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## 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.

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# The Development of Production Control in the Wine Industry \*

by  
A.J. BEYLEVELD, Editor

The K.W.V.\* was established during 1917 and at least 95 per cent of the wine-farmers became members of the new co-operative company. A few small co-operative companies were in existence. During the preceding years wine production exceeded demand and prices were uneconomic. The object of the K.W.V. was to ensure economic prices to producers by fixing minimum prices, determining the extent of surpluses and developing foreign markets for the surpluses. An agreement was concluded with the wine merchants in terms of which they undertook to purchase all their requirements solely from members of the K.W.V. During 1921 a new agreement was concluded and wine merchants undertook to purchase their requirements from the K.W.V. at fixed minimum prices. The K.W.V. agreed to maintain these prices and to remove the surpluses from the domestic market. During the three years 1921 to 1923 portion of the surpluses equal to 28 per cent of the wine produced was destroyed. In spite of these arrangements on the part of the K.W.V. opposition from wine merchants was experienced and the K.W.V. was thwarted by producers who were not members.

To meet these difficulties the Government agreed to grant the K.W.V. greater power through legislation and during 1924 the Bill on the Control of Wine and Spirits was introduced by Gen. J.C. Smuts, then Prime Minister. During the second reading Gen. Smuts summarised the position as follows:

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\*Abbreviation from the Dutch name for the Co-operative Wine-Growers Association of South Africa Limited.

"The problem of the wine industry is a problem of over-production, over-production of a luxury which has become greater every year, until it has become chronic".

Act No. 5 of 1924 was thus placed on the statutebook. In future the buying and selling of distilling wine by non-members were subject to the conditions and obligations which were in terms of its Statute applicable to members of the K.W.V. If a non-member refused to comply with these requirements the K.W.V. had to forbid him from selling his distilling wine, brandy or wine spirits. The control exercised by the Excise Office naturally facilitated control by the K.W.V. No person could sell wine for the purpose of distillation, obtain any or use any without the permission of the K.W.V. No brandy or wine spirits could be sold by a farmer except through the K.W.V. or with its approval. In practice compulsory co-operation applied to distilling wine.

The minimum quantity of distilling wine which the K.W.V. could sell was 250 leaguers and since 1941 this quantity for new merchants has been 500 leaguers. Such supplies the K.W.V. provides at cost price. From farmers and wine co-operatives merchants may, with approval, buy lesser quantities.

The Statute of the K.W.V. also provides for the fixing of the minimum selling prices of distilling wine and wine spirits to bona fide merchants. The Act stipulates that sales may not take place at lower prices and this also applies to non-members selling distilling wine. The wine merchants may appeal to a Board of

Appeal against the prices established by the K.W.V.

At the commencement of the season the distilling wine harvest is estimated and an estimate made of the requirements of the wine merchants. That portion of the harvest not required by the merchants is declared as surplus in accordance with the Statute of the K.W.V. After the surplus has, during January of every year, been declared as a percentage of the harvest, it remains the surplus for that season; this declaration is final and binding, although actual results at the end of the season may prove that the advance estimates were incorrect.

The price established by the K.W.V. must be paid by merchants for that portion of the distilling wine harvest purchased as their requirements. If a surplus of 25 per cent is declared the farmer may sell three quarters of his distilling wine harvest at not less than the price established by the K.W.V. and the other quarter he has to deliver to the K.W.V. free of charge. If supplies in excess of the declared surplus remain unsold, the K.W.V. has to pay the minimum price for such distilling wine.

The K.W.V. must process the surplus and, to the extent that potable alcoholic products are produced, sell these in foreign markets. In competition with local merchants the K.W.V. buys good wine for making sherry, port, etc. These wines are fortified with spirits and after proper maturation and ennobling the products are exported.

A profitable export market has been developed and out of the income obtained from the marketing of the surpluses as well as profits on wine purchased, the K.W.V. pays a bonus to producers in proportion to the surplus contributed by each.

The stability resulting from Act No. 5 of 1924, led to an excessive output of distilling wine and during 1932 and 1933 investigations into the problem of surplus production were undertaken. On the

one hand it was recommended that the planting of vines for the production of distilling wine be prohibited for three years and on the other that production quotas based on the average distilling wine harvest over a period of three years be allocated to each farm.

The Wine Commission of 1937 pointed out that the K.W.V. did not possess the power to prevent an injudicious expansion of production. As a co-operative organisation its members were not prepared to grant the Association such power. The Wine Commission recommended two possible measures namely:

- (a) restriction of plantings, and
- (b) price control.

The Commission expressed doubt about restricting the planting of vines, because it favoured established producers against new or prospective producers. The Commission recommended such a measure as a last resort and preferred price control on a wide basis.

Arising from this the K.W.V. pointed out that with the powers at its disposal it had not succeeded in maintaining a reasonable balance between production and sales because it could only control distilling wine and there were no powers to control production quantitatively.

During 1940 the Act of 1924 was amended. Good wines were also placed under price control. Previously producers of good wines believed that they were better off without control, but that was not always the case. At times prices of good wines were below those of distilling wine and there were also greater price fluctuations. The intention was to maintain the price of good wines at R4 and of vintage wines at R6 per leaguer above that of distilling wines. Since 1959 prices have not been established for vintage wines. Provision was further made for quantitative restrictions. The K.W.V. could determine the maximum quantity of good as well as distilling wine which each farmer or co-operative winery may produce in a particular year.

After 1940 data were obtained by the K.W.V. from each producer and preliminary quotas were calculated. The total quantity amounted to between 800,000 and 900,000 leaguers. In practice this scheme was, however, never enforced. According to the Act a quota could not be established for a particular farm, but for individual producers and each producer's quota had to be reviewed every year with the approval of the Minister. The scheme proved to be quite impracticable. The fact that the producers' attention would be drawn to the quota every year and that finality could not be reached on specific quotas for individual farms, had a psychological effect in discouraging production. Conservative wine prices also retarded output and after 1946 there was no further increase in production. From 1947 to 1954 supplies had to be rationed and the surpluses were determined arbitrarily in terms of a War Measure in order to ensure supplies to the K.W.V. for its export trade. During 1952 this quota

scheme in terms of the amendment to the Act was discarded.

During 1954 the Act was again amended and a method of rationing in the event of shortages was prescribed. The regulations to this amending Act provides that the K.W.V. may obtain as surplus at least 15 per cent but not more than 25 per cent of a season's distilling wine harvest for its own purposes. After 1954 production increased steadily and the fear of excessive surpluses arose once again. During 1957 the Act was amended once more and a new quota system was introduced. This provided for the determination by the K.W.V. of a quota in respect of each farm on which wine is produced, namely the maximum quantity of wine calculated at 20 per cent standard strength which may be produced on such a farm during any year.

Should a farmer produce more wine than this quota he forfeits the excess,

#### Production of wine and prices of distilling wine

	Total grape harvest	Total wine harvest	Declared surplus	Minimum price to trade	Paid to producers <sup>3)</sup>	Bonuses paid <sup>1)</sup>
						Tons/Leaguers
				Per cent	Per cent	Per cent
1955	555,639	498,211	24	24.35	18.50	4.0416
1956	620,255	561,851	24	24.35	18.50	Nil
1957	549,613	493,959	35	24.35	15.82	5.5981
1958	563,311	495,525	24	24.35	18.50	4.6146
1959	555,732	495,464	35	30.70	19.95	7.6713
1960	623,374	551,186	28	30.70	22.09	5.7829
1961	558,374	497,405	19	30.70	24.86	4.7195
1962	636,697	564,215	18	31.75	26.035	0.6234
1963	622,592	556,887	26	31.75	23.495	5.7342
1964	662,212	591,196	15	31.75	26.9875	1.905
1965	768,728	702,103	15	36.83	31.3055	-

1) This is the bonus paid during the year and is derived from profits.

2) Per leaguer at 20 per cent standard strength.

3) This is the average price for the entire harvest after allowing for the declared surplus.

except when the output during the first or second succeeding year or both years is less than the quota in which case he receives a refund in proportion to the lower output if the excess quantity had been delivered to the K.W.V. or if the proceeds from the excess had been surrendered to the K.W.V. The K.W.V. may, however, also require him to destroy the excess under supervision. The planting of vines is not restricted, but if the quantity of wine produced exceeds the quota the penalties apply.

By 1961 all the investigations relating to each farm had been completed and the final quotas determined. Quotas were established for about 5,300 farms and the total quantity amounted to approximately 1,100,000 leaguers of wine. After 1956 three smaller wine harvests followed because of less favourable weather. Conservative wine prices and the uncertainties regarding the quota for each farm could have been contributing factors. After 1962 it appeared that difficulties might be encountered through shortages rather than surpluses.

The data in the table below indicate the production of all wines and the prices for distilling wine during recent years. The effect of the declared surplus which varies considerably, on the average price per leaguer received by producers is clearly shown.

From season to season the total wine harvest may vary by as much as 60,000 leaguers mainly because of the weather. The 1965 harvest is the greatest in the history of the industry. Conditions were favourable in the entire production area, but the increases in prices since 1960 now also influence production.

Although the K.W.V. has since 1940 had the power to control production quantitatively, price is still a dominant factor which encourages production when the harvests tend to fall short of the demand or increase to a point which could result in excessive surpluses. Viticulture is, however, a comparatively long-term undertaking and the effect of higher prices

only becomes apparent after four or five years. Price decreases affect production sooner because old vines can be removed and fewer planted. More grapes can also be used to produce raisins, sultanas etc. by producers who are equipped to make these products.

The grape-vine reaches full bearing after five years. During a particularly year vines are therefore in all stages of production. Where vines have been uprooted because of age, new vines might only be planted during the following year. In other vineyards the vines will be in all stages of development including those in full bearing and others which have passed peak production. Potential production is, therefore, considerably greater than actual production. Since vines in all stages of development are taken into account in determining a production quota for each farm the actual yield is always less than the theoretical potential. According to an analysis of producers who had production quotas during 1960 the harvests in relation to the quotas varied from an average of 43.2 per cent with small producers to an average of 63.3 per cent for larger producers. With the larger producers there is therefore a better relationship between vines in all stages of production.

Over the past 10 years a significant change in the consumption of wine has taken place. From 1955 to 1964 consumption increased as follows:

Unfortified wines from 9.3 m. gallons to 22.5 m. gallons
Fortified wines from 6.3 m. gallons to 11.3 m. gallons
Spirits from 5.2 m. proof gallons to 6.2 m. proof gallons

It is unlikely that consumption will continue to increase at this rate. The indications are that sales during 1965 will not exceed those of 1964.

These changes in the consumption of wines and potable spirits created numerous problems and as a result of the increases in sales during 1963 it was decided early in 1964 to increase the

production quotas amounting to 1,109,916 leaguers on a conditional basis by 500,000 leaguers. Producers who received new or additional quotas, were given five years to prove what they can actually accomplish. As mentioned previously the best production records were found during 1960 amongst the larger producers whose output was on average 63.3 per cent of their quotas. Production can be increased by granting larger quotas, granting quotas to more farms and through more irriga-

tion and improved cultural practices by increasing wine prices.

Control of production also creates problems. In practice potential production differs substantially from actual output and while production did not for a time keep pace with the domestic and foreign demand, some producers are at present still holding unsold stocks of the 1964 harvest.

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### PATTERNS OF FOOD CONSUMPTION

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

Incomes have increased rapidly in western Europe during the 1950's, and at a rate significantly higher than in the U.S. These rising per capita incomes have led to important changes in patterns of food consumption. Per capita consumption levels increased quite markedly for such tropical or semi-tropical products as coffee, bananas and citrus fruits. Of the products originating in Europe, increases were noted for eggs, butter, sugar and meat. These consumption shifts, however, have not been sufficient to alter the basic characteristic of the European food market as essentially a collection of national and regional markets, rather than anything approaching a homogeneous consuming populace.

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Traditional price-making forces are often drastically altered by a large increase in contracts. In some cases, the point of price determination shifts - for example, from live chickens to dressed broilers in the U.S.A. Active competition may exist at the new price-determination point but a void exists in determining returns to producers. Some institutions, such as a producer co-operative, a government service, or perhaps a general farm organization may need to provide a clearing house of information about various terms of contracts. A 'model' contract may be useful. Bargaining organizations representing producers will need to put added emphasis on first-rate demand and supply information effectively to do their job. This by no means exhausts the possible courses of action. Farmers themselves will need to upgrade their managerial talents to get along in a changing market structure.

Group report on marketing - International Association of Agricultural Economists, 1964.