

NEW ZEALAND HONEY MARKETING AUTHORITY

REPORT OF HONEY MARKETING INVESTIGATION COMMITTEE

Regional edy

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The Minister of Agriculture

REVIEW OF HONEY MARKETING SCHEME

I. INTRODUCTION

1. The Committee was asked:-
 - (1) To study the present system of honey marketing and review the current Honey Marketing Scheme.
 - (2) To report to you on the adequacy of the powers of the Honey Marketing Authority as at present constituted.
 - (3) To make appropriate recommendations on matters within these terms of reference.
2. 1. Reason for the investigation: The investigation arose from requests made in 1958 by the Honey Marketing Authority and the National Beekeepers Association for financial assistance to the Authority and the Industry.
3. The Authority and the Association asked the Government:-
 - (1) To cancel the debt of £71,000 due by the Authority to the Government for honey stocks taken over at its inception, or, arrange permanent fluctuating overdraft accommodation at the Reserve Bank to an equivalent amount.
 - (2) To provide a grant or subsidy to assist the Authority with its mortgage liability of £90,000 to the State Advances Corporation on its Auckland premises and plant.
 - (3) To provide a subsidy or grant to the Authority to enable its payout to its suppliers to be increased to parity with the assessed cost of production for honey.
4. After considering these requests the Government declined to cancel the debt or to provide a subsidy to augment the Authority's payout, but it extended the time for payment of the debt to 7 years with interest at 1%, waived some interest already due, and arranged for the State Advances Corporation to defer for two years the commencement of repayments of principal on the mortgage.
5. Renewed representations in 1959 from the Authority and the industry for State assistance led to the appointment of this Committee.
6. 2. Committee's Procedure: In order to give all beekeepers the opportunity to express their views on honey marketing submissions were invited from individuals and groups in the industry. A number of written submissions were received which expressed widely different points of view. The Committee met the Executive of the National Beekeepers Association, waited on the Honey Marketing Authority, and interviewed individually all past and present members of the Authority as well as other representative beekeepers, packers and merchants.

II. INDUSTRY BACKGROUND

7. 1. Statistics: At 31 May 1959 there were almost 5,000 registered beekeepers with 176,000 hives. Most of these (4,365) were hobbyists with fewer than 30 hives each. There were 609 beekeepers with over 30 hives but only 243 of them had more than 250 hives and so could be regarded as commercial beekeepers. It is generally accepted that about 400 hives comprises a one-man holding.

8. These 243 apiarists hold 73% of the registered hives, an average of 530 hives each, and produce a very high proportion of the honey which comes on to the market.

9. The National Beekeepers Association has drawn attention to the decline of 15,000 in the total number of registered hives between 1953 and 1959, and suggests this is indicative of economic insecurity in the industry. The decline was among hobbyists and small beekeepers and was partly due to a purging of the register. The number of commercial beekeepers has increased in the last ten years as the following figures show though the increase has been principally in the South Island.

	<u>Total registrations</u>		<u>Commercial apiarists (over 250 hives)</u>	
	<u>Beekeepers</u>	<u>Hives</u>	<u>Beekeepers</u>	<u>Hives</u>
1949	6,487	174,386	167	89,914
1953	6,568	191,553	201	111,319
1957	5,287	177,654	238	125,131
1959	4,974	176,350	243	128,960

Commercial Apiarists (over 250 hives)

	<u>North Island</u>		<u>South Island</u>	
	<u>Beekeepers</u>	<u>Hives</u>	<u>Beekeepers</u>	<u>Hives</u>
1949	103	62,464	64	27,450
1959	125	76,950	118	52,010

10. Commercial honey production therefore is a growing rather than a declining industry despite post war changes in market conditions and changes in farming practices which have affected beekeeping.

11. 2. Production and disposal: Industry production estimates are compiled annually by the Department of Agriculture. Production varies considerably from season to season according to climatic conditions. Most of the honey produced is absorbed by the local market; the balance is exported by the Honey Marketing Authority. Estimates of production and disposal in recent years (in tons) have been:-

	<u>Estimated Production</u>	<u>Supplied to Marketing Authority</u>	<u>Producers local market sales (approximately)</u>
1953-4	6,450	1,125	4,800
1954-5	7,000	2,206	4,300
1955-6	4,600	1,669	2,400
1956-7	6,400	1,571	4,300

	<u>Estimated Production</u>	<u>Supplied to Marketing Authority</u>	<u>Producers local Market sales (approximately)</u>
1957-8	5,885	1,104	4,300
1958-9	3,786	494	2,800

*After deducting 500 tons per annum for beekeepers estimated domestic consumption.

12. The Honey Marketing Authority sells approximately 300 tons of honey a year on the local market mainly in the Auckland district, and exports the greater part of its intake. Taking into account carryover stocks, New Zealand consumption appears therefore to be about 5,000 tons per annum or $4\frac{1}{2}$ lbs per capita.

13. 3. Marketing: Beekeepers are quite free to sell their crop as they wish except that the right to export is reserved to the Honey Marketing Authority. They may supply the Authority; supply packers; or pack their honey themselves into retail containers and sell to merchants and grocers. Many producers use all of these methods.

14. Factors which influence beekeepers in their choice of marketing methods include the grade of their honey, their location, their willingness to engage in packing and marketing, the prices offered by packers, the payout of the Authority, and, in some instances, a sense of loyalty to the marketing scheme.

15. Grade: The most acceptable honey is from white clover which grades, on a scale of 100, over 95 points, though some enterprising packers do have a considerable market for a darker pack. The packers who buy honey for the local market trade are able to offer the highest price for white honey of which the South Island produces more than the North. They can be and are highly selective in their purchases. The Authority tends to receive a greater proportion of the darker and less favoured honeys. Probably 80% of the honey the packers buy is of the white and light grades. On the other hand only 22% in 1957-8 and 26% in 1958-9 of the honey received by the Authority graded over 95 points. Of the Authority's 1957-8 receipts of 1077 tons 73% (785 tons) came from the North Island and 27% (292 tons) from the South Island. The average grading of the intake was 97.5 points for the South Island honey and only 82.5 for that from the North Island.

16. Location: This is an important consideration. Many producers work in remote districts where there is little local demand, and are dependent on the Authority to market their honey. Suppliers to the Authority must pay freight to Auckland or to one of the Authority's depots at New Plymouth, Christchurch, Timaru, Greymouth, Dunedin or Invercargill. The packers commonly collect bulk honey from the apiary.

17. Price: This naturally is a vital factor. Maximum trade and retail prices are fixed by Price Order. Packers can command top market prices with selected honey and pay producers accordingly. The private packers have many advantages which enable them to pay rates substantially in excess of the payout of the Authority which is influenced by export realisations. They buy selected honey, they need not go far afield, the operating costs of the more successful men are remarkably low, producers who supply them often have no freight to pay and they save the cost of tins and cases. All honey supplied to the Authority must be despatched in new tins and cases suitable for export. These cost 11d per lb of honey. "Packers live on the savings from tins and cases", it is said.

18. Two prominent Canterbury packers pay 12½d per lb for honey in bulk at the apiary, or delivered tins returned. A large Hawkes Bay packer was quoted as having paid 11d per lb in bulk at the

apiary in the Bay of Plenty for light amber honey, which if supplied to the Authority would have netted 7d per lb after tins, cases and freight had been paid for. In Southland packers were reported to be offering 12½d at the apiary for clover honey. The Authority's payout for white clover honey in 1958 was 12.85d lb from which the cost of tins, cases and freight must be deducted to compare with a bulk price at the apiary. Its average payout in 1958 for all honey was 11.65d per lb.

19. The Authority is unable to select its supplies, it must accept all marketable honey offered, it has an expensive organisation to maintain irrespective of the volume of its intake and sales, producers send to it the honey packers do not want and which is less acceptable to the local market, and it must sell the greater part of its honey overseas at less than local parity.

20. 4. Commercial packers: With one exception - L.H. Leggett and Co. Ltd., Auckland - all the commercial packers so far as we are aware are or have been beekeepers. The larger ones pack not only their own crop but also buy substantial quantities from other producers. The increasing share of the market which the large producer-packers have gained seems to be one of the significant developments in honey marketing in recent years. Probably half a dozen of these packers sell more than 100 tons a year each. We understand that one packer, who has a Dominion-wide connection has given up production to concentrate on packing and marketing. It has been suggested that large commercial interests may be considering entering the honey packing business and many (though not all) beekeepers are apprehensive about this.

21. This is the setting in which the Honey Marketing Authority operates. It is without the advantages of other marketing authorities which have assured supplies and protected markets, it faces unrestricted competition from producer-packers, who have a strong influence in the election of its members.

III. REVIEW OF THE HONEY MARKETING SCHEME

22. In reviewing the scheme the Committee considered and invited comment from the industry on the constitution and membership of the Authority, its functions, marketing policy, the seals levy, grading, prices and other related topics.

1. Constitution of the Authority

23. (1) Industry body or suppliers' organisation: Honey marketing schemes have been dogged for many years by a conflict between those who, often perforce, supply the central marketing organisation and those who supply the local market direct. This difficulty may be accentuated because beekeepers are often strong individualists. Co-operative marketing seems to come less easily to them (and not only in New Zealand) than to other producers.

24. This conflict between private producer/packers and their suppliers, and those who supply the central packing plant has tended to take on the colour of South Island (Canterbury) versus North Island (Waikato), and light versus dark honey producers.

25. The submissions the Committee received showed that there is a large body of opinion in the Auckland Province and in Southland, which urges that voting rights for members of the Authority should be confined to its suppliers. They contend that non-suppliers outnumber suppliers and dominate the Authority, that suppliers' honey is marketed by the Authority not to their best advantage but so as to interfere as little as possible with the market of the producer/packers.

26. Whether the Authority should represent only suppliers or should represent and serve the whole industry is a fundamental issue. The Committee takes the view that the Authority should without question be an industry body. The line between suppliers and non-suppliers is not a clear one. Many producers supply both packers and the Authority, (the Authority getting the poorer grades). As a matter of principle, however, the Marketing Authority should serve the industry as a whole. It does in fact do this by marketing the industry's surplus and by establishing a floor price below which packers cannot go. Moreover, the existence of the seals levy as a marketing equalisation fund entitles non-supplying producers who pay it to a voice in the Authority's affairs. To deny representation to non-suppliers would in our opinion deepen the division in the industry, weaken the reason for maintaining the seals levy, and tend to destroy the industry marketing scheme.

27. (2) Representation and voting qualifications: The electoral roll is compiled from those who supply honey to the Authority and producers who buy seals in respect of honey sold to the trade and the public. Suppliers to packers may claim the qualification in respect of seals bought by packers for their honey.

28. The voting qualification is 2 votes per ton of honey supplied, or per ton of honey on which seals levy is paid with a maximum of 20 votes per elector. In computing the voting tonnage an average of the two years prior to the election is used. Based on the average yield used in assessing the cost of production for honey the maximum voting qualification is reached with a hive holding of 285 hives. By fixing the maximum at this relatively low level the system reduces the proportion of votes received by non-suppliers. Of the 322 voters in the 1957 roll 94 qualified for the maximum 20 votes. Two of the four elected members of the Authority at present were suppliers' representatives on the former Honey Marketing Committee which preceded the Authority when only suppliers might vote. They were elected to the Authority and have retained

35. The Association has recently asked that its nominee should be appointed annually on its recommendation. The other members of the Authority are appointed for three years after a producers' election. We think it would be wrong for one member of the Authority to be appointed for single year terms. This would still more sharply distinguish him from the others. All members of the Authority should have a full and equal responsibility. If the Association does continue to have a direct representative then we think he should be appointed for a full three-year term.

36. We agree however with those who consider that the direct representation of the National Beekeepers Association on the Authority should be cancelled, and recommend accordingly. A reduction in the size of the Authority (to 5 members) should be an advantage. The change from an even number of members would remove the possibility of deadlocks resulting from even voting which have occurred in the past on the election of the Authority Chairman.

37. (4) Ward system of representation: The Committee considered proposals that the members of the Authority should be elected on a ward system in order to enable the smaller districts to gain representation and to ensure equal representation from both Islands. While there is something to be said for this, the industry is so small that the Committee thinks the present system is preferable in order not to restrict the election of the best qualified men. So far there have always been members from both Islands though at present only one is from the North.

2. Functions of the Authority:

38. (1) Honey trading: The Honey Marketing Regulations 1953 state that the principal function of the Authority is to promote and organise the marketing of honey and to assist in the orderly development of the honey producing industry. Many suggestions were received by the Committee on the Authority's functions. They ranged from one serious proposal that the Authority should cease trading operations for five years and assist beekeepers to supply the export market themselves, to the opinion of others that the Authority should have sole selling rights for all honey, at least in the Auckland Metropolitan area.

39. It is quite certain that the beekeeping industry would never agree that all honey produced for sale should be supplied to the Marketing Authority in the way that Regulations broadly require for apples and pears, and citrus fruits. Nor do we think the Government or the public would favour this. The producer/packers are now well entrenched, they provide an excellent service to the public, and the larger ones are highly efficient. The Authority's marketing operations must therefore in our opinion be complementary to those of the packers.

40. In the past the Authority has tended to gauge the success of its operations by the quantity of honey it receives for sale. The decline in its receipts in recent years has been taken to denote a loss of confidence among its suppliers. This assumption may be true but not necessarily. The policy of the Marketing Department was to attract as much honey as possible to the Auckland plant in order to achieve optimum efficiency. It seems to us that the Honey Marketing Authority should not necessarily adopt this policy. The Authority must operate in a situation which requires it to accept all marketable honey offering, face keen competition in selling on the local market, and sell overseas what is surplus to local requirements. The Authority administers the seals levy (equalisation fund) the proceeds from which are fairly uniform from year to year. The poor production season in 1959 has demonstrated that the less honey the Authority receives, provided the local market is fully supplied, the higher the contribution the fund can make to its

payout per lb because the seals levy proceeds are applied to a smaller tonnage.

41. In our opinion the Authority's chief function should be to act as a stabilising and balancing force for the industry. It should not compete with packers to secure supplies. But it should sell all the honey it does receive in the best interests of its suppliers, in the best market, with all the vigour it can command. So long as the export market is less remunerative than local trade the Authority should sell all the honey it can in the local market in competition with the packers. This policy calls for a high degree of trusteeship and integrity among those members of the Authority who may themselves supply packers or pack for the trade and who are called upon to market the honey of the Authority's suppliers in competition with their own.

42. An extension of the Authority's operations on the local market would be unwelcome to packers, and suppliers allege, possibly with some justification, that the Authority's selling policy on the local market in the past has been tempered in deference to the packers.

43. This aspect of the Authority's function has been discussed with the Executive of the National Beekeepers Association which in the following resolution supports the view we have expressed:

"That it is the decided opinion of the industry as a whole that the Authority should sell honey entrusted to it to the best advantage making the fullest possible use of the local market where considered desirable or necessary but without undue restriction of private enterprise."

44. (2) Licensing of packers: The Authority has shown no tendency to seek licensing powers. It may have a significant contribution to make to the stabilisation of the market in the interests of producers if it were to license packers, not necessarily to restrict their trading activities, but to check any undesirable practices, promote the grading of honey packed for sale on the local market, and lay down quality standards. The Authority might consider extending its administrative functions in the interests of the industry as a whole. This could however impose a strain on the time and abilities of those in so small an industry who may be elected to the Authority.

3. Marketing Policy

45. The Authority's sales of honey (in tons) since its inception have been:-

	9 mths ended	Year ended	Year ended	Year ended	Year ended	Year ended
	31.8.54	31.8.55	31.8.56	31.8.57	31.8.58	31.8.59
New Zealand	393	283	295	369	259	291
Overseas	632	1,763	1,190	890	1,329	1,007

46. (1) Export trade: The Authority has the sole right to export honey and in our view should retain it. Some beekeepers have asked that private exports should be permitted, at least to countries other than the United Kingdom. The Authority however has established good connections overseas. It has an excellent agent in London for the United Kingdom and Europe. New Zealand white clover honey commands a premium price in England though the quantity available is relatively small. The best overall returns can be attained by keeping the market supplied regularly even with small quantities rather than intermittently. Since the local market must be kept supplied, and yields the best returns, the fluctuating crop makes overseas marketing more difficult. Private uncoordinated exports by

producers themselves would almost certainly prove to be a less remunerative way of disposing of New Zealand's surpluses. The Authority is well experienced in this field, it is in a position to regulate supplies to the best advantage and should continue to be responsible for overseas marketing. Should export returns exceed local parity, however, the local market must be kept fully supplied.

47. (2) Local market: It is doubtful whether the Authority has made the fullest use of the local market. Its record gives some credence to the contentions of those suppliers who assert that the Authority has been more concerned to interfere as little as possible with the producer/packers than to achieve the best possible returns for its honey.

48. The Authority employs a marketing agent in the Auckland Province who receives an overriding commission. It formerly had an agent, Farm Products Ltd., in the Wellington district but this agency was cancelled in 1956 without being replaced. South Island packers seem to have no difficulty in selling honey profitably in Auckland on the Authority's doorstep. It should be possible for the Authority to sell readily at least throughout the North Island if sales are energetically pursued.

49. Local market sales have for some time been more remunerative than overseas realisations. There is no indication that overseas prices will improve. An analysis of net realisations from sales in the first 9 months of the 1958-9 trading year for various grades of honey disclosed the following results, (the Authority's payout for these grades in 1957-8 season is recorded for comparison):-

	Gross return per lb.	Net return per lb.	1957-8 payout per lb*
New Zealand sales: Retail packs (Imperial Bee)	18.03	14.41	12.85
Overseas sales:			
White 95 points	15.90	12.72	12.85
Clover 85 "	16.25	13.07	12.50
Imperial Bee	14.80	9.69	12.85
Bulk extra light amber (76/91) "	15.00	11.95	12.15
Honeyco	13.13	9.02	11.50
Light amber (65/75) "	13.08	10.09	11.45
" (50/64) "	12.24	9.25	11.04
Medium amber (40/49) "	9.44	6.45	10.50
" (25/39) "	9.18	6.19	10.13
*Contract honey. Non-contract suppliers - 3d per lb less.			

The disparity between realisations and payout is discussed later in this report.

50. The Authority's Imperial Bee and Honeyco brands are produced by blending suitable grades and varieties of honey. The darker honeys which are scarcely saleable as straight lines can be made marketable by this process. The advantage of local market returns is illustrated by the difference between the overseas and local returns from Imperial Bee Honey. The Authority has decided after some years of discussion to place a "second pack" on the local market at 2d lb less than the price of Imperial Bee. This move has been opposed, chiefly by packers, because of the fear that a lower priced honey may depreciate the price of first grade packs. It has been advocated, mainly by "suppliers", in order to find a more remunerative market for the non-white honeys.

51. The statement of policy by the National Beekeepers Association that the Authority should take the fullest advantage of the local market is important since it gives industry support for the Authority to compete vigorously with the packers in selling on the home market. We do not agree with the suggestions that have been made that the Authority should have sole selling rights in any district but we do support the policy of active selling on the local market. The Authority's Imperial Bee Honey is still to be found in some retail shops in Wellington where it is said to sell satisfactorily and we consider that the appointment of a competent agent in this territory may be an advantage.

52. (3) Payout policy: The Authority's practice is to make an advance payment for honey received as soon as it is graded. In 1954 this payment for 100 point honey was 8d per lb; since then it has been 9d. The payment is apportioned pro rata for lower grade honey by the grading points system. A final payment is made when accounts are made up at the end of the season. Until the 1959 year this final payment has been at a flat rate (lowest year 3d; highest year 3½d) over all honey. Reference to the table in paragraph 49 shows the disadvantages of this practice. Payouts for light honey tend to be less than realisations; payouts for darker honey have been higher than realisations. This year the Authority has made the final payment pro rata with the grading. The short crop and lower intake last season gave the Authority the opportunity to increase its average payout. The result of these two factors is seen in the following comparison of the payouts for the 1958 and 1959 seasons:-

Class of honey	d. per lb.			Payout		
	1958	1958	1959	1959	1959	1959
	Advance	Final	Total	Advance	Final	Total
			<u>APPROX.</u>			<u>APPROX.</u>
White Clover	8.85	3.25	12.10	8.85	4.67	13.52
Clover and mixed	8.50	3.25	11.75	8.50	4.49	12.99
Extra light amber	8.10	3.25	11.35	8.10	4.27	12.37
Light amber	7.00	3.25	10.25	7.00	3.69	10.69
Medium amber	6.20	3.25	9.45	6.20	3.27	9.47
Dark amber	5.70	3.25	8.95	5.70	3.01	8.71
Manuka	7.00	3.25	10.25	6.00	4.00	10.00
Birch	7.00	3.25	10.25	7.00	4.25	11.25

These prices were increased by ½d per lb for honey supplied under contract to the Authority. The contract system has now been dropped.

53. This change in payout practice is very commendable and the policy should continue along these lines. To foster the production of the less acceptable dark honey at the expense of the payout for the more remunerative light honey added to the Authority's difficulties. From a marketing standpoint it is clearly unwise to attract a less saleable product and discourage producers of the more favoured honey from supplying to the Authority.

4. Administration of the Authority

54. The National Beekeepers Association submitted the following resolution to the Committee:-

"That the whole of the operations of the Honey Marketing Authority be fully investigated by properly qualified Industrial Efficiency Consultants in order that the operational and administrative efficiency of the Authority may be definitely established."

55. This resolution has no doubt been prompted by the attitude the Committee met among some members of the industry who considered the overhead costs of the Authority are exorbitant, that so small an industry cannot easily support the expensive organisation that has been established, and that the Authority is not administered as economically as it could be.

56. At first sight there is marked difference between the efficiency of the producer/packers and the Authority. Two of the largest packers pack and distribute upwards of 400 tons of honey each per year with a remarkably small labour force and capital outlay on buildings and plant. The Authority which packs 300 tons for the retail trade and exports 1,000 tons mainly in bulk containers employs a factory staff of 9 and an office staff of 6 and utilises a building and plant which cost £90,000.

57. Some of the advantages the packers enjoy and some of the disabilities of the Authority have already been mentioned. The Authority, however, supplies services to the industry which go far beyond purely packing and selling activities. It is a full scale commercial enterprise. It operates a honey blending plant for the benefit of the industry, it administers the industry seals levy fund, administers the authority's electoral system, runs an export business, and must maintain facilities and provide capacity for handling unpredictable surpluses in peak production years.

58. The value of the industry's production is approximately £700,000 per annum. The cost of the Authority to the industry in honoraria, administration expenses and standing charges on its building and plant is less than £20,000 per year much of which is properly chargeable to honey trading. This does not seem to be an unreasonable burden. If the policy we advocate is followed it could conceivably happen, in some seasons, that little or no honey would reach the Authority's plant. This should dismay no one if the crop has been sold satisfactorily and if the cost of maintaining the Authority's facilities is contributed fairly by all producers through the medium of the seals levy.

59. The Committee has not attempted, nor was it its function, to make the kind of investigation requested by the National Beekeepers Association. It has formed the opinion however that the Authority's efficiency has not been as high as it could have been. This we suggest has been due largely to irresolute policies and the divergence of opinion among its members which appear to have been reflected in the administration of the Authority's affairs.

60. The present manager is a competent officer and has been a loyal servant of the Authority in its difficult formative years. The post of manager in this enterprise calls for an administrator whose experience and preferences lie in the marketing field as well as in the accounting field. The manager has reached retiring age. When he retires, the Authority may well consider the appointment of a successor who should be charged with the duty of carrying out the broad lines of policy laid down by the Authority and encouraged and left free to exercise initiative and drive to achieve its objects. The nature of the Authority's function as a stabilising force in industry marketing calls for an administrator who can maintain a proper balance between energetic salesmanship and restraint, in the interests of the industry as a whole. This will be a difficult assignment and the Authority should exercise great care in making an appointment.

61. The Committee encountered instances which contrasted the conservatism of the Authority and the enterprise of the packers. Packers devised a process some years ago for marketing honey in a readily spreadable condition which is very acceptable to consumers. The Authority on the other hand was very slow to meet the preference of the market for a spreadable honey. Its Imperial Bee honey was not prepared in softer form until last year. The Authority debated for years the merits of marketing in New Zealand a "second pack" of a lower grade than Imperial Bee. But the more efficient packers watch the market closely and quickly put changes into effect to meet public demand.

5. Honey Grading

62. All honey submitted to the Authority is graded on an export standard by a Government grader. The grading criteria are flavour, colour, and condition for which the maximum points obtainable are 45, 35, and 20 respectively, a total of 100. The Committee found universal approval of the grading system employed by the Authority and the Department. The National Beekeepers Association's resolution on this topic reads:-

"That the present grading system be reaffirmed."

This is endorsed by the Committee.

63. There is no grading system for honey purchased, or placed on the local market, by packers except their own appraisal based on their individual requirements. Suggestions were made that grading standards should be introduced for honey sold on the local market and that wholesale and retail prices should be fixed accordingly. Despite the difficulties the Authority might well consider whether some system of this kind could be introduced. The smaller packers do not always maintain consistent packs and this is disturbing to consumers.

6. Pricing

64. Maximum prices at which honey may be sold in New Zealand are fixed by Price Order. Honey was released from Price Control in March 1957 at the insistent request of the producers but reinstated in the following August when the industry found that, far from benefiting producers, the merchants and retailers seized the opportunity to widen their margins. When price control was lifted the maximum price producers might charge wholesalers for 60 lb tins was 13½d per lb. At the retail 1 lb cartons were priced at 2/1d and 1 lb jars at 2/5d. When control was reinstated the prices were fixed at 15d per lb to wholesalers for 60 lb tins (an increase of 1½d), 2/4d retail for 1 lb cartons and 2/9d for 1 lb jars.

65. The Price Tribunal has been influenced in fixing the price for honey by the cost of production assessed by the Department of Agriculture in 1952. The original assessment of cost, based on a 500 hive unit, was 12.2d per lb. This was revised in 1954, 1957 and 1959 to 12.9d, 13.4d, and 13.7d respectively. The Trade Practices and Prices Division last year undertook a survey of the accounts of a cross-section of producers to judge the fairness of the price. So far the survey has not resulted in any proposals for changes in price.

IV. HONEY MARKETING AUTHORITY'S FINANCES

1. Overdraft facilities

66. In an interim report last November the Committee recommended that the Honey Marketing Authority should have the same overdraft facilities at the Reserve Bank as are accorded to the Dairy Products Marketing Commission and the Apple and Pear Board. The Government approved and the Reserve Bank has now agreed to grant overdraft accommodation to the Authority to enable the debt to the Government to be paid and to finance the Authority's normal purchases of honey until they are sold.

67. This should meet the Authority's request to the Government, and that of the National Beekeepers Association which was expressed in the following resolution in its submissions to the Committee:

"That the Honey Marketing Authority be relieved of its Stock Debt by having it transferred to a permanent fluctuating Reserve Bank overdraft at not more than 1% interest."

The decision will provide the Authority with a degree of flexibility in financing and holding stocks for the best realisations which it formerly lacked.

2. Seals levy

68. The Honey Marketing Regulations provide that a levy of 1d per lb shall be paid to the Authority in respect of all honey sold in New Zealand otherwise than to the Authority. Comb honey, and unsolicited retail sales at the apiary in lots of over 10 lb are exempt.

69. The levy was first introduced in the early 1930's. The proceeds are now utilised to provide funds to augment the Authority's trading income from exports and pay out to its suppliers a price nearer to local market realisations; for honey sales promotion; and to make a grant, prescribed in the Regulations, of £4,000 per year to the National Beekeepers Association for its administration expenses.

70. Some producers claim for a variety of reasons that the seals levy should be abolished. It is variously said that it is fundamentally wrong in principle, that it is a dangerous tax and a subsidy on exports, that by its means white honey producers are subsidising dark honey producers, that it should be revoked and the Government should subsidise the industry.

71. The official attitude of the National Beekeepers Association was expressed in the following resolution in the submissions the Association made to the Committee:-

- (1) "That the seals levy as at present established be retained AND that the funds so created be subsidised by Government, provided however that the Industry would desire the levy to be abolished in the interest of reducing consumer prices and increasing consumption so long as sufficient funds are made available from other sources to enable the Honey Marketing Authority to operate in the proper fulfilment of its objects."
- (2) "That any increase in the seals levy is strongly opposed."

72. The Committee considers that an industry reserve or equalisation fund which is supplied by the present seals levy, is of the utmost importance in maintaining the honey marketing scheme. To abolish the levy unless it is replaced with similar

or greater funds in another way would wreck the scheme. No section of the industry wishes to see the Authority break down; all acknowledge its value in marketing surplus honey which would otherwise depress local market returns; and in paying a floor price which packers must match. It cannot perform these functions without adequate funds. The levy supplies these funds. Since producers and producer-packers are free to make the most of the local market while the Authority must sell surplus honey in a lower price market an equalisation fund is fair, and it is imperative, if stability is to be achieved.

3. Request for Government subsidy to industry

73. The Authority and the National Beekeepers Association joined two years ago in a request to the Government for a subsidy or grant to supplement the seals levy fund to enable the Authority to increase its average payout to the level of the assessed cost of production. The request was renewed last year.

74. The essence of the claim as presented was as follows:-

	1954	1955	1956	1957	1958
Assessed cost of production	12.9d	13.1d	13.3d	13.4d	13.4d
Authority's average payout all lines	10.86	11.08	11.39	11.78	11.52
Deficiency per lb	2.04	2.02	1.91	1.62	1.88
Amount required to raise production	£26,670	£21,885	£37,542	£31,086	£24,523

∅ The cost of production figures for 1955/1956 and 1958 were estimated by the Authority. The figures for the other years were assessed by the Department on the basis of a survey made in 1952. In 1959 the assessment was revised to 13.7d.

→ Includes 1d per lb for freight incurred by suppliers to transport to Authority's depots.

75. An analysis of the facts suggests that the claim was not soundly based. The assessment of cost of production is based on a survey made in 1952. This must now be considerably out of date. Moreover the claim assumes that all honey received by the authority was at least of average grade. In fact the Authority's intake is predominantly of the non-white varieties and includes a considerable amount of the more difficult manuka and birch honeys. Again, the cost assessment included the expense of tins, cases and freight. Packers last year paid 12d per lb for bulk honey. When the cost of tins, cases and freight are allowed for suppliers to packers received more than the reputed cost of production. On these figures it is very likely that the industry as a whole did in fact receive an average return equal to the assessed cost of production. This clearly indicates that the seals levy is the means by which greater equality in returns to producers, with due regard to differences in quality and grades, should be achieved.

4. Pollination Service

76. In the last resort the industry's claim for financial assistance from the Government is based upon the pollination service bees render to agriculture, and thus to the community, for which the industry is not fully compensated in market realisations. The value of bees to the fruitgrowing and seed

production industries is unquestionable. This is recognised by orchardists and by clover seed growers who commonly pay beekeepers to bring hives to the orchards and the fields at blossom time. Instances were given to the Committee of substantial increases in yield of clover seed when apiaries are placed in Canterbury clover fields. Beekeepers are welcome and are attracted to the newly developed lands in the Rotorua district where new pastures are being established. In these branches of primary industry there is an acknowledged mutual advantage to beekeepers and other primary producers.

77. The Association's request for financial recognition of pollination services refers particularly to the maintenance of clover in pastures in what are generally dark honey producing districts, notably the Waikato. The darker grades of honey are less acceptable on the local market and yield a much lower price overseas than the favoured clover and light grades. To raise the payout on these grades of honey to parity with lighter honeys would be a considerable drain on the Authority's resources. If an adequate price is not paid, it is asserted, producers of these honeys will either cease production or invade the retail market at cut prices and disrupt the trade. If they cease production, the contention goes on, the consequences to agricultural production may well be serious and the maintenance of clover in pastures jeopardised.

78. Since this is the crux of the Association's application for Government subsidy the Committee has given this question close attention. The least acceptable honey on the market is from the flowers of the native bush. The pollination of these flowers is of course of little agricultural significance, but bees that work the bush also work the clover in pastures. It was demonstrated from Chatham Islands experience that clover could not be established and maintained there without bees.

79. The Committee sought advice on this matter. The conclusion it has reached are that while in the long term an absence of bees and pollinating insects could lead to the deterioration of clover in pastures and would have economic significance, a decline in commercial beekeeping in what may be called the dark honey producing areas would be unlikely to have any serious effects. It would be most difficult to put a money value on the presence of bees in these areas and the Committee can find no justification for a Government subsidy to retain commercial beekeepers in districts where they may find it unprofitable to operate.

5. Consumer subsidy

80. One other proposal for a subsidy received some support in the industry and must be discussed. It was submitted by Mr W.B. Bray, a prominent producer-packer in Canterbury and a member of the Authority. Mr Bray advocates a consumer subsidy for honey as a breakfast food in the same way that bread, milk, butter and eggs are subsidised. The proposal would reduce the price to consumers, but would be designed particularly to promote the orderly marketing of honey. A substantial subsidy at the point of wholesale would give the Authority command of the market and would in Mr Bray's view give consumers cheaper honey, encourage greater consumption, eliminate price cutting among producers and enable the Authority to see that all producers receive an equitable return.

81. To be effective in this way the subsidy would have to be a large one. Mr Bray envisages a subsidy which would reduce the consumer price by 4d per lb., from 2/4 for 1 lb cartons to 2/- . By a contraction of retail margins and adjustment of the seals levy he suggests that the real cost of the subsidy to Government would be only 2½d per lb. Even so, 1d per lb on local market sales of 5,000 tons is £47,000 per annum. A subsidy of 2½d per lb would require £117,000 per annum.

82. Whether a consumer subsidy should be instituted for honey as it is for butter, milk, bread and eggs is a matter of Government policy outside the scope of this Committee, but as honey is not used as universally as the four subsidised breakfast foods, and has a negligible influence in the Consumers Price Index, we assume that this suggestion that honey should be subsidised would not be favoured.

6. Reliance upon Seals Levy

83. The Committee considers that the obvious and proper way to strengthen the Authority's position, build industry reserves, and enable it to maintain an equitable payout to its suppliers, is to rely upon the seals levy. This should be widened in scope to include honey now exempt and, if necessary, increased.

84. (1) Extension to honey now exempt: An investigation made last year into the financial position of the Authority suggested that a substantial quantity of honey escapes the levy and that there was no good reason why the levy should not apply to all sales other than comb honey.

85. The following table shows why it is assumed that the revenue from seals could be increased by levying sales of honey now exempt:-

	<u>Estimated Production</u>	<u>Supplied to Authority</u>	<u>Balance:</u>	<u>Seals Levy</u>		<u>Tonnage unaccounted for</u>
	<u>tons</u>	<u>tons</u>	<u>Approximate Direct Sales</u>	<u>Receipts</u>	<u>Tonnage</u>	<u>(approx.)</u>
			<u>tons*</u>	<u>£</u>		
1953/54	6,450	1,125	4,800	15,893	1,703	3,100
1954/55	7,000	2,206	4,300	15,377	1,648	2,600
1955/56	4,600	1,669	2,400	15,883	1,702	700
1956/57	6,400	1,572	4,300	20,718	2,220	2,100
1957/58	5,885	1,104	4,300	20,226	2,167	2,100
1958/59	3,786	494	2,800	18,989	2,034	800

*After deducting 500 tons for beekeepers estimated consumption not marketed.

86. The National Beekeepers Association does not agree with the inference from these figures that upwards of 2,000 tons in a normal season does not bear the levy. It contends that the amount could be 750 tons but contends that if the levy were extended to these sales it would be collected on only 500 tons and the additional yield after expenses would not be more than £3,500 per year.

87. When sales at the apiary up to 10 lbs are subject to the levy the Committee sees no justification for excluding sales of greater amounts and recommends that the levy should apply to all honey which is sold otherwise than to the Authority, except comb honey.

88. (2) Increase in levy: An increase of 1d per lb in the rate of the present levy ought to yield an additional £17,000 - £18,000. Each 1d per lb in the Authority's average payout would require £9,300 on an intake of 1,000 tons.

89. If the levy were raised without any increase in the price to the public, packers would find it necessary to reduce their buying price from their suppliers by an equivalent amount. A higher seals levy might conveniently have been introduced in 1957 when after price control has been suspended for six months it was reinstated at a higher price level. In order to maintain producers' present returns however a higher levy now would entail at least a corresponding increase in consumers' price.

90. So far as we can ascertain the seals levy has been admitted as a cost component in establishing some trade and retail prices for packed honey. It does not seem to have been allowed for in the producers' price for bulk honey. The seals levy appears to us to be a proper charge for inclusion in consumer prices. It is in the nature of an industry levy which is applied to the upkeep of the national producers' organisation, to industry advertising, both of which are legitimate costs, and to the equalisation fund. If the price to producers upon which consumer prices are based is a fair one then the seals levy should be an addition to and not a deduction from that fair price in computing prices to the trade and the public. We consider therefore that any increase in the levy should be recovered in consumer prices for honey.

91. In our view honey is not over-priced on the local market. The maximum price order prices are 2/4d per 1 lb carton and 2/3d per 1 lb jar. Jams and conserves, are selling at from 3/- to 3/9d per 1 lb jar. The restraining influence of price control over many years has kept the price of honey in bounds and an increase of say 1d per lb., provided current wholesale and retail margins were not raised, should not be unfair to the public or set up any serious buyer resistance.

7. Application of the levy fund

92. The levy receipts in recent years have been applied as follows:-

	1953/4	1954/5	1955/6	1956/7	1957/8	1958/9
Gross proceeds:	£15,893	15,377	15,883	20,718	20,226	18,989
Distribution:						
Printing & Expenses	1,087	1,024	752	1,008	1,670	1,042
Grant to N.B.A.	573	753	520	810	1,000	1,050
Advertising	-	-	-	559	497	-
Applied to payout	£14,233	13,600	8,757	5,522	10,638	10,880
Transfer to reserve	-	-	5,854	12,819	6,421	6,017
	£15,893	15,377	£15,883	£20,718	£20,226	£18,989

Average payout per lb	10.86d	11.08d	11.39d	11.78d	11.52d	12.50d
Seals levy contribution per lb	1.35d	0.66d	0.56d	0.38d	1.03d	2.4d

93. The levy fund should be regarded primarily as an equalisation fund to achieve a proper relationship between the payout to the Authority's suppliers and the returns for honey supplied by producers to packers and the distributing trade. It should also be capable of financing advertising to promote honey sales, and should provide for the Authority's grant to the National Beekeepers Association.

94. (1) Grant to National Beekeepers Association: There is some criticism in the industry of the grant from seals levy funds of £1,000 per annum to the National Beekeepers Association. We think this is a legitimate payment. A strong producers' organisation is highly desirable. The industry is a small one and to meet the current level of expenses entirely from subscriptions the rates would be burdensome and would discourage membership. Subscriptions at present yield £460 per annum, and without the contribution from the seals levy the Association would collapse. A proposal to increase the annual payment to £1,500 was made at the 1959 beekeepers conference but was lost. If the seals levy were increased so that the Authority has sufficient funds to support reasonable payouts we can see no objection to the payment if necessary of a larger sum to the Association than £1,000 per year.

95. (2) Advertising: One of the purposes of the seals levy is to finance sales promotion in the interests of the whole industry. Reference to the table in paragraph 92 shows that the Authority's expenditure on advertising has so far been slight. The lack of a well conducted publicity campaign appears to be one of the industry's notable deficiencies. An advertising campaign should be directed towards three ends - on behalf of the industry to sell more honey on the local market; to sell more of the Authority's brands of honey; and to encourage greater consumer acceptance of the darker honeys; the preference for white honey seems to be a matter of prejudice.

96. The present per capita consumption of honey is 4 lb per head. Many people in the industry consider that this could be raised appreciably by suitable advertising. An increase in consumption of 1 lb per head would absorb almost all the surplus now exported and it would return a higher average realisation to producers. This would answer the apprehension of those who fear that increased sales by the Authority would merely displace those of packers and reduce seals levy revenue. The Committee does not think there is any likelihood that the sales of the more efficient packers would be displaced but the removal from the market of some itinerant price cutting beekeepers would be an advantage. In our opinion the Authority should seriously consider embarking on a well planned advertising campaign.

97. One branch of the National Beekeepers Association, in submissions to the Committee, proposed that if no financial assistance is received from the Government by the industry then the seals levy should be abolished and replaced by a pollination fund for which an amount should be incorporated in retail prices. The proposal went on that from this fund £1,500 per annum should be paid to the National Beekeepers Association, an allocation of £5,000 a year should be made for honey sales promotion, and the balance should be distributed to the Authority's suppliers. We doubt whether pollination fund would be a suitable description but if a change of name of the seals levy would make the equalisation fund more acceptable to the industry, diminish memories of past controversy, and make an increase more palatable, then the suggestions of this Branch have merit.

98. (3) Authority's reserves: The Authority has steadily increased its reserves since its inception. The Stock Fluctuation Account and Accumulated Fund balances have been:-

31 August	1954	1955	1956	1957	1958	1959
Stock Fluctuation Account	-	£28,000	£28,000	£40,000	£40,000	£40,000
Accumulated Funds	£14,281	4,659	10,513	11,332	17,753	23,770
Total:	£14,281	£32,659	£38,513	£51,332	£57,753	£63,770

These reserves are still insufficient to enable the Authority to fulfil its function with confidence. An increase of at least 1d per lb in the seals levy, together with the extension of the levy to all apiary sales, ought to be seriously considered. These changes should double the present levy revenue. The additional revenue would be of great assistance to the Authority which next year must begin to make the suspended principal repayments on the State Advances loan. The industry should be prepared to agree to an increase in the levy to back up its profession of support for the Authority and the marketing scheme.

V. CONCLUSIONS AND RECOMMENDATIONS

99. Industry's growth: The total number of commercial beekeepers with holdings of over 250 hives has increased in the last ten years, though the increase has been principally in the South Island. Honey production is a growing rather than a declining industry. (Para. 9).
100. Honey Marketing Authority: The Committee considers that the Authority should be an industry body, serving the industry as a whole. All commercial producers, suppliers to packers and the trade as well as suppliers to the Authority, should continue to be represented upon it. (Para. 26).
101. Voting qualifications: No change is recommended in the present election system or in voting qualifications. (Para. 28).
102. Representation: The Committee recommends that direct representation from the National Beekeepers Association on the Authority should cease. The Authority would then comprise four elected members and one Government (and consumer) representative. (Para. 36).
103. Ward system of representation: The ward system has advantages but in this small industry the present method is preferable in order not to restrict the election of the best qualified men. (Para. 37).
104. Functions of the Authority: The Committee considers that the Authority's true function is to be a stabilising and regulating force in the industry. It should accept all marketable honey submitted without competing for supplies; sell its honey in the best interests of its suppliers; market the industry's surplus; offset fluctuations in production from season to season; and administer the payout equalisation fund. This policy calls for a high sense of responsibility from non-supplying members of the Authority who are required to market the Authority's honey in competition with their own. (Para. 41).
105. Export market: The Authority should retain the present sole right to export honey. (Para. 46).
106. Local market: The Authority should sell the honey entrusted to it to the best advantage making the fullest use of the local market. (Para. 51).
107. Payout policy: The Committee considers the Authority should continue the policy it has now adopted of paying for honey with due regard to realisations, grade for grade. (Para. 53).
108. Grading: The present grading system is universally approved by the industry and should be confirmed. (Para. 62).
109. Seals levy: The Committee regards the equalisation fund raised by the seals levy as of the utmost importance to the maintenance of the honey marketing scheme. (Para. 72).
110. Government subsidy: The Committee can see no justification for a Government subsidy and recommends that the request of the industry for a subsidy, because of the value to agriculture of pollination by bees, should be declined. (Para. 79).
111. Source of funds: The Committee recommends that to strengthen the Authority's financial position, the seals levy should be extended to apply to all sales of honey now exempt, except comb honey, (Para. 87), and considers that the industry should seriously consider an increase of at least $\frac{1}{4}$ d per lb, in the rate of the levy. (Para. 98).

112. Application of the levy fund: The Committee considers that the proceeds of the levy should be regarded primarily as an equalisation fund to achieve a proper balance between the pay out for honey supplied to the Authority, and the returns for honey supplied by producers to packers and the trade, and should be adequate to finance industry sales promotion as well as the grant to the National Beekeepers Association. (Para. 93).

113. Sales Promotion: The Committee is of the opinion that the Authority should undertake a well planned sales promotion campaign for honey both for the industry and for its own brands. (Para. 96).

ACKNOWLEDGEMENTS

The Committee wishes to express appreciation of the courtesy accorded to it by the Chairman and Members and the Manager of the Honey Marketing Authority and the President, Executive, and Secretary of the National Beekeepers Association and also of the cooperation so willingly given by beekeepers and others in the industry who supplied information.

(Sgd) S. GREENBERG

(Sgd) L.G. PURSER

9 March 1960