CWH/NZWSI - Request for information concerning price constraints

Dear Mya

I refer to your email of 30 June seeking Godfrey Hirst's view as to whether there is any additional data or analysis that would either alter or support the Commission's preliminary view on the competitive constraint provided by the threat of increased greasy exports – in particular, there is a real possibility that the merged entity would be able to raise scouring prices by up to 20%.

We asked Professor Graeme Guthrie to help respond to your question. His response is attached.

In preparing his response, Professor Guthrie first endeavoured to decompose the merchant margin into its various components to provide the appropriate analytical framework. We then arranged for Professor Guthrie to interview two merchants who were prepared to speak to us and Professor Guthrie subject to our assurance that we would not disclose their identities.

We can disclose that both merchants have substantial experience and are significant customers of CWH. Both merchants spoke of the difficulties and problems they had experienced as a result of existing scouring capacity constraints; and both were fearful that reduction of the industry to a single scourer would heighten their vulnerability. Because of the difficulties they had experienced previously - and the prospect of a monopoly supplier if the Application were authorised by the Commission - neither is willing to voice his or her opposition publicly. Fear of retaliation prevents their providing information directly to the Commission as their confidentiality cannot be guaranteed by the Commission.

The two merchants were interviewed by Professor Guthrie in our presence at Chapman Tripp's offices on 7 July 2015. One interview was in person and the other interview by telephone.

Full details of those interviews – but not the identities of the merchants – can be provided to the Commission, if required.

Following those interviews, Professor Guthrie incorporated their comments into his response.

In brief, Professor Guthrie's response demonstrates that the Commission cannot discount the real possibility that the merged entity would be able to raise scouring prices by up to 20%. Indeed, for merchants to switch to exporting greasy wool to China represents a real and potentially irreversible change to their business. Further, by so switching, they would quickly lose capacity to revert to their previous business of selling clean wool to existing customers built up through the quality of previous service. Ironically, the very real risk of losing capacity was commented on by Cavalier Corporation's new Chairwoman, Sarah Haydon, last week when she reportedly stated:

*It's a very brave person who reduces capacity that you can never get back. Once your capacity is gone, its lost forever.*

Kind regards

GRANT DAVID  
CONSULTANT