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THE NEW ZEALAND FEED GRAIN INDUSTRY:  
PRODUCTION, MARKETING AND UTILIZATION

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# ABSTRACT

## THE NEW ZEALAND FEED GRAIN INDUSTRY: PRODUCTION, MARKETING, AND UTILIZATION

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The New Zealand feed grain industry has expanded considerably over the last decade yet to date very little is known about the influence of both the economic and non-economic factors on grain production. Even less has been written about the marketing and utilization of these grains.

One objective of this study was to examine the functions and activities of the many participants in the feed grain industry. A secondary objective was to develop a model of feed grain supply for maize and barley crops which would reveal the reactions of producers to the changing economic and non-economic variables that were prevalent in the marketplace when actual production decisions were made.

From a grain producer's point of view many decisions have to be made. Initially the producer has to decide on one or several production alternatives in which to invest his limited resources. "Will I produce maize this year or will I buy more breeding stock?" is a typical decision that has to be made. There are several non-economic factors influencing production decisions at the farm level such as:

- (1) constraints imposed by nature (delayed seeding, etc),
- (2) cultural constraints (crop rotations, etc.),
- (3) fixed factors involved in agricultural production,
- (4) institutional constraints (price for wheat set by the New Zealand Wheat Board),
- (5) uncertainty and imperfect knowledge (prices, etc.).

All of the above factors influence production decisions at the farm level.

The New Zealand feed grain industry is made up of many participants starting initially with the producer and his grain merchant. Grain merchants are involved in many activities such as:

- (1) the establishment of annual feed grain prices,
- (2) the management of the grain contracting system,
- (3) the marketing of agricultural inputs and other services to the primary producer,
- (4) marketing of feed grains to both the domestic and export markets.

The majority of the feed grains produced in New Zealand are produced under contract to a grain merchant. Approximately 95% of the maize and 80% of the barley acreage is contracted each year at specified prices subject to certain grading standards. In New Zealand there is no "formal" marketplace (such as a commodity exchange) for the establishment of feed grain prices. Prices are negotiated by the producer and his grain merchant on an individual basis with generally the same price quoted for each producer. As acres are contracted and it seems that production will not be sufficient for the expected demand, then a higher contract price is offered which hopefully generates the necessary production that is needed. All contract prices are equalized within a region by the individual grain merchant. Competitive grain merchants set their own prices but again prices tend to equalize within a region. Price differentials between regions generally account for the differing transportation costs of moving the grain from producer to end user.

Another participant in the grain industry is the grain broker. The grain broker brings buyers and sellers together. For example, somebody

has grain they want to sell while another needs grain. The grain broker contacts both and without the buyer knowing who the seller is, the sale is negotiated at a mutually agreeable price. Prices fluctuate depending upon supply and demand and the position of the grain (i.e. is it readily deliverable? transportation costs, etc?") The grain broker handles grain sales between merchants and also between merchants and feed manufacturers.

New Zealand grain has primarily two end sources - the domestic or the export market. The domestic market is divided into grain for stock feeding, industrial uses and for human consumption. A major participant at this stage is the feed manufacturer. He performs several important functions in the grain sector:

- (1) participates in the establishment of prices,
- (2) makes the necessary transport arrangements to move the grain from free-on-rail or ex-silo positions,
- (3) manufactures and retails feed grains in bulk and bag form,
- (4) provides technical and economic services for end users.

An attempt to quantify some of the relationships within the feed industry was carried out in the form of a supply response model. A simple linear regression model was used. A generalized model took the following form:

$$Q_t^* = a_0 + a_1 \frac{p_t^g}{p_t^c} - a_2 p_t^L + a_3 Z_t + a_4 T + a_t$$

where  $Q_t^*$  = acreage of grain in period t

$p_t^g$  = price of grain in period t

$p_t^c$  = price of the major competitive grain in the specific region  
in period t

$P_t^L$  = price of major livestock alternatives in the specific region in period t

$Z_t$  = non-economic factors in period t

T = linear trend variable

$e_t$  = error term

$a_0, a_1, a_2, a_3, a_4$  = regression coefficients to be estimated.

The analysis was divided into two parts, the North Island and the South Island regions. Each region was estimated for the major feed grains produced. Barley on the South Island and both barley and maize on the North Island. For example in the South Island barley analysis, the model explained 86% of the variations in production with all variables statistically significant at the 1% level. This particular model estimated that for a 10% increase in the price of wool, the area sown to barley would decrease by 5.4%. Similarly, a 10% increase in the barley to wheat price ratio would result in a 25% increase in the area sown to barley.

For maize, one of the estimated equations explained 87% of the variation in maize acreage. The elasticity at the mean was estimated and for a 10% increase in the maize price, the acreage of maize increased by 15%. This was based on 15 years of data.

Several grain marketing alternatives were discussed. These included grain cooperatives, feed grain marketing boards and also making better use of the services of the grain broker. All have merits and of course certain limitations but as the feed grain industry expands there will be increasing pressure for changes within the New Zealand feed grain industry.

This study hopefully has shed some light onto the functions and activities of the major participants in the New Zealand feed grain trade. This is just a starting point. More accurate grain statistics are necessary before any extensive research can be conducted. Hopefully this is an area where government and industry can come together.

TABLE OF CONTENTS	i
LIST OF TABLES	iv
LIST OF FIGURES	v
Chapter I	Introduction ----- 1
	1.1 Introduction ----- 1
	1.2 Thesis Guide ----- 2
	1.3 Historical Summary of the New Zealand Cropping Sector ----- 2
	1.4 Background Information on Barley and Maize Production in New Zealand ----- 6
	1.4.1 Barley ----- 6
	1.4.2 Maize ----- 9
Chapter II	Review of the Literature ----- 11
	2.1 Introduction ----- 11
	2.2 Basic Production Theory ----- 11
	2.3 Review of the Literature ----- 18
	2.3.1 Econometric Studies of Agricultural Supply ----- 19
	2.3.2 Application of Mathematical Programming to Estimating Agricultural Supply ----- 25
	2.3.3 Review of Feed Grain Studies of a Descriptive Nature ----- 28
Chapter III	Factors Affecting Decisions to Produce Grain in New Zealand ----- 30
	3.1 Introduction ----- 30
	3.2 Production Alternatives in New Zealand Agriculture ----- 30
	3.3 Non-economic Factors Influencing Production Decisions ----- 33
	3.3.1 Constraints Imposed by Nature ----- 34
	3.3.2 Cultural Constraints on Grain Production ----- 35

	3.3.3 The Influence of Fixed Factors on Agricultural Production -----	37
	3.3.4 Institutional Influences Upon Grain Production -----	40
	3.3.5 Uncertainty and Imperfect Knowledge -	40
Chapter IV	Feed Grain Marketing in New Zealand -----	42
	4.1 Introduction -----	42
	4.2 Role of the Grain Merchant Sector -----	42
	4.2.1 Price Establishment -----	43
	4.2.2 Grain Contracting System -----	51
	4.2.3 Marketing of Agricultural Inputs and Other Services -----	53
	4.2.4 Feed Grain Marketing: Domestic Activities -----	56
	4.2.5 Feed Grain Marketing: Export Activities -----	57
	4.3 Changing Structure of the Merchant Sector -	61
	4.4 Role of the Grain Broker -----	64
Chapter V	Feed Grain Utilization -----	69
	5.1 Introduction -----	69
	5.2 A Brief History of the Feed Grain Industry-	69
	5.3 Usage of Grains in New Zealand -----	73
	5.3.1 Food and Industrial Purposes -----	73
	5.3.2 Grain Used for Stock Feeding -----	74
	5.4 Structure of the Feed Manufacturing Industry -----	79
	5.5 Role of the Feed Manufacturer -----	80
Chapter VI	Feed Grain Supply Model -----	84
	6.1 Introduction -----	84
	6.2 Methodology -----	84
	6.3 Lags in Price and Acreage Adjustment -----	86
	6.4 The Model -----	88

6.5 Interpretation of the Results -----	92
6.5.1 South Island Barley Results -----	94
6.5.2 North Island Barley Results -----	99
6.5.3 North Island Maize Results -----	104
6.5.4 Summary -----	107
 Chapter VII Summary and Conclusions -----	 108
 Appendix A -----	 112
Bibliography -----	118

## LIST OF TABLES

	Page
I Grain Production in New Zealand: Percentage Distribution between North and South Island -----	4
II Threshed Areas of Major Grains in New Zealand -----	5
III Barley Varieties for the 1971-72 Crop Year -----	8
IV New Zealand Regional Maize Production: % of Total Crop -----	9
V Average Gross Margins for Various Production Alternatives in the Manawatu and Rangitikei Districts 1975-76. -----	32
VI Regional Maize Prices (Contract Price) -----	48
VII Regional Contract Barley Prices -----	49
VIII New Zealand Pig Numbers -----	71
IX New Zealand Poultry Meat Production for June Years and Egg Production -----	72
X Percentage Consumption of Types of Feed Grains by Regions: 1973. -----	75
XI Feed Grain Utilization by Classes of Livestock: 1973	76
XII Consumption of Stock Feeds in New Zealand (1975)----	77
XIII Quantities of Grain for Livestock Feeds -----	78
XIV Alternative Grain Uses (1975-76) -----	78
XV South Island Barley Results -----	96
XVI Estimated Elasticities at the Means: S.I. Barley ---	97
XVII North Island Barley Results -----	101
XVIII Estimated Elasticities at the Mean: North Island Barley Production -----	102
XIX North Island Maize Results -----	105
XX Estimated Elasticities at the Mean: North Island Maize Production -----	106

## LIST OF FIGURES

	Page
1 Total Threshed Grain in New Zealand -----	10
2 Isoquants -----	13
3 Isoquants and Isocost Curves -----	13
4 Profit Maximization for the Perfectly Competitive Firm -----	17
5 Short-run Equilibrium for the Perfectly Competitive Firm -----	17
6 Flow of Grain Through the Merchant Sector -----	45
7 Typical Grain Merchant's Contract -----	52
8 Flow Chart for Maize: Production, Marketing and Utilization -----	58
9 Flow Chart for Barley: Production, Marketing and Utilization -----	59
10 Typical Grain Broker's Contract -----	66
11 Grain Broker's Position in the Market Place -----	68
12 Demand Curve Facing Each Farmer: Perfect Competition	85