

## **NEW ZEALAND SUBMISSION: COMPETITION AND REGULATION IN AGRICULTURE: MONOPSONY BUYING AND JOINT SELLING**

### **INTRODUCTION**

This paper responds to the invitation to make a written contribution to the June roundtable on competition and regulation in agriculture: monopsony buying and joint selling. In doing so, it sets out the more general context in which New Zealand has approached the regulation of the agricultural sector. In this context it is worth noting that successive New Zealand governments have sought to progressively regulate agriculture under mainstream competition policy frameworks and under generic competition law. While some of the issues involved have been complex and politically contentious, New Zealand's experience in this respect has been generally positive. In particular, some agricultural sectors have experienced gains in dynamic efficiency as producers, processors and retailers have sought to adopt new products, technologies and organisational forms.

The paper is arranged in two parts. The first part discusses the application of New Zealand's competition law to the agricultural sector. The second part briefly discusses industry-specific regulation of domestic agricultural markets with a particular focus on dairy and pipfruit. Tables are outlined giving a chronology of regulatory reform of the domestic agricultural sector in New Zealand.

### **PART ONE: AGRICULTURE AND THE COMMERCE ACT**

#### **Importance of agriculture to New Zealand economy**

Agriculture in New Zealand is predominately pastoral based with the major sectors being dairy, meat, and wool. Dairying and wine are the fastest growing sectors in recent times.

Farming and horticulture continue to be significant export earning industries for New Zealand. Agricultural exports accounted for about 44 percent (FOB) of merchandise export receipts in 2003, reaching almost \$13 billion, while horticulture exports accounted for over 7 percent of export receipts, or \$1.9 billion.

In 2003, agriculture (including horticulture, to farm gate) provisionally constituted approximately 6.3% of nominal gross domestic product. Agriculture contributes about 16.5% of real gross domestic product, including downstream industries.

## **Interface with the Commerce Act**

The agricultural sector is subject to New Zealand's competition law, the Commerce Act 1986.

### ***Key provisions of the Commerce Act***

The purpose of the Commerce Act is to promote competition in markets within New Zealand for the long-term benefit of consumers.

The key restrictive trade practices in the Commerce Act are:

- A prohibition against entering into or enforcing arrangements that have the purpose, effect or likely effect of substantially lessening competition (section 27);
- A provision deeming arrangements between competitors that control or maintain price to be per se illegal, unless the arrangement relates to certain limited exemptions (section 30); and
- A prohibition against persons with a substantial degree of market power from taking advantage of that power for anticompetitive purposes (section 36).

In addition, the Commerce Act prohibits mergers or business acquisitions that have the effect or likely effect of substantially lessening competition (section 47).

Authorisation from the Commerce Commission is available on application to any person proposing to enter into an arrangement or acquisition that may substantially lessen competition. The Commission may authorise that arrangement or acquisition if the public benefit from that arrangement outweighs the associated anticompetitive detriment. The Commission may impose conditions on restrictive trade practice authorisations but may only accept structural undertakings for authorisation of mergers and acquisitions.

An authorisation has the effect of making that arrangement or acquisition immune from the relevant prohibitions in the Commerce Act. Authorisation is not available for taking advantage of a substantial degree of market power (section 36).

### ***Agricultural exemptions from Commerce Act***

There are currently two specific exemptions from the Commerce Act for the agricultural sector. These limited exemptions are contained in the Meat Board Act 1997 and the Pork Industry Board Act 1997<sup>1</sup>. The exemptions relate to arrangements for setting levies by the Boards for the purpose of funding their industry-good activities, and in the case of the Meat Board, the exemption extends to the Board's administration of export tariff quota arrangements.

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<sup>1</sup> These boards are non-trading boards carrying out industry-good activities for their respective industries.

The treatment of the merger transaction between the two major dairy cooperatives in New Zealand, which resulted in the formation of Fonterra Cooperative Group Limited, is discussed in more detail in Part Two of the paper.

More generally, although it has not been used, there is an exemption in the Commerce Act for entering into arrangements that relate exclusively to the export of goods from New Zealand or the supply of services wholly outside New Zealand, so long as that arrangement is furnished to the Commerce Commission within 15 working days of being entered into. No arrangements have been furnished to the Commerce Commission under this provision. It is also likely that this exemption is redundant, as the specified arrangements do not impact on domestic markets to which the Commerce Act applies.

### **Features of agricultural markets**

In 1991, the New Zealand government carried out a review of the application of the Commerce Act to primary products.

Submissions to the review identified some particular features of markets for primary products relevant to a competition analysis. These were:

- a Instability of markets – supply of agricultural products is subject to a range of exogenous risks making the markets relatively volatile. These risks include:
  - Price risk – market prices are often volatile such that the prices prevailing at the time of harvest or yield are often unknown when investment or production decisions are made; and
  - Yield risk – the volume and quality of products from a given investment are variable and often affected by uncontrollable factors such as weather and disease.
- b Perishable nature of products – the importance of timely harvesting at maturity and the perishable nature of the many of the products post harvest, imposes a limited window for sale of the product before value is lost.
- c Information difficulties – there are some information asymmetries between buyers and suppliers:
  - Buyers often have difficulties in assessing the quality of goods post harvest. This has the potential for low quality producers to adversely affect the price buyers are willing to pay to higher quality producers. This problem is often addressed by minimum quality standards or branding.
  - Producers often have difficulty in obtaining information about the markets in which they operate, including information on trends, consumer preferences and future demand. This may create the risk of exploitation by middlemen. However, this risk is reduced where forward markets exist, or where information about price and supplies are available electronically at low cost.
- d Export orientation – agricultural production in New Zealand is predominately exported. For example, over 95% of dairy production and over 90% of lamb

production is exported. Therefore, markets are also vulnerable to various trade risks, such as changes to international regulatory environments and currency fluctuations.

These factors were seen to contribute to agricultural markets that are characterised by many weak sellers and, often, few large buyers. This can place farmers in a weak negotiating position and vulnerable to oligopsony or monopsony power.

Producers have sought to address these features through contractual arrangements and producer or marketing organisations. Producer cooperative companies are common place at the wholesale level in many agricultural markets. In some cases these organisations or arrangements are supported by regulation.

The review team assessed various Commerce Act decisions and Commerce Commission authorisations and concluded that generally the Commerce Act could deal with these features of agricultural markets. The following is a brief discussion of the manner in which the Commerce Commission has considered these issues.

#### *a Instability of Markets*

In Re Grape Growers Council (Decision 263)<sup>2</sup> the Commission identified the advantages and disadvantages of price stability:

'Price stability reduces uncertainty and risk and makes planning for the future simpler. However the effects can be beneficial overall only if the more stable prices provide an accurate reflection of market signals' (paragraph 34.3).

#### *b Information Difficulties*

The difficulties which individual producers may have in assessing market conditions were considered in Re Grape Growers Council where the Commission recognised that improvements to the flow of market information could constitute a public benefit. The exchange of information, and price recommendations by trade associations and grower organizations, do not necessarily contravene the Act. The application of the Act to such practices will vary depending on the purpose and effect of the arrangements. Section 32 of the Act exempts price recommendations by industry associations with 50 or more members from the price fixing provisions of section 30 providing certain conditions are observed.

#### *c Export Orientation*

A fundamental issue has been whether an anticompetitive practice or merger was necessary to improve export performance. In several cases the Commission found that the export benefits were substantial and contributed to the decision to grant authorisation. For example, this was central to the authorization decision in Re Kiwifruit Exporters Assn (Decisions 221 & 238).

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<sup>2</sup> A summary of the Commerce Commission decisions referenced is outlined in appendix one.

In NZCDC/Auckland Co-operative Milk Producers Ltd (Decision 216) the Commission recognised export benefits but considered that they flowed from the efficiency enhancing effects of the merger. The Court put particular emphasis on international competitiveness in New Zealand Co-operative Dairy Co Ltd & Anor v Commerce Commission. The Court gave "considerable weight to the benefits flowing from the merger which assist with the process of rationalisation of this vital export industry." (1991) 3 NZBLC 102,088.

#### *d Weak Sellers*

The Commission has considered equality of bargaining power in two of its decisions. In Re Kiwifruit Exporters Assn the Commission noted the unusual nature of contracting in the industry which meant that growers, who decided which coolstore to use, were not involved in the price setting process for kiwifruit, the price of which embodies the pooled coolstore charges. The exporters negotiated on behalf of the growers despite having only an indirect interest in keeping charges for coolstorage down. As a result one of the conditions of authorization was that growers be directly represented on the panel which set coolstore prices.

The Commission commented in Re Kiwifruit Exporters Assn and Re Grape Growers Council that arguments relating to equality of bargaining power may have little substance. Imbalances of bargaining power often have more to do with demand and supply conditions in different phases of the business cycle. In Re Grape Growers Council the Commission found that the imbalance arose in large part from the existing oversupply of grapes, rather than the structure of the industry. It stated that if there were a closer balance, growers would be able to bargain with other wineries to seek higher prices. The Commission therefore declined to consider this as a public benefit.

### **Examples of other Commerce Commission proceedings relating to agricultural markets**

#### ***Monopsony buyers - supermarkets.***

The Commerce Commission has considered the concentration of buyers in wholesale food markets, and in particular, the competitive impact of supermarkets<sup>3</sup>. These decisions related to a proposed merger between the second and third largest parties in the supermarket sector, which was characterised by 3 large firms.

The main focus of the Commission's decision was on retail markets. However, in respect of wholesale markets, the Commission noted that over the past ten years there has been a significant shift in power between manufacturers, including agricultural wholesalers, and supermarkets. It recognised that manufacturers such as Heinz Watties do not have the same power over supermarkets as they once did. Rather, supermarkets now hold a lot of influence over suppliers. In some cases, supermarkets have vertically

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<sup>3</sup> Progressive Enterprises and Woolworths (NZ) Limited, Decisions 438 and 448 (2001).

integrated into food manufacture (e.g. Progressive Enterprises owns its own meat processing plant and Foodstuffs<sup>4</sup> its own milk company).

However, there would appear to be a degree of mutual reliance on each other; manufacturers need supermarkets as a distribution outlet, while supermarkets need the brands to draw customers into the shop. This applies to firms with strong, established brands, including Heinz Watties, Goodman Fielder, and the milk companies. Supermarket house brands are providing competition at the lower end of the market.

The strong export orientation of agricultural producers and, to a lesser extent, the availability of other distribution channels (such as the route trade and specialist shops<sup>5</sup>) were also identified as major constraints on the monopsony power of supermarkets. The importance of supermarket channels for some categories of agricultural suppliers is outlined below.

Approximate proportion of food products sold through NZ supermarkets as proportion of total food produced:

Wine	35%+
Meat	>20%
Fruit and Vegetables	65-70%
Dairy Products	>8%

***Meat companies price fixing case – Commerce Commission v Taylor Preston Limited, et al (1998)***

In the late 1990s the Commerce Commission conducted extensive investigations into the meat industry. The meat industry had just emerged from a long period of stability protected by supplementary minimum prices and fixed schedule prices, into an hitherto unknown, fiercely competitive market in which some well established companies failed. Over this period, most export meat products were spot traded, exposing the meat companies to significant uncertainty.

As a result of these investigations, nine major meat companies acknowledged in the High Court contravention of s 27(1) of the Commerce Act<sup>6</sup>. This involved, in most cases, that between 1992 and 1995 the companies arrived at understandings that were likely to have the effect of lessening competition in the market. The companies held regular meetings, approximately 90 in total, to discuss maximum prices for livestock procurements. The understandings involved not only the incumbent giants, Affco and Richmond, but also new entrants who would otherwise have been expected to ensure competitive prices.

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<sup>4</sup> Foodstuffs constitutes 3 separate cooperative companies trading under a common banner. The 3 companies are the largest supermarket retailer in New Zealand.

<sup>5</sup> The route trade includes dairies and gas stations and specialist shops like the Mad Butchers.

<sup>6</sup> See Commerce Commission v Taylor Preston Limited and others (1998) 6 NZBLC 102,598.

The Court found that the extent and nature of the loss suffered could not be measured. It noted that there was room for the view that the effect of the understandings was limited and that competitive market forces worked anyway. This assessment was based on the fact that frequently there was an oversupply of slaughter capacity and an under-supply of stock, so that competition for what was available quickly took over. There was however a perception by the suppliers of livestock that they were being disadvantaged.

The High Court found it appropriate to impose the highest total and individual penalties provided by the Commerce Act at the time. However, the Court noted the circumstances in which the breaches had taken place. The Court suggested that the meat companies failed to grasp the significance of the changes in a deregulated market. In particular, that with deregulation came the Commerce Act with its emphasis on efficiency in the use of resources and its prohibitions against interfering with the competitive market by which those resources were allocated.

## **PART TWO: INDUSTRY-SPECIFIC REGULATION**

This part discusses various industry-specific regulatory issues, with particular focus on the dairy industry and domestic market regulation. As noted in the introduction, the general approach adopted by successive New Zealand governments has been to seek to remove sector specific regulation for agriculture and integrate all sectors into the mainstream of New Zealand's competition regulation. While this process is ongoing, it can also be seen as nearing completion. For a more complete overview of developments in individual sectors, see appendix 3.

### ***Regulation of dairy industry***

The regulation of the dairy industry in New Zealand is worthy of particular discussion.

#### *Period 1900s - 1999*

The New Zealand dairy industry from its outset was based on farmer-owned cooperative dairy companies. Most of New Zealand's milk was processed into butter and cheese, and later also into milk powder, and exported to Britain (with the associated abnormal market conditions existing there during wartime and immediately following). The early focus of regulation of the industry was to achieve higher prices and more stable prices for farmers. Single desk marketing arrangements were first introduced in 1922 with mixed success.

Following Britain joining the EU, the Dairy Board (the then single desk exporter) sought to diversify its export markets and products. Frustration with the level of earnings derived from the agricultural sector led to increased government intervention over the period 1963 to 1984<sup>7</sup>. From an early reliance on loan schemes and fiscal concessions,

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<sup>7</sup> The following is stated with reference to "Farming without Subsidies New Zealand's Recent Experience", edited by Ron Sandrey and Russell Reynolds, 1990, a MAF Policy Services Project.

the apparatus of intervention slowly built up to include input subsidies, subsidised loans, subsidised stabilisation credits and direct price support.

Sweeping reforms in the 1980s included the abolition of price controls, financial assistance schemes, and many other changes. The New Zealand Dairy Board was retained but its functions and accountability arrangements were refined. These refinements included clearly establishing the ownership of the Board by allocating shares in the Board to dairy cooperatives giving farmers more control of the Board. Shares were allocated to the cooperative dairy companies in proportion to product supplied for export and were owned by the cooperatives on behalf of farmers who supplied milk to these cooperatives.

### *Rationalisation of industry*

The industry has also been marked by substantial rationalisation, particularly through merger activity. Mergers were subject to the Commerce Act and overseen by the Commerce Commission. The outcome of this activity was the emergence of two major market players – New Zealand Dairy Group and Kiwi Cooperative Dairies Limited - which together accounted for about 85 percent of total dairy production in New Zealand.<sup>8</sup>

At the same time, the dairy industry was characterised by the concentration and consolidation of dairy production on a limited number of sites. For example, Kiwi consolidated much of its North Island activity on a single megasite at Hawera, while Dairy Group consolidated its dairy processing activities on four or five “super” sites in the central North Island. The emergence of larger dairy processing plants, and the consolidation of plants on fewer sites, reflected in large part the presence of economies of scale and of scope in the processing of dairy products.

### *1999 proposed reforms*

In the 1998 Budget the National Government announced that all statutory producer boards, including the Dairy Board, should provide the Government with plans for deregulation. Despite undergoing reform in the 1980s, the dairy industry remained highly regulated in terms of its structure, marketing and commercial arrangements. Issues of pricing, capital mobility and governance combined to restrict the options of industry participants and distort their incentives. As a result, the industry was considered unlikely to be maximising the return on its substantial capital investment (at the farm, processing or marketing levels) or exploiting its full scope for innovation in the face of changes in technologies and markets.

Considerable pressure was mounting within the industry for the removal of the Dairy Board structure. Only co-operative companies were able to hold shares in the Dairy Board, all exports of dairy products had to be marketed through the Board, and the Board’s pricing behaviour was exempt from the Commerce Act 1986. These factors increasingly conflicted with industry objectives. The Dairy Group and Kiwi were moving

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<sup>8</sup> If Northland Dairy Cooperative was included, these 3 dairy companies were responsible for 95 percent of total dairy production. Northland subsequently merged with Kiwi.

off shore with acquisitions in Australia. Tatua, a small co-operative, was pursuing its own niche market and high value strategy. These companies were all attempting to expand into new markets. However under the regulatory environment, none could adequately control their overseas marketing – a key element of each company’s business.

In response to the Government’s invitation, the dairy industry sought to merge the 2 major dairy co-operatives and integrate the operations of the Dairy Board into the new company. The Government agreed to facilitate the industry restructuring through full deregulation provided that the merger was subject to oversight by the Commerce Commission under the Commerce Act 1986.

The dairy cooperatives submitted an application for authorisation of the merger in June 1999. The Commission subsequently released a draft determination. A key concern of the Commission was the impact on domestic markets and that the proposal would give the merged company potential control of all milk produced by farmers.<sup>9</sup> The downstream effects of this on consumers were considered to be significant. In addition, the Commission did not accept many of the benefits claimed by the applicants. In particular claimed benefits of economies of scale from export marketing were not substantiated given the counterfactual of the status quo with the Dairy Board.

On the basis of the draft determination, the applicants withdrew their application and the Government’s proposed deregulation reforms were halted due to lack of industry support.

### *2001 reforms*

In December 2000, the two major dairy cooperatives approached the Labour Government with a revised proposal for restructure of the dairy industry. Mindful of previous Commerce Commission concerns, the dairy cooperatives proposed a package of measures to mitigate the risks of market power being held in key domestic New Zealand dairy markets. The companies argued that the merger should not be referred to the Commerce Commission as in its view the Commission was not able to easily take into account the interface between the merger and the regulatory framework for the industry.

After receiving extensive advice from officials, the Government accepted the two companies’ proposal, subject to conditions. The Government noted that, unlike the Commerce Commission, it could impose behavioural undertakings on the merged entity by regulation to mitigate the competition concerns. By this means the Government considered that it would be able to address many of the detriments previously identified by the Commission.

### *The Dairy Industry Restructuring Act 2001*

In September 2001 Parliament authorised the merger of New Zealand Dairy Group, Kiwi Cooperative Dairies Limited, and the New Zealand Dairy Board to form Fonterra

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<sup>9</sup> A more detailed discussion of the Commission’s concerns regarding cooperative ownership is outlined in appendix two.

Cooperative Group Limited. The Dairy Board's statutory marketing privileges were revoked and the export regime liberalised. Fonterra is a cooperative company. Shares are priced at "fair value" and are owned by supplying farmers in proportion to milk supplied to the company.

The Dairy Industry Restructuring Act 2001 ("the DIRA") imposed various obligations and constraints on Fonterra for the purposes of facilitating competition in New Zealand dairy markets, particularly the market for farmers' raw milk. The regime is aimed at ensuring that farmers are both free to leave and free to join Fonterra.

Regulating for open entry and exit of farmers to Fonterra is the heart of the regulatory package. Because of Fonterra's near monopoly status and its associated market power it may have both the incentive and the ability to create barriers to new milk suppliers joining the co-operative or switching from Fonterra to other processors. One of the possible mechanisms available to Fonterra for this purpose would be manipulation of the milk price and its own share value. It could, for example, use returns from equity investments to cross-subsidise the price to farmers for processing milk, making entry of a competitor more difficult and discouraging suppliers from switching to another company. This in turn would give Fonterra's management a degree of protection from competitive pressures.

To mitigate this risk the Government has regulated to provide for open entry to Fonterra for any farmer wanting to supply Fonterra at its posted share price, as well as open exit from Fonterra. Under this system, Fonterra faces strong incentives to set market clearing milk prices and share prices. If Fonterra sets the milk price too high or share price too low it would face an influx of milk. If it set the milk price too low or its share price too high, it would face a loss of suppliers to its competitors (or out of the industry).

In addition, the Government moved to provide for competition in the domestic market for dairy products by requiring Fonterra to sell its shares in New Zealand Dairy Foods (NZDF), one of the two main domestic marketers of dairy products. Regulations are also in place to ensure that NZDF and other domestic companies can gain access to raw milk from Fonterra at a fair price. Currently an access regime exists for processed milk to be supplied by Fonterra to independent processors (at a price based on Fonterra's payout to its suppliers).

The Commerce Commission is responsible for monitoring compliance and enforcing the DIRA. Parties concerned with Fonterra's behaviour can approach the Commission directly. Fonterra is also fully subject to the Commerce Act. In addition, the Crown levies Fonterra to cover the Commission's costs of enforcing the DIRA. This provides a financial incentive for Fonterra to act in a way that minimises the number of complaints to the Commission.

### ***Regulation of pipfruit exports***

The regulation of the pipfruit export industry is also worthy of particular mention. New Zealand pipfruit exports earn between \$360 million to \$480 million per year (excluding processed fruit), making it New Zealand's second largest horticultural export industry (after kiwifruit). Marketing of pipfruit is fully deregulated, (in domestic markets in 1994 and export markets in 2001), and subject to the Commerce Act. The following is a brief summary of the reforms.

*Period 1890s – 1999*

New Zealand began exporting pipfruit in the 1890s but did not achieve substantial production volumes until the 1920s. For the purposes of aiding the fledging industry, the Fruit Export Control Board was set up in 1925 and from 1926 it began exporting fruit to Britain. The outbreak of World War Two saw the government take control of pipfruit marketing, and in 1949 the Apple and Pear Marketing Act created the Apple and Pear Marketing Board (“the Marketing Board”). The Marketing Board functioned as a single-desk exporter of apple and pears and was required to purchase apples at prices fixed in accordance with the Apple and Pear Marketing Act 1948.

The single desk exporting system in the post-war period enabled New Zealand to achieve critical mass in pipfruit marketing, prevented price competition by New Zealand exporters, and helped lift quality standards. The New Zealand pipfruit industry also benefited greatly through its investment in innovation, including the development of new pipfruit varieties such as Royal Gala and Braeburn, through on-orchard productivity, and the early introduction of Integrated Fruit Production.

Over time New Zealand's ability to compete profitably in export markets was challenged by the emergence of strong competitors such as Chile, and the loss of premiums as other countries became major producers of varieties that New Zealand had formerly dominated. Advances in controlled atmosphere technology meant that pipfruit could be kept longer in storage condition, thereby eroding the out of season “window” in the Northern Hemisphere. Changes in consumer preference also meant that pipfruit had to compete against substitute products such as other fruit and snack-bars.

While single desk exporting was overwhelmingly supported by growers up until the late 1990s, there was always a minority of growers who supported liberalisation of the regulatory framework. In 1993 the Board's Act was amended to permit independent exporting, through consents awarded by the Board. The local market was deregulated in 1994 because of factors such as dissatisfaction from retailers with the Board's servicing of this market, and because of the difficulty in restricting orchard gate sales.

*The 1999 restructure*

Faced with government pressures for deregulation<sup>10</sup>, and in the context of successive years of poor returns, debate over the performance of the Marketing Board led to restructuring of the legislative and regulatory framework for pipfruit exporting in 1999.

Major changes to the legislative regulation of the export of apples and pears were implemented by the Apple and Pear Industry Restructuring Act 1999 and associated regulations.

On 1 April 2000, this legislation converted the Marketing Board into a company (ENZA Ltd) registered under the Companies Act, with shares that were fully tradable at least among growers, and established a regulatory body, the New Zealand Apple and Pear

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<sup>10</sup> As discussed in reference to dairy, in the 1998 Budget the Government announced that all statutory producer boards should provide the Government with plans for deregulation.

Board (“the Board”). The Board had the task of appointing the Apple and Pear Export Permits Committee (“the Permit Committee”), an independent body charged with considering applications and approving permits for the independent export of pipfruit. However, the Board's main role was to monitor and enforce mitigation measures imposed by the Apple and Pear Export Regulations that protected ENZA's shareholders and grower suppliers from any monopsony abuse by ENZA of the privileged export right (modified single desk) that it retained after the new legislation was enacted.

The mitigation measures included rules on:

- non-discrimination between suppliers other than on commercial grounds;
- non-diversification on certain of ENZA's business functions, without approval by shareholders; and
- information disclosure to shareholders on financial performance.

As a result of the 1999 restructuring ENZA ceased to carry out industry good activities on behalf of the pipfruit industry as a whole, for example R&D and market access. Pipfruit Growers New Zealand Incorporated (PGNZI) assumed responsibility for these generic industry good activities<sup>11</sup>, and funded them through a levy raised under the Commodity Levies Act 1990.

ENZA's share price was depressed by the financial difficulties of growers and the industry in general, and by constitutional limits on share trading. This allowed two corporate investors (Guinness Peat Group and FR Partners) to win control over ENZA's board in 2001. These two investors were minor suppliers of pipfruit and their control over ENZA's board led to a divergence between the organisation's governance and the supply of pipfruit to ENZA. By late 2000 there were significant uncertainties in the relationships between ENZA and its grower suppliers, and these were compounded by disputes between ENZA and growers over liability for foreign exchange losses which ENZA sought to deduct from growers' 2001 returns.

The industry also experienced problems with the export permit system with ENZA threatening court action and some potential exporters left disappointed at having their applications rejected.

### *The 2001 deregulation*

In response to issues facing the industry the Government initiated a review of the regulatory framework and conducted an extensive consultation with the industry. This process culminated in an announcement by the Government in May 2001 that pipfruit exporting would be deregulated.

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<sup>11</sup> To ensure the research components of the industry could be developed in a commercial manner, in January 2000 PGNZI established a limited liability company, NZ Pipfruit Ltd, to manage the grower's R&D and Technology Transfer functions. The establishment of the company, with obvious very close ties with PGNZI left the latter organisation clear to concentrate on the policy and representative issues of the industry while NZ Pipfruit Ltd could concentrate on the technology issues. The company is 100% owned by New Zealand pipfruit growers through the PGNZI.

Whereas in 1999 the great majority of growers opposed the removal of the single desk, that same majority supported the 2001 legislation. The Apple and Pear Industry Restructuring Act Repeal Act 2001 came into force on 1 October 2001, fully deregulating pipfruit export marketing. The Board was dissolved and its assets transferred to ENZA. The Permit Committee was also dissolved and permits vested in those already holding a permit from the previous year.

### *Since deregulation*

The announcement of deregulation in mid 2001 had an immediate impact on exporter behaviour, creating an incentive for export permit holders to expand their exporting business and for new businesses to enter the market. Under deregulation ENZA was likely to have a smaller volume of pipfruit to export. This is likely to have created an incentive for ENZA to speed up the cutting of costs out of its business. This seems to have led to a positive impact on grower returns in 2002.

Prior to deregulation ENZA managed its post-harvest businesses on an arm's length basis from its exporting operations. Deregulation enabled ENZA to achieve more vertical integration between these businesses. It is worth noting that deregulation not only helped create the pressures for ENZA to reduce its costs but also gave it the commercial freedom to merge with Turner and Growers<sup>12</sup>, creating a major fresh produce exporting business for New Zealand. Prior to deregulation, ENZA was restricted from becoming more diversified and other exporters were restricted from diversifying into pipfruit other than through being an export permit holder. These restrictions were artificial, as evidenced by mergers and acquisitions in the fruit export industry since pipfruit exports were deregulated.

While the long term impacts of deregulation cannot be assessed in such a short period, the following observations can be made.

Deregulation has allowed a proliferation of new exporters and post-harvest operators to emerge in the market. Some of these new exporters emerged from being independent exporters under permits issued by the Permit Committee under the 1999 legislation, and this meant they had developed good skills and market linkages. A number of new or low profile exporters have become significant export players in a remarkably short time frame.

Removing the divisive political conflict over single desk marketing has allowed growers, post-harvest operators and exporters to focus on markets and customers. For example, while ENZA in the past marketed only a limited range of fruit grades, new exporters have either been more flexible or have identified niches for grades that may have been juiced at a loss to the grower.

There are indications that exporters have become more responsive to growers, and exporters competing for pipfruit supply have put upward pressure on returns to growers. The restructuring of ENZA has reduced its cost structure, and its merger with Turners and Growers creates a fruit exporting business with economies of scale and global

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<sup>12</sup> Turners and Growers is a major wholesaler and distributor of locally grown and imported produce.

marketing capability. Economies of scale are likely to be a continuing consideration for the industry, with an expectation that the export market will be increasingly dominated by a small number of large exporters, with a larger number of niche markets.

The provision of industry good services, including research, market access, crop forecasting and other industry good services, continues to be addressed. To this extent, the Plants Market Access Council<sup>13</sup> (PMAC) and the PGNZI have a significant role to play.

### ***Regulation of domestic markets***<sup>14</sup>

Regulation of key consumer goods, such as town milk, eggs and wheat, were introduced in New Zealand during the World Wars to encourage production and stabilise prices. Centralised marketing authorities were established to administer extensive regulation relating to quotas, prices, and quality controls.

In 1984, the government evaluated the regulations covering the production and marketing of agricultural and horticultural goods for the domestic market. It concluded that the regulations distorted resource allocation and therefore should be removed. The distortions included: excess production of eggs, excess capacity in the flour milling industry, poor location of production for eggs and wheat, and reduced efficiency and innovation such as in the packaging of milk.

Rapid deregulation took place in the domestic industries. The wheat and egg industries were the first, followed by the town milk industry, or fresh milk market. Many other products including potatoes, honey, raspberries, hops, tobacco, apples, pork and poultry were also deregulated.

Once the process began, external forces ensured that the pressure for reform was maintained. The main external forces included the Closer Economic Relations (CER) agreement with Australia, and the implications for wheat imports. A full chronology of regulation and deregulation of domestic markets is outlined in appendix three.

### **Conclusion**

This paper has presented New Zealand's experience with monopsony buying and joint selling in the context of New Zealand's overall approach to regulation of the agricultural sector. While these issues used to be often dealt with under industry-specific regulation, they are today generally handled under generic competition legislation i.e. the Commerce Act. Despite some initial misgivings by industry groups, the Act has generally proved robust in dealing with these areas. In specific cases (particularly dairy), additional regulation has been required to provide for competitive pressure to be exerted. While the process of reform in New Zealand is nearing completion, it will be important for New Zealand's regulatory institutions (particularly the Commerce

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<sup>13</sup> The PMAC focuses on the key areas of; market access improvements, integrating New Zealand's export assurance systems, and providing strategic drive and direction for the process of market access and official certification.

<sup>14</sup> Aspects of Reform in NZ Agriculture, MAF website.

Commission and the Courts) to continue to build experience and expertise in dealing with issues affecting the agricultural sector.

## Summary of Commerce Commission decisions

### *The New Zealand Grape Growers Council Incorporated [Decision 263]*

In 1990/91, the New Zealand Grape Growers Council Incorporated, on behalf of grape growers, sought authorisation of a trade practice involving the collective negotiation and fixing of grape prices between growers and themselves and between growers and processors, via elected representatives. This was an existing practice, and application was only sought after the Commerce Commission had notified the parties of potential competition concerns.

At the time of the application, the wine industry in New Zealand produced approximately 70,000 tonnes of grapes per year, producing about 54 million litres of wine. Approximately 90% of grape production was sold domestically. The industry was made up of 554 independent grape growers. Three wine companies were responsible for either producing, or contracting for the production of, approximately 85% of grapes in the domestic market. Exports were mainly sourced from company-owned vineyards.

The domestic markets were subject to fluctuations in price, quantity, and variety of grapes and wine produced, due to small market size, climatic conditions and changing consumer preferences. Production also required high cost capital investments by both growers and processors, with a time lag to harvest of at least three years. Contractual arrangements were generally long term, with a very limited spot market. Standard contracts provided for the grower to supply, and the company to accept purchase, of an agreed quantity of grapes produced from certain vines. Generally the company also had first option on production in excess of the agreed quantity. Prices were set by formula using a benchmark grape variety (Muller Thurgau) and sugar content, with deductions and premiums as specified. At the time of the application, there was evidence of oversupply of grapes.

The Commerce Commission considered that the collective negotiation of contracts was likely to substantially lessen competition. The Commission considered that collectivity had the effect of increasing the price of grapes. However, there was no evidence that it was substantially higher.

Shifting to the public benefit analysis, the Commission considered the detriments from the arrangement to be that the overall price of grapes was increased, and, by dulling price signals, incentives for individual growers to innovate and produce the varieties and quality of grapes required by the market place were reduced. This was seen to have a significant detrimental impact on the industry.

In terms of benefits, the Commission found small savings from the reduced cost of negotiating prices collectively. It also accepted some information benefits, on the basis that the growers' committee could be expected to be more informed as to market conditions than most individual growers. However the Commission did not accept price stability and equality of bargaining power as benefits. Price stability was seen to cushion growers from market signals. It was also noted that if price stability was desirable, then it could be reflected in individual contracts if the parties so wished.

The Commission also discussed equality of bargaining power and outlined its view that exact equality of bargaining power was not required for efficient negotiations. As a general rule it would be necessary to show that the buyer was in a position of such strength as to be able to exercise monopsony power. The Commission did accept that grape growers were in a relatively weak bargaining position, but it argued that this arose from the current oversupply of grapes rather than monopsony power.

The Commission declined authorisation.

***New Zealand Cooperative Dairy Company Ltd/Auckland Cooperative Milk Producers Ltd (Decision 216) 26 April 1988***

NZCDC and ACMP were the only suppliers of milk to the Auckland market and competed with each other and other companies in products such as yoghurt and cultured milk products. While the Milk Act 1988 placed considerable constraints on the ability of the firms to compete with each other, the ability to supply supermarkets meant that there was some potential for competition between the two. Other firms could only compete in the face of a significant cost disadvantage. The Commission calculated that the cost advantage from transport costs over the nearest competitor would be about 5 cents per litre.

The applicants claimed public benefits from efficiencies in two areas. The first of these was the elimination of duplicate facilities. Both Auckland milk processing plants were working at around half capacity. By merging, the company hoped to process all milk for the Auckland market at one plant. The second claim was that the merger was necessary to put into effect a scheme for integrating the production of town milk with manufacturing milk supply. This scheme would enable the company to produce town milk cheaper and more efficiently than schemes then in place. The company estimated that the combined effects of these efficiencies would be a cost saving of around 8.5 cents per litre of milk.

The applicants also claimed a number of export-related advantages including the sharing of export technology, co-ordinated marketing, increased exports of a wider range of value-added products and generally increased export competitiveness. The Commission found that the merger would result in efficiency gains and that the export-related benefits derived from these efficiency gains.

The Commission accepted these claims and granted an authorisation despite recognition that any benefits arising would be likely to be retained by the suppliers to NZCDC.

***New Zealand Kiwifruit Exporters Association & Ors (Decision 221) 15 September 1988***

The Kiwifruit Exporters Association, acting as agent for the kiwifruit growers and the Kiwifruit Coolstore Association, applied for authorisation of a national collective pricing agreement for the coolstorage of export kiwifruit. This agreement was part of a complex set of arrangements for the export of kiwifruit. Growers sent fruit to a particular coolstore for storage awaiting export. Exporters, acting as agents for the growers, would collect fruit from the coolstore and consign the fruit to export destinations. While the grower selected the coolstore, largely on a basis of convenience factors, the exporter was

responsible for paying the coolstores. A system of pooling returns was operated to ensure that growers whose fruit was stored for a lengthy period were not disadvantaged relative to those whose fruit was exported early in the season.

The applicants and supporters of the application suggested a long list of interlinked benefits. Key elements of the claims were:

- equalisation of bargaining power between the more than 3000 growers, represented by exporters, on the one side, and the 148 coolstores on the other,
- reduction of administration costs and efficiency of bargaining;
- steady returns to coolstores and other encouragements to invest in improved facilities;
- benefits relating to the operation of the export pooling scheme; and
- the facilitation of the flow of fruit to export markets.

For this case the Commission had the advantage of experience of seasons both with and without the presence of a collective pricing agreement. The Commission found that there was a rough parity of bargaining power between exporters and coolstores even without the agreement; that greater efficiency and savings of costs would have been possible under competitive conditions; that the agreements had not had the effect of encouraging appropriate investment because the agreement limited the benefit to the coolstore of investing in improved facilities; and that the export pooling scheme did not require the collective agreement to operate.

The Commission accepted that the agreement helped to create conditions where the effective planning of exports over the whole season was possible. This finding was critical and resulted in the Commission authorising the agreement subject to certain conditions. In balancing the detriments and benefits of the agreement the Commission noted that

"This case has some unusual features. First, the agreement essentially enables growers to combine through the exporters and redress the lack of bargaining power which they have as against coolstorers.... Secondly, there are relatively few domestic implications in the agreement as it relates entirely to the cost of coolstorage of kiwifruit for export ... and supplements an export marketing cartel which is perfectly lawful in terms of the Act' (paragraph 6.2)

Later in the year the Kiwifruit Marketing Authority, which had licensed exporters and set standards for export coolstores was disbanded and replaced by a Kiwifruit Marketing Board. The marketing board operated as a single desk seller. The board purchased export fruit from the growers prior to entering the coolstore and maintained control over all steps from there to the export market. The Commission re-examined the authorisation in light of the creation of the board and determined that the detriments which it had identified with the previous agreements retained. The existence of the board to control the export of the fruit removed the public benefit of facilitating fruit flow and growers withdrew the support for the arrangement. The Commission therefore withdrew its authorisation.

***New Zealand Cooperative Dairies Ltd/Waikato Valley Dairy Cooperative Ltd  
(Decision 264) 23 May 1991***

This application related to a proposed merger of the New Zealand Cooperative Dairy Company, a member of the New Zealand Dairy Group, with Waikato Valley Cooperative Dairies Ltd. While both companies were primarily producers of dairy products for the export market, NZ Dairy Group had a dominant position in the supply of fresh milk in the area from Auckland to Taupo. Waikato Valley was the only other large dairy company in the region. The companies competed to a greater or lesser extent in other product markets, particularly the purchase of raw milk from farmers.

The companies claimed significant efficiencies arising out of the merger, improving both farmer incomes and export returns. In addition, there was a concern that Waikato Valley would collapse in the absence of the merger. The companies submitted that the collapse of Waikato Valley would make many farms supplying the company unviable.

The Commission declined to clear or authorise the merger. The companies appealed the case to the High Court where the decision was overturned, at least in part on the basis of additional information on the sources of the claimed increased export returns and more definite evidence that the collapse of Waikato Valley was impending. The *New Zealand Co-operative Dairy Company Ltd & Anor v Commerce Commission* (1991) 3 NZBLC 102,059.

### **Constraint posed by cooperative ownership**

The Commerce Commission has considered the competitive effects of agricultural producer cooperatives in a number of decisions.<sup>15</sup> Of particular interest, the Commission examined the extent to which cooperative ownership may provide a constraint on the market power of a cooperative where competition in the market is limited.

If a cooperative attempts to exercise market power by decreasing its payout or increasing its costs, the supplier shareholders are potentially able to constrain these actions. The High Court in the *New Zealand Cooperative Dairy Company & Anor v Commerce Commission* (1991) 3 NZBLC 102,059 considered that:

“...Dominance is a measure of market power. In this instance such market power could only be exercised against the interests of the suppliers. The suppliers are in a position through ownership of the company to prevent or at least curtail the exercise of any such power by the merged entity, whose ability and motive to exploit suppliers would be restricted accordingly. Against this the Commission no doubt balanced the fact that the merged entity would have such a cost advantage over its competitors that it could to some extent use its payout advantage to retain suppliers who were dissatisfied with its performance. Some waste, inefficiency or inappropriate investment could go unchecked so long as its payouts comfortably exceeded those of its competitors.”

The Commission concluded that while suppliers may impose some constraint on inefficiencies within traditional producer cooperatives, this constraint may not be strong.

Traditional cooperatives require that suppliers hold shares in the cooperative in proportion to the product supplied. Shares have nominal values and the payment to farmers for the product supplied is bundled up with the returns on capital. These features of traditional cooperatives mean that the entities do not face market disciplines imposed on publicly traded companies. Such disciplines include:

- the transparent valuation of the company that is established by the price at which shares are traded,
- the threat of takeover,
- unbundled returns on capital and products to enable benchmarking, and
- the concentrations of ownership interest that are associated with detailed monitoring of the entity's efficiency.

Rather, the cooperative structure limits incentives for monitoring by the fact that any individual's interest in the entity is restricted to its share of input. Because this is small, so is the incentive to invest in monitoring small for any individual and for the entity as a whole.

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<sup>15</sup> NZ Dairy/Waikato Valley (Decision 264), Kiwi/Moa-Nui (Decision 267), and Ravensdown/SouthFert (Decision 279).

The bundled payments to farmers may limit the availability of transparent information to benchmark the performance of the firm. This is particularly a concern when there are no comparable competitors.

In addition, traditional cooperatives may create barriers to exit by suppliers by restricting the withdrawal of the suppliers' capital on exiting the company. Common practices of dairy cooperatives were to delay full payment on exit by up to 5 years.

## APPENDIX THREE

## Chronology of regulation and deregulation of domestic industries

<b>Town Milk</b>	
1943	Appointment of Milk Commissioner to inquire into measures needed to ensure adequate supplies of good quality milk at reasonable prices
	Report recommended price controls and industry reorganisation
1944	Establishment of 44 milk authorities to achieve these objectives
1953	Authorities merged into newly established New Zealand Milk Board
1967	New Act and establishment of a Milk Prices Authority to determine margins paid to milk treatment stations and vendors
	Zoning and vendor licensing transferred to the Board
1980	Milk Act - Milk Prices Authority abolished and its functions transferred to the Department of Trade and Industry
	Town milk producer price set by Minister of Agriculture on a formula indexed to the manufacturing milk price. Producers had production quotas.
	40 milk treatment stations – mostly producer controlled – 16 largest accounted for 70% of industry capacity and were surveyed to set processing margins - formula allowed full cost recovery plus a 15% return on total assets. A special allowance paid to the smaller stations to ensure viability.
	Protection from competition within local milk districts and guaranteed returns led to inefficient use of capital resources and little impetus for change. Town milk processing costs were estimated to be double those of the manufacturing sector.
	1125 vendors employed by the Milk Board. Frequent adjustments between adjacent rounds was required to ensure equity
November 1984	Announced that the consumer price subsidy on milk would cease from March 1985.
1985	Industries Development Commission reviewed the town milk industry
	Reported that there were no longer the problems of supply, quality and distribution that the existing controls had been designed to address.
	Recommended substantial deregulation of the industry at all levels except

	home delivery services from 1 September 1986
	Led to amalgamations and closures of milk processing facilities
	NZ Dairy Board acquired 40% of Auckland Milk Company - the Commerce Commission approved the acquisition although expressed concern at the conflicting roles of the Dairy Board as a participant and regulator of exports.
1986	Controls on packaging forms and sizes removed – led to cartoned milk appearing in supermarkets
1987	Milk Board and Dairy Board's plan accepted by Government. It provided for processors to negotiate supply contracts with any suppliers, removed linkage to manufacturing milk price, processors assumed responsibility for home delivery services within a specified area, (in direct competition with supermarkets and bulk sales). Some controls on supermarket prices remained.
	Milk Board implemented the plan providing for deregulation of production, licensing of processors, transfer of vendors to processor control, and pricing requirements.
	NZ Co-operative Dairy Company acquired the other 60% of Auckland Milk Company. The merger was approved by the Commerce Commission subject to the minor divesting of some non-essential product monopolies. It concluded that the detrimental effects of town milk dominance were offset by rationalisation gains and cost savings. It cautioned the new company would not be able to justify future milk retail prices at or above the level of other processors. Thus the largest dairy manufacturer, the largest town milk company and the Dairy Board were brought together.
1988	Milk Act abolished the Milk Board and established a three member Milk Authority to make provisions for continued home delivery. It licensed milk processors and determined retail price differentials.
	Provision made for the expiry of the Act on 31 March 1993.
1990	Town milk quotas ceased in Auckland to be replaced by a winter milk contract scheme – premiums for specified quotas in May, June and July with manufacturing price paid for milk provided in other months. Introduced contestability into previously protected supply sector.
	Consumers faced rapidly rising prices which were attributed to the boom in international dairy commodity prices

<b>Eggs</b>	
1933	Establishment of the Poultry Board to organised the production of eggs
1937	Powers to fix wholesale and retail egg prices legislated to the Marketing Department.
	Variations of these arrangements continued.
1953	Authority established to market eggs
1980	Merged with Poultry Board – functions to promote and organise the industry; regulate and control production, marketing and distribution; and promote efficiency.
	Production characterised by quotas (entitlement scheme), regional distortions and high surplus egg disposal costs.
	Large numbers of very small producers, most eggs sold to licensed marketing agents, retailers forced to buy from agents in geographically defined areas.
	Farmgate prices set on the basis of an annually adjusted four-yearly cost of production survey. Cost-plus pricing with regulated wholesale and retail mark-ups.
	Imports of eggs and egg products prohibited.
1984	Industries Development Commission review of the egg industry
	Reported that a more market-oriented approach would be in the collective interest of producers, distributors, growers and consumers.
1985	Recommendations included a reduction in retail prices, transferability of entitlements, freedom from price controls and egg sourcing restrictions after six months.
1986	Partial deregulation of egg industry – all controls over marketing and pricing of eggs and grade definition regulations were rescinded. Production controls remained but entitlements freely transferable and maximum entitlement holding limits abolished.
	Positive free market values of entitlements provided compensation and incentives to producers wishing to exit the industry. Sped up the movement of high cost small producers out of the industry. Traded quota prices gradually reduced from maximums of \$15 per bird licence to \$8 per bird licence. Removal of maximum holding limits enabled exploitation of economies of size in production.
1988	Full deregulation – removal of production controls. Poultry Board

	abolished.
	Initially only limited retail price competition as many egg distributors were producer controlled. Decline in wholesale prices of eggs (of around 25%) captured by retailers once controls on margins lifted. Problems of regional surpluses and shortages addressed.
	Consumers benefited from an increased range of both eggs and sales outlets. But evidence suggested that while deregulation was successful in reducing market distortions the interim situation to 1990 was still characterised by substantial wealth transfers. Prices to consumers had not fallen to any significant degree. Wholesalers and retailers increased their margins while producer returns fell due to price cutting to secure increased market share.

<b>Wheat</b>	
1933	Establishment of the Wheat Purchase Board. Had power to purchase all wheat and fix prices to the grower and millers. But no control over imports.
	Milling trade dominated by collective agreements amongst most millers.
1936	Wheat Committee formed to take over sole responsibility for buying and selling of all wheat including imports.
1939	Price controls introduced generally and extended to wheat, flour and bread sectors
1962	Commission of Enquiry into the industry
1965	Establishment of the New Zealand Wheat Board under the Wheat Board Act 1965
	Functions: to control acquisition and marketing of wheat and flour generally; to encourage wheat growing and use of wheat grown; to ensure adequate supplies of wheat and flour; and to promote the orderly development and greater efficiency of the wheat and flour-milling industries
	Key decision was the purchase price of wheat, a price set to recoup the costs of the Wheat Board, as this triggered other decisions such as the consumer price for flour. Each flour miller paid the calculated cost of processing (including 15% return on capital), which was independently calculated for each mill. Pricing policy designed to encourage domestic production of wheat and therefore self-sufficiency.

	Most wheat grown in South Island and half shipped to the North Island for milling. Shortfalls in production met by Australian imports.
	Grower price set a full season in advance. Millers obliged to accept New Zealand wheat for milling, even though there were inherent quality problems.
	Other regulations pertained to accounting practices, payment methods and small packaging price differentials.
1980	Deregulation commenced with bread being removed from price control. Baking immediately became more competitive and innovative as different types of bread were produced and marketed. (Hot Bread Shops opened). Bakers sought higher quality flour in response to consumer demand for quality, causing deregulation pressures to become more acute.
1981	New Zealand wheat price became based on a three-year rolling average of quoted FOB Australian standard white price.
1983	Closer Economic Relations agreement with Australia necessitated a review of administrative pricing and import control. Prospects of direct flour imports and the 1981 wheat price policy change signalled that self-sufficiency was no longer the primary policy objective
	Review of industry by Department of Trade and Industry
1984	Industry changes announced including abolition of the flour quota and removal of price controls on flour, bran and pollard from 1987; Board's role to be restricted to trading in wheat and meeting mills' specifications from that date; and a review to be undertaken of the Board's role past 1 February 1989 when it would lose monopoly rights
1985	Government asked Board to report on its marketing plan for wheat from 1987-1989. Government subsequently accepted the Board's own recommendations that it cease trading and disband on 31 January 1987
1986	Board replaced wheat pricing formula with an index system and adopted a weekly average price, set up a system of grower pools, and intervened to provide a floor price against falling world wheat prices.
	Flour prices were still controlled during the transition to a free market system.
1987	Flour millers were able to contract directly with growers for 50% of supplies in the 1987 season, while the Board made a taxpayer-funded loss of \$18 million for the last harvest under its control by trying to leave the industry with a low flour price and a high wheat price.
	Wheat Board control ended on 1 February 1987 when regulatory controls were removed and the Board was dissolved on 30 April.

	Price of wheat fell immediately from floor price to world market prices.
1988	Millers offered growers fixed price contracts.
1989	Both fixed and variable price contracts offered (variation of 10% above or below fixed price contracts)
	Arable farming had declined in profitability over 1985-1988 mostly due to the impact of increasing interest rates and interest charges on debt.
	Review of price setting in the deregulated flour milling industry – found that each mill had adopted a pricing procedure fitting its own particular market conditions. Flour pricing became intensely competitive. Significant excess capacity in the milling industry led to mergers and plant closures.
	Processing sector is now demand-driven – bakers sourcing flour on both quality and price. Flour quality has increased with much of this due to change of variety.