

is able to acquire the shares of the outgoing supplier by transfer. If the outgoing supplier receives direct from his company a resumption of his shares, then the company is able to sell the resumed shares to the incoming supplier. *If, however, the supply to the company falls, then there will be more shares than supply to support those shares.* This is particularly so where there are distinct farming changes in the district surrounding the particular company. If the territory of the company contains considerable areas of marginal land, then its supply tends to fluctuate rapidly according to the extent of competition from meat and wool. If the surrounding territory is being gradually absorbed into cities or towns not only does the land become lost to dairying, but much of the supply otherwise available to that company becomes attracted to town milk. A further factor may be competition for supply between competing companies where no zoning orders are in force.

26. A dairy company is able to maintain its position as an efficient manufacturing unit only so long as there is sufficient dairy-produce in the form of cream or milk available to it daily during the dairying season. As the daily quantity falls, so the cost per pound of butterfat for transport, manufacturing, and administration rises, with a consequent diminution in the net payout to the current suppliers. The position can be best illustrated by considering the common case of a once normally efficient cheese-factory situated near an expanding town. Its output may have been in the vicinity of 500 tons of cheese made from milk supplied by some forty farmers. To the extent that those farmers transfer their dairying activities to town milk or dispose of their holdings for closer settlement, so does the supply to that factory fall. The high cost of transport, particularly of replacing lorries, involving substantial capital commitments, deters any outlying farmers from joining the company. If there are other adjacent cheese-factories situated more favourably for supply and thus able to make a better payout to their members, then the fate of the first-mentioned concern is inevitable, although its existence may continue for many years as a very valuable service to the nearby town and to primary production. In the meantime, every resource will be strained to maintain the payout, at the expense of the maintenance of assets and long-term efficiency. That company may have twenty years ago, or even ten years ago, been quite prepared to resume the shares of its outgoing members at 20s. in the pound, although it more than likely did so at 10s. or 15s. in the pound, or arranged for the incoming supplier to take over the shares of the outgoing member.

To-day it is unable so to resume owing to the further strain this would involve on its payout, or to demand even reasonable share obligations from possible incoming suppliers for fear of losing that supply, which is more important to it from a cost-reducing point of view than even the share-money. That company cannot be expected to regard with any seriousness a moral obligation to resume the shares of those members who have left it to join, for instance, town milk, where there is a higher net return per cow than the remaining cheese members will receive by remaining in cheese, particularly as the withdrawal of those suppliers will again have decreased the net returns of the remaining suppliers.

(b) REFUSAL OF COMPANY TO RESUME SHARES OF DISLOYAL SUPPLIERS

27. It is necessary here to refer briefly to zoning. Following upon the Dairy Commission report of 1934 and the coming into force of the zoning regulations, many dairy companies in the Dominion were given a virtual monopoly of the supply from a defined area surrounding their factories; in other districts competition between companies was, in the main, restricted to the extent of giving supplying farmers a choice of one of the two nearest companies. Prior to that time there was unrestricted competition, often with disastrous results upon the less fortunately situated company. Needless to say, companies would not do anything to facilitate the resumption of the shares of those members who had left them to join a neighbouring company, and while those