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New Zealand's Statutory Marketing Boards: Their History and Some Recent Developments

by

Rodolfo M. Nayga, Jr.
Lecturer
Department of Agricultural Economics and Business
Massey University, New Zealand

Allan N. Rae
Professor
Department of Agricultural Economics and Business
Massey University, New Zealand

Introduction

There are five statutory marketing boards, representing various industries, in New Zealand. These boards are the Dairy Board, Meat Producers Board, Wool Board, Apple and Pear Marketing Board, and the Kiwifruit Marketing Board. The fact that the industries that these boards represent affect more or less about 50 percent of New Zealand's exports [2], reflects their importance to New Zealand's agribusiness sector and economy.

The powers and functions of these boards fall into three categories [3]: (i) regulatory and control functions; (ii) commercial activities; and (iii) leadership and industry servicing activities. The regulatory and control functions include the licensing of exports and exporters; the imposition of grading, quality control and packaging requirements; the control of storage and transportation facilities; and the acquisition of information. On the other hand, commercial activities include the purchase, processing, storage, and marketing of products; the acquisition of related facilities; and other trading and commercial activities. Leadership and industry servicing activities involve the formulation of development and marketing strategies; and the provision of technical, advisory, information, and promotional support services.

New Zealand adopted various economic liberalization measures since mid-1984. Consequently, New Zealand's social-assistance economic policies, in place for much of the post-World War II period, were terminated in the post-1984 period of economic liberalization. As a result, the marketing boards' access to concessional Reserve Bank financing for price stabilization purposes as well as their statutory price setting authorities were removed and abolished [2].

The rapidly changing economic environment in New Zealand, therefore, provides an opportunity to consider the nature and structure of the marketing organizations which might emerge in a deregulated economy.

This paper attempts to review the history as well as some of the recent developments in New Zealand's statutory marketing boards. Since the statutory powers of these marketing organizations

are currently under strict scrutiny and debate, it would be timely to review their evolution and some recent developments to be able to have a good look at how they could function in the future. Moreover, the experiences of New Zealand's marketing boards may have some important implications for food companies and agribusiness industries elsewhere in the world.

Evolution of New Zealand's Marketing Boards

Statutory marketing arrangements have a long history in New Zealand. New Zealand has allowed statutory marketing authorities since the end of the first World War. Historically, they were a response to the strongly held belief of producers that the returns from their products could be raised by producer controlled statutory marketing boards. In addition, the creation of the marketing boards seemed have been based on the belief that it is more equitable to allow producers to control the other agents in their industries, than to allow those agents to dictate the producers [3]. Other arguments for the establishment of marketing boards have been based on the belief that private marketing is disorganized, exploitative, and inefficient [5]. These beliefs are particularly strong at times when producers face low or unstable prices and incomes, such as the period between World War I and World War II when most producer boards were established. Rae [6] suggested three reasons for the existence of the marketing boards. These reasons are (1) to maintain or increase prices and incomes received by producers; (2) to reduce fluctuations in such prices and/or incomes; and (3) to equalize market opportunities and returns among producers.

Prior to World War I, unsuccessful attempts had already been made to regulate marketing in New Zealand's meat and dairy industries. During the war, however, the free enterprise system which had operated in the meat, dairy, and wool industries were suspended and the "Imperial Commandeer" arrangement was enforced. This arrangement allowed the United Kingdom to purchase in bulk products at fixed contract prices. After the war, however, producers were faced with low commodity prices and low returns. This event precipitated the start of the creation of marketing boards in New Zealand. The following sections briefly describe the evolution and history of these marketing boards.

The Dairy Board

Since the start of the century, New Zealand has had a strong cooperative movement in the dairy industry. In fact, by 1900, cooperatives accounted for 42 percent of all dairy factories [7]. The move toward a national marketing organization originated principally through this cooperative movement. The first Dairy Industry Act was passed in 1892 with the objective of regulating the manufacture of butter and cheese for export and to ensure the purity of the milk used for manufacturing purposes. A series of Acts then followed which were consolidated in the 1908 Act which established the rules governing the formation, registration, and shareholding of cooperative dairy companies.

In 1923, a bill was passed for the establishment of the New Zealand Dairy Export Control Board which was empowered to control the export, sale, and distribution of New Zealand dairy produce (i.e. butter and cheese). The Board's immediate objective was to achieve higher and more stable prices for butter and cheese on the British market. With this objective, the Board decided to use its powers of absolute control over all dairy produce to regulate supplies and to achieve better all-year-round release of stocks into the British market. The Board also fixed minimum prices for New Zealand butter and cheese on the British market.

In 1934, the Agriculture Act gave the Board authority to regulate and control production of dairy produce as well as the handling, marketing, transport, and distribution of dairy produce intended for consumption in New Zealand. Although this Act represented a significant extension of the Board's powers in the domestic scene, the Board was still excluded from the actual control of export marketing. In 1935, the Primary Products Marketing Department of the government was given the task of controlling dairy exports. Due to mounting pressure from dairy farmers after World War II, the Dairy Products Marketing Commission was formed in 1947 which

assumed the marketing responsibilities for the Primary Products Marketing Department. The role of the Dairy Board then was to develop industry unity and cooperation.

In 1961, the Dairy Products Marketing Commission and the Dairy Board were merged and was named the New Zealand Dairy Production and Marketing Board. The board was then renamed the New Zealand Dairy Board in 1966.

The Meat Producers Board

Statutory intervention in the meat industry started in 1900 when the Slaughtering and Inspection Act was enacted. The purpose of this Act was to ensure that sanitary conditions of slaughter were being observed. Following the outbreak of war in 1914, the British government agreed to purchase all meat available for export from New Zealand. However, the shortage of refrigerated shipping space resulted in substantial build-up of stocks of frozen meat in store in New Zealand. Moreover, poor scheduling of vessels, inefficient handling and loading methods, and high handling costs contributed to the drastic drop in farmers' incomes [7].

Due to these developments, the Meat Producers Board was formed in 1922. The Board was empowered to assume control over all export meat; to prohibit or limit exports; to impose a levy; to negotiate all shipping contracts; to lay down conditions or grading, handling, storage, and insurance; to arrange promotion; and to make any arrangements it considered necessary for the sale and disposal of New Zealand meat [7].

Although the Board was granted vast powers by the statutes, the Board allowed the private firms to carry out the major marketing functions and limited its tasks to the monitoring of slaughter process and movements in export prices and costs in meat. In addition, the Board established and supervised grading standards, negotiated freight rates, coordinated and regulated meat export flows, initiated overseas market surveys, and carried out advertising.

In 1982 and 1983, the Board intervened heavily in the market, due to the depressed state of the market, by purchasing most of the mutton and lamb based on supplementary minimum prices. This development reduced the role of the exporters to that of commission agents. This arrangement continued until 1985-86 when the board handed the responsibility for sheep meat marketing back to the private sector in the face of criticism of its activities by both exporters and the government.

The Wool Board

Statutory intervention in the wool industry occurred in 1921 when the New Zealand Wool Committee was established. The Wool Committee, for a while, controlled the allotment of quantities offered at auction. It also was provided a levy for international promotion and research. In 1936, the New Zealand Wool Publicity Committee was established and took over the responsibility for administering the levy. This committee was then replaced by the Wool Council. The Wool Council was in turn replaced by the first New Zealand Wool Board in 1944, which took over the Council's responsibilities for wool promotion and wool improvement.

In 1951, the New Zealand Wool Commission was established to implement a minimum price scheme. The Commission operated by setting minimum prices for each grade of wool at the start of a season and sometimes bid its minimum price on individual auction lots. The wool acquired from these transactions were then stored and released into the market during more buoyant trading conditions [7]. The Commission was also responsible for assembling and disseminating statistical information and for collecting the grower levies which financed Wool Board operations. The Wool Board then was responsible for research and promotion functions.

In 1977, the Wool Marketing Corporation and the Wool Board were merged into the reconstituted New Zealand Wool Board. This new Wool Board has substantial legislative powers which include control of the sale, disposal, and export of wool without a grower referendum. However, support for more major statutory involvement in wool marketing was not evident and the Wool Board continued to intervene in a

modest way through promotion and research activities.

The Apple and Pear Marketing Board

The first move towards the development of a producers' group occurred in 1916 when the New Zealand Fruit Growers' Federation was formed to promote, foster, and protect the fruit industry. There was a strong feeling within the industry then that producer returns could be improved through the exercise of centralized control, particularly over the export marketing of apples and pears [7]. As a consequence, the Fruit Export Control Board came into existence in 1926. The Board became the sole legal exporter of pip fruit. Within New Zealand, however, growers were free to dispose of their fruit as they wished.

During the late 1930s, the industry was afflicted by low returns to growers due to rising costs and a shortage of shipping space for exports. The industry then accepted the government's offer to pay its producers a fully guaranteed price in exchange for the industry's acceptance of statutory marketing control. Subsequently, the tasks of marketing pip fruit were handled by the government's Internal Marketing Division. During the following years, the Internal Marketing Division succeeded in selling the entire crop on the domestic and export markets. By the end of the war, the domestic and export marketing of pipfruit was already fully regulated.

Due to the success of centralized control by the government, the industry strongly supported the creation of the New Zealand Apple and Pear Marketing Board in 1948. Unlike the pre-war Fruit Export Control Board, however, the Apple and Pear Marketing Board is obliged to purchase all fresh apples and pears offered to it at set prices, subject to minimum grade standards and certain harvesting and packaging procedures. The Board, therefore, holds a monopoly in the marketing of New Zealand's apple and pear production. It is also responsible for acquiring and marketing imported apples and pears.

The Kiwifruit Marketing Board

The first attempt at overall coordination in kiwifruit marketing took place in 1970 with the establishment of the Kiwifruit Export Promotion Committee. This committee is a voluntary body concerned with the promotion of kiwifruit in export markets. It was also responsible for the formulation and implementation of a systematic market development strategy consistent with the rapid expansion of production, and export availability [7]. The activities of the Committee were funded by means of voluntary levies.

Some growers, however, were concerned about the Committee's capability of enforcing payment of the levy. They were also concerned about the absence of a controlled and orderly market development scheme. After deep debates between those growers seeking total producer control of the industry and those favoring a less interventionist approach, a compromised agreement was reached in 1977 to establish a Kiwifruit Authority. The Authority was empowered to issue kiwifruit exporting licenses, to collect the kiwifruit levy, to promote the export of kiwifruit, to establish minimum standards of quality, packaging and sizes of fruit for export, and to assist in the general development of the industry. Its primary function, however, was the licensing of exporters.

Overseas production and competition increased during the 1980s which resulted in price and income reductions for the New Zealand kiwifruit growers. The subsequent dramatic downturn in the fortunes of the industry resulted in a series of government and industry sponsored investigations on the industry's marketing structures. After an intense debate and a number of producer opinion polls and investigations, the government accepted the recommendation of the Kiwifruit Authority to transform itself into a marketing board. Hence, the creation of the Kiwifruit Marketing Board in 1989.

Some Recent Developments

Zwart and Martin [1] mentioned a few observations about the development of New Zealand's agricultural marketing authorities.

First, different structures have emerged in different industries. The Dairy and Pip fruit industries, for instance, have adopted highly regulated marketing structures in response to low prices compared to the less interventionist approach adopted by the Meat and Wool industries.

The second observation pertains to the changes in the economic policies adopted by the statutory marketing boards over the years. For example, initial policy emphasis was on generic promotion aimed at increasing demand, and on research aimed at trimming production, processing, and marketing costs. By the conclusion of the second World War, however, guaranteed pricing schemes had been in operation. After the war, the emphasis of the policies adopted shifted to market segmentation policies. The following sections describe the recent policies and developments of each of the marketing boards.

The Dairy Board

The present Dairy Board has an obligation to buy all the butter and cheese produced in New Zealand for export; to buy all other dairy products made for export; and to control the export of all dairy products that the Board does not itself acquire. Although the Board is formally the sole seller of New Zealand dairy products, marketing in practice is carried out by a large number of subsidiary companies with strategies geared to the particular opportunities and demand of the markets in which they operate [8].

Over its more than six decades of life-span, the Dairy Board has evolved from being a regulatory and control authority to an increasingly aggressive multinational dairy product and food marketing firm with subsidiary and associated companies in more than 20 countries. Consolidated sales for the year 1991 were estimated at around NZ$4000 million [9]. The Board is now the world's single largest dairy exporting organization. Although New Zealand accounts for only around 1.5 percent of the world's total milk production, it supplies nearly 25 percent of all trade in the international dairy products market [10].

The Meat Producers Board

After the New Zealand government dismantled the supplementary minimum price system in mid-1980s, prices to producers significantly decreased. Subsequently, the Board was faced with mounting criticisms of its own trading operations not only from the meat companies but also from producers as well as the government. As a consequence, responsibility for the marketing of meats was returned to the hands of producer owned and controlled meat companies. The Board's major role in export licensing has, therefore, been withdrawn [7].

In its 1990 annual report [11], the Board defined its current statute as

> to maximize the returns to New Zealand's meat producers through (1) a strong producer-ownership position in the New Zealand meat processing industry; (2) orderly and regionally-coordinated marketing of New Zealand meat, plus improved trade access; (3) coordination of international promotion to develop a consistent image and greater awareness of the qualities and benefits of New Zealand meat; and (4) cost efficiencies from continuing research and development, quality control and streamlined distribution.

The Board has increased its market access and development related activities. The principal activities of the Board have also been aimed at achieving a much-needed increase in sheep meat prices and at promoting the wider usage of beef products.

The Wool Board

To maximize long-term returns to New Zealand growers, the Wool Board's key responsibility now is to stimulate the international demand that maintains existing export markets and to create new markets for New Zealand wool. Hence, the Wool Board performs a marketing support role. Neither does it longer control the production of wool nor the acquisition of all wool stocks produced in New Zealand. The Board has suspended its minimum price and market support

schemes. In addition, the Board ensures the efficient packaging and transportation of wool to markets around the world. Service arrangements and freight rates to major destinations are regularly negotiated by the Board [12].

Like the other Marketing Boards in New Zealand, the Wool Board does not receive any financial support from the government. Most of the Board's income comes from grower levies. The remainder comes from investments and sales of wool. The largest portion of the Board's annual income is now spent on product development, technical marketing and promotion, mainly through the International Wool Secretariat. The remainder of its income is spent in pursuit of efficiencies in production, processing and distribution; research and development, and on the promotion of wool products. The Board also provides wool appraisal and price information support to growers and has joint venture operations. Its total assets in 1991 was worth about NZ$417 million [12].

The Apple and Pear Marketing Board

The Board is now the sole marketing authority for apples and pears. With the exception of roadside sales, the Board is responsible for the purchase of all apples and pears in New Zealand as well as the marketing of these products either overseas or in the local market. The prices received by the producers from the Board are fixed by the authority known as the Apple and Pear Prices Authority which meets in February each year to decide on the prices for the coming season.

In recent years, the Board and the industry were confronted with an increasingly difficult market environment, characterized by expanding worldwide production, and increasing protectionist attitudes in major markets. The Board has responded to this situation by diverting fruit from the fresh to the processed product market. Results from previous research by Rae [13] indicate that the Board's strategy of fresh-to-process supply diversion resulted in the realization of substantial short-term gains, although some private and social costs of longer-run nature have been incurred. The Board has also supplied a wide range of high quality products and has been effective in the introduction of greater efficiency in shipping, storage, and packaging operations.

The Board's emphasis, therefore, in the last few years has been on the development of a good mix of varieties, product quality, and the establishment of a good sales and distribution system. The Board now sells about 1400 different products in 50 countries.

The Kiwifruit Marketing Board

The Board, being the sole exporter of New Zealand kiwifruit, is now responsible for planning, controlling, distributing, and marketing of kiwifruit to New Zealand's export markets with the exception of Australia. The Board's own subsidiary, the New Zealand Kiwifruit Marketing Board (Continent) N.V., controls the importation, distribution, marketing and sale of New Zealand's kiwifruit in Europe. In addition, the Board established a full representative office in Japan to service the specific needs of the large and important Japanese market. The Board has also made long-term commitment to the North American market by establishing a partnership company with the New Zealand Apple and Pear Marketing Board [14].

Concluding Remarks

Producer Marketing Boards have been thought in most parts of the world as mechanisms for transferring income to middle class bureaucrats [15]. Producer Boards have usually imposed huge social costs. Many countries, however, are curious about the apparent "success" of New Zealand's marketing boards. New Zealand's Marketing Boards are now internationally recognized trading organizations. Certainly, the strategies and experiences of New Zealand's marketing boards have implications for food companies and agribusiness industries elsewhere in the world. A New Zealand economist once asked if "is it only the desperate state of Marketing Boards in so many countries that makes the Boards in New Zealand look good by comparison, or have they really performed better?" [15] Would New Zealand been better off with an alternative structure for its export agribusiness industries?

New Zealand's marketing boards face major uncertainties if stripped of their statutory authorities. Certainly, there are considerable risks, as well as potential benefits, in introducing new marketing structures or arrangements. Moreover, it would not be enough to just focus on structures and organizations which have been used in the past. It might be essential to develop institutions which address the specific requirements of each industry, and reflect the characteristics of the industry and its market place.

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