



Regulatory Impact Statement:

Wool Board Disestablishment

September 2002



Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

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Statement of the nature and magnitude of the problem and the need for government action

Since the early 1990s the New Zealand Wool Board's core functions, as embodied in the Wool Board Act 1997 (the Act), have been:

- market promotion and development;
- wool and sheep research;
- technology transfer; and
- information collection and dissemination.

The Act provides for the Board to collect a compulsory levy on wool, ultimately paid by wool growers to fund the above activities.

There has been concern in the wool industry for several years about the industry's financial performance and return to growers from levy monies paid. In June 2000 McKinsey & Company completed a report for the wool industry that recommended the dissolution of the Wool Board and the establishment of new industry good and commercial structures for the wool industry. In August 2000, 91 percent of grower respondents in a poll supported these recommendations. Since then, new commercial and industry-good structures have emerged and are replacing the current New Zealand Wool Board, making the latter for the most part unnecessary but with the notable exception of its levying and accountability functions.

In a referendum held in April-May 2002, 96.9 percent of wool grower respondents voted in favour of winding up the Wool Board. Participation rate in this referendum of 35.5 percent of wool growers is close to the average achieved in other referenda in primary sector, and is not unexpected given the large size of the industry and its wide geographic spread.

The Wool Board is established under the Act, and as long as the Act exists, the Board will be required to undertake a range of accountability and reporting functions, which currently cost the Board (and ultimately growers) a few million dollars a year.

Statement of the public policy objectives

The overarching objective is to ensure that the institutional structures and processes of the New Zealand wool industry are appropriate to sustain and enhance its international competitiveness so that the industry can make the best possible contribution to growth and innovation in New Zealand. To achieve this, the public policy objectives are:

- to ensure that commercial activities are undertaken by organisations with incentives to make the best use of capital and maximise performance; and
- to ensure that industry-good activities are funded in a targeted way, with strong accountability to levy payers, if the industry decides to seek a compulsory levy.

Statement of feasible options for achieving the desired objective(s)

The status quo is not a viable option as many of the Wool Board's functions are outdated and those of its activities that have been found worth continuing can be undertaken more effectively and efficiently by non-statutory bodies. Some new commercial and separate industry-good structures have been established and are taking over some of the Board's functions. However, as long as the Act exists, the Board will be required to undertake a range of accountability and reporting functions, which currently cost the industry a few million dollars a year, and the Act requires it to undertake a range of activities most effectively and efficiently.

This leaves two possible options for achieving the desired objectives:

- retaining the Wool Board with revised functions under an amended Act; and
- abolishing the Wool Board and repealing the Act.

Amending the Act to make more appropriate Board functions, and improve the institutional structures and processes is not the preferred option. The wool industry has already established new commercial structures and has made significant progress towards establishing industry-good structures, under its legislation. Amending the Wool Board Act 1997 would involve maintaining industry-specific legislation with no identifiable benefits relative to the organisational and functional flexibility provided by generic legislation.

Abolishing the Wool Board is preferred over amending the Act, because it will:

- give effect to the wool industry's levy payers' own decisions (96.9 percent of wool grower respondents voted in April-May 2002 in favour of winding up the Board) on its desired future structures, and in so doing to enhance its ability to compete internationally;
- provide the industry with greater flexibility for commercial activities by giving it the freedom to choose to operate under existing generic legislation, such as the Companies Act 1993;
- ensure that levy payers benefit from the mechanism in the Commodity Levies Act 1990 that enables them to vote on the rates of levies and whether they should be continued;
- give growers greater freedom in choosing what investments to make in the industry, including the ability to decide collectively whether to fund industry good activities and what activities to fund;
- remove the compliance costs the Board's legislation is imposing on the industry; and
- provide for direct accountability to shareholders (under a normal commercial framework) and to levy payers (if growers support any industry proposal to collect levies under the Commodity Levies Act 1990).

Legislation is required to implement the abolition of the Wool Board, because the Board is established by an Act of Parliament. Legislation will need to provide for:

- the Board to be corporatised into a limited liability company (Disestablishment Company (DisCo)) on the restructuring day (planned to be 1 July 2003);
- taxation treatment consistent with previous producer board reforms;
- DisCo to undertake the residual functions necessary to wind up the Board (eg the preparation of the Board's final report and financial statements);
- DisCo to collect a transitional levy on wool for a limited range of industry good purposes (at a rate no greater than the Board's current levy rate of 2 percent)) until 30 June 2004 or

the date that any commodity levy collected by SheepCo comes into force, whichever is the earlier;

- following the Minister of Agriculture's approval of distribution plans submitted by the Board, cash reserves to be transferred to growers via two holding companies, one for merino wool growers and one for non-merino wool growers, with some of the reserves to be retained by DisCo until known Board liabilities and subsequent claims are dealt with; and
- after completing its transitional functions, DisCo to become a wholly owned subsidiary of a grower owned investment company, Wool Equities Ltd (WEL).

Statement of the net benefits of the proposals

The implementation of the Wool Board's overall proposals are expected to include:

- provision of incentives to organisations undertaking commercial activities to make better use of capital than if it was retained in a statutory board framework;
- provision of incentives for organisations undertaking commercial activities to improve performance and maximise net returns from those activities to a greater extent than if those activities were carried out in a statutory board environment;
- a better focus on more cost effective investment in industry good and commercial activities within the wool industry through separation of commercial functions from industry good activities;
- enhanced international competitiveness of the New Zealand wool industry with a greater emphasis on clients' requirements and targeted marketing without the constraints under a statutory board framework;
- the enabling of increased investment in developing innovative products and utilising biotechnology as the industry would be in a better position to attract capital from both within and outside the industry;
- the creation of an environment where growers and other industry participants would be able to make their own commercial/investment decisions and take ownership of the off-farm activities in which they become involved;
- more appropriate governance and accountability regimes under existing generic legislation for commercial and industry good activities than under industry specific statutory board legislation; and
- a reduction in costs faced by growers through the removal of the Board's administrative overheads, and the associated reporting and accountability requirements (currently costing the industry a few million dollars a year).

Once the Board has been converted into a limited liability company (DisCo) and Board's liabilities have been met, wool growers should receive a total of about \$40 million in cash to be allocated as redeemable preference shares in Wool Equities Ltd and Merino Grower Investments Ltd. Growers will also receive ordinary shares in these commercial entities that have been established and currently form most of the Board's non-liquid assets.

There will be one-off transaction costs of winding up the Board and disbursing of its assets, as outlined below. The Board is already committed to the first of these two categories of costs, as it will be doing that regardless of whether the Board is dissolved and the Act repealed. These costs were listed in the Information Document circulated to growers in April 2002 prior to them voting in support of the proposal to wind up the Board. Ultimately, growers will meet these costs because they will reduce the amount from the Board's assets that can be distributed to growers. These two cost categories are:

- closing of pension schemes, redundancies, lease buy-outs, assets and investment write-downs and legal costs, expected to total approximately \$22 million; and
- contingency provision of \$3 million for disbursement of Board's assets and completing the wind up process.

Estimates of benefits of the proposal cannot be easily quantified, especially given that a major part of the Board's past spending had been on generic promotion, and research and development.

Statement of consultation undertaken

The reform proposals were developed and submitted to the Minister of Agriculture by the Wool Board. The Board undertook extensive consultation within the industry, including grower referenda in August 2000 and April-May 2002. In both the referenda, the grower support for the proposals was very strong.

Further, the Minister of Agriculture wrote to a number of organisations seeking their views on the wool reform proposals. These organisations were: Federated Farmers of NZ, the Federation of Maori Authorities, Merino New Zealand Inc, the Wool Exporters Council, the National Council of New Zealand Wool Interests, the Meat Industry Association, Mid-Micron Wool NZ, and the Royal Agricultural Society of New Zealand.

Aside from the Ministry of Agriculture and Forestry, government departments involved in the consultation process were The Treasury, the Ministry of Economic Development, the Ministry of Justice, Te Puni Kokiri, the Inland Revenue Department, and the Department of the Prime Minister and Cabinet.

The views obtained were taken into account in developing the legislative proposals.

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