

Why market agents and fresh produce markets remain critical links in the potato value chain

By Susan Marais, Plaas Media

By passing or eliminating a fresh produce market (FPM) and its market agents might seem like a cost savvy strategy for a value chain role-player. However, the few cents saved on commission fees could wind up costing the industry its entire free market.

One could be forgiven for thinking that it is open season on FPMs, and by association market agents. After all, last year the City of Tshwane was court ordered to make good on its promises to upgrade its FPM at a cost of R18 million. Around the same time Agri SA's CEO, Christo van der Rheede, wrote a letter to the minister of agriculture, land reform and rural development, Thoko Didiza, in which he stated that the conditions at the Joburg Fresh Produce Market were atrocious, and that neglected maintenance threatened human health, as well as the livelihood of thousands of hawkers and producers.

And most recently, the Competition Commission's Fresh Produce Market Inquiry (FPMI) was officially launched at the end of March. The Commission said there were enough red flags during their preliminary research to make FPMs the pivotal point of their inquiry.

Importance of price forming

Given all this background noise, micro-chain selling – farmers selling directly to supermarkets – could seem like a sensible way to not only secure a market for their produce, but also be a way to circumvent poor municipal service delivery. But while it might seem like a good way to save on both market and agent commission, this would devastate the free-market price discovery mechanism (also known as price-forming mechanism) and ultimately harm both producers and

consumers, says Wandile Sihlobo, Agbiz's chief economist.

Earlier this year Jaco Koekemoer, Potatoes SA's acting marketing manager, was erroneously misquoted by a news website in an article alleging he said the solution to easing the burden of high potato prices on consumers, was for retailers to bypass market agents and buy directly from farmers.

Koekemoer says this was a distortion of his words. "While we receive daily complaints from farmers who express their frustration over low fresh produce prices, Potatoes SA is in full support of the critical role that market agents fulfil. Their function cannot be underestimated."

Sihlobo says that while market agents do a sterling job in maintaining the free market system, it is true that all municipal markets need to improve their infrastructure, as this was creating problems at most of the country's 22 FPMs.

According to Deon van Zyl, chief commercial officer of Grow Fresh Produce Agents, it is especially markets run by municipalities that are causing a major headache. However, Van Zyl says, most municipal markets are quite functional and despite their shortcomings, FPMs offer real-life benefits when it comes to paying farmers. "Markets are the fastest paying off-take for producers, because they will receive payment within a week of delivery."

Furthermore, not only do markets supply food to the people; it also provide jobs to thousands of informal

traders and wholesalers who procure their produce from the market and re-sell it to earn a living. However, the survival of markets are constantly threatened by municipalities not investing in or maintaining the markets.

"But even if municipal markets were destroyed, there would still be space for market agents in the value chain. We will probably see a rise in the establishment of private markets and virtual trading would be expanded."

Critical to supply and demand

Van Zyl said a market agent serves as the link between the producer and his/her customer, the buyer. "We are an extension of the producer's marketing arm, and we are remunerated through an *ad valorem* commission structure which is paid by the producer.

"Market agents are essential in discovering the price of the moment on all produce consigned to agents on the fresh produce markets," says Van Zyl, adding that these price formations are essentially based on factors such as supply and demand.

Sihlobo agrees. "Although consumers and producers are currently under immense financial pressure, evading essential services



such as market agents and FPMs is not the answer. Market agents and FPMs play an important role in price discovery for both producers as well as consumers.”

The act of micro-chain selling – retailers buying directly from producers – would have devastating consequences in the long run, Sihlobo warns. “This will make farming very difficult, because farmers would not have a benchmark to hedge themselves against. Consumers will also suffer in the process, because there won’t be a clear indication of who is paying how much at which location.”

Especially smaller producers would suffer significantly if market agents were to become obsolete, because retailers would not be interested in procuring produce from every single producer, Sihlobo adds.

“It is, however, important to realise that there is space for both direct as well as indirect trading,” says Van Zyl. Historically, retailers used to only purchase from the markets, but the

deterioration of FPMs and the need to shorten supply chains have led to more and more retailers procuring directly.


“More than 60% of sales on markets are through the informal trade. While it may be more convenient to sell a whole shipment of produce to a supermarket, the price is still mainly determined by the FPM price. It is therefore imperative to protect our markets, and not let them go to waste.”

Value added commission structure

The realities of the free market are harsh: If you want to remain a role-player, you have to add value. Fresh produce markets’ right of existence is that it remains the most effective price discovery mechanism at the country’s disposal.

“In a nutshell: Should the direct sale of potatoes or circumvention of the markets grow out of proportion, it could have an adverse effect on price discovery, and producers would have less influence on the price, becoming

price takers in the process,” Van Zyl explains.

Currently, municipalities are responsible for the trading system that is used to operate markets. Initially, all sale proceeds go to the municipality or market. The market will then deduct its 5% commission and pay the balance into the agent’s trust account. The agent will then deduct his or her commission from the proceeds and pay the producer from his/her trust account. The producer therefore pays 5% to the market and between 6 to 9% to the agent. Agents will individually negotiate their commission with producers. 

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