



6 May 2011

Anthony Stewart
Senior Investigator
Enforcement Branch
Commerce Commission
Wellington

Dear Anthony,

Wool Production

This letter relates to the issue I raised with the Commissioners at the close of the public hearings yesterday.

There seems to have been a conclusion reached by many parties and some reference to this in the Commission's interim determination that wool production within New Zealand will continue to fall. In fact there may be a recovery in wool production.

Key issues:

1. There has been a very large increase in sheep producers' returns this year leading to a 200% to 300% increase in net profits for the 2010/2011 when compared to the previous season. By way of example a Taihape farmer supplied me with his figures yesterday morning.

		2009/2010	2010/2011
Gross income		\$800,000	\$1,100,000
Running costs		\$600,000	\$600,000
EBIT		\$200,000	\$500,000

This farmer as a result in this lift (mostly from higher sheep income) will;

- Substantially lift fertilizer applications
- Replace dairy grazers with more sheep
- Run more young sheep

2. Most sheep farmers have taken the opportunity to slaughter their older sheep this season at very high prices.

In the 2010 season old ewes averaged around \$50 / head.

In the 2011 season old ewes averaged around \$110 / head.

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The Commission in Paragraph 111 on page 21 of their recent report observed a 30% increase in the ewe kill suggesting this may point to a further drop in sheep numbers and wool production. In fact it likely points to an increase in wool production as farmers kept more young sheep. Young sheep produce more wool per head.

3. Not only do we expect a younger national flock this year, but it is also possible overall sheep numbers will increase if current prices for sheep meat and wool are maintained next season.
4. Most of the easy dairy conversions have already occurred. With higher prices for sheep farmers and the very large capital requirements required to convert it is expected the rate of switch to dairy farming will dramatically decline.

We will endeavour, before the 13th of May, to obtain independent verification of these points.

Yours sincerely



Derek Kirke

Chairman

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