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Co-operation in cereal marketing

by H. J. B. RICE

East Kent Cereal Growers

UP TILL recent years the most neglected side of British agriculture has been in the field of marketing. This has not been the case in Europe and in many ways it can be said that compared to us their marketing is in the 21st century, while their production is still in the 19th. This contrast has been brought about by a fundamental difference of approach due, to a very large extent, to social reasons. In France, particularly, large amounts of public money have been spent on strengthening co-operative marketing. Now that the pros and cons of a levy system are being discussed in the UK, it may be of interest to take a closer look at the system as it works in France. I do not claim that improved marketing is the end all and be all of our salvation—very far from it. Nevertheless, it has a vital part to play, more particularly now that levies are to be substituted for the present system of agriculture support. We have in Kent a cereal marketing organisation which has many of the features of a French co-operative and, if I take this as an example, it will demonstrate and highlight the problem and benefits of this type of organisation.

I would like you to cast your minds back to the spring of 1963. The General had just turned down, for the first time, this country's application to join the Common Market. There were clear signs that the Treasury were putting pressure on the Government to limit their open-ended liability on subsidy and the cereal market was in a depressed condition owing to the growth of world wide surpluses to which this country's cheap food policy was an enticing target.

Several of us in this corner of England were becoming very concerned about the vulnerability of our profits to these adverse factors and we also were looking with envious eyes across the Channel at the return per acre of the French cereal grower. Accordingly we decided to see whether we could improve our individual positions by jointly marketing our cereals and we decided to ask a well-known market research firm to investigate the cereal trade in all its facets first. For this we had the help of a Government grant. I will not go into detail on the pros and cons of the report except to say that it advised us to team up with some local country merchants and not try to set up in competition with them.

From the start we were determined to organise ourselves on a strictly commercial basis and we were fortunate in having in our area a firm of accountants and solicitors who have jointly built up a consider-

able practice in promoting agricultural marketing companies and they were, therefore, able to give sound advice based upon their own experiences. The outcome of all this was a limited liability company with certain co-operative principles built into it. For instance, no one grower, however big, could control the voting, nor for that matter, could a caucus of big growers. We had also decided from the outset that the benefits which might accrue would be long term ones and, therefore, we didn't want any farmers in the company who were looking for short term advantages only. Accordingly those farmers joining the company had to sign a 10-year contract to market their grain exclusively through the company. Having signed this agreement they then took up shares in the ratio of one to every acre of cereals grown. The value of these shares is half-a-crown (12½p) and the issued capital of the company now stands at 25,000 shares which is sufficient for our modest requirements since we do not own any bricks and mortar and basically supply ourselves with office equipment and transport for the management and very little else.

This new company was ready to start work in July of 1964 and started with 35 growers who in the first year produced some 10,000 tons of cereals for sale. We had, meanwhile, also signed up under contract two independent country merchants who were complementary to one another in that one had an emphasis on the malting barley and seed trade, while the other concentrated more heavily on feeding wheat and barley. These merchants were also under contract to the company for 10 years and their terms of agreement included the commission under which they sold grain for the company. Strictly defined payment dates and various other headings went to ensure that they sold on our behalf and declared the price returned from the ultimate buyer, rather than buying from us for their own advantage.

The situation today is that we have some 10 growers marketing in a normal year between 30,000 and 35,000 tons of grain through the two merchants have described and further to this the company can market grain on its own behalf under certain circumstances. What then have we achieved? We certainly cannot claim that we have influenced more than the local market because we are still a drop in the bucket when one speaks in national terms. We have certainly not as yet been able to extract substantial premium from the market place. We shall not reach this stag-

or reap these advantages until there are a series of this type of organisations covering a substantial area of the country. Then, and only then, we shall be able to prevent the powerful national concerns from playing us off against each other and exploiting the basic weaknesses of the farmer.

On a more modest scale we can claim tangible benefits. We can return to a grower a better than average price over the selling period. This is achieved by "pooling". This device is necessary to ensure fairness to everyone. For example, barley sold between November 1st and April 30th is pooled. This means that the price on every parcel sold in this period is average, including the Government subsidy payments. In this way it does not matter if a farmer's grain is sold first at a comparatively low price or later at a much higher one. He will share in the average return. In addition to this, regular payments are made to all in the pool regardless of whether their corn has been moved or not. The arrival of regular predictable monthly cheques is much appreciated by the growers.

By bulking up large quantities of grain, we have been able to exploit the export market when present. Equally on the home front, we have shown that you can get a premium for making contracts to supply a firm right over the year. This has been done with considerable success in the case of our one remaining country compounder to whom we sell a large quantity of wheat from September until the following July.

Market intelligence has been much improved and in regular and almost continuous consultation with our merchants we are able to plan our sales well ahead and exploit quickly any opportunities which the market may offer. The fact that our growers inform us immediately after harvest of exact quantities and type or variety for sale is an essential part of the system. Incidentally, some of the yields which were returned per acre last year were hair raising.

Advance payments are available to hold weak sellers off the market, particularly at harvest time. These are provided by money borrowed from one of the big five banks and this system works extremely well to the advantage of the grower. Before, if he had sold grain at an unfavourable price, the merchant made the profit. Now the grower can borrow money on his corn and after paying interest charges, enjoy the benefit of any higher prices realised later on. This system also fits well into the pooling schemes since if a grower has borrowed money off his corn, he merely forgoes the early monthly payments until these catch up with the amount which he has already sold.

These then are some of the advantages we claim and I think it fair to say that we have put strength into the local market. However, now that the levy system is being introduced, we feel that we are in the right place at the right time because, as I said earlier, much of the thinking behind our company is based on French experience. Now let us pause at this stage and examine what happens in France.

Before going into details, I would like to make two general observations. For historical reasons there is a fundamental difference of approach between agricultural support for the British farmer and for that of the French farmer whose case I intend to compare.

In the UK, where imports have been up to a short time ago entirely free (subject only to minimum import price), the consumer gets cereals at world price levels and producers are supported by the state which pays them directly the difference between these world prices and the price levels fixed at the annual reviews. This to a very large extent isolates the individual farmer from market forces.

In the EEC a target, a threshold and intervention price are agreed upon for each cereal every year. These prices are far above world levels, the difference between the latter and the former being paid by the consumers. So as to protect the high levels paid to home producers, cereals imported from third countries pay an import duty or levy which is calculated by subtracting the lowest offer landed at Rotterdam from the threshold price.

Secondly, the structure of the merchant and processing trade of this country has radically changed within the last 20 years. To take an example from Kent, there were I suppose in the late 1940's some score of country merchants trading in competition and supplying local outlets. Now there are but a handful and most of the local and independent consumers have been swallowed up by national concerns.

These few remaining merchants have lost a lot of their customers and, consequently, their role of being able to equate supplies of cereals to demand is much diminished. A situation readily develops where local surpluses occur and these can only be disposed of further afield incurring higher transport costs to the detriment of the price returned to the grower. This may not matter so much now with a guaranteed make-up on price but, under a levy system, the grower will not be able to recover this added cost.

Now let us consider the situation across the Channel, and more especially in France, where cereal marketing is effected by some thousand co-ops and about twice that number of trading firms who possess approved storage for that purpose. And here is my point; that because they possess storage which few of their counterparts in this country have, they are able—with other advantages which I shall come to later—to match up more readily supply to demand.

Because of the usual after harvest rush to sell grain due to pressures of storage and finance, there are more offerings of corn than the trade can absorb. What happens? I, as a farmer, anxious to dispose of part of my crop, approach a buyer who is only interested at a price below that which the levy dictates. But because of the factors mentioned before, I must sell. So perhaps I accept a price for barley of £2 per ton below the target indicator price. Having done this the market is broken, and a general slide in

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prices could follow. This is clearly unacceptable, so straight away there is an obvious necessity of having a reserve buyer who is bound to buy at the levy price providing the quality is acceptable. Who is this buyer to be—is it perhaps the HGCA?

Now let us pause at this stage and examine what happens in France. There the situation is highly organised and sophisticated and, in fact, dates back to the Wheat Organisation created before the War. The main provisions and advantages of this system are:—

1. The possibility for growers to delay their sales because of advances on their grain obtained from an agricultural credit organisation at low rates of interest.
2. A system of monthly increments, much as we have over here on wheat, which gives an incentive to store and spread sales.
3. A rigorous enforcement of these prices because:—
 - a. Growers are forbidden to sell directly to end users.
 - b. They must pass their grain through an intermediary called Organisme Stoccur whose duty it is to register all grain passing through the warehouse.
 - c. Very tight control over the movement of corn to ensure that it does not go direct from producer to consumer.

All of this, it will readily be seen, is designed to strengthen and bolster up the bargaining position between the farmer and the end buyer, because the French have learned that without this, the imaginary situation which I have described as happening over here after harvest does and will occur.

Therefore, one must accept that it will achieve little just to give the Home Grown Cereal Authority buying power without all the rest of the paraphernalia which I have just described. But as I have said earlier, the existing structure of the merchanting trade in England is very different to that in France and, therefore, if the system is to work, far reaching structural changes will have to be grafted on to the present essentially Victorian system of trading. I will briefly mention a few of these problems.

Storage. Assuming that grain is bought by the state authority, which for the present discussion I have called the HGCA, where does it store what it has bought? Compared to France, there is very little off-

the-farm storage since as we all know storage on the farm has been encouraged by Government grant. In fact, the position is completely reversed and it is interesting to note that farm storage in France amounts to some three million tons and off-the-farm storage in silos, co-operative and trade stores, 1 million tons. This obviously raises many problems since, if sales are made in this country, and assuming that the sold product can only be stored on the seller's farm, who is to see that it is kept in sound condition and establish the exact quantity; and furthermore, will storage charges be paid? Incidentally, a valuable by-product of the French system is that accurate exact quantities in stock are known at any time and indeed from day to day. It would be a bold man who could claim the same for our producers still working on a system based upon The Corn Returns Act of 1882.

Centres of Demand. Many of our compound mills and milling installations are located on the coast and particularly in the major urban centres. The reasons for this are obvious. However, if more home grown cereals are to be used, and more particularly wheat and barley substituted for maize, from a transport and logistic point of view they are now in the wrong place. We may, therefore, see a revival of the country mills and maybe even coastal and rail transport moving grain from the producing areas in the east to the consuming areas in the north and west.

Exports. Finally, a vital part could be played by exports particularly of feeding barley. It is reasonable to assume that as in France, income from levies could be used to subsidise sales abroad, particularly in Europe. Every cereal grower, particularly in the eastern part of the country, will know what an important factor barley exports have been in past years. However, if this is to be done efficiently, vast improved dock handling and storage facilities will have to be provided. The question is who will own and control them? In fact, one might say that if these facilities could equal the existing standards of equipment for importing grain, there would be little concern.

These then are just a few of the immediate problems of structure arising from a change of system and you may well say that I have asked more questions than I have answered. However, my main contention running through the argument is that the levy system cannot be made to operate satisfactorily without changing the whole system of marketing from top to bottom.

CO-OPERATION IN CEREALS

DISCUSSION SUMMARY

Mr. Baker (ADAS, Winchester) opened the discussion by asking the following question: "In view of all the advantages cited for group cereal trading, why does it not play such a large part in UK cereal marketing?" He raised the following three basic factors which he believed were operating against co-operation in marketing, and felt that they should be discussed since they were likely to have an important influence on any future developments in cereal marketing in the UK that might arise from the UK joining the EEC:—

1. Cereal farms were getting larger, more specialised and tending to concentrate in the areas where climate, soils and farm structure favoured cereals. This raised several issues, e.g. any benefits from group trading concerning economy of scale were likely to diminish unless there was a change of policy from on the farm to central storage of grain. Concentration of cereal growing could facilitate the end user controlling production, but such vertical integration seemed unlikely.

2. The improving quality of the middle man as the inefficient became squeezed out of business or taken over by the larger trader or other organisation with an interest in marketing, such as the end user who always wished to market his field through local trading organisations. Despite the reduction in middlemen, most cereal growers still had a choice of several within a radius of, say, 20 miles who ranged from the sophisticated broker to the small local trader, and it could be argued that these offered all the services supplied by a co-operative such as East Kent Cereal Growers without the overheads of a separate office staff which could be expensive if only one commodity was being marketed.

3. Farmers obtained job satisfaction from selling their own grain and many felt that a good

seller of quality produce would obtain a better price than the average price of a pooled lot of grain from a farming group. This unwillingness to delegate their marketing was strengthened by their often close association with local merchants.

These three factors, together with the lack of a central storage, presented a powerful force acting against any dramatic change in cereals trading in the UK.

In reply, Mr. Rice emphasised that the East Kent Cereal Growers operated in an area that was virtually a peninsula with few corn merchants. When it was set up, no merchants were offering the credit and other facilities which they were then making available to farmer groups.

Several questions were asked about how the price obtained by the group compared with those offered by the local merchants to non-members. Mr. Rice said that any comparison of prices was very difficult; the group had three standards of wheat quality but the price obtained did not always follow the quality rating for several reasons. For instance, better quality milling wheat might be sold one year for less than compound wheat, if the latter was so under a forward contract arrangement that proved to be more favourable than the actual market price at the time of sale. He agreed that, in the main, farmers joined the co-operative not to receive a substantially better price but to enjoy the facilities of credit and delegate the time and effort of marketing their own grain.

Concerning loyalty, Mr. Rice said that all members sold all their grain through the co-operative but that the impact on the market of the co-operative was small because of the wide ratio of members to non-members in the area. He said that many more co-operatives would be necessary to provide effective competition with corn merchants