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Massey University

THE ROLE AND PERFORMANCE OF STATUTORY MARKETING ORGANISATIONS

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Discussion Paper 56,
Department of Agricultural Economics
and Farm Management,
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PREFACE

The New Zealand branch of the Australian Agricultural Economics Society adopted the theme: "New Zealand - the Over-regulated Economy?" for their 1979 annual conference. Professor Allan Rae presented a paper that discussed some of the achievements and activities of statutory marketing boards, both overseas and in New Zealand, in a Conference session on Marketing Control. As a contribution to the continuing public interest and debate in forms of market control in New Zealand, we have decided to reproduce Professor Rae's conference address in our Discussion Paper series.

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1. INTRODUCTION

Statutory marketing boards have existed for some time in a number of countries, such as the United Kingdom, Canada, Australia, New Zealand, and some African countries. The inclusion of the topic on our conference programme suggests that we might discuss, and form opinions on, whether the powers of our New Zealand boards should be widened or curtailed in some way, or whether we should have even more statutory boards. I shall keep away from the political feasibility of such changes to our agricultural marketing legislation, and confine myself to a review of some published studies into the performance of marketing boards in a number of countries. Following this review, I shall then tempt discussion by setting up a few questions to which I suspect we do not know the answers.

The behaviour of many boards suggests at least the following three major objectives:

(i) to maintain or increase prices and incomes received by producers;

(ii) to reduce fluctuations in such prices and/or incomes;

(iii) to equalise market opportunities and returns among producers.

Much of my paper will be concerned with discussing the sorts of strategies that Boards often adopt in the pursuit of these objectives, whether or not they have been successful, and the wider implications of the pursuit of these objectives. We should also remember that the majority of marketing boards, and therefore of studies into their effectiveness, are concerned only with domestic marketing. Because of the importance of export marketing boards in New Zealand, we shall have to be more than usually careful in applying overseas findings to the New Zealand situation. We also need to be aware that marketing boards may be used as instruments of not only marketing policy, but stabilisation and support policies as well.

2. THE ACTIVITIES OF MARKETING BOARDS TO INCREASE PRICES AND/OR INCOMES

2.1 By Raising the Level of On-farm Demand

Here we are concerned with whether or not boards have been successful in shifting to the right, the derived demand curves facing producers, through promotion, identification of new markets and products, better segmentation of markets, and by reducing marketing margins.

Davies (1960) suggests boards can achieve gains due to speedy transfer of price information, rationalisation of assembly, grading, processing and transport operations, and market development. Little importance is placed on the board being actively involved in distribution however - he suspects less inefficiency in the marketing chain than is sometimes assumed, therefore giving little scope for further cost savings. Warley (1963) also agrees, using empirical results to show that margins are often not excessive and that costs are kept low by active competition and innovation. Guter and Low (1971), in replying to a Commission of Enquiry into egg marketing in the United Kingdom (which strongly condemned the Board's distributional inefficiency), provide some evidence however to show that these distribution costs were "not excessive".

Very little real evidence exists to indicate the success that boards have achieved under this heading. Thus we find people's impressions, rather than quantitative estimates, in the literature. For example, Parish (1967) says that marketing boards might be able to carry out routine marketing functions satisfactorily but are slow to innovate in product and market development, that economic efficiency may be sacrificed for administrative convenience, and that satisficing rather than maximising might be the aim. And Campbell (1973), referring to studies of some Australian boards, concludes that producer gains have tended to be extracted from consumers rather than through increased efficiency or reductions in marketing costs.

Successful market development would seem to demand a certain level of innovation and aggression within the marketing firm, and an awareness of customer requirements. It is commonly believed that competition provides the breeding ground for such behaviour and that its removal, say due to the granting of monopoly powers in some market to a statutory board, largely removes the pressure. Dissatisfaction with overseas domestic marketing boards, and with the performance of the New Zealand Dairy, Milk, and Apple and Pear Boards on the local market support this view.

Still, it is one thing to set up a board and charge it with disposing of whatever size and composition of output farmers may decide upon (often beyond the influence of the board), and quite another to expect an organisation in such a position to be consumer-oriented.

That the marketing performance of the New Zealand Dairy, and Apple and Pear Boards has improved over the last few years could be partly due to:

(a) a greater public awareness, and criticism, of performance levels;

and (b) improved level of management throughout the business community in general as graduates emerge from our commerce and business schools in large numbers.

It is also interesting to note, and until recently the New Zealand Apple and Pear Board was a good example, the wide disparity in performance levels between export markets, where boards face strong competition, and domestic markets in which competition has been restricted.

Gains do seem to have been made through market intelligence and grading systems, by better coordination of production and marketing functions, and through economies of size in assembly, processing, handling, packing and storage. One suspects very strongly that the New Zealand Dairy, and Apple and Pear Boards have obtained positive results through the use of bargaining power in negotiations on freight rates and market access, and have achieved organisational and size economies. These two boards, plus the New Zealand Meat Board have also been active in market development, if one considers as appropriate indicators the growth in the number of countries to which our dairy products and apples are now exported, and the response of these boards to the United Kingdom joining the EEC.

But a question that can be asked is whether these gains require the existence of a board, or whether they could have been obtained some other way. Certainly such reforms that boards have introduced such as better market information or better grading systems, could also have been achieved by government action without resort to statutory boards. Warley (1967) stresses that demand expansion strategies are also available to voluntary organisations, who can be expected to use them under competitive stimuli. He says that one lesson that has been learned from three decades of organised marketing in the United Kingdom is that compulsory producer marketing boards are an unreliable means of achieving economies in distribution, primarily because the boards' interests have lain elsewhere rather than that they do not have efficiencies in the distribution area. Boards, for example, might have to rely on the goodwill of other firms in the marketing channel such as wholesalers and retailers, and this might prevent the boards entry into wholesaling or retailing activities either to intensify competitive pressure on those firms or to capture marketing margins for their producer members. Warley also suspects that in some cases marketing boards have led to an increase in marketing costs. Some examples are pricing policies that require the pooling of funds leading to sub-optimal location of production and therefore higher transport costs, the payment of over-generous allowances to their agent distributors, or inflexible management styles inhibiting the testing and adoption of marketing improvements.

Thus he doubts whether marketing boards are capable of marketing products of their members as well as a decentralised system. He is concerned that the marketing board, being a democratic organisation concerned primarily with industry politics, the implementation of price guarantees and committed to serving all members equally, does not seem to be the type of organisation with the adequate flexibility to perform well under modern commercial marketing conditions. In fact he sees the voluntary cooperative, which might restrict its membership to those producers capable of providing adequate capital and supplying products that are well adapted to the requirements of buyers, as being the direction to which we must look for an improvement in co-ordinated (orderly) marketing. It appears that United Kingdom governments have been looking increasingly in this direction in recent years. For various commodities examined during the 1960's, for which producers called for the formation of boards, government response has been to deny such requests and to seek market reform through appropriate policies, e.g. to encourage the formation of cooperatives.

Some of the cost-savings achieved by boards seem to be due to the size of the operation, rather than to any other characteristic of a statutory board. It follows in such cases that these gains could be achieved by any organisation of adequate size, and there is no reason why voluntary marketing organisations may not grow to the optimum size. One queries then whether a board need have statutory powers to achieve economies of size that are there for the taking under competitive stimuli, or to develop markets that would be profitable to commercial competitive firms.

Some writers have also been critical of the gains achieved by boards through their promotion programmes - Campbell (1973) suggests such programmes are operated more on faith than on evidence that any gains are achieved for producers. One can at least understand this viewpoint when one considers that (at least for non-export boards) most promotion has been of the generic, industry-wide type. There is evidence, however, that at least some of our New Zealand boards are now taking a more enlightened approach to advertising, aimed at branded products, segmented markets and customer requirements - e.g. the "bigger-block-of-cheese" and "Fresh-up apple juice" campaigns. Even so, the existence of a board is not a pre-requisite for such performance - consider the efforts and success achieved in market development and through promotion by the private enterprise firms engaged in the export of kiwi fruit, or the campaigns conducted by many non-agricultural private organisations.

In conclusion, as far as raising the level of on-farm demand is concerned, it appears that the statutory marketing board has little in its favour apart from gains extracted from overseas transport operators and governments through bargaining power, and gains due to the integration of production and marketing decisions. These could be considerable, however. Marketing boards appear more likely to adopt aggressive, customer-oriented market strategies on export, rather than domestic, markets, but need not perform more satisfactorily than private firms on export markets. One possible advantage in favour of the export board, in place of a number of private exporters, is that the New Zealand exporter faces somewhat less competition than he otherwise would. To my knowledge, no attempts have been made to quantify this apparent advantage but it is likely to be greater the lower is the market share held by foreign suppliers.

2.2 By Maximising Returns From Given Levels of On-farm Demands

It is in this area that marketing boards have been most successful. Many of them were set up during depressed farming conditions, such as in the United Kingdom during the 1930's, and a major goal must have been to provide immediate income relief to producers. This was more easily achieved by shifting supply curves to the left, rather than demand curves to the right. Familiar policies are those of long-run supply restriction through quotas or licences, short-run supply management and diversion, and discriminatory marketing. Methods of supply management and discriminatory marketing obviously require widespread support from producers if they are to be successful. This raises a number of questions however, such as whether monopoly power to raise the general level of prices should be left in the hands of a producer organisation. What are the dangers of a statutory board extracting monopoly profits from other sectors of society? Whilst government interests are generally represented on statutory boards, one might question the adequacy with which consumer interests are represented.

Since supply control schemes lend themselves more readily to economic analysis, we have a little more evidence on which to judge statutory boards than we did in the previous section. Banks and Mauldon (1966) studied the price discrimination policy of an Australian egg marketing board and found that consumer interests had not been completely ignored - the value of domestic consumption was reduced by some 2-8 per cent even though larger producer gains could have been extracted. In other words, price discrimination was not carried to the point of equating marginal revenues on export and domestic markets.

Campbell (1973) refers to the discrimination and supply management policies of other Australian boards, and doubts whether returns from such operations have been maximised. Rae (1978) studies the New Zealand Apple and Pear Board's supply diversion strategies in two areas - the allocation of fruit between fresh and process markets, and the allocation of domestic fresh apple sales over time. Results indicated that considerable gains had been achieved for producers even though marginal revenues on the domestic fresh apple market remained negative. Such consideration of consumer interests was also indicated in the area of sales allocation through time by storage, in which it was shown that the Board had acted to favour consumers (through price stabilisation) rather than producers. Veeman (1972) found that the New Zealand Dairy Board's pricing and marketing activities for butter and cheese in its major export market during 1955-1969 had increased producers' returns. Also in New Zealand, there are quota programmes in fluid milk, egg and tobacco production, and elements of monopoly gains apply to producers in these industries. A recent study of a Canadian poultry marketing board by Funk and Rice (1978) provides further evidence. They concluded that the direct results of the board's efforts to restrict broiler production were to raise farm broiler prices and farm incomes, to increase hatchery and feed company gross margins, and to reduce risks faced by growers, hatcheries and feed companies.

The economic consequences of such schemes often go beyond gains to producers and losses to consumers. National losses due to resource misallocation often arise, for example when prices earned in each of several markets by a discriminating board are "pooled" so that an average price is paid out to producers. Such equalised prices can shield producers from the appropriate marginal valuations according to which resources should be allocated, and production costs may be needlessly high. Problems usually arise if the board does not have control over the level of total production, in which case the costs of supply diversion may continually rise as larger and larger quantities must be diverted to maintain the desired price. Entry of new firms, along with new ideas and techniques, may be prevented. If quotas are issued to curtail production but are not negotiable, the benefits of quota rights tend to be capitalised into land values. The study of Funk and Rice (1978) found the indirect effects of supply control were to stop integration among farm and agribusiness firms, reduce processor margins, reduce opportunities for development of export markets, increase the inventories of processors, dampen incentives for new technology investment, and to increase processor risk.

A final consideration in this section is whether or not the managed market is the best way of giving support to producers. It is possible that the bulk of this support goes to the more affluent and larger producers, so there is the problem of income support being given to those who need it least and of course, a further question is whether or not a managed market is the best way of giving income support. Many economists would argue that direct income grants and programmes to improve resource mobility are better policy tools. The ideal distribution of support payments over the agricultural industry is also likely to differ from that which boards have been able to achieve, on a commodity-by-commodity basis. One probable result is the diversion of resources from relatively unsupported to the supported agricultural industries. And is a marketing board a requirement for the implementation of what are prices and incomes policies? The answer must be in the negative, but should such boards already be established, or required for some other purpose, then they could form a relatively cheap way of administering such policies. Certainly, when control over supplies is an objective, the existence of a single selling authority makes the job much easier.

2.3 Technical Assistance to Raise Farm Incomes

Marketing boards often engage in research into on-farm, as well as marketing and distribution problems, and may engage in the promotion of new technological developments. Davies (1960) and Allen (1960) both cite the United Kingdom Milk Marketing Board as being successful in these regards. The New Zealand Dairy Board has an active product research and development programme, and engages in the provision of technical services such as herd improvement, farm extension and farm accounting. The New Zealand Wool Board sponsors a number of research activities and a programme for training shearers. The New Zealand Apple and Pear Board has financed research into improvements in orchard management practices to inhibit the development of costly storage diseases, and more efficient packaging and distribution systems.

But while Boards are active in this area, it is also likely that any large farmers' organisation which has the confidence of producers could successfully promote technical progress, and by levying producers could finance research activities. Thus a marketing board is not a pre-requisite for such results.

2.4 The Effectiveness of Bargaining Power

Marketing boards are said to be able to use their considerable bargaining power to extract gains from other sectors of the domestic or foreign economies especially those that use oligopolistic powers, and some examples have already been given. Boards may be able to extract gains from domestic consumers by supply management and price discrimination policies, from the domestic government by lobbying for increased levels of support or subsidisation, and from overseas agents in the negotiation of freight rates and market access. Gains are also said to be achieved in price formation as the board may be the sole supplier of its nation's products on world markets. The New Zealand Dairy, and Apple and Pear Boards, by being such sole suppliers have probably also had an appreciable impact on producer returns by internalising the trading profits involved in the export of these commodities. The New Zealand Meat Board's "watch dog" stance in monitoring export works' price schedules provides an example of safeguards against the oligopolistic powers of meat purchasers.

There is evidence that in some cases, such gains from the use of bargaining power may be less important in future. This particularly applies to gains from consumers. In the past, consumer groups have not been sufficiently strong to bring countervailing pressure to bear on governments but with the rising tide of consumerism it seems likely that this situation will change, and that producer boards might be more liable to attack from consumer groups. This is evident already in apple marketing in New Zealand, but the success rate of such groups will depend upon how long it takes to reverse the official tolerance of restrictive trade practices in this country.

As far as the exercise of bargaining power in world markets is concerned, Campbell (1973) suggests that while the larger export monopoly boards do have considerable powers to influence prices, the smaller boards may not be able to achieve export prices as high as those that could be realised by a large trading company that operates in the export marketing field on a continuing (rather than seasonal) basis.

3. THE ACTIVITIES OF MARKETING BOARDS TO STABILISE PRICES AND INCOMES

Programmes to stabilise prices paid to dairy farmers and apple and pear growers in New Zealand have been established for some time, while price stabilisation schemes for wool and meat products have been more recently introduced. Veeman (1972) for the dairy scheme and Rae (1976) for the pip fruit scheme, have shown these programmes to have considerably reduced year-to-year fluctuations in producers' prices and incomes. These programmes form part of government stabilisation policy however, rather than reflecting policies of our marketing boards. Independent pricing authorities set guaranteed prices, minimum prices and trigger prices, while government has recently taken to prescribing supplementary minimum prices. In the case of dairy, and apple and pear, price stabilisation, the appropriate marketing board is used only to administer the schemes. Buffer funds are operated by government, the effect being to transfer risk from the farming to the public sector.

There are other aspects of stabilisation which are the direct result of New Zealand marketing board policy, and we should examine some of these.

Boards often 'pool' receipts during each year and pay out an averaged price to producers. Hence dairy farmers or apple growers generally receive the same price for their produce irrespective of when it is sold. Such schemes can have resource misallocation effects - for example, there may be little incentive for orchardists to adopt management techniques conducive to long storage life. The Dairy Board's procedure for setting butter and cheese purchase prices is said to have reduced its ability to rapidly alter its product mix more in line with market requirements. The Apple and Pear Board's storage programme for local sales has stabilised domestic prices somewhat, but it has been estimated (Rae, 1978) that, under conditions of perfect competition in this market, consumer surplus would be little different from that received under the Board's storage programme. National buffer stock schemes for wool have been operated in New Zealand for some time. Veeman (1972) concludes that the scheme had little effect on prices until the mid-sixties, but more recently the activities of the Wool Marketing Corporation does appear to have reduced fluctuations in auction prices.

An overseas study by Martin and Warley (1978) empirically tested the hypothesis that Canadian marketing boards have been successful in reducing market instability. They concluded that the ability of boards to stabilise prices and returns was highly suspect, and not to be assumed as one of their inherent characteristics.

On this evidence, the net success of marketing board schemes to reduce between and/or within year price instability, over and above their income support schemes and government stabilisation programmes, has probably not been great.

4. THE ACTIVITIES OF MARKETING BOARDS TO PROVIDE EQUALITY

The egalitarian objective of equalising market returns to producers is difficult to support from the economic standpoint. It has already been mentioned that producers may, as a result, be unaware of the real marginal valuations with consequent effect on resource use, and that such a policy may fail to provide sufficient incentives to those producers who are prepared to seize market opportunities that less active producers may let pass by. Such results, I believe, are to be seen in our dairy and pip-fruit industries. These policies are often characterised by pricing procedures that reflect cost differences, as in the pip-fruit (more so in the past than present) and town milk industries. The result of course is misallocation of resources and sub-optimal location of production.

In some cases marketing board policies can lead to inequities. We have already mentioned that income support given through supply management could be misdirected towards large-scale producers. The New Zealand Apple and Pear Board's scheme to divert fruit from the domestic fresh market to process markets is inequitable since higher prices result to all growers who sell on the domestic market, but the costs of the scheme were, until recently, wholly borne only by those growers supplying fruit to the board.

5. CONCLUSION

I have attempted to present a summary of the reviewed evidence for and against marketing boards, in table 1. Much is still subjective however, reflecting personal feelings rather than hard empirical evidence. In the second column of the table I attempt to indicate the success which boards have experienced by engaging in various activities, and in the third column I indicate whether or not a 'marketing board' type of institution is a necessary requirement for engaging in the various activities.

I find that such a table summarises my own feelings rather well. While marketing boards have typically experienced positive results in terms of integrating the activities of diverse farm and agribusiness firms, in marketing in a competitive environment, in achieving economies of size, in implementing market information services and grading standards, in achieving gains due to bargaining power and in the provision of technical services, many such gains could be achieved with alternative market structures and institutions. I feel the major needs for marketing boards are in the areas of integration and coordination, use of bargaining power and possibly in

Table 1. A Subjective Classification of Results

	Activity	Economic Evaluation of Results	Necessity for a Board
1.	Distribution	Doubtful	Probably not
2.	Integration/coordination	Successful	Probably yes
3.	Ability to innovate/adopt modern marketing methods/ develop new markets and products	i) Rather successful in export markets ii) Unsuccessful in domestic markets	Possibly yes No
4.	Achieve economies of size	Successful	No
5.	Grading/market intelligence	Successful	Probably yes
6.	Gains from bargaining power	Successful	Yes
7.	Supply management	Large gains at unknown costs	Probably not
8.	Promotion	Some recent success	No
9.	Provide technical services	Successful	No
10.	Stabilisation	Limited success at some cost	No
11.	Equity matters	Limited success at unknown cost	No

export marketing. Other functions that boards often carry out, such as providing income support, stability and equity should be the concern of government.

Many outstanding issues are yet to be resolved. It could be important that we attempt to provide some answers since the success of new export industries such as horticulture are bound to reveal problems, to which the answers from some quarters will be a call to set up a marketing board. In fact the kiwifruit industry is already part way along this road with the establishment of a Licensing Authority, an institution somewhat similar in its powers to the Meat Board.

Therefore the following are a few questions that should, I think, be researched if we economists wish to make a real contribution to the future debate about the role and value of agricultural marketing boards in New Zealand.

Question 1: What is the nature and size of gains due to integration and coordination that cannot be achieved by an (imperfect) private market?

Question 2: What is the value of the monopoly exporter versus a system of (perhaps licensed) numerous exporting firms?

Question 3: If the answers to Q.1 and Q.2 indicate small gains, what other roles can marketing boards usefully play, compared with alternative and voluntary marketing institutions?

Question 4: Is it true that today a marketing board can perform as satisfactorily as any other marketing institution of comparable size in a competitive market?

Question 5: Is it true that a marketing board would perform just as poorly as any other marketing institution of comparable size in a protected market?

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