



WOOL EQUITIES^{LTD}

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Re email

marette.morrissey@comcom.govt.nz

Commerce Commission
Wellington

Attention Marette Morrissey

re Cavalier Wool Holdings Ltd – NZ Wool Services International Ltd

Bell Gully letter 27-05-11 Intended Wool Trading Sale Process

To Members of the Commission,

We at Wool Equities Ltd WEL believe that this most recent response from Cavalier Wool Holdings CWH constitutes a significant variation from the original intent of the application by CWH to create a scour monopoly only and should be considered as such.

This variation is now essentially a request for permission to be the dominant player, if not, in time the only player of consequence, in the full wool sector from farm gate through to sale at the border of all scoured wool.

This is quite a different scenario than was originally presented to most in the sector by CHW in their pre-hearing submissions to affected parties.

Given this “clarification” coupled with comments by Mr Ross George of CWH at the Commerce Commission conference on this matter that “60% of the wool was required to be supplied directly to the Superstores” to render or deliver the savings on which the Commission based its favourable determination.

This 60% will only be achieved through significant rationalisation of the “Farm gate” Broker and Wool Merchant sector. This will result in the wastage of those parties existing capital and expertise and a significant drop in service to wool growers.

Notwithstanding minor comments in points 2, and 4, of the "Intended Wool Trading Division Sale Process" the whole content of the document , points 2,3,5,6, and 7 are very much about presenting an argument for retention of the Wool Trading Division, 5b in particular, perhaps not as part of CWH but as part of the greater Cavalier Family of companies.

The viability of the new merged scouring enterprise is now recognised to be very much dependent on the retention of the trading arm of WSI.

It would seem now that CHW has appreciated that to achieve 60% of wool direct to the superstore, they must adopt the role of Merchant and potentially have much of the wool that is within that 60% to both purchase, scour and on-sell themselves. This will mean that CWH is no longer just a commission scourer of this wool but owner/gatekeeper of this wool.

That requires CWH to adopt and enhance the WSI business model rather than continue with an expanded CWH Commission Scouring model which was originally presented to the Commission as the intended outcome. This is quite a different proposal.

This being the case the "Cavalier Family" is then in role of industry "gate keeper" able to price differentiate to eliminate competition between the farm gate and the scour, and also post scour to their immediate competitors in the carpet business within Australasia in particular

While some were content that a scour monopoly would not unduly affect their enterprise, when it becomes an expanded Merchant Scour, we would suggest that this is no longer the case, as this is very much a different proposal.

We respectfully suggest that the Commission look closely at these significant changes and consider the calling of further submissions given the departure from, or clarification to what was intended in the original application

Yours Sincerely

Cliff Heath

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