

Southland cheese-factory companies was approximately 15·125d., while the Dominion average butterfat pay-out for cheese was approximately 15·05d. per pound. This indicates that the higher manufacturing costs in Southland were on the average more than offset by a cheese-yield in excess of the Dominion average. The complete returns of cheese-manufacturing companies for the 1937–38 season are not yet to hand, but the indications are that the comparison made in respect of the 1936–37 season will hold good for the 1937–38 season.

This Committee notes that the former Committee regarded approximately  $\frac{1}{4}$ d. of the increase to 2d. per pound in the marginal butterfat payment for cheese-milk as attributable to the factor of low cheese-yields, but suggested that provision for this factor should be treated “as a temporary expedient until a solution of the yield problem is found.” This Committee considers that a further increase, to offset a continued lowering of the cheese-yield, is open to objection. It therefore recommends that the price fixed for cheese for the 1938–39 season should not be augmented on account of a cheese-yield lower than the standard net yield of 2·45, even though cheese-factory companies on the average do not show the anticipated margin of 2d. per pound of butterfat.

The whole question of the relation of the net return to suppliers of milk for cheese-manufacturing to the net return to suppliers of cream for butter-manufacturing involves a consideration of the nature of the milk-supply for cheesemaking, the yield of cheese per pound of butterfat, economic cheese-manufacturing conditions, the method of payment for milk for cheesemaking, and the net return to cheese-milk suppliers per cow and per acre. These factors cannot appropriately be considered in this report, but the Committee is of the opinion that, if the conditions in respect of cheese yield are such that a yield allowance of 2·51 gross or 2·45 net is insufficient to enable the 2d. per pound differential payment for butterfat to be generally realized, then an investigation of the factors referred to must be made by the industry.

#### 4. THE RELATION BETWEEN BUTTER AND CHEESE.

The Committee recognizes that, in order to maintain the balance of production between butter and cheese, a calculated differential marginal payment in favour of butterfat supplied for cheesemaking must be allowed for. It is of opinion, however, that, in view of the evidence respecting the pig returns of efficiently managed cheese-milk farms, it is unnecessary to increase the existing margin of 2d. per pound of butterfat, more especially as the provision of that margin has had the effect that it was intended to produce, for cheese-production during the past season has more than maintained its relative balance with butter-production. The gradings of cheese for 1937–38 showed a decrease of 3·12 per cent. from those of 1936–37, while those of butter showed a decrease of 7·59 per cent.

#### 5. THE RELATION TO OTHER INDUSTRIES.

It is equally necessary to avoid unbalanced production between dairy-produce and other primary products as it is to preserve balanced production between butter and cheese within the dairy-produce group. It is essential that the prices to be paid should provide sufficiently for all costs and charges relating to production and for an adequate reward for management and labour, for otherwise land that can be utilized for other purposes will not be used, or will be less intensively used, for dairying purposes, and it will become increasingly difficult to obtain the necessary labour in competition with non-farming industries. On the other hand, it is essential that prices should not be so high as to attract producers from other primary industries.

#### 6. EFFECT ON LAND AND STOCK PRICES.

The Committee desires to point out that the prices paid for butter and cheese, due regard being had to costs and charges of production and to the reward of management and labour, have a direct effect on the movement of prices of land and stock. If the latter prices are to be kept reasonably stable, the prices of butter and cheese must be fixed in relation to carefully ascertained standards.

#### 7. PROBABLE EFFECT OF PRICE ON DOMINION PRODUCTION.

In the case of butter, the overseas market is extremely sensitive to variations in the volume of supplies. The opinion has been authoritatively expressed that a variation of 2½ per cent. in the total supplies from Empire countries affects the average returns by 7s. 6d. to 10s. per hundredweight. The stability of the industry and the capacity of the Dairy Industry Account to bridge a widening gap between prices paid and prices realized by the Government are therefore threatened if an over-generous price leads to over-production.

#### 8. TONE AND TREND OF THE MARKET.

The United Kingdom still enjoys relatively prosperous conditions, but it is uncertain whether the improvement will be maintained. World conditions generally are difficult to assess, and it is impossible to predict their possible effects on the United Kingdom market. The Committee quotes the following annotated cablegram, dated 20th July, 1938, received from the London Manager of the Dairy Sales Division of the Primary Products Marketing Department :—