

Confidential Letter (No. 1) to Honey Producers

July 15, 1935.

Dear Sir,—A most critical period in the history of the honey-producing industry of New Zealand in its local aspect has now developed, and I feel that, as a producers' representative on the Honey Export Control Board, it is my duty to acquaint you with all possible information so that any action you may take or any decision you may be called upon to make will be the result of careful thought based upon a full knowledge of the facts.

I would briefly review the events which have led up to the position now facing the industry:

(1) The industry reached a condition of local marketing chaos in 1914, when the production of honey exceeded consumption.

(2) A co-operative marketing company was formed in 1914—New Zealand Co-operative Honey Producers' Association—to retrieve the disastrous position with which the industry was faced.

(3) The company (the H.P.A.) achieved the object for which it was formed. It stabilised local prices for honey at a greatly improved level and developed a valuable overseas market.

(4) These sheltered markets, both at home and abroad, provided excellent returns to outside producers who refused to contribute anything to the cost of improving the markets, which cost had to be entirely borne by the co-operative producers. Outside producers were thus able to "chisel" just under the company's prices, and even then to secure better returns than co-operative producers who had to pay the costs of their organisation.

(5) In 1924 the position had become threatening, and the indiscriminate export of inferior honeys by non-co-operators and speculator-dealers and their unorganised marketing so injured the British market that measures to prevent a collapse of overseas prices were taken by the passing of a New Zealand Honey Export Control Act.

(6) The non-co-operators and speculator-dealers bitterly opposed the loss of their opportunity to benefit at the

expense of others, and even to this day they persist with dishonest propaganda.

(7) The H.P.A. continued to exercise a steadying influence in the marketing of honey, and producers were able to experience an era of substantial prosperity. The pay-out by the H.P.A. for top quality for each of the five years after 1924 was 5½d per lb.

(8) Then a series of developments in the industry precipitated a crisis, and in 1932 the H.P.A. went into voluntary liquidation. Amongst the causal factors were: (a) Two record crops (1012 tons exported in 1928 and 1066 tons in 1929, the previous average being 500 tons).

(b) The pay-out on these record exports was at the high figure of 5½d per lb for top grade. The money for the pay-out was *borrowed* from the company's London marketing agents, Messrs. C. and E. Morton, Ltd., on the security of the honey as it was shipped. (c) The large quantity of low-grade honeys in the 1928 and 1929 exports. (d) The expenditure incurred in extra advertising in an effort to rapidly dispose of the record overseas stocks. (e) The damage done to prices in New Zealand by the "chiselling" of non-co-operators and speculator-dealers. This "chiselling" or "cutting" just under the H.P.A.'s prices forced the market down and seriously reduced the H.P.A.'s receipts from local trade.

(9) The process of the liquidation of the H.P.A. was accompanied by considerable misunderstanding by producers and some opposition. It was forgotten that the money *borrowed* from the H.P.A.'s overseas agents was distributed to shareholders long before the honey was sold. It was not understood that far too much money (as it happened) was borrowed in 1928 and 1929 and the excess had to be refunded to the H.P.A.'s overseas agents. As the excess had been distributed in error to the shareholders upon their honey, action had to be taken to recover this excess from each individual.

(10) The collection of the "excess" caused very great hardship to large numbers of co-operative producers, as

the local market had crashed and price-levels were far below the costs of production. The protective, steadying influence of the marketing operations of the H.P.A. was removed and in the scramble of individual competition (with few buyers and a multitude of sellers) prices broke and chaos resulted.

(11) The lowered pay-outs of the H.P.A. (3½d per lb in 1930 and 3d in 1931) caused producers to lose confidence in the export market and as a result only 53 tons of honey were sent overseas in 1932.

(12) A failure of the honey crop was experienced in 1932, and two poor seasons followed (especially in the South Island). These factors also influenced the exports.

(13) In 1933, history repeated itself, and, despite the disheartening experience of the H.P.A., a new marketing co-operative company was formed (New Zealand Honey, Limited) for exactly the same purpose as the old H.P.A.

(14) When the H.P.A. ceased operations the Honey Export Control Board (in March, 1933) began to actively engage in marketing honey exports. As a result of having the marketing experiences of the H.P.A. as a guide, the Honey Board was able to organise the overseas operations on much safer, sounder lines. The board made several important decisions: (a) To pay out in instalments *as proceeds from sales* were available, thus making it impossible for reclamations ever to be required. (b) To make loans to producers (called advances), if applied for, of a small portion of the estimated return from their honey at bank rate of interest. (The financial accommodation thus offered was made use of by only about half of the exporters.) (c) To prevent the export of the lowest-grade, unsaleable honeys that had been so damaging a factor in the overseas market. To achieve this a new grading system was designed which gave to each type of honey a correct value-level as shown by sales returns overseas. (The new grading system has operated for two seasons with excellent results, although the first season saw some inconsistencies of interpretation by the graders.) (d) To complete the sale of each season's honey in one year and to make the final pay-out thereon as soon as possible thereafter. (e) To exercise the strictest

control of all overseas expenditure with repudiation of liability for expenditure incurred without the board's express authority. (f) To keep intimate touch with the overseas market and to supervise all sales.

(15) The H.P.A. (in liquidation) retained the use of the "Imperial Bee" brand and the London packing depot in order to sell the H.P.A. stocks of honey at market values and thus avoid a further deficiency in the repayment of the loan from the London agents upon such honeys; such a deficiency would increase the reclamation demands already made on shareholders.

(16) In view of paragraph (15) the Honey Board was compelled to trade *only* in the *bulk market* overseas, and the fact that in its first year of operation it was able to raise the pay-out from 3d (the last pay-out of the H.P.A.) to 4 5-8d per lb, was a notable achievement. This gave the industry a steadying influence and caused an increase of exports of 500 per cent (from 53 tons to 258 tons in 1933) and of a further 20 per cent in 1934 (from 258 tons to 308 tons). This season a further increase to 450 tons is anticipated.

(17) After the board's first year of overseas marketing, the producers organised their local marketing company (New Zealand Honey, Limited) and the effect of this move was at once noticeable in a steadying of local prices. The splendid work of the company, in the face of serious difficulties, is worthy of the highest praise; and its remarkable success in raising local prices to the point of enabling production to become again profitable, and then holding prices stable, entitles the company's operations to rank as a brilliant commercial achievement.

The Present Position.

This now brings us to the consideration of conditions existing in the industry to-day.

As everyone knows, the improvement of the local and overseas markets is hailed with appreciation by all producers. But there is still a nervousness that is preventing wholehearted support of organised local marketing. Many producers are afraid of the further results of the liquidation of the H.P.A.; many feel uncertain of the permanency

of the influence and strength of New Zealand Honey, Limited; others are affected by the dishonest propaganda and misrepresentations of the speculator-dealers; and yet others are merely and entirely guided by selfish motives in remaining outside and grasping all the benefits secured by co-operation, yet refusing to pay any slightest share of the costs.

The trend of events indicates that every producer will shortly be compelled to take sides, either *with organised marketing* or with *free competition, cutting and speculating*. There is no middle course. And the decision of the producers on this occasion will settle the outlook for the industry for a long time to come.

Voluntary co-operation (or voluntary "control") has been given every possible trial and has proved too weak to withstand the selfish, unrestricted, piracy tactics of speculator-dealers and of some of the non-co-operators. The multitude of producers in the industry renders the success of voluntary co-operation almost impossible owing to their influence to disruptive outside propaganda.

There is only one solution—"compulsory co-operation in the local marketing of honey." This principle is being recognised and practised in every part of the world to-day. It is a normal development of modern marketing science, although it has long been a practice of vital importance in the social structure of all communities. When applied to marketing, the principle has been termed "control."

The alternative is "*free selfishness*," with the old vicious, bitter and mercenary fight for business, with insecurity, loss and misery for those whose livelihood depends upon the production of honey. A reduced standard of living and financial difficulties are inevitable.

Proposed Stabilisation.

In order to bring about a settlement of all these difficulties, the leading spirits in the industry (in collaboration with the National Beekeepers' Association of New Zealand) have explored every avenue that offered any hope. Their unanimous decision was eventually summed up in one sentence: "Local control of the honey industry and the cleaning-up of the liquidation."

During February of this year, Mr. E. W. Morton, of Messrs. C. and E. Morton, Ltd., of London (who are the Honey Board's overseas agents), visited New Zealand and discussed with the liquidator the matter of an early completion of the liquidation of the H.P.A.

At the invitation of the liquidator the Government sent three departmental officers to be present at the meeting merely as "observers." Upon a similar invitation, two members of the Honey Board also were present as "observers."

The result of a very deep and thorough investigation of the entire position from the point of view of the benefit to the industry as a whole, was that Messrs. C. and E. Morton offered to renounce their claim to £5000 of the money they had loaned the H.P.A. (as advances on honey) if a prompt settlement were effected and the account cleared right up.

Since this considerable concession was offered active consultations, negotiations and conferences have been carried on between the liquidator, the Government and the Honey Export Control Board. These efforts resulted in a clarification of the issues involved, and definite suggestions for the solution of problems confronting the industry have been framed.

Major Buckley has just recently arrived in Auckland to settle the matter of the debt due by the H.P.A. (in liquidation) to Messrs. C. and E. Morton, Ltd., of which firm Major Buckley is managing director.

The decisions reached may greatly affect the industry, and producers would be wise to defer any major capital expenditure until the result of Major Buckley's negotiations is announced.

As these suggestions are still under discussion I am unable to give further details at present, but will do so in a second confidential letter as soon as possible.

I would invite any producers who desire further information upon any point to write to me freely, and I will be pleased to reply promptly.

Yours sincerely,
P. A. HILLARY.

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