

20 Manawa Road  
Remuera  
Auckland 1050

7 April 2011

By email: [contact@comcom.govt.nz](mailto:contact@comcom.govt.nz)

The Registrar  
Mergers and Acquisitions Authorisations  
Commerce Commission  
PO Box 2351  
Wellington

Dear Sir/Madam

**SUBMISSION OPPOSING THE APPLICATION OF CAVALIER WOOL HOLDINGS  
TO CREATE A SCOURING MONOPOLY**

**Background**

I joined E. Lichtenstein (Elcowool) in 1961, and became a Director in 1972. Having instigated the merging of Cavalier Carpets and Elcowool, I was a founding Director of Cavalier Corporation.

During my 39 years at Elcowool, turnover increased from 17,000 to 250,000 bales per annum. By the 1990s Elcowool had become New Zealand's largest wool exporter, wool scourer and by far the largest on-farm buyer additional to being the largest North Island auction buyer.

Throughout my time with the company we were continually upgrading our machinery, buying five new plants from Andar. Elcowool was a pioneer in the development of high dense baling equipment, replacing machines regularly finally purchasing the latest Autefa baling press.

At the time of closure Elcowool was producing 500 kilos of scoured wool every 7 minutes, 24 hours a day, 7 days a week consequently maintaining a dominant role in the strong wool industry. The direct buying business Elco Direct had flourished, buying 135,000 bales direct from growers in the year ending June 2000. I had confidently budgeted to procure 250,000 bales annually direct from farmers by 2005.

In 1997, commissioned by the Wool Board, A C Nielsen.MRL conducted a survey of the ten leading wool exporters on the basis of customer satisfaction. Elcowool came first in every category, the most significant being "preferred supplier".

Following the Wool Board's disastrous abandonment of the "Woolmark" in favour of the "Fernmark" Elcowool became the first company to be accredited in each category, exporter, scourer, private merchant and finally the only company accredited as a wool link being able to take wool from a farm and processing it subsequent to delivery to a manufacturer.

Why did Cavalier Corporation Board close down Elcowool after 76 years of successful trading? The driver was an obsession with cost of capital issues and a Board that had little understanding of or interest in the wool industry. Additionally there were the persuasive overtures of David Ferrier selling the idea that they could run their plant on full production on a commission basis producing handsome risk free profits. This was to be achieved by Cavalier Carpets buying their wool requirements from merchants, whereas Elcowool had been the sole supplier, insisting that this wool would be scoured in their plant. For every kilo supplied the seller would be expected to scour an equivalent extra quantity. At this time Ferrier persuaded Cavalier to invest in his struggling South Island plant.

### **The CWH proposal**

It has long been my belief that the malaise of the New Zealand wool industry has been the result of an outdated infrastructure based on tradition rather than cost effective logistical common sense. It certainly has nothing to do with the fibre or its promotion nor, as now has been suggested, the operation of merchant scourers. This is spurious nonsense based on exporters' resentment of the advantages the merchant scourer enjoys through large investment and savings based on simple seamless conversion from farm to manufacturer. The fact that the market continued to decline for nine years following the closure of the largest merchant scourer certainly put paid to that theory.

The first serious downside of the CWH application is that, if successful, it locks the industry into the present archaic infrastructure loaded with inefficiencies and unnecessary participants. The cost of promoting the continuance of this format will of course be borne by the growers. I speak with some experience when describing the massive savings made when taking wool purchased direct from a farm to a processing facility, especially when the wool and the facility share the same ownership. The very mention of the emotively named "Super Store" suggests a new complicated exercise being introduced into the already elongated chain producing complexity and further unnecessary expense.

The concept of commission scouring is an integral contributor to the present archaic industry infrastructure previously referred to. The world's textile industry has mainly eliminated most functions based on commission. When I entered the textile industry in the 1950s the various sectors were dominated by commission operators. Commission scourers, combers, spinners, dyers, weavers, and a multitude of agents and brokers were all extracting margins without the risk of material ownership. Thankfully all this has changed and very few commission operations remain. All sectors have spurned commission operations in favour of vertical integration where the owner of the material performs the necessary processing.

In New Zealand we are now faced with an attempt not only to create a commission scouring monopoly but also at the same time to deny a competing scourer the ability to process its own material. In this country we are led to believe, probably quite rightly, that the Fonterra model serves the dairy farmers very well. I wonder how Fonterra would justify using commission cheesemakers and milk powder processors? I am sure they would put up a very good argument supporting their totally vertically integrated operation. I have the impression that sea freight is their only externally provided service.

I suspect that CWH will have solicited support for their application on the basis of CWH's superior processing capabilities. Greasy wool opening, application of chemicals, degrees of agitation, water temperatures, rate of throughput, and scoured wool opening are not factors

exclusive to CWH but are easily emulated by any operator of modern plant. Consequently any supporting argument based on quality of processing is unconvincing.

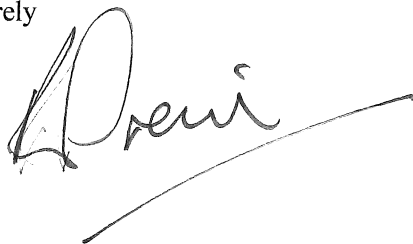
Should the CWH application be successful then any chance of some future arrangement between WPI and WSI would be lost. It should be widely accepted that an arrangement between WSI and WPI to form a jointly owned vertically integrated organization would be the ultimate answer to the industry's longstanding woes. Such a merger would satisfy the growers' desire to play a major part in the handling of their own product. The effect of such a union would radically change the industry infrastructure leading to the elimination of a large portion of the present costly elongated chain. For obvious reasons those under threat will be strong supporters of the CWH application hoping to see a result which protects their future superfluous participation.

The extensive experience gained during my 45 years in the wool industry, with emphasis on scouring and my failed vision of what Elcowool was to ultimately become, places me in what could be a unique position to comment on the CWH application. I strongly oppose the plan to create a scouring monopoly, seeking approval for their submitted justification of their plan to remove their remaining competitor. Their declared intention to destroy WSI's advantageous position in the industry is outrageous having the ramification of spoiling any potential vertically integrated joint venture between WSI and WPI. This industry is loaded with unnecessary cost with too many attempting to live off the sheep's back. The CWH application does nothing to address this unsatisfactory situation and in fact would actually perpetuate an unchanged infrastructure. However the principal negative is the blocking of progress towards a cost efficient industry including a potential merging of WSI and WPI giving growers a stake in the processing and exporting of their own product.

This predatory attack could never have eventuated had it not been for the vulnerability of WSI caused by the failure of their controlling shareholder. It is all the more reprehensible that CWH is taking advantage of this unfortunate event to seek to dismantle New Zealand's largest and most successful wool exporter. It is best summed up as an opportunistic bid to protect the weak at the expense of the strong.

I am happy to provide further information or comment should that be useful.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'R Pratt', with a long, sweeping horizontal line extending from the end of the signature.

Robert Pratt