MARKETING BOARDS OR ORDERS: MARKETING "TOOLS" FOR THE PHILIPPINES*

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Compulsory marketing schemes were first introduced to the marketing world in the late 1920's. Since then, these schemes – called *marketing boards or orders* – have increased rapidly in importance. Today they are an important part of the marketing operations in many lands, and may be found in countries as diverse in size, development, products produced and location as Argentina, Australia, Burma, Canada, Ceylon, France, Ghana, India, Iraq, Israel, Kenya, Netherlands, South Africa, Taiwan, United Kingdom, United States and Zambia, to name a few.

OBJECTIVES OF MARKETING BOARDS AND ORDERS[1]

Marketing boards or orders (hereafter referred to only as marketing boards or marketing orders) are public organizations established and given compulsory marketing powers by law.

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The primary objective of marketing boards is to improve the economic status of the producers involved. In general, this may be done in three ways:

1. They may help farmers by bargaining with large processors or wholesalers for more favorable prices (conceivably, they might be able to bargain with input suppliers for more favorable prices too), or
2. They may increase the demand for their members' products through quality control, advertising and promotion and developing new outlets, or
3. They may maximize total industry revenue from a given demand situation by any one or any combination of the following:
   a. Through the use of countervailing power, reduce super-normal profits of firms engaged in marketing the products.
   b. Perform selected marketing services like assembly, storage, transport, etc. in competition with existing firms, but at lower per unit costs or utilize lower cost marketing channels.
   c. Exercise compulsory control over the total output of the industry, and thus, improve or stabilize product prices.

If, as in many developing countries, the initiative stems from the government, broader objectives may be involved, such as developing agricultural production, protecting consumers, expanding export earnings and extending government control over various sectors of the economy. But specific objectives of:

(a) Raising funds for promotional, research and extension activities, or

(b) Giving producers bargaining power in the market place, or

(c) Improving market organization, marketing procedures and providing for more orderly marketing, or

(d) Equalizing returns from sales to markets with different prices, or

(e) Protecting producers and consumers against the impact of sharp price fluctuations, may dictate the type of marketing boards used.

requires the operation of market facilities and substantial trading for the boards' accounts. These boards may or may not have the legal power to require producers and the trade to use specified procedures, including adherence to fixed prices. They operate alongside existing marketing agencies. They buy from producers via licensed agents or their own buying stations and sell to existing distributors or through licensed outlets or their own outlets. To effectively implement the domestic stabilization of prices, complete control over exports and/or imports is often essential.

5. *Boards with complete (monopoly) control over products produced largely for export, including sales to domestic firms that process the products into goods for export.* Except for domestic firms that act as the boards' domestic-buying, processing or foreign-selling agents, the boards replace all private exporters. Domestic purchases are made via licensed agents or the boards' own buying stations; foreign sales are made directly by the boards or through licensed agents. The boards may own or lease marketing facilities, are normally backed by reserve funds in order to set producer prices, and possess wide compulsory powers.

6. *Boards that are given a monopoly in trading or processing a commodity in specific areas or market channels within a country.* These boards are generally concerned with products used primarily for domestic consumption, but where surpluses (if any, at desired domestic prices) must be exported at lower prices. Existing marketing agencies may be replaced by the boards or used as agents of the boards. In some countries, these boards have been established to provide needed marketing facilities that were not being otherwise provided. An advantage of monopoly boards is that by exercising control over supplies and prices, domestically, and paying an average price realized from sales, less costs, they should be self-supporting.

SOME PROS AND CONS

Two facts should be noted. First, the above-mentioned broad types of marketing boards, with their activities, do not mean that all boards and orders may be so easily classified. Indeed, some boards have been given responsibilities that cut cross two or more of the "types" listed. Second, the functions listed need not be performed by special boards. Advisory, promotional and quality control programs might be operated by existing governmental agencies or departments; price stabilization activities might well be assigned to a specific government agency; export operations, too, might be handled by an existing agency.

Most agricultural industries approach the perfectly competitive model and most agricultural products have relatively price-inelastic demands. Thus, compulsory control (with supply-control boards) over essentially the total output is necessary, if industry revenue and producers' incomes are to be increased. Otherwise, producers who choose not to participate in voluntary supply restrictions or controlled marketings may act on their own to expand output. (They assume a perfectly elastic demand at the higher price obtained by the board.) This could lead to an industry output beyond that which would maximize the industry's revenue and lead to a price decline. In other words, the effectiveness of supply control depends upon the number or producers outside the control of the board and the present and immediate potential output they represent. If small producers (who may use the bulk of their output for home use) do not participate in or are excluded from the scheme, an expansion of output by a number of them would have only an infinitesimal effect on the marketable supply and the total industry revenue. On the other hand, if a sizeable number of large producers remain outside the board's control, supply restriction or controlled distribution will likely fail.

Further, enhancing producers' incomes via supply-control schemes may affect consumers. By raising prices, income transfer may be primarily from consumers to producers through higher consumer prices. But if the boards succeed in reducing costs and/or profits of middlemen, the impact on consumers will be minimized. Also, if the boards achieve higher average prices via stabilizing prices, little impact may result since retail prices never fully and promptly reflect the extent of producer price declined during market gluts.

There are some obvious disadvantages of shifting present or potential responsibilities of government agencies to special bodies. It could lead to a division of activities, perhaps along commodity lines, that creates a whole new set of personnel jealousy problems, hampers unbiased (or less-biased) appraisal of program costs and benefits, restricts the development of across-the-board programs involving inter-commodity relationships, and encounters, perhaps, seasonal work "peaks and valleys" with a specific product that could more efficiently be handled by personnel involved with a number of items. And some governments may have highly flexible departmental administrative machinery, with qualified personnel to do the required work promptly and competently without resorting to special agencies.

But, on the other hand, some countries may have a cumbersome departmental administrative machinery, a salary scale inadequate to employ and keep competent personnel or personnel inexperienced in the real world of marketing and little chance of acquiring such. Further, a number of countries have spent thousands, perhaps millions would be more appropriate, of man-hours and units of their currency to develop effective farmer selling power in the market place through producer-controlled coöperatives. And much of this effort and expenditure has essentially achieved little due to the inability of fledgling cooperatives to compete effectively with existing market agencies that are typically well financed and deeply entrenched, through various means, in the existing marketing structure. Also, there are countries whose leaders rightfully doubt or question the probable operating efficiency of government agencies or who hesitate to see the government become actively involved in trade. Under these circumstances, a completely different situation prevails – a situation wherein special marketing boards with compulsory powers may be the only feasible way to operate. Farmer- (and perhaps trade-) controlled boards, under government supervision, could transfer most governments goal of helping farmers help themselves through providing them with the authoritative mechanism to do the job.

For more than one of the reasons given in the preceding paragraph, there is reason to believe that the use of marketing boards would be appropriate marketing "tools" for the Philippines. Cooperatives, as an alternative, have no enforcement powers and seldom obtain the full and continuous support and participation of all producers. If they are strong and achieve a measure of success in improving producer prices, non-members gain as much or more, without incurring the costs and potential risks involved. In the largely unregulated, fluctuating markets typically found in developing countries, cooperatives have found it most difficult to compete effectively with the private sectors of the trade. Therefore, cooperatives need a favorable "economic environment" in which to operate if they are to achieve their goals. *This "economic environment" can often best be obtained through the use of marketing boards that utilize cooperatives as purchasing agents – even giving them monopoly purchasing rights (in an area or areas) subject to the boards' supervision.*

HOW MARKETING BOARDS OPERATE

To illustrate how marketing boards operate, examples of those in operation in the United States and in Queensland, Australia, will be used. In the former, these marketing programs are known as marketing orders; in the latter country, they are known as marketing boards. In addition, brief statements of the operations of marketing boards in other selected countries will be presented to illustrate the kind of activities in which different types of boards are involved.

UNITED STATES[2]

Marketing orders in the United States are mandatory. They are issued by the secretary of Agriculture, under authority of the Agricultural Marketing Agreements Act of 1937, as amended. In general, orders can be issued only when 2/3 of the growers or those who produce 2/3 of the volume voting approve the issuance of an order, and the handlers (usually of 50% of the volume) have signed a marketing agreement. However, the secretary may issue an order even if the required number of handlers fails to sign the agreement if the necessary producer approval has been obtained and the secretary finds it to be the only practical method of carrying out of the objectives of the act.

Marketing orders have been issued for two classes of products – milk, and fruits, vegetables and tree nuts.

Milk. Approximately ninety milk marketing orders are in effect. Of this total, approximately seventy are federal marketing orders and twenty are state orders. Federal and state orders operate alike to directly influence producer prices by: (a) classifying all milk (in an order area) according to the use made of it, and (b) establishing prices for each class. Generally milk used for fluid purposes is class I milk usage and the surplus milk used for manufacturing purposes (as butter, cheese and ice cream) is class II usage. The prices for each class are set by an economic formula or by relating them to the prices of certain manufactured products. Of course, higher prices are set for class I milk, which is used for fluid purposes than for class II milk, which is the surplus used for manufacturing.

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[2]Adapted in part from: L. B. Darrah, *Food Marketing,* (New York: Ronald Press, Inc., 1967).

Usually the orders operate on a marketwide pool basis. Thus, the average producer's price is a weighted average price based on the use made of an order area's milk and the established class prices. Locational and butterfat differential adjustments are made to the average price for the order area to arrive at the precise price for an individual producer.

Milk marketing orders are administered by a milk market administrator and are usually financed by an assessment on the handlers.

Fruits, Vegetables, Tree Nuts. Federal market orders for fruits, vegetables and tree nuts may be issued on a nationwide basis (unless restricted to specific areas by legislation), but generally have been established to cover the production in a state, an area within a state, or in a few cases, production in contiguous states or a region. About fifty orders have been issued. They cover, a wide range of products, as: apricots, carrots, celery, cucumbers, grapefruit, lettuce, olives, onions, oranges, peanuts, peas, potatoes, tomatoes and walnuts, to name a few.

These orders operate to influence prices indirectly through the use of certain procedures to regulate marketings. Each order must provide for the use of one or more of these procedures. They are as follows:

1. Specify the grades, sizes, quality or maturity or products that may be shipped to market. (This method is often used. In practice, it results in limitations on the volume of undergrades and undersizes shipped to market, and improves the quality of early season shipments by forbidding the shipment or immature produce.)
2. Allot the amount of product that each handler may purchase or handle on behalf of producers.
3. Establish the quantity that may be shipped to market during any specified period. (This procedure may not eliminate a portion of the supply from the market, but rather it controls the rate of flow to prevent gluts and depressed prices.)
4. Establish procedures to determine the extent of any surplus, for control and use of such, and to equalize the burden of eliminating the surplus among all concerned.
5. Establish a reserve pool of the product, and the equitable distribution of the pool returns to all concerned.
6. Inspection of the products.

7. Fix the size, weight, capacity, dimensions or pack of the containers used.

In addition, the orders must contain provisions for one or more of the following:

1. Prohibiting unfair trade practices.
2. Requiring handlers to file selling prices, and to sell at no lower prices.
3. Providing for the selection by the secretary of Agriculture of an agency to administer the order.

Federal marketing orders also may contain provisions to conduct marketing research and development projects for the purpose of assisting, or promoting the marketing, distribution, and consumption of the products.

In addition to the federal marketing orders, there are also a number of state marketing orders in operation. In some states, these orders operate much like the federal orders. In other states, however, they generally provide only for the collection of an assessment from growers, based on marketings, which funds are used for three purposes; namely, advertising and promotion to maintain present markets or develop new markets; marketing research; and provide market information to producers concerning the crop, pack, market conditions, research findings and promotional efforts.

These orders are usually administered by a committee of producers or of producers and handlers and financed by an assessment on the handlers of the products involved.

QUEENSLAND, AUSTRALIA[3]

More than thirty marketing boards are operating in Australia. About a third of these are federal export boards, with the balance being state marketing boards. In Queensland, at least fourteen boards are operating under the Primary Producers' Organization and Marketing Acts. These boards are involved in the marketing of such products as maize, barley, broom millet, butter, eggs, cheese, cotton, ginger, navy beans, pigs, peanuts, sorghum and tobacco. The volumes[4] handled by

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[3]Adapted from: "The Primary Producers' Organization and Marketing Acts, 1926 to 1966," *Government Printer,* Brisbane, 1970.

[4]"Report by the Director of Marketing for the Year Ended 30th June, 1969," *Government Printer,* Brisbane, 1969.

some of these boards for the latest year reported (1968 or 1968-69) were as follows:

Eggs (South Queensland Board)	–	15 million dozens
Eggs (Central " Board)	–	1 million dozens
Barley	–	142 thousand tons
Sorghum	–	90 thousand tons
Maize	–	16 thousand tons
Peanuts	–	24 thousand tons
Navy beans	–	5 thousand tons

In addition, a number of fruits and vegetables are involved through "The Fruit Organization Acts, 1923 to 1964," and include items such as pineapple, citrus, apples, tomatoes, lettuce, and carrots, to name a few.

Under the "Primary Producers' Organization and Marketing Acts, 1926 to 1966," the general powers of the boards are as follows:

1. Purchase or contract for the use of land and personal property.
2. Build or contract for the use of buildings and repair, equip, furnish, and maintain such.
3. Dispose of property held.
4. When approved and in cooperation with other agencies:
   a. Conduct marketing studies, assemble marketing data, disseminate market information, and eliminate waste and unnecessary marketing expenses.
   b. Take steps to protect or enhance the industry involved and/or the producers engaged in the industry.
5. Assess levies from time to time on a commodity to provide for administrative expenses, a reserve fund, an insurance fund or for other approved purposes.

The marketing boards are empowered, among other things, to:

1. Employ such personnel as necessary.
2. Designate necessary agents and prescribe conditions of such agents.
3. Arrange for essential financial assistance.
4. Provide the commodity involved for consumption within

Queensland, and for its supply within Queensland during any period of shortage.

5. Make arrangements for the sale of the commodity handled to other states or countries.

General sections of the acts state that:

1. Except as prescribed, all of the commodity shall be delivered by the growers to the marketing board or its authorized agents.
2. Any person who, except as prescribed, sells or delivers any of the commodity from any person other than the marketing board shall be guilty of an offense against the acts.
3. Prescribed exemptions include:
   a) Such small growers of the commodity as the board thinks fit.
   b) Sales of the commodity direct to consumers or to retailers,
   c) Such portion of the commodity as is needed for home, livestock, or seed use.
   d) Other sales or purchases as may be prescribed or approved.

A Council of Agriculture is provided by the acts. The governor of the council may, if requested to do so by a petition signed by fifty growers of any commodity (or such other number as may be approved) declare the product involved to be a commodity under the acts. If a vote is necessary on the above decision (notwithstanding that 3/5 of the votes are favorable) it shall not be carried unless 50% or more of the eligible voters vote. As soon as practical after the application of the acts to a commodity, the secretary of Agriculture and Stock shall appoint a marketing board, consisting of the prescribed number of elected grower representatives and the director of Marketing as an additional member if the board is a marketing board.

OTHER COUNTRIES

1. Advisory and promotional boards:
   a) The Indian Coffee Board works to increase coffee sales, in sections of the country where coffee is not widely used, by participating in fairs and exhibitions, setting

up approved coffee houses, and demonstrating methods of coffee preparation.

b) The Ceylon Tea Propaganda Board sponsors tea centers, which provide well-made tea and information about tea in major cities of several countries.

2. Regulatory boards:

a) The Ceylon Tea Board provides an auction market, where wholesale trading takes place under its supervision and established procedures.

b) The Kenya Tea Board has, as its main function, the job of improving the quality of export tea.

c) The Iraq Grain Board has established quality grades and sales procedures for export barley and provides cleaning, grading, and storage facilities at its silos.

3. Boards stabilizing prices without trading:

a) The Kenya Coffee Board issues licenses to plant coffee trees or to maintain coffee plantations, and thus, controls production to influence prices.

b) The Tanzania Pyrethrum Board negotiates each year a tonnage and a price to be accepted by the East African Extract Corporation (to which all pyrethrum grown in the country is sold) for three years ahead. This gives a continuing agreement for forward sales.

c) The Moroccan Wine and Spirits Bureau allocates each year's output to different price markets. Producers receive different delivery vouchers calculated on the basis of their production and the quotas allocated to the different outlets.

d) The United Kingdom Potato Marketing Board keeps continuous records of prices realized. When prices fall below a specific support-level price, producers are paid the difference from a government subsidy.

4. Boards stabilizing prices with trading:
   a) The National Supply Institute of Colombia was set up to improve the marketing of and stabilize the prices of basic food crops. It maintained several purchasing points, wholesale and retail outlets and storage facilities.
   b) The South African Dried Bean Board approves suppliers to the board subject to their paying the set price to producers and be properly equipped to handle the product.
5. Export monopoly trading boards:
   a) In Uganda, the Cotton Lint Marketing Board purchases all lint cotton from licensed gins and disposes of the supply.
   b) The Ghana Cocoa Marketing Board has full responsibility for the purchase and export or other sale of the entire marketed output of cocoa.
6. Domestic monopoly trading boards:
   a) The Rhodesian Grain Board can make sales to the board obligatory for large grain producers, while leaving small peasant producers free to operate as they wish.
   b) In India, all coffee growers must sell their entire crop to a coffee pool controlled by the coffee board.
   c) Under the Kenya Maize Board, traders cannot transport maize out of the board's area, without having a movement permit issued by a market inspector.
   d) The Moroccan Grain Board uses its buying agents as selling agents by instructing them to deliver specified quantities, types, and grades to buyers who place orders with the board.
   e) The Kenya Meat Commission has the exclusive right to establish abbattoirs and meat processing facilities, except for those established under license granted by the minister after consultation with the commission.

TYPES OF MARKETING BOARDS FOR THE PHILIPPINES

Two types of boards may be appropriate for use in the Philippines. The most logical type would be that which provides for a domestic trading monopoly in specific areas or market channels within the country (type 6, p. 4). This type of board could exercise monopoly-trading power for selected items or for groups of closely related items, as vegetables. It could provide farmers selling power in the market place by replacing existing agencies or using existing agencies as licensed operators for the board operating under the board's direction. Such a board could provide the basis for the development of strong co-operatives, and ensure their viability until they become fixed agencies in the marketing system. At this time perhaps, the board could be eliminated or the operations shifted to a type 3 board (p. 3), and let the cooperatives regulate marketings in order to stabilize prices.

The second type of board that may or may not be feasible at this time is the export monopoly trading board (type 5, p. 4). The hedged statement (above) reflects the fact that marketing of some, if not all, export products is already highly efficient. Until major deficiencies are proven with existing systems, the use of this type of board may not be appropriate because the export of products requires knowledge and skills that the existing trade possesses, and which a board might find difficult to acquire. Also, improving producer prices for products sold in highly competitive world markets is much more difficult than doing the same for products sold in domestic markets.

SUGGESTED COMMODITIES FOR MARKETING BOARD OPERATIONS

A substantial number of commodities and areas can be listed as potentials for marketing board operations. But it is important, in the early stages of operations, to develop experience and expertise in the operation of these boards – experience and expertise that can be used effectively in organizing additional marketing boards for early effectiveness. Therefore, only a few commodities and areas will be suggested.

1) *Pineapple in the Cavite-Laguna area.* Reportedly intense price competition exists between growers seeking outlets for their own produce, quality control (if any) is exercised only by the growers, and wholesalers are claimed to have undue pricing powers to the disadvantage of producers.

2) *Citrus in the Bicol area.* This area, especially Camarines Sur, is the center of citrus production in the country. Producer competition for outlets is severe. And no provisions exist for the prevention of market gluts at peak harvest periods.

3) *Selected major vegetables in the Mountain Province areas.* Producers in this area operate as they did many years ago and the existing marketing agencies are generally little concerned

with improved marketing procedures. Prices fluctuate widely; producers have little selling power – being, as they say, "at the mercy of the middlemen."

4) *Eggs in Central and Southern Luzon.* These two areas largely represent the "egg basket" for the Metropolitan Manila area. Prices and marketing are reportedly largely "controlled" by a single firm. Producers have little or no marketing power and are subject to widely fluctuating prices; the marketing channels often used involve agencies that have little or no reason for existing in the area of egg marketing.

5) *Hogs.* This would need to be a national order, so that control could be exercised over all areas that ship hogs to the Manila market. Perhaps sub-orders for each of the major hog shipping areas like Cebu, Southeastern Mindanao, North Central Mindanao, Iloilo and others could be used to facilitate integrating the individual areas into a national program. Already farmers in one area have formed a cooperative, and are trying to exercise market power. But a cooperative is a voluntary affair, and full compliance with procedures is difficult to achieve. And the organization covers only a small portion of the total output. Further, non-members stand to gain as well as members, if the cooperative's activities are effective. Having legal authority to operate in the marketing of hogs could greatly improve the growers' opportunities for improved conditions.