

THE NEW ZEALAND MEAT TRADE

IN THE 1980'S :

A PROPOSAL FOR CHANGE

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THE AGRICULTURAL ECONOMICS RESEARCH UNIT

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The Agricultural Economics Research Unit (AERU) was established in 1962 at Lincoln College, University of Canterbury. The aims of the Unit are to assist by way of economic research those groups involved in the many aspects of New Zealand primary production and product processing, distribution and marketing.

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PREFACE

The development of significant changes in the New Zealand meat industry during the 1970's has prompted an expansion of research into the organisation of the meat industry. This research has been directed towards the development of a clearer understanding of the industry inter-relationships with an emphasis on the marketing aspects of the situation. During 1981/82 a team from the Agricultural Economics and Marketing Department and the Agricultural Economics Research Unit have been carrying out a study of the meat industry and they have concluded that changes in the meat marketing system are required. The report on the research and the proposed changes are presented in this Discussion Paper.

Other recent A.E.R.U. publications relevant to this topic are Discussion Papers 51 and 59 on the EEC Sheepmeat Regime (N. Blyth), Discussion Paper 52, Proceedings of a Seminar on "Future Directions for New Zealand Lamb Marketing" (R.L. Sheppard and R.J. Brodie - editors), Discussion Paper 60, A Review of the World Sheepmeat Market (5 volumes) (N. Blyth), and Research Report 109, Changes in United Kingdom Meat Demand (R.L. Sheppard).

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SUMMARY

The New Zealand meat industry has been undergoing significant changes during the past decade. These changes have prompted the carrying out of research on the New Zealand meat industry and the likely development of new marketing systems. This paper deals with an investigation carried out with a view to recommending an improved marketing system relevant to the situation faced by the industry in the 1980's.

The research involved extensive interviews with senior management in many of the firms involved in the New Zealand meat industry and, from those interviews, the identification of the characteristics of the various sectors of the industry and the problems faced by the industry, especially in the marketing field. The survey of the industry was carried out between June and October 1981.

From the results of the survey it was possible to identify two general sectors within the New Zealand meat industry. One sector is characterised by its ownership of killing facilities and the second sector is characterised by its marketing orientation. This second sector identified as a major problem the obtaining of product for its marketing operation. With the exception of this area, however, there was a high degree of consensus within the industry regarding the problems faced.

A major problem identified by almost everyone interviewed was the instability of the United Kingdom lamb market. Since the United Kingdom market is often used as an indicator in the setting of prices in other markets, this instability can affect prices received for a large proportion of total New Zealand lamb exports.

New markets were seen as presenting a further group of problems. Some are single buyer markets, and there is much concern as to the appropriate methods of supplying meat and setting prices for these markets. In other new markets there is a fear that market development

is being stifled because of the inability of exporters to recoup market development costs. As soon as a market is developed to the stage where returns can be expected which are fully comparable with returns from other markets, new firms which have no need to recoup development costs enter the market.

A third problem area which was identified by some was the development of vertical integration within the New Zealand meat industry. Firms which were once concerned only with the marketing of lamb have, largely because of worries about their ability to obtain meat for export, entered the field of killing and processing. On the other hand there is a feeling that some companies whose strength and major expertise lies in the operation of meat works have engaged in marketing largely because the meat is available to them. They may increase their perceived return by this action, but their marketing return may not be as high as that which could be achieved by a specialist company. Less specialisation within the industry may mean that the efficiency with which certain operations are carried out is reduced. When that possibility exists we cannot be sure that we are obtaining the highest possible returns from our meat for the nation.

As a major step towards overcoming many of the problems outlined above, it is suggested that a carcass meat market be established in New Zealand through which the bulk of our carcass meat should be required to pass. Such a market would mean that all carcass meat was available for sale to licensed meat exporters, and so ensure that all potential exporters had access to product in a competitive market situation. This would also ensure that prices for meat were set in New Zealand, and that the demand from different markets around the world would be accurately expressed in the average prices achieved on the New Zealand market. In this way the problem of price dominance by the United Kingdom market would be overcome. A satisfactory price setting mechanism for single buyer markets would also be established. The separation of killing and marketing functions would encourage specialisation of operation, and meat would be made available to those companies which have the greatest marketing ability and therefore the ability to

obtain and pay the best prices possible. There would be nothing to stop a company which had expertise in both fields from continuing to operate in both killing and marketing. The detailed operation of the carcass market is subject to further investigation, but at this stage it is suggested that it should operate on an electronic auction basis with product being sold daily. Market support judged necessary by the Meat Board could be provided at this stage of the marketing chain, as could any desired support for farmers provided by the Government.

The objective in establishing such a market would be to ensure that competitive pressures would guarantee the most efficient and profitable operation of the meat industry at all its stages. Returns to farmers and the nation should therefore be maximised.

1. INTRODUCTION

During the past decade, significant changes have been taking place in the New Zealand meat industry. The emergence of the Middle East as a major market for New Zealand sheepmeat has resulted in the reduction of the importance of the United Kingdom market for this New Zealand product. In addition, quantitative restraints have been introduced in the EEC and this has led to the development of the need for more control over exports of New Zealand sheepmeat to that market. At the same time, the prices received in the United Kingdom market for lamb have become more volatile. It is considered that this destabilisation is partly a result of the reduction in the importance of the Smithfield market within the overall United Kingdom market for lamb. The Smithfield market can be viewed as a residual market, that is, where any shipments of lamb not already committed to a particular buyer tend to be sold. Since the Smithfield market is relatively small compared to the total United Kingdom market, Smithfield prices can be upset by changes in the quantity of meat offered which do not seem large in relation to total annual shipments. This means that any disruption of shipping patterns, for example, will have a significant effect on the prices achieved in the Smithfield market. The fact that the total United Kingdom market for lamb might also have become more volatile with regard to price is indicated by the rise which has been measured in the price elasticities of demand for sheepmeat (Sheppard, 1980).

While the United Kingdom market has been diminishing in importance for New Zealand lamb exports, the prices achieved in that market are widely used as indicators for the world market situation. In other words prices in other countries are often set with close regard to the price being achieved at Smithfield. As the United Kingdom market has become increasingly volatile, this has led to increased uncertainty in other markets for lamb.

Given this situation, attention has been directed towards the necessity to ensure that the marketing system for New Zealand lamb is appropriate to the changing circumstances. A number of alternatives to the present situation have been offered by other people working in this field. However, it was considered that due consideration had not been given to the full range of factors operating in the New Zealand meat industry, and the contribution of the various sectors of the

industry to the marketing of New Zealand's meat. Accordingly, it was decided that before any changes should be made to the New Zealand meat marketing system, an investigation should be carried out which would identify the areas of strength within the New Zealand meat industry, and the problems faced by different sections of the industry. It was further decided that proposals should be developed which would enable the industry to develop with greatest efficiency, thus maximising national benefits.

In order to obtain a clear view of the operations of the various sectors within the meat industry, a survey was carried out during 1981 of a wide number of firms involved in the industry. Based on the results of that survey, a proposal has been developed which, it is considered, will provide for the most efficient and effective means of developing the marketing aspects of the meat industry over the next few decades.

Section 2 of this Discussion Paper presents a description of the survey undertaken, and Section 3 contains a summary of the issues that were raised by the industry. In Section 4, the proposal for changes, which are intended to resolve many of the present problems, is outlined.

Although many of the comments made in this paper relate to all meat products, the emphasis of the paper is toward the sheepmeat area. This was the sector where the most significant problems were identified and where changes in the marketing system are considered to be essential.

The conclusions reached in this paper were formulated prior to the recent developments in the lamb marketing system with respect to the Joint Meat Council (JMC) and New Zealand Meat Producers Board arrangements. It is considered, however, that the proposal which is developed in this paper has not been invalidated by the recent changes and that arrangements, as advocated in this proposal, could be brought into effect to handle the lamb being held by the Meat Board and that being supervised by the JMC. In many ways the present Meat Board operations represent one approach to the problems outlined in this paper. The proposals set out here represent an alternative approach to the problems, one which has inherent advantages especially in the setting of market prices in that it relies on the operation of

competitive market forces.

2. THE INDUSTRY SURVEY

In order to assess the relative importance of the various sectors of the industry, and to enable a clear identification of the marketing problems faced by the industry, it was decided that a survey should be carried out of a wide range of companies involved in the New Zealand meat marketing sector. This survey was carried out between June and October 1981. The selection of the companies to be surveyed was based on the need to cover all sections of the industry, but was slanted towards those companies involved in marketing. A total of 21 interviews was carried out. The list of companies and organisations surveyed is given in the Appendix.

In order to ensure that the best possible information was obtained, incorporating extensive experience in the industry, the interviews were carried out with senior management in each company. Where possible, therefore, the person interviewed was at General Manager or Marketing Manager level. It is considered that the range of opinion reflected in the survey results is a good indication of the combined wisdom of the meat industry.

Each interview occupied a period of approximately one hour. During that time the background of the particular organisation in the meat industry was established. This included a brief description of the history of the company, the range of markets being serviced by the company and the relative importance of each market to that company. Based on this, information was sought on the constraints facing each company, which were inhibiting their ability to expand their market development and increase their returns from meat marketing. Questions were also asked which allowed the identification of the reasons for movement of the company's activities from one market to another, and the type of marketing organisation that was administered by the particular companies. From the answers to these questions it was possible to identify the type of marketing carried out by each company, and the degree of involvement in market development and diversification activities. Questions were asked on the type of product that was

exported and the degree of further processing that was undertaken.

Of major importance were the questions on the constraints facing each company in their development. Each company was also asked to identify the major problems they saw facing the whole meat industry, particularly in the marketing sector. The identification of those problems has contributed significantly to the development of the alternative marketing organisation proposed in this Discussion Paper.

3. SURVEY RESULTS

3.1 Introduction

The discussions with the surveyed firms allowed the identification of two distinct areas within the New Zealand meat industry. The two areas are characterised by the ownership or non-ownership of killing facilities. Those companies with killing facilities have, in the main, a different perspective on the marketing of meat than those who do not own killing facilities. Where a company has guaranteed access to product (through ownership of killing facilities), that company can develop with confidence all available marketing opportunities. However, the New Zealand industry has developed with a production orientation. This means that the companies which have killing facilities (in the main) are mostly concerned with the running of freezing works, and the achievement of increased efficiencies in the production operation. Their commitment to marketing activities is often less and, in many cases, may not be at an appropriate level in relation to the volume of product they are handling. This means that the companies which have the greatest access to product may not be the most appropriate companies to market that product.

On the other hand, the companies which have developed without their own killing facilities are much more orientated towards a product marketing approach. This means that these companies have developed considerable expertise in the marketing of product and in the development of new market areas. The main constraint faced by these companies has, however, been the difficulty in obtaining access to meat. The freezing companies have opted to sell overseas the meat they own themselves, and the meat passing through company pools and co-operatives

is also unavailable to the marketing companies. Therefore, it is probable that the marketing of New Zealand meat over recent years has not been carried out with the greatest degree of efficiency possible because of the difficulty faced by marketing companies in obtaining supplies of meat. Over the recent period (since the late 1960's), a number of freezing companies have expanded their operations into the marketing field in a significant way. This has resulted in even less product being made available to the marketing companies, and they have therefore had to divert their attention away from marketing to product procurement.

Although it was possible to identify these two segments of the meat industry in New Zealand, and one segment had its own particular problem of procurement, there was a considerable degree of consensus across both segments in the identification of the problems facing the whole meat industry. These issues are discussed in the following section.

3.2 Major Problems Raised in Discussions

3.2.1 The United Kingdom Market

A dramatic change in the importance to the New Zealand lamb trade of the United Kingdom market has occurred over the last twenty years. From being almost the sole market for lamb exported from New Zealand, the United Kingdom has fallen to a position where it takes less than half of the lamb exported from New Zealand. At the same time, a number of changes have been taking place in the lamb trade within the United Kingdom which have drastically reduced the importance of the Smithfield market as an outlet for New Zealand lamb in Britain. Despite the relative decline in importance of the U.K. market in general, and Smithfield in particular, they are still seen as being of crucial importance in the setting of prices of lamb exported from New Zealand. The United Kingdom is still the biggest single market for New Zealand lamb, while Smithfield prices are quoted around the world and are the most readily available quotations for export lamb prices. Any indication that Smithfield prices might be becoming less representative of the state of the lamb trade as a whole, or that they might be becoming more unstable, is therefore a cause for major concern.

Among those interviewed, there was a strong feeling that Smithfield was becoming both less representative and less stable. The decline in the proportion of New Zealand lamb passing through Smithfield and the continuing importance of shipments of uncommitted product to the United Kingdom, coupled with the greatly increased size of single ships, are seen as contributing significantly to the development of market instability. In addition, fears are now being expressed by some traders that the Smithfield market has been reduced to a size where it is possible for individual traders to manipulate the market to their own advantage.

There are also indications that consumer prices in the United Kingdom reflect only very slowly, if at all, the variations in the Smithfield price. Consequently reductions in the Smithfield price do not result in an increase in the quantity of lamb bought by consumers, and these price falls therefore represent a total loss to the New Zealand industry with no compensating increase in market sales.

With large negotiated contracts being a feature of several other markets, with tonnages set some months in advance, it appears that in some respects the United Kingdom has almost become a residual market for meat not sold elsewhere. Whilst the United Kingdom continues to be regarded as the market which greatly influences the price for New Zealand export lamb, this residual character, coupled with the thinness of the "open" market, constitutes a considerable problem for New Zealand exporters. This problem is widely recognised throughout the industry, and last year Mr Adam Begg, the Chairman of the New Zealand Meat Producers Board, called for the export price to be set in New Zealand. It is considered that the proposal presented in this paper is a major step towards this end.

3.2.2 Market Strategy

Most people interviewed in the course of the survey recognised that there are special problems associated with the development of new markets. There was less agreement, however, as to what should be done to cope with such special problems as single buyer markets, and there were differences of opinion as to what constitutes a new market. Some people saw new markets simply as new countries where we could start selling New Zealand lamb, whilst others included new outlets for lamb

in countries where we already have established markets.

The problem of single buyer markets, or markets where the number of buyers is strictly limited, has been recognised for some time, and, with the prospect that an increasing proportion of total production could go to such markets in the next decade or so, this is a problem that must be resolved as soon as possible.

For a time, a consensus seemed to be emerging within the industry that the way to deal with single buyer markets is to confront them with a single seller. In this way the buyer is prevented from playing off one seller against another, and thus (possibly) gaining meat at what could be, in the long run, a price which is uneconomically low for the producer. However, within the perspective of the overall marketing problem, the biggest problem with single buyer markets is the establishment of a satisfactory price. Especially where large quantities are involved, the price is likely to be set in advance, or a formula for the establishment of the price will be established in advance. Either way, there is likely to be at least an attempt by the buyer to use the Smithfield price as a reference point. If it can be concluded that this happens more than occasionally, it may also be concluded that many of the problems with single buyer markets would at least be greatly reduced if a more representative reference price was established than that ruling at the Smithfield market. In the case of mutton, where the single buyer market may also be by far the largest market, the establishment of a price is always likely to be a matter of negotiation between buyer and seller, and there may be a case for arrangements to coordinate the activities of New Zealand sellers. For lamb, however, the establishment of a system which ensured that a representative price was set in New Zealand, covering the whole of the year's lamb kill, would solve most of the pricing problems associated with single buyer markets as well as assisting with some of the problems in the United Kingdom.

The single seller concept has found favour with some people as the best vehicle for developing new markets. There have been several examples where individual exporters have devoted considerable time, effort, and money to the development of new markets, only to find that when the market had developed sufficiently for them to have hopes of

reaping their due reward, other companies have come in and stolen the market. The original market developers have felt with some justice that they should be able to recoup their development costs through charging slightly higher prices as the market grows, but they have been undercut by newcomers with no development costs to recoup. The granting of sole seller rights in new markets has been seen as a way of preserving for the market developer the sole access to the market which he develops, and this is seen as a good way of ensuring that people will put in the time, effort and money which is required to make substantial in-roads into new markets. It is easy to understand and defend the concept which has led to the granting of single seller status in some new markets, but this is not to say that this is necessarily the best way which these markets can be developed.

The supporters of the advantages of competitive markets, with different sellers all exercising their own particular skills to sell to different sectors of the market (or increasing the selling pressure in sectors where they compete with other New Zealand exporters), consider that although the single seller approach will lead to some market development, with the market developer recouping his costs (if he is any good at all), the total sales of New Zealand lamb to such markets are unlikely to be maximised. There are probably better alternative ways of developing such markets. One would be the granting of a market development subsidy to anyone selling lamb in areas which were designated as development markets. In this way competitive selling would still be maintained, but development costs, or at least a proportion of them, would be covered by the development subsidy. If necessary, revenue for such a development subsidy could be obtained by the Meat Board from a small levy on exports to other markets. This would be a development of the lamb market diversification levy used to encourage exporters to develop markets outside the United Kingdom.

Some single buyer markets are expressing dissatisfaction at being faced with a single seller, as they see this as a device to extort higher prices from them. It is therefore in the interests of maintaining buyer satisfaction that we should explore ways of maintaining a number of sellers in the market, and of having the overall price set in a way which is seen by all to be fair.

An extension of the single seller idea is the proposal that a market should be open only to a very limited number of licensed exporters. This idea has been put forward as the basis of the future strategy for the United Kingdom market where there has been much discussion about the problems caused by "weak" sellers. The problems relate to the fact that some companies are thought to have large shipments of lamb arriving in the United Kingdom without having sufficient cool storage facilities available to handle the total shipment, and they are therefore committed to quick disposal of the bulk of the shipment. Also, other companies facing liquidity problems are very keen to sell any lamb they have arriving as soon as possible.

Whatever the reason for the seller's decision for quick sales, it is thought that such sales cause depression in the market price, and, in subsequent periods, there is buyer resistance to having prices rise much above the low prices set in an earlier period. There is an argument that restricting the number of sellers will reduce the amount of "weak" selling, but this remains to be proven. In recent years there has been evidence that the biggest companies are not necessarily those with the least liquidity problems, and problems with lack of available storage simply mean that planning has not been done properly. It could be argued that if the price for the lamb were to be fully determined in New Zealand, then some of the problems in the United Kingdom market would be reduced. Market conditions within the United Kingdom itself would not be changed, but pressure on exporters to obtain the New Zealand price plus marketing charges would be greatly increased, putting pressure on exporters to manage their affairs in such a way that greater stability in the United Kingdom would be likely to ensue.

3.2.3 Structural Change in the New Zealand Meat Industry

The last few years have seen a significant move towards greater vertical integration in the New Zealand meat industry. This movement can be seen to have proceeded from both ends of the industry, with killing and freezing companies taking a greater interest in the further processing and marketing of their product, whilst a number of marketing companies have moved to acquire processing, and even killing, facilities. Farmer dissatisfaction with the returns received from

lamb sold through the normal channels has resulted in the rapid growth of farmer cooperative marketing groups, and one of these groups has moved to acquire a large share in the killing and processing sector of the industry. The freezing companies have seen the viability of their marketing departments threatened by the rise of farmer cooperatives, and have responded with the development of the pooling system. Using company pools, farmers are assured of receiving the full market return for their lamb, whilst the volume of lamb to be marketed by the companies is maintained, at the same time as the financial risks to the companies are reduced. The growing volume of lamb marketed through farmer cooperatives or company pools has greatly reduced the importance of the weekly ritual of setting the schedule for the following week, as much less lamb is now sold on schedule. It has also had the effect of reducing the amount of lamb available to independent meat exporters who do not own, or have guaranteed access to, killing facilities. In the course of the industry survey, people were asked what was the most difficult problem facing their company, and the overwhelming majority (of the independent meat exporters) answered that it was the problem associated with the uncertainty relating to their access to a given amount of product.

Some of the smaller independent exporters are sometimes accused of being mere commodity traders engaging in "back-to-back" deals. In some eyes they are seen to make little real contribution to the industry, and there is therefore little concern about the acceptance of ideas for a change which might involve the eventual elimination of such firms. Given the uncertainty facing many companies with regard to access to supplies, however, it is not surprising that they have been forced into such "back-to-back" deals, and it would be useful to examine the desirability of the industry changes which have led to this uncertainty. It may well be that some companies are engaged in marketing of lamb simply because they have access to large quantities of product, and therefore there is no guarantee that the marketing of New Zealand lamb is at present being carried out by those who can maximise returns to the nation. The delicensing of the killing and freezing industry has opened up the possibility of some marketing companies building their own works. The first results of this are already apparent and others have moved to acquire stakes in existing facilities.

On the positive side, many of the changes which have been taking place in the industry in recent years demonstrate that the industry is still alive, dynamic and evolving, and given the right marketing institutions this must augur well for the future. Most firms interviewed concurred on the need and desirability for the development of further processing, and the development of a wide range of product types. A lot has occurred in this area in recent years, and the indications are that progress will continue to be rapid.

Overall it would seem that many of the changes witnessed in the New Zealand meat industry in recent years have been related to the availability of products for export. Many of the marketing companies have had to divert some of their efforts into activities aimed at ensuring the availability of meat, and the uncertainty of supplies has led some of them into selling activities which are not those they would have chosen given greater security. Some exporting firms have made moves to acquire killing facilities, whilst some of the killing and freezing companies have been increasing their efforts in the marketing field. One can question whether this move away from specialisation of function will result in those functions being carried out with greater efficiency, and therefore whether the move is in the nation's best interests.

4. A PROPOSAL FOR CHANGE

A number of the problems outlined are already widely recognised throughout the industry and moves are being made to come to grips with them. A committee has been formed representing the New Zealand Meat Producers Board and the Meat Exporters Council, and this Committee proposes to stabilise the United Kingdom market by providing greater coordination in the shipping of meat, its unloading in the United Kingdom and release onto the market. It has also been suggested that this Committee could play a role in coordinating both newly developed markets, and the single buyer markets which New Zealand currently faces. It is apparent that as part of this plan the Meat Board will be responsible for licensing individual exporters to operate in particular markets.

In many ways this is a typical New Zealand response to the types of problems faced. Over many years there has been a move to greater regulation and control from the centre. In recent years, however, many people have come to suggest that this move towards greater regulation has been overdone, and has not been in New Zealand's best interest. Many people now believe that excessive protection from competition has led to inefficiencies which are now contributing to New Zealand's overall economic problems. In some quarters there have been moves to reduce the degree of regulation, and one of the most notable of these has been the delicensing of the killing and freezing sector of the meat industry. It seems somewhat ironic that just as one sector of the meat industry is being freed up, the process towards regulation and control should be accelerating in other sectors of the industry.

During the course of the work on this project it has become apparent that there is a wide diversity and considerable strength within the firms operating in the export sector of the industry. The diversity is a source of strength for the industry, since where one approach fails, another will succeed. Where one firm manages to satisfy one niche in the market, another firm meets the needs of another set of customers. Economic theory would suggest that this should be the case, and it is apparent that in this industry the competitive model is serving the country well, where it is given the opportunity. The arguments advanced in favour of the single seller approach do have some appeal in some situations, but many of those arguments are based on a static situation. The great strength of the multi-seller competitive situation is in its ability to cope with changing circumstances in a dynamic situation. With many sellers in the market, it is more likely that the New Zealand industry as a whole will be able to react to best advantage as changes occur in markets.

Some of the arguments in favour of single seller marketing have been based on New Zealand exercising a certain degree of monopoly power in the export of lamb. It is now obvious to most observers, however, that lamb is one of many meat, or meat-type, products available to consumers in most countries, and the marketing of the product must therefore be approached on the basis that we are in a very competitive situation. New Zealand lamb has been losing out to other types of meat rather than to alternative supplies of lamb.

The proposal being put forward for consideration is that all meat, or as large a proportion of production as possible, should be offered for sale on a competitive auction basis in New Zealand. To achieve all the intended objectives the ideal system of operation would be a daily electronic auctioning or tendering procedure for all carcasses at the end of the killing chain.

The mechanics of such a system will inevitably become rather involved, and will require very careful planning by all those involved in the killing, processing, and selling of livestock products. There are many possible variations on the basic theme. For example, some of the problems of implementation of the scheme might be overcome if the sales were conducted on the basis of the meat the killing companies expected to have on hand at the end of the day on the basis of the stock coming forward. The operation of an active futures market in association with the daily national auction would also assist the planning of many exporters.

Under the proposed system farmers would have the option of either selling stock on the farm, or of retaining ownership until the carcass has been sold in the national market. Farmers or farmer cooperatives who wished to remain involved in meat marketing would do this through purchasing meat from the central market. Some farmer involvement would also be inherent in the activities of the New Zealand Meat Producers Board.

The advantages of this proposal are as follows:

- (1) All licensed exporters of meat would have equal access to the product being offered each day. The problems of lack of access to product which have plagued some exporters would therefore disappear. Anybody prepared to meet the market price would be able to obtain the product they required.
- (2) A publicly determined price would be set in New Zealand reflecting the demands from all markets around the world. Smithfield would therefore lose its pre-eminence in the setting of the price, and instability in the United Kingdom market would not therefore be transmitted to the prices received for product to be sold in other markets.

- (3) The exporters who could market to best advantage would have access to the product they required and would therefore compete against each other in this New Zealand market. Farmers could therefore be assured that they were getting the fair going rate for their product. Prices paid to farmers for different grades of lamb would accurately reflect the market demand for each grade.
- (4) If required, market support measures by the New Zealand Meat Producers Board or the Government could easily be applied at this stage in the marketing chain. This could involve either supplementation or intervention purchases of meat. This would limit the need for Board intervention in overseas markets.
- (5) This system of marketing would separate the meat industry into two major segments. The early stages down to and including killing, and possibly freezing, and the further downstream operations of processing and selling. There would thus be the possibility of those companies which excell particularly in one operation or the other, concentrating on that particular operation. On the other hand there would still be nothing to prevent companies engaging both in killing and in the downstream operations. The killing companies would lose some of their present control over their product, but if meat were being bought in the daily auction for further processing, there would still be some advantage accruing to the killing company in that the product would be available on its premises. Its transport charges for movement to processing facilities would therefore be negligible compared with those of other operators. Thus while this proposal does make meat available to all operators, there would be some inbuilt advantage to the established meat companies. Nevertheless their advantage would be based on a freely operating competitive market, rather than on their semi-monopolistic control of the product coming from their works.

It is contended that the advantages accruing from such a change in our marketing system are so great as to warrant very careful examination. It is recognised that there will be difficulties in implementation, particularly where special products are concerned, such as lamb slaughtered for Middle Eastern markets, or lamb ticketed and graded for particular markets. Nevertheless, it is considered that most of these problems can be overcome. It may be that the

development of effective futures markets for all grades would be an integral part of such a scheme. At this stage, however, these problems can be regarded as difficulties to be overcome if the general principle is accepted, and the task of overcoming them is more a job for those intimately concerned with the operations of the industry.

This change in the marketing chain would greatly improve the efficiency with which all parts of the marketing chain operate. Killing companies would eventually compete for product on the basis of their killing charge, whilst those which could market to best advantage would buy the bulk of the meat coming available in the market. These changes can only be beneficial.

APPENDIXList of Companies/Organisations Surveyed

Alliance Freezing Co. (Southland) Ltd.
Amalgamated Marketing Ltd.
Auckland Farmers' Freezing Co-op. Ltd.
Borthwick, Thos & Sons (A'Asia) Ltd.
Dalgety (N.Z.) Ltd.
Fletcher, W & R (N.Z.) Ltd.
F.M.C. (Meat) N.Z. Ltd.
Fort Export Ltd.
Hellaby, R & W Ltd.
International Marketing Corp. Ltd.
Macdonald, R.C. Ltd.
Marubeni (N.Z.) Ltd.
Mathias Meats N.Z. Ltd.
Meat Export Development Co. (N.Z.) Ltd.
Mitsui & Co. (N.Z.) Ltd.
N.Z. Meat Producers Board.
Otago Meat Export & Agency Co. Ltd.
Southland Frozen Meat and Produce Export Co. Ltd.
Stevens, C.S. & Co. Ltd.
Towers International Ltd.

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