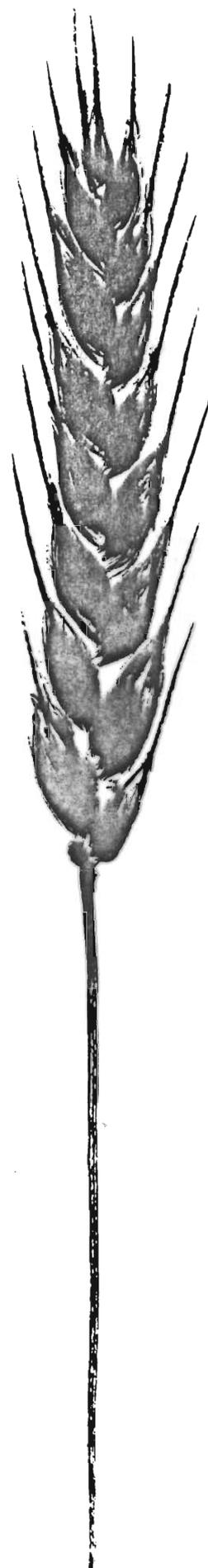


**Lincoln College New Zealand
Rural Leadership Programme**

**IMPROVING EXPORT
PERFORMANCE IN
THE ARABLE SECTOR**



Bernard Duncan

1988

PREFACE

This study has been written to fulfil the requirements of the Lincoln College New Zealand Rural Leadership Programme, 1988.

It may also be a basis for discussion for farmers and others who have an interest in the arable sector and its future.

While it suggests a possible direction for the industry it in no way sets out to establish a blue-print.

If this study helps cropping farmers make better informed decisions about the future of their industry then the effort in writing it will have been worthwhile.

Assistance from the following is gratefully acknowledged:

- 1) Mr Ifor Ffowcs Williams,
N.Z. Market Development Board
- 2) Ms Christine Harvey,
N.Z. Horticulture Export Authority
- 3) Miss Ruth Richardson,
M.P. for Selwyn
- 4) Mrs Nicky Jenkins and Ms Melissa Hodd,
Executive Staff - Arable Section of
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SUMMARY:

This study is based on the assumption that the marketing of arable products and commodities on the international market could use some improvement.

It is designed to provide those within the industry, or an outsider, with enough information to develop a better understanding of the industry and thus to be able to discuss its future prospects in a more informed manner.

Sections B. and C. therefore are about the history of the industry and "where its at" in 1988.

Section D. begins by firstly setting out the producers' objectives in bringing about change for the industry. It acknowledges that price control on the local market is not an option, and that opportunities for price improvement and further outlets are best found on the international market, and by moving away from the commodity trade.

As a means of improving the sector's international performance therefore, the four main marketing systems are identified. They are, -

1. Single desk
2. Open Competition
3. Licencing Exporters
4. Single-entry system. The advantages and disadvantages of each are discussed using existing statutory authorities as examples

An in-depth analysis of each of these systems concludes that the Single-entry system would have a beneficial application to the arable sector.

The section on Single desk emphasises that existing exporters of arable products need to hone their skills as marketers who are prepared to make long-term commitments to markets rather than just being commodity-traders and Commission sellers. The rights they obtain to markets through the single desk approach will encourage them to do just that.

Section E makes some recommendations with regard to the industry's future and emphasises that any change must fit in with existing industry structures and be cost effective within producers ability to pay. It also suggests that the sector would benefit from dialogue with N.Z. Horticultural Export Authority and the N.Z. Market Development Board.

The growing of crops in New Zealand has taken place for as long as mankind has inhabited this country. The Maori, while predominantly hunters and fishermen, cultivated and grew some crops, particularly kumuras and yams.

With the arrival of the Pakeha in N.Z, came examples of the classic arable crops we still grow to-day, i.e. wheat, barley, oats, and grass-seed for pasture for livestock production.

Wheat has always been the flagship of arable production in N.Z., basic as it is to European diet. By 1840 it was becoming an important crop with 800ha being grown. As European settlement spread, so did crop production, particularly wheat and oats. In 1855 wheat production totalled 4000ha with a massive increase to 141,640ha by the late 1880's. Oats followed similar patterns to wheat, being essential for the horses that provided the motive energy for grain production. Throughout this period continuous cropping was the norm, but with the advent of refrigeration in 1882, and thus the opportunity to export meat as well as wool, sheep farming became viable. This saw the marginal cropping country revert to livestock production and the higher fertility country farmed with a rotation of sheep and crops, producing better yields and the beginning of the farming system peculiar to N.Z. - the "Mixed-cropping farm".

As livestock production grew in importance so there developed a requirement for various pasture species. Some regions proved more suitable than others for certain species. Thus Cocksfoot production developed on Banks Peninsula and Browntop and Dogstail became important earners for Southland. English ryegrass was predominantly produced in Canterbury as part of the emerging mixed-crop farming system.

Crop production in these early years developed largely to supply the local market, though some exporting did take place at times of high international commodity prices, e.g. 6700 tons of wheat was exported in 1855. Also Banks Peninsula-grown cocksfoot became popular as a component of pasture mixes for English farmers. Little data is evident about marketing procedures in the second half of the 19th century, so it can be assumed that a full-blown price-market system prevailed. Cycles of "boom and bust" are recorded as being the norm. However this period saw the emergence of the Stock and Station industry that is common to N.Z. and Australia.

Examples of the Companies included Pyne and Co. later to become Pyne Gould & Guinness, Wright Stephensons, Dalgetys etc. These Companies set out to provide a comprehensive service to farmers, supplying their inputs, buying or auctioneering their produce and often providing the necessary finance in between.

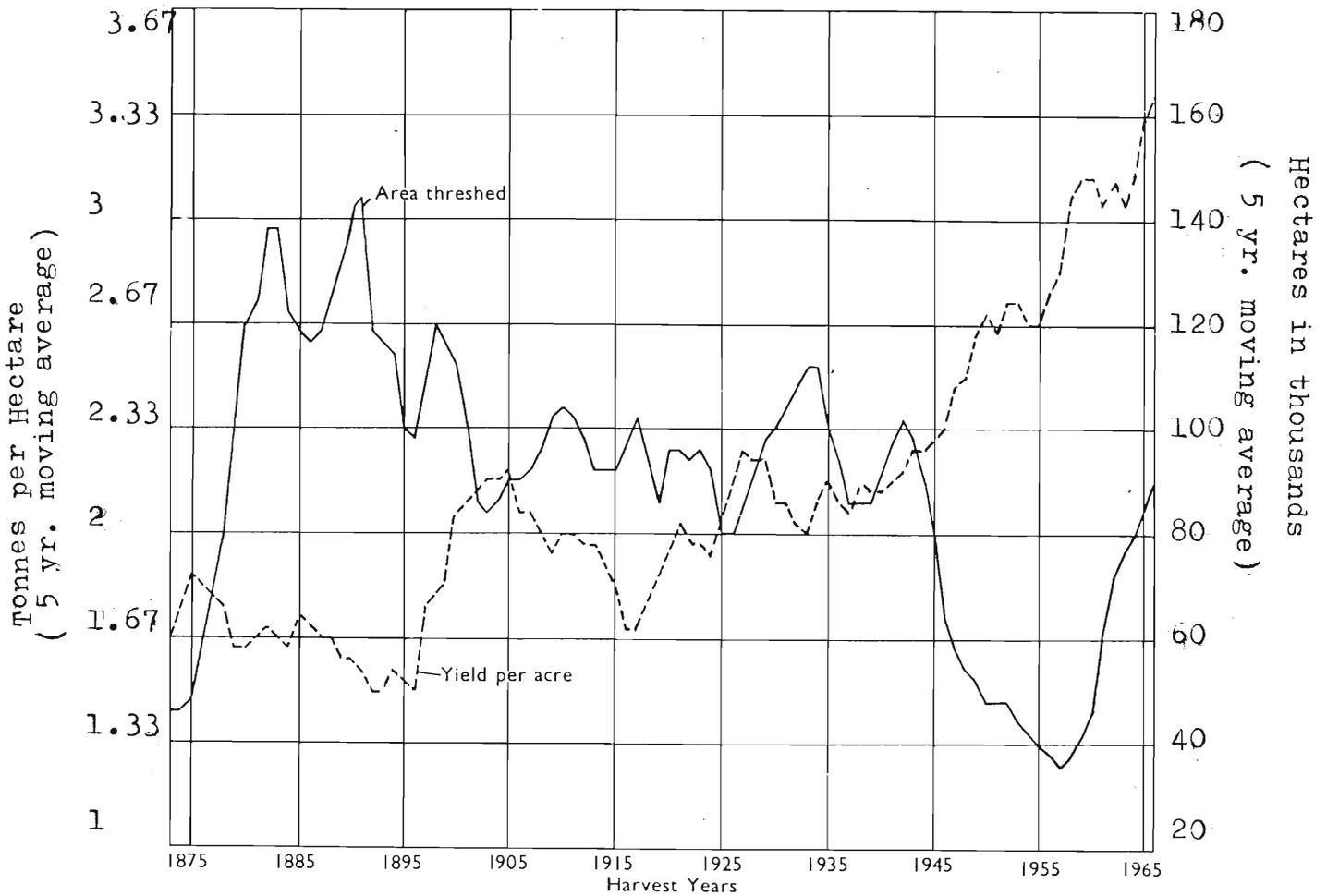
By the turn of the century various forms of control and import duty were being tried in an endeavour to stabilize wheat prices.

From 1936 however, the wheat industry was controlled by the Board of Trade through the "Wheat committee". This committee had total control of the movement of wheat from the farm gate to the mill and on to the baker. The functions of this committee were in turn taken over by a statutory authority, the N.Z. Wheat Board in 1965. Only in the case of wheat, therefore, did the arable industry follow the pattern of other primary product groups by having some form of statutory authority with power to oversee or control. For all other arable products the free market has always prevailed.

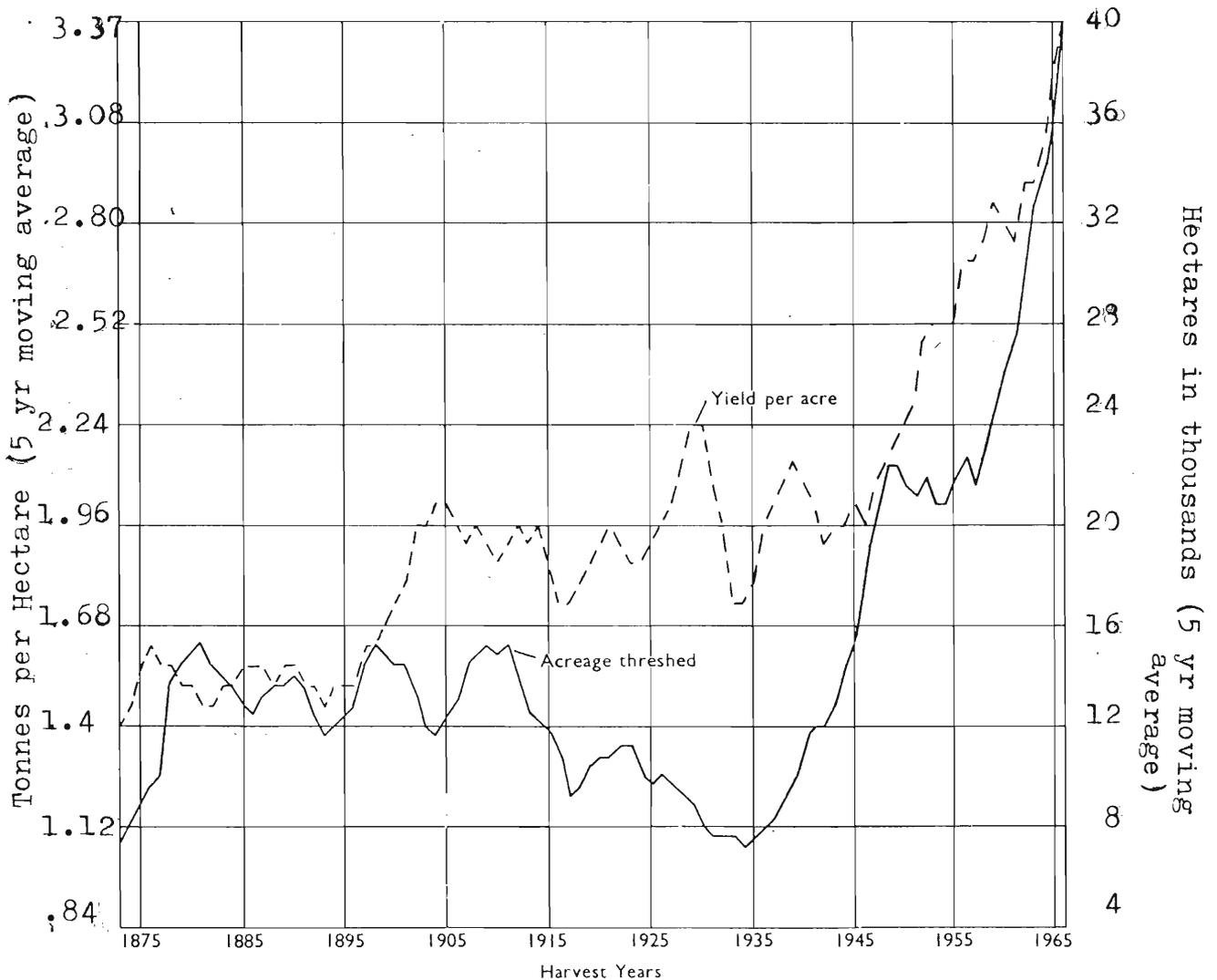
TABLE A.

Clover and Grass-seeds - Export tonnage and receipts.

	<u>tonnage</u>	<u>receipts</u>
1880	2	\$13,000
1930	1880	332,000
1945	8484	3.6 million
1986	6500	14.5 million
1987	14000	30 million



Area and yield per hectare of barley





Compared to the previous three graphs the position with regard to area sown, tonnage and yield in 1985-86 is as follows:-

1985-86	Area	Tonnes	Yield
Wheat	91,535	379,714	4.14
Barley	138,551	556,195	4.01
Oats	15,878	59,909	3.77
Peas	27,238	64,529	2.37
Maize	19,507	187,716	9.62

B CURRENT SHAPE OF THE INDUSTRY.

a) The Industry defined

To answer the question, "What are the commodities that make up the arable industry?" the following definition can be used. They are, "any crop that is normally harvested by a combine harvester". They are grouped under four main headings.

- 1) Cereals - Wheat
Barley
Oats
Ryecorn
Triticale
Maize
- 2) Pulses Peas
Beans
Lentils
Lupins
- 3) Oilseeds Rape
Linseed
Sunflowers
- 4) Herbage and Amenity seeds Ryegrass
Cocksfoot
Fescue
Prairie grass
Browntop
White clover
Red clover

The uses of this diversity of production are many but can be grouped under the following headings:-

- 1) Those for human consumption, e.g. Wheat for breads, pastas, flour etc.
- 2) Those used for animal consumption, e.g. oats for the race-horse trade. Barley, maize, peas etc for various stock-food mixes.
- 3) Those treated as industrial commodities, e.g. malting barley from which malt is made, the main component of beer.
Oil for industrial use and cooking is made from Oil Seed Rape and Linseed.
- 4) Those used for herbage production and amenity planting. This group includes all the grasses and clovers.
There is a number of other speciality crops, e.g. evening primrose for pharmaceutical use.

b) Value and Size of Present Production.

Apart from the period 1870-90, the N.Z. arable industry has always been the small relation in export earnings to the meat, wool and dairy industries. Its real strength is in its ability to supply the local market and import substitution. In economic terms the industry generates around \$320 million worth of product, about equivalent to our casein exports, and exports one-third of this, i.e. around \$110 million, about equivalent to our Thoroughbred horse exports.

TABLE A. Report and Analysis of External Trade
1986 - 1987

	<u>June '86</u>	<u>June '87</u>
Meat	\$ 1.7 Bill.	\$ 2.2 Bill.
Wool	\$ 1281 Mill.	\$ 1.567 Bill
Dairy	\$ 1.627 Bill.	\$ 1.690 Bill
Kiwi fruit	\$ 295 mill.	\$432 mill.
Apple and Pear	\$ 114 mill.	\$124 mill.
Thoroughbred horses	\$ 89 mill	113.6 mill.

F.O.B.

	<u>June '86</u>	<u>June '87</u>
Arable		
Barley	\$ 34.5 mill	\$ 23.8 mill.
Maize	\$ 9 mill.	\$ 11 mill
Peas	\$ 46 mill.	\$ 46 mill.
Mash & Pellets	\$ 1.5 mill.	\$ 1.6 mill.
Clover & Grass Seeds	\$ 14.5 mill.	\$ 30 mill.
	<u>\$ 105 mill.</u>	<u>\$ 112 mill.</u>

c) Crop Marketing Structure

The marketing of arable commodities, dominated as it has been for the last 100 years by the big name Stock and Station Companies, has undergone dramatic change in the last ten years. Figures showing market share are not available but "farmer observation" would show a shift from the total domination by the traditional Stock and Station Companies to one of large slices of the business going to either small specialist arable marketing companies or the farmer-owned marketing co-Op - Farmlands Grain.

The key reason for this trend was that as on-farm margins became tighter, many felt that the product-pricing policies of the firms were not reflecting the true international worth of their produce. The attitude of firms was often to set a price to the farmer which allowed a large margin to cover their exposure to adverse movements in commodity or currency values. If the reverse occurred and movements were favourable, the firm took the profit.

Farmer resentment to this pricing philosophy resulted in the setting up of the South Island Barley Society (now known as Farmlands Grain) in 1980. This farmer-owned co-operative set out with the sole intention of giving farmers the full international value of their barley, less handling and commission. The result was that in 1980 Malting barley prices lifted by \$47 from \$135 per tonne to \$182. Following this success the use of "pools" became a favoured marketing option by farmers. Under this system all grain sale proceeds are paid into common fund then averaged by the number of tonnes sold and the result, less handling costs, paid to the farmer. The effect of this payment system and the marketing strategy adopted by Farmlands Grain was a dramatic lift in the area of barley grown then exported to a range of markets around the world.

So it developed that Farmlands became the price leader that the others had to follow. Other small specialist marketing companies did the same thing in other commodities. For example, James Meehan & Co. (now Mair Seed) through their Southern Export Pools, are a price leader in pea prices to farmers.

The other major event of the 1980's was the abolition of the N.Z. Wheat Board. This meant that the price of wheat, fixed annually by the Board, for 50 years, floated free. Wheat prices thus became volatile and farmers could no longer use the crop as

11.

the financial cornerstone of their cropping programmes. It developed that with the statutory monopoly the Board held now removed, a corporate monopoly took its place, i.e. Wattie-Goodman Group with its dominance of the milling and baking industry.

Changes in marketing structures have been dramatic in recent years and are still continuing.

It is fast becoming apparent that those who dominate will be those who keep their overheads low and whose business philosophy is to maximise returns to the farmer. Profit for such businesses will come from volume of turnover rather than from profit on each transaction.

d) Political Structures

The diversity of commodities produced, plus the capital intensive nature of the industry have meant that the Arable sector has developed political structures to suit.

In Federated Farmers, the cropping farmers' advocate is the "Arable Section". This is one of the three legs of that organisation alongside the Meat and Wool and Dairy Sections. Fitting under the umbrella of the Arable Section are the Maize Growers Sub-section, the Herbage Seed Sub-section, United Wheat Growers and the Pulse Committee. The pattern is that the Arable Section deals with wider issues as they affect cropping farmers, e.g. fuel, transport and pesticide matters, while each of the Sub-sections deals with the specifics for which it was set up.

The functions of the two Sub-sections and United Wheat Growers are broader than being just the farmers' advocate. The Herbage Seed Sub-section is involved in research co-ordination, disseminating market information to growers, and in a small amount of promotion. United Wheatgrowers does all these things and also manages a crop insurance scheme for wheat growers. Both these organisations take a levy from growers based on tonnage of crop produced, to fund their activities.

e.) The Cropping Farmer and his Budget

Appendix A. gives farm physical and financial data of a typical Canterbury mixed cropping farm.

D. MARKETING OF ARABLE PRODUCTION :-

What direction for the future?

a) Producer objectives.

1. Maximise Profit

Any change in marketing systems for arable products must improve the "bottom-line" for the producer. The best perceived way of doing this is to strengthen the producer's hand in the market place.

2. Maximise export potential.

Only one third of arable production is currently exported. A change away from open competition on the local market would not be acceptable to the wider community.

Therefore the international market is the best place to maximise price. To improve export potential and price will have a price-pull effect to the benefit of the grower on commodities supplied to the local market.

3. Shift emphasis from commodity trade to specialist niche markets.

While it is acknowledged that the internal commodities market is good "bread and butter" for the arable sector, both it and the international market suffer price volatility that the arable producer would do well to protect himself from to some extent. The development of specialist markets which may require further processing or packaging in N.Z. or overseas is the way to do this, i.e. the North American and European Lawn Seed market.

4. Lift the Profile

The setting up of an Arable Board or Council would help to lift the profile of the arable industry in N.Z. The industry is fractured into a range of product groupings which don't give the unity seen with other primary product groups. The range of commodities and products the sector produces needs to be treated as a strength and not a weakness.

5. Changes to be cost effective.

Any new marketing structure must be tailored to the scale of the industry - in this case gross product worth \$320m of which one third is exported.

6. Information

Producers would require from a new marketing structure reliable and independent market information. As an example, the Meat and Wool Board's Economic Service performs this task for the sheep farmer.

b)

A Study of the Options

The Producer Boards currently in operation provide some points of discussion in attempting to devise a marketing structure suitable for arable products. A look at the pros and cons of the various structures and the philosophy on which they are based is therefore appropriate.

1.) SINGLE DESK SELLER:

The well known examples of Boards that are single desk sellers are the N.Z. Dairy Board and the Apple and Pear Marketing Board. Both have compulsory acquisition powers, taking the product from the farm gate to the market place.

Advantages:a) Price maximisation and stability

The single desk approach puts only one N.Z. exporter on an international market. This eliminates price undercutting by N.Z. companies against each other and where N.Z. is the major supplier to a market, gives the opportunity to become a price setter. Some countries operate with single state purchasing structures. These organisations prefer to purchase from a single supplier, i.e. better price stability is achieved for both parties. In other countries a small number of powerful buyers has emerged. In this case a number of N.Z. exporters competing for market share are soon played one against the other. Thus strong buyers need to be balanced by strong sellers. In some markets, particularly the super market trade, price stability is as important as price. A consistent "N.Z.Incorporated" approach is therefore in the best interests of the grower and the international consumer.

b) Distribution and Volume Control

A single desk operation is ideally placed to monitor stock levels both "on the water" and in the hands of the buyer and so achieve a flow of product on to the market which is neither over-supply (and forces prices down), nor under-supply and lost sales opportunity.

c) Operational Efficiencies.

Advantages of single-desk in this area include economies in number of field reps on the road in N.Z., volume economies in packaging, processing, storage and freight, better foreign exchange management and the opportunity to have bigger and better directed promotional activities.

d) Market Development.

Opening a new market, or a new niche in an existing market costs money and takes time to get a full return. The necessary investment may not occur with multiple exporters as others who have not shared in the initial development could follow or free-load into the developing market. N.Z. needs to move away from commodity trading. N.Z. Market Development Board evidence shows that those who are commodity traders do not see themselves as market developers.

Further studies show that where there is excessive competition in a market, such as when there are too many exporters, a lack of market development is the case. A single desk arrangement is the answer to this dilemma.

e) Market Signals

An export marketing effort sponsored by a single desk operation is well placed to both gather and pass back information to N.Z. producers with minimum distortion. The single desk, controlled by the producer, means open communication between the organisation and its suppliers. This would not be the case with multiple competing exporters.

f) Maintenance of Quality Standards

This falls neatly as a function that can be handled by a single desk operation.

Disadvantages:

a) Danger of ineffective Bureaucracy.

Without competitive pressures within the home-base, a monopoly purchaser can become bureaucratic and inflexible. This is more likely to happen when the domestic environment is protected.

b) Little innovation

With only one organisation servicing a market there is scope for little effort to be put into new opportunities.

c) Vulnerability

With a single seller an industry is very dependant on one management team rather than the spread of wisdom achieved with a multiple exporter approach.

d) Producers have no choice as to where they sell their produce.2. OPEN COMPETITION:

Current marketing of Arable produce is a good example of the advantages or otherwise of open competition.

Advantages:a) Rapid Response

Profit-motivated exporters may be faster in responding to market changes than a single desk operation might be.

b) Resource Allocation

Open competition between a large number of sellers facing a large number of buyers ensures the most efficient and innovative will survive and through market forces the optimum number of exporters will evolve.

c) Differentiation

Multiple exporters may provide a wider range of services to the grower and services and product to the customer.

d) No bureaucracy

Open competition means there is no bureaucracy to be funded which may, if it is inflexible, constrain export development. Resources are not spent on meeting the requirements of a supervisory authority.

e) Provides Choice

- to the producer who can play one exporter off against another to get the best price.

- to the customer who can acquire a better range of service and product by buying from competing suppliers.

f) Price-taker commodities.

With some commodities N. Z. is a minor supplier internationally and thus is a price taker rather than a price maker. In such cases single-desk would give little advantage over open competition.

g) Performance assessment

Where a number of exporters are in open competition in a market, performance can be measured and is clear to the producer and the market place.

Disadvantages:a) Absence of Strategic Control

In open competition there is a lack of overall strategic control in the market-place. Price competition takes place between N.Z. exporters offering the same commodities. "Free-loading" and this competition mean little investment or innovation takes place.

b) Returns not maximised.

Price competition in the market-place tends to lower profits both for the exporter and producer, therefore less funds are available for further development and promotion. The resulting downward spiral can be difficult to redress. Research studies show that under open competition it is unrealistic to expect to find a high degree of sophistication in marketing.

c) Lack of critical mass

A fragmented system with many exporters loses out when negotiating with a small number of private buyers.

d) Lack of Commitment

Exporters, particularly if working on commission, may have little long-term commitment to a product or industry and are inclined to become weak sellers in a difficult season.

3. LICENCING EXPORTERS

Between the two opposites of monopoly single-desk and open competition there lies the "half-way house" of licencing exporters into an international market. This structure requires statutory power and acts as a supervisory authority which issues licences. It usually also participates in industry development to some degree. The well-known examples are the former N.Z. Kiwifruit Authority and the N.Z. Meat Board.

The following comments make the assumption that the licencing process puts a limit on the number of exporters allowed into a particular market.

Advantages:

These are similar to those quoted in the section on open competition as above. Others include

- a) As the number of exporters is limited there is more chance of voluntary competition occurring as and when necessary.
- b) There is a greater possibility of exporters developing niche products and services.
- c) Contestability and choices are provided for both the producer at one end and the consumer at the other.

Disadvantages:

- a) Lack of critical size.

Licencing can lead to a fragmented marketing structure lacking the muscle power needed in international markets, thus restricting market development and longterm profitability.

- b) Licencing Criteria difficulties

There are difficulties in establishing the criteria for an export licence. Then when the criteria is established would all those exporters who meet it be accepted? Also, market conditions change while the licencing criteria will not be as quick to do so.

- c) Administrative Costs

The overhead costs to an industry in licence application supervision and monitoring can be high, and will ultimately be borne by the grower.

- d) Interaction with licencing body

A licencing body is usually producer controlled and often suffers from a lack of independent information. Difficulties therefore often arise between the authority and the front-line exporter with the result that the exporter spends considerable time dealing with the authority and not the overseas customer.

- e) Pricing discipline

Licencing authorities try to ensure a degree of price stability between exporters but the reality of the market-

place makes this difficult to achieve, i.e. the setting of a minimum price often becomes the maximum price paid by the buyer.

f) Accountability

In some situations the licencing authority takes an active part in the industry thus conflict can arise over responsibilities between the authority and the exporter. For example, where the authority may handle promotion and the exporters everything else, who is accountable for the profitability of the industry?

g) Regulatory Inertia.

Regulations and criteria established by a licencing authority are set at a particular point in time and often lag behind changes in the market place - to the detriment of the producer and exporter.

h) Removing Licences

While a licencing authority may have the statutory power to remove a licence from a poor performing exporter, the experience of the N.Z. Kiwifruit Authority shows this is extraordinarily difficult to do. Resorting to the expensive process of court-action may be the only solution.

4. SINGLE ENTRY POINT TO A MARKET

This option, like licencing exporters, is also a "half-way house". The mechanism employed is that only one entity or company operates to supply a specific market or country. In many cases this single entry point to the market is serviced by multiple exit points from N.Z. Statutory authority is required to support this system. Examples include from the meat industry - Janmark in Japan and Devco in the U.S.A.

Advantages:

a) Discipline on pricing, distribution and volume.

The system avoids weak-selling and where there is dominance in a market means that an element of price-setting can take place. Distributor over-lap is avoided and volume is better controlled to suit market needs.

b) Lower overheads - i.e. only one overhead structure is required.

c) Exporter Commitment

The system means that exporters tend to be locked-in and committed and with sole rights to a market can more safely embark on promotion or down-stream investment in that market.

d) Internal competition

The system allows free competition to prevail on the local market as the producer still has a choice of exporters to sell to.

Disadvantages:

a) Lack of critical size

If a global approach to markets is what's required, having a series of single-entry points scattered around the world will not foster this. New product development can therefore be restricted and thus profit may not be maximised.

b) Ownership lacks flexibility.

If the single entry point is a consortium of suppliers their shareholding in the organisation reflects a particular point in time. Suppliers who are not shareholders therefore have lower priority and may only supply in times of shortage of product. There may be little opportunity for them to purchase equity involvement in the single entry grouping.

c) Single choice for customers.

Having a single entry point does not provide an alternative supply choice to off-shore buyers of N.Z. produce. This may result in these buyers sourcing part of their needs elsewhere.

C. ANALYSIS OF THE OPTIONS

1. Single-desk

The success of the N.Z. Dairy Board and the Apple and Pear Marketing Board in paying a fair return to their producers is unquestioned. The fact that they are dominant players on the international market in their fields enhances this. Except in the case of White Clover this would not apply to the arable sector. In both industries there is a scale of operation big enough to support the administrative structures necessary for a single desk approach. The two industries are dealing with a simple, clearly defined input commodity, i.e. Milk or Apples, which lend themselves well to single desk. The Kiwifruit Industry is now following this example. This simplicity does not exist in the arable sector. Therefore the diversity of product the sector produces has to be developed as a strength, using existing expertise available in the industry. The setting up of a single desk would not achieve this.

Most farmers in the arable sector value their right to make free choices about the marketing of their products. The setting up of a single desk would deprive them of this.

The sector is heavily dominated by traditional Stock and Station Companies. This group would strongly oppose any move to single-desk. A better strategy is to evolve a market structure which uses whatever expertise they have but gives the grower greater control. The single desk approach suggests that the cost of arable commodities to the local consumer will increase. Local consumer groups would strongly oppose a move to single desk, away from open competition.

In summary therefore, a monopoly single-desk is not an option for the arable sector.

2. Open Competition

This is the current marketing structure of the arable sector. For reasons stated in previous sections this should continue to apply in the local market. On the export market however, changes are required as will be discussed later. A strong performance in the export sector of the arable industry will have a beneficial effect on prices received on the local market.

3) Licencing Exporters.

In analysing this option the arable sector needs only look at examples of licencing in operation to decide the merits or otherwise. The N.Z. Kiwifruit Authority was set up as a licencing body but found it could not exert enough control over exporters. While, by statute, it had the power to remove a licence, the practicalities of doing this proved impossible.

The N.Z. Meat Board also has licencing powers and has found some of the same problems as the Kiwifruit Authority. The performance of the Meat Industry in recent years suggests that this form of exporter control would not be a solution for the Arable Sector.

4. Single Entry Point

This system has many attractions for the arable sector, the key one of which is to limit to one the players in each international market. Under the system, exporting companies would apply for rights to a particular market or country. Those rights would be awarded to the company which,

- a) showed long-term committment to the development of the market
- b) showed a willingness to look at further processing or packaging of his product.
- c) had a committment to maximise returns to the grower,
- d) was prepared to accept a yearly audit of performance in that market.

In return for accepting these conditions, the exporter would then get sole rights to that market for a term of five years. (Another method of awarding the rights to a market is to tender them to the highest bidder. The monetary cost of this however will eventually be borne by the producer. Besides, tendering while it achieves product disposal, does not encourage a long-term approach to market development.)

The single entry system acknowledges the importance of free competition on the local market, as well as utilizing existing expertise. In fact statutory authority is only required at the point where entry to a particular international market takes place. A number of companies may well supply that entry point.

The single entry system would not require expensive administrative overheads, depending of course what other functions were allocated to the authority.

With exporters gaining sole rights to a market, the opportunity to shift from being commodity traders to marketers who invest long term, becomes more likely. It follows from this that the exporter can service his customers more reliably. The system encourages those involved in the industry to take a "N.Z.Incorporated" approach to the international market where they compete with other countries for market share and not with other N.Z. companies.

Some examples of how this system would work could be as follows:-

- a) The Wana Cocksfoot Growers Association may see a market opportunity in Australia for their seed. They could decide to develop the market themselves or set up a joint-venture company with Farmlands Grain to develop it, for example. They then apply to the authority for rights to that market.
- b) Mair Seed see a market for Tall Fescue in the U.S.A. and the opportunity to do business with a seed processing/marketing company over there. They prepare a marketing plan which includes a joint venture with the American Company and apply for sole rights to that market.

In conclusion therefore, the passing of the necessary legislation to give an arable authority power to establish and supervise a single entry system for the arable sector, would seem to be in the best interests of the industry.

E. RECOMMENDATIONS FOR ACTION:

- 1.) The arable sector through the Arable Section Federated Farmers, has under discussion draft legislation for the establishment of an Arable Crops Levy. This is an effort to have the necessary legislation in place when at some time in the future it is deemed necessary to levy cropping farmers for a particular purpose. The most likely purpose will be to distribute funds for research and development . Thus, a potential Arable Authority could have this role plus the task of supervising a single entry system.
- 2.) The arable sector when compared to other primary industry groupings, is small, therefore, any authority with statutory power needs to be "lean and mean" and match the industry's ability to pay. The Game Industry Board is such an example. Any levy would need to be imposed over all arable production. This currently totals \$320m and with a levy at 3% would yield \$9.6m. 3% would be the maximum acceptable to cropping farmers and if the industry's objectives could be met via a lower levy, then so be it. Special interest committees, i.e. Herbage Seed Sub-section, would continue to receive their existing levy from the total levy struck.
- 3.) Other activities a statutory Arable Authority could become involved in are, providing market information to growers and exporters, promotion, co-ordination of shipping and quality control. The authority could carry out these functions itself or contract them out, i.e. market information to be handled by the Meat and Wool Boards Economic Service. It should be remembered however, that the more functions a statutory authority has, the more expensive it is to administer.

4.) The authority should not overtake the function of existing special interest committees, i.e. Herbage Seed sub-section, United Wheat Growers etc.

These organisations could provide the necessary grower influence by way of providing members for the Board of the Authority.

The Board make-up could be as follows:-

Chairman of Herbage Seed Sub-section

Chairman of United Wheat Growers

Chairman of Maize Sub-section

Chairman of Pulse Committee

Three further members with commercial expertise, one of whom is a Government appointee.

The future Arable Authority or the Arable section of Federated Farmers needs to develop dialogue with the Horticultural Export Authority. The function that body performs for horticulture is in line with the objectives of arable producers. It also sits neatly with the single entry method of exporting.

Cropping farmers need to either press for the establishment of a body similar to H.E.A. for the arable sector, or encourage the necessary legislative changes to allow H.E.A. to handle arable crops as well.

-Appendix B.

5.) The N.Z. Market Development Board has done considerable study about methods for marketing primary produce. As a means of improving its export performance the Arable Sector would benefit greatly from dialogue with this organisation.

F. CONCLUSION:

Growing arable crops has been part of the New Zealand farming scene since the beginning of formal agriculture.

The industry's strength is in the diversity of products and commodities it produces. This strength needs to be acknowledged by those in the industry and used to their economic advantage.

The industry needs to protect itself from fluctuating international commodity prices as a means of enhancing returns. It can do this by using a single entry export system to develop specialist markets which may involve further processing and packaging.

The status quo is not an option for the arable sector. Inovative thinking for change will give the sector a great future.

APPENDIX A.The Cropping Farmer and his budget.

The heartland of Arable Farming in New Zealand is on the East Coast of the South Island, i.e. the Canterbury Plains. Other South Island areas include parts of Marlborough, Otago and Southland. In the North Island cropping is limited to small areas in the Manawatu, Wairarapa, Rangitiki, Hawkes Bay and Taranaki.

The following table and budget gives average physical and financial data of average Mixed Cropping Farms.

Class 8 - Canterbury Intensive Cropping Farm:

An intensive cropping farm with irrigation on light soils or dryland on heavier soils. Most income is from sales of grain and small seeds. Most farms also have either capital or trading stock.

	Class 8			
	South Canterbury	Mid Canterbury	Central Canterbury	North Canterbury
Effective Area (ha)	160	200	160	183
Sheep Stock Units (SU)	1184	990	797	1967
Stocking Rate (SU/ha)	7.4	5.0	5.0	10.8
Lambing %	120	110	100	112
Wool Weight (kg/SU)	3.7	4.0	4.7	5.0
Crop Area (ha)	94	120	116	49
Crop Area (% of total)	59	60	73	27
Wheat Area (ha)	20	20	25	8
Barley Area (ha)	30	30	40	19
Pea Area (ha)	9	15	13	9
Small Seeds Area (ha)	24	35	26	10

Physical Details of the Model Intensive Cropping Farm Class for 1988/89

FINANCIAL BUDGET FOR TYPICAL CROPPING FARM

	1987/88	Change	1988/89	
	\$	%	\$	
Income				
Sheep Sales	31554		27350	
Wool Sales	18727		19898	
Cattle Sales	-		-	
Crop Sales	83240		82783	
Other	-		-	
Less:-				
Sheep Purchases	12645		12039	
Cattle Purchases	-		-	
Gross farm income	\$120,876	-3%	\$117,992	
Expenditure				
Wages	4680		4840	
Animal Health	1380		1506	
Crop Expenses	4659		4819	
Electricity	1437		1560	
Feed	1014		976	
Fertiliser	8061		6600	
Seed	7180		7254	
Freight	6184		5471	
Shearing	2191		2425	
Weed & Pest	11285		11146	
Vehicles	18447		18911	
Repairs & Maintenance	3636		3542	
Administration	9610		10796	
Other	5624		5978	
Cash farm Expenses	85,388	1%	85,824	
Cash farm surplus	\$35,488	-9%	\$32,168	
Personal Expenditure				
Drawings	13347		14040	
Tax	2030		880	
Debt Servicing				
Principal	7750		7750	
Interest	30092		30188	
Disposable surplus	(\$17,731)	-17%	(\$20,690)	<u>Deficit</u>
Development	-		-	
Capital Purchases	2080		600	
Reinvestment	2080		600	
New Borrowing	-		-	
Off-Farm Income	4260		2734	
Capital Introduced	4260		2734	
Change in Current Account	(\$15,549)	-19%	(\$18,555)	

APPENDIX B.

NEW ZEALAND HORTICULTURE EXPORT AUTHORITY

OBJECTIVES

- TO PROMOTE THE EFFECTIVE EXPORT MARKETING OF HORTICULTURE PRODUCTS

- TO DEVELOP WITH THE RECOGNISED PRODUCT GROUPS SUCCESSFUL LONG TERM EXPORT MARKETING STRATEGIES FOR PRESCRIBED PRODUCTS

- TO HELP MEET THE NEEDS AND EXPECTATIONS OF
 - CONSUMERS - THOSE WHO EAT/USE OUR PRODUCTS
 - CUSTOMERS - THOSE WHO PURCHASE PRODUCTS FROM US
 - EXPORTERS - N Z BASED SELLERS OF THE PRODUCTS
 - GROWERS - THE PRODUCERS WHO HAVE THE BIGGEST COLLECTIVE INVESTMENT

- TO CREATE 'THE NEW ZEALAND INCORPORATED' APPROACH AND ATTITUDE TO HORTICULTURE EXPORT MARKETING

NEW ZEALAND HORTICULTURE EXPORT AUTHORITYPRIMARY FUNCTION

- to promote the effective export marketing of horticultural products, (excludes apples, pears, kiwifruit)
- to act as a forum for the exchange of information with product groups, producers, exporters and Government.
- undertake market research and analysis
- liaison with horticultural groups to include:
 - distribution, transportation and packaging
 - trade barriers and their removal
- fostering and development of a coordinated strategy for the export of horticultural products.

PRODUCT GROUP RECOGNITION

1. Product Group - representing the majority of growers and exporters is formed
2. Applies to the Ministers of Agriculture and Overseas Trade and Marketing
for recognition by ORDER IN COUNCIL
as a
RECOGNISED PRODUCT GROUP
3. Recognised Product Group - formulates an Export Marketing Strategy which sets out the general marketing objectives for the export of the product
4. Export Marketing Strategy - is then submitted to HEA for approval
5. HEA sets the date for the coming into force of the approved Export Marketing Strategy and that any exporter of the prescribed product must have a Licence
6. HEA considers applications for Licence from exporters
- grants licence in terms of the criteria laid down in the Act and the Export Marketing Strategy for the Product Group
7. The above process can take up to six months
8. HEA is keen to become involved with each product group as soon as possible to help guide them through the process.

THE PRODUCT GROUP - THE KEY ELEMENT -

GROWERS - EXPORTERS - H E A

whose

CO-OPERATION

CO-ORDINATION

leads to

COLLECTIVE DEVELOPMENT OF and COMMITMENT TO

EXPORT MARKETING STRATEGY

for

RECOGNISED PRODUCT GROUP

which is

managed day to day by PRODUCT GROUP MANAGER from H E A

EXPORT MARKETING STRATEGY (E M S)

The E M S has to address the following issues:-

1. LONG TERM MARKETING PLANS

- Consumer needs/preferences
- Customer needs - supply arrangements
 - frequency of delivery
- Quality assurance
- Pricing and margins
- Packaging to meet market requirements

2. LONG TERM SUPPLY REQUIREMENTS

- Volume of product for specific markets
- Varieties with best customer acceptance
- Grower commitment to reliable supply

3. LONG TERM QUALITY ASSURANCE

- Development of quality standards relative to "fitness for use" in defined markets
- Grower and exporter acceptance and implementation of these standards
- Encouragement and training of a quality attitude at all stages from growing to market place i.e. "build the quality into the whole process"

4. LONG TERM INFORMATION SYSTEMS

- Competitor activities - Pricing and margins
- Exporter performance - volumes prices in specific markets
- Crop projections

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