

# Marketing Boards

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### **Abstract**

Marketing boards (state-controlled or state-sanctioned entities legally granted control over the purchase or sale of agricultural commodities) flourished in the 20th century in both developed and developing economies. Since the mid-1980s they have declined in number under pressure from domestic liberalization and from international trade rules that increasingly cover agriculture. Where reforms have been widespread and successful, marketing boards have vanished or retreated to providing public goods, such as strategic grain reserves or insurance against extraordinary price fluctuations. Where reforms have been less successful, the weaknesses of private agricultural marketing channels have been revealed by the rollback of marketing boards, often leading to calls for reinstatement of powerful marketing boards.

### **Marketing boards**

Marketing boards are state-controlled or state-sanctioned entities legally granted control over the purchase or sale of agricultural commodities. They can be divided into two broad categories. Monopolistic marketing boards that create a single-commodity seller are found mainly in developed countries. Monopsonistic marketing boards concentrating buyer-side market power in one institution were commonplace for many years in developing countries. Monopolistic marketing boards were typically established with the main objective of maintaining or raising and stabilizing farm prices and incomes in an administratively practical and politically acceptable manner. By contrast, monopsonistic marketing boards were typically established to give the state control over commodity prices – normally for the benefit of foreign and urban buyers – and capacity to tax agriculture so as to subsidize industrialization.

### **Marketing boards in developed countries**

Marketing boards are state-sponsored trading enterprises legally invested with monopoly powers to organize the marketing of agricultural commodities. These statutory entities

typically operate under direct or indirect producer control. Among the earliest boards were the New Zealand Meat Producers Board and the New Zealand Dairy Board, each established in 1922, the Australia Queensland Sugar Board of 1923, and the Australia Wheat Board, formed in 1939. In Australia, marketing boards used import protection and home consumption price schemes to stabilize producer prices. They initially received financial support from the state, although such support later declined as the focus of the boards changed. A number of state and commonwealth-level marketing boards were later established, with varying degrees of authority and responsibilities in the marketing of agricultural products such as wool, dairy, meat, wine and brandy, honey and horticultural products. The marketing boards in New Zealand evolved in a similar manner, with regulatory authority in export marketing and licensing but no direct financial support from the state. These boards, involved in the marketing of dairy, apple and pear, kiwi fruit, horticulture, meat and wool products, all used activities such as single-desk selling, price pooling, revenue pooling and preferential financing to seek higher producer prices.

The earliest major marketing schemes in Britain were the milk, potatoes and bacon marketing boards formed under the British Marketing Acts of 1931 and 1933. These acts enabled producers to set up marketing schemes that had the legislative power to ensure conformity by all producers. The core purpose of the marketing boards was to maintain or raise producer prices of basic agricultural commodities through acreage restrictions, direct or indirect limits on saleable quantities, and price discrimination, with higher prices in sheltered markets and lower prices in exposed ones. In addition, monopolies of processed products were legalized, leading to the organization of processor and distributor schemes. The marketing boards thus held the monopoly power to control supply, the terms of sale, and the channels and conditions of sale (Bauer, 1948). By 1948 marketing boards had spread to include all major agricultural commodities. In Canada, marketing boards were also formed in response to the price fluctuations of the Great Depression. The Dominion Marketing Board, a federal agency established under the National Farm Products Act of 1934, exercised extensive market power over the sale of regulated products, transferable to provincial-level producer-organized boards. The Agricultural Marketing Acts of 1940 and 1956 delineated the

powers of regulation and market control activities for the established and new federal and provincial marketing boards. The result was marketing boards with diverse market powers and scope of operations across provinces, and across boards within the same province. Some marketing boards act only in a supervisory capacity, whereas others wield more extensive powers in market regulation and control. Activities generally range from negotiating minimum prices, regulating quantity and quality of marketed products, collecting and distributing payments, as well as grading and quality control.

Several common features distinguish marketing boards in developed countries from those found in developing nations. First, marketing boards in developed countries tend to be specialized in both scale and scope of operations. For example, New Zealand currently runs strictly export monopolies, such as the Dairy Board, that have control over the country's agricultural exports but negligible influence over domestic production, sales, imports or tariff rates.

Second, marketing boards in developed countries tend to subsidize farmers at the expense of consumers, as evidenced by their mandate to maintain high producer prices for farmers through limited supply. One result is that marketing boards in developed countries have tended to generate windfall profits for the owners of farm land and other sector-specific assets in agriculture.

Third, and following directly from their role in subsidizing farmers, state trading enterprises tend to encourage and support cartels at producer, processor and distributor levels. Developed country agricultural marketing boards have been a major issue in international trade because historically they dominated certain markets. For example, McCalla and Schmitz (1982) estimated that 95 per cent of world wheat trade in 1973–7 involved a state marketing board on at least one side of the transaction. Because marketing boards enjoy greater flexibility than private traders in pricing – for example, they can commonly delay payments to producers, pool payments so as to reduce producer price risk, and can practise discriminatory pricing among export or import markets – their operations are closely scrutinized by the World Trade Organization for prospectively anti-competitive practices.

### **Marketing boards in developing countries**

Marketing boards in developing countries were typically begun during colonial times for purposes distinct from those of their counterpart marketing boards in developed economies. And they have followed a somewhat different trajectory from those of marketing boards in developed countries.

European colonial powers formed marketing boards in large measure to facilitate the export of agricultural commodities to Europe and to stabilize prices faced by colonial elites (for food crops) and metropolitan buyers (for export crops). Post-independence governments generally maintained marketing boards because these were considered simpler to manage and more efficient in conducting organized trade than the traditional, decentralized private sector. More compellingly, marketing boards provided a convenient way for the governments to maintain control over the marketing of strategic commodities, such as the food staples and important export crops (Lele and Christiansen, 1989). The marketing boards system was most prevalent in the anglophone African and South Asian countries, but widespread as well in francophone and lusophone African countries and in Asia and Latin America.

Marketing boards were both state-owned and state-funded, based on centralized decision making systems. They possessed the sole legal authority to purchase commodities from farmers and to engage in trade. Through the boards, governments typically fixed official producer prices for all controlled commodities, often in a pan-seasonal and pan-territorial manner whereby a single price was set for the whole marketing season and for all regions of the country. Marketing boards provided a guaranteed market for the farmers, absorbing all marketed surplus at the official producer prices, and maintaining extensive buying networks and storage facilities throughout the production regions. Pan-seasonal and pan-territorial pricing practices eliminated any opportunities for arbitrage, discouraging private investment in commodity storage or transport capacity, and reinforcing the government's control over the marketing channel. Unlike marketing boards in developed countries, producer sales into the network were rarely rationed, because the marketing boards' objective was normally to increase supply and lower prices for consumers, as opposed to controlling supply for the benefit of producers.

Two features of the export crop marketing boards – as distinct from those handling staple food commodities – are worth noting. First, the marketing boards held the sole legal rights in commodity export, and had a mandate to generate income for the state. Therefore, storage costs were maintained at low levels through selling policies such as rapid evacuation and forward selling. In addition, local producer prices were typically set at levels lower than the international free-on-board prices, through price fixing or overvalued exchange rates. Essentially, export crop marketing boards were used as a means to tax agriculture in order to develop the industrial sector in these agrarian economies. The taxes were often quite severe. In Tanzania, for example, local producer prices for coffee and tobacco fell to 23 per cent and 15 per cent of international prices, respectively, by the mid-1980s.

Second, because export crop marketing boards served foreign demand, no price controls existed on the selling end. Marketing boards could trade on an open market for the highest possible selling prices. However, because most of the former European colonies enjoyed preferential access to European markets under the Lomé Convention, most commodities were sold to Europe. In addition, some export crops enjoyed commodity price stabilization through international commodity agreements such as the International Coffee Agreement or the International Rubber Agreement. In those cases where a country enjoys world market power, a state marketing board can, at least in theory, increase prices and thereby extract consumer surplus from foreign buyers to benefit the exporting country, including its producers. This is one of the concerns surrounding state trading enterprises within global trade policy fora.

Even though the export crop marketing boards were generally established first, in most developing countries staple food commodity marketing boards became at least as significant a part of the parastatal system. For food commodities, government control extended to every stage of the market chain, to include farm gate, wholesale and retail price controls. In-country commodity movement was restricted, especially the movement of strategic food commodities, and private trade was either illegal or legal only by licence. To achieve food security objectives, food subsidies were generally offered, mostly implicitly, in the form of fixed consumer prices set at levels lower than the market price. Although farm prices were generally set at a below-market level as well, the

government often offered implicit subsidies to farmers, through price stabilization operations, and input and credit subsidies administered through the marketing boards (Lele and Christiansen, 1989). Moreover, pan-territorial pricing typically implied subsidies for farmers in more remote smallholder regions. In some countries and for some crops, these arrangements likely stimulated greater crop production than would have occurred under open market arrangements.

Grain marketing boards commonly also handled the strategic food reserves for emergency situations, and had the responsibility to import food in shortage seasons. These parastatals therefore held most of their nations' inter-seasonal and inter-annual grain storage capacity, a legacy that would affect inter-seasonal commodity price movements after the liberalization of commodity marketing systems in the 1980s and 1990s. Although processing was not their core business, marketing boards, in some cases, were also involved in preliminary processing, such as milling rice or maize, or in licensing and monitoring the processing industry activities. This underscores an important difference from developed country marketing boards: the breadth of commodity marketing boards' mandate in most developing countries.

Over time, the fiscal sustainability of marketing boards in developing countries became questionable. The broad range of marketing operations handled by marketing boards and the politically charged manner in which these operations were typically handled led to massive inefficiencies and deficits that cash-strapped central governments had an increasingly difficult time covering. The subsidies embedded in grains pricing systems, coupled with heavy overhead costs associated with high administrative, transportation and storage costs, soon created huge tax burdens. In an attempt to ensure food security, the state would generally increase producer prices with less than proportional increases in consumer prices, taking on responsibility for a significant share of the marketing costs associated with moving food from farm to table. The pan-territorial pricing system meant higher transportation and handling costs in moving commodities from some remote areas, and the management of large volumes of commodities in storage was costly. In addition, the monitoring of private trade was not only costly but generally ineffective, especially for food commodities in shortage seasons, when parallel markets flourished to meet local demand. In Mali, for example,

even though private cereals trade was illegal before 1981, only 30–40 per cent of total grain trade was actually handled by the state trading agency, OPAM (Dembélé and Staatz, 2002). On the international market, marketing boards faced decreasing real commodity prices for export crops, further undermining their sustainability.

By the end of the 1970s budget deficits resulting from the management and mismanagement of parastatals had reached astronomical levels in most countries. In Mali, OPAM's annual deficit reached US\$80 million by 1980, three times the board's annual grain sales. In Tanzania, the National Marketing Corporation's overdrafts were about \$250 million in 1993, against total state expenditures on agriculture of \$12million. The National Cereals and Produce Board (NCPB) of Kenya accumulated an estimated loss of about \$300 million by 1993, in contrast with central government expenditure on agriculture of \$33 million (Staatz et al., 2002; Lele and Christiansen, 1989). These patterns were by no means exclusive to Africa. Indonesia's price stabilization scheme for rice, managed by the National Logistics Supply Organization (BULOG), also proved a high price to pay for self-sufficiency, as did the Food Corporation of India.

In addition to budgetary complications, marketing boards also faced organizational challenges. Their susceptibility to bureaucracy and corruption increased both the inefficiency in their operations and the transactions costs for farmers and consumers. For example, Arhin, Hesp and van der Laan (1985) argue that by the mid-1970s the Ghana Cocoa Marketing Board had become little more than an instrument of the government for the purpose of mobilizing political support for the incumbent government.

Mounting deficits, poor management and the perverse incentives created by anti-competitive behaviour brought marketing boards and price stabilization systems under attack, based in part on seminal research into the welfare effects of government interventions to stabilize commodity prices (Newbery and Stiglitz, 1981). These deficit problems, coupled with the new economic insights, triggered widespread agricultural market reforms in the 1980s and 1990s throughout the developing world, implemented mainly but not exclusively, in the context of structural adjustment programmes (SAPs) of the World Bank and the International Monetary Fund.

Agricultural marketing reforms generally aimed to reduce the role of the public sector in marketing and to encourage private sector participation so as to let markets allocate scarce goods more efficiently. Marketing boards experienced major reforms under these programmes, comprising the elimination of price controls, termination of farm input and consumer food subsidies, removal of marketing boards' monopsony power and deregulation of private trade. In many cases, marketing boards were privatized or at least commercialized, the latter referring to cases where marketing boards remained government owned, but with autonomous decision-making power and an explicit objective to maximize profits. The logic was that, by removing political interference in the marketing process, market forces would lead to efficient resource allocation and price discovery. Market deregulation was thus expected to improve marketing efficiency by reducing transactions costs, increasing producer prices, thus inducing increased production and potentially also lowering consumer prices.

The response of the market was immediate and quite dramatic in many cases. Entry into formerly controlled agricultural markets was massive in most countries, although with continued bottlenecks in functions requiring significant capital outlays, such as bulk inter-seasonal storage and long-haul motorized transport, entry was typically restricted to niches with low entry barriers (Barrett, 1997). Nonetheless, formal and informal private traders became a significant part of the marketing channel, performing most of the trade activities that the marketing boards previously performed. In spite of widespread liberalization, marketing operations for most 'strategic' food and export crops changed little. Newly privatized or commercialized marketing boards were often replaced with 'new' marketing boards that were initially intended to provide public goods, but eventually and predictably became involved in crop marketing. In Zambia, for example, the government-owned Food Reserve Agency (FRA) that replaced the National Agricultural Marketing Board (NAMBOARD) in 1995, charged with maintaining the strategic grain reserve and acting as a buyer of last resort for smallholder farmers, in time took up prior NAMBOARD responsibilities such as fertilizer distribution. Moreover, some of the commercialized marketing boards did not significantly change their pricing systems and continued to use the power of the state to remain dominant players in the current market system. In Indonesia for example, even though the market was opened to

private traders, BULOG remained a price leader by operating a major buffer stock, purchasing rice when rice prices fell below a stated floor price and releasing stocks when prices rose above a price ceiling. Similarly, in the Kenyan maize sector the NCPB continued to intervene directly in markets to support maize prices; and in Malawi ADMARC remains the dominant maize buyer and distributor of inputs. Zimbabwe went so far as to reinstate the monopsony power of the Grain Marketing Board and its pre-reform operations. Not surprisingly, the budget deficit of these marketing boards actually increased after reforms.

These trends reflect governments' reluctance to relinquish control over marketing board operations, particularly the setting of prices for key food and export crops, given political sensitivity to these issues. As it turned out, such concerns were not completely unwarranted. In many developing countries the legacy of private underinvestment in storage and transport capacity, inadequate commercial trading skills in the nascent private sector, combined with limited access to finance, restricted entry into key niches of the marketing channel. These market conditions facilitated the emergence of new monopolies, often substituting private for public market power. Problems of weak contract enforcement, unreliable physical security and underdeveloped communications and transport infrastructure often impeded business expansion, market integration and price transmission. Despite increased private investment in transportation and storage infrastructure after reforms, the weaknesses of the existing systems implied considerable business risk. Consequently, private traders did not fully or quickly fill the voids left by the withdrawal of the marketing boards from core commodity market intermediation functions. Price volatility increased sharply in many countries. Moreover, farmers' access to seasonal credit dropped significantly as market liberalization ended formerly monopsonistic marketing boards' willingness to extend seasonal credit to growers that were collateralized by future sales. Reduced credit often led to fewer purchased inputs and lower crop output. In an attempt to restore market stability and production volumes, states often suspended or reversed reforms, reinstating price controls and trade restrictions, thereby further exacerbating instability and undermining investor confidence. The result has been incomplete reforms in most developing countries, where private sector involvement remains pervasive but small-scale and weak, while unprofitable

commercialized marketing boards remain prominent and prone to government interference.

### **The current state of play**

Far fewer marketing boards exist than previously. Because they reduce or eliminate competition, marketing boards are widely believed to induce inefficiency in marketing and sluggishness in price discovery. Therefore, government involvement in agricultural marketing has been weakening in both developed and developing countries since the mid-1980s, a result of the adoption of more liberal domestic economic policies, coupled with global pressure to conform to international trade rules steadily expanding their coverage of agriculture. The monopoly or monopsony powers of all but a few marketing boards have been lifted, and the marketing and processing activities of the boards have been streamlined. Where reforms have been widespread and successful, marketing boards have vanished or retreated to providing public goods, such as strategic grain reserves or insurance against extraordinary price fluctuations. Where reforms have been halting or unsuccessful, the weaknesses of private agricultural marketing channels have been laid bare by the rollback of marketing boards.

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*See also* Agricultural Markets in Developing Countries; Agriculture and Economic Development; International Trade; Lomé Convention;

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