

AGRICULTURAL MARKETING – A DISCUSSION DOCUMENT

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The type of economy we live is aptly referred to as the market economy because no matter how many other factors you introduce to a commercial process, the market will always be the final adjudicator. While other factors are critical to economic endeavour, it is the market that provides the motive for all activities. Without an effective market, production no matter how bountiful is less than useless. It is wasteful. It is therefore not surprising that debates over marketing are so heated nor that governments often find it tempting to regulate and control markets in general, and the marketing of agricultural products in particular.

The marketing function is especially critical in allowing new farmers into the main stream, for their success and sustainability will be determined more by their equitable participation in markets rather than by their increasing competence in production. There should therefore be no doubt that the creation of a prosperous and equitable agricultural sector depends on the agricultural marketing environment that the NDA brings into being.

1. The background

The **marketing of agricultural produce is regarded as unique** and deserving of specialised attention due to the perishability and bulkiness of the products involved. The fact that most of these products are basic foodstuffs, whose price and distribution are considered strategic by governments, also leads to the establishment of statutory institutions within the agricultural marketing sector. The structure and role of these statutory institutions have been cause for many debates by all over the world, as is the case in South Africa.

The second major debate concerns **the nature extent to which the marketing of agricultural products should be regulated**. The previous act made provisions for extensive statutory regulations while the present act ushered in market led agriculture. The repeal of statutory regulations over the activities of marketers has left government with little if any direct influence over the pace and direction of agricultural development within the country. Debates over the effects of such liberalisation, coupled with globalisation, are central to the Seattle, the Davos and now lately, the Genoa protests.

Effective marketing of agricultural products is dependent on the **creation of conducive circumstances as well as the provision of resources and services**. The circumstances required are those supportive of all commercial bargaining and exchanges and consist of institutions and structures to maintain:

- o A legal and dispute settling system
- o A financial and credit provision system.
- o A standard setting and verification system.
- o A price setting and confirmation system.

Additionally, industry and commodity specific resources and services are needed to exploit the conducive circumstances created by the institutions. These are:

- o Marketing channels consisting of storage, handling, transporting, processing, packaging and retailing infrastructure, together with electrical and fuel provisions for the various processes.

- o Information and communication capability dealing with products, location, times, types, quantity, quality, prices and any other information required by producers and consumers to make beneficial decisions.
- o Entrepreneurial and technical skills in all facets of the marketing process of relevant products, including the ability to choose between different products, types, seasons, markets, and processing options to maximise farming income.
- o Research into product varieties, post-harvest handling, preservation, processing, preparation and presentation. Including all equipment, materials and systems that can be used to enhance the utility and hence the net value of the product.
- o Public and private services required by producer to market products; such as marketing financing, information dissemination, market research, predictions and estimations, dispute resolution, representation and co-ordination.

The end of the cold war saw the accelerated liberalisation of markets all over the world. South Africa had become disgruntled with the inefficiencies and artificial distortions inherent in government regulated markets, and opted for the dismantling of all controls. A detailed and prescriptive act was replaced by one, which empowered the industry to decide for itself.

The dismantling of the control boards with the enormous development capability they had exercised in establishing white agriculture, and the suspension of their protective and beneficial schemes; left the South African agricultural industry in general and the emerging sector in particular more exposed to the ravages of the market than in any comparable economy in the world.

2. The Act

The Marketing of Agricultural Products Act of 1996 was motivated more by the repeal of statutory control measures than it was by their replacement with something better. Its authors knew more about what they did not want rather than what was needed by the sector as a whole. This factor, as well as the wholesale political changes and a racially divided industry, meant that difficult questions were either glossed over or conveniently left unanswered. Consequently the present act has revealed itself to be so diluted as to be passive, with gaping holes where strategic guidelines should have been.

It is important to note however that this result is not because of the failure of its authors, as by admission they set out to draw an enabling act, which would vest the authority on the market participants themselves. They neglected to consider that pre-requisites for an act of this nature would be established and legitimate institutions (*which were not there in a changing society*), and democratic representation of all interests within such institutions (*which was not there in a racially divided country*).

- o The result was a compromise act, which recognised the need for a national marketing council but failed to define its role and therefore the authority it needed to fulfil it.
- o Removed statutory regulations and services but failed to set up an alternative delivery system to meet the real needs of farmers.
- o Acknowledged developmental obligations but left them to market forces and the goodwill of rivals in the established sector.

- o Established a the NAMC as a state organ with no real purpose by denying it any decision making or executive powers, and handing assets to the commodity trusts.
- o Vested all decision-making powers in the Minister and therefore managed to create a large amount of what is basically administrative work for her office, while also concentrating state influence on the market more than ever before.

The emerging black farmers will no doubt wonder at the cruel coincidence by which government lost all its influence on the market, just as they anticipated their own place in the sun.

The process of liberalising the market also failed to provide for a tight and timely winding up of historical business. While the assets accrued under the previous act clearly were no longer the property of the producers (*as with other tax provisions*), a situation was created where the very same producers were called back to adjudicate over their dispersal. This has resulted in wasteful and extended conflict and litigation, while also delaying the advent of a new dispensation and the emergent farmer's turn at the trough. This dubious redistribution of what were public assets held by statutory bodies is the basis of most problems besetting the trusts. It is also one of many legal changes whose motivations seem dubious, and whose effect has been the denial of effective control over public assets for the majority.

3. The required changes

3.1 Deregulation as a concept

There is a common but erroneous perception that agriculture has moved from a regulated to a deregulated system. Strictly speaking this is not true as there will always be a need for regulations to ensure the fair and proper conduct of participants within the industry. **In reality the change has been from a state regulated to a market or self regulated system.** It is this erroneous belief that the market can operate without regulations, that leads some to conclude that no dedicated authority is required to deal with marketing matters.

As long as there is a national system of regulations (*whether it be state proclaimed or market determined*), there will also be a need for a dedicated institute to manage and maintain it. Additionally the following characteristics inherent in markets and marketing also need continued attention:

- o Since markets are all about competition, there will always be a certain amount of disputes and even conflict among the competitors. A legitimate and capable authority is therefore required to harmonise the market to keep it productive.
- o Competitors by definition do not enjoy each other's successes, and unless there is a clear commercial benefit are unlikely to co-operate unless obliged to do so by an institution acting in the national rather than their selfish interests.
- o The market operates according to the law of the jungle and is unlikely to adequately provide for the interests of the emerging sector, without public sector influence.
- o Without statutory regulations, members need to agree on and enforce their own systems and standards without which there would be chaos. An institution is therefore required to provide both the legitimacy and support for self-regulation.
- o As an industry taking its first tentative steps into free and global markets, agriculture still relies on the forced co-operation provided by statutory instruments such as levies.

- o Agricultural products are related. For instance decisions taken on the marketing of animal feed impact on the beef and the poultry sectors. Government can ease, speed and even improve on the quality of interaction between the different stakeholders to the good of all.
- o There are certain public good functions which the private sector is unlikely to carry out because they do not contribute directly to the producer's bottom line. Labour practices, animal welfare, environmental conservation, food safety, and unfair practices are unlikely to surface unless competing producers are in dispute.
- o Globalised markets require government to adopt negotiating positions, make concessions and enter agreements. The limited analytical capacity of the department and the vested interests of producers requires that government should maintain a balanced, inclusive and legitimate forum, which it can use for consultations with the industry.
- o The interests of producers should be balanced against the very real concerns of both intermediate and final consumers. For instance issues around genetically modified products, the use of chemicals and the price of processing inputs should be aired and agreed on at an appropriate forum.

3.2 The role of statutory institutions

Marketing is a process that begins when investment choices are made, and carries on through production, harvesting, handling, storage, processing retailing and consumption. Marketing lends objective to all processes because there is no task in commercial agriculture that is not aimed at enhancing the profitable marketability of products. Marketing therefore has to be the underlying consideration of all agricultural development and support programmes.

There is therefore a need for an independent national statutory institution representative of all major commodities groupings within the sector to carry out those functions that the market would not be able or willing to do on its own. Such an institution would act as a clearing-house for market information and government policy, while also affording the government a balanced view and an opportunity to place social issues on the agenda of agriculture's private sector. Without such a structure, government will relinquish all official contact with and influence over the sector.

The institution needs to be independent because it will be constituted mainly of commodity representatives, and has to have some statutory powers to enforce properly reached decisions. Representatives of commodity groups would be nominated to the council, and would be joined by consumer representatives, development sector representatives, and public sector representatives appointed by the Minister. As an industry-wide council, it should have twenty or more members and be balanced in terms of private and public sector interests, producers and consumer interests, and emerging versus established sector interests.

Public and emerging sector representations are critical to the democratisation of the industry, but are hindered by the lack of an organised skills base within agriculture. Other industries face similar constrictions, but have gone around them by including African business people and experts from other disciplines. We now have high profile business people in mining and banking who were not originally in these fields. Agriculture is as much a business as any other, and the Minister should therefore cast her net wider to entrepreneurs other than farmers in her representation.

An appropriate induction programme into agriculture and agricultural issues should enhance their participatory and representational skills. Their membership of both the institution and the trusts, together with sufficient remuneration should ensure their active and effective representation of public and emerging sector interests. This policy shift is probably the best way to accelerate the participation of Africans in mainstream agriculture.

While public representatives and to some extent emerging sector participants should be remunerated to ensure quality participation, representatives of commercial commodity groupings would be entitled to compensation for expenses incurred. This is in line with the practices of all forums where delegates represent their own interests. With quality representation, a clear mandate and sufficient authority; the institution will not only assume relevance in the eyes of producers and consumers but will also have the necessary influence to give effect to government policies.

While the institution would report to the Minister because of its statutory nature, it should be empowered to implement democratically reached decisions on levies and other such instruments. Being representative it should also be charged with resolving disputes, investigations and making rulings, as well as rendering advice on local and international markets. The Minister will oversee the council's operations and hear appeals against its decisions. The present arrangement is devoid of this important distinction.

3.3 Relations with the NDA

Similarly, the institution should be independent of the NDA, which while maintaining the capacity to monitor and analyse policy and factor effects on markets, cannot engage in the market operations itself. By definition and as stipulated by present government policy the markets are the domain of the private sector.

Referring recommendations on marketing decisions to the NDA as is presently the case with the NAMC constitutes duplication, and causes rifts where perceptions differ. It is also clear that an institution that participates in trusts and forums, attends industry workshops and conferences, investigates and receives formal presentations on various marketing issues; is best positioned to render final advice or take decisions on them. The institution should therefore be supported by adequate research and administrative capacity to carry out its entire mandate on its own.

To ensure that the institution operates within policy guidelines it should have a close working relationship with the Trade and Economics branch of the NDA. The council should also have a formal meeting with the Minister once a year, with its chair afforded a briefing session once a month.

With appropriate amendments to the act, and a change in modus operandi the NAMC can become the institution discussed here.

3.4 The old schemes

The existing schemes and boards should be closed down as soon as it is possible to do so. Not only are they delaying the onset of a new equitable era for the industry, but they have also become vehicles for various partisan agendas. Perpetual requests for extensions are a logical outcome of a situation where benefactors are expected to shut down organisations that benefit them directly.

The open-ended timetable assumed by these boards is unprecedented in proper business practice, and the Minister would be well advised to set a final date and for the unconditional closure of all these schemes. While there will be protests from those employed by these schemes, even a casual examination will reveal that the intended recoveries no longer justify the legal and administrative costs being incurred. Sale of the debt books would allow for the immediate winding up of all outstanding business.

3.5 The commodity trusts

Trusts were set up to receive the assets of the control boards in order to use them for research, information and development purposes in accordance with the spirit of the old act. However a trust is only

as good as its members, and their enthusiasm is often determined by the degree to which they are held accountable. Established sector representation on the trusts is active and knowledgeable, and is held accountable by peer pressure.

The emerging sector suffers from lack of organisation, bargaining power and knowledge to make effective use of its membership of the trusts. That is why a strong public representation is required in the trusts. To date this public representation has not adequately fulfilled this role, and needs to be revamped by delegating the relevant ministerial representatives on the council to also represent her on the trusts. This should enhance synergy, coordination and accountability.

The operation of trusts is also characterised by divisions and lack of co-ordination as different commodity groups lay claim to what they believe to be their own share. As a result, the few skills that the Minister is able to deploy for the public good is not only thinly dispersed, but also faces overwhelming odds against organised and experienced participants. Since the mandate of public representatives in all the trusts is in fact the same, and since it is in the interest of the public to co-ordinate the process, the same members representing the public in the NAMC are best suited to sit in the trusts. This will also ensure that the NAMC remains on top of present and historical situations at all time.

Members of the NDA and other public servants should not be deployed into the trusts for the same reasons that they cannot be members of the NAMC. To deploy public servants into positions where self-interested private sector member's bargain does not only result in the mixing of the two sectors, but could lead to the corruption of the former. Their representation would also mean their assumption of fiduciary duties in their personal capacities, which could be a contravention of the public service act. Bringing public servants into the trust could also be seen to increase official government influence over the sector, which would be against the spirit of deregulation. And while they would report back diligently, it is doubtful whether most officers would be knowledgeable and confident enough to ably represent the Minister.

The public should therefore be represented by persons suitably qualified in business issues, but who are not practising farmers themselves to avoid conflict of interests. It would be proper for the Minister to nominate progressive members of the private sector to the trusts experiencing difficulties. As already stated, their exposure to issues before the NAMC would greatly enhance their representational capacity.

3.6 Marketing development

While the established sector was nurtured under the state protection and support offered by the control boards, presently emerging farmers have nothing to bank on. As agricultural development all over the world has always taken place and continues to take place under special circumstances, it is likely that unless a conducive environment is deliberately created for the emerging sector, then very few new farmers will break into the mainstream. At the forefront of the liberalisation of the sector even the WTO recognises this fact by providing for special and differential treatment of the developing sector.

Special marketing channels; guaranteed share of government tenders; and encouragement of the established sector to enter joint marketing deals are just a few examples of how government could help. An exciting opportunity arises from the present concerns around food security. It is imperative that government should maintain (*or cause to be maintained*) strategic grain reserves. If such reserves could be procured from the developing sector through specialised channels, or government started issuing part of its welfare grants as food stamps to be used at accredited developing suppliers; then a few birds could be killed with one stone.

The present act makes no special provision for the unique interests of the emerging sector, and with this omission should be seen to favour the establishment. It is important that this provision be created in the act and in the roles of both the council and the trusts. It should be a statutory provision for the use of part of the levies and trust funds towards the development of others. After-all development of presently established farmers was to a significant extent bank-rolled by their more developed colleagues and the

public at large. And while some provisions are already being made in this regard, a deliberate and tighter strategy needs to be implemented by the council to this effect. Effective public and emerging sector representation will then ensure its successful implementation.

4. Recommendations

- 4.1 It is important that agreement be reached on the role of the NAMC. Once the concept as presented here is accepted, then the resources needed to fulfil such a role (constitution) and the required mode of operations will outline themselves. To this extent consultations on the concept should start immediately, but should not be allowed to drag on endlessly or be bogged down by vested interests.

The act should then be amended to redefine the role, constitution and authority of the council; as well as its relations with the ministry and other organs of state.

- 4.2 A definitive assessment of the sector and particularly of the marketing trends should be done to identify opportunities, recognize prospects and expose risk areas. Not only would such an exercise lead to intelligent planning and decision-making within the sector, but it would particularly benefit emerging farmers and their extensionists who have nothing to rely on at present.
- 4.3 The amended act should make provision for the special and differential treatment of the developing sector of the industry, with particular regard to the allocation of funds, exemptions from obligations, and benefit from promotional activities.
- 4.4 Developing sector products should be identifiable from those of the established sector if they are to be targeted for special attention. A developing agriculture brand backed by appropriate promotions should therefore be developed for differential treatment. Appropriate marketing locations, technologies, products and systems should be developed as a special programme.
- 4.5 Cooperative marketing should be developed as part of the broad institute building programme for the emerging farmer. Skills and assets acquisition should be identified as the core of the programme, Other cooperative efforts in financing, purchasing and production should also be encouraged as successful marketing actually rests on the type, quantity, quality and price of the product produced as explained in the trade strategy.