

## MARKETING BOARDS: AN INTERNATIONAL OVERVIEW

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### Summary

This article gives an overview of the early development and subsequent evolution of different types of agricultural marketing boards and related government-legislated marketing agencies. Major types of marketing boards and the different activities that they undertake are outlined and examples of different boards are given. During the 1990s, there was a reduction in the role and importance of marketing boards, reflecting changes in the economic and political environment that have resulted in deregulation of many agricultural marketing activities. Increasingly, the producer marketing boards that continue to provide useful marketing services to farmers are adapting and applying styles of management and operation that are more akin to successful corporations than operations of government. This reflects a shift away from adversarial relationships between producers and processors with a move to adopt models of cooperation that emphasize “supply-chain management” concepts. There is a tendency for domestic marketing boards to put less emphasis on regulatory and trading activities, in favor of a primary focus on market facilitating functions, such as the organization and funding of advertising and promotion and research, developing on-farm codes of practice that contribute to food quality and safety protocols, and related activities. These types of

functions can usefully be provided communally through group action. Funding such facilitating activities through a marketing board model can avoid a problem of “free-riding.” With these types of adjustments, agricultural marketing boards are likely to continue to be viable and useful components of the marketing alternatives available to primary producers.

## **1. Introduction and Overview**

Marketing boards are government-sponsored, compulsory marketing institutions that perform one or more of the functions of marketing agricultural products. The nature of marketing board operations is determined by legislation and these boards act under government-delegated or government-specified authority. However, marketing boards act somewhat independently of government, under the guidance of an appointed or elected board of directors. Although marketing boards can undertake a variety of marketing functions, their specific powers and thus their ability to undertake particular activities are provided legislatively, either through general enabling legislation that provides for particular types of boards to be established, or by specific legislation to establish particular marketing boards. Generally, the policies and operations of marketing boards are governed by directors elected by agricultural producers; some board members may be appointed by government.

Marketing boards were developed initially in the countries of the British Commonwealth in the 1920s and 1930s and became widespread in many nations into the 1980s. Subsequently, from the late 1980s and through the 1990s, national policy in many nations included reform of agricultural policy and deregulation of markets. Consequently, there has been a tendency to move away from direct government regulation and intervention in market operations for farm products. Thus, in some countries, many marketing boards have been eliminated (as for many domestic marketing boards in New Zealand and Queensland, Australia, for export grain marketing in Argentina and, more recently, in South Africa). In other countries, the scope of marketing board activities has been reduced, in a process of reform and/or privatization (as in Australia and for some boards in Canada; this has occurred as well for many government boards in several Latin American and African nations).

The purchase and sale of internationally traded farm/food products by state trading enterprises, which may include both marketing boards and government agencies, is a contentious issue, particularly where these bodies possess exclusive trading (i.e. “single desk” authority). Concern about state trading importers focuses on the protection from import competition that these bodies have afforded local production. Concern has also been focused on state trading exporters, including export marketing boards.

Critics of these bodies, particularly representatives of the United States government, contend that they may have an unfair trading advantage relative to commercial firms and may distort international trade in farm products. Consequently, the role of these bodies will be a focus of international trade negotiations for agricultural products in future multilateral discussions of trade policy for agriculture, as in discussions in 2000, and subsequently under the auspices of the World Trade Organization (WTO).

## 2. The Functions of Marketing Relative to the Roles of Marketing Boards

Understanding the roles of marketing boards and other marketing institutions such as cooperatives, individual traders, or commercial firms in marketing agricultural products is enhanced by knowledge of marketing functions and the process of marketing. Marketing is the performance of all the activities necessary to transform a raw product (e.g. a food, fiber, or other product) from its point of harvest or production to the point of final consumption. It is convenient to look at these activities in terms of three sets of marketing functions, physical or distributional, exchange, and facilitating.

Knowledge of marketing functions is helpful in understanding how markets work and the potential role of various marketing enterprises, including marketing boards. Marketing functions all involve inputs of one form or another, whether of time, effort, or money. Consequently, the functions of marketing (see Table 1) contribute to the costs of marketing, and also to the utility or value created by marketing and to the effectiveness and efficiency of particular markets.

I. Physical/Distributional Functions of Marketing:	
a.	Transportation from farm gate to consumer level
b.	Storage/holding inventories of farm and food products
c.	Processing of raw farm products into final form
II. Exchange Functions of Marketing:	
a.	Buying; this may include assembly of products from different sources/areas/quality assessments
b.	Selling; this may include product planning/development/promotion
c.	Price discovery/establishment, reflecting current demand and supply influences
III. Facilitating Functions of Marketing:	
a.	Information provision to participants in the marketing chain
b.	Financing of the costs associated with marketing functions
c.	Risk-bearing associated with physical and financial risks
d.	Grading/standardization of agricultural products in a manner that is meaningful to users and reduces the costs of marketing
e.	Good government to ensure security of people and property; provision of civil law that gives the basis for contract enforcement/bonding of agents; provision of other public institutions that enable markets to operate; and regulatory activities that accommodate market failures such as externalities or public goods.

Table 1. The functions of marketing

(Source: M. Veeman, Understanding local and regional markets for forest products, *Valuing Woodland and Forest Resources* (London: Earthscan, 2001))

The physical or distributional functions of marketing include transportation from the point of initial harvest or production to the ultimate consumer. Farm products are typically produced or harvested over geographically distributed areas that are a considerable distance from the central markets of major consumption centers. When there is regional dispersion of production, low value of product relative to its bulk, and/or perishable products, transportation costs can be a relatively large component of total marketing costs.

Like transportation, the function of storage, which involves inventories, is likely to be necessary at several different stages of marketing for products to be available at the time and place desired by consumers. Storage may be a major component of marketing costs when products are only seasonally available for harvest or when consumption has an appreciable seasonal component (as when preferences and demand increase at particular times of the year, such as Christmas or other seasonal celebrations).

The marketing function of storage is one means of overcoming seasonality if the product is storable. However, storage may be particularly difficult or costly if a product is perishable. Together, transportation and storage are two important components of the physical functions of marketing; they contribute value (or utility) to the raw product by making it available at the time and place desired by users. The performance of these two functions can involve appreciable marketing costs, while adding considerably to the value of agricultural products to the final user.

Processing is the other major physical function of marketing, reflecting the need to transform the physical form of most farm products before they are purchased and used by consumers. For many agricultural products, transformation of the raw product into the form desired and valued by consumers is a major marketing function that adds significantly to the value of the finished food or fiber product. Consequently, processing is likely to be a major component of marketing costs. The contribution of processing to market value and costs is evident in the transformation of livestock or grain into meat, flour, or bread.

Although there are examples of boards that undertake the physical activities of transportation, storage, and processing of farm products, marketing boards do not necessarily provide any advantage over private traders in performing these particular marketing functions.

Exchange functions of marketing involve buying, selling, and price discovery or price establishment. These will occur at the various stages of a marketing channel and in various institutional or organizational structures. In a market setting, prices arise from a process of price discovery and price levels reflect the nature of supply (associated with the availability of the good and sellers' willingness to provide it at particular prices) and the nature of demand (associated with the preferences of consumers and their willingness to purchase at particular prices).

Marketing boards must operate within the context of supply and demand, thus knowledge of these economic features is necessary to assess their potential or actual roles. The supply function for a good is derived from producer decisions and behavior. It reflects a positive relationship between sellers' willingness to sell and the level of price, since with higher levels of prices, all else being equal, producers will expend more effort to produce and market higher priced goods. In contrast, the demand function for a good develops from consumers' preferences and constraints and reflects an inverse relation between price and quantity demanded, all else remaining unchanged, since at higher prices, buyers will seek other sources or products and thus will postpone or reduce their purchases. At lower levels of the marketing chain than the ultimate consumer, that is, at wholesale and producer (farm-gate) levels, the concept of derived demand applies, reflecting the cost of processing and other marketing functions as well as the primary (consumer) demand function.

The process of price discovery that results from the concept of supply and demand is a fundamental feature of markets and the process of marketing. This may occur at different levels of the marketing chain and be organized through a variety of institutional arrangements, as through auctions at livestock assembly yards, organized commodity exchange operations of open outcry or electronic bidding, or various forms of private treaty trading whereby buyers and sellers negotiate prices after physical inspection of the traded item.

Many marketing boards have been involved in price discovery functions for agricultural products, typically at the first stage of price establishment beyond the farm gate. This may be based on bargaining with processors, as by fruit and vegetable marketing boards. Alternatively the board may operate various types of sales mechanisms, such as a teletype- or computer-based auction or various forms of bid-offer systems, as by basing price offers on market prices in larger adjacent markets or on prices generated in futures markets, adjusted for transportation costs. The latter types of price discovery mechanisms have been applied by provincial hog (pig) boards in Canada, for example. A more active role in price setting has applied for some boards (typically government boards) and these activities have sometimes been controversial.

Facilitating functions of marketing contribute to the effectiveness of markets and the efficiency of marketing processes. This group of functions includes market information, financing, and risk bearing. Grading and standardization may also be important. Provision of a legal and social environment or social services that lead to enforceable contracts and the absence of theft or graft could be termed "good government" and this can be viewed as another important market facilitation function expected of government if markets are to function well. Some of the facilitating marketing functions may be provided by specialized marketing agents that operate at various levels of a marketing channel. In other market situations, some facilitating functions may largely be provided by buyers or sellers. Lack of facilitation of markets and marketing processes may reduce the productivity of market participants, reduce the utility and value created by marketing processes, and add unnecessarily to the uncertainties and other costs of marketing resource products and services. Marketing boards can be involved in providing or augmenting one or more of the facilitating functions of marketing.

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### **Biographical Sketch**

**Michele Veeman** is professor of agricultural and resource economics in the Department of Rural Economy of the University of Alberta, Edmonton, Canada. She received a bachelor's degree from Massey University, New Zealand, and a Master of Science from Adelaide University, South Australia. Her Ph.D. is from the University of California, Berkeley. Dr. Veeman's research and publications focus on agricultural and food product markets, trade and policy, and the regulation of markets for primary products. She is a fellow and previous president of the Canadian Agricultural Economics Society.