THE BENEFICIARIES OF CONTROLLED MARKETING: A SOUTH AFRICAN EXPERIENCE IN RED MEAT

Willie F Lubbe

Department of Agricultural Economics, Extension and Rural Development, University of Pretoria, Pretoria, South Africa.[1]

ABSTRACT

Controlled marketing of red meat in South Africa is based on the metropolitan areas as a floor price/surplus removal scheme with supply quotas. The main objectives of the scheme were to promote producer interest, eliminate competition and raise producer prices, by limiting the number of participants and regulating the distribution channel. The beneficiaries, however, were the large feedlots, the trade and three large organizations in a highly concentrated and vertically integrated market structure. Producers' marketing risks increased, while high consumer prices of beef mutton and port excluded the majority of the population from access to affordable red meat.

1. INTRODUCTION

Controlled agricultural marketing originated in South African during the Great Depression of 1932. It followed a decade of export subsidization of meat and other produce which marked the first significant government intervention in agricultural marketing in South Africa. Although low prices during the depression and accompanied droughts were generally believed to have motivated the introduction of controlled marketing, Lubbe (1992) found other reasons to be more significant. This include over-production due to government price subsidization and technological innovation; excessive livestock numbers; influence of the world wide awareness of socialism and nationalism; actions to countervail the monopolistic economic powers of the mining industry; internal political nationalization motives and examples set by the USA, Canada and Australia. Despite strong objections from economists and academics the Marketing Act was promulgated in 1937 (Richards, 1930; Tinley, 1940). It provided for different product marketing schemes controlled by producers with statutory regulative powers. Today, there are 21 marketing schemes covering most of the agricultural commodities (except vegetables), and several other institutions concerned with control measures. Marketing schemes range from fixed price/fixed channel schemes to promotional

[1]At present, Group Agricultural Advisor, First National Bank of South Africa

schemes. The Marketing Act and various other legislation pertaining to hygiene, inputs, products, abattoirs, cooperatives, agents, agricultural credit, export, the Landbank etc., depict the agricultural sector as the most regulated and monopolised sector in the South African economy - and probably also one of the more intensively regulated in the world. The marketing boards and cooperatives have virtually legalised monopoly powers, being excluded from the Monopoly Conditions Act (Lubbe, 1991).

Controlled agricultural marketing policies were common options followed in developing African countries in an effort to protect some groups, initiate development, promote food self-sufficiency or protection against developing countries (Dodge, 1977; Vink, 1986; Dione, 1989). It is however believed that, similar to South Africa, some of these policies were also politically motivated.

According to the proponents of controlled marketing, the major goal with control of red meat marketing is to promote producer interests and shelter producers from unfavourable marketing forces. The aim of this paper is to identify the real beneficiaries of this system who are those with vested interests and thus currently strongly oppose the process of market liberalization. The structure of this paper will include a brief overview of the Meat Marketing scheme and its objectives and evaluation of attainment of some of these objectives with resulting effects on various participating groups. Furthermore, the benefits of some individual regulations on different producer, trade and consumer groups will be identified, followed by a brief overview of the present deregulation proposals.

2. THE MEAT MARKETING SCHEME

The marketing of livestock and meat of beef, sheep and mutton (red meat) to the metropolitan areas (controlled markets) is regulated by the Meat Scheme. Some of these regulations however also extent to the rural (non-controlled areas), but supply and consumption of red meat in the rural areas are directly influenced by all the control measures. Measures that extent to non-controlled areas are limitations of the movement of meat to controlled areas, restrictions on importation/exportation of meat and livestock, compulsory registration of all the participants (producers, traders, abattoirs and processors) and compulsory producer payed levies on all the slaughterings at non-controlled abattoirs.

The Red Meat Scheme is currently classified as a **surplus removal - price support** scheme, but was originally founded to control the surplus of livestock supplied to the major urban markets, to subsidize exports and to control the supply of livestock from neighbouring countries. The Meat Board is the regulating body, and consists of a majority (more than two thirds) of producer members. Minority representation is enjoyed by the trade, consumers and various other participating groups. Ministerial approval for changes in the regulations, levies or support prices is needed upon advice of the Marketing Reference Board. The Meat Board exercises regulatory and other functions, but also performs other non-regulatory functions, such as grading of meat, inspection services, provision of livestock advisory services, promotion of animal health, sponsoring of research (production, processing, prices, etc), marketing research, training of butchers, consumer education, the promotion of red meat and a marketing information service. Operational and stabilization functions of the Meat Board are financed by producer levies.

The most important regulations of the red meat marketing scheme are as follows:

a) Restrictions on the movement of meat from non-controlled to controlled areas and between controlled areas.

b) Compulsory auctions of carcasses according to grade and mass at controlled abattoirs.

c) Compulsory use of agents' services for controlled marketing.

d) Compulsory registration of livestock producers, processors, the trade, abattoir agents and abattoirs.

e) Supply control with permits and quotas.

f) Producer support prices (floor prices) for different grades of meat.

g) Regulations and restrictions concerning the sales of offal, hides and skins as well as the traders involved.

h) Levies payable by producers in the controlled areas per kg meat and levies on slaughtering of animals in the non-controlled areas per head.

i) Importation and exportation of livestock and red meat only by the Meat Board or his agents via permits or quotas (quantitative restrictions).

j) Controlled market slaughterings only at the controlled abattoirs which are situated on the perimeters of the major metropolitan areas.

Restrictive regulations are thus applied to all the marketing stages of red meat. These regulations include restrictive registration of the trade, restrictions pertaining to processing of livestock and meat (abattoirs), restrictions on the movement of meat between markets, compulsory use of distribution channels, compulsory methods of exchange, regulating of quantities to be marketed and minimum producer price fixation. Other aspects include a producer (and production) orientated grading system, stringent health and hygiene regulations and market support functions such as product promotion, research and market information.

Abattoir development was aimed at assisting the restrictive controlled marketing system of red meat and resulted in a largely nationalised abattoir industry. The futherence of the controlled marketing scheme seems to have been the overriding motive and led to the establishment of large controlled abattoirs in the metropolitan areas. Entry into the abattoir industry is restricted by the stringent hygiene and Meat Scheme regulations.

The goals and objectives of agricultural support, the Marketing Act and controlled red meat marketing appear to convey good intentions for the creation of an effective marketing system and the promotion of producer, consumer and trade interests in a fair marketing system. Ignorance of economic theories of competition and marketing, however, rendered these goals non-compatible with the policies applied in controlled marketing. The following are the major objectives visualised with controlled marketing (Lubbe, 1992):

a) The achievement of a reasonable amount of price stabilization, and efficiency of production, marketing and consumption of red meat.
b) To promote fair and equal market access for producers to controlled markets via supply restrictions.
c) The elimination of competition in the distribution system in order to reduce capital and labour wastage by limitation of the processors, wholesalers and retail outlets.
d) The elimination of price uncertainty by ensuring that as many producers as possible are given access to the controlled markets.
e) The promotion of the demand and the consumption of meat and ensuring that adequate supplies at reasonable consumer prices are available at all times.

The red meat marketing system failed to attain these objectives. Several enquiries and research projects, during the past 50 years, suggested evidence of failure of this marketing system.

Pressurised by the recent political reforms, producer groups and the governments newly adopted policies of deregulation and privatization, several changes in the marketing scheme were introduced. These changes include abolition of restrictive registration of the trade, exemptions on the supply of meat to the controlled areas by certain abattoirs (class 2) and a more market related approach in determination of floor prices. The Meat Board itself also adopted a more consumer orientated approach in sofar consumer education is concerned.

3. THE EFFECTS OF CONTROLLED MARKETING OF RED MEAT

The Meat Scheme was intended to promote the interests of the individual livestock rancher (beef and mutton) as well as relatively small pig production units. These producers are exposed to unfavourable market forces because they are unable to negotiate acceptable prices with the trade and they are also exposed to unfavourable climatological conditions. The major effect of this system was the elimination of competition in almost every marketing stage and the creation of a highly concentrated and vertically integrated marketing structure. Policies and regulations were tailored to the benefit of this marketing structure which resulted in different beneficiaries as were originally intended. Boulding (1973) described this effect as the law of "political irony", which states that the beneficiaries from a particular policy are rarely those who pressed for it, while those injured by this policy are seldom those who opposed it.

3.1 Concentration in the red meat industry

Concentration in the red meat industry was analyzed in terms of the number of organizations (firms with affiliations and subsidiaries) and relative sizes of their market shares in different marketing stages. Lack of sufficient information resulted therein that only minimum levels of concentration could be determined. Concentration may in fact be more marked than found in the analyses.

The policies of controlled marketing and implementation thereof resulted in a high degree of concentration and vertical integration in red meat marketing. The degree of concentration engendered by the scheme is such that only three organizations (The Big Three) can effectively control the marketing of red meat in an environment of statutory market sharing, joint ventures and effective networking control to influence Meat Board policies. Producers' interests were not protected in this process and the *per capita* consumption of red meat declined due to continued high consumer prices. Oligopolistic market structures pertain to every marketing stage, geographical regions (at different controlled markets) and vertically over marketing stages. Networking takes the form of representation in the management or controlling structures of institutions involved in red meat marketing policy such as the Meat Board, ABACOR, Abattoir Commission, the Red Meat Producers Organization, the Cooperative Council and various other associations serving the red meat industry. The Meat Board is in itself a statutory monopoly with regulative powers, ABACOR is a monopoly created to serve controlled marketing and is protected by the control system. The resource monopolies are represented by the Big Three who have controlling market shares in every marketing stage and who are protected and favoured by controlled marketing policies and also in the subsequent relaxation of some regulations.

Concentration is most marked where the Meat Scheme applies direct regulations such as the supply of livestock and marketing actions linked to controlled abattoirs. The extent of their market shares and the combined shares are summarised in Table 1. It is evident that organization A (a central livestock cooperation) has managed to gain a superior position in almost every marketing stage. This is however not surprising, as they were able to establish majority representation on the Meat Board and other relevant organizations. The top three organizations, which are in most cases the Big Three, have combined market shares ranging from about 47% of the feedlot capacity to 99% in importation of cattle and pigs. Although in the following sections different groups of participants will be identified as the beneficiaries of the Meat Scheme, it is evident that these three organizations are the ultimate beneficiaries. Their 47% share in feedlot capacity ensure a preferential position concerning benefits arising from preferential quotas to feedlots and floor prices based on price differentials. An 84% share (beef) in the abattoir agent business virtually force most of the farmers to market through them, while they have a 60% combined share in controlled abattoir ownership (excluding the large ABACOR state utilities) which may supply meat to the controlled areas. ABACOR has a 65% of the total daily controlled abattoir capacity. It is furthermore interesting to note that these firms' market shares at controlled auctions may be doubled than quoted in Table 1 due to generic buyer identification (personally confirmed by the MD of ABACOR, 1992), while they are mostly also the only buyers and sellers at the hide and skin auctions.

TABLE 1: Market shares (%) of the Big Three (organizations A, B and C) depicting concentration and vertical integration in different marketing stages of the red meat marketing system.

Marketing stage	Share of A %	Share of B %	Share of C %	Combined share %
Feedlot capacity	21.4	20.0	5.5	46.9
Agents' share (beef)	50.6	18.5	15.0	84.1
Abattoir ownership (Class 2 & 3)[1]	30.0	8.0	22.0	60.0
Abattoir capacity (ex ABACOR)[2]	32.6	12.5	33.7	78.8
Slaughterings pigs (& ABACOR)[3]	33.4	9.1	23.1	65.5
Slaughterings (1990) (ex ABACOR): cattle	20.5	13.6	39.4	73.5
: pigs	47.7	13.0	33.0	93.6
Processing of meat (1990)	45.6	3.6	17.8	66.9
Buy at controlled auctions (1990)[4]	7.2	10.8	20.0	37.9
Importation (1990) cattle	96.0	3.0	-	99.0
pigs	99.2	0.8	-	100.0
sheep	78.0	21.0	0.6	99.6
Registrations wholesale controlled	12.5	7.4	18.7	38.1
non-controlled	6.9	4.7	8.2	19.8
Retail supermarket controlled	3.4	7.2	22.3	32.9
total controlled	1.9	2.1	6.6	10.6
supermarket non controlled	5.7	5.2	24.4	35.3
total non controlled	5.3	2.2	8.3	15.8
Hides and skins	40.0	21.0	23.0	84.0

1 *Excluding ABACOR which can supply controlled markets.*

2 *Daily controlled abattoir slaughtering capacity. ABACOR has 65% of total controlled capacity.*

3 *Slaughterings for 1990; ABACOR has a 30.65% share.*

4 *This figures may be more than double due to unidentified buyers.*

5 *Supermarket registrations excludes wholesaling retailers and meat markets*

The degree of concentration and vertical integration as such is not the issue, but its protection by the controlled marketing regulations, the restriction of entry into these industries, the absence of effective competition and resulting effects on the individual producers as well as the consumers.

3.2 Beneficiaries amongst producer groups

Elliott (1986) found in a survey among producers that farmers were of the opinion that feedlots, larger farmers and producers closer to the controlled abattoirs benefited more from controlled marketing than individual, small producers and those further away from the metropolitan areas. Contrary to the objectives of the Meat Scheme, these opinions hold true concerning fair and equal market access to all the producers. Permits and quotas are allocated on the basis of constant performance and the existence of a predetermined producer marketing plan for 12 months in advance. This system is thus based mainly on the dairy and semi-intensive beef farmers or semi-intensive mutton producers. During 1989/90, these producers represent only 8,5% of the total beef producers and supply only 13,8% of the beef to controlled markets. For mutton producers, they represent 2,0% of the producers and supply only 2,9% of the mutton to the controlled markets. During the same period, the beef and mutton ranchers were 90,8% and 97,8% and supplied 32,4% and 92,1% respectively. Feedlots however supplied 53,8% of the beef but represent only 0,7% (64 firms) of the total producers. Feedlots also enjoy preferential fixed quotas, while those affiliated to the big three have further benefits arising from the preferential quotas of their abattoirs and the exemptions to bypass auctions. The feedlots are also mainly located in the grain producing areas adjacent to large metropolitan areas. The mandatory marketing through controlled abattoir agents, strengthen this disposition of individual ranchers. Ranchers thus have additional risks of market access, transportation, prices and quality (bruising of animals) added to their normal climatological risks.

Floor prices are based on meat grade differentials, while producer levies, which are used to finance the support prices, are based on mass despite the grading. Feedlots, semi-intensive producers and larger farmers thus benefit more from the support prices due to their ability to supply better grades and preferential quotas. They are thus to some extent financed by the extensive ranchers. These benefits are strengthened by the availability of abattoir capacity to the large integrated organizations, while normal controlled abattoir capacity is artificially limited, even during over-supply periods.

4. DISADVANTAGE TO PRODUCERS

Contrary to the scheme's objective to promote producers' interests, consumption of and demand for red meat, the trade were more benefitted than either one of the other groups.

Supply control effectively reduced the trade's marketing risks because instead of a surplus removal scheme, it effectively became a surplus avoidance scheme. Apart from effectively manipulating producer prices, increases in producer prices were transferred on to consumers. During periods of low producer prices, however, consumer prices remained constant due to the oligopolistic nature of the market.

Real production efficiency was not promoted by controlled marketing. Effective price stabilization was attained in some of the marketing phases, but the overall price incentive effects distorted both production and the market of red meat. Rainfall and cyclical behaviour of rainfall present natural production constraints, but price incentives (due to the progressive floor price scheme) and supply control policies effectively enhanced the natural variation in livestock populations and resulted in deterministic production cycles (Lubbe, 1990). Efficiency became a response to the process of herd expansion/liquidation in reaction to distorted price signals. The combined effects of production variation and the floor price policy resulted in deterministic price cycles (seven years for beef and four years for pork). Production parameters were not stabilised; inflexibility and the producers' exposure to both marketing and production risks was enhanced. Successive control schemes did not succeed in improving real production efficiency, and consumption became a response to producer price policies and production efficiency. Controlled marketing also rendered livestock production unable to adjust to structural changes in the industry. This aggravated the production and marketing inflexibility, enhanced periodic oversupplies and shortages, contributed to environment degradation and eventually increased the producer's risks.

Price and supply control policies of the Meat Scheme did not stabilise nominal producer prices, but aided persistence of cyclical price patterns. The inflexibilities of livestock production marketing, insufficient knowledge about cyclical price behaviour and an elastic demand for red meat, in combination with price cycles destabilised producer incomes. Neither could the system eliminate seasonal price variation, although feedlots received preferential supply quotas. Price uncertainty was to some extent reduced, but inadequate market access restricted the utilisation thereof except for feedlots and larger farmers who enjoyed preferential market access. Smaller farmers and those far from the markets did not share in the benefits. The policies of the Meat Scheme induced artificial price differentials between markets and product qualities (grades) which apparently benefitted feedlots and the trade more than individual producers and poorer consumers.

The controlled marketing system has also failed to reduce marketing margins of red meat and to increase the producers' share in consumer expenditure. Restrictive policies aimed at savings in marketing costs by reduction of middlemen with increased benefits to producers and consumers, achieved the opposite. It created and protected concentration and vertical integration in the red meat industry, led to high consumer prices and engendered inadequate market access to the producers. The beneficiaries of these policies were trade and the Big Three. Consumer prices and margins increased exponentially over the long term at larger rates than producer (auction) prices for beef, mutton and pork, and were more sensitive to producer prices than variation in the margins. Producer prices influence both the consumer prices and margins. Consumer prices are "sticky" in the short term (variation less than for producer prices) and margins have been inversely related to producer prices. This has resulted in continued high or increasing consumer prices even while producers' prices declined.

5. DEMAND AND DISADVANTAGE OF CONSUMERS

Policies of the Meat Scheme failed to promote the demand or consumption of red meat but effectively created a high income preferential controlled market. Protection of the concentrated organizations, feedlots and trade is obviously a higher priority than promotion of the consumption of red meat. A continued decline in the *per capita* consumption of red meat was experienced since the 1950's and substitution by poultry increased. The main reasons for this are high consumer prices of red meat, limitation of quantities of meat for consumption, restrictions on the availability of meat for consumption, the concentrated market structure and *de facto*, even if unintentional exclusion of the largest market segment (urban black and/or poorer consumers). Controlled marketing also failed to adjust changes in the marketing environment - such as urbanization, distribution of population, sizes and income distributions of different market segments and changes in modern consumer buying behaviour and preferences. The Meat Scheme did not only inhibit inherent comparative advantages of different red meat species, but has also effectively promoted the consumption of poultry. The market share lost to poultry is probably permanent and non reversible. A generation's experience of unavailable and inaffordable red meat is important in this respect. Efforts to promote demand and consumption were misdirected and have promoted the image of the Meat Scheme rather than the products, were directed at a declining market segment and were also negated by the concentrated market structure and control regulations. The beneficiaries were the trade and the vertically integrated firms; the consumers in general and in particular poorer urban (mostly black) were discriminated against. The decline in *per capita* consumption of red meat and simultaneous increase in *per capita* consumption of poultry is not a worldwide phenomenon. Policies of the Meat Scheme rendered South Africa a misfit in comparison to exporting, importing and trading countries of beef. South Africa now ranks among the countries with the lowest *per capita* consumption of red meat.

6. CONCLUSION

Government intervention in the red meat industry has thus failed to attain the desired or intended goals. An inflexible market structure in the form of an concentrated and vertically integrated market structure is now in vogue with benefits to few and unfavourable consequences to many. It cannot adjust to the needs of the emerging small farmer, nor can it secure available and affordable meat for the majority of the poorer consumers. The controlled marketing system has also prevented farmers from developing marketing skills and modern marketing practices, it has failed to promote or stabilise producer's incomes and it has effectively increased the producer's exposure to production, marketing and price risks. Marketing risks were effectively transferred from the trade to the producer under the protective policies of the Meat Scheme.

Ignorance towards the real effects, discrimination and favouritism of the scheme among politicians, regulators, bureaucrats and some groups of producers inevitably spawn a resistance towards change; many believe this system to benefit the majority of the producers and the consumers. Other resistance to change comes from the few beneficiaries.

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