THE NEW ZEALAND SHEEPMEAT INDUSTRY

AND THE ROLE OF THE

NEW ZEALAND MEAT PRODUCERS' BOARD

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CONTENTS

			Page
ACKNOWLI	EDGE	SMENTS	iii
PREFACE			V
SECTION	1	Introduction	1
SECTION	2	Industry Developments, Responses and Attitudes	3
2.1		Introduction	3
2.2		The Influence of Board Control	3
		Changing Roles of Companies Further Processing Company Profitability Attitudes of Buyers Summary	4 4 5 5 6
2.3		Industry Control	6
		Changes in Company Structure Changes in Marketing Further Processing	6 8 10
SECTION	3	Issues	13
3.1 3.2 3.3		Market Controls and Access Single Seller Markets Attitudes to the Role of the Board and Other Agencies	13 15 16
SECTION	4	Controls in Markets	19
SECTION	5	Producer Involvement in Marketing	23
APPENDIX	1	List of Companies/Organisations Surveyed	27
APPENDIX	2	Composition of New Zealand Export Marketing Groups as at 5 December 1986	29

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PREFACE

Recent events in the meat industry have prompted a reevaluation of the roles of meat industry participants. In particular, the role of the New Zealand Meat Producers' Board has come under a great deal of scrutiny.

This Discussion Paper contributes to this debate by attempting to guage the reactions of companies and organisations in the meat industry to possible changes in the functions of the Meat Producers' Board. In addition, comment is made on producer involvement in meat marketing.

A survey was undertaken of companies involved in the New Zealand meat marketing sector. Firms and organisations in New Zealand, the United States, Germany and the United Kingdom were visited, and interviewing was done between June and September 1987.

The study was jointly financed by The Treasury, the Ministry of Agriculture and Fisheries and the New Zealand Meat Producers' Board. However, the views expressed are those of the authors alone, and do not necessarily reflect the views of the funding organisations.

A.C. Zwart
DIRECTOR

SECTION 1

INTRODUCTION

The past five years have seen substantial change in the New Zealand meat industry. Control of marketing of New Zealand meat by the Meat Producers' Board led to changing roles for many companies and for the Board itself. During this period incentive systems and constraints under which firms operated considerably different from those which existed previously. Following the resumption of control exporting by the companies in December 1985, there has been a further period of rapid change which is expected to continue to influence future developments in the industry.

At the same time there have been changes in New Zealand's regulatory environment, and while this has probably had relatively little direct influence on the meat industry to date, there is an increasing possibility of deregulation in the meat sector.

One of the main objectives of this Discussion Paper is to describe the changes in both business activities and attitudes which have occurred in recent years. Information has been collected from personal interviews with top executives from private firms and other institutions associated with the industry. A list of the organisations interviewed is contained in Appendix 1. These interviews provided first-hand information on how companies and organisations have responded to the changing marketing environment. They also provided an opportunity to identify key concerns which are perceived to exist within the industry.

When considering the sheepmeat industry, the role of the New Zealand Meat Producers' Board must be an underlying concern. This organisation has seen considerable change in its structure and functions over the period and its future role is unclear at present. Other institutions, such as the Meat Industry Association (MIA), the Market Development Board (MDB), and Government Departments, have also had a changing influence on industry behaviour. While this Discussion Paper does not include recommendations for policy changes, it does attempt to define logical areas of involvement by different participants in the industry, and makes some suggestions as to how producer involvement can be more clearly defined.

SECTION 2

INDUSTRY DEVELOPMENTS, RESPONSES AND ATTITUDES

2.1 Introduction

Section 2.2 of the paper highlights industry changes which have taken place in the two periods under consideration. In the first instance, the manner in which the industry responded during the period of Meat Board controlled export marketing of New Zealand sheepmeats (from the 1982/83 season to the 1984/85 season) is briefly documented. Attention is not focused on the political developments which occurred during this period, but rather on the manner in which the export marketing companies responded to the single selling environment.

Section 2.3 looks in a similar manner at the changes that have occurred in both behaviour and attitudes since December 1985 when the Meat Producers' Board ceased to be the sole exporter of New Zealand sheepmeats. This discussion is not either the performance of the Meat an attempt to review Producers' Board or the role of a single seller in the industry. Any attempt to do this without considerably more be justified in light of the detailed analysis could not Instead, the limited period of ownership by the Board. comments below highlight the manner in which firms in the market place responded to the marketing environment.

2.2 The Influence of Board Control

Perhaps the most marked change which occurred at this time was a shift in the incentive structure facing the exporting Because one of the major reasons for the Meat companies. Board assuming control had been a disagreement over the most realistic level of prices, it was not surprising that many companies felt considerable relief at being released from the burden of establishing market prices and the consequent financial costs associated with this. As a consequence of Board action, individual companies were forced to reassess their role in the industry. At the time, there was negotiation considerable between companies, their representative associations and the Meat Producers' Board. Although these negotiations were probably inefficient and could have been avoided if the takeover had been more carefully did planned, they provide a forum whereby identify individual companies could specific activities which might be appropriate in the emerging environment.

Changing Roles of Companies

The responses of companies to the changes which were occurring were somewhat varied, and seemed to depend on the perceived strengths of their organisations. Marketing infrastructures already in place were also a consideration.

Most companies withdrew resources from the marketing area and in some cases, cut down overseas staff and agencies. At the same time, increased effort appears to have been expended in areas in which the companies still retained some control. The most obvious of these were processing and marketing of by-products and the development of further processed products.

Companies were also quick to seek out opportunities to act agents on behalf of the Board. The wide range of activities which individual companies performed included buying stock, storing meat, cutting and packing of primal cuts, and acting as sales agents in specific countries. The last mentioned activity was of major concern to companies sought to retain agency agreements which traditional linkages. Naturally, many companies expressed considerable concern over the loss of their contacts in overseas markets, and the uncertainty which prevailed in this situation was also felt by importers and other agents in those markets.

Further Processing

Perhaps one of the more dramatic changes which occurred at this time was the increased development of further processed meat products. Under Board control this was seen as one area in which companies could retain a role in the market place and enhance their profitability. There was considerable negotiation between the Board and the companies about the price which should be paid for the raw product input into further processing and eventually this appeared to settle at a level below the current carcass price.

for Although some companies already had plans development of further processing, the situation which prevailed provided a further incentive to do so, and by the end of the Board control period, all companies had access to facilities for processing and had gained experience in marketing this type of product. There also appears to have been some political incentive for such developments, since increased levels of further processing had been frequently stated as a major objective of the Board. companies this was seen to be a necessity if they wished to maintain a role in the marketing of meat. In hindsight, some companies have suggested that their developments in

this area were somewhat tentative and tended to follow similar developments in other companies.

The majority of this activity focused on the preparation of boned or boneless consumer cuts. Some companies however, were involved in activities which required a further degree such as reformed meats and canned meat processing, undoubtedly considerable products. Whilst there was investment in this area, not all of these products have proven to be successful, and in recent years, most companies have reviewed and refined their approaches to further processing of sheepmeat products.

Company Profitability

the companies interviewed during the acknowledge that during this period their overall operations had been profitable. While some of this profitability was associated with high levels of throughput, it was also linked to the nature of the agency agreements that they entered into with the Producers' Board. The use of fixed charges for buying, administration, storage, cutting, packing, and acting as marketing agents for the Board, meant that incomes were relatively stable. This was aided by a markedly reduced financing requirement which had been assumed by the Meat Producers' Board.

However, companies felt that there were considerable costs involved in this changing role although they were probably of a less direct nature. The most frequently cited concern was their loss of contact with agents in the market place, but even where such contacts were retained, companies were concerned about the lack of flexibility which they had in dealing with agents. This related not only to the price of the product but also their ability to guarantee the source and quality of product. Concern was also expressed about the uncertainty of their future, and their role in the marketplace. It was felt that a considerable amount of time effort was expended in negotiating and making arrangements with the Board.

Attitudes of Buyers

Only a limited number of buyers or importers approached, but their reactions to the period of Board ownership were mixed. Most companies appreciated benefits of price stability and dealing with a reduced number of agents. The increased level of promotional activity and the ability to negotiate co-ordinated promotion was also noted. On the other hand, concerns were expressed about the loss of traditional agents, and the inability to

control or source product from New Zealand. This meant that many companies felt that they were obliged to purchase product over which they had little control.

Summary

As noted previously, this discussion is not an exhaustive analysis of the merits of Board ownership. However, this period clearly had a major on the activities of the impact It is important to note that despite many meat companies. fears at the time, the majority of the companies in the industry survived. Although this was aided bv development of the group structure in 1984, their survival largely based on their ability to renegotiate their roles within the industry, and to reorient capabilities to the needs of the Board.

This increased level of negotiation and the development of group structures has had an impact on subsequent rationalisation within and the the industry experience gained by the Meat Board in controlled marketing has flowed on to the activities of the Meat Industry Association. the extent that the presence of Board control increased the expenditure on further processed product development, it has provided companies with valuable experience sophisticated areas of marketing and market development.

2.3 Industry Control

In December 1985, an agreement was reached between the Meat Board. the Meat Industry Association Producers' Government which allowed control of the meat exporting to be handed back to the private companies. An important element in this agreement was a requirement that the industry should ensure that the marketing of meat continue in a co-ordinated and orderly manner. The companies resumed ownership of meat product and produced schedules for the purchase of lamb from With the removal of the protection provided by producers. the Meat Industry Stabilisation Account, prices to producers fell dramatically and the companies, in co-operation with the Meat Board, began the task of disposing of the stocks of meat which had accumulated. Without going into any details has been a gradual of the transition arrangements, there evolution towards the current marketing and processing structure of the industry. Some of the major trends and developments which have occurred are discussed below.

Changes in Company Structure

In the past two or three years there have been considerable changes in the structure of the companies in the industry.

The majority of this activity has been in the form of mergers and takeovers between existing companies. While some of the activity had been initiated during the period of Board ownership, it has continued up to the present time.

There were several reasons cited for this activity but the dominant motivation appears to be the need to ensure access to meat on New Zealand farms. Other mergers and takeovers are linked to either acquiring marketing skills or capturing complementary elements of marketing and processing activity.

In light of the fall in throughput, it is surprising that little of this activity has resulted in actual closure of killing facilities. In fact, the only major closure during the period has been the Whakatu plant in Hawkes Bay. This closure was effected through an agreement between companies operating in the area, whereby they agreed to share in the costs of the closure and to acquire certain parts of the plant.

Despite the stated overcapacity which exists in the industry at present, new plants have been built. These have been largely smaller plants which are claimed to be more efficient than existing plants. They have been built in Hawkes Bay, Canterbury, and Southland, which are considered to be areas well serviced by existing freezing works. Such plants have been constructed by firms which either have existing marketing capabilities or have been taken over by companies with such expertise.

Another interesting aspect of the emerging industry structure has been the involvement of several larger firms entered the industry during the period of Board For example, Watties became involved in the ownership. industry through joint activity with the Board and have retained some ownership in the industry through strategic shareholding. Challenge Meats also entered the industry at that time and this company has continued to grow through the acquisition of processing plants in Southland. They also have an increasing presence in international marketing.

in the structure of exporting There have also been changes the "independent" exporting companies. Almost all of companies who had been involved in the exporting of meat without owning processing plants have either left industry, acquired their own processing facilities, merged with other organisations. The major reason given for these developments was the lack of access to killing facilities or their inability to have their stock killed when it suited them. The remaining independent companies are able to retain access to these facilities through their size, or alternatively, by making special arrangements with individual companies. These changes show that the "open door" policy which had been in existence before the Board ownership period does not appear to operate any longer.

It is commonly accepted within the industry that companies involved in the marketing of meat should control their own killing facilities. To this extent the industry is probably more highly integrated from marketing to killing than it had been previously. The effect of the changes in company structure has also increased the level of concentration within the industry.

Changes in Marketing

the Board relinquishing control One of the conditions of over marketing was that the companies should co-ordinate and control the marketing of meat. This has largely been accomplished through the Marketing Committee of the Meat Industry Association, which is the organisation responsible for the development of a national meat marketing plan. made up of representatives is from the five "groups", which in turn represent individual companies. basis of the group structure was developed during the Board ownership period and although rationalisation and tension between individual companies has led to changes in the composition of the groups, the structure has remained intact. Most of the groups have formed financial structures groups. to assist co-ordination within the A list of the individual groups and their members is contained in Appendix 2.

Agreement has been reached between individual companies and the groups to control marketing behaviour in a wide range of markets. These agreements cover only the marketing of carcasses and primal cuts. They contain the following major components.

- 1. All companies are required to produce marketing plans which indicate anticipated quantities to be marketed in individual countries. These plans are co-ordinated by the Committee and agreement reached on likely shipments.
- 2. Agreement is also reached on the quantity which should be sold in single buyer markets such as Iran and Iraq and other markets which are also considered to be disposal markets where product is likely to sold at a lower price.
- 3. Individual companies are required to provide stock for disposal markets in proportion to their share of the

national kill. Sales are made by the Meat Marketing Corporation which is jointly owned by each of the five groups. The staff of the Meat Marketing Corporation are responsible for negotiating with the major single buyer markets such as Iran, but marketing in other countries may be assigned to individual companies who act as commission agents for the Corporation.

- 4. Companies which are unable to supply stock for the Corporation because of their lack of halal facilities or their commitment to further processed product, are required to make a financial contribution to the Corporation and their share of the stock is acquired from other companies.
- 5. Agreement is also reached on access to markets covered by the voluntary restraint agreement with the EEC. Although monitoring of these quantities is important, current low levels of exports would not seem to require any particular restrictions to be imposed.

However, specific agreements do exist for some In the United Kingdom for example, each of countries. the five exporting groups is represented by an importing company and agreement is reached with these importers on the quantity which should be shipped from New Zealand to Market shares are allocated to individual the UK. companies on a pro-rata basis determined by their share of the national kill. A pro-rata market share system also operates in France because it is considered that both this and the UK market are sensitive, and that indiscriminate marketing could result in changes to the sheepmeat regime which could disadvantage New Zealand.

6. Other agreements, possibly of a shorter term nature are also reached for dealing with smaller markets. The structure seems to provide a mechanism for censuring companies for indiscriminate marketing behaviour or not complying with agreements. For example, such behaviour has resulted in individual companies being banned from markets for a period of time.

system which has been briefly described above has resulted in a high level of co-ordination for the marketing of carcass meats, and the majority of companies feel that the system operates effectively, particularly in the U.K., although they do acknowledge that pressures exist which could lead to a breakdown of the system. Reasons stated for the continued existence of this voluntary arrangement are that most companies recognise the importance activities of the Meat Marketing Corporation, and also there is a fear that non-compliance will result in further Government intervention.

important feature the Another οf current marketing arrangements is that single selling activity in countries Japan and Canada have been left intact. arrangements in Japan were set up under the period of Board control and it was agreed with the Board that these should Although there were some reservations, operation is successful, companies felt that the Japanese and because meat is provided from a wide range of companies, equitable. The Canadian operation has the arrangement is long been recognised as successful and again, because meat is purchased on an apparently competitive basis there are few concerns.

The US market has been οf major concern, and following a a group which review of that market bу included Board that access should be representatives, it has been agreed opened up. At the moment, individual companies have been granted approval to operate in the U.S. on a test-market basis, but it is intended that access should be further liberalised. Currently, most of the companies are exploring the opportunities which exist in this market and strategies are being prepared. The approaches being taken appear to be reasonably well planned and many individual firms are involved in negotiation about joint approaches for market Αt this stage the full extent of these development. arrangements is unclear but should be revealed in the near future.

Further Processing

Marketing of further processed lamb products is not covered by the marketing arrangements described above. Trade in these products has continued to increase, and although not product all of the reformed developments have been successful, all of the exporting companies now have an involvement with consumer-ready frozen lamb products in one form or another. There has also been a substantial increase in the volume of lamb being exported, and several chilled companies have made a commitment to the development of this trade in markets such as the United Kingdom, Japan, and the total, United States. Inthese developments have led to changes in the level and location of processing activity both in New Zealand and overseas, with the major focus being on the UK market and continental Europe, particularly West Germany.

Development of the further processed trade has led to changing roles for some companies. Most companies recognise that much of the further processed lamb is relatively undifferentiated and that brand names used on packaging are not consumer brands. At times these products have been competitive in the market and the situation might appear to be little different from the commodity trade. At least two investments companies have made substantial marketing structures by withdrawing from their traditional arrangements in the United Kingdom and establishing London offices of their parent companies. In both cases these companies have also distanced their further processed product marketing from the commodity trade by handing over some of their carcass trade to other importing companies. appears one company to have made a substantial commitment to the development of a consumer brand for which they are prepared to offer full promotional support.

Other companies utilise individual trade brands, and such product may be sold through a variety of outlets. Alternatively, they prepare products to be sold under the brand of retail outlets. In the UK market, larger supermarket chains appear to be actively supporting the development of house brands in co-operation with New Zealand suppliers.

There has also been increasing investment in sophisticated products and it is interesting to note that in each case, companies involved have utilised overseas Currently, the technologies which are highly protected. most important of these is probably the Bernard Matthew Lamb Roast, a development initiated by the Meat Board. product appears to be successful in the United Kingdom market and plans are under way for it to be launched in both Canada and Australia.

It was thought by some companies that this product had a certain advantage through the arrangements by which the meat was purchased in New Zealand. While it appeared to be acceptable under Board ownership to supply meat at a discount for this product, it is felt that this arrangement should not continue. The same company intends to launch a range of more conventional frozen lamb cuts in the United Kingdom market and it is anticipated that the strength of the brand name, which already covers a wide range of alternative meat products will ensure the success of the new products.

SECTION 3

ISSUES

3.1 Market Controls and Access

All of the firms and institutions interviewed in this study felt that some degree of control was necessary to coordinate develop the marketing of New Zealand's sheepmeat products. However, many of the firms felt that these controls would not be necessary the long term if the in supply and demand imbalance can be overcome. They felt that activities of the Meat Marketing Corporation essential in maintaining reasonable prices in other markets around the world. The few firms who opposed this idea did so because they dealt mainly in further processed products and they could see no reason to contribute to disposal markets. This argument is probably short-sighted because the release of that product onto the world markets would also influence prices for further processed products.

Most companies also felt that the group importing system operating in the United Kingdom market was an important part of the current market structure. It is argued that this system stablises the prices in the United Kingdom which then has spin-off effects in other markets which use this market as a price barometer. It was argued that it was important to retain a responsible level of price to ensure that EEC policy makers would not alter the sheepmeat regime to penalise imports from New Zealand.

Although these arguments are obviously important, the fact that New Zealand sales in these markets have dramatically in the last few years cannot be ignored. Many reasons are cited for this phenomenon including the increase in local production, the spread of that production, the level of generic promotion, and pricing strategies. identify the causes of difficult to this market decline without a considerable amount of very detailed research, but appear that the UK market may be particularly sensitive to price differentials between New Zealand lamb and domestic lamb, particularly in the earlier part of the It has been suggested that a misjudgement of price setting by the Board in early 1985 led to a substantial drom in sales, but the same situation appeared to occur in 1987.

The lack of coordinated promotional activity which occurred after the Board stepped out of the market has also been suggested as a possible cause. Although promotional activity had been continued, it was apparently at a relatively low level and is only beginning to become

functional again through the activities of the newly formed Lamb Promotional Council. This Council is made up of the five importing groups and the Meat Board with funding provided from the Board and also a levy on all imports of 1.5 p per kilo.

Some of the individual companies also felt that increased coordination was required in markets such as Spain, Portugal and Germany. It was stated that difficulties in the Mediterranean markets are related to the political consequences of flooding relatively small and recently opened markets.

In Germany, concern was expressed at the intense level of competition between relatively similar branded further processed product. While it was stated that prices in this market had fallen and consumption was down this does not appear to be evident in the export statistics for the year ended during 1987. The intensity of competition led some firms to suggest that controls should be imposed on this market or that a limited number of licences should be However, other companies felt that the current issued. situation was only temporary and would be solved by moves towards rationalisation of ownership in New Zealand.

Increased levels of competition in some of these markets is not surprising when the level of control over world markets is considered. Using export statistics for the year ended June 1987 it can be shown that all bone in lamb exports which are allocated to market on a pro-rata basis (UK, France and Meat Marketing Corporation markets) account for 65% of total exports. If the single seller markets (Canada, are also included, 72% of the United States and Japan) export markets could be considered to be controlled. exports to other EEC countries, which are also closely monitored because of voluntary restraint agreements, are included this figure rises to 84% of New Zealand's bone-in lamb exports.

In this controlled environment it is not surprising that in the smaller and newly there could be intense competition developing markets. This situation must also considerable pressure on the markets for further processed lamb which are not covered by the pro-rata arrangements. Thus, a situation such as that which has arisen in Germany is hardly surprising. This may also explain the high level of interest in the opening up of the United States market. the activities situation could worsen if exporters are further coordinated to overcome problems in the remaining free markets.

It is frequently stated by exporters that in order to compete with other companies for the purchase of stock in New Zealand, they need to be able to explore every opportunity which arises in the market. In this case it is not surprising that firms might agree to accept a pro-rata share in each of the carcass markets. However, in the extreme, such a strategy would have an undesirable influence on the stability of smaller markets, and would adversely affect the incentive for firms to invest in marketing activities aimed at increasing market share.

3.2 Single Seller Markets

The single seller markets of Canada, United States and Japan account for less than 10% of the total market for New Zealand lamb, but it should be noted that Japan is still one of the largest single markets. It is difficult to make comparisons between these three situations as the institutions used to develop the markets, and the market environments themselves, vary considerably.

Most of the firms felt that the Canadian market was operating efficiently because it was well managed and the concentration of the supermarket chains in the country suited that style of selling.

While the companies acknowledge the growth of sales in the Japanese market, there were still reservations expressed about controls over access. These concerns came mainly from companies who had previously had agents in that market, or alternatively those who felt that they could compete in the development of sophisticated products. It is an important feature of this market that supplies of further processed product are purchased from a range of companies, some of whom are not shareholders in Janmark. This makes it possible for Janmark to ensure that the most suitable product can be purchased for the market.

Almost all of the companies interviewed stated that they had an interest in marketing products in the United States and had either made exploratory trips to the market or applied for test marketing licences. It was agreed that while Devco had made a substantial commitment to developing the image of New Zealand lamb in that market, it had generally been unsuccessful in exploring all of the opportunities. Reasons stated for these problems include the instability in management, the difficulties of a single organisation handling a dispersed market and also the excessive direction and manipulation of the market from New Zealand.

It is interesting to compare this organisation with that which has been operating in Japan. In the latter case, the majority of the marketing decisions and product purchase decisions are made from the market place which ensures that

only the correct products for the market are shipped. The control of the American market from New Zealand did not appear to allow for such opportunities to be exploited, and it was felt that an inappropriate product had often been shipped.

Even though most companies agreed that the market should be opened up, they felt that controls over access should be continued. The reasons for this included concerns about political reactions from domestic producers, the need to capitalise on the activity of the Devco investment, and also the size of the financial commitment which would be required to develop that market.

3.3 Attitudes to the Role of the Board and Other Agencies

As described above, many companies suggested that there was a need for export licensing to control marketing behaviour. Among those companies who supported licensing, there were divided opinions as to who should actually perform this role. Possibilities mentioned were the Board, Government Departments, the industry itself, or a combination of these three groups. There was an awareness of problems which could arise as a result of lobbying activity, and in some cases, the need to police licensing or market allocation procedures was suggested, with the Board possibly fulfilling this function. It was recognised that it was necessary for some agency to be involved in market access negotiations and monitoring of VRA's, but again, opinion was divided as to whether this was the responsibility of the Government or the Board.

There was virtually no support for a Board presence in freight negotiations as it was felt that these were the responsibility of the Meat Industry Association or individual companies. There was fairly general agreement that any generic promotion should be carried out by the Board, but concerns were expressed about its effectiveness in increasingly diversified markets. Grading was also seen to be an acceptable function, while it was felt that quality assurance could be provided by Government or the Board.

Of particular interest was the overwhelming support for a Board role in collecting and providing generic information to all sectors of the industry. There was some feeling that the Board should even move beyond such an information gathering function to a monitoring and overview role in the industry.

However, with the move towards more sophisticated marketing activity, companies have become somewhat concerned about the

commercial sensitivity of marketing plans, and are becoming increasingly reluctant to share such information with bodies such as the Board. This is particularly so given the perceived relationship between the Board and Freesia Investments. Freesia is a Board owned investment company which will be used to undertake strategic investments in specific companies at both the processing and marketing levels.

Although some participants welcomed a monitoring role, there was agreement that the Board should not attempt to be both a referee and a player in the industry. Some companies expressed concern about the fact that an organisation with specific sectoral responsibilities such as a producers' Board, had the ability to regulate activity in other sectors of the industry. Freesia was viewed with a great deal of suspicion, and despite Board assurances to the contrary, many companies seem to believe that Freesia or Freesiabacked companies, will be looked upon more favourably when it comes to allocation of access to restricted markets.

SECTION 4

CONTROLS IN MARKETS

It is apparent from the discussion in previous sections that concern about controls in the marketplace extend beyond the role of the Meat Producers' Board. The single selling activities of the Board have been replaced by an industry controlled structure that carries out similar functions, but with a very different administrative system. This structure includes a mechanism ο£ allocating quantities and access rights to individual carcass markets. The system ensures equitable treatment for all companies through a complex arrangement of pro-rata allocations and financial transfers. controlled by agreements between and marketing groups.

The arrangements are voluntary but appear to be supported by government departments, the Meat Producers' Board, and the Market Development Board, who actively promote the need for a coordinated approach to orderly marketing. While there are pressures within the group structure, particularly from firms who may wish to have a more specialised role in the market, recent moves to strengthen the arrangements have occurred. Many companies felt that further coordination through meetings at the Chief Executive could be achieved level rather than through their appointees to the Meat Industry Association's Marketing Committee. Meetings at this level have already been held, and more are planned for the future, apparently with a high level of cooperation.

Although further processed product is not included in these arrangements, there has been monitoring of volumes shipped to individual markets, and the need to control these markets through licensing has been suggested by some companies. This desire to further extend controls is also reflected in many of the concerns expressed about the need for controlled development of the US market.

A voluntary market sharing cartel of this type does not preclude price competition between the companies. Firms would be expected to maximise their individual returns from allocated markets, and expand their share of the kill in New Zealand through offering higher relative farm gate prices.

The major concern with this system, however, relates to its effect on the level of overall marketing activity in the carcass markets. Because market sharing arrangements guarantee access and a fixed share in a market place, the major emphasis must be on relative performance rather than absolute price levels in a particular market. In this

situation there is a reduced incentive to increase a firm's share in the market place or even the total market for New Zealand lamb in a particular market. Therefore, a company's ability to specialise in a particular market or to unilaterally expand the size of that market must be affected by these arrangements. It should be noted that a firm's share of the New Zealand kill is no indication of their efficiency or ability to market in an individual country and this point was made by some individual companies.

Another concern must be the barriers which the current arrangements could impose on new firms wishing to enter the industry. Although there are no regulatory restrictions to entry other than the qualitative requirements for processing activities, it is unclear how a new entrant would enter the group structure. It is apparent that existing members of the Association would not wish to support new entrants, and they may be in a position to act jointly in this regard. It has been stated that it would be very difficult for a new company which did not own a killing facility to justify a position in the group system. The most obvious means of entry would be to acquire an existing firm with killing facilities, or to construct a killing facility which might link up with existing marketing facilities. The most difficult avenue of entry would be for a firm which wished to only acquire carcass meats for further processing or marketing.

The continued use of single selling organisations in some markets provides a contrast to the structure described above. Rather than providing exporting firms with a representation in each market, the single selling organisation provides a focus for a specific market. This provides a greater degree of control in the market but does not guarantee each firm access to that market. However, existing organisations of this type are all jointly owned by some combination of private companies and the Meat Board.

objectives of such organisations It is unclear what the should be. On the one hand, they could concentrate on maximising returns to the owner companies by paying the highest possible price for product which is used in that market. Alternatively, the organisation could act as an independent firm and attempt to purchase product for the market at the lowest possible prices and maximise returns to the owner companies by paying high dividends. It is clear that the type of approach taken can affect the behaviour of the organisation. For example, in the latter case, the single selling firm would presumably be more prepared to purchase product from a wider variety of sources including non-shareholder companies, in order to meet market requirements and maximise its returns.

The apparent difficulties with the New Zealand Lamb Company in the United States market highlights the need for such

organisations to be based in the market place, and to have clear objectives and incentive structures. Where such institutions are to be maintained it is necessary to ensure that their management is contestable and that all potential suppliers have access to the market. The present ownership of these firms has been determined by historical factors and has been influenced by the Meat Board's involvement. It may be necessary in the future to consider alternative means of organising such markets.

One common proposal for granting access rights is to use a method of tendering to grant rights to individual firms or groups of firms for a particular period of time. Thus, firms which feel that they are best able to maximise the returns from the market would be prepared to tender the highest price. This system is commonly suggested in situations where access to the market may be particularly valuable to the individual company. However, it is frequently argued that the limited life of such tenders can limit marketing activity as it may not allow continuity of involvement between tendering periods.

An alternative to tendering might be appropriate in markets where there does not appear to be scope for capturing prices higher than world price levels, but where concern exists about the managed growth of the market. This would be to grant access rights to a particular company, while ensuring such limited ownership of access companies tradeable. Such firms could be independent trading entities able to purchase meat from any source in New Zealand, but shares in them should be accessable to all the individual exporting companies. Such a mechanism would provide incentives for managers to perform and would allow access to the most suitable product for the market. It would also companies with the most appropriate marketing initiatives to influence the management. The continuous trading of shares would overcome some of the discontinuities associated with tendering. These same general principles could apply in any market where access is licensed or constrained in any way, and is not necessarily restricted to single seller markets.

One of the key concerns in the current market situation is whether or not market access should be constrained in any way, and if so, who should be responsible for making this decision. These are obviously major questions and can only be answered with a far more detailed analysis of the market environments and their response to differing marketing example, it is not immediately obvious strategies. For selling firm with contestable ownership whether a single would be more or less effective or efficient in a market place than the voluntary market sharing cartel arrangement currently used in some countries.

However, it is possible to make some comments about who should be responsible for making this type of decision. This issue is addressed in the following section which describes the role in the market place which might be appropriate for producer organisations.

SECTION 5

PRODUCER INVOLVEMENT IN MARKETING

Most of the companies interviewed in this study felt that producer organisations do have a role in the market place. While there was some disagreement about the specifics of this role, there was more support for their involvement in activities such as generic promotion, information gathering and the setting of grade specifications, than there was for activities such as freight negotiations and licensing. Particular concerns were expressed about their involvement in licensing where this might also be linked to their ability to undertake their own strategic investment in the market.

This response shows that there is little concern about a Board allocation of producer funds to activities which are of benefit to the general development of the industry. However, the ability of a producer Board to coerce firms in sectors of the industry not involved in production did cause some consternation among the companies interviewed. Such a response is not surprising, and gives some sort of indication as to how demarcation of producer board involvement might be approached.

Activities such as promotion and research where producer funds are invested in a manner which influences market behaviour, and consequently increases producer incomes, may be acceptable. Likewise, a producer organisation might choose to make strategic investments in individual firms or through targetted promotional activities. While these activities will undoubtedly influence the market, and possibly the behaviour of other firms in the industry, they do not alter the property rights of the marketing firms or restrict their decision making in any way.

It does not appear to be appropriate for a producer controlled organisation to be in a position to make decisions that coerce firms which are not members of the producer organisation. The ability to control membership of the wider industry, or to penalise activity in the market place which is not in the national interest, should be the responsibility of the government rather than a producer group. Many activities which are not considered to be in the national interest are covered by existing legislation such as the Commerce or Fair Trading Acts. However, if additional restrictions such as licensing are required, these would be most appropriately controlled by an organisation which represents the government interest.

an allocation of responsibilities. government and the producer board would still have an incentive to monitor market behaviour and collect market information. The producer organisation may wish to invest in monitoring which will not only aid individual producer decision making but will also quide the investment and expenditure patterns of the Board itself. The Government on the other hand, would have an interest in monitoring and supervising property rights which have been allocated. present, a considerable amount of this information gathering activity has been carried out by the Board. However, if the Board does decide to undertake more strategic investment in the market, then only the government may be in a position to collect the information required to monitor some industry activities.

A similar principle of demarcation can be used to allocate roles in lesser activities. For example, although it may be appropriate for a producer group to develop a grading system which can aid both producers and exporters in describing the most desirable characteristics of carcasses, it would be the government's responsibility to administer any minimum export a producer-developed grading scheme does standards. While οf impose upon the property rights the exporting companies, minimum export standards which might limit their ability to participate in the market place or to trade in specific products is clearly a national rather producer decision and thus a responsibility of Government.

This discussion has attempted to define a general role for a producer organisation in a marketplace. By handing over statutory or semi-regulatory roles which impinge on other sectors of the industry to the Government, they may remove any difficulties associated with their ability to invest in the marketplace.

A producer board which raises funds by levies on its members possess ability to invest these financial the resources to the best advantage of the contributors. some cases, this might involve support for cooperative or generic activities which attempt to benefit all members of the industry, but in other cases, they might choose to target this investment in such a way that it stimulates activities in specific markets or even specific This can be viewed as a more strategic role in the industry and is quite a different one from that coordinator or regulatory agent.

It has been suggested that a producer controlled organisation should not even have the statutory authority to

collect levies from individual producers. It is argued that enforced levy collection is coercive, since all producers are required to contribute, regardless of the individual benefits which they receive. Proponents of this view contend that if there are sufficient benefits from joint producer activity, then individuals should be prepared to voluntarily support a levy collection system. In reality however, the cost of maintaining a voluntary organisation with a group as diverse as livestock producers is likely to be extremely high. Without going into any detailed technical arguments, it should be noted that it can be economically efficient to minimise the transaction cost of maintaining group activity through the granting of rights to collect levies.

A key concern in the granting of such rights however, is the ability of producers to ensure that the size of levies and forms of expenditure are appropriate. In a voluntary association, this is normally guaranteed by an individual's decision about whether or not to participate. However, with a statutory body, such as a producer board, this can only be managed through a system in which the managers of the Board are elected by producers, and their activities subsequently monitored.

The representative nature of the Meat Producers' Board and also the Electoral Committee system by which those members are appointed should play an important role in ensuring that the activities undertaken by the Board are the most appropriate ones. This ability of individual producer members to regulate the activities of their representatives is evident in many industries in New Zealand. The fact that not all producer Boards have utilised the full extent of their statutory powers, and at times have dramatically changed their approach to market intervention is evidence of this fact.

In summary, this final section of the report has attempted to define some logical areas of producer involvement in marketing activities. This has resulted in a suggested allocation of responsibilities which more clearly defines the respective roles both of a producer board and of the Government.

APPENDIX I

LIST OF COMPANIES/ORGANISATIONS SURVEYED

New Zealand

Alliance Freezing Co (Southland) Ltd

Auckland Farmers' Freezing Co-op Ltd

Challenge Meats Ltd

Fortex Group Ltd

Freesia Investments Ltd

Janmark Inc/ANZCO

Mathias Meats NZ Ltd

Meatex NZ Ltd

Meat Marketing Corporation

Ministry of Agriculture and Fisheries

New Zealand Market Development Board

New Zealand Meat Industry Association (Inc)

New Zealand Meat Producers' Board

Primary Producers' Co-operative Society Ltd

Producer Meats Ltd

W Richmond Ltd

Treasury

Waitaki International Ltd

Weddel Crown Corporation Ltd

USA

New Zealand Lamb Coy. Inc.

New Zealand Meat Producers' Board

Safeway Stores Inc

Tupman Thurlow Ltd

Germany

Kommunikation
Prime Meats Ltd

United Kingdom

A.N.Z.F. (UK) Ltd.

Bernard Matthews plc

Challenge Meats Ltd

J.S. Dewhurst Ltd

International Meat Trade Association

NZ Lamb Co. Ltd.

New Zealand Lamb Promotional Council

New Zealand Meat Producers' Board

J. Sainsbury, plc

Towers & Co. Ltd.

Waitaki (London) Ltd

W. Weddel & Co

APPENDIX 2

COMPOSITION OF NEW ZEALAND EXPORT MARKETING GROUPS

AS AT 5 DECEMBER 1986

GROUP A

Crosby Exports Limited
Challenge Meats Limited
Fresha Export Limited & Co
Oceanic Exports NZ Limited
Riverlands Foods Limited

GROUP B

Auckland Farmers Freezing Co-op Limited
Alliance Freezing Co (Southland) Limited
Brooklands FBM Limited
W.H. Groves & Sons Limited
Fortex Group Limited

GROUP C

Meatex Limited
Primary Producers Co-operative Society Limited
Producers Meats Limited
C. Sullivan NZ Limited

GROUP D

Columbia Exports Limited
Crown Meat Exports Limited
J.W. Hartnell Limited
Kerr Exports Limited
MacDonald Trading Corporation Limited
Mathias Meats NZ Limited
W. Richmond Limited
Weddel-Crown Corporation Limited
T.H. Walker & Sons Limited

GROUP E

Advanaced Meats Limited
Ballande (NZ) Limited
Mair Foods Limited
C.S. Stevens & Company Limited
Tara Exports Limited
Waitaki International Limited

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