Organization of existing treating and distributing facilities is discussed from the viewpoint of gradual change rather than sudden dislocation of existing services in order to impose completely new types of organization. Dunedin, however, is one area in which radical changes must occur in methods of treatment.

Problems of distribution are mainly problems of standard of service and economy of cost. Milk-distribution costs are too high and the standard of service too low in other centres as compared with Wellington. It may be that proper organization, either by better central planning or by the use of depots in outlying areas or by co-operative grouping by the various vending organizations so as to give maximum facilities for ease of distribution, will go a long way towards giving the desired control over both standard of service and economy of cost. The Commission recommends that the organization achieved by the Wellington City Council Milk Department be studied with a view to making its advantages available in other areas.

Dairy Farmers' Supply Associations

The reasons are stated in the appropriate section for the necessity of setting up Dairy Farmers' Co-operative Milk Supply Associations in order that the producers are given the collective responsibility of organizing production and collection and for the purpose of strengthening the position of producers generally so that complete stability and long-term planning will be possible. They should have the power to negotiate contracts with vendors and control their own affairs, with a full responsibility for the supply of adequate quantities of milk of high standard. They should at the same time—and this is part of the Commission's policy—accept full responsibility for quality standards of the milk until it reaches the vendors' premises.

In recommending the setting-up of these Dairy Farmers' Co-operative Milk Supply Associations, the Commission is keenly aware of the fact that the position of producers who regularly cater for the liquid-milk trade must be recognized and safeguarded. Such producers have organized their farming economy on a basis entirely different from that on which the factory-supply herd is organized. Cows are calved at such times as will ensure a full supply of milk throughout the year, thus making the production of city milk one for careful and long-term planning, with the consequent possibility of severe loss to the producer whose supply position for any reason becomes imperilled. The relationship between producer and vendor should be adequately protected, and there must be security of contract and assurance of continuity of supply if the industry is to succeed in its objective of ensuring adequate supplies of milk of high standard.

A Dairy Farmers' Co-operative Milk Supply Association responsible for part of the supply to the metropolitan area already exists in Wellington, and the question arises as to whether its responsibility should rightly extend to the whole of the supply area.

A Dairy Farmers' Milk Supply Association has recently been created in the Dunedin area, and its full development should be a matter for the careful guidance of the Central Authority.

Dairy Farmers' Co-operative Milk Supply Associations remain to be created in both the Auckland and Christchurch areas.

Prices and Margins

The Commission is not directed to fix prices to producers, margins to vendors or treating-houses, or consumer prices, but is directed to ensure adequate supplies of milk of high standard at *reasonable* prices. This direction requires the Commission to examine adequately and in detail methods of assessing reasonable rewards to all interests concerned in the industry, and to recommend how these rewards may best be distributed so as to achieve the final result of a reasonable price to the consumer.

Producer Prices

The Commission's recommendations on producer prices deal chiefly with the method of assessing a reasonable price, and ensuring that the basis for calculation of such prices will be such as to secure adequate supplies of milk of high standard. The Commission has made full use of the costs of production surveys carried out by the Department of Agriculture and of the evidence put forward by producers and other representatives in all metropolitan areas.

It is impossible to avoid the conclusion that costs of production are almost impossible to assess as a strict accountancy cost, and in this connection the Commission finds itself in full agreement with the statement of "The Reorganization Commission for Great Britain, 1936" (Cutforth Report), page 196:—

> "As a matter of long-term policy it is, in our view, impossible satisfactorily to build up a producer's price from average or model production costs and estimates of reasonable profits. The ultimate test must be whether or not, over the long period, the price offers sufficient inducement to producers as a whole to produce the quantity of milk required."

In the chapter "Prices and Margins" the Commission has outlined reasons why the price for liquid milk must be closely associated in general structure with the guaranteed price for butter and cheese. Although a final price of approximately 13d. per gallon to the producer is recommended, the Central Authority is directed to introduce increases in price in such a manner as to ensure, first, that there will be a provision of adequate supplies, and then, when that is assured, to adjust all further increases in price to the producer in strict conformity with improvement in the quality of the product he supplies. The price to the producer must provide him with a fair return for the services required of him, but must not result in a price so excessive as to attract large numbers of suppliers from dairy-factory supply and so flood the liquid-milk market with large quantities of surplus milk. There must, however, be stability in price, and there must be a continuous emphasis on the encouragement of better-quality milk and due regard to the economy of production. While safeguarding the proper economic interests of the producers, the Central Authority should take care to see that costs of production, due to concentration on areas where milk-production costs are unduly high, do not force up producer prices generally. To this end the planning of new supply areas where milk-production costs are reasonable, particularly from a winter supply point of view, should be the function of the Central Authority whenever the liquid-milk market (through the Dairy Farmers' Supply Association) is seeking an expansion of supply.