



March 10, 2011

The Registrar  
Business Acquisitions and Authorizations  
Wellington

Attention Mr David Ainsworth

Dear David

**Cavalier Wool Holding Limited Application to Acquire Scours of Wool Service International.**

Rimanui Farms Limited is a large scale sheep and beef cattle producer, farming approximately 90,000 sheep and producing some 400,000 kg of wool. Rimanui Farms is concerned at the potential for Cavalier Wool Holdings (CWH) to establish a monopoly in wool scouring in NZ and opposes the application to acquire the scouring assets of Wool Services International (WSI). Rimanui Farms has had trading relationships with both WSI and CWH in the past and maintain good relations with both the companies.

I provide further details as follows:


1. Whilst the sheep and wool industry has been in decline, that decline is currently stabilizing. Prices now being received are at record levels for sheep meats and historically high levels for wool. The situation portrayed in the CWH application is out of date and does not represent the current situation faced by the industry. Further much of the drop in sheep numbers has occurred to achieve increased output per head and an economic response to circumstances. Farmers are finishing more of the stock they produce and Cavallers claims of all this being the industry in decline is misleading.
2. The current resurgence also highlights the problem of picking future trends in sheep industry profitability and stock numbers. Few in the industry would have picked the current resurgence and now that it has occurred few pick it to decline again. This resurgence will lead to increased wool production. Farmers are already changing breeding practices and shearing practices in response to the improved prospects for wool.
3. A combination of drou ghts and changes in shearing practices have in my view exacerbated the decline in wool production experienced recently. A proportion of this is likely to recover quite quickly. This is the situation on Rimanui farms and is generally typical of the wider industry.
4. There has been significant restructuring of the scouring industry to date. This has left two efficient scouring businesses, namely the applicant and WSI. I am aware that the WSI scour is kept operational seven days a week around the clock for much of the year. There is no obvious sign of an excess capacity within the industry at present. By contrast reducing scouring capacity or restricting it as would be possible with one only processor and could lead to a market imbalance.

5. There has been a large increase in scouring efficiency achieved by WSI in recent years. The present structure has led to these gains, further concentration within the industry is not required to achieve improved efficiency. In contrast the lack of competition arising from a monopoly scourer could lead to dis-economies.
6. The existing capacity of scouring means that wool is scoured over virtually twelve months of the year, despite being harvest seasonally. This highlights the efficiency of the existing industry by contrast with the industry historically and in marked contrast to the meat and dairy industries.
7. Whilst the wool sector have had low profitability in the last two years this is the result of the global financial crisis and has affected all participants in the wool industry. This balance is now being restored with normal trade resumed as is apparent by the significant increase in profits reported by WSI in the current year. The scouring industry viability is not currently threatened. In contrast it may be that as a result of past restructuring the industry is now able to exploit duopoly profits.
8. In the event that the approval was granted we believe it would be unlikely that any significant improvement in processing efficiency would be gained, but scouring charges would increase.
9. The difference in scouring costs with China takes no account of the additional freight of greasy wool and additional handling and holding costs that are incurred by channeling wool via that market.
10. China is only one market for wool and European and North America continue to take significant volumes, often of premium wool at higher prices. Wool destined for these markets can be efficiently scoured in NZ. Further there are significant logistical savings in sourcing wool direct on farm scouring it locally and then distributing it to these markets. A monopoly scourer would be able to exploit this advantage and gain higher scouring margins on wool destined for these markets. This would be to the detriment of NZ wool producers.
11. There are very real barriers to entry in the scouring business. This is mainly a result of environmental problems with operating scours. Thus if conditions allowed CWH to establish monopoly profits it may be difficult to other players to enter the industry and compete.
12. The supply chain for wool is currently in the process of restructuring with a number of new initiatives being established. I believe that establishing Cavalier as a monopoly processor within the industry would be detrimental at this time.
13. Currently WSI export 40% of NZ cross bred wool in a synergistic relationship with their scouring activities. The proposed sale to Cavalier would curtail these activities and may well destabilize the wool industry in the process.

In conclusion we see no merit in the CWH proposal believe that it would be to the detriment of New Zealand wool producers and recommend that it be declined.

Yours sincerely

**Rimanui Farms Limited**



Lester Wright

General Manager