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ISSN NO. 0114 - 2720

COMMERCE COMMISSION

DECISION NO. 282

Determination pursuant to the Commerce Act 1986 (the Act), and in accordance with a delegation given in terms of s 105 of the Act, in the matter of an application for clearance of a business acquisition involving:

ALLIANCE TEXTILES NZ LIMITED

and

BTR OPERATIONS NZ LIMITED

The Commission: P C Allport
J G Auton

Summary of Proposal: The acquisition by Alliance Textiles NZ Limited of the yarn business and assets of BTR Operations NZ Limited.

Determination: Pursuant to s 66(3)(a) of the Act, and in accordance with a delegation granted under s 105 of the Act, the Commission determines to give a clearance for the acquisition.

Date of Determination: 14 January 1997

AUT/BA-A15/1
M2325

MEMORANDUM

To: Peter Allport
Joseph Auton

From: John Preston Jeff Hamilton

Date: 12 January 1997

Subject **Commerce Act 1986: Business Acquisition: Alliance Textiles NZ Ltd/BTR Operations NZ Ltd**

Working Day 10: 22 January 1997

Confidential material in this report is contained in square brackets

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THE PROPOSAL

1 On 17 December 1996 the Commission registered a notice from Alliance Textiles NZ Ltd (Alliance) seeking clearance to acquire the yarn business and assets of BTR Operations NZ Limited (BTR).

2 The proposal subject to the notice does not include the Feltex carpet business, which is being sold to another purchaser.

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. The date for a decision, after allowing for the definition of "working days" in section 2 of the Act, (which excludes the period 25 December - 15 January), is 22 January 1997.

4 The applicant initially sought confidentiality for the fact of the proposal, but this request was subsequently withdrawn. Confidentiality was sought for certain information contained in the notice, and a Confidentiality Order has been made in respect of this information.

5 In addition to discussions with representatives of the applicant, staff had discussions with other yarn manufacturers, distributors of imported and domestically produced yarn, retailers and with Yarns of New Zealand.

THE PARTIES

Alliance Textiles NZ Ltd

6 Alliance, which has its head office in Mosgiel, is a manufacturer of worsted and woollen yarns, woven apparel, knitwear, upholstery and other products.

7 Alliance is owned by the P A Spencer family trust.

BTR Operations NZ Ltd

8 BTR owns two plants which manufacture worsted industrial and hand knitting yarns, one in Wainuiomata and one in Kakaraki (near Halcombe in the Manawatu district). The company is ultimately controlled by BTR Nylex Plc, a British company. The latter has owned these yarn plants (and Feltex Carpets) since 1989.

9 Until recently, both the yarns and carpets manufacturing interests of BTR Nylex in New Zealand were owned by a company called BTR Operations NZ Ltd. Following the decision of BTR Nylex to sell its New Zealand businesses, the following changes were effected:

a) BTR Operations NZ Limited changed its name to Feltex Operations Ltd. The ultimate ownership of the company was unchanged initially, but see (d) below.

b) Mountain Road (No 9) Limited changed its name to BTR Operations NZ Limited. The ultimate ownership of the company remained unchanged.

c) On 29 December 1996 Feltex Operations Ltd was to transfer all its non-carpet assets (including the yarn business) to BTR Operations NZ Limited (formerly known as Mountain Road (No 9) Limited).

d) On 30 December 1996 the shares in Feltex Operations Limited were to be transferred to the purchaser of the Feltex Carpets business.

THE RELEVANT MARKETS

10 The proposal will result in aggregation of market share for yarns made from wool. Alliance produces both woollen and worsted yarns while those produced by BTR are worsted.

11 The distinction between woollen and worsted yarns is that worsted yarns are "spun from fibres that have been combed and are fairly parallel"[1], whereas woollen yarns are spun from "slubbings", which are "relatively thick, open but coherent strands of fibres"[2]. 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.

12 Most yarns which are made in New Zealand from wool contain 100% wool. However some blended yarns are produced, e.g. mixtures of say 80% wool and 20% nylon. Other synthetic fibres may be used to give particular effects to a yarn which is principally made from wool. Yarns which contain 80% or more wool are described as "wool rich".

12 Yarns made from wool have three principal end uses: the manufacture of carpets, hand knitting, and the manufacture of knitted or woven fabrics ("industrial").

Carpet Yarn

13 The quantity of woollen and semi-worsted carpet yarn produced in New Zealand is very much greater than that of other yarns. Substantial quantities are produced for export, in addition to being used by the New Zealand manufacturers. Carpet yarn is not produced by Alliance now, although it was in the past, or by BTR. We were informed that carpet yarn is not suitable for hand knitting, or for fabric manufacture, as it is too coarse.

Hand Knitting Yarn

14 Hand knitting yarn is used for knitting with knitting needles. Most demand is for worsted rather than woollen yarn. The 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.

15 The demand for hand knitting yarns has fallen considerably compared with past 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.

Industrial Yarns

16 Industrial yarns include machine knitting yarn and weaving yarn. The quantity of machine knitting yarn sold is substantially greater than that of weaving yarn. Weaving yarns are used for the production of apparel fabrics and for the production of furnishings and upholstery fabrics.

Yarn Composition

17 For most purposes it is physically possible to substitute yarns made from synthetic fibres for woollen or worsted yarns. However, consumers will often have strong preferences for yarns made of wool in particular applications, and might not consider wool and non-wool materials to be close substitutes in such cases. While a broader definition could be put forward, because substitution will be considered by consumers in some other cases, we propose to take a narrow market definition and to consider yarns of wool, or predominantly of wool, as being in separate markets from yarns made of synthetic fibres. If there are no competition concerns with this narrow product market definition, there would be none were a broader definition to be used.

Functional and Geographic markets

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

Conclusion on Market Definitions

19 It is concluded that the relevant markets are the New Zealand market for the wholesale supply of hand knitting yarn made from wool and the New Zealand market for the wholesale supply of industrial yarns made from wool.

ASSESSMENT OF DOMINANCE

20 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.

Market Shares

21 In section 12 of the notice, the applicant estimated that in the year to 31 December 1995 it accounted for [ ] of the New Zealand supply of "knitted and woven apparel yarn" and that BTR accounted for [ ]. Other local suppliers were estimated to account for [ ], while imports were estimated to account for [ ]. Hand knitting yarn and industrial yarn were not separated in the estimates. The applicant's estimates were based on figures compiled by Statistics New Zealand. Staff obtained estimates of market shares from some other industry participants.

22 Hand knitting yarn. Estimates provided by Wools of New Zealand gave the following approximate market shares:

	%
Alliance	[ ]
BTR	[ ]
	[ ]
Woolyarns Ltd	[ ]
Other NZ producers	[ ]
Importers	[ ]
	100

[ ]. One other spinner considered that only about 55% of demand is met by domestic production. Another considered that Alliance and BTR together would account for most domestic production. The estimates of Wools of New Zealand and [ ] both suggest that the proposal would give Alliance about [ ] of the market.

23 Industrial Yarns. Wools of New Zealand estimated that approximate market shares are:

	%
Alliance	[ ]
BTR	[ ]
	[ ]
Woolyarns Ltd	[ ]
Other NZ spinners	[ ]
Imports	[ ]
	100

Constraints

24 Industry participants with whom we spoke indicated that, while the import duty on yarns is 13%, imported industrial and hand knitting yarns can be landed at prices which are competitive with domestically produced yarn, and that the availability of imports significantly constrains domestic manufacturers. There are two major yarn manufacturers in Australia, and Australian yarn may be imported without duty.

25 While the proposal would make Alliance by far the largest producer, there are two medium sized spinners which would continue to provide competition: Woolyarns Ltd of Lower Hutt which produces both industrial and hand knitting yarns, and Design Spun Ltd of Napier which produces hand knitting yarns. There are also some small spinners, including Port Nicholson Spinners, Upper Hutt, Homestead Yarns Ltd, Christchurch, and Wadsworth Wools, Christchurch.

26 The representative of one retail chain with whom we spoke expressed concern that the proposal would mean that the BTR yarn brands would no longer be available. While this may be the likely outcome, consumers would still have a choice of brands. In addition to Alliance's brands, several house brands produced by firms such as Design Spun will continue to be available, as will some imported brands. The representative of another retail chain suggested that Alliance might be less interested in producing house brands than BTR has been. We do not know if this is correct, but it is probable that other domestic manufacturers would be willing to produce further house brands if required.

27 As indicated above, we consider that a narrow product market definition is appropriate for considering the likely effects of this proposal. We have not put any weight on the constraint which might be provided by synthetic yarns. However, some constraint might be provided by the availability of imported woollen and worsted fabrics and garments.

28 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 and industrial 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.

Conclusions on dominance

29 For industrial yarns, the estimated market share which would result from the proposal (as outlined in paragraph 23 above) does not raise concerns in terms of the safe harbours described in the Commission's Business Acquisitions Guidelines. There do not appear to be any unusual factors which suggest that the safe harbour levels are inappropriate.

30 The estimated market shares which would result for hand knitting yarns are somewhat above those for industrial yarns. However, given the market position of other competitors and the constraint provided by imports and potential imports, the outcome would not be one which raises dominance concerns.

CONCLUSION

31 We conclude that while the proposal would make Alliance the largest domestic producer of both industrial and hand knitting yarns, the presence of some other competitors, and actual and potential imports would provide substantial constraint.

32 We conclude that implementation of the proposal would not result, or would not be likely to result, in acquiring or strengthening of dominance in a market.

RECOMMENDATION

33 It is recommended that, in terms of section 66(3)(a) of the Act, the Commission give clearance to the proposal.

J A Preston
Chief Investigator

J F Hamilton
Investigator

DECISION: ALLIANCE/BTR

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

P C Allport
Deputy Chairman

J G Auton
Member

Date: ..../January 1997 ..../January 1997

[1] Larousse Dictionary of Science and Technology, 1995, p 1196

[2] “ “ “ “ “ “ “ p 1009