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

**SUBMISSION ON THE COMMERCE COMMISSION'S DRAFT DETERMINATION ON
THE APPLICATION OF CAVALIER WOOL HOLDINGS (CWH) TO CREATE A
SCOURING MONOPOLY**

Dear Sir/Madam

I, along with many others in the industry, was very surprised by the Commission's draft determination which suggests pending approval of CWH's application. The application seeks authorization to create a commission scouring monopoly whilst at the same time destroying New Zealand's largest and most successful wool exporter.

In the Commission's initial draft which delivers a strong hint as to the final outcome, the Commission has demonstrated a total lack of understanding of the scoured wool industry. New Zealand scoured wool is not merely greasy wool which has been scoured. It is a commodity in its own right competing with many fibres, natural, regenerated and synthetic. When competing in world markets the scouring component is only one of many factors affecting the competitiveness of the product. The flow chart included in a supporting submission is a damning document revealing total inefficiency with brokers, merchants, commission scourers, the proposed "Super Store" and foreign exporters all extracting their parasitical margins. Conversely a flow chart representing a merchant scouring operation has only a single box between the farm and the ship and that of course is a scouring facility. This graphic demonstration of the present system infrastructure has been totally ignored by the Commission. Flow charts illustrate quite clearly what proportion of the final revenue will end up with the grower. The variance in costs between the elongated infrastructure demonstrated by the submitted chart and the merchant scouring system is a difference of at least 35cents per greasy kilo.

The Commission places much emphasis on "efficiency" and the potential improvement that will result from the proposed monopoly. The Commission has misunderstood the term "efficiency" which is actually capacity utilisation. Of course a monopoly will improve CWH's poor plant utilisation but that should not be an issue for the Commission to resolve. CWH allude to the fact

that two of their North Island plants are inefficient due to their configuration. This bad design feature is CWH's problem and doesn't need a monopoly to correct it. The Commission ignored the claim that CWH produced a superior quality product, realising that all variations of greasy opening, agitation, temperature, chemical application and scoured wool opening were not factors exclusive to CWH.

What is obvious from the draft is that the Commission has fallen for the protestations of several foreign owned exporters who constantly complain about the competitive advantage of WSI. Why does WSI enjoy this competitive advantage? The advantage comes from a large investment in machinery and a highly cost effective seamless transfer, including scouring, between the farm and a manufacturer. Claims that WSI is a weak seller affecting the strong wool market are groundless and should have been ignored. It is also important to note that the CWH application places great emphasis on these foreign-owned companies on whom they rely for a large portion of their business

Strangely the primary owners of the wool clip have an apathetic stance. Even though they will be called on to pay the inevitable increase in scouring costs they remain indifferent. Recently the industry experienced the efforts of growers to take a major stake in their own industry. It is interesting to note that these same foreign companies were major critics of the Wool Partners Cooperative (WPC) initiative contributing to its failure. Stranger still is the "relaxed" position taken by Federated Farmers, who I suspect have been talking to themselves rather than to growers and appear to have made no effort at all to get their heads around the cost implications for growers of the Commission's draft decision.

If this application is successful, growers, through increased charges, will be called on to fund the cost of CWH's plan. Who will benefit? Not the public as the Commission states, but the opportunist investors ACC and Direct Capital. Neither of these investors has the slightest interest in the wool industry other than the large profits projected by CWH.

If Wool Partners International's (WPI) 'Plan B' gains support it would be unthinkable for them to tolerate an archaic infrastructure including commission scouring which has served the industry so badly in the past. Surely the growers must realize that the ideal model would see their product delivered direct to their own scouring plant and thence to their customers. Should the outrageous plan of CWH come to fruition the opportunity for farmers to participate in a logical industry solution through a merger with WSI will be irrevocably lost.

Of course CWH needs to boost its sagging earnings and is keen to do this by destroying the extremely successful WSI business model.

One thing absolutely certain is that had not WSI ended up in such a vulnerable situation through Hubbard's failure this predatory attack by CWH would never have eventuated. Talk of a sale of the WSI trading arm has no substance; wool trading companies without industrial potential have nil value. This was clearly demonstrated when Cavalier previously closed down the largest merchant scourer in search of rich, risk-free earnings from commission scouring.

Yours sincerely

Robert Pratt
Former Managing Director of Elcowool