

16 March 2011

The Registrar
Business Acquisitions and Authorisations
Commerce Commission
P O Box 2351
WELLINGTON 6140

2nd Floor Tower Building
Cnr Lyndon & Railway Roads
Hastings, 4122
New Zealand

PO Box 1148 / DX MA 75010
HASTINGS, 4156

**RE: A SUBMISSION IN SUPPORT OF APPLICATION DATED 8 FEBRUARY 2011
BY CAVALIER WOOL HOLDINGS LIMITED**

I have practiced as a lawyer for 34 years, most of them in Hastings. My clients have included farmers, stock and station companies and a number of large agri-businesses throughout New Zealand.

For 22 months until March 2002 I worked in the Ministerial Office of Hon Jim Sutton, Minister of Agriculture and Trade as his Executive Assistant. A testimonial letter from the Minister is **attached**.

My biggest project while with the Minister was facilitating the Government's consideration and consent to the merger of Kiwi Dairy, NZ Dairy Group and the Dairy Board to create what became Fonterra Co-Operative Group. The two merging companies had in fact done most of the work when they approached the government late in 2000 and their fundamental request was that the normal competition provisions of the Commerce Act be overridden for the merger process. The resources of Government and Parliament then had the task of considering that decision which they did, within the time requested by the Industry, without major alteration to the structure wanted by the Industry but on strict terms as to future business behaviour. I am still very proud of what the Government did on that occasion and believe sincerely that today Fonterra is simultaneously a good citizen, commercially efficient and of course a major driver of the New Zealand economy and a significant international market leader.

As Fonterra was coming together I was deeply involved in the deregulation of the New Zealand pip fruit industry. All New Zealanders were forced to watch as a corporate raider took control of a statutory monopoly ENZA, and caused havoc, fear and misery in a once proud industry. The Government, at my initial instigation, intervened, firstly by making itself a party in some existing Court of Appeal proceedings and secondly by taking away ENZA's statutory monopoly and thirdly by commencing the still continuing long-term process of rebuilding industry unity.

What I am most proud of in terms of my own involvement in producer board reform is my successful persuasion of Minister Sutton not to deregulate the kiwifruit industry and to allow

Zespri to continue with its statutory privileges but with substantial responsibilities and disciplines imposed by its shareholders and by government regulation and monitoring. On the other hand, my big disappointment during my time in Wellington were my efforts to bring about positive reform in the Strong Wool Industry. There were some reforms after my departure, but not for the better. The now resented and discredited process was one of divestment and dissipation.

I have in recent times been asked to be part of a group looking at some positive changes to the New Zealand Strong Wool Industry. I am not paid to be part of this group nor am I financially or legally involved within any of the participants, nor the businesses they represent. This is a labour of love.

My initial involvement and that of my discussion group this time around, predates:

1. the recent rise in wool prices;
2. the receiverships of the companies holding a majority interest in Wool Services International;
3. the offer by Prospectus for shares in Wool Partners Co-Operative; and
4. the findings of the Wool Industry Task Force set up by the current Minister of Agriculture.

I write in support of the application to your Commission by Cavalier Wool Holdings Limited to purchase the scouring assets of Wool Services International and I support all the reasons given in supporting submissions by eminent lawyers and economists.

My submission in support centres on the Wool Super-Store that is being talked about for Awatoto Napier (adjoining the applicants Wool Scouring Plant) should the applicant obtain your consent and therefore have the degree of scale to seriously enable the start of the process of rationalising the wool industry and reducing its overhead costs.

This process is not about establishing "control" in any one company or sector of the Industry. That was the clearly stated aim of the recently failed Wool Partners Co-Operative Prospectus. It is also an aim of Wool Services International Limited which sees itself, it seems to me, as inheritor of the powers and controls of the old Wool Board without the required matching responsibilities and disciplines. I see similarities with the earlier arrogance of ENZA.

The Super-Store Concept is about controlling costs which in the strong wool industry are hideous and totally out of proportion to the value of the product, and these costs are the fundamental cause of both grower disillusionment and weak selling.

I observed at close hand the consequences of weak selling in beef, lambs, apples, venison and wool when I worked for the Minister. It comes when the capital tied up in processing means the processor must make a profit at the expense of the grower who is then forced to sell to a buyer "to make ends meet" or worse and more likely - at a loss. This state of pressure leads to producer disillusionment and that is the frightening concept because a disillusionment with wool leads to a disillusionment with sheep generally. Already the national sheep herd has

shrunk from a high of 70 million to now less than half that figure. Farms have been cut up for urban housing or so called "lifestyle blocks", farmers have planted their farms with pine trees or in many cases farmers have converted their farms to dairy operations. Many farmers have reduced or dispersed with their sheep flocks in favour of lower maintenance cattle breeding and grazing. In reality there are hundreds of thousands of hectares in New Zealand pasture that are ideal for sheep and no other known form of agriculture. Without sheep that land will either revert to weeds and shrub or perhaps the government will need to go the "European way" and subsidize farmers, in this case sheep farmers - just to make the land look good for tourists! Sheep farming has been a major driver of economic activity throughout New Zealand, throughout its history. Today it is in its most precarious state, ever.

The Super-Store Concept starts on the premise that the success of any industry depends on obtaining the most efficient value chain between the initial producer (in the case of wool, the sheep farmer) and the end use buyer which could be the buyer of carpets or furniture or apparel or it could be someone purchasing wool insulation for their building.

The Super-Store Concept does make provision for the merchant, the scourer and the manufacturer, but properly structured it prevents anyone "in the middle" becoming the only profit maker.

Wool is a quality product. The end user is expected to pay for quality but is entitled to expect quality as a result.

The producer has started the process and needs to be rewarded for its efforts and not have the rewards excessively whittled away by those taking the product along the long road to market.

That is what is wrong with the Wool Services International business model. From my observation (and I have attended wool auctions and observed the market), that company bids highly at auctions to accumulate wool for its scouring operation. The scouring operation is profitable because the cost is charged to the producer. Other more efficient buyers and marketers of wool able to sell at a high price miss out on obtaining product. Wool Services International having scoured the wool (and obtained its profits) then sells it for whatever it can get. More often than not it is a weak seller, in the only market then available.

Scouring is a significant wool processing cost but so is storage and transportation. The Super-Store Concept is based on the logistics of minimising the cost of storage and transportation. Part of that is the concept of "doing it once and not over and over again". That is getting the wool from the farmers woolshed to one large site - from where it can be tested, scoured, sold or exported. Rail would be used as much as much as possible. Technology would be exploited at every opportunity.

Within the industry much of the talk about a "Super-Store" has had to be informal, conditional or in most cases "clandestine". This is because many of the industry players at all levels, production, processing and selling are paranoiac about "control" but the Super-Store Concept is not about control except in two areas, where in each case existing "control" will be respected, even encouraged:

1. Unlike all other proposals in the industry the relationship between industry players and farmer producers will not be interfered with. Farmers will be free to dispose of their wool as they see fit. They can immerse themselves throughout the value chain -some do, they can sell through their stock firm, through a merchant or broker, direct to an exporter, or they can operate through a co-operative. The choice is the choice of the producer.
2. Unlike many of the proposals put forward each year, the Super-Store Concept is not about interfering with the relationship between existing industry players and end users. It is not about bullying end users or waving about brands and national identities. It is simply about facilitating the process from producer to end user at the lowest price so the producer can capture a higher price. The Super-Store Concept acknowledges that branding, marketing, research and education are crucial but that is for others to do.

The effect of allowing 1 and 2, above, is that intensive but healthy competition remains in the Industry where it matters namely in buying and selling. That competition creates the disciplines and the commercial equilibriums in the other overhead areas of testing, handling, storage and transportation.

Most importantly, the Super-Store Concept is not designed to be a profit centre in itself. It will have significant set-up costs but eventually it will run at a small profit and the plan is to set the ownership in concrete and all profits will be allocated to industry good activities. The Super-Store Concept is environmentally sustainable and energy savings (particularly in transport fuels) would be substantial.

The Super-Store Concept has only been loosely formulated as it awaits some major outside decisions. The decision of your Commission is the major one at this stage.

I am happy to provide any further information, if the Commission requests it.

Yours faithfully


G D J Wellwood
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Office of Hon Jim Sutton

Minister of Agriculture
Minister for Biosecurity
Minister for Trade Negotiations
Minister for Rural Affairs
MP for Aoraki

1 March 2002

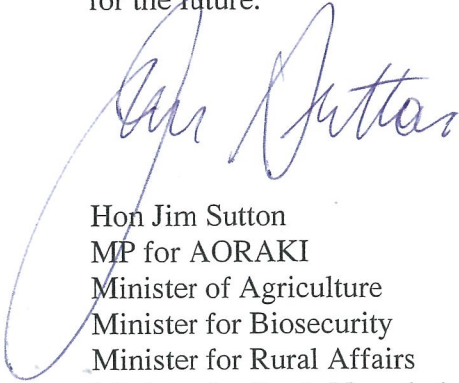
TO WHOM IT MAY CONCERN

Mr Guy Wellwood departs my office this week after serving as my Executive Assistant since August 2000, and I am pleased to provide him with this reference as a testimonial to his integrity, loyalty and total commitment to the job.

The Executive Assistant role in my office is an events-based contract position for the purpose of providing executive support, advising and assisting me on political matters, liaising with others holding similar positions in the Administration, assisting me in the formulation of policy in my four main areas of responsibility, and generally being on hand as a troubleshooter and to act on my behalf as circumstances arise from time to time.

Mr Wellwood has fulfilled the requirements of his position over and above expectations, and I am grateful for his able assistance in resolving many and varied issues relating to my portfolios, particularly in the area of producer board reform. He has operated with discretion on all occasions, and his networking and communication skills have been of immense value to me in the discharge of my Ministerial duties.

Following his tour of duty within the Ministerial and Parliamentary complex, Guy returns to his law practice in Hastings with my sincere thanks for his sterling service during his time with me. My staff and I will miss his cheerful demeanour, and we wish him well for the future.



Hon Jim Sutton
MP for AORAKI
Minister of Agriculture
Minister for Biosecurity
Minister for Rural Affairs
Minister for Trade Negotiations