

NEW ZEALAND HONEY MARKETING AUTHORITY.

CONFIDENTIAL.

The Chairman & Members,
New Zealand Honey Marketing Authority.

17-8-67.

Gentlemen,

The Chairman has requested me to prepare comments on the paper of Mr. W.D. Bale for the consideration of Members.

I will submit these comments in the order that the statements to which the comments apply appear in the paper.

1) Preface by A.B. Ward re policies being contrary to national interest.

Is the Authority set up for the purpose of increasing export earnings in the national interest or to "promote and organise the marketing of honey and to assist in the orderly development of the honey producing industry?"

I am sure that the Authority would be taken to task if it sacrificed the earnings of the honey producer for the sake of national interest.

2) Page 2. "It should be unnecessary to state that the financial assistance provided by his Company was completely free of any conditions or restraints".

It would seem from Mr Berrys advertisement in the August "Beekeeper" that he expected the report to be ready in time for the election. It would also seem from the text of a letter today received from Mr Bale that there was a deadline for completion. He states "I regret that, owing to the deadline for completion being so close, I was unable to discuss the contents of the study with you before it was printed. However I trust it is factually correct..."

"Your immediate replies to my queries have enabled the study to be published on time....."

Why should there be a deadline for completion of such a study and, who set it? It must have been a very important deadline to force Mr Bale to publish it in such a hurry without submitting it to the Authority first in order to check that it is factually correct. He recognises this by expressing his regrets.

Could it be that it was a condition or restraint put on him by the Universities benefactor?

I feel that in view of this possibility and statements made by Mr Berry in the August "Beekeeper" to the effect that he intends to submit this study to the electors with his election manifesto, candidates in the forthcoming election could challenge the Massey University in allowing its staff and facilities to be used for the purpose of influencing electors in a democratic producer board election.

3) Page 14 - Footnote "This is evident from the minutes of the H.M.A. 4/7/66 Item (17) (17A)."

It is disturbing to note that Mr Bale has been perusing the confidential minutes of the Authority without permission of the Authority. It is of course obvious how the minutes come into the hands but it still does not discharge his responsibility in the matter.

4) Page 16. "The intended result of these two effects is that N.Z. Receives a higher price for her honey than she otherwise would".

Why use the word "intended"? Is it to try and give the impression that we in actual fact don't achieve this intended result?

- 5) Page 19 "Honey in small containers is prone to deterioration when it travels through the tropics"

I think this is an assumption that has been fed to Mr Bale. How come we have successfully marketed granulated honey in retail packs in Malaysia and East Africa for the last 20 years?

- 6) Page 19 - Potted honey packed in cardboard or glass is highly susceptible to damage and breakage in transit"

Agreed, but not if it is suitably and efficiently packed in export containers such as have been developed by the Authority.

- 7) Page 19 - 20 Re local prices of containers as against overseas.

Not such an important factor as he would make out. In plastics, yes, but with the present glass jar developed by the N.Z. Glass Manufacturers Pty the difference might only be one penny which compared with trade margins and distribution costs at the other end would not be so significant.

- 8) Page 20 - re the Authority's responsibility to accept all honey.

It would seem he might be suggesting that because this is not a responsibility defined in the Regulations that it is a self imposed responsibility unnecessarily assumed by the Authority. It is of course a responsibility that automatically arises from the Authority's function "to promote and organise the marketing of honey and to assist in the orderly development...."

I could imagine the reaction of the Industry if the Authority closed its doors when it considered that it had enough.

- 9) Page 24 " Most exported honey is sold in bulk in 5 or 4 1/2 gallon drums.

In 5's yes, but not 4 1/2 gallon drums.

- 10) Page 24 - "To date this has been in response to a mail order scheme"

The mail order scheme is not yet in operation.

- 11) Page 26 "It has the privilege of being the sole exporter but the disadvantage of having to accept any honey which is marketable from suppliers"

He does not seem to recognise that this privilege goes with responsibilities. The only avenue of disposal the Authority has for its surpluses after it considers the local market is adequately supplied, is to export and it has a responsibility to export. It cannot hold surpluses indefinitely so eventually has to accept world prices for such surpluses. If these privileges were given to all and sundry without any responsibilities the effect would be that they would debilitate the export market when it paid them to do so and leave it alone when it did not. In other words they would skim the cream off it and leave the skim milk to the Authority. This would further depress the Authority's returns, and eventually the payout, which would reflect in the domestic price of honey through the ability of packers to buy cheaper.

On the second point he recognises that the Authority has the disadvantage of having to accept all honey but later on fails to take this responsibility into consideration when comparing the costs and overheads of the Authority as compared with private packers. The Authority is not a business to be compared in such a manner. It is a service organisation which accepts all the problems of the Industry. Unfortunately someone has to pay for such services. If the Authority did not accept responsibility for such problems as surpluses of undesirable honeys it would mean that the problems and associated costs (which might be in the form of generally depressed local prices) would only appear in some other form.

- 12) Page 30 - Exclusion of the second alternative "Improved production efficiency by the Beekeeper."

Very convenient.

- 13) Page 31 - Qualification of Producer Members.

I cannot imagine an industry consisting of such rugged individualists handing out Authority Memberships like Life Memberships of the N.B.A. for long and meritorious service.

- 14) Page 32 - "Boards are required to accept a fluctuating quantity and variable quality of the product."

This certainly is a disadvantage which Producer Boards have to suffer but after all is it not one of the main reasons why the Boards are there at all. It is their main function and responsibility. Re increased costs refer to my remarks number (11).

- 15) Page 32 - Re export monopoly rights.

See my remarks paragraph number (11).

- 16) Page 32 - 33 A downward trend in honey production since 1953 is because of the Authority's failure to "Assist in the orderly development etc..."

This is a good assumption if you are setting out to discredit the Authority but I could give half a dozen other reasons why it should be so. Anyway how real is this downward trend. He admits on page 8 that "one striking feature, which tends to mask any production trends is the marked annual fluctuations in production due to climatic differences from season to season".

- 17) Page 34 - "Is the H.M.A.'s building situated in the correct locality" leading to the decision that Tauranga would be a preferred locality.

The Authority just cannot seem to do a blessed thing right. It cant even put its store in the right town.

In view of the Malyneux Report and the trend towards centralisation I would challenge this opinion. The secondary ports are on the way out the trend is towards a limited number of container ports and obviously Auckland would be one of them.

Apart from the port aspect the N.Z. domestic market is a most important consideration. The biggest consumer market in New Zealand is metropolitan Auckland. I bet Lloyd Holt wishes that his plant was in Auckland.

Mr Bale numbers the likely order of importance as

- 1) The main supply area of honey to the Authority.
- 2) Availability of labour.
- 3) Land values and rates in the area.
- 4) Proximity of port facilities.

I would put them in this order:

- 1) Proximity to container port facilities and the largest metropolitan consumer market.
- 2) Land values and rates.
- 3) availability of labour.
- 4) The main supply area of honey.

Of course I have an axe to grind - my home is in Auckland.

- 18) Page 36 - Disadvantages of present building, elaborate structure, high cost etc.

These are factors long recognised by the Authority and something is being done about them.

- 19) Page 37 "A private packer in New Zealand can pack more honey than the Authority in a plant and building valued at under £3000"

Who is this packer? R.L.Holland Ltd., I think is the only packer in New Zealand who packs more than the Authority and when he wanted to sell the Authority his business the building and plant was a lot more than £3000.

I would recommend that the Authority locate this building and plant capable of handling and packing over 500 tons and buy it up before someone else does.

Seriously though could anyone really believe that such a building and plant could be produced for £3000. If a business was going to pack that quantity they would want a Hitchcox and Lawson packing machine for a start which would set them back £1000. Even the £6000 that Mr Bale condescendingly allows is still a ridiculous figure.

Admittedly a private packer would not require the same storage capacity as the Authority so consequently could produce a cheaper unit but not that cheap. On the other hand the Authority is prepared to admit that it could put up a building and plant suitable for its requirements for something like £50,000.

One feature of the locality of the Authority's building is that its value should appreciate while an elaborate building and plant in a small provincial centre would have poor resale value. David Penrose recognised this factor when rebuilding at Christchurch.

I note that Mr Bale has referred to a plant and building valued at under £3000. Perhaps then it cost £25,000 and £3000 is only its considered resale value?

- 20) Page 37 - Depreciation Rates.

This table really shows up Mr Bales ignorance as far as elementary accounting and business management is concerned.

He quotes a depreciation rate on a Plant and building Value as 10%. The rate on a reinforced concrete building is only 1% and the major portion (£60,000) of the £90,000 is land and buildings. Excluding land values at say £4500 (at cost) then the depreciation is more like £850 instead of £9000. Reference to the Authority's Statement of Accounts show the 1966 depreciation as:-

Plant and Equipment (20% diminishing value)	£2239.
Building (1% capital value)	£853.

While this may be an innocent error on his part such a grossly inflated figure completely discredits his arguments.

- 21) Page 38 - Excess capacity of North Island Packers.

I note this has been established from private communications from honey producer/packers in the North Island. I bet the post marks of Hawke's Bay and Ngongotaha figure in this private correspondence.

Such a scheme would be completely impracticable. Imagine having our supplies of honey spread all over the North Island in packers sheds. Imagine the differences in quality and presentation. Imagine the shuffling of stocks that would go on to try and obtain uniform blends and the juggling of packing materials.

What about costs? These producer/Packers are in business to make money not to be a fairy godmother to the Industry. If there was any money to be made it would not be the honey producer who would see it.

Storage - where are they going to store all this bulk honey packed lines and the vast range of packing materials required for Authority packs.

What happens when there is a demand on packing capacity which conflicts with putting through Authority orders. You can bet the Authority would come second.

Blending of undesirable honeys. (LSC and problem flavours) It is recognised that for every ton of reject honey five tons of good honey is required to bring it up to an acceptable and exportable product. This can only be done when a large pool of honey is available in a central store. Not one of the decentralized plants would have the pool of honeys available to perform this important function of the Authority.

Freights costs - Here Mr Ble seems to be up another gum tree. He states " In this way , not only would freight costs be kept to a minimum (an immediate saving of at least £7000) but...." he refers this figure of £7000 to the Authority's 1966 Accounts for Freight and Cartage items. Reference to the accounts shows this item as being:

Local sales - selling and distribution charges	
Freight and Cartage:	£3867.
Freight and Cartage Inward, including freight on transfers from depots to Auckland Stores.	£3418

The first item represents local sales distribution from the Auckland factory door which works out at approx .9d per lb. If the same quantity of honey is being sold on the local market and distributed to the same areas this cost cannot be eliminated by moving the site of packing to say Havelock North or Ngaugetaha. In fact it would be greatly increased.

The second item represents cartage inwards which involved subsidised freight from Bay of Plenty and Nelson/Blenheim.

It also involved the cartage of most of the Greyouth crop. Deppt transfers to Auckland represented low quality or L.S.G. honey in the South Island which, could not be exported as straight lines but had to be blended. These are not costs which this plan is going to eliminate.

A further point on this decentralis tion plan is that it is always recognised that it is cheaper to transport bulk honey than packed honey so is this not a good argument for packing in Auckland. Don't forget that freight would be incurred on the delivery of all packing materials to these contracting packing units spread around the country. The most disturbing feature I think is the costs that could be incurred in juggling stocks by having to transfer different grades and varieties from one packers shed to another.

22) Page 39 - The individual floral source honeys being so minor in quantity"

Are they so minor. This is the theme on which the Authority is building up an export market in retail packs. It has put a new concept on this activity and gives the Authority scope for untold development.

It contradicts what he says on Page 26 "However with the advent of novelty packs where honey is named according to its floral source the "dark honey problem" is fast disappearing. Specialty packs of floral source honey are selling very well and at prices consistently in advance of those obtained for clover the nd".

Imagine trying to control this range of floral source packs in packs in producer/packers plants. This thought raises the question of Niue honey which would have to incur costs of cartage to central North Island plants and back again to Auckland.

- 23) Page 40 "... which had to bear depreciation, repairs, maintenance, and interest costs amounting to over £12,000.

My set of accounts shows:

Interest - Reserve Bank.	552
Interest - State Advances	4132
Repairs & Maintenance - Building	168
Depreciation.	<u>3519</u>
	8371

- 24) Page 40 - Comparison with private packers costs

My remarks in paragraph 11 apply.

- 25) Page 41. "Many unnecessary transport costs, both from the factory to the Authority and from the Authority to Wholesalers or retailers will be eliminated."

If we sold all our honey in the production areas this would be so, but we don't. We sell very little honey in provincial centres like Hamilton as we cannot compete with the local producers. The major portion of our honey is sold in the metropolitan centres or exported so this would not apply. Refer also to my paragraph (21).

- 26) Page 41 - Comparison with Dairy Industry.

There is no comparison. The Dairy Industry operates through large modern co-operative plants centralised with bulk carrying services. John de Wit and Jack Davies can tell you what has happened to the small town dairy factory.

Mr Bale is suggesting that we go back 50 years and revert to a cottage industry.

I would think if anything he has presented a good case for doing away with a lot of small duplicated plants and concentrating the Industry into large efficient plants served by efficient honey tanker services whether these plants be producer co-operatives or the Authority. In fact if he had suggested the formation of a large centralised producer co-operative which could contract pack for the Authority he might be on to something of a more practical nature.

- 27) Page 42 - It has also from time to time negotiated with private packers to pack honey into retail containers on its behalf.

This has only happened once with Terry Gavin and his Manuka pack. What a howl went up on that one!

- 28) Page 45 - "One the other hand had the Authority been able to maintain consumption at its 1960/62 level of 4.3-lbs"

It seems that the Authority has blundered again and this per capita consumption reduction can also be laid at its doorstep.

Does not Mr Bale consider that these could be other contributing factors. I am not an economist but I seem to remember Mervyn Clocke talking about a law of diminishing returns in connection with hive management. Perhaps there could be a similar effect on honey consumption in a rapidly increasing population.

- 29) Page 49 - Advertising media.

Mr Bale asks a question then answers it himself by saying "The answer to this is probably "no".

I think if he was asked to say exactly how the Authority did spend its £5000 he could not answer, so is he in a position to criticise.

Is Mr Bale an advertising expert along with all his other qualifications? Is the Authority remiss in accepting the advice of experienced specialists in advertising as to how to get the most effective results from a limited budget?

29) Page 50 - "It is noteworthy that this promotion was a concept of the Local N.E. branch etc.,"

He probably is not aware that the Authority gave £200 to kick this promotion off and if it had not done so the Canterbury Branch would never have got further than talking about it.

He may be excused for not knowing about the £200 but that is not the point. He seems to be in a hurry to condemn the Authority before he establishes whether or not he is factually correct.

30) Page 52 "It would be a logical progression to expect packers etc..."

It is interesting to note that he recognises that the packers contracting to the Authority would over a course of time take over the Authority's local trade. This would be a very convenient way of disposing of the Authority which is probably the general idea anyway.

31) Page 52 "It could, however, remain as a backster"

What sort of effective backster would the Authority be if it got to this stage?

32) Page 53 "The Authority pays a commission in excess of £3000 to its local selling agents in New Zealand. This commission is indirectly paid out of the seals levy contributed by private packers."

I can't see how he works this out. All packers have some form of direct expenses in "pushing their brand" at point of sale whether they employ a commission agent or do it themselves by various stores. This is a direct cost of selling and bears a direct relationship to throughput. It is incurred by all packers in one form or another and I would suggest that these packers running via a reviver would probably pay a lot more per pound than the Authority does in local sales commission.

33) Page 57 "They have little firsthand knowledge of honey prices elsewhere"

Of course we have first hand knowledge of honey prices elsewhere. Isn't it because of that knowledge that we stick to U.K.

34) Page 57 "Income tax remission"

We can go one better and not pay any tax at all.

35) Page 60 "The obvious antithesis of free marketing is one of compulsory acquisition by the Authority."

Although I agree with him that this is undesirable and unacceptable he very conveniently side-steps the issue. Perhaps he feels that in an independent and unbiased study some merit may be found in such a proposal.

36) Page 62 "This agreement (Kioptons) may be queried on the following grounds."

The agreement may certainly be queried but it is the answers to the queries that are important. He doesn't give any answers but suggests situations which have not arisen, not are they likely to;

In any agreement there must be some element of mutual trust. Kioptons could probably find grounds to query the agreement too if that element of trust did not prevail.

37) Page 64 Reference to Empire Dairies Ltd.,

He has not a clue about the operations of Empire Dairies yet he is prepared to criticise the Authority for not rushing in and appointing them as agents as quick as we can. He also overlooks the fact that the report of Kevin Borczyk has never been before the Authority. In fact Mr Barber only saw it last week and I doubt if Mr Lee has even seen it yet.

Anyway what is the opportunity that has lapsed. Empire Dairies has never approached the Authority nor indicated any keenness to negotiate a distributing arrangement. Their Managing Director has just concluded a tour of New Zealand and made no effort to contact the Authority so maybe they are not as keen as is made out.

38) Page 6 This study has obvious limitations and is intended to stimulate informed discussion within the industry.

I wonder if Mr Bale considers whether distribution of his study by a committee in the Authority election immediately prior to the election with no opportunity for comment or refuting the factual errors constitutes informed discussion.

39) General Comment.

One point on which Mr Bale makes no comment at all is - what happens to all the Authority's plant assuming that the building is sold? Disposal of this plant could cost the industry many thousands of dollars.

But surely one would feel that he would have taken into consideration the fact that the industry already has in existence a valuable critical asset so why throw it away for something less tangible. It will not be thrown away without some loss to the industry so why not consider an approach to reduced costs by ensuring that the existing assets of the industry are fully utilised. This would be the approach of any reasonable businessman who had a \$90,000 asset and an organisation with fixed overheads not fully utilised.

I have just had this theory very forcibly put to me by Mr Laidlaw Managing Director of Lincoln Industries who have a success story to tell based on maintaining maximum throughput and utilisation of assets and fixed overheads through exporting a considerable proportion of their products at prices which on the face of it would appear as if they were operating at a loss.

Lost production time and throughput is an avoidable expense.