

periods, with the result that the actual quantities exported fell far short of the maximum quantities fixed by the Order in Council.

The process of fixing maximum quantities for export has the effect of conserving the New Zealand forests, as the aggregate output of all mills must of necessity be limited to the quantum fixed for export with the addition of approximately the quantity that can be absorbed in New Zealand.

The only New Zealand timbers extensively used for building purposes, in addition to rimu and kauri, are matai and totara. The export of these timbers is not permitted except in the case of O.B. matai produced in excess of New Zealand demands.

By the Order in Council of 13th April, 1922, the maximum quantity of beech for export was fixed at 2,500,000 ft. per annum.

The policy enunciated in previous reports with respect to white-pine is still continued—that is to say, that the export is allowed of the quantity produced in excess of that required to meet the New Zealand demand.

At the time of writing New Zealand timbers are very difficult to place on the Australian market, owing to the competition of timber from other countries and to the late amendments of the Commonwealth Customs tariff, which increased the duty very considerably.

As has been indicated above, the control of prices of timber has been based upon investigations made from time to time relative to costs of production and distribution in various districts throughout the Dominion. During the past year an extensive investigation was made over the whole field of the industry, in order to ascertain with the greatest possible exactitude the financial results secured by the millers during past years, and to determine closely the current cost position. The records of a number of representative mills were considered, and a comprehensive report was compiled and forwarded to the Hon. Minister of Industries and Commerce. Portions of the concluding paragraphs of this report may be quoted here :—

From the foregoing it will be gathered that the control of prices of timber sold in New Zealand is a phase of the Board's activities which is fraught with very great difficulties. It is probable that few commodities produced in New Zealand offer more difficult subjects for control.

It has already been pointed out that the necessity for the control of prices arises out of a shortage of essential supply, and it is a matter for the price-fixing authority—

- (1.) To determine what price is necessary to prevent the producer from taking advantage of the shortage in supply for the purpose of securing an unreasonably large margin of profit; and
- (2.) Conversely, to determine what price is necessary to allow such a margin of profit as will induce the least advantageously situated producer to place his output on the market, and thus to increase or, at least, to maintain the essential supply. It is evident that a price which returns a profit to the marginal or worst situated producer must of necessity return relatively high profits to those who are producing under relatively advantageous circumstances.

Official control of prices should be carried out with such consideration of all the circumstances that the price fixed is that which would be arrived at by the play of unrestricted competition, at a time when both supply and demand are in what might be regarded as a normal condition. During the past few years, however, the demand for New Zealand timber both for export and local consumption has been abnormally high. The steps taken by the Government to protect the interests of local consumers have been—(1) Restriction of export, and (2) control of prices within the Dominion. Had this restrictive action not been taken the local market would have been very seriously under-supplied, and the local price would have risen to export parity.

In the control of prices of timber within the Dominion the position of the various producing mills in relation to the markets for timber, and the fact that timber is a bulky commodity in respect of which transport charges are an important factor, has made it necessary to adopt a system of "price points" at which the prices are fixed. Under this system the miller adjusts his "on truck" price in such a manner that when railage from his particular loading-station to the delivery station is added the cost to the buyer is the same as it would be on timber loaded and sold from the standard "price point." For example, the price point for the Main Trunk sawmilling district is Ohakune. Millers loading at, say, Taumarunui—which is farther north—for delivery to Palmerston North must sell "on truck" at prices below the Ohakune price to the extent of the difference between the railage from Ohakune to Palmerston North and Taumarunui to Palmerston North. Conversely, on sales to, say, Auckland, the Taumarunui millers secure an "on truck" price higher by the amount of the difference in railage between Taumarunui and Auckland and Ohakune and Auckland.

The system has the advantage of making the cost to the buyer definite and uniform, irrespective of the loading-station, and has the further virtue of tending to prevent the miller from supplying customers at a great distance from his mill and in respect of whose orders a wasteful and unnecessary amount of railway haulage would be involved. The system tends also to maintain the miller's economic advantages or disadvantages which normally prevailed by reason of his proximity to or distance from markets.

The varying classes, grades, and uses of timber must be considered in the fixation of maximum prices. It is a somewhat difficult question to decide upon the relative maximum price as between, say, totara and rimu timbers, and as between the different qualities of each class of timber. The relation between these prices has previously been adjusted by competition and the relationship between supply and demand. Under the system of State fixation of prices the same relative prices have in general been adhered to, but adjustments and alterations must be made from time to time as supply or demand fluctuates.

Another matter in regard to the control of timber-prices which must not be overlooked is the serious risk of bush-fire under which millers are working. This risk is to a very large extent uninsurable—no insurance office will accept the risk, and no definite charge in respect of insurance premiums can be ascertained and debited against the production of timber. But the risk is nevertheless present, and at any time the plant and bush may suffer to such an extent by damage by fire as to entirely offset profits made over a number of years. It is therefore not possible to make any definite allowance in respect of this risk, but in the fixation of maximum prices an added margin of profit may reasonably be allowed to cover the possibility of serious capital loss by fire. The necessity for some such allowance is clearly demonstrated by the loss which millers in the Main Trunk district suffered by the serious fire in the Raetihi district in 1918. In fact, few mills in New Zealand (with the exception perhaps of the West Coast mills) have been so fortunate as to produce timber over a long period of years without suffering serious fire losses. Further, as has already been explained, the profits of millers in recent years have in many cases been increased by the sales of timber from stock. The strong demand for timber has tended to reduce the stocks normally carried by millers and merchants to the barest possible minimum. These stocks have been accumulated in past periods out of a production secured at a lower cost-level, and consequently the sale of the stocks increased the immediate profit of the milling and merchanting companies. When the demand fell off, as it has recently done, millers have been in a position to build up stocks to something approaching normal. It is recognized that in practically all cases when business is following its usual course stock must be carried. But this building-up of depleted stocks can only be done on what is tending to be a falling market. Losses must inevitably be made at a later period when the new high-costing accumulations are sold on the lower level of values towards which the trade must most surely be moving.

When all these conflicting and difficult questions are given consideration, when it is seen that the profits of millers and merchants have not been excessive, and when the facts in regard to the increase in supply placed on the New Zealand market are looked to, it can be confidently asserted that the control exercised by the Board of Trade has been in the best interests of the consuming public.