

**New Zealand Meat Industry Association
Annual Conference**

**By Council or by Competition?
Time for a Stand**

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BY COUNCIL OR BY COMPETITION? TIME FOR A STAND

When I received the invitation to speak to your conference, I thought it might possibly, just possibly, be a signal that somewhere in the meat industry the idea of putting an end to 70 years of collectivism and government control was stirring.

Could it be, I wondered, that there was an interest in exploring the revolutionary idea of a free, competitive, private enterprise industry?

Curious to find out, I decided to accept.

I then did my homework and read the Meat Industry Association's Annual Report.

It sounded quite positive.

I looked for references to the need for more "orderly marketing", complaints about "weak selling" and "irresponsible exporters", and calls for "discipline" and "industry unity". But I could not find them.

Instead I read that:

"The meat industry has accepted the reality that in today's competitive international environment the forces of change are ever present. Only those who can anticipate the future and are sufficiently resilient to face its challenges will live to see it."

That seemed like a breakthrough. Not a good environment for collectivism, I thought.

Then I wondered how the industry had got to that point, and where it might be heading.

It struck me that some of the progress had been made almost in spite of, rather than because of, its own efforts.

I read in the report that the industry had been helped by improvements in the domestic economic environment such as the virtual elimination of inflation, lower interest rates and the flexibility offered by the Employment Contracts Act.

The question I asked myself was when, in recent years, had the industry been heard publicly arguing for these changes which it now recognises as so important to its improved position.

The answer is that, on the whole, it was nowhere to be seen.

Those on the producer side were more often than not on the wrong side of the argument. Until very recently we were treated to a litany of complaints from producer board chairmen about the "obsession" with inflation and to calls for devaluation and a "more realistic" monetary policy.

There was little support for cuts to government spending to take pressure off interest rates and the currency, except in the most general terms. Few were prepared to say how the cuts should be made.

A ministerial task force on international competitiveness chaired by a producer board chairman told us that labour market reform wasn't all that important.

Few meat company leaders were willing to stand up and be counted in the labour relations debate, despite the fact that labour problems had brought the industry almost to its knees. It was all too sensitive. For a long time the Business Roundtable and a handful of others were left to carry the can for major reform. Your present deputy chairman was an honourable exception.

Your Association's report now tells us that:

"The Employment Contracts Act has presented the industry with the best opportunity in decades to move away from the old, rigidly centralised and conflict driven environment of industrial relations to plant oriented employment arrangements that are better for employees and employers."

In respect of the national debate, I submit that there has been a sorry lack of leadership within an industry which, as you like to point out, is by far New Zealand's largest export earner. And there still is. What has the industry had to say, for example, about Labour's plans to repeal the Employment Contracts Act?

The meat industry is totally dependent on overseas markets. It has a huge stake in New Zealand being internationally competitive. It should be the foremost advocate of an open, competitive economy.

While things are starting to change, for years it has been commonplace to assert that there has been a lack of leadership and management performance in the meat industry.

But what else would you expect in an industry that has been based on a collectivist ethic, where producer cooperatives have dominated, and where incessant government and Meat Board meddling has all but destroyed the conditions for entrepreneurship and long-term planning?

I have been involved in just about every business you can think of in my business career, except agricultural processing and marketing.

The reason is simple. Either outside involvement is virtually blocked, as in the case of dairy and horticulture, or the rules of the game are capable of being changed overnight at the whim of a producer board, as in the case of meat and wool.

Frankly, I wouldn't go near a business that had to operate in such an environment. Who would want to risk being wiped out by a board deciding it wanted to control exports to a particular market or to repeal the laws of supply and demand and set its own price for wool?

It is no wonder that until recently there has been little new blood in the industry, and that management has been uninnovative and risk averse.

In the circumstances, it is a miracle that the industry has coped as well as it has.

In the agricultural marketing debate, you often hear the claim that "the unregulated, competitive meat industry" has been a disaster and that by contrast the Dairy Board with its raft of controls and single selling powers "has done a terrific job".

Both propositions are largely myth.

For all the meat industry's agonies of the last two decades, total meat and animal product exports still far exceed dairy exports.

The dairy industry has not been growing vigorously. Its production base has been more or less static. It does not appear to have moved away from commodity lines to further processed products any more rapidly than the meat industry. Some 45 percent of its product is still in bulk commodity form, the same as for lamb.

Most important of all, dairy farmer returns have not differed significantly from those of sheep and beef farmers.

The bottom line is that we simply do not know how well the Dairy Board has performed. It is not subject to any market tests.

On the other hand, the idea that the meat industry has been competitive and free from interference is pure fantasy.

For years entry into the industry was blocked by plant licensing. Its production base was warped beyond recognition by government price subsidies and industry stabilisation schemes. The Meat Board has been in and out of sheepmeat marketing and controlling access to export markets. All sorts of powers over grading and transport have been exercised.

In the circumstances, the fact that returns to meat have been no worse than the returns to dairying is remarkable.

At least the meat industry seems to have concluded that the only way forward is towards greater freedom and competition.

In the recent review of the Meat and Wool Boards' electoral committee arrangements, only a handful of submissions saw any merit in the boards becoming single seller marketing organisations. There was also much concern about board commercial operations.

The review committee's report stated that there is widespread apathy toward the two boards, with farmers feeling they have little influence over their activities.

Nevertheless, the committee persisted in believing that the problem of lack of accountability could be remedied by tinkering with the electoral mechanisms for political accountability rather than by introducing normal mechanisms for commercial accountability. This is a vain hope.

The committee did not question the basic roles of the boards - indeed its terms of reference precluded it from doing so. Until this issue is faced up to, little further progress is likely to be made.

The Meat Board began life in 1922 and is now three score years and ten old. That is a considerable age.

The Soviet Union began life just a few years earlier and packed it in in its early 70s.

The Board's performance has become shaky in recent years.

In the early 1980s it decided to assume total control of sheepmeat marketing and cost taxpayers a fortune in the process.

Then it had an affair with a young thing called Freesia which cost farmers a packet. This was a very generous gesture to the corporates but it delayed inevitable restructuring.

Like other collectivist organisations, the Board seems to be showing its age.

I do not suggest that the Board should necessarily be sent straight off to the knackers. But I do believe the compassionate thing to do now would be to put it on light duties.

To date the Board has required the industry to try every known variation for marketing meat except letting entrepreneurs get on with the job without interference.

It should draw the same conclusion as Boris Yeltsin and give competition a chance.

Surely we need no more evidence today to conclude that the competitive system has no rival for forcing producers to strive ceaselessly to meet their consumer's needs by improving their products and controlling their costs.

Producer councils to select boards or meat planning councils to coordinate marketing are no substitutes. The only way to become competitive is by competing, and in the process become profitable.

Surely there is a lesson to be learned from your own experience with beef. By contrast with sheepmeat, beef marketing is not politicised or controversial. The marketing structure for beef is open with little industry coordination. The two industry organisations, your own and the Meat Planning Council, pay little attention to beef.

To its credit, the Meat Board appears to be moving in some of the right directions.

Its chairman recently acknowledged that farmers were not happy with their level of ownership of the industry and did not seem to understand their role as company shareholders. He said:

"There either is a clearer need for improved farmer education in this area or maybe the control of meat processing and marketing doesn't belong in farmer hands."

This is a complete and welcome turnaround from 1985 when the Board's firm view was that farmers should own the majority of the industry.

If the industry wants to become truly innovative and consumer-driven, most of the existing intervention and interference will have to be removed from its operating environment.

Unless the existing powers to intervene are done away with, commercial operators will always be vulnerable to initiatives to exercise them.

You are seeing this again right now with the proposed E grade standard for lamb. The Board thinks it knows best what your customers want. Surely you are not going to let them get away with it?

There is no need for legislation that confers powers of compulsory acquisition. Export licensing powers should also go, with the possible exception of VRA and quota markets.

Entrepreneurs should be given freedom to market, grade, package and promote as they see fit. They might sometimes want to develop grading standards but that should be a voluntary matter.

Tradeable equity needs to be introduced into cooperatives, as some are planning. This will not just enable their performance to be properly monitored but also give some wealth to their owners. In addition, it will provide a source of outside capital and, more importantly, ideas.

Currently the Board provides a range of market intelligence services. If these are valuable they can be run on a commercial basis. There is no need for the Board to retain its investments in meat companies.

I sense the Board is still trying to find ways to be busy. In the speech I mentioned earlier the chairman listed nine short-term goals for the Board.

Only two of them made any sense: those that had to do with promoting trade liberalisation and reducing internal costs. The rest were all about "encouraging", "fostering", "enhancing" and "stimulating" you as an industry to do things which the market will force you to do anyway.

No one would propose statutory roles of that sort in the fishing industry or the timber industry or the apparel industry. You do not need a school prefect to tell you how to do business. If you want to do some things jointly - say in shipping or marketing - you don't need a prefect to hold your hands.

It will be interesting to see the way the Board reacts to the report on agricultural marketing regulation being undertaken by ACIL Australia for the Business Roundtable.

The general drift of the study has been foreshadowed by Denis Hussey at your conference last year and in subsequent presentations.

Personally, I suspect the study will pull its punches on some issues. I am sceptical, for example, about the case for statutory involvement in R & D which it seems to accept.

Nevertheless, I believe it will be a challenging and persuasive analysis which all those concerned with the future of our rural industries should treat with the utmost seriousness.

If the Meat and Wool Boards are smart, they will not regard it as a threat. They will see it as going with the grain of what they are doing, and will recognise its conclusions as being in farmers' best long-term interests.

More likely, I suspect, solidarity will prevail among the producer boards. I can see their press statement now:

"The ACIL report is grossly inaccurate, full of misconceptions, written by someone who does not understand New Zealand agriculture, naive, ideologically driven, blatantly serving the interests of big business, ill-conceived and prejudiced, designed to place New Zealand farmers under foreign domination and to reduce them to the status of peasants."

You need to recognise in this rhetoric the same reaction as that of the centralist trade unions when their supporting regulation and monopoly position was under threat.

The analogy is very close. Trade unionists argued that the introduction of competition would drive down wages - lead to "weak selling" by workers and harm their interests. Of course the real interests being served were not those of workers but those of privileged unionists.

Similarly the real interests being defended in the marketing debate are not those of producers but those in the boards. Weak selling is a phenomenon a bit like the Loch Ness monster - often talked about but positive sightings are rarely documented. Competitive suppliers don't routinely sell for less than they can get or they go out of business. The interests of both workers and farmers are better served by free contracting and competition.

Where the debate goes will be influenced by your stand as an industry.

I know it's not always easy to rock the boat when you are part of a collectivist club.

Just like the trade union heavies, the boards can use their powers to inflict commercial damage on those that step out of line, and have sometimes done so ruthlessly.

But if you genuinely want greater commercial freedom, it will not be sufficient on this occasion to hide behind the Business Roundtable and a few other freedom fighters. You will have to stand up and be counted.

Your Association's report makes the point that at present neither sheep and cattle farmers nor meat companies are earning satisfactory returns.

New Zealand still has an enormous distance to go to become genuinely competitive and rebuild strong, dynamic export industries.

After another burst of reform, we seem to be dragging the chain again.

The outlook is still extremely precarious, including for your industry. In the next year or two we could easily see another recession in the United States, more pressure on sterling, an economic crisis in Russia which leaves it unable to pay its bills, and major economic policy changes being needed in Australia.

Domestically we need to reckon with further events like electricity shortages, snowstorms and drought, and the possibility of a further downgrading in our credit rating if the government does not make up for lost time in dealing with its fiscal timebomb.

Once again the Business Roundtable seems to have few supporters in pointing to these threats and to the unfinished agenda, even though its arguments about what was needed to bring about the present recovery have turned out to be totally vindicated.

Complacency seems to have set in all round. Manfred, for example, now seems to spend most of its time telling us how the policies it bitterly opposed are producing an unprecedented growth in manufacturing exports. I did notice, however, that when the Labour party recently started to talk about welfare schemes for business again, Manfred remembered to stretch out its hand.

Even Federated Farmers, normally a reliable ally, seemed to lose its way in the recent fiasco over postal charges.

Having argued against subsidies for years, they seemed to want to get back on the other side of the fence and ended up with the barbed wire between their legs.

There may be an argument about whether senders or receivers should pay for rural mail, but that will quickly be sorted out in a competitive market.

Farmers' overall interests are best served by more efficient postal services which help reduce the costs of all goods and services in the economy. The sooner they get back on the right side of the fence and argue for deregulation and privatisation of NZ Post, the better.

Grappling with the agricultural marketing issue is another important part of the unfinished business. The present controls affect more than half of New Zealand's export trade. As the Porter report argued, they weigh heavily on New Zealand's international competitiveness.

The world is not likely to be kind to collectivist institutions in the 1990s and beyond. Internationally, cooperative structures are on the decline. The new competitors in Latin America are dismantling theirs. The world is not standing still while New Zealand gets its act together.

Reforming rustic regulation is never easy. There are many vested interests at stake. In the short term there are both winners and losers.

It follows that your industry will have to decide whether it wants to put the disasters of the past 20 years permanently behind it.

If you do, you cannot sit on the fence. You cannot be a spectator in the debate.

I note that your Association's mission is to "promote the interests of its members within a free enterprise system". If that is to mean anything, you will have to weigh in on the side of change.

I look forward to hearing what your stand is going to be.