

## Statement of Preliminary Issues

### Godfrey Hirst / Bremworth

28 October 2025

#### Introduction

1. On 24 October 2025, the Commerce Commission registered an application (the Application) from Mohawk Industries, Inc (Mohawk) seeking clearance for it, or any interconnected body corporate of Mohawk, to acquire 100% of the shares of Bremworth Limited (Bremworth) (the Proposed Acquisition).<sup>1</sup> In New Zealand, one of Mohawk’s interconnected body corporates is Godfrey Hirst New Zealand Limited (Godfrey Hirst or the Applicant).
2. As required by the Commerce Act 1986 (the Act), we assess mergers and acquisitions using the substantial lessening of competition test, which we describe further below.
3. The Commission will only give clearance if it is satisfied that the proposed acquisition will not have, or would not be likely to have, the effect of substantially lessening competition in a market in New Zealand.
4. This statement of preliminary issues sets out the competition issues that we have identified to date and will consider during our investigation, and that we currently consider to be important in deciding whether to grant clearance.<sup>2</sup> Our investigation into the Proposed Acquisition is at an early stage and this statement of preliminary issues is based primarily on the material provided by the parties in connection with the Application. Other issues may become apparent as we progress our investigation.
5. Through publishing this statement of preliminary issues, we aim to:<sup>3</sup>
  - 5.1 increase the transparency of our process;
  - 5.2 provide interested parties with an opportunity to identify any further competition issues which they consider we should investigate and also to consider and submit on the matters identified; and
  - 5.3 gather further information which might assist our investigation.

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<sup>1</sup> A public version of the Application is available on our website at: <https://www.comcom.govt.nz/case-register/>

<sup>2</sup> The issues set out in this statement are based on the information available when it was published and may change as our investigation progresses. The issues in this statement are not binding on us.

<sup>3</sup> Commerce Commission, *Mergers and Acquisitions Guidelines* (May 2022) at [6.105]. Available on our website at [www.comcom.govt.nz](http://www.comcom.govt.nz)

6. We invite interested parties to provide comments on the likely competitive effects of the proposed acquisition. We request that parties who wish to make a submission do so by **11 November 2025**.
7. If you would like to make a submission but face difficulties in doing so within the timeframe, please ensure that you register your interest with the Commission at [registrar@comcom.govt.nz](mailto:registrar@comcom.govt.nz) so that we can work with you to accommodate your needs where possible.

## The parties

8. Godfrey Hirst manufactures and supplies a range of carpet and hard flooring products to residential and commercial customers across Australia and New Zealand. It is ultimately owned by Mohawk, which operates a range of flooring businesses in different parts of the world. In New Zealand, Godfrey Hirst supplies carpet made from both wool and synthetic fibres under brand names such as Godfrey Hirst, GH Commercial and Feltex.
9. Bremworth manufactures and supplies a range of carpet products to residential and commercial customers across Australia and New Zealand. In New Zealand, Bremworth primarily supplies wool carpet under its 'Bremworth' brand. Bremworth ceased supplying synthetic carpet several years ago but, following a strategic review, it recently announced that it would be introducing a new range of synthetic carpet.

## Our framework

10. Our approach to analysing the competition effects of the proposed acquisition is based on the principles set out in our Mergers and Acquisitions Guidelines.<sup>4</sup> As required by the Act, we assess mergers and acquisitions using the substantial lessening of competition test.
11. We determine whether an acquisition is likely to substantially lessen competition in a market by comparing the likely state of competition if the acquisition proceeds (the scenario with the acquisition, often referred to as the factual), with the likely state of competition if the acquisition does not proceed (the scenario without the acquisition, often referred to as the counterfactual).<sup>5</sup> This allows us to assess the degree by which the proposed acquisition might lessen competition.
12. If the lessening of competition as a result of the proposed acquisition is likely to be substantial, we will not give clearance. When making that assessment, we consider, among other matters:
  - 12.1 constraint from existing competitors – the extent to which current competitors compete and the degree to which they would expand their sales if prices increased;

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<sup>4</sup> *Mergers and Acquisitions Guidelines* at n3 above

<sup>5</sup> *Commerce Commission v Woolworths Limited* (2008) 12 TCLR 194 (CA) at [63].

- 12.2 constraint from potential new entry – the extent to which new competitors would enter the market and compete if prices increased; and
- 12.3 the countervailing market power of buyers – the potential constraint on a business from the purchaser’s ability to exert substantial influence on negotiations.

### Market definition

13. We define markets in the way that we consider best isolates the key competition issues that arise from the Proposed Acquisition. In many cases this may not require us to precisely define the boundaries of a market. A relevant market is ultimately determined, in the words of the Act, as a matter of fact and commercial common sense.<sup>6</sup>
14. Godfrey Hirst and Bremworth overlap, at the national level, in the manufacture and wholesale supply of carpet.
15. In the Application, Godfrey Hirst notes that the Commission has previously considered there to be a discrete product market for carpet (as opposed to other flooring material) and that such a product market includes a broad spectrum of both synthetic and wool carpet.<sup>7</sup>
16. Godfrey Hirst submits that these past decisions were some time ago and there is now increasing demand for other flooring solutions such that hard flooring products and rugs should be included in the same product market as soft flooring products such as carpet.<sup>8</sup> Godfrey Hirst’s considers that:
- 16.1 soft flooring products can include carpet made from synthetic fibres, such as Solution Dyed Nylon (SDN) and polyester, as well as from woollen fibres; and
- 16.2 hard flooring products can include ceramic tiles, sheet vinyl, Luxury Vinyl Tile (LVT), timber (including bamboo and cork), laminates as well as ‘Hybrids’, which blend laminates with vinyl.
17. Godfrey Hirst submits that consumers currently have a diverse range of flooring solutions to choose from, giving rise to a significant product differentiation, meaning that soft flooring solutions and hard flooring solutions should be included in the same product market.<sup>9</sup> For example, “increasingly consumers include flooring solutions other than carpet to cover their floor, with carpet often confined to the bedrooms in residential application. Everywhere else in the house, consumers can

<sup>6</sup> Section 3(1A). See also *Brambles v Commerce Commission* (2003) 10 TCLR 868 at [81].

<sup>7</sup> The Application at [47-51] with reference to Commerce Commission - Godfrey Hirst NZ Limited and Feltex Carpets Limited (Decision 587, 31 August 2006) and Commerce Commission - Cavalier Corporation Limited and Norman Ellison Holdings Limited (Decision 628, 14 November 2007).

<sup>8</sup> The Application at [57-70].

<sup>9</sup> The Application at [63].

substitute timber, vinyl, lino, laminate, rugs and other floor coverings instead of carpet".<sup>10</sup>

18. Nevertheless, the Applicant submits that the real issue facing carpet manufacturers is that carpet sales volumes are declining, as customers are shifting to other flooring solutions. In the Applicant's view other flooring options can be recognised as a competitive constraint on the supply of carpet, regardless of whether carpet and hard flooring products are included in the same market or not.<sup>11</sup>
19. We will consider whether Godfrey Hirst's approach to the product dimension is the appropriate market for assessing the competition effects of the Proposed Acquisition, or whether it might be appropriate to define narrower product markets. For example, we will consider whether soft flooring products should be assessed separately from hard flooring products and, further, whether wool carpet and synthetic carpet should be assessed separately from one another. We will also consider if any other markets are relevant to our assessment of the Proposed Acquisition.
20. In investigating the above, we are (amongst other things) particularly interested in the views of industry participants on:
  - 20.1 any similarities or differences between the equipment used to make carpet via the tufting process compared to the weaving process (or any carpet manufacturing process);
  - 20.2 the ability of a carpet manufacturer to acquire the necessary fibres to make carpets and whether there is any relevant overlap in any acquisition markets such as for the acquisition of strong wool for carpet manufacturing;
  - 20.3 the ability of a carpet manufacturer making wool carpet to readily switch to making a carpet using another fibre such as nylon (and vice versa);
  - 20.4 the ability of a carpet manufacturer making wool carpet to readily switch to making any type of hard flooring product (and vice versa);
  - 20.5 the extent to which, on the demand side, customers consider wool carpet and synthetic carpet to be substitutes for one another, and whether there are any customer groups for whom those products are more or less substitutable;
  - 20.6 the extent to which, on the demand side, customers consider hard flooring such as ceramic tiles, sheet vinyl, LVT, timber and/or laminates to be a substitute for wool and/or synthetic carpet, and whether there are any customer groups for whom those products are more or less substitutable;

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<sup>10</sup> The Application at [69].

<sup>11</sup> The Application at [75].

- 20.7 how the price and quality of carpet imported into New Zealand compares to wool and/or synthetic carpets made by manufacturers based in New Zealand; and
- 20.8 any similarities or differences between the requirements of customers requiring carpet for a residential home and those customers requiring carpet for a commercial property.

### **Without the acquisition**

21. We will consider what Godfrey Hirst and Bremworth would do if the Proposed Acquisition did not go ahead. We will consider the evidence on whether the without-the-acquisition scenario is best characterised by the status quo, or whether Bremworth, in particular, would seek alternative options, such as sale to another party, given its recent announcement regarding a strategic review.<sup>12</sup>

### **Preliminary issues**

22. We will investigate whether the Proposed Acquisition would be likely to substantially lessen competition in the relevant market (or markets) by assessing whether horizontal unilateral, coordinated, vertical and/or conglomerate effects might result from the Proposed Acquisition. The questions that we will be focusing on are:
- 22.1 unilateral effects: would the loss of competition between the merging parties enable the merged entity to profitably raise prices or reduce quality or innovation by itself?<sup>13</sup>
- 22.2 coordinated effects: would the Proposed Acquisition change the conditions in the relevant market/s so that coordination is more likely, more complete or more sustainable?
- 22.3 vertical or conglomerate effects: would the Proposed Acquisition increase the merged entity's ability and/or incentive to foreclose rivals?

### **Unilateral effects: would the merged entity be able to profitably raise prices by itself?**

23. Unilateral effects arise when a firm merges with a competitor that would otherwise provide a significant competitive constraint (particularly relative to remaining competitors) such that the merged firm can profitably increase price above the level that would prevail without the merger without the profitability of that increase being thwarted by rival firms' competitive responses.

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<sup>12</sup> The Application at [78-81]. Also see Bremworth 'Bremworth announces strategic review' (17 February 2025); Bremworth 'Reintroduce Synthetic Carpet to Meet Market Demand' (9 May 2025); and Bremworth 'Update on strategic review' (21 July 2025).

<sup>13</sup> For ease of reference, we only refer to the ability of the merged entity to "raise prices" from this point on. This should be taken to include the possibility that the merged entity could reduce quality or innovation, or worsen an element of service or any other element of competition, ie, it could increase quality-adjusted prices.

24. Godfrey Hirst and Bremworth overlap in the manufacture and supply of carpet to residential and commercial customers across New Zealand. These customers typically purchase carpet from a carpet retailer such as the stores operated under the brand names Carpet Court, Flooring Xtra and Guthrie Bowron (amongst others). Some other retailers, such as Harrisons, operate without stores by providing an in-home carpet retail service visiting customers directly using mobile vans.
25. As both Godfrey Hirst and Bremworth require wool for their carpets, they also overlap in the acquisition of New Zealand grown wool.
26. In the Application, Godfrey Hirst submits that, even if the Commission takes its previous approach and defines a national market for the supply of carpet, the Proposed Acquisition would not be likely to substantially lessen competition due to unilateral effects because the merged entity would be constrained by:
- 26.1 domestic-based carpet manufacturers and suppliers such as the Carpet Mill and Wools of New Zealand;<sup>14</sup>
  - 26.2 carpet manufacturers based overseas. Godfrey Hirst estimates that approximately 50% of all the carpet purchased and installed in New Zealand is currently imported and these imports would impose a significant constraint on the merged entity;<sup>15</sup>
  - 26.3 potential entry. Godfrey Hirst considers that there are no barriers restricting overseas carpet manufacturers, with no existing import presence in New Zealand, from importing their carpets into New Zealand;<sup>16</sup>
  - 26.4 the countervailing power of customers. Godfrey Hirst submits that many retailers operate as buying groups and, because carpet is usually sold through retailers, these retail buying groups have the ability to sponsor entry and expansion from overseas carpet manufacturers;<sup>17</sup> and
  - 26.5 flooring substitutes such as hard flooring and/or rugs. Godfrey Hirst considers that consumer preferences for soft flooring options like carpet are changing and so many customers consider hard flooring solutions (such as ceramics, timbers, laminates, sheet vinyl and/or vinyl tiles) are an alternative to carpet.<sup>18</sup>
27. In addition, Godfrey Hirst submits that there would be efficiency gains arising from the Proposed Acquisition.<sup>19</sup> In its view, under the ownership of Mohawk, Bremworth would be able to be a better competitor to imported carpet and this would benefit consumers because:

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<sup>14</sup> The Application at [84-90].

<sup>15</sup> The Application at [91-99].

<sup>16</sup> The Application at [100-104] and [107-108].

<sup>17</sup> The Application at [118-131].

<sup>18</sup> The Application at [60-76].

<sup>19</sup> The Application at [140].

- 27.1 there will be synergies from the Proposed Acquisition and, due to the constraint from importers, these cost savings will be passed on to consumers in the form of lower prices;<sup>20</sup> and
- 27.2 Mohawk has a global reach with the resources needed to pursue research, design and innovation. This is in contrast to Bremworth's current size and its limited resources, which has resulted in it struggling to compete domestically with imported carpet as well as in export markets.<sup>21</sup>
28. We will consider:
- 28.1 closeness of competition: the degree of constraint that Godfrey Hirst and Bremworth would impose upon one another if the Proposed Acquisition does not go ahead. To the extent that any constraint is material, we will assess whether the lost competition between Godfrey Hirst and Bremworth could be replaced by any rival competitors;
- 28.2 remaining competitive constraints: the degree of constraint that existing competitors, whether domestic carpet manufacturers, or carpet importers, would impose on the merged entity;
- 28.3 entry and expansion: how easily rival carpet manufacturers and/or carpet imports could enter and/or expand; and
- 28.4 countervailing power: including whether wholesale customers, namely carpet retailers, have special characteristics that would enable them to resist a price increase by the merged entity, and whether wool farmers would be able to resist any buyer power gained by the merged entity.
29. In investigating the above, we are (amongst other things) particularly interested in the views of industry participants on:
- 29.1 how closely Godfrey Hirst and Bremworth currently compete with one another to acquire New Zealand grown wool;
- 29.2 how closely Godfrey Hirst and Bremworth currently compete with one another in the supply of wool carpet;
- 29.3 the current or potential competitive impact of Bremworth's recent decision to re-commence supplying synthetic carpet;
- 29.4 who are the main domestic manufacturers that currently compete with Godfrey Hirst and Bremworth and how this competition occurs;

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<sup>20</sup> The Application at [141.1-141.2].

<sup>21</sup> The Application at [141.3-141.4].

- 29.5 any similarities and/or differences in the pricing, product range, and/or quality of imported carpet compared to the wool and synthetic carpet currently manufactured in New Zealand;
- 29.6 who are the main importers of carpet into New Zealand and how these importers currently compete with Godfrey Hirst and Bremworth;
- 29.7 what would be required for an overseas-based carpet manufacturer, with no existing presence in New Zealand, to start importing carpet into New Zealand in competition with any domestic manufacturers; and
- 29.8 the impact that the Proposed Acquisition might have on the state of competition in any other relevant market in New Zealand.

**Coordinated effects: would the proposed acquisition make coordination more likely?**

30. An acquisition can substantially lessen competition if it increases the potential for the merged entity and all or some of its remaining competitors to coordinate their behaviour and collectively exercise market power or divide up the market such that output reduces and/or prices increase. Unlike a substantial lessening of competition which can arise from the merged entity acting on its own, coordinated effects require some or all of the firms in the market to be acting in a coordinated way.<sup>22</sup>
31. In the Application, Godfrey Hirst submits that the Proposed Acquisition would not be likely to substantially lessen competition in any relevant market related to the supply of carpet due to coordinated effects because:
- 31.1 there is no existing or past evidence of coordinated behaviour;<sup>23</sup>
- 31.2 the merged entity would face competition from other carpet suppliers as well as suppliers of other flooring substrates and there is no material symmetry between these competitors in terms of their business model, cost structure of market shares;<sup>24</sup> and
- 31.3 there would be no increase in pricing transparency or in any potential ability to detect or punish any deviations in pricing by competitors.<sup>25</sup>
32. We will assess whether any of the relevant market/s are vulnerable to coordination, and whether the Proposed Acquisition would change the conditions in the relevant market/s so that coordination is more likely, more complete or more sustainable.
33. In investigating the above, we are (amongst other things) particularly interested in the views of industry participants on:

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<sup>22</sup> *Mergers and Acquisitions Guidelines* above n4 at [3.84].

<sup>23</sup> The Application at [148.1].

<sup>24</sup> The Application at [148.2 – 148.3].

<sup>25</sup> The Application at [148.4]

- 33.1 the extent to which domestic carpet manufacturers and importers of carpet complete with one another on price, quality, service or innovation and/or their ability to observe each other's prices or volumes; and
- 33.2 whether any relevant carpet market includes any particularly vigorous or aggressive suppliers.

### **Vertical or conglomerate effects: would the proposed acquisition increase the merged entity's ability and/or incentive to foreclose rivals?**

- 34. A merger between suppliers (or buyers) who are not competitors but who operate in related markets can result in a substantial lessening of competition through either 'vertical effects' or 'conglomerate effects'. Vertical and conglomerate effects can occur if the merger gives the merged firm a greater ability or incentive to engage in conduct that prevents or hinders rivals from competing effectively, or where the merger increases the likelihood of coordinated behaviour between firms.<sup>26</sup>
- 35. In the Application, Godfrey Hirst submits that the Proposed Acquisition would not be likely to substantially lessen competition in any market due to vertical or conglomerate effects because Godfrey Hirst and Bremworth mostly operate at the same levels on the supply chain and supply the same (rather than complementary) products.<sup>27</sup>
- 36. We will assess whether the Proposed Acquisition could substantially lessen competition due to vertical or conglomerate effects. We will assess:
  - 36.1 the extent of vertical integration in the industry and whether the merged entity would have any market power in upstream or downstream markets; and
  - 36.2 whether the Proposed Acquisition would create a 'one-stop-shop' flooring provider that rivals would be unable to match in such a way that would substantially lessen competition in a market.
- 37. We are therefore particularly interested in the views of industry participants on the level of vertical integration in the supply chain for carpet in New Zealand and whether the merged entity would have a degree of market power in any upstream acquisition market or downstream wholesale supply market.

### **Next steps in our investigation**

- 38. The Commission is currently scheduled to make a decision on whether to give clearance to the Proposed Acquisition by **22 December 2025**. However, this date may be extended with the agreement of the Applicant if the material before the

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<sup>26</sup> *Mergers and Acquisitions Guidelines* above n3 at [5.1-5.15]. Vertical effects relate to a merger between firms operating at different levels of a product's supply chain (for example, a manufacturer and a wholesaler, or a wholesaler and a retailer) whereas conglomerate effects relate to a merger between firms that supply products that may relate to each other (for example, complementary products).

<sup>27</sup> The Application at [146-147].

Commission at that time does not allow it to be satisfied that the Proposed Acquisition will not have, or would not be likely to have, the effect of substantially lessening competition in a market in New Zealand.<sup>28</sup> In particular, if we need to test and consider the issues identified above further, the decision date is likely to extend.

39. As part of our investigation, we will be identifying and contacting parties that we consider will be able to help us assess the preliminary issues identified above.

### **Making a submission**

40. If you wish to make a submission, please send it to us at [registrar@comcom.govt.nz](mailto:registrar@comcom.govt.nz) with the reference 'Godfrey Hirst/Bremworth' in the subject line of your email, or by mail to The Registrar, PO Box 2351, Wellington 6140. Please do so by close of business on **11 November 2025**.
41. If you would like to make a submission but face difficulties in doing so within the timeframe, please ensure that you register your interest with the Commission at [registrar@comcom.govt.nz](mailto:registrar@comcom.govt.nz) so that we can work with you to accommodate your needs where possible.
42. Please clearly identify any confidential information contained in your submission and provide both a confidential and a public version. We will be publishing the public versions of all submissions on the Commission's website. If you make a submission and we do not acknowledge receipt of that submission within two working days, you should resubmit your submission.
43. All information we receive is subject to the Official Information Act 1982 (OIA), under which there is a principle of availability. We recognise, however, that there may be good reason to withhold certain information contained in a submission under the OIA, for example in circumstances where disclosure would unreasonably prejudice the supplier or subject of the information.

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<sup>28</sup> The Commission maintains a clearance register on our website at <https://www.comcom.govt.nz/case-register/> where we update any changes to our deadlines and provide relevant documents.