PROCEEDINGS OF A SEMINAR ON

"FUTURE DIRECTIONS FOR

NEW ZEALAND LAMB MARKETING"

HELD AT LINCOLN COLLEGE

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THE AGRICULTURAL ECONOMICS RESEARCH UNIT

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

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

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

The Unit also sponsors periodic conferences and seminars on appropriate topics, sometimes in conjunction with other organisations.

The overall policy of the Unit is set by a Policy Committee consisting of the Director, Deputy Director and appropriate Professors.

PREFACE

These seminar proceedings are being published by the Agricultural Economics Research Unit (A.E.R.U.) in the Discussion Paper series, as a means of encouraging public debate of the issues raised. The A.E.R.U. sees this publication as a communication exercise and the views presented do not necessarily represent views held by the A.E.R.U. or the Agricultural Economics and Marketing Department. The two papers are therefore the entire responsibility of the authors and the comments made in the discussion period are to be viewed similarly.

In order to assist readers to appreciate the views presented, a summary of the two papers has been prepared and presented.

The seminar was conceived and organised by Mr R.J. Brodie and Mr M.J. Mellon of the Agricultural Economics and Marketing Department.

Our thanks is extended to the two speakers for their presentations and to the discussion period participants.

R.L. Sheppard,

R.J. Brodie,

Editors.

1. INTRODUCTION

The Agricultural Economics and Marketing Department, in association with the Agricultural Economics Research Unit, at Lincoln College, has a continuing interest in fostering public discussion of important agricultural and horticultural issues. The seminar on lamb marketing (the proceedings of which are reported in this paper), was organised to provide a forum for discussion of this important issue, as New Zealand faces significant changes in the lamb marketing environment. The increasing importance of new lamb markets, especially in the Middle East, the importance of the North American market and the increasing fragility of the United Kingdom lamb market, make such discussion very timely. In addition, the market requirement for lambs with a lower fat content has meant that lamb grading standards have been more rigorously set and substantial price schedule penalties have been imposed for over-fatness.

Increasing production, processing and transportation costs have meant that the farmers share, of the market price for lamb, has fallen. This means that it has become even more important to achieve the maximum possible market return. The achievement of this target must depend on the markets available, the type of marketing activity undertaken in those markets and the structure of the industry supporting the marketing effort. The optimum results may not be available based on the present industry structure and approach and it was therefore considered appropriate that alternatives be reviewed and examined with a view to the future.

The seminar was therefore organised with these factors in mind. Dr C. Hilgendorf, past chairman of the New Zealand Meat Producers' Board, was asked to prepare a paper covering the period from the early 1950's to the present. His concentration has been on the market situation for lamb over that period, covering the major events which have led to the development of the present situation. Professor T.D.C. Cullwick, Professor of Marketing at Victoria University, was asked to prepare a paper covering the alternatives for lamb marketing over the future, presenting his arguments for and against the various possibilities. Following the presentation of the papers, a discussion period was held. The questions and answers are reported in full and in their sequence of occurrence.

It is anticipated that a further Discussion Paper will be published early in 1981 which presents the views of the industry and the farming sector in reaction to Professor Cullwick's ideas. Further discussion on this topic will also be possible at the Lincoln College Farmers' Conference in May, 1981, where a half day session will be devoted to this area.

A summary of the two papers is given in the next section of this Discussion Paper, followed by the full text of the two papers and the report on the discussion period.

2. SUMMARY

The following sections contain a summary of the two papers presented at the Seminar. A summary of the Discussion Period has not been included, as the comments, questions and answers generally revolve about the main points expressed in the papers and therefore can be considered as amplification rather than new material.

2.1 New Zealand Lamb Marketing: The Past and Present

Up to 1954, all New Zealand meat exports were going to the United Kingdom. The end of the Bulk Purchase Contract in 1954 allowed a rapid diversification of beef and mutton exports away from the U.K. to the U.S.A. and Japan. Lamb exports were not diversified to the same extent, as a result of a continuing adequate market in the U.K.

By 1960, under the pressure of continuing increases in N.Z. lamb production, it was observed that the U.K. market would not be able to continue to absorb increasing amounts of N.Z. lamb and still provide an adequate return. The New Zealand Meat Producers Board (N.Z.M.P.B.) then began to attempt to identify new market prospects for lamb. North America was seen as an area for development and the Meat Export Development Company (Devco) was established to service this market.

Over the first ten years of operation, consistent losses were made by the Company, but the price effect in the U.K. of removing approximately 1,000,000 lambs per year from this market probably offset the losses. From 1970 to 1980 Devco profitability has improved, coincident with a change in the relativity between beef and lamb prices in North America. Prior to 1970, beef prices had always been higher than lamb prices but this situation has since reversed. Only a small volume of lamb is being sold in the U.S.A. (about 10-12,000 tonnes) and the market is not self sustaining. The Canadian market is stronger, however, and is capable of self sustainment without Devco assistance.

In the mid 1960's the N.Z.M.P.B. introduced a system of diversification whereby exporters were encouraged financially to divert lamb from the U.K. The scheme was very successful in encouraging exporters to look for other markets and convinced exporters that alternative markets were available. Prior to the time the Middle East market developments occurred, approximately 25% of N.Z. lamb exports were going to markets other than the U.K.

Market development in Japan was undertaken in 1970. This was not very successful but a growing market has been established with approximately 18,000 tonnes sold in Japan in 1979. Prospects in Japan are favourable, however, as the Japanese are tending to eat more meat and lamb is considerably cheaper than other meats.

Germany has become a useful market for lamb and development in this market has been tightly controlled by the N.Z.M.P.B. through their licensing of six exporters for the market. Other European markets have not been so successfully developed.

The development of single buyer markets led to the need for a controlled selling organisation (in order to avoid exporter price competition). This was first established for Peru and Chile early in the 1970's. The Iraq and Iranian situations were similar and, although full single-sellers were not acceptable in this trading situation, an agreement amongst N.Z. exporters as to the export price was established to ensure that price cutting was not prevalent.

Farmer price support activity was undertaken quite extensively between 1954 and 1960. This was based on the fund built up during the U.K. bulk purchase contract which ended in 1954. During the 1960's, the size of the fund was such that the N.Z.M.P.B. was reluctant to use the money to support farmer prices. As price fluctuations increased in the post 1972 period, the need for price support became more apparent, as did the need for a method of replenishing the fund used for such support.

The Government and the N.Z.M.P.B. came to an agreement in 1972 regarding a stabilisation scheme, which has been in effect since. The Government has since introduced a Supplementary Minimum Price Scheme designed to further smooth farmer prices and support farmer incomes. The problem of payouts to farmers in excess of market receipts may become significant in the future.

The N.Z.M.P.B. considers that a self-balancing smoothing scheme is necessary. Such a scheme should have a wide range between the support price and the trigger price; the Government, however, believes that the range should be narrower.

2.2 The Need for a Global Marketing Strategy For Lamb and Lamb Products

Since the New Zealand Meat Producers' Board introduction of the lamb diversification scheme early in the 1960's, there has been a significant movement of New Zealand lamb to markets outside the United Kingdom. As well, there has been a substantial increase in the degree of N.Z. processing. This expansion of new markets and the intensification of N.Z. product processing plus the recent EEC levy reduction and growing N.Z. lamb production, has led to a general optimistic outlook for the future of N.Z. lamb trade. It is suggested, however, that such an outlook may not be justified unless significant changes are made to the N.Z. lamb marketing system.

The United Kingdom is still the major market for N.Z. lamb. Consumption in this market is falling as a result of price competition from other meats and a poor approach to lamb marketing. There are thirty-three N.Z. lamb sellers active in the market with 93 percent of the sales shared between five of them. Problems that have been identified include product quality variability, poor packaging and presentation and a very soft marketing approach in a market that is sensitive to supply levels and pattern. It is suggested that the marketing problems could be overcome through the restriction of the number of sellers in the market and the establishment of a stronger position for lamb products through an integrated approach to branding, packaging, product development, promotion, distribution, pricing and research.

The development of other Continental EEC markets has not been very significant. The North American market, even though under a single seller system, has not developed well as per capita lamb consumption has fallen. Lamb sales to the Middle East have been based on a traditional consumption pattern rather than market development and sales to other areas (e.g. Japan, Pacific Islands, Africa and the Mediterannean) are only very small and underdeveloped.

The present system of selling lamb has a range of strengths and weaknesses. The strengths include the ability to handle large volumes of lamb, the successful diversification of lamb away from the U.K. market, the ability to adjust to seasonal supply patterns of a perishable product and the farmer confidence in the system with its well established product grades. Developments in the Middle East have encouraged greater Meat Board/Meat Exporters' Council co-operation and some companies have actively pursued the development of new processing techniques and products.

The weaknesses of the system include a focus on the short-term aspects of marketing rather than a longer term involvement. Markets are developing unique price characteristics but the present system does not encourage a recognition of this aspect. In recognition of this, it is suggested that returns to farmers will fall unless a better approach is introduced.

Recent projections indicate that a very substantial world-wide demand for increased quantities of lamb can be anticipated. Supplies for export are likely to be only available from Australia and New Zealand and therefore a very significant opportunity exists for a co-ordinated approach to world-wide marketing. This would involve the design of lamb products for particular markets and the achievement of the greatest possible long-term return from each market. Prices available on each market are likely to differ significantly and therefore each market will require individual attention. In addition, N.Z. lamb supplies are expected to increase substantially and the placement of the product, in order to achieve, greatest long-term returns will require careful co-ordination.

It is suggested that this can only be achieved through a global approach to marketing. New market opportunities can only be exploited adequately if there is a customer/marketing orientation which involves the design of product to meet consumer requirements and the investment of product and finance in the development of new markets. Four market types, constituting a market mix, have been identified which require different techniques of approach. The United Kingdom, which requires an aggressive, unified approach; the Middle East; requiring consideration of a long-term commitment of a substantial proportion of N.Z. lamb exports; medium-size specialist markets, (e.g. U.S.A., Japan, Continental EEC) requiring high quality, well packaged and promoted products; and small-size specialist markets, (e.g. food services, special retail demand) requiring particular "one-off" product types.

At present, the translation of sales revenue to farmer prices occurs through the meat schedule and through farmers selling on "own account" or through a pool system. These systems do not adequately recognise important market differences and the pool/own account system, in particular, encourages a short-term view to be taken. This is thought to be inconsistent with overall marketing requirements at present and in the future.

A further important aspect is the relationship between marketing and meat processing. Although separate licences are required for the two operations, at present control over supply is the determining factor. This has not encouraged a marketing orientated industry and has therefore been a factor restraining marketing development. Change to a more market orientated approach could result in a new direction for meat processing development.

The questions of lamb quality and product development are important. Meat products must be tailored to meet market requirements. It is suggested that present animal breeds and product treatment are not appropriate for the current market environment. Development of consumer end products based on consumer demand and sourced from appropriate lamb breeds, are seen as important steps to be taken in the future.

There is significant industry resistance to the concept of a marketing approach. This has emerged as a result of the relative newness of the approach, the difficulty in assessing initial benefits, the management structure of organisations and the general resistance to change encountered in traditional organisational systems. These factors therefore make a change within the present system to a more market orientated approach more difficult.

Factors identified which indicate the need for a more marketing orientated approach include the declining position of lamb in the U.K., the EEC sheepmeat regime, the economic risk identified in reliance on the Middle East, increased market controls, the impact of inflation and currency fluctuations and the existence of special end market areas in many countries. Expansion in N.Z. lamb production is also seen as a significant factor which must encourage a fundamental change in the approach.

It is suggested that the future organisation of N.Z. lamb marketing can follow one of four alternatives:

1. Status Quo

   This option is not considered viable as the present approach places N.Z. lamb in a weak position relative to other products and is not capable of adequately developing new demand areas. It is considered that the present system will not be capable of handling increases in N.Z. lamb production.

2. Meat Exporters' Council/Meat Board Liaison

   At present, a level of liaison exists which has effectively handled single seller operations and controlled storage and shipping. However, market development activity has been only limited and the problems of co-operatives, multiple selling and a lack of marketing commitment on a global basis, are significant.

3. <u>New Zealand Lamb Marketing Limited</u>

This company would involve equity participation by the Meat Board and individual exporters. All export lamb marketing would be controlled by this company and selling agents would be appointed for specific markets. Farmers would only be permitted to sell on schedule or to a national pool controlled by the company. Global market development would be undertaken by the company. This would involve complete control over all lamb product activities, including grading, product development, pricing policy, shipping, distribution, promotion and market research. Returns would be assessed on the basis of all markets and appropriate returns to farmers constructed. It would not be intended that the company take over product ownership but would licence the sellers according to product destination.

4. <u>New Zealand Meat Board Limited</u>

This organisation would be organised along the lines of the N.Z. Dairy Board. Title to the product would be taken by the company and processors would continue to operate independently. The company would operate as a single-seller.

The preferred option is "New Zealand Lamb Marketing Limited". This approach is seen as an effective means of combining flexibility and control in a marketing approach over the next decade. It is suggested that the company should have ten nominated directors; the Meat Producers' Board and meat exporters having four directors each and the remaining two being appointed by the Governor-General.

The suggested allocation of selling agents to the major markets includes five agents for the U.K. and one each for Iran, Iraq and North America. Small to medium size enterprises are suggested as appropriate for the smaller markets and the company would play an active role in the encouragement of lamb packaging/ marketing specialists for these areas.

This system is seen as counteracting the present short-term orientation of farmer pools and Meat Board on-off intervention in the schedule price setting. Decisions that must be made to encourage such development include a revision of the Meat Board's policy of "open-door" killing linked to a pool selling system, an immediate reduction in the number of exporters of N.Z. lamb to the U.K. and the establishment of the N.Z. Lamb Marketing Company.

NEW ZEALAND LAMB MARKETING:

THE PAST AND PRESENT

Dr C. Hilgendorf*

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* Charles Hilgendorf was, until his retirement in 1980, Chairman of the New Zealand Meat Producers' Board. This invited paper reflects the views of the author and does not necessarily represent views and opinions of the A.E.R.U. or the New Zealand Meat Producers' Board.

A big point to remember, or if you don't remember you've been told, is that until the last war New Zealand sold all its meat to the U.K. Now, what's probably less well understood, is the fact that the change from sending it to the U.K. to sending it to a variety of markets came very suddenly. Not only before the war did we sell it all to the U.K., but during the war the U.K. bought it on a bulk purchase contract from the New Zealand Government. This went on for a good many years after the war, in fact until 1954. Up until that time it was assumed that New Zealand would go on selling all its meat to the U.K. In fact, even in 1952 it was only with great trouble that the Meat Board of the day persuaded the British Government to allow us to sell 2% away from the U.K. Australia didn't get that concession and still had to send all its meat to the U.K., in return for a bulk purchase contract.

Also in 1952, it was agreed that we would still have at least the right of free-entry into the U.K. for the next 15 years. In two years time after that, however, the whole thing had really started to change and the contract was ended. New Zealand started to look round for other places to sell meat, but not very vigorously.

In the rest of the 1950's the scene changed remarkably quickly. By 1960 we were selling three quarters of our beef to North America. This was not because of any advice given to us; it was really the fact that the British, as a result of the 1947 Agricultural Act that gave them a guaranteed price for meat and for all agricultural produce, increased their beef production very quickly. So between 1954 and 1960, three quarters of our beef had moved away from the U.K. to the United States partly because the U.K. was producing a lot more beef, and partly because the United States was better able to pay for it. At the same time about half our mutton had moved away from the U.K. and was going principally to Japan. In those years nearly half our total meat had moved away from the U.K. However, in 1960 virtually all lamb was still going to the United Kingdom. In 1958, the U.K. Minister of Agriculture came to New Zealand and said "I think that if you go on increasing your lamb production at the present rate the U.K. is unlikely to be able to take it". Of course at that time, lamb production, in fact, all meat production, was increasing very rapidly.

Between 1955 and 1965, meat production increased by nearly 60% and exports were going up by over 5% a year; a rate of progress which has never been equalled in the whole of New Zealand's history. So it was not only that the U.K. started to realise that they were producing more lamb themselves, and they were not getting any more prosperous, but it was also that our own production was increasing very quickly. The N.Z. Meat Board then began to consider what new markets for lamb could be available. The continent of Europe was only reviving from the war and, anyway, they did not eat lamb; the Japanese - well we had not heard of the Japanese then, we still looked on them as rice eaters and with no money, like Indonesia. So no-one took any notice of Japan, but it did look as though North America, and particularly the United States, was a possibility. This was particularly so because in the United States sheep numbers had been falling quite rapidly.

So the Board of the day set up a development company which was a combination between the trade and the board. For the first ten years, no matter what happened, no matter how much we sent, no matter whether there were good years or bad years, we lost about $1 a head and it looked as though we were going to go on doing this forever. But, at the same time, this probably wasn't money lost, because it was taking 1,000,000 or so lambs off the British market, presumeably resulting in some strengthening of the price there.

Now over the last ten years the Development Company has changed a good deal and has made considerable profits. The profits are primarily due to the fact that the relative prices of lamb to beef in the United States have changed very quickly. Over the 50 years previous to 1970, the price of beef was usually better than the price of lamb. However, over the last ten years the price of lamb has changed very greatly in relation to the price of beef and over the last five years has been often 50% above the price of beef. This has had a marked effect on our ability to sell lamb in the United States. Although we are selling some lamb there, it is still a pretty small amount compared with the local lamb kill and the 120,000 tonnes of domestic lamb sold in the United States; we sell about 10 or 12,000 tonnes. There have been various other changes. The costs of handling have been tightened up; the methods of selling have been improved; there is less tendency to carry too much stock and therefore pay not only storage charges but interest charges as well.

Nevertheless, in the United States we have no major chain which stocks it over the whole country. We have only fairly small areas in the north-east and the west and around the Great Lakes where we are selling lamb. If we pulled out of the United States tomorrow, my guess is that we would continue to sell a few chops on the West Coast and that would be about all.

In Canada we have reached a stage where the market is really self-sustaining. If Devco pulled out of Canada, and the Board did not do any promotion there, my guess is that we would sell about the same amount of lamb in Canada as we do now. That is about half a kilo a head over the whole population. We have pretty good distribution in Canada with all the major chains stocking it in the major centres of population.

It was obvious that the Development Company itself was not going to sell enough lamb away from the United Kingdom and so, in the mid 1960's, the Board introduced a system of diversification. Exporters were encouraged financially to divert a proportion of lamb away from the United Kingdom and initially we set a target of 10%. The exporters achieved 9% and a bit more than half of that would have been to North America anyway. The system was that they had to divert 10% or, failing to do that, they would pay three pence a pound as a penalty. This had an initial effect of probably adversely affecting the price in new markets. It paid exporters better to take two pence less and divert rather than pay the penalty of three pence. But this really disappeared rather quickly and the diversification scheme with all its disadvantages was spectacularly successful, primarily because it showed the exporters that they could sell lamb in markets in which it was assumed you couldn't sell. This applied to places like Continental Europe, where everyone said "you can't sell there - people don't like lamb"; everyone forgot the fact that the French do like lamb and pay about twice as much as they do for beef. However, the fact is that it proved it was possible to sell lamb, with not too much difficulty, provided it was presented in the right sort of way.

Even before the success, or the luck, of the Middle East we were diverting 25% away from the U.K. without too much difficulty and I can see no particular reason why this should not continue. I would now like to talk about the new markets that were developed.

Japan was the place by this time that was looking as though it had a lot of money and when people came back from Japan and said, "you know this myth about the Japanese having a low standard of living is all a misunderstanding; the top 10% of Japanese have got the sort of money that New Zealand doesn't understand", (this is not now 10%, it is now 50%), it became clear that Japan had enough money to buy lamb. The Board spent a lot of money, and exporters spent a fair amount too, on trying to open the market in Japan. There was an Expo in Osaka in 1970 where the Board spent a large sum of money on a restaurant and many millions of Japanese came and ate lamb (many of them ate several times) and they went home and did not buy any lamb at all; presumeably because the Japanese housewife was afraid to try and cook it (probably because she didn't have an oven). But nevertheless, almost imperceptably, there has been a market for lamb established in Japan, where we last year sold 18,000 tonnes. I do not see any reason why it should not continue to expand. The fact is that the Japanese have been very small eaters of meat of any sort - what meat they did eat was pork; they do eat a little beef but fortunately the Japanese Government has kept the price of beef very high indeed to protect local producers (which has been a help in selling lamb) and I therefore think lamb will continue to be sold there pretty well.

Continental Europe - it is a bit easy to talk about Continental Europe as though it is all one place but there are great differences. There are differences even between Belgium and Holland and in one place the better class people eat lamb and in other places they do not. There have been ups and downs. In places like Switzerland, the Government hatched up a wonderful scheme by which anyone could sell as much New Zealand lamb as they liked provided they sold an equal quantity of home killed lamb. This sounded pretty good but there was very little home killed lamb anyway and traders had to sell New Zealand lamb at a high price to compensate them for the very high price they had to pay for local lamb.

Germany was probably the most interesting place where obviously there was a big market - they had a lot of money - they wanted to eat more meat - and meat consumption had improved. The Board looked at various methods of trying to deal with the German market (in a way which did not just allow the exporter to move in and use a low price as a method of getting quick consumption). We set up a group of six exporters who agreed to follow a discipline in things like always having lamb available, agreeing to supply half their product in cuts, agreeing to a common pricing operation and various other things. Now a lot of people have though this hasn't worked. In actual fact it has worked not too badly and I think it might be worth while trying again. The trouble is that the only real reason why we could isolate the German market was because of various hygiene requirements. You cannot isolate a thing like the Belgium market because Belgium can just as easily get lamb from Rotterdam from France or from Hamburg - anywhere. There is very free interchange. We did have an opportunity in Germany where they had a special inspection system.

One other small story about the changes that have taken place; when we were selling all our lamb to the U.K., in many ways it was a pretty simple marketing operation. When I say marketing, it was not purely commodity trade; it had a certain element of marketing in it. It was sold in probably the worst possible way that any goods can be sold - on a consignment basis. The people who were selling it were selling it on commission which, on the face of it, is the worst possible method of selling anything. In actual fact, it worked pretty well, because of the very close long term relationship between the exporter here and the importer or wholesaler in the U.K. Both exporter and importer had a common interest in servicing the only market open to them in the best possible way.

But of course as soon as we started to diversify into a great number of other markets, this method of selling became a quite impossible one, and even more impossible when you are selling to a single buyer. Some mutton was sold to Russia quite early on, but in about 1970 both Peru and then Chile wanted to buy small quantities of mutton. The Peruvians bought through a central buying agency and it became clear that if you have only got a single buyer, the more sellers you have, the more the price will be depressed. Taking note of this, it was agreed that Dalgetys would be the single agent for New Zelaand in Peru although the Meat Board was the actual contracting party. In Chile, the Meat Exporters Council had got going and the Board consulted the Meat Exporters Council and said "who do you think would be a suitable person to deal with lamb there". They suggested Amalgamated Marketing (Dairys as it was then) because they had no freezing works and they had to buy it from a variety of people.

This matter of a single buyer turns up in a great number of cases in various ways and the next place where it started to turn up was in the Middle East, where both Iraq and Iran had single buyers. The Iraq organisation is pretty left-wing and very centrally organised anyway, whereas in Iran there was a meat importers organisation which really bought all the meat. It became clear that if we appointed one single seller to either the Arabs, or the Persians, who were both keen traders, this would be unacceptable and so again in collaboration with the Meat Exporters Council we arrived at a system by which there would be a number of people offering to sell to both countries, but by chance the price that they were offering would be the same. There was a little bit of flexibility in the pricing, however, in that one seller could perhaps charter more cheaply than another. I think that dealing with some of these single buyers that this is really the way that we have got to continue to go about it. It gives the impression that there is a little bit of competition but also ensures that, although using a variety of sellers we don't undermine the price.

I would like to say a word or two about the schemes that have been introduced for stabilising or smoothing the price of meat to the farmer. At the end of the bulk purchase period there was about fifty million pounds which the New Zealand Government had received from the British Government but had not paid out to the farmers. This was not actually given to the Meat Board, but it was agreed that the Meat Board could use it for supporting prices among other things. Between 1954 and 1960 this facility was used quite extensively. Prices were fluctuating fairly violently and there were quite big withdrawals from the fund. Through the 1960's, prices remained pretty stable, but as inflation continued the fund continued to depreciate. As the volume of meat increased and the fund therefore became relatively less significant, the Board became less anxious to have the funds depleted and so during the 1960's there was very little use made of the fund. From 1972 onwards, prices started to vary more greatly from year to year. The 1972 year was very bad for lamb and the Board actually bought about 12 million lamb carcasses (and made a lot of money on it). But quite obviously we could not assume that we were always going to make money. So during the early 1970's, we started to talk about a method by which we would support the price. However, we needed some method of rebuilding the fund so that the fund didn't just run down completely. This coincided with the time when the Labour Government was in power and, curiously, the Government's interest was less in supporting the price of meat than in deducting as much as possible from the price when the price was, what they thought, too high. However, at least we were thinking along the same lines. We wanted a scheme with which we could support the price; the Labour Government primarily wanted a price scheme by which they could keep the price down when it was high. And so it didn't take too much argument to come to an agreement on a scheme.

There is at the moment an interesting situation in which the Government has a sort of improved scheme over and above ours. I don't think that anyone doubts the fact that it would be advantageous for Governments to support the price of farm products, so that our farmers remain viable and so that there is enough money being reinvested in farming to increase farmers' productivity, however, there are some possible drawbacks. One of them is that it is far from clear that in a country where agriculture is so important, as it is in New Zealand, that any Government can really afford, in the long run, to pay out more than it gets. The present Government is in a bit of a quandry as to decide what its price support scheme really means. Out of one side of their mouth they're saying "really, it's only a smoothing scheme", and out of the other side of their mouth they are saying "it's a scheme to support farmers' income" (see Budget, 1978). As I say, in the long run it seems unlikely that any Government can really pay out much more than it receives, as indeed Walter Nash found out some 40 years ago when he invented a scheme for a guaranteed price for butterfat but farmers found they only got out of it what overseas people paid. The more dangerous thing is in countries where agriculture is a very important part of the whole export economy. The Government might say "no we can't afford to pay out more to farmers than is received", but "we can of course, afford to pay out less". This is what happened in Argentina and Uraguay where there has been, over the last 30 years, enormous deductions from farmers' incomes to support the rest of the community, with terrible financial results to the country as a whole.

The Board believes (and I can still speak for the Board in some sort of way) that a smoothing scheme is necessary. Wide fluctuations in foreign markets are upsetting to the whole community. The bottoms of the troughs should be ironed out and the scheme should be self-balancing. If you are going to have a scheme which is self-balancing then obviously you are going to have to pay some back at some stage. However, in my opinion, there should be a fairly wide price band, that is, there should be a considerable difference between the support price and the trigger price. The Government's philosophy at the moment, however, seems to me to really end up in trying to ensure that a somewhat higher support price is guaranteed. Now if you are going to have a self-balancing scheme, then with a high support price, you have got to have a low trigger price. I think, in the long run, the Government would like to narrow that band. The Labour Party would have liked to narrow the band so completely that there would be a single price for the year. This doesn't seem to me to be the best method of doing it, but it is at least one method.

THE NEED FOR A GLOBAL MARKETING STRATEGY FOR LAMB AND LAMB PRODUCTS

Dr T.D.C. Cullwick,
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1. Introduction

Since the late 1960's the meat industry has undertaken an active diversification programme to reduce its dependence on the traditional United Kingdom market and by 1978/79 sales to markets outside the United Kingdom had reached 96,354 tonnes (30.1%). This market diversification has resulted in modifications to the product mix, with a major emphasis on primal cuts to the United States and Canada, boneless and portion control products to Japan and Europe and the increased export of chilled lamb. By 1978/79 frozen carcases represented 80.4% (257,222 tonnes) of all lamb exports, primal cuts and chilled carcases represented 18.1% (57,910 tonnes), and boneless cuts represented 0.7% (2,205 tonnes).

Recently there has been a spectacular increase in sales to Iran and Iraq with projected 1980/81 sales of 70,000 tonnes and 30,000 tonnes respectively. However, at the same time (September 1980) an agreement had been reached on reducing the duty on lamb into the European Economic Eommunity (EEC) from 20% to 10% and a quota of 245,000 tonnes was established. Lambing percentages for this season are at high levels and a record level of export lamb production is anticipated with some estimates of 400,000 tonnes.

While many see these developments in euphoric terms, I think we must seriously consider a broader global approach to marketing New Zealand lamb. In order to support my proposal I will examine New Zealand marketing performance in its export markets. First of all the traditional U.K. markets will be examined and then the developing markets including the EEC countries, U.S.A. and Canada, Japan, Iran, Iraq and other Middle East countries, Mediterranean countries, Pacific Islands and Africa and the Caribbean. Following this I will consider some issues associated with a global marketing approach and finally the organisation changes needed.

2. Present Lamb Markets

2.1 United Kingdom Profile

2.1.1 Background

It is estimated that 90% of New Zealand lamb sales are made to retail consumers and 10% to food service groups. Thirty-five percent is sold through supermarkets and multiple butchers, and 55% is sold through independent butchers. Nevertheless the share of lamb and mutton of total meat consumption had declined from 18.6% in 1955-62 to 12.2% in the 1970-77 period. The major substitute has been chicken (increasing from 3.8% to 14.3% and pork (5.8% to 8.0%)). A recent study by Sheppard (1980) also reports that the price for lamb and mutton has increased in real terms by 11% over the period, compared with chicken (-36%,), pork (+2%), and beef (+23%).

This decline in lamb consumption has been associated with a reduction in U.K. lamb imports from 289,805 tonnes in 1969 to 205,378 tonnes in 1979. In addition there have been ongoing increases in processing, shipping and marketing costs. By January 1980 the FOB to ex depot (U.K.) costs were $16.04 per head, an increase of 34% in the last two years. Less than 15% of lamb is now being sold through Smithfield, with increasing amounts being sold ex-ship, ex-depot, etc.

The selling of lamb in that market involves the Meat Board with control of the shipping programme, and a $4 million promotion budget. Thirty three sellers are active on this market with the following major sales shares being estimated:

	GLOBAL	UNITED KINGDOM
W.R. Fletcher (Vestey)	20%	18%
Thos. Borthwicks	23%	14%
Towers (Waitaki/N.Z.R., S.F.M., H.B.F.C.)	21%	25%
PML/PPCS	17%	21%
Farmer Pools	12%	15%
	93%	93%

2.1.2 Marketing Performance

Three problems can be identified.

(i) Product Quality

These include variable product tenderness, variable levels of fat cover which is often excessive, and poor carcase conformation including small eye muscle.

(ii) Packaging/Presentation

Packing and in-store presentation in supermarkets has remained at a poor level while other meats have improved their presentation. This is accentuated by the traditional problem of marketing a frozen product in competition with fresh meats. New Zealand lamb is well-known but the visual impact in the stores of surface dessication and over-wrapping, gives the impression that the promotion programme is overselling the product. Overall, New Zealand lamb may be viewed as having a "loss-leader" image in the supermarkets.

In addition consumer demand is shifting towards portion cut products, mince and other convenience products. Our primal lamb cuts are not well positioned to meet these changes in consumer preference.

Despite the importance of supermarket sales it is clear that butcher shops still have an important role. Their approach to semi-thawing the product to improve presentation contrasts substantially with present approaches to supermarket merchandising for lamb.

(iii) Overall Marketing Policy

The present structure of demand for lamb appears to be increasingly sensitive to the level and pattern of supply, as well as stocks of lamb in the United Kingdom. In line with this is the view that there will be a need to restrict lamb exports to that market in 1980/81 to 180,000 tonnes to retain some level of profitability. As well there is the view that it is preferable for less product to be held in storage in the market, along with more control on the market release of lamb.

Efforts to increase the base of demand for lamb will increase the need to understand the nature and requirements of the food service (hotel-restaurant-institution) sector in more detail. As well will be the need for improved understanding of the retail sector.

Establishing a stronger position for lamb products implies the need for an integrated approach to branding, packaging, product development, promotion, distribution, pricing, and research. However, this is hindered by the thirty-three sellers to this market.

It is my view that this multiple seller approach to this market is not consistent with the unified marketing approach that is required. Accordingly it is suggested that there is a strong need for classifying it as a "development market" with limited selling access rather than the traditional trader approach.

2.2 Profiles of other Lamb Markets

The difficulties in the United Kingdom market highlight the importance of reviewing briefly the opportunities for lamb sales in our other markets.

2.2.1 Continental EEC Countries - 18,084 tonnes - 5.7% in 1978/79.

Generally these are small volume markets with higher prices than for the United Kingdom. The longer term prospects are somewhat confused because of the impact of the Common Agricultural Policy (C.A.P.). A quota and tariff of 10% is in effect but it is considered that there has only been limited marketing representation committed by exporters or their agents to develop these markets. Seller access to Germany was initially limited to five companies and the industry report only mixed success for that market.

2.2.2 United States/Canada - 23,757 tonnes - 7.4% in 1978/79.

These countries have "development market" status for lamb exports and the Meat Export Development Company operates as the sole seller with one third of lamb exports sold to the food service sector. Nevertheless the per capita consumption of lamb has declined dramatically over a number of years and this product is a low volume meat item for supermarkets. This poses substantial problems for achieving acceptance and support for the product in a wide range of stores. The Canadian market has much wider distribution coverage and support than in America.

While there has generally been a good consumer response to mass media promotion programmes, the level of consumer loyalty is questionable. In the future it is likely that a greater marketing emphasis at the retail level for selected geographic market segments will be important. Also important are the relative prices between the different types of meat.

2.2.3 Japan - 18,243 tonnes - 5.7% in 1978/79

While lamb is a non-traditional product for Japanese customers, the high price of beef assists its price positioning. Market requirements emphasize primal and processed product specifications. While Japan is an open market for lamb, exporters have had to overcome difficulties associated with the Japanese distribution system.

2.2.4 <u>Iran/Iraq/Other Middle East Countries</u> - 20,496 tonnes - 6.4% in 1978/79.

Consumers in these countries have traditionally eaten sheep meats and their increasing per capita income means they can afford sheep meat imports. There has been a long development time to achieve the present access and increasing levels of sales. At present this region pays the highest prices for lamb exports. The Meat Exporters Council and the Meat Board have declared Iran a "development market" with sales for 1980/81 confirmed at 70,000 tonnes, and for Iraq of 30,000 tonnes. Nevertheless this region is economically, socially and politically fragile and hence there is a high degree of risk for our trade.

2.2.5 <u>Mediterranean</u> - 16,859 tonnes - 5.3% in 1978/79.

Sheep meats represent a traditional item of consumption in these areas, with the majority of lamb exports being to Greece. That market has fluctuated from year to year and there will be an EEC quota of 11,000 tonnes when Greece joins the Common Market.

2.2.6 <u>Pacific Islands</u> - 10,016 tonnes - 3.1% in 1978/79

There are a number of small but attractive markets through this region. Major areas of demand at present are in Fiji, Papua New Guinea, French Polynesia, Tonga and Western Somoa.

2.2.7 Africa/Caribbean - 2,809 tonnes in 1978/79

Small specialist markets exist in the Caribbean which have traditionally been sheep meat consumers.

2.3 Strengths and Weaknesses of Present Selling Approach

The strengths of the present selling approach can be summarised as follows:

(i) The commercial enterprise based system has sold up to 350,000 tonnes of product in a given year with reasonable returns to producers.

(ii) There has been active diversification away from dependence on the United Kingdom market.

(iii) The processing and marketing system manages the seasonal nature of supply and the perishable nature of the product on a year to year basis.

(iv) Current developments in the Middle East and the United Kingdom have resulted in the Meat Exporters' Council and the Meat Board working more closely together.

(v) Farmers have confidence in the system and present increases in production are consistent with this view.

(vi) A few companies (mainly small) are developing expertise and profitable returns from processed products supplied to specialist markets.

(vii) Standard product grades are well-established and well-known by the traditional marketing system participants and farmers.

2.3.2 Weaknesses

However, the system has a number of weaknesses which include:

(i) The selling of lamb on major markets is characterised by a commodity trading approach. There is little commitment to a marketing approach in those markets which are attractive to this orientation e.g. United Kingdom, EEC countries, Japan. In addition the Devco approach receives only limited supply support because its net return to suppliers is not viewed on a global basis by meat exporters.

(ii) Markets for lamb are increasingly being subjected to access barriers or central buying.

(iii) The Meat Board has a primary focus on the return to the farmer on a year to year basis through encouragement of fair schedule prices to the farmer by meat operators, or through the encouragement to sell on a 'pool' basis.

(iv) The 'open door policy' for processing of farmers' stock and the follow-on of 'pool' or 'own account' reinforce a focus on the right to choose on a short term basis without regard to market commitment or development.

(v) Market forces are reflecting different price levels between markets and the present system does not recognise the importance of all markets. 'Own account' selling reinforces a focus on the owner of the stock's (the farmer) right to choose his selling approach without regard to market commitment or development.

(vi) Present trends indicate that the returns to the farmers over time have been maintained by the devaluation of the New Zealand dollar, and not by the contribution which could be achieved by a sustained marketing approach in the world markets for lamb.

(vii) Changes in the marketing environment for lamb in different countries and product competition challenge the ability of the traditional approach to provide adequate returns from lamb on a national basis or to the farmer in the 1980's.

3. A Global Profile for Lamb Trade

Recent Food and Agriculture Organisation (F.A.O.) estimates have been evaluated by Ojala (1980) in terms of New Zealand export trade. He outlines the following import trends for sheepmeats for the year 2000:

Western and Eastern Europe and U.S.S.R.	- Decrease
North America	- Increase
Japan	- Increase
East and South East Asia	- Gradual Increase
Near East (Middle East)	- Substantial Increase
Latin America	- Little Change
Africa, North and West	- Gradual Increase

Specific net trade projections were developed in that report and are outlined in Table 1.

Caution is required in interpreting the projected net deficits and export availabilities as actual trade prospects because there are such questions as trade access and demand at world price levels. Ojala also notes that "the availability of markets with great expansion potential will be of small avail without a stronger component of professional marketing in orienting the New Zealand response". Production must be increasingly well adapted to the markets instead of markets being sought for what the New Zealand system happens to be producing.

Table 1

Net Trade Projection for Sheepmeats

	'000 Metric Tonnes		Self Sufficiency %	
	1975	2000	1975	2000
European Community	-295	-361	73	73
Other W. Europe	-3	-9	97	94
N. America	-21	-358	91	1
E. Europe/U.S.S.R.	+39	-106	103	93
Australia/New Zealand	+525	+889	199	233
Japan	-119	-255	-	-
Latin America	+19	-325	105	59
Africa	+18	-1,276	103	42
Near East (Middle East)	-101	-2,130	91	44
Asia and Far East	-14	-1,112	98	43

With the introduction of the sheepmeat regime in the EEC, sheepmeat trade to EEC countries has become highly controlled. This is part of a worldwide trend towards controlled markets for this product category. To illustrate - by 20 October 1980 the situation was as follows:

Quotas - EEC		50%
Single Buyer	Iran, Iraq	25%
Markets	Greece	4%
Single Seller Markets - U.S.A./Canada		6%
		85% of exports for 1980/81

A further factor of interest in world trade in lamb at present is the wide variation in prices being obtained and the fact that the United Kingdom market does not provide the best return. My price estimates for 1980/81 are shown in Table 2.

TABLE 2

Price Estimates for Lamb - 1980/81

Country	Price Per Tonne F.O.B.
United Kingdom	$1,750 (Carcases)
Iran	$2,400 "
Iraq	$2,300 "
Greece	$1,600 "
U.S.A.	$2,200 (Primal Cuts)
	$1,750 (Carcase equivalent)
Other EEC	$2,400 (Primal Cuts)
	$2,000 (Carcase equivalent)
Japan	$1,300 (Boneless Cuts)
	$900 (Carcase equivalent)
United Kingdom	$2,700 (Boneless Cuts)
	$2,000 (Carcase equivalent).

The likely market balance for lamb exports in 1980/81 is estimated in Table 3, along with sales to these areas in recent years. Clearly New Zealand lamb is sold in many markets and the exporters have been able to balance the supply with demand in these countries.

Nevertheless the production estimates of 390,000 to 400,000 tonnes for lamb in 1980/81 represent a substantial supply increase over the level of approximately 320,000 tonnes which had been stable for some years. This surge in production will provide real challenges to the existing selling system and philosophies, if profitable returns are to be achieved. The benefits of a marketing orientation being introduced to the industry will now be outlined.

4. A Global Marketing Approach - Some Important Issues

The export lamb industry is dependent upon demand in a number of world markets to remain commercially viable. New opportunities will involve a major emphasis on market development in specific countries rather than continued country diversification of sales. This will require an integrated approach to the role of different markets, the different levels of profitability, and the need to balance sales returns with market or economic risk. This section will discuss a number of important

TABLE 3

Lamb Sales Pattern and 1980/81 Estimates

	1976/77	1977/78	1978/79	1979/80	1980/81 (Est.)
			(Tonnes)		
United Kingdom	210,067	179,925	205,378	180,661	180,000
Other EEC	11,338	20,493	18,084	12,747	20,000
Greece	4,399	14,894	14,267	4,667	10,000
Other W. Europe	3,707	3,577	4,377	3,530	(a)
Canada	7,105	9,114	8,597	9,976)	25,000
U.S.A.	7,328	12,477	14,187	10,928)	
Hawaii/Mexico	296	533	973	934	(b)
Caribbean	2,088	2,339	1,889	2,384	(c)
South America	29	88	42	176	(d)
Iran	27,384	27,145	3,668	64,632)	
Iraq	9,051	2,733	13,111	11,665)	105,000
Other Middle East	3,241	2,852	3,716	20,742)	
Africa	1,199	1,012	921	828	(e)
Japan	14,305	15,279	18,243	12,666)	20,000
Other Asia	2,915	2,535	2,347	2,217)	
Pacific	6,925	8,501	10,016	11,388	10,000
					8,000*
TOTAL EXPORTS	311,377	303,504	319,816	350,138	378,000

NOTE: Meat exports by shipment for 12 months ending September of each year.

* An estimate for the small markets (a, b, c, d, e).

issues associated with the change to a global marketing approach.

4.1 Market Mix

Traditionally the industry has talked of market diversification and this has mainly involved seeking out markets for traditional lamb products in new countries. More recently greater understanding of specialist market segments has been sought by exporters in terms of food service or sophisticated retailing requirements. The market mix for lamb may be viewed in terms of the following sections.

4.1.1 United Kingdom

Uncertainties exist on the nature of the impact of the EEC quota system but prices of domestic lamb products are likely to rise. With price rises, there will probably be an increase in local supplies and a decline in total lamb consumption. Sheppard (1980) believes the net import requirements may fall as low as 150,000 tonnes. It is a market in which an aggressive and unified approach to marketing is required to revitalise demand for New Zealand lamb at realistic price levels.

4.1.2 Middle East

In this region there are single buyer-trader type markets, with a traditional sheepmeat consumption. Increasing affluence points to a high level of potential demand from this area provided relative economic and political stability is maintained.

4.1.3 Medium Sized Specialist Markets

Lamb is a complementary/variety product in meat consumption. Countries in this group include Continental EEC countries, U.S.A./Canada, and Japan. High standards of product quality, packaging, and overall marketing are required.

4.1.4 Small Sized Specialist Markets

These exist in a variety of countries and will involve food service or specialist retailing demand. Generally it is believed these will be associated with food consumption in metropolitan communities.

4.1.5 Summary

Important aspects of this market mix are:

(a) The rapidly increasing importance of sales to Middle East countries and the extent of dependence on that region that should be accepted.

(b) The role for small and medium sized markets. Specifically what is the long-term position for countries such as Japan, and the range of markets with sales of approximately 500 - 1,000 tonnes. Increasing production could result in an additional 30,000 tonnes or so for which profitable markets are required. Is the desired option for that to be sold on a trader basis to the Middle East or should a major emphasis be placed on developing thirty markets each of approximately 1,000 tonnes? This latter group would require a major commitment to the basic levels of marketing - a customer orientation, an integrated approach to the marketing mix elements, and a long-term view with emphasis on profitability, and not just sales volume.

4.2 Sales Revenue and Schedule Pricing

Lamb sales are made to a variety of markets with a range of product specifications, pricing levels, and profitability. An on-going debate has emphasized the need for increased processing of lamb into "added value" product for export. Meat exporters indicate however that while the export revenue is higher, generally it has not been profitable for the company, or relative to schedule, on which they are judged by the Meat Board and farmers.

A key element in the industry's operation is the price level offered to farmers on a per grade basis, as specified in the weekly schedule. This is set by exporters to reflect their expectations of average returns from all markets. Farmers traditionally have elected schedule price for their lambs or chosen to sell through one of the variety of Own Account or Pool systems. In some years (e.g. 1978/79) the Meat Board will actively encourage farmers to elect to sell through Own Account or even to take over the lamb itself for selling if the schedule falls below the minimum price that is operating.

It is important to recognise that if a farmer chooses the Own Account or Pool approach he has no need to consider the wider role of multiple markets on a year to year basis. He specifically seeks a short-term profit against schedule (sometimes a loss!). Selling through this system has, in my view, a very short-term orientation which is inconsistent with overall marketing requirements in the present and future lamb trade environment.

4.3 Marketing and Processing Relationship

Processing and marketing activities require separate licenses, but farmer choice plus the location and ownership of freezing works has made control of supply a critical element in lamb marketing.

Over capacity for lamb killing developed in the mid 1970's and this reinforced the reluctance of existing processors to allow new entrants. The recent growth in lamb production should encourage a more open attitude, as will the current delicensing legislation. An indication of the relative changes in killing capacity may be viewed as follows:

	1970/71	1973/74	1978/79
Weekly Capacity at Peak	1.813 Mill	1.933 Mill	1.955 Mill
(Lamb Equivalents)		+6.6%	+1.2%
Sheep Numbers	60.23 Mill	56.68 Mill	62.16 Mill
		-5.8%	+9.7%

The lamb export requirements of the 1980's requires marketing oriented companies which may be large or small; specialist packaging facilities in New Zealand or in the market; and competitive and open access to the supply of raw material.

Processing development is likely to follow the pattern established some years ago in the United States. These plants were relocated near stock supply, and smaller facilities were built. In addition there will need to be consideration of both ageing and conditioning facilities for all lamb, as well as increased cutting to the primal stage to offset inflation and freight costs. Unfortunately present efforts in cutting are often viewed as high cost because of relatively low productivity.

4.4 Lamb Quality and Product Development

Recent research I undertook in Europe into processed lamb product opportunities raised many issues concerning the quality of New Zealand lamb. There is a need for lean well muscled carcases of good conformation. Most consumers resist excess fat cover on their meat, and the eye of meat in lamb chops has become increduously small. This is believed to be the result of changes in carcasse conformation associated with longer carcases. In addition heavier carcases aid in reducing the per unit costs incurred in processing.

Many farmers view sheep as a dual-purpose animal because their income is approximately - lamb meat (20%), pelt (8%), other meat (25%), wool, etc. (47%). The schedule is viewed as presenting no consistency to encourage heavier weight, leaner, well muscled carcases but other important factors include climate, breed, and stock management.

It appears timely for farmers and marketers to question whether there has been a substantial change in carcase (product) conformation. From a marketing viewpoint there is a need to urgently reassess the role of meat breed sires, the opportunity for early and late maturing breeds, and an assessment of the opportunity to increase weight in early season lambs (products) without problems in fat coverage or conformation.

Most exporters view processed products as a growth area for the future but with modest levels of profitability. Difficulties in processed product development are seen in terms of:

(a) Identifying specific customers and their requirements.

(b) Shortage of working capital.

(c) Achievement of quality standards.

(d) Positive attitudes and commitment of executive management.

(e) Access to competitively priced raw material, i.e. carcases.

There are several factors which are positive for encouraging progress in further processing. They are: (i) customers are seeking processed products, (ii) freight rates favour carton packs, (iii) progressive management is appearing at the operating level and they are less bound by tradition, (iv) export incentives improve profitability, but a long-term commitment is required by senior management, and (v) overall there is a need to foster investment in companies (many may be small) to encourage more development and marketing of processed products.

4.5 Organisation Resistance to Marketing

Throughout this discussion I have emphasized the importance that marketing will have in the future for lamb exports to be successful. Nevertheless many organisations resist the adoption of a marketing orientation. Why?

(a) Marketing is viewed as an academic concept and <u>not</u> a real world concept.

(b) The initial benefits of marketing are often difficult to assess.

(c) Marketing is only done when you can afford it.

(d) There is a lack of commitment to marketing by senior executives.

(e) General management attitudes prefer the status quo whereas marketing involves planning for and adapting to change.

4.6 Why is a More Marketing-Oriented Approach Required

A more marketing-oriented approach is urgently required and forced by the nature and extent of changes in world markets for lamb. These market forces include:

(a) The declining position of lamb in the major market - United Kingdom.

(b) The E.E.C. sheepmeat regime quota which requires orderly marketing plus improved market realisations.

(c) The economic risk associated with politically fragile but profitable Middle East markets.

(d) Increased controls on access or selling in most lamb markets.

(e) The impact of inflation and currency fluctuations.

(f) Specialist segments for lamb products exist in competitive markets in a number of different countries.

In parallel has been the substantial increase in lamb export production prospects for 1980/81 and beyond so that a sales gap against supply will likely exist. The Meat Board and the Meat Exporters Council have encouraged some changes in the export approach to respond to these market forces. Nevertheless it is my view that more substantial and basic changes are required.

5. Organisation Changes to Achieve a Global Marketing Approach

Finally consideration will be given to the organisation changes needed. There are four options that it would be useful to consider. These are reviewed in the following sections:

5.1 Status Quo

This is not viewed as being viable because the sales revenue to New Zealand and the individual farmer is based on a product position and market system which is weak relative to competitive products, and changing market systems. There is also the need for an increased demand to be developed in selected world markets to balance supply projections at a profitable level.

If the status quo option is seriously considered by some groups, then I believe our national agricultural production policy (and incentives) should be to discourage any further increase in export lamb production.

5.2 Meat Exporters Council/Meat Board Liaison

Currently both groups speak positively of their close working relationship, especially in such areas as the lamb contract to Iran, and the controlled storage and shipping to the United Kingdom.

This liaison approach has involved limited access selling in several markets, and development assistance in other markets. However, it is not viewed as effectively dealing with such factors as: the short-term selling orientation of the pool system or co-operatives; or multiple selling (e.g. United Kingdom); or lack of marketing commitment, on a global basis.

5.3 New Zealand Lamb Marketing Limited

This company would involve equity participation by the Meat Board and individual exporters. It would be responsible for the marketing of New Zealand lamb on a world-wide basis through the appointment of New Zealand lamb selling agent(s) for specific markets. At the time farmers would have the right to sell only on the farms, to take schedule, or to participate in a single national Farmers Pool under the control of this company.

The appointment of exporters as agents would be possible, as an extension of the Meat Exporters' licence (Meat Act, paragraph 65) on a market basis. In addition it would require equity participation plus levy in proportion to the sales volume of a company on a global basis.

The company would be responsible for market development planning and on-going marketing activities for lamb. These include grading, product development assistance, pricing policy in different markets, shipping and distribution, promotion and market research. It would be responsible for balancing the returns from different markets after assessing the relative importance of revenue, volume and profitability.

Individual exporters appointed as selling agents would retain title to their product but the equity and operating costs of the company would be shared on a commercial basis between Meat Exporters and the Meat Board. Where appropriate the company could establish subsidiary companies or itself act as the sole agent in a selected country.

5.4 New Zealand Meat Board Limited

This option would involve the establishment of a single seller organisation (similar to the New Zealand Dairy Board) for meat, which as a trading organisation would be responsible for the marketing of New Zealand meat.

The industry would involve independent processors operating with and through a single seller on a global basis.

5.5 New Zealand Lamb Marketing Limited - My Preferred Option

This alternative is favoured and is viewed as an approach which will combine both flexibility and control to effectively develop the global marketing approach that is required for the 1980's.

The company would have ten nominated directors; four being nominated by the Meat Producers' Board, four being nominated by the Meat Exporters, and two being nominated by the Governor-General.

The number of agents to be appointed to specific countries (and/or markets) would vary. The following approach is suggested:

United Kingdom	-	Five agents being Borthwicks, Vesteys, Towers, CWS, and the Co-operative (including Pool) group.
Iran	-	Borthwicks
Iraq	-	Vesteys
U.S.A./Canada	-	Devco
Japan	-	?
Others	-	To be determined.

It is important to note that smaller and medium sized enterprises would be actively encouraged to be agents in countries with smaller demand, or in specialised segments of other markets. The new company would have a major responsibility to encourage smaller packaging/marketing specialists to develop on an individual or joint-venture basis and to ensure competitive access to suppliers.

This approach is based on the assumption that the farmer's ability to elect to take "pool" or schedule in the content of the present approach to minimum pricing is a conflict situation which acts against orderly marketing on a longer-term basis. The pressure of the Meat Board to either take over lamb selling if the schedule falls below the minimum price, or to encourage farmers to sell through the "pool" system, emphasize the short-term approach of lamb selling as compared to marketing.

The achievement of progress towards the operation of the New Zealand Lamb Marketing company will involve several decisions. These include:

(a) A revision of the Meat Board's policy of open door killing linked with pool selling systems with a view to having only <u>one</u> pool or co-operative selling system.

(b) An immediate reduction in the number of exporters authorised to market New Zealand lamb in the United Kingdom market. A limit of five agents is suggested, with the United Kingdom then being viewed as a "development market".

(c) The establishment of the New Zealand Lamb Marketing company to take over the responsibility for marketing New Zealand lamb on a global basis. This responsibility to include balancing the returns and risks from various markets on a national basis, as well as marketing management activities for the product in the different markets.

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DISCUSSION PERIOD

QUESTION:

Dr Tony Zwart, Lecturer, Agricultural Economics and Marketing Department, Lincoln College.

Professor Cullwick, I'm rather interested in your suggestions concerning marketing strategy and the approach that you talked about for the different markets. What concerns me is the fundamental difference between agricultural products and a lot of the other products that we talk about when we are looking at marketing. You nominated five different types of marketing or types of markets we might have in the future; a basic and controlled market in the U.K., a large single buyer market in the Middle East, medium-demand specialised product markets, small demand specialised segments plus a lot of small markets. (You mentioned that even in those small markets we should be looking at very controlled prices). What concerns me is the tremendous amount of supply control implied in this strategy and I would like to know how the marketing mechanism is going to react when N.Z. gets something like a 20% oversupply in any one year. It seems to me that the area where these schemes often break down is that you don't have the required control over supply. If you did want to have control over supply how would you implement it? I see this as being a major problem.

ANSWER:

Professor Cullwick

The reality is we're going to have to learn to live with controls. Let us make sure, when we talk about control, that we understand the realities of the situation. Whether control be through a single buyer - controlled access like the EEC, or the controlled franchise like we have in Devco; we have control. These are institutional controls which are being imposed on us irrespective of what we want to do. The classic trade-off that we are all faced with is that next year (1980/81) we expect to have 400,000 tonnes of lamb produced and looking at our balance of markets we run into the situation I ran into in New York this year where somebody says "Oh could the U.S. take an extra 30,000 tonnes of lamb this year". Now that market, weak as it is now, would be wrecked if we sent that amount to it; not only the prices that we would get within the market but you can rest assured that the access to that market would be disrupted even more. Now we have a quota of 210,000 tonnes to the U.K. and we have to orderly market there, and in the rest of the EEC countries. So we must take a unified approach which requires that if we go to an oversupply situation, we have got the tradeoff between saying we go from 180,000 tonnes to 210,000 tonnes which is all we are allowed into the U.K.; or from a global point of view we might say that is very bad because it is going to drop the price in the U.K. If we don't take a different approach to developing that market, can we put an extra 30,000 tonnes in there? What is that going to do to our present price structure and our position in the market. We might be able to develop towards that, if you use controls. If there was an extra 60,000 tonnes of oversupply, under the quota you could send no more than 30 to the U.K. (in addition to a base of 180,000 tonnes). You then have the trade off on a year to year basis. Do we go along to the Middle East countries who look to be big trader markets and say "we offer an extra 30,000 tonnes" to take account of the oversupply? There is no control in there other than through the trading mechanism. This may be useful as a tactic we have to use in some years but as a strategy it is not very satisfactory. We want to give encouragement to companies to try and get more specialised markets in a number of countries who, in the aggregate, add up to 30,000 tonnes so that the trade off between straight trader or dumping becomes less acute, as part of a development strategy. It is not really an emphasis on control, it is working out where we want to put our relative market development emphasis.

COMMENT:

Tony Zwart

But we still need a sort of safety valve of some kind because these overproduction periods could be very short term and as you said yourself we run into grave danger of wrecking some of these so called control markets if we suddenly have to try and put extra quantities into them.

ANSWER:

Professor Cullwick

Well I think the reality is we have got to accept once and for all that the idea that we can dump products on a market in an oversupply situation willynilly as part of a development strategy is wrong.

QUESTION:

Tony Zwart

But are we going to tell our farmers that we will give them more if they produce less? How are we going to tell the farmers to produce less? That is the difficult part.

ANSWER:

Professor Cullwick

No that is not the difficult part. The farmer who wishes to increase production today has to realise, and I think a lot of them do realise, that the situation and the pricing in the U.K. is fragile. (I believe that if we limited the number of sellers on that market we might be able to move the situation back and get better prices; if we have a sustained market development approach in that market). We have to minimise the downside risk of the dangers of an oversupply situation. In the end we may have no option but to follow the high risk strategy of sending much more to the Middle East countries. The Dairy Board has a policy now of not selling more than 30% of their product to any one economic area because of the political and economic risk problems. We may well have to take the high risk strategy with lamb. I think we do. But let us all be well aware of it. There is no control in that but rather a marketing strategy being formulated.

COMMENT:

Dr Hilgendorf

Let us start on the last point. I think it is a mistake to think that there is no thought being given to this.

The fact is that there is a fair amount of thought going into it. I agree with Dr Zwart that it is a fearsome thought to envisage a single monolythic monster dealing with all these things. How do you know it is right? Surely it is better to have a little more pragmatic approach to it; not with no planning at all, but to assume that you can really decide how much is going here and how much is going there from year to year, I think is a mistake. However, Professor Cullwick and I are right on the same wavelength as far as control in the U.K. is concerned. We both agree that there has to be a lot more control in the U.K. I think that this is really the nub of the question. I believe that his second alternative, a combination between the Board and the Meat Exporters Council, can work perfectly well and not only can it work perfectly well, but it is more likely in the long term to be right, rather than a single authority making all the decisions. I'm in entire agreement of course that the easy way is to say we'll have one controlling authority. The more difficult alternative in my opinion is still more likely to be right, although it is certainly more difficult. There are going to be considerable difficulties in getting a better organised selling organisation in the U.K. but I would agree with Professor Cullwick; I personally would have a limited number of sellers in the U.K. and the number would be determined by whether they could meet certain criteria: that is they would market over the whole country over the whole year and they would either themselves own cold storage and distributive facilities or have contractual access to them. With these requirements you would get it down to a very small number very quickly. The only trouble is that we have a real difficulty with the farmer pools and the co-operatives. These are politically difficult to control both for Government and Farmer Boards.

QUESTION:

Dr Alistair McArthur, Reader, Agricultural Economics and Marketing Department, Lincoln College.

In this structure, you mentioned that it would be a good idea to get new entrepreneurs into the game, but if on the other hand you want more control, how are you, in whatever organisation that you have, going to marry these two things? One is that you want to try and maximise the marginal revenue on every market, or the long run marginal revenue on every market (which I think I would go along with), and you want some control for this. (The movement by the Meat Board in the past in applying penalties for sending too much to the British market has been a move, in my view, along those lines and to be desired). On the other hand we've seen success stories from new people coming into the meat marketing business. I would have thought we'd want to encourage even more of them into the game. I would be worried about your particular structure Professor Cullwick, in that it might result in more control and less new entrepreneurs coming into the show.

ANSWER:
Professor Cullwick

In looking at the research we are doing as to why companies become more internationally marketing oriented, we used to think that you could take some of our traditional sellers and they could all be made marketing oriented. However, we are increasingly of the view that there is almost an attitude and behaviour gap so that we need to have people who are more understanding of marketing, who might be doing this more specialised processing, packaging and so on. But I think that we have two different elements to it. We have the issues of those who do specialised products for specialist segments. It may be to a hotel here, it may be to a food service chain somewhere else, and nothing that I've talked about is aimed at stopping big or small companies being active in that specialised development work. I have not said you take title to the product, I have said that people are appointed as agents, and agents make a lot of decisions. Within a guideline, they are given a franchise, maybe on certain conditions. If you take the U.K., in that market you might seek a range of storage and distribution links for different segments. It is really trying to bring more formal strategic thinking into the industry. Now if you take the small operators, one would as part of that strategy, see for example, equity finance being more actively available to encourage them, to make faster progress in their specialised activities; or to make product supply more available for them on a competitive basis. We still have penalties in one form or another, being charged to people who don't own killing space. In other words, if you want raw material there is plenty of hidden costs that are in the price that people have to pay if they don't have primary access. The Marketing Corporation members could encourage, through working together, the people who own that stock to see the benefit of the role of some of these smaller (marketing) groups.

QUESTION:

Dr Hilgendorf

How are you going to find them in the first place? I mean how would you have found the people like Stevens or Lowe or "Top Trading" in Japan for instance?

ANSWER:

Professor Cullwick

There is nothing that I'm suggesting which would stop those people from evolving.

QUESTION:

Mr Brian Shackel (Shackel Meats)

You have been lucky to have found those people in recent times with the restrictions that have existed on the licenced export meat industry. How do you see the changes that might occur, due to so called delicencing, affecting the strategy that you are suggesting? Will the freedom to establish or relocate some of our slaughtering facilities be as free as it is considered likely to be under the present move?

ANSWER:

Professor Cullwick

I think we face a basic issue. I believe that freedom to access of raw material must be improved rather than becoming the critical element. In other words control of supply has always been a very critical marketing variable. Now if you own a processing plant or own a lot of butcher shops, you are going to want to get supply and one doesn't see anything wrong with that philosophy. However, delicencing still means that if your really want product access (so as to be good at packaging and marketing offshore), then you have to go along and invest in a processing plant. I'm not sure that that is the right sort of thing we should be encouraging. This is what the delicencing bill is about and the delicencing bill still allows for an open door policy and pool multiple sellers.

COMMENT:

Mr Brian Shackel

I see delicencing possibly as something a little different in that, we have had a protected industry; both the share-holders of the companies and the companies themselves, and the labour force within those companies, having an artificial non-competitive environment. I see the lifting of licences making it possible for a new deal, such as you mentioned in the States, where the whole beef and pig kill shifted from Chicago further west to Iowa, Nebraska and Texas and those places. I was over there many years ago myself and was most impressed with what I saw had happened in that field. New entrepreneurs could get into the field; new investors attracted by local counties and states could change the whole structure of the meat industry and it happened within a few years where the stock slaughtering shifted into a new area. I think that is a basic ingredient for a major change in the N.Z. meat industry. If we take that on a little further to extended processing, then you have to change the distribution channels, because if we further process our meat the traditional marketing channels have got to change. You have got to go round some of the people who have purchased the meat for further processing and the loyalties or the arrangements that have been made traditionally with those people would not allow existing wholesalers or exporters to go round to the next step in the chain.

ANSWER:

Professor Cullwick

I don't disagree with anything that you are saying but I think that also in looking at the evolution it is interesting to note that Armour Company (in the U.S.A.) now has no processing plants in terms of what we are talking about as freezing companies in New Zealand. All their work is done on contract packing and they put their emphasis very much more on that packing and marketing end. What I'm asking us to think about is that when we use the word 'delicencing', it is delicencing at the processor/ freezing company level, which I think has a lot of positive things for it. But that does not necessarily mean that people, who want to specialise in the marketing end, will come forward and I look upon this approach not as a control system, but of trying to make it easier for these people to establish. I think that within this agent approach you may declare a whole number of countries where you are going to leave it open to specialised operations. I think it is something that has to develop but if you leave it to the Meat Exporters Council/Meat Board liaison, I'm not convinced that they will solve the problems that we have had in the past with entrepreneureal people wanting to get access to supplies. I think there is another evolution, which we should be well aware of and encourage; that is for companies to be involved more in just marketing and seeing processing (in our terms) as a separate entity.

QUESTION:

John Pryde, Research Fellow in Agricultural Policy, Agricultural Economics Research Unit, Lincoln College.

I am a bit unclear as to what Professor Cullwick thinks of the role of the Meat Board. I am wondering how he thinks you can be both referee and participant in this game, and at the same time carry out the new roles of the Meat Board as a price guarantor and all those other things that they are now doing. Does he see the Meat Board being able to reconcile its statutory responsibilities in this sheep arrangement that he is mentioning, or would he prefer farmers to get into it via their own companies etc. and keep the Meat Board at arms length, on the side as it were?

ANSWER:

Professor Cullwick

The Meat Board has responsibilities which go from the farm gate to the market, and the Meat Board has through the use of its moneys had influence on the development of freezing companies. It has through its policies influenced certain aspects of grading and the schedule pattern and returns to farmers in terms of realisations from the market place. I think the real problem is that the Meat Board has a responsibility of guaranteeing returns to the farmer and the fundamental tenet of that is a weak marketing approach in the industry, including multiple sellers. It is necessary to identify what approach is necessary to make the move forward, and to be consistent with a global marketing strategy. The difference between Dr Hilgendorf and myself involves the selection of the approach to be implemented. I think we both accept the weakness of the Board's role which is still there because the Meat Board is involved either directly, or influentially, around processing licences and exporting licences. In terms of being referee and participant I think that implicitly the Meat Board is already a participant, by its requirement of an open door policy for killing and access to pool selling. So it is already in the dual role and I'm suggesting that there is a two way street. The meat exporters should not expect to get Meat Board money for promotion or development in isolation. Equally, I think that there is going to be a greater level of risk that has to be spread, because of the very nature and volatility of some of our markets. Unless you get into a limited enterprise situation where both parties are sharing in that risk, in a defined and visible way, then at some point in time some of these exporters themselves may have real concern about how much they depend on specific markets. So I see that the

Meat Board is already both referee and participant. I'm just suggesting that the rules are changed.

QUESTION:
John Pryde

But one of the original reasons for the Meat Board, although it is not written, it is implied, was that they were to keep the meat companies honest. Do you think that they can keep them honest when they become such heavy participants themselves?

COMMENT:
Dr Hilgendorf

The difference between Professor Cullwick and me, is that he is going to use a road roller to crack a walnut, which you can do perfectly well with your fingers, provided you are energetic enough. I don't think that nearly enough credit has been given to the possibilities of the Meat Exporters Council, which is only 10 years old. There have been bodies of meat exporters before; there was a consultative council (or consultative committee) which finally fell to pieces because of the antipathy of the processors. The Meat Exporters Council (M.E.C.) has only been going for ten years and I think has had some major successes. It has had a few failures, but provided the Meat Board stands behind it and uses its statutory powers to support the M.E.C., I can see it being a perfectly good body to do the sort of things that we are talking about. But it does need some support. There are some very disparate characters in it and people with very different philosophies and outlooks. But it can be made to work because what we have been able to say, about quite a lot of things, is "over to you boys, you make this work. If you don't, we will have to". There's nothing that brings exporters so quickly to heel as the thought that somebody else is going to do it. I believe that given a bit longer time the M.E.C. can be a body of great importance to New Zealand and really discipline itself in a pretty broad sort of way.

QUESTION:
Professor Cullwick

I would like Dr Hilgendorf to respond to how his Meat Exporters Council liaison group is going to handle the farmer own-account pool seller, which I believe is our weak link?

ANSWER:

Dr Hilgendorf

Now I think that has got nothing to do with the market organisation. This is purely something that the Board has got to tackle, but, I think that the opportunity for this to be done is over this next year or so because with a voluntary quota into the EEC, it is implicit that there is going to have to be control of the volume of lamb to the EEC. Now, if there is a control of volume, it is not too far away from also controlling the number of licencees who operate in the U.K. I see this as the number one job for the Meat Board over the next few months.

QUESTION:

Mr Michael Mellon, Lecturer, Department of Agricultural Economics and Marketing, Lincoln College.

The major controversy that is raised at the moment is the extent to which everyone goes to in market control involvement. The exciting component that Professor Cullwick has put in his proposal is that entrepreneurship should still exist in the sales channel. I think we can recall only three to four years ago when Dr Charles Hilgendorf had the Meat Board buy in most of the ewe mutton, took control of it, and resold it through normal sales channels. It seems to me that the concept of a N.Z. Lamb Marketing Company has had some preliminary trials and market experiments. In view of those experiments could we have your reaction as to whether you think those experiments were successful Dr Hilgendorf?

ANSWER:

Dr Hilgendorf

Yes I think they were successful. The fact that we lost money was due to the state of the market - not to the marketing method employed. The real point is that these are only operations on a temporary basis. If the Board was contemplating going into selling mutton in the long run it would not use the existing channels otherwise how are you better off. You've still got exactly the same people selling it. Even in the short term, there is quite a big demand for the Board to do more itself. What I would fear, is that you would get a single body controlling all the meat and you would get a steady pressure for them to do more and more themselves and not let the entrepreneur have a go.

COMMENT:

Professor Cullwick

I think you are really still ducking the question about what you are going to do with this large component of 22 to 40% of lamb which is taken away from schedule, and sold through multiple pool selling, and P.M.L. and P.P.C.S. A lot of what you talk about I agree with, but I'm not swayed that the Meat Exporters Council/Meat Board liaison, as its present philosophy is evolving, is really facing that problem and I believe that we may have to take a more fundamental stand on that and solve it because I think that is one of our weakest areas. I would be interested to hear some comments from farmers about whether they can go along with the fact that their champion avenue, which is open door killing and pool account, is perhaps one of the weakest elements that we have in our lamb marketing, if we take a global view.

ANSWER:

Dr Hilgendorf

Let me explain what I would do about it. In this case I do not think it has anything to do with the Meat Exporters Council. Meat exporters cannot really decide this. Farmers have got to decide it themselves and therefore the Meat Board has really got to decide. Now what I would do, and what I have talked to various cooperatives about, is this. I would have five licenced wholesalers since this is the number who would meet the criteria I have mentioned in the U.K. - Vesteys, Borthwicks, C.W.S. plus Towers plus another N.Z. company which I would like to see as a combination of the three big cooperatives. Then everyone else in N.Z. could do what they liked. They could buy how they liked, they could have pools and they could have anything they liked so long as they marketed through one of those buyers. I would make some exceptions, there are a few small people who have special skills or special contracts for special orders and I would leave them open. But, by and large, I would have five major sellers.

COMMENT:

Mr Michael Murchison, Lake Coleridge.

I believe that we have got to face the issue in the very near future; whether we have schedules or pools. I do not believe we can have both. I think farmers are using pools to a very large extent because they are desperate for every bob they can get. I think that the point

that you made before that farmers are in fact getting a satisfactory return, is a lot of nonsence really. In real terms the farmers are desperately trying hard and they are producing more and running backwards and, quite honestly, if the returns to the farmer don't improve in the very near future, and I mean next year, the farmers will very seriously look at reducing production because they have no option. They won't be able to afford to keep going. There is no doubt at all that there is a hugh conflict growing between the pools and the schedule. I think that meat farmers who say the pools are a great thing, are those who strike the good pools. It is just like betting on a race horse, some race horses win and some don't. I think farmers at heart are gamblers. The concept of a single organisation responsible for selling leads to the obvious conclusion that it would only be a schedule. Professor Cullwick, you would anticipate there would only be a schedule and no pool; it would to me, then be also reasonable from the farmers' point of view to anticipate that you would be looking for a price rather than taking a price.
I believe historically, and Dr Hilgendorf doesn't agree with me on this, that farmers have, to a very large extent, been price takers for meat and we have sold to a cheap market in the U.K. for a long time, as it is a cheap

protein there and a cheap form of food. I think this is reflected in the marketing outlook by a lot of marketers. Would your concept, of the change in marketing, tend to change the thinking of the marketers to be price makers rather than takers and thus get a better return back for the farmer?

ANSWER:
Professor Cullwick

By implication, some aspects of the minimum price scheme are forcing the base level up but if you look at the market position of your product in the U.K., our primary market, I believe that that market is more price sensitive. I think some recent research here indicates, along with the comments of exporters themselves, that market is increasingly fragile under the present way we are operating in terms of both the demand and the realisation. Now I believe on a global basis that we have to pay much more attention to the returns, both the net returns to the farmer in terms of his decision making, and nationally, in terms of seeking a stable market balance. We are looking for better returns per unit that we put on our markets, as a fundamental objective. That might mean that the return to the farmer could stay the same, or improve a little, but the return nationally might improve dramatically if we went to a lot more further processed product. But we have this syndrome that it is return to the farmer in the short term that is important, and what I am thinking is that we have to move to a longer term perspective. We cannot predict or plan right down to the nth degree but we have to decide whether we are really trying to improve our prices. Now if we accept that as an objective, that is, the farmer is concerned about his income in real terms, where is the pressure coming to try and offset any downward trend. Well, you could say it is through the minimum price scheme. Where is it translated to action in the market place? Is it translated to action in the market place through our pool system? I think our pools are wanting to run with the hares and hunt with the hounds, because they want to get prices over schedule, but a lot of our product is going to different markets so therefore there is more uncertainty on a month to month basis. Even the companies are all looking on an average return on an annual basis. If you take the Iranian contract, we are talking tonnes of meat, not grades of x, grades of y and so on. So I think we have got to move as an industry, to thinking of market realisations on a year round basis. Now whether you do that by having joint equity participation between the Meat Board and meat exporters or you take the Meat Exporters Council/Meat Board liaison and have a single unified seller in the co-operative area, you've really still got to face the issue which ever way you do it.

I believe our diversification and our general approach to the U.K. market, has meant that our product in that market has been weakly supported because you have been pulling product out and chicken has been flowing in. Now if we really stand the line on that and work with a limited number of sellers in there, perhaps we can move it up, especially if we use the Middle East to break the price setting level of the U.K. What was happening was that we were relatively weak in the U.K. and that was the bench mark price. I think that we need to go to the corporation concept whereby we break the present situation and develop a unified approach, even if you have a lot of individual agents working within that framework.

QUESTION:
Dr Peter Chudleigh, Deputy Director, Agricultural Economics Research Unit, Lincoln College.

Professor Cullwick, you've talked a lot about the changing of prices and the relative prices we might get for the total amount of meat exported to different markets. I was just wondering if you had given any thought in your third and fourth strategies (N.Z. Lamb Marketing Inc. and N.Z. Meat Board acquisition) to the question of farm gate to market costs. Since the farmer only gets about one third of the overseas market price, would the third and fourth strategies reduce the farm gate to overseas market costs? Is that a sensitive area in terms of comparisons between your alternatives or is it not particularly significant?

ANSWER:
Dr Hilgendorf

It should be pointed out that most of the percentage increase in the costs between farm gate and Smithfield has come from the E.E.C. duty. If you take the duty off, the long-term relativity between the price the farmer gets and the price the product gets in Smithfield, hasn't changed very much.

QUESTION:
Dr Chudleigh

I was meaning, is there any way in which the new type of organisation that you are suggesting, Professor Cullwick, would be able to reduce the cost of $8 or $9 a lamb for killing and $7 or $8 a lamb for shipping. Since the farmer only gets $10 to $15 at his farm gate, these other costs are relatively very high. I was just wondering if any thought had been given to that. Would a different type of organisation, with killing in single works for single markets, and that sort of thing, be able to reduce costs?

ANSWER:

Professor Cullwick

I think we have to accept that in the first instance you are going to incur shipping, distribution and distributor margin costs in one form or another. There is a fair level of these costs which are based on low margin operation systems anyway. But let us just take one - the impact of our freight increases offshore and the likely benefit, for example, of all product going out of N.Z. as primal cuts. At the present time, there is a 5% net advantage in freight terms, if we processed everything into primal cuts. Now that depends on whether the market wants to pay for that. If we talk about this issue of further processing, it is quite clear that in small segments (small markets), people are getting very high returns, in net terms, for doing boned and rolled products. But none of those in themselves will offset or improve the efficiency, per se, because I think it has yet to be proved that our present system is grossly inefficient, in a general sense. I think there is always this view that somewhere out there, there is somebody taking my money. We have two things. The farmer invests to produce stock - is he getting a profitability level which is sufficient to keep him in that stock; he gets out of it if it is not. He has that choice. The processor has the option of whether he is in or out in making sufficient returns and so does the marketer. Now, what we have in our traditional system of swings and roundabouts, is people like Borthwicks, and Vesteys, who, if they have lost on processing in N.Z., hope to make it up on the marketing end in the U.K. You have the other view that transfer pricing operates so most of the profit is made somewhere else anyway. The only way to improve that effectiveness and efficiency, I believe, is with a strong force in the marketplace. Now you can do it two ways, either you go for everybody running on a pool system so even the Borthwicks, Vesteys etc become part of this pool concept, or you say we will have a stronger selling system and why not start with the 22% that the farmers control now.

COMMENT:

Mr Turrell, Meat and Wool Section, Federated Farmers; and N.C.F., Kaiapoi.

I feel that the cooperatives need a bit of defending at this stage (and certainly the pools), but I think you want to remember why they have eventuated rather than where they stand today. I am in agreement with the concept that the marketing field has completely changed and I think everybody in the industry realises that with the quotas and the Iran contracts, which are single sellers, we are looking at a new ball game. So we have to disassociate ourselves from a fair bit of what we have accepted in the past to have a logical argument. I do take exception, however, when you say that farmers are satisfied with the price because that is why they go on producing. Let us be honest - they are locked in - because if they do not go on producing more they cannot meet their commitments. They have got no alternative, there are no rabbits or deer or possums or anybody which is going to step in and take the place of sheep. They are locked in and they have got the Government and lecturers in this College, whipping them behind saying that the country's producing 50% as much as it could do if the farmers got off their backsides and did something. The Minister of Agriculture is standing up everyday and offering incentives to produce more. So they take these incentives and, obviously, these incentives are like heroin - once you take the first dose you have really got to maintain your stocking rate, which becomes impossible anyway if it turns dry. So you are locked in. You are going to get your lambs whether you want them or not. The pools have become the farmers outlet because the farmer felt he was taken to the cleaners by the cost plus structure of the industry, because the industry was able to pass on exorbitant wages and charges to the farmer. Now he had every right to feel at some stage that he had to get a bit of this back. Farmers have been about long enough and they have got sick of it so they have reacted. They have wanted to get some lamb put in a pool and have a go and I think if they had not the schedule would have been weaker.

QUESTION:
Mr Shackel

Could I just ask Mr Brodie a question. I believe you did a study of Christchurch housewives' buying habits some years ago and came up with a significant point regarding the effect of price on buying habits in relation to meat; I thought it would be interesting to hear your comments.

ANSWER:
Mr Rod Brodie, Lecturer, Agricultural Economics and Marketing Department, Lincoln College.

Yes, certainly on the domestic market the price has a very marked influence. For instance, poultry consumption has doubled in the last decade and this can be virtually explained by movements in relative prices and the drop in fish consumption can be explained by the higher price of fish.

COMMENT:

Mr Shackel

I thought that your experience in the local market here was probably just as relevant in most markets in the world. I think this is a very important issue in relation to meat on the local market and I think it is probably just as relevant in the U.K. and the U.S.A.

COMMENT:

Professor Bruce Ross, Agricultural Economics and Marketing Department, Lincoln College.

The figures indicate that people went into poultry in the U.K. because the price was low. You can sell any extra lamb if we drop our prices the way the poultry prices have been dropped. But I don't think that is what we are on about. I think we are on about utilising our monopoly position as the world's suppliers of lamb and that means having certain controls, if you are really going to operate as a monopolist. Nationally, we are monopolists. We can dissipate that monopoly position by having many traders in many markets all competing against each other to sell to single buyers at the lowest possible price, or we can try to maximise the position we are in, to get that price up and that means all sorts of controls. It seems to me that we are back to maximising a monopoly position and maximising entrepreneureal expertise and activities with all these people bargaining away, finding extra markets here and there; the two are not really compatible. Professor Cullwick has tried to marry them as well as they can be married, I think, but we always have some incompatability between those two concepts and I think that is our problem; that is what we are really discussing.

COMMENT:
Dr Hilgendorf

At this time we are nearly monopolistic, as far as lamb is concerned. However, the point is that being monopolistic in lamb is not as good as it sounds, because if you use that position to put the price too high, people eat beef or pork or chicken. If there is an alternative, an apparant monopoly, ceases to be a monopoly.

COMMENT:
Professor Cullwick

Lamb is a less preferred meat in many countries. There are some countries where it is a traditional product with high preference, but even in markets where it has had high use it has been declining and I see the position for lamb, globally, is as a complementary variety meat. Lamb is a less preferred variety meat. I come back to the basic question of saying, should we be encouraging farmers to be producing more on the expectation that their real return is really going to go higher or is the law of supply and demand already starting to work where farmers are saying "well look I'm on my margin about whether it is worth taking on any more". So we go from 300,000 tonnes or thereabouts as an export quantity to somewhere around 400,000 tonnes. The difference between Dr Hilgendorf and myself might not be that great but I am taking a more bullish view about both supply and demand and really trying to say that if the confidence of farmers, as being shown by the investment budgets that I see through stock and station firms at the moment is any guide, there is a fair bit of confidence in the middle term which would mean that we might be up to export production of 430,000 tonnes next year.

QUESTION:
Mr David Watson, Farmer.

Professor Cullwick, you see the future in marketing and you base that assumption on what you consider to be weak selling in the U.K. market, which is the price setting market. You have not told us which of the options you would prefer, and why, but Dr Hilgendorf has told us what he prefers for the U.K. market but has not told us how that fits into the global concept, when you consider the 40% of lamb that goes elsewhere. So I wonder if you could just tell us how or which of the options you would favour and why?

ANSWER:

Professor Cullwick

I see the status quo situation as indicating that there are lots of changes in the market and I think that the present system or the status quo is not a useful base. I'm not in favour of N.Z. Meat Board Ltd; a N.Z. Dairy Board concept for meat marketing. I believe that there is a lot more benefit from the competitive element than we could achieve that way. A stronger liaison between the Meat Exporters Council and the Meat Board presents the problem of handling the pool system. It does not handle what I see as a weak element which I think is not looking after our national or farmer returns in the long term. It should be noted that the Meat Exporters Council presently has a corporation called N.Z. Meat Marketing

Ltd which has been developed perhaps because they recognise that they themselves might have to move towards a unified approach. At the present time I believe the Meat Board has declined to take up equity participation in that, even though it was offered. A unified "N.Z. Lamb Marketing" approach would provide for individual selling agents retaining title to their product, but the equity and operating costs would be shared jointly. I see a need to have firms as agents marketing individually with quite competitive elements, say, between the five brands that are operating in the U.K. I do not look upon what I have suggested here as a big control concept but rather a co-ordination of present activity. At the present time we have promotion in the Board, some product development activity in the Board (which may or may not be linked with companies), distribution is very much controlled by the agents, and pricing is controlled by the Board indirectly through influences on the minimum price. In the end if we are going to go to a global market approach, I think we have got to deal with global returns and the farmer has to take an average global return for his class of product. Therefore, I opt for a unified approach, which I do not see as a big control operation, but rather as a catalyst, co-ordinator, development group.

Now, it could be that I misunderstand the view of what control is, but you have to have, I believe, a unified approach including having agents (in some markets you can have multiple agents) and having competition in that way. In the end, I believe that a unified approach is the only real way that we have of dealing with different realizations for different markets and the economic risk factor, which we will increasingly get. I do not see it in the control vein that everybody talks about. I see it as giving a unified marketing direction and development frame. Sure, there is control, but not in the concept of a N.Z. Dairy Board Ltd.

COMMENT:

Dr Hilgendorf

It is nice to be in the minority because the only people I see against this would be the farmers, the meat processors, the meat operators and Government (whether it is Labour or National). Those are the only people who I see against this!

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