PROCEEDINGS
OF A SEMINAR ON
COSTS BEYOND THE FARM GATE
Held at Lincoln College
12 March 1976

edited by
J. G. Pryde  W. O. McCarthy  D. L. Fyfe

Agricultural Economics Research Unit
Discussion Paper No. 32
March 1976
THE AGRICULTURAL ECONOMICS RESEARCH UNIT

THE UNIT was established in 1962 at Lincoln College, University of Canterbury. Its major sources of funding have been annual grants from the Department of Scientific and Industrial Research and the College. These grants have been supplemented by others from commercial and other organisations for specific research projects within New Zealand and overseas.

The Unit has on hand a programme of research in the fields of agricultural economics and management, including production, marketing and policy, resource economics, and the economics of location and transportation. The results of these research studies are published as Research Reports as projects are completed. In addition, technical papers, discussion papers and reprints of papers published or delivered elsewhere are available on request. For list of previous publications see inside back cover.

The Unit and the Department of Agricultural Economics and Marketing and the Department of Farm Management and Rural Valuation maintain a close working relationship in research and associated matters. The combined academic staff of the Departments is around 25.

The Unit also sponsors periodic conferences and seminars on appropriate topics, sometimes in conjunction with other organisations. The overall policy of the Unit is set by a Policy Committee consisting of the Director, Deputy Director and appropriate Professors.

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I. PREFACE

The economic climate in which New Zealand has found itself in the last couple of years has placed great stress on the farming sector and farm service industries.

To the individual farmer the problems have centred around the consequences of the downward saving in export commodity prices and the escalation of costs of production.

Nevertheless farmers' leaders and Government have concentrated almost exclusively on commodity price stabilisation measures, maybe because of unwillingness to face the discipline of rigorous cost control.

The Unit believes that cost containment, or better still, reduction, is equally important and deserves substantial study. We decided that a Seminar would be a useful way to set the background and highlight areas of possible investigation.

Accordingly John Pryde undertook the task of drafting a programme and securing speakers of high competence. I suggest the standard of the papers in this publication indicates the success he has had in this task. Doug Fyfe kindly agreed to report the discussion following each paper. On behalf of the Unit and my Department I express thanks to all speakers and discussion participants for the views and insights they have given to set us on our way.

Professor Owen McCarthy
Director

March 1976
II. LIST OF SPEAKERS

J. R. M. Wills,
Provincial President,
Federated Farmers,
Hawke's Bay.

J. W. Habgood,
General Manager,
W. A. Habgood Ltd., Transport,
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L. A. Cameron,
Managing Director,
Gear Meat Co., Ltd.,
Wellington.

N. F. Reynolds,
Chairman of Directors,
Rangitaiki Plains Dairy Co. Ltd.,
Edgecumbe,
Bay of Plenty.

J. D. McIlraith,
Member, New Zealand Wool Board,
" New Zealand Wool Marketing
Corporation,
Wellington.

C. H. Speight,
General Manager,
New Zealand Shipping Corporation,
Wellington.

W. R. Cameron,
President,
Canterbury Trades Council,
Christchurch.

J. G. Pryde,
Research Fellow in Agricultural Policy,
Agricultural Economics Research Unit,
Lincoln College.
III. MAIN PROPOSALS
FOR REDUCING OFF FARM COSTS

1. The establishment of an Agricultural Development Council type of organisation to serve as an overview authority and also as a channel for greater communication, dialogue and action between farmers, the farm servicing industries and Government.

2. A more effective and gutsy attack by Government on internal inflation problems.

3. Government to negotiate with greater vigour, weight and durability on problems of access and development of overseas markets.

4. Substantial increase in research and development expenditure in meat processing systems and techniques and Government action on rationalisation of processing facilities.

5. Investigation and remedial action on stagnating lambing percentages and wool weights per sheep.

6. Investigation of the economic and welfare effects of extended livestock killing, wool selling and produce shipment seasons.
IV.

THE PROBLEM AS IT AFFECTS THE FARMER

by

John Wills

1. Introduction

The farm gate is a very appropriate place to start discussion. It is a sort of symbolic divide - the place where the tar-seal stops and the hay-seeds begin. To the urbanite it is a threshold into the quietitude of a picturesque way of life. To those who live on the grassy side of the gate, it is where the process of passing-the-buck stops; for, outside the gate, down the road, all the way to the big city is that easy world where incomes are guaranteed by the cost-plus formula.

As with other structures more complex than a farm gate, there is a difference of perspective between those on the inside looking out and those on the outside looking in. As you will see from your programme today I am to be the only inmate to paint for you the view from the inside.

The emphasis of this Seminar is upon the costs beyond the farm gate - all those costs incurred in the handling and processing of farm produce from farm gate to market - that is such items as internal transport, external transport, insurance, processing, killing, handling, administration.

These items can be fairly easily isolated and analysed in their progression beyond the farm gate to market. However, when looking at the on-farm situation, off-farm costs cannot so easily be treated in isolation. The viability of the farm enterprise is also affected by on-farm costs. Thus while I will give emphasis to off-farm costs I cannot ignore the total impact of all the costs of production upon the farming industry.

I will present my paper under these headings:-

- Establish the magnitude of cost increases over the last decade and their effect on farming incomes.
- Look briefly at the farming industry's response to these cost increases.
- Offer some comment on where we go from here if this country still wants a buoyant farm sector.
2. The Magnitude of Cost Increases and their Effect upon Farming Incomes

The two decades following the Second World War were, in the perspective of hindsight, a period of comparative stability, with off-farm costs moving upward about 4 per cent per year. The last decade has witnessed a violent change in this pattern. The rate per year has increased very significantly and the rate has shown an accelerative impetus. Between 1969/70 and 1975/76 off-farm costs have increased at an annual rate of nearly 20 per cent.

For example, the cost of moving a 13.6 kg lamb from farm gate to Smithfield details this trend. In 1960/61 it cost less than $2.50. Ten years later, 1970/71, it had increased to $4.0. But today, only five years later, it is estimated at $11.15.¹ Not all of this cost is incurred in New Zealand. Obviously, a substantial part of it is influenced by our killing and freezing charges. But higher shipping costs, generated in part by the oil price hike, the United Kingdom import levy, and the currency exchange movements, have affected the cost increases.

Charges on wool from farm gate to mill rose 29 per cent in the decade 1960/61 - 1970/71. But in the next four years to 1974/75 they rose a further 44 per cent.²

The charges for collecting, manufacturing and charges to f.o.b. for butter, have, in the years 1967/68 - 1973/74, increased 57 per cent. The freight from New Zealand to Britain for the same product over the same period has increased 100 per cent.²

So one could go on to document this pattern of big leaps in transport and processing costs that has buffeted all farm produce receipts in recent years.

3.

Obviously, in any business, costs are but one side of the ledger. Only when placed against product price receipts can the influence of costs upon the producing enterprise be gauged.

To measure the relationship between prices received from farm products and prices paid for farm inputs, the Ministry of Agriculture and Fisheries has devised an index they call the "farm-gate" terms of exchange. This concept describes the ratio of movements in prices received for a range of products (e.g., butter, meat, wool, grain), weighted by their proportional contribution to gross income at a particular time, to movements in prices paid. It is a method of measuring the changes in the purchasing power of a unit of output. Because it takes no account of changes in volume of production, it is not a measure of farm income or output.

If, under this system of indexation, we take the 1960/61 year as equalling 1000 units for sheep farmers, then 15 years later in 1974/75 sheep farmers' terms of exchange had decreased to only 686 units. During that decade and a half, in only three years did their terms of exchange equal the base year of 1960/61. 3

This erosion of farm income in recent years is even more clearly delineated if we compare farming income with other sector income. I speak of "farm-income" here meaning that level of income which remains after current farm expenses have been met. From this residue of income the farmer must meet expenses for capital development and for living.

The following statistics 4 indicate the trends of private income distribution over the last decade.

---


4 N. Z. Institute of Economic Research.
4.

<table>
<thead>
<tr>
<th></th>
<th>1966</th>
<th>1976 (est.)</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>328</td>
<td>370</td>
<td>+13%</td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1908</td>
<td>6570</td>
<td>+244%</td>
</tr>
<tr>
<td>Company Income</td>
<td>438</td>
<td>1140</td>
<td>+160%</td>
</tr>
<tr>
<td>'Other' Private Income</td>
<td>766</td>
<td>1925</td>
<td>+151%</td>
</tr>
</tbody>
</table>

This disparity is large in anybody's language. Farm income is only 13 per cent more today than it was 10 years ago. This takes no account of inflation.

If we do account for inflation and deflate these figures by the Consumers' Price Index, then farm incomes are less than a half of what they were 10 years ago. If, by the same method, we deflate total private income, then in real terms we see an overall increase in private income of approximately 1 1/2 times over the same period.

It is farming's relative position that I would underline. In real money terms, total farming income halved from what it was 10 years ago, while private income, for example, has increased one-and-a-half times.

These facts are of fundamental importance when we come to talk about investment and production's needs of the farm sector and of the nation. I will come to that point later in my paper.

Farmers in the last decade then have suffered a decline in their real standards of living and their income share has also declined markedly relative to other sectors of the economy. This has been brought about, in simple terms, by a massive increase in costs while market prices received by the farmer have shown only modest increases.

Farmers see this cost increase as a major factor contributing to their hesitant confidence about the future viability of their industry.

Let us next look at -
3. The Response of the Farm Sector to these Cost Increases

Many commentators have observed that the New Zealand farmer is a fairly rugged individualist. Traditional economic theory supposes that to this sort of independent entrepreneur the maximisation of profit is his core driving force. Theoretically then, one would expect this rugged trader to explore the options of:-

(a) Diversification to products that appear to have a better future.
(b) Development of new techniques to reduce input costs.
(c) Transference of resources to other more profitable sectors.

Has the New Zealand farmer responded in these ways?

The late 1960s and early 1970s saw a marked build-up in beef production. New Zealand has about 5 million less sheep today than it did 10 years ago. These have in part been replaced by cattle. We saw the dairy industry move some of its productive capacity into dairy beef. This move to beef was prompted by two factors:-

(i) Market prospects appeared good.
(ii) Beef cattle, while costing more than sheep, require less labour handling. Hence the move from sheep and dairy cows to beef was in part an input substitution - labour substituted by capital.

There has been a big upsurge in the growing of grain. Witness the growing of maize - a crop almost unseen five years ago in the South Auckland and Waikato regions. It is calculated that 80,000 acres were sown down this year.

In a smaller and more specialised way, viticulture and kiwi fruit growing exemplifies the search for new and more profitable products.

The search for techniques to reduce input costs has seen steady and notable increases in the number of stock handled per labour unit.

The pursuit of economy of scale of production has seen property size grow as farms have been amalgamated. In 1962 72,700 farm holdings
averaged 600 acres. By 1972 the number of holdings had decreased to
62,400 - the disappearance of 10,300 farms in a decade - and the average
size of the remainder grew to approach 700 acres.5

Farmers have shown some willingness to move their attention
beyond the farm gate and become more involved in servicing activities.
The principle of co-operative dairy companies, freezing works, fertiliser
works, has been long established. More recently has been the growth of
Farm Trading Societies, machinery co-operatives. The farming sector
has reacted positively to their increased costs. T. R. O'Malley and
others in their publication "Farming and Inflation", concluded in their
study of this subject - "the picture has been one of resourceful response".6

Yet despite big changes in the intra-structure of farming, costs
are not being contained - they are continuing to grow at an alarming rate.

So we come to the question

4. Where do we go from here?

I have evidenced that farm income has declined in real terms
over the last decade, and has declined relative to other sectors. As a
percentage of total income it has dropped from 0.5 per cent to 3.7 per cent.
The erosion by cost escalation is accelerating.

INPUT COSTS

The percentage increases in sheep farmers' input costs over the
last five years are as follows: 7

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971/2</td>
<td>6.4</td>
</tr>
<tr>
<td>1972/3</td>
<td>5.2</td>
</tr>
<tr>
<td>1973/4</td>
<td>14.0</td>
</tr>
<tr>
<td>1974/5</td>
<td>13.4</td>
</tr>
<tr>
<td>1975/6</td>
<td>13.0 (estimated)</td>
</tr>
</tbody>
</table>


This is a 40 per cent increase in three years. There is no-one to whom the farmer can pass on his increase in costs of production or cost of living.

Farmers see themselves rather like standing at the end of a row of schoolboys. Come lunch time, one bun is passed down the row, and each boy takes a bite. The transporter, the processor, the shipper, the agent, the insurer - all have their bite. When each has had his go, what's left, that is what the farmer gets. He is a residual profiteer.

The other fellows up the line are taking bigger and bigger bites. The costs of transporting and processing is absorbing a larger and larger portion of the market price of the product. Take lamb as an example. In 1966 the costs of moving a lamb from farm gate to market was approximately 50 per cent of what the farmer received. Today it amounts to 119 per cent of what the farmer is paid.

The processing and internal transporting industries stand like an inverted triangle upon the farming industry. That whole structure produces some 80 per cent of this country's export income. The strength of that structure must depend, like all structures, upon the strength of its base.

I do not believe that base can withstand the continued onslaught of double digit inflation. Farmers have made fundamental management and technique modifications to boost economic efficiency and productivity. Cost increases have continued to outstrip their efforts. They are now being forced to adopt practices to cut costs rather than boost production. This will mean a levelling off of a reduction in the output of our major export industry. At a time when this country has incurred heavy overseas borrowing and we New Zealanders continue to display a hungry appetite for imports, a shrinkage of our external earning ability has consequences for every New Zealander.

New Zealand still has an agricultural based economy. Yet 81 per cent of our people live in cities and towns. Our internal policies are more geared to maintain full employment within those urban centres
than they are to maximise primary production. That I believe is the rub of the farming industry's profitability problem.

A Seminar such as this today has the implicit risk of becoming a self-justification exercise with each sector defending the need for every cent of profit, and a bit more than they are presently receiving. I hope we can display a sense of vision less myopic.

We are all part of one industry - primary export industry. I realise that servicing sectors are on a merry-go-round of cost increase and wage relativity not of their own making. But if one sector is not receiving a fair deal, then perhaps it is time we looked at our total system rather than just segments within it. For how much longer can we have faith in a system that is starving the on-farm sector, the base of the total agricultural export industry, of necessary investment funds? Is the formula of leaving to the farmer what is left of the bun after everybody else has had a chew on it, is that good enough for a modern inter-dependent society?

Federated Farmers and Government have been talking about Farm Incomes Policy. Some politicians, some commentators, seem to get hung up on the price fluctuations of our overseas exports. Through a farmer's eyes this is not the basic problem. Farmers have lived with the ups and downs of market prices for a long time. The fluctuations do cause problems in some of our servicing industries. The drama and the headlines of the fluctuations tend to hide the basic problem - for if you average the yearly ups and downs, take out all the bumps if you wish, the problem that still remains is that the residual profit left to the farmer is progressively shrinking to less and less.

We can devise techniques to smooth the peaks and troughs of product price receipts - there is nothing too difficult in that. But unless we can also devise in the same deal techniques whereby the farming sector can be compensated for the ravages of cost inflation then I cannot see how the farming sector can play the part it could and should in the national economy.
If farming is to be allowed to continue as a Cinderella of profit relativity, then I believe that farmers, in the years they can afford it, will move their investments off farm. The better educated, more sophisticated farmer that this country is now turning out, is going to look upon himself, not just as a farmer, but as an investor. He will tend to put his money where he sees his greatest profit. Thus the time when a farmer looked upon his farm as a bank and invested his all back into it - that time could be passing. If it is, then that changing attitude could have consequences upon how well this country can pay its way in the trading market of nations.

As a farmer, I am the only speaker today looking at off-farm costs through a farmer's eyes. I have talked with you on three points:-

FIRSTLY, I discussed the magnitude of cost increases over the last decade and their effects on farming incomes. I traced how, with rising costs and fairly static price receipts, farm incomes have themselves progressively declined in real terms and have also declined very substantially compared with other sectors.

SECONDLY, I briefly outlined the farming sector's response to this cost-price squeeze - its attempts to find more profitable products, its change in input ratios to reduce costs, its movement towards economies of scale, and my suggestion that it is beginning to transfer its investment resources to their sectors. Farming has shown a positive, resourceful response, yet its attempts to offset the magnitude of cost increases have been unsuccessful.

THIRDLY, I made comment on where I thought we could go from here. New Zealand, whether it likes it or not, needs an active farming sector to earn its export income. I threw into the ring the question of whether our present economic formulae can inject into the sector the investment and the vitality it requires. The relevant statistics of the last decade suggest that a policy of a
cost-plus formula for the internal scene, and a policy of take-what's-left-to-you for the export sector, has moulded a steady shift of income and resources away from the farming sector.

Cost increases have become, in the face of relatively static produce prices, the greatest inhibitor to growth in the farm sector. If the farming industry is to grow, then a good deal more blood has to get past the throttling grip of the cost-price squeeze.

All of us at times tend to see ourselves as victims of circumstances. We can, at least in part, help share them. The Monetary and Economic Council made a pertinent comment that I think is relevant to this. It was commenting on the fact that for the 15 years up to 1968 New Zealand had a consumer price increase of only 3 per cent per annum. It said:-

"This was something of a conundrum in purely economic terms, for during the period New Zealand, by maintaining a high level of demand behind a high protective wall, sustained employment at a level significantly higher than that in any other Western Country. . . . . . . . It is hard to escape the conclusion that the late 1950s and the 1960s had the potential for faster inflation than eventuated. Inflation seems to have been constrained by custom and restraint."

The last sentence perhaps suggests a sense of unity of nationhood that needs to be actively inculcated again.

I would hope this Seminar will endorse and stimulate such an approach.
THE ROAD TRANSPORT OPERATORS' PRESENT SITUATION,
VIEWPOINT, AND SUGGESTIONS

by

John Habgood

1. Introduction

To appreciate the structure of the Rural Transport activity it is necessary to understand the history of price control and methods used to arrive at the present basis of charging road cartage.

In 1933, Goods Service Licensing was first introduced to provide stability and control in the development of motor vehicle road transport. 1936 saw the introduction of rail protection limiting the distance road transport could compete with rail.

The fixation of road cartage charges prior to 1949 was carried out initially by the Authority responsible for Goods Service Licensing, then at a later stage by a Tribunal of three people representing the Commissioner of Transport, Federated Farmers and Carriers. This Tribunal toured the country and held what were called "hearings" to establish and update road cartage charges. During the 1939-45 war costs and charges were controlled by the Stabilisation Committee. In 1949 the Secretary for Transport became responsible for fixing charges and is still currently carrying out this function.

The method used by the Ministry to establish or update a current rate schedule on a local basis, is to call for a representative panel of operators to be examined, giving the carriers and farmers the opportunity to influence its final decision on whose operations will be inspected to determine what is a fair set of charges. The examination of each carrier is very detailed, taking into account times taken to cart different commodities, sizes of loads, vehicles used, distances travelled, loading and unloading, idle and slack capacity, etc. As well, balance
sheets have to be produced and the profitability and all factors relating to a company's operations are critically examined.

The data collected from each operator is then used to establish an average carrier with average loads, average costs, etc., and from this model, charges, or what carriers term rates, are struck. The Ministry, while it has the final decision, does however endeavour to get agreement between the carriers and farmers on what will be an acceptable schedule of charges.

When national costs are incurred, such as increases in fuel, etc., all schedules are up-dated on a national basis.

2. Cost Comparison 1968-1976

The actual amount of cost escalation on road transport since 1968 would need a very detailed study. However, some of the major cost items do give a general indication and are as follows:¹

Wages - a comparable driver in 1968 - $34.91 per week;
1976 - $94.91 - an increase of 171 per cent.

Vehicles (7 to 8 tonnes payload) in 1968 - $6,000;
1976 - $15,700 - an increase of 161 per cent.

20 tonnes - in 1968 - $16,284;
1976 - $44,000 - an increase of 170 per cent.

Diesel - 14 cents per gallon in 1968;
69 cents in 1976 or 392 per cent increase.

Petrol - 32 cents per gallon 1968;
100 cents in 1976 or 212 per cent increase.

Insurance - $6,000 vehicle in 1968 $150;
$16,700 vehicle in 1976 $500 - an increase of 233 per cent.

¹ N. Z. Road Transport Association.
13.

Garage labour charge out $2.50 per hour in 1968 -
$7.50 in 1976 or 200 per cent increase.

It would be reasonable to say that the overall increase in costs would be somewhere between 170 per cent to 200 per cent.

Cartage charges to the farmer have increased during the same period by approximately 100 per cent and a few examples to support this are as follows:  

<table>
<thead>
<tr>
<th></th>
<th>1968</th>
<th>1976</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Fat lambs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 miles</td>
<td>.145</td>
<td>.272</td>
<td>88</td>
</tr>
<tr>
<td>50 miles</td>
<td>.191</td>
<td>.378</td>
<td>98</td>
</tr>
<tr>
<td>General Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 miles</td>
<td>3.62</td>
<td>7.51</td>
<td>107</td>
</tr>
<tr>
<td>50 miles</td>
<td>5.32</td>
<td>10.34</td>
<td>94</td>
</tr>
<tr>
<td>Bulk Fertiliser</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 miles</td>
<td>2.96</td>
<td>5.79</td>
<td>96</td>
</tr>
<tr>
<td>50 miles</td>
<td>4.46</td>
<td>8.39</td>
<td>88</td>
</tr>
<tr>
<td>Store Sheep</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 miles</td>
<td>.165</td>
<td>.331</td>
<td>100</td>
</tr>
<tr>
<td>50 miles</td>
<td>.238</td>
<td>.45</td>
<td>89</td>
</tr>
</tbody>
</table>

3. Review of Present Situation

The reason that all the increase in costs has not been passed on in charges is that the carriers have significantly improved their efficiency by the use of trailers, larger vehicles, mechanical handling and, to some extent, better control of work. An example of this is pre-notification of stock tallies, a joint effort by farmers, freezing works and carriers.

The method used by the Ministry to arrive at rates, has, when each district schedule is reviewed, adjusted rates in line with the operators' improved efficiency.

The maintenance of present costs levels will be dependent upon Government ability to control inflation internally and the imported cost of external inflation. Unfortunately most cost items other than wages have an overseas origin. What will happen to costs will be anybody's guess!

Naturally the industry is very concerned at what its future may be. We have been subjected to the Wilbur Smith Report, A Green Paper, and the recently announced formation of a Transport Advisory Council Committee in Christchurch to recommend possible change on a local basis. While Governments have recognised the need to rationalise all forms of transport it is apparent that the complexity of the whole question makes decisions difficult. In the meantime we wait and wonder where our future lies.

4. Areas of Cost Minimisation

(a) National

Government needs to be made aware of the costs it is incurring on Rural Transport by adding to the already high overseas inflated costs of capital plant with increased sales tax and duty.

An example of this based on the type of truck now being used is:

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail price</th>
<th>Tax and Duty</th>
<th>1973 Retail price</th>
<th>1974 Retail price</th>
<th>1975 Retail price</th>
<th>1976 Retail price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>$44,595</td>
<td>$18,488</td>
<td>$44,595</td>
<td>$52,410</td>
<td>$65,320</td>
<td>$81,315</td>
</tr>
<tr>
<td>1974</td>
<td>$52,410</td>
<td>$22,571</td>
<td>$52,410</td>
<td>$65,320</td>
<td>$81,315</td>
<td>$81,315</td>
</tr>
<tr>
<td>1975</td>
<td>$65,320</td>
<td>$27,391</td>
<td>$65,320</td>
<td>$81,315</td>
<td>$81,315</td>
<td>$81,315</td>
</tr>
<tr>
<td>1976</td>
<td>(estimated)</td>
<td>$36,112</td>
<td>$81,315</td>
<td>$81,315</td>
<td>$81,315</td>
<td>$81,315</td>
</tr>
</tbody>
</table>

This represents an increase of 81 per cent in retail price, but the Government's cut has jumped 95 per cent from $18,488 to $36,112.

3 N. Z. Road Transport Association.
The cost of finance to purchase vehicles today is between 18 to 20 per cent; this is another area where Government may be able to assist in some way.

(b) **Local Bodies**

Loading restrictions on bridges and roads significantly affect transport costs. The cost to remedy these restrictions may well be minimal when related to the improved payloads.

District planning schemes should recognise the requirements of rural transport when fixing areas for their location. Such factors are, depot siting relative to arterial road systems, work flow patterns and minimising dead running. Further, the agricultural sector which the rural carriers service should not be burdened by the high cost of depots based on heavy industrial land.

(c) **Farmer Servicing**

Farmers and carriers need to have more communication between representatives to establish standards and rules which will generate more efficiency.

For example, is convenience the main criterion to establish the cost, or does the answer lie somewhere between an "on demand taxi service" and a reasonable planned service.

For instance, in our fleet of 50 vehicles, some 20 at the most would be affected by out-of-office hours demands. To service the telephone to take orders outside say 7 o'clock in the morning until 7 o'clock at night to cover when some farmers do ring, which ranges from 5 o'clock in the morning to midnight, would cost at least another $5,000 per year. Spread over 20 vehicles - $250 per vehicle with a 2,000 hour utilisation means a cost increase of 12.5 cents per hour on each vehicle.
When should work be done - at the farmers' convenience or the carriers'? For example, using fat lambs, the answer lies somewhere between what number of lambs constitutes a load that should be carried within reason when the farmer and freezing works require it and what number a farmer and freezing works should allow the carrier to cart at his convenience. This model would apply to most of the commodities carted.

Should carriers gear their fleets and labour to meet seasonal peaks, or if not, what level is reasonable? The demands made by individual farmers tend to make carriers have more equipment than is necessary to support at a reasonable cost structure.

How can seasonal peaks be reduced to give a more even flow of work? More bulk grain storage on the farms is one answer. Another would be the procurement of particularly bagged fertiliser in the winter period for spring sowing, thus avoiding costly delays during a peak demand period as well as work in a slack period.

It is essential to ensure that the placement of stock yards, grain silos and the other receiving and delivery areas on the farm allow for the use of the large truck and trailer units. It is equally important that once loaded these vehicles can unload at the other end.

Locally we are quite often told that we are not to use trailers when delivering bulk grain. To reduce the payload from say 20 tonnes to 10 tonnes over a 40 mile haul has a disastrous effect on costs.

5. Conclusion

While Road Transport is protected by licensing, it has been price controlled since 1933 and today does reflect the costs that have been generated by the demands made upon it.
THE MEAT PROCESSING INDUSTRY'S
PRESENT SITUATION, VIEWPOINT AND SUGGESTIONS
by
Laurie Cameron

"Indications are that there will only be a recovery in sheep numbers, not an expansion during the next decade. It will need a marked increase in real returns to the farmer to change the general drift towards more extensive farming, where labour is shed as a means of reducing costs. As a result production per hectare and therefore total production is static or declining."

I. Thomas & S. C. Gentry,
Reporting on the southern North Island killing facilities.

1. Introduction

Some 12 years ago Lincoln College sponsored an open discussion on the meat industry in which I participated. That particular discussion proved to be a watershed in the shaping of attitudes and policies related to New Zealand lamb marketing. Indeed, it was the beginning of farmers and exporters coming together in an endeavour to overcome what was at that time thought to be the immediate repercussions of the United Kingdom joining the EEC.

It is indicative of the changing emphasis and concern of our farming industry that this discussion today deals with the theme of costs, which are now threatening to cripple the farming industry. Despite this, one still sees leaders of Government thrashing the problems and subjects which we discussed 12 years ago and which largely have been dealt with by the farming interests itself, namely the diversification of our marketing effort, leaving, in fact, Governments with the critical problem which exists in marketing today, namely the negotiating of worthwhile trading agreements to protect the meat exporter and farmer against the rising tide of tariff and non-tariff barriers.
It seems incredible that over recent years the declining livestock numbers and other indicators have not prompted Governments into some form of immediate urgent action and one could only conclude that it is a reluctance to face the problem of a massive transfer of resources back into farming and away from other sectors of the economy. The cause of this must be because Government advisers do not really believe farming and processing industries will sustain New Zealand's economy in the future.

Thus we have the waffling about marketing and rationalisation which unfortunately is compounded in many instances by farmers and ourselves in the meat industry. For instance, a recent article\(^1\) on the rationalisation of the meat industry omits completely the critical factors of costs, changing technology and the need for a modern approach to funding our meat processing structure, a funding based on the needs of a modern technological industry.

2. Trends in Meat Processing Costs

Perhaps we should examine some of the trends which I hope will establish the danger which not only faces farmers, but also the meat processing industry, more especially mutton and lamb production.

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm Gate to f.o.b. per carcase</th>
</tr>
</thead>
<tbody>
<tr>
<td>69/70</td>
<td>1.45</td>
</tr>
<tr>
<td>70/71</td>
<td>1.817</td>
</tr>
<tr>
<td>71/72</td>
<td>2.341</td>
</tr>
<tr>
<td>72/73</td>
<td>2.501</td>
</tr>
<tr>
<td>73/74</td>
<td>2.818</td>
</tr>
<tr>
<td>74/75</td>
<td>3.397</td>
</tr>
</tbody>
</table>

The above figures show an increase of $1.947 per carcase on a North Island PM Grade Lamb of 13.6 kilograms. In the same period charges from f.o.b. to ex Smithfield have increased from $2.04 per carcase.

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\(^2\) N. Z. Meat Producers' Board.
to $5.541 or an increase of $3.501 per carcase. In the case of beef processing, we have this situation:

**N. Z. Boneless Cow Beef - Farm Gate to f. o. b. - N. I. Cow -**

160 kg Yielding 64 per cent

<table>
<thead>
<tr>
<th></th>
<th>69/70</th>
<th>70/71</th>
<th>71/72</th>
<th>72/73</th>
<th>73/74</th>
<th>74/75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield</td>
<td>21,043</td>
<td>27,902</td>
<td>32,156</td>
<td>32,901</td>
<td>36,505</td>
<td>51,927</td>
</tr>
</tbody>
</table>

Again, in the same period costs from f. o. b. to market have gone from $8.899 per carcase to $19.256 per carcase, an increase of $10.357 per carcase, whereas costs from farm gate to f. o. b. as above increased by $30.884 per carcase.

For the sake of a comparison, now let us look at these various trends and analyse further the reasons for such tremendous costs increase from farm gate to f. o. b. ³

<table>
<thead>
<tr>
<th>Cost Increases from farm gate to f. o. b. 1969/70 to 1974/75</th>
<th>Cost Increases from f. o. b. to market 1969/70 to 1974/75</th>
<th>Farmers Increase 1969/70 to 1974/75</th>
<th>Overseas Increase 1969/70 to 1974/75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lamb per c/c</td>
<td>Beef per c/c</td>
<td>Lamb per c/c</td>
<td>Beef per c/c</td>
</tr>
<tr>
<td>1.947</td>
<td>30.884</td>
<td>3.501</td>
<td>10.357</td>
</tr>
<tr>
<td>or Increase %</td>
<td></td>
<td>$0.30</td>
<td>$2.109 cif</td>
</tr>
<tr>
<td>134.27</td>
<td>146.76</td>
<td>116.38</td>
<td>116.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+4.8</td>
<td>+26.66</td>
</tr>
</tbody>
</table>

**Note:**
Due to changes in the grading system of beef, it is not possible to use the 1969/70 as a base year for schedule comparisons. Nevertheless, it is interesting to note that the overseas price of a carcase of beef in 1969/70 was $130.75 and in 1974 the price had declined to $58.81 per carcase, but reaching a peak price in the previous year 1973/74 of $236.61. The points from the above table are that:

³ N. Z. Meat Producers Board Annual Reports.
(a) Overseas costs have increased at an even more rapid rate than New Zealand processing costs. (Although not included in the table, 1975/76 has seen a further large increase in the costs from f.o.b. to market.)

(b) That costs of beef processing have increased at a faster rate than lamb but marketing costs of lamb have increased at a much faster rate than similar costs for beef.

(c) The net overseas prices c.i.f. are continuing to show increases but at a much less rate of increase than that of costs and that although lamb has a more stable market price than beef, it has not had the good years as has been the case of beef and is indeed suffering a considerable erosion of net return.

(d) That the net return to the farmer for lamb meat is completely dominated by costs whereas beef returns are still strongly influenced by market conditions rather than costs.

3. Trends in Labour Costs

From this we can conclude that costs, more particularly for lamb meat require further investigation as it must be realised that one of the reasons beef processing costs have increased at a faster rate than lamb is because beef processing investment in recent years has had priority. It is only in the past two or three years that meat companies have begun to spend and invest in the lamb and mutton processing facilities, and consequently higher investment costs must be expected. The table below illustrates the cost increases in processing charges, remembering that labour charges account for over half the total costs of meat processing.
All these figures reflect the tremendous increase in labour costs and consequent increases in processing charges. Lamb labour costs continue to rise at a faster rate than beef although the by-product value of lamb has countered to a certain extent other cost increases, whereas beef by-products have not been so successful.

With regard to the labour costs it is interesting to note that between 1968/69 and 1973/74 the actual average wages paid to male workers in the meat industry increased by 103 per cent against an actual unit cost increase per lamb carcase of 152 per cent.

These figures reflect a serious drop in the productivity of mutton and lamb slaughtering and possibly to a lesser degree, beef. Also, from the same source of information we should note that the value of production per person in the meat processing industry has increased by 33 per cent, volume of production declining 2.8 per cent.

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4 N. Z. Meat Producers Board and Gear Meat Co. Ltd.
However, the individual worker in 1968/69 earned an average wage of $2950 whereas 1973/74, the average wage earner received $5,232, a 77 per cent increase in individual earnings, these figures again reflecting a lower productivity for individual workers than in the base year of 1968/69.

Yet, despite these trends and the dangers they hold to farmers, we still have the farmer politicians complaining about attempts to install productivity agreements in meat processing operations as they object to the high wages being received by individual workers.

It is obvious from the figures I have given you that it is not high weekly wages which are the problem in the meat industry any more than they are a problem within the shearing industry, but rather it is the problem of falling productivity and rising labour costs.

4. Hygiene Regulation & Costs

In the case of mutton and lamb it must also be emphasised that full hygiene and inspection requirements with their consequent cost increases are yet to be faced by most processing companies. The impact of these costs will be considerable and with the prospect of a huge new investment in the mutton and lamb processing, this position must surely raise the question whether mutton and lamb processing in some farming areas will be a viable commercial investment for the future.

Worse still, new requirements of the Ministry of Agriculture and Fisheries, such as electrical stunning, has the prospect of actually increasing the labour content of meat processing, leaving mutton and lamb processing to face the almost impossible investment business formula of future high capital investment with an increasing labour intensiveness.

It is my contention that these cost increases reflect a high transient and seasonable labour content endeavouring to carry out a
complex and changing operation and under conditions which result in industrial unrest and low management morale. However, I must stress that labour problems are as much a social problem as an industrial one.

The effects on our mutton and lamb production and processing have now reached such proportions that even the processing plants which have all the advantages of stock numbers, closeness to the port and economies of scale are now facing the prospects of an erosion of profitability.

If one correlates these figures and facts to livestock numbers, one can only conclude that lamb farming, more especially in areas other than Southland, parts of Central Otago and Canterbury, the Hawkes Bay area and areas of the South East Coast of the North Island, are no longer viable sheep farming areas. Overall the problem is complicated by the fact that throughout New Zealand hygiene requirements for mutton and lamb have been applied unevenly which has had the effect of disguising the relative competitiveness of mutton and lamb versus beef.

The relative problems of mutton and lamb versus beef, especially as it relates to labour intensiveness, is further emphasised by the fact that to kill and process a weight equivalent to 2,000 cattle in one week, a mutton and lamb processing plant requires a staff of approximately 500 whereas the beef processor requires something less than 250 people.

5. Critical Factors in rebuilding the Meat Industry

The next question to which we must address ourselves must therefore be the one - "What are the factors which are critical to the rebuilding of a modern industry, of which farmer, manager and union worker can be justifiably proud?" The following are some of the factors but not necessarily in order of priority.
(a) Increase in stock numbers: The decline in mutton and lamb numbers are too well known for me to quote here. However, what should be of equal concern is the declining lambing percentage which I would like to refer to later.

(b) A complete standstill in mutton and lamb processing capital expenditure until -

(i) Companies have agreed, along with the New Zealand Meat Producers Board, on the number of mutton and lamb (and beef processing units) which should be either rebuilt, scrapped or new plants established.

(ii) Present requirements for hygiene inspection are tested scientifically and these scientific findings published and disseminated to all Governments and World Health Authorities who are involved in meat production. There should also be a full recognition of those requirements which are in fact non-tariff barriers and that they be treated accordingly when Government is involved in negotiations of GATT and when considering farmers' costs and Government assistance.5

(iii) The cash flow of mutton and lamb processing operations is viewed separately from that of beef processing so that tax benefits and loans are definitely slanted towards lamb and mutton processing. This latter point is particularly important when it is considered along with the present industry cash flow. For example the accounts of a well known and recently merged group of South Island Companies illustrates the point I have been trying to make. These figures are taken from the accounts year ending October 1, 1975.6

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25.

| Combined net profit | 5,007,852 |
| Depreciation        | 3,325,710 |

| Cash flow excluding borrowing and sale of assets etc. | 8,333,562 |
| LESS Dividends etc.                                    | 1,653,863 |

| Net internal cash flow available for capital expenditure and investment | 6,679,699 |

| Which equals per meat plant (9) operated | $742,000 per plant. |

This problem which is the problem of our own Company and others engaged in mutton and lamb processing is that it takes for a moderate sized mutton and lamb processing plant, some $500,000 to $600,000 per annum of capital expenditure merely to stand still, i.e. replace worn-out assets.

From the above figures therefore, and ignoring this Company's diversified activities which no doubt have some capital commitments, there is only available for modernisation and new hygiene requirements some $242,000 per plant.

The problem of the industry of course is how are these funds to be raised and serviced with already very high borrowing ratios. It is obvious that only a very high rate of profitability in the future and borrowing at very low rates of interest are the sort of answers which must be provided for the meat processing industry today.

(iv) The capital expenditure which must take place in meat processing must result in

- reduction of actual numbers of people employed.
- a much higher rate of productivity.
- improved working conditions - indeed attractive working conditions.
- forms of design and structure of plants which will result in lower investment costs.
(v) A substantial increase in research and development, a much greater emphasis on development and a consequent increase in the employment of highly skilled technical people. It is absolutely critical that mutton and lamb processing achieve some form of breakthrough in regard to chain slaughtering. Without this breakthrough the ultimate erosion of mutton and lamb returns by labour costs will continue.

(vi) A much smaller but more secure and stable and versatile labour force who never need to worry what they will do in the off-season.

(vii) A highly paid well motivated management group who actively encourage worker participation in their decision making processes.

(viii) Union organisation that is not hampered by the frivolous demands of a minority of their members; also productivity contracts which have been properly researched and understood by all union members and are formulated into a contract to which union officials, their members and management are bound to maintain.

6. Methods of achieving Proposed Goals

Finally, how can all this be done, and here I do not pretend that I can possibly provide all or even adequate methods and solutions. Let me warn you, however, as well as all other New Zealanders, that if these solutions are not found and applied within a very short period, it is inevitable that we will all finally go under the sheer weight of the New Zealand/overseas debt burden. Manufacturing, Dairying, Forestry and all will not be able to put New Zealand together again, not at least until there has been massive unemployment and the dissolution of the Welfare State. May I therefore, with such weighty and sombre justification, put some suggestions.
(a) Farming and meat processing industries to be given priority for the borrowing of funds, for increasing production as well as generous investment development and depreciation allowances on which a modern industry investment policy can be built for the future.

(b) A clearly agreed upon plan of rationalisation of meat processing facilities which will ensure the best of working conditions and economies of scale. This condition must include a reasonable spread of livestock kills meeting an efficient farmer's requirements as well as the requirements of a stable industry.

(c) A task force approach to the seconding of scientific and other Government technical personnel to areas of the meat processing industry which would assist in giving greater returns and improved efficiency and result in lower costs.

(d) An active labour market policy for meat workers which will ensure all the year round employment even if it cannot be provided to seasonal workers within the actual meat processing plant. This can be done by other industries being 'tuned' to the meat industry.

(e) Industrial law which effectively governs the negotiating and carrying into effect of productivity agreements as well as management and worker participation based on a sharing of responsibility.

(f) A meat inspection staff which is not responsible to the Government service. Government is not structured for servicing these people but should be employed by an independent authority or alternatively go to a system whereby companies employ their own inspection staff and a small and selected band of Government inspectors carry out strict audit procedures.
(g) Intensive scientific programmes to examine all hygiene requirements and to monitor all future requirements before they are accepted or implemented.

(h) A much higher standard of animal cleanliness from farms.

(i) An intensive enquiry into the reasons for New Zealand's declining lambing percentage (which with the falling rate of productivity in lamb processing are the two critical indicators of an industry in serious trouble).

Finally, this latter point emphasises that the lamb and mutton industry and its problems are not confined to processing. Nevertheless, can I leave you with the thought which is illustrated by this quotation - a thought which holds true for farmers, managers and union members of the meat industry.

"A community comes into being when a group of people or a group of countries become aware - quite suddenly sometimes - that a sea-change has taken place in their attitudes towards each other; when differences among them, which used to seem important, all at once look insignificant by comparison with the reasons they share for holding together."

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7 The Economist, 23rd May, 1975.
1. Introduction

Right now Admiral Friis is charting the Dairy Industry Ship through some mighty troubled waters and I wouldn't expect him to be too thrilled with any of his crew publicly debating sensitive issues in the dairy industry, so this particular crew member is going to stick to facts and leave the bright ideas, which may or may not be universally acceptable in our industry, to a more auspicious future occasion.

Firstly, I am to give an assessment of the cost escalation over the last few years. I will show the costs that are directly under the control of the co-operative dairy industry have been reasonably restrained. The disaster areas in which huge increases have occurred, which are beyond the dairy industry’s control, are the fields of inflation, national wage increases, imports, and freight charges. And it is in these areas that Government action is essential, because they are beyond our control.

2. Milk collection costs

Between 1968 and 1971 moderate rises from 2.95 cents per kilogram of milkfat to 3.66 cents took place; from 1971 onwards, in spite of the drive for economies through rationalisation of collection routes, and a heavy expansion in the size of milk tankers, milk collection costs rose 50 per cent - from 4 cents per kilo of milkfat to 6 cents. Major reasons for this increase were the soaring costs of vehicle replacement and fuel along with wage increases. In 1973 milk collection costs were 4.3 cents and in just two years have risen
to over 6 cents per kilo. The results for 1976 are going to be considerably worse as the new tanker replacement costs, the latest diesel price, and the new wage levels have not been reflected in a full season as yet.

3. Manufacturing Costs for Dairy Products

During the 1960s, with the dramatic increase in the size of dairy manufacturing plant, tankers, and the volume of milk throughput per factory, very large economies of scale were achieved, which in turn kept down overhead cost increases to a reasonable level. For example, between 1964 and 1970 average total butter manufacturing costs increased from 6 cents per kilo of fat in milk to 7 cents, but between 1970 and 1975, despite continued expansion in the size of plant in order to control overhead cost increases, total manufacturing costs rose heavily. Between 1970 and 1975 butter manufacturing costs rose 64 per cent - cheese by 73 per cent - spray skim milk powder by 53 per cent - and casein by 75 per cent. Huge increases were experienced in the variable cost sector, that is, increases for wages, for materials, for fuel. These items constitute well over half the total manufacturing costs for export for cheese, skim milk powder and casein, and half the cost of butter manufacture. Cheese and casein manufacturing is more labour intensive than butter and skim powder, and wage costs over the last five years have risen by 70 per cent for cheese and by 117 per cent for casein.

In spite of an excellent record of industrial relations in the dairy industry, compared with other industries, and in spite of continued advances in mechanisation, wage increases have heavily increased dairy manufacturing costs. Manufacturing wages have doubled and are subject to regular cost of living increases, as are all union agreements, yet our suppliers are looking down the barrel of substantial reductions in their own net income.
31.

Costs for materials and fuel have skyrocketed in the last two years. Between 1974 and 1975 alone these costs rose by over 30 per cent and of course the latest increase from 1975 is higher still. National figures on fuel can mask the really savage effect on many dairy companies because a large proportion of the dairy industry has been using coal, which has had a relatively fixed price for several years. Those companies using oil for fuel have been crucified by comparison. In my own company the fuel oil bill has jumped from $300,000 to $550,000 in one year and now we have to find nearly a further million dollars to change back from oil to coal in order to remain competitive in the industry.

Because 98 per cent of dairy manufacturing plants are co-operatively owned, controlled and directed by the farmer suppliers, the dairy industry in the past had the unique opportunity of controlling cost increases to a major degree in its manufacturing sector. It ploughed back withheld earnings to update and mechanise on a massive scale to reduce labour costs, and diversify its raw material manufacture. For the last two decades it has used this power to remain competitive in world markets without the high Government subsidies which its competitors have enjoyed. Over the last four years the rise in the costs of labour, materials, fuel and power, that is, the variable costs which are outside the industry control, have heavily eroded its ability to manufacture and sell competitively on international markets. While other industries manufacturing for the local market can charge their costs on to the consumer, in dairy manufacture more than 75 per cent of the output is exported and increased costs just cannot be loaded on to the buyer in an international market scene where prices are determined with the help of huge export subsidies, and with substantial farm income subsidies.
4. Transport and Shipping Costs

While the dairy industry, by owning and operating its manufacturing sector, has until recently been able to control its cost structure and remain competitive, it has little control over the cost of shipping, especially the loading and unloading of produce and its ocean transport.

Between November 1973 and November 1975 freight rates to the United Kingdom for butter rose from £41 per ton to £61 per ton, a 49 per cent increase in two years, and the rates to other markets have shown similar increases. The total cost of shipping a season's dairy production to export markets is now $40,000,000 per year compared with $24,000,000 only two years ago.

From 1969 freight rates on conventional ships increased by 150 per cent. The introduction of containerised shipping services has not brought relief and generally freight rates on container services have increased at the same rate as conventional ships. This is because the loading and discharging rates for container ships have been no better than the older conventional ships. In 1975 the turn around of container ships in New Zealand was very slow, mainly through insufficient terminal planning and labour problems. During 1975 handling rates in container terminals in New Zealand dropped as low as four containers per hour compared with 20 containers per hour, which is accepted as a reasonable turn around for New Zealand conditions.

Loading and unloading of cargo equals the whole cost of ocean transport. To justify the heavy investment in container shipping loading rates must be dramatically improved compared with conventional shipping and this has not been achieved.

Because of this and the continuing importance of secondary ports such as Tauranga, the dairy industry is researching improvements in the utilisation of unit loading for conventional ships.
A large proportion of our cargo to the Middle East, Far East and developing countries cannot go on container services, so we must retain flexible conventional shipping service for these areas.

The result is that conventional shipping is still uplifting a large proportion of our export cargo and for this sector further improvement in palletised unit loading is an important area for achieving economies in costs.

Containerisation in New Zealand ports has not brought the advantages we all hoped for, that is, the reduction in freight costs. There has been a tendency in New Zealand container ports to concentrate on port facilities for containers to the exclusion of all else and provision and updating for unit operations have been neglected in our two largest ports, Auckland and Wellington. The addition of another South Island container port would only aggravate this problem. We need, therefore, a thorough re-appraisal of the present development of port facilities in New Zealand to achieve a more balanced growth in both container and conventional shipping facilities, with special emphasis on further development of unit loading for container and conventional shipping, because in the dairy industry unit loads, palletised at the factory, heavily reduce labour costs through to the customer.

5. Marketing Costs

The dairy industry, with its unified single selling organisation, has been successful in restraining costs of marketing charged by middle men. The total cost of annually marketing New Zealand dairy produce is 2 per cent of the f.o.b. value compared with some 10 - 15 per cent of f.o.b. value in the meat and wool industries. Such heavy proportionate costs for marketing services compound the price cost squeeze on the farmer himself. I would emphasis that this low percentage would increase as bulk farm exports are processed
in greater depth, and in consumer packaging the inevitable extra marketing service cost would, of course, then be recovered in a higher export value for the raw material processed, but in all major agricultural exports - dairy, meat and wool, there is considerable scope for improvement in this regard.

6. Dairy industry views on Cost Increases

To sum up the dairy industry's views on this cost increase that we have witnessed it would be fair to say that they view with alarm the huge escalations that have occurred in processing and freight without offsetting return from the market place. With an annual national inflation rate between 10 per cent and 15 per cent the dairy industry income price smoothing provides a maximum increase of 10 per cent and maximum decrease of 5 per cent in fat and solids-not-fat. Our comparative income position in New Zealand will deteriorate unless we can earn extra money to provide end of season surpluses, 50 per cent of which may be dispersed to the farmer. The prospect of this in skim milk powder and casein in the short term is bleak.

The stark realism of continuing inflationary trends has shaken the confidence of our dairy farmers and they are not prepared to increase production.

7. Remedial Measures

How can the adverse effects of cost escalation be offset? Some of the measures I envisage would include the following:

(a) Intensify the development of processing in New Zealand to add more value to our raw material, milk, and lessen the impact of surpluses and shortages in world trade.

Note: In the 1967/68 milk powder slump prices of skim powder dropped in half, but the consumer paid the same price
for recombined milk as before. I would gladly elaborate on this.

(b) To retain our living standards we must earn more from exports. Dairying is the second biggest export. We must capitalise on our major asset, grassland farming. Farmers can be motivated with direct taxation incentives on increased production. If all increases over a past 3 year average were tax free for a period of 3 years New Zealand could get a dramatic increase in export earnings. Of course there would be anomalies - there always are, but the overall effect could be dramatic and it is the objective that counts. After all, export incentives for manufacturing are full of anomalies but they are effective and no-one has complained. In, say, three years, when tax is reimposed, the higher production of farms will incur far more tax than before anyway.

(c) Get more young men into farming with generous loan finance for farm purchase. For farm employees not requiring a farm it is essential they be provided with Government assistance to purchase a home on retirement. At present they are discriminated against cruelly in the residential covenant for State loans, and have no hedge against inflation, or security in retirement.

Alternatively, allow farmers to claim 150 per cent of employee payments for tax.

(d) Review rates of death duties which are a much heavier disincentive to agriculture than to any other business in New Zealand. This is urgent.

(e) Incentives on production are more positive than mere input subsidies and reward efficiency more.

(f) A laissez-faire policy to agriculture will not allay the disquiet in the industry regarding erosion of incomes.
THE WOOL INDUSTRY'S PRESENT SITUATION, VIEWPOINT AND SUGGESTIONS

by

Doug McIlraith

1. Introduction

About 30,000 individual woolgrowers produce approximately 300 million kilos of wool per year. In the 1954/55 season production was 206 million kilos and rose steadily to reach a peak of 334 million in 1970/71. Since then there has been a decrease to 294 million in 1974/75 but the indications are for a slight increase this year to an estimated 302 million kilos. Value per bale has fluctuated between $140.51 in 1954/55 to $222.85 in 1972/73. The returns to growers in 1974/75 yielded $143.61, almost the same return as the 1954/55 figure 20 years before. No grower needs reminding of the extent to which his costs have risen in that period. It is an interesting comment on his efficiency that the New Zealand grower has consistently produced more weight of wool per sheep than any other producer in the world. At 5.1 kilos per head he leads Australia 4.8 kilo, South Africa 3.7 kilos, U.S.S.R. 3.0 kilos, United Kingdom 1.7 kilos.

This production, excluding wool used domestically or exported as finished products, has earned for New Zealand, and I emphasise all New Zealand, over the past three years, a total of 1.046 million dollars. In any discussion on costs beyond the farm gate it is extremely difficult to throw a line between on-farm and off-farm costs as so often they are inter-related.
2. Cost Escalation over 3 year Period

In 1973/74 the costs of shifting a kilo of wool from farm gate to overseas mill was 22.13 cents.

In 1974/75 this figure had risen to 24.41 cents and for 1975/76 the estimated cost is 33.55 cents. In terms of cost per 150 kilo bale 1973/74 $33, 1974/75 $36.60, 1975/76 $50.30. Add shearing costs to these figures and this year to get a bale of wool from sheep's back to overseas mill will be in the vicinity of $80.

In total then, farm gate to overseas mill costs $75 million.

Shearing costs mainly labour will cost nearly 23 cents, or in total between $45 and $50 million, making a combined total of $120 million.

3. Avenues of Cost Saving

(a) Shearing

As the labour content is over 80 per cent of the total it is difficult to make other than marginal savings here. The Wool Board's Field Service has provided tuition by way of shearing schools and promotes fast efficient shearing. It is constantly looking for ways and means of improving woolshed operation and has commissioned the Agricultural Engineering Unit here at Lincoln to look into ways of improving wool flow from sheep's back to bale with a lesser amount of labour than has been the case in the past.

(b) Transport and Brokers Stores

With the current inflation rate little or nothing can be done to reduce the cost of transporting the clip from farm to store. In fact with increases in full labour and vehicle prices, steep further increases can be expected.

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1 Data supplied by New Zealand Wool Board.
(c) **Brokers Stores**

Labour costs are the major item for the wool stores. We were told recently by the chief executive of the brokers' association, Mr Stronach, that they amounted to 60 per cent of total costs - and coincidentally they have risen 61 per cent in two years.

Steps which the brokers can take to meet rising labour and other costs are:

- To amalgamate - and there have been a number of mergers.
- To rationalise operations in wool villages or other co-operative arrangements. Performance has been good in places, less so in others.

(d) **Wool Brokers**

To build single level stores well suited to mechanised handling. To seek conditions that enable them to make best use of a stable permanent labour force - to avoid the added costs of temporary and overtime labour. To this end the Corporation is constantly seeking some method of evening out the wool flow at peak periods. If they were able to sample and stack wool on receipt into store and then prepare for sale at an even pace useful savings would result.

(e) **Objective Measurement**

Time will not permit discussion on the full implication of Objective Measurement. Suffice to say that it is abundantly clear that a large proportion of the clip must be disposed of in this manner to effect worthwhile savings. It is said that lot sizes must exceed 22 bales before measurement costs are lower than conventional display. Objective Measurement and sample selling techniques must be pursued and the Corporation is diligently so doing. In fact 31 \( \frac{1}{2} \) per cent of the wool sold at Wellington this season has been on sample.

If Australian experience is a guide, little of the savings filter back to the grower. It was said a year ago that the growth
might well save $1 per bale but presumably even that crumb has now been swallowed by inflation.

(f) **Freight Rates and Container Packing**

Containers may not be the ideal method of carrying wool. In the past we concluded that unit packages were better with a much lower capital investment. However, the decision has been made for us by the Shipping Companies and the New Zealand Shippers - notably the Meat Producers Board. It is too early to say yet whether it is good news or bad for wool.

However, where it is operating at Auckland and Wellington we do have some indications. At both Auckland and Wellington costs are rising quite rapidly. A 20 per cent increase in Auckland in October will be followed by a further increase in the near future. The loading rate at both Auckland and Wellington has improved quite considerably over recent months. There is a direct relationship between the amount of equipment available and productivity. For example the loading rate at Auckland and Wellington averages 16 - 18 boxes an hour while at Tilbury, Liverpool and Liebrugger the rate is 30 per hour. This occurs because at those European ports two or three cranes can be put on to one ship whereas in New Zealand we are confined to one. One disturbing feature is that Wellington has a second crane commissioned in November, which has not yet lifted a box due to a manning dispute. Such action cannot be tolerated and plays no small part in making loading costs per box here 300 per cent higher than in the United Kingdom and European ports mentioned.

(g) **International Wool Secretariat**

As New Zealand's contribution to I.W.S. promotion and research is estimated to total $15.5 million or approximately $10 per bale in 1976/77, the effectiveness of the I.W.S. operation must be constantly evaluated. It is difficult to have a yardstick to measure the success or otherwise of a promotional programme and the I.W.S. is itself conscious that it must have a changing role.
What was relevant to the needs of the industry in 1960 when the present constitution was approved is not necessarily relevant today. The New Zealand grower has to carry a disproportionate percentage of his country's contribution in relation to his partner countries.

In Australia the unseated administration, even though unsympathetic to the pastoral industry, contributed 25 per cent of the total Australian quota. In South Africa the grower can expect the taxpayer to share one third of the load but in New Zealand, almost totally dependent as we are on primary production, the grower has to carry almost 84 per cent of the load. Pressure must be brought to bear on Government to increase this niggardly contribution to an industry earning over $400 million precious overseas funds.

(h) Acquisition by Single Marketing Authority

Apart from any aspect of marketing it has been claimed that single ownership of the wool clip would result in immediate and worthwhile cost savings. I share that view, particularly if the original concept of direct selling (doing away with the auction system) was adopted. However, let me make it abundantly clear that in my view and with the knowledge I have gained since being a member of the Board and Corporation, these savings would be peanuts compared with the loss in value resulting from the loss of the auction system providing, as it does, the only method of obtaining the world's value for our product. The U.S.A. provides a good example. At this time they claim that a price above 110 cents per kilo greasy for carpet types is completely unacceptable to them. We all know that the rest of the world is prepared to pay 160 cents or better. No single authority can ever hope to set prices. The I.W.S. countries between them control less than 50 per cent of the world's production.
World Wool Production

(million kilos)

<table>
<thead>
<tr>
<th>Country</th>
<th>Kilos</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentine</td>
<td>184</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>50</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>68</td>
</tr>
<tr>
<td>U.S.S.R.</td>
<td>461</td>
</tr>
<tr>
<td>China</td>
<td>81</td>
</tr>
<tr>
<td>All Other</td>
<td>504</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,348</td>
</tr>
</tbody>
</table>

From a cost saving viewpoint we can compare the costs in South Africa with our own, accepting always that comparisons are not always strictly fair.

<table>
<thead>
<tr>
<th>South Africa</th>
<th>New Zealand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receiving weighing etc.</td>
<td>3.687</td>
</tr>
<tr>
<td>Blending</td>
<td>2.183</td>
</tr>
<tr>
<td>Binning</td>
<td>6.614</td>
</tr>
<tr>
<td>Basic charges O.M.</td>
<td>3.187</td>
</tr>
</tbody>
</table>

It is interesting to note basic South African wage unskilled is $NZ. 20 per week.

The point I wish to emphasise today is that woolgrowers and indeed all farmers, no longer look kindly on calls by journalists, academics and others to increase their efficiency by measures, many of which remove from them control of their product after it leaves the farm gate.

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2 Commonwealth Economic Committee

The woolgrower, like his fellow farmer, has over the years effected efficiencies of operation and has lifted productivity per man greatly, only to see industrial action or political expediency put him further behind his fellow citizens.

Mr H. P. Ralph, of the Wool Marketing Corporation Establishment Company, talked of saving growers $1.3 million in costs at the stroke of a pen by agreeing to the acquisition proposals. So what ... the stoppage of the M. A. F. meat inspectors a week or so ago has been reported as costing $3 million and the meat and wool farmer is in no doubt who foots the bill.

4. The Future

The loss of the market in the U. S. A. is a cause for concern. Various reasons have been advanced and I have no doubt you are acquainted with most of them. There seems general agreement however that there are four main constraints against wool usage. They are:

a. Price instability
b. Supply irregularity
c. Price point
d. Financial ramifications through the textile pipeline by the synthetic fibre producers.

I have no intention of discussing each point in detail. Rather, would I suggest avenues to reverse the trend in that country and hopefully relate these proposals to the points enumerated.

In my view it is essential that the grower through the Board, Corporation or an amalgamation of both, becomes much more involved down the textile pipeline than he has in the past. To this end in the first instance he must become involved in the spinning industry so that a constant supply of yarn is available to manufacturers.
This would take care of Point b. The Wool Bureau in New York reports that wool spinners in U.S.A. take an increased markup for spinning wool against synthetic fibre of an amount equal to 50 cents a square yard of carpet. The carpet manufacturer in turn takes $1.10 per square yard extra markup and the retailer $3.80 per square yard while at the same time he lowers his markup on the man-made product by 33 per cent. The reason given is intense competition in the synthetic field but little or no competition in the wool field. In total these extra markups amount to $5.40 per square yard. Surely this goes some way toward solving Point b.

Point d. - Competition in man-made fibres and fabrics has become so fierce that smaller operators cannot remain in business. The financial noose held by the big producers extends right through the line to the retail outlet. Our information is, however, that if we do not delay there are still enough independent people left anxious and willing to operate in wools area.

I have left Point a. until I have talked to you of the peculiarities of the U.S. situation. Known, I believe, as one who opposed total acquisition of our clip, it is logical that you would want to know where or how I would propose obtaining supplies of raw wool. A fair question.

To initiate the programme we should earmark sufficient wool in the Corporation stockpile, which I remind you has already been offered to the trade. If success attends the venture we should then, either through the trade or by lifting intervention levels, obtain our supplies. Hopefully, by a sensible intervention policy and with intelligent government support we can put behind us violent fluctuations and certainly avoid the situation where holders of wool stocks are put in the impossible situation of seeing the value of their inventories decline dramatically, so putting them in a non-competitive position with those able to put their stocks in a depressed market situation. Sensible intervention, because of its flexibility, allows the
keeping of a reasonable price to growers and enables us to take in stocks from time to time to service a venture such as I have outlined.

Let me make the point again that I regard the U.S.A. market as a special case. There are, however, indications varying in degree, that what has happened there may happen elsewhere. Viewing the global situation it would appear that these measures are neither necessary nor desirable at this time in other markets.

The experience gained and the lessons learned in the outlined programme would be invaluable when and if the signs in other markets suggest similar action was necessary.

It may well be that the experience of promoting an all New Zealand product - i.e. New Zealand wool carpet, New Zealand wool blankets, could cause a change of outlook in our entire promotional thinking.

It is my belief that with strength of purpose and conviction, the New Zealand grower can obtain for himself and for New Zealand the true value of all that is possible in this unique fibre - wool.
THE SEA TRANSPORT INDUSTRY'S
PRESENT SITUATION, VIEWPOINT AND SUGGESTIONS

by
Charles Speight

"The farmer is covetous of his dollar, and with reason .... he know how many strokes of labour it represents. His bones ache with the days work that earned it."

Ralph Waldo Emerson

1. Introduction

In peace and war New Zealand has earned a reputation as a land made up of individuals with initiative. The challenge of hard times produces innovation and our past achievements in this direction, going back to the development of the frozen trade to Britain in the 1880s, have made our country prosperous.

It is often said in a quite unqualified way that we are completely reliant on our farmers. While their economic position at any one time is later reflected in the total economy, it is an exaggeration to say the country is wholly dependent upon the farmer. The farmer provides the raw material but as a country we cannot prosper unless all links in the chain from farm gate to market - contractors, transport operators, shipowners, agriculturalists, chemists, freezing companies and the many Unions involved are encouraged to feel their contribution is important. Unless this feeling is there, decisions affecting the whole industry are likely to be made from a purely individualistic viewpoint.
2. The Shipowners' Current Situation

The shipowner, as a link in the chain, can make a considerable contribution. For the last 70/80 years ships serving New Zealand have been overseas owned and controlled, but with the formation of The Shipping Corporation in 1973, you now have an operator whose prime responsibility is to the New Zealand producer.

The amount of our produce sold overseas is dependent on our ability to provide a product of quality, quantity, price and supply in competition with other countries and transport costs bear heavily on this ability. Unfortunately, factors such as inflation which is outside the direct control of either the farmer or shipowner makes cost escalation inevitable, this being reflected in the continuing increases in freight rates. These increases are however required to cover increased costs. For example, at Napier, one of our most efficient and least expensive ports, the cost of loading meat and wool between 1969 and 1975 increased by 238 per cent and 396 per cent respectively.

Fuel costs have increased by 30 per cent in the last two years while shipbuilding repairs, harbour and port charges, have all risen dramatically.

The effect on freight rates is demonstrated by the following:-

In 1969 the rate for carcase lamb to U.K. was £40.05 sterling per tonne; today it is £109.70 per tonne - an increase of 273 per cent; butter and cheese in 1969 was £23.5 sterling per tonne - today it is £61.5 per tonne - an increase of 261.7 per cent. As you are more than aware our farm produce cannot sustain these cost increases without jeopardising our markets.
3. The Shipowners' Proposals

The shipowners' answer to this cost escalation is containerisation, the full benefits of which will not be seen until 1979; but already the ability to minimise freight rate increases has been demonstrated in the only fully containerised trade, that to East Coast North America, in which at the last freight negotiations it was agreed there should be no increase.

To illustrate the cost savings to be gained by a container vessel as against a modern conventional refrigerated vessel, we compared our N. Z. WAITANGI, a large modern refrigerated vessel, with our container vessel on order in Germany....

<table>
<thead>
<tr>
<th></th>
<th>N. Z. Waitangi</th>
<th>Container Vessel/Containers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of ships required</td>
<td>5.4</td>
<td>1</td>
</tr>
<tr>
<td>Capital Investment (1976 costs)</td>
<td>$130 m</td>
<td>$79 m</td>
</tr>
<tr>
<td>Crew numbers</td>
<td>508</td>
<td>94</td>
</tr>
<tr>
<td>Crew Costs p.a.</td>
<td>$5.9 m</td>
<td>$1.1 m</td>
</tr>
<tr>
<td>Fuel Costs p.a.</td>
<td>$3.5 m</td>
<td>$2.8 m</td>
</tr>
<tr>
<td>Cargo Costs</td>
<td>$31.45/fr. ton</td>
<td>$19.09/fr. ton</td>
</tr>
<tr>
<td>Revenue</td>
<td>$30 m</td>
<td>$30 m</td>
</tr>
</tbody>
</table>

Other items of expenditure such as insurance, repairs and maintenance are borne in similar proportions.

As can be seen from these figures a conventional service would require 60 per cent greater capital injection than a container service and the effect on freight rates will be appreciated. In addition a container vessel is less vulnerable to cost increase and therefore offers the New Zealand farmer greater stability of freight rates.

It should not be thought however that the only benefit of containerisation is in the form of freight rates; while this benefit is quantifiable there are many other benefits which it is more difficult to calculate in financial terms.
Meat will be marketed in pristine condition, having been carried at controlled temperature and with a minimum of handling in very fast transit times.

The shipowner, in designing a new ship, will take into his calculations the existing and projected cargo liftings.

The container ships designed for the U.K. /N.Z. service are designed to lift 70 per cent of our refrigerated cargo and 95 per cent of our general cargo based on the existing packs.

Should we be able to increase our exports of carton lamb or reduce the size of a bale of wool by dense baling this should reduce the ship space required and ultimately the amount of capital involved in the service. I say ultimately as the vessels are at present designed to lift mainly carcase meat and conventionally packed wool. They are of a size and have a lifting capacity in terms of deadweight to meet the demand. It should not be thought that by putting all our meat in cartons or densely baling all our wool, a smaller fleet would be required. Certainly there will be marginal savings but ships of different design will be required to lift the cargo of less volume but similar weight that is moving at present.

From the shipowner's point of view I have concentrated on the U.K. trade which is still our main trade. This is being containerised progressively over the next 2/3 years and it is anticipated the Shipping Corporation will be lifting in excess of 20 per cent of our produce to U.K.

- The continent of Europe will be fully containerised by mid 1978.
- The East and West Coast of North America is containerised now.
- The Japan trade will be largely containerised by mid 1977.
The Shipping Corporation expects to have an involvement in all these trades through chartering space in vessels of other Lines until such time as it is in the economic interest of New Zealand to place vessels in the trade. A close interest is being taken in the Persian Gulf and Pacific Basin with a view to ensuring marketing opportunities are not lost.

The Shipping Corporation set up as a viable commercial enterprise. In its first year's operations it achieved a pre-tax profit of $1.0 million. This was not by "cooking the books" - how naive we would have been to do so with the Hon. R. D. Muldoon as Leader of the Opposition!

We have been accused of accepting a subsidy on the Coastal Service - this is not so - we acted as any commercial shipowner and were not prepared to offer a service at a loss; hence we chartered our vessels in these trades to Government who thus provided a subsidy to the manufacturer by offering lower-than-cost freight rates.

In 1922, the President of the N.Z. Farmers Union, Mr (later Sir William) Polson, said:

"No state in the world is less self-contained than New Zealand. We exist by shipping; our future prosperity is entirely dependent on regular, expeditious and economical communication by sea. Our chief customers are half a world away.

Everything we produce must be conveyed half across the world in other people's ships and almost everything we need reaches us by the same deep sea road.

Yet, incredible as it may appear, some people are content to leave this all-powerful factor in our success or failure to groups who have no interest in us other than as a means of earning of dividends."
And it is a great privilege for me to talk today to you as shipowners. This may be difficult for you to appreciate but in the first months there were a number of people who actually came on board your ships to examine them. The Corporation's raison d'être it to protect New Zealand trading interests - we are not merely in transport but Trade Development; we receive enquiries from many sources - the Charolais and Simmental breeders sought our assistance in carrying a backlog of cattle from Britain. This was done. Yesterday we received a call from the Vice-President of Federated Farmers to assist in obtaining suitable ships for potatoes and so it goes on - 50 years after Mr Polson's comments we now have a New Zealand-owned Shipping Company whose prime responsibility is to serve the New Zealand producer. Not only in the movement of cargo but also in areas where a reduction in cost can be achieved.

4. The Farming Sector's Ability to hold Freight Costs

Please do not think the farming industry is powerless to hold costs. The shipowner, at least in our main export trades, is required by the Producer Boards to present vessels when required. The Boards base their requirements on forecasts from the Freezing Works who in turn, no doubt, consult the farmer. Inaccurate forecasts are very expensive as vessels may be held up awaiting cargo, or required to ballast to New Zealand at very high cost if demand is suddenly greater than forecast. The farmer pays in either event. I attended a meeting of the U.K. Lines at which it was pointed out that there was an immediate demand for two additional vessels. The British, under the terms of their contracts with the Boards, must supply required tonnage providing two months' notice is given. The demand was met in this case but the result was expensive charter vessels.
The marketing requirements of the Boards are not constant and the total meat and dairy produce for any one month can each vary from between 6,000 and 30,000 tons. These requirements must be fitted into constantly changing port requirements to give the trade a 'taxi service' rather than a 'bus service'.

Again the farmer pays.

Savings could be made if the peaks in exports could be reduced and give a more even spread over the whole year. The shipowner must tonnage to meet the peaks and his vessels are either laid up or suffer vacant space in the off season. Shipowners do try to minimise this vacant space by arranging for their vessels to be dry-docked in the off season, but for maximum economies a greater spread of cargo is required. In the same way, if the ship is under-utilised so too is the Freezing Works; and with the two highest capital cost elements serving the farmer under-utilised the effect on the farmer is again very clear. If it were possible to extend the killing season and/or the main shipping season, the capital involved could be reduced considerably. Not only this, but it would offer longer term employment for freezing workers and water-siders and produce the better working relationship which is possible with a permanent work force. Perhaps the Freezing Companies and the Shipping Companies should be asked to indicate the likely reduction in costs if the season could be extended by two months. This, in turn, would permit the farmer to weigh up the advantages of such factors as earlier or later top-dressing, lambing, etc., against the very expensive peak shipping requirements.

I read recently an article in the New Zealand Herald, Auckland, reporting on comments of Al Farrington, a Manager of the Meat Export Development Company in which he refers to the reduction in the American ewe population from 40 million in the 1940s to 12 million today. He suggested that the contract labour system - shearing, transport, topdressing, fencing, cultivating and hay making -
no longer was attractive but the U.S. sheep farmer had no option but
to sell his flock. A stable year-round employment for these
contractors may have halted the decline. Again we see the necessity
for permanent employment for our work force and this cannot be
achieved by an individualistic approach. In shipping it has proved
impossible for individual companies to make the vast investments
in the capital equipment required for containerisation and the
consortium approach has had to be developed. Overseas Containers
Limited was set up by four of the largest British companies:

P & O
Ocean Steam
Furness Withy
British & Commonwealth

and the group will have spent $NZ1,000 million by 1978 on developing
its services to and from Britain, Far East, Australia, New Zealand
and South Africa. This sum is far outside the capability of any single
company no matter how large.

I referred at the outset to the farmer as an 'individual' and
this is a great strength; however, the weaknesses of an individual
approach should not be overlooked. In 1968, I was a shipowner's
representative on a committee set up to examine the flow of wool to
ship's side and make recommendations that would improve this flow.
While certain improvements were introduced it was felt that no major
breakthrough could be achieved until the method of marketing was
changed and cost reduction through rationalisation obtained. We, who
had studied the problem, foresaw the benefits flowing from acquisition
and it was a tragedy that the farmer's individualistic approach
defeated that proposal. What was the cost?
5. Conclusion

The theme of this address has been 'individualism'.

For too long the individual shipowner, the individual farmer, and the individual unionist, have thought too much of their own individual position regardless of others affected. If the farmers can get together there is then a very strong base to develop the unified approach necessary from all sectors if our export trade is to continue to prosper.

In the same way that Shipping Companies have had to combine to survive, so must we all in this country - the day of the individual acting on his own is past.
THE PROBLEM OF COST ESCALATION AS SEEN THROUGH
THE EYES OF THE TRADE UNION MOVEMENT

by

Wes Cameron

1. All sectors dependent on one another

We are aware of the complaints voiced regularly by Farmers' organisations, of increasing costs of transportation, processing, marketing and so on of farm produce for local and export consumption.

Farmers have claimed vigorously that New Zealand is completely dependent on the production of farmers and that, as producers, they are the only group on whom we are dependent. To a degree this statement contains some validity, but in fact in a society such as ours, relying as we do for the major part of our income on our ability to produce and sell agricultural products, all sections in the community are reliant on one another.

For this reason, misunderstandings, friction, and the building of barriers between different sections involved in this production, processing, transportation and marketing chain, can only adversely affect our society as a whole.

As a representative of one of the sections - namely, the wage and salary earners, in this operation, we are very conscious of the need for a high degree of co-operation. To illustrate this desire for co-operation, I, along with many other representatives of the Trade Union Movement over the years, have travelled extensively addressing groups of Federated Farmers and other interested organisations in an attempt, not only to voice some of our own problems, but also to learn about the problems of others.
We have naturally been conscious of many of the problems associated with the farming industry and are prepared to do what we can in an attempt to minimise these problems. It must, however, be remembered that although Freezing workers, Watersiders, Transport drivers, Seamen, and other workers associated with the preparation of your products, can see your difficulties from time to time, their only real stake in this very important industry is through their wage packet.

2. Wage earners dependent solely on wages

Wage and salary earners, generally, have no significant ability to benefit from increases in capital value, appreciation of investment, upsurge in world values of commodities, etc. Where, on the other hand, the farming community, transport operators, and the processing companies enjoying a much deeper involvement and, in fact, benefit in many ways (not always made public) and prefer to operate on the system of 'what we lose on the merry-go-round we pick up on the swings'.

Unfortunately, as is to be expected, little publicity is given at times of buoyancy in the industry resulting in high levels of profits, but a lot of squealing goes on when things are on the downgrade.

I would like to be frank in respect to my feelings on serious fluctuations of incomes experienced by farmers, particularly in the last ten years, and to say without hesitation that this situation would be completely unacceptable to wage and salary earners generally. It would be obviously an impossible situation not knowing from one year to another what one's income was likely to be and it is quite obvious that an alternative method will have to be adopted sooner or later, whereas those engaged in this industry can pick up the spoils of good years without much comment and lean heavily on the taxpayers of New Zealand when things get rough.
I therefore advocate that we can no longer afford the luxury of the present system and have to accept the reality of stabilisation of incomes of all affected, not as it is today applied only to wage and salary earners.

3. **A proposed Meat Industry Corporation**

The New Zealand Meat Workers Union, in its submissions to the Meat Industry Inquiry in August 1973, put forward a strong case for a Meat Industry Corporation with statutory powers to co-ordinate the entire industry from farming through processing, science and education to marketing and on which all those who actively participate in the industry will have representation. They will then be able to play a constructive role in assisting to formulate a policy for the industry as a whole. We see this move as a step towards the nationalisation of Meat Freezing Works and the development of a policy for the future public ownership.

In support of the above proposal, I claim that the Meat Freezing Industry as it is operating at present is inadequate to meet the challenges of today's requirements in respect to hygiene standards, transportation and marketing. Most of the Meat Processing Plants in New Zealand were built around about the turn of the century and are now being required to cope with standards of processing and volume of productions far in excess of that for which they were designed.

As an example, in 1950, 12 million lambs were processed in New Zealand and 20 years later, in 1970, the figure had risen to 27 million. This increased kill in 1970 was processed through virtually the same facilities as those which existed 20 years earlier, and generally members of the Meat Workers Union handled a far greater volume of work with very little assistance in the way of increased manpower. Much criticism has been directed over the years at Freezing Workers and this criticism is usually in respect to what some people claim are excessive incomes.
4. Efficiency in the Meat Industry

I must say at this stage that the Freezing workers generally should be congratulated by all of those who benefit from our export income for the way they have handled this increased production over the years, and most times under very difficult conditions. I say this in support of the claim that the industry is inefficient and, if it were not for the extra effort of the manual workers, many aspects of this inefficiency would not have been overcome.

I wish now to relate to the movement of stock for slaughter, as another aspect of inefficiency under the present system, and to remind you that 10 per cent of the stock killed in New Zealand annually is transported away from the nearest Processing Plants, in some cases as far as 500 miles. Of this 10 per cent, at least half is unnecessary haulage brought about by varying factors, but mainly due to the private enterprise basis of the industry.

I understand that it is quite a common conception among members of the farming community that the major reason for the continuing escalation of costs beyond the farm gate is the demands made by wage and salary earners for increases in remuneration. In many cases these demands for increases are considered to be excessive. The fact of the matter in respect to the Freezing Industry is that, although wages and salaries represent a significant proportion of killing charges, they do not match amounts spent in other areas.

As an example, Buying, Administration and Commercial charges would very near match the total wage bill in the industry.
V. DISCUSSION ON PAPERS

by

D. L. Fyfe

(A summary of major points made in the question and answer sessions following each paper.)

"In the great farming debate last year too much attention had been given to income stabilisation," Professor W. O. McCarthy, who presided over the Seminar, said at the beginning of the day.

"The other leg of the problem was cost reduction or minimisation. Research at the College into cost stabilisation or reduction was being stepped up," he said.

After the Provincial President of Hawke's Bay Federated Farmers, Mr J. R. M. Wills, had painted a sorry picture of how farmers had lost ground compared with all other sectors of the community income-wise, he was asked how farmers might obtain a better and more equitable share of the national cake - what structure would be needed for this?

While this was not an easy one, he said he felt that the National Development Council type organisation, with its various committees, was as good as had been seen. The present Government had indicated that it wished to move back into this type of structure.

A speaker from the floor challenged Mr Wills's contention that the farmer was at the end of the line with other sectors getting their cut out of the returns from his products before he received what was left. When there was a currency devaluation this represented a price rise to the farmer, it was contended.

Certainly devaluation was a transfer of resources, said Mr Wills, but there had been two recent devaluations and the overall effect was still that there was a run-down of farming in relation to other sectors. The effects were only temporary.
Professor B.J. Ross, Professor of Agricultural Economics at the College, said that in the past New Zealand had failed to use adjustments of the exchange rate sufficiently to achieve greater stability.

He said it was difficult to restrain inflation when it got under way, as people then acted in such a way as to make it continue.

Mr J. W. Habgood, General Manager of W. A. Habgood Ltd., transport operators, refuted the suggestion that all other sectors outside farming lived on a cost-plus basis with few problems. He said that the road transport industry had been under controls since 1933.

One of his listeners said he felt that the road transport industry had a case for relief from "savage" sales tax. This was something that he felt farmers should be talking to the Government about.

But to Professor McCarthy, who asked what would be the most important single area in the road transport industry for cost minimisation, Mr Habgood said he felt that more progress than with tax matters could be made in the area of greater communication between the carrier and farmers to their mutual advantage - what was in effect an extension of pre-notification of stock tallies - so that they worked in more closely for greater efficiency.

He warned that until all receiving areas had been properly geared to handle road transport, people should not be too hasty about advocating doing away with the railways. Flour mills, for instance, which were located on rail sidings, had many doors on the rail side, but "one hole" on the road side.

Mr L. A. Cameron, the Managing Director of the Geat Meat Company, had to answer questions about the possible harmful effect that the productivity agreement his company had negotiated with their workers might have on other sectors of the industry.
He told the Seminar that his Company had to live on a processing charge lower than South Island companies, and was subject to a squeeze, like others in the north, in having to compete with the Hawke's Bay Farmers' Meat Company.

They felt that they had a right to go ahead under a private enterprise competitive system.

Through the industry association other parties had been kept informed on what they were doing, and the agreement had gone to the Industrial Commission.

The agreement had originated with the union, who had come to them with a complex proposal that did them credit.

And up to the end of last year it had resulted in a substantial reduction in unit costs, but in January and February, with the worst inflow of stock ever, they had not been able to fulfill their obligation to maintain employment.

While admitting that their timing of the introduction of the agreement might not have been the best, Mr Cameron said that no time would have been good.

Mr Cameron suggested that in employer circles there was now much more emphasis on productivity. "This is the first year that employers are very serious about resisting wage claims that do not show some form of productivity."

"Do not judge it for two years," he said, referring to the productivity agreement.

The Executive Director of the New Zealand Freezing Companies' Association, Mr P.D. Blomfield, said it was extremely difficult to achieve a productivity agreement unless major concessions were made. It was difficult to get an agreement that combined increased throughput and reduced manning. And unless there were such concessions it was hard to get anything out of it money-wise.
Mr Cameron also suggested that there might have to be some modification of the welfare state.

He had seen the development of the welfare state and 99 per cent of New Zealanders would have agreed that it was necessary, but he suggested that the stage had now been reached where resources had to be transferred and people had to be persuaded to look after themselves more.

He reminded his listeners that welfare states were not found in underdeveloped countries and where economies would not support them.

"What I am pleading for is that you do not throw the baby out with the water," he said.

In his paper, Mr N. F. Reynolds, the Chairman of the Rangitaiki Plains Dairy Company, suggested that container shipping had not brought the hoped-for stabilisation or reduction of freight rates and he mentioned that container handling rates had fallen as low as four per hour last year.

Mr C. H. Speight, the General Manager of the Shipping Corporation of New Zealand, said that while containerisation had been disappointing, on the only full container service to North America in the last negotiations there had been no increase in freight rates.

The slow container handling referred to had occurred during a "go-slow" period, and in Wellington was usually about 18 boxes per hour.

Mr Speight said that at present terminal facilities in New Zealand were inadequate to handle containers.

On industrial issues he said that watersiders and harbour board employees would lose jobs when containerisation came, and in the meantime were doing their best to keep themselves in a job.
"I think that the Federation of Labour is very strong, but it tends to be the smaller groups within a union that can create problems for the whole union," he said.

Mr Cameron queried figures given by Mr Reynolds in which he showed marketing costs for dairy produce in a favourable light in comparison with meat and wool. He said that they were somewhat distorted. In the Middle East he said that on meat and butter they would be similar, and in the United States and the United Kingdom it was more a matter of distribution.

He said that no doubt savings could be made in marketing meat and wool, but as increased value was added to products it was not so important how much the marketing cost.

Member of the Wool Board, Mr J.D. McIlraith, elaborated on his proposal for ensuring availability of wool products in the United States, a market where he said many people liked to drive Cadillacs and they also wanted wool carpets, but were unable to buy them.

Why has New Zealand lost a large part of its market for wool there? A member of his audience suggested that it was due to price fluctuations disenchanting U.S. users, but Mr McIlraith said that while the I.W.S. and the Wool Bureau believed this to be the case, the man who had taken Burlington Industries, the world's largest textile manufacturers, out of wool wholly into synthetics, said that the main reason was instability of supply.

He said that his proposal was that yarn should be spun on a commission basis in the United States or that there should be a joint venture with a spinning mill in the United States. He saw growers participating in this through the Wool Board or the Wool Marketing Corporation or both.

At the moment he said that New Zealand spinners were so busy supplying the Australian market that they did not have any spare capacity for this.
He said to send manufactured carpets from New Zealand to the United States might result in the presentation on the market there of a product that did not fit in with the market's special requirements.

Mr McIlraith also expressed some doubts about the ability of one organisation to promote wools from 46s crossbreds to 72s Merinos, and his comment was taken up by a former I.W.S. man who said that there were difficulties in trying to promote to users two or three different types of wooll with slightly differing pipe lines. He suggested that within the secretariat there might be two or three sections where representatives of grower countries promoting their own production mills.

The other Cameron, Mr W.R. Cameron, who is President of the Canterbury Trades Council, was questioned about union attitudes to increased throughput and manning in freezing works.

He said that worker interest was in continuity of employment. "We would try to keep the throughput steady rather than have incentives to push up the throughput for more money."

In some parts of the industry the work was monotonous and conditions unpleasant, and they were trying to keep manning at a level that would enable workers to have five or ten minutes off an hour so that they could have a "smoke".

When it was drawn to his attention that thousands of head of stock had had to be returned to farms from works due to industrial stoppages and that transport drivers had had to work on Sunday to do that, he agreed that it was desirable that stock at works at such times be slaughtered, but he said that it was not always possible to control such situations.

On absenteeism in works he said that there was also absenteeism in other sectors of the community, but in two of nine works in Canterbury, Marlborough and Nelson, it was recognised that there was a problem, and they were prepared to see what could be done about it. It had been agreed that some action should be taken against people who were absent from work without reasonable reason.
VI. MAIN POINTS OF PAPERS AND MAJOR AREAS FOR ACTION

by

John Pryde

Paper No.1: 'The Problem as Affects the Farmer.' (John Wills)

In his comprehensive paper Mr Wills endeavoured to cover three aspects:

(a) The extent of on-farm cost escalation over the last decade and its effect on farming.

(b) The industry's response to this situation.

(c) Some comments on the future.

Mr Wills showed how the inability of the farming industry to recoup the high cost increases of the last decade had caused a dramatic decline in the share of total private income going to agriculture and affected its ability to expand output. He asserted that off-farm costs had increased at an annual rate of nearly 20 per cent over the seven years beginning 1969/70. While on-farm costs had not risen as greatly, during the three seasons commencing 1973/74 it was estimated that they had gone up in total by 40 per cent or as much as 14 per cent in one year. To cope with the declining profitability, farmers had, over the decade, inter alia:

- Increased the size of their holdings by an average of about 15 per cent in area.

- Spread their activities into the processing and servicing sectors to try to recoup some of their reduced farm profitability.

- Reallocated their resources on the farms, e.g. they substituted, where possible, capital in the place of labour.
Mr Wills warned that in some cases farmers were not being forced to adopt practices that cut costs rather than boost production.

Mr Wills considered that one of the main problems of the industry was that Governments placed much greater priority on policies aimed at ensuring full employment rather than the maximising of primary production. He warned that if farming in the future did not yield an adequate rate of return on the capital invested in it, farmers, especially the 'new generation' of farmers, would tend to invest their capital in those sectors more profitable than agriculture.

Mr Wills concluded with a plea for a greater sense of unity within the New Zealand economy. He considered this essential if the inflation that had harmed farming over the last decade was to be effectively contained in the future.


Mr Habgood cited the numerous innovations introduced into the transport industry. These had enabled the industry to reduce the rate of increase in charges to the farmer. He claimed that whereas since 1968 costs had increased overall by 170-200 per cent, cartage charges to the farmer had risen by approximately 100 per cent.

In his paper Mr Habgood described the system of determining cartage rates and claimed that today it reflects 'the costs that have been generated by the demands made upon it'.

In suggesting ways and means of containing or reducing costs in the future Mr Habgood mentioned:

- The Remission of Sales Tax on Vehicles.
- The need for local bodies to give greater priority to updating bridges or roads where load restrictions apply.
Planning controls should have greater regard to the effect on the costs of road transport operators.

Farmers will have to accept that the road transport industry offers a scheduled service, not the very much more expensive 'on-demand' taxi service!

Every effort must be made by farmers to iron out seasonal peaks in their demands, e.g. the installation of bulk grain storage on farms, delivery of farm inputs during off-season periods.

Farmers must ensure that their stock yards, and other receiving and delivery areas, are capable of being utilised by the modern large truck and trailer units.

During the discussion period Mr Habgood stated that in his view the greatest single area of cost reduction in road transport charges would arise from greater communication and dialogue between farmers and carriers.

Paper No. 3:- 'The Meat Processing Industry's Present Situation, Viewpoint and Suggestions.' (Laurie Cameron)

This was a long paper that dealt with many aspects. Inter alia, Mr Cameron stated:-

(a) In his view the role of government was to negotiate on problems of access for meat in overseas markets and deal with the internal economic climate.

(b) There has been an escalation in the processing costs of beef and sheep meats but the greatest impact had been on sheep meat. Whereas the beef situation was dominated by overseas markets, lamb was dominated by costs.

(c) There was a problem of falling productivity in the lamb industry, e.g. lambing percentages had been falling away over the decade.
(d) Whereas labour charges for processing beef in 1968-69 represented about 43 per cent of freezing and killing charges, today they had declined to 36 per cent in the 1974-75 season. Over the same period comparable proportions for lamb were 25 per cent in 1968-69 but 50 per cent for 1974-75.

(e) There was a serious drop in the productivity of mutton and lamb slaughtering; and also beef to a lesser extent.

(f) Despite the lower productivity, farmer politicians had complained about the productivity agreement negotiated between the Gear Company and the Union.

(g) The full impact of hygiene and inspection requirements is yet to be faced.

(h) Hygiene controls are in effect, a non-tariff barrier.

(i) Labour problems were as much a social as an industrial problem.

(j) There was a need for increased mutton and lamb production but a 'stay order' on killing expenditure until certain matters were attended to (e.g. a beef inspection system had been foisted on a mutton and lamb system - this was not satisfactory).

(k) There was a need for a reduction in the number of people employed in the meat processing works through higher productivity. Work conditions need to be made more attractive and 'lower cost' buildings should be feasible.

(l) There should be a big increase in research and development expenditure. There was a need for a breakthrough in techniques and methods.

(m) A more stable and versatile labour force was needed with highly trained and highly rewarded management, and more responsible unions.
Priorities should be:

- Priority in investment capital needs of works.
- Greater depreciation and investment allowances on plant.
- A rationalisation of meat processing facilities, including a reasonable spread of kill.
- A 'Task Force' approach to industry by Government scientific and technical personnel.
- An active Labour market policy for meat workers to achieve year-round employment.
- A reform of Industrial Law with provision for Productivity Agreements and management and worker participation.
- A removal of the meat inspection staff from direct Government control.
- An intensive scientific programme to examine hygiene requirements present and future.
- A much higher standard of animal cleanliness from the farms.
- An intensive enquiry into New Zealand's declining lambing percentages.
- Need for greater unity of the various sections of the community.

Paper No. 4: 'The Dairy Processing Industry's Present Situation, Viewpoint and Suggestions.' (Norman Reynolds)

In his paper he outlined some of the cost increases that have occurred in the collection, processing and shipping costs of the dairy factory industry. He instanced cost increases such as the rise since 1973 of milk collection costs from 4.3 cents per kilo to 6 cents with prospects of further high increases when the new tanker replacement costs, the latest diesel price increases and new wage levels come to be included. Total manufacturing costs of butter rose 64 per cent between 1970 and 1975, cheese by 73 per cent,
spray skim milk powder by 53 per cent and casein by 75 per cent. Now oil fired factories were facing massive capital expenditure to convert back to coal fired boilers.

The view was expressed that contrary to expectations, container shipping had not brought reductions in freight rates. Mr Reynolds called for a thorough re-appraisal of port development in New Zealand. The claim was made - later challenged by Charles Speight of the New Zealand Shipping Corporation - that unit loading methods with conventional shipping, provided lower freights through reduced labour costs.

Mr Reynolds asserted that continuing inflation had shaken the confidence of dairy farmers and "they are not prepared to increase production". To offset the adverse effects of the cost escalation that had occurred Mr Reynolds suggested:-

(a) Intensification of processing of milk in New Zealand.

(b) As an incentive to greater exports, farmers be granted a 3 year tax 'holiday'.

(c) Generous loan facilities to enable more young trained men to settle on farms.

Farmers retiring should be persuaded by tax incentives to leave their finance in the farm as the source of their retirement income.

Farm employees should be offered government assistance to purchase a retirement home. Farm employers could make a 150 per cent claim on farm wages and Government could put the tax saving aside for inflation-proofed housing loans for farm employee retirement.

Other suggestions for consideration were a review of death duties, efficiency rewards, productivity goals and the replacement of input subsidies by output incentives.
Mr McIlraith instanced some dramatic increases in the cost of shifting a kilo of wool from farm gate to overseas mill. Whereas in 1973-74 it cost 22.13 cents, in the 1975-76 season it is estimated it will cost 33.55 cents. If shearing costs are included a bale of wool (150 kilos) now costs approximately $80 from the sheep's back to the overseas mill, or $120 million for the whole of the season's clip.

Avenues of cost saving included improvements in the wool flow from the sheep's back to the bale. Further cost increases were likely in transporting the clip from farm to store. In the brokers' stores efforts to reduce costs included the amalgamation of various stores in particular areas and the rationalisation of operations in wool 'villages' or other co-operative arrangements. It is considered that performance has been good in certain locations.

It was aimed to build single level stores suited to mechanical handling and to reduce seasonal peaks that require costly overtime and temporary labour.

Objective measurement and sample-selling techniques are being pursued by the Corporation but Mr McIlraith expressed the view that if Australian experience is a guide, little of the savings accrue to growers.

Although it is too early to decide whether containerisation will be of advantage to the wool industry, early indications were not encouraging. The rate of loading in New Zealand has so far been much lower than in U.K. and certain European ports.

Of the I.W.S., Mr McIlraith suggested that it must have a changing role. During the discussion period he suggested that the time may arrive when New Zealand may have to promote its own wool. To illustrate his point he put the question, 'Could you imagine one organisation promoting 45° South and Johnnie Walker Black Label Whisky'?
He made a plea for a more generous government contribution to New Zealand's share of the I.W.S.

On wool marketing by a single marketing authority, Mr McIlraith made some important comments. "Apart from any aspect of marketing it has been claimed that single ownership of the wool clip would result in immediate and worthwhile cost savings. I share that view, particularly if the original concept of direct selling (doing away with the auction system) was adopted. However let me make it abundantly clear that in my view and with the knowledge I have gained since being a member of the Board and Corporation, these savings would be peanuts compared with the loss in value resulting from the loss of the auction system, providing as it does, the only method of obtaining the world's value for our product."

Mr McIlraith instanced the U.S.A. as an example and said that no single authority could hope to set prices - the I.W.S. countries controlled less than 50 per cent of the world's production.

Comparisons were made between South Africa and New Zealand marketing costs.

The loss of the U.S.A. wool market was a cause for concern. Four factors were said to be involved in this situation. They were the price instability and supply irregularity of wool, the price point and the financial ramifications of the activities of synthetic fibre producers.

After analysing these points Mr McIlraith suggested that the N.Z. wool industry extend its interest to involving itself directly in wool spinning operations in the U.S.A. and that it establish adequate reserve stocks of wool to ensure continuity of supplies. Lesson to be learned from such an exercise could prove valuable in other markets.
Mr Speight took as his theme, 'individualism'. He contended that in future it will only be through individuals and groups uniting that progress will be achieved in overcoming the cost escalation problem confronting the farming industry. He emphasised the interdependence of the various sectors, including farmers.

The speaker instanced the cost increases that had occurred in freight rates. Since 1969 the freight rate for a lamb carcase to the U.K. has increased by 273 per cent and butter and cheese 262 per cent.

The sea transport industry's answer to these alarming cost trends is the introduction of containerisation. After quoting cost data of a container vessel and comparing the figures with those for a modern conventional refrigerated vessel, Mr Speight stated:

"As can be seen from these figures a conventional service would require 60 per cent greater capital injection than a container service and the effect on freight rates will be appreciated. In addition, a container vessel is less vulnerable to cost increase and therefore offers the New Zealand farmer greater stability of freight rates."

He outlined other advantages that would be derived from the container system, e.g. meat arriving at its destination in 'pristine' condition.

Mr Speight contended that containerisation was here to stay and is spreading throughout the major sea lanes of the world.

The farmer and his organisation must endeavour to play their part by accurate forecasting of their demands. They should endeavour to iron out the peaks and troughs by an extended killing season and/or main shipping season. This would reduce the capital involved considerably. This also offers longer-term employment
for freezing workers and watersiders and produce a better working relationship which is possible with a permanent work force.

Mr Speight suggested "Perhaps the Freezing Companies and the Shipping Companies should be asked to indicate the likely reduction in costs if the season could be extended by two months. This, in turn, would permit the farmer to weigh up the advantages of earlier or later top-dressing, lambing or whatever other factors lead to the very expensive peak shipping requirements."

On wool freights, Mr Speight said that he had been a member of a Committee set up in 1968 to study the matter of the flow of wool to the ship's side. "While certain improvements were introduced it was felt that no major breakthrough could be achieved until the method of marketing was changed and cost reduction through rationalisation obtained. We who had studied the problem foresaw the benefits flowing from acquisition and it was a tragedy that the farmers' individualistic approach defeated that proposal."

Mr Speight concluded his paper by observing "For too long the individual shipowner, the individual farmer, and the individual unionist, have thought too much of their own problems and endeavoured to improve their own individual position regardless of others affected. If the farmers can get together there is then a very strong base to develop the unified approach necessary from all sectors if the export trade is to continue to prosper."

Paper No. 7: 'The Problem of Cost Escalation as seen through the Eyes of the Trade Union Movement.' (Wes Cameron).

Mr Cameron began his paper by emphasising the inter-dependence of all sections of the community. As a representative of the wage and salary earners he sought co-operation and had over the years travelled extensively addressing groups of farmers to tell them of the problems of the unionist and hear of the problems of the
farmer. The unionists' main interest of course was in the pay packet he received.

On the fluctuations that occur in farm incomes, Mr Cameron said that such a situation would be completely unacceptable to wage and salary earners generally. He went on to say - "I, therefore, advocate that we can no longer afford the luxury of the present system and have to accept the reality of stabilisation of incomes of all affected, not as it is today applied only to wage and salary earners."

Mr Cameron stated that his union put forward a strong case for a Meat Industry Corporation to the Meat Industry Enquiry in 1973. It was to have statutory powers to co-ordinate the entire industry from farming through processing, science, education and marketing and on which all those who actively participate in the industry would be represented.

Mr Cameron claimed that most of the meat processing plants in New Zealand were built around the turn of the century and are now being required to cope with standards of processing and volume of production far in excess of that for which they were designed. Mr Cameron said that 'if it was not for the extra effort of the manual workers, many aspects of this inefficiency would not have been overcome.'

Another instance of inefficiency was the 10 per cent of stock that is transported past the nearest processing plant each year to be killed in works up to 500 miles further. Of this 10 per cent at least half represented unnecessary haulage.

Finally Mr Cameron refuted the claim that demands by wage and salary earners were the major cause of cost escalations beyond the farm gate. "The facts of the matter in respect to the freezing industry is that although wages and salaries represent a significant proportion of killing charges, they do not match amounts spent in other areas. As an example, buying, administration and commercial charges would very near match the total wage bill in the industry", concluded Mr Cameron.
Some General Conclusions

From the Papers and Discussion at the Seminar, some general points emerge on 'Ways and Means of containing or reducing the Escalation of Off Farm Costs'.

For action by farmers (and their organisations).

1. The servicing and transport (road and sea) sectors are geared to provide a scheduled service, not an 'on-demand' one. This implies forward planning of space requirement for road transport, killing, processing and sea transport. It means in some cases spreading of seasonal demands; the freezing and shipping industry should be able to give farmers estimates of cost savings that would result from such adjustments to farming practices.

2. The road transport industry considers that a greater degree of communication between the operators and representatives of farmers offers the largest scope for effecting economies.

3. The meat processing industry wants a much higher standard of animal cleanliness from the farms.

4. The road transport operators, to enable them to utilise fully their modern large trucks and trailers, require farmers to ensure that loading and unloading facilities on the farms are suitable. Also, where possible, farmers should have their inputs delivered during off-season periods.

5. Farmers, like other sectors, must recognise the interdependence of the various sectors in the economy.

6. There is need for the provision of retirement housing facilities to be available in urban or semi-urban areas, for retiring farm workers. To help achieve this Government must assist those farmers who have workers who may be interested in such facilities being available.
There was an urgent need for an investigation of the causes of the lower lambing percentages and farmers should be asked for their views on this serious loss in animal productivity.

Retiring farmers should be given tax incentives to persuade them to retain their capital in their farm for the benefit of those taking over.

The matter of wool marketing, processing, and so on, must be kept under continuous review by farmers, especially in the light of developments in major overseas markets.

Farmers must maintain vigilance on the effects on their costs of transport licensing, protection of industry and restrictive practices to ensure that competition is maximised.

For action by the Road Transport Industry

Must maintain a greater degree of communication with farmers' representatives to indicate ways and means by which reductions in road transport charges can be effected.

Should continue to press Government for relief from the Sales Taxes imposed on new vehicles.

Should actively encourage farmers to have their farm inputs delivered during off-season periods.

Should, in conjunction with farmers, continue to endeavour to persuade County Councils to accord high priority to the upgrading of roads and bridges to enable them to utilise the modern large trucks and trailers.
For action by Trade Unions

- Should get together to solve demarcation disputes.
- Should strive for a change of attitude amongst their members on certain issues, e.g. the urgent need for less absenteeism.
- Would benefit if increased productivity was achieved in the freezing industry.
- Can make an important contribution to increased efficiency if union-management participation is encouraged.
- Should observe all established and prescribed disputes procedures before resorting to strikes.
- Would be involved less with industrial problems if continuous employment could be offered their members.

For action by Government

- Has the responsibility to provide an economic climate in which inflationary pressures are under effective control.
- Should introduce an active labour market policy.
- Should ensure that competition between competing firms in the processing sector is maximised.
- Should negotiate increased access for New Zealand primary produce in overseas markets.
- Should consider the introduction of a tax holiday for farming over a period of say 3 years as an incentive to exporting.
- Should deal with deterrents to growth in farm output, e.g. the present excessive level of death duty taxation.
- Should encourage its scientific and technical staff to involve themselves on a task force basis in the solution of the problems of the servicing industries.
Should place the control of meat inspection staff in the hands of an independent authority.

Should ensure that industrial legislation facilitates, where desired, agreements that promote increased productivity.

Should initiate urgently an investigation into the causes of reduced lambing percentages in the sheep industry.

Should contribute, on behalf of the whole community who benefit from the foreign exchange earnings of the wool industry, a greater amount to the New Zealand share of I.W.S. promotion and other costs.

Should encourage, wherever possible, the view that the cost escalation problems of the farming industry are the responsibility of not only the farmers and Government but of all sections in the community.

In conclusion I quote a recent remark made by the Director-General of the National Farmers' Union of England and Wales, Mr George Cattell. "I am convinced that the answer to the problem of farm gate prices which will justify investment and expansion, lies more and more in systems of integrated production and marketing and less and less in politically determined support measures - important though these still be."

The Zanetti Committee in its report suggested the establishment of the Primary Industry Co-ordinating Authority - a body to be a co-ordinating structure for the whole pastoral industry. It was this idea of the need of greater co-ordination between farming and the various sectors servicing the primary industries that permeated virtually all the Seminar papers.
RECENT PUBLICATIONS

RESEARCH REPORTS

64. An Economic Assessment of the Middle Class and Upper Middle Class Market in Malaya as a Potential Outlet for New Zealand Meat and Dairy Products, K. Y. Ho, 1970.
72. Location of Farm Advisory Officers in New Zealand—I: An Application of Facility Location Analysis, Joan R. Rodgers, Owen McCarthy and Vicki Mabin, 1975.

MARKET RESEARCH REPORTS


DISCUSSION PAPERS


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