account in considering the extent to which New Zealand should maintain or expand cheese-production. It is important to note that, with the increasingly higher standard of living in the United Kingdom and in other countries, consumption of cheese has tended to fall, while consumption of butter has risen.

The London Manager of the Department points out that the substantial drop in the production of cheese in the United Kingdom in 1937 from the level of previous years is the principal factor contributing to the comparatively satisfactory price level for New Zealand cheese which has ruled during the 1937–38 season. It is considered by no means improbable that this reduction or the greater part of it might be rapidly recovered, in which case returns from New Zealand cheese would be lower, unless a corresponding reduction takes place in supplies from New Zealand or Canada. There is the further consideration that Australian supplies of cheese have increased during the 1937–38 season, the export figures being: 1936–37 season, 6,271 tons; and 1937–38 season, 12,357 tons. It is to be noted that the reaction on effective consumer demand of available supplies applies also to butter, but butter-consumption responds more quickly and effectively to retail-price adjustment. Thus, an additional 5,000 tons of butter is unlikely to affect the season's average price to any great extent, but the equivalent in cheese—say 10,000 tons— is likely to make a substantial difference to the price return for cheese. For the reasons stated, the London Manager of the Department considers that about 90,000 tons export for the Dominion should be kept in mind as the maximum.

Recently representations were made to the Government that in the case of small cheese-factories there should be an increase in the existing calculated differential margin of 2d. per pound in favour of butterfat supplied for cheese-making, or, alternatively, that there should be higher costs allowances for those cheese-factories. It is considered that it would be impracticable to adopt standards varying with the outputs of factories. It is to be noted that it frequently happens that the higher costs of a small cheese-factory are balanced by a higher cheese yield. The Government recognizes that any differentiation made in favour of the smaller cheese-factories, whether in regard to the calculated marginal butterfat allowance or the factory costs, would lead logically to similar claims being made on behalf of the smaller butter-factories. In the final issue it is conceivable that claims for special consideration would be made for factories in every farming district. The foregoing comment applies particularly to cheese-manufacture in Southland, where manufacturing-costs, though higher than in other cheese districts, are offset by a higher cheese yield.

The Government, in increasing the differential margin in favour of butterfat supplied for cheese-making to 2d. per pound, regarded approximately ¼d. of the increased differential margin as a temporary expedient until a solution of the yield problem is found. It is considered that a further increase, to offset a continued lowering of the cheese yield, is open to objection, and that the price fixed for cheese for the 1938–39 season should not be augmented on account of a cheese yield lower than the standard net yield of 2·45, even though, for that reason, cheese-factory companies on the average do not show the anticipated margin of 2d. per pound of butterfat.

The whole question of the relation of the net return to suppliers of milk for cheese-manufacturing to the net return to suppliers of cream for butter-manufacturing involves a consideration of the nature of the milk-supply for cheesemaking, the yield of cheese per pound of butterfat, economic cheese-manufacturing conditions, the method of payment for milk for cheesemaking, and the net return to cheese-milk suppliers per cow and per acre. If the conditions in respect of cheese yield are such that a yield allowance of 2·51 gross or 2·45 net is insufficient to enable the 2d. per pound differential payment for butterfat to be generally realized, then an investigation of the factors referred to must be made by the industry.

MARKETING OF BUTTER AND CHEESE.

The report of the Department for the 1936–37 season contained a review of the developments during recent years in the marketing of dairy-produce. An outline was given of the changes in methods of sale and marketing organization, and reference was made to the establishment of the New Zealand Dairy-produce Control Board. Reference was also made to the marketing control of the Board in 1926, to the abandonment of the venture after less than one year's trial, and to the plans formulated by the Board in 1935 for a system of group marketing.

The decision of the Government to purchase the total exportable output of butter and cheese from the 1st August, 1936, and to market dairy-produce through the Primary Products Marketing Department, transferred all responsibility for marketing from the industry to the Government.

The development by the Department of a more regular and wider distribution of butter and cheese in the United Kingdom has been supported by an extended publicity and sales-promotion campaign which has resulted in the establishment of a considerable "all the year round" counter trade for New Zealand butter and cheese as such. This regular counter demand for "New Zealand" assists the maintenance of New Zealand prices when competition from cheaper butters is keen.

Further evidence of the benefits of the present marketing policy is to be found in the steady narrowing of the price margin for Danish butter over New Zealand butter. Attention is directed to the table on page 19, which shows the margins to be: For the 1935–36 season, 20s. 5d. per hundredweight; for the 1936–37 season, 15s. 2d. per hundredweight; and for the 1937–38 season, 11s. 7d. per hundredweight.