

## 25/03/2026 - Rebuttal to Every-Palmer / Mellsop Opinion

While the submission from James Every-Palmer KC and James Mellsop seeks to demonstrate that wool and synthetic carpets are sufficiently substitutable to constrain market power post-acquisition, the analysis materially understates the differentiated nature of wool carpet products and overstates the practical extent of substitution.

The submission relies heavily on assumptions regarding “marginal consumers”, retailer “steerage”, and inferred switching behaviour. However, the evidence presented does not sufficiently demonstrate that a merged entity would be unable to exercise market power in the wholesale supply of wool carpet, particularly within premium and differentiated wool segments.

First, the submission’s central evidence base is a consumer survey, which the authors themselves acknowledge was not designed as a direct SSNIP test and contained material limitations and misspecifications. The submission expressly rejects the survey’s direct responses to hypothetical price increases because the results did not align with the authors’ conclusions. Instead, it relies on indirect interpretation of purchasing behaviour and assumptions around consumer flexibility. This significantly weakens the evidential weight of the conclusions drawn.

Importantly, when consumers were directly asked how they would respond to a hypothetical 5% or 10% increase in the price of their chosen fibre type, only a very small proportion indicated they would switch fibre types. Rather than accepting these direct responses as evidence of limited substitution at the point of purchase, the submission dismisses the findings as behavioural bias and questions misspecification. However, these responses are arguably the most directly relevant evidence available regarding actual consumer willingness to switch in response to price increases.

Secondly, the survey results themselves indicate that fibre type remains a highly significant purchasing factor for consumers. The survey found that 66% of consumers entered the purchasing process with a defined fibre preference, while approximately 70% of consumers who initially preferred wool ultimately proceeded with a wool purchase. This suggests wool preference is materially more persistent than the submission implies and supports the view that wool carpet represents a differentiated product offering rather than merely another interchangeable flooring option.

The submission also conflates general consumer movement during a purchasing journey with actual cross-price elasticity. The fact that some consumers may naturally move between fibre types during the research and education phase does not establish that committed wool purchasers would materially substitute away from wool in response to a modest post-merger price increase. To the contrary, the fact that a substantial majority of consumers who initially preferred wool still proceeded with wool purchases, despite exposure to cheaper synthetic alternatives throughout the purchasing process, suggests the remaining wool segment may represent a more committed and less price-sensitive customer base than the submission acknowledges.

Thirdly, the submission overstates the significance of retailer “steerage” as a competitive constraint. Retailers do not operate in a manner where customers can simply be redirected between fibre categories without consequence. Consumer purchasing decisions in flooring are influenced by a range of factors, including product quality, sustainability positioning, comfort, durability, brand reputation, colour, design preferences, and consumer trust. Wool carpets occupy a differentiated and premium position within the market, which cannot automatically be replicated by synthetic alternatives.

Further, wool carpet can be manufactured in distinctive styles, including felted and multi-level loop constructions, with depth of colour and texture that are not easily replicated in synthetic products. These attributes are important to consumers, designers, and retail salespeople. The fact that wool carpet is generally more expensive than synthetic carpet does not mean it is readily substitutable. Consumers continue to choose premium products across many categories because of perceived quality, performance, appearance, and brand value. Wool carpet should be assessed in that context.

The submission also understates the extent to which a merged supplier with significant scale across both wool and synthetic categories may influence retailer behaviour and reduce competitive tension within the wholesale channel. A merged entity with substantial portfolio breadth may have increased ability to utilise bundled supply arrangements, rebate structures, ranging incentives, and cross-category commercial programmes to strengthen retailer dependence on its product portfolio and reduce the practical competitiveness of alternative suppliers.

In this context, retailer “steerage” should not be viewed as a mechanism that necessarily constrains market power. Rather, there is a material risk that increased supplier concentration may itself reduce retailer independence and lessen competitive alternatives available to both retailers and consumers.

Further, the commercial reality of the merged entity differs materially from the hypothetical “pure wool monopolist” model relied upon in the submission. The merged entity would control substantial portfolios across both wool and synthetic carpet categories. As acknowledged in the submission itself, if wool prices increased, some diverted sales would be recaptured through synthetic carpet sales within the merged entity’s own portfolio. This internalisation of substitution materially reduces the level of lost sales required for a wool price increase to remain profitable and weakens the submission’s argument that substitution alone would effectively constrain market power.

The Commission should also consider this issue in the broader context of Mohawk’s flooring portfolio and channel reach in New Zealand. Mohawk already owns Godfrey Hirst and has a broader flooring presence beyond carpet. This matters because the submission relies heavily on imports, synthetic carpet, hard flooring, and retailer steerage as constraints on the merged entity. Those constraints should not be assumed to be fully independent, where products, supply channels, retailer programmes, or overseas manufacturing sources may be connected to, supplied by, or commercially influenced by Mohawk or Mohawk-related entities.

Accordingly, the Commission should test how much wool carpet has been imported into New Zealand by value and volume, and should separately identify imports by Godfrey Hirst, Bremworth, and truly independent third-party importers. This distinction is important because imports controlled by, or commercially linked to, the merger parties do not provide the same competitive constraint as independent supply.

The submission also understates the practical difference between importing synthetic carpet and importing broadloom wool carpet. Synthetic carpet imports may be well established, but broadloom wool carpet presents materially different challenges. Retailers require repeatable colour, texture, and feel, reliable grading and performance assurance, suitable New Zealand colour palettes, continuity of supply, manageable lead times, reasonable minimum order quantities, cut-length availability, warranty support, and confidence that the product will perform in consumers’ homes.

These requirements are particularly important for wool, where dyeing, blending, yarn quality, and consistency are critical to the final product. The existence of overseas wool manufacturers does not, by itself, mean they provide an effective competitive constraint on established New Zealand wool

carpet manufacturers. Recent market experience also indicates that offshore wool supply can present significant quality, stock availability, retailer confidence, and reputational risks.

Further, the existence of price overlap between wool and synthetic carpets does not establish close competitive substitutability. Products may overlap in price while remaining differentiated in terms of consumer perception, performance characteristics, sustainability credentials, comfort, acoustic performance, thermal properties, colour depth, texture, and aspirational or lifestyle positioning. Wool carpets continue to occupy a unique and premium position within the market, which is not fully replicated by synthetic alternatives.

The submission also places substantial reliance on the historic decline in wool market share over a multi-decade period. However, long-term structural shifts in market composition driven by technological advancements in synthetic fibres, changes in housing affordability, construction practices, retailer economics, and consumer trends do not establish that present-day consumers would materially substitute away from wool in response to a modest post-merger price increase. Those historic shifts largely reflect the emergence and scaling of advanced synthetic products over time, rather than evidence of ongoing short-term price sensitivity within the remaining wool customer base.

The submission also appears to treat wool cost inflation in isolation, without adequately considering synthetic yarn, freight, foreign exchange, and imported synthetic carpet cost increases. Synthetic carpet is also exposed to global input cost pressures, including geopolitical disruption, freight volatility, delivery delays, and raw material cost increases affecting supply from key manufacturing regions such as the Middle East. If synthetic carpet costs are also rising materially, then the relative price position between wool and synthetic may not move in the way the submission assumes. This further weakens any conclusion that wool demand will necessarily decline or that synthetic carpet will provide an effective pricing constraint on wool post-acquisition.

Importantly, the Commission is not required to establish that competition would lessen uniformly across the entire soft flooring market. A substantial lessening of competition may arise within a significant and differentiated segment of the market, including premium wool carpet categories where brand, fibre composition, sustainability, and product differentiation are particularly important to consumers and retailers alike.

Finally, the submission assumes that imports would provide an effective competitive constraint. However, the practical competitive impact of imports may be limited by factors including lead times, local inventory availability, retailer relationships, service support, product familiarity, minimum order quantities, container commitments, foreign exchange risk, product grading, and established brand positioning within New Zealand. Theoretical import availability should not automatically be treated as an equivalent competitive constraint to established domestic wholesale suppliers.

For these reasons, the submission does not adequately rebut the Commission's concern that the proposed acquisition may substantially lessen competition in the supply of wool carpet products, particularly within differentiated and premium segments of the market where substitution pressures are materially weaker than the submission suggests.

## **25/03/2026 - Rebuttal to Chapman Tripp (on behalf of Godfrey Hirst) Submission**

We submit that the Godfrey Hirst / Chapman Tripp submission does not adequately resolve the Commission's concerns regarding the proposed acquisition of Bremworth. While the submission presents a detailed case based on imports, consumer switching, retailer buyer power, and alleged efficiencies, its analysis materially understates the loss of competition that would arise from the removal of Bremworth as an independent domestic wool carpet supplier.

The submission's central position is that the relevant market should be assessed broadly across soft flooring, and that wool carpet should not be treated as a significant section of concern. We do not agree. Wool carpet remains a differentiated and commercially important segment of the broader soft flooring market. It carries distinct consumer value through natural fibre composition, sustainability positioning, premium appeal, comfort, acoustic performance, thermal properties, colour depth, texture, and established New Zealand brand recognition. These attributes are not fully replicated by synthetic carpet or hard flooring alternatives.

Importantly, the Commission does not need to find that competition would lessen uniformly across the entire soft flooring market. A substantial lessening of competition may arise within a significant section of a broader market. The removal of Bremworth as an independent competitor in wool carpet would materially reduce the competitive alternatives available to retailers and consumers in that section.

First, the submission places excessive reliance on imports as a competitive constraint. While imported carpets are an important part of the market, the existence of imports does not mean they provide an equivalent constraint to Bremworth. The relevant question is not whether imports exist, but whether they can practically replace the competitive discipline currently provided by a major domestic supplier with established wool ranges, local inventory, service support, retailer relationships, product development capability, warranty confidence, and consumer recognition.

In practice, imported wool carpet, particularly from low-cost offshore manufacturing jurisdictions, does not provide an equivalent competitive alternative to established New Zealand-made wool carpet. Australian wool carpet may provide some limited constraint, but it is not equivalent in range depth, cost position, colour palette, or scale. Importers may face constraints around lead times, product continuity, inventory depth, claims support, retailer confidence, minimum order quantities, container commitments, foreign exchange exposure, and the ability to provide a broad and consistent wool offer at scale.

The submission treats import growth as a complete answer, but it does not adequately address whether importers can replicate Bremworth's specific role as an independent domestic wool supplier. The practical requirements for a credible wool carpet offer include repeatable colour, texture, and feel, reliable grading and performance assurance, suitable New Zealand colour palettes, continuity of supply, manageable lead times, cut-length availability, and confidence that the product will perform in consumers' homes. These are not minor operational issues. They are fundamental to whether imported wool carpet can provide an effective competitive constraint.

The Commission should also carefully distinguish between independent imports and imports supplied by, or commercially connected to, the merger parties or Mohawk-related entities. The submission relies heavily on wool carpet imports as evidence of competitive constraint. However, if a material proportion of those imports were supplied by Godfrey Hirst, Bremworth, Mohawk-related

entities, or associated overseas manufacturing operations, including Australian production, those imports should not be treated as independent competitive discipline.

The relevant question is not the gross level of imported wool carpet, but the level of truly independent import competition capable of constraining the merged entity. The Commission should therefore test the volume and value of wool carpet imported into New Zealand, separated by imports from Godfrey Hirst, Bremworth, Mohawk-related entities, and independent third-party suppliers. Without that distinction, import data may overstate the true level of independent competitive constraint.

Secondly, the submission materially overstates the weakness of Bremworth as a competitive force. Even if Bremworth is facing financial and operational challenges, that does not mean it has ceased to be competitively relevant. A competitor can be financially constrained and still play an important role in disciplining price, ranging, innovation, and supplier behaviour. This is particularly important in wool carpet, where there are only two domestic suppliers of scale.

The Commission should closely examine whether Bremworth's recent performance reflects an inevitably declining business or whether it reflects temporary impacts from prior strategic decisions that have now been reversed. Recent market experience suggests that earlier issues relating to imported yarn, product quality, stock availability, retailer confidence, and service levels may have materially contributed to Bremworth's weaker performance. If those issues have now been substantially addressed, older data may understate Bremworth's current and future competitive significance.

The Commission should therefore test Bremworth's recent sales and market share performance, particularly from January to April 2026, compared with the same period in 2025. This period is likely to be highly relevant if it reflects the point at which product quality, stock availability, and retailer confidence began returning to more normal levels. If Bremworth has regained sales momentum during this period, that would materially weaken the submission's characterisation of Bremworth as a diminishing competitive force.

The merger would not simply combine two suppliers. It would remove the key independent domestic alternative in wool carpet and place that capability under the control of the already largest domestic supplier. That loss of independent competitive tension is the core issue.

Thirdly, the submission relies heavily on a consumer survey that should be treated with considerable caution. Godfrey Hirst relies on the Baseline survey of 204 recent carpet purchasers to argue that consumer preferences are flexible and that wool purchasers can be readily switched into synthetic or blended products. However, the survey evidence raises serious reliability concerns and appears materially inconsistent with practical retail experience and observed point-of-sale behaviour.

The survey results do not clearly support the conclusion advanced by Godfrey Hirst. On the contrary, they show that fibre type is important to a majority of consumers and that most consumers with an initial fibre preference remained with that preference. The fact that some customers move between products during a normal sales journey does not establish that committed wool purchasers would switch away from wool in response to a modest post-merger price increase.

More importantly, aspects of the survey outputs appear inconsistent with actual retail sales behaviour. In particular, the survey appears to suggest a material level of wool-synthetic blend purchases. That outcome does not align with observed retail market reality. In major retail channels, wool-synthetic blend products represent only a very small proportion of total carpet sales, below 1%.

If a survey sample produces a materially inflated proportion of blend purchasers, that raises a serious question about whether respondents understood the product categories, whether the sample was representative, and whether the responses were sufficiently validated.

This may indicate that respondents misunderstood the product categories, particularly the difference between wool, synthetic, and wool-synthetic blend products. If a large share of respondents incorrectly identified the product they purchased, then the survey cannot safely be relied on to draw conclusions about fibre switching or consumer substitution.

This concern is heightened by the survey methodology. Given the specificity of the target group, being New Zealand consumers who recently purchased carpet, the Commission should carefully examine the respondent recruitment, screening process, validation checks, and raw response data to identify why the survey results were so inaccurate.

In particular, the Commission should request and review the survey's underlying data, including respondent location validation, proof or verification of recent carpet purchase, duplicate and speed-response checks, exclusion criteria, response consistency testing, and controls for automated or low-quality panel responses.

Further, the NERA opinion itself acknowledges that the survey questions relied upon are not a direct application of the SSNIP test. It also records that direct questions about a 5% or 10% price increase produced only very low stated switching between fibre types, which NERA then dismisses as likely affected by bias or question misspecification. This creates a clear evidential problem. The applicant cannot rely on selected parts of the survey when they support its theory, while dismissing other parts that point to limited substitution.

For these reasons, the survey should be given no weight unless and until the Commission is satisfied that its sample, methodology, respondent quality, and category classifications are robust and consistent with actual market data. That the blended carpet results are so inaccurate, and the data on the mix of wool and synthetic carpet in the same property is also widely inaccurate, suggests that the survey methodology was completely flawed.

Fourthly, the submission overstates retailer "steerage" and buyer power. Retailers can influence customer choices, but they cannot simply redirect all wool customers into synthetic alternatives without consequence. Flooring purchases are often considered emotional and preference-led. Customers may have specific expectations around fibre, feel, sustainability, performance, colour, texture, and premium positioning. Retailer advice operates within those customer preferences.

In addition, retailer buyer power depends on the availability of a credible alternative wholesale supply. If the merger removes Bremworth as an independent supplier, retailers' practical alternatives in wool carpet are reduced. The submission assumes retailers can discipline the merged entity by shifting volume elsewhere, but that is only realistic if alternative suppliers can match Bremworth's role in range, scale, support, continuity, and credibility.

The submission's countervailing power argument is internally weak. If retailers have not been able to materially discipline Godfrey Hirst as a standalone supplier, it is difficult to see why those same retailers would have greater leverage against a merged Godfrey Hirst / Bremworth entity with an enlarged portfolio and control of the two leading domestic wool carpet manufacturing platforms. Retailer power depends on a credible alternative supply. The proposed acquisition would reduce that alternative supply.

Fifthly, the submission understates the risk created by the merged entity's enlarged portfolio. Godfrey Hirst argues that its existing rebate and commercial arrangements are voluntary and mutually beneficial. That is not the issue. The issue is whether the acquisition would increase the merged entity's ability and incentive to use a broader portfolio across wool, synthetic, hard flooring, and other flooring categories to strengthen retailer dependence and reduce the practical competitiveness of alternative suppliers.

The Commission should assess this issue in the context of Mohawk's broader flooring presence in New Zealand. Mohawk already owns Godfrey Hirst and has a broader flooring presence beyond carpet. This wider portfolio and channel presence matter because the submission relies on imports, hard flooring, retailer buyer power, and alternative suppliers as constraints on the merged entity. Those constraints may be materially weakened where a meaningful proportion of alternative products, supply channels, retailer programmes, or overseas manufacturing sources are themselves connected to, supplied by, or commercially influenced by Mohawk or Mohawk-related entities.

Post-acquisition, the merged entity would control a materially broader portfolio. That may increase its ability to use rebates, ranging incentives, bundled supply arrangements, and cross-category commercial programmes to influence retailer behaviour. This could raise barriers to expansion for alternative suppliers and reduce the effectiveness of imports as a practical competitive constraint.

Sixthly, the submission's efficiency claims should be treated cautiously. Godfrey Hirst argues that the acquisition would create cost savings and that import competition would cause those savings to be passed through to retailers and consumers. That is an assumption, not a demonstrated outcome. Efficiencies must be clear, merger-specific, timely, and likely to benefit consumers. If the merged entity gains increased market power in wool carpet, there is no guarantee that any cost savings would be passed through.

Seventhly, the submission overstates the constraint imposed by hard flooring. The fact that flooring retailers sell hard flooring does not mean hard flooring is a close substitute for wool carpet in response to a small price increase. Hard flooring can involve materially different installed costs, different use cases, different comfort and acoustic characteristics, and different consumer preferences. Retailers offering a broad flooring range reflect consumer choice, not necessarily close price substitution between premium wool carpet and hard flooring.

Finally, rising wool costs make competition more important, not less. Godfrey Hirst argues that increasing wool input costs will reduce demand for wool carpet. However, where input costs are rising, competition between suppliers is especially important to discipline cost pass-through, protect retailer choice, support innovation, and maintain competitive tension. Removing Bremworth would reduce that discipline at the exact point when the category is under cost pressure.

The claim that higher wool prices will inevitably weaken demand should also be treated cautiously. The raw wool price is only one component of the final cost of a broadloom wool carpet. Dyeing, blending, carding, spinning, tufting, backing, finishing, freight, marketing, distribution, and retail service all contribute to the final consumer price. A movement in raw wool input costs does not necessarily translate into a proportionate change in installed retail price or consumer demand.

In addition, the submission does not adequately account for recent increases in synthetic yarn, imported synthetic carpet, freight, foreign exchange and supply-chain costs. Synthetic carpet is also exposed to significant global input cost pressures, including geopolitical disruption and freight volatility affecting supply from key manufacturing regions such as the Middle East. If synthetic costs

are also rising materially, it is unsafe to assume that wool will become less competitive or that consumers will naturally switch from wool to synthetic on price.

For these reasons, the submission does not adequately address the Commission's unresolved concerns. It relies heavily on theoretical substitution, import expansion, retailer steerage, hard flooring alternatives, and survey evidence that should be independently tested. The commercial reality is that the proposed acquisition would remove the key independent domestic wool carpet competitor, materially increase supplier concentration, reduce retailer choice, and weaken competitive alternatives available to consumers in a significant and differentiated section of the soft flooring market.

Accordingly, the Commission should not be satisfied that the proposed acquisition would not be likely to substantially lessen competition.