



COMMERCE COMMISSION

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Question to Commerce Commission: Draft Determination for Cavalier Authorisation

Re: Draft Determination: Table 2 Estimated national allocative inefficiency detriments (page 29)

19/4/11 Question: NERA, for Cavalier, requested the following:

We have been trying to replicate Table 2 (estimated allocative inefficiency detriments) of the Commission's wool scouring draft determination, although we haven't quite been able to exactly replicate the results. Is it possible for us to see the Commission's own model/calculations for this, so that we can directly check against our own calculations?

Answer: The Commission's response is as follows:

Below are the relevant details used for the estimation of the deadweight loss as shown in Table 2 of the Draft Determination. It includes figures that are confidential to Cavalier Wool.

- We calculated losses for the North Island and South Island separately;
- The average pre-merger market price used was [] cents per kg for the North Island and [] cents per kg for the South Island. This is Cavalier Wool's pre-merger price, excluding Godfrey Hirst's and Cavalier Bremworth's volumes. This is used as a proxy for average industry price;
- The wool quantities for the North Island and South Island exclude Godfrey Hirst and Cavalier Bremworth for all five years. These figures are [] for the North Island and [] for the South Island;
- The gross margin is calculated using Cavalier Wool's average variable costs of [] cents per kg in North Island and [] cents per kg in South Island. These were used as a proxy for market variable cost;
- Calculations for North and South Island were summed; and
- The five year NPV was calculated using a discount rate of 10%.

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