1931.
NEW ZEALAND.

FLOUR-MILLING INDUSTRY IN NEW ZEALAND.

Laid on the Table of the House of Representatives by Leave.

REPORT.

The Hon. the Minister of Industries and Commerce.

Department of Industries and Commerce (Board of Trade),
Wellington, 16th April, 1931.

SIR,—

The report of the Wheat Industry Committee submitted to Parliament on the 1st November, 1929, contained, as item 4, the following :—

Whether protection (if any) is required for the flour-milling industry ?—

"The answer to this question is covered by the answers to the preceding questions, but the Committee unanimously recommends that the Department of Industries and Commerce be asked to investigate the operations of the milling industry with the object of ascertaining whether or not the cost of the production of flour can be reduced."

There are forty-six flour-mills operating in the Dominion. The output for the year ended 31st March, 1930, was 136,918 tons of flour, 18,921 tons of bran, and 33,090 tons of pollard. The importations during the year 1929 were 9,774½ tons of flour, 171 tons of bran, and 3,456 tons of pollard. The Dominion millers are able to secure upwards of 90 per cent. of the total trade in flour, bran, and pollard.

I have the honour to submit this report on an investigation carried out during 1930 into the cost of manufacture of flour under the following headings :—

(1) Distributors Ltd.
(2) Cost of Manufacture of Flour.
(3) Financial Returns to Millers.
(4) Selling-prices.
(5) Comment.

(1) DISTRIBUTORS LTD.

Distributors Ltd., with headquarters at Christchurch, is a company engaged in the sale and distribution of flour, bran, and pollard. The shareholders of the company are flour-millers and flour-milling companies operating in New Zealand. Of the forty-six flour-milling concerns in the Dominion forty-one are associated with Distributors Ltd.

Three milling companies in the North Island and two in the South Island do not sell through Distributors Ltd., but, nevertheless, generally maintain the same level of prices.

Approximately 70 per cent. of the sales of Dominion-made flour are effected through Distributors Ltd., and the output of each mill which is a party to the arrangement is determined upon its agreed share of the total business available. This predetermined limitation of output is an important factor in relation to selling-costs.

It should be noted that Distributors Ltd. is concerned only with the sale of products of the associated mills. The manufacturing aspect of the industry is not a concern of the selling organization. Selling through Distributors Ltd. has eliminated bad debts (at least so far as these would otherwise fall directly upon the mills), and has resulted in a saving, to a certain extent, in office expenses at the mills. The cost of this service, however, averages approximately 10s. per ton of flour (and resultant by-products) sold. In view of the large turnover the cost appears high.

The great advantage from the millers' viewpoint of Distributors organization is the elimination of local price competition.

(2) Cost of Manufacture.

An investigation of the trading, profit and loss accounts, and balance-sheets for two financial years of thirteen representative flour-milling companies was carried out by officers of the Department. The annual output of the mills selected is 85,400 tons of flour—representing approximately 65 per cent. of the total Dominion output.

The cost of manufacturing and selling flour per ton was ascertained under the following headings:—

(a) Wages and Salaries.
(b) Power, Fuel, and Light.
(c) Rents, Rates, Land-tax (excluding Income-tax).
(d) Interest.
(e) Insurance.
(f) Repairs and Maintenance.
(g) Depreciation.
(h) Delivery and Freight outwards.
(i) Commissions.
(j) Other Expenses.

The following table shows the cost of manufacture and selling per ton of 2,000 lb. of flour of each of the mills. The statement does not include cost of wheat, cost of transporting wheat to mills, or cost of sacks:—

Mill.	First Year. £ s. d.	Second Year. £ s. d.
A	3 4 8·9	3 18 6·7
B	3 3 11·7	3 11 8·5
C	3 11 6·7	4 4 7·2
D	2 16 5·3	2 17 4·4
E	3 9 0·6	3 12 8·8
F	3 3 3·6	3 7 3·9
G	2 3 10·1	2 3 0·5
H	3 3 0·2	3 3 1·6
I	3 18 1·7	4 8 5·1
J	4 10 7·6	4 3 7·6
K	3 14 1·3	3 14 5·2
L	2 7 0·5	2 17 7·0
M	2 10 2·6	2 10 6·2

	First Year. £ s. d.	Second Year. £ s. d.
The lowest cost per ton was	2 3 10·1	2 3 0·5
The highest cost per ton was	4 10 7·6	4 8 5·1
The average cost per mill was	3 4 3·7	3 8 8·3

The foregoing figures are clearly indicative of the wide difference between the costs in the different mills. At the same time, it should not be assumed that the mills showing the lowest cost figures in the above table are necessarily the most efficient or most advantageously situated. The table, it will be noted, includes delivery and freight outwards, but does not include cost of freighting the raw material to the mill.

There are several factors which have an important bearing on the cost of producing and distributing flour:—

(a) Situation of mill.
(b) Efficiency of plant.
(c) Output per unit.
(d) Financial position of company operating mill.

Regarding the foregoing points the following observations are made:—

A mill situated in a wheat-growing district is able to secure its wheat at a lower price than mills situated at a considerable distance from supplies of raw material. Against this, however, there is the cost of transporting the manufactured product to the principal markets, which are in large measure situated at considerable distances from the wheat-growing districts. The mills situated in the North Island are faced with the cost of transporting wheat from the South. On the other hand, they have a larger population convenient to the mills providing a ready market.

A number of the milling concerns have added to and brought their plants up to date during recent years, but while increased efficiency has resulted, there has been an increased capital charge and increased cost per ton for such items as depreciation.

The output from a number of the efficient mills could be doubled or trebled. In other words, there are too many plants operating for the requirements of the Dominion.

The amount of depreciation as an item in the cost of production varied from 11¼d. to 12s. 6d. per ton of flour. One mill which showed depreciation as an item of cost of manufacture at 9s. 2d. per ton was justified because the plant was so extensive as to be capable of producing more than double the present output. A number of the mills could produce increased quantities per year, thereby reducing overhead expenses per ton of flour. The financial arrangements of the companies have an important bearing on the cost of production as shown above. The item "interest" varied per ton 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 £4 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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