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Marketing Boards
Pricing in Canada

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MARKETING BOARDS AND PRICING IN CANADA

Introduction

There is an increasing concern regarding the mechanisms and practices of price determination in agriculture. The objective of this set of papers is to delve deeper into these problems in relation to the causes, the results and the possible alternative solutions. The purpose of this particular paper is to look more closely at one of the organizational and institutional approaches adopted in Canada. Marketing boards have grown extensively in Canada beginning slowly as far back as 1929, and continuing with steady growth until the 1960's. In the last decade, the growth has been much more rapid.¹ This growth has culminated in national marketing board legislation.² More national and provincial developments can be expected in the near future.

Because of the current significance of marketing boards in the marketing of agricultural products in Canada, the objective of this paper is to review and analyze the role of these marketing boards in price determination and pricing of farm products. In so doing, I will comment on the extent to which boards determine or influence prices. Finally, I will try to provide a very preliminary assessment of the impact of these boards in regard to price.

Background

There are a sufficient number of features related to the organization and operation of marketing boards in Canada to require the presentation of some background information. The specific nature, organization, and procedures of each board - and there are currently more than 80* - is related to its commodity and the problems of its commodity, the relevant provincial or national legislation, including when that legislation was initiated or revised, the position of the commodity in Canadian and world agriculture and so forth. Thus both the theory behind the desire to establish boards and the actual evolution becomes relevant.³

The first step is to be clear on the definition, powers and objectives of marketing boards (or marketing commissions).⁴ -

"A marketing board can be defined as a compulsory, horizontal marketing organization for primary and processed natural products operating under authority delegated by the government. The compulsory feature means that all farms producing a given product in a specified region are compelled by law to adhere to the regulations of a marketing plan. The horizontal aspect means that marketing boards function over the output of all farms participating in the particular marketing scheme, and that they aggregate the supply from all the farms up to a chosen or permitted level. Government authority through legislation is essential to achieve the required compulsion. The power of the boards utilizing this authority is generally wide enough to affect the form, time and place of

* This number is purely agricultural boards and commissions, and omitting Pulpwood and Oyster boards and after the consolidation of the Quebec manufacturing milk boards.

and directly or indirectly, the prices. It is clear that this is a powerful and far-reaching type of market organization and that society takes a very significant step when it gives these powers to one group in the economy."⁵

What are the objectives of such a powerful institution? I have defined them elsewhere as: -

- (a) to maintain or increase the incomes of the producers of the particular product;
- (b) to stabilize income from the sales of the product;
- (c) to standardize the terms of sale of the product.⁶

This last objective has also been put in a wider context - "to equalize market opportunities or market returns as between different producers."⁷

Now a brief word about the organizational and legal background. Agriculture is a shared responsibility between the ten Provincial Governments and the Federal Government under the British North America Act, 1867. All the provinces have some form of legislation which sets up a provincial marketing board or council. The Federal Government established a National Farm Products Marketing Council in 1971. These boards or councils have the authority to establish (or recommend to Ministers to establish) commodity marketing boards within the province or nationally with particular powers and each with a specific marketing plan or scheme. Once a commodity board is in operation, the role of the provincial board (or council) is to supervise the commodity board. The diverse nature of Canadian agriculture and politics has resulted in a wide divergence of powers given to commodity boards and a differing approach to supervision. Hence, it becomes almost impossible to summarize on a nationwide basis the current philosophical approach to boards and their operation.

Price Determination

With this background introduction, we can enter the real discussion of the paper. The determination of the prices of farm products has a host of problems related to it.⁸ As witness to this, our profession abounds in articles, bulletins, texts and reviews on this subject. A somewhat oversimplified statement of the problem is that the market mechanism for farm products is full of inefficiencies. The basic difficulty is that for most commodities in agriculture there are many sellers and only a few buyers. In addition, there is frequently lack of knowledge or insufficient knowledge on the part of individual farmers and of groups of sellers of the particular demand and supply situation. These conditions apply both at specific times of decision-making in the short-run regarding sales by farmers and for the longer-run decisions of production alternatives and the production mix.

These concerns have been some of the prime reasons for the search for different procedures in the market place and for marketing boards to have acquired such a large role in marketing in Canada. However, it is not the only reason - increased bargaining strength of farmers as a group has also been very important - and this leads to other objectives than simply overcoming inefficiencies in the market place. Nevertheless, in order to develop the analysis of the marketing boards in price determination and pricing, it is necessary to look thoroughly at the range of actions taken by boards under the various marketing plans. Such an analysis should provide not only an insight into the workings of the boards in the market place, but more particularly should give an indication of just what powers and procedures the boards have with regard to price.

Analysis of Powers and Procedures

In the light of the long list of boards and the wide range and variation in powers and procedures, a comprehensive analysis was made of all the boards operating under provincial jurisdiction in Canada.* A major criterion determining the type of procedures is the nature of the commodity itself. Thus the initial step was to place all boards into one of ten commodity groups. With a few rather arbitrary classifications, the result is as follows: -

<u>Commodity Group</u>	<u>No. of Boards</u>	<u>Comment</u>
1. Grains	6	Excluding Canadian Wheat Board
2. Sheep, Wool, Cattle	4	Excluding Canadian Sheep Council
3. Hogs	7	
4. Dairy	15	Including Provincial Milk Commissions but excluding Canadian Dairy Commission
5. Eggs	11	Excluding National Egg Marketing Agency
6. Broilers	8	
7. Turkeys	5	
8. Fruit	11	
9. Vegetables	16	
10. Tobacco and Honey	6	

At first glance this list would appear to encompass most of Canadian agriculture. However, the large concentration is in poultry (including eggs, broilers and turkeys) and dairy where every province with any significant production is covered. For hogs there are boards in most of the major hog-producing provinces. In other livestock, there are actually very few marketing boards. For grains, the Canadian Wheat Board is responsible for sales of

* At the present time, there are three agricultural marketing boards operating under Federal jurisdiction - the Canadian Wheat Board, Canadian Dairy Commission and the national Egg Marketing Board. These are analyzed separately.

prairie wheat, oats, and barley, and for movement but not sales of rapeseed, flaxseed and rye as well. Thus grain marketing boards are confined to Ontario and to intra-provincial trading within Manitoba and Alberta.

The rest of the boards cover a wide collection of commodities mainly fruits and vegetables.

Specific Powers and Procedures

Within each of these commodity groups, the specific powers and procedures were separated out to give an indication of the extent of the control of each board. A preliminary detailed analysis for each commodity group is given in ten appendix tables attached to this paper. Powers and procedures have been grouped under fourteen headings. Each heading is on action having some effect on price. An explanation of each heading is given in Appendix Table II.

In this analysis there is, however, an additional difficulty. Once the marketing board is brought into existence, it constitutes a new institution in the marketing system and often this occurs in such a way as to break down price into separate parts. First, rather than a market price, in many instances there is a producer price and a market price. Second, two-price systems often develop such that sales to a preferred outlet sell at a higher price and to the less preferred outlet at a lower price. With or without boards, prices differ for sales for fresh and for processed consumption but when a different board handles each type of sale, the prices are determined in a more distinct fashion.

Price determination in the Canadian context, as in agriculture elsewhere, is complex. In this paper the attempt is being made to review the totality of marketing boards but emphasis has had to be placed on the provincial nature of most of these boards. It is also true that sections of Canadian agriculture are either developed or organized on a provincial basis. Thus the question of price determination becomes one of local or provincial prices. However, the regional and national price situation cannot be ignored when Canadian production and marketing is involved or when national marketing organizations exist. To handle this problem it is necessary to consider a basic national or regional price and its determination and then separately the actual price received by individual producers or specified groups of producers and the determination of this price.

Some Comments on the Influence of Boards on Price

The grouping together of the marketing boards and the analysis of their procedures leads to a few general comments. They are necessarily very summary in nature and do not reflect specific actions of individual boards. There is a scale in descending order of the strength of the powers of the boards and their influence on price. At the top of the list are the fluid milk boards or commissions* which directly fix price and establish marketing quotas for a given milkshed. The actions and regulations of the Milk Boards determine the price to producers for all milk delivered to the fluid market (excess over this goes into the manufacturing market at a lower price). This price is paid by wholesalers and affects closely the consumer price. In most recent years changes in

* Strictly, these commissions are not in the same context as marketing boards as they are set up under separate legislation and are not under the general provincial marketing board legislation.

these prices have been determined by supply and the factors affecting supply, especially inflation in input costs. To the extent that fluid milk quotas can be bought and sold and that prices for quotas have been rising in the past decade, milk boards and commissions have had a fairly strong influence on price and kept margins high.

The next group is poultry products - eggs, broilers and turkeys. In every case, the boards can set minimum sale prices by producers and marketing quotas.⁹ Since their establishment over the last decade, (many very recently) they have raised prices by using restrictive sale quotas. Poultry products flow relatively freely in international trade and this puts distance limits on the extent to which commodity boards can actually determine price. An added aspect is the high degree of vertical integration in this industry making price formation for the product very difficult to discover.*

In a special class is the Ontario Flue-Cured Tobacco Marketing Board. This board has powerful production quotas, large auction market, grading and storage facilities and price negotiating activities. On the face of it, its price determining powers are considerable. In practice, Ontario prices have seldom departed from the world market prices which are determined by a wide range of supply, demand and export subsidy situations especially those in the United States.

Another major group of boards negotiates price with the major buyers - often very few in number and sometimes just one processing plant. The estab-

* This is an increasingly important problem in Canadian agriculture which warrants separate study.

lishment of these boards has ensured that every producer receives the same price, that quality standards are fair and uniform, and that delivery arrangements are not arbitrary. However, the buyers generally determine volumes and thus if producers press for higher prices, buyers take lower volumes. Those boards which cover more than one market outlet, i.e. fresh and processing and/or domestic and export have greater opportunity to influence prices and a chance to determine them. While these general comments can be made, major analyses are needed to determine the extent to which these boards specifically influence and establish price.

In the remaining commodities, the activities essentially amount to organization of markets, e.g. hog board tele-type systems, Ontario Fresh Fruit Board, Alberta Feed Grain Commission and the promotion of product and market development, e.g. Alberta Cattle Commission, Alberta Sheep and Wool Commission, many fruit and vegetable boards.

Some Specific Examples¹⁰

Following the above generalizations, a few examples of specific boards and their pricing operations illustrate the above general comments.

In British Columbia, where almost all the milk produced in the province is consumed in the fluid market, a formula is used to price this milk. The formula includes a number of demand variables but is largely dependent upon the farm costs of production. Buyers of fluid milk must pay the price calculated according to this formula, thus the British Columbia Milk Board determines the price fo fluid milk in that province.

In Ontario, where a major part of the milk produced enters the industrial market, a dual system of pricing is used. All fluid milk is based on a pricing formula but while producer costs of production are looked at closely, consumer considerations are also taken into account. For industrial milk, prices are determined in regard to federal support levels and prices in other provincial markets. These two sets of prices are pooled to producers. Buyers of milk for different uses in Ontario must pay the prices determined by the Ontario Milk Marketing Board but outside influences including federal support subsidies and the world market supply and demand affect these prices strongly.

The Ontario Flue-Cured Tobacco Growers Marketing Board has wide powers including ability to fix minimum prices for the sale of its tobacco. The board annually negotiates with processors and buyers a minimum price that the board feels the producer must receive to cover his costs. A close study of Canadian and American tobacco prices shows that Canadian prices, in fact, follow the trends of the United States price very closely. Canadian prices seem therefore to be almost solely determined by the United States market.

A large quantity of tree fruits (apples, pears, cherries, peaches, plums, apricots) is grown annually in the Okanagan and adjacent valleys of central British Columbia and the British Columbia Fruit Board was one of the first marketing boards in Canada. The marketing of the fruit, other than that from roadside stands, is in the hands of the single-desk selling agency, British Columbia Tree Fruits. Rather than price fixing, B.C. Tree Fruits sets a price which will sell fruit in the market. Prices cannot be forced on the market for fruit because consumers can turn to another source of supply and buy at a lower price. Apples, which keep very well, can be taken off the market until a later time when the price set can be achieved. With cherries, the marketing season

is very short and the price must be set right at the beginning because the price will change very little over the short season. If the price is set too high, the fruit will not sell and if too low, it will not offset production costs. Thus, while the Fruit Board and the selling agency has wide powers and extensive control over the packing, storage, processing and movement of the fruit, for the most part, fruit prices are set according to demand and the general fruit and food supply situation.

Not Egg.

C.W.B.

C.D.C.

Summary and Conclusions

This review of the large number and wide range of marketing boards in Canada has analyzed the procedures to determine or influence price. Some tentative conclusions can be reached. First, the operation of marketing boards has ensured that farmers receive equal treatment at the hands of buyers and that often pooling means that all farmers get the same price through the season. Second, a few boards, largely those handling fluid milk determine prices. Third, another group, especially the poultry group have a major influence on price levels but this is limited by international trade flows and prices and demand for and supply of other foods. Fourth, there is another group of boards that negotiate prices with buyers but it is difficult to discover the extent to which these boards influence the producer price beyond the basic supply and demand situation or expectations of the situation at the time of the negotiations. Fifth, there is a large number of boards that have, in a variety of ways, improved the organization of the market and thus improved price determination and/or prices received by individual producers. Six, there is a final group that influences price through promotion and market development.

Of course, these comments on price are not mutually exclusive and a few boards have practiced several of these steps. Finally, in attempting to establish these tentative comments on pricing by marketing boards in Canada, no reflections are intended on the value, efficiency or success of these boards, particularly in relation to the attainment of the objectives of marketing boards.¹²

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2. Farm Products Marketing Agencies Act, 1972. This Act enables national marketing boards to be established. Earlier Federal legislation had only facilitated the operation of provincial commodity boards - Agricultural Products Marketing Act, 1949, amended 1957.
3. G. A. Hiscocks, Market Regulation in Canada, Canadian Farm Economics, Volume 7, No. 2, June, 1972.
4. op. cit. Marketing Boards almost always have a board of directors elected from producers of the product. The title "Marketing Commission" is confined to those boards where the board of directors is appointed by the controlling Council or Government and sometimes includes representatives from other parts of the marketing system.
5. op. cit. page 20-21
6. op. cit. page 21
7. Michele M. Veeman Alternative Techniques of Quota Regulation by Marketing Board Actions, published in Market Regulation in Canadian Agriculture, Occasional Series No. 3, University of Manitoba, May, 1972.
8. See for example, F.L. Thomson and R. J. Foote, Agricultural Prices, McGraw-Hill Book Company, Inc. 2nd ed., 1952.
9. H.V. Walker Marketing Boards and Quota Policies for Canadian Farm Products: An Appraisal of Performance, Farm Foundation, 1968
10. The specific examples are based on interviews with key persons involved in these marketing organizations.
11. H.B. Huff, B.B. Perkins, S.M. Smits, An Economic Appraisal of the Market for Ontario Flue-Cured Tobacco, University of Guelph, Publication AE/72/8, August, 1972.
12. This paper summarizes a great deal of data collection and analysis. It is the intention to publish most of this information.

APPENDIX TABLE 4

- 1) Pooling: The board can pool all the proceeds from sales so that each producer receives the same average price after adjustments for such items as grade.
- 2) Consumer or Wholesale Price: The board has the power to set wholesale or consumer prices or both.
- 3) Producer Prices: The board has the power to set min and/or max or fixed producer prices.
Fx - Fixed; Max. - Maximum; Min. - Minimum
- 4) Formula; Negotiation; Price Fixing: The board uses one of the following means of setting a price
F - Formula; N - Negotiation; Fx - Price fixing.
- 5) Quotas: The board has power to set marketing and/or production quotas for every producer.
- 6) Licensing: The board has power to require licensing of growers, producers, processors or dealers, or any other person involved in any way with the marketing process.
- 7) Seizure and Disposal: The board has the power to seize and dispose of any product marketed contrary to board orders.
- 8) Regulate Interprovincial and Export Trade: The board has the power (delegated by the federal government) to regulate interprovincial and export trade.
- 9) Import Control - packaging: The board has control over imports in that it prescribes the type of package to be used.
- 10) Purchase and/or Sell: The board has the power to purchase and/or sell the regulated product as it sees fit.
- 11) Market Information: The board supplies market information to producers and any other interested persons.
- 12) Market Development - Domestic: The board develops new domestic markets.
- 13) Market Development - Export: The board develops new export markets.
- 14) Promotion: The board can undertake promotion of the regulated product.

	Pooling	Consumer + wholesale	Producer	Price Type	Quotas	Licensing	Seize + dispose	Interprov. + export	Import Control	Purchase + sell	Market Info.	Domestic	Export	Promotion
6. Broilers														
British Columbia Broiler Mk. Bd.	✓		Mn. Mx	N	M	✓	✓	✓	✓					✓
Alberta Broiler Growers' Mk. Bd.			Min	N	M	✓	✓	✓						
Saskatchewan Broiler Chick. Pr. Mk. Bd.			Mn. Mx	N	M	✓		✓						
Manitoba Broiler Chick. Pr. Mk. Bd.			Mn. Mx	N	M	✓				✓				✓
Ontario Broiler Chick. Pr. Mk. Bd.			Min	Fx	M	✓		✓		✓				✓
Federation of Quebec Poultry Pr.			Min	N	P M	✓								
New Brunswick Broiler Gr. Mk. Bd.			Mn. Mx	N	M	✓								✓
Nova Scotia Chicken Mk. Bd.			Min	N	M	✓		✓						✓
7. Turkeys														
British Columbia Turkey Mk. Bd.	✓		Min	Fx	M	✓	✓	✓	✓					✓
Alberta Turkey Growers' Mk. Bd.			Min	N	M	✓		✓						
Saskatchewan Turkey Mk. Bd.			Mn. Mx	N	M	✓	✓	✓		✓				
Manitoba Turkey Prod. Mk. Bd.			Mn. Mx	Fx	M	✓				✓				✓
Ontario Turkey Producers' Mk. Bd.			Min	N	M	✓		✓						✓

	Pooling	Consumer + Wholesale	Producer	Price Type	Quotas	Licensing	Seize + dispose	Interprov + export	Import Control	Purchase + sell	Market Info	Domestic	Export	Promotion
8. Fruit														
British Columbia Fruit Bd	✓		Mn.Mx	Fx		✓	✓	✓						✓
British Columbia Cranberry Mkt Bd	✓				M	✓	✓							✓
British Columbia Grape Mkt Bd			Min	Fx										✓
Ontario Apple Producers' Mkt Bd			Min	Fx		✓								
Ontario Berry Grow. for Processing Bd			Min	N		✓		✓						
Ontario Fresh Fruit Growers' Mkt Bd			Min	Fx		✓		✓						
Ontario Fresh Grape Grow. Mkt Bd			Min	Fx		✓		✓						
Ontario Grape Growers' Mkt Bd	✓		Min	N		✓		✓						
Ontario Tender Fruit for Proc. Mkt Bd	✓		Min	Fx	M	✓		✓						✓
Saguenay-Lake St. John Blueberry Bd			Min	N	P M									
New Brunswick Apple Mkt Bd			Mn.Mx	N	M	✓	✓							

