1947
NEW ZEALAND

LINEN FLAX CORPORATION OF NEW ZEALAND

(FIRST ANNUAL REPORT OF THE)

Presented to both Houses of the General Assembly by Command of His Excellency

YOUR EXCELLENCY,— Wellington, 11th July, 1947.

I have the honour to submit for your Excellency's information the first report of the Linen Flax Corporation of New Zealand for the period ended 31st December, 1946.

I have, &c.,
A. H. NORDMEYER,
Minister of Industries and Commerce.

His Excellency the Governor-General of the Dominion of New Zealand.

SIR,— Wellington, 11th July, 1947.

I have the honour to submit the first annual report of the Linen Flax Corporation. This report deals with the principal operations of the Corporation for the period ended 31st December, 1946.

I have, &c.,
F. JOHNSON, Chairman of Directors,
Linen Flax Corporation.

The Hon. A. H. Nordmeyer,
Minister of Industries and Commerce.

REPORT

INTRODUCTION

THE occupation of the Netherlands by the German Forces in 1940 cut off the source from which Great Britain had previously obtained 90 per cent. of her requirements of linen-flax fibre. Since flax was deemed essential for the successful prosecution of the war, alternative sources had immediately to be arranged, and New Zealand, in common with several other Empire countries, was requested to grow and process as much flax as she could possibly undertake.

New Zealand's response was the establishment of seventeen factories, and during the war years, apart from supplying her own needs, exported to Great Britain 7,460 tons of fibre. This effort compares favourably with that of other countries as, for example, Australia, which exported during the same period 6,520 tons.

An agreement was negotiated whereby the United Kingdom would meet the costs of production of all fibre and tow sent to Great Britain. Further arrangements have since been made whereby approximately 85 per cent. of the capital loss will be borne by the British Government. That is to say, the loss on the liquidation of the wartime industry in New Zealand is to be shared between the United Kingdom and New Zealand Governments in proportion to the sales of fibre to the respective countries from 1940 until the crop sown in 1945–46 is fully processed and marketed.

Establishment of an Industrial Corporation

During the war years the industry was attached to the Department of Industries and Commerce under a management committee comprising representatives of the Departments of Industries and Commerce, Scientific and Industrial Research, Treasury, and one linen-flax worker. On the cessation of hostilities it was deemed advisable to change the form of control and, by virtue of the Linen Flax Corporation Act of 1945, the industry was vested in a Corporation comprising eight Directors and giving equal representation to the Government, the growers, the manufacturers using the raw product in New Zealand, and the employees.

Of the seventeen original factories only six now remain in operation under the direction of the Corporation. The others have been closed, and the surplus assets in the form of land, machinery, and buildings are being liquidated on behalf of Great Britain by the New Zealand War Assets Realization Board.

In terms of the Linen Flax Corporation Act, the functions of the Corporation are to organize and develop the linen-flax industry and to carry on the business of producing linen-flax fibre and other linen-flax products and marketing any such products in New Zealand and overseas. The Corporation has also the like functions in relation to such other soft fibres as the Minister of Industries and Commerce may direct or approve.

The Corporation was empowered by the Act to carry out the functions of the Department of Industries and Commerce envolving the completion of the contract with the British Government, the liquidation of the assets, and the full responsibility involved in the post-war industry of the growing and processing up to the fibre stage of linen flax.

Markets

The initial agreement with Great Britain was for the growing of flax during the war and for a period of twelve months after the cessation of hostilities. This was extended to include the fibre processed from the crop grown during the 1945–46 season. The 1946–47 crop is therefore the first grown wholly on behalf of the Corporation and for which the Corporation is responsible. Nevertheless, the British Government has undertaken to purchase certain grades of fibre from the 1946–47 crop, and, although the prices offered are substantially below those ruling during the war years, this assured outlet for fibre that may prove surplus to New Zealand's immediate requirements is helpful.

The present consumption of linen-flax fibre in New Zealand amounts to about 250 tons per annum, and additional textile machinery now being installed will increase this to 300 tons per annum. This estimate is based on a single shift, but, were labour available, a double shift, operating on the present plans, would increase consumption of fibre to 600 tons per annum.

There is a demand in New Zealand for yarn, thread, twine, and cordage sufficient to utilize from 400 to 500 tons of raw fibre per annum. At the present time there is only one company spinning linen-flax fibre into spun products, but negotiations for the installation of spinning-plant by a British company are still proceeding. With the entry of this company into the spinning side of the industry it will be possible to produce yarn suitable for the weaving of canvases, fire-hose, &c. It is estimated on a conservative basis that an additional tonnage of 200 to 300 tons would be required. Under these circumstances the Corporation has not hesitated to maintain production at a level of 700 tons of fibre per annum pending a more definite indication of the possible utilization of flax fibre in New Zealand.

Linen-flax tow is at present in strong demand, and the Corporation is exporting its surplus production to Belgium and the United States. Offers have already been received for the purchase of the full production for 1948.

All seed produced is used either for resowing or is supplied to Dominion Industries, Ltd., for the production of linseed-oil. Australia also requires annually from 300 to 400 tons of high-grade seed for resowing.

The 1946–47 Crop Year

The Corporation's full responsibility for the growing and processing of linen flax commenced with the sowing of the crop in the spring of 1946. Continuous rain in certain districts during the spring delayed sowing, reduced the acreage sown, and affected detrimentally many of those crops which had been sown prior to the wet period. Apart from this, the season has been reasonably satisfactory, resulting in heavy yields being obtained of straw which, owing to the climatic conditions, has varied in fibre content from the very worst to the very best. Whereas the objective was the sowing of 5,400 acres, wet conditions resulted in the sowing of only 4,095 acres.

Financial Period ended 31st December, 1946

The Corporation assumed control of the industry on 1st April, 1946, taking over the fixed assets at six factories for the purchase consideration of £162,675, and undertook to liquidate the remaining fixed assets and all the current assets formerly held by the Linen Flax Section of the Department of Industries and Commerce.

The first financial period ended on 31st December, 1946, the balance date having been altered from 31st March to 31st December to facilitate the valuation of works in progress. The accounts for the nine months ended 31st December, 1946, now presented, disclose a net loss of £1,536, which has been transferred to the liquidation account. Since the first crop sown by the Corporation was not harvested during the period covered by this report the loss experienced in the nine months ended 31st December, 1946 (namely, £1,536), was confined to the completion of the processing of works in progress on hand at 31st March, 1946 (that is, the processing of earlier sown crops many of which had been held for some years and were of very poor quality). This is amply demonstrated by the costing records, which show that, while the 1945–46 crops processed during the nine months yielded profits aggregating £8,500, the remnants of the 1944–45 and earlier crops were processed at a loss of £10,036.

The balance-sheet as at 31st December, 1946, can be conveniently divided into the assets and liabilities of the Corporation, and the assets and liabilities merely taken into the accounts of the Corporation for purposes of liquidation. The former include the fixed assets taken over and expenditure by the Corporation to 31st December, 1946, on the 1946 crop; the liability to Treasury for the assets purchased and the initial cash advance of £30,000 provided from National Development Loans Account.

Assets in the course of liquidation are shown in the lower portion of the statement, also the liability to Treasury which is being discharged as the liquidation proceeds.

The realization of the fixed assets of the wartime industry, comprising land, buildings, plant, &c., is being accounted for in a separate set of Liquidation Accounts, and these are not included in the accounts of the Corporation.

F. Johnson, Chairman of Directors.
J. W. Hadfield, General Manager.

THE LINEN FLAX CORPORATION OF NEW ZEALAND

Final Accounts, Nine Months ended 31st December, 1946

Purchases of Straw Account

Dr.	£	s.	d.	*Cr.*	£	s.	d.
Crop purchases	25,714	16	11	Labour to growers	31	0	8
Cartage in	1,974	4	6	Pulling	1,849	11	3
Pulling	81	19	5	Cost of Production Account	28,353	19	5
Labour to growers	24	10	1				
Interest	1,238	1	4				
Stacking	917	11	2				
Minimum guarantee	283	7	11				
	£30,234	11	4		£30,234	11	4

Manufacturing Account

Dr.	£	s.	d.
Cost of straw	28,353	19	5
Work in progress	90,631	15	5
Stocks—			
Tow	1,311	0	0
Meal	249	1	6
Seed	1,972	8	0
Transfers seed	505	14	9
Deseeding	10,205	6	3
Threshing	62	6	3
Seed-dressing	3,235	0	7
Retting	7,411	3	1
Drying	14,179	16	5
Scutching	19,418	7	9
Rescutching tow	972	1	5
Stores, overhead	1,024	3	7
Removal expenses	42	17	9
Factory salaries	4,877	4	0
Power and light	2,463	9	8
Cartage, general	4,517	12	1
Rents, rates, taxes	467	7	4
Insurance—			
Buildings	1,829	2	6
Accident	643	8	2
Transport of workers	65	16	8
Cartage out, by-products	519	16	1
Repairs and renewals—			
Plant	3,857	7	4
Motor-vehicles	1,068	19	4
Buildings	606	6	5
Houses	81	16	4
Unallotted factory wages	8,932	12	7
Depreciation—			
Buildings	1,299	11	7
Plant	3,605	2	2
Motor-vehicles	730	0	0
General expenses	79	3	4
Telephones, &c.	238	2	9
Stationery	40	11	4
	£215,498	11	10

Cr.	£	s.	d.
Work in progress	44,574	13	11
Sales tow	1,495	13	3
Rescutched tow	832	3	4
Sales—			
Seed	14,116	16	9
Seconds	1,634	9	3
Meal	3,480	12	1
Sundry revenue	7	19	3
Seed-distribution	5,069	16	0
Transfers—			
Rug tow	165	19	6
Seed	505	14	9
Rents received	777	14	9
Stocks—			
Tow	301	16	11
Meal	564	0	11
Seed	8,149	7	4
Trading Account (cost of production linen fibre transferred)	133,821	13	10
	£215,498	11	10

THE LINEN FLAX CORPORATION OF NEW ZEALAND—*continued*

FINAL ACCOUNTS, NINE MONTHS ENDED 31ST DECEMBER, 1946—*continued*

Trading Account

Dr.	£	s.	d.	*Cr.*	£	s.	d.
Cost of production	133,821	13	10	Sales of fibre	138,890	6	10
Stocks fibre, 1st April, 1946	2,750	5	0	Stocks fibre, 31st December, 1946	2,698	6	7
Export charges	1,404	6	10				
Insurance, fibre-store	375	0	0				
Gross profit, transferred to Profit and Loss Account	3,237	7	9				
	£141,588	13	5		£141,588	13	5

Profit and Loss Account

Dr.	£	s.	d.	*Cr.*	£	s.	d.
Travelling-expenses	973	7	11	Cost of Production Account: Gross profit, transferred	3,237	7	9
Head Office salaries	2,696	3	8	Commission	7	3	7
General expenses	125	6	10	By-products Factory Account	165	2	7
Telephones	183	14	1	Linen Flax Section No. 2 (net loss transferred)	1,535	14	7
Stationery	179	2	11				
Directors' fees	229	7	5				
Removal expenses	90	0	0				
Cartage, general	3	13	6				
Unallotted	7	3	1				
Audit fees	75	0	0				
Exchange	147	11	5				
Discount	5	11	0				
Advisory Committee expenses	13	7	6				
Fidelity insurance	33	14	3				
Rent, heat, light	182	4	11				
	£4,945	8	6		£4,945	8	6

Balance-sheet of the Linen Flax Corporation of New Zealand as at 31st December, 1946

Liabilities	£ s. d.	£ s. d.	£ s. d.
Liabilities of the Linen Flax Corporation—			
National development loan		30,000 0 0	
Treasury Account (purchase consideration, assets taken over in accordance Treasury Memorandum T. 47/352) ..		162,675 4 7	
Accident Reserve ..	671 16 7		
Less compensation payments	560 6 7	111 10 0	
Fire insurance reserve ..	2,349 16 3		
Less Methven fire damage	100 4 7	2,249 11 8	
Fibre-store insurance		375 0 0	
			195,411 6 3
Other liabilities—			
Treasury Account (current assets of the Linen Flax Section taken into Corporation Accounts for purpose of liquidation) ..	165,661 6 10		
Loss to 31st December, 1946, on liquidation ..	1,535 14 7		
		164,125 12 3	
Sundry creditors		3,199 11 4	
			167,325 3 7
Carried forward			362,736 9 10

Assets	£ s. d.	£ s. d.	£ s. d.
Assets of the Linen Flax Corporation—			
Buildings (at valuation in accordance section 12, Linen Flax Corporation Act, 1945, less 3 per cent. per annum depreciation)		62,277 3 2	
Plant (at valuation in accordance section 11, Linen Flax Corporation Act, 1945, less 10 per cent. per annum depreciation)		48,796 11 2	
Stores (at valuation in accordance section 11, Linen Flax Corporation Act, 1945, and as certified by factory-manager)		34,511 13 5	
Motor-vehicles (at valuation in accordance section 11, Linen Flax Corporation Act, 1945, less 20 per cent. depreciation)		3,424 0 0	
Land, including roads, fences, &c. (at valuation in accordance Linen Flax Corporation Act, section 12) ..		9,533 13 3	
Research	1,228 19 0		
Plant development ..	1,422 1 11		
		2,651 0 11	
Preliminary expenses		55 15 10	
Expenditure to 31st December on 1946 crop—			
Advances to growers ..	13,021 19 1		
Proportion factory expenses	3,207 7 7		
		16,229 6 8	
			177,479 4 5
Carried forward			177,479 4 5

THE LINEN FLAX CORPORATION OF NEW ZEALAND—*continued*

FINAL ACCOUNTS, NINE MONTHS ENDED 31ST DECEMBER, 1946—*continued*

Balance-sheet of the Linen Flax Corporation of New Zealand as at 31st December, 1946—continued

	£ s. d.
Brought forward	362,736 9 10
	£362,736 9 10

	£ s. d.	£ s. d.	£ s. d.
Brought forward			177,479 4 5
Assets in course of liquidation—			
Work in progress (at prime cost of straw plus direct wages to 31st December)		44,574 13 11	
Wages in advance, 31st December, 1946		1,529 15 5	
Stocks—			
Meal	564 0 11		
Seed	8,149 7 4		
Tow	301 16 11		
Fibre	2,698 6 7		
By-products, factory stocks	1,792 1 11		
		13,505 13 8	
Sundry debtors (mainly sales to U.K.)		110,327 5 1	
			169,937 8 1
Bank of New Zealand Current Account		14,797 7 8	
Balances on Imprest Accounts at factories		522 9 8	
			15,319 17 4
			£362,736 9 10

F. JOHNSON, Chairman of Directors.
J. W. HADFIELD, General Manager.

24th January, 1947.

I hereby certify that the statement of Accounts and Balance-sheet have been duly examined and compared with the relative books and documents submitted for audit, and correctly state the position as disclosed thereby.—J. P. RUTHERFORD, Controller and Auditor-General.

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