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CURRENT ISSUES IN CATTLE PRICING & MARKETING IN IIOTSWANA

by

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Stephen Morrison is currently completing a doctoral thesis dealing with the Botswana Meat Commission and livestock marketing in Botswana. Michael Hubbard's study of the development of Botswana's beef industry (D. Phil, University of Sussex 1983) will shortly be published by Routledge and Kegan Paul

1. Botswana’s meat export parastatal, the Botswana Meat Commission (BMC), has been much in the local news lately. Cattle suppliers have become accustomed to substantial annual producer price increases from this successful national industry, which has expanded increasingly into European markets. But at the end of 1984 it was announced that there would be no bonus paid and no price increase for 1985. This was later changed to a small 5% price increase, following producer pressure. Then followed allegations of managerial extravagance and corruption, voiced in the National Assembly, and the sudden retirement of the executive chairman.

2. These notes look at some of the principal issues in cattle pricing and marketing in Botswana which underlie the present concern – namely the recent performance of BMC, the proposed Francistown abattoir, the impact of the growing domestic beef market and the organization of cattle supplies to BMC. The conclusion reached is that cattle pricing is likely to be an increasingly controversial issue in the near future as BMC struggles with the two opposing goals of capacity expansion and cost reduction, and government struggles with the equally conflicting goals of retaining high producer prices while putting the cattle Industry onto an increasingly cost covering basis.

Recent Performance of BMC

3. The experience of 1983 and 1984 was paradoxical for BMC. On the one hand the external marketing situation was better than It had been for years: with Foot & Mouth disease restrictions on entry into EEC minimised, BMC was free of the main impediment which existed between 1977 and 1981. Further, the beef regime within the Lome Convention was now firmly established allowing not only an adequate levy-rebated quota for Botswana’s immediate production possibilities hut also borrowing of quotas among ACP countries so as to absorb occasional excesses. Thus although the EEC was dumping beef increasingly onto Third World markets – effectively the only major markets besides the EEC and South Africa to which BMC has access, due to veterinary

regulations - and the South African market had cyclically weakened, BMC's revenue possibilities had strengthened: Net Sales (ie. Gross Sales less freight, storage, levies and other selling expenses) increased in 1982, 1983 and 1984.

4. On the other hand BMC found its annual surplus shrinking: in 1983 it had to dip into reserves to pay a bonus and in 1984 it made a very small surplus. The explanation of course is that its costs have increased. The 1983 Annual Report mentions higher producer prices, higher Income tax (because of higher turnover), higher operating costs (services, utilities, processing, packaging), high costs of initializing and running the Maun abattoir, and exchange rate losses (rising value of the Pula) as the sources of increased costs. As a result payments to producers fell from 73% of Net Sales in 1982 to 66% in 1983. Drought-related costs were an added burden: especially incidence of measles and therefore detentions, and lower carcass weight contributing to the rise in unit costs. Finally, administrative and slaughtering costs have been on a longer term trend of increase since the mid 1970s.

5. BMC was set up in 1965 as a public utility, meaning that it should slaughter and sell at the highest prices and lowest costs possible all livestock available to It. It is furthermore statutorily obliged to distribute to livestock suppliers all surpluses over and above legally stipulated contingency reserves. The implication is that decreases in meat prices and increases in BMC costs must be passed onto suppliers in lower prices, unless they are temporary and can be smoothed out using the contingency fund. BNC has no control over prices in foreign markets, nor over many of the increased costs with which it is faced, such as the Maun abattoir, drought—related costs, and inflation.

6. It has more control over administrative and production costs and, being effectively a monopsony (single buyer) domestically, it is essential that the state monitor these carefully. A focus of attention recently has been the performance of the

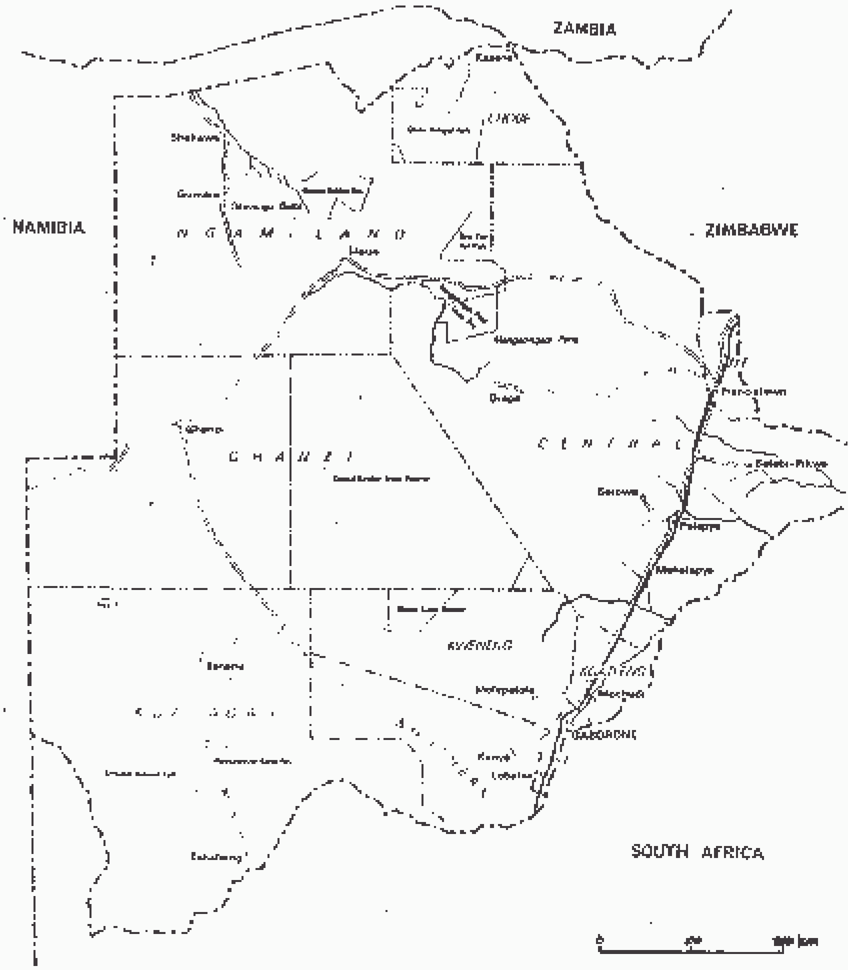
cannery and pet food lines which, when the meat used is costed at its best alternative use, have been loss-making operations, according to the 1982 ANZDEC consultancy report. Since keeping a cannery going is in part an insurance policy against closures of markets for fresh meat owing to disease outbreaks, the cannery losses need to be discounted to this extent. But whether the cannery should be operated fully or merely maintained on standby requires investigation. In sum, while BMC suppliers have become used to regular price increases, a number of current developments have been making for a decrease, or at least a lack of increase, in BMC prices.

Pricing at the_Botswana Meat Commission abattoir at Maun (see map 1)

7. The basis for pricing at BMC Maun has been: Lobatse prices less transport costs of cattle from Ngamiland to Lohatse. This has resulted in the subsidisation of Maun by Lohatse, since the difference in the realised net price of meat per unit weight between the two abattoirs, given the lack of access of Maun to EEC and higher production and transport costs at Maun, is greater than the transport costs of cattle per unit weight from Ngamiland to Lohatse, which determine the difference in prices. The reason for this price policy and the subsidisation of Mann is essentially pragmatic: to avoid smuggling of cattle into the Lohatse catchment area. But there is also a moral and political element: ‘not only producers in areas approved for higher priced markets should benefit from higher earnings, but producers nationally should share both the burdens and benefits of our peculiar situation, where we operate principally in export markets’ (BMC Annual Report 1983:6).

8. The payment of producer prices based on the net realised value of meat delivered to each abattoir would provide a firmer and more equal pricing basis than the present one, provided that the difference in net realised value became less than the transport cost difference, thereby eliminating the smuggling

Map 1 Republic of Botswana



Source: Govt of Botswana

key: road
railway

risk. This difference may be reduced in the future since the high production costs at Maun (for water, electricity, services) presumably contain a development cost element which will be reduced with the further growth of Ilaun. Transport costs will also be reduced with the tarring of the Maun—Nata road. The value of Maun throughput should improve as the drought ends, bringing higher weights and grades and as Maun beef is sold increasingly in South Africa rather than on other lower priced non-EEG markets. Higher taxation of Lohatse throughput would also reduce the Lohatse-Maun price difference. Raising of the throughput tax at Lobatse was recommended by the Presidential Commission on Economic Opportunities (Mmusi Commission) in 1982, owing to the heavy subsidization of the cattle industry and the levy-rebated prices received from EEC. The subsequent governmental White Paper on the Commissions findings confirmed that subsidization of the cattle should end. But since then opposition to any increased taxation of cattle has been strong and no action has been taken to implement the intention.

The Francistown abattoir

9. In 1979 the decision was taken in principle to build a BMC abattoir in Francistown. Since then, during detailed investigation, the issue has been strongly debated; hut it is now virtually certain that the abattoir will be built as soon as possible. Attention has now shifted to the extra costs that BMC — and therefore the producer in the form of a lower price -will have to bear in order to pay off the development costs (including commercial interest costs) of the Francistown abattoir. The question therefore has become less one of whether and when the Francistown abattoir will be built than of who will pay for it. The proposal is that the tax on slaughter at municipal abattoirs for the domestic market he raised substantially to equal the BMC slaughter tax and that the revenue raised be used to subsidise the costs of the Francistown abattoir. The effect of this would be to raise meet prices in the

towns — which the Government would no doubt wish to avoid owing to the dwindling urban support which it suffered in the 1984 general election, including the loss of the capital Gaborone to the opposition.

10. In part the problem of paying for the Francistown abattoir reveals the inadequacy of the BMC Act with regard to the planning and provision of expanded slaughter facilities. Since developmental reserves have not been set aside over the years, future suppliers rather than past and present suppliers will have to pay the costs of the new abattoir, assuming Government remains unwilling to do so out of the exchequer. Further, future suppliers might be less able to pay than those of the present and recent past who have benefited from levy-rebated access to the EEC. The responsibility for laying aside developmental reserves lies firmly with Government, since it is a statutory matter.

The future importance of the domestic market

11. Domestic markets for meat increase rapidly with economic growth. Many beef-exporting countries of former times are today net importers of beef, e.g. USA and South Africa. Several South American beef-exporting nations are likely to be net importers by the 1990s. The domestic market in Botswana remains small but has been growing quickly and by the end of the decade will possibly absorb some 20% of all meat marketed in Botswana (omitting village and home slaughter, thought to be a sizeable proportion of total slaughterings)

12. Rapid growth of the domestic market has resulted in adjustment problems in several exporting countries: conflict between foreign exchange earnings and local meat prices (in South America particularly); profitability crises for meat exporters (most notably the Kenya Meat Commission, said to be unable to compete internationally because of high overheads compared to small local abattoirs). Botswana and BMC will probably be spared the worst of such conflicts for a long time to come

owing to the very high livestock/population ratio, and therefore the large exportable surplus. However, the domestic market may nonetheless experience rising prices if it is saddled with paying costs of the Francistown abattoir. Generally, there is at present too little information available concerning domestic prices and markets to make well-founded predictions. Domestic markets therefore should be a key focus for future research on the livestock industry.

The organization of cattle supplies to BMC

13. Recently 6MG has begun to fall prey to old evils which appeared to have been buried in the mid—1970s but which now have arisen once more to haunt BMC: namely the payment of large bonuses instead of frequent reviews of floor prices; and the inflation of quota applications to such a large extent that quota allocation is rendered unworkable, and resort is had to emergency supplies or ‘short calls’ for much of the kill. These are drawn almost entirely from a very few large suppliers who have holding grounds near the abattoir. Such ‘short calls’ are obviously necessary to balance the throughput of the abattoir, but they should be occasional only. There is an urgent need for BMC either to make the ‘liquidated damages’ system (fines for non-delivery) work, as it seems to have done for some time in the mid 1970s, or to allocate quotas strictly in accordance with past performance on quota fulfilment. Otherwise intrigue will continue to surround the work of the quota allocation committee.

14. The other main issue facing BMC is whether cattle supplies will be adequate once the Francistown abattoir is in existence, without BMC altering Its present policy of not involving itself before the abattoir gate. The problem is less of overall throughput than of distributing throughput over the year: too little capacity in the flush season and too much the rest of the time. The main choice will be between using pronounced seasonal price differences (low in the flush season, high in the spring and early summer) and operating holding grounds, as was the

intention for the Lohatse abattoir in the early 1950s. Since BMC management will be stretched by the expansion to a third abattoir and large holding grounds are costly to run, the seasonal pricing option will probably be pursued.

Conclusion

15. The recent public concern about the running of BMC has brought to a head the underlying conflict between the expansion of slaughter facilities and the continuous increase in producer prices. Government's public stance since 1982 has been that the beef industry should become fiscally self-supporting; but it will find itself under increasing pressure from producers to maintain price increases - particularly given the recent large investments in ranch development under the Tribal Grazing Lands Policy. Government will also be keen not to alienate the towns Further by raising taxes on municipal slaughter in order to finance BMC expansion, or by forcing savings on BMC in the form of reductions of wages, employment or 'perks' of BMC employees in order to raise producer prices.

16. This adds up to the possibility that Government will become involved in subsidising the beef industry more rather than less heavily in the future, with the goal of fiscal neutrality being quietly discarded or indefinitely postponed. The Democratic Party is widely known as the party of the big cattle owner; recent evidence of the running of BMC and the first ten years of the Tribal Grazing Lands Policy tend to reinforce that view. Thus rather than buying its way out of conflict, Government could find that the most effective policy to secure its support in both town and country is: firstly, to ensure that BMC receives adequate surveillance in future with regard to its efficiency and fairness; and secondly, to ensure that the small livestock producer has a secure future - a concern that should be the focus of the Third Livestock Development Project.

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