

# **Submission on the merger of Farmlands and Seales Winslow.**

20<sup>th</sup> February 2024

## History

It is my view that Balance Fertilizer made a typical corporate mistake when they entered the stock feed industry. Using their corporate model of funding, they tried to set themselves up as the major player and now find that the industry is a little harder to operate in that first thought.

They have invested millions in following this corporate line of thought but now find that it is an industry that requires continual inputs of capital for very little return if any.

Their proposed sale to Farmlands gives them a chance to recover some of their investments and a way of exiting an industry they should never have been involved in.

I see Farmlands as another corporate trying to set themselves up as the biggest player in the market. I personally think that they are making a mistake taking on all the manufacturing assets of Balance and that this move is not in the best interests of their shareholders.

A partial purchase makes more sense, and I will cover my reasons for this further in this brief.

## Mill types

As the Commerce Commission ( CC ) points out, there are two types of mills.

One that is based on supplying poultry (Monogastric) and one supplying Ruminants.

The CC is correct in pointing out that due to cross contamination with ruminant protein, unless a mill has two separate manufacturing lines, it is unlikely a ruminant mill will produce commercial poultry feeds.

The CC is correct in saying that some smaller mills produce poultry feed without ruminant protein using proteins such as Soya Meal, but these are usually for the bagged retail market and not for commercial poultry farms.

There is a possibility for a ruminant mill to become a poultry mill and I see this as a distinct possibility in the future as the poultry industry grows. The very large mills supplying the poultry industry produce large volumes of feed. Should one of these mills have a major issue such as a fire, I believe this would cause a major disruption to this industry.

## **Mill production – Ruminant Mills**

The CC has noted that there are four product types produced in pellet mills.

- Bulk feed for dairy cows
- Bagged and bulk feed for calves
- Molasses type textured feeds
- Bagged feed for various other animals for the retail market

## **Farmlands**

The CC correctly notes that Farmlands are operators of two mills in the South Island being Rolleston and Winton.

In my view, it makes no sense for them to buy the Ashburton mill from Balance as they already hold a major share of the market in that area. The only reason would be for Farmlands to obtain total dominance of the market in the South Island thus reducing competition from others. Refer point 60.

In the North Island, Farmlands have relied on toll manufactures such as Seales /Balance and have also shipped product up from their South Island mills.

I can see some sense in the proposal to purchase the Morrinsville site as it will give them some control over the production there. Relying on someone toll manufacturing for you can lead to becoming short supplied especially in peak periods.

Regarding Whanganui, I don't fully follow the reasons why Farmlands and their shareholders would want this mill. Perhaps the only reason is that Balance have adopted a take all or nothing approach to the sale of the feed business. Perhaps Farmlands see this as a way of getting market share in an area where their share of the market is low.

### Mill production related to markets.

The CC correctly points out that bulk compound pelletised dairy feeds tend to be competitive within a 150 to 200 km radius of existing mills. This creates competition when two or more mills are overlapping within that 150 to 200 km zone.

The CC noted that other feed supplied to the dairy industry such as blends creates competition between feed types. Farmers do switch between feed types, and this becomes more evident in times of lower payouts from dairy companies. At present, products like PKE or PKE based blends far outweighs the use of compounded pelletised feed.

I question the point 21 where Farmlands estimate that 20% of feed such as pelletised compound feed makes up the feed consumed by cows. This is a little vague and misleading in that it includes silage and other on farm grown feed and blends including products like PKE. Pelletised compound feeds would only make up a small percentage of that 20%.

I see Bulk Compounded Pelletised Dairy feeds and the manufacture of bagged products as two separate markets.

Regarding the competition going forward with compound Dairy feeds, due to freight zones and mill capacities, I see no major issues. Farms are usually supplied directly from the mill to on farm silos by auger bin trucks and in some cases directly to feed pads by tipping trucks.

Farmers can in many cases, customise their compound feed requirements by adding various micro products calculated to the feeding rates on farm. Many farmers use several systems such as in shed feeding and feed pad feeding.

The second market relates to sales of bagged feed products which includes products like calf feed.

Farmlands are one of three main major players and could be one of the top two if not the top one. They have a vast network of retail farm supply stores covering all of NZ. It is in their interest to therefore take control of the supply of bagged products to their stores and I believe this is the main reason behind the proposed purchase of Seales / Balance. The purchase of a major mill in the North Island solves a lot of supply control issues for them and the Morrinsville site would fill that requirement. It gives them the ability to further promote their NRM brand with their many retail farm representatives in a market that would now have less competition and production capacity.

Some of the smaller mills presently supply Farmlands stores, but this will become more difficult as supply agreements will tighten as Farmlands push products sold towards their own brand and production facility.

Under bagged products, there are several ranges of products. Calf being the big seasonal bagged product followed by various poultry, horse, pig, sheep and other feeds. These "other" products make up a lot of production for smaller mills and as one of the major retail suppliers, Farmland will naturally promote their NRM brand over outside brands. Unfortunately, I have seen Farmlands do this in the past.

Regarding freight zones for bagged products, these products can be transported for greater distances, so zone boundaries extend to much greater lengths. Refer 76.

#### Other points relating to the CC statement of issues.

To establish a new greenfield feed mill is at present unlikely due to costs and low return on capital invested. Refer 60.3

Over the last few years, we have seen a lot of capital investment in smaller mills improving production of existing plant and automating where possible. However, we have not seen any new plants being built. Refer 73.

Most of the smaller mills are family run business 100% NZ owned.

17.2 calves, being grown to become dairy cows or raised for beef production.

19.1 suggest you add Ringrose Stock foods north of Whangarei.

20.1 We do not use a third party to freight our products to farm. We also note that many of the blended or PKE suppliers own their own trucks. Seales and Farmlands use outside third party transport.

20.2 Our mill sales of calf are usually direct to farm and we deliver on farm using our own trucks. Very little of our product goes through rural merchant stores.

46. 46.1 should read North of Auckland

The second area is South of Auckland and the Waikato.

58. Definitely in the South Island

63.2 Question minimal barriers. Capital involved in expanding production is a major barrier.

63.3.1 Farmers have for many years planted their own crops and I see no change here. The restriction of them increasing this is the available land to plant within their dairy platform.

63.3.2 Yes, in the case of between the North and South Islands. The cost of freight crossing between the two islands is very expensive.

64.2 I don't quite understand the point being made. Is there some relevance in that they both supply throughout NZ when there are other operators supplying other regions. Is this an important point for the CC to consider when regions are being supplied by others.

75. One usually finds that a large corporate usually goes out into the market and cuts prices to gain extra market share. They have the ability, to run mills at cost or a loss and shift margin to the retail side of their business. Very rarely do we see the situation raised in this point. Somehow, smaller family-owned mills continue to reinvest all profits back into the business regardless of this point raised.

83 The restraints on a new entry into the Compound dairy feed market is unlikely at present. The costs and return on investment just wouldn't make sense. It is more likely that a new entry would be by buying out one of the smaller mills and expanding on that basis.

85.1 Yes, this is a major constraint and almost impossible to overcome.

85.2. They are correct.

88.2 As a major player in the rural stores yes, Farmlands will use their power to leverage sales to their brand.

90.2 Unlikely to sponsor a new entry. More likely to buy into a smaller existing operation/

92.1 Farmlands are basically saying that outside suppliers will no-longer have the same access to their stores. These suppliers already have access to many of the other retail merchants. Yes, I can see a move by smaller mills to target direct sales to farmers.

95. I see this as a problem and agree. Many towns in NZ have Farmlands and one other of the major retail stores often all three. It is only natural for Farmlands to do everything they can to push sales to their stores.

105.2 I do see freight cost used in marketing but more so from blenders who own their own trucks. We see cases where the finished blend is very cheap but freight cost compensates by being high. This may not be relevant to this proposed merger as Farmlands and Seales do not own trucks.

## Summary

In my view, it doesn't make sense for Farmlands to purchase all three mills and the business from Seales / Balance.

I think it is a very good option for Balance to get out of a business they should never have invested in in the first place. Farmlands are probably a good option ( or the best option ) for the sale of this business. If I were Balance, I would push for a "all or nothing" deal.

The purchase of the Morrinsville mill by Farmlands does make some sense, especially regarding the supply of bagged products to Farmlands stores in the North Island. It will cause some issues for the smaller North Island mills, but I believe they will adapt and survive and continue to slowly grow.

I personally don't see the sense in Farmlands purchasing Whanganui, but I guess that is their call. I don't believe that purchase is a good investment for their shareholders.

Whanganui is a mill that could be converted to a poultry mill and possibly sold off to one of the commercial poultry businesses. Perhaps that is part of their overall plan.

I do see real issues with the purchase of the Ashburton mill and the monopoly that would give Farmlands in the South Island. History shows that they could consider closing the mill moving all production to their other site. As the South Island is outside my area of local knowledge, I suggest the CC obtain further information from those likely to be affected.

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