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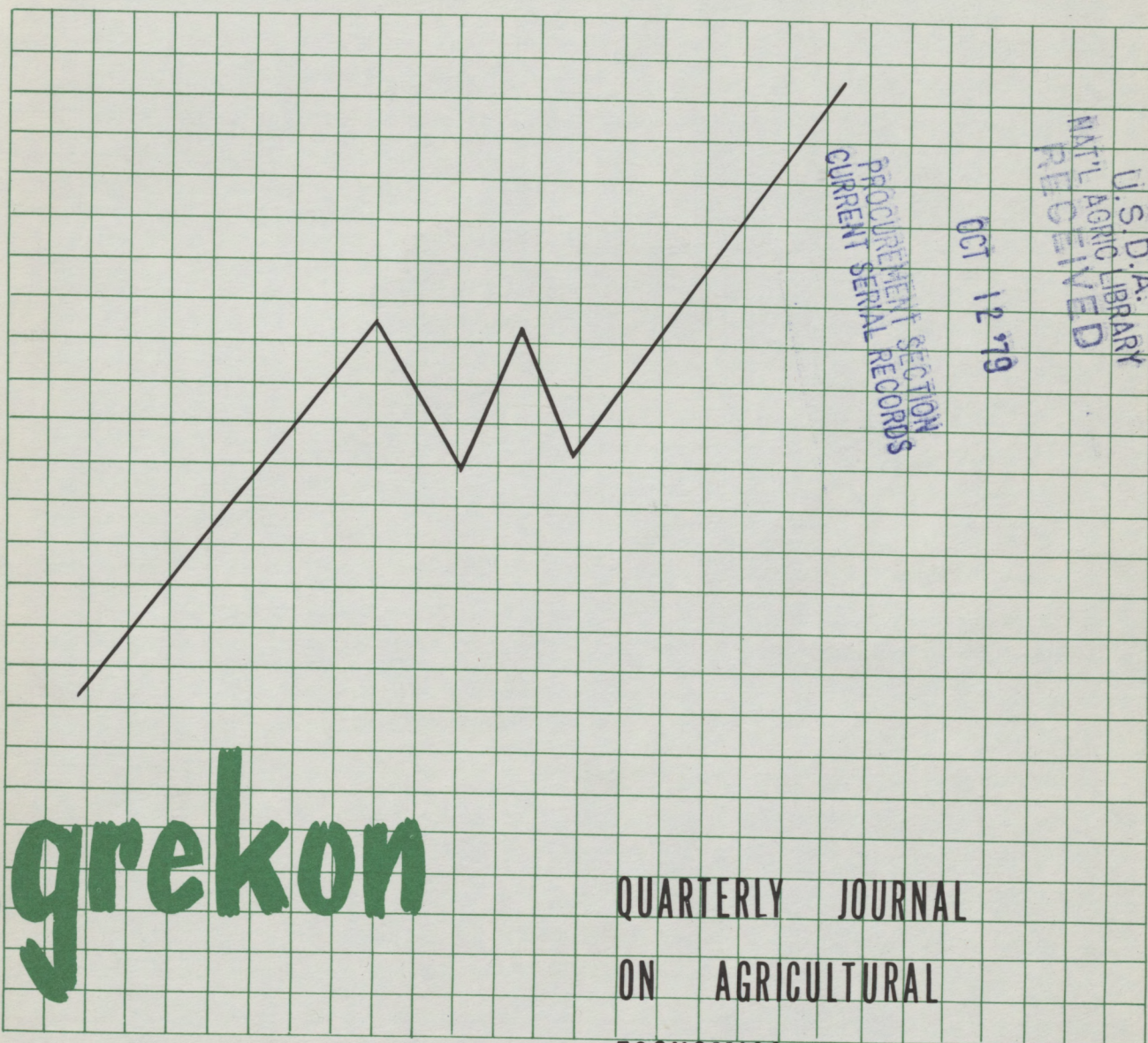
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# THE CONTROL BOARD SYSTEM

by

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## INTRODUCTION

Under the title "The Control Board System" we think of the establishment and operation of control schemes in terms of the Marketing Act for the marketing of agricultural products in the Republic of South Africa. There are at present 22 control schemes in operation, the gross value of the products involved representing approximately 80 % of the total gross value of agricultural products.

## JUSTIFICATION FOR STATE INTERFERENC

It is a worldwide phenomenon that countries endeavour to be self-sufficient in their food production. This drive for self-sufficiency may lead to surplus production in good years whereas there may still be shortages experienced in poor production years.

We thus have to take the following factors into account:

Firstly it is impossible to estimate accurately the consumption of a certain product in the coming season.

Secondly it is impossible to adjust agricultural production to estimated consumption. Circumstances during planting time have a direct influence on the area planted and date of planting. Furthermore the same plantings (including those of horticultural products) due to varying production conditions during the growing season, yield crops which fluctuate from one season to another.

Thirdly there are also substantial fluctuations in export market prices because of changes in world production and demand situations.

It is thus clear that it is impossible for any country to adjust the production of agricultural products to the market situation. There are too many uncertainties and unpredictable factors which impede such future planning, and in some areas even making it impossible.

We will thus find substantial fluctuations in agricultural product prices under these circumstances. Such fluctuations in the prices of agricultural products will directly affect the area planted to any particular crop. The instability of prices and production which arise, create substantial problems for the maintenance of an economically sound agricultural industry. In view of this, the principle of state interference can be seen to have already begun 40 years ago when the

necessity for self-sufficiency in food production, as far as the country's natural resources would allow it, and the importance of agriculture in the national economy of South Africa, was accepted. Coupled with this is the advancement of the agricultural industry through research and extension.

It was first of all thought that to create greater orderliness in marketing arrangements and thus greater stability, it was necessary to apply compulsory co-operative marketing of agricultural products in the relevant agricultural industries.

The Commission of Enquiry into Co-operation and Agricultural Credit had in 1934 already advanced the view that control which may be deemed necessary must be invested in an independent body representing all interested parties and be under strict state supervision.

Hereafter provision was made in terms of special legislation for the controlled marketing of various agricultural products such as dairying, slaughter stock, wheat and maize. This system was however inflexible since amendments to the relevant acts, to make provision for greater power for the adjustment of control to developments in the relevant industries and in the marketing arrangements, had to be approved by Parliament. The result was the adoption of the Marketing Act by Parliament in 1937. A consolidated act to accommodate all amendments, that is, the Marketing Act, 1968 (No. 59 of 1968) was adopted. The act has since been amended annually to make provision for the necessary provisions in marketing schemes in accordance with the experience gained in the implementation of the control schemes.

The Marketing Act is an enabling act which makes provision for a wide variety of powers which may be integrated into the control schemes.

In its report (R.P. 39 of 1976) the Commission of Enquiry into the Marketing Act showed that although controlled marketing in other Western countries was not applied in such detail as in the Republic of South Africa, the principle of state interference in respect of marketing of agricultural products had already been accepted in some Western countries when the Marketing Act was adopted in 1937.

The basic objective of control measures in terms of the Marketing Act is the promotion of greater productivity and stability in agriculture as well as greater efficiency in the related processing,

distribution and marketing activities. The realisation of these goals embraces not only the pursuit of greater price stability in agricultural products but also an attempt to reduce the margin between the producer price and that paid by the consumer.

### **DIFFERENCES IN THE CONTROL MEASURES WITH RESPECT TO THE CONTROL SCHEME**

Differences in the control measures in terms of control schemes are chiefly attributable to factors such as the scope and geographic distribution of production, the perishability of the product, the importance of exports and the established marketing arrangements for various agricultural products.

Control schemes in terms of the Marketing Act can be subdivided into the following five categories:

1. Single-channel fixed price schemes for maize, winter grains and dairy products.
2. Single-channel pool schemes for oilseeds, leaf tobacco, lucerne seed, rooibos tea, chicory, buckwheat, deciduous and citrus fruits, dried fruit, bananas, wool, mohair and fresh milk.
3. Surplus disposal schemes for potatoes, grain sorghum, dry beans, slaughter stock and eggs.
4. Supervisory and price-regulatory schemes for cotton and certain canning fruits.
5. Sales promotion scheme for karakul pelts.

It is not the intention to examine in depth the differences within control measures. Such detailed particulars may be found in the report of the Commission of Enquiry into the Marketing Act (R.P. 39/1976). In short it may be said that producers of the products in categories 1 and 2 (with the exception of fresh milk and leaf tobacco) can market their products solely through the agency of the relevant control boards. Compulsory co-operative marketing is applicable in the leaf tobacco industry where a minimum co-operative selling price is fixed by the Tobacco Board. Distributors of fresh milk must be registered with the Milk Board and have to pay fixed prices to the Board for all the milk which they obtain from producers. Producers of products which are controlled by surplus removal schemes are free to sell to the trade but the respective boards set floor prices at which they are prepared to purchase the quantities of products concerned which the trade is not prepared to take up at floor prices. In the case of potatoes the Board enters the auction markets as a purchaser during times of heavy supply. The purchase and sale of apricots, peaches and pears for canning purposes is prohibited except in terms of a written agreement between the parties concerned and at a price which is not lower than that set by the Board. In the case of cotton, as with certain other products, provision is also made for minimum prices which ginners have to pay to producers for the cotton crop. The most important function of the Karakul Board is the promotion of domestic and export demand for karakul pelts.

### **OPERATION OF THE CONTROL BOARD SYSTEM**

#### **Control boards**

The Marketing Act stipulates that a scheme must make provision for the establishment of a board which will administer the scheme.

Besides producers, there are also other interested groups which are represented in the composition of a control board. The interest which various sectors have in the implementation of control through the various control schemes in an industry, is largely determined by the type of control exercised and the extent to which the interest of the relevant sectors is affected. The justification for the representation of interested groups other than producers (the Marketing Act stipulates that the latter must be in the majority) in a control board is judged on the above grounds. With regard to the scope and type of interference in marketing arrangements there are some control boards where producers only are represented, the reason being that the interests of the other sectors in the relevant industry are scarcely affected by the control regulations of the respective control boards.

The various interested groups and the control boards in which they are represented are briefly as follows:

*Producers:* Producers are represented in all control boards and are in all cases in the majority.

*Consumers:* In the control boards for maize, winter grains, slaughter stock (meat), citrus, milk, dairy products, eggs, dried fruit and potatoes.

*Processors:* In the control boards for maize, winter grains, citrus, wool, milk (distributors), dairy products, oil seeds, chicory, canned fruit, cotton, tobacco and rooibos tea.

*Commerce:* In the control boards for maize, meat, citrus, wool, milk (distributors), oilseeds, bananas, eggs, dried fruit, dry beans and lucerne seed.

*Other interests:* Exporters are also represented in the Maize Board; curers of hides and skins as well as abattoir agents and auctioneers in the Meat Board; market superintendents in the Banana and Potato Boards; bakers of bread and confectionary in the Wheat and Dried Fruit Boards; sales brokers in the Wool and Karakul Boards and breeders of stud karakul sheep in the Karakul Board.

The Commission of Enquiry into the Marketing Act recommended that the control boards should be reduced in size. As a result the Marketing Act in 1977 ruled that control boards could have 13 members at the most. Only 6 control boards (Maize, Wheat, Meat, Milk Dairy and Oilseeds Boards) had 13 members. All the other control boards had fewer members depending on the type of control.

#### **ADMINISTRATION OF CONTROL SCHEMES**

The Marketing Act and the control schemes provide for control boards to appoint personnel and to purchase or hire the property which is

required for the administration of schemes. The different control boards each have their own administration, except in the case of the Citrus Board where the Citrus Exchange existed before the institution of control via the Marketing Act. In this case the Citrus Exchange acts as Secretaries to the Citrus Board.

The majority of the control boards also arrange for their own office buildings, as is the case for the control boards for wool, mohair, canned fruit, rooibos tea, chicory, dairy, milk, meat, maize, wheat, bananas, potatoes and oil seeds jointly and dry beans.

In terms of the Marketing Act control boards are also empowered to hire agents to perform stipulated functions on behalf of the control boards. It is the general practice for control boards to entrust the physical marketing functions of the products whose control does not lie within the relevant control boards, to agents subject to conditions laid down by the Minister. Only in exceptional cases, owing to special circumstances, are control boards allowed to undertake the handling and processing of the products themselves. The exceptions for which there exists sufficient reason, in the opinion of the Marketing Act Commission, are the Chicory, Rooibos Tea and Banana Boards, which are allowed to undertake the primary processing of the product. The Egg Board itself processes surplus eggs whereas the Milk Board possesses the facilities to process surplus milk into casein although in practice little use is made of this outlet.

#### **ACQUISITION AND UTILISATION OF FUNDS**

Control boards are empowered to demand an administrative levy, the proceeds of which are placed in a general fund, out of which the control boards' administrative expenses are financed.

The proceeds of special levies are placed in special funds. Control schemes also have to make provision for the establishment of a reserve fund. Monies in the reserve and special funds can, with the consent of the Minister, be used to promote the objectives of the relevant industries. Expenditure such as promotional costs, financing of research, stabilisation of prices, and the costs associated with the distribution of surplus stock, are budgeted for out of these funds.

#### **THE PURSUIT OF THE OBJECTS OF CONTROLLED MARKETING**

The reasons for the differences between control boards, in their commitment to marketing arrangements has already been shown. Nevertheless, the actions of control boards in terms of their respective schemes contribute to greater orderliness in marketing, greater stability of prices for both producer and consumer and in the supply position on the whole; markets are developed and served in a more orderly fashion and the trades concerned are generally promoted by these measures.

Under a single channel scheme, all products receive the same prices for their products, varying only for quality differentials. The control boards are directly involved in the marketing arrangements for their respective products, although the actual trading functions have not been taken over by them. Save for a few exceptions, for which there exists sufficient justification, the control boards are not involved in the physical handling of the products which they control. Price determination, especially to the extent that it affects producer prices and the selling prices of the relevant boards, is an important function of some of the control boards. The determination of floor prices is an important aspect of floor price schemes (surplus removal schemes), as well as the steps involved in the removal of these surpluses and the finding of outlets for them.

The development of markets by way of promotion and other arrangements, for agricultural products which are to a large extent exported, are important as is also the orderly supply of such markets in the attainment of orderly marketing and stability for the respective products. Overseas market promotion is thus important for boards which sell a large proportion of their product on export markets. This can thus be applied to the deciduous and citrus fruits, canned fruit, wool, mohair, karakul pelts and eggs (the last named applies to purchases under the surplus removal scheme). Apart from publicity as such, there is also a large degree of liaison with processors of the relevant products - especially in the case of wool, mohair and karakul pelts. Although the Maize Board in particular sells a large proportion of the crop on export markets, and the Wheat and Dairy Boards export limited quantities of their products these institutions do not spend substantial amounts on overseas publicity and sales promotion, yet are continuously informed of the overseas market situation of their respective products.

Intrinsically the adequate service of the local market is an important responsibility of control boards. As a relatively large proportion of the activities of control boards are in connection with the fulfilment of this responsibility. Some control boards in particular spend relatively large amounts on the promotion of their product on the local market.

Various control boards have over the years also applied a system of restrictive registration of factors in the various industries so as to rationalise the related processing and distributive industries. In this connection we may cite the packers of dried fruit, wheat millers and bakers, milk distributors, dairy factories, maize millers and merchants, butchers and other trades related to the meat industry. Recently restrictive registration has also been applied to businesses related to the wool and mohair industries as well as in the case of canning factories. The Commission of Enquiry into the Marketing Act recommended that the system of restrictive registration of various of these factors be replaced by one of formal registration. The

Commission was not convinced that restrictive registration had accomplished the rationalisation of the lastmentioned industry in sufficient measure to justify its retention. The necessary attention is being given to the recommendations of the Commission in this connection.

To achieve the objectives through controlled marketing, which affect various agricultural products, control must also be imposed over imports and exports. By this means it is sought to achieve orderly supply of the local market and exploitation of the export market for agricultural products. These measures are largely responsible for the stabilisation of the entire industry in general.

For the rest, some control boards make large financial contributions to research with a view to the promotion of greater efficiency in, for example, production, processing, handling and storage of the controlled products.

### THE PROMOTION OF PRICE STABILITY

An important objective of control measures is the promotion of greater price stability in the controlled agricultural industries. The measures employed in the attainment of this object and the extent of interference which is required differ for the various controlled agricultural industries according to the control measures in respect of the various industries.

Under the single channel fixed price schemes for dairy products, maize and winter grains, producers receive fixed prices for the primary products. The prices of butter, cheese, bread and wheat meal are also fixed. In the case of maize only the selling prices of the Board are fixed.

In terms of the single channel pool schemes for deciduous and citrus fruits, dried fruit, oil seeds, wool, mohair, chicory, lucerne seed, rooibos tea, fresh milk, bananas, leaf tobacco, buckwheat and soya bean pools are operated for the marketing of the products. Except in the case of fresh milk and leaf tobacco producers receive advance payments upon delivery of the product to the pools for sale and thereafter final payments depending on the net pool yield. In the case of leaf tobacco minimum selling prices are set for the tobacco co-operatives. Distributors of fresh milk pay predetermined prices for their fresh milk requirements while trade prices for fresh milk in certain large consuming areas are also fixed. Fresh milk producers receive average prices for milk purchased by distributors and the surpluses sold by the Milk Board. The respective control boards' local selling price to the trade are also fixed for oil seeds, lucerne seed, rooibos tea, chicory, dried fruit and bananas.

Under the floor price schemes (surplus removal schemes) for meat, potatoes, eggs, dry beans and grain sorghum, the boards concerned institute certain measures to support market prices when necessary. The Potato Board acts as a buyer on the auction markets during periods of heavy

supply, while the boards for meat, eggs, dry beans and grain announce the minimum prices at which they are prepared to purchase the products concerned.

The Canning Board fixes the minimum price at which canners may purchase apricots, peaches and pears from producers for canning. The Cotton Board also fixes minimum prices at which ginners may purchase seeded cotton.

Where control is applied to producer prices, the following factors, inter alia, are taken into consideration:

- (1) The relation between supply and demand.
- (2) The costs of production and the reaction of the supply to the fixed prices.
- (3) The mutual relation of agricultural prices and the general level of agricultural prices in relation to other prices.
- (4) The relation between local and world prices.

The relative importance of these factors is determined by the prevailing circumstances.

Where control is instituted over consumer prices, as is the case for bread, butter, cheese and fresh milk, manufacturing and distributive margins are also fixed.

### THE ROLE OF THE NATIONAL MARKETING COUNCIL

The duties, functions and powers of the National Marketing Council are defined in the Act. Briefly the function of the Council in terms of the Act is to institute enquiries and advise the Minister on a wide range of economic and administrative matters concerning the administration of control schemes. The position in this connection is that all the major decisions made by the control boards are subject to the approval of the Minister. These include decisions on matters such as:

- Prohibition of the sale of the product
- Imposition of levies
- Utilisation of funds
- Fixing of prices
- Advance and final payments to producers
- Modification of schemes
- Manufacturing and distributive margins
- Remuneration and conditions of appointment of agents

The Act specifies that all control board decisions, for which the Minister's approval is required, must be submitted to the National Marketing Council, for transmission to the Minister together with its comments and recommendations.

Other functions of the National Marketing Council include advising the control boards on the implementation of control schemes and also the Minister on any matter which he may refer to the board. Many consultations are held with the various sectors of the industries.

One or more members of the National Marketing Council usually attend the control board meetings in which they participate in an advisory capacity, and are usually accompanied by an

official of the Council's Division of Investigations. It is the role of the National Marketing Council to take the official position into consideration regarding the control arrangements as well as the interests of all the sectors concerned with the various measures, in advising the control boards and in its comments and recommendations to the Minister in connection with these control arrangements.

### **THE COMMISSION OF ENQUIRY INTO THE MARKETING ACT**

As is generally known the Commission of Enquiry into the Marketing Act recently undertook an investigation into the workings of the control board system for the marketing of agricultural products in the Republic of South Africa.

The Commission did not find it necessary to recommend extensive changes in the present system and the following quotation out of the Commission's report is informative in this connection:

"Although there are crisis areas which require attention it became clear during the investigation that the control board system has been developed methodically to fit the circumstances and requirements which are peculiar to South African agriculture. The system as it is at present is in the opinion of the Commission practical and purposeful. The stability which it offers to the advantage of both the producer and consumer has made a considerable contribution to the sound and balanced development of agriculture. Circumstances vary from one country to another and consequently also with regard to marketing regulations. On the basis of observations made by the Commission in this connection in overseas countries, the agricultural industry can feel well satisfied with the existing marketing arrangements. The Commission has therefore not found it necessary to recommend sweeping changes in the existing structure of the present system. Nevertheless, as will appear from the Report, the principal aspects which, in its opinion, require urgent attention are:

- Expansion of the Marketing Council;
- modification of the price-forming process;

- adaptation in the application of the registration system;
- reduction in the number of members of control boards; and
- modification of the procedure in appointing members of the boards."

Amendments to the Marketing Act and modifications in the control schemes were necessary to make adjustments in the aforementioned aspects.

The modifications in the application of the system of registration also amount merely to amendments to the respective schemes. The diminution in the size of control boards and the amendment of the procedures in the appointment of board members came into operation on 1 July 1978 when control boards were re-constituted.

Other recommendations of the Commission of Enquiry into the Marketing Act which have already been considered are, among others, the following:

- (1) The institution of central control of the dairy industry.
- (2) The investigation into possible grounds for modifications in the controlled marketing of slaughter stock and meat.
- (3) The possible justification of the incorporation of the Dry Bean Board with the Maize Board.
- (4) The justification, or otherwise, of the single-channel fixed price scheme for the marketing of barley, oats and rye.

### **CONCLUSION**

The control board system for the marketing of agricultural products in the Republic of South Africa has become an integral part of our economic system. It places a heavy responsibility on the respective control boards and the Government - more specifically on the Minister of Agriculture, the Department of Agricultural Economics and Marketing and the National Marketing Council. In the application of the control measures, continual vigilance is exercised as to whether economic principles, the overall economic policy and the interests of all parties concerned are duly considered.