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MARKET REFORM IN THE RED MEAT INDUSTRY

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Uittreksel

Markhervorming in die rooivleisbedryf

Markhervorming in die rooivleisbedryf word genoodsaak deur die mislukking van beheerde bemaking en die onvermoë om die bestaande doelwitte te bereik. Hervorming moet baseer word op 'n geheel benadering aangesien selektiewe deregulering beskerming van sekere groepe en die gekonsentreerde markstruktuur mag bevorder. Die motiewe vir, en metodes van, markhervorming is belangrik. Hierdie artikel evalueer die proses van markhervorming in die rooivleisbedryf en bied ook alternatiewe voorstelle. Die huidige gekonsentreerde- en vertikaal geïntegreerde markstruktuur moet in ag geneem word met die privatisering van ABACOR. 'n Geprivatiseerde ABACOR moet nie regulatories beskerm word nie, maar gepasde regulering vir verbruikersbeskerming en etiese besigheidspraktyke is noodsaaklik. Die toekomstige rol van die Vleisraad in 'n gedereguleerde rooivleisbedryf behels die afwesigheid van spesifieke groepsverteenvoording of regulatoriese beheer funksies. Gradering en higiëne standaarde moet ontkoppel word van beheer, nie aangewend word om marktoegang te beperk nie en moet baseer wees op vrywillige deelname. Voorwaardse kontrakte en 'n termynmark is moontlikhede wat in 'n hervormende mark oorweeg kan word. Markinligting is egter 'n funksie van die staat. Suksesvolle markhervorming impliseer die afwesigheid van beperkende regulasies, bevordering van mededinging en prestasie-meting aan die bevrediging van verbruikersbehoefes.

Abstract

Failure of controlled marketing and non-attainment of its goals necessitates market reform. It should be based on a holistic approach rather than selective deregulation that may enhance the protection of some groups and the concentrated market structure. Central considerations are motives for, and methods of, market reform. This paper evaluates privatisation and deregulation in the red meat industry and proposes alternatives. The current concentrated and vertically integrated market structure should be considered during the deregulation and the privatisation of ABACOR. A privatised ABACOR should be decoupled from regulatory protection, while appropriate regulation should secure consumer protection and fair business practices. A future role of the Meat Board in a deregulated red meat industry implies the absence of regulatory powers or group representation. Grading and hygiene standards should be decoupled from regulatory restrictions, should not be used to restrict entry into any marketing stage, be voluntary and based on free choice. Forward contracting and a futures market are possibilities in a reformed market, while market information services should be a function of the state. Successful market reform implies the absence of restrictive regulations, the promotion of competition, and performance judgement on the basis of consumer satisfaction.

1. Introduction

The Red Meat Scheme is currently in a process of change, which includes probable deregulation and privatisation of ABACOR. Uncertainty, however, prevails about the nature of and extent of this market reform, its effects on different groups and possible benefits that may arise therefrom. Discontent with the present system exists among various groups including producers, consumers and traders (Elliott, 1986; Sunnyside Group, 1991), while probable changes are met with fears, anticipation and even resistance.

Market reform in the red meat industry should be approached holistically rather than partially or with selective deregulation. A partial or selective approach may only result in a change to other restrictive regulations or in a horizontal shift of regulating powers to other related institutions. It necessitates recognition of the regulating process, the effects of controlled marketing, the market

structure and the dispersion of benefits and burdens among various groups in the red meat industry. Some of these aspects may either constrain market reform concerning the ability of some groups to adjust, or it may enhance the negative effects and inflexibilities which result from controlled marketing. Some regulations have been relaxed since 1987 and followed by subsequent partial, but insufficient, deregulation. Alternative proposals should be based on the marketing system itself, rather than on criticism of the Meat Board that administers the Meat Scheme. This calls for an objective outlook, both from outside and from within the red meat industry. Deviations from the original system are presently regarded as indications of controlled marketing failure from outside the meat industry, but as a partial adjustment to a more market orientated system by politicians and regulators. These deviations and alternative proposals for market reform should be evaluated against the objectives of reform and against probable strengthening of the present concentrated market structure.

2. Reasons for privatisation and deregulation

Privatisation, deregulation or market liberalization, in an effort to restore economic efficiency, vitality and growth of stagnated economies, is a world-wide trend. It followed the recognition that government intervention and control of markets and production failed to promote growth and efficiency. Economic control resulted in inflation, unemployment, continued recessions and unaffordable fiscal burdens. During the 1970's Britain led the way by privatising large government owned corporations (Davis, 1991), rural poverty and political threats necessitated economic reform in China (The Economist, 1989), while internal political change in Eastern Europe and the failure of centrally planned systems also resulted in economic reform. The political change in South Africa, pressured by the failure of political and economic policies and by international economic sanctions, resulted in a need for economic reform, incorporating market reform in agriculture. Aspects which support the need for this reform include the prolonged drought conditions, sluggish or negative economic growth since the early 1980's, rising unemployment, high inflation rates, disinvestment by international concerns and the growing debt of the agricultural sector.

The Meat Scheme failed to adjust to changes in controlled markets. These changes include an accelerated urbanization process, changes in consumer preferences, buying behaviour and incomes and a change in the population composition of urban markets. Simkins (1991) estimated that more than 80% of the total population in South Africa was urbanised in 1990 (about 90% whites and about 62% blacks). It is estimated that about 15% of the total population is white and 75% is black. In 1985 about 71% of the expenditure on food was in the metropolitan areas, but whites' expenditure on meat declined while those of blacks' increased (Martins, 1989). The *per capita* consumption of red meat declined from 27,4 kg in 1976 to only 23,04 kg in 1989 (Abstract of Agricultural Statistics, 1991). The propensity to consume larger volumes of red meat was restrained by the inability of controlled marketing to supply adequate quantities of red meat, an increase in the supply of higher priced (high grades) red meat from feedlots, the oligopolistic market structure and restrictive regulations such as supply control and restrictive registration (Lubbe, 1991). Inadequate controlled abattoir capacity (and/or utilization) resulted in exemption to Class 2 abattoirs to supply meat to the controlled markets, but this evidently favoured the concentrated market structure and failed to increase or to promote affordable red meat (prices actually increased) to lower income groups. Increased preferential quotas of feedlots (from 35% to more than 50% of total supply) also failed in this respect, while barriers to entry into the abattoir industry, in the form of hygiene regulations, prohibited market expansion. Abolition of restrictive registration of the trade, since 1990, failed to reduce consumer prices or increase the producers' share in consumer's expenditure as a result of the already monopolised trade. It is thus possible that controlled marketing in itself failed while selective deviation from its regulations strengthened the concentrated market structure, increased consumer prices and enhanced market distortions.

Reasons pertaining specifically to the red meat industry include the following (Lubbe 1992a; 1992b):

- (a) The failure of controlled marketing of red meat to attain its goals, protect the producer and

simultaneously promote the consumption of red meat.

- (b) Pressure by interest groups who were excluded from the benefits of controlled marketing and dissatisfaction with the present marketing system, as indicated by a long history of enquiries into the red meat marketing system.
- (c) The levels of protection, concentration and vertical integration in the red meat industry which resulted in a preferential controlled market for red meat that contributed to the decline in the *per capita* consumption of red meat.
- (d) Pressure from consumer groups who face high red meat prices.
- (e) The inflexibility of the present marketing system which exacerbated the inflexibility of livestock production and enlarged producers' exposure to risks.
- (f) Inability of the system to stabilise producer prices and incomes or reduce price uncertainty.
- (g) An increased emphasis on agricultural development and emerging small farmers as well as equity and equal consumption opportunities.

3. Motives for privatisation and deregulation

Motives for a market reform depend on each participating groups' position in the marketing system. Those who benefit most through vested interests, the concentrated market structure or statutory power will probably resist market reform, or press for limited reform to secure their interests. From the consumers' viewpoint free choice, the availability and affordability of red meat and food security are important, while those being discriminated against would probably lobby for an equal competitive basis and request termination of any favoured group's statutory protection. From an economic viewpoint several reasons, pertaining to economic theory, economic ethics, value judgements, the agricultural marketing environment and agricultural competitiveness, were put forward (Groenewald and Nieuwoudt, 1979; Groenewald, 1990; Haasbroek, 1990; Groenewald and Kassier, 1991). Producers' motives may include free choice concerning participation in any scheme or protection; non-distorted price signals to adjust production to demand and production risks; free choice concerning alternative distribution channels; expansion of the market for red meat to secure market access; stabilization of incomes rather than prices and a reduced exposure to risks in relation to marketing and managerial efforts.

The generation process of regulation in the political choice arena is important. Protective regulation for some groups is the result of pressure group lobbying. Small interest groups obtain protection and the blessing to regulate themselves. The larger group, who resists this behaviour, is relatively unorganised and poor, with the result that the costs of resistance would be more than individual gains. Boulding (1973) described the resultant effect as the law of "political irony", which states that the beneficiaries or a particular policy are rarely those who pressed for it, while those injured by this policy are seldom those who opposed it. Controlled marketing of red meat was lobbied for by the producers, the main beneficiaries are the trade and in particular the large vertically integrated organizations (Big Three), while the disadvantaged are the consumers and in particular the poorer black urban consumers. The justification for self regulation by a small group is that it is assumed (or

propagated) to be of universal benefit (or protection) to the consumer, while in reality it is egotistical in nature and harmful to the consumer through high prices.

Market reform from the state's viewpoint concerns a payoff between viable political and economic choices, such as to please as many groups as possible without losing invested state funds. Probable motives for privatisation of ABACOR and other services from the governmental viewpoint may include a reduction of the fiscal burden pertaining to state enterprises and alleviation of state responsibility in providing certain products or services. This implies that fiscal transfers to these enterprises would be eliminated or largely reduced as these enterprises will react to market forces setting marginal costs equal to marginal incomes for optimal production. The burden of operating costs (mainly salaries) will be placed on the enterprises themselves. Factors which influence the viability of these enterprises may include the level of protection still enjoyed by these enterprises, the level of accompanied deregulation (Davis, 1991), their ability to compete in an open market environment, the market structure (if these enterprises are monopolies), the elasticity of demand for the products and services, and the nature of the product or service. Government motives for deregulation may be more complex in nature. These motives may include alleviation of maintenance costs of the regulations (enforcement, salaries, prosecution) or reducing the possibilities of bribery and corruption (Gardener, 1981). Motives to satisfying pressure groups, eliminate state responsibilities, disperse statutory or economic powers, increase economic and marketing efficiency or to maintain the same level of protection (concealed with a different set of regulations) may also apply.

4. Approaches to and methods of market reform

Market reform should address the aspects of equity and equality, but at the same time also claim a Pareto optimum (Van Rooyen, *et al.*, 1990). This implies that prosperity gains should be attained without affecting the current position of any group adversely. The effects of controlled marketing of red meat exhibit such possibilities. If for example deregulation resulted in a decrease of consumer prices, the increase in consumption will percentage wise be larger than the decrease in prices since the demand for red meat is relatively elastic (Uys, 1986). This should increase the producer's turnover and his total income. The translation of individual preferences to an overall social ordering is however problematic, because no general social welfare function can satisfy all the conditions. The chosen approach should be holistic, taking into account marketing functions, marketing institutions, marketing structure and stages, alternative decoupled agricultural support, socio-economic aspects, economic aspects and international trade.

Methods currently employed in market reform are privatisation and deregulation. Two sets of proposals concerning the Meat Scheme were put forward. The Sunnyside Group (1991) suggested deregulation and voluntary participation for producers in the Meat Scheme, while the Meat Board's proposal indicates privatisation of ABACOR and selective deregulation. Hanke (1987) defined privatisation as the transfer of assets from public to private ownership, but it is argued that privatisation may also incorporate the transfer of responsibilities or rights to produce or perform services. One of the biggest pitfalls is the transfer of a state monopoly to a private monopoly. In this case no

progress will be made in the sense of effectiveness, equitability or efficiency. (Groenewald, 1990). There are two types of governmental involvements that can be privatized namely independent institutions (ABACOR) and services provided by the Meat Board or on behalf of government or the Meat Board. If the ABACOR abattoirs cannot survive in a competitive environment, there is no need to privatise them as abattoirs. The properties can be sold for other purposes. An important aspect concerning the method of privatisation is the level of deregulation involved. Current proposals on the privatisation of ABACOR suggest a move to a private regulated institution. Such a move may however be insufficient to eliminate the current problems and negative effects of controlled marketing as it would imply a horizontal shift in regulations rather than proper deregulation. It is also important to prevent any individual or group of organizations to obtain the controlling share in ABACOR.

Deregulation is the removal or altering of restrictive and/or unnecessary regulations. Davis (1991) argues that successful deregulation also involves some re-regulation. In the red meat industry, this may imply the removal of preferential protection and of regulatory barriers to entry into or to exit from the industry. Two important aspects should be considered: on the one hand which regulations are necessary and should be kept, and on the other, when is the removal of a certain regulation in public interest? Regulations that should be revoked include those that restrict competition and entry into any marketing stage of red meat marketing, such as controlled areas, the movement of meat, compulsory auctions, compulsory use of agents, restrictive registration of any sort, supply control, price guarantees and the use of hygiene regulations to restrict entry into the slaughtering, processing and trading of red meat. Appropriate re-regulation concerning the following aspects are needed:

- a) Fair business practices including the prohibition of business actions that intentionally deny entry to new entrants or that force the exit of potential competitors.
 - b) Minimum product standards and provision for grading regulations.
 - c) Consumer protection - against ill practices in the markets.
 - e) Minimum but differentiated hygiene standards depending on consumer choice and product origin.
5. Alternative suggestions for privatisation and deregulation

Deregulation of agricultural marketing or control boards would imply the revision or revoking of the Marketing Act. This is a necessary condition for a competitive agricultural sector and proper market reform.

5.1 Privatisation of ABACOR

The most important restriction on privatized ABACOR abattoirs is their location far from production areas. From the farmers' viewpoint, their location in the consumption areas represent increased transportation costs and uncertainty of livestock rejection due to bruising. Transportation costs would motivate farmers to use local markets and abattoirs, should price differentials between metropolitan and local markets be insufficient to at least cancel out such costs and risk differentials. In a meat industry operating under free market principles, farmers, feedlots or other middlemen such as

agents or commodity brokers will use ABACOR abattoirs only if they are economically motivated to do so.

The basic position of these abattoirs will be to either render a slaughtering service (including services such as health inspection and grading) and/or a trading service (carcasses, hides/skins and offal). Their behaviour can be mixed and would depend on their marketing strategies and the market environment. Other functions may include a role as delivery locations for the termination of contracts (between buyers and sellers) and the facilitation of independent carcass auctioning services. These functions would in a free market and non-protected abattoir industry also pertain to other abattoirs. It would depend on the choices of the individual buyers and sellers or on stipulations of the sale. These abattoirs can also act as a cash markets for livestock.

It is generally believed that as a result of their comparative distance disadvantage to abattoirs in the production areas, ABACOR abattoirs cannot survive in a competitive market. The economic viability of these abattoirs will however depend on the costs and quality of their services, their managerial efficiency and marketing strategies. If these abattoirs can operate at relatively low fixed costs, and comparable (or lower) variable costs than other abattoirs they may have a chance of survival. Service excellence and a diverse service mix (which may for instance include exportation) may motivate producers, in particular those (including feedlots) in their vicinity, to use them frequently. It is however believed that their continued survival will depend more on the utilisation of their services by the trade because, being closer to the consumers, these abattoirs enjoy a comparative transportation cost advantage to the trade.

It is irrelevant if ABACOR abattoirs are sold as a unity or as separate units as long as all the restrictions pertaining to entering of abattoirs into the industry (hygiene, grading and establishment) are removed. Conditions such as shares to be dispersed in small quantities over a wide range of possible shareholders, absence of any monopoly powers and that no particular group should be able to gain control of these abattoirs, are also relevant. It is however preferable that these abattoirs should be sold as separate units. Specific restrictions should be placed on the allowed percentages any individual, institution (including its affiliations) or any authority may acquire. The shares should be negotiable (constrained by allowed percentages and a time restriction) while the privatisation and share notation should be performed by independent concerns (merchant banks) from outside government or the red meat industry. If the shares sold by public notation are under subscribed (even at low prices), the state will have to take a capital loss in this privatisation process.

5.2 Grades and the grading function

The present grading system is based on technical aspects and aimed mainly at producer remuneration in accordance with the floor price system (Lubbe, 1991). It is not based on consumer preferences. Price differentials between the different grades mainly result from floor price differentials. Feedlots have benefitted more from the grading system than have individual producers, because feedlots generally produce more expensive grades. The combined supply of feedlots to the controlled markets varies between 50% and 70%. The trade, particularly those with the largest market shares or

preferential registrations, also benefitted from higher consumer prices attached to "superior" grades. It is questionable if significant handling and processing cost differentials exist between various grades. It may therefore be a larger incentive for wholesalers and retailers to supply the high income market segment with more expensive grades than to supply the low income (or poorer) segment with lower grades. Groups who have faced discrimination are individual smaller producers (who generally supply lower grades), the public in general (who are forced to pay a premium for "superior" quality meat) and the poorer market segments (who experienced inadequate access to affordable red meat). Controlled marketing costs such as transportation, agent commission, inspection and grading fees, slaughtering fees, levies etc. do not differentiate between grades, while levies payable on slaughterings in non-controlled areas represent a burden to those with no controlled market access.

Abolition of the present grading system and decoupling of any future grading or classification system from price support, levies, regulations or auctions are suggested. New classification systems for beef, mutton and pork were introduced which will hopefully differentiate between consumer preferences instead of being used to employ regulatory measures. Any alternative system should be based on real meat differences so that consumers can exert real choices. Private grades, brands and identification (eg. grain fed or grass fed beef) can be employed for comparative differentials between individual competitors or competing groups. Basic grades should be national, and subject to statutory authority. Commercial grades would essentially be the same as branding. Official and commercial grades may be used voluntarily by anyone, though the meat of those employing official grades should meet certain standards which, for protection of the consumer, are officially guaranteed. If a limited number of national grades exists, it will protect those consumers who prefer to buy graded meat. Anyone should however also be free to sell non-graded meat and consumers, who prefer to buy this meat, will do so at their own risk.

The function of authorization of official grades is non-profitable and cannot be privatised or deregulated. Such a function will probably have to be implemented by the Department of Agriculture who should also control or guarantee these grades. Financing of the national grading authority should be a function of the treasury.

Apart from cost, location and service differentials, abattoirs may also differentiate according to the implementation of the national and/or private grading services. Producers, wholesalers, retailers or other institutions would thus have a free choice among different types of abattoirs and their services. Grading should, however, not be used as a barrier to entry into the abattoir business or for official or any other registration or ranking of abattoirs. It should be based only on preferences of clients. The benefits of such a system will be free choice for the consumer on whether he prefers graded meat and if so, which grading system. Individual retailers who serve poorer communities may obtain ungraded meat which these consumers can afford, while retailers serving higher income groups may obtain graded (national and private) meat. Such a grading system will not restrict consumption, competition or entry in any marketing stage, and will also provide consumer protection (if he wants it) of meat quality.

5.3 Hygiene, health and inspection services

Two aspects are important: *Firstly*, hygiene regulations that are used as a barrier to entry into the abattoir (and other) red meat marketing stages which limit the quantities of red meat for consumption in the controlled areas (urban black and white market segments). *Secondly*, control over the implementation of hygiene regulations with inspection services.

It is proposed that hygiene regulations be relaxed to only minimum official standards, which should not be restrictive for entering into any marketing stage or restrict private enterprise, but maintained as a contribution towards the national health policy. Hygiene and health related aspects on red meat can be regarded as a national issue in common with other national health issues (eg. malaria or smallpox). These services are thus public (and to some extent private). It is funded through taxation, but involve private burden towards contracting these diseases. It is thus clear that the service and aspects pertaining to health and hygiene in the red meat industry cannot be fully privatised, but an independent authority should still set standards and have effective control. The main requirements are that it should not be used to limit competition, act as protection for some enterprises or pose as barriers of entry into any marketing stage. If fully privatised, the possibilities of corruption, subjectiveness, favouritism, bribery, collusion and increased costs, cannot be excluded.

The alternative to be proposed is that minimum hygiene and sanitary regulations should be based on real issues such as handling of the product, basic sanitary conditions of the environment (and labour) and prevention from transferable diseases rather than on structural requirements (plans, tiles etc.). This would increase the efficiency and effectiveness of any inspection service enormously. Differential standards may apply to different abattoirs or places of slaughtering. Meat from different abattoirs can be differentiated according to different health standards, and an abattoir conforming to a certain level of hygiene inspection may employ "hygiene" related brands. Non-inspected slaughtering sites should be prohibited from using "hygiene" brands. Abattoirs or slaughtering sites can thus be classified according to their level of hygiene inspection (hygiene grading), while these levels would be official "hygiene grades". Although such a system was recently adopted, abattoir regulations still prohibit the free movement of ungraded meat. Hygiene regulations are still being used to inhibit private enterprise and exclude poorer consumers from obtaining affordable red meat. It is suggested that any consumer or other participant can buy or sell meat of any "hygiene" standard from or to whom he likes. This system would not affect the preferences or choices of consumers or any other participant in the red meat industry. Although the dualistic nature of the South African economy has been recognised for some time, regulators, bureaucrats and government officials, by the continued enforcement of first world standards still fail to recognise the differentiated needs of a diverse consumer environment.

5.4 Other regulations

The following regulations serve no real purpose in a market related meat industry and should be revoked:

- (a) Compulsory auctions according to grade and mass. These auctions were centres of artificial price discovery and contributed to the concen-

tration and unequal bases of competition in the red meat industry.

- (b) Compulsory registration of livestock producers and other participants. Membership pertaining to any institution, support program or association (including the RPO) should be voluntary, while non-membership should not be a basis for discrimination.
- (c) Supply control (permits and quotas). Supply control has neither been able to render "fair" and equal market access to all the producers, nor has it been able to alleviate producer's risk exposure to climatological, biological, market access and price variation. The beneficiary of supply control has been the trade who are protected from competition and are relieved from the responsibility to reduce consumer prices during periods of oversupply.
- (d) Differentiation between controlled and non-controlled areas
- (e) Restrictions on the movement of meat and livestock. This restriction caused costs and also contributed to discrimination in the red meat industry; it eventually resulted in a distorted production environment and a distorted consumer environment.
- (f) Restrictive registration of the trade, processors abattoirs etc.
- (g) Compulsory use of agencies or abattoirs by producers
- (h) Compulsory levies paid by the producers and the trade.

6. Scenarios for the Meat Board

Several alternatives exist concerning the future structure and role of the Meat Board in a privatized and deregulated red meat industry. It is assumed that deregulation would imply stripping the Meat Board of its regulative powers. Two aspects are important namely: the present assets of the Meat Board (buildings, equipment, employees and expertise) and the generic services presently performed by the Meat Board (eg. statistical services, product research and promotion, market research, consumer training, market information services, producer advisory services, etc.). The stabilization funds, which presumably belong to the producers also pose a problem. Several alternatives may be proposed, but control functions and generic services cannot be privatised. In a fully deregulated red meat industry, representation of the different participants on a control board would serve no purpose; this implies that the Board would be dissolved in its present form and the Meat Board institution would be nothing more than a government agency. Several possibilities may be evaluated. These possibilities are similar in the sense that the management control (board of directors) should be independent and not related to any power or particular group within the red meat industry.

A possibility is that the Meat Board become a fully fledged agency or institution of government. This agency may represent the hygiene and grading authorities. It may also perform generic marketing functions to the advantage of the red meat industry and possibly be involved in government support programs for the livestock industry. Financing would be a function of the treasury, while the accrued stabilization funds and assets may be used for these functions.

A second possibility is that the Meat Board become an independent agency involved in the establishment and

operation of a voluntary actuarial price guarantee scheme in the nature of insurance, and/or a livestock futures market. The assets and stabilization funds would then be employed for this purpose.

A third possibility involves the deregulation of all the marketing control boards. These boards can then be combined into one governmental agency which conducts research on social, technical and economic aspects in agriculture as well as providing market and policy information services. This implies something similar to the Economic Research Services (ERS) agency of the Department of Agriculture in the United States of America.

A fourth possibility would be to dissolve the Meat Board completely and sell its assets or to privatise it into a commercial operation by sale. In the latter case, no statutory or regulative powers, nor any responsibility to conduct any generic services will be retained. It will have to operate as a normal commercial undertaking competing with other organizations in the red meat industry.

7. Alternative suggestions for marketing functions and related aspects

Technical aspects pertaining to marketing functions such as electronic marketing, market information and the exchange system are sometimes confused with the nature of the marketing system, while variations thereof are applied to justify a certain system. Marketing function alternatives may exist under different marketing systems; electronic marketing can, for example, be used both in controlled marketing and in a free marketing system, while more than one marketing function alternative may exist in the same marketing system. It is not the nature of the functions that determine the marketing system, but it is the level of competition, market structure, level of free choice and the regulative environment. An alternative marketing function may improve the efficiency of that function in a certain marketing stage but may at the same time bear little relation towards the overall effectiveness of the marketing system.

7.1 Price discovery and method of trading

Compulsory auctions at controlled abattoirs are currently the primary price discovery mechanism. Several systems of exchange or trade, which will influence the price discovery process on farm level are possible. In a free market system, the price discovery process is supply and demand which is influenced in the short term by the mobility of the factors and by access to different exchange possibilities. The price discovery process should not distort price signals, but is influenced by the relative inflexibility of the livestock production process, the trade and consumption (Tomek and Robinson, 1983). Alternative systems may take the form of auctions (livestock, carcasses or meat) by independent firms, individual negotiation, contracts or a contract exchange (such as a futures markets). The seasonal and cyclical price variations in the red meat industry make future contracts an attractive possibility to reduce risk and price uncertainty, stabilise prices and increase market access (Leuthold *et al.*, 1989). Branson and Norvell (1983) and Tomek and Robinson (1983) suggested several types of contracts such as forward contracting, fixed price contracts, fixed delivery contracts and futures contracts. Such contracts will enable producers and traders to hedge against both expected and unexpected price changes and variability in production and thus reduce their price and

income risks. Speculation in contracts and futures contracts effectively stabilize prices and reduce risks by spreading price risks amongst many participants. There is no real justification for the argument that a representative price should exist for the livestock industry. Prices should vary according to quality, quantity, time, place, price expectations and market anticipations (Tomek and Robinson, 1983). Alternatives such as electronic marketing and futures markets were investigated by Elliott (1986). According to him the major advantages of futures markets are better coordination between producer expectations and plans as well as risk dispersion, while the disadvantages pertain to reluctance of farmers to take part due to time and knowledge constraints. The advantages for electronic marketing consist of improved market information and efficiency, higher prices, increased competition, improved market access and reduced livestock handling. The disadvantages consist mainly of buyer domination, description of products and electronic problems. These views are similar to those of Makus *et al.* (1984) who evaluated electronic marketing of grains in the USA.

7.2 Price support and price uncertainty

Some producers maintain that price support is to the benefit of the producer and they are not willing to incorporate this aspect in a deregulation process (Landbou Weekblad, 1988 to 1991). The Sunnyside Group (1991) proposals suggest a free choice for producers to participate in such schemes. Various alternatives of price support were suggested by the Meat Board and others (Leo-Smith, 1985). These alternatives range from an insurance based system to deficiency payments. The main concern of farmers is probably price uncertainty in the event of prices falling to very low levels.

An alternative suggestion is the use of contracts (forward contracts) to secure price levels for producers who choose to participate in such a scheme. The securing agency can sell these forward contracts to producers at fixed (or relative) prices to be terminated in times when prices are expected to fall to low levels. The delivering point could be any abattoir or other agency selected by the price securing institution. Upon termination these animals can be sold, slaughtered or exported. There are two important aspects governing this possibility namely, financing of the scheme and the price levels for these contracts. The simplest financing procedure would be a premium payable when buying the contract (the levy concept) and a premium payable to transfer the contract from one period to another (assuming contracts run for a year or less). Differential premiums may exist for different termination months, animal types, qualities etc.. Premiums should be attached to the price level selected and be non-repayable. These premiums can then be used to establish a mutual fund, while prices received for reselling these contract animals above the guaranteed price will automatically increase this fund. Administrative and processing costs would also be financed by this source in the form of a mutual insurance scheme (actuarial determined). Another source of finance would be the treasury. If these contracts are negotiable (re-saleable), their prices would tend to be market orientated, but the initial price levels will still depend on the same expertise and anticipation presently used by the Meat Board to determine floor prices. A necessity is that the agency who initially sells these contracts should be objective and independent. The establishment of a futures market would aid in pricing of these contracts and may to some extent replace the need for such contracts.

7.3 Market information services and other functions

Price reporting poses a problem in the deregulated industry because prices and other market information may not be as readily available as presently for the controlled markets. Alternative suggestions include that market and price information should continue to be a function of the Meat Board, which is well equipped to render such a service. If so, the supply of information to the Board could be mandatory for abattoirs and institutions exceeding a certain capacity or turnover. It could also be done by independent agencies. Both may in fact exist in any marketing system. Strydom, (1990) suggests that dissemination of information which could effectively support markets may justify a case for government intervention. The problems concerning market information include the inability to obtain information in a free market without formal registration of the participants and the non-compulsory burden on enterprises to supply this information. Remedies suggested such as informal but non-restrictive registration or legislation to enforce the supply of information are, however, not feasible and do not conform to free market principles.

Information is an asset to any individual or business enterprise. Information to consumers will be supplied free of charge or at a cost (in the form of brand or business advertising) if the potential returns (through increased sales) can be realised at a profit. It can also be argued that two types of information are needed namely; information that affects the general efficiency of the economy and the markets (state information) and information for business purposes to increase profitability (commercial information). Public information should be financed by the treasury while commercial information should be paid for by the receiver (under the assumption that state information is mainly used for policy considerations). Generic information pertaining to the meat industry specifically, should be financed by the industry or treasury in the form levies or taxes. There are suggestions that levies be imposed on the producers and the trade to finance the information as well as other generic functions. This too may hardly be a feasible solution because there would be no control pertaining to the levies, while the free-rider problem (Friedman & Friedman, 1983) is a major concern regarding these aspects.

8. Conclusion

A freer market or market related red meat industry cannot be created by selective or partial deregulation. A completely deregulated industry with only appropriate and necessary regulations will not distort the market if unrestricted entry, free choice and competition are guaranteed. There are many possibilities for privatisation and deregulation, but a careful investigation should be conducted and all possible alternatives should be evaluated before commencing with privatisation and/or deregulation. Alternatives put forward are only suggestions and certainly do not exhaust the possibilities. Extreme solutions are not preferable to compromises but set the limits what to aim for and what to avoid. Deregulation can be phased in gradually subject to defined time scales, starting with the most inflexible parameters and participants of the industry, but the feasibility and continued implementation of such an approach is a concern. The magnitude of the present concentration and vertical integration in the red meat industry pose problems in the market reform process and may result in

increased monopolisation if deregulation is not done wisely. If unrestricted entry into and exit from the industry is guaranteed, however, large organizations will not limit the level of competition, but may introduce superior technology which should stimulate a progressive approach in the industry. No fixed nor any ideal marketing system can be designed for the red meat industry. But, however, favourable conditions can be created for a system to develop naturally. Such a system would suit South African farming conditions and the South African economy under a new political dispensation.

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