

Notice under section 66 of the Commerce Act

Proposed business acquisition by
Wallace Group Limited Partnership

John Land
Barrister

Clearance Application

Commerce Act 1986:

26 July 2016

The Registrar
Competition Branch
Commerce Commission
PO Box 2351
Wellington
NEW ZEALAND

By email only: registrar@comcom.govt.nz

Pursuant to s 66 (1) of the Commerce Act 1986 notice is hereby given seeking clearance of a proposed business acquisition.

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SUMMARY

1. Clearance is sought by the Wallace Group Limited Partnership (“**WGLP**”) to acquire up to 100 percent of the assets and business of;
 - (a) Wallace Corporation Limited (“**Wallace**”),
 - (b) Farm Brands Limited, Farm Brands Asset Management Limited (“**FBAML**”) and South Canterbury By-Products (2009) Limited (“**SCBP**”) (collectively “**Farm Brands**”), and
 - (c) Keep it Clean Limited (“**Keep it Clean**”).

2. The transaction involves an aggregation of;
 - (a) SCBP and Keep it Clean South Island interests in bovine/ mixed rendering;
 - (b) SCBP and Wallace South Island interests in porcine rendering;
 - (c) SCBP and Keep it Clean South Island interests in cervine rendering;
 - (d) The collection of shop and small processor material in Canterbury for rendering by SCBP, Wallace and Keep it Clean;
 - (e) The purchasing of casualty material in Canterbury for rendering by SCBP, Wallace and Keep it Clean;
 - (f) The purchasing of casualty material in Southland for rendering by SCBP and Keep it Clean;
 - (g) Farm Brands, Wallace and Keep it Clean’s presence in New Zealand markets for the sale of mixed meat and bone meal and inedible tallow produced from rendering;
 - (h) Farm Brands and Wallace’s presence in New Zealand markets for the sale of blood meal produced from rendering.

- (i) Farm Brands and Keep it Clean's presence in New Zealand markets for the sale of cervine meal produced from rendering.

3. The reasons for the proposed transaction are:

- (a) To enable the synergistic benefits of a full New Zealand wide rendering and tanning operation. Currently SCBP does not have a tanning business or North Island rendering business while Wallace does not have a substantial South Island rendering business (or currently a South Island tanning business).
- (b) To improve the efficiency of rendering in the South Island. This will be achieved through ensuring the processing of porcine material in one place (being the Wallace plant at Hororata). This will improve the economy of operation at the SCBP plants at Washdyke and Silverstream where a more valuable porcine free meal can be produced (suitable for a number of markets including Indonesia and China which will not accept porcine material or even mixed meat and bone meal processed on the same line, or even the same facility, as porcine material). Cervine material will also be processed in one place being the Keep it Clean plant at Mosgiel while allowing SCBP's plant at Washdyke to be used for dedicated processing of bovine and ovine material.

4. The transaction will not substantially lessen competition in any market as:

- (a) In relation to bovine and ovine rendering markets (both toll processing and direct collection) there is no significant aggregation of market share. Wallace is not a participant in the South Island ovine and bovine rendering markets (as defined in the application) due to its processing of porcine material and the limited capacity of its South Island rendering plant. Keep it Clean is only a small participant in the bovine rendering market. It is not a participant in the ovine rendering market as it [

];

- (b) In relation to the market for collection of porcine material for rendering the transaction will not involve any change to market dynamics as in the absence of the transaction Wallace would continue to process such material and SCBP would continue not to do so. Keep it Clean is not a participant in the porcine rendering market and is unlikely to enter that market as to do so would adversely impact on the value of the mixed meat and bone meal and cervine meal that it produces;
- (c) In relation to cervine rendering markets the transaction will not involve any change to market dynamics as in the absence of the transaction Keep it Clean and Value Proteins would continue to process such material and SCBP would continue not to do so;
- (d) In relation to the Canterbury shop collection market there are no barriers to entry to the market and [] and [] would be able to enter the market without any significant cost (and [] with only relatively modest cost). Further, applying the analysis of the Commission in the *Tuakau Proteins* decision there can be no substantial lessening of competition in any event as any reduction of price paid for shop material would not result in the supply of less material into the market;
- (e) In relation to the Canterbury casualty market there are no barriers to expansion or entry to the market and the collectors and processors of casualty material (such as Nichols NZ and Slinkskins) would be able to supply their rendering material to ANZCO Foods (which is already in the market) or [] (which could readily enter the market). Further, there is a significant constraint on the exercise of market power by rendering companies as they would be aware that any undervaluing of casualty raw material is likely to result in the collectors of casualty calf and slink lambs (such as Nichols NZ and Slinkskins) collecting less renderable material (as they in turn would

pay less to farmers for such material which may simply result in farmers burying the calf and lamb bodies on the farm). In relation to the Southland casualty market the aggregation is minimal as Keep it Clean procures very little casualty material from Southland. Alliance Group and SCBP are the main participants in the Southland casualty market;

- (f) In relation to the national mixed meat and bone meal, blood meal, cervine meal and inedible tallow markets there are a large number of other competitors in the market and further the ability to increase price is constrained by the fact that the prices for mixed meat and bone meal, blood meal, cervine meal and inedible tallow are driven by international commodity prices.

REQUIRED INFORMATION

1. APPLICANT'S DETAILS

Provide the name of the applicant (s) for clearance, and the name of the individual responsible for the notice. In addition, please include the:

- Postal address, physical address, telephone number and web address of the applicant (s);
- email address, telephone number and position of the contact person (s); and
- names of any relevant related entities (showing shareholdings).

1.1 This notice is given by Wallace Group GP Limited on behalf of the Wallace Group Limited Partnership.

1.2 The contact details for Wallace Group GP Limited (and also for Wallace Corporation Limited) are:

Postal Address: P.O. Box 11, Waitoa, Waikato
Physical Address: 266 Wood Road, Waitoa, Waikato
Telephone:
Web address:

1.3 The individual responsible for this notice is:

Name: Graham Shortland
Position: Chief Executive Officer, Wallace Corporation Limited
Email: Graham.Shortland@wallace.co.nz
Telephone: 07 8870309/ 021 754321

1.4 All correspondence with and inquiries of Wallace Group GP Limited (and for Wallace Corporation Limited) in relation to this notice should in the first instance be directed to:

John Land
Barrister
PO Box 2471
Shortland Street
Auckland 1140
Phone +64 9 3791513
Email john.land@bankside.co.nz

Description of Wallace's business

1.5 Wallace currently operates;

- a) A rendering business in the North Island from its rendering facility at Waitoa, North Waikato at which it renders bovine and poultry materials collected principally from the northern North Island, and general casualty material collected from the greater Waikato region and Northland;
- b) A rendering business in the South Island from its rendering facility at Hororata near Christchurch at which it renders porcine material from the South Island together with general home kill and small processor waste and general casualty material collected from the Canterbury region;
- c) A tanning business in the North Island from its large scale tannery at Waitoa at which it processes hides and calf skins procured from the North Island;
- d) A composting business specialising in the composting of paunch grass and other by-products from meat processors;
- e) A casualty stock collection business together with a skinning and salting facility in Feilding servicing the Western side and central lower North Island;
- f) Dairy farming operations surrounding its facilities at Waitoa;
- g) Investments in technologies businesses arising out of its rendering and tanning business;
- h) Investments in New Zealand farming systems company operating in Chile.

2. OTHER MERGER PARTY'S DETAILS

Provide the other merger party's (parties') name (s) and provide the:

- Postal address, physical address, telephone number and web address of the applicant (s); and
- email address, telephone number and position of the contact person (s);

2.1 The other merger party is Modena Investments (New Zealand) Limited ("*Modena*")

2.2 The contact details for Modena are:

Postal address: Po Box 5354, Auckland 1141

Physical address: 24th floor, BDO Tower, 120 Albert Street, Auckland

Telephone: +649 3796641

Web address:

2.3 The contact person for Modena is:

Name: Hugh Spence

Position: Director

Email: hugh@farmbrands.co.nz

Telephone: +649 3796641

2.4 All correspondence with and inquiries of Modena in relation to this notice should in the first instance be directed to:

Pip England

Chapman Tripp

PO Box 2206

Auckland

Description of the other merger party's business

2.5 Modena currently operates (through subsidiary companies Farm Brands Limited and SCBP):

- a) A rendering business in the South Island from SCBP's rendering facilities at Washdyke, Timaru, South Canterbury and Silverstream, Mosgiel, Otago;
- b) A rendering finished products trading business aggregating and selling finished products (being mixed meat and bone meal, ovine meal, blood meal, cervine meal, inedible tallow and edible tallow) from both its own facilities and third party facilities (including Wallace). Finished products are produced domestically and primarily exported.

3. TRANSACTION DETAILS

Set out the transaction details including , where relevant:

- the type of transaction (such as a merger or joint venture), what is to be acquired and how the transaction is structured (such as whether the assets or shares are to be purchased);
- the rationale for the merger;
- how this transaction changes the control of the company, and a diagram(s) of how the structure of ownership and affiliated companies are to change; and
- a description of relevant ancillary agreements associated with the merger, such as long term supply agreements between the target and the acquirer.

Details on what is to be acquired & how the transaction is structured

3.1 Clearance is sought by the Wallace Group Limited Partnership (“**WGLP**”) to acquire up to 100 percent of the assets of;

- (a) Wallace Corporation Limited (“**Wallace**”),
- (b) Farm Brands Limited, Farm Brands Asset Management Limited (“**FBAML**”) and South Canterbury By-Products (2009) Limited (“**SCBP**”) (collectively “**Farm Brands**”), and
- (c) Keep it Clean Limited (“**Keep it Clean**”).

3.2 The rendering assets that WGLP intends to acquire from Wallace include;

- (a) Wallace’s rendering plant and equipment at Waitoa, North Waikato and Hororata, Canterbury and the land and buildings at Waitoa and leasehold interest in relation to the land and buildings at Hororata;
- (b) Wallace’s rendering business including the benefit of business contracts.

3.3 The rendering assets that WGLP intends to acquire from Farm Brands include;

- (a) The rendering plant and equipment owned by FBAML and operated by SCBP, a subsidiary of Farm Brands Limited, at Washdyke, Timaru, South Canterbury and Silverstream, Mosgiel, Otago and the land and buildings at the Washdyke site and leasehold interest in the land and buildings at the Silverstream site;
- (b) SCBP’s rendering business including the benefit of business contracts.

where a more valuable porcine free meal can be produced. It will also be enhanced through the processing of cervine material at Keep it Clean's plant at Dunedin.

Synergies of Full New Zealand rendering and tanning Operation

3.8 There are synergies involved in a full New Zealand wide rendering and tanning operation for 2 reasons.

(a) First, there are efficiencies involved in the collection of raw materials for both rendering of meat product and tanning of hides.

i Transport

ii Specialist support staff such as H&S, quality compliance, RMA compliance.

(b) Secondly, a number of major rendering and tanning customers are meat processing companies which have meat processing plants in both the North and South Islands.

3.9 The objectives of the merger set out in the WGLP partnership agreement include:

[“

▪

.”]

3.10 [

] In addition to increasing the geographic servicing of customers/suppliers the combined business will also be in a position to call on the different specialist expertise of the two businesses to create value.

3.11 [

]

3.12 The greater scale of operation from a merged business will help in the establishment of these services as the business will be able to call on greater human resources and site resources to find solutions for customers. Further, access to SCBP plant will assist in replicating this approach in the South Island for customers (such as []) which are also based in the North Island. Access to the SCBP plant will mean that the business has more options to stream (or separately process) the material from different species. SCBP's existing relationship with South Island customers (such as []) will also assist in allowing the business to offer to such customers the same concept currently offered to Wallace's North Island customers. [

]

3.13 Wallace has expertise in composting material that would otherwise go to landfill or into rendering lowering the quality of the finished product. This material includes paunch grass from cattle and sludges from waste water treatment systems. The finished product from the composting process can then be returned to land increasing its productivity. Wallace's compost operation is ISO accredited and produces compost approved by the Dairy

Industry Technical Advisory Group. [

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3.14 Wallace is a world leader in the collection of casualty cows. In the Waikato and Manawatu regions it operates New Zealand's largest casualty cow collection business by some margin. This involves a network of collection trucks, a call centre coordinating collection and compliance with best practice with respect to biosecurity. [

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3.15 [

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3.16 Wallace sells rendered product domestically to end users and export traders such as Farm Brands. It has established limited direct markets for more specialist products derived from poultry. However Farm Brands operates a trading business in rendered product unsurpassed in New Zealand in terms of knowledge and insight into key export markets and customers. As well as its staff, its international directors are the owner/representatives of international rendering operator SAPI. As investor/operators of rendering businesses in many geographies SAPI is particularly well placed to identify international trends and opportunities for differentiating otherwise commoditised New Zealand products to customers who value those products.

3.17 For example SAPI has identified [

] Wallace's exposure to the Waikato dairy industry (with material from meat processors and Wallace's casualty business) will provide the scale required to develop these opportunities.

3.18 Further while Farm Brands does not process chicken product and therefore does not make chicken based finished products, SAPI and its international interests do have considerable international networks specifically with consumers of poultry finished products. [

].

3.19 WGLP will also look to exploit [].

3.20 [

3.21

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Improving Efficiency of South Island Rendering

3.22 The SCBP plants at Washdyke and Silverstream only process bovine and ovine renderable material.

3.23 The plants do not process pork as the end market for finished product (particularly Indonesia and China) would not accept meal if processed in a facility also used for pork.

- 3.24 Since 2015, the porcine material purchased or collected by SCBP has been subcontracted by it to Wallace which renders the material at its Hororata plant.
- 3.25 The proposed transaction would formalise this arrangement.
- 3.26 The porcine material is a relatively small volume of overall renderable volume in the market. Therefore, to maximise the return, porcine material needs to be processed in one location. Also, using one plant that specialises in producing a mixed species protein meal (including porcine material) leaves other facilities to specialise in producing higher value protein meals for the larger, premium markets where customers will not buy protein meals that contain porcine material.
- 3.27 Streaming raw material inputs to create finished products and market segmentation that attracts the best prices is becoming more and more important to the Wallace and Farm Brands businesses as overseas market access and customer requirements become increasingly more challenging. There is insufficient volume of porcine raw material in the market to justify SCBP's own rendering line to stream this raw material and produce a porcine only protein meal.

Keep it Clean Transaction

- 3.28 In addition to the proposed acquisition by WGLP of the rendering assets of Wallace and Farm Brands, the parties propose that WGLP also acquire the rendering assets and business (including shop collection and purchase of casualty material) of Keep it Clean Limited.

- 3.29 Keep it Clean operates a rendering plant at Abbotsford, Dunedin used largely for cervine (deer), butcher shop waste rendering and rendering of casualty material. Neither SCBP nor Wallace currently undertake cervine rendering in the South Island and the proposed acquisition of Keep it Clean is part of a proposed strategy whereby the material of different species can be efficiently “*streamed*” to different plants (with bovine and ovine material processed at Washdyke and Silverstream, porcine material processed at Hororata and cervine material processed at the current Keep it Clean plant at Dunedin).
- 3.30 Some of the cervine material Keep it Clean currently processes is subcontracted by SCBP to Keep it Clean, and in particular from the two SFF venison plants (Mossburn and Kennington in Southland) in the same way SCBP has subcontracted the porcine material to Wallace.
- 3.31 SCBP needs to stream the venison material to produce a valuable cervine meal but cannot do so at its own rendering facilities at Washdyke as the 2 complete rendering lines there are dedicated to bovine and ovine material respectively. SCBP’s rendering facility at Silverstream is used just for bovine material.
- 3.32 In the same way that Wallace processes porcine, Keep it Clean is specialising in cervine. In both cases this creates higher value returns for finished products due the streaming of raw materials. Customers buying meal will pay a premium for pure ovine meal and pure cervine meal. Further, as discussed above a number of markets will not accept meal that includes porcine material which therefore significantly reduces the value of mixed meal that includes porcine material.

3.33 [

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3.34 The proposed transactions will also give the greater ability to [

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3.35 [

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Corporate Structure

3.36 Attached as appendices are

- a) a diagram of the current company structure of Wallace together with an organisation chart for Wallace (Appendix 1)
- b) a diagram of the current company structure of Farm Brands together with an organisation chart for Farm Brands (Appendix 2)
- c) a diagram of the proposed structure for WGLP (Appendix 3).

Ancillary Agreements

- 3.37 The only relevant ancillary agreement associated with the proposed transaction is the Limited Partnership agreement for WGLP. A copy of this is annexed as confidential appendix 5.
- 3.38 There are no long term supply agreements between the parties. The current arrangement for processing by Wallace at Hororata of porcine material subcontracted to it by Farm Brands is not the subject of a written agreement.

4. DOCUMENTS BRINGING ABOUT THE PROPOSED MERGER

Provide copies of the final or most recent versions of any documents bringing about the proposed merger such as the sale and purchase agreement, contracts, or offer documents.

- 4.1 The following documents are attached to this application;
- a) Limited Partnership Agreement for the Wallace Group Limited Partnership (confidential appendix 5);
 - b) Agreement for sale and purchase of business assets between Wallace and Wallace Group GP Limited as general partner of the Wallace Group Limited Partnership (confidential appendix 6);
 - c) Agreement for sale and purchase of business assets between Farm Brands, SCBP and FBAML and Wallace Group GP Limited as general partner of the Wallace Group Limited Partnership (confidential appendix 7);
 - d) Agreement for sale and purchase of business assets between Keep it Clean and Wallace Group GP Limited as general partner of the Wallace Group Limited Partnership (confidential appendix 8).
- 4.2 The following documents are provided under separate cover;
- a) The toll processing agreement between Farm Brands and Silver Fern Farms Limited
 - b) The toll processing agreement between Farm Brands and Silver Fern Farms Beef Limited

- c) The toll processing agreement between Farm Brands and Silver Fern Farms Venison Limited;
- d) Farm Brands' subcontracting agreement with Keep it Clean. []

5. INTERNATIONAL NOTIFICATIONS

If this merger forms part of an international transaction, list the other competition agencies that are being notified and the date on which those agencies were or will be notified.

5.1 Not applicable. The transaction relates to New Zealand only.

6. HORIZONTAL AGGREGATION

If the merger results in horizontal aggregation, outline the overlapping products and/or services and provide the following for each:

- a copy of, or link to, the most recent annual report, audited financial statements and management accounts for the relevant business unit(s);
- each party's total sales revenues, volumes, and where relevant, capacity and excess capacity figures;
- the names and contact details for the parties' main competitors, and any trade or industry associations in which one or both of the merging parties participate;
- for a merger between competing sellers, the names and contact details for each party's key customers, and the revenue earned from each in the last financial year; and
- for a merger between competing buyers, the names and contact details for each party's key suppliers, and the amount paid to each in the last financial year

Description of the relevant industry

- 6.1 The Commission set out a general description of the rendering industry in paras [45] to [55] of its decision in the *Tuakau Proteins* decision¹.
- 6.2 Rendering is a cooking, sterilisation and separating process that turns waste protein material into useable and saleable finished products. The waste materials are heated and separated into solids, fat and waste water.
- 6.3 The solids are dried and ground into meat and bone meal. These are dry powders used in the production of non ruminant animal or pet feeds and in fertilisers. Another form of meal is blood meal which is derived from the drying of blood obtained from meat processing plants. It is used as a feed supplement for certain non-ruminant animals.
- 6.4 Fat is separated during the rendering process and then cooled and treated to become tallow which is used for the production of biodiesel and in the oleo-chemical industry.
- 6.5 The great majority of rendered outputs such as meat and bone meal, blood meal and tallow is exported. The main destinations for meat and bone meal are China, Indonesia and North America. The main destinations for tallow are China and Singapore. As a result of the fact that rendered outputs are all traded globally there are international commodity prices for these products. Accordingly the prices of rendered outputs vary in accordance with the international commodity prices (and fluctuations in price of substitutable products such as palm oil as a substitute for poultry oil or tallow).
- 6.6 In the South Island there are no rendering plants which would take material from the whole Island. The normal collection area that a rendering plant can

¹ *Tuakau Proteins Ltd and Graeme Lowe Protein Limited* [2014] NZCC 26 (25 November 2014)

cover is a 4 hour trucking distance from a rendering plant. This is for 2 reasons, the cost of freight and because of the perishable nature of the material which may spoil if taken too far.

- 6.7 The major users of rendering facilities are major meat processing companies such as Silver Fern Farms, ANZCO Foods, AFFCO and Alliance Group.
- 6.8 It is common for a number of meat processing plants to have their own in-house rendering facilities. In the South Island, Alliance Group, ANZCO Foods and AFFCO all have substantial rendering facilities. Silver Fern Farms historically did its rendering in-house (and still owns but does not operate rendering facilities at a number of sites) but in recent years has moved to third party rendering of its material.
- 6.9 The size of the major meat processing companies is such as to make the investment in new rendering plant feasible. For example Alliance Group in 2014 opened a new \$25 million rendering plant at its meat processing plant at Lorneville near Invercargill. To the extent that meat processing companies do use third party renderers they can be viewed as sophisticated customers with substantial experience of self-rendering.
- 6.10 It is not unusual for meat processing plants with in-house rendering facilities to also undertake rendering on behalf of third parties. In the South Island, ANZCO Foods currently conducts rendering of third party material. Alliance Group also currently renders third party casualty material and has recently tendered in relation to other third party material (namely the contract for rendering material from Oamaru Meats).
- 6.11 In Canterbury, Otago and Southland renderers operate collection services to collect small volumes of renderable material from butcheries, grocery stores

and home kill operations. In other areas of the South Island material from such smaller scale sources would often simply go to landfills.

6.12 Important industry trends include the following;

- a) Purchasers of finished rendered products are becoming increasingly strict in their requirements. In particular, markets such as China and Indonesia will not accept product that has been produced on lines also used for porcine (pork) material. There is even a concern with product produced at facilities where porcine material is processed despite that processing being on different lines. That concern is as a result of a perceived risk of contamination. There is accordingly an increasing trend for major rendering plants to ensure that they do not process pork at all due to a concern that the end market for meal (particularly Indonesia and China) would not accept the meat and bone meal if processed at a facility also used for pork.
- b) Premium prices are payable for meal that is purely the meal of one species eg pure ovine meal or pure cervine meal. To achieve premium prices for rendered output it is necessary to have species specific processing lines and facilities;
- c) There is significant excess rendering capacity in the South Island (including at ANZCO Foods, Alliance Group and Value Proteins);
- d) Volumes of renderable material are reducing due to a number of factors.
These factors include
 - *lower red meat consumption in New Zealand;
 - *meat processors increasing the proportion of the animal's body that they are able to process and pack into usable outputs (for example for pet food) which reduces the proportion of the animal available for rendering.

6.13 The location of rendering facilities in the South Island and of major meat processing plants who have a demand for rendering services is shown in the **attached** appendix 4.

Participants in the South Island Rendering Markets

SCBP

6.14 SCBP has 2 rendering plants being;

- a) The plant at Washdyke, Timaru, South Canterbury. This has 2 lines and processes bovine and ovine material. One line is dedicated to bovine material and one line to ovine material. The plant processes []
Over [] of the volume is from SFF and is toll processed and on sold by SFF to Farm Brands. The plant also receives casualty stock from casualty collection/ skinning operators.
- b) The plant at Silverstream, Mosgiel, Otago. It has a single line, and only processes bovine material. The capacity of the plant is [] tonnes a day. The plant was formerly owned by SFF and is currently used by SCBP just for SFF toll processing and on selling of meat and bone meal and tallow to Farm Brands.

6.15 The SCBP plants do not process pork as the end market for meal (particularly Indonesia and China) would not accept the meat and bone meal if processed at a facility also used for pork. Accordingly the pork is subcontracted to Wallace at Hororata.

ANZCO Foods

6.16 ANZCO Foods has a rendering plant at Seafield, in Canterbury. This plant has 2 lines and is used for bovine and ovine material, both inhouse and third party. Each line can process [] tonnes of raw material per hour. The

plant operates [] days a week at peak season. The applicant understands that [] at peak season.

Alliance Group

6.17 Alliance Group has rendering plants at Lorneville (Southland), Smithfield near Timaru (South Canterbury) and Pukeuri near Oamaru (North Otago).

- a) The Alliance Group rendering plant at Lorneville is used for inhouse bovine and ovine material but does also process some third party casualty material. It has 2 separate lines (bovine and ovine). Each line can process [] tonnes of material per hour. The ovine line is probably running at []% capacity at peak season. The bovine line is probably running at []% capacity at peak season.
- b) The Alliance Group Smithfield plant is used for inhouse ovine.
- c) The Alliance Group Pukeuri plant is used for inhouse bovine and ovine.
- d) As mentioned at para 6.10 above Alliance Group has recently tendered for third party renderable material, namely the proposed contract with Oamaru Meats. []

]

AFFCO

6.18 AFFCO (South Pacific Meats) has a rendering plant at Awarua, near Invercargill (Southland). It is used for inhouse ovine. The applicant assumes []

]

Value Proteins

6.19 Value Proteins has a rendering plant near Hokitika on the West Coast. Value Proteins operates 2 processing lines. The applicant assumes that each line is capable of processing [] tonnes of material per hour. The Value Proteins plant is largely used for cervine and ovine material (including Alliance

Group's ovine material from its Nelson plant) but also does some bovine and casualty material. The Value Proteins plant is probably running at about []% capacity in the peak season.

Keep it Clean

6.20 Keep it Clean has a rendering plant at Dunedin. The capacity of the plant is about [] tonnes per hour across two lines.

6.21 The plant is largely used for cervine material. It also processes casualty material plus some bovine and ovine when required due to meat plants shutting down their intergrated rendering plants for annual maintenance or due to rendering plant breakdowns. It also processes relatively small bovine volume purchased from Blue Sky Meats' beef plant in Gore. The plant also processes shop waste collected by Keep it Clean from butcheries and small meat processors.

Wallace

6.22 Wallace has a rendering plant at Hororata, near Christchurch, Canterbury. This plant operates a single line capable of processing [] tonnes per hour. The plant is used for rendering of porcine material, casualty material, poultry material and processing of waste collected by Wallace from butcheries and small processors.

Blue Sky

6.23 Blue Sky has its own rendering plant integrated with their meat processing plant at Morton Mains, Southland. This is only used for inhouse ovine material and bobby calf material during the season.

Silver Fern Farms

6.24 SFF has a small rendering facility at Waitane, Southland but this is closed given the contract with SCBP. SFF also has closed rendering facilities at

Paereroa, South of Timaru, Belfast in Christchurch, Fairton, Mid Canterbury and Finegand, South Otago.

Prime Range

6.25 Prime Range has its own rendering facility at Invercargill, integrated with its meat processing plant. This had only been used for in-house bovine, ovine and cervine material. [

] The Applicant is uncertain as to Prime Range's plans for its rendering facility which has an estimated capacity of [] tonnes per hour.

Tegel

6.26 Tegel has a rendering plant at Hornby, Christchurch where it processes its in-house poultry raw material and also raw material from Van Den Brink Poultry Ltd plant, near Christchurch. The plant has capacity to process [] tonnes per hour.

Overlapping Products and Services

6.27 The potentially overlapping products and services are;

- a) Bovine and ovine rendering in the South Island (although Wallace is not a participant in the market for bovine rendering as defined below or in the market for ovine rendering as defined below. Bovine and ovine material rendered by Wallace comes only from casualty, home kill and small processor material as part of the production by Wallace of a mixed meal that includes porcine material);
- b) Porcine rendering in the South Island (although SCBP does not compete in the market, it only has contracts for rendering such material, and subcontracts all such material to Wallace. Keep it Clean is not involved in porcine rendering although they collect minor volumes through butcher shops with such material being sent by Keep it Clean to Wallace at Hororata.);
- c) Cervine rendering in the South Island (although again SCBP does not itself carry out any rendering of such material and subcontracts such

material to Keep it Clean and Value Proteins. Wallace is not involved in cervine rendering.)

- d) Shop collection in the Canterbury region;
- e) The procurement for rendering of casualty material from the Canterbury and Southland regions;
- f) Rendered output markets in New Zealand for mixed meat and bone meal, blood meal, cervine meal and inedible tallow.

6.28 The typical process around renewal of supply arrangements is discussed below in relation to each main type of supply.

Toll processing

6.29 Farm Brands has only one customer that it toll processes for. This customer is Silver Fern Farms Limited. The toll processing agreement was entered into for a [] period commencing from 1 July 2015. The toll processing agreement was negotiated with Silver Fern Farms Limited at the time that Modena acquired Silver Fern Farms Limited's 50% interest in Farm Brands Limited.

6.30 In more general terms the process for negotiating contracts for toll processing can be described as follows. The raw material producer will have a multiyear toll processing agreement with their renderer. When the agreement is approaching its end date, the raw material producer will approach renderers and ask them for proposals and normally the incumbent is included in that process. A proposal is submitted to the raw material producer who will then decide to negotiate with one or more of the bidders to conclude a successor agreement.

Direct collection

6.31 Generally, the raw material producer will have a multiyear raw material supply agreement with their renderer. When the agreement is approaching its end date, the raw material producer will approach renderers and ask them for proposals and normally the incumbent is included in that process. A proposal is submitted to the raw material producer who will then decide to

negotiate with one or more of the bidders to conclude a successor agreement.

6.32 Farm Brands has a number of contracts to render raw material from meat processing plants which fall under the direct collection banner. [

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6.33 The rendering agreements are usually negotiated to be in place for a [] year term and often contain renewal clauses in the agreement, exercisable at the option of the raw material supplier. Agreements may be rolled over by email exchange for further periods or new agreements entered into at expiry.

6.34 Rendering agreements may be put out to competitive tender by the meat processor. Sometimes new pricing and terms are negotiated between the parties without going through a tender process.

Shop Collection

6.35 Agreements for shop collection are negotiated directly between the butcher shops and the rendering company. Usually each rendering company will have a template standard contract they use. Farm Brands' shop collection contracts were largely in place at the time that Farm Brands purchased the South Canterbury By-Products business in 2009. Shops can freely change which rendering company they supply their material to and this is usually based on service and/ or price.

Casualty Material.

6.36 Contracts for casualty material are negotiated on the same basis as direct collection. Farm Brands had two agreements for casualty material, one with [

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- 6.37 Wallace does not operate a casualty calf or slink lamb collection service in the South Island but does operate a casualty cow collection service through its 0900 telephone service. Details of this service which in the South Island only operates in mid Canterbury area can be found at <http://www.wallace.co.nz/Casualty+Collection.html>
- 6.38 Wallace currently receives small volumes of casualty material from Nichols (NZ) Limited outside of any specific contract and Keep it Clean also receives casualty material from Aztan. The applicant is not aware of any contractual arrangements between Keep it Clean and Aztan Limited under which this material is provided.

Market Definition

- 6.39 The Commission recently considered rendering markets (albeit principally those in the North Island plus national output markets) in the *Tuakau Proteins* decision².
- 6.40 In the *Tuakau Proteins* decision, the Commission;
- a) defined separate markets for toll processing of renderable material on behalf of meat processors, and direct purchase of renderable material (and also separate markets for shop collection of raw material)³;
 - b) defined separate markets for rendering material of different species eg separate markets for rendering of poultry, ovine and bovine/ mixed material⁴;
 - c) defined separate geographic markets for rendering in the upper North Island and lower North Island⁵;

² Supra n.1.

³ *Tuakau Proteins* decision, supra n.1, paras 77-91.

⁴ *Tuakau Proteins* decision, supra n.1, para 93.

⁵ *Tuakau Proteins* decision, supra n.1, paras 98-99.

- d) indicated that it would define separate (New Zealand wide) rendered output markets for each of chicken meal, mixed meal, blood meal, poultry oil, edible tallow and inedible tallow⁶.
- 6.41 In addition to the species considered by the Commission in the *Tuakau Proteins* decision an important species for rendering in the South Island is cervine (deer).
- 6.42 The Applicant considers that it is appropriate to segment South Island rendering markets on a species basis as follows;
- a) Ovine markets, being defined as markets in which a pure ovine meal is produced;
 - b) Cervine markets, being defined as markets in which a pure cervine meal is produced;
 - c) Bovine markets, being defined as markets in which a mixed meal is produced which in addition to bovine material may also include ovine material but does **not** include porcine or cervine material;
 - d) Porcine markets, being defined as markets in which a mixed meal is produced which includes porcine material as well as potentially also one or more of bovine, ovine and avian (usually chicken) material.
- 6.43 The reason for this market segmentation stems from customer willingness to pay premium prices for certain species specific meals (namely pure ovine meal and pure cervine meal), and market access or customer demands in certain markets (eg Indonesia and China) to purchase meal that excludes any porcine material.
- 6.44 It is sometimes not economic or practical for suppliers of renderable material to separate the material from different species. [

] In such a situation it will not be possible to produce a pure ovine meal, and ovine material will be rendered together with bovine material. Accordingly, it is

⁶ *Tuakau Proteins* decision, supra n.1, paras 102-103.

appropriate to define a bovine/ mixed market in the same way as was done by the Commission in the *Tuakau Proteins* decision.

- 6.45 In relation to South Island bovine, ovine and cervine rendering, while it might be appropriate to divide the market into different regional areas the geographic divisions are not as clear as in the North Island. Further, the Applicant considers that the competition analysis does not change whether a whole of Island or regional market definition is used. Accordingly, for ease of analysis, the Applicant proposes to adopt whole of South Island market definitions for each of bovine, ovine, cervine and porcine rendering.
- 6.46 However, the Applicant considers that due to transportation costs and the risks of deterioration of renderable material there are separate regional markets for shop collection and casualty raw material procured from casualty stock processors. In relation to shop collection there are separate Canterbury and Southland markets. In relation to casualty raw material there are also separate Canterbury and Southland markets. It is relevant to note, however, that the material available in casualty markets is mixed bovine and ovine material (being casualty calf and lamb) and the market dynamics in casualty markets are essentially the same as in the bovine market as defined above.
- 6.47 Taking into account the market definition analysis of the Commission in the *Tuakau Proteins* decision, the Applicant considers that the appropriate markets in which to consider the competition effects of the proposed transaction are;
- (a) Supply of toll rendering services to customers producing bovine/ mixed material in the South Island;
 - (b) Direct collection of bovine/ mixed raw material from producers in the South Island
 - (c) Supply of toll rendering services to customers producing pure ovine material in the South Island;
 - (d) Direct collection of pure ovine raw material from producers in the South Island
 - (e) Direct collection of porcine/ mixed raw material from producers in the South Island (There are no toll processing customers for porcine

material in the South Island with the exception that Wallace toll processes for SCBP);

- (f) Supply of toll rendering services to customers producing cervine material in the South Island;
- (g) Direct collection of cervine raw material from producers in the South Island
- (h) Shop collection of raw materials in Canterbury;
- (i) Purchase in Canterbury of casualty raw material for rendering;
- (j) Purchase in Southland of casualty raw material for rendering;
- (k) The New Zealand market for sale of mixed meat and bone meal;
- (l) The New Zealand market for sale of blood meal;
- (m) The New Zealand market for sale of inedible tallow;
- (n) The New Zealand market for sale of cervine meal.

6.48 Overview of South Island Independent Renderer

Renderer	Ovine line	Mixed line/ Bovine line	Blood line	Mixed line (inc pork)	Casualty	Shop collection	Cervine
SCBP Timaru	✓	✓	x	x	✓	✓	x
FB Silverstream	x	✓	x	x	x	x	x
Wallace Hororata	x	x	x	✓	✓	✓	x
KIC	x	✓	x	x	✓	✓	✓
ANZCO	✓	✓	✓	x	✓	x	x
Alliance (Lorneville)*	✓	✓	✓	x	✓	x	x

* Currently Alliance Lorneville does not process as an independent renderer except in relation to casualty material. However, Alliance Group did recently tender for the Oamaru Meats rendering contract.

Each party's total revenues, volumes, capacity and excess capacity

6.49 In each of the tables in sections 6 and 7 of this application volume and purchase figures (and where applicable, market shares) are unless stated otherwise based on figures for the year ended 30 September 2015.

6.50 Table 1; SCBP, Wallace and Keep it Clean's total South Island purchases and volume (bovine/mixed material purchases year end 30/9/15)

Party	Purchases \$	Volume of Renderable Material Processed (tonnes)
SCBP	[\$]	[] *Mixed Bovine and Ovine Raw Material
Wallace	nil	nil
Keep it Clean	[\$]	[]

6.51 Table 2; SCBP, Wallace and Keep it Clean's total South Island revenues and volume (toll processing of bovine material)

Party	Revenue \$	Volume of Renderable Material Processed (tonnes)
SCBP	[\$]	[]
Wallace	nil	nil
Keep it Clean	nil	nil

6.52 Table 3; SCBP, Wallace and Keep it Clean's total South Island purchases and volume (ovine material purchases)

Party	Purchases \$	Volume of Renderable Material Processed (tonnes)
SCBP	nil	nil
Wallace	nil	nil

Keep it Clean	nil	nil
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6.53 Table 4; SCBP, Wallace and Keep it Clean’s total South Island revenues and volume (toll processing of ovine material)

Party	Revenue \$	Volume of Renderable Material Processed (tonnes)
SCBP	[\$]	[]
Wallace	nil	nil
Keep it Clean	nil	nil

6.54 Table 5; SCBP, Wallace and Keep it Clean’s total South Island purchases and volume (mixed including porcine material purchases)

Party	Purchases \$	Volume of Renderable Material Processed (tonnes)
SCBP	[\$]	[]*
Wallace	nil	nil
Keep it Clean	nil	nil

*sent to Wallace for toll processing post Oct 2015

6.55 Table 6; SCBP, Wallace and Keep it Clean’s total South Island revenues and volume (toll processing of mixed including porcine material)

Party	Revenue \$	Volume of Renderable Material Processed (tonnes)
SCBP	nil	nil
Wallace	nil	nil

Keep it Clean	nil	nil
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*Wallace commenced toll processing of SCBP porcine material post Oct 2015

6.56 Table 7; SCBP, Wallace and Keep it Clean’s total South Island purchases and volume (cervine material purchases)

Party	Purchases \$	Volume of Renderable Material Processed (tonnes)
SCBP	nil	nil
Wallace	nil	nil
Keep it Clean	[\$]	[]

6.57 Table 8; SCBP, Wallace and Keep it Clean’s total South Island revenues, volume and capacity (toll processing of cervine material)

Party	Revenue \$	Volume of Renderable Material Processed (tonnes)
SCBP	nil	nil
Wallace	nil	nil
*Keep it Clean	nil	nil

- Keep It Clean commenced toll processing cervine for SCBP post October 2015

6.58 Table 9; SCBP, Wallace and Keep it Clean’s total Canterbury purchases (shop collection home kill and small meat processors)

Party	Purchases \$	Volume of Renderable Material Processed (tonnes)
-------	--------------	--

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SCBP	[\$]	[]
Wallace	[\$]	[]
Keep it Clean	[\$]*	[]

*Keep it Clean volume includes Canterbury and Otago.

6.59 Table 10; SCBP, Wallace and Keep it Clean's total South Island purchases (casualty material)

Party	Purchases \$	Volume of Renderable Material Processed (tonnes)
SCBP	[\$]	[]
Wallace	[\$]	[]
Keep it Clean	[\$]	[]

6.60 Table 11; SCBP, Wallace and Keep it Clean's New Zealand revenues (mixed meat and bone meal)

Party	Revenue \$	Volume (tonnes)
FB	[\$]	[]
Wallace	[\$]	[]
Keep it Clean	[\$]	[]

6.61 Table 12; SCBP, Wallace and Keep it Clean's New Zealand revenues (blood meal)

Party	Revenue \$	Volume (tonnes)
FB	[\$]	[]
Wallace	[\$]	[]

Keep it Clean	nil	nil
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6.62 Table 13; SCBP, Wallace and Keep it Clean's New Zealand revenues (cervine meal)

Party	Revenue \$	Volume (tonnes)
SCBP	[\$]	[]
Wallace	[]	[]
Keep it Clean	[\$]	[]

6.63 Table 14; SCBP, Wallace and Keep it Clean's New Zealand revenues (inedible tallow)

Party	Revenue \$	Volume (tonnes)
SCBP	[\$]	[]
Wallace	[\$]	[]
Keep it Clean	[\$]	[]

6.64 Estimated capacity and utilisation by plant for 2015

Plant	Owner	Total capacity (tonnes)	Utilisation (tonnes)	Total Production (tonnes)
Hororata	Wallace	[]	[]	[]
Washdyke	Farm Brands	[]	[]	[]
Silverstream	Farm Brands	[]	-*	-
Mosgiel	Keep It Clean	[]	[] (March 15)	

* Silverstream didn't operate in 2015 financial year (commissioned in Oct 2015)

Rendering plant capacity considerations

6.65 There are a number of considerations which affect the production capacity of a rendering plant. As well as mechanical considerations (nominal capacity), logistics, raw material supply volumes (low, normal and peak seasons), and resource consents all have a practical impact on a plant's throughput.

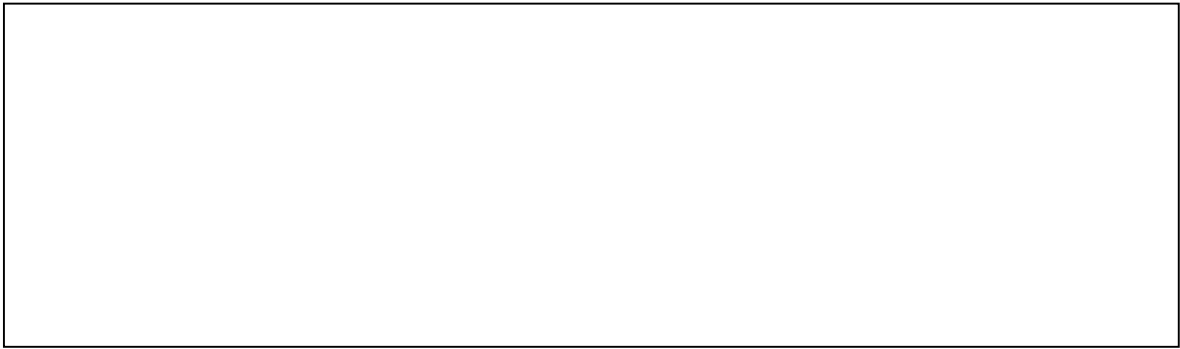
Peak, Normal and Low season

6.66 The peak season for bovine raw material is normally the March through June months and peak season for ovine raw material is December/January through to March/April. Severe weather conditions may impact on volumes of animals killed. For example, in drought conditions animals may be slaughtered earlier than normal so that the producer avoids additional feed costs.

6.67 Most rendering plants will increase the number of days they operate in a week and increase the length of shifts to cope with increased volume during peak season. These increases will replicate the increased activity at the abattoirs during peak season. The nature of the rendering contracts entered into with raw material suppliers dictate that renderers must be able to provide rendering capacity to deal with peak season volumes. This invariably results in rendering plants operating below capacity for most of the year and only operating at maximum capacity for three or four months of the year.

6.68 The supply of raw material from cattle processing has a low period from June through August whilst calving takes place, although this is offset in part with the supply of raw material from meat plants processing bobby calves during this period.

6.69 The confidential diagram below illustrates a typical bovine raw material cycle for a 52 week period (October through September) operating at Line 1 at SCBP's Washdyke plant.



6.70 At the busiest times of the peak season, plants may increase operating hours to 24 hours per day seven days a week. As such, it is possible to operate for short periods above peak capacity which is usually measured on a six days per week operation.

6.71 The supply of ovine raw material has a longer low period where ovine volumes are typically not available. This low season typically runs from May through October. Providing the line is not absolutely dedicated to one species type, the rendering plant will process other species type during this period eg bobby calves.

6.72 The confidential diagram below illustrates a typical ovine raw material cycle for a 52 week period (October through September) operating at Line 2 at SCBP's Washdyke plant.



Constraints re resource management consent

6.73 Resource management consents can limit the capacity at rendering plants in a number of ways. For example, the ability to take water from bores may create an effective constraint on production due to the need for steam to be produced from this water. Steam is used as the heat source in large driers/cookers deployed in the rendering process. The steam is generated using large scale boilers. Any constraint on the boiler capacity may also limit production capacity. Constraints on water discharge and air discharge can also have an impact on production capacity.

Washdyke plant

6.74 Farm Brand's operations manager considers the maximum capacity of line 1 at Washdyke to be [

]. This differs to the nominal production capacity at [] tonnes per hour due to time taken to clean and maintain the line in good working order, allowing for repairs and maintenance to be undertaken on a continual basis.

6.75 The maximum capacity of line 2 at Washdyke is considered to be [

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6.76 [

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6.77 The Washdyke plant is considered to operate currently [

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6.78 Actual raw material volume in each of the three years ending 30 September was as follows:-

Actual volumes processed	line	Realistic maximum capacity	12 mths to Dec 13	%age of max	12 mths to Dec 14	%age of max	12 mths to Dec 15	%age of max
Washdyke	1(bovine)	[%		%]
Washdyke	2(ovine)	[%		%]

6.79 Capacity at Washdyke could be increased by the addition of a further line. There is the physical space to install an additional line. [

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Hororata Plant

6.80 The plant is constrained by an air discharge consent that allows the Hororata plant to process a maximum of [] of incoming raw materials per week.

6.81 Due to the nature of the supply base being predominantly pork material, there is not a great deal of seasonal fluctuation by comparison to beef and lamb, which are highly seasonal. Pigs are being finished for processing and

supply all year round whereas beef and lamb, follow a reasonably distinct season of 'shoulder', 'peak', 'shoulder'.

6.82 The maximum nominal capacity of the Hororata plant is [] per week.

[

].

6.83 Wallace Corporation began commissioning a new, continuous process line at Hororata in September 2015. This line replaced a 'batch' processing system installed during September 2014 (soon after Wallace took over the site) which was limited to a practical maximum of circa [] per week. The continuous line became fully commissioned in March 2016. From October 2015 to end of May 2016 the lowest volume for any normal working week (i.e excluding weeks where there were public holidays) was [].

6.84 At Wallace's Hororata plant there is [

].

6.85 To expand throughput at the Hororata plant it would require a change to its resource consents and there are 2 scenarios open to Wallace:

Scenario 1 – maximising the current line.

6.86 As discussed in earlier paragraphs, [

]

Scenario 2 – additional line.

6.87 This would require a substantial change to the resource consents for the plant [

]. The investment required to install and commission an additional line would be circa [] including an estimated value for the

resource consent process (professional and consultants fees). To contemplate the installation of a 2nd line is to suggest a reasonable volume of new raw material supply is available for this plant. However, there are two issues.

6.88 One, the lead time to obtain a new set of resource consents and install/commission a new line is likely to be a [

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6.89 Secondly, a substantial proportion of the Hororata plant’s volume is porcine material where there is a very finite annual volume of raw material available, all of which is currently being processed at Hororata. A further line is not needed for porcine material because the current line has sufficient capacity to process what is available in the South Island. [

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6.90 [

] The land and buildings are leased.

Names and contact details for the parties’ main competitors

6.91 Table 15: Contact details for the main parties in the South Island Rendering Industry

Party	Phone	Email	Contact
ANZCO Foods	[]	peter.conley@anzcofoods.com	Peter Conley; Chief Executive
Alliance	[]	kerrys@alliance.co.nz	Kerry Stevens; General Manager Processing
AFFCO	[]	ben.milner@affco.co.nz	Ben Milner

Value Proteins	[]	selwyn@gloriavale.co.nz	Selwyn Love
Keep it Clean	[]	kic@xtra.co.nz	Gerald Cayford; General Manager
Blue Sky Meats	[]	malcolm@bluesky.co.nz	Malcolm Mc Millan
Prime Range Meats Ltd	[]	mainoffice@primerange.co.nz	

Names and contact details of the parties' key customers

6.92 Table 16: Contact details for the key toll processing customers of SCBP/ Wallace

Customer	Phone	Email	Contact
Silver Fern Farms	[]	murray.chamberlain@silverfernfarms.co.nz	Murray Chamberlain

Details of revenue in respect of the above customer will be provided to the Commission separately.

6.93 Table 17: Contact details for the key direct purchase customers of SCBP/ Wallace

Customer	Phone	Email	Contact
South Pacific Meats (AFFCO)	[]	ben.milner@affco.co.nz	Ben Milner
Harris Meats	[]	bryan@harrismeats.co.nz	Bryan Harris
Ashburton Meat Processors	[]	dave.graham@verkerks.co.nz	Dave Graham
Fresh Pork	[]	Jason.mclaren@freshpork.co.nz	Jason McLaren
Hellers	[]	andrea@hellers.co.nz	Andrea Hay
Meateor Foods	[]	wendym@meateor.co.nz	Wendy McCluskey
Foundation Foods	[]	victoria.elworthy@foundationfoods.co.nz	Victoria Elworthy
Nichols NZ	[]	blynskey@nichols.co.nz	Bernie Lynsky

Details of purchase amounts paid in respect of the above customers will be provided to the Commission separately.

6.94 Table 18: Contact details for the key finished product customers of SCBP/ Wallace

Customer	Phone	Email	Contact
Tegel Foods	[]	sanjana.raj@tegel.co.nz	Sanjana Raj
Ingham's	[]	gclatworthy@inghams.com.au	Geoff Clatworthy
Wilmar Gavilon	[]	Marcus.Adam@Wilmargavilon.com	Marcus Adams
SBT Marketing (2009) Ltd	[]	Grant@sbtgroup.co.nz	Grant Milner
Graincorp	[]	samedee@graincorp.com.au	Scot Amedee

Details of revenue in respect of the above customers will be provided to the Commission separately.

6.95 Financial statements

The following documents are attached to this applications as **confidential appendix 9 and confidential appendix 10**

- (a) Last 3 years audited financial accounts for Wallace;
- (b) Last 3 years audited financial accounts for Farm Brands.

7. WHY THE MERGER IS UNLIKELY TO RESULT IN A SUBSTANTIAL LESSENING OF COMPETITION

Describe why you consider the merger is unlikely to result in a substantial lessening of competition in any market having regard to the factors set out in the Merger and Acquisition Guidelines. You should address:

- the merging parties' existing competitors, including approximate market shares, and the extent to which they will constrain the merged firm;
- the likelihood, extent and timeliness of entry and expansion by the potential competitors (including conditions of entry and expansion) and the extent to which such entry or expansion will constrain the merged firm;
- the countervailing power of customers and the extent to which that countervailing power will constrain the merged firm; and
- any other relevant factor

Counterfactual

7.1 In the absence of the transaction Wallace will continue to be a relatively small participant in the South Island rendering industry given the relatively small size of its plant and its niche market position as a renderer of predominantly porcine material. Wallace's plant at Hororata is limited by its consents to [

].

7.2 Wallace's position as a renderer of porcine material essentially rules Wallace out from participation in the South Island ovine and bovine rendering markets (as purchasers of ovine and bovine meal will only pay premium prices for meal that is **not** produced on lines where porcine material has been processed).

7.3 In the counterfactual Wallace will in the South Island continue to only process very small amounts of bovine and ovine material as part of material collected from home kill operators and small processors (and included within

the shop market) along with casualty cows it collects and casualty calf and lamb material it procures from casualty processors who specialise in those products.

7.4 In the counterfactual Wallace and Keep it Clean would continue to collect shop material and purchase casualty material in the Canterbury region in competition with SCBP and other competitors.

7.5 In the absence of the merger [].

Bovine markets

7.6 The major South Island renderers operating in the bovine market (as defined in section 6 above) are SCBP and ANZCO Foods with Value Proteins and Keep it Clean being smaller market participants. In addition, Alliance Group has in-house rendering capacity in relation to bovine material and the capability to take third party material. Its ability and willingness to take third party material is shown by its recent pitch for the Oamaru Meats rendering contract.

7.7 Wallace is not in the bovine market (as defined in section 6 above). The bovine material that it renders is from casualty and home-kill material and is rendered solely as part of production of a mixed meal that includes porcine material.

7.8 Nor does Wallace have any incentive to participate in the bovine market in the future should the merger not proceed. Wallace has a niche position as a renderer of porcine material in the South Island. In fulfilling that role it has essentially cut itself out of rendering bovine material suitable for a mixed meal that would be accepted in many overseas markets. Customers in the traditional premium markets for bovine/ mixed meat and bone meal or blood meal require the meals to be free of any traces of porcine (for Halal reasons) and therefore to come from facilities where porcine material has not been processed.

- 7.9 It would not make commercial sense for Wallace to instead seek to participate in the South Island bovine and ovine rendering markets. It is more profitable for Wallace to toll process porcine material for Farm Brands (which has the contracts with the suppliers of porcine renderable material) than to stop processing porcine material and start rendering bovine and ovine material from large meat plants. That is particularly because the Wallace plant has capacity constraints imposed by its Resource Consents (especially the [] tonne per week volume restriction).
- 7.10 Keep it Clean takes some bovine material from [] and [] but it is a much smaller market participant than SCBP and ANZCO Foods (and even than Value Proteins). Unlike SCBP, Keep it Clean does not have a dedicated bovine rendering line to produce a pure bovine meal. It does, however, produce mixed meat and bone meal that meets requirements for Indonesian and Chinese markets (as any porcine material is not processed by Keep it Clean but is sent to Wallace at Hororata).
- 7.11 The constraints on SCBP in South Island bovine rendering markets appear to come principally from sources other than Keep it Clean namely ANZCO Foods, [] Value Proteins and from the ability for major suppliers of renderable material to turn to self-rendering.
- 7.12 In summary, under both the proposed merger and the situation in the absence of the merger, the main competitors in bovine rendering markets are SCBP and ANZCO Foods with Wallace not a current or likely market participant and Keep it Clean only a relatively small market participant. There is no significant aggregation in bovine rendering markets.

Current market share table- Bovine (toll processing) ⁷

7.13 Estimated market shares by revenue and volume for bovine toll processing services for 2015

Firm	Revenue		Volume	
	\$	%	tonnes	%
Farm Brands	[]	[]	[]	[]
Keep It Clean	nil	nil	nil	nil
Value Proteins	[]	[]	[]	[]
Total	[]	[]	[]	[]

7.14 Farm Brands Top Five Bovine Toll Processing customers for 2015

Customer	Revenue \$	Phone	Email	Contact
Silver Fern Farms	[]	[]	Murray.chamberlain@silverfern farms.co.nz	Murray Chamberlain

7.15 In the bovine toll processing market there is only one customer being Silver Fern Farms with an annual volume of approx [] tonnes of bovine renderable material.

7.16 As is apparent from the above market share table, the proposed transaction involves no aggregation in the bovine toll processing market.

7.17 SCBP has a [] contract to do all of SFF’s South Island rendering. SCBP subcontracts to Value Proteins (Lake Haupiri, West Coast) the material from the SFF Hokitika Plant (cervine and bovine) and Islington Canterbury (cervine) plants. [

]. (Note also that SFF has recently announced that it intends to close its Islington venison operation and move it to its plant at Pareora.)

7.18 SCBP’s contract with SFF also includes the cervine material that is going to Keep it Clean in Dunedin (from the SFF Mossburn and Kennington plants in Southland).

⁷

7.19 An important part of the background to SCBP's contract with SFF is that at the time of the contract SFF was a shareholder in Farm Brands (as that company was then a joint venture between SFF and Modena.) The new [] contract was established as part of SFF's exit from its shareholding in Farm Brands.

7.20 SFF no longer has any shareholding interest in Farm Brands. Accordingly, there is no reason why there should not be competition for rendering of the SFF volumes at the end of the [] contract period.

7.21 However, given the volumes and geography involved the renderers most likely to be in a position to compete for the SFF contract would be SCBP and ANZCO Foods. []

].

7.22 The proposed merger will not change the most likely competitors for the SFF material being SCBP and ANZCO Foods (and potentially []).

7.23 In the absence of the merger, []

]

7.24 Further, Wallace would not be a viable option for SFF as the processing of porcine material by Wallace on its processing line at Hororata means that Wallace would not be able to produce a high value bovine meal that would be accepted in markets like Indonesia and China.

7.25 Keep it Clean is also an unlikely supplier of bovine toll processing services for SFF at the end of SCBP's contract with SFF given the size of Keep it Clean's plant. Keep it Clean's total capacity is estimated at []

].

Potential Entry

7.26 SFF would have the option to build its own rendering plant. It has sufficient scale. The current SCBP operation was built up based on the SFF volumes.

7.27 Up until about 2008 SFF (formerly PPCS) did all its own rendering. At that time, the Farm Brands joint venture was created between SFF and Modena and some of the SFF rendering plants were decommissioned (Belfast and Fairton initially). The other SFF rendering plants such as Finegand, Pareora, Waitane and Silverstream were still utilised occasionally. Only when SFF sold out of Farm Brands and the new contract was signed between SFF and Farm Brands did SFF sell the Silverstream plant to Farm Brands and close its remaining rendering facilities.

7.28 Accordingly, SFF already owns decommissioned rendering plants at its meat processing plants at Waitane (Southland), Pareora (south of Timaru), Belfast (Christchurch), Fairton (mid Canterbury) and Finegand (South Otago). As a result, the Applicant anticipates that obtaining resource consents to operate a new rendering plant at any of those sites should not be too difficult given that those sites have historically had operating rendering plants.

7.29 SFF would also have the space available for a modern rendering plant at any of those sites.

7.30 [

]

7.31 [

]

7.32 [

]

7.33 [

]

7.34 SFF is a toll processing customer so it is already vertically integrated into output markets. This would also make the transition back to self-rendering easier.

7.35 The other customer which is a potential entrant to the market is AFFCO through its subsidiary company South Pacific Meats. [

]. AFFCO has already opened a rendering plant at Awarua. AFFCO has significant in-house rendering expertise.

7.36 [

]

7.37 Another option for entry into third party rendering would be for Alliance Group to expand and modernise its existing rendering facilities [

]

Alliance Group has already shown a willingness and ability to take third party material for rendering through its recent tender for the material from Oamaru Meats. [

]

7.38 Alliance Group is a \$1 billion turnover per annum company and so could be in a position to []. It recently invested \$25 million in the upgrade of the Lorneville rendering plant which was completed in 2014.

7.39 A further option would be for ANZCO Foods, which already renders third party material, to expand its existing rendering facility at Seafield by putting in more capacity to one or both of its existing lines. For ANZCO Foods to expand its capacity by say 50% would take [] and might require an investment of [].

7.40 Another possible entrant to the market would be Lowe Corporation Limited (either itself or through Tuakau Proteins Ltd in which it has a 50.1% interest). Lowe Corporation has the contract to render SFF renderable material in the North Island (which it subcontracts to Tuakau Proteins which has a rendering facility at Tuakau in the upper North Island). Lowe Corporation could enter the South Island if [

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7.41 Lowe Corporation already has a small presence in the South Island rendering industry through a 17.9% interest in Blue Sky Meats which

operates a rendering facility near Invercargill that is integrated with its export meat plant. Lowe Corporation also has a 49.9% interest in Hawkes Bay Proteins Ltd which operates a rendering plant near Napier and a 50.1% interest in Tuakau Proteins Ltd which operates a rendering plant in Tuakau. Lowe Corporation also owns and operates in its own right a rendering plant at Hawera adjoining the SFF beef plant [].

7.42 The applicant considers that []

].

7.43 The applicant acknowledges that entry or expansion by a pure third party renderer (such as Lowe Corporation) is a more risky proposition than entry or expansion by a meat processing company (which would be guaranteed supply of renderable material from its own operations). A meat processing company might choose to take control of its own co-products (eg meal and tallow produced from rendering) and then having established its own rendering operation could simply then take the opportunity to take third party material.

Barriers to entry

Greenfields site

7.44 The applicant considers the barriers to entering the independent rendering market would be the capital investment required, source of supply and the ability to obtain resource consents. As a rule of thumb, the cost of establishing a new plant will require an investment of [] per each tonne of processing capacity per hour generated. For example, a plant with one 10 tonne/hour line would cost [].

7.45 Sourcing a sufficient and regular supply of raw materials (within a 4 hours transport radius to maintain freshness) will be a barrier to entry.

7.46 Typically the resource consents required to operate a greenfields rendering plant could take 2 to 3 years to obtain. Such consents could include:-

- Discharge to air consents for boiler
- Discharge to air consents (odour control)
- Rights to drill & take bore water (required for steam)
- Foul water discharge to town sewer
- Building consents generally

7.47 Obtaining resource consents for rendering plants located within a few kilometers of residential dwellings is becoming increasingly difficult/costly due to the need to reduce odour. Locating rendering plants in more rural areas can create issues with regard to access to sufficient water supply (bore versus town supply) and access to town sewerage. Even with access to town sewers, the necessity to remove solids from waste water is increasing for new consents and for consent renewals. The increased burden of meeting more stringent consent requirements adds to the initial capital cost of any greenfields rendering plant.

Expanding existing plant.

7.48 The cost of expanding an existing rendering plant would typically still cost around [] per tonne/hour of capacity increase. Usually capacity is increased by the addition of a new line rather than trying to increase the capacity of an existing line. As such the costs become comparable with a greenfields operation.

7.49 Potential limitations to expanding or adding an additional line to an existing rendering plant are:-

- Physical site constraints (is there sufficient land)
- Boiler capacity
- Water consents (right to take and right to discharge)
- Air discharge consents (contaminants and odour)

Conversion of an inhouse plant into one that can take third party material.

- 7.50 There are two main aspects relating to an inhouse renderer being able to accept third party material. First, the potential need to make some investment in a receiving area. This doesn't necessarily need to be expensive and could simply amount to constructing some concrete blocks to create a walled area on existing hardstand areas. Odour issues and contaminated water run off can be problematic with open air receiving areas. More modern rendering plants tend to have an enclosed receiving area built as part of the plant building. Obviously, construction of an enclosed receiving area will require more capital investment.
- 7.51 The second issue to consider with an inhouse renderer accepting third party raw material is the nature of the contract ie toll-processing versus direct purchasing and the contract provisions around expected yields from the raw materials. These contract provisions might dictate whether third party raw material is processed separately from the inhouse material (which could lead to inefficiencies) or processed concurrently in which case it becomes impossible to identify yields derived from specific raw material supplied. This matter can be addressed by drafting an appropriate contract that will take the expected production process into account.
- 7.52 All of the resource consent issues raised above in relation to expansion of an existing plant can apply equally to any increased throughput arising from an inhouse plant accepting additional raw material volume from third parties.

Closed plants.

- 7.53 The cost to reopen closed plants will depend on whether the closed plant has been decommissioned or moth balled. If the plant has been moth balled (ie closed with the expectation of being reopened) certain skeletal periodic maintenance is undertaken during the shut down period and it may take up

to a month to recommission and reopen the plant. This could occur where a plant is closed for most of the year and may only be operated during peak seasons.

7.54 Where the plant was closed and decommissioned, often plant will have been removed and sold for spares or scrap value and the cost of reopening such a plant will be higher than a moth balled plant. In such cases, it will often be more economic to build new on the same site, if room allows.

7.55 There may be some advantage in obtaining/ utilising resource consents from opening a previously closed plant where previously obtained consents are still valid.

Sunk costs.

7.56 As a rule of thumb, approximately [] of the cost of a rendering plant will be incurred on installation costs (pipework etc). These can be considered sunk costs that will not be recovered if the plant is required to be moved elsewhere. In fact there will be a further cost of uninstalling plant and reinstalling in another location, resulting in up to [] of the initial capital cost being considered a sunk cost.

7.57 If rendering plant is decommissioned and not relocated elsewhere, the market value of plant ex situ is considered to be around [] of the replacement cost. As an example, in June 2015, [] undertook a valuation of the Silverstream rendering plant at Mosgiel, whereby the replacement cost was considered to be [] and the market value ex situ was considered to be []. Accordingly, the sunk cost associated with building a new plant could be considered to be [].

7.58 There will be a limited second hand market for some plant and machinery associated with rendering plants but in the main this is likely to comprise plant that has alternate uses in other manufacturing plants or other businesses. For example there is a second hand market for boilers.

However, much of the plant is specific to the rendering process and in the applicants' experience there is very little demand for such plant.

The Applicant's view on the minimum scale to be a viable entity that would have a real effect on competitive forces.

7.59 The applicant considers that a rendering plant capable of processing a minimum of [] would be required to be a viable independent renderer. This would require an investment of around []. [

]

7.60 Current market share table- bovine (direct purchasing) Estimated market shares by purchases and volume for bovine (direct purchasing) for 2015

Firm	Purchases		Volume	
	\$	%	tonnes	%
Farm Brands	[]		[]	[]
Keep It Clean	[]		[]	[]
ANZCO Foods	unknown		[]*	[]
Total	n/a	n/a	[]	100%

*estimated by the applicant

7.61 Farm Brands Top Five Customers in Bovine Direct Purchase Market for 2015

Customer	Purchases \$ (including ovine raw material)	Phone	Email	Contact
South Pacific Meats	[]	[]	ben.milner@affco.co.nz	Ben Milner
Ashburton Meat Processors	[]	[]	Dave.Graham@verkerks.co.nz	Dave Graham
Harris Meats	[]	[]		Bryan Harris

7.62 Keep It Clean Top Five Bovine Purchasing for 2015

Customer	Purchases	Phone	Email	Contact
Alliance	[]	[]	carla@alliance.co.nz	Carl Allsweller
Clover Export Limited	[]	[]	chris@cloverexport.co.nz	Chris Cowan
Silver Fern Farms	[]	[]		Jimmy
Aztan	[]	[]		Clive Summers
Meateor	[]	[]	ShoreT@wca2.co.nz	Trevor Shore

7.63 The customers supplying bovine renderable material in the South Island for purchase by rendering companies include the following;

- (a) South Pacific Meats (AFFCO), in respect of the material from its Malvern plant. [

].

- (b) Blue Sky (previously Clover Meats) in respect of material from its Gore plant. Keep it Clean currently purchases this material;
- (c) Oamaru Meats Ltd (previously called Lean Meats). SCBP now takes this material, following a recent tender process conducted by Oamaru Meats. Prior to July 2016, the material was taken by ANZCO Foods;
- (d) Ashburton Meat Processors Ltd. SCBP currently takes this material;
- (e) Alliance Group. Alliance Group periodically provides bovine material from its Pukeuri plant to Keep it Clean.

7.64 The competitive options for these customers will not change significantly as a result of the proposed transaction.

7.65 Wallace is not a likely option for these customers in the absence of the transaction. As discussed above, Wallace is not a participant in the South Island bovine rendering market (as defined in section 6 above). The processing of porcine material by Wallace on its processing line at Hororata means that Wallace would not be able to produce a high value bovine meal that would be accepted in markets like Indonesia and China. That in turn means that Wallace would have difficulty in competing on price for bovine material (unlike other rendering companies which have pork free rendering lines) given the lower value of meal produced.

7.66 For the above customers there are significant alternative options available;

(a) In relation to South Pacific Meats (AFFCO), the real constraint on SCBP is ANZCO Foods Seafield. When the contract last came up for tender [

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SPM also has the potential option of sending the renderable material down to its parent company AFFCO's own Awarua rendering plant in Southland. [

].

(b) In relation to Blue Sky Meats, Blue Sky currently uses Keep it Clean for its material from its Gore processing plant. [

] Blue Sky currently utilises its own rendering plant near Invercargill for ovine material produced at its processing plant at the same site. Blue Sky is 17.9% owned by Lowe Corporation which has significant investments in rendering plant in its own name and through Tuakau Proteins Ltd and Hawkes Bay Proteins Ltd in the North Island.

- (c) In relation to Oamaru Meats, it currently uses SCBP (since 4 July 2016). The principal constraint is ANZCO Foods who previously took the material from Oamaru Meats between 2010 and 2016. Oamaru Meats conducted a tender process this year in which it asked ANZCO Foods (the then incumbent), SCBP, Alliance Group and Keep it Clean to tender for the purchase of the raw material. The fact that Alliance Group also tendered for the contract suggests that it is also a feasible option for Oamaru Meats.
- (d) In relation to Ashburton Meat Processors, the constraint on SCBP is ANZCO Foods Seafield.
- (e) In relation to Alliance Group, it has the option of self-rendering its Pukeuri plant material at its Lorneville rendering plant. Having the Pukeuri material rendered at Keep it Clean is convenient due to the proximity of the Keep it Clean plant, but the Lorneville plant is certainly close enough to be a viable option should the prices offered by Keep it Clean not be competitive.

7.67 These existing constraints are not affected in any way by the proposed combination of the Wallace and SCBP rendering businesses. Nor would they be significantly affected by the proposed acquisition of Keep it Clean.

Potential Entry

7.68 The analysis of potential entry to the bovine direct collection market is the same as for entry to the bovine toll processing market discussed above.

No Reduction in Quantities

7.69 In the bovine direct collection market, it is also relevant that even if prices for bovine renderable material reduced as a result of the transaction (which is unlikely) this would not result in a reduction of the quantity of renderable material supplied into the market. Accordingly on this ground also there would not be a substantial lessening of competition (applying the

Commission's analysis in the *Tuakau Proteins* decision). This point is discussed further from para 7.135 below.

Ovine markets

- 7.70 The major South Island renderers of third party ovine material are SCBP, Value Proteins and ANZCO Foods. Alliance Group also has significant inhouse rendering capacity in relation to ovine material and the capability to take third party material as indicated by its recent tender to take mixed bovine/ ovine material from Oamaru Meats.
- 7.71 Wallace is not a participant in the ovine market as defined above. The only ovine material that Wallace renders is included in home kill and small processors' material which is processed as part of a mixed meal that also includes porcine material.
- 7.72 Nor does Wallace have any incentive to participate in the ovine market in the future should the merger not proceed.
- 7.73 Wallace's position as a renderer of porcine material in the South Island means that it is not able to provide the species separation necessary to produce a higher value ovine meal.
- 7.74 Keep it Clean is also not a participant in the ovine rendering markets. The only ovine material it takes is minor volume via its shop collection service and collection of casualty material and processed as part of a mixed/ bovine meal. Keep it Clean does not have a dedicated ovine rendering line and would be unable to produce a higher value ovine meal.
- 7.75 Accordingly, under both the proposed merger and the situation in the absence of the merger the main competitors for third party ovine rendering are SCBP and ANZCO Foods with Alliance Group also being a potential competitor. Wallace and Keep it Clean are not current or likely participants.
- 7.76 **Estimated market shares by revenue and volume for ovine toll processing services for 2015**

Firm	Revenue		Volume	
	\$	%	tonnes	%
Farm Brands	[]	100%	[]	100%

7.77 Farm Brands Top Five Ovine Toll Processing customers for 2015

Customer	Revenue	Phone	Email	Contact
Silver Fern Farms Limited	[]	[]	Murray.chamberlain@silverfernfarms.co.nz	Murray Chamberlain

7.78 In the ovine toll processing market there is only one customer being Silver Fern Farms.

7.79 As indicated above, SCBP has a [] exclusive contract to do all of SFF's South Island rendering.

7.80 Given the volumes involved the only renderers likely to be in a position to compete for the SFF contract at the end of the current term would be SCBP and ANZCO Foods and potentially Alliance Group.

7.81 The proposed merger will not change that.

7.82 [

]

7.83 As indicated above neither Wallace nor Keep it Clean would be able to produce a high value ovine meal.

Potential Entry

7.84 The options for entry or expansion in relation to ovine rendering are the same as discussed above for bovine rendering.

7.85 Current market share table- ovine, direct purchasing

7.86 Estimated market shares by volume for ovine (direct purchasing) for 2015

Firm	Volume	
	tonnes	%
ANZCO Foods	[]	[]
Value Proteins	[]	[]
Total	[]	100%

7.87 The main customers supplying ovine renderable material in the South Island for purchase by rendering companies are;

(a) Alliance Group in respect of material from its Nelson plant. Value Proteins currently takes this material. (Alliance Group renders its own ovine material from all its other meat processing plants in the South Island);

(b) Canterbury Fresh. ANZCO Foods currently takes this material.

7.88 In relation to Oamaru Meats, Ashburton Meat Processors and South Pacific Meats each of these customers supply ovine material as part of mixed material including bovine material. The volumes of material are unlikely to be sufficient to justify the separation of material between species.

7.89 The competitive options for Alliance Group and Canterbury Fresh will not change as a result of the proposed transaction.

7.90 In the absence of the transaction, Wallace is not a likely option for these customers. As discussed above, Wallace is not a participant in the ovine market. The processing of porcine material by Wallace on its processing line

at Hororata means that Wallace would not be able to produce a high value ovine meal that would be accepted in markets like USA/Canada and the EU. That in turn means that Wallace would have difficulty in competing on price for ovine material (unlike other rendering companies which have pork free rendering lines) given the lower value of meal produced.

7.91 Keep it Clean is also not a participant in the ovine market. It does not have a dedicated ovine line and therefore cannot produce a high value ovine meal.

7.92 For the above customers there are significant alternative options available;

a) In relation to Alliance Group the material from its Nelson plant already goes to Value Proteins. It also has the potential option of looking to expand capacity at its own in-house rendering plants.

b) In relation to Canterbury Fresh, the material from its plant already goes to ANZCO Foods.

7.93 These existing constraints are not affected in any way by the proposed combination of the SCBP and Wallace rendering businesses. Nor would they be affected by the proposed acquisition of Keep it Clean.

Potential Entry

7.94 The options for entry or expansion in relation to collection of ovine material are the same as discussed above for bovine rendering.

No Reduction in Quantities

7.95 As with the bovine direct collection market discussed above a price reduction in the ovine direct collection market would not result in a material change in the quantity of renderable material supplied in the market.

Cervine Markets

7.96 The major South Island renderers of cervine material are Value Proteins and Keep It Clean. Cervine meal is a relatively high value commodity. Like ovine material, cervine material is steamed to produce a pure cervine meal eligible for USA/Canada or the EU.

7.97 Silver Fern Farms cervine material is contracted to SCBP but is then subcontracted to Value Proteins (ex SFF Hokitika and Islington plants) and Keep It Clean (ex SFF Mossburn and Kennington plants). [

]. Cervine material from Duncan Processing is sold to Keep It Clean. Mountain River Venison sells its material to Value Proteins.

7.98 Wallace does not render cervine material.

7.99 The applicant considers that the proposed transaction does not affect cervine rendering markets in any meaningful way.

7.100 In the absence of the transaction Keep it Clean would continue to process such material and SCBP would continue not to do so (due to the advantages for SCBP of just processing bovine and ovine material on the lines at its rendering plants at Washdyke and Silverstream).

7.101 Further, Value Proteins will remain an independent competitor in relation to cervine rendering. [

]

7.102 Accordingly the combination of SCBP and Keep it Clean will not substantially lessen competition in any South Island cervine rendering market.

Porcine Markets

7.103 The major South Island renderer of porcine material is Wallace.

- 7.104 There is no porcine rendering conducted on a toll basis for the suppliers of such material (other than by Wallace for SCBP). All porcine renderable material is purchased from the suppliers of such material.
- 7.105 The market is a very small market with the only suppliers of porcine material for rendering in the South Island being Harris Meats, Ashburton Meat Processors and Fresh Pork. All of these customers have contracts with SCBP to supply all of their renderable material. SCBP then subcontracts the rendering of the porcine material to Wallace (which effectively toll processes the material for SCBP).
- 7.106 SCBP did render porcine material previously until 2015. Stricter rules imposed by overseas markets and customers as to the lines on which bovine and ovine meal is produced have made it economically undesirable for SCBP to continue rendering porcine material.
- 7.107 SCBP and ANZCO Foods as major renderers of bovine and ovine material would not want to render porcine material due to the adverse effect this would have on the value of bovine and ovine material that is produced.. However having a separate line for pork material on its own is hard to justify because of the relatively low volume of material supplied into the market.
- 7.108 Further, even having a separate line for pork material is not a sufficient solution. Customers purchasing finished product in overseas markets will now frequently expect that product to be produced in a facility that is completely porcine free rather than just on a line that is porcine free. For the same reason Wallace keeps its Waitoa facility completely porcine free and displays signs at the plant to that effect.
- 7.109 Keep it Clean does not presently compete in the market for porcine rendering. (It does as part of its shop collection service collect some porcine material but this material is then all sent to Wallace at Hororata.) Further, while Keep it Clean has the technical ability to compete in the market for porcine rendering it is unlikely to do so as the inclusion of porcine material would devalue the mixed meat and bone meal and cervine meal that it produces. By way of example Wallace notes that Keep it Clean in March

2016 refused to accept material from Wallace's plant at Hororata for this reason. (Wallace had approached Keep it Clean about accepting the material during a period that the Wallace Hororata plant needed to be closed as a consequence of plant breakdown.) Keep it Clean did historically process small amounts of porcine (from butcheries and small processors) but now sends that material to the Wallace Hororata plant.

7.110 Accordingly Wallace is the main option for porcine rendering. The proposed transaction will not affect that position.

Potential Entry

7.111 If ANZCO Foods, Alliance Group or Silver Fern Farms were going to reconfigure existing rendering plant then they could potentially add a small porcine rendering line for an investment of about [] million. However, as indicated above this would be hard to justify given the small volumes of material available. Further, it would be undesirable given the risks to market access that would be caused through the processing of porcine material in the same plant.

Poultry Rendering Markets

7.112 The largest South Island renderer of poultry material is Tegel. It renders its own inhouse material []. Tegel is the only producer of poultry meal in the South Island []

].

7.113 Keep it Clean processes a small quantity of poultry material.

7.114 SCBP and Wallace do not process poultry material in the South Island []

] Wallace does not produce a poultry only meal in the South Island.)

7.115 Accordingly the proposed transaction will not significantly impact on poultry rendering markets, and those markets are not considered further in this application.

Shop markets

7.116 The shop market involves the collection of waste material from;

- a) butcher shops which have waste material left over after deboning carcasses;
- b) home kill operators who visit farms and kill animals on the farms and carry out the butchery at their premises. There might be 50 such operators in the South Island;
- c) Small processors who get meat product from meat processing plants and then further process this. Two examples of such small processors are Hellers (near Christchurch) and Meateor Foods (in Dunedin).

7.117 A truck correctly set up for casualty cow collection is a ‘tub body’ style of truck where the ‘tub’ is designed especially for the loading of casualty cow including rear doors on the ‘tub’. The vehicle set up incorporates a chain attached to a winch and design that enables ease of getting the animal onto the truck. Drivers are typically doing rural routes and maneuvering on/off farms, talking to farmers.

7.118 A truck correctly set up for shop collection (and collection from small processors) is a ‘tub body’ style of truck where at the back or side of the truck it has a bin lifting system that raises, tips and lowers wheelie bins. Drivers are typically on main highways and urban routes, maneuvering their truck in/around retail shop settings, talking to butchery staff.

7.119 Estimated market shares by purchases and volume for shop collection in the South Island (direct purchasing) for 2015

Firm	Purchases		Volume	
	\$	%	tonnes	%
Farm Brands	[]	[%]	[]	[]

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Keep It Clean	[]	[]	[]	[]
Wallace	[]	[]	[]	[]
Total	[]	100%	[]	100%

7.120 Farm Brands Top Five Shop Collection / small processor customers for 2015

Customer	Purchases \$	Phone	Email	Contact
Hellers	[\$]	[]	andrea@hellers.co.nz	Andrea Hay
Kisco Foods	[\$]	[]	n/a	Lyall Walker
Barsons Distributors	[\$]	[]	bahutton@xtra.co.nz	Bernie Hutton
Bidvest	[\$]	[]	Admin.bch@bidvest.co.nz	Leslie
Lifestyle Meats	[\$]	[]	n/a	

7.121 Keep It Clean Top Five Shop Collection / small processor customers for 2015.

Customer**	Purchases \$	Phone	Email	Contact
Meateor Foods	[]	[]	ShoreT@wca2.co.nz	Trevor Shore

** []

7.122 Wallace Top Five Shop Collection Purchasing for 2015

Customer	Purchases \$	Phone	Email	Contact
Keep It Clean	[]	[]	kic@xtra.co.nz	Jason Cayford
Foundation Foods	[]	[]	Victoria.elworthy@foundationfoods.co.nz	Victoria Elworthy
Meateor	[]	[]	wendym@meateor.co.nz	Wendy McCluskey

7.123 The shop collection market is however regionally based;

- a) Wallace offers a collection service to small processors and home kill operators in the greater Christchurch area. (It does not offer a collection service to butcheries);
- b) SCBP offers a collection service to butcheries, small processors and home kill operators in Canterbury, Ashburton and Timaru.
- c) Keep it Clean offers a collection service to butcheries, small processors and home kill operators in Christchurch, Canterbury, Dunedin and Invercargill.
- d) Value Proteins collects a limited amount of shop material on the West Coast.

7.124 The proposed transaction would involve the aggregation of SCBP, Keep it Clean and Wallace's presence in offering collection services in the broad shop collection market in Canterbury.

7.125 The transaction would not affect

- a) shop collection in Otago and Southland where there would likely continue to be just one operator being Keep it Clean and
- b) shop collection on the West Coast where Value Proteins would likely continue to be the only operator.

Potential Entry

7.126 There are no significant barriers to entry into the Canterbury shop collection market. To the extent that the Tuakau Proteins decision suggested⁸ that there are impediments to entry to shop collection the Applicant disagrees.

7.127 The only practical barriers to entry to the shop collection market for anyone with a rendering plant are:

1. Forming a relationship with enough retail butchers;

⁸ *Tuakau Proteins* decision, supra n.1, para 91.

2. Having the requisite logistics capability i.e collection trucks

7.128 [

]

7.129 [

]

7.130 [] could also offer a Canterbury shop collection service from its rendering plant at []. It would need to put in an intake bin to receive such material. The cost involved would be []. This would take [].

7.131 [

]

7.132 Small processor customers would each likely have alternative options in the same way as direct collection customers in the bovine, ovine and porcine markets referred to above. For example, in relation to the 2 small processor customers given by way of example above;

- a) Hellers' material is porcine material and is currently purchased by SCBP which subcontracts Wallace to process the material. Value Proteins would be a potential option instead of SCBP.
- b) Meateor Foods' material is bovine, ovine and cervine. Currently Meateor Foods sends 50% of its material to Wallace and 50% to Keep it Clean. However until late last year it was sending all of its material to

Value Proteins. Accordingly, Meateor would continue to have the option of Value Proteins. Alternatively, it could send cervine to Value Proteins and the remaining material to ANZCO Foods.

7.133 Accordingly, there would be no substantial lessening of competition in the Canterbury shop collection market given that there are low barriers to entry to the market and [] could readily enter the market without incurring significant cost.

7.134 Further, even if prices for material collected were to decrease this would not result in a reduction of quantities supplied. As a consequence there is no substantial lessening of competition applying the Commission's analysis in *Tuakau Proteins*. The Commission's approach in *Tuakau Proteins* to direct collection and shop markets will now be discussed.

Further Considerations in relation to Direct Collection and Shop Markets

7.135 In the *Tuakau Proteins* decision, the Commission took the view that competition is not substantially lessened in direct collection and shop markets unless a reduction in price paid to suppliers is actually likely to result in a reduction in the amount of material supplied to renderers.

7.136 In the *Tuakau Proteins* decision the Commission considered a number of markets for the direct collection of renderable material from meat processors. The Commission commented that the proposed acquisition in that case could result in a substantial lessening of competition if the merged entity reduced the prices it pays for the material below competitive levels "*and this resulted in a reduction in the quantity of material supplied for rendering*"⁹.

7.137 This suggested that the Commission would not regard a reduction in price below competitive levels as a lessening of competition unless this also caused meat processors to reduce the quantities of renderable material that they supplied into the market.

⁹ *Tuakau Proteins Ltd* decision, supra n.1, at para 67.

7.138 That approach by the Commission is confirmed by the Commission's specific analysis in its decision in relation to:

- a) the market for the direct collection of bovine renderable material in the lower North Island and
- b) the shop collection market in the upper North Island.

7.139 In the direct collection market the Commission formed the view that the merged entity might well be in a position to reduce the price it pays for by-product materials¹⁰. However, despite that fact the Commission did not find a substantial lessening of competition.

7.140 The Commission said that for the acquisition to result in a substantial lessening of competition it would expect to see the meat processors who sell into the market decrease the quantity of material they supply to renderers. However, the Commission thought it was unlikely that any price decrease in the price paid for by-product material would lead to a reduction in the quantity of that material¹¹.

7.141 The Commission noted that the proportion of revenue received by meat processors from the sale of by-product material was small compared to the overall revenue received from the sale of meat products, so meat processors were unlikely to reduce the volume of meat products in order to reduce the volume of by-product material.

7.142 Secondly, the Commission didn't think that the merged entity would be incentivised to depress prices to a level that would reduce quantity because this would adversely impact the efficient running of their facilities.

7.143 The Commission took a similar view in relation to the shop collection market in Auckland. Although Lowe and Kakariki competed for volumes in that market the elimination of competition between them was not said to amount to a substantial lessening of competition¹².

¹⁰ *Tuakau Proteins Ltd* decision, supra n.1, at para 136.

¹¹ *Tuakau Proteins Ltd* decision, supra n.1, at paras 137-141.

¹² *Tuakau Proteins Ltd* decision, supra n.1, at para 142.

- 7.144 The Commission noted that businesses on the shop runs (butchers and grocery stores) would not decrease the volume of animal waste they produced if the merged entity decreased the price for that material. This was because the revenue obtained from supplying waste material for rendering was a very small proportion of the overall revenue of the carcass¹³.
- 7.145 The Commission's analysis is of equal application to the proposed transaction in the present case.
- 7.146 The proportion of meat processor revenues from the sale of renderable material is only about []% of total meat processor revenues ([]% for bulls, []% for steers and []% for cows).
- 7.147 If the merged entity reduced the prices paid for renderable material to direct collection customers the profit of those customers would decrease with less payment for renderable material. However, the profit of the customers would decrease by more if they didn't kill that amount of animals.
- 7.148 If the same amount of animals were killed then the same amount of renderable material would be supplied to the merged entity even at a lower price. If the same amount of renderable material would be supplied then on the analysis of the Commission from the *Tuakau Proteins* case there is no substantial lessening of competition in the direct collection market.
- 7.149 It seems reasonable to conclude that a price reduction in the direct collection market would not result in a material change in the quantity of renderable material supplied in the market.
- 7.150 Similarly, applying the Commission's analysis in *Tuakau Proteins* there is no substantial lessening of competition in the shop market as the quantity of shop material supplied into the South Island market is unlikely to change even if prices paid for such material reduce.
- 7.151 As discussed above, in the *Tuakau Proteins* decision the Commission held there was no substantial lessening of competition in the upper North Island

¹³ *Tuakau Proteins Ltd* decision, supra n.1, at paras 143-144.

shop collection market even though the merger in that case was going to remove competition for volumes in Auckland between Lowe and Kakariki. The Commission made this finding because businesses on the shop runs, such as butcher and grocery shops, told the Commission that they would not decrease the volume of animal waste that they produced if the merged entity decreased the price it paid for the material.

7.152 The same reasoning applies in the South Island. Even if the price for shop material was reduced following the merger those businesses with animal waste would still produce and sell the same amount of material. The alternative would be to landfill the waste which would cost the businesses money.

Casualty markets

7.153 Market share estimates for South Island casualty markets are as follows:

Estimated market shares by purchases and volume for Casualty Material in the South Island for 2015

Firm	Purchases		Volume	
	\$	%	tonnes	%
Farm Brands	[]		[]	[]
Keep It Clean	[]		[]	[]
Wallace	[]		[]	[]
ANZCO Foods	[]		[]*	[]
Alliance	[]		[]*	[]
Total	n/a		[]	100

*estimated by the Applicant

7.154 Farm Brands Top Five Casualty Purchasing for 2015

Customer	Purchases \$	Phone	Email	Contact
Nichols (NZ) Limited	[]	[]	blynskey@nichols.co.nz	Bernie Lynskey
Newton Slinkskins	[]	[]	newtons@farmside.co.nz	Trevor Newton

Limited				
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7.155 Keep It Clean Top Five Casualty Purchasing for 2015

Customer	Purchases \$	Phone	Email	Contact
Newton Slinkskins Limited	[]	[]	newtons@farmside.co.nz	Trevor Newton
Aztan	[]	[]		Clive Sumners

7.156 Wallace Top Five Casualty Purchasing for 2015

Customer	Purchases \$	Phone	Email	Contact
Nichols (NZ) Limited	[]	[]	blynskey@nichols.co.nz	Bernie Lynskey

7.157 The proposed transaction will result in aggregation between SCBP, Keep it Clean and Wallace in the market for procurement of casualty calf and lamb material in Canterbury. Each of SCBP, Keep it Clean and Wallace purchase casualty material in Canterbury from skinnners such as Nicholls NZ, Aztan and Slinkskins. Wallace (but not SCBP or Keep it Clean) also operates a casualty cow collection service in the Canterbury region. [

]

7.158 However, this will not result in a substantial lessening of competition as ANZCO Foods and Alliance will remain as competitors in the market. The quantities at issue are very small compared to the (excess) capacity of ANZCO Foods and Alliance. That is especially so when most of the casualty

volume comes during calving/ lambing which occurs outside of the beef/ lamb processing season. As discussed above, the casualty market could potentially be seen as simply part of the bovine/ mixed direct purchase market.

7.159 Further the merged business has an incentive not to significantly lower prices for the purchase of casualty stock as to do so would lead to casualty stock processors/ skimmers not being able to offer sufficient prices to farmers and contractor collectors for the stock. This in turn would lead to farmers burying such stock on their farms and not providing the stock to casualty stock processors/ skimmers or contractor collectors as it may not be worth their while. That would then reduce the quantity of casualty stock that the stock processors/ skimmers purchase and are able to make available to renderers (such as Keep it Clean/ SCBP) in the market for procurement of such material.

7.160 In the South Island casualty markets a significant number of casualty animals are being collected by skimmers for the purpose of recovering the hides and skins and who then seek to dispose of the bodies.

7.161 In the Canterbury casualty market the main collector of casualty lambs, calves and cows is [

]. There is also a smaller competitor [], whose skinning facility is based []. SlinkSkins, which is based west of Invercargill, also has a skinning operation at Waimate, South Canterbury.

7.162 In the Southland casualty market there are 3 main processors/skimmers being Nicholls NZ, SlinkSkins and Aztan which control a network of independent collectors of casualty lambs, calves and cows. SlinkSkins is based at Richmond, west of Invercargill where it operates a tannery. Nicholls operates a southern skinning operation near Maitua and SlinkSkins has its southern skinning operation also at Maitua. Aztan uses a contractor for skinning in the south which is based at Kaitangata, Otago.

7.163 Transportation cost and the risk of degradation of material means that there are distinct Canterbury and Southland markets. For example Wallace's plant at Hororata does not take any casualty material from Otago or Southland.

7.164 The Canterbury casualty market is competitive. Nichols and Aztan as the collectors of casualty animals in the market would have Wallace, SCBP, ANZCO Foods, Value Proteins or Keep it Clean available as feasible options.

7.165 Aggregation in the Southland casualty market will be minimal. Almost all casualty material from Southland goes to either the [] or to SCBP (from Maitua where Nicholls is based). Keep it Clean currently procures very little casualty material from Southland. Wallace does not procure any casualty material from Southland.

7.166 Rendering companies taking casualty animals also have an incentive not to reduce prices to the position where the skinner cannot afford to be in the business or would collect fewer casualty animals due to not being able to offer farmers a sufficient price for those animals. Farmers would still need to dispose of their casualty stock regardless of the price offered for casualty stock. However, they can themselves just bury casualty stock on the farm if the price offered for collection is not sufficient.

Potential entry

7.167 There are no barriers to entry or expansion in the market for collection of casualty animals.

7.168 [] could enter the Canterbury casualty market []. There would not be any significant cost involved in [] entering the casualty market.

7.169 ANZCO Foods is already in the Canterbury casualty market and could readily take more casualty material than it is currently taking.

7.170 Greenfields entry to the casualty market is also possible. The previous owner of Wallace's plant at Hororata entered for the purpose of obtaining the casualty material. (The plant was previously owned by Canterbury Processors, now Canterbury Irrigators. One of the owners of Canterbury Processors was Mr Clive Summer (through a nominee company). Mr Summer is now a director and shareholder of Aztan, a collector of casualty animals.)

Rendered Output Markets

7.171 The Commission in the *Tuakau Proteins* decision noted that there were a number of different rendering outputs (referring to single/ mixed species meal, bone meal, blood meal, oils and edible and inedible tallow).

7.172 The Commission stated that it was appropriate to define these as separate markets based on the type and species of the output, given that the outputs were supplied and purchased by a different set of suppliers and customers¹⁴.

7.173 The Commission also considered that each of the output markets was national in geographic scope¹⁵.

7.174 A number of output markets can be excluded from further consideration as there is no aggregation between SCBP, Keep it Clean and Wallace;

- a) The market for edible tallow as Wallace and Keep it Clean do not produce this.
- b) The markets for poultry meal and poultry oil as SCBP and Keep it Clean do not produce those.
- c) The market for ovine meal as Wallace and Keep it Clean do not produce this.

¹⁴ Tuakau Proteins decision, para 102.

¹⁵ Tuakau Proteins decision, para 103.

7.175 Accordingly, the relevant output markets appear to be:

- a) The New Zealand market for mixed meat and bone meal ;
- b) The New Zealand market for blood meal;
- c) The New Zealand market for cervine meal;
- d) The New Zealand market for inedible tallow.

7.176 In the discussion below of output markets, market shares have been assessed on the basis of finished output that a market participant has control of due to its own production of the output or due to a contractual entitlement to take and sell the output.

7.177 For example output produced and initially owned by Silver Fern Farms is contracted to Farm Brands and so the output is included within the market share figures for Farm Brands. Output produced and initially owned by ANZCO Foods is contracted to SBT Marketing and so the output is included within the market share figures for SBT Marketing.

Meat and Bone Meal Market

7.178 Market shares of meat and bone meal available for sale in New Zealand (including volumes that are exported) are as follows:

Supplier	Volumes (tonnes)	Market Share
Farm Brands	[]
AFFCO	[
SBT Marketing	[
Alliance Group	[
Wilson Hellaby	[

Wallace	[
Taylor Preston	[
Blue Sky Meats	[
Other	[
Total	161,159	100%

Above table depicts the applicant's estimate of meat and bone meal produced and contracted to purchase (in the case of Farm Brands). Amounts other than Farm Brands and Wallace are the applicant's estimates based on standard yields and estimated animal kill numbers.

7.179 Farm Brands Top Five Meat and Bone Meal New Zealand Sales Customers for 2015

Customer	Revenue \$	Phone	Email	Contact
SBT Marketing (2009) Limited	[]	[]	Grant@sbtgroup.co.nz	Grant Milner
Raedon	[]	[]	office@raedengroup.co.nz	Tim Foley

7.180 Keep It Clean Top Five Meat and Bone Meal Sales Customers for 2015

Customer	Revenue	Phone	Email	Contact
SBT Marketing (2009) Ltd	[]	[]	Grant@sbtgroup.co.nz	Grant Milner
Bloems Poultry Farm	[]	[]	-	Peter Bloem
Kevmarc Farms	[]	[]	-	Ian Carter
McNeil Poultry	[]	[]	-	Nigel McNeill
Foxhaven Farms	[]		Foxhaven@farmside.co.nz	

7.181 Wallace Top Five Sales Meat and Bone Meal Sales Customers for 2015

Customer	Revenue	Phone	Email	Contact
Wilmar Gavilon	[]	[]	Marcus.Adam@wil margavilon.com	Marcus Adam
SBT Marketing	[]	[]	Grant@sbtgroup.c o.nz	Grant Milner
Tegel Foods Ltd	[]	[]	Sanjana.Raj@tegel. co.nz	Sanjana Raj
Raeden Group	[]	[]	office@raedengrou p.co.nz	Tim Foley
Mainfeeds Ltd	[]	[]	Bmarshall@maingr oup.co.nz	Bruce Marshall

7.182 SBT Marketing is controlled by Mr Glenn Smith and sells the output (other than output produced from material toll processed for Silver Fern Farms and Tegel) from Taranaki By-Products Ltd, Tuakau Proteins Ltd and Hawkes Bay Proteins Ltd. It also sells the output from ANZCO Food's production from its Seafield rendering plant.

7.183 It is relevant to note that the price for meat and bone meal is largely driven by the world commodity price. The NZ market for these products is very small. The vast bulk of these products is exported.

7.184 Purchasers of mixed meat and bone meal in New Zealand such as Wilmar Gavilon and SBT Marketing sell mixed meat and bone meal overseas and can only afford to pay based on what they sell for into the world market. The international customers in the world market have many suppliers around the world to buy from.

7.185 There are some customers who purchase mixed meat and bone meal for consumption in New Zealand. These are as follows;

Category	Purchaser
Scale producers	[]
	[]
Feed processors	[]

	[]	[]
	Other	[]
Other	Pig Farmers, Garden Product, smaller chicken producers	[]
		<hr/> 30,186 <hr/>

New Zealand Blood Meal Market

7.186 The same analysis applies to the blood meal market as for the mixed meat and bone meal market. The NZ market for blood meal is relatively small with almost 100% of pure blood meal being exported. The price is set by the international market. Any domestic consumers have other options for blood meal and will either buy or not buy the product depending on whether the prevailing international price makes that worthwhile.

7.187 Farm Brands and Wallace both sell blood meal which has been produced in the North Island. Neither has raw blood processing facilities in the South Island.

New Zealand Cervine Meal Market

7.188 In relation to the cervine meal market to the Applicant's knowledge all cervine meal is exported.

7.189 Farm Brands and Keep it Clean both sell cervine meal.

7.190 SFF and Alliance Group dominate the market share of venison processing.

7.191 The price for cervine meal is driven by the world commodity price for cervine meal. The merged entity will be unable to affect the price.

New Zealand Inedible Tallow Market

7.192 Market shares of inedible tallow available for sale in New Zealand (including volumes that are exported) is as follows:

7.193 Estimated market shares of inedible tallow sales in New Zealand for 2015 (based on production and contracted purchases)

Supplier	Production Volumes (tonnes)	Market Share
Farm Brands	[]	[%]
AFFCO	[]	[%]
SBT Marketing	[]	[%]
Alliance Group	[]	[%]
Wilson Hellaby	[]	[%]
Wallace	[]	[%]
Taylor Preston	[]	[%]
Other	[]	[%]
Blue Sky Meats	[]	[%]
	122,568	100%

7.194 Farm Brands Top Five Inedible Tallow Sales - NZ Customers for 2015

Customer	Revenue \$	Phone	Email	Contact
None				

7.195 Keep It Clean Top Five Inedible Tallow Sales – NZ Customers for 2015

Customer	Revenue \$	Phone	Email	Contact
SBT Marketing (2009) Limited	[]	[]	Grant@sbtgroup.co.nz	Grant Milner
Bloems Poultry Farms	[]	[]		Peter Bloem
Offaly Farm	[]		offalyfarm@clearance.net.nz	

7.196 Wallace Top Five Sales Inedible Tallow Sales - NZ Customers for 2015

Customer	Revenue \$	Phone	Email	Contact
Wilmar Gavilon	[]	[]	Marcus.Adam@wilmar-gavilon.com	Marcus Adam
Farm Brands	[]	[]	Hugh.Spence@farmbrands.co.nz	Hugh Spence
Grain Corp	[]	[]	Lwright@graincorp.co.nz	Liz Wright
Inghams Enterprises	[]	[]	Sharris@ingham.com.au	Shelley Harris
SBT Marketing	[]	[]	Grant@sbtgroup.co.nz	Grant Milner

7.197 All of this volume is currently exported. However, in the future there is likely to be one significant domestic customer for inedible tallow which is Z Energy for use in its biodiesel plant (expected annual volume of [] tonnes).

7.198 The estimates for market share in the case of firms other than Wallace are based on estimate of yield based on market share of kill.

7.199 In addition to Wallace, Keep It Clean and Farm Brands, suppliers of inedible tallow include AFFCO, Alliance Group, Taylor Preston, Taranaki By-products Ltd, Tuakau Proteins Ltd, Hawkes Bay Proteins, Kakariki Proteins, PVL Proteins, ANZCO Foods and Value Proteins. The tallow produced by

Taranaki By-Products, Tuakau Proteins, Hawkes Bay Proteins and ANZCO Foods is sold by SBT Marketing controlled by Glenn Smith (Taranaki By-Products)

7.200 Very little inedible tallow is sold for domestic New Zealand use but is exported through Farm Brands, and Wilmar Gavilon and Graincorp which control bulk storage facilities at ports around NZ where bulk tankers arrive to load up tallow. Inedible tallow is a commodity product and its price is determined by the international price. Accordingly the merged entity will be unable to affect the price.

Potential entry to Output Markets

7.201 The barriers to entry into the meal markets are quite low. If market contacts are established then trade can commence and there are any number of companies producing and selling mixed meat and bone meal and blood meal.

7.202 The barriers to entry into the domestic market for inedible tallow are also very low.

8 CONFIDENTIALITY

If you wish to request confidentiality for specific information contained in or attached to the notice, please state why you consider the information to be confidential and state the reasons for your request in terms of the criteria set out in the Official Information Act 1982.

8.1 Confidentiality is sought for:

- a) The information contained in **confidential appendices 5 to 10** to the confidential version of this application. **Confidential appendices 5 to 10** are not attached to the public version of this application;
- b) the information contained in bold square brackets in the confidential version of this application (i.e. [])

8.2 This request is made because the information is commercially sensitive and valuable information which is confidential to the participants, and disclosure of it would be likely to unreasonably prejudice the commercial position of the participants. Confidentiality is requested under section 9(2) (b) of the Official Information Act 1982.

8.3 The Applicant requests that it be notified of any request made to the Commission under the Official Information Act 1982 for release of confidential information, and that the Commission seeks its views as to whether the information remains confidential and commercially sensitive, at the time a response to such a request is being considered.

DECLARATION

I Hugh Spence, have prepared, or supervised the preparation of this notice seeking clearance.

To the best of my knowledge, I confirm that:

- all information specified by the Commission has been supplied;
- if information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to me that is relevant to the consideration of this notice has been supplied; and
- all information supplied is correct as at the date of this notice.

I undertake to advise the Commission immediately of any material change in circumstances relating to the notice.

I understand that it is an offence under the Commerce Act to attempt to deceive or knowingly mislead the Commission in respect of any matter before the Commission, including in these documents.

I am a director/officer of the company and am duly authorised to submit this invoice.

Name and title of person authorised to sign:



Hugh Spence

Director

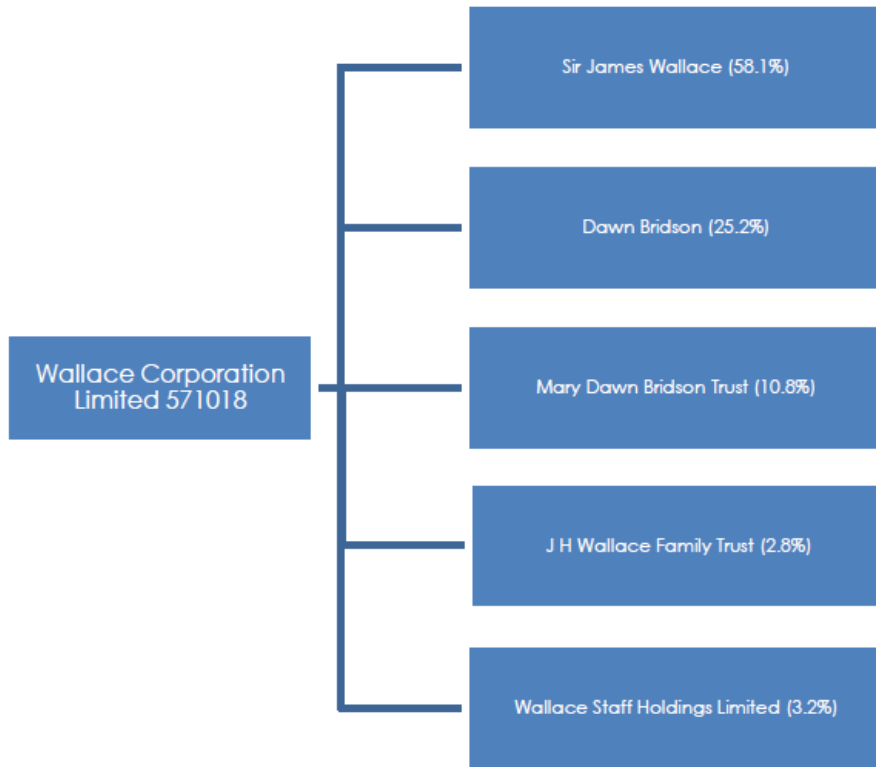
Wallace Group GP Limited

25TH JULY 2016.

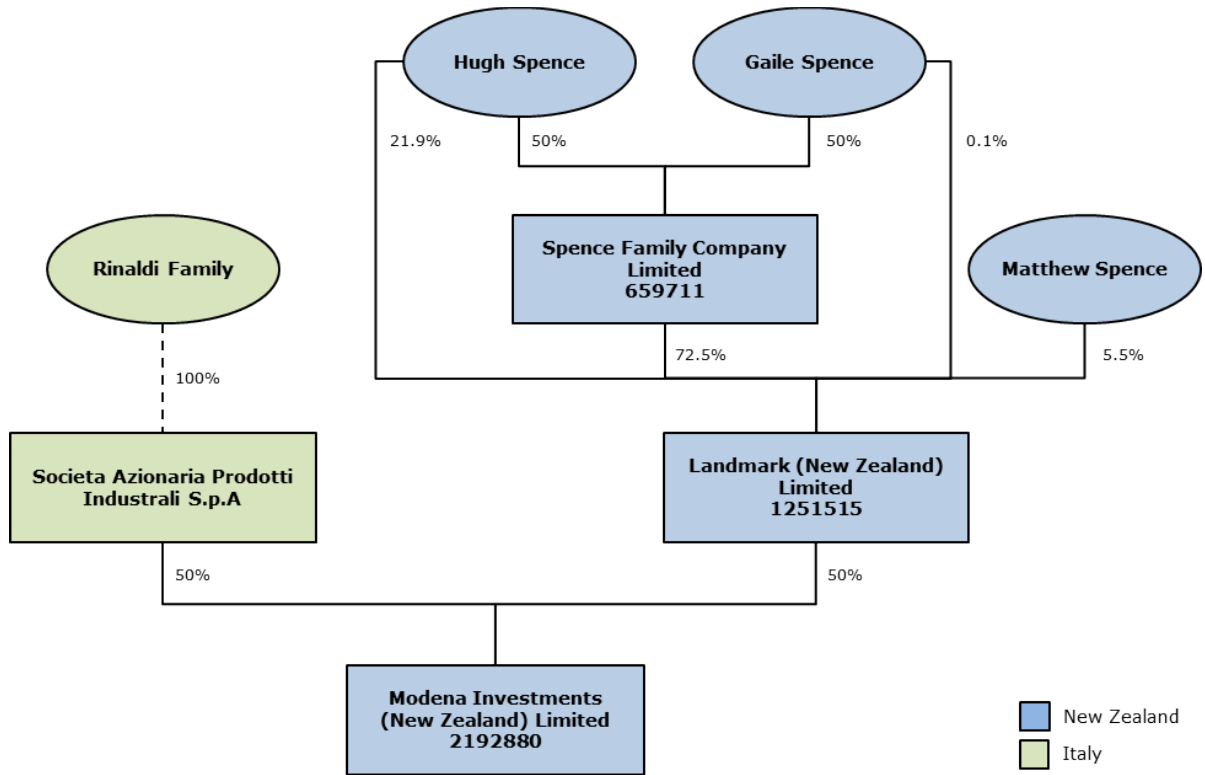
Date

Clearance Application

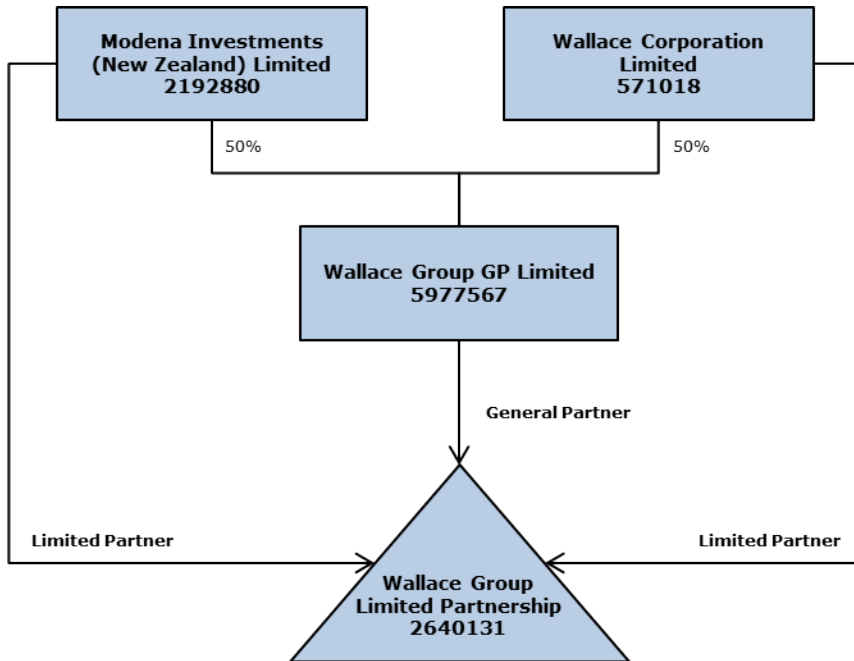
Appendix 1- Wallace Company Structure



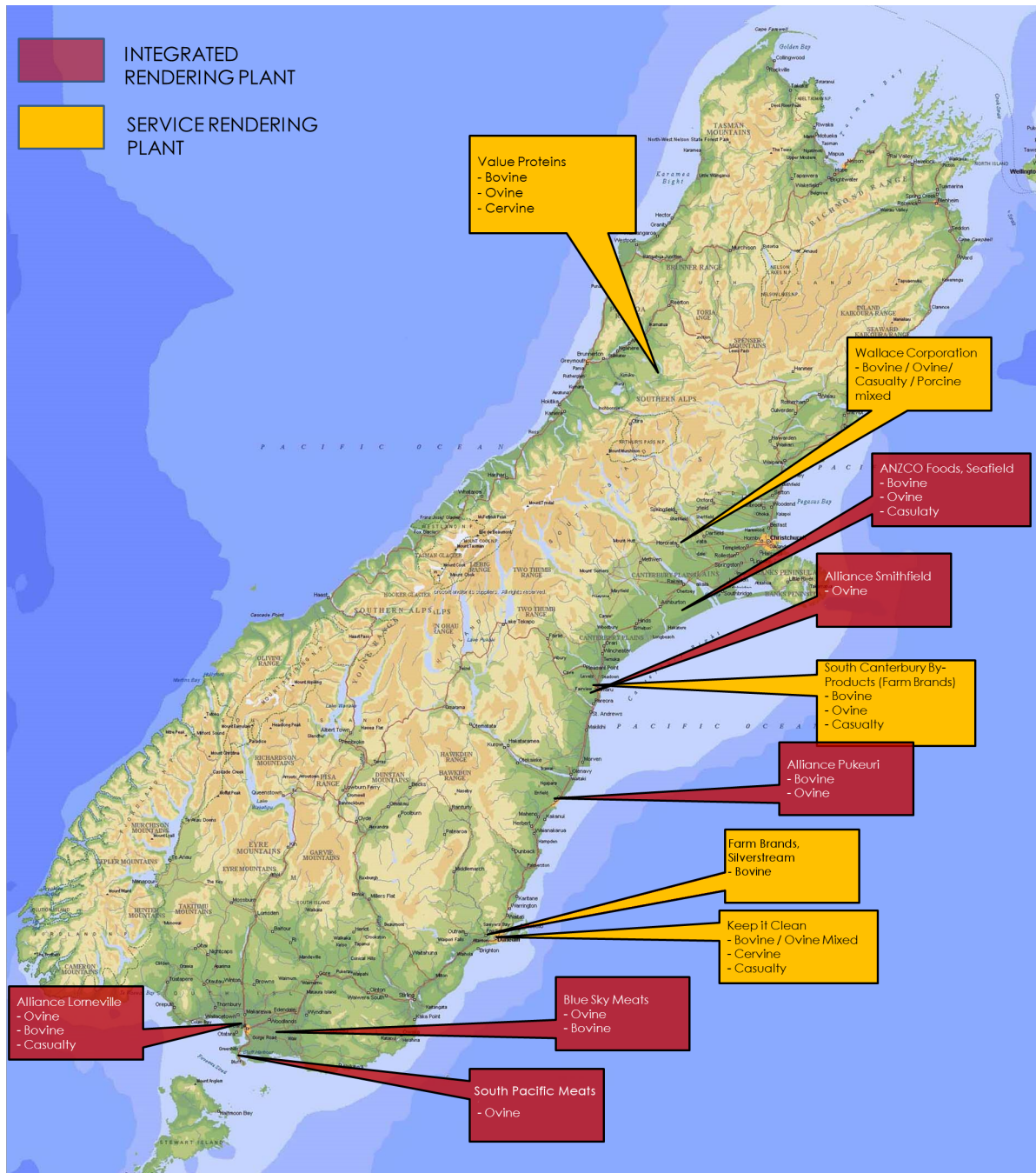
Appendix 2 – Farm Brands Company Structure



Appendix 3 - WGLP Company Structure



Appendix 4- South Island rendering map



Clearance Application

Confidential Appendix 5- Limited Partnership Agreement for the Wallace Group Limited Partnership

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Confidential Appendix 7- Agreement for sale and purchase of business assets between Farm Brands, SCBP and FBAML and Wallace Group GP Limited as general partner of the Wallace Group Limited Partnership

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Confidential Appendix 8- Agreement for sale and purchase of business assets between Keep it Clean and Wallace Group GP Limited as general partner of the Wallace Group Limited Partnership

CONFIDENTIAL APPENDIX 9: FINANCIAL STATEMENTS

CONFIDENTIAL APPENDIX 10: FINANCIAL STATEMENTS