

Confidential

16th January, 1935.

MEMORANDUM for:-

The Hon. Minister of Industries
and Commerce

New Zealand Honey Industry (Marketing)

I submit for your consideration the results of the investigation made into some of the aspects of the marketing of New Zealand honey.

The enquiry was the outcome of allegations and criticism by certain merchants and beekeepers of the conduct and management of the New Zealand Co-operative Honey Producers Association Ltd. The views expressed by members of a deputation comprising beekeepers and others who waited upon the Hon. Minister of Agriculture on 10th July 1934, alleging gross mismanagement and malpractices on the part of those prominent in the industry could not remain unchallenged and in the opinion of the Hon. Minister presented a reasonable case for an enquiry.

The view has therefore been taken that the present enquiry is a desire on the part of the Government to obtain an authentic and independent survey of the records of the history of the Honey Producers Association, its methods of trading, management and reasons for its subsequent voluntary liquidation on 26th July, 1932.

The operations of the New Zealand Co-operative Honey Producers Association have been confused with those of the Honey Export Control Board and criticisms have been directed indiscriminately against the Board and the Company. The confusion that has arisen is due to some extent to the fact that members of the Control Board

...

have on some occasions been Directors also of the Honey Producers Association.

The enquiry divides itself into three main issues as under -

(1) The Honey Producers Association -

- (a) Incorporation, policy and trading operations.
- (b) Failure and liquidation.
- (c) An equitable basis for settlement with its creditor - C. & E. Merton Ltd. London.

(2) The Honey Export Control Board

- (a) Association with H.P.A.
- (b) Assumption of absolute control and marketing of export honey.
- (c) The case for local control.

(3) New Zealand Honey Ltd.

- (a) Incorporation in 1932
- (b) Prospects for successful functioning.

The offices of the above companies and the Control Board are situated in Auckland. In the course of my enquiries I received material assistance from Mr. J.R. Butland, Chairman of the Honey Control Board, Mr. J. Rentoul, Manager and Secretary of the H.P.A. (now in liquidation) and Manager of Control Board and N.Z. Honey Ltd. Mr. C.D. Cooper of Messrs J.R. Butland Proprietary Ltd. (liquidator of the H.P.A.), and Mr. Seaman, auditor for the H.P.A. (in liquidation), and the Honey Control Board. I also interviewed Mr. Hilary, a member of the Control Board.

All these gentlemen stated that they welcomed the enquiry and were confident that the results would prove an effective answer to the criticism that has for some time been in evidence, within the industry to some extent, in the press, and from Chambers of Commerce.

I was given every facility and assistance in procuring all the necessary information from books of account, minute books, correspondence, etc.

(1) THE HONEY PRODUCERS ASSOCIATION.(a) Incorporation, Policy and Trading Operations

The Company was incorporated in Hawera in 1913 with a nominal capital of £3,000. (1500 shares at £2.) The paid-up capital at 31st December, 1914, after the first year's operations was £57. 15. 4d, and the nett profit was shown as £251. 11. 11d. The capital was contributed in part by "deduction shares" which provided that a portion of the proceeds of honey sold was applied in reduction of liability on shares taken up by shareholders. Honey was accepted only from shareholders in proportion to number of shares held.

The Report of the next year - 1916 - states that a contract had been entered into with Bristol and Dominions Producers Assn. Ltd. to supply them with a minimum of 100 tons per annum on which they agreed to advance 4d (fourpence) per lb. on all first grade honey. The English agents were successful in placing quantities with a substantial number of retailers and shareholders were urged to increase production.

In the third year a proposal to purchase the business of the Alliance Box Company was placed before shareholders and to provide the purchase price, 1000 unallotted shares were offered for sale. These shares were not deduction shares but were paid for as calls for funds were made. It was proposed to pay 5% dividend on these shares and make it a first charge on the profits of the Company.

In the 1917 Annual Report it was recorded that "two of our recent shipments have been sold to arrive at £170 per ton"... "The business relations with the Bristol and Dominions Producers Association continues to be very satisfactory not only are they returning us prices with which your Directors are quite satisfied but they are prepared to guarantee us not less than £60 per ton for three years after the War".

The fifth annual report for the year ended 31st December 1916 refers to the shortage of shipping. Up to the 30th December only 135 cases of the 1916 crop had been shipped. Since that date and the

1st March, 1919, 289 tons had been shipped, the war having ended and shipping being again available. The sixth report (1919) refers to the advisability of re-opening the English depots and recommence packing for retail trade. It was reported that the trade in Great Britain was completely disorganised due to the arrival of huge shipments of honey from various parts of the world and consequent fall in market value.

The report for 1920 records the smallness of the crop for that year owing to the unfavourable conditions of the home market. Continuous efforts were made during the year to build up a sound and permanent market in the Dominion. This policy resulted in the sales of Imperial Bee honey being doubled as compared with 1919, the 1920 total being over £30,000. The remainder of the 1920 honey was disposed of in Canada, U.S.A., and other countries at prices greatly in excess of those ruling in the previous year in Great Britain. The record is made of the liquidation of the Bristol and Dominions Producers Association.

In the 1921 Balance Sheet the following report appears-

"The business of the Company during the year under review has been conducted under particularly adverse conditions. In the first place we started the year with 21,871 lbs. worth of honey which has been unsalable in 1919, 1920. On top of this we were compelled to accept 78,375 lbs. of honey which had been sold to San Francisco for sample and which was returned to us as not being up to sample and of which a fair quantity had fermented. We also had returned from New Year 11,430 lbs. of honey which was taken in at the price sold also on account of not being up to sample. This position arose through it being necessary, in making the American sales, to collect the honey from the different grading stores, the lines being checked by the grade certificates. The range of colour allowed in the different grade classes, however, made it impossible to know whether or not the line was sufficiently uniform in colour to meet the buyers' requirements.... In connection with our export trade, a representative was sent to England, and as you are aware, arrangements were made with Beccles Hills and Co. to pack our honey for the retail market in Britain. At the present time our honey is being packed and offered on the English market at profitable prices and matters are progressing satisfactorily. As some delay occurred, however, through our representative there making sure that best arrangements should be made, and while your Board considered it would have been better, in order to secure more prompt returns to sell 75% of the honey in bulk, he used his own discretion in holding over the larger portion for packing. While this will bring further advances, it will, we believe, result in better prices being eventually obtained.

Packing was commenced in London on February 2nd, and we take the credit that we are the only producers in the Dominion who are selling our produce direct to the trade in England".

The report of 1922 discloses a loss of £2749. Of this amount the export business accounted for £1756. The "losses" shown in the profit and loss account of the Company are not trading losses in accountancy practice. The Company did not purchase honey from its members but acted simply as selling agents the honey remaining the property of the beekeeper. The adverse balances in the profit and loss accounts are the differences between advances made to beekeepers by the London Agents, shipping charges, packing, marketing expenses, overhead expenses, and the amount received for the sale of the honey. This was the first annual report recording a loss. The indebtedness to Messrs Mills and Company appears for the first time in the Balance Sheet, the amount being £45,660. In the report for 1923 it was stated that the export market, the largest branch of the business, was being developed satisfactorily, but owing to the heavy cost of advertising in establishing a market in Great Britain and the loss on sales of packed and lower grade honeys, this department showed a considerable loss on the years working. Shareholders were advised in this report of an overpayment of £2820. 19. 1d shown in the report as under -

"The advances to shareholders totalled	£14702. 19. 2d
Sales less usual charges amounted to	£11882. 6. 8
Over-advanced	£2820. 19. 1

The Report for 1924 opens with the statement "The final position of the 1922 and 1923 accounts is not so satisfactory as we anticipated at the date of the last annual balance. At that period considerable 1922 and 1923 honey was being held, which was cleared as anticipated by the time the 1924 honey arrived". The Directors' expectations in this respect were realized. The London agents however had failed to render all charges up to date and the late receipt of these resulted in the further loss shown in these two accounts.

The 1924 account shows a profit of £4,429. 2. 7d.

Under the heading "Local market" it was stated that conditions had been very unsatisfactory during the year owing to price cutting, notwithstanding this a profit of £1491 was made on local sales. The fact that Imperial Bee Honey made satisfactory sales at prices necessarily higher than all other packs offering is conclusive evidence that the Association handled the honey to the best advantage. The Profit and Loss Appropriation Account showed an adverse balance of £1576S, the increase on the previous year's figures being due to various charges rendered late in connection with the 1922 and 1923 accounts. Under the heading "Export Control" it was stated -

"It is now a question whether it would not be better to hand over the whole of the export business to the Honey Control Board. This would enable all export honey to be dealt with equitably and bear its equivalent in the cost and maintenance of the export market".

The Balance Sheet for 1925 contains the following report -

"It has been noted that our Balance sheets as at the 31st December have formerly been based on an estimate of value of stocks, which at that period are always fairly heavy, and any value taken is subject to realisation by sales. It has now been considered advisable to take our London stocks in at a nominal value, that is C.I.F. cost plus a proportion to cover London charges already incurred. This method sets out any estimate of profits, any credit balance shown being profits on completed business.

Note - This method has been adopted with later balance sheets, the procedure being that as charges have accrued year by year the honey which was originally entered in the books at the amount paid out has had added to it the accrued charges for interest and storage until it is sold. This is responsible for the accounts immediately preceding the heavy losses shown in 1922, 1923 and 1924 being apparent earlier, the additional charges accrued being merely added to the original cost.

The following note also appears -

"Final Accounts for 1926: Although the final accounts for 1926 business show a loss of £800, 5.0d the actual trading resulted in a small profit, the loss being accounted for by the loss of £1,045, 18s. made in the sale of bee-keepers' supplies included in 1926 account".

Under the heading of "Export Market 1925" the Balance Sheet states as follows, clearly indicating that shareholders all along have been fully advised of the system of holding honey and the reasons given to them for this policy. The extract reads -

"Sales of 1924 honey were completed in October, leaving the market clear for 1925 honey although various quantities of 1925 had been sold from June onwards. At December 31st, 410,412 lbs. of 1925 honey had been disposed of, leaving a considerably larger quantity in hand than at December 31st, 1924, owing to the big increase in the quantity shipped in 1925 as compared with previous years. As it is certain that the amount for export for 1925 will be considerably less than the amount exported for 1925, it will enable 1925 sales to be spread over a longer period, whereby our prices can be maintained. This, however, will delay final returns for 1925. 1925 Bulk Stocks have been taken into the accounts at 6d per lb. This represents the cost to the Company of the honey in London, shown as follows -

First Advance Payment (average)	4.50d
Freight etc.	.06d
Overhead	.33
London landing charges, storage etc. to date	.26
	<u>6.00d</u>

Finance - The Company's indebtedness to the Bank under Debenture has been reduced to £5,300, and the unsecured indebtedness to Messrs Mills and Co. Ltd. by £4,897".

1925 Balance Sheet contains the following statement -

"While the 1925 Export Market Account shows a debit balance of £539. 10.6d the whole of the 1925 year's trading has resulted in a profit of £729. 9. 4d. This amount has been absorbed in re-establishing our Capital Account".

Under **Finance** - "Final realisation in connection with the sale of the supplies business along with a payment of £700 out of capital has enabled us to reduce our liability to the Bank to £3,400".

Note - After this period the Company did not handle beekeepers' supplies, the business being taken over by the Alliance Beekeepers' Supplies of Dunedin.

1927 Balance Sheet -

"Export Market Account 1926 - This account is not final a portion of 1926 honey being still unsold at December 31st. Stocks have therefore been taken in at cost less portions of the amounts shown as Interest Rebates and Premium on sale of Dunedin Buildings. The balance of these accounts have been used to write down stock values and as a set-off to London travelling expenses."

Note - Dunedin Buildings refer to the sale to the Alliance Beekeepers' Supplies, Dunedin, and the travelling expenses

were those incurred by Mr. Mentoul on his trip to England and Europe.

Under the heading of Export Market "Sales in the Export Market Account during 1927 show an increase in packed honey over those of 1926 and a decrease in sales of bulk honey. The figures are as follows -

1926 - Packed	460,678 lbs
Bulk	819,819 "
Total Sales	1,280,197 "
1927 - Packed	558,197 "
Bulk	353,715 "
Total Sales	911,912 "

The figures for bulk sales indicate the increase in competition in the United Kingdom, the usual competitive honeys having been supplemented during the past year by imports from Argentine and Siberia. The position emphasizes the value of our packing business in that packed sales are not subject to the intense competition affecting bulk sales. The increasing difficulty of making satisfactory sales of bulk honey at prices equivalent to those realized by our packed honey have induced your Directors to take up a more vigorous publicity campaign with a view to stimulating the sales of packed honey".

Note - It was at this period that the Gift Scheme and the advertising expenditure commenced.

Under the heading of Figures - "The amount of the Company's debenture to the Bank was reduced to £2,700. The unsecured liability to Messrs Mills and Co. stands at £11,955. 1s. 2d.

1928 Balance Sheet reports -

Export Season 1926 - Sales of 1926 seasons' honey were completed by March 31st, resulting in a small profit of £264. 2. 7d. which was carried forward to 1927 account.

Export Season 1927 - Sales of 1927 honey were completed by December 31st. The Returns from this season's business were adversely affected by the small amount of honey handled. There was no surplus on the export sales to provide for payment of interest on our London overdraft and capital and this had to be met out of Local Market profits leaving a small debit of £174. 4. 8d. The first payment therefore will be final".

Shareholders are again reminded of the method of making up the stock figure at which the honey is taken into these accounts. The reference is -

Profit and Loss Account: We have followed the practice adopted in our 1927 accounts of taking in stocks at nominal values, that is, at a figure to cover costs. These costs are made up of advances to producers, administration and export charges. Payments having been made to the full amount of realisations, our debit balance remains, therefore, at last year's figures".

In 1929 Balance Sheet, reference is made under the heading -

"Export Season 1928 - The sales of this season's honey are not yet completed, there being at date 337 tons of 1928 honey on hand in London. The Account has therefore to be carried on. It is anticipated that a clearance will be made before the date of the Annual Meeting, when final Accounts for 1928 honey will be submitted to shareholders. Exports for 1929 season amounted to 2,389,140 lbs; for 1928 season 2,268,305 lbs; for 1927 season 806,600 lbs".

In this 1929 Balance Sheet, A.J. Mills and Co. Ltd. Account stands at £106,835. 6. 8d. In 1930 account a similar item appears reading "C. & E. Morton Ltd. London, 289,264. 0. 5d", the agency being taken over by this Company from A.J. Mills and Co. on 1st April, 1930.

In the 1930 Report the following appears -

"The charges which have accumulated for storage, interest, etc. owing to the longer period are reflected in our accounts. Sales of 1928 honey were completed in December and the Profit and Loss Account shows a debit balance for that season of £7,600. 5. 8d. This means that we have over-advanced on that season's honey to that extent. The loss is mostly represented by storage and interest charges,.... In view of the depressed trade conditions, we have not taken in stocks at cost, as formerly, but have written them down by the amount of £3,730. 15. 7d shown in the Balance Sheet against 1929 Honey Account".

No mention is made in the report or in the official publication to shareholders of the change from A.J. Mills and Company to C. & E. Morton Ltd. However, a press report which is attached, dated August 24th, 1930, which appeared in "The Dominion" sets out the position and is the report given by the Chairman of Directors, Mr. Rentoul, on his return from this negotiation. As C. & E. Morton Ltd. took over the liability from Mills and paid the amount in full, the position of the shareholders was not in any way involved and this would probably account for its non-appearance in the report.

The 1931 Balance Sheet contains in its report under the heading "The Company's Position" -

"The Directors consider that in view of the Association's liability and the falling away in support of the members that it is advisable that the Company go into voluntary liquidation and accordingly will submit a resolution to that effect".

Shareholders were advised in a confidential report to them of the position of the Company following through leases and alterations in the amount owing to the English agents from the last showing in 1931 account of £10,961. up until the date of this Balance Sheet. C. & E. Morton's account at this date showed at £87,098. 6. 7d.

On 16th December, 1931, a report prepared by Mr. J. Rentoul, Chairman of Directors of the H.F.A. and also Chairman of New Zealand Honey Control Board was submitted to a joint meeting of the Directors of the N.Z. Co-operative Honey Producers Association and the members of the Control Board. This report is attached as Schedule A. As some of the remarks of Mr. Rentoul have a distinct bearing on the financial position of the Company at the 1931 balance date, it appears desirable to draw special attention to these statements as follows -

"A normal export for 1928 and 1929 could have allowed us to carry on with our usual advance in spite of the trade slump but the abnormal export and accompanying slump have been disastrous owing to accumulating charges on the large surplus stocks".

"The position at the end of August, the latest figures available is that we owe Mortons £12,201. on accounts 1 to 6 (years 1921 to 1928). This is made up of the deficit we have been carrying forward since 1922 plus a shortage on 1929 of £2928. and interest less the H.B.B. payment for advertising of £900. Also we owe £12,441 for advertising carried forward. This is made up of an over-expenditure on 1929 and an amount for which the increased price was provided. This makes a total unsecured debit to Mortons of £24,642".

"The 1929 stocks of honey with accumulated interest and storage charges have now cost us nearly 8d per lb".

"It is not possible to forecast realisation figures but it would be reasonable to take this stock in at 63/- (6½d lb). A realisation at this figure would add to the above debt some £9000. Taking 1929 stocks at the figure stated, 1930 and 1931 stocks at cost, we will be short £24,391".

On 23rd January, 1932, a confidential report on the position of the Company was issued to shareholders by the Directors. The more important features of the report are referred to in detail as under -

"The accumulation of stocks over the three years, 1921, 1922 and 1923, due to the above, created the first unsecured indebtedness to London, agents A.J. Mills and Co. A clear view of the position could not be had until the clean-up of the three years' accumulation in 1924, when a separate analysis of each year's results was made.

The position was -

Loss, 1921 Account	£10,961. 9. 3d
Loss, 1922 Account	8,898. 15. 6
Total	<u>£19,859. 4. 11d</u>

Could this position have been known at the time, the Association would have been shown to be bankrupt. But the 1923 season's honey was sold before the position could be ascertained, and a surplus on this season's sales adjusted the account as follows -

Amount owing	219,557.	4.	11
Surplus, 1923 Account	<u>3,010.</u>	<u>14.</u>	<u>10</u>
	<u>18,546.</u>	<u>10.</u>	<u>1</u>

The Agents expected to secure payment of this amount from future surpluses, and it was agreed between them and the Association that surpluses to the amount of £3,000 per season should be allocated for that purpose, or failing a surplus, a minimum amount of £1,000 should be paid in liquidation of the debt.

	Interest to November, 1925 brought the debt to	216,478.	3.	6
	Surplus on 1924 season, which was all left with the Agents	<u>4,897.</u>	<u>5.</u>	<u>7</u>
		<u>11,580.</u>	<u>17.</u>	<u>11</u>
	Plus interest to January 31st, 1927	12,416.	8.	6
	Less surplus 1925 season	<u>1,039.</u>	<u>8.</u>	<u>6</u>
		<u>11,379.</u>	<u>3.</u>	<u>0</u>
	Plus interest to April 30th, 1925	12,063.	10.	8
	Less surplus 1926 season	<u>842.</u>	<u>18.</u>	<u>2</u>
		<u>11,220.</u>	<u>18.</u>	<u>6</u>
	Less Cash July 1928 to make the payment the agreed £1000	<u>162.</u>	<u>1.</u>	<u>0</u>
		<u>11,058.</u>	<u>14.</u>	<u>6</u>
	Plus interest to December 31st, 1929	11,580.	3.	5
	Less Surplus 1927 season	<u>43.</u>	<u>7.</u>	<u>5</u>
		<u>11,536.</u>	<u>16.</u>	<u>0</u>
	Less Cash remitted May 24th, 1928	<u>1,000.</u>	<u>0.</u>	<u>0</u>
		<u>10,536.</u>	<u>16.</u>	<u>0</u>
	Plus Interest to December 31st, 1929	11,259.	5.	0
	XX Less Credit for advertising paid by the H.C. Board	<u>5,596.</u>	<u>17.</u>	<u>9</u>
		<u>5,662.</u>	<u>7/</u>	<u>3</u>
29000	XX Plus Interest to March 31st, 1930	5,765.	0.	11
from	Less further payment March 31st for advertising by H.C. Board	<u>3,319.</u>	<u>2.</u>	<u>1</u>
Government		<u>2,445.</u>	<u>18.</u>	<u>10</u>
	XX Less Balance of Payment April 30th, 1930 by H.C. Board for advertising, making 29,000	<u>84.</u>	<u>0.</u>	<u>2</u>
		<u>2,361.</u>	<u>18.</u>	<u>8</u>
	Total of unsecured debt now owing to Messrs C & E. Horton Ltd.			
	Plus Interests to December 31st, 1930	2,452.	2.	6
	Plus Less 1928 season	<u>9,249.</u>	<u>10.</u>	<u>10</u>
		<u>11,800.</u>	<u>13.</u>	<u>4</u>
	Plus Interest to October 31st, 1931	<u>12,331.</u>	<u>4.</u>	<u>10</u>

It will be noted that the amount owing to the London Agents of £19,557. 4. 11d. plus interest, was reduced by surpluses and capital payments, to £11,259. 5s. by December 31st, 1929, and that this was the total indebtedness of the Association to the London Agents unsecured by stocks. This accounts for the most of the deficit shown on the Association's Balance Sheet of £10,867. 3. 8d at December 31st, 1929. At December 31st, 1930, the Association's Balance Sheet shows a deficit of £10,546. 17. 6d. This deficit takes in the loss on 1928 season, less local trading profits, and the payment by the Honey Control Board for advertising.

Over and above the Association's debt to Mortons of £12,331. 4. 10d there is a sum owing for advertising up to October and charged forward, of £14,309. 5. 10d.

This account is the result of a very difficult position, which reached a climax at the end of 1929, when Messrs C. and E. Morton took over the agency. Whereas the average export of the Association for the past three years was 450 tons, the 1928 export jumped to 1,012½ tons, and the 1929 export to 1,066½ tons.

This resulted in an accumulation of stocks at the period stated of 1,403 tons. The trade depression at this time became accentuated, and prices of bulk honey fell rapidly, so that an off-loading of stocks at competitive prices showed only the certainty of very heavy losses. The expansion of the packed business, however, offered a steady return, with a prospect of realising advances. The accumulation of further charges for advertising with a view of increasing the sales of packed offered the only alternative under the conditions as they were.

It was sought to protect the expenditure by an increase in packed prices, and it was expected that should future exports be sufficient they would carry the advertising and further relieve the situation, while if exports were short and stocks were absorbed, the indebtedness could be met by a further increase in prices. These calculations miscarried owing to the unprecedented increase in trade depression, and while stocks have been reduced to 859 tons and should be back to normal by the time of the arrival of next season's export, the conditions of trade are such that a recovery by increased prices is not hopeful.

It will be seen that the amounts owing to Messrs C. & E. Morton Ltd, made as per balance sheet 31/12/31 a total unsecured indebtedness of £26,640. 10. 8d. The clearance of 1929 honey will show a further shortage, but the local assets of the Association should balance this, leaving the indebtedness of the Association at approximately £24,000.

Details of exports from 1921 to 1931 are as follows -

1921	597	tons
1922	532	"
1923	400	"
1924	487	"
1925	742	"
1926	529½	"
1927	250	"
1928	1012½	"
1929	1066½	"
1930	83½	"
1931	246	"

Details of advances from 1921 to 1931, are as follows -

...

	<u>Advances paid by London Agents.</u>			<u>Advances paid to Suppliers.</u>		
1921	221,902.	7.	64	217,287.	2.	54
1922	29,556.	2.	2	22,567.	16.	10
1923	17,670.	6.	6	14,621.	0.	6
1924	20,749.	6.	7	19,453.	14.	7
1925	38,187.	9.	0	21,214.	13.	0
1926	28,724.	16.	6	20,973.	11.	1
1927	18,371.	18.	2	14,426.	12.	6
1928	51,202.	5.	0	40,272.	12.	11
1929	53,235.	5.	2	42,152.	17.	10
1930	2,259.	0.	0	2,231.	13.	4
1931	6,956.	7.	4	6,415.	10.	8
	<u>290,648.</u>	<u>4.</u>	<u>1</u>	<u>232,417.</u>	<u>6.</u>	<u>10</u>

The difference in advances received and paid out is accounted for by the payment of export and administrative charges out of advances received.

Sales of Honey from 1921 to 1928 are as follows -

	<u>Tons Bulk</u>	<u>Tons Packed</u>
Sales, 1921	144	256
1922	404	111
1923	308	93
1924	200	287
1925	487	226
1926	196	334
1927	112	238
1928	306	693

The above are proportionate sales of a season's honey, not annual sales.

The comparatively large amount of 1921 Packed Sales is accounted for by, on the re-opening of the packing business after the war, a large quantity was packed in cartons. Sales of cartons in the United Kingdom was however "off" owing to the effect of war time honey and the lot was sold to Denmark at a cash loss, although it introduced our honey to Scandinavia. The falling off in bulk sales in the last three years was due to the low price of competitive honeys.

A report dated 26th November, 1930, reviewing the inception of the export trade of honey from New Zealand to the United Kingdom was submitted to the Rt. Hon. the Prime Minister by the High Commissioner. The report covers the pre-war period up to end of September, 1930, and is attached to this report as Schedule B.

Reference is made to some remarks of the High Commissioner which appear to be of particular interest in view of criticism of the marketing method adopted by the Honey Producers Association.-

".... By this time the New Zealand Honey Producers Association had been formed out of the old Federation, and they gradually got the bulk of the export, though for some years there were fair quantities shipped outside the Association and consequently difficulties in establishing the market. When the Bristol Association failed, for instance, a good deal of the honey got into the hands of private packers here, and as some of it was not very satisfactory quality, it was not a good advertisement for New Zealand. The 'Imperial Bee' brand of the Honey Producers Association was beginning to make its way, however, though difficulties were experienced in regard to the disposal of darker honeies unsuitable for blending. These would be bought by private packers, and a good deal of trouble was taken with a view of avoiding the reputation of the 'Imperial Bee' brand suffering".

"...Finance was expensive, however, and the Association's carrying charges, storage, etc. must have been heavy, and in consequence, shippers through the Association had to pay proportionately heavy costs. When the shipping situation eased again, therefore, outside shippers found that they could export more cheaply than the Association, and with the gradual improvement of the reputation and price of the New Zealand article, this no doubt proved an irresistible attraction in some instances. While the shippers were perfectly willing to take advantage of the facilities offered by the Association during the difficult times referred to (their only means of salvation during that period) they were quite content to go outside the Association after the strain was over".

"...They were leaving the Association's supporters to bear the whole burden, but they reaped the advantage of the improvement in prices brought about by the Association's efforts".

"...Up to 1921 New Zealand was not able to obtain a price equal - grade for grade - to Californian honey on this market".

"...The Association continued its good work and by 1924 it represented from 90 to 95 per cent of all the honey producers of the Dominion. They were not clear of their debts but their 'Imperial Bee' brand was becoming well known on the United Kingdom market. We have on our file a market report of the 28th Jan. 1924, in which the following quotations were given -

New Zealand	42/6	to	85/-
Californian	50/-	to	75/-
Jamaican	42/-	to	65/-
Cuban	42/-	to	60/-

Current quotations are as follows -

New Zealand	65/-	to	87/6
Californian	39/-	to	48/-
Canadian	45/-	to	60/-
Australian	40/-	to	60/-
Jamaican	24/-	to	40/-
Cuban	25/-	to	35/-

and comparing these with the earlier ones given, it will be seen that while competing honeies generally have lost anything from 12/- to 25/- per cwt. New Zealand has improved its position".

"...The New Zealand producer is sure of realising the best price possible with a given retail price - whereas the difference between retail and wholesale prices in the case of other honeies goes to the middle man and retailer".

...."It must be recognized that honey will not sell itself. Shippers would find themselves under the necessity of maintaining some organization in this country to look after their interests and this, of course, would have to be paid for".

"As an illustration of the necessity of making arrangements for private sale, I subjoin extracts from the periodical reports of one of the Mining Lane Brokers regarding the sales of Honey at the Drug Auctions so far held during the current year -

16th January, 1930.

Quiet. 1842 packages offered & 29 sold.
Jamaica palish to good pale set
45/- and 53/-
St. Lucia brown amber 39/-.

20th March, 1930.

In slow demand. 1091 packages offered and withdrawn.

22nd May, 1930.

No demand. 1257 packages offered and withdrawn.

24th July, 1930.

No demand. 1339 packages offered and withdrawn.

25th September, 1930.

Quiet. 685 packages offered and 16 sold.
Jamaica palish amber. 39/- & 40/-.

"Of all honeys marketed on an extensive commercial scale, New Zealand obtains the highest wholesale price, and this result, it is submitted, could not be obtained were each shipper permitted to market as and how he liked".

A review of the trading and financial position of the Company was presented to shareholders on the 16th June, 1931, by the Managing Director, Mr. J. Renteul. The difficult position created by the abnormal exports of 1928 and 1929 is dealt with in this report at some length and two alternative methods suggested to dispose of these stocks at best advantage to shippers.

The two methods considered were (1) to increase slightly the retail price to pay for further advertising, or (2) to reduce prices to such a level as to meet competition from lower priced honeys and hope thereby to clear the stocks more quickly.

The first method was considered the most desirable in view of the advances already made to suppliers and any reduction in price would not have increased sales to any material extent. This view was supported by the fact that Californian suppliers were carrying stocks of honey which they were not able to sell even at very low prices and Canada also had a large surplus of some 700,000 lbs. which had been got rid of by a sale to the Wineries Board through an arrangement with their Government.

It is estimated that a carry-over for 12 months costs 1/2d (halfpenny) per lb. If the carry over is shortened by six months the cost would be 3/4d (one farthing) per lb. but a reduction in price of 3/4d or even 1/2d would be of very little help in making a quicker clearance.

The adoption of the policy of increased advertising judged by the results appears to have been justified as shown by the under-mentioned figures -

	1929	1928	Increase over 1928
Sales	297,980	2130,464	222,514 X
Advertising	8,667	16,583	7,916 X
" per lb.	.919d	1.66d	.742d
Quantity shipped & sold in London	2,256,000 lbs	2,269,140 lbs	12,250 lbs
Average selling price per lb	10.3d	12.1d	1.8d

7/1
 Increased advertising
 of 1929 over 1928
 amount
 2,256,000
 (1929) 8,667

On the 16th December, 1931, Mr. Rantoul as Chairman of the Export Control Board and Chairman of Directors of the H.F.A. called a joint meeting of Directors and members of the Control Board. A report of this meeting is attached as Schedule C.

Extracts of this report are referred to as disclosing the position of the H.F.A. at this date.

"The position at the end of August 1931 the latest figures available, is that we owe Mortons £12,201. on accounts 1 to 8. This is made up of the deficit we have been carrying forward since 1922 plus a shortage on 1928 of £6,938 (since increased to £8113) and interest less the Honey Control Board payment for advertising of £2000. Also we will owe £12,441 for advertising carried forward. This makes a total unsecured debt to Mortons of £24,642".

"1929 stocks of honey with accumulated interest and storage charges have now cost us nearly 8d per lb".

"It is not possible to forecast realisation figures but it would be reasonable to take this stock in at 63/- (63d lb.) A realisation at this figure would add to the above debt some £9000. Taking 1929 stocks at the figure stated 1930 and 1931 stocks at cost we will be short £24,391".

"It would appear therefore that our next annual balance will show our financial position to be such that we cannot carry on unless we make realisations".

Mr. J.R. Butland was appointed to the Control Board in 1931. At the second meeting held on the 16th December, 1931, he submitted a report, an extract from which reads as follows -

...

"The Honey Producers' Balance Sheet disclosed a debit of £12,501. to Messrs C. & E. Mortons and there is a further debit to advertising due to Mortons of £12,441 which after its annual balance will place the Company in a position where it cannot carry on. Unless some proposal is immediately made to C & E. Morton Ltd. it seems certain that they, in order to protect themselves, would have to raise the assets of the Honey Producers' Association. This would cause them to dispose of the heavy stocks they are holding at a sacrifice in order to liquidate their debt. Such a course would depress the English market and practically ruin the industry in New Zealand for every considerable time. The breaking of prices in England would be very serious and a recovery could not be hoped for, for many years, consequently the good-will which attaches to New Zealand honey on the English market would be lost unless the present premium over other honeys can be maintained. The seriousness of the position from the producers point of view in such circumstances is obvious and in my opinion steps should be taken immediately to avoid such a contingency. At the same time I feel that the Board is compelled to take into consideration the fact that C. & E. Morton accepted the agency for New Zealand honey in good faith and every protection possible must be afforded them".

The report further states -

"I suggest that before the annual balance of the Honey Producers Association takes place, C. & E. Morton should have the whole position placed before them. In order to maintain the standing of New Zealand honey in Empire markets a funding of this debt be negotiated under a plan which will involve Mortons being given a five year arrangement with the Control Board to handle honey as at present, and during that time to recoup themselves by arrangement with the Control Board of an amount to be arranged, say, not exceeding 1d per lb. and at the same time not to increase the price of honey to the consumer in export markets, and to conform exactly to the Board's policy of selling as in the past. The present charges can be considerably reduced, and the system of financing to be continued as at present by C. & E. Morton, so that the beekeeper in New Zealand will not be penalised.... This funding will bring about a considerable reduction in charges and consequently a greater return to the producer, even allowing for the suggested deduction of not exceeding 1d per lb. over the next five years".

The Honey Producers Association also on the 16th and 17th December, 1931, in the minutes of a meeting held in Auckland, passed the following resolutions -

"That the reports presented by Mr. Bontoul for the Association and Mr. Butland, Government Representative, for the Honey Control Board be adopted and that the writers be thanked for same".

"That Mr. Butland be asked to conduct negotiations with Messrs C & E. Morton Ltd. on behalf of the Association".

"That Mr. Butland be given a free hand in the negotiations with Messrs C & E. Morton Ltd., to be carried out on behalf of the H.P.A.".

"Commission on London packed sales. Resolved that the question as to whether commission on packed sales be raised from 7½% to 10% be left for Mr. Butland to bring into the London negotiations and decide as he considers advisable.

"Letter of Credit. Resolved that this be transferred to the Honey Control Board and that the Association draw its advances through the Board". (Note-this was done in view of the financial

...

position of the Company and explains the item in the Balance Sheet as at date of liquidation, £1965. 10. 5d).

Similar resolutions asking Mr. Butland to conduct negotiations with Mortons were passed by the Control Board on the 16th December, 1931.

(b) Failure and Liquidation.

The following special resolution appears in the Minute Book of an ordinary general meeting of shareholders held on 26th July, 1932.

"That this Company hereby resolves to go into voluntary liquidation".

22 shareholders voted for the resolution and no dissentient vote was recorded. The special resolution was confirmed at an extraordinary general meeting of the Company held on the 16th August, 1932. The voting was again 22 for and one vote against the resolution.

Appointment of Liquidator. Under this heading a minute is recorded appointing Mr. C.D. Cooper as liquidator with authority to operate on the banking account, the matter of remuneration being left to the Directors.

A minute of appreciation of Mr. Rentoul's sterling qualities and valuable services was recorded at this meeting.

The following is the report of the Liquidator -

"Accounts for the period from the 1st January 1932, that being the last balance of the Honey Producers Association, up until the 16th August, were covered in a balance sheet drawn up and audited by Messrs Gerrie and Biss for the Liquidator. The accounts were taken to the 31st August so that the English accounts returned monthly could be incorporated. Morton's account then stood at £66,925. 19. 5d and the Honey Control Board's levy in the 1932 season, £1,965, making a total of £68,901. Sundry creditors in addition to this £212 which were for local items such as tins, labels, etc. for use in local packing. These sundry creditors were paid leaving the one amount against C & E. Morton. In accordance with accountancy practice a list of contributories was fixed so as to make a basis for claims by the Liquidator.

Claims for unpaid capital and recourse for over-advances could not be made on shareholders until various matters to the amount of possible debt in the clean-up of the liquidation were assessed so as to give an amount for claims that would be sufficient to satisfy creditors. This amount was finally fixed and notice

to shareholders was given on the 15th. February, 1933.

The basis of the Liquidator's claim on the shareholders, the settlement arranged with Messrs. C. & E. Morton, the agreed figure and text of the arrangement were as set out in Morton's letter of 26th. September, 1932, copy of which is attached (Schedule D). This shows an estimated deficit to be provided for by calls on unpaid capital and recourse against over advances, £8,830. The method of arriving at this is set out in the text of the letter, the substance of it being that it was estimated that in selling the stock which was on hand there at the prices then ruling in the proportion of 2/3rds. in packed and 1/3rd. in bulk there would be a surplus after all charges for packing, entering storage, delivery, etc., had been paid of £8,270.

In calculating this figure, the amount which was received for the insurance payment against the loss of the factory which was burnt down while Mr. Sutland was in London was taken into account. In Morton's trading with the Association they had kept the advertising account separate and this stood at £22,532 less £1,382 which was advertising matter destroyed and for which a claim was made under the insurance policy. It is noted here that this surplus of £8,250 has not been obtained yet but this matter will be dealt with later in the suggested settlement claim.

It was estimated that the cash and plant in New Zealand would yield £1,000. As a matter of fact the cash in hand in New Zealand was over £900 so that the plant, which stood in the books at roughly £800 together with office fittings and furniture is in excess of this and makes the settlement that much easier. Advertising commitments of 1930 were current and as they were contracts they could not be repudiated by the Liquidator. It is here noted that this amount of 1930 has been very much exceeded and is the subject of an exchange of letters between the Liquidator and C. & E. Mortons. This will be dealt with later in the suggested settlement. In addition to this the advertising commitments included the reduction of a gift scheme with coupons provided for in the settlement.

In his negotiations and correspondence with C. & E. Mortons, the Liquidator has not done anything in any way to alter the settlement figure as contained in this letter, it being obviously impossible to arrive at any definite amount until the value of the stock which was held by the Association had been determined and the assets in New Zealand sold and the whole accounted to a matter of a definite loss. It was, however, in view of the heavy amount of stocks held in London, that the claims for recourse were to be made on shareholders, particularly as the claims for recourse dated back to 1928 and the Statute of Limitations requiring that claims be made within six years from the commencement of the action made it necessary to immediately action and advise shareholders accordingly. On the 13th. February a notice to shareholders which is attached was sent calling for the unpaid share money, printed copies of which were called for in the settlement.

As this Company was registered in 1913 and had over 1200 shareholders, many of whom in the nature of beekeepers either old people, retired people or those frustrated in their occupations, the mortality has been very heavy. In this, during the war years, numerous of the shareholders perished and it has been impossible to trace a large number of these. In addition there has been little correspondence or connection with original shareholders who were actively engaged in the beekeeping business and in

who severed their connection from 1913 to 1920 have no memory of any association with the Company. Considerable difficulty is, therefore, experienced by the Liquidator in convincing shareholders who have taken up deduction shares, that is, shares on which no payment had been made except by deduction of 1/8th. of a penny per lb. on all honey sent in, of their liability. The idea that most of these shareholders had in their minds was that they had no liability on their shares unless they sent honey in, so that by omitting to send honey in, their obligation was automatically cancelled. It has definitely been proved in the Court that the method of payment by deduction was merely a convenience and that the liability stands.

The question of recourse and the method of its calculation presented considerable difficulty. The shareholders who shipped in the years on to 1922 were practically the same in each year though in 1928/29 when all beekeepers in New Zealand had a huge surplus, these beekeepers who in later years relied on the local market to give them a better return were shippers in that year and later.

As the condition of the finances of the Company today was brought about very largely by the heavy exports of 1928/29, it was perhaps more equitable that these two years should stand the greatest proportion of the recourse payment. After the recourse item had been computed on various methods it was decided by the Liquidator to levy a 10% recourse item on all of the honey on high pay-out, 1928, 1929, 1930 and 1931. In 1932 the small quantity which went forward was at a low advance. On this basis a great number of the shareholders made arrangements and signed agreements to pay and have been paying either in cash or with honey in regular instalments. Some few have paid in full. Others have repudiated liability and in some instances action has been taken against them but only after careful investigation of their ability to pay. In order to determine the ability to pay a schedule was sent out to those professing inability to pay based on the same schedule which is sent out by the State Advances Department when they are endeavouring to obtain a loan. A copy of this is attached (Schedule E). It became evident after several months that many, particularly the larger beekeepers who were in a position to pay had no intention of doing so and it was therefore necessary to take legal action. Legal action however, was not taken until a few days before the expiry of the years from the date of the advance which would have invalidated the Liquidator's claim. The thought ruling was that the amount of recourse must be on a percentage basis and provided for the distribution of profits in the Articles of Association and in addition must be the actual loss as shown by the accounts for that year. That is to say, if 1928 account showed a loss of £27,270.00 was to be worked out as a percentage on the total advanced to shareholders, calculated as a percentage and a dollar for that as an overpayment. This has been done with 1928 accounts which are the only ones that have been finalised. The account shows some honey unsold in London and 1930 and 1931 accounts in the process of being sold. Claims cannot be made on these years until the accounts are finalised.

The amount of loss as shown by the accounts of 1928 is £28,112/9/3, Schedule F, the total advances made £27,470/12/10 giving a percentage of loss of 17.09% of the advances. In 1929 net loss £7,394/17/7, total advances £45,043/6/2 and the percentage of loss 16.06% of the advances, Schedule G. The total claims against recourse and capital total over £5,000.

In the process of liquidation on account of the widespread nature of the claim and the heavy amounts involved and the fact that the claims were in many cases for advances made in 1928, organised opposition has been experienced. This took the form of the Beekeepers' Enquiry Committee which spent considerable time and money attempting to organise all beekeepers involved in recourse. Numerous meetings in conjunction with the National Beekeepers' Association

ation of those shareholders concerned with recourse and capital payment were held throughout New Zealand and legal opinions to the extent of seventy or eighty legal firms have been employed against the Liquidator. The sum total of these objections raised were first, that the advance made was not an advance but was a definite payment and as such the honey was purchased by the Association and therefore there was no recourse, and secondly, that as the honey was sold blended in London it was impossible to render an account sales for each man's honey, therefore the amount of the loss on his honey could not be determined, therefore as the claim could not be determined it could not be claimed in a Court of law. The decision, however, of about 125 cases which have been heard were all in favour of the Liquidator, the magistrate holding that it was a clear case of a co-operative Company making advances and as such it had a right to claim recourse.

The Beekeepers' Enquiry Committee had its inception, according to reports received by the Liquidator, in a local merchant who was interested in obtaining permission to ship in a free market to the United Kingdom and who had in his own business a contact with one of the largest beekeepers concerned in the liquidation, one Hunter, whose claim is approximately 2400 on the 10% assessment and for 1928/9 over 2500 on the Court's assessment, and who handed his account on a loan basis, making him advances and taking his honey from him. The lawyer employed was Phillipps, who fought several of the cases against the Liquidator, the organiser in association with this man in the Beekeepers' Enquiry Committee being one Heltzer.

Through Horden & Co., the merchants concerned, who are members of the Chamber of Commerce, the Chamber of Commerce in the press criticised the policy and as the liquidation is concerned with the stock of honey under the Control Board's exclusive agency arrangement, the Liquidator considered that this criticism was detrimental to the liquidation and as such arranged with the Chamber of Commerce through Dr. Neale and Mr. A.G. Lunn, who at that time was with the Associated Chambers of Commerce to come to the office and inspect all records. The Liquidator made out a complete survey of the position and this is attached together with confirming vouchers. These were inspected by Chamber of Commerce and after a full discussion and several meetings they declared themselves satisfied and their letters are in the file and also it is on record that they immediately changed their attitude and refused further to put through the criticism of the N.P.A. and the Control Board.

Under the Company law concerned with liquidation, it is not necessary to have an auditor but in view of the contested matters concerned, the Liquidator arranged for Messrs. Gorrie & Biss to audit the original account and later changed this to A.M. Seaman who has particular knowledge of liquidation, and all balance sheets and figures have been audited by this man and signed accordingly.

The progress of the liquidation is shown in the Balance Sheet attached dated 31st. August, 1933, Schedule H, this being an audited balance sheet, and the rough balance sheet as at 31st. August 1934, Schedule I. This has not yet been completed and auditor's statement is not yet ready to be attached. This will be available within a few days but will not substantially alter the figures in any way.

A meeting of shareholders was called by the Liquidator on the 23rd. January, 1934 - 12 shareholders were present. The Balance Sheet as at the 31st. August, 1933, was submitted to the meeting, being the end of the first year of liquidation. The local market trading account showed a profit of £219/17/3. The creditors' account, G. & E. Morton, which stood at £46,935/19/5 being reduced to £44,916/3/10; the Control Board amount for advances £1,900/10/5 being paid as well. The Liquidator's remuneration had not been fixed and was not fixed until this meeting so that the Liquidator carried on

without payment till after this meeting.

The improved position since the liquidation will probably mean that the accounts for 1930, 1931 and 1932 will show surpluses which under the ruling of the Court should probably be paid out to suppliers as the return from the particular year's honey shows a profit over advances and as such can be claimed by them. It is doubtful whether the Liquidator is in order in apportioning more than an average percentage of the advertising account of £21,000 to these accounts. Strictly speaking it may be that these charges apply to the honey sold since this date and as such only a small proportion may be chargeable. As far as can be determined, should the view be taken by the Court that these profits in the later accounts, since the Liquidator has been handling the Company, should be paid out, it will mean that £3,000 out of the Liquidator's funds will go in this direction. In the suggested settlement this matter is dealt with and is merely commented upon here in passing.

Since date of liquidation to the end of the second liquidation year, 31st. August 1934, charges debited as interest on the old advertising account amount to £2,004/-/11, the charges on contracts unexpired at date of liquidation and press advertising plus interest on these charges, £3,480/1/8, a total of £5,484/2/1 on the sale since liquidation of 1,317,545 lbs. The total advertising on all honey from 1928 season on to end of second liquidation year, 31st. August 1934, totals £39,086/12/8 and as advertising has been stopped it is presumed that this advertising expenditure will be sufficient to cover that necessary until the last of the present stock of 350,753 lbs. of honey has been sold, making a grand total of 5,757,423 lbs. on which this £39,086/12/8 has been expended, equal to 1.65d. per lb. without making allowance for the £9,000 provided by the Government. If this is deducted the amount spent on advertising is 1.25d. per lb. This includes interest on the advertising debt as incurred. Statement "J" attached shows advertising from 1st. January 1929 to 31st. August 1932 and Statement "K" advertising since date of liquidation.

Referring to items in the Balance Sheet, "Travelling Expenses J. R. Butland £700" appears in the Balance Sheet as at 31st August, 1932, a further £394 in Balance Sheet, August 1933. This is in accordance with minutes of the H.F.A. arranged prior to liquidation. The time spent by Mr. Butland was from the 4th. April to 14th. November. Two and a half months were spent in London, six weeks on the Continent, three weeks in U.S.A. and two weeks in India. The rate on which the expenses are computed is shown on vouchers as approximately £2 per day plus travelling expenses. No fee or salary was charged by Mr. Butland during the whole of this period and only honey business investigation and the settlement with G. & E. Morton was transacted.

Salaries shown on the August 1933 Balance Sheet cover expenses in connection with the carrying on of the H.F.A. staff in the local business which showed a profit in the first liquidation year of £619/17/6.

The Liquidator has disposed of the "Imperial Bee" brand in England to the Control Board for the sum of £5,000 but has continued to use the brand, the benefit thereof going to the assistance of the liquidation until all of the stock in London is sold. The brand in New Zealand is still the property of the Liquidator and has been retained to sell the honey received from the Court claims and capital claims and still remains an asset of the Company.

The Liquidator has reduced the indebtedness of the Company from £66,901 to £28,313 at August 31, 1934, and has on hand assets

expected to produce:

Furniture & fittings & plant, plus New Zealand brand - (sq)	500.	0.	0
Franking machine	4.	0.	0
Sundry Debtors	1230.	0.	0
Stock in London	9976.	0.	0
" " Auckland (honey and packing materials)	1111.	0.	0
Cash	3080.	0.	0
	<hr/>		
	215901.	0.	0

of, in round figures, say £16,000, against a total indebtedness including liquidation expenses, legal expenses and accrued charges to end of December, 1934, of £20,000, a deficiency of £4,000. Added to this there is the possibility already mentioned that should the years not yet completed, that is, 1930, 1931 and 1932 show a profit over and above advances in those particular accounts, it may be found necessary to pay these out in the form of dividends to the shareholders concerned. There would be a right of set-off against other reclamation amounts which would reduce the actual expenditure in cash by the Liquidator to these shareholders by say £1,000 making the total amount necessary to clean up the affairs of the liquidation of the Honey Producers' Association an amount of £15,000. These figures take into account an amount of approximately £750 being loss on exchange on approximately £2,900 transmitted to London.

The realisation on stock in London mentioned in these figures is computed on the assumption that the 46½ tons of out of condition honey held in London will be either replaced by the Control Board with good honey which will not be debited or will be taken over by them on the actual advances to the suppliers plus accrued charges, approximately 6½d. per lb. The difference on realisation should the above arrangement not eventuate would be an additional £1500. Against this are to be set the collections to be made by the Liquidator on recourse and unpaid capital. Over £5,000 has already been collected but it is impossible at this juncture to place a reliable figure on collections, although probably £2,000 will still be able to be collected.

The original settlement as arranged with G. & E. Morton as per their letter of the 17th. September 1932, copy of which is attached, shows the figure to be obtained by recourse against over advances and call on share capital as £5,820, due to the following reasons:- It was evidently assumed by Mortons that they would be able to exchange new honey received from the Honey Control Board and for which the Control Board must account to the beekeepers who supplied the honey, with old unsuitable honey worth approximately £30 per ton to manufacturers which had been held for some years by Mortons out of the Association's stocks and it was on this assumption that they took into their settlement figures that all honey would be suitable for packing. As soon as this became evident from their correspondence, the Control Board were, of course, unable to countenance such an arrangement and as the amount involved was approximately 100 tons, this accounted for difference in the figures of approximately £4,000. The loss in this direction has been somewhat offset by the purchase from the Control Board of good honey at 24s per ton which has yielded a return to the liquidation of approximately £80 per ton.

In working out their settlement figures, G. & E. Morton did not take into account the cost of liquidation and reckoned in this only to the date at which they thought that the liquidation would be cleared up, the reckoning being that the rate of sale

would be the same as during the period immediately preceding the settlement arrangement, but unfortunately sales have shown a serious decline for various reasons including the complete failure of the Continental market, the reduction of the advertising expenditure and the continuing in the United Kingdom of the depression. Consequently the disposal period to be reckoned with is much greater than was originally the case and this has meant an additional accumulation of charges for interest, warehousing, rent, etc., which accordingly has increased by a very large amount the figure originally included in the estimate.

The settlement did not take into account the cost of redeeming the coupons of the Gift Scheme, an amount actually involving before it was cleaned up of over 2700, the actual figures being on advertising:- the original assessment figure £900, the honey sign which could not be sold 2362, and coupon redemption 2736, a total of £5,049. In addition the following developments with expenditures have taken place:- A block of payments totalling 2576 which the agents made in July and August 1922 and which Hortons contend were shown to Mr. Butland, could not be brought into the original advertising account which by then had been closed and these were not reckoned in the future commitments. A contract for France-Reflex signs entered into some months before the settlement arrangement and in respect of which only two payments had been made, was not taken into account and provided in future commitments, the total amount involved being £419.

Partly owing to the fact that the disposal of the H.F.A. stock was taking much longer than was expected and partly due to the failing to obtain the same amount of profit on sales as in the past, the estimated figure for deficit has been exceeded by 2500. A credit for some part of the cost of these exhibitions has since been obtained from the Government through the High Commissioner's office.

Again owing to the extended period of realisation on the H.F.A. stocks, the cost of model repairs which are used for window displays and which had to be carried out as long as they are used, had caused a further amount to be added to the original estimate. Hortons omitted to include a provision for interest on the advertising account of £21,600.

The total advertising therefore stands at £3,573 approximately against the original estimate of £900.

When the settlement letter from Messrs. G. & E. Horton was received it was obvious that the deficiency had been considerably under-estimated and the Liquidator made provision accordingly for recourse and capital and a total of £21,600 was claimed.

As far as the 10% assessment for recourse was concerned, this could not be considered as a final claim, the method of assessment being later ordered by the Court on those accounts which have been used, the claims for 1928 and 1929 to be made on the actual issues in those years. That is, 1928, £8,113 and 1929, £7,392. The net result, however, of this alteration, when taken into effect with all accounts which have not yet been finalised and on which arrangements have been made, would not affect the position as the profits, if any, on 1930, 1931 and 1932, would probably absorb from £3,000 to £4,000, leaving a net claimable total for recourse of £12,600.

The position therefore is that the Liquidator has claimed for an amount of approximately £21,600 to yield what Hortons considered would be a deficiency of £8,820. Ample provision was made therefore by the Liquidator to accommodate expenses and cost of liquidation. Nothing, however, in the correspondence, has been allowed by the Liquidator to in any way modify or alter the legal

position if any created by Mortons' settlement letter of 26th September, 1932.

An instance of this is a cable dated 3/3/34 to Messrs. C. & E. Morton from the Liquidator reading as follows:- "As commitment advertising estimated originally £920 and 1933 account £2972 and Robsons investigation your letter twenty-eighth July not received must suspend all advertising expenditure stop My cable 14/2/33 advises claiming £18,000 recourse £8,000 capital to yield your estimated deficiency £6,820 plus liquidation expenses and unforeseen stop Collections recourse £1321 capital £2170 cash in hand £2000 Have commenced legal proceedings against shareholders stop Think control will eventually made arrangement dark honeys but they cannot commit themselves stop Despite Butlands investigations and instructions and your letter twenty-eighth July Ogden's accounts show percentage added no vouchers spoons masses."

This refers to advertising expenditure in excess of original estimate and demanding that all advertising expenditure must stop and pointing out to them that the arrangement made by Mr. Butland regarding accounts by which original vouchers had to be supplied were not being carried out. These vouchers were later received but the whole question of the excessive advertising over the estimate figure has been left in abeyance until the final clean-up of the whole account.

The Liquidator has asked for an opinion as to the legal position, if any, created by this letter which is signed by C. & E. Mortons, but it is here pointed out that the whole of these figures were stated as estimated. Advertising amounts, however, are agreed. In this connection the report of Fredk. E. Robson & Co. concerning advertising is of interest. This is attached.

While these amounts of advertising are being disputed with C. & E. Morton Ltd. by the Liquidator, an investigation of the particular account seems to indicate that New Zealand honey has received good value for the expenditure and as the money has undoubtedly been spent in good faith, will eventually come to be paid by the Liquidator, if funds are available."

The basis of the liquidator's claim on shareholders referred to on pages 19 and 23 is set out in detail hereunder, as it will provide a basis of comparison with the ultimate clearance and realisation of stocks. The estimated deficiency (after allowing £6000 for purchase of the "Imperial Bee" brand) was £6820, and depended on the disposal within 12 months of presumably good quality honey at the estimated prices shown in this statement.

Balance due to C & E. Morton at 30/6/32	£58,416
" " " " advertising a/c	
" " " " 30/6/32	21,150
" " " " advertising	
" " " " commitments	<u>930</u>
	80,496
Less Insurance claim	<u>10,242</u>
	69,954
Less each "Imperial Bee"	£6000
" " & plant in N.Z.	1000
	<u>7,000</u>

Estimated realization of stock		262,904
112000 lbs. @ 6 $\frac{1}{2}$ lb. (less commission)	22883	
1182480 lbs @ 1 $\frac{1}{2}$ " " "	90840	
1,297,480 lbs. stock at 20/6/32	65,423	
Less estimated expenses -		
Rent, interest, etc	3,672	
Packing materials on basis sales est. 1931 to March 1932 (673,524 - 26,246) on 1,297,480 lbs stock	<u>15,700</u>	<u>17,878</u>
		46,051
Shipments 1932		
Estimated realization (bulk sales only)		
166,600 lbs @ 78 per lb (less commission)	28,170	
Drafts paid	22,586	
Expenses	<u>451</u>	<u>2,183</u>
Stock in U.S. (estimated 90 tons) unnumbered.		
Shipped as and when wanted to be sold packed at 1 $\frac{1}{2}$ per lb. (less comm.)	10,200	
Less packing charges	<u>2,300</u>	<u>7,900</u>
		<u>26,820</u>
Estimated deficiency		<u>26,820</u>

In a letter dated 30th November, 1934, addressed to you by the Liquidator reference is made to the estimated deficiency at last September, 1934, of £14,485, as against the original estimate of £6,820 at 17th September, 1932. This amount has increased notwithstanding the collection of approximately £6,000 from shareholders. The following statement will show how materially the deficiency at 17th September, 1932, was underestimated -

Estimated deficiency at 1st September, 1934	£14,485
Cash remitted	3,000
Sundry debtors	1,230
Cash in hand	3,000
Advertising material to be taken over by Honey Control Board	<u>3,000</u>
	28,715
Less contingent liability not shown in statement of 17/9/32	<u>3,000</u>
	<u>25,715</u>

The difference of £13,893, (£28,715 less £14,820) may be accounted for accumulated interest (approximately 2 years) liability under advertising contracts current at date of liquidat-

ion, amount due at 17th September, 1932, for advertising under-estimated etc. These amounts are set out hereunder - the figures are approximate only.

Advertising underestimated and interest	23490
Interest (portion of this may be offset by deduction from sales of 1930-31-32 honey)	4460
Liquidation expenses	1500
Balance - depot, charges, general charges, etc. and loss on sale of honey which failed to reach prices shown on the 17th Sept. 1932 statement. Honey written off as unsaleable etc.	<u>4453</u>
	<u>213,893</u>

I attach copy of letter dated 13th July, 1934, sent to C. & E. Morton Ltd. by the Liquidator objecting to the disposal of honey except at prices at which stocks were taken in as a basis of settlement at 26th September, 1932, which were 112,000 lbs. at 6½d and 186,600 lbs. at 7½d per lb.

The Liquidator objected to Mortons offering a quantity of the dark honey at an average price of 236. per ton which in their opinion was an excellent sale price. The reason the Liquidator adopted this attitude is set out in the third and fourth paragraphs of the above letter which read -

"The only weapon I am able to use against the Control Board is the threat that this honey used for blending would destroy their trade-mark, therefore in their own protection they must take this over on the agreement rates. You will readily appreciate that the whole of this position is cancelled if you sell the honey. The Control Board is having a meeting in Wellington at the present time, Mr. Butland attending it, and probably this question which, of course, is vital to the Control Board, will be discussed.

I would ask you to be particularly careful as far as Mortons are concerned that you adhere strictly to the letter of the agreement arranged, as in addition to the Control Board negotiations I will probably have a further negotiation with the Government here with the idea of assisting the liquidation further. If, however, you sell this poor honey and the industry is not faced with damage to its brand by the use of this you destroy the vital essence of my argument".

The Liquidator is not willing to accept the responsibility of increasing the debt by accepting lower prices for the stock of honey at date of liquidation.

Mortens have pointed out that the honey or certain portion of it is entirely unsuitable for sale as packed honey and the longer it remains in stock further depreciation takes place with accumulated interest and storage charges. In my opinion the liquidation has been carried out in a most effective and thorough manner with every consideration to contributors. The work has entailed considerable correspondence running into several thousands of letters. The remuneration of the Liquidator is set out in a minute recorded at a meeting of shareholders held on 23rd January, 1934, - a copy of these minutes are attached.

Causes of Failure.

It is difficult in my opinion to point to any predominant cause of failure but there are many contributing factors which ultimately resulted in the liquidation of the H.F.A. These are submitted hereunder -

- (1) The amount of pay-outs or more correctly over-payments, in several years exceeding the ultimate net sales price. The Directors must accept to some extent responsibility in this connection but when all the circumstances are taken into account some of which are enumerated hereunder it will be seen that they had an exceedingly difficult task of retaining the goodwill of shareholders and at the same time exercise good business judgment, required of them as Directors. It was no more possible for them to foresee the difficult post-war conditions than the many thousands of other business executives in New Zealand and elsewhere who adopted trading policies which were subsequently shown to be more or less disastrous.
- (2) The adverse economic post-war conditions which resulted generally in low values and restricted markets for all primary products.
- (3) The excessive quantities of honey exported in 1928 (1013 tons) and 1929 (1066 tons). The average quantity of honey exported for the previous 10 years was 441 tons. It will be seen therefore that the quantity shipped in 1928 and 1929 was approximately 573 tons in excess of the average quantity of the previous 10 years. (Note - the outlet through packing depot in London approximately 400 tons per annum. It will be seen therefore that the exports of over 1000 tons for 1928 and also 1929 would create difficulty in marketing in a reasonable period).
- (4) Under-capitalisation of the H.F.A. and in consequence the whole of the export packing, advertising and distribution had to be carried on by means of loan capital. Under adverse market conditions stock moved slowly and

in consequence substantial increase in interest and storage charges occurred. The paid-up capital in 1928 was £11,972, yet the Company incurred on the security of 1013 tons of honey expenses totalling £74,214.

- (5) Lack of co-operation on the part of some shareholders and in some cases that of Directors also.
- (6) Shareholders providing the poorest quality honey for export while retaining, when the local market was favourable, the better grades for local consumption. This practice imposed on the Directors increased difficulty in maintaining a recognised and standard blend.
- (7) Laxity on the part of London agents. Neither A. J. Mills & Company or C & E. Horton appeared greatly concerned of the growing indebtedness of the Association. I am advised that Mills did express some concern at the amount owing in 1924 but apart from this incident no pressure appears to have been exercised on the H.F.A. to liquidate their debt. I am informed that Messrs Horton and Co. took over the Agency in 1930 and paid A. J. Mills & Co. over £100,000 for stocks on hand but no written agreement with H.F.A. as to the future basis of the Agency appears to have been made but apparently they accepted the rate of commission and conditions under which Mills were conducting the agency as satisfactory.

A perusal of the Annual accounts and reports to shareholders suggests that the Company should have gone into liquidation many years earlier or alternatively arrived at some definite arrangement to liquidate their indebtedness to the London agents. The report of the auditors of May 1923 warned shareholders that liabilities of the Company exceeded assets by 27,377 and advised a conservative policy. As previously pointed out in 1924 there was a deficiency of over £19,000. The auditors drew attention to the position of the Company at this period also stating that the advances had not been reduced sufficiently. The Directors defended the position stating that they had to take some business risks as beekeepers had looked upon the first advance as the standard price for honey. From a business point of view they recognised that this was not a good policy and it was a big risk for any Company to take in making advances which left little margin for setbacks and trade upheavals. The honey business was more difficult in that respect than any other as sales could be carried over for 12 months. Advances to suppliers were fixed in January and it was not till the end of the following year that stocks

on which advances had been made were realised. Advances were made at least 20 months ahead of the final sales of honey and that increased business difficulties. There was no doubt that loyalty of shareholders was secured in many cases by Directors at the cost of business prudence and procedure, i.e. the Directors had to keep the support of shareholders by giving them pay-outs as high as possible even though caution would have suggested a smaller amount to provide against possible contingencies.

The returns for 1928 season were not sufficient to cover advances made. With double the amount of the average exports coming forward, it would have been common sense to have reduced the advance to a lower figure. At the time of fixing the advance, however, there was no knowing what the export would be, neither was it foreseen that such severe trade depression would occur before sales were completed.

In order to form any opinion of the cause of failure it is necessary to have a clear outline of the methods under which the H.F.A. disposed of its stocks in England and the Continent of Europe.

The Honey industry has the distinction of being the only one where the producers of a primary product sell direct to retailers. The honey remains the property of the Association until it is actually sold to the retailer in England or on the Continent. The Association therefore controlled the ultimate selling price of the retailer and actually instituted a price maintenance scheme. There is abundant evidence that the distribution policy adopted by the H.F.A. supplemented by the comprehensive advertising and propaganda campaign was successful in obtaining the leading price position of imported honey sold in Great Britain and several Continental countries. The system has been the admiration in some quarters and the envy of competing countries.

Whether the amount spent on advertising was entirely justified is difficult to determine without a first hand survey of all the circumstances. Mr. Rutland after a survey of the position expressed

ed the opinion -

"Too much money has been spent in advertising and the Board has no desire to repeat possible mistakes of the past".

When he visited the London agents of the H.P.A. in 1932 Mr. Butland considered it desirable, in view of the criticisms from the Chamber of Commerce, beekeepers, and merchants to obtain a report from an independent source in order to show whether or not the advertising policy of the H.P.A. was justified by the trade results. Accordingly the advertising firm of Frederick E. Hobson and Company, 45 Bedford Row, London, was engaged to report fully on the advertising position. The report is confined to expenditure on advertising during the two years ending 31st December, 1932. The position is reviewed in a number of headings as under -

- (a) Brand
- (b) Expenditure in relation to sales.
- (c) Summary.
- (d) Future outlook and competition.
- (e) General comments on future advertising.

(a) Brand:

Selling honey without a special brand makes the lowest price the argument in every sale and there is no goodwill or repeat business developed.

Branding of New Zealand honey under the name "Imperial Bee" definitely fixes the mind of the public with an assurance of a uniform and high quality honey.

Canadian honey has been sold under a variety of labels with varying qualities in prices and also in bulk to a far greater extent than New Zealand honey.

(b) Expenditure:

1930	29,276
1931	12,283

41,559

An analysis of this expenditure into the various publicity avenues already has been made and it is worthy of note the expenditure and variety of methods to promote the industry. The principal methods may be referred to briefly - advertisements in newspapers, magazines, menus, showcards, gift schemes, exhibitions, etc. The expenditure also includes press advertising in Holland, Scandinavia, Calcutta, etc. Average cost of publicity in the period was £.219d per lb.

(c) Summary.

The expenditure has definitely accomplished making New Zealand honey known throughout Great Britain, also in making the public demand the branded product at prices a trifle higher than any other imported honey (except limited quantity of fancy packs).

82 per cent of New Zealand honey was sold as Imperial Bee, and 18 per cent was sold as bulk honey.

Another particularly interesting feature is that the average price of honey has dropped 35 per cent in the past two years owing to the general trade depression, whereas New Zealand honey has actually maintained sales at increased prices.

It is very easy to look back upon any business venture and say if we had not done this or that we would have saved so much money. There are a few items on marketing New Zealand honey on which such a criticism might be applied. The same comment can always (past present and future) be made in every business.

Headings are summarized as follows -

- (1) The amount of advertising expenditure in future may wisely be related more directly to sales on percentage basis.
- (2) To stop forms of publicity that have not been relatively fruitful (and this is done by profiting by past experience).
- (3) To relate advertising more to the merits of Imperial Bee honey now that the brand is established.
- (4) To obtain more co-operative advertising.

(d) Future outlook and competition

World trade on every primary product during the past two years has been distressing.

Our obligation is to adjust whatever problems we have and face the future fortified with the knowledge of the past.

It is estimated that approximately 5000 tons of honey are now used annually in Great Britain. Prices range from 7d to 1/8d per lb. for imported, and 2/- per lb. for English and Scottish. It may interest New Zealand producers to know that American honey is sold as low as 1½d per lb.

The most serious competition is going to come from Canada, particularly Ontario.

(e) General comments on future advertising.

From the foregoing information there is no doubt of the wisdom to continue marketing New Zealand honey under the trade name Imperial Bee which is now firmly established on the British market as the premier quality and absolutely uniform grade. It is equally evident that advertising must be continued as soon as possible to avoid losing trade to Canadian honey producers.

This report broadly speaking -

- (1) Emphasises the opportunity for extending Imperial
See honey trade on the Foundation already established.
- (2) Need to continue advertising as soon as possible.
- (3) Briefly suggests several points to be included in any
advertising policy for the future.

In a letter dated 26th January, 1927, from London Agents,
advertising in Germany is referred to as follows -

"There is a vast demand to be filled in Central Europe but a
larger expenditure on advertising is essential. There are now 2,500
shopkeepers taking the honey, so very fair distribution has been
obtained. We have long discussions with the sub-agents for South
Germany who deals with 1,000 accounts. He told us the one thing
needed was good advertising as at present the honey did not go out of
the shops sufficiently quickly".

Advertising in Germany is again referred to by Messrs A.J.
Mills and Co. in a letter dated 29th June, 1928 -

"It is in our opinion much preferable to spend 3d by way of
advertising than in price reduction. We here some years ago reduced
our prices more than once, in fact we came down from 16/- to 12/6d.
We did not materially increase our sales but we threw away 3d in the
2l which would have been far better spent on advertising".

In the same letter they referred again to advertising in
the following words -

"If we receive 2800 this season we shall have approximately
27,500 to spend. Should you decide to spend 23,000 of this in Germany
we shall have 24,500 for the United Kingdom".

- (c) An equitable basis for settlement with its Creditors -
G. & B. Morton Ltd. London.

This forms the basis of a separate report.

(2) HONEY EXPORT CONTROL BOARD

The Honey-export Control Act was passed in 1924 and its provisions came into operation on 23rd December, 1924.

The principal features of the Act are set out hereunder -

Sections 1 and 2 of this Act provide for the establishment of the Honey Export Control Board subject to a proposal to that effect being carried by a poll of producers.

Under Section 4, the Board consists of a Government Representative appointed on the recommendation of the Minister of Agriculture, and two representatives appointed upon election by producers.

Section 12, empowers the Board to assume absolute or limited control of all honey intended for export. Under Section 13, all honey intended for export of which the Board has assumed absolute control shall be graded, packed and shipped as the Board directs, and shall be sold and disposed of only by the Board or by direction of the Board. Section 14 provides that where the Board has assumed limited control of honey for export, it may define the extent of such control by publication or by agreement with the owners of the honey.

Section 15, provides that the Board shall have full authority to make arrangements and give directions in regard to the following matters -

- (a) for the blending, grading, packing, handling, and storage of honey of which it has assumed control,
- (b) for the shipment of such honey on such terms and in such quantities as it thinks fit;
- (c) for the sale and disposal of such honey on such terms as it thinks advisable;
- (d) for the insurance against loss of any such honey either in New Zealand or in transit from New Zealand and until disposed of;
- (e) for the display of any honey at exhibitions or elsewhere, and
- (f) generally for all such matters as are necessary for or incidental to the due discharge of its functions in handling, distributing and disposing of honey.

In order to enable the Board effectively to control the export of honey it is provided by Section 17, that the Governor-General may prohibit its export excepting under license and subject to such conditions and restrictions as may be approved by the Board.

Section 18, provides for the appointment of overseas agents of the Board.

Under Section 20 producers are required to pay to

...

the Board a levy not exceeding one farthing a pound on all honey intended for export.

Section 21 makes provision for the manner in which all moneys received by the Board shall be applied.

Section 27, provides for the issue of regulations by Order-in-Council from time to time, for the purpose of giving effect to the provisions of the Act.

(a) Association with the Honey Producers Association

The exercise of control conferred by the Act was put into operation on 23rd March, 1925, by Order-in-Council which provided that all exports of honey to United Kingdom, Irish Free State and Continent of Europe were to be consigned to the Board's London Agents. It is desirable to point out that the Board's London Agents, Messrs A. J. Mills and Co. Ltd. acted also as selling agents for the New Zealand Honey Producers' Association and may possibly have created some confusion regarding the functions and relative liability of the two bodies.

The gassetting of these Regulations was the result of representations made by the Control Board to the Government on behalf of the N.F.A. and was designed to prevent exporters shipping outside the N.F.A. securing the benefits of advertising incurred by the N.F.A. without bearing a proportion of such expenditure. It was designed further to prevent further competition arising from independent exporters who sold New Zealand honey in England and the Continent at lower prices than those arranged by the N.F.A.

The first meeting of the Board was held on 25th February, 1925, and the members were Messrs J. Bontoul, T. E. Clark and E. Gibb, all of whom were Directors of the N.F.A.

At a meeting of the Board held on 5th March, 1929 a resolution was passed instructing the London Agents to spend up to 1d per lb. on 1929 export honey for publicity purposes with a view to clearing the large surplus stocks of that year and at the same time holding prices.

A similar resolution was minuted on 30th August,

1929, in regard to 1929 honey.

As the Board had no funds to meet expenditure of this nature and had no statutory authority to levy more than $\frac{1}{4}$ d per lb. on honey exported (Section 20.) some explanation appeared necessary for the above minutes. The explanation submitted by Mr. Campbell, Chief of the Horticultural Division of the Department of Agriculture was to the effect that the resolutions gave some authority to the H.F.A in collecting advertising charges from exporters who were not members of the Association. Mr. J.E. Butland was appointed Government nominee to the Board and attended his first meeting on 12th May, 1931. On 17th December, 1931, a resolution was adopted requesting Mr. Butland to conduct negotiations with C. & E. Morton on behalf of the Association and that he be given a free hand to make satisfactory arrangements regarding the present debt due to Mortons.

On 15th March, 1932, the following minute is recorded -

"Cost and Charges - 1928 depot charges compared with 1926 show fairly general increase. Mr. Butland to enquire".

Under the heading "Advertising" - "All commitments including coupon scheme should be examined, Board should have no unknown liability".

It was decided also at this meeting that the future policy in regard to advertising expenditure will be to fix the rate at so much per lb., any excess to be the agents liability.

(b) Assumption of absolute control and Marketing of Export Honey.

On the return of Mr. Butland from England in November 1932, following representations made to the Hon. Minister of Agriculture, the Board was granted by Order in Council dated 30th January 1933, absolute control of honey exported to United Kingdom, Ireland and the Continent of Europe. The minutes of the meeting held 9th March, 1934, record the following decisions -

"Advertising not necessary while Board is selling bulk honey only.

The Board to deal with the unsuitable honey carried over in the liquidation of the H.F.A. to enable it to get the benefit of the 'Imperial Bee' brand as soon as possible and that it will make the necessary enquiry to see if a satisfactory arrangement can be made".

The Board is not in a position to put honey through the packing plant until the accumulated stock of H.F.A is disposed of.

Since the Board has taken over the entire control of the export market, the advances to beekeepers have been on a conservative basis as may be gathered from advances made for the 1934 season. The Board's first progress payment for 1934 export honey was made in November 1934 on the basis of 3d per lb. for best whites. The Board is confident that last season's figure of 4½d for best whites will be reached and probably exceeded. The crop in New Zealand has been unusually small during the three past seasons but indications at present point to a record for the coming season.

The system of pay-outs now arranged with beekeepers by the Board is based on sound business principles and will avoid the mistake made by the H.F.A who in many cases made advances which represented approximately the full nett realised sales value. In some cases the first pay out exceeded the nett average selling price.

Advantages to the Honey Industry that are being effected by operation of present policy of the Honey Export Control Board

- (1) Elimination of uncertainty of support of beekeepers which is essential for any successful orderly marketing.

(Note - The experience of the H.F.A. is a clear indication of the uncertainty associated with a purely voluntary co-operative organisation. It is reasonable to suggest that the actions of Directors would be guided to a large extent by the possible re-action on the part of shareholders and the Directors therefore would be loath to institute methods of correcting adverse trade conditions for fear of alienating the support of shareholders).

- (2) The system of payouts is now on a sound basis, avoiding unnecessary interest charges and the possibility of payouts in excess of net realised price.
- (3) Economies in judicious advertising, interest, packing and general overhead.
- (4) Disposal of each season's honey before the new season's honey comes on the market. If this is not always practicable the balance of one season's honey to be absorbed into the next season.
- (5) The institution of weekly cabled market reports of honey prices and stocks.
- (6) Greater supervision over London selling agents.
- (7) Institution of a new and stricter grading system which will give producers a more equitable return.
- (8) In the present Chairman, Mr. Butland (the Government nominee) the Board will have the benefit of the experience of a successful and capable business man to guide its future policy.

It is suggested that progress payments should be made first 1/4th, second 1/4th, third 1/3rd, and the balance of 1/6th to be held for contingencies. The first pay-out to be made in March when honey graded and ready for export and in this payment it is suggested that Government assistance by way of loan (if necessary) should be made available. The second payment in June against bond-warrants instead of shipping document as required at present under terms of Bank Letter of Credit established by Mortons. Third payment as stock is disposed of by London agents.

It is proposed by the Control Board to enter into a five years agency agreement with C & E. Morton Ltd. A copy of this agreement, subject I understand to some adjustments, is attached but it would be advisable to first arrive at some definite basis of settlement with Mortons of the H.P.A.'s debt before completing this agency agreement.

(a) The Case for Local Control.

"The H.P.A. hoped to build up local business under the "Imperial Bee" brand and to co-ordinate its New Zealand and English business so that the two systems would work in harmony and put the

beekeeper in a position where he could more effectively control his marketing".

I am of the opinion that in conjunction with export control there should also be some control of the local market. In years where honey production is small it is probable that the beekeeper would withhold supplies from export as under these conditions he would be assured of an immediate and relatively high price on the local market. By taking advantage of the local market under these conditions the export market would be starved and the continuity of sales in the United Kingdom and the Continent of Europe would be seriously interfered with. In view of the substantial amount of money expended in advertising and publicity campaigns it is very essential that the demand created by these efforts should be met at any time. Therefore the export market must be regularly supplied even if in doing so the local market is to some extent neglected. The local market can always be regained as the beekeeper has no competition but this is different in the case of sales in the United Kingdom and Continent of Europe where not less than 14 countries are supplying the market.

The subject of local control was discussed at the annual conference of the National Beekeepers Association held in Wellington on 16th August, 1933. A number of remits supporting local control and urging its adoption were received from a number of district branches of the Association. The discussion on local control terminated with the unanimous adoption of the following resolution -

"That the principle of the remits be approved and that this meeting is decidedly in favour of local control of honey in New Zealand with a view to establishing a payable price to the producer".

The following advantages may be submitted in support of local control.

(1) The export and local markets should be complementary to each other. As previously pointed out the Export Control Board is faced with considerable difficulties in maintaining overseas mar-

kets if a shortage of honey occurs and beekeepers refuse to export. On the other hand the Export Control Board is expected to export all surplus honey when the crop is too heavy for normal local requirements. The issue is not so much control as orderly marketing whether local or export. Co-operation of beekeepers has been tried but the results have been unsatisfactory and has placed those guiding the affairs of the industry in a difficult position.

(2) The institution of uniform grading and quality, packing, etc.

(3) The organised as superior to the individual effort to develop the local market by advertising and other propaganda. The expenses under "controlled" conditions would fall equitably on all sections.

(4) The maintenance of reasonable selling prices.

It would be necessary, in the event of local control, to instal further packing and blending plants, perhaps two would be sufficient. In some districts it may be advisable to vest in the Control Board authority to constitute trading boards where it was not feasible to deal with honey in outlying districts.

(5) NEW ZEALAND HONEY LIMITED

Notwithstanding the profit of over £500 made by the Liquidator of the E.P.A. in local trading over the first year, it was decided by the Liquidator that the stock of packing material, round about £1,000 representing about half a dozen own label packs which were to be sold at cheap prices, could not be profitably disposed of, the position being that in order to assist beekeepers concerned with recourse it was necessary to pay them very much higher prices for their honey than would enable it to be repacked to sell in competition with other beekeepers in this market. Consequently when New Zealand Honey Ltd. was formed an arrangement was made by the Liquidator whereby they took over as per attached schedule the whole of the expenses of the Liquidator's packing plant in Auckland

and arranged to handle for the Liquidator free of charge up to 20 tons which would be received on account of recourse payments and to pack "Imperial Bee" brand for him at $\frac{1}{4}$ d per lb. to cover labour. This resulted in the Liquidator off-loading a number of unprofitable contracts and making a saving of nearly 1d per lb. in the packing of "Imperial Bee" the profit going to the benefit of liquidation.

New Zealand Honey Ltd. was formed by members of the old Company at the time of the liquidation meeting in Wellington. Mr. Cooper, the Liquidator, states that he was not present in Wellington and his name was included in the proposed list of Directors without his consent, his first intimation being the notice in the newspaper including his name. The Company was formed with the object of taking over the assets of the Honey Producers' Association (in liquidation) and to carry on exactly as the old Company had done but no reference was made to the Liquidator for his position in this respect and no move has been made by them to offer to purchase the plant or brands or other assets of the liquidation. From information at the Liquidator's disposal it seems that in approaching beekeepers for membership of the new Company, one of the main claims in their platform was the inclusion of businessmen on their Directorates instead of beekeepers as formerly. At the expressed wish of the other Directors, Mr. Cooper signed the memorandum and immediately resigned. The position to-day is that he holds no shares in the Company and is not a Director.

As the liquidation is closely associated with New Zealand Honey Ltd. as it is using its store and is using the packing material and paying for it as it uses it, the Liquidator has kept closely in touch with its operations. A balance has just been taken by this Company and from figures they have supplied and the auditors report it would appear that under its Articles the Company is not allowed to take for its working expenses more than 10% of sales. The balance discloses that the percentage required to cover expenses is over 20% and the auditor's notification to them indicates that they cannot carry on on this basis.

The system on which New Zealand Honey Ltd. work is fully set out in the Articles and Memorandum. Briefly stated it is that all honey sold by members in the New Zealand market shall have attached to it a seal for which a payment is made to the Company representing part of the profit which would have been made on this honey had it been sold by the Company. The return from seals for the period under review is £1,524. Including this revenue, the return of the Company reckoning in the quantity of 167 tons exported, bringing 4½d per lb. from the Board, is approximately 5½d per lb. return, the return on the 64 tons of honey sold locally working out at 2.33d per lb.

The essential difference between New Zealand Honey Ltd. and the old Company now in liquidation rests in the clause where the overhead expenses of management etc. are limited by the following extract from the Articles (page 11.) "Provided, however, that in no case shall such commission be less than one per centum nor more than ten per centum on the total gross sales hereunder". If this clause is removed, the Company is then very much in the same position as the H.E.A. in liquidation.

New Zealand Honey Ltd. claim to have approximately 80% of the beekeepers for their output in New Zealand and is therefore representative.

Quoting from report signed by A.M. Seaman, Auditor, under date of 14th November concerning balance figures, he states -

"These figures make it clear that it is impossible to conduct the business on the basis set out in the Article in question (that is Article No. 11 on page 11 of the Articles & Memorandum attached) as I understand it. If packing and similar costs are intended to be covered by the 10%, it becomes even more impossible. It is necessary to pay a 5% selling commission to your distributing agents or in the alternative to sell on your own account, which would certainly cost not less than 5%, and other expenses even excluding packing, freight and similar charges, cannot be limited to 5%. Unless an amendment of the Article is obtained, the Company must lose money continuously and be forced into liquidation at an early date. In the present instance, the surplus on sales made (£4,612. 6. 4d) less selling and administration costs (£1,358. 5. 5d) leaves a balance of £3,254. 0. 11d in respect of 334,777½ lbs. of honey sold, equivalent to a return of 2.33d per lb. on honey sold locally. The better showing which appears in the Producers' section of the accounts presented is due to the inclusion of the Seal money, a net figure of £1391. 15s. ". This works out at 1d per lb.

The returns then of the Company to its suppliers were 2.33d on the actual trading plus 1d per lb. a total of 3.33d on its operations for eight months. This will be considerably lower than the anticipated pay-out from the honey exported and it will be noted that honey is taken into the account as far as the part of New Zealand Honey Ltd.'s honey exported, at 4½d per lb. Considerable dissatisfaction therefore is anticipated when shareholders are aware of this.

This is roughly the position of New Zealand Honey Ltd. but actually this Company has performed a very great service to the industry in New Zealand. The failure of the old Company came from lack of support and the competition of shareholder members with their own Company and New Zealand Honey Ltd. has published a list, copy of which is attached, setting out three definite grades of honey. The brand "Honeyco" is supplied to the trade in three grades, Red Label, Blue Label and Green Label, representing white honey, light amber honey and brown honey.

The competition of the old Association with "Imperial Bee" was from individual beekeepers who were packing themselves in their own sheds and who were not reckoning in their own labour in doing so. Consequently they consistently undersold and undermined the old Company.

Under the new arrangement instituted by New Zealand Honey Ltd. any member of the Company who wishes to sell his own pack must purchase from the Company seals which are affixed to his honey and he then sells on the N.Z. Honey Ltd.'s fixed price for that particular seal of honey. This has resulted in extreme satisfaction right throughout New Zealand in the increase in price possible by this method. It has precluded the merchant playing off one beekeeper against another and has fixed a definite basis for all trading with a corresponding improvement in the finances of all beekeepers concerned.

It is, however, necessary, for New Zealand Honey Ltd. to function properly, that the quantity of turnover available to them be very considerably increased. Under the present system if the price available for export is high it means that everyone will export honey

and the return from export is what will be expected from New Zealand Honey Ltd. which, with its reduced turnover, would be a physical impossibility. It would therefore appear that New Zealand Honey Ltd. has formed the foundation of a sound system of New Zealand marketing and needs co-ordination with the export of the honey to enable it to avoid going into liquidation. This fact has been realised and the National Beekeepers' Association have been consistently advocating local control based on the operations of New Zealand Honey Ltd. the suggestion being that local control be vested in the present Control Board who will use New Zealand Honey Ltd. as a machinery and organisation which is already in operation to put local control into operation immediately.

With the additional turnover possible under this arrangement New Zealand Honey Ltd. can be made to function without loss to the industry and with the distinct advantage of a higher return for honey supplied.

It is suggested that the functions of the Control Board be extended by an amending Act to give effect to the above proposals, New Zealand Honey Ltd. to go into liquidation and the present organisation be taken over and controlled by the Board with extended powers.

(4) COMMENTS

The investigation has shown in my opinion that the effort and methods of the H.F.A. are worthy of commendation. It is correct to state, I consider, that the export business of honey outgrew the expectations of the H.F.A. and consequently to some extent the business of exporting, packing and distributing honey to retailers in the United Kingdom and Continent of Europe became too big a proposition for the financial resources of the Association. The employment of London agents to store, pack and distribute honey under the Imperial Bee brand was an excellent move, and were the quantity of honey limited to 400 or 500 tons no great difficulty should have been experienced in obtaining a very satisfactory return to the beekeeper. One of the great difficulties experienced by the H.F.A. was the length

of time required to dispose of each season's honey. The system adopted by the Association by which it was able to account for the individual quantity exported by a beekeeper in any particular year and account to him not only for the quantity but also for the particular grade speaks well for the organising ability of the Directors.

This particular point was made the subject of defence against the Liquidator in reclamations for over-payments, but it was proved to the satisfaction of the Magistrate that the Association was able to keep records for each individual beekeeper and for each season's honey although subsequent seasons would also go into the packing depot in London. The methods of accounting under these conditions would be difficult as the final of one season's honey would take 1 to 3 years to complete, consequently the annual accounts published and issued to shareholders did not clearly disclose the position at any particular period. At the same time it is pointed out that in reporting to shareholders the Directors fully acquainted them with the position.

The retail price of packed honey was definitely fixed and it should have been a simple computation of costs of packing and distribution to know exactly the ultimate price to the beekeeper in New Zealand. Unfortunately however, the length of time for disposal was the most disturbing factor in upsetting these calculations. Storage and interest were also two disturbing factors. The sale of packed honey to retailers upon which the Association depended for its revenue was a slow process and the only method to stimulate sales was the adoption of an elaborate system of advertising and other propaganda efforts. Taking a broad view of this position the amount of advertising appears to have been widely distributed amongst many publicity avenues. It must also be remembered that advertising was not confined to the United Kingdom but to various Continental and other countries. I was shown numerous photographs of advertising campaigns conducted in Germany, Holland, Egypt and other countries and was impressed with the arresting nature of the advertisements and shop window and other displays. Another factor that must not be

overlooked in the advertising campaign, is that New Zealand received extensive publicity, and this should have some influence with the Government in dealing with any settlement scheme.

I propose to refer briefly to several other matters which have not been dealt with in any detail in the report.

(a) Government assistance.

In 1925 the Association found itself in difficulties and approached the Government for some assistance but through change of Ministers of Agriculture and other factors it was not until 4 years later that the Government decided to make a grant of £9000. for advertising purposes. The value of this amount was therefore seriously diminished when it is considered that interest at the rate of $7\frac{1}{2}\%$ was accruing on the debt due at that date. Computing at 6% which is probably lower than the rate charged to the Association by the London Agents, the accrued interest at the date when the above amount was made available would be over £1600.

The only other Government assistance that has been given to the honey industry was the loan of £6000 by the Unemployment Board to enable the Honey Control Board to purchase the goodwill of "Imperial Bee" brand from G. & E. Morton Ltd.

(b) Prices

Schedule . sets out published prices of honey from seven countries, including New Zealand, applying the English market, from 1926 to 1934. It will be at once seen the premium obtained for New Zealand honey over all other honey imported. One very noticeable feature of this table is the uniformity of prices over the whole period obtained for New Zealand honey in contrast to the fluctuating prices of all honey from other countries.

(c) Depot charges, packing, interest etc., made by the London Agents.

(1) Depot Charges: I perused a number of account sales rendered by A. J. Mills Ltd. and also by G & E. Morton and although the aggregate of these charges appeared high nothing seems to have

been debited to the Association that was not legitimate and reasonable.

(2) Packing: The system under which the Association packed honey was the renting of premises owned by the Agents and leased to the Association. The Association engaged its own labour, the amounts being advanced by the London Agents.

(3) Interest: The arrangement with C. & E. Horton was that interest at 1 per cent above Bank rate should be charged on all payments made on behalf of the Association. This varied from $7\frac{1}{2}\%$ to the present rate of 5%.

(4) The Demand for Honey

I attach extracts (Schedule .) from a survey of the retail marketing of honey in England and Scotland published in May 1932 by the Empire Marketing Board, and would refer to several significant points in this report.

Consumption: The estimated consumption of honey annually is set down at 5,000 tons which works out at $\frac{1}{2}$ lb. per head of population.

Honey is not regarded as a food.

From the tables it will be seen that the number of shops stocking honey is comparatively few and the annual sales extremely small.

(5) RECOMMENDATIONS.

I suggest that the Government give serious consideration to the suggested settlement scheme outlined in my separate report to you. In support of this I would point out that the export side of the honey industry is now established on a very business-like basis and as long as this policy continues the errors made by the E.P.A. cannot be repeated. In Mr. Butland, as Government representative and Chairman of the Board, the industry has a gentleman who has commercial experience which he is prepared to use in the interests of the industry. At the present time Mr. Butland is devoting a substantial portion of

his time to the affairs of the Board and is willing to do so in order to see the export side of the industry one more firmly established.

It appears to me that the export portion of the industry cannot function to advantage without control being also exercised over the local market. The beekeepers in the past have on several occasions taken a very short-sighted view of the export market by neglecting it when the local market offered a better and immediate return. To supply the overseas market regularly it appears necessary in my opinion to know exactly the quantity of honey available and apportion it between local and overseas requirements, always bearing in mind that in the event of a shortage it is better to neglect the local market than to curtail exports and break the continuity of supplies through London distributors.

I submit the suggestion that in view of the potential market in the United Kingdom an approach be made to Canada and other Empire Dominions supplying this market to combine in a national advertising campaign to increase generally the consumption of honey. On further consideration there is no reason why all countries supplying the United Kingdom market should not contribute to a fund in some agreed proportion to stimulate consumption, the contribution from each country would be infinitesimal. This propaganda would still leave the individual Dominions and foreign countries free to develop the sale of their own particular product.

In respect of marketing New Zealand honey I would urge that there should be as little delay as possible in the resumption of advertising and other propaganda efforts.

I am strongly of the opinion that the provision of Section 7 (1) of the Agriculture (Emergency Powers) Act should not be exercised in respect of the Honey Industry. The section reads -

7. (1) Subject to the provisions of sub-section three hereof, the Governor-General may from time to time by Order in Council transfer to the Commission any powers conferred by Statute or otherwise on any of the following bodies, namely -

- (a) The N.Z. Honey Control Board, established under the Honey-export Control Act, 1924.

49.

I submit also the suggestion that steps be taken to reduce the retail price of New Zealand packed honey to the consumer in the United Kingdom and Continent of Europe. With economies now proposed by the Control Board this should not be difficult.

Advisory Accountant.