

A STUDY OF THE MARKETING

OF NEW ZEALAND HONEY

by

Malcolm D. Bale

Discussion Paper No. 48  
Department of Agricultural  
Economics & Farm Management  
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PALMERSTON NORTH : N.Z.

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## Preface

The purpose of this Discussion Paper is to review the marketing of New Zealand honey, and to suggest possible improvements to it. Approximately 80% of New Zealand's honey production is sold in New Zealand by private individuals, the remainder being handled by the Honey Marketing Authority, a statutory producer organisation.

The Authority reserves to itself the sole right to export honey and also sells in the domestic market in competition with private packers, who are normally honey producers. The price paid by the Authority to its suppliers represents the combined receipts from export and domestic sales less processing and administrative costs incurred in its operations. Currently, the net returns from sales made within New Zealand returned approximately 2d per lb. more than exports. There is, therefore, an incentive for the Authority to emphasise sales within New Zealand in order to achieve a higher payout to its own suppliers. In diverting honey supplies from export to the local market in order to maximise its revenue, the Authority reduces export earnings by the honey industry and lowers the returns for all honey sold within New Zealand. (The mechanics of this lowered pay-out are fully explained in the text).

This study reveals that while export receipts have fluctuated markedly there is a definite downward trend in export earnings by

the honey industry and that on very conservative assumptions, New Zealand could become a net importer of honey within a decade. In view of the crucial balance of payments position and when Government is vitally concerned with increased export earnings, this situation can only be described as disturbing. Even more disturbing from a national viewpoint was the suggestion put forward at the July 1967 Conference of the National Beekeepers' Association that the industry should sell its entire production within New Zealand. From a honey-producer's viewpoint this was an entirely reasonable suggestion. New Zealand sales are worth more than exports and the per capita consumption of honey in this country has been falling steadily. Almost certainly a dynamic and sophisticated promotion campaign could achieve this objective.

The objection is that such a course of action, while both feasible and profitable, is completely contrary to the national interest. Thus we have the irrational situation whereby a statutory body, set up by Government and enjoying monopoly export selling rights and Reserve Bank overdraft privileges is in conflict with an over-riding national objective - increased export income. This situation clearly merits investigation into the structural and institutional problems of the industry. The present study does not profess to be an exhaustive treatment of the subject, but should fulfil its purpose of stimulating thought and discussion on a topic in no way confined to the honey industry.

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Senior Lecturer in Agricultural Economics

Acknowledgements

Originally proposed as a thesis topic, which lapsed for lack of financial support, this discussion paper owes its existence to the enthusiasm and generosity of Mr P.Berry of Arataki Apiaries, Havelock North.

The assistance of the Honey Marketing Authority, and in particular of Mr C.T.Gosse, the General Manager, in providing statistical data and general information is gratefully acknowledged. The hospitality and co-operation of the officers and members of the National Beekeepers' Association which was extended to the author at their annual conference and in private interviews, is appreciated.

The writer also wishes to acknowledge his indebtedness to Mr A.B.Ward of Massey University for his invaluable guidance and advice during the preparation of this discussion paper, and to Mrs M.Clifford for the typing.

The author naturally accepts full responsibility for any errors or omissions and for the views expressed in the paper. In view of Mr P.Berry's interest in the industry affairs it is perhaps advisable, although it should be unnecessary, to state that the financial assistance provided by his Company was completely free of any conditions or restraints - and indeed, would have been unacceptable if this were not so.

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## Section I

### A DESCRIPTION OF THE HONEY INDUSTRY

#### (a) A brief history

Just when beekeeping on a commercial scale began in New Zealand is probably not known. The first recorded commercial beekeeping enterprise was established in Matamata in the late 1860's and, by 1883, when the first volume of "The N.Z. & Australian Bee Journal" was published, several full-time apiaries had been formed. In April of the same year, £11,508\* worth of honey was exported to the United Kingdom.

The formation of the "National Beekeepers' Association" in 1912 saw the first real move towards cohesive action among honey producers. Gradually, the level of production which, broadly speaking, had kept pace with the growing population, exceeded domestic requirements. Producers' marketing problems became progressively greater due to poor transport and communication facilities at that time, thus, in 1925, the Massey Government passed an Act providing for the setting-up of the 'Export Honey Control Board'. This gave a very limited measure of protection to the industry since the Act only applied to export honey which at the time represented 20% of N.Z. honey production.

Producers, therefore, continued to press the Government to amend

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\* Throughout the study £. s. d currency will be used.

the Act so that the co-ordination of both export and locally marketed honey would come under the one authority. In response to the industry's requests, the Government amended the recently passed 'Primary Products Marketing Act (1938)' so that the responsibility of marketing honey was passed to the Internal Marketing Division (I.M.D.) of the Department of Industries and Commerce. The I.M.D. instituted a marketing system very similar to the one currently operated by the Honey Marketing Authority (H.M.A.). Essentially, all honey could be sent to the I.M.D. to be subsequently packed and sold by the Division, or marketed by the producer on payment of  $\frac{1}{2}$ d/lb. levy. The I.M.D. was the sole exporter of honey. Exports were considered a surplus and their removal from the local market was to achieve internal stability.

In accordance with the Government policy of handing the responsibility of marketing to producers, the I.M.D. was abolished in 1953 and the 'Primary Products Marketing Act (1953)', which allowed the establishment of marketing boards with statutory powers, was passed. Under these regulations, the H.M.A. was constituted and commenced operations in December 1953, having taken over both the marketing policy and the plant, equipment, and stock, of the I.M.D. (Honey Section) in Auckland.

In 1958, upon completion of its new building and plant in

Parnell, Auckland, the H.M.A. moved to its present site.

(b) The present structure of the industry

The N.Z. honey industry is characterised by a large number of small honey producers, and relatively few large scale operators. This industry structure has important implications for the Honey Marketing Authority which is a producer-operated marketing body.

Unlike other primary producers, with the possible exception of egg producers, beekeepers range in size from hobbyists with as few as 1-2 hives, through part-time beekeepers, to very large commercial producers who have up to 8000 hives and whose "modus operandi" is as a limited liability company.

TABLE I Apiary Statistics (May 1967)

Sector	No. of beekeepers	No. of hives	Average No. of hives per beekeeper
1-29 hives	2950	14,379	4.8
30-250 "	312	25,542	81.9
251+ "	246	154,283	627.2
TOTAL	3505	194,213	55.5
<u>Source:</u> Department of Agriculture - Apiary statistics			

As can be seen from Table 1 the large commercial beekeepers, whilst being smallest in number, own the most hives and thus produce the most honey. Hobbyists and part-time beekeepers do, however, make a significant contribution to the national production producing over 2000 tons per annum which represents over one-third of total production.

Over the last 20 years, the scale of beekeeping has increased with a decreasing number of hobbyists and part-time producers. This is shown in Table 2 where it can be seen that in 1945 there were 6,503 beekeepers owning an average of 20 hives, whereas in 1967 there are 3,505 beekeepers managing an average of 55.5 hives per person. The trend towards larger enterprises is common to all forms of agriculture in New Zealand. It does, however, have important implications for the future functions of the H.M.A., because as the industry consolidates, in having a preponderance of large producers and fewer hobbyists, so the need for an authority to actually pack honey becomes less important.

There appears to be no set pattern as to the extent that producers process their product. A lack of statistics makes it impossible to quantify this particular aspect of the industry. However, from observation it is apparent that many beekeepers, some very large ones, but more often the hobbyist and part-time beekeeper, only own



publishes a wholesale price schedule for its honey and producers and packers are expected to price their honey accordingly.

Producers who do not pack their own honey can send it to the H.M.A. or sell it to private packers by private negotiation.

The 3505 beekeepers in N.Z. are distributed fairly evenly throughout the country from Northland to Southland\*, the North Island having a larger number of hives (53%) than the South. The more important districts are -

Hamilton	(40,236 hives)
Tauranga	(23,122 " )
Christchurch	(24,271 " )
and Oamaru	(25,524 " )

A measure of the economic importance of the New Zealand honey industry relative to other industries in N.Z. can be considered by a comparison of the value of the production of various other horticultural crops.

As can be seen from Table 3, the value of honey is one of the smallest sectors in horticulture, accounting for a little more than 2% of the total value of horticultural production. This percentage becomes infinitesimal when compared with a national gross farming income of £311 million for the same period.

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\* See Appendix I.

TABLE 3 Estimated Value of Horticultural Production  
in N.Z., 1961/63 at Farm Gate

Crop	Average Value (1961/63) £ million
Fresh Vegetables	8.4 <sup>1/</sup>
Pip fruit	4.0
Nursery plants and flowers	2.8
Tobacco	2.0
Processed vegetables	1.5
Stone fruit	1.5
Other fruit and nuts	1.4
Grapes	1.1
Seeds (Vegetable and flower)	.7
Honey	.5 <sup>2/</sup>
Hops	.2

1. Excludes early potatoes in 1961

2. The writer's estimate based on an 'in tank' value of 1/- per lb. and production of 5000 tons.

Source: Horticultural Working Party, National Research Council, 1964.



Section IIN.Z. HONEY PRODUCTION(a) The production pattern over the last 15 years.

Honey production in N.Z. has remained at a fairly static level, with perhaps a slight downward trend over the last 15 years. In perusing the production figures (Table 5 below) 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. To gain an indication of honey production trends over the years, it is possible to reduce the effect that seasonal production fluctuations have on the trend, by taking the average production over a number of years and comparing this with the average production of a later period. This has been done in Table 4.

TABLE 4 Honey Production in N.Z. (5 year averages)

Period	Average Annual Production (tons)
1950/54	5489
1956/60	5414
1962/66	5047
Source: Derived from Table 5	

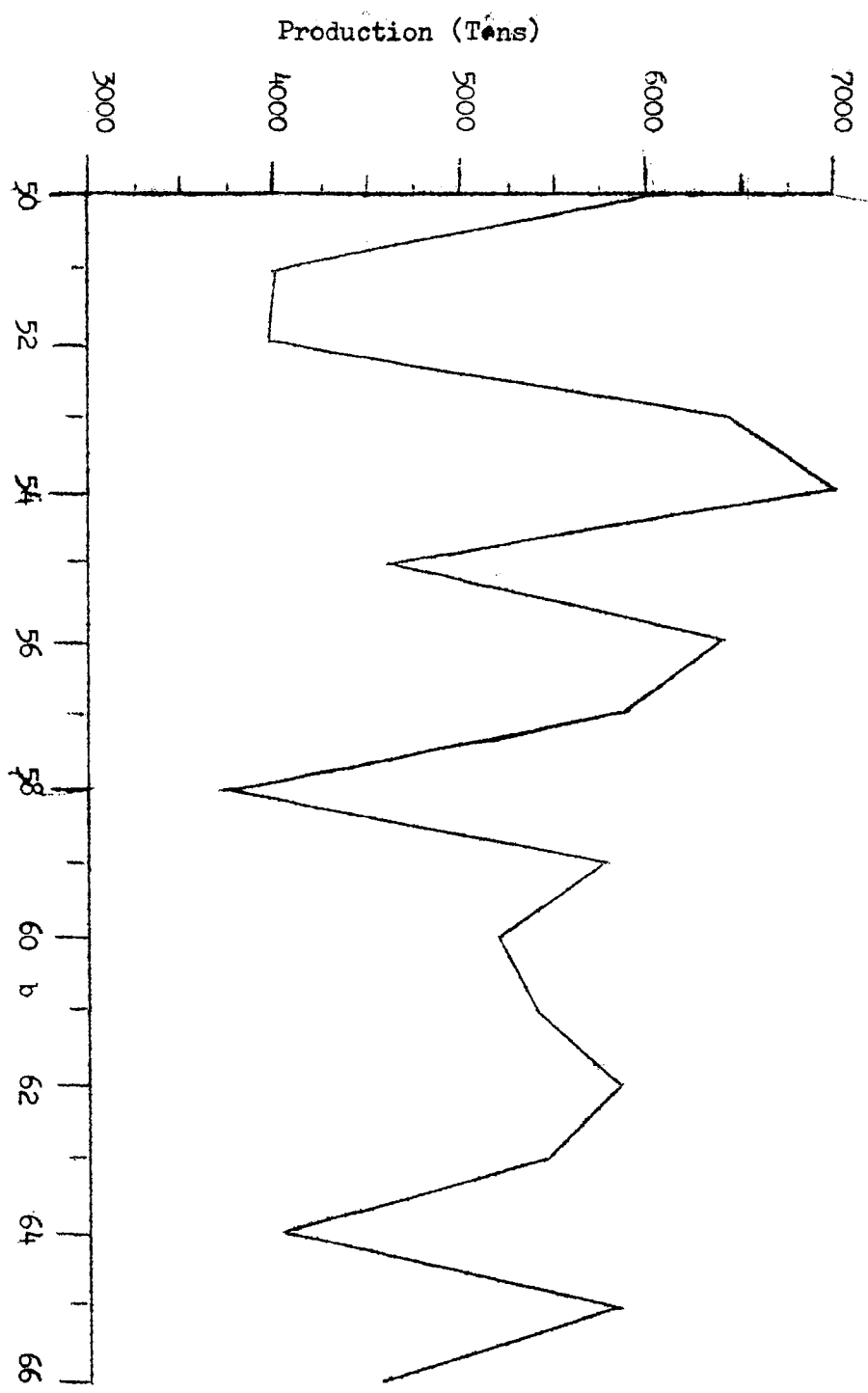
Table 4 indicates that there is a slight downward production trend occurring in New Zealand honey production.

TABLE 5 Annual Production of Honey in New Zealand

Year	Production (tons)	No. of Hives
1950/51	6,038	186,832
1951/52	4,000	
1952/53	3,980	191,553
1953/54	6,450	
1954/55	7,000	180,409
1955/56	4,600	
1956/57	6,400	177,654
1957/58	5,885	
1958/59	3,785	176,350
1959/60	5,800	
1960/61	5,200	179,953
1961/62	5,400	
1962/63	5,880	183,875
1963/64	5,465	
1964/65	4,050	194,589
1965/66	5,847	
1966/67	4,571	194,213
Average (1957/67)		= 5,130 tons

Source: Official Year Book 1949,66, Section 14, (Farming).

FIGURE 1 Honey Production in New Zealand



(b) New Zealand's ranking in the world situation

As a honey producer N.Z. ranks thirteenth in eighteen countries itemised in the literature as producers of honey, her total production being about a quarter of that of Australia and amounting to less than 1.6% of world production.

TABLE 6 Honey Production of the Major Honey Countries  
in 000's lbs.

Country	1963	1964	1965 <sup>1/</sup>	Average (1960/65)
U.S.A.	199,353	184,909	178,243	288.933
Mexico	56,217	59,524	66,138	60,626
Canada	42,142	36,662	46,160	37,160
Argentina	55,115	77,161	44,092	50,338
Australia	32,679	45,647	42,080	40,903
France	44,092	37,478	39,683	33,436
West Germany	20,944	21,164	24,251	25,574
4 other countries				
Japan	14,109	12,566	12,560	14,320
New Zealand	10,002	9,262	9,262	11,238
1. Preliminary				
<u>Source:</u> United States Department of Agriculture, Foreign Agriculture Service, World Agricultural Production and Trade, September, 1966.				

A more meaningful measure of New Zealand's importance as an international honey trader can be gained by examining trade figures for honey from various countries.

From Table 7 it can be seen that N.Z. is a very minor honey exporting country, her exports being only 1.3% of the world export total. This is discussed at greater length later in the study.

TABLE 7 Honey - World Trade Figures (1962/64 Average)  
000's lbs

Country	Exports	Imports	Nett Exports or Imports (+) (-)
Mexico	45,299	22	45,397 +
Argentina	36,887	0	36,887 +
Australia	23,372	0	23,372 +
U.S.A.	15,877	4,876	11,001 +
Spain	6,010	0	6,010 +
Guatemala	5,884	0	5,884 +
Chile	5,500	0	5,500 +
New Zealand	2,187	0	2,187 +
El Salvador	2,198	71	1,127 +
Canada	4,298	2,351	1,947 +
Yugoslavia	1,623	0	1,623 +
France	1,436	9,891	8,455 -
Japan	5	4,294	4,189 -
West Germany	334	97,349	97,015 -
United Kingdom	0	26,064	20,064 -

Source: United States Department of Agriculture Foreign  
Agriculture Circular F.S.5-65, October 1965.

Section IIITHE FUNCTIONS AND ROLE OF THE HONEY MARKETING AUTHORITY

The Honey Marketing Authority was established under the New Zealand Honey Marketing Regulations 1953 and the Honey Marketing Authority Regulations 1964. Under these Acts the functions of the Authority are given as:

1. To promote and organise the marketing of honey and to assist in the orderly development of the honey producing industry.
2. Having authority to make such arrangements and to give such directions as it thinks proper for any of the following purposes:
  - (a) The acquisition, reception, storage, packing, processing and sale of honey and its products.
  - (b) The blending and grading of honey.
  - (c) The shipment of honey acquired by the Authority.
  - (d) The insurance of honey acquired by the Authority.

In practice the Honey Marketing Authority acts in several ways which have a direct financial impact upon the operations of all honey producers.

1. It administers a sales levy of 1d/lb. on all honey sold in New

Zealand. This is payable by:

- (a) the producer, except if sold to a packer;
- (b) the packer, where honey is bought by him for re-sale.

Exemptions from this levy apply to:

- (a) Comb honey
- (b) Gate sales by the producer where sales are made in 10lb. or larger containers.
- (c) Any honey sold to the Authority.

In practice no seals levy is paid on honey filled into containers supplied by the purchaser. Large quantities of honey packed by producers for sale at the honey-house also escape payment of the levy, so that, in total, over one-third of the honey produced (about 2000 tons annually) evades the levy. The failure of the Authority to collect seals levy amounting to approximately £20,000 merely reflects the impossibility of policing and enforcing regulations in an industry typified by a very large number of small independent producers.\*

The sales levy grosses the Authority around £20,000 per annum.

Table 8 shows how the revenue from the levy is used. The balance remaining goes into the general operating expenses of the Authority.

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\*This is evident from the minutes of the H.M.A. 4/7/66 Item (17)(17a).

TABLE 8 Honey Levy Account for the year ending 31.8.66

Revenue from Levy		£21,384
Less costs of collection		<u>481</u>
		£20,903
Less appropriations:		
(a) Grant to N.B.A.	1,300	
(b) General honey advertising	5,084	
(c) Financial assistance towards industry development	<u>292</u>	<u>6,676</u>
	Balance	<u>£14,227</u>
<u>Source:</u> N.Z.Honey Marketing Authority 13th Annual Report and Statement of Accounts		

2. The Authority is the sole exporting agent of bulk honey from New Zealand. The reason for this appears to be largely an historical one. When the Authority was constituted in 1953 to supersede the I.M.D., the change from one organisation to another was basically a change in name and ownership, in that honey marketing became the function of a producer-run organisation - not a government one, yet policies adopted by the H.M.A. were essentially those already operating under the I.M.D. One of these policies was that the I.M.D. should be the sole exporter of N.Z. honey. Thus the H.M.A. has



continued this policy.

The justification for this policy is contained in "The Report of the Honey Marketing Investigation Committee (1959)". This states that "the best overall returns (for exported honey\*) can be attained by keeping the market supplied, regularly even with small quantities rather than intermittently. Private unco-ordinated exports by producers themselves would almost certainly prove to be a less remunerative way of disposing of N.Z.'s surplus. The Authority is well experienced in this field, it is in a position to regulate supplies to the best advantage.... Should export returns exceed local parity, however, the local market must be kept fully supplied".

Under present marketing conditions nearly all exported honey from New Zealand is sold in the United Kingdom and Western Europe, only token quantities being marketed in other countries. Table 9 shows the destination of exported honey and the importance of the United Kingdom-European market.

The Authority's policy is to appoint an agent in London to distribute and market all N.Z.'s bulk exports to the U.K. and Europe. The elements of this are contained in an agreement made between the N.Z. Honey Marketing Authority and Kimpton Bros. (Red

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\* Words in brackets inserted by the author.

TABLE 9 Overseas Sales of N.Z. Honey 1964/66 (Tons)  
Year/s ending 31 August

Destination	1964		1965		1966	
	London		London		London	
	Agency Sales	Direct Sales	Agency Sales	Direct Sales	Agency Sales	Direct Sales
U. K.	528		488		188	
Eire	230		5		43	
Aden	-		2	9	5	
Germany	61		-		-	
Sweden	60		-		134	
Norway	24		61		6	
Denmark	3		-		-	
Italy	1		-		-	
France	1		-		-	
	<u>987</u>		<u>556</u>		<u>376</u>	
Japan	79 <sup>1/</sup>			2		1
Hong Kong		9		10		10
Kenya		8		-		-
Malaysia		5		8		11
Australia		5		7		8
East Africa		-		2		1
U.S.A.		6		2		2
Canada		1		1		1
Pacific Islands		1		1		1
		<u>35</u>		<u>42</u>		<u>35</u>
TOTAL EXPORTS	1,022		598		411	
% to U.K.-Europe (London Agent)	97%		93%		91%	
<p>1. In 1964 honey entering Japan was sent through the London Agent. In 1965 and 1966 the Authority sold directly to Japan. The catastrophic fall in exports to Japan after 1964 was due to the fact that in 1964 New Zealand was the first honey exporter to breach this market. In subsequent years, however, as other exporters entered this market so the premium price that New Zealand had enjoyed for her honey was lost. In consequence, exports to Japan dropped to a very low level.</p>						
Source: N.Z.H.M.A. Annual Report and Statement of Accounts 1964/66.						

Carnation) Ltd., a food distributor where "the Authority appoints the company as its sole selling agent for the sale of all honey in bulk exported by the Authority from New Zealand for sale in the marketing territories". Clause 1a further states that "the Authority will..... oppose the issue by the N.Z. Government of licences for the export of bulk extracted honey from N.Z. by any exporter other than the Authority".\*

The benefits of having a sole agent to handle N.Z.'s exports to all of Europe, rather than several agents, are given as:

- a, Kimpton Bros. is the largest honey importer in the U.K. and therefore have accumulated a wealth of knowledge on honey marketing, and have established good trade outlets for it.
- b. By having a sole agent, price cutting, which could occur where there were several agents, is prevented. It is thought that if there were several agents for N.Z. honey then each would undercut the other in order to sell the honey. With one agent, U.K. buyers realise that they can obtain N.Z. honey only from Kimpton Bros.

The intended result of these two effects is that N.Z. receives a higher price for her honey than she otherwise would.

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\* See "The Agreement between the N.Z.H.M.A. and Kimpton Bros. (Red Carnation) Ltd.," Appendix 2.

Under the terms of the Kimpton Agreement, exporting by private producers becomes virtually impossible since no bulk honey can be exported. This is because the U.K. agent and the Authority have agreed to oppose the issue of export licences for bulk honey from N.Z. by any exporter other than the Authority. (Clause 1a, Kimpton Bros. Agreement). Because of this, producers wishing to export must pack their honey in either non-bulk form, i.e., retail-sized packs, or in wooden sections as comb honey.

Honey packed in retail-sized packs for export suffers the following drawbacks:

- i. Honey in small containers is prone to deterioration when it travels through the tropics. With warm temperatures honey becomes darker and it loses its attractive appearance.
- ii. Potted honey packed in cardboard or glass containers, is highly susceptible to damage and breakage in transit. Plastic containers are more than double the price of cardboard and more expensive than glass containers.
- iii. All types of pots are far more expensive than their overseas equivalent\* and thus the honey must bear this extra cost

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\* A quote for a plastic honey container was obtained by the H.M.A. from a U.K. plastic manufacturer. "The price landed at Auckland was 1d per unit cheaper than the inferior New Zealand pot. It was, of course, not obtainable because of import restrictions..." Quote from the General Manager of the H.M.A. (N.Z. Beekeeper, May 1967)

which competitors do not have to face.

- iv. Shipping freights are higher for potted honey than for bulk.

For these reasons very little honey is exported in a packed form by private packers. (2 tons in 1966).

Comb honey is a relatively new and expanding form of exported honey, last year's exports of 44 tons representing 9.6% of total exported honey.\* Since this method of exporting requires some specialised knowledge, equipment, and packaging techniques, as well as a greater element of risk, it is unlikely that it will become a dominant form of exporting.

As the two avenues previously described for exporting honey are not altogether practical to most producer-packers and private packers, so exporting is largely confined to the H.M.A., who have the sole right to export in bulk.

3. The Authority owns and operates a store and processing plant in Auckland to which any honey producer may send all or part of his crop. While the Regulations do not specifically state that the Authority must accept all honey submitted to it, the Authority has interpreted its responsibility to "organise the marketing of honey..." as a responsibility to accept all honey. The Authority issues a formal invitation each year to producers to supply it and defines its conditions of receipt. It issues a schedule of prices (Table 10)

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\* Whilst only representing 9.6% of total exports, it represents 16.5% of the total export value of honey.

TABLE 10                      Particulars of Payments to Suppliers  
1965/66 Season

Category	Grade Equivalent	Grading Points	Average pence per lb.
A+	White Clover 95/100	97.35 & over	15.319
A	"        "        91/94	93.15/97.34	14.804
B	Clover and Mixed	91.00/93.24	13.788
C	Extra light amber	87.55/90.99	13.393
D	Light amber 60/75	79.25/87.54	12.592
E	"        "        50/59	75.75/79.24	11.671
F	Medium amber 40/49	72.25/75.74	9.974
G	"        "        30/39	72.24 & under	9.297

Source: H.M.A. 13th Annual Report and Statement of Accounts

which it pays for certain grades of honey, the prices "reflecting the quality and quantity of honey supplied in a season".<sup>1/</sup> to the Authority. Once the invitation is issued, the Authority can only refuse honey because it is below a certain standard or does not comply with one or more of the conditions.

The Authority blends, packs, and markets the honey under its own brands, either locally, or on the world market. As Table 11 shows, in an average year<sup>2/</sup> the Authority receives 1,110 tons of honey, 795 tons (72%) of which is exported, the remaining 371 tons being sold in N.Z.

---

1. Quote from H.M.A. 13th Annual Report, p.16.  
2. The 10-year average 1956/66.

TABLE 11                      Sales (in tons) by the Authority (1965/66)

Year	Total Sales	Export Sales	Local Sales	% Exports
1956/57	1260	890	370	71%
1957/58	1588	1329	259	84%
1958/59	1300	1009	291	84%
1959/60	700	378	322	54%
1960/61	624	325	299	52%
1961/62	1042	750	292	72%
1962/63	1741	1236	515	71%
1963/64	1405	1022	383	73%
1964/65	1042	598	444	57%
1965/66	946	411	535	43%
10-year Average	1110	795	371	72%

Source: H.M.A. Annual Report, 1966.

FIGURE II

Sales (in tons) by the Authority

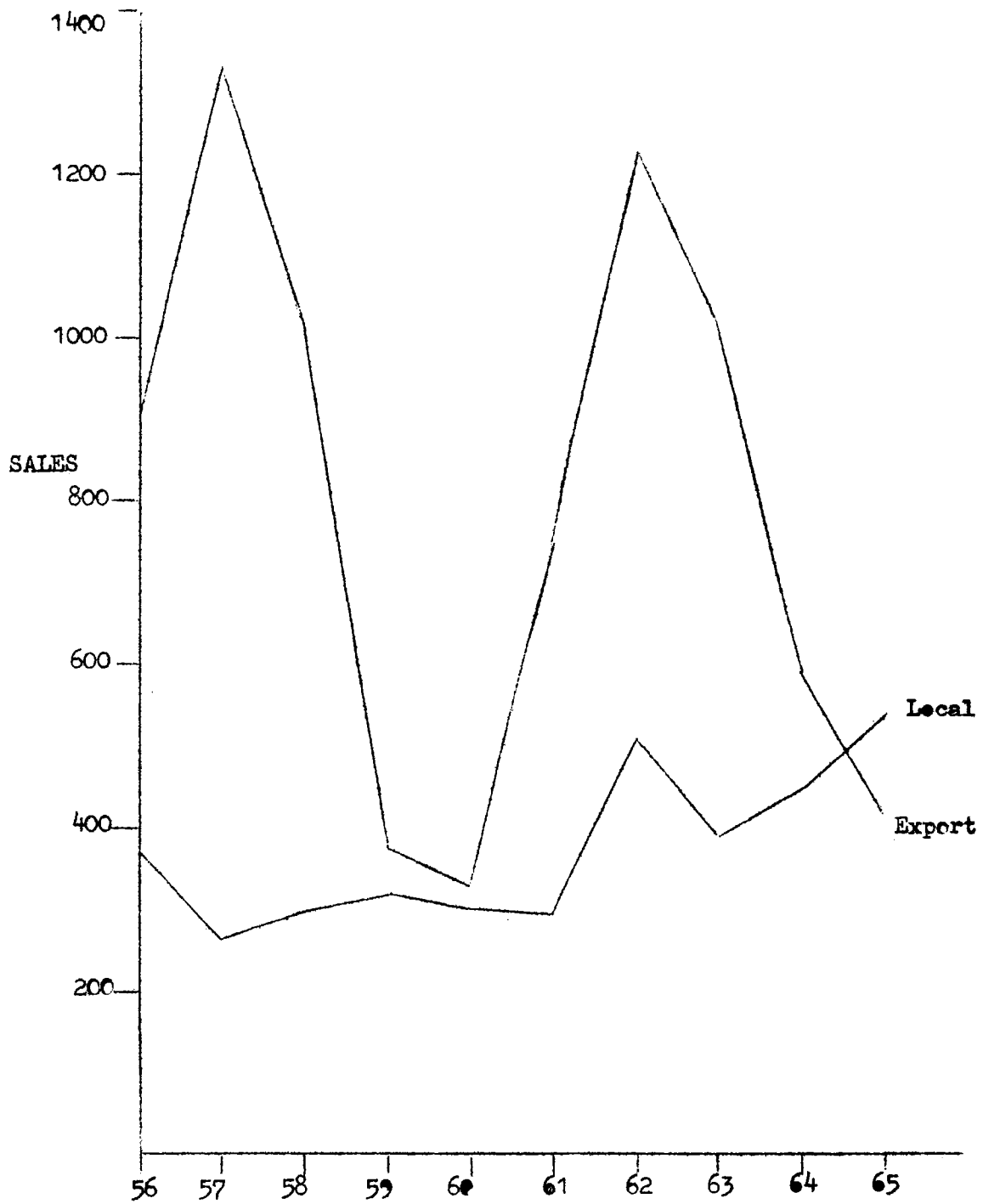






Table 13 shows the importance of bulk honey exports relative to retail packs. The rapidly increasing percentage of honey exported in retail packs over the last 4 years does not appear to be due to a deliberate move towards exporting in retail packs, but is more likely the result of an overall decrease in exports, bulk honey taking the drop whilst retail pack exports have remained constant (though small).

TABLE 13 Exports by the Honey Marketing Authority (tons)

Year	Bulk	Retail Packs	Total	Percentage Retail
1958/59	973	34	1007	3.2
1959/60	344	34	378	9.0
1960/61	441	33	474	7.0
1961/62	927	33	960	3.4
1962/63	1207	29	1236	2.4
1963/64	988	34	1022	3.3
1964/65	556	42	598	7.0
1965/66	377	34	411	8.3

Source: H.M.A. Annual Reports 1959/66.

On the local market over 70% of honey is sold in retail packs.

The Authority packs the following range of honeys:

"Imperial Bee" brand	- a clover blend	6 packs
"Honeygold" brand	- a light amber blend	7 "
Individual floral sources	- 10 varieties	3 "
Assorted floral sources		3 "

Bulk honey sold in N.Z. is mainly used by the baking and tobacco industries which have traditionally been regarded as the only outlet for inferior quality honey. The honey, which is the darker, stronger-flavoured types, was previously regarded as unsuitable for blending and packing into retail packs, and was, therefore, sold at low prices for industrial use. 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 blends (which were regarded as the most valuable honey).

TABLE 14      Local Sales of Honey by the H.M.A.(tons)

Year	Bulk	Retail	Total	Percentage Retail
1962/63	102	413	515	80%
1963/64	85	298	282	78%
1964/65	134	310	444	70%
1965/66	147	388	535	72%
Source:	H.M.A. Annual Reports 1963/66.			

The main suppliers of the Authority are those beekeepers who do not own their own packing plant, but send all their crop to the Authority. Other producers will supply the Authority in an above average production season when prices paid by packers is

lower than the Authority's price, but desert it in a below average season when packers are competing for suppliers. Yet other beekeepers will either sell their lighter coloured honeys to a packer or pack it themselves, and give the Authority the darker honey. In 1965/66, 209 beekeepers supplied the Authority, 125 being North Islanders, and 84 from the South. The total number of beekeepers in New Zealand is 3,505.

All packers and producers have freedom of choice as to how they market their honey in New Zealand. Producers can sell it to the H.M.A., to other packers, or pack it themselves to sell at retail. A number of smaller producers sell all their crop at the farm gate or in a nearby town.

In theory, the Authority has a threefold stabilising influence on the price of honey.

1. In effect, it sets a buying price for honey below which private packers cannot go. If a producer cannot obtain a commensurate price for his honey from a packer, then he knows that he can send it to the Authority. This means the packers must pay approximately the same price as the Authority (net of freight and container charges).
2. It sets a selling price for honey, above which packers, generally, cannot go. If a retailer or wholesaler finds that a packer is asking too much for his honey, the firm knows it can buy honey from

the Authority at the published prices.

3. By exporting surplus honey from N.Z. the local price is maintained and stabilised. Since the local market is served first, exports are purely residual in nature and, consequently, they fluctuate markedly from year to year.

Overall, the Authority acts as a large packer who might be described as the industry's leader or price setter, in that it sets a supplier's price and a trade price which act respectively as a floor and ceiling price. It has the privilege of being the sole exporter, but the disadvantage of having to accept any honey which is marketable from suppliers.

Section IV

POSSIBLE ALTERNATIVE HONEY MARKETING POLICIES

(a) Stages in the Marketing Chain

Like most products, honey passes through several stages of production and distribution between the producer and the final consumer. This is shown in the diagram below, each stage incurring costs and adding value to the final product.

	Retail Price
Distribution Costs + mark-up	Wholesale Price
Freight, Insurance, Advertising + mark-up	Return to the Packer
Processing and Packing costs + mark-up	Gross Return to Honey Producer
Production Costs	Nett Return to Honey Producer
Beekeeper's Profit	

It is apparent that an increase in the payout to producers can come from one or a combination of the following:

- (i) An increase in the retail price
- (ii) A reduction in selling costs, commission rates, etc.,

- (iii) Increased efficiency in handling of and producing honey,
- (iv) Taxation incentives geared to higher export income
- (v) Above average honey seasons with high nectar flows.

The size of the industry as described in section I is such that many of these external factors cannot be altered by beekeepers and therefore must be taken as given, especially such items as overseas prices of honey, freight and insurance rates, and, of course, the incidence of good or bad seasons. This leaves only two areas where improvements may be made, namely:

1. A reduction in packing and internal marketing costs, and
2. Improved production efficiency by the beekeeper.

This analysis is restricted to a consideration of reduced costs in the internal marketing and packing section of the industry, i.e., increased efficiency and improved bee management has been excluded from the analysis.

(b) Weaknesses and Advantages of Marketing Boards with special reference to the H.M.A.

Like all statutory marketing bodies in N.Z., the H.M.A. possesses certain advantages and disadvantages inherent in its institutional structure over a system of completely unrestricted marketing. The more important of these are listed below.

Advantages

1. A statutory marketing authority enjoys a certain degree of monopoly power conferred by Statute that an individual grower cannot attain and

and thereby improves the bargaining position of the industry.

2. It can produce standardised and quality-consistent products and establish "brands".
3. It has the financial capacity to withhold supplies from the market and ensure an even and co-ordinated market supply in the interests of price stability.
4. Since all of the product is to some extent under the board's control, it provides a more successful basis for price fixing, market differentiation, market discrimination, or supply restriction which are virtually self-defeating to non-statutory co-operatives or individuals because of the premium on non-membership or non-cooperation.
5. Boards can undertake industry promotion with the aim of expanding consumption, and can direct production based on consumption and market outlook surveys; functions that are beyond the capability of the individual producer.

#### Disadvantages

1. Board members are producers who are elected by fellow producers. Normally, they have not been trained as industrial managers or marketing economists and, consequently, are unlikely to be qualified to make decisions in these fields. In practice, it is usually the more senior and experienced producers who are elected to the Board as a way of recognising their long association with the Industry, rather than for their ability to direct a marketing organisation as



revealed by a successful sales record.

2. Boards are normally required under their statutes to accept a fluctuating quantity and variable quality of the product. This may make the standardisation of their product more difficult. A large number of small consignments would also increase costs.
3. The statutory powers of Board providing for monopoly rights in marketing means that if the Board decides to market in one particular locality, there is no way an individual can test other markets. In the honey industry - if a private packer wanted to export honey to a new market which he thought a profitable one, then he would find his application for an export licence was declined on the grounds of the Authority's sole right to export. This tends to prevent contributions by individuals who may have otherwise discovered a new market. Those producers wishing to export will either leave the industry, or will turn their energies into creating a product which is not under the jurisdiction of the Board. Comb honey exports seem to owe their existence to this. In terms of price it is also likely to divert a larger volume of sales onto the local market.

In view of the facts that -

1. The Honey Marketing Authority's marketing policy has recently been questioned by members of the industry,
2. The Authority has enjoyed little success in its main statutory

function of "assisting in the orderly development of the honey-producing industry" in that honey production has shown a downward trend since the Authority commenced operations in 1953 (See Tables 4 and 5) whilst all other primary production has increased over that period, local per capita consumption has decreased over the last 15 years (Table 17) and the Authority's contribution to foreign exchange earnings has diminished over time, it would seem pertinent to review the activities of the H.M.A. and to consider possible improvements to the existing system of marketing with the aim of securing better returns for the beekeeper, which in the final analysis is the reason for the Authority's existence, as a producer body.

(c) Possible Alternative Policies

When looking for increased efficiency in the marketing of honey, three possibilities become immediately apparent. It is suggested that the following questions can be raised:

1. Is the store and plant of the H.M.A. situated in the correct locality within N.Z., and is it in fact necessary in order for the Authority to carry out its statutory functions?
2. With the continuation of present marketing trends, would the Authority be serving the industry in a better manner if it did not export honey, but promoted local sales and searched for alternative outlets for honey within N.Z.? In which event some form of supply restraint may become necessary, or

3. Should the Authority actually trade at all, or should it merely accept the role of an advisory and guiding body for the honey industry, setting minimum prices, grading standards, export requirements, etc., but allowing completely free marketing of honey within these limits?

Each of these possible improvements will be discussed separately.

1. Is the H.M.A.'s building situated in the correct locality within N.Z. and is it necessary in order that the Authority carry out its statutory functions?

At present the offices and packing plant of the H.M.A. are located in Parnell, an industrial area near the heart of Auckland (2 miles from the C.P.O.). When trying to decide on the optimum locality in which the H.M.A.'s building should be placed, there are four factors to consider. These are numbered in their likely order of importance.

- i. The main supply area of honey to the Authority
- ii. The availability of labour
- iii. Land values and rates in the area
- iv. Proximity of port facilities.

From Table 15 it can be seen that the North Island is the main supply to the Authority, contributing nearly two-thirds of the average national total of 1221 tons for the period 1961/65. Within the North Island, South Auckland is by far the largest supply area,

TABLE 15 Particulars of Supply of Honey to the H.M.A.  
(tons)

Production Areas	1961/ 1962	1962/ 1963	1963/ 1964	1964/ 1965	1965/ 1966	1961/5 Average	1961/5 Av.No.of Suppliers
Nth. Auckland	53	24	25	10	32	29	11
Sth. Auckland	744	534	521	269	378	489	72
Bay of Plenty	130	137	136	100	132	127	18
Hawkes Bay & Gisborne	58	59	114	54	97	76	16
Taranaki	75	27	26	26	4	32	7
Wellington & Wairarapa	9	11	28	6	4	12	4
Nth.Island Total	1,069	792	850	466	648	765	126
Marlborough Nelson	37	73	21	34	56	44	4
Westland	64	73	62	70	69	68	23
Nth.& Mid- Canterbury	7	43	96	1	47	52	6
Sth.Canter- bury	16	195	211	28	101	110	10
Nth.Otago	1	63	53	5	44	33	7
Sth.& Central Otago	39	113	48	54	65	84	14
Southland	93	148	120	92	37	96	19
Sth.Island Total	257	708	611	284	419	456	86
New Zealand Total	1,326	1,500	1,461	1,067	750	1,221	209

supplying the Authority with 489 tons or over one-third of the national intake. This province includes Waikato, Rotorua, Taupo, Hauraki Plains and the King Country.

Since the adjacent province of Bay of Plenty is the second largest supply district and is closer to many of the South Auckland districts, the two localities which seem obvious choices for selection as sites are Auckland and Tauranga. Both are near major supply areas, are well served with transport facilities (including a port) and both have a reasonable pool of labour.

Without knowing the production of each district within South Auckland, and the costs of transport to Auckland relative to Tauranga, it is impossible to know which site is to be preferred. If it is assumed that each district of South Auckland produces the same quantity of honey and that transport charges per mile are identical, then Tauranga would be preferred. It is nearer the major production areas, land values and rates are less than those in Auckland, and the labour supply is equally or more abundant.

There are obvious disadvantages associated with the present site - it is sloping and in the centre of an industrial area of Auckland. If, for any reason, Auckland was chosen, then the site should have been on the outskirts where land values and rates are less than those in the centre of the city, thus reducing the level of overhead charges. Having regard to the quantity of honey that the present building and plant handles, it seems to be a far more expensive structure than is necessary. When a private packer in

N.Z., can pack more honey than the Authority in a plant and building valued at under £3,000, compared with the cost of £90,000 for the Authority's building and plant, it must be evident that the fixed costs associated with the present location and building are extremely high. This high cost factor increases the cost of marketing and hence lowers the final payout to producers. The comparison of these two packing plants is not a completely legitimate one in that private packer can choose and purchase what honey he wants, whereas the H.M.A. must accept all types of honey in varying quantities and at various times. Even allowing for this, by doubling the value of the private packer's building, there is still a very large difference between the values of the two plants. By moving into different premises then, the Authority could substantially lower its fixed overhead costs and hence make a better payout to the suppliers.

Consider the example below, where the only allowance is that for depreciation costs.

	<u>I</u>	<u>II</u>	<u>III</u>
Plant & Building Value	£3,000	£6,000	£90,000
Depreciation (10% annum)	300	600	9,000
Output (tons)	500	500	500
Overhead costs (ton)	12/-	£1/4/-	£18

Instead of one centralised depot, the Authority could have a small packing and storage plant in every major honey-producing district. This would enable transport costs from the apiary to the packing plant and from the packing plant to the wholesaler to be kept to a minimum.

Obviously, it is not practical for the Authority to own this number of plants as this is quite contrary to any concept we may have of economies of scale. To achieve this then, the H.M.A. could utilise some of the excess capacity which appears to exist in the present packing plants of producers and private packers\*. It would do this by calling for tenders to blend, pack, and store honey sold to it. Tenders would be allocated to packers in each district depending on the quantity the Authority expects to receive from each locality. In this way, not only would freight costs be kept to a minimum (an immediate saving of at least £7,000\*\*) but the system would give an increase in efficiency to private plants as they would be operating nearer to full capacity, so that their

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\* Private communications from honey producer/packers in the North Island would suggest a considerable amount of excess capacity exists in present plants.

\*\* Freight and Cartage items, H.M.A. Statement of Accounts, 1966

per unit cost of packing would be lower\*\*\*. Since tenders would be competitive (because of the large number of producer/packers willing to pack more honey) this will ensure that the gains from using excess capacity will be shared by all producers. The fact that there is a cheap alternative method available for the H.M.A. to pack its honey makes the heavy overheads of the Auckland plant even more questionable, and the Authority could operate from a central office where it could carry out its administrative functions.

The H.M.A. would issue instructions and specifications on how the honey is to be blended and packed, and successful tenderers would be expected to store the honey until receipt of dispatch instructions from the H.M.A.

The individual floral source honeys being so minor in quantity, may have to be sent to a central packer in order to be blended and packed in sufficient bulk, as is the case at present.

Such a system would increase returns to the beekeeper without any increase in the wholesale or retail prices. This increased return would be due to increased packing and marketing efficiency

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\*\*\* In any business, costs can be divided into fixed and variable costs. Fixed costs are those that do not vary regardless of the output of a given plant. For example, depreciation, rates, insurance, and to a certain extent, repairs and maintenance. Variable costs are those that are directly related to output, e.g., labour, packaging, power and fuel costs, etc. As the output of a plant increases (using up some of its idle capacity) then the fixed costs are spread over a large quantity of output so that the per unit costs is lower.



as itemised below:

(i) The relatively small quantity of honey that the Authority packs will not be burdened with the high costs of packing associated with the excessive overhead costs of the present H.M.A. plant and building. Proof of this can be seen by the fact that private packers, some from as far south as Canterbury, can outbid the Authority for honey from beekeepers, pay 1d seals levy per lb., yet still sell it profitably at the Authority's doorstep in Auckland\*. Clearly, to be able to do this the private packer's costs must be much lower than those of the Authority.

In the 1965/66 season, the Authority received just over 1000 tons of honey which had to bear depreciation, repairs, maintenance, and interest costs, amounting to over £12,000. This means that each hundredweight of honey bore a 12/- charge to pay for these costs. This does not include administration expenses of £8,496 or wages of £9,792 (or 18/- per cwt.) To the extent that private packers can pack honey for a lower cost than this, so producers gain an increased return for their honey.

(ii) The increased throughput of existing plants of packers who have successfully tendered will mean that their fixed costs are spread over a greater quantity of honey so that the per unit (per ton) cost of packing will be decreased. As well as making

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\* Source: Report of Honey Marketing Committee (1960) para.48.

increased profits themselves because of lower costs, they will also be packing the Authority's honey at the lower price so that returns to beekeepers supplying the Authority could be expected to increase.

(iii) Many unnecessary transport costs, both from the apiary to the Authority, and from the Authority to wholesalers or retailers, will be eliminated. In this way beekeepers' net returns will also be increased.

It is in this threefold manner that increased returns will be achieved for the beekeeper without affecting the consumer price of honey.

A system very similar to the above proposal is operating in N.Z. in the Dairy industry. Dairy processing companies and co-operatives manufacture cheese, butter and other dairy products according to the specifications of the Dairy Production and Marketing Board (a statutory producer body), which purchases the products from the factories to sell overseas. It also regulates local sales. The Board has purely a marketing and advisory function and does not physically handle any of the product it sells on the local market. In this respect the H.M.A. would not be creating a precedent in marketing procedure and the only substantial difference between its suggested operations and those of the Dairy Board, is that it would purchase the product prior to processing whereas the Dairy Board purchases it after.

The Authority already operates in this manner to a small extent. It purchases straight lines of bulk white clover honey produced in Canterbury, exporting it from the nearest port. The Authority does not physically handle this honey, but merely grades it according to a sample sent to it. It has also from time to time negotiated with private packers to pack honey into retail containers on its behalf. There is no reason why this scheme cannot be extended to all honey presently handled by the H.M.A.

2, Should the H.M.A. export honey at all, or merely promote local Sales?

At present N.Z.'s exports of honey comprise the small quantity surplus to local market requirements. Since exports are of a residual nature, the local market being supplied first, they fluctuate greatly according to production, varying from 1732 tons in 1954/55 to 325 tons in 1960/61. (Tables 5 and 11). Exports have, however, shown a steady downward trend over the last four years, falling from 1236 tons to 411. With the increasing local population and decreasing production (Table 4) this trend is to be expected, and may be expected to continue in the future. In fact, at the present level of per capita consumption, even if production is maintained at its present level of 5047 tons (1962/66 average) there will be no export surplus in four or five years' time due to the increasing local population consuming all the national production.

Even if production increases to its 1956/60 level of 5414 tons, the local market will consume this quantity by 1974 or 1975 at the present level of per capita consumption. This is clearly shown in Table 16 and Figure III.

TABLE 16 Projected National Consumption of Honey

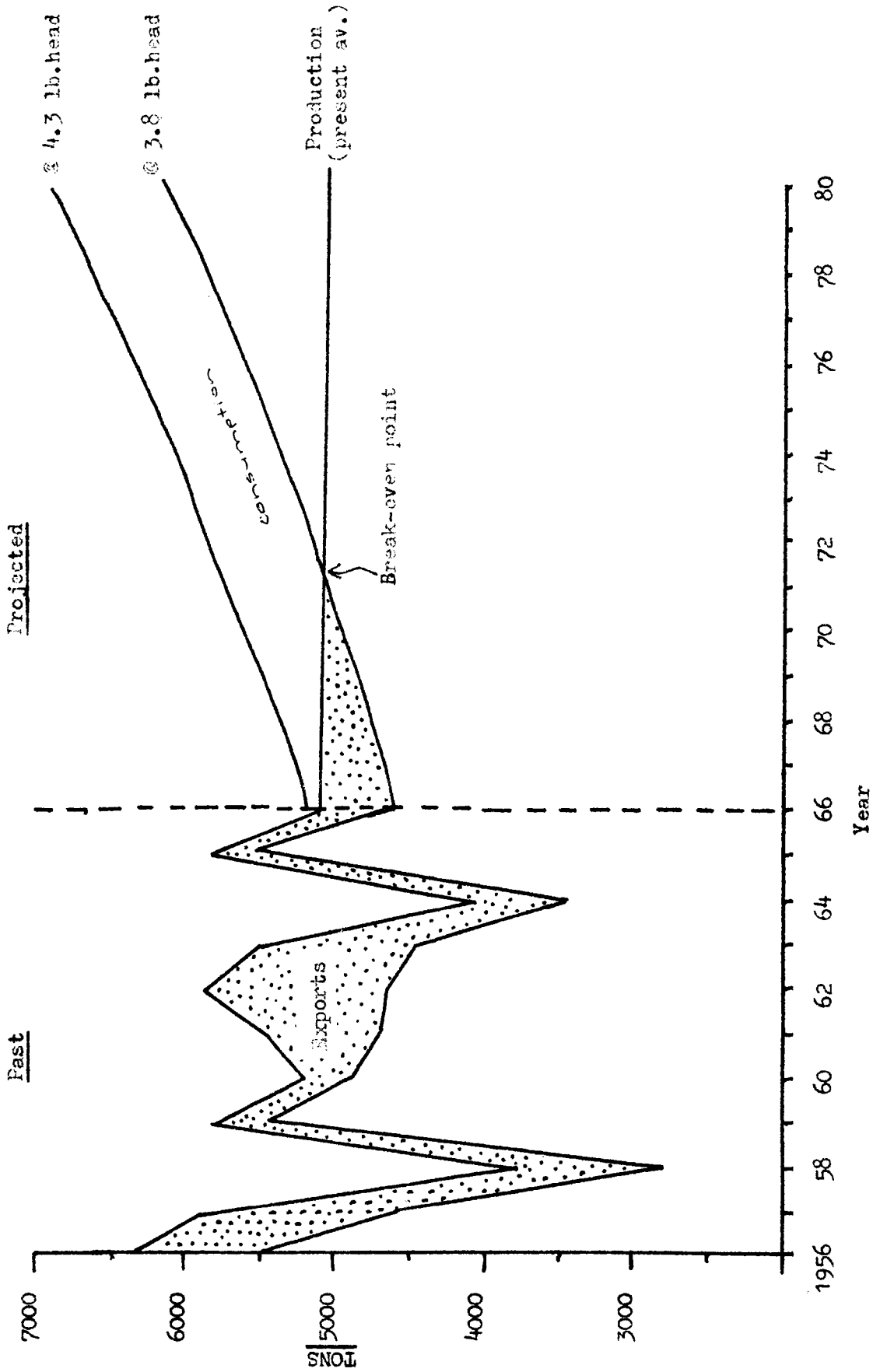
Year	Population <sup>1/</sup> (thousands)	N.Z. Consumption <sup>2/</sup> (tons)
1966	2712	4600
1967	2763	4687
1968	2816	4770
1969	2870	4868
1970	2927	4966
1971	2989	5060
1972	3047	5169
1973	3111	5277
1974	3176	5389
1975	3244	5505
1976	3314	5612
1978	3457	5864
1980	3608	6120

1. Population based on a natural growth rate of 2.1% per annum, plus 10,000 immigrants.

2. Consumption based on a per capita consumption of 3.81lb./head/annum (1962/65 average)

Source: 1. Monthly Abstract of Statistics, March 1967.  
2. N.Z. Official Year Book, 1966.

FIGURE III Money Consumption and Production in N.Z.  
Past and Projected



There are two principal variables which may alter this projection.

A. Production may not remain constant as has been assumed in the projection. If production decreases, as it has done over the last 15 years, then there will be no exportable surplus at an earlier than predicted date. That is, in two or three years' time. On the other hand, if production revives and increases, then the export surplus will remain for a slightly longer time, but will eventually be absorbed by the increasing population. As can be seen from Table 16, production will need to be in the vicinity of 5700 tons in ten years' time if the local market is to be fully supplied, given present consumption levels and population growth.

B. Per capita consumption may not remain at its present level. As can be seen from Table 17, the long term consumption trend is a downward one, falling steadily from 5.65lb./head in the 1949/53 period to 3.76lb./head in 1963/66. If this trend continues at its present rate, then by 1970/72 per capita consumption will have dropped to about 2.5 lb./head. Total local consumption would be in the vicinity of 3400 tons leaving an even greater surplus to export.

On the other hand had the Authority been able to maintain consumption at its 1960/62 level of 4.3lb./head then national consumption today would be 5260 tons, or 200 tons greater than production (5047 tons 1962/66 average). Had the Authority really been successful in maintaining consumption at over 5 lb./head as it was at its inception in 1953, then total consumption this year would have been 6170 tons.

TABLE 17 Per Capita Consumption of Honey in N.Z.

Year	N.Z. Consumption (tons)	Population	lb./head	3 year moving av.
1949/51			5.10	
1953/54	5817	2,074,781	6.28	5.65
1954/55	5268	2,118,434	5.57	5.12
1955/56	3410	2,164,734	3.52	4.89
1956/57	5510	2,209,132	5.58	4.54
1957/58	4556	2,262,814	4.51	4.26
1958/59	2776	2,315,900	2.68	4.11
1959/60	5422	2,359,746	5.14	4.12
1960/61	4875	2,403,567	4.54	4.64
1961/62	4690	2,463,241	4.26	4.31
1962/63	4644	2,520,670	4.12	4.08
1963/64	4443	2,574,588	3.86	3.64
1964/65	3452	2,627,458	2.94	3.76
1965/66	5436	2,677,198	4.54	

Source: 1. Official Year Book 1953-66.  
2. Monthly Abstract of Statistics, March, 1967.

From this rather clouded picture we shall now return to the original assumptions of having a relatively constant per capita consumption and a constant or slightly decreasing production\*.

\* The writer is not investigating the supply response but evidence received at the recent N.B.A. conference shows that there is a real concern at nectar flow, and a lack of understanding of factors influencing it. Points that were raised such as increased stocking rates, greater use of herbicides (especially hormonal types) and insecticides were advanced as causes of the lack of nectar flow in recent years. If this is correct it substantiates the writer's assumption that production is unlikely to increase, as greater use of herbicides and increased stocking rates must be anticipated in the future.

Given this situation and realising that within fairly broad limits of these assumptions, New Zealand's total honey production will be consumed locally within a few years, it can be argued that the Authority should direct all its marketing and promotion to the local market. If the H.M.A. can hold consumption at its present level, then all N.Z. honey will be consumed locally by 1971/72. If through increased advertising, new honey packs etc., it can increase per capita consumption, then it could virtually market all honey in New Zealand at this stage.

From the very scant evidence available, the price elasticity of demand for honey in New Zealand would seem to be high\*. In 1964, 3452 tons of honey were sold locally at a retail price of 28.6d per lb., whereas in 1965 5436 tons were sold at 29.6d.lb. In other words, the addition of 2000 tons to the local market did

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\* Price elasticity of demand is a concept used in economics to describe and quantify the change in demand for any product caused solely by a change in price of that product, other things - such as income and prices of other products - remaining unchanged. If a small price change in honey produces a large (more than proportionate) change in demand, then demand for that product is said to be elastic. On the other hand, if the change in price produces a less than proportionate change in demand, then demand is said to be inelastic. Thus, in the case of honey, where price increased with the increased quantity sold, it can be said that its demand is very elastic. Since honey has only been free from price control since July 1965, it is impossible to calculate a precise elasticity of demand figure.



not depress the price, but the price actually increased\*\*. This being the case the Authority could load the honey, which is normally exported, on to the local market without unduly depressing the price. Since it states\*\*\* that the local market is the more profitable one, this would seem to a rational course of action for the H.M.A. to take.

Since the Authority would no longer be paying commission on the exported honey, it would immediately have an extra £6-7000 which it could spend on local promotion. This would more than double the amount presently being spent on honey advertising, which could be expected to increase local consumption at existing prices.

At present the H.M.A. spends £4-5000 on honey advertising per annum. As Table 18 shows, this is equivalent to £1 advertising expenditure for every £185 worth of honey sold at retail. This is a substantially higher ratio than those of the other industries cited. That is, the Apple and Pear Board and the Egg Marketing

\*\* It should be noted at this stage that local consumption of honey is based on the Department of Agriculture's estimate of total production (Table 5). As can be seen, production in 1965/66 was the highest for a number of years, a fact that is not borne out by speaking to individual beekeepers (and the Chairman of the H.M.A) who generally state that this year was a poor one. This figure was checked with the Department who assured the writer that this was the figure obtained by aggregating local apiary instructors' estimates and as such had to be accepted.

\*\*\* Stated by the General Manager of the H.M.A. in a paper, "Some Effects of an 'Export Only' Policy". (8.6.67).

Authority spend more proportionately on advertising than does the H.M.A.

TABLE 18 Local Advertising Expenditure by Selected Boards

Board	Advertising Expenditure	Quantity Sold in N.Z.	Retail Value <sup>1/</sup>	Ratio of Advertising to total value
Honey Marketing Authority	£5000	3,300 tons	2/6d.lb.	1 : 185
Apple & Pear Board	£80,000	3,000,000 cases	1/4d.lb.	1 : 110
Egg Marketing Authority	£38,000	33,000,000 dozen	3/11d.doz.	1 : 169
1. As at 15 November 1965.				
Source: 1. Annual Report and Statement of Accounts of respective Boards.				
2. Official Year Book, Section 23 (Prices).				

The effectiveness and evaluation of advertising at this stage is more an art than a science. The value of an extra £1 spent on advertising is essentially unknown. However, one can ask

"Is the H.M.A. using the same media and methods employed by the more vigorous marketing organisations?".

The answer to this is most probably "NO!"

The Authority seems to be using rather tired and orthodox media

through which to advertise and it can be wondered whether limited television coverage may be a more beneficial way of spending the restricted funds.

With regard to fresh forms of promotion, it will be most interesting to evaluate the impact upon honey sales of the recent 'Honey Week' held in Christchurch during the National Beekeepers' Association Conference. The Christchurch branch of the N.B.A. is undertaking such an evaluation, which will not be available until after this Discussion Paper has been published. Such activities arouse the interest of the public and free television and press coverage received can only be of benefit to the industry. It is noteworthy that this promotion was the concept of the local N.B.A. branch, and that they had to initiate and finance it initially receiving only a 2:1 subsidy from the Authority on the final cost. This undertaking and expenditure should surely have been the responsibility of the Authority.

Per capita figures revealed in Table 19 show that the Authority has been singularly unsuccessful in increasing consumption on the local market. It is not unreasonable, in the writer's opinion, to conclude that the limited funds available for promotion have not been spent to the best advantage. The other two industries mentioned have used more sophisticated media for advertising and whilst their total funds are greater so too is their percentage spent on advertising.

TABLE 19 Per Capita Consumption of Apples and Pears, Eggs, and Honey in New Zealand

Product	1949/52	1960	1963	1965
Honey (lbs.)	5.1	4.5	3.8	2.9
Eggs (dozen)*	5.0	7.7	10.0	11.4
Apples & Pears (lbs.)	46	-	53	60

\*Calculated only on quantity passing through the Authority  
Source: Official Year Book, 1960/66, Section 24.

In the event of the Authority adopting a policy of complete sale on the local market, it could also implement the first suggestion. That is, the Authority's honey could be packed by contract to private packers. The Authority would then accept the promotion of honey as its major role. If it were really successful in promoting the consumption of honey on the local market, then there would be no marketing problems and it would have achieved its statutory function of "orderly marketing".

The Authority would continue to collect seals levy which it would spend mainly on advertising, promotion, and product development. With the increased price to the producer that would result from

- (a) Advertising
- (b) Not having to export and thus saving commission
- (c) The Authority not packing honey,

it could be expected that production of honey would increase.

As the system of private packers packing the H.M.A.'s honey became accepted, it would be a logical progression to expect packers to purchase the honey directly from the beekeepers for their own sales, as some producer/packers do at present. In this way the H.M.A. would be phased out of trading over a number of years. It could, however, remain as a backstop to producers in that it could purchase honey from producers if they could not get a certain price from packers. In this way the smaller beekeeper would still have the security of being able to sell his whole crop at a known price. The situation where he could not sell it all is only likely to arise in a very high (atypical) production year. The Authority could act in a stabilising manner by storing the honey in bulk until there is a poor year when it would sell its stocks to packers.

Since the Authority would no longer be packing honey, so it would be collecting a greater amount of ~~seals~~ levy which would be spent on added honey promotion. At present some producers and packers begrudge paying saals as they cannot see any benefit from doing so, but in fact see the levy as paying for an inefficiently run board which operates in competition to themselves. It is the writer's opinion that this attitude would change to one of greater confidence in the H.M.A. since it would be seen as a constructive partner rather than a subsidised competitor on the local market. Currently, the H.M.A. pays a commission in excess

of £3000\* to its local selling agent in New Zealand. This commission is indirectly paid out of the seals levy contributed by private packers.

3. Should the H.M.A. discontinue trading, allowing non-traditional export markets to develop by private enterprise and merely accept the role of an overseer and advisory body for the honey industry?

Because of the great national need for overseas currency, proposal 2, whilst being perfectly practical, may not be in the best national interest. If it is thus assumed that N.Z. should export as much of her exportable produce as possible in order to gain more overseas currency, then the aim of the H.M.A. should be to encourage the expansion of production and to export increasing quantities of honey\*\*.

Under existing legislation, the H.M.A. has the sole right to export honey, yet under its system of costing, exported honey does not appear to give as high a nett return as does locally marketed honey. In consequence the Authority has no incentive to export honey, but prefers (rationally) to market where it can obtain the highest prices, i.e., on the local market.

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\* Source: H.M.A. Annual Report and Statement of Accounts 1966

\*\* Assuming a near perfectly elastic demand situation on the export market.

Table 20 shows a typical breakdown of costs of honey sold by the H.M.A. comparing the same grade of honey sold locally and exported. As can be seen, the local nett realisation to the Authority is nearly 2d per lb., in advance of exported honey. Table 21 reveals that this has been the case since 1962 when comparable figures first became available.

Since nett export realisations received by the Authority are below local parity, then it would not be unreasonable to expect the H.M.A. to allow private packers to export honey if they so desired. Unless they feel they can reduce costs associated with exporting honey by at least 2d per lb., they are unlikely to avail themselves of such an opportunity. At present, because of the sole export right of the H.M.A., it is impossible for private producers to test the export market, to, in fact see whether the 2d differential between nett export and local realisations exists.

The untested 2d difference in price between export and locally marketed honey could possibly be reduced by private packers so that nett export prices became higher than nett local prices in the following way:

- (a) Private packers do not have the heavy overheads of plant and equipment that the H.M.A. incurs.
- (b) There has been criticism within the industry of the high rate of commission paid to the London agent. Private packers could find an agent who operated on a lower

TABLE 20 Costing Schedule of Exported and Locally Marketed Honey sold by the H.M.A.

Light Amber Honey - March 1967

Item	Local Market <sup>1/</sup>	Export Market <sup>2/</sup>
Gross Realisations C.I.F. & C.	23.333d	£1660.14. 3
Less Commission		
Basic	1.167	66. 8. 7
Overprice	-	25. 5. 1
	C.I.F.	
	22.116	1569. 0. 7
Less Marine Insurance	-	3. 4. 0
	C.I.F.	
	22.116	1565.16. 7
Less Freight	.908	168. 9. 8
	F.O.B.	
	21.258	1397. 6.11
Less Warehouse & Onccarrying freight	-	21.11. 9
	F.O.B.	
	21.258	1375.15. 2
Conversion to pence per lb.	-	13.757d
Local distribution	- 3/	.317
	21.258	13.440
Less costs of packing		
Materials	4.354	-
Labour	1.294	-
	15.610	13.440
Less blending loss (1.65%x98.35)	15.352	-
Less overheads	1.250	1.250
Nett realisations	14.102	12.190

1. Sold as a 'Honeygold' blend in 1lb. cardboard pots @ 23/4d per doz.  
2. The 10-ton consignment received 155/- per cwt. C.I.F. London  
3. Local distribution costs are included in freight costs  
Source: Kindly supplied by the General Manager of the H.M.A.



TABLE 21 Nett Honey Prices to H.M.A.  
(pence per lb.)

Year	Grade	Local	Exports
1962/3	White clover	- 1/	14.957d (225 tons)
	Extra L.A.	13.466d (129 tons)	12.639d (143 " )
	Light Amber	11.036 (283 " )	9.592 (555 " )
1963/4	White clover	-	14.932 (457 tons)
	Extra Light Amber <sup>2/</sup>	15.831 (192 tons)	12.674 (235 " )
	Light Amber <sup>2/</sup>	12.470 (169 " )	11.527 (199 " )
1964/5	White Clover	-	14.404 (190 tons)
	Extra light amber	14.482 (163 tons)	12.572 (170 " )
	Light Amber	12.507 (147 " )	11.673 (134 " )
1965/6	White clover	-	14.343 (288 tons)
	Extra Light amber	14.673 (213 tons)	11.331 ( 62 " )
	Light Amber	13.777	11.591 ( 10 " )
March 1967	Light Amber	14.102	12.190 ( 10 tons)

1. No white clover honey is marketed by the Authority in N.Z., but the Imperial Bee blend has clover honey as a constituent.

2. Extra light amber and light amber honeys are marketed locally under the brand names of 'Imperial Bee' and 'Honeygold' respectively.

Source: Kindly supplied by the General Manager of the H.M.A.

margin.

- (c) The H.M.A.'s policy is to market virtually all its exported honey in the U.K.-European area (under the Kimpton Agreement) with the consequence that they have little firsthand knowledge of honey prices elsewhere.
- (d) Private packers would probably receive some income tax remission under the export incentive scheme, for which the H.M.A., being a statutory board, does not qualify. The H.M.A. would still, under this or any other scheme, bear the residual responsibility of setting standards of grades, quality etc., to which private honey exporters must adhere.

Whilst producer boards, whose principal function is to co-ordinate and organise export (and often local) sales of produce, are a common feature of New Zealand's primary industry organisation, the H.M.A. stands alone as the only statutory board serving an industry of such a minute size as the honey industry. There are over a dozen\* other primary industries in N.Z. whose exports in terms of overseas currency earnings greatly exceed that of the honey industry. Whilst they may have very similar problems in exporting as does the honey industry, they have found that a board system with its associated overheads and rigidities - is not necessary for the success of their exporting operations. It must also be mentioned that their efforts in creating

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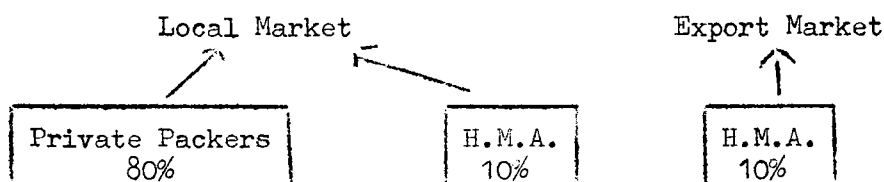
\* See Appendix III

new export markets and in increasing export receipts, are being additionally rewarded by a tax exemption which the existence of the H.M.A. prevents honey producers from obtaining\*. The writer is thus of the opinion that free exporting by private packers, whose premises and products have the approval of the H.M.A. is a feasible scheme which could result in higher returns to beekeepers generally.

It has been argued by a leading producer/packer in this country that because of additional costs incurred by the H.M.A. on its export operations, for every 1d that is lost on the export market, beekeepers as a whole lose 4d. Whilst it is true that where there is no subsidy factor present, local prices must be related to export values, the multiple effect on the industry is not as large as has been stated\*\*, and even stated in its correct form the calculation is subject to some fairly rigorous assumptions. The "Multiple effect" will now be discussed.

Over the period 1960/65 the H.M.A. has exported approximately 14% of total honey production in this country and has sold locally another 10%. The balance of 76% has been marketed by private packers on the local market. For ease of calculation it shall be assumed that the sales ratio is 80 : 10 : 10 as set out in the diagram below.

FIGURE IV Diagram of Honey Sales (percentage)



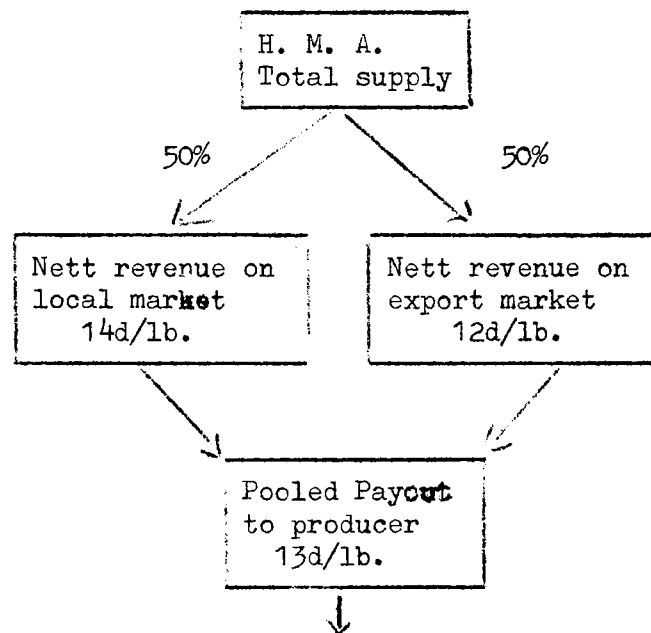
\* This does not apply to comb honey exports.

\*\* Statement made by Mr P. Berry of Arataki Apiaries in a paper entitled "Honey Marketing, Opinion Recorded", April 1965.

Taking typical nett realisations of local and exported honey of 14d and 12d per lb. respectively, the pooled payout to suppliers of the Authority will be 13d per lb ( $\frac{14d + 12d}{2}$ ) i.e., a twopence difference in export and local prices results in a 1d change in the payout.

The payout to producers is the in-tank value of honey (nett of transport costs to the nearest H.M.A. depot). Since this price sets the floor price at which private packers must pay producers (subject to transport costs, container costs, etc.) so all other beekeepers will be receiving 1d per lb. less for their honey.

This is shown in the diagram below:



This price effectively sets the lower limit on the price packers must pay to secure supplies of honey. Therefore, if it is assumed that improved marketing efficiency on the export market will reduce selling

costs by, say, 2d per lb, then the effect on the industry as a whole is to increase the in-tank value of all honey by 1d per lb.

Or conversely, that any unnecessary costs incurred by the H.M.A. with respect to its honey exports will lower the in-tank value of all honey produced and sold in New Zealand irrespective of whether the honey is marketed by a producer/packer or the Authority.

The obvious antithesis of free marketing is one of compulsory acquisition by the Authority, which would pack and market all honey. This scheme will not be discussed in this paper as the author deems it unlikely that the majority of producers or packers would be in favour of compulsory delivery to an Authority's packing plant and the abolition of producer/packers. Because of the fragmented nature of the industry and the simplicity of processing and packing honey which allows even small producers to pack, such a scheme would unquestionably cause a large amount of illicit trading which would be very difficult to police or control. Difficulties in collecting the full amount of seals levy payable under the present Regulations are an indication of the problems involved. (see page 14).

(d) Conclusions and Recommendations

Before a preferred solution to the present marketing problems can be stated, more investigation into various marketing costs is necessary. The writer, however, is inclined to believe that the

the answer may lie in a hybrid of the previously mentioned schemes and could be along the following lines:

The H.M.A. would opt out of the local market, and with the exception of organising local industry promotion, place its total efforts into exporting to the United Kingdom market.

The writer would like to emphasise the importance of exports - for reasons of national importance (overseas currency) and higher payment to producers. However, the absolute size of the honey industry is a limiting factor in exporting and promotional budgets for overseas advertising are virtually non-existent, any advertising of New Zealand honey done in U.K.-Europe being financed by the London agent. Effective promotion on the U.K. market is simply beyond the financial capacity of the honey industry.

At present, the N.Z. quality image has a large financial backing in the U.K. in the form of advertising by such agencies as the International Wool Secretariat, the N.Z. Dairy Production and Marketing Board, the N.Z. Meat Producers' Board, the N.Z. Apple & Pear Board, etc. The theme of this advertising, amounting to over £2M. each year, is the quality aspect of New Zealand produce in general.

It appears to the writer that honey should be sold as a New Zealand quality commodity (i.e. not blended) in order to take advantage of the New Zealand quality image.

After reviewing several possibilities and bearing in mind the extremely limited promotional budget of the H.M.A., it would seem

that some form of liaison with a major New Zealand Board could be in the interests of local honey producers.

The only Board with the necessary contact with the wholesale trade would appear to be the N.Z. Dairy Board which owns packing and distributing facilities in the United Kingdom in the guise of Empire Dairies Ltd.

At this juncture, the Kimpton Contract (i.e. the agreement between the H.M.A. and Kimpton Bros. (Red Carnation Ltd.,) for the sole agency rights) must be mentioned. This agreement may be queried on the following grounds.

- (i) That it effectively prevents any initiative in non-European markets by the H.M.A. or private packers.
- (ii) That as a sole agent for New Zealand honey, the agent handles honey from many countries, and thus the N.Z. image is not emphasised.
- (iii) That it would appear that whilst Kimpton's handle and sell all New Zealand honey named as such<sup>\*</sup>, the final consumer does not obtain N.Z. Honey. In other words, the bulk of the honey is probably used for upgrading darker foreign honeys.
- (iv) That giving any agent sole selling rights endows the agent with certain monopoly powers. For example since New Zealand honey is alleged to be keenly sought after by U.K. packers, and since they can only obtain it from one source, it is

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\* Personal communication from Kimpton Bros.

feasible that the agent could tie the sale of it to the sale of other honeys i.e. the agent could insist that he would not supply a buyer with 1 ton of N.Z. white clover honey unless the buyer purchased 10 tons of Argentine light amber as well. Since the sole agency for New Zealand honey brings the company more business, one would expect the New Zealand commission rate to be much more concessional than it is at present. It is not necessary to argue that the above defects are exploited - but merely that they exist.

These possible weaknesses of the Kimpton Agreement would not occur with a New Zealand owned agent handling only New Zealand honey. It would appear that there would be substantial gains for both producer boards if N.Z. honey to the United Kingdom could be consigned in bulk to Empire Dairies for packing into retail containers with a pronounced "N.Z. quality" image. This is essentially the operation carried out with respect to butter, where marked success has been gained. In terms of economies in advertising and distribution, the gains could be very great, and since the company is wellknown throughout the U.K. as the agent of a quality New Zealand product, this goodwill would immediately "rub off" on to the honey it handled. Further gains would come from the lower U.K. container costs, yet shipping costs would not be increased as the honey would still be exported in bulk.



The concept of a joint marketing venture between the H.M.A. and Empire Dairies Ltd., is not an original idea of the writer's but has been suggested and investigated by Mr A.K.Ecroyd, a director of a company servicing the beekeeping industry. Reporting on his recent trip to London, he suggested that Empire Dairies is very interested in negotiating a distributing arrangement with the H.M.A. It would appear that the Authority has allowed this opportunity to lapse as no mention has been made of it. If this suggestion lapsed on purely commercial grounds then there can be no objection provided that the details on which the rejection was based were fully known. On the other hand, if it were rejected on less commendable grounds e.g., that the H.M.A. would seem to be surrendering a part of its function to another board, or that the existence of the Kimpton contract made this unnecessary or impossible, then to the extent that honey producers' incomes would be adversely affected, this would represent a very negative approach to export marketing by the H.M.A.

If a successful agreement was reached between the H.M.A. and Empire Dairies, this would leave comb honey exports and exports to the rest of the world (i.e. other than the U.K.) open to licensed private packers whose premises and products had the approval of the H.M.A. The Authority would register packers who wished to export (subject to the right of appeal by the packer to the Department of Agriculture or Health, if his application is rejected) and the

Authority would be responsible to ensure that exported honey by private individuals was of a consistent standard. The H.M.A. could still retain its present function of setting a "floor price" for honey based on a moving average of export realisations. It could also operate as a private packer, exporting to other markets, providing that sales were not subsidised by returns from the U.K. market or revenue from the seals levy.

This would allow the individual honey packer who feels the export market is more profitable, a chance to test it. If he develops a new pack for a certain market, or finds a small lucrative export market, then he gets the reward for his efforts and enterprise.

It is envisaged by the writer that the H.M.A. would continue to collect seals levy which would be used to finance industry promotion, mainly within New Zealand. The Authority's bulk exports to the U.K. would be shipped directly from producers and any blending would be done in the U.K. If it desired to export other than to the U.K. then its honey could be packed by contract to a private packer,

Finally, more detailed work is required both in the collection of statistics and in the analysis of them before any of the policies suggested, can be quantified with any degree of accuracy.

It is, for example, impossible to know what quantity should be placed on the local market and what quantity should be exported, in order to gain the maximum return by market discrimination, without knowing such facts as the elasticity of demand for each grade of honey on the local and export markets.

This study has obvious limitations and is intended to stimulate informed discussion within the industry rather than to offer a cut-and-dried blueprint for future planning.

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Postscript: Given the more limited promotional and administrative functions of the H.M.A. as seen in the proposed scheme, there would undoubtedly be more time and finance available for product development, market research and promotion. Even this more limited evaluation of the industry was made possible by the generosity of a private producer after the industry as a whole felt it was unable to finance a more detailed and complete study.

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APPENDIX I

Apiary Statistics as at 31 May 1965

	1-29 hives		30-250 hives		251 hives and Over				
	Bee-keepers	Apiaries	Hives	Bee-keepers	Apiaries	Hives			
Northland	554	574	1350	21	76	1255	14	343	6836
Auckland	675	727	2404	33	124	2058	11	170	4152
Hamilton	387	420	1847	63	220	5339	46	1017	33050
Tauranga	315	347	1316	32	101	2801	28	481	19005
Hastings	562	589	2118	17	68	1196	17	353	10598
Hawera	218	228	845	13	69	1205	13	313	7960
Palm. Nth.	414	486	1924	28	155	2043	7	178	3615
Nelson	219	251	943	31	159	2798	8	216	5565
Christchurch	312	407	1572	45	400	4578	34	1582	18121
Oamaru	181	224	1128	55	336	5052	28	1272	19344
Gore	163	207	911	29	217	2785	40	1035	18825
	4000	<del>4460</del>	16358	367	1925	31110	246	6960	147121

APPENDIX II

NEW ZEALAND HONEY MARKETING AUTHORITY.

COPY OF KIMPTON BROS. AGREEMENT

THIS AGREEMENT is made BETWEEN THE NEW ZEALAND HONEY MARKETING AUTHORITY a Primary Products Marketing Authority duly established under the Primary Products Marketing Act (N.Z.) 1953 and having its office in Auckland, New Zealand (hereinafter referred to as "the Authority") of the one part and KIMPTON BROS. (RED CARNATION) LTD. a limited liability company duly incorporated under the Laws of England and having its registered office at 36/7 Poultry London E.C. 2. England, Agents (hereinafter referred to as "the Company") of the other part WHEREAS the Authority is duly established by the Honey Marketing Authority Regulations 1953 (N.Z. Serial Number 1953/157) with powers (inter alia) to acquire, process, blend, grade, pack and market in New Zealand or elsewhere honey and the by-products of honey and by the said Regulations "Honey" includes any substance which in colour, appearance and taste resembles and contains an appreciable amount of honey ("Honey" as used in this agreement shall extend to cover any such by-products thereof and any such included substance) AND WHEREAS The Authority is desirous of marketing honey in bulk containers in the United Kingdom of Great Britain and Northern Ireland, Eire and all Countries of Continental Europe including European Russia (hereinafter referred to as the "Marketing Territories") and for such marketing to appoint an agent in the Marketing Territories and the Company has agreed to be so appointed as such agent for the period and on the terms and conditions hereinafter set forth NOW THIS AGREEMENT  
WITNESSETH:-

1. THAT in accordance with and subject to the terms, conditions and provisions set forth in this agreement the Authority hereby appoints the Company its sole selling agent for the sale of all honey in bulk exported by the Authority from New Zealand for sale in the Marketing Territories or any of them. For all purposes "Honey in bulk" shall mean honey packed in bulk containers each containing not less than Fifty-Six pounds nett weight of honey. Any sales made by the Company pursuant to this Agreement may be made in the name of the Company as Vendor notwithstanding anything herein contained the Authority shall be at liberty to sell in the Marketing Territories or any of them otherwise than through the Company as its agent honey in containers each containing not more than Thirty pounds nett weight of honey in such manner as the Authority may deem desirable whether directly or through any agent and whether the agent for such sales of thirty pounds or less nett weight of honey be the Company or any other agent.

1a. THAT the Authority will at all times use its best endeavours to oppose the issue by the New Zealand Government of licences for the export of bulk extracted honey from New Zealand by any exporter other than the Authority.

2. THAT the Company will use its best endeavours to advance the interests of the Authority as regards the sale of its honey in bulk containers as aforesaid throughout the Marketing territories but the methods to be adopted by the Company in so doing shall be in the discretion of the Company and any expenses incurred by it in so doing whether by the appointment of Sub-agents or servants or otherwise shall be wholly at the cost of the Company unless previously authorised in writing by the Authority as expenses to be at the cost of it, the Authority.

3. THAT from time to time and in every instance as soon as possible the Authority shall inform the Company of what quantities of honey in bulk containers as aforesaid it will have available for sale in the Marketing Territories and when and in a similar way the Company will keep the Authority advised as to what sales it expects to make and each party will keep the other party fully advised of all information possessed by it and of mutual interest to both of them regarding matters governed by this Agreement.

4. THAT while the Authority by reason of its operation is unable to guarantee to supply all quantities of honey the Company may be able to sell or to provide a regular supply of honey for sale and while the Company pursuant to its operations hereunder may not be able to guarantee to sell all quantities of honey made available by the Authority or to provide a regular volume of sales each party will use its best endeavours to meet the requirements of the other as to supplies or as to sales.

5. THAT the Company will not enter into any contract involving the Authority for the future delivery of honey without having first confirmed with the Authority that the required honey will then be available for delivery in accordance with the proposed contract.

6. THAT it shall be the sole responsibility of the Company to satisfy itself that any proposing purchaser will promptly pay all moneys payable by that purchaser when due and should any such purchaser fail to pay any such moneys when so due and the Authority so suffer any loss when the Company will indemnify the Authority in respect of any loss suffered by it, the Authority, from such failure to pay but the Authority will give the Company at all times reasonable assistance to collect any such moneys not paid whether so indemnified or not.

7. THAT all moneys payable to the Authority in respect of honey sold and delivered in the Marketing Territories through the Company shall be payable to and collectable by the Company as the authorised agent of the Authority.

8. THAT the Company will keep full records in accordance with usual business practices of all sales made, all moneys received, all expenses met which are chargeable to the Authority, all payments made whether to or on behalf of the Authority and generally as to all other matters or operations which should be so recorded in sound business practice and the Company shall make such records or any of them available during reasonable business hours for examination by any duly authorised representative of the Authority or of its duly appointed Auditors.

12. THAT if any dispute or disagreement of any nature whatsoever and whether as to any question of law or otherwise should arise between the parties hereto as to this agreement or the interpretation thereof or as to any other issue arising thereout then such dispute or disagreement shall be submitted to the arbitration of a single arbitrator mutually agreed upon by the parties hereto whose decision shall be final and binding on the parties hereto and each of them and if the parties are unable so to agree mutually on a single arbitrator then any such dispute or disagreement shall be submitted to the arbitration of three independent persons one to be appointed by the Authority, one to be appointed by the Company and the third to be appointed by such other two appointees and the agreed decision of any two of such three appointees shall be final and binding on the parties hereto and each of them and if no two such appointees so agree then the sole decision of such third appointee shall be so final and binding. This clause shall be deemed to be a submission to arbitration under the Laws of England arbitration which shall apply to any such arbitration.

13. THAT notwithstanding anything else to the contrary this Agreement shall be deemed to have been made in England and in respect of it or of any issue arising out of it and whether as to interpretation of it or otherwise the Laws of England shall apply.

14. THAT this Agreement shall come into force on the 1st day of January 1966 and shall continue in full force and effect until the expiry of twelve months' notice in writing terminating it given by either party to the other provided that no such notice of termination shall be given by either party except as effective from the 31st day of March or on the 30th day of June or the 30th day of September or the 31st day of December in any year. Notwithstanding anything herein contained this agreement may be terminated at any time by mutual consent of the parties in such way and on such terms as they shall mutually agree upon.

IN WITNESS WHEREOF these presents were executed by the parties hereto on the dates and in the manner hereinafter appearing.

THE COMMON SEAL OF THE NEW  
ZEALAND HONEY MARKETING AUTHORITY.

was hereunto affixed at Auckland, New Zealand  
on the 17th day of March 1966 in the presence  
of:

C.T. GOSSE            General Manager.  
J.W. FRASER         Chairman.

THE COMMON SEAL OF KIMPTON BROS.  
(RED CARNATION) LIMITED. was hereunto

affixed at London, England on the  
2nd day of March 1966 in the presence of:

A.W. KIMPTON        Director  
B. ANALDY            Secretary.

## Berry's policy.

1. Packing at Auckland phased out over period Meantime pack & tender
2. Property Plant sold.
3. Authority cease to physically handle exports

Regulate exports as they do not have money

1. No cut prices

2. Condition good

3. Sufficient money to supply local market kept in NZ

4. Cut in honaria to members

5. No. plant to pack for overseas

