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Mr P. Berry,
P.O. Box 16,
HAVELOCK NORTH.

April 7, 1981

Dear Sir,

NEW ZEALAND HONEY MARKETING

At the request of Mr R.L.G. Talbot, I enclose a copy of my recent report to the Minister of Agriculture and Fisheries.

Yours faithfully,

D.H. Kay

D.H. KAY

DHK/jb
Enclosure

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The Hon Duncan McIntyre,
Minister of Agriculture & Fisheries,
WELLINGTON.

March 31, 1981

Dear Minister,

NEW ZEALAND HONEY MARKETING AUTHORITY

I now report to you as a committee of enquiry appointed by you on November 4 1980 pursuant to Section 12 of the Ministry of Agriculture and Fisheries Act 1953.

The matters for investigation as agreed with the various sections of the honey industry and set out in the notice of my appointment were:

> In the event of dissolution or reorganisation of the New Zealand Honey Marketing Authority to whom or for whose benefit should the nett assets of the New Zealand Honey Marketing Authority belong:
>
> (a) If the whole or some part of those assets may be attributed to past and present suppliers of the New Zealand Honey Marketing Authority how should those funds be used or made available for the use or benefit of such suppliers, and
>
> (b) If the whole or some part of those assets may be attributed to the whole of the honey industry (including packers and producers as defined in the legislation) how should those funds be used or made available for the use or benefit of the industry as a whole.

I have had the benefit of some thirty submissions and I am appreciative of this assistance. In addition, I have made such enquiries as I considered necessary and have received every co-operation and, in particular, I would wish to record my thanks to Messrs Wicht and Chadwick - the general manager and accountant of the Authority.

.2/...

The first matter to be determined is whether the whole or some part of the net assets of the Authority may be attributed to past and present suppliers of the Authority or whether they may be attributed to the whole of the honey industry, including packers and producers.

I HAVE CONCLUDED FROM MY INVESTIGATIONS THAT THE NET ASSETS OF THE NEW ZEALAND HONEY MARKETING AUTHORITY MUST BE ATTRIBUTED TO THE WHOLE OF THE HONEY INDUSTRY (INCLUDING PACKERS AND PRODUCERS AS DEFINED IN THE LEGISLATION).

More detail regarding this conclusion is contained in the attached schedules, paragraphs 1.01 to 1.06.

I WOULD ALSO RECOMMEND THAT FUNDS RESULTING FROM THE REORGANISATION SHOULD VEST IN A TRUST OR STATUTORY FUND ADMINISTERED BY THE NATIONAL BEEKEEPERS ASSOCIATION - SEE PARAGRAPH 1.07.

As stated in the attachment I regard the dissolution of the Authority as inevitable if only because the financial support of the Reserve Bank of New Zealand can hardly be justified for an indefinite period for an organisation which has to a very great extent abandoned its regulatory functions for the industry.

I WOULD THEREFORE RECOMMEND THAT, ON THE DISSOLUTION OF THE AUTHORITY, AND THE TRANSFER OF THE PROCEEDS OF THE WINDING-UP TO AN INDUSTRY FUND, SUBJECT TO AN INDEPENDENT FEASIBILITY ESTABLISHING THE ECONOMIC VIABILITY OF A CO-OPERATIVE OPERATION, LIMITED FUNDS SHOULD BE MADE AVAILABLE TO THE CO-OPERATIVE AT CONCESSIONAL INTEREST RATES AS SET OUT IN PARAGRAPH 3.04 IN THE ATTACHED SCHEDULES.

Finally there are three points I would wish to stress, namely:

(1) that this financial assistance should be regarded as an industry cost towards orderly restructuring and not a right stemming from an assessment of earlier contributions to the Authority's funds

(2) the quantum of loan moneys and the interest concessions set out in paragraph 3.04 are intended as an indication of what I consider to be a reasonable industry contribution to restructuring rather than absolute limits

and (3) the concessions recommended are in the light of the circumstances brought about by restructuring and should in no circumstances be regarded as establishing a precedent for financial support for the establishment of other organisations, co-operative or otherwise.

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The Hon Duncan McIntyre - March 31 1981

I trust that you will find this report of assistance and I shall be happy to provide any further information or explanations that you may require.

Yours faithfully,

D.H. Kay

D.H. KAY

DHK/jb
Att.

NEW ZEALAND HONEY MARKETING AUTHORITY

ATTACHMENT TO REPORT TO THE MINISTER

1.01 The net assets of the Authority - I have accepted that the net assets of the Authority and the total capital and revenue reserves are as shown in the 1979 accounts - the latest available - namely:

Revenue reserves	567,779
Assets revaluation reserve	268,358
Capital reserve	511
	$836,648

The Authority owns three properties -

Pleasant Point - Timaru
Christchurch
Auckland

These properties were valued by registered valuers at various dates with a range of values being given for the Timaru and Auckland properties.

The following are the lower and upper ranges of these valuations, the date of the valuations, the latest Government valuations and the date of the Government valuation, in that order:

	1	2	3	4	5
Timaru	35,000	47,500	5/80	57,500	10/77
Christchurch	80,000	80,000	4/80	69,000	7/77
Auckland	324,000	410,000	9/79	390,000	10/79
	$439,000	$537,500		$516,500	

It is of interest to note that in September 1979 the replacement cost of the Auckland development was estimated to be $690,000.

The book value of land and buildings as at August 31 1979 was $415,658 and it would seem reasonable to accept this figure as an adequate assessment of net realisable value.

1.02 Contribution to net assets -

The funds of the Authority have arisen from the following:

Transfer from the Internal Marketing Division on establishment of the Authority in 1954	21,785
Capital reserve	511
The amount by which net income of the Authority exceeded distributions to suppliers	545,994
Revaluation of land and buildings	268,358
	$836,648

1.03 Seals Levy -

Included in the revenue of the Authority for the twenty-one years, 1954 to 1974, was the Seals Levy which totalled approximately $750,000.

This levy was imposed on local sales of packaged honey and was of the nature of a sales tax with the funds so raised being payable to the Authority.

1.04 Revenue Reserves -

These are the result of distributions to suppliers falling short of the net income (including Seal Levies) of the Authority.

These retentions include the amount required each year for mortgage repayments to the Rural Bank, which, to 1979, total $93,823.

The other major retention occurred in 1973 when, by Ministerial direction, the payment to suppliers was limited to twenty cents per pound.

This resulted in a transfer to General Reserve of $282,690.

In 1977 revenue reserves were amalgamated into the one account - Stabilisation Reserve.

1.05 To whom may the accumulation of net assets be attributed -

Submissions received listed the sources of funds as:

1. The original transfer of $21,785 from the Internal Marketing Division

2. Seal levies of approximately $750,000 although opinion was divided on whether the cost of these levies fell on the packer or the consumer

3. The net revenue of the Authority not distributed to suppliers

4. The effect of inflation on the value of fixed assets.

A further benefit gained by the Authority - although not necessarily reflected in the net assets - stems from the concessional rates of interest charged on the Authority's bank overdraft with the Reserve Bank of New Zealand.

Without this borrowing facility the Authority could not operate in the way it has and if normal commercial rates of interest were charged the distribution to suppliers would be considerably reduced.

I do not consider that the concessional interest rate has had a significant effect on the net assets of the Authority but has been reflected in the distributions to suppliers.

It has been submitted to me that the Seals Levy enabled the Authority to accept a lower price for exported honey than that ruling for local sales in a number of years at the same time protecting the local market from an over supply situation.

The limitation of payments to suppliers in 1973 - albeit by ministerial direction - occurred when the Authority had had greatly increased realisations from export sales and private packers at that time were not permitted to export.

I find that I cannot accept that the payment of seal levies or the retention of income surpluses gives any section of the industry any claim to the assets of the Association.

I would point out that the Honey Marketing Authority Regulations 1975, Section 17 (as in Section 19 of the 1953 Regulations) state that "the principal functions of the Authority shall be to promote and organise the marketing of honey and to assist in the orderly development of the honey producing industry."

I consider that the imposition of the Seals Levy and the limitation of distributions to suppliers are actions of the Authority "necessary, conducive, or incidental to the performance of its functions" (1975 Regulations, Section 17(3)).

1.06 Conclusion - I therefore maintain that the funds (i.e. net assets) of the Authority must be attributed to the whole of the honey industry.

1.07 Vesting of Funds - While the net assets of the Authority must be attributed to the honey industry as a whole these funds are tied up in the packing and marketing activities of the Authority and will not be available for vesting in any other organisation until such activities are terminated.

In such an eventuality, the winding up of the Authority would produce a fund of, say, $800,000.

The only organisation representative of the whole industry is the National Beekeepers Association and it would therefore appear logical that such a fund should:

(a) Be vested in a trust under the overall control of the National Beekeepers Association but separate from the other funds of the Association

(b) The income of such a fund could be of the order of $100,000 per annum and the terms of the trust deed would determine the uses to which the income or indeed the fund itself could be applied.

(c) The income of the fund would be applie for the general interests of the industry which could include

... market promotion by advertising etc.

... financing education in the field of apiculture e.g. seminars, field days, scholarships

(d) It has been submitted that such a fund should be available for advances to producers in respect of honey stocks and such a power could be included in a trust deed.

There would be practical difficulties in making advances secured in such a manner that would be satisfactory for a trustee investment.

(e) Consideration could be given to the possible use of the fund for the purchase of honey in a season of oversupply thus acting as a stabilising force in the honey market.

(f) Consideration should be given to the possible effect that taxation might have on the income of this fund. This might well be solved by the establishment of a statutory industry fund rather than a trust fund but I have not researched this aspect in any depth.

2.01 Dissolution or Reorganisation of the Authority -

You required me to investigate how funds attributable to the whole honey industry should be used or made available for the use of the industry in the event of dissolution or reorganisation of the Authority.

No indication has been given as to the form or reorganisation contemplated but I have assumed that the basic alternatives are:

(a) that the Authority should continue its packing and marketing activities

or (b) that such activities would be taken over by another organisation.

2.02 Other functions and powers of the Authority -

The Authority was in the past regarded as a purchaser "of last resort" but this has now been changed and the Authority may refuse to accept honey that does not meet certain quality standards.

It is still obliged to accept available quantities of honey of suitable quality.

While for many years the Authority had the sole right to export, this has been modified in recent years.

There would now appear to be no real bar to the private packer exporting and it would seem desirable that all controls - other than for quality as administered by the Department of Agriculture & Fisheries - should be removed.

2.03 Packing and Marketing -

The Authority traditionally markets approximately one-third of New Zealand's honey crop with supplies coming from 150 to 200 producers.

The balance of the crop is packed and marketed by private packers some of whom are members of the New Zealand Honey Packers Association (total membership 35).

The distinction between suppliers to the Authority and private packers is complicated by the fact that a number of producers pack and market part of their crop and dispose of their surplus to the Authority, thus being both private packers and suppliers to the Authority.

2.04 Advocates for Change - The great bulk of submissions made to me did not deal with the question of the dissolution of the Authority and the majority centred their arguments on how the funds generated by dissolution should be handled.

Of those who referred to this question one major packer advocated the complete winding-up of the Authority while meetings of three branches of the National Beekeepers Association unanimously voted for its retention.

Limited weight can be attached to these opinions as the question was not included in my terms of reference.

In considering the matters for investigation it became apparent that very strong opinions were held, on the one hand by private packers and the other by producers, on the operations of the Authority, the need for its existence and who should benefit from any distribution of its funds.

The need for reorganisation was well documented in a paper dated June 21 1979 prepared by Mr D.A. Hayman and which was considered by the Authority at its meeting on June 28-29 1979.

Mr Hayman referred to the abolition of the funding levy (seals levy) and the increasing move towards private exports.

He went on to refer to the problems associated with financing the Authority's turnover which, due to inflation, shows a steady increase in dollar terms.

In normal commercial activities this situation requires an increase in the "proprietor's" equity which is usually achieved by the retention of a proportion of profits - a course not currently used by the Authority.

It must be accepted that, given a continuation of the Authority's activities in their present form, reliance on Reserve Bank funding will increase at a rate dependent on the rate of inflation.

2.05 Reserve Bank of New Zealand - As referred to by Mr Hayman in his paper the Authority has relied on increasing assistance from the Reserve Bank of New Zealand to provide it with working capital. (See also paragraph 1.05).

While I have not attempted to quantify the benefit resulting from the concessional interest rates charged by the Reserve Bank, I have examined the figures for the last three years (1978, 1979, 1980) and set out below

1. The average borrowing for the year based on end of month balances
2. Interest paid for that year
3. Average interest rate incurred
4. A notional interest based on the average prime lending rate (12.5%) of trading banks
5. The peak overdraft figure for the year

	1.	2.	3.	4.	5.
1978	$451,886	$19,217	4.2%	$56,483	$955,000
1979	714,472	32,543	4.5%	89,309	1,019,000
1980	526,928	19,557	3.7%	65,866	830,000
		$71,317		$211,658	

Based on these calculations there has thus been a notional benefit of approximately $140,000 in the three year period which when applied to an intake of 6000 tonnes would be 2.3 cents per kilogram.

I would suggest that if the Authority is to continue as a packaging and marketing organisation, having discontinued its operation of a stabilisation scheme, it is open to question whether the continued use of an expanding quantum of Reserve Bank overdraft at concessional interest rates for an indefinite period can be justified.

2.06 Paragraphs 201-205 - I appreciate that the matters covered in these paragraphs could be considered to be outside my terms of reference but I find it necessary to establish some form of framework on which to base this second - and more difficult - part of my investigation.

In my conclusions I am not presuming to dictate the course that reorganisation or dissolution of the Authority should take but I have endeavoured to indicate how I consider the best interests of the industry would be served.

3. CONCLUSIONS

3.01 I conclude that the total demise of the Authority is inevitable.

Mr R.L.G. Talbot stated at a meeting of Honey Industry Organisations on November 1, 1979, that a continuation of the status quo was not acceptable and confirmed this in a letter to Mr P.W. Marshall in March 1980.

The submissions I received generally accepted that the Authority's life was limited although as stated previously (para 2.04) three branches of the National Beekeepers Association voted for its retention.

A major responsibility of the industry is to ensure that the transition from Authority operation should be achieved with as little disruption as possible.

3.02 Restructuring - I see the dissolution of the Authority as a major restructuring of the honey industry and one that will involve cost.

Consideration must be given to the position of suppliers to the Authority and also to the future of the Authority's staff in any plan that is adopted.

The Authority has established export markets and has knowledge of the health and other regulations involved and some regard should be given to retaining this and any other expertise that has been acquired.

3.03 A Producers' Co-operative - The proposal for the establishment of a national producers' co-operative to take over the packing and marketing functions of the Authority has received considerable exposure.

Government has indicated its approval of this concept but have stated that more detail would be required before any commitment could be made (letter from Mr R.L.G. Talbot to Mr P.W. Marshall, March 1980).

The steering committee for the proposed co-operative produced more detailed proposals in May 1980 and in August 1980 Mr Talbot addressed a honey industry meeting stating that undue delays in implementing the co-operative concept were undesirable.

With respect, I would suggest that insufficient information has been made available to judge the viability of the co-operative proposal. I would wish to see a more detailed feasibility study with particular reference to cash flow and seasonal cash requirements.

The Authority requires an overdraft facility of approximately $1 million and if, as has been suggested to me, the co-operative proposal merely changes the name of the organisation without affecting its general method of operation, the need for seasonal finance remains.

This has been recognised in the study carried out by Mr Dellow where he plans for payments of 80 cents per kilogram spread over the period March to December with a final payment in the following August.

It should be a comparatively simple exercise to apply this programme to the current operations of the Authority to determine the extent that it would reduce the need for seasonal finance.

I see the establishment of a co-operative as the most acceptable solution to the industry's problems but before any further action is taken I believe it is necessary:

(1) that an independent feasibility report should be prepared with particular attention to cash flow and the funds necessary to meet operational requirements.

The suggestion of an 'independent' report must not be construed as a reflection on the integrity or professional ability of Mr Dellow but I concur with Mr Berry's submission (pages 31/32) in the need for such a report "in order that the report is not only independent but clearly seen to be independent".

(2) In the preparation of such a report attention could well be given to points raised in a memorandum from Mr M.G. Stuckey

which was included with Mr Berry's submission (reference 7.427(1) and (2)).

Mr Stuckey advocated, inter alia, that a co-operative should utilise the facilities of private packing plants now running at below capacity thus avoiding or minimising the heavy investment in fixed assets that would otherwise be necessary.

Mr Stuckey also suggested that packers should have the opportunity to be involved in any proposed co-operative.

I would therefore suggest that the terms of reference for such a study should be wide enough to cover the points raised by Mr Stuckey.

(3) I consider it desirable that the financial structure of any co-operative - or alternative organisation - should be such that its fixed assets would be financed by capital contributions plus funds borrowed from traditional lending institutions.

Its borrowings from an industry fund (to which I shall refer later) should be restricted to working capital - in particular funds required for the purchase of honey - and related to the value of stocks held.

(4) To operate within these confinements would call for management skills and much closer alignment (on a time scale) of payments to producers with the receipt of sale proceeds.

(5) Attention should be given to the extension of the taxation benefits from export incentives to suppliers of the co-operative by the framing of supply conditions that would meet the requirements of the revenue authorities.

3.04 Finance from an Industry Fund -

It is appreciated that there is considerable opposition from private packers to any proposal to give financial support to a proposed co-operative from an industry fund and, while having some sympathy for their submissions due regard must be given to the stability of the industry and the position of the Authority's suppliers when (rather than if) the Authority is wound up.

The degree of financial assistance that would be required cannot be quantified from available information and would be determined from the independent feasibility study referred to above.

However I would recommend that, subject to the co-operative concept reaching fruition it should receive industry support by way of loan moneys at a concessional rate of interest and that such concessiona should take the form of loan moneys of, say, $600,000 with either:

(a) interest at 6% being two-thirds of the Rural Bank's base lending rate

or (b) the first $300,000 at 3% and the balance at 9%.

I favour method (b) (or some appropriate variation) as it encourages the borrower to restrict the quantum of loan moneys.

I would not wish the above figures to be regarded as defining the limits of either loan moneys to be made available or concessional interest rates to be charged but rather as an indication of the type of contribution that the industry as a whole should be prepared to make towards what is a major restructuring exercise.

In addition, I consider that this assistance to a co-operative would be phased out - albeit over a period of say ten years.

3.05 Transition -

I find it impossible to consider the ownership and application of the Authority's funds in isolation.

Attention must be given simultaneously to

(a) the dissolution of the Authority

(b) the establishment of a co-operative

and (c) the orderly transition of the Authority's marketing functions to the co-operative.

The transition will obviously be a sensitive period and care will be required to retain the confidence and support of suppliers and customers.

I would therefore recommend that a firm timetable should be set for:

(a) the production of an independent feasibility study covering the establishment and operation of a suitable co-operative.

(b) Assuming that this report can show the economic viability of a co-operative venture, that there should be close co-operation between the Authority and the Co-operative in an agreed handing over period.

(c) Such co-operation could include planning for the disposal of surplus fixed assets and the possible alteration of the timing of payments to producers to bring them more closely in line with that planned by the co-operative.

(d) I find it difficult to envisage an orderly transfer being possible in less than two years but I would hope that agreement on the principles involved could be reached within say three months of the receipt of the feasibility report.

(e) Following such agreement - with the assistance of independent arbitration if required although it would be my hope that this would not be necessary - the co-operative would require some time to organise its capital, finances, purchase terms for fixed assets etc. in addition to establishing a close liaison with the Authority to cover the details of the transfer of activities.

Should the independent report indicate that the co-operative concept is impractical there would appear to be no alternative to the eventual winding up of the Authority, the transfer of the proceeds to an industry fund the functions of which could include the purchase of honey in seasons of heavy production.

For reasons either previously stated or implicit in this report I consider that the industry should appreciate that a considerable number of producers have had an assured outlet for their production for nearly thirty years and for this and other reasons the possibility of replacement by a co-operative should be explored fully before any other course is contemplated.