



P.O Box 7215 Palmerston North 4443, New Zealand

Submission to the Commerce Commission

On Draft Determination ISSN 1178-2560

Cavalier Wool Holdings Ltd and New Zealand Wool Services International Ltd

Preamble

This submission is made from the position of being an Interested Party, from a company with some 9500 wool grower shareholders with a stated objective to support and actively engage the conversion of NZ grown wool (and other associated natural fibres) to finished retail premium wool rich products.

To facilitate this conversion it is essential to have base processing (scouring, dyeing, spinning, knitting and weaving) on shore to enable market ready finished product to be developed and initially at least produced on shore, to test the market acceptance of that product and in time to potentially take those products to the world.

Wool Equities Ltd holds a 62% holding in Bruce Woollen Mill Ltd based in Milton Otago a specialist spinner able to produce woollen, semi worsted, full worsted yarn and wool tops. The balance of the company is owned by 12 downstream yarn users and the continuation of the mill is essential for the prosperity of their individual businesses.

Wool Equities Ltd further holds 100% of Town & Country Textiles NZ Ltd a specialist weaving business in Palmerston North.

Critical Issue

With respect to this determination for Wool Equities Ltd and its Partners

- *It is imperative that commission scouring of small lots of fibre continue to be available with in New Zealand.*
- *That this scouring is available on a regular and timely basis*
- *That the final Commerce Commission determination declares that small lot commission scouring is to be an essential parameter of the new rationalised entity raison deter*

The production of uniquely New Zealand product requires the ability to certify that the fibre was grown, processed and manufactured on shore, scouring is the first step in that processing chain.

For the most part those requirements are being met by the current two entities scouring presently, although there are at times delays in getting parcels through the scour in a timely manner

Those small parcels of between 200kg and 1000kgs may be fine merino to be combed into top for ultimate use in fine suiting, through specialist garment fibre for blending with possum, alpaca or other natural fibre to produce uniquely New Zealand garments and finer cross bred wool that ultimately becomes hand knitting yarn. Each able to be traced back to a particular farm or district.

Each of these sectors has at its base a 'story' of New Zealand as its place of origin. From this 'story' international markets have been created the most obvious being "Ice Breaker" Without the New Zealand start it would never have grown and prospered.

It is essential that the Commission ensures that the continuance of small lot commission scouring is a fundamental criteria of the 'new' entity.

There is a pilot scour plant which Cavalier Wool Holdings Ltd (or their Subsidiary) purchased from Agresearch on the down scale of the Agresearch capacity at Lincoln in 2010.

It has always been understood that this scour was to be re-commissioned by Cavalier as part of the sales and purchase agreement for the scour from Agresearch that has yet to be done.

We request that the Lincoln sample scour be re-commissioned by Cavalier, or alternatively be made available to the wider industry for commissioning on a suitable site to ensure small lot scouring can be done with certainty as part of the granting of this Determination

Comments on Specifics within the Determination

On points 17,18,19, Rationalising Wool Scours

The Determination as presented is at variance with the Commissions imperative to ensure that there is not a lessening competition.

The lessening of competition between scouring is one issue, but ***the collateral effect of the potential closure of carpet and independent spinning plants that may eventuate as a result of the merger are a greater issue for the New Zealand public than the merger of the scours.***

The potential with drawl of Godfrey Hirst from the carpet market will reduce choice for the consumer and consequently allow, by absence of competition, the potential to raise price to those who demand wool carpet.

On points 106 through 112 **Wool and Synthetic Carpets**

How relevant is this to the Commission?

When the Commission is considering “benefit to New Zealand” as a result of the merger do their deliberations extend to the position that producing and selling more New Zealand made wool carpet verses the benefit or otherwise importing and selling more imported synthetic Carpet?

On a macroscopic scale there is surely a benefit to New Zealand Incorporated in ensuring the former can prosper and a cost to New Zealand Incorporated with the latter.

On points 118 through 132 **north and South Island wool scouring markets**

No comment is made here regarding small lot scouring and it's significant to the New Zealand textile industry where scoured wool is the fundamental ingredient.

The New Zealand consumer and the discerning foreign tourist who seek guaranteed New Zealand Made add significant value to the New Zealand economy.

The “*white sheep on green hills*” still remains an icon of New Zealand Tourist promotion and indeed the New Zealand experience, the traditional souvenir of that experience is a New Zealand made woollen product.

While this may be seen as irrelevant in the current microscopic argument on benefit or otherwise of merging scours it remains a vital ingredient in the success of New Zealand Incorporated on the macroscopic scale ***Small lot scouring cannot be considered as “irrelevant” in this determination.***

On points 159 through 162 **The Australian Experience**

It is clear that New Zealand **is** emulating the Australian experience of decline in Wool Scouring plants all be it at a different rate and process.

The comments about China (foot note 52) is as relevant for carpet wool as it is for textiles, that is China is also a major manufacturer of carpet indeed all textiles.

The real issue for those of us who are dependent of scoured fibre for our downstream manufacturing is

How long before the majority foreign owners of the emerging scouring company decide to exit all scouring in New Zealand?

On points 163 through 201 **Potential Entry**

There are potential sites with consents suitable for a Scour. Wool Equities Ltd through its joint venture company Miltown Properties Ltd owns such a site at Milton in Otago.

Sited on highway One and with a main trunk rail siding.

This site is immediately adjacent to 20% of New Zealand's remaining sheep flock in Southland and Otago.

The owners of these sheep are predominantly ***Wool Equities shareholders who would support such a venture should an entrant wish to build a scour on the Milton site***

On point's 236 through 241 **Public benefits and detriments**

It is difficult to see how a clear benefit for Cavalier can be telescoped into a clear benefit for New Zealand Incorporated.

That is to say *a benefit for Cavalier is not by extension a benefit for New Zealand*

On the Balance of the determination

This focuses on a number of circular arguments to justify that

- *a benefit for Cavalier is in fact a benefit for New Zealand,*
- that if there are any additional costs going forward *those additional costs will be met by the wool grower* (our shareholders) as the costs will not be able to be passed down the line with the wool to the downstream wool processor
- *That the sale of real estate by the new entity has benefits for New Zealand* past putting funds into the hands of that selling entity.
- *That receipt of these funds clearly outweigh the potential for loss of collateral dependent industry,* independent spinning, carpet weaving and new product development within New Zealand, the employment those companies provide and the foreign exchange earnings they both save (on shore manufacture v imported product) and the foreign currency the earn with the export of finished product verses scoured wool
- While it is only *“a risk that they might be lost”* to New Zealand the Commission has dismissed the loss of associated industry as risk worth taking to achieve a short term financial advantage to Cavalier.

To Conclude

It is acknowledged that there is an over capacity in scouring, that over capacity ought to be addressed by closing some scour lines, those that have been identified in the determination. That can be achieved by corporate decision of the parties to the application Cavalier and NZWSI

There is not a need to create a monopoly to achieve a scour rationalisation

We seek to be heard in support of this submission

Clifford Heath

Administrator

Wool Equities Ltd

06 322 9884

0274 474 3336

