

of flour produced from nil to £1 0s. 1d. Interest as a factor in cost of production has been included only where definite payments of interest have been made by millers. The mills are in a position to provide in varying degree the capital necessary for the conduct of their operations, which involve heavy outlays in the more or less seasonal purchases of wheat.

The facts above mentioned will indicate the difficulty of making any explicit statement as to what constitutes the cost of production and distribution of flour, and, further, as to what is a reasonable margin of profit per ton, having regard to the capital investment in the different circumstances of each case. It is evident that any figure used as an indication of what is known as the "conversion cost" can not have general application to the industry.

### (3) FINANCIAL RETURNS TO MILLERS.

The financial results of the milling companies for the two years under review were, with one or two exceptions, entirely satisfactory to the shareholders.

The percentage of net profit to paid-up capital showed considerable variation, and with some companies reached a high level. Likewise variations in the net profit per ton of flour sold were, of course, disclosed and in some instances appeared high. Changes in methods of valuing stocks of wheat at the end of each financial year accounted in one instance at least for the high amount of net profit.

There were not only marked variations as between different mills, but also variations in the results of individual mills from one year to another.

### (4) SELLING-PRICES.

The millers' prices per ton of 2,000 lb. for mill-products during the financial years under review were in the main as under:—

			Flour.			Pollard.			Bran.		
			£	s.	d.	£	s.	d.	£	s.	d.
Lyttelton, Timaru, Oamaru	..	..	16	5	0	8	0	0	6	10	0
Dunedin	..	..	16	15	0	8	10	0	7	0	0
Invercargill	..	..	17	5	0	9	5	0	7	15	0
Auckland	..	..	18	0	0	8	0	0	6	10	0

subject to a cash discount of  $2\frac{1}{2}$  per cent., and subject also to commission of  $2\frac{1}{2}$  per cent. so far as sales are made through Distributors Ltd. Since that time, however, prices have changed to some extent. Flour prices are now generally 10s. per ton higher, while bran and pollard prices have fallen to £1 per ton f.o.b. Lyttelton, Timaru, and Oamaru, with consequent alterations at other points. (It may be mentioned, however, that prices about £1 10s. per ton higher are charged for bran and pollard sold for local delivery in Canterbury and adjacent areas.)

### (5) COMMENT.

The combination to restrict selling competition has generally tended to maintain prices at a level satisfactory to the less efficient or least advantageously situated class of mill. In consequence, the profits of the most efficient or most advantageously situated mills may be regarded as higher than would be likely under unrestricted selling competition, though not necessarily so high as to be markedly unreasonable or grossly excessive.

While there is no definite or formal combination among purchasers of wheat, and individual millers compete with one another and with merchants who buy from growers for re-sale, there is some evidence that on occasions millers have made loose agreements as to what prices can be regarded as properly and fairly payable to growers. The extent to which growers can secure the limit of the value of their product depends to some extent from season to season upon the total production of wheat in New Zealand.

Export wheat parity is usually well below internal consumption value (protected as the latter is by duty), and consequently the internal market may be depressed if millers as the main users are able to withhold from purchasing in heavy quantities. These facts may give rise to material variations in millers' profits from season to season.

Protected from external competition by duty which does not allow of import of flour below a certain cost, assisted and safeguarded by combination in respect of selling-prices of products, and, in good harvest years, being in a favourable situation with respect to purchase of grain, the miller in New Zealand is in a strong position.

The prices in New Zealand for wheat and flour, when compared with the present very low level of world-market prices, are particularly high. The main factor in bringing about this position is, of course, the existing duty on importations and the influence of manufacturing costs and millers' margins of profits is not relatively a substantial or serious one.

The object of the investigation was to ascertain whether or not the cost of production of flour can be reduced.

The Department is of the opinion that the average cost of manufacture of flour could be reduced. Concentration of manufacture in the more efficient mills would eliminate much of the overhead expense with which the industry is at present burdened.

G. W. CLINKARD, Secretary.

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