Agrekon

VOL. 4 No. 4 OCTOBER 1965

REQUIREMENTS FOR CONTRIBUTIONS

Articles in the field of agricultural economics, suitable for publication in the journal, will be welcomed.

Articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. Contributions, in the language preferred by the writer, should be submitted in triplicate to the Editor, c.o. Department of Agricultural Economics and Marketing, Pretoria, and should reach him at least one month prior to date of publication.

The Journal is obtainable from the distributors: "Agrekon", Private Bag 144, Pretoria.

The price is 20 cents per copy or 80 cents per annum, post free.

The dates of publication are January, April, July and October.

"Agrekon" is also published in Afrikaans.

Contents

The Registration of the Wheat Board for the Baking Industry

Report of the National Marketing Council
compiled September 1963

Since 1941 it has been compulsory for all bakers, confectioners and other persons who manufacture or use in manufacture a wheaten product, except for home use by themselves or members of their families, to apply to the Wheat Board for registration. Such persons are registered in respect of a specific bakery with a specific oven capacity. Registration takes place annually and no transfer of a bakery or increase in capacity is permitted without the consent of the Board.

At the time when registration was introduced, the general opinion was that there were too many units and excessive baking capacity. The result was unduly severe competition, which not only raised costs, but also led to various malpractices such as short weight, a black market in yeast, price cutting and bread of poor quality (Report No. 255 of the Board of Trade and Industries). The aim of the Board in restricting registration was to rationalise the industry in order to promote greater efficiency, better working conditions and service to the public, and a reduction in production and distribution costs. It was hoped that the protection afforded by registration would encourage bakers to buy out some of the less efficient units and to transfer the oven capacity and sales to existing, more efficient bakeries, and that the consequent better utilisation of capacity would result in a lowering of the production costs of bread.

Practically without exception bakers of bread also manufacture confectionery, and confectionery bears to a greater or lesser extent, depending on the quantities produced a part of certain expenditure such as constant and delivery costs. Taking this into account and since certain bread ovens are also used for the baking of confectionery, the Board regards it as essential that the number of confectioners, and their oven capacity, should also be limited.

Because the nine urban centres, in particular, initially had excessive oven capacity, the Wheat Board, as a rule, refused all new applications for registration and for the enlargement of ovens, but not applications to amalgamate or to modernise bakeries within the existing limits of oven capacity. Exceptions were, however, made, and at the moment registration is freely granted to manufacturers of rusks, macaroni, baby foods and breakfast foods, as well as to housewives who wish to bake confectionery to order. Since 1950/51, tearooms have also been freely registered to bake confectionery for use on the premises, or for sale over the counter, in ovens of the kind which are normally used in tearooms. For fear that the turnover of tearooms would increase too much, and in consideration of the damage this could do to the interests of ordinary bread and confectionery bakers, tearooms are not allowed to install ovens specially intended for confectionery, or to deliver confectionery. While strict control is exercised over the number and capacity of bakers and confectioners, the manufacture of special types of confectionery is occasionally allowed. Also, the utilisation of capacity in the nine urban areas (Table 1) has, since the institution of restrictive registration, already increased to such an extent that, with the exception of the Witwatersrand and Pietermaritzburg, increases in capacity for the baking of bread and confectionery could be granted.

It is remarkable that in the case of the Witwatersrand, Cape Town, Durban

TABLE 1. - Capacity* available for the baking of bread and confectionary in each of the nine urban areas (capacity solely for the baking of confectionary, excluded)

Centre	Capacity in use		Capacity in reserve **	Total capacity registered 1961/62	Increase(+) Decrease(-)
	1,000 lb. of bread per month				
Witwatersrand	68,582	56,151	12,196	68,347	(-) 235
Cape Town	28,964	27,222	7,644	34,866	(+) 5,902
Durban	16,244	15,143	2,666	17,809	(+) 1,565
Port Elizabeth	6,129	6,817	331	7,148	(+) 1,019
Bloemfontein	3,371	4,095	527	4,622	(+) 1,251
Kimberley	2,911	4,266	1,902	6,168	(+) 3,257
East London	2,925	4,167	1,406	5,573	(+) 2,648
Pietermaritzburg	5,586	5,186	273	5,459	(-) 127
Pretoria	13,767	14,547	3,402	17,949	(+) 4,182

* Calculated at 3 shifts a day, 25 days a month.

** Where a bakery is bought out and closed down, the oven space may be held in reserve. The Wheat Board recognises such capacity, and any existing business, which wishes to expand, may make use of its own reserve capacity, or buy some of the capacity held in reserve by the Association of Master Bakers at R20 a sq. ft. - in both cases only with the approval of the Board.

and Pietermaritzburg the capacity at present in use for the manufacture of bread and confectionery, is less than in 1941/42, while there has only been a slight increase at the other centres. Although it is not possible to determine what the position would have been without restrictive registration, it would seem as if this phenomenon can be ascribed, for the most part, to the restrictive registration policy of the Board which encouraged the amalgamation of bakeries, and, as shown in Table 2, resulted in a considerable reduction in the number of units which baked bread and confectionery.

While the number of units has been considerably reduced (except in the case of tearooms) and the capacity which is used for the baking of bread and confectionery has changed very little, the production of bread in the nine urban centres has increased from 351 million lb. in 1950/51 to 755 million lb. in 1961/62. Accordingly, the degree of utilisation of the available capacity has increased notably. See Table 3.

In practice some of the ovens are also used for the baking of confectionery, and thus the capacity is utilised to a greater degree than is indicated in Table 3. Apart from this it is notable that, with the exception of Kimberley, the bakers in all the other centres need at least a full shift per day for the baking of bread - even if the capacity held in reserve at the moment should also be allocated.

TABLE 2. - Bakeries registered

	Bread and confectionary		Confectionary		Tearooms	
	1.10.41	31.10.62	1.10 41	31.10 62	1.10 41	31 10.62
Witwatersrand	78	42	62	42	76	67
Cape Town	48	16	15	18	51	101
Durban	16	7	14	18	43	51
Port Elizabeth	10	4	10	8	15	12
Bloemfontein	6	3	6	3	6	17
Kimberley	7	4	2	1	3	2
East London	8	5	1	3	5	15
Pietermaritzburg	10	3	2	4	3	9
Pretoria	17	8	10	6	17	26
Sub-total	200	92	122	103	219	300
Rest of the Republic	463	372	6	37	83	248
Total	663	464	128	140	302	548

TABLE 3. - Percentage capacity used, expressed in terms of bread manufactured - capacity calculated on the basis of 1 shift of eight hours a day for 25 working days a month

Centre	1941/42	1961/62	
	Percentage of registered capacity used	Percentage of installed capacity used	Percentage of installed plus reserve capacity used
Witwatersrand	51.0	129.1	106.1
Cape Town	56.7	144.2	112.6
Durban	78.3	187.3	159.2
Port Elizabeth	56.7	158.5	151.1
Bloemfontein	51.3	111.9	99.1
Kimberley	70.2	79.5	55.0
East London	64.2	127.8	95.6
Pietermaritzburg	48.0	133.7	127.1
Pretoria	92.4	121.4	98.4

TABLE 4. - Total production by large bakery units

Centre	Total number of bakers	Large baking units		
		Total	Percentage of registered capacity	Percentage of total quantity of bread manufactured
Witwatersrand	48	3	24.9	39.2
Cape Town	17	3	54.3	68.5
Durban	8	3	73.2	85.8
Port Elizabeth	4	2	85.8	90.0
Bloemfontein	3	2	81.8	86.0
Kimberley	4	2	80.3	87.8
East London	5	3	97.4	95.9
Pietersburg	3	2	87.1	89.7
Pretoria	10	3	69.1	75.1

TABLE 5. - Share of bakery interests in production of bread

Centre	Number of interest groups	Number of baking units concerned	Percentage of total quantity of bread produced (mine bakeries excluded)
Witwatersrand	2	18	77
Pretoria	2	5	92
Durban	2	4	91
Cape Town	3	6	79

The buying out and amalgamation of bakeries have, however, progressed to such an extent, that the danger of monopolies being created cannot be excluded. Table 4 gives the part of the total production which is supplied by the largest baking units in the various urban areas.

During the past number of years mills have bought shares in large bakeries, or bought them out wholly or partly, while some of the bakeries on the Witwatersrand belong to the mines and do not really compete in the trade. If the mine bakeries are excluded, the extent to which the baking industry is dominated by a few organisations, is seen to be even more serious.

A typical example is found in the case of the Witwatersrand, where the bakeries of three millers' groups manufacture 77 per cent of the total quantity of bread in the area. Two of these millers' groups have transferred their interests in bakeries to a central controlling company,

TABLE 6. - Capacity and cost of production

Capacity group, 1,000 lb of bread per month (1 shift)	Number of bakeries		Percentage of capacity utilised		Average production cost (delivery and administrative costs excluded) c per loaf		Total average cost - including administrative and delivery costs c per loaf	
	1955	1959	1955	1959	1955	1959	1955	1959
More than 1,000	7	12	158	182	1.0340	1.0822	2.4857	2.4831
400 - 999	21	17	130	151	.9377	.9377	2.1479	2.3841
Less than 400	27	8	141	100	.8669	1.0707	1.9444	2.3713

TABLE 7. - Cost per 2 lb. loaf

	Cost c per 2 lb. loaf	Percentage
Production costs		
Salaries and wages	.4263	32
Ovens and equipment	.2705	21
Other	.3365	26
Sub-total	1.0333	79
Administrative costs		
Salaries	.1813	14
Other	.0858	7
Sub-total	.2671	21
Production and administrative costs	1.3004	100
Delivery costs		
Salaries and wages	.5510	
Vehicle costs	.4393	
Other	.1349	
Sub-total	1.1252	
Grand total	2.4256	

so that essentially, only two groups of interests supply the quoted percentage of the total bread production.(See Table 5.)

Almost 80-90 per cent of the production in each area is thus at present controlled by, at the most, two or three organisations. Although this probably facilitates the application of the Board's regulations and its central over the industry, the forming of monopolies in this way (and, what is more, with the help of statutory powers) can hardly be justified, especially as it is doubted whether such an enlargement of baking units will result in a saving in costs. No definite relationship could be found between the percentage capacity utilised and the unit cost, or between the turnover and the unit cost of the bakeries which were covered by a cost survey in 1959/60. This absence of a clear relation between turnover and cost is reflected in the data on costs for later years too.

According to the grouping of the costs (Table 6) of the various bakeries covered by the cost surveys in 1955 and 1959, the larger bakeries, although their capacity is better utilised, produced bread at a slightly higher average cost per unit than the smaller bakeries, the capacity of which is not equally well utilised.

According as a bakery increases its turnover, or its capacity is better utilised, there should normally be certain savings. The absence of a visible relationship in the existing cost data, between turnover and unit cost, or between capacity utilised and unit cost, is therefore striking - especially if it is taken into account here that the larger bakeries in general utilise their capacity more efficiently. It can thus be deduced that the savings which may exist are not too important, and that they are offset in practice by other cost factors. As indicated in Table 7, the costs which can be ascribed to oven capacity and equipment represent only a relatively small percentage of the total costs, and the efficient utilisation of e.g. labour and the other factors are just as important if not more so in determining the production costs of bread, as the degree to which the ovens are utilised.

It is thus difficult to determine to what extent the restriction of admission has reduced distribution costs. It is not known what the trend of delivery and other distribution costs would have been, had admission to the industry not been restricted. Delivery, however, is still an important cost factor for both large and small bakeries. Moreover, it is known that extensive criss-cross delivery of bread and delivery over long distances take place at present.

Under the restrictive registration policy of the Wheat Board other practices have also developed, some of which are not beneficial to the baking industry, for instance the following:

(a) Existing bakeries were assured a very high goodwill.

(b) Cases are known where millers, in order to ensure regular sales channels for their flour, have during the past few years bought bakeries or interests in bakeries at prices which seem excessive. It is to be doubted whether these transactions, which could easily result in overcapitalisation, would have taken place to the same extent if admission to the industry had not been limited by the Board's registration policy.

(c) Existing bakeries who wish to expand, but do not have reserve capacity, have to buy reserve capacity from the Association of Master Bakers at R20 a sq. ft. The result of this is an artificial raising of the cost structure.

(d) In some urban areas there is such close co-operation amongst bakeries that they subject themselves to production quotas. The production of each participant is checked each month by the bakers' association of the area, and they are fined according to a fixed rate if they exceed the quotas. These fines are then distributed amongst participants who produced less than their quotas. The question is whether a quota system such as this will ensure high quality and efficient service. The registration policy has already eliminated a certain amount of competition, and these quota systems can only result in further breaking down of the measure of competition still remaining.

VIEWS OF THE MARKETING COUNCIL

Any restriction of registration deprives the individual of the right to choose for himself the career he wishes to follow, and thus amounts to discrimination. It also gives rise to numerous problems in the consideration of applications, when it has to be decided which of a number of applicants will be allowed to establish a bakery and which not.

In practice a restrictive registration policy protects the interests of existing bakeries, and this can lead to a weakening of the competitive urge for efficiency. The concentration of bakeries in the hands of a few interest groups, which are so strong and closely connected with each other that they are, in certain respects, difficult to control, certainly create disadvantages which cannot be ignored.

Restricting admission to any industry can be justified only in exceptional cases, and then only if the benefits which arise from it are considerably more than the disadvantages which it brings. The Marketing Council concedes that the reduction in the number of units in the industry facilitates the application of the regulations of the Control Board. On the grounds of available information, however, it is clear that the savings in costs and other possible advantages which are expected to arise from it, are not so important that they can effectively compensate for the disadvantages set out above.

The Marketing Council therefore considers that the Wheat Board should revise its restrictive registration policy, with a view to relaxing it. The following possibilities may be considered:

(a) While admission to the industry is restricted, the question also arises whether control over capacity has any advantage. Each individual is in the best position to judge his own affairs, and it can hardly be accepted that an entrepreneur would install additional capacity without taking into account the economic implications involved. In practice, the limiting of capacity places a financial burden on the industry to the same extent to which capacity must be bought at prices which can only raise the cost structure. The Marketing Council doubts the value of the limit which is set to the enlargement of capacity. It is of the opinion that the Wheat Board should consider the complete abolition of control over capacity.

(b) As far as the registration restricting the baking of confectionery is concerned, the argument is used that most commercial bakers manufacture both bread and confectionery and that often the same ovens and usually the same premises are used. If, therefore, a baker of both confectionery and bread should be free to enlarge his oven capacity for confectionery, it will be impossible, so it is alleged, to control the oven capacity for bread.

It is difficult to determine to what extent the restrictive registration and the influence which it has on the confectionery turnover of the bakers bring about a lowering in the unit cost of bread. Most of the large bakeries today have their confectionery department separate from the bread department. Normally, however, a part of the total administrative, delivery and other costs is allocated to confectionery. Even if the restrictive registration on confectionery is abolished, this will still be the case, and unless the turnover of commercial bakers in confectionery decreases as a result of such action, it should not have much influence on the unit cost of bread. Also, it is doubted whether the commercial confectioner's turnover in confectionery will show a significant decrease if control over confectionery is abolished. It is true that, if the existing restrictions are relaxed, it will not increase to the same extent in future, but ultimately the commercial confectioner should be able to retain his just share of the market. Confectionery is a speciality article, in respect of which the consumer enjoys no price protection.

The Marketing Council therefore considers that the Wheat Board should consider the total abolition of restrictions on the registration of confectioners.

(c) As far as the baking of bread is concerned, the Marketing Council is of the opinion that a measure of relaxation of the restrictions at present applicable to new entrants is justified.

As a step in this direction, it suggests that the free registration of concerns wishing to undertake the baking of bread and confectionery for sale over the counter only, should be considered.

Note

After considering the National Marketing Council's report, the Wheat Board decided in September 1964 to be more lenient in connection with the registration of confectioners who sell only on their own premises directly to consumers. Permission to deliver confectionery will be considered on merit in individual cases.

- Editor.

PATTERNS OF FOOD CONSUMPTION

(Norman R. Collins, University of California, Berkeley)

A recent study has noted three major dietary patterns in western Europe, corresponding in the main to the northern, the central and the southern countries. In the north relatively larger quantities of meat, milk and eggs are consumed and, although the diet is at a higher calorie level, substantial quantities of animal protein are included. In central Europe the consumption of livestock products tends to be less than in the north, but more potatoes and other vegetables are consumed. In the southern region large quantities of cereals are consumed and very little meat and milk; in addition, the general calorie level is lower as is the intake of animal protein.