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The Production and Marketing of Karakul Pelts

by
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The economic value of any product derived from livestock is determined to a great extent by the quality of the end product made available to consumers. The breeding of the animal constitutes the basis on which the quality of the end product depends, and is consequently the most important single factor determining the value of such a product. Karakul pelts are no exception, and their value is determined by the quality of the pelt and consequently also by the breeding policy followed by the farmer. The quality of pelts stimulates the demand for them and determines the price at which they can be sold.

Associated with this, additional factors to stimulate the demand for pelts are encountered in the fur trade. Although the trade in furs is regarded as one of the oldest trading activities, the standards in regard to quality - and this includes all types of pelts - have been greatly improved. New types have been developed, and in many cases the demand has shifted entirely to another type.

The fact that furs are luxury articles goes hand in hand with the snob or prestige value attached to them. This factor therefore contributes largely to the demand for pelts and, together with their quality, is one of the most important factors determining prices. Because of this fact, the fur trade is regarded as highly competitive, and it is absolutely essential, in order to achieve success in trading in any specific type of fur pelt, to give careful attention to its production and orderly marketing.

During the past 60 years or so, Karakul breeding has created new possibilities

in some of the comparatively arid regions of South Africa and in South-West Africa. It has been responsible for the fact that these regions, so frequently subjected to protracted droughts, now offer a respectable living to a large number of people. The establishment and progress of Karakul breeding in South-West Africa and the Republic has, however, brought new problems in its wake. It was necessary for the producers to be trained in the breeding of Karakul sheep, and to find markets for Karakul pelts. Additional matters such as the processing, distribution and sales promotion of the product therefore also arose; but as progress was made with the production and marketing of S.W.A. Persian lamb, the name under which pelts produced in South-West Africa and the Republic are known in the trade, the demand for them gradually increased.

PRODUCTION OF KARAKUL PELTS IN SOUTH-WEST AFRICA AND SOUTH AFRICA

(a) The origin of Karakul sheep

Karakul pelts are said to have been used for the manufacture of cloaks⁽¹⁾ as far back as 1900 B.C. The opinion is also held that the Karakul sheep is descended from the species *Ovis vignei* Blyth, which originated in a territory stretching from Armenia to Kashmir and to the borders of Tibet. From here the breed spread to the territories adjoining the Black Sea and the Caspian Sea.^(2,6) By the end of the 19th century and the beginning of the 20th century, small flocks of Karakul sheep had been exported to South Russia, Germany, Hungary, Africa and the Americas; subsequently also to

Spain. At present, Karakul sheep are found in large numbers in Russia, Afghanistan, South-West Africa and South Africa.

(b) Pelt production in South-West Africa

The first Karakul sheep were imported into South-West Africa from Germany in 1907. Further consignments entered the territory during 1909 and 1913/14. Most of these sheep were selected in Bokhara and brought to South-West Africa via Germany. It is estimated that 200 rams and 700 ewes were imported. These sheep formed the foundation of Karakul breeding in Southern Africa; and thanks to the availability of suitable indigenous haired sheep breeds such as the Black-head Persian and the Africander, it was possible to make rapid progress by upgrading these breeds.⁽⁷⁾

The establishment of the Karakul-pelt industry in South-West Africa undoubtedly had a stabilizing effect on the then undeveloped country. The economic value of this industry can be fully ap-

TABLE 1 - Number of Karakul pelts produced in S.W. A. during the years indicated, the average gross price and total gross value

Year	Number of pelts	Average price	Total gross value
		R	R
1925	23,000	1.50	34,500
1930	91,000	1.40	127,400
1935	514,000	1.81	930,340
1940	1,669,450	1.70	2,838,065
1945	2,392,657	3.20	7,656,502
1950	2,607,327	3.88	10,116,429
1955	2,864,246	4.00	11,456,984
1960	1,975,683	4.36	8,613,978
1961	2,021,748	4.64	9,380,911
1962	2,345,563	5.39	12,642,585
1963	2,273,845	7.08	16,098,823
1964	2,864,006	5.16	14,778,271
1965	2,240,801	6.26	14,027,414

preciated only by reference to the production of pelts and the prices realised for them. The production of Karakul pelts and the average gross prices, together with their total gross value, are indicated in Table 1.

(c) Pelt production in South Africa

The Karakul-pelt industry in South Africa was established long after that in South-West Africa. In 1915 during the first World War the animals on the state stud-farm in South-West Africa came into the possession of the South African Government. During 1916/17 a number of Karakul ewes and rams were sent to the research station at Grootfontein, Middelburg, C.P. This stud was not very successful at the time, and most of the animals were returned to South-West Africa in 1925.⁽⁷⁾ During this period there was not much interest in the breed in South Africa.

It was not until the early thirties, during the depression and drought, that farmers in South Africa began to appreciate the value of Karakul sheep. The South West-African Administration, however, imposed a prohibition on the export of Karakul sheep, with the result that it was hard to obtain breeding material in South Africa. A flourishing trade in smuggled animals arose, and the growth of the Karakul population in South Africa was rapid indeed, in spite of this prohibition. As a result, and also because of the fact that all Karakul pelts from Southern Africa are marketed as S.W.A. Persian lamb, this prohibition on export between South-West Africa and South Africa was withdrawn in 1958, on the understanding that no Karakul sheep would be exported from South Africa to other countries. The number of pelts produced in South Africa for the years indicated, together with the average gross prices and gross value, is reflected in table 2.

MARKETING OF KARAKUL PELTS

(a) Historical review

When a new and young industry is being developed, it must obviously experience various growing pains before becoming

TABLE 2 - Number of Karakul pelts produced in South Africa for the years indicated, the average gross price and the gross value

Year	Number of pelts	Average price	Gross value
		R	R
1945	231,765	4.11	952,554
1950	802,000	5.20	4,170,400
1955	712,000	4.17	2,969,040
1960	773,491	4.36	3,372,421
1961	630,775	4.64	2,926,796
1962	917,107	5.39	4,943,207
1963	1,009,633	7.08	7,148,202
1964	1,213,363	5.16	6,260,953
1965	1,034,210	6.26	6,474,155

stabilised. The Karakul pelt industry was no exception, and because the pelts could not, for various reasons, be marketed in South Africa, it was necessary to seek some other outlet. The initial problems experienced in regard to communications, transportation and the availability of a market for Karakul pelts, were legion.

Originally the marketing of Karakul pelts as in the case of virtually all other agricultural products, was in the hands of speculators. In the vast majority of instances the pelts were sold to these people; a small number were traded at country stores. From there, they were disposed of overseas in various ways. Not until 1924/25 were efforts made to achieve a more orderly form of marketing the pelts. An organisation called the Karakul Zentrale was established in Windhoek, buying the pelts from the farmers direct and selling them for the firm's account at the annual Leipzig Trade Fair. Pelts were also sold on behalf of producers on a commission basis.

During 1930, fifty pelt producers under the leadership of Mr. L.W. Friedrich sent approximately 5,000 pelts to Leipzig, where efforts were made to arrange a public auction. The firm Rauchwaren und Lagerhaus (Ravag), which was responsible for disposing of the Russian pelts,

eventually agreed to auction the pelts from South-West Africa, too. This laid the foundation for the marketing of pelts from South-West Africa; and certain fixed marketing procedures established then are still in force today. In 1932 a second auction was arranged in Leipzig by Mr. Friedrich, when 35,000 pelts were offered and sold. During the same year an auction was also held in London, when pelts from South-West Africa aroused international interest.

As a result of international friction and internal troubles in Germany before the Second World War, the fur trade moved from Leipzig, which at that time was the most important centre in the world for pelt sales, to London during the years 1936 to 1938.⁽⁵⁾

Well-known pelt brokers began to show an increasing interest in pelts from South-West Africa. Firms like the Hudson Bay Company and Eastwood & Holt started playing a major role in the marketing of Karakul pelts in 1938/39. In the post-war years the firm of Anning, Chadwick & Kiver also entered the field of pelt marketing.

A spectacular increase in the production of Karakul pelts in South-West Africa since the early thirties contributed to the establishment of numerous local and overseas trading concerns and organisations. Each of these developed its own system of financing and marketing, which contributed to the great variety and complicated nature of marketing procedures.

With the passage of time producers became more organised; and co-operatives entered the trade for the purpose of marketing the pelts through overseas brokers on behalf of the producers. A less haphazard system of marketing pelts arose as a result of this. The pelts are carefully graded by the brokers according to quality and offered for sale by public auction. The price now received by producers is therefore determined by the demand for their pelts on a free competitive basis.

(b) Middlemen in the fur trade

The term "fur trade" includes all persons participating in the process of marketing fur pelts, from the producer of the pelt to the retail furrier. The marketing of fur pelts is undertaken by a series of middlemen - each performing a specific function, however slight it may be.

The middlemen in the fur trade may be divided into three categories, namely:

- (1) rural middlemen;
- (2) middlemen in the wholesale trade;
- (3) middlemen in the retail trade.

Although pelts can move direct from the producer to the retailer, even this does not eliminate all middlemen, since no pelt can be used by the consumer until such time as it has been processed. The processor of pelts is therefore an essential middleman and will be discussed separately. The functions of the other middlemen will also be dealt with briefly.

(1) Rural middlemen

(i) Travelling agents - local pelt buyers or speculators. - These agents are persons who travel from farm to farm in order to buy up the producers' pelts. They may be in business for their own account or be working on a commission basis on behalf of someone else. Certain types of pelts acquired in this manner are usually sold direct to overseas customers under contract or in response to special orders. The remainder, in some cases even all the pelts bought up by them, are disposed of through the overseas pelt brokers. Speculation is the main object in most cases, so that purchases must be made as advantageously as possible in order to cover not only the operator's remuneration, but also interest on capital and the cost of transportation which is a big item, on account of the long distances involved.

In 1948 there were 20 of these firms registered in South-West Africa;⁽⁵⁾ today there are still about 7. In South Africa, there is still one buyer operating in this manner.

(ii) Co-operative Societies. - These organisations play the most important part in the local pelt trade. The functions of the co-operatives are the collection, packing and despatch of pelts, and also the compiling of market reports and the provision of information services in regard to production and marketing. The co-operatives active in South-West Africa are Boere Saamwerk Beperk (B.S.B.) and the Farmers' Co-operative Wool and Produce Union Limited (F.C.U.). The latter also operates in the Republic, as well as a third co-operative, the Suid-Afrikaanse Koöperatiewe Karakoeltelers Maatskappy Beperk (S.A.K.K.). S.A.K.K. and B.S.B. market the pelts produced by their members through Eastwood and Holt in London, while the F.C.U. markets through Hudson Bay Company. The co-operatives operate on a commission basis of one per cent of the gross price per pelt. The cost of packing, insurance, transportation and levy is borne by the producers.

(iii) Local branch of overseas brokers. - One organisation of this type, African Karakul Auctions (A.K.A.), which is actually a subsidiary of the overseas broker, Anning, Chadwick & Kiver, operates in South-West Africa.

The functions of this firm are virtually identical with those of the co-operatives. However, the producers are not shareholders in the A.K.A., although they also pay a commission of one per cent on the gross price for pelts. As in the case of the co-operatives, the producer is also required to pay for packing, transportation and other costs.

(2) Middlemen in the wholesale trade

The wholesaler buys pelts in bulk from various concerns. He may store them and then sell them in small lots to retailers or other organisations. He may also handle and grade pelts and sell them on a commission basis for other parties. He may be the owner of the pelts, but this is not necessarily the case.

The wholesaler handles pelts in bulk, and arranges facilities for storing and

financing; he bears the risk of depreciation and falling prices and facilitates distribution.

(i) Commission agents. - Commission agents may be classified into local and overseas organisations. The local commission agents sell the pelts of producers by tender. A reserve price is maintained and if the pelts are sold the agent receives a commission of one and a half to two and a half per cent of the selling price. Virtually all of these concerns have ceased to function.

Overseas commission agents specialise in the buying and selling of pelts on behalf of other parties. They are as a rule highly specialised in the art of valuing pelts, and skilled in negotiation. They must have a sound knowledge of foreign currency rates, markets, insurance and shipping problems. Commission is usually two or three per cent on the buying or selling price of the pelts, but may vary from 0.5 per cent in large transactions to as much as five per cent in smaller ones. Commission agents are never the owners of pelts; nor do they furnish risk credit.

(ii) Brokers. - The main functions of the brokers are to accept consignments of pelts, sort and catalogue them and sell them by public auction. The pelts handled by brokers are not their property and are sold for the account of each individual pelt producer. The conditions of sale are cash payment by the buyers on or before the due date, which is set at approximately three weeks after the auction; and no pelts are delivered until payment has been made. At present, the brokers receive six per cent of the selling price of the pelts as remuneration for their services. Three per cent of this is collected from the producer, and three per cent from the buyer.

The advantages of public auctions are that the pelts are concentrated at a given point, where the auction price is closer to an effective price dictated by supply and demand than is the case with direct sales. In contrast with the procedure adopted in regard to pelts from Russia and Afghanistan, no reserve price is

maintained on Karakul pelts from South-West Africa or the Republic - an arrangement which is generally regarded as attractive in the fur trade, although it is not always in accordance with the best marketing principles, since a ring may be formed.

(iii) Pelt wholesales. - These concerns include a great variety of organisations having only one characteristic in common, namely that all pelts in their possession belong to them and that their main object is to dispose of these at the greatest possible profit. On the one hand there are dealers with large financial assets, who buy pelts on a large scale and then sell them in smaller quantities to retailers. On the other hand, there are dealers of limited financial capacity who buy smaller quantities of pelts on credit. They may buy the pelts ready processed, or may have them processed before carefully sorting and matching them in bundles, each containing only sufficient pelts for a single garment. These bundles are then sold to the retailers.

The wholesalers frequently bear the risk of a change in the market, make the pelts available at a convenient time and place, bear the risk of damage during processing and also the further risk of financial losses arising out of the provision of credit facilities. They must, or should, keep their clients informed in regard to prevailing market conditions. In addition, they may also speculate in pelts by offering them for sale on subsequent auctions.

(iv) Wholesale furriers. - These persons sometimes also perform the functions of the fur wholesalers, but in the main they devote themselves to the manufacture of fur garments and are also well informed in regard to consumer demand and fashion trends. Pelts are bought in bulk, either processed or unprocessed, and used for the manufacture of fur garments which are then sold to retailers who are not always in a position to manufacture fur garments in accordance with the latest fashion trends.

(v) Financing. - Financiers in the fur trade specialise in the provision of credit facilities to prospective fur buyers. These may be wholesale or retail undertakings. Their function is regarded as highly important in the pelt trade. The reason for this is that the turnover of capital invested in furs is sometimes slow. Many fur dealers are not always able to allow such capital to remain idle for long periods. The risk attaching to the provision of credit facilities is very considerable, with the result that interest rates are high.

(3) Middlemen in the retail trade

The retailer must always have a good range of fur pelts and fur garments in stock. This entails a considerable capital investment, and he carries a direct risk of a fickle consumer market. His task is complicated by the fact that he is a specialised dealer, concerned with a luxury commodity and a limited buying public.

(i) Furriers. - Furriers are the persons who make the fur garments. It is necessary for them to have a wide range of pelts in stock, and they must be able to make specific articles according to the personal taste and measurements of the customer. The furrier is not only a specialised craftsman, but must also be a fashion expert.

The capital investment of furriers is usually considerable, because of the double investment required in respect of a workshop and a showroom. The latter must be neat and luxurious in order to match the commodities offered for sale. Moreover, specialised labour is scarce and expensive; and although the retailer performs an essential function, the consumer usually has to pay very high prices for the final article in order to defray the furrier's high operating costs.

(ii) General stores. - Although the fur trade is a specialised business, fur garments are being sold to an increasing extent in shops offering all types of clothing. Because these shops usually have

a large turnover, they are able to buy ready-made fur coats in bulk from wholesale furriers. In consequence of these large orders, fur garments can be manufactured more cheaply and offered more cheaply to the consumer.

(4) Pelt processors

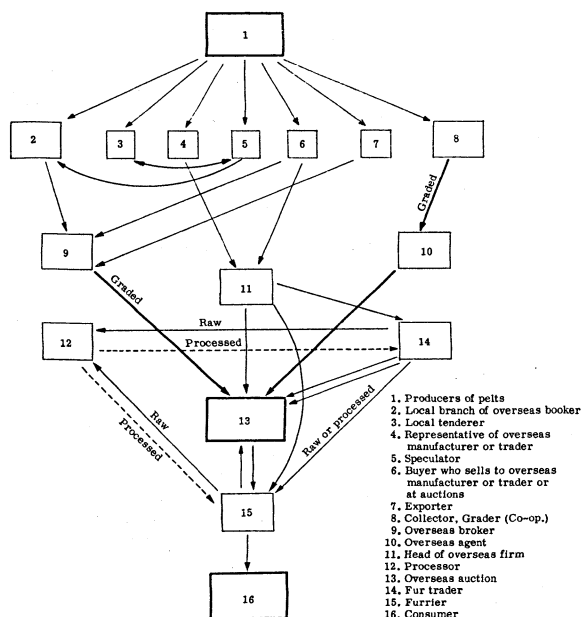
As mentioned previously, all pelts must be processed before being converted into garments. The processor is a very important link in the fur trade and performs an absolutely essential service. He may be the owner of the pelts, or may process them for others at a certain tariff. Where he is also the owner of the pelts, he performs the function of a wholesaler too. In a few instances, certain organisations operate as wholesaler, processor and wholesale and retail furrier.

MOVEMENT OF KARAKUL PELTS IN THE TRADE

From the foregoing it will be seen that pelts may be handled by numerous middlemen from the stage when they leave the producer until they reach the eventual consumer. Each of these makes a profit, which is often out of proportion to the service rendered. The producer and the furrier, however, are members of the same industry and the study of the movements of pelts begins with one and ends with the other.

A schematic exposition of the middlemen and the Karakul pelt trade and the movement of pelts is given in Figure 1. Analysis thereof revealed the following facts:⁽⁴⁾

- (i) There are at least 188 alternative marketing channels from the producer to the consumer.
- (ii) Only 35 of these channels lead direct to the consumer.
- (iii) There are at least 153 other channels which do not lead direct to the consumer, and in which certain



persons may therefore handle the pelts repeatedly - making a profit on them on each occasion.

- (iv) From a frequency distribution curve of the 35 channels leading direct to the consumer, it emerges that the majority of pelts are handled by from six to eight persons, with a tendency to be handled by more rather than fewer than this number.

This means, firstly, that a number of essential services are rendered, and secondly that there are a number of middlemen who do business only for their own gain and at the cost of both producer and consumer.

SUMMARY

1. Since the establishment of the Karakul pelt industry in South-West Africa and the Republic of South Africa, farm-

ing in these drought-stricken areas has become more stable.

2. The Karakul pelt industry has earned foreign exchange to the value of between R11 million and R23 million annually during the past ten years.
3. Although great progress has already been made towards the orderly marketing of Karakul pelts, the fur trade lends itself to certain practices which do not tend to promote the pelt industry.
4. Karakul pelts differ from most other agricultural products in that the demand is to a large extent dependent upon the prestige value of furs and because they have to compete with several other classes of luxury goods.
5. Stimulation of the demand for fur is a highly important aspect of marketing. Factors which stimulate the demand for furs, however, differ from

those stimulating the demand for ordinary consumer goods or foodstuffs.

6. The terrific competition which is such a notable feature of the fur trade, may be responsible for the fact that this trade maintains the highest degree of secrecy.
7. The Karakul pelt industry in Southern Africa is now an established industry and everything possible is being done to improve it. The prices realised for the pelts appear to be more than adequate to ensure the maintenance of a flourishing industry.

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TEACHING AGRICULTURAL ECONOMICS

If the economic problems of the future are to be creatively approached, agricultural economics teaching must give attention to the development of the scientific attitude. Teaching must be characterized by thinking and encouragement of thinking in place of parroting and encouragement of parroting. It must be characterized by problem-solving experience instead of fact indoctrination. But of prime importance to this development and to the success of agricultural economics teaching in the decades ahead is the unique role of the teacher. His own exemplification of the scientific attitude, his concern for economic problems, his interest in the students' interests, his enthusiasm for the subject matter, and his role as a teacher will be indispensable in challenging and arousing creative scientific attributes in future agricultural economists.

- R.G.F. Spitze, *Agricultural Economics teaching and our domestic problems*. *American Journal of Farm Economics*, December, 1962.