

**INDUSTRY
COMMISSION**

**STATUTORY MARKETING
ARRANGEMENTS FOR
PRIMARY PRODUCTS**

**REPORT NO. 10
26 MARCH 1991**

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INDUSTRY COMMISSION

26 March 1991

Honourable P J Keating, M.P.
The Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 7 of the Industry Commission Act 1989, we have pleasure in submitting to you the report on Statutory Marketing Arrangements for Primary Products.

Yours sincerely

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Presiding
Commissioner

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Associate
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COMMISSIONER

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TERMS OF REFERENCE

INDUSTRY COMMISSION ACT 1989

I, PAUL JOHN KEATING, in pursuance of Section 7 of the Industry Commission Act 1989 hereby:

1. refer statutory marketing arrangements for primary products (at the Commonwealth, State and Territory level), excluding mining and forestry, for inquiry and report within ten months of the date of receipt of this reference;
2. specify that the Industry Commission report on institutional, regulatory or other arrangements subject to influence by Governments in Australia which lead to inefficient resource use, and advise on courses of action to reduce or remove such inefficiencies;
3. without limiting the scope of the reference, request that the Commission give priority to areas where greatest efficiency gains are in prospect, and areas where early action is practicable, having regard to:
 - (a) the identification and evaluation of the objectives of statutory marketing arrangements for primary products, including arrangements that regulate marketing or establish, or facilitate the establishment of, organisations to undertake or provide services to facilitate marketing;
 - (b) whether there are more efficient ways of achieving the objectives evaluated as sound; and
 - (c) the benefits and costs of introducing more efficient marketing arrangements.
4. specify that the Commission is to have regard to the established economic, social and environmental objectives of governments; and
5. specify that the Commission is to avoid duplication of recent substantive studies undertaken elsewhere.

P. J. KEATING

20 May 1990

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OVERVIEW AND FINDINGS

Special statutory arrangements are a traditional feature of the marketing of many agricultural products in Australia. Many arrangements operate through statutory marketing authorities (SMAs) whose functions range from advisory committees to trading corporations. Details are given in Chapter 2.

Most of these statutory marketing arrangements had their origins in the economic and institutional circumstances of several decades ago. In recent years, the Commonwealth and State Governments have commissioned a large number of reviews and have altered features of the arrangements which they have considered to be outmoded. This reflects a commitment of Governments at Commonwealth, State and Territory levels to improve the economic performance of industry by allowing markets to work better and to enhance the effectiveness of their own operations. This inquiry is part of that process of microeconomic reform.

The inquiry's main purpose is to report on institutional, regulatory or other arrangements, subject to influence by Governments, which lead to inefficient resource use, and to advise on courses of action to reduce or remove such inefficiencies. In pursuing this task, the Commission has not made detailed assessments of particular statutory arrangements for specific commodities or industries. Rather, this report is an 'in-principle' examination of the central issues, namely:

- the objectives of statutory marketing arrangements;
- their economic effects;
- ways to improve their efficiency; and
- priorities for change.

Objectives

Many objectives for statutory marketing were put forward by participants. These can be grouped into four broad categories, namely:

-
- to increase returns to producers;
 - to stabilise prices, production and incomes;
 - to reduce marketing costs and stimulate demand; and
 - to provide and/or deliver assistance.

The Commission has been required to evaluate whether these objectives are 'sound'. This evaluation is undertaken in Chapter 3.

Many objectives of statutory marketing arrangements are sound from the viewpoints of both producers and the wider community. However, with some exceptions (discussed below), these objectives are not sound from a community-wide viewpoint if they are based on powers which compel producers to participate, exclude entry to markets, or impose price increases on Australian user industries and consumers.

More specifically:

- increasing producers' returns from exports is a sound objective for SMAs from the viewpoints of both producers and the Australian community. Activities undertaken by SMAs to increase net export returns, such as negotiating overseas freight rates and promoting generic commodities, may be warranted in particular cases. Controlling supplies entering export markets may be warranted if the extra revenue obtained exceeds the costs of achieving it. But it is difficult to demonstrate that Australia has significant market power for any commodity, even where Australian supplies constitute a large share of world export trade. Compelling producers to export through an SMA, or excluding entry to export markets through export licensing or single-desk selling, may impose costs which are greater than any premiums received from export market power;
- increasing producers' returns by countervailing the supposed domestic market power of 'middlemen' may be a sound objective for primary producers. However, granting them statutory powers to increase their domestic returns is not likely to be sound from the wider community's viewpoint. It could overcompensate for any 'market failure' caused by the market power of 'middlemen'. It is also likely to lessen the efficiency of resource use if it is achieved by products being vested in or compulsorily acquired by an SMA, excluding alternative domestic marketers, or increasing costs of domestic user industries and consumers;

-
- some producers may benefit from increased price stability. However, imposing reductions in price instability through statutory marketing arrangements, even if requested by the majority of producers, is not a sound objective for all producers or for the community generally. Producers should be free to undertake their own individual or collective risk management and income stabilisation strategies;
 - reducing marketing costs and stimulating demand can be sound objectives for producers and their marketing organisations. It may also be sound from a community-wide viewpoint to provide statutory powers to meet these objectives if they are best tackled on an industry-wide basis -- such as through the development of standards and quality assurance programs, or generic promotion and research -- even if to do so compels all producers to participate. However, the use of coercive powers to compel all producers to sell through an SMA in order to reduce marketing costs through economies of size is not warranted; and
 - a statutory marketing arrangement may be a sound vehicle for delivering some forms of assistance. However, it is difficult to justify the provision of assistance as a sound objective for statutory marketing arrangements in their own right.

Detailed study is needed to apply these findings to specific commodity arrangements.

Economic effects

Some features of statutory marketing arrangements cater for the average -- or even the 'lowest common denominator' -- producer or purchaser. Especially where compulsion is involved, market signals for all producers are distorted and the more efficient producers and purchasers are penalised to support the less efficient. Chapter 4 outlines the economic effects of statutory marketing arrangements.

Many features of statutory marketing arrangements -- especially those dependent on powers of acquisition, production control and pricing -- adversely affect the efficiency of resource use.

Many SMAs have been innovative in improving their operational efficiency and in offering marketing and payment alternatives to producers. Nevertheless, statutory marketing can adversely affect efficiency both within the agricultural sector and in the wider economy. Within agriculture and the industries buying directly from it:

- compulsory acquisition by an SMA can reduce the incentive for producers to seek out the highest return markets. Compulsory pooling and equalisation of returns and costs can shield producers from adjusting to prices received from the lowest return markets and can reduce incentives to manage risk more efficiently;
- requiring purchases to be made from an SMA can reduce the incentive for buyers to shop around for least cost supplies and for products which best meet their special needs;
- compulsory acquisition can shield SMAs from the disciplines of competition and reduce their incentives to improve product quality and minimise costs;
- many price stabilisation policies in Australia, which have operated in conjunction with statutory marketing arrangements and allowed producers no choice, have reduced incentives for sound production and financial control, have crowded out the development of risk avoidance markets, and have redistributed income between producers and over time in ways which are not targeted on efficiency or welfare priorities; and
- production controls, which are sometimes used in support of domestic prices, raise costs and distort resource use.

In the wider economy:

- raising domestic prices of agricultural commodities increases the costs of user industries (mainly food processors using sugar and milk products). However, where the marketing arrangements operate by directly increasing prices of the processed product (as is the case for some sugar and dairy products) manufacturers of those products may benefit:

-
- raising domestic prices of agricultural commodities transfers incomes to producers and some food processors from other sectors. In 1988-89, statutory arrangements (and associated measures such as tariffs) are estimated to have directly raised consumer prices by about 0.3 per cent and taxed user industries and consumers of food products directly by some \$550 million;
 - statutory marketing arrangements expand exports of those commodities for which producers receive an equalised return from export prices and higher domestic prices. However, this mechanism for subsidising exports makes only a small contribution to Australia's balance of trade. The costs of these subsidies fall indirectly on other industries through their flow-on effects which give rise to higher wages and a higher exchange rate. Gross export expansion is largely offset by reduced exports from other exporters and by increased imports: and
 - restrictions on production or on access to markets, which support some statutory marketing arrangements, inhibit productivity growth. These effects can be more detrimental to national economic performance than the direct effects of domestic price distortions.

Improving efficiency of marketing

Whether institutional impediments force more reliance upon statutory marketing arrangements than is desirable, or impede desirable reform, is discussed in Chapter 5. Ways of improving the efficiency of agricultural marketing arrangements are discussed in Chapter 6. These include the rationalisation of objectives and powers of SMAs, allowing for some competition, improving accountability and clarifying the responsibility of Governments for the activities of SMAs.

- **Compulsion**

Compulsory participation can ensure that the producer benefits of statutory marketing are not undermined by individual producers standing outside the

arrangements. It can also facilitate an appropriate contribution by all producers who benefit from statutory marketing. But case-by-case examination is required of the costs and benefits of compulsion. If the benefits of compulsion do not exceed its costs, then compulsion cannot be sound.

Giving powers of compulsion to SMAs to enable producers to exercise domestic market power generally reduces, rather than improves, the efficiency of resource use.

Compulsory levies might be justified to finance activities such as research and generic promotion, where ‘free riding’ problems can emerge, and quality control, where the actions of particular producers could damage the reputations of others. However, the Commission questions whether compulsory controls over sales of the product through its vesting or acquisition are the most efficient means of financing such activities. Alternatives, such as marketing orders, need to be examined.

- **Trade practices issues**

Irrespective of how arrangements are formulated for the marketing of a particular commodity, judgment needs to be made about whether separate statutory provisions are required to give producers some market power, or whether general trade practices or fair trading arrangements are sufficient to ensure competitive markets. In one respect, the Commission considers that the general anticompetitive legislation is too restrictive.

There is no justification for the blanket trade practices prohibition on authorising voluntary recommended price agreements between fewer than 50 parties. Assessment should be undertaken case-by-case.

- **Deregulation**

Because of the possible unsoundness of their objectives or the powers used to achieve them, many statutory marketing arrangements require specific examination. Even where an objective is sound, a statutory marketing arrangement may not be the most effective way of pursuing it.

The introduction of more efficient arrangements raises issues about relationships of SMAs with other marketing organisations and of corporatisation, privatisation, ownership of assets and compensation. These issues are discussed in Chapter 5.

If statutory power is, in effect, transferred to a co-operative, then that co-operative should be just as accountable to Parliament and to producers as the SMA having the same powers would be.

Governments should continue to review their procedures allowing for the deregulation and privatisation of SMAs (or features of their operations). The reviews should consider ways of streamlining the process and reducing its costs.

Clarifying the ultimate ownership of SMAs' assets, and whether taxes would apply if they were transferred, would improve the basis for assessing the most efficient type or types of marketing organisation.

Priority areas and review provisions

<p>Greatest efficiency gains are in prospect from modifying or terminating those statutory marketing arrangements where domestic price effects are greatest, and those which control marketing outlets, prices or production.</p>

Commodities for which measured domestic price effects are greatest include sugar, dried vine fruit, milk and some others more important at a State level than Australia-wide. Many State SMAs have vesting and acquisition powers or other controls over prices.

Other State arrangements support prices either directly or indirectly through controls on production or market access, principally for sugar, milk, rice and eggs. The beneficial effects from raising productivity by reforming these restraints could be greater than the direct benefits of removing domestic price distortions.

Although wool has not featured highly in the Commission's estimates of past price and income effects of statutory arrangements, recent events have exposed the problem of trying to achieve price and stabilisation objectives in a manner which does not distort market incentives. It is most appropriate that wool is at present under review given the size of the industry and the tax which applies to wool sales.

Provision for periodic review of statutory marketing arrangements is wise not only because their objectives may be unsound and their powers promote inefficiency, but because commodity markets can change significantly over time. Many statutory marketing arrangements have recently been reviewed, are being reviewed, or are to be reviewed in the near future. Dairy and sugar industry arrangements are currently under review by the Commission.

All reviews of statutory marketing arrangements, both State and Commonwealth, should adopt an economy-wide approach and review committees should be constituted accordingly.

1 INTRODUCTION

This inquiry covers Commonwealth, State and Territory statutory marketing arrangements for all primary products except those of forestry and mining. As such it encompasses such arrangements for the products of farmers, graziers, apiarists, fishermen, hunters and trappers. But, with the exceptions of the Fish Marketing Authority of New South Wales and the Queensland Fish Management Authority, statutory marketing arrangements in practice apply only to agricultural products.

Statutory arrangements have been a feature of the marketing of agricultural products in Australia since the 1920s. Many of the arrangements create statutory marketing authorities (SMAs) which may undertake a range of marketing functions.

The inquiry's terms of reference, which are given at the beginning of this report, require the Commission to report and advise on any institutional, regulatory or other arrangements subject to influence by Governments in Australia which lead to inefficient resource use.

1.1 The context of the inquiry

This inquiry can be viewed as part of the Commonwealth's wider program of microeconomic reform which is seeking to raise the productivity of industry and the economy generally by allowing markets to work better, improving incentives and enhancing the effectiveness of government operations. Since microeconomic reform is increasingly being undertaken at all levels of government, it is significant that this inquiry is into statutory arrangements at Commonwealth, State and Territory levels.

Many statutory marketing arrangements have recently been subject to inquiry or review. Several reviews are currently in progress and, in some States, there are provisions for periodic reviews on a continuing basis (see Section 2.2). With few exceptions, these inquiries deal with specific arrangements, commodities or industries.

This inquiry by the Commission is more broadly based than those others, covering all aspects of statutory marketing arrangements. Although some participants requested the Commission to make firm recommendations about some particular commodities, many other participants considered that statutory marketing could only be studied in the context of separate reviews of particular commodities. However, the Commission has undertaken an in-principle examination of the main issues about statutory marketing arrangements. Although such a broadly based review should not be seen as a substitute for industry-by-industry studies of marketing arrangements, many features of the Australian and world economies in the early 1990s make such an in-principle review worthwhile at this time.

The economic and social environments in which many current statutory marketing arrangements were conceived have changed. For example, some statutory arrangements were premised on the need to make special arrangements to finance seasonal sales which might otherwise have been more difficult because of a regulated finance market. Others were premised on the need to bring about greater price stability in an era of administered exchange rates. But in the early 1980s, financial markets were deregulated and the Australian dollar was floated, changing these traditional sources of justification for statutory interventions and altering the basis upon which some of them are required to operate.

Other domestic and international developments of relevance to a general review of statutory marketing arrangements include: lower levels of protection in the Australian manufacturing and agricultural sectors; the adoption of generally applicable trade practices legislation; the development by Commonwealth and State Governments of business regulation review procedures and accountability requirements for statutory business enterprises and authorities; the growth of agribusiness; the international linking of financial markets; increasing educational standards in the community generally and in the rural sector in particular; and developments in global communications technology and domestic communications networks.

Also, Australia has been a strong supporter of moves within the General Agreement on Tariffs and Trade for greater transparency by all signatories of their trade policies. Australia's preparedness to review statutory agricultural marketing arrangements is an important ingredient of that support. This is particularly so given the perception that is frequently expressed overseas that Australia's statutory marketing arrangements protect its farmers.

However, not all participants conceded that these developments are relevant or supported this general inquiry into statutory marketing arrangements. For example, the Mid-Murray Citrus Growers Incorporated stated that ‘the fact that the world financial scene, and the float of the Australian dollar, has changed is not relevant to the basic principles of marketing’. The Australian Dairy Industry Conference said that:

Each of Australia’s major rural industries is structured differently, they operate in multifarious environments and each has developed from a different historical background. In these circumstances there are dangers in trying to develop a set of principles that can be applied uniformly to all industries irrespective of the differences between them.

The Grains Council of Australia, in commenting on this inquiry in the context of the Government’s microeconomic reform agenda, said that:

Changes to the current macroeconomic policy settings with less reliance on monetary policy in preference to tighter fiscal and wages policies would do more to enhance the international competitiveness of the foreign trade sector, of which the grain industry is a major player, than any amount of microeconomic reforms.

In commenting on areas of microeconomic reform deserving priority attention, the Wine Grapes Marketing Board said that:

The push for deregulation of SMAs is an exercise by processors and governments to divert attention from other, more critical areas in need of microeconomic reform such as award restructuring, transport and shipping reform, and excessive government regulation at the local, State and Federal levels. Consumers in general and taxpayers in particular would achieve greater benefit from reforms in those areas than attempting to shift the blame onto primary producers.

The Potato Growers Association of Western Australia (Inc.) expressed its concern, as a state producers’ organisation, that the Federal Government might intervene, as a result of the inquiry, into what are state marketing matters.

Notwithstanding these and similar reservations, the Commission received 135 submissions from participants, the majority of whom were associated with primary producer interests, who expressed a wide range of views about the relevance of and principles which should govern statutory marketing arrangements. The Commission received considerable cooperation from the various State and Territory Governments and from their instrumentalities. Details about the conduct of the inquiry and participants are given in Appendixes A and B.

1.2 What are the issues?

In advising on any institutional, regulatory or other arrangements subject to influence of Governments which lead to inefficient resource use, the Commission has been required to: identify and evaluate the objectives of statutory marketing arrangements; examine whether there are more effective ways of achieving objectives evaluated as sound; advise on courses of action to reduce or remove inefficiencies; and give priorities to areas where the largest potential efficiency gains are in prospect and where early action is practicable.

Specifically, the issues considered important by participants or the Commission are:

- What are the objectives of statutory marketing arrangements? Are they justified?
- In what ways are statutory marketing arrangements put into effect? What are their economic, social and environmental effects?
- Are there any institutional impediments to more efficient marketing arrangements? If so, how are they best removed?
- How can statutory marketing arrangements best pursue efficiency objectives? How can the accountability of SMAs best be improved?

Some participants considered that the Commission should comment on how well SMAs perform in pursuing their stated objectives (and that if this were done, statutory arrangements would be seen in a favourable light). However, the Commission has not attempted such an evaluation but has focused, as its terms of reference require, on impediments to efficient resource use. Nor has the Commission assessed schemes designed to provide assistance to producers through marketing arrangements such as underwriting, or general schemes designed to assist marketing such as export market development grants.

1.3 What are statutory marketing arrangements?

Apart from the common law, the marketing of primary products is influenced by Governments through the general bodies of company law (governing the establishment and operations of incorporated enterprises), co-operative law (governing the formation and operation of co-operative enterprises and organisations); industrial law (governing the employment of people) and commercial law (governing the relationships between those engaged in commercial transactions). All of these bodies of law constitute a statutory framework within which the marketing of primary products takes place.

For the purpose of this inquiry, however, the Commission has focused attention on specific statutory arrangements designed to regulate the marketing of particular primary products or groups of primary products. These arrangements make use of powers not available under more general legislation. In many cases, they have exemption from the general trade practices or fair trading legislation. In some cases, particular authorities (SMAs) have been established to market commodities.

In broad terms, the marketing of primary products includes the entire range of activities linking the outputs of primary producers to the Australian and overseas consumers of foods and fibres. However, for the purpose of this inquiry the Commission considers marketing to encompass: the buying and selling of unprocessed or minimally processed primary products; the handling, storing, transporting and initial processing of some products; grading, quality control, financing, insurance and hedging; inventory and supply control; import and export controls; promotion, and market research and development.

Of course, doubts arise about some activities. For example, the Australian Chicken Growers' Council queried whether regulating the growing of chickens under contract is a marketing activity since 'no commodity changes hands -- our legislation has nothing to do with the final marketing of either live or processed poultry'. The United Farmers and Stockowners of South Australia Inc. also questioned whether 'supply management arrangements ... are ... truly marketing arrangements'. The Queensland Raw Sugar Industry stated that it does not normally regard matters of control and production of sugarcane as issues of marketing. In many cases, however, regulations controlling grower contracts or production levels through quotas or other means are important adjuncts to marketing arrangements.

Some participants commented that assistance accorded an industry through measures such as tariffs should be clearly distinguished from any provided through statutory marketing. For example, the Queensland Raw Sugar Industry commented that:

the [statutory] arrangement is also necessary to ensure that any tariff provided on raw sugar is delivered to the raw sugar industry ... The ability for statutory marketing of raw sugar to provide assistance in its own right is however very limited.

The Commission considers that it is artificial to make this distinction -- without statutory marketing arrangements for sugar, for example, producers would have difficulty in appropriating the benefits of the tariff. In this report, where tariffs form an integral part of statutory marketing arrangements, the resulting domestic price effects are included in the estimates of the effects of statutory marketing.

1.4 Response to the Commission's draft report

Thirty-seven submissions were received following release in December 1990 of the draft report. Common critical themes were that:

- the report was biased against statutory marketing arrangements; it failed to recognise that most SMAs perform well in achieving what are sound objectives for the majority of primary producers; it discussed matters beyond marketing; and its conclusions were 'theoretical';
- producers needed to be able to receive 'fair' prices -- prices based on corrupted world markets were not 'fair'. Further, contrary to the Commission's statements, markets for producers' produce were not competitive. For these reasons, pricing power was needed to be provided to producers through statutory marketing arrangements. Participants asserted that statutory marketing arrangements benefited the community by keeping consumer prices down;
- the Commission did not recognise the necessity for single-desk export selling;

-
- some estimates of price distortions and assistance presented in the report were incorrect -- further, some forms of assistance had been incorrectly ascribed to statutory marketing arrangements;
 - the vast majority of producers support statutory marketing arrangements -- this fact had not been given due credence by the Commission; and
 - now is not the time to change marketing structures, as primary producers are under severe financial pressure, and change would cause adverse social effects.

The New South Wales, Tasmanian and Northern Territory Governments specifically supported the general thrust of the report. The Confectionery Manufacturers of Australia/Australian Soft Drink Association wanted the Commission to reach firm conclusions about cost imposts on users of sugar and to recommend a cut in the tariff for raw sugar. (A tariff cut was subsequently announced in the Commonwealth Government's Industry Statement of March 1991, though that action was taken independently of this inquiry.)

Some participants misunderstood the nature of the reference. The draft report provided an overview of statutory marketing, arriving at several conclusions of principle. Some of those conclusions cast doubt on many common justifications for statutory marketing arrangements. But they should not have been interpreted as criticisms of the activities of SMAs in pursuing the best interests of producers whose products they cover.

The particular points of participants' criticisms are addressed in the appropriate sections of this report. Nevertheless, none of the evidence provided in response to the draft report has led the Commission to change the general thrust of its conclusions.

1.5 Structure of the report

Chapter 2 presents background information about statutory marketing arrangements, including their origins, the ways in which they are established, their objectives and powers, and briefly describes recent developments. The objectives of statutory marketing arrangements are evaluated in Chapter 3. Irrespective of whether an objective is sound or not, a marketing arrangement can have effects which benefit some and penalise others -- the nature of these effects is described in Chapter 4.

Chapter 5 discusses possible institutional impediments which may force greater reliance upon statutory marketing arrangements than is otherwise desirable, or which may inhibit changes to them. Ways to improve efficiency of marketing are discussed in Chapter 6.

2 THE EVOLUTION OF STATUTORY MARKETING ARRANGEMENTS

2.1 Origins

At the beginning of the century voluntary co-operatives, organised on regional or State bases, were formed in an attempt to secure higher prices for members by controlling the flow of commodities onto markets. By the 1920s some co-operatives were attempting to use supply management, price discrimination and collective bargaining to further improve their returns. However, their ability to achieve market power was limited by the incentive for non-members, who did not share the costs of the marketing arrangements, to sell on as favourable terms, or to erode the terms achieved by the co-operatives.

Producers then sought government legislation to compel producers to market their produce according to co-operative guidelines. Beginning in Queensland, but then spreading to other States, Governments progressively gave statutory backing to 'compulsory co-operatives' in the marketing of rural products. Many current state statutory marketing arrangements, such as rice in NSW and coarse grains in Queensland, had their origins at that time.

Australia's first post-Federation statutory marketing arrangement was, however, devised for other reasons (see Box 2.1) and involved Commonwealth Government action. Although most statutory agricultural marketing arrangements since the 1920s have depended on unilateral actions by State Governments, many arrangements have also depended on complementary actions by State and Commonwealth Governments.

Marketing problems of the 1920s

The period spanning the end of the First World War and the early post-war years was characterised by booming agricultural commodity prices. Under this incentive, coupled with the policy of settling ex-soldiers on farms, production grew rapidly. Yet by the 1920s surpluses, which had to be exported, were becoming a problem for Australian agriculture.

Box 2.1: The first statutory marketing arrangement

One of the concepts on which the Australian Commonwealth was established was that of using European labour. However, the Queensland sugar industry had used lowly paid indentured Melanesian labour since the 1860s. Thus, the Queensland Government entered Federation on the condition that the Commonwealth compensate sugar producers for the cost disadvantage of having to employ the more expensive European labour.

In 1902 the Commonwealth imposed an excise on manufactured sugar, both imported and domestically produced, using most of the revenue collected to subsidise sugar grown and harvested by European labour.

In 1923 Australia became an exporter of sugar. The Commonwealth and Queensland Governments entered into an agreement which prohibited the importation of sugar and maintained agreed prices for sugar on the Australian market at levels which were generally higher than export prices. The concept used in this prototype statutory marketing arrangement was the 'home consumption price scheme'.

For example, prior to the First World War the Australian Dried Fruits Association (ADFA), a producer organisation, had maintained domestic prices at levels considerably higher than either export or import prices by refusing to supply wholesalers who would not sell on its terms. At that time around three-quarters of the domestic crop was sold locally. But by 1924, under the boost to production provided by soldier settlement schemes, the proportion of domestic and exports sales had reversed and world prices dropped sharply.

The ADFA was no longer able to extract domestic price premiums without statutory backing.

The Governments of New South Wales, Victoria, South Australia, Western Australia and the Commonwealth responded by legislating to regulate the production and export of dried fruit. Each State established a dried fruits board which allocated a quota to producers for domestic sales enforceable by the threat of confiscation of fruit for non compliance. The Commonwealth also established a dried fruits export control board and legislated to prevent unregulated interstate sales (though the latter was subsequently judged unconstitutional).

Indeed marketing crises were occurring in a number of commodities at that time. Commonwealth intervention in many areas became more common to allow new settlers to remain on their farms and to defend considerable public investments, particularly in irrigation. Initially subsidies to alleviate losses in fruit marketing were used. But as the decade developed the Commonwealth sought more permanent solutions with less call on public funds.

In the mid- to late 1920s Commonwealth export control boards were also established for dairy products, canned fruits and wine. (These were the antecedents of today's Commonwealth SMAs.) They were designed to complement some other features of either State-legislated or voluntary industry 'orderly marketing' arrangements. For example, in 1926 the dairy industry adopted a voluntary (ie non-statutory) plan which imposed a levy on the production of butter to finance an export subsidy. The Commonwealth Government also raised the tariff on butter to ensure that domestic price premiums were not eroded by import competition.

In the early 1930s considerable difficulties were also experienced by wheat producers. The wheat industry was the subject of a Royal Commission during 1934_1936 which recommended a 'home consumption price (HCP) scheme' as a relief measure for periods of low world prices. Nevertheless, when legislation was introduced in 1938 for a HCP scheme financed by a flour tax on wheat used in human consumption, there was no suggestion of it being a short term measure.

The Second World War

Under wartime defence powers adopted during the Second World War much of Australian agriculture became subject to production controls, price fixing and consumer rationing. A Commonwealth board was established for barley, as had occurred for apples and pears in 1938. Bounties were also paid to manufacturers of butter and cheese, initially as a means of preventing increases in consumer prices.

At the end of the war Australian producers sought greater stability from overseas prices which were expected to collapse as they had following the boom after the First World War. Consequently, producers embraced nationally based statutory price stabilisation and marketing arrangements. The wartime Rural Reconstruction Commission had recommended a formal framework for price stabilisation which was subsequently endorsed as a component of Commonwealth policy, both for the welfare of the agricultural community and as a means of encouraging exports to finance general development objectives.

The prototype stabilisation scheme was for wheat which commenced in 1948 and continued with modifications (underwriting replaced a contributory buffer fund arrangement in 1979) until 1989. The arrangements involved a number of statutory features including compulsory acquisition of all wheat by the Australian Wheat Board, a stabilised HCP, price and marketing cost pooling from all wheat sales, contributions to or withdrawals from a stabilisation fund, and a return to producers guaranteed by the Commonwealth Government. No other commodity had such a formalised system of statutory marketing arrangements, but stabilisation arrangements also operated for dairy products from the early post-war years and for tobacco and eggs from the mid-1960s.

Increased public scrutiny

Around the mid-1960s the social and economic environment changed rapidly. The mining boom had increased exports and the balance of payments pessimism subsided. Measures to promote agricultural exports were becoming less sacrosanct. Indeed, it was becoming apparent that domestic pricing mechanisms were not matching welfare needs as those who gained most tended to be large and prosperous producers. There was a recognition that high domestic prices equalised with export returns had led to inefficient production levels and resource use. Nevertheless, as certain areas of agriculture were experiencing low world prices at various times, the climate was not conducive to change.

Since the early 1970s there has been considerably more public examination of domestic pricing arrangements. The establishment of the Industries Assistance Commission (IAC) in 1974 gave greater exposure to the income transfers associated

with statutory marketing arrangements and the nature of efficiency gains and losses. Importantly, the 1970s saw the development of a general body of trade practices law designed to prevent abuse of market power. Thus a major rationale for domestic price maintenance for agricultural products was increasingly questioned and pressure for change began to accelerate in the late 1970s.

Throughout the 1970s and 1980s there was a general movement away from buffer fund stabilisation schemes, initially into underwriting arrangements but subsequently even these were seriously questioned. This impetus has continued. Indeed, the late 1980s through to the present day has been characterised by numerous reviews and substantial changes to statutory marketing arrangements at both the Commonwealth and State levels. These are discussed below.

2.2 Recent studies and changes

Many studies have been completed in recent years and still others are progressing (see Bibliography). The Commission has not attempted to duplicate this work.

Most State reviews have been pursued independently, although a joint South Australian and Victorian review of barley has been undertaken. A number of private consultants have been engaged by Governments and their instrumentalities to undertake reviews of statutory marketing arrangements. For example, a report on restructuring the Queensland grain industry was prepared by the Corporate Advisory Division of ANZ McCaughan Limited. There has also been some general work by non-government bodies and academics.

These reviews by the States, the Commonwealth and private bodies have led to significant changes to some statutory marketing arrangements in the last few years.

Commonwealth

A recent review of Commonwealth SMAs, chaired by Professor Davis, covered the corporate structure of their boards, the selection procedures for board members, the

way SMAs account to the Government and industry and the overall performance of SMAs. The Davis Report followed an earlier 1986 White Paper on much the same topics. The Government's decisions on the Davis review have followed the broad thrust of the report's recommendations, including:

- greater managerial autonomy for SMAs;
- SMAs to approximate more closely a corporate model;
- loosening of borrowing controls, including a 'right to fail', to approximate more closely the private sector;
- annual general meetings to allow accountability to levy payers;
- discussions with industry on options to change the appointment of selection committees for Board members;
- the extension of statutory policy councils to the grains and wool industries;
- establishing performance indicators; and
- voting rights in proportion to levy payments.

A Royal Commission into grain storage, handling and transport reported in 1988. This joint Commonwealth/State report, and many of the reforms subsequently implemented, have had significant implications for statutory arrangements applying more generally to grains marketing.

A Wool Review Committee (chaired by Sir William Vines) is to report to the Minister for Primary Industries and Energy by 31 March 1991. The Committee is reviewing Australia's wool marketing arrangements. In particular the Committee is considering:

- the efficiency and effectiveness of the minimum reserve price arrangements and the role of stockholding in price stabilisation;
- the role of Government, the Australian Wool Corporation (AWC), the Wool Council of Australia and other relevant bodies in the determination and implementation of policies affecting the wool industry, including the composition and selection of members of the AWC;
- the scope for further processing of wool in Australia; and

-
- the international marketing and promotion of Australian wool including the role and governance of the International Wool Secretariat and its relationship with the AWC.

On the 11 February 1991 the Commonwealth Government suspended the reserve price scheme for wool until 30 June 1991. Wool selling arrangements after June 30 will be finalised following Cabinet consideration of the recommendations of the Vines Committee.

Changes to the structure of the boards of Commonwealth SMAs, and to selection procedures for those boards, have been progressively made since the 1986 White Paper. The direction has been one of greater accountability. In general, board members are selected on the basis of their individual expertise, rather than as representatives of particular interests.

The IAC examined the effects of statutory marketing arrangements in recent inquiries into apples and pears (1990), the food processing and beverages industries (1989), the dried vine fruits industry (1989), the wheat industry (1988), the fresh fruit and fruit products industries (1988), the tobacco growing and manufacturing industries (1987) and the rice industry (1987) (refer Appendix C). Industry Commission inquiries into the dairy and sugar industries are currently in progress. The Trade Practices Commission published a 'Rural Guideline' in 1989 (see Section 5.1, and Section D4 of Appendix D).

The Australian Canned Fruits Corporation was disbanded in 1988, and the Australian Horticultural Corporation (AHC) which absorbed the functions of the Australian Apple and Pear Corporation was established in the same year. From July 1991, the Australian Dried Fruits Corporation (ADFC) will be renamed the Australian Dried Fruits Board and will continue the activities undertaken by the ADFC. However, the new Board falls under the umbrella of the AHC which will be responsible for the appointment of members to the new Board, and also for review of its corporate and operating plans. There is also a possibility that the honey industry may be included within the AHC in the future. The Australian Egg Board was wound up in 1986. The Tobacco Board has been renamed the Tobacco Marketing Advisory Committee in anticipation of the Commonwealth's withdrawal from statutory arrangements in that industry in 1995. To that end, tobacco tariffs are being reduced and notice has been given that the determination of annual national

average leaf prices and aggregate quotas will cease in 1993 and the tobacco leaf local content scheme will cease after October 1995.

Significant changes have been made in the Australia-wide arrangements for the domestic marketing of wheat, with trading on the domestic market largely deregulated except in Western Australia where the Grain Pool has sole domestic and export marketing rights. In addition, the proposal to amalgamate the four Queensland grain boards includes a transition period in which vesting and acquisition powers would be retained (see below). The embargo on sugar imports was lifted in 1988 and replaced by a reducing tariff (albeit at a specific rate which provides higher ad valorem equivalent assistance when world prices are low).

The requirement for a five-yearly review of the Australian Wheat Board was removed from Commonwealth legislation in 1989 and the Board has since July 1989 no longer been involved in a domestic price scheme.

New South Wales

The New South Wales Government is reviewing the nine SMAs established under its Marketing of Primary Products Act 1983. The review is being undertaken by that State's Department of Agriculture and Fisheries. As part of that review, the Centre for International Economics (CIE, 1990) has reported on the impact of trade practices legislation on the NSW marketing boards.

A report on the four coarse grains marketing boards (Barley, Oats, Sorghum, and Oilseeds) has been completed and released. Amalgamation of these four boards has been announced. A report on the rationale for the Rice Marketing Board has also been released, with the review team finding that vesting of the rice crop should be discontinued as the claimed benefits (in terms of price premiums) were highly questionable and outweighed by the costs of pooling and reduced competition, restricted grower choice and the costs imposed upon domestic consumers.

The dairy industry (whose State marketing is regulated under separate legislation) is currently subject to an ongoing joint industry/Government review, with a view to less regulation.

ACIL Australia Pty Ltd reported on the NSW Egg Corporation in November 1988, which preceded an extensive review of the Corporation in 1989. The egg industry has been deregulated over the last two years. Compensation for hen quotas held by egg producers was paid by the New South Wales Government. The assets of the NSW Egg Corporation have recently been sold, and the Corporation has been wound up.

A review of fish marketing by SCP Fisheries Consultants Australia Pty Ltd also took place in 1989. The review, which advocated partial deregulation of fish marketing, specifically recommended the removal of the monopoly position of the Fish Marketing Authority as the sole supplier of fish to Sydney. In March 1990, the Minister for Agriculture and Rural Affairs engaged another consultant to review the findings of the fish marketing review.

The Co-operative Act which provides the legislative basis for agricultural co-operatives in NSW is currently under review.

Victoria

Since 1984, the Victorian Public Bodies Review Committee (a Parliamentary Committee) has reviewed 16 Victorian agricultural statutory bodies. Reports have been published on each of these reviews. As a result of these reviews, changes have occurred to statutory marketing arrangements in Victoria. Most of these changes have been of a relatively minor nature although some authorities have been amalgamated.

Some easing of the regulation of egg marketing occurred in 1989, with larger and freely tradeable quotas being permitted. The Egg Board is to be reviewed again in 1994 and the quota provisions are to lapse in 1996 unless the review recommends otherwise. Changes have been foreshadowed in dairying with the likely removal of statutory control over wholesale and retail prices.

The arrangements for marketing barley through the Australian Barley Board were jointly reviewed by the Victorian and South Australian Governments in 1990. Both Governments are now working through the details of legislation which they hope to introduce into the 1991 Spring Sessions of their respective Parliaments.

Queensland

Studies are currently in progress on dairy products, livestock and meat. The Primary Producers' Co-operative Associations Act is also being reviewed. Reports on sugar and grain have recently been published as part of these reviews.

In 1987 two boards, the Cheese Marketing Board and the Queensland Fish Board, were disbanded. Producers themselves have also been a force for change. On industry initiative, some boards and their affiliated co-operatives have been privatised -- cotton and ginger in 1989 and butter in 1990.

Various changes have recently been made to marketing arrangements for peanuts, dairy products, sugarcane, barley, grain sorghum, wheat, eggs, navy beans and tobacco. All of these changes were directed at allowing greater freedom for market forces to work.

Legislation is to be introduced to the Queensland Parliament during the Autumn Session in 1991 to give effect to decisions taken on the report of a sugar industry working party. A new body, the Queensland Sugar Industry Corporation, is to perform the marketing function of the previous Sugar Board as well as the production functions of the Central Sugar Cane Prices Board. It is intended that the marketing operations of the proposed Corporation are to be more flexible to market opportunities, and the production controls more responsive to market changes than was possible under the previous institutional arrangements.

Amalgamation of Queensland grain industry organisations (State Wheat Board, Barley Marketing Board, Central Queensland Grain Handling Authority and the Queensland Graingrowers' Association) has been proposed. Following in-principle acceptance of this proposal by the Queensland Government, it is intended to have the facilitating legislation ready for introduction into Parliament during the Autumn Session in 1991. Vesting and acquisition powers will be conferred upon the new grain industry co-operative for a transitional period.

The Committee of Direction of Fruit Marketing (COD) is presently subject to review.

The requirement to review statutory marketing arrangements at least once every five years is being progressively inserted into all Queensland statutory marketing legislation.

Western Australia

In May 1989, a Ministerial Review Committee reported on grain marketing arrangements in Western Australia. The recommendations of that review are being considered by the industry under a process established by the Minister for Agriculture.

A comprehensive review of the market milk sector of the dairy industry was conducted in 1988. In July 1989, a strategies paper aimed at restructuring and further reducing impediments was released. Statutory control over wholesale and retail prices for dairy products was removed in 1988. Several significant changes in quota arrangements have also been made.

The Western Australian Egg Marketing Board is to be reviewed at five-yearly intervals, the first review to be by the end of 1992. The Meat Marketing Board and the Meat Commission are to be reviewed in 1991. It is likely that the grain marketing arrangements will be reviewed again within five years.

South Australia

In South Australia, there are general provisions for automatic repeal of regulations every seven years, with stringent regulation review procedures. In most cases, the automatic expiry of regulations requires the relevant Act also to be reviewed. Reviews of the Citrus, Dried Fruits, Egg and Metropolitan Milk Boards are taking place under these regulation review procedures.

As noted above, the Australian Barley Board has been reviewed jointly by the South Australian and Victorian Governments.

Tasmania

The Tasmanian Government has commenced a program of review of its statutory authorities. Included in the review are the four Tasmanian agricultural marketing authorities: for dairy, eggs, grain elevators and processed apples.

The nature of reviews into statutory marketing arrangements

From the preceding discussion it is apparent that there is much activity in terms of reviewing Commonwealth and State statutory marketing arrangements. Like all Industry Commission (and earlier IAC) inquiries, this report adopts an economy-wide perspective which takes into consideration the impact of government arrangements on all producers, industries, consumers and the community in general. However, many other reviews have considered the interests of narrower groups of activities and individuals. In some cases, reviews are conducted by groups with an interest in the outcome or by teams with a majority of members representing groups which stand to benefit. In other cases, the terms of reference of reviews have taken a State or industry bent which has constrained analysis of the wider effects of statutory marketing arrangements. For example, the recent Queensland sugar industry working party's terms of reference requested the working party to investigate and report on:

1. The advantages and disadvantages to the continued economic viability of the Queensland sugar industry and to the economy of Queensland of the formation of a Queensland Sugar Industry Authority...
5. Benefits to the Queensland industry through the maximisation of market opportunities, containment of costs and maximisation of returns to growers and millers which could be expected from an expansion in the product base and an expansion in size and form of refining capacity in Queensland (Sugar Industry Working Party 1990, pp. 1_2).

That working party consisted of three persons including the President of the Australian Sugar Producers Association and a cane grower (who was also the president of the World Association of Beet and Cane Growers). The main recommendation of that report was the establishment of a new statutory corporation to take over the functions of the Sugar Board and the production control and management functions of the Central Sugar Cane Prices Board. According to CSR Limited:

The recommendation, if adopted, is not expected to result in any significant reduction in the actual level of statutory control of the sugar industry.

In contrast, the NSW Government's inquiry into the State's coarse grains marketing adopted a national economic welfare perspective. Yet, even in this case it is pertinent to reflect on comments made by the CIE, which was commissioned by the NSW Government to assess the impact of Trade Practices Legislation on NSW marketing boards. It stated:

The NSW government is currently using its own Department of Agriculture and Fisheries to review the marketing arrangements ... However, while its criteria are set in an economy-wide context, its conduct and management is not. Other sectors and other government departments in NSW are affected by the way agricultural products are marketed and thus should participate in the review process (CIE 1990, p. 10).

In response, the NSW Government informed the Commission that a number of State and Commonwealth Departments participated in the review process.

Reviews which are State oriented may propose quite different sets of marketing rules. For example, the NSW review of egg marketing arrangements preceded complete deregulation of that commodity, whereas the result of the Victorian review was the maintenance of, albeit expanded, individual egg quotas.

2.3 Recent changes in New Zealand

The ongoing review process by all tiers of Government has not been confined to Australia. Similar activity has been occurring in New Zealand (much of the material in this section is drawn from Sandrey and Reynolds 1990). It is worth examining these changes because, since July 1990, New Zealand products have had unlimited access to the Australian market (subject to quarantine).

Like other sectors of the economy, agriculture in New Zealand has been affected by economic reforms. The removal of government-funded concessional credit

arrangements has had a major impact on Producer Boards which used those arrangements to minimise the costs of ‘income stabilisation’ schemes. Under the previous credit arrangements, the Boards borrowed from the Reserve Bank, at a nominal interest rate (usually 1 per cent per annum), the difference between the guaranteed price and the returns received from the sale of the produce. While this is no longer the case, the Boards now have greater financial autonomy, being able to borrow from any lenders without government approval.

The Boards are also becoming more commercially oriented and actively market produce vested in them. For example, the Dairy Marketing Board has developed an international trading and processing network of wholly or partly owned firms to process and market dairy products from New Zealand and from other countries. Similarly, the Apple and Pear Marketing Board has developed a network of storage and packaging facilities to handle its apple and pear crop and tenders for export contracts offered by other marketing boards. The Wool Board purchases wool for further processing and exporting, and engages in joint ventures with other companies to process or market wool.

There have also been specific reforms to the domestic production and marketing arrangements for wheat, eggs and market milk. Reforms to wheat production and marketing include:

- the removal of flour quotas and price controls on flour, bran and pollard;
- the removal on 1 February 1987 of the Wheat Board's monopoly rights to trade in wheat; and subsequently
- the dissolution of the Wheat Board on 30 April 1987.

Major changes in flour milling also occurred as a result of deregulation. Previously, millers had to buy New Zealand wheat, regardless of its quality. Now they are able to purchase whatever wheat best meets their requirements.

Reforms in the market milk industry include the removal of price subsidies and packaging controls, and the introduction of market milk to supermarkets and other retail outlets.

For the egg industry, reforms include:

- the removal of all controls over egg grading and marketing, and the removal of the restrictions on maximum bird holdings and the transferability of hen quotas on 1 April 1986;
- the removal of hen quotas and other production controls on 25 September 1988; and
- the abolition of the New Zealand Poultry Board.

New Zealand also instituted a number of changes to export marketing. The Meat Producers Board used to be the sole purchaser/seller of New Zealand sheepmeat overseas, using concessional credit (1 per cent interest) from the Reserve Bank to finance purchases and sales. However, after massive losses, it terminated its sheepmeat marketing operations in late 1985. Processing and exporting of sheepmeat is now performed by private companies and co-operatives which are licensed by the Board.

Changes have also been made to the export marketing of kiwifruit. This entailed establishing a Kiwifruit Marketing Board which can compulsorily acquire and distribute the kiwifruit crop to all export markets except Australia. Exports to Australia have been left open to competition, in keeping with the spirit of CER.

2.4 Enabling legislation for statutory marketing arrangements

A common institutional arrangement for regulating agricultural marketing is the creation of an SMA. These bodies are sometimes described as Authorities (Dairy Authority of WA), Boards (Australian Barley Board), Committees (Chicken Meat Industry Committee of NSW) or, depending on their trading powers, as Corporations (Australian Dairy Corporation). They have varying degrees of autonomy from government -- some take actions in their own right, others make recommendations.

However, not all marketing statutes provide for SMAs. Some directly prescribe the forms of market contract, regulate price negotiations, or limit who can buy and sell (for example, the Victorian Tomato Processing Industry Act 1978). Some delegate

powers to a Minister to make regulations, by-laws, orders or determinations (for example, the New South Wales Potato Growers Licensing Act 1940). Thus there is scope for statutory marketing arrangements to operate through administrative discretion having the force of law. Under some legislation the Minister may delegate power to determine who receives licences, exemptions, etc. Alternatively, SMAs may be empowered to do these things.

Not all SMAs are restricted to single commodity coverage. At the Commonwealth level the Australian Meat and Live-stock Corporation covers beef and lamb and the AHC covers apples and pears, citrus, and nursery products (and dried vine fruits in the near future). There are also some multi-product State SMAs (for example, the COD in Queensland and the Western Australian Grain Pool).

Differences between Commonwealth and State arrangements

Commonwealth and State Governments exercise control over agricultural marketing in a variety of ways. These differ according to the importance of primary industries within various States and depend on the division of constitutional powers and their limitations. With some exceptions, Commonwealth statutory marketing arrangements are oriented toward export marketing, while State arrangements are more oriented toward marketing within State boundaries.

Authorities set up under Commonwealth legislation tend to have their functions defined to:

- assist producers in competing on overseas markets by finding new markets and expanding existing ones;
- preserve the goodwill of Australian producers in export markets (eg supervising quality, packaging and grading for export);
- negotiate the most favourable shipping and insurance rates; and
- in some cases, license exporters on condition that they sell at specified minimum prices, or in the case of the Australian Wheat Board, act as a single desk seller to achieve higher returns on export markets.

Notwithstanding these major functions, Commonwealth SMAs may also be involved in generic promotion in the domestic market, and some undertake research functions. The Commonwealth also administers arrangements dealing with quarantine.

Some Commonwealth SMAs have traditionally had a role not only in marketing, but also in administering stabilisation and/or underwriting arrangements. Indeed, these SMAs have been integral parts of statutory arrangements known as ‘stabilisation schemes’ or ‘marketing plans’, usually in conjunction with the States. In recent years the assistance components of these arrangements have been significantly reduced, and commercial marketing functions strengthened. Commonwealth SMAs have also been distanced from industry policy formulation with the restructuring of their boards along corporate lines, and for some commodities the formation of separate statutory Industry Policy Councils and Research and Development Corporations. The Commonwealth Government has announced that statutory policy councils are to be extended to wool and grains. Appendix E identifies ten Commonwealth statutory marketing arrangements.

State/Territory statutory arrangements are generally concerned more with domestic markets than are Commonwealth arrangements. However, where production of an export-oriented industry is located largely in one State, such as rice in New South Wales and sugar in Queensland, State statutory arrangements are instrumental in allocating supplies between domestic and export markets and facilitating export sales. Coarse grains exports are also affected significantly by State statutory arrangements (for example, the Australian Barley Board exports for Victorian and South Australian producers, the Queensland Barley Marketing Board for Queensland production).

State arrangements are often more prescriptive of what individual producers can and can not do than are Commonwealth arrangements. However, their ability to direct supplies to specific markets and to control prices is generally limited by competition from imports (unless the Commonwealth moves to restrict them), and from interstate (and sometimes intrastate) supplies, and from substitute products.

Differences between States

The Commission has been made aware of over 100 State/Territory level arrangements which currently operate (see Appendix E). This is an indicative

estimate as it is based on information provided by Authorities, Governments and inquiry participants. As there are differing perceptions of what characterises an SMA, the coverage of Appendix E could be uneven from State to State.

Queensland has the largest number of State statutory marketing arrangements, whilst the Northern Territory and the Australian Capital Territory have one each. Some commodities are covered in some States but not others. There are also some cases where the statutory arrangements for a commodity in a particular State involve several pieces of legislation and more than one statutory body.

Differences in arrangements between (and sometimes within) States reflect geographic and climatic differences (in some States it is possible to produce a wider range of agricultural commodities than in others), historical considerations and the willingness of Governments to institute reform.

Both Queensland and New South Wales have general Acts under which SMAs can be established or abolished. Victoria also has some general legislation, but it is little used. A 'system' of statutory marketing is most highly developed in Queensland. That State's Primary Producers' Organisation and Marketing Act allows producers to petition and subsequently to conduct a poll to establish or to disband a producer controlled SMA. The Act also enables functions of the SMAs to be divested to affiliated organisations, often producer-owned co-operatives. Membership of statutory producer representative organisations constituted under the Act is compulsory. A Council of Agriculture is also established under the Act to coordinate policies in regard to SMAs and advise the Minister.

The Marketing of Primary Products Act of New South Wales, in addition to enabling the establishment or disbanding of SMAs, allows the Minister to make 'marketing orders' in relation to proclaimed products that are not covered by SMAs. Unlike an SMA, in which the commodity is vested, under a marketing order the commodity is not vested but can be required to be sold in prescribed ways and at specified prices. Before the Minister can issue a marketing order, producers must vote on its introduction and a report must be prepared and published to provide the opportunity for public comment. The Queensland COD can also issue 'directions'

which are analogous to marketing orders. Victoria has legislation for the making of marketing orders under the Agricultural Industry Development Act 1990. That Act, however, does not allow the setting of compulsory prices.

In other States, statutory marketing arrangements and SMAs are established under specific legislation. Some SMAs are also established under specific legislation in Queensland and NSW.

2.5 Stated objectives and rationales

Statutory arrangements in existence today pursue wide-ranging objectives based on a multitude of rationales, some of which are inherited from past problems long since resolved (see Section 2.1).

The stated objectives and rationales for statutory marketing arrangements vary between commodity groups, reflecting different market conditions (eg whether the good is domestically or export-oriented) and the characteristics of the product (eg whether it is perishable or amenable to storage). A common thread of these arrangements is the recognition that producers, by virtue of their numbers, geographical diversity and irregular production patterns, may face difficulties in the absence of statutory backing.

Many of the rationales advanced for statutory marketing arrangements centre on a desire to correct perceived failures in market processes. Some, however, relate to social and/or assistance motivations.

The objectives of statutory marketing arrangements discussed below are generally put forward by the beneficiaries, that is, primary producers, their organisations and SMAs themselves. The soundness of these objectives from a national viewpoint is the subject of Chapter 3. The most common objectives put forward include the need for government backing to:

Countervail the market power of merchants, processors and other intermediate buyers

Small atomistic primary producers often feel that they have little market power, becoming easy prey for ‘middlemen’ such as wholesalers and processors, who are perceived to earn excess profits at their expense. Statutory marketing arrangements

are often designed to provide producers with countervailing power on the domestic market. A variety of instruments can be used to achieve this objective.

Stabilise prices, production and/or producer incomes

Prices for some agricultural commodities are particularly volatile and statutory marketing arrangements often seek to smooth out the effects of these fluctuations. This volatility is seen to hinder farm budgeting and planning, restrict access to finance and increase income variability.

Maximise returns from exports

Several participants contended that open access exporting by a number of Australian sellers enables overseas buyers to ‘play off’ the sellers. The result is said to be that prices are forced down to the level accepted by the weakest seller, reducing overall returns to the industry. Statutory marketing arrangements can aim to make the most of export opportunities through coordinated or ‘single-desk’ selling.

Provide market information

Timely and effective market information promotes efficient agricultural production, but acquisition and processing of information is costly and time consuming. Provision of information is a prime role for a number of statutory marketing arrangements. Aside from prices, information is supplied by SMAs about international and domestic production forecasts, disease and pest control measures, crop varieties and transport costs.

Develop markets and undertake research

A common objective for SMAs is to undertake generic promotion to develop markets and undertake both product and market research. Compulsory levies or charges are often imposed on all producers of the commodities concerned to pay for these activities. The rationale is that individual producers may be reluctant to engage in such activities where the benefits can be appropriated by other producers who have made no such financial commitment.

Obtain economies of size and scope in marketing

Economies of size arise when unit costs decline as the quantity handled increases. Where unit costs are reduced as more products are handled, economies of scope are said to arise. SMAs often aim to capture these economies in marketing.

Establish grade standards and quality controls

Grade standards and/or quality controls are often established as part of a statutory marketing framework. The rationale is based on two principles:

- consumers benefit from information about the grades and quality of the product, information which might not be supplied by individual producers; and
- producers who offer poor quality produce for sale damage the reputation of all producers of that commodity.

The latter principle is often cited particularly in terms of export markets. Some countries have a declared preference for purchasing products that have been subject to quality certification by government or government sanctioned organisations (eg Japan).

Provide industry assistance

The use of statutory marketing arrangements purely for providing government assistance is not often a stated objective. Nevertheless, the provision of assistance is an implicit objective wherever an SMA maintains local prices at levels higher than the relevant prevailing world price. SMAs have also often been a vehicle for providing government assistance in the form of stabilisation or underwriting payments.

2.6 Powers

The above list of objectives is not exhaustive, nor can the objectives be regarded as mutually exclusive. Some objectives can be addressed by a range of powers. Similarly, a single power may be used to achieve a range of different objectives. For example, setting prices may help to stabilise prices in addition to providing countervailing power.

A variety of powers and instruments are used by SMAs to achieve their objectives. The strongest powers are vesting and acquisition which may be viewed as ‘root’ powers from which a range of other powers and functions derive.

The powers and functions conferred under statutory marketing arrangements include the power to:

Vest and to acquire a product

Vesting compulsorily transfers ownership of a commodity at some stage of its production to an SMA (or in some cases a State). It may be accompanied by divesting (sometimes to an affiliated body) or surrender of any claim over the commodity back to the producer once the aims of the statutory arrangements have been achieved.

Acquisition requires delivery of a commodity to an SMA for sale. It may rely on the wider power of vesting, though in some cases the SMA may not take legal title of ownership (for example, the Australian Barley Board).

Statutory marketing arrangements generally require that where vesting and/or acquisition powers are used, the SMA take all of the commodity offered for sale, provided that it is of acceptable quality. There are subtle differences between States in relation to the terminology used to define these powers. For example, in Queensland ‘compulsory delivery’ is used rather than compulsory acquisition.

Set or negotiate prices

Some SMAs have pricing powers (see Box 2.2) and an SMA may use these to set different prices on different markets or for different end uses. Price setting has much more force when underpinned by vesting and acquisition powers.

In the absence of vesting and acquisition powers, an SMA may be able to influence domestic prices by strengthening the negotiating position of growers relative to processors and other users. For example, until recently the Australian Wool Corporation (which does not have vesting or acquisition powers) sought to influence prices by buying and selling on the open market.

Impose compulsory levies on producers

Compulsory levies can be used to force producers to contribute to the cost of various services such as promotion, the provision of information and market or product related research. Costs of these services may also be levied out of producer receipts, where vesting occurs, to fund relevant marketing activities.

Box 2.2: Countervailing power through minimum price fixing

In its submission the Murray Citrus Growers Co-operative Association (Australia) Limited discussed the 'enormous marketing power held by processors'. The Co-operative was therefore interested in countervailing the market power of processors. The favoured instrument in this case is the setting of a minimum juice price.

In South Australia the Citrus Industry Organisation Act (1965-1984) confers a broad range of powers on the Citrus Board. The setting of a minimum juice price is one of these powers. The Co-operative identified three objectives for minimum juice price setting (Sub.10, Attachment 2). These are: to establish a world parity price for domestic sales of citrus; function as an objective negotiating tool between growers and processors; and to form a complementary adjunct to the terms of payment conditions.

A formula is adopted which is comprised of several components (price of Brazilian orange juice concentrate; exchange rate conversions; tariffs; freight and handling; processing costs; variations in crop quality and sales taxes, by-products and diffusion extraction technology).

License producers and/or exporters

Licensing powers enable an SMA to determine who may undertake particular activities in relation to a commodity. Producers, processors, wholesalers and exporters may be licensed.

Trade in one or more products

Multi-product trading powers allow an SMA to increase its coverage and extend at least some of its powers to more than one product. For example, the Australian Wheat Board can market grains other than wheat. Economies of scope may be gained from marketing a range of products.

Operate pooling and equalisation arrangements

Pooling enables producers to share returns and associated marketing costs of commodity sales in different markets over specified time periods. Where vesting and acquisition are practised, some form of pooling is virtually inevitable. Equalisation is a form of pooling involving the averaging of returns from markets in which price discrimination is practised, either between domestic and export or various domestic end-use markets.

Other

Some of the stated powers of SMAs are simply a restatement of their functions or objectives. These include:

- providing market information to producers;
- carrying out market research and development and funding product research;
- establishing quality standards and grades: and
- promoting a product.

The AHC is an example of an SMA which was set up with powers to achieve some of these functions. It aims to capture economies of scope by sharing overheads in providing market intelligence, shipping negotiations and promotion campaigns (of Australian products) on a coordinated basis rather than commodity-by-commodity.

The use of powers varies among by SMAs -- some may merely promote products whilst others may control all aspects of marketing from the farm gate to the final purchaser. Some statutory marketing arrangements may even control within-farm activities through input controls. The effects of these powers and the functions they support are discussed further in Chapter 4.

2.7 Characteristics in the 1990s

This chapter has sketched the rise of statutory marketing arrangements in the first half of this century and the increasing scrutiny of them since the early 1970s. Indeed, the number of reviews and subsequent reforms occurring at both the Commonwealth and State levels suggest that this rethink is ongoing. The direction is one of greater reliance on market forces in a framework of general trade practices law, removal of impediments to efficient marketing of agricultural commodities and the dismantling of some SMAs in cases where they are not relevant in the context of the 1990s.

When statutory marketing arrangements were first developed in Australia there were grounds for fearing freer markets. Many statutory arrangements had their origins in a period of apparent marketing anarchy and fears of its recurrence underpin arguments for retaining such arrangements. The continuance of many statutory arrangements reflects mistrust by producers of unconstrained market forces and private enterprise in agriculture.

However, agricultural production and marketing in the 1990s bears little resemblance to that of the 1920s and it is proper that the stated objectives and rationales of statutory marketing arrangements be examined in this light. This is taken up in the next chapter.

3 EVALUATION OF THE OBJECTIVES OF STATUTORY MARKETING ARRANGEMENTS

The terms of reference require the Commission to determine ‘whether there are more efficient ways of achieving the objectives evaluated as sound’. As part of that process, this chapter evaluates the stated objectives of statutory marketing arrangements (canvassed in Chapter 2) to establish whether they are ‘sound’. The Commission has interpreted ‘soundness’ from an economy-wide viewpoint rather than from the narrower (though legitimate) interests of producers. Thus, in reporting on objectives, the Commission distinguishes between the objectives of industry participants in pursuit of their own commercial interests, and the objectives of marketing arrangements which justify statutory intervention.

3.1 How should objectives be evaluated?

Many of the *stated* objectives of statutory marketing arrangements are premised on the need to offset perceived deficiencies in market processes. Therefore the most obvious starting point for evaluating these objectives is to determine whether a case for ‘market failure’ exists. If there is such a case, then a statutory arrangement might improve the efficiency of resource use. However, market failure is not a sufficient justification for the objective being ‘sound’. Even if markets fail in some respects, the costs and inefficiencies of regulated markets might impose higher costs on the community.

Whatever the nature of, or justification for, objectives, the reference requires the Commission to report on any arrangements subject to influence by Governments in Australia which ‘lead to inefficient resource use’. Therefore, the objectives for statutory marketing arrangements, whether oriented toward efficiency or distributional goals, must be assessed using ‘economic efficiency’ criteria. The

reference further requires the Commission to identify whether those objectives which are evaluated as sound can be achieved in more efficient ways. Institutional issues are discussed in Chapter 5 and improving the efficiency of marketing is taken up in Chapter 6.

To help in the evaluation process, the stated objectives which were outlined in Section 2.5 have been grouped into four general categories, namely:

- to increase returns to producers;
- to stabilise prices, production and incomes;
- to reduce marketing costs and stimulate demand; and
- to provide and/or deliver assistance.

Some stated objectives, such as providing information to producers, are interpreted as being a means to achieve some of these broader objectives. Indeed, it is often difficult to disentangle objectives and means, including the powers which SMAs have been given. For this reason the Commission has not been able to evaluate the soundness of some stated objectives without reference to the means by which the arrangements operate.

3.2 Increasing returns to producers

A clear, though sometimes implicit, objective of many statutory marketing arrangements is to increase returns to producers. Many activities of SMAs which are undertaken to achieve this, such as negotiating freight rates and promoting generic commodities, may be sound from the viewpoints of both producers and the Australian community generally. Some of these are discussed in relation to other objectives. Discussion in this section is restricted to controls on export markets, domestic markets or both which are used to increase producer returns.

Export markets

Increasing producers' returns from exports may be a sound objective for SMAs from the viewpoints of both producers and the Australian community generally. One rationale for SMAs controlling competition to supply export markets concerns a

perception that, in some cases, Australian producers are at the mercy of concentrated overseas buying power. Single-desk selling, or licensing exporters and requiring them to observe minimum specified prices into certain markets, is said to negate the ability of overseas buyers to ‘play off’ independent sellers in order to reduce prices. A more common rationale is that it is in Australia’s interest to achieve the highest prices possible from overseas consumers, irrespective of any perceived ‘weak selling’.

Whatever the rationale, any attempt to achieve higher prices cannot succeed unless Australia can influence the prices it receives on various overseas markets by controlling the quantities and types of supplies entering those markets -- otherwise overseas buyers will simply source supplies elsewhere. Therefore, the major issue at hand is whether Australia is a price taker on world markets of the commodity, or whether it has some market power through its ability to differentiate or limit supplies.

Price premiums attributable to market power should not be confused with price premiums per se which are affected by quality, sales volumes, services provided, delivery arrangements, goodwill, timing of sales and finance arrangements. There is no doubt that Australian exporters can and do obtain premiums from such marketing services or value adding activities. On the other hand, *price premiums deriving from market power* reflect the difference between the price achieved by controlling the flow of, and competition for, sales of the commodity compared with that which would prevail in the absence of such controls.

Can coordinated selling arrangements influence export prices? Where Australia’s share in world trade is small, domestic producers are more likely to be price takers unable to influence the prevailing structure of world prices. Conversely, where Australia is a major player in world trade of the commodity, there may be potential for extracting a market power premium through controlled selling. This is not, however, a hard and fast rule. For example, in some horticultural products Australia may have a small share of world trade overall but, as an off-season (southern hemisphere) supplier, have a strong presence in niche markets at certain times of the year (more likely in perishable products not amenable to prolonged storage).

Aside from a dominant share of world trade in the commodity, other factors which need to be considered include:

-
- the availability and relative price of substitute products, for example, synthetics versus wool;
 - alternative sources of supplies which could come onstream quickly; and
 - the amenability of the commodity to storage.

The existence of any of these attributes constrains the ability of selling controls to extract market power premiums on export markets.

The Industries Assistance Commission (IAC) examined the question of controlling supply to extract market power premiums in a number of recent reports. For example, its report on the wheat industry examined the Australian Wheat Board's (AWB) claim that its ability to control export sales allowed it to extract 'price premiums' in some export markets. While the IAC recognised that in some smaller markets the AWB may be able to extract modest price premiums by restricting competitive access to them, overall it concluded that:

Price differentials between wheat of different origins are largely explained by differences in the quality of wheat and other conditions of sale. The AWB acknowledges that it is predominantly a 'price-taker' in world markets and ... 'has only minimal influence on the overall level of world market prices'. The Commission has reservations about the extent to which the AWB can exercise market power so as to obtain a higher price than obtained by alternative suppliers of comparable wheat from other regions (IAC 1988a, p. 118).

In its submission to this inquiry, the AWB reiterated the view that centralised export selling had enabled it to achieve higher returns by 'differentiating and niche marketing Australian wheat through the maintenance of stringent quality standards and through market promotion and development'. The AWB further added:

With a number of smaller exporters there would be 'free rider' sellers who would provide a lower level of service than other Australian sellers until the benefits from those efforts in quality control and market development would be competed away (Sub. 68, p. 3).

Price premiums clearly can be obtained from market differentiation backed up by services targeted on those markets. As such it is not surprising that a lower level of service would equate to lower prices. Whether this would have an adverse impact on sellers of higher quality products is an issue which is taken up in Section 3.4.

The IAC arrived at a similar conclusion about market power on export markets in its inquiry into the rice industry:

the [Ricegrowers' Co-operative Ltd] argued that the acquisition powers were essential to maintain quality control and for its 'single-seller status', which enabled it to develop markets and to extract a 'price premium' ... However, any price premium obtained would be related to the quality of rice delivered, the value added to the rice, and the guarantees associated with delivering rice of that quality, rather than to a single-desk seller (IAC 1987a, p. xxiii).

In its submission on the draft report the Co-operative added:

As relatively small participants in the international rice market, we must carefully niche market, maximising returns through product differentiation, and then extracting premiums through being the sole Australian supplier of product with those attributes (Sub. 116, p. 4).

In its inquiry into dried vine fruits, the IAC commented on the Australian Dried Fruits Corporation's use of sole agents on export markets noting that 'the resulting price differences between Australian and other fruit do not constitute price "premiums" deriving from market power' (IAC 1989a, p. 2-16).

On the basis of these inquiries, the IAC found it difficult to demonstrate that Australia has significant international market power in selling its primary products.

The claim that unrestricted exporting allows overseas buyers to play off sellers thus forcing down industry export returns was raised by the Mid-Murray Citrus Growers Inc (MMCG). It claimed that this had occurred recently with citrus exports into Japan where both prices and the volume of exports were reduced as a consequence of undercutting by another Australian exporter. However, the Australian Joint Citrus Exporters Pty Ltd (AJCE) -- the dominant Australian citrus exporter to Japan with 95 per cent of total shipments in 1990 -- considered that there was no validity to the claim that sales were lost due to discounting. The AJCE further considered that, owing to dominance by the USA of the citrus market in Japan, Australia is not in a position to influence the commercial environment.

In certain cases Australia is provided with restricted access to particular overseas markets at prices which are supported by the protection policies of the countries concerned. In these cases, there is scope for allocating exports even where Australia clearly does not have market power. Of course, these situations raise distributional issues in terms of who shares such 'rents'.

For example, since 1968 Australia has been required to keep meat exports to the high return United States market within voluntary limits. Similar conditions also apply with respect to Canada, Japan and the EC. Exports have been allocated, by the Australian Meat and Live-stock Corporation, to these higher return markets. In their joint submission, the Cattle Council of Australia and the Sheepmeat Council of Australia discussed such voluntary export restraint agreements noting that ‘the Australian meat industry, for example, has ... retained the additional profits (economic rents) generated by the imposition of a limit to the trade’.

The Queensland Council of Agriculture noted that the Barley Marketing Board of Queensland also achieves price premiums over ruling world prices because it is allocated a share of the Japanese market.

At the draft report hearing representatives of the Queensland Raw Sugar Industry (RSI) informed the Commission that the Australian industry had entered into a long term contract with the USSR. The RSI noted that:

in that context you wonder whether individual companies competing for an export market would have the resources and time to develop that type of outlet(Transcript, p. 949).

The Commission received no evidence to suggest there would be any impediments to traders or exporters from negotiating orders in the absence of statutory marketing arrangements. Although the size and status of Queensland’s Sugar Board would facilitate the negotiation of such a long term contract, there is no reason to believe that such activity is strictly the preserve of an SMA. However, where an overseas buyer prefers to deal with a government sanctioned seller some form of government imprimatur would be beneficial.

Assessment

There are doubts about whether Australian agricultural commodities fulfil the necessary requirements which allow export controls to achieve market power premiums on overseas markets. Notwithstanding these doubts, to the extent that any

increased return to producers from export sales could be achieved through controlling export sales, it would benefit Australia's domestic economy. From Australia's viewpoint, the market power premium would involve income transfers from overseas consumers to the domestic economy.

However, export licensing or single-desk selling themselves can impose costs, since they limit market entry and can prevent competitive pressures from ensuring that sales into premium markets are undertaken at least cost. Administering and policing export controls also are not costless. Thus the objective of capturing a market power premium on export markets through controls on competitive access would only be sound if any extra costs imposed by those controls were less than the extra income obtained.

This conclusion was contested by some participants at the draft report hearings. Dr David Maccallum felt that the Commission was 'obsessed' by market power and the Queensland Council of Agriculture stated that:

The Commission makes an issue of the distinction between price premiums and quality or service premiums. However, from the point of view of economic efficiency as well as the interests of the producers, it is the extent of net benefit from premiums generally that is important, and not how they are earned.

However, the Commission maintains that it is essential to distinguish between premiums earned from 'market power' and those earned from 'quality and services provided' in any evaluation of the soundness of giving statutory backing for the objective of increasing producers' returns from export sales.

Quality and service premiums are a recompense for value-adding activity and are achievable without statutory intervention. To restrict them to statutory bodies could inhibit innovation or prevent sales being made at minimum cost. On the other hand, market power premiums would be lost to Australia if supplies going to world markets were not controlled in some way. In this case some form of statutory arrangement might be justified. Thus the control of Australian export supplies, where the conditions for extracting market power premiums are present, can be sound. But if those conditions are absent, control cannot provide a net benefit to Australia.

Domestic markets

Setting higher prices on the domestic market could be in the interest of producers by increasing their returns, but it is not likely to be sound from the wider community's viewpoint. Increasing producer returns on the domestic market can only be justified in cases where it can clearly be demonstrated that 'market failure' results in producers receiving lower prices than would occur under more competitive conditions and hence that resources are being diverted from production for domestic sales. Even if this were demonstrated, the extent to which returns should be increased would be limited.

Nevertheless, the power to extract a domestic price premium has been granted to some SMAs in the absence of these conditions. Furthermore, no effort has been made to temper this power according to the extent of any demonstrated market failure. Estimates of income transfers from consumers to producers arising from such arrangements are shown in Appendix F. It is sufficient here to note that in the absence of market failure, the objective of increasing grower returns on the domestic market is *prima facie* unsound. The reasons for this are discussed in Chapter 4. The discussion which follows centres on whether excessive market power is exercised by 'middlemen' (any processor, dealer, exporter, wholesaler or retailer) who handle the commodity from the farm to the consumer.

Where competition for the supplies coming from a large number of small independent producers is limited, a small number of large buyers may be able to exert control over markets to the detriment not only of the producers concerned but also the wider community. It is likely that a single buyer (monopsony) or a processor cartel would buy less of a commodity and pay a lower price than would occur in a competitive market leading to resource misallocation and its attendant welfare losses.

Some participants noted that even where there are several national buyers, a regional monopsony could arise. The degree to which any 'regional monopsony' could offer lower prices to growers is limited by the perishability of the product and the cost of freight to alternative outlets.

Many participants raised concerns about the market power of processors, wholesalers and other middlemen. The need for some offsetting bargaining strength for producers when dealing with single buyers or processor cartels is often a stated

objective of SMAs. For example, the Queensland Egg Industry Council stated that vesting powers have enabled marketing organisations to overcome the concentration of ownership of supermarkets:

Without vesting, individual producers will soon find themselves divided and weakened and very quickly at the mercy of the buyers of the supermarket chain.

Although the provision of countervailing power could be one way of avoiding potential welfare losses resulting from national or regional monopsonies, certain other conditions would be necessary before the provision of countervailing power could be justified. These conditions are discussed below. In the absence of these conditions, the provision of countervailing power would adversely effect efficiency and could be viewed as a means of constraining middlemen's margins and transferring income to producers.

International trade

Where a commodity can be profitably exported, the export price will act as a floor limiting potential exploitation by domestic buyers because producers have the option of exporting rather than supplying local middlemen. Thus, even if there were a large number of producers and a small number of middlemen, the existence of export markets would constrain attempts by middlemen to wield market power.

Moreover, where producers export a considerable proportion of their product (in the absence of assistance) this indicates that they are efficient users of the community's resources. There is no evidence to suggest that resources would be more efficiently used if producers received domestic prices which are higher than export prices, unless this were to result from product or service differentiation.

In its draft report submission, the Queensland Council of Agriculture put the view that the absence of a statutory marketing structure could lead to a situation where nobody was prepared to make a commitment to assemble an export cargo. This is unlikely to be the case for products such as wheat and rice where a substantial proportion of reasonably homogeneous production is exported. Although traders

may not be prepared to assume the risks of buying small lots and assembling them for export sales, there are many examples in Australia of growers or grower organisations assembling export cargoes and selling them through agency arrangements. If this only occurs because of a statutory marketing structure, it is implicit that export subsidies are being paid, funded either from other products or domestic consumers.

Other participants noted that domestic prices are depressed for many commodities because export returns have been corrupted by the actions of foreign governments. This is discussed in Section 3.5.

Where a commodity can be imported, the import price will determine the maximum price buyers would be prepared to pay. Any attempt to provide countervailing power would be constrained and at best could only achieve the landed duty paid import price for producers.

Clearly, the scope for SMAs to provide countervailing power on domestic markets for tradeable commodities is significantly influenced by world prices. Nonetheless, controlled selling may allow producers to appropriate some of the margin between export and landed duty paid import prices. In some cases this margin would be quite small and the evidence is not conclusive (see Boxes 3.1 and 4.1).

Substitution

Where substitution can occur, the scope for statutory marketing arrangements to raise prices would be curtailed. Many agricultural commodities are substitutable as inputs into further production (for example, barley and wheat as a feed). Many foods are also readily substitutable in consumption. Even fibres (wool, cotton and synthetics) are substitutable (though with a longer response lag) in manufacturing and consumer demand.

Where there is scope for substitution, the ability to raise prices is limited by the price of alternative commodities. For example, the ability of citrus producers to obtain higher prices for oranges for processing is limited by the price (and availability) of imported frozen orange juice concentrate.

Box 3.1: Market power and coarse grains

The recent review of NSW coarse grains and oilseeds marketing boards examined the question of imperfectly competitive markets and market power. It concluded that market power did not arise as an issue which might lead to economic inefficiency in the markets for feed barley, oats and grain sorghum, because of the large number of buyers and the availability of export markets.

However, the report noted that although export markets do limit the potential for exploitation by processors, their concentrated buying power could force domestic prices for coarse grains closer to export parity than import parity where applicable (importation of barley and oats is prohibited). Even so, it added:

the market is still allocatively efficient; what is at stake is the distribution of returns between buyers and sellers (NSW Department of Agriculture and Fisheries 1990, Vol 1, p. 41).

A report by the CIE for the NSW Government also examined the limited potential for increasing prices. It noted:

It may be that acting collectively the NSW barley board is able to bid up prices to somewhere between export parity and import parity and/or the opportunity price of drawing barley from other states (CIE 1990, p. 131).

However, that study concluded that if the Barley Board were to let producers sell individually 'returns are unlikely to fall much if at all' because much of the premium may not be due to market power but to marketing services and value added.

Competition and contestability

Even where the number of buyers is limited, the threat of potential competition can limit buyers from exercising any inherent market power. The threat of competition is a powerful discipline on the use of market power except where there are barriers to entry. In the absence of entry barriers, any excessive margins would be expected to attract new entrants into the activity.

If there are barriers to entry, a key issue is whether features of the Trade Practices Act (or of State fair trading acts) provide an avenue for workable competition. This is discussed further in Chapter 5. Indeed, barriers to entry may be a manifestation of other government intervention. For example, licensing of wholesalers can reduce competition. Trading between producers and wholesalers of fresh fruit in New

South Wales, Victoria and Queensland is regulated under various State Farm Produce Acts. These Acts generally require that all persons trading as wholesalers in or within the vicinity of the central markets be licensed.

If producers consider that there is inadequate competition for their produce they might explore the potential to undertake their own wholesaling or processing. The Commission received no evidence of barriers to producers forming co-operatives. In its inquiry into the food processing and beverages industries, the IAC reported that:

The Australian Bureau of Agricultural and Resource Economics stated that ... 'it seems that new firms can enter these industries without difficulty'. The Commission has found little, if any, persuasive evidence that would suggest the Bureau is wrong in concluding that the Australian food processing and beverages industries are generally highly contestable (IAC 1989b, p. 72).

In its draft report submission, the Queensland Council of Agriculture challenged this view and quoted from a recent study by the Centre for Technology and Social Change, University of Wollongong which noted increasing concentration in many market segments of the Australian processed food industry.

However, increasing concentration need not indicate a lack of contestability. There are numerous examples of concentrated markets which are contestable and highly competitive. Indeed, the report cited by the Council is critical of statutory marketing arrangements for maintaining higher domestic prices and retarding links between rural suppliers and the processed food industry. Moreover, the report provides an example of a marketing arrangement which is claimed to reduce contestability:

They [producer organisations] have limited private capital accumulation in the dairy foods sector and in some cases actively discouraged new private-sector dairy food processors (Centre for Technology and Social Change 1990, p. 5).

Only in the unlikely event that a single firm squeezed out all its competitors, or the market could only sustain one firm, would there be some justification on efficiency grounds for providing countervailing power. For example, high capital costs coupled with declining production costs as the scale of throughput increased might

dictate that there be only one processor in the marketplace. Where these conditions are not evident, market forces may well swamp attempts by middlemen to appropriate any market power (see Box 3.2).

Box 3.2: Market power and citrus and wine grapes

The minimum pricing approach to countervail perceived market power of citrus processors was discussed in Chapter 2. In this case the ability to set minimum prices is constrained by market forces. Indeed, minimum prices are set against a background in which juice processors can:

- source the raw materials from other regions (indeed, in its submission the Murray Citrus Growers Co-operative cited examples of lower citrus prices in other regions);
- compete for raw materials within regions (according to the CIE there are 16 processors in NSW competing for 50 per cent of output sold to processors); and
- access imports.

Under these conditions such prices are likely to be only indicative in nature and subject to variation depending on market conditions. A similar situation arises in respect of wine grapes, the major difference being that wine grapes (or concentrated must) are not internationally traded (at least not to or from Australia). Nevertheless, domestic prices are affected by trade in the final product, wine.

The CIE study noted that when the Wine Grapes Marketing Board (WGMB) set prices based on the costs of production in 1986, Australia's two largest winemakers refused to purchase until the Board lowered its prices. Conversely, in 1989 the prices paid by wineries for a large number of varieties were well in excess of the Board's minimum price. These two cases suggest that unless the Board can 'guess' the market price in the first instance, it will need to adjust its prices accordingly. However, in its submission the WGMB espoused a policy of setting prices higher than their free-market equivalent:

There is no reason why growers should accept very low prices in times of over production simply in order to clear the market ... Should the Board adopt a policy of setting a price above the market clearing price in times of surplus and equalising the proceeds over all growers, market signals will still be felt by growers but the adjustment process will be less severe than it would otherwise have been. This is because wineries would be unable to fill their tanks with abundant stocks of cheap wine.

The aim of attempting to set a higher than market clearing price is to stop wineries building up stocks which could lower demand for grapes in later seasons. While this may benefit producers, equalisation can have adverse efficiency implications. These are discussed in Chapter 4.

What is a fair price?

For a primary producer, a ‘fair’ domestic price could mean a price for output which provides an adequate return on capital. That price will differ between producers according to their level of efficiency and their perception of an adequate return. For a processor, using that commodity as an input, a fair price could relate to price expectations for the final product or to the price at which the commodity is available from an alternative source. For a consumer, that price will be aligned with the price of imports or other close substitutes. Thus what is seen as constituting a ‘fair’ price is largely in the eye of the beholder.

In responding to the draft report, many producers (and their organisations) viewed the provision of countervailing power from an ‘equity’ rather than an ‘efficiency’ perspective. They generally sought a greater share of the margin between farm-gate and final consumer prices. Prices faced by final consumers were a subsidiary issue, though it was generally said that consumers should not be disadvantaged by a greater share of the marketing margins going to producers.

There may be cases where the provision (or removal) of countervailing power would not affect final prices but simply redistribute income from middlemen to producers (or vice versa). The only evidence provided to the Commission concerned the deregulation of the NSW egg industry where prices faced by final consumers did fall (see Box 3.3).

The Commission accepts the concern of producers that they receive a fair reward for their endeavours. However, manipulation of margins in the absence of undue market power being exercised by a sole buyer or processor cartel can have deleterious consequences for other sectors of the economy. For example, processors facing import competition may forgo technical innovation and retailers may be loathe to promote produce where margins have been constrained (see Chapter 4).

Assessment

The above considerations severely restrict the range of commodities for which a convincing case can be made for the provision of countervailing power through statutory arrangements. Candidates would need to be non-internationally traded commodities without close substitutes being sold into an uncompetitive market.

Even in these circumstances, further factors may frustrate attempts to increase producer prices.

Box 3.3: Deregulation of the NSW egg industry

According to the final report of the NSW Egg Corporation, deregulation brought to an end a system of controls which had been in place in various forms since 1928. The report noted that deregulation had resulted in some profound changes, namely that:

- the average retail price of eggs to NSW consumers fell by 38 cents per dozen representing a savings to consumers of nearly \$21 million in a full year;
- the demand for eggs increased, with some industry estimates putting the increase as high as 15 per cent per annum;
- within six months of deregulation average prices paid for eggs consigned to manufactured product had fallen by 34 per cent, reducing business' input cost by \$3 million annually (NSW Egg Corporation 1990).

Most of the reduction in shell egg retail prices was due to the elimination of the levy (27 cents per dozen) and the fact that producers no longer need to service the interest on quota investment. More recently, the Minister for Agriculture and Rural Affairs (NSW) reaffirmed these benefits stating that:

The effect of deregulation has been to reduce the retail price of eggs for NSW consumers. Research by Business and Consumer Affairs indicates that the reduction has been from a pre-deregulation price of \$2.09 per 55 gram standard dozen eggs to the current average of \$1.72 (Minister for Agriculture and Rural Affairs, 1990).

However, the Minister expressed concern that the full reduction had not been passed onto consumers:

Research carried out by NSW Agriculture and Fisheries has confirmed, however, that retailers are taking advantage of deregulated egg prices to increase their profit margins (Minister for Agriculture and Rural Affairs, 1990).

While not denying the possibility of 'excessive' profit taking by retailers, it is hardly surprising that retail margins have not remained constant when the environment has changed from one in which margins have essentially been fixed to a deregulated market.

For example, there is potential for competition from other State SMAs (as well as from intrastate) or from producers in deregulated States. This would narrow the range within which the domestic price could be set. The narrower the price range, the less effective would be the provision of countervailing power. In some States or regions far from potential competition (Western Australia and North Queensland), however, there are opportunities for local producers to appropriate freight advantages if competition between them is restricted.

Even if cases were found which suggested that the objective of raising returns to producers from domestic sales is justified, the question arises as to how much countervailing power should be provided and in what form. The provision of countervailing power must require some 'guesswork' as to how much power should be transferred to the less powerful group (producers). It would clearly be overcompensation to give total monopoly power to a group of producers where buyers, though few in number and having some market power, do compete with each other.

The granting of countervailing power would only improve the efficiency of resource use if it centred on a market failure which diverted resources from production for domestic sales. So to merely transfer market power from middlemen to an SMA (acting on behalf of producers) would not improve efficiency if, in order to raise prices, the SMA had to restrict production for domestic sales.

This is not to deny that market power is held unevenly in many transactions. But to intervene to balance the power held by opposing groups would impose enormous regulatory costs on the community. The general approach adopted in Australia is to try to minimise the barriers to entry to a market and, through existing trade practices and fair trading laws, ensure that any market power is not misused. Trade practices issues are discussed in Chapter 5.

However, under certain conditions the provision of countervailing power might be sound. Such conditions include a lack of buyer contestability arising from one processor squeezing out all competition because of economies of size, non-exposure to international (and regional and interstate) trade in the commodity (and possibly end products) and limited substitution prospects. However, the Commission did not find any cases where these conditions are satisfied.

Moreover, even if such cases were found, the provision of countervailing power would not be justified if, in order to raise prices (producer returns), an SMA had to limit production for domestic sales.

3.3 Stabilising prices and production

Producers can benefit from increased price and income stability. Some statutory marketing arrangements operate principally with a view to stabilising price and production levels. The recently suspended reserve price scheme for wool is a case in point. The stabilisation of prices, production and income has been a significant stated objective for many statutory arrangements.

Causes of instability

Agricultural activities are biological processes which, for many commodities, are characterised by a long period between production decisions being made and products coming onto the market. Being seasonal, this production period is often synchronised for virtually all producers. During this period production is subject to weather vagaries and many other natural hazards which cannot be controlled. Thus within any production period there are many sources of supply variability but few opportunities to respond to price incentives.

Responses to price changes are much more flexible over the longer term. But because of the long period of many agricultural processes, there can be large discrepancies between the prices producers expect and the prices which are realised. Prices of many agricultural commodities can be very sensitive to relatively small changes in supplies. Because of their status as basic foods and fibres, when shortages occur a large increase in price may be required to dampen demand and divert supplies from least preferred uses. Similarly, when surpluses occur a large fall in price may be required to encourage significant extra consumption. In either case, there will be little supply response within any season. Opportunities and costs of storing and transporting commodities are clearly important determinants of seasonal price variability.

As much of Australia's agricultural production is exported, a number of other factors come into play in determining the prices Australian producers receive and the reasons for their fluctuations. World trade in most commodities is only a small proportion of total production and consumption. Production instability in other

major supplying countries and cycles in world economic activity can cause this trade, and prices at which it occurs, to fluctuate markedly. Self-sufficiency policies of many countries, and the natural advantages which their farmers have, also result in world trade being residual trade, which amplifies price fluctuations further.

Thus prices for some agricultural commodities, their levels of production and producer incomes can be very volatile. Unexpected and major reversals in prices are not uncommon, especially for internationally traded commodities, and are a major source of uncertainty for planning and budgeting. Similarly, large fluctuations in incomes cause welfare problems.

Measures to overcome price instability

Many instruments have been employed to address such concerns. Some (which are discussed in the next chapter) can be rejected as being unsound on efficiency grounds. This section begins by addressing two approaches to stabilisation which are not so obviously in breach of efficiency criteria. This is because, at least in theory, they could improve community welfare, and any assessment of the objective of stabilising prices and production should bear this possibility in mind.

One approach is to establish a buffer fund which could augment prices when they are low and reduce returns when prices are high. Another approach is to absorb production and consumption shocks through stockpiling. Stocks can act as a buffer to be accumulated when prices are unfavourable, and run down when prices are favourable. Prices can be smoothed by these actions. The former approach was used in several national marketing arrangements from the late 1940s to the late 1970s. The latter approach has been used in the case of wool (see Box 3.4).

While these types of measures *may* enhance stability in agriculture (they can also detract from stability), the key concern for this inquiry is how they impact on the efficiency of resource use. Can community welfare be enhanced by policies which reduce fluctuations in prices received by producers?

In a theoretical sense buffer funds and buffer stock schemes can lead to 'pure' stabilisation. That is, offsetting transfers can occur between producers and consumers which do not lead to accumulating funds and stocks over time. However, in practice this has tended not to be the case.

The problem with buffer stock schemes is that the maintenance of a reasonably stable price could require the carriage of a large average stock. This may mean that the costs of stockpiling could outweigh any gross benefits from the scheme. Also, the costs of acquiring information to approximate a stable price could be large and where incorrect decisions arise the community may be worse off than would have been the case without the scheme. Furthermore, as recent events have demonstrated, decisions about the levels of prices to be stabilised can become highly politicised.

Box 3.4: Wool and stabilisation

The wool industry has long been subject to price volatility. A variety of responses have been adopted including income deficiency payments (1970-71) and price deficiency payments (1971-73) when returns were very low; and the flexible reserve price scheme (from 1970) and the minimum reserve price scheme (1974 to 1991) to help stabilise prices.

According to the AWC the recently suspended reserve price scheme, which has entailed the carriage of buffer stocks financed from a grower subscribed market support fund (and since the end of 1989 from borrowings), provided for stability and predictability of wool prices at maximum commercially sustainable levels. It said:

The AWC considers that more stable planning and predictable prices over a longer planning horizon (1-2 years minimum) are beneficial to both wool users and producers. The benefits to these groups of achieving a given degree of stability must, however, be traded off against the costs and risks involved. Wool producers are generally considered to be risk averse ... reduced uncertainty flowing from more stable price expectations is judged as beneficial by most woolgrowers (Sub. 47, p. 16-17).

Recent events have demonstrated the difficulties of the reserve price scheme in meeting its objectives when faced with unrealised price expectations.

These characteristics point to buffer fund schemes as a more viable option for reducing price instability for producers. Indeed, such schemes have operated over various times for wheat, dried vine fruits and apples and pears. However, buffer fund schemes also involve costs -- namely, the cost associated with tying up funds. Indeed, high interest and inflation rates were reasons for such schemes falling out of favour with producers in the 1970s.

Appraisal of stabilisation schemes

The IAC looked at the objectives of stabilisation policies in an inquiry into rural income fluctuations in the late 1970s. Its main conclusions were that there was little evidence to suggest that price stabilisation schemes would encourage efficient resource use. Indeed, such schemes were likely to lead to an inefficient use of resources by discouraging profitable adjustments to price trends. It noted:

Individual producers, in agriculture and other sectors, adjust to risk and uncertainty in the way they organise their businesses, employing stabilising measures and strategies in the light of their own situations and preferences and the costs involved. It should not be assumed that farmers' evaluations of the benefits and costs of alternative risk reducing strategies are inadequate or that the social costs of risk reduction could be reduced by intervention (IAC 1978, p. 62).

The CIE study dismissed such measures noting:

As to rural income fluctuations, it is now generally considered that the best way of helping farmers cope with their unstable environment is to let them act individually. Cooperative measures which pool prices and the like often do not help stabilise income and moreover disturb grower perception of prices (CIE 1990, p. 71).

Finally, the Trade Practices Commission has stated in its Rural Guideline that it:

does not accept that price and/or income stability is a public benefit per se. The Commission will not authorise arrangements that promote price or income stability if they set prices or protect inefficient producers. Moreover, it must also be demonstrated that the public benefits flowing from such arrangements could not be achieved more efficiently by using some other method (TPC 1989a, p. 6).

Assessment

Stabilisation of prices or production is an inherently weak objective for statutory marketing arrangements if that stability is imposed on all participating producers or buyers. The needs for risk reduction varies among individuals, who could be

expected to undertake their own appropriate risk reduction strategies, such as product diversification, asset management and the use of insurance or hedging markets. This was raised by the NSW Government which stated:

The development of hedging opportunities may need to be encouraged as existing SMAs are dismantled. Adding to the range of goods traded on the futures market may well have the additional benefit of developing futures markets generally.

Stabilisation policies, which require the compulsory participation of producers or buyers, reduce the incentives for sound production and financial control and stymie developments in the sort of risk avoidance markets which operate in some other countries.

However, in this regard it may be appropriate for SMAs to offer voluntary stabilising options, such as price pooling or entry to hedging markets, to participating producers. Furthermore, to the extent that SMAs improve market information and help to maintain stable access to overseas markets, they can contribute to price stability and improve resource use efficiency.

3.4 Reducing marketing costs and stimulating demand

The reduction of marketing costs (eg freight, insurance, finance, quality standards) and stimulating demand (promotion, market research and negotiation to open up export markets) are prime objectives for many SMAs. For example, Box 3.5 backgrounds the activities of the Australian Meat and Live-stock Corporation in addressing the latter objective.

Market information, market research and generic promotion

Many primary producers either lack access to, or are unwilling to pay for, market information. For example, in its 1988 report on the fresh fruit and fruit products industries the IAC noted:

The fresh fruit industries are in the main not organised to generate and share production data Australia-wide on a product basis, and growers are often unaware of the extent of fruit production (or trees planted) in areas outside of their own regions (IAC 1988b, p. 8.1).

Box 3.5: The Australian Meat and Live-stock Corporation (AMLC)

The AMLC is almost entirely funded by industry levies. It mainly plays a facilitating role for the industry but has the power to grant and revoke export licences and to intervene in the trade where specific criteria are met [section 16L(1A) of the AMLC Act, 1977]. According to its Annual Report, the AMLC's goals are to maximise market opportunities in Australia and overseas, and to more accurately meet consumer demands.

Its activities in overseas markets have included:

- expanding market opportunities for Australian beef in Japan and Korea through marketing and promotional programs;
- initiating a Fresh Australian Lamb program in the US, a marketing plan aimed at consumers backed by education; and
- assisting in maintaining access to markets such as Taiwan, Canada, the EC and the Middle East (for livestock).

For the domestic market, the Corporation has:

- expanded beef and lamb advertising;
- initiated trials of a consumer-oriented marketing system (Right Meat);
- consolidated merchandising activities; and
- increased nutrition and education programs.

The Corporation has also cooperated with government and industry to minimise the risk to the industry from chemical residue problems through intensifying testing in Australia and the US. It has implemented a uniform description language and developed and supervised codes of practice, quality assurance and accreditation schemes within the meat industry. The Corporation also established a Computer Aided Livestock Marketing System (CALM) to improve communication along the marketing chain.

Source: Australian Meat and Live-stock Corporation, Annual Report, July 1988-June 1989.

In contrast, traders are actively involved in acquiring market information and could not be expected to share it with producers -- other than in the form of prices offered. As a consequence of this uneven access to information, producers could be disadvantaged.

The rationale for SMAs providing information is that it is relatively costly for individual producers to seek and often has 'public good' characteristics (ie one person's access to it does not reduce its availability to others).

SMAs provide information about the state and outlook for the market which is generally paid for either out of pool returns or by a compulsory levy. It is reasonable to question why this should be the case. If the information is of value to

producers, why not let the market set a price and leave producers the option of paying for it? However, if information has 'public good' characteristics and it is impossible to exclude all producers from using the information, then it may be underprovided if left solely to the market. A compulsory basis for funding the general provision of information to all users through an SMA may overcome the 'free rider' problem and increase the supply of information to an efficient level.

The free rider problem concerns the inability to exclude those who do not pay for a particular good or service from enjoying its benefits. Where a private provider of such services cannot exclude non-payers from enjoying the benefits, beneficiaries are unlikely to pay for them. Under these conditions the good/service will be underprovided from the community's point of view. Government intervention may be necessary to require all who benefit to contribute.

The problem is relevant in agriculture in cases where non-payers cannot be excluded from enjoying the benefits of information dissemination, research and development and generic promotion. For example, if a single producer actively promoted citrus (as opposed to its own brand name) other citrus producers stand to gain. Some types of information may be likewise affected.

Thus, the ability to exclude non-paying persons from enjoying the benefits of these activities is paramount if they are to be provided at an optimal level. Only some types of market information can readily be supplied on a user-pays basis in a manner which excludes usage by non-payers, for example teletext services or information bulletin subscriptions.

Benefits from generic promotion, however, are virtually non-excludable. Of course, the option always remains for product differentiation, that is to promote a brand (eg Batlow apples) and generate goodwill and brand allegiance. However, even with product differentiation, generic promotion may still be important given that much agricultural produce is substitutable in consumption and consumers are operating with a relatively fixed budget. It would also be important for launching newer or less established products.

Overall, where free rider characteristics are evident, some form of government intervention may bring about a more efficient outcome. In these circumstances the provision of market information, market research and generic promotion through a

statutory scheme with the objective either of reducing marketing costs or stimulating demand may be sound. Where free riding is not a problem the objective is not sound.

Grade standards and quality controls

SMA's also often establish grade standards and administer quality control or assurance arrangements. If these facilitate sale by description they might both stimulate demand and reduce costs. However, overly restrictive standards may deny consumers access to certain varieties or qualities of produce and restrict the sales opportunities of producers.

The New South Wales Farmers' Association, for example, informed the IAC during its inquiry into the fruit industry that:

Recent attempts have been made by producers for the apple export standard to be changed so as Granny Smith apples with blush (tinged with red) be allowed to be exported ... Overseas importers are documented as not being concerned with blush. The ultimate irony has developed this year where US Granny Smith producers have been able to achieve a premium for blushed apples (IAC 1988b, p. 7.17).

Another problem, raised particularly by horticulturalists and especially by exporters, is that some producers place poor quality product on the market which damages the reputation of all producers. This may lead to producers of higher quality product being unable to extract a price premium. In this case the actions of some are said to damage others. For example, the 'meat substitution scandal' damaged Australia's reputation as an exporter of beef in the early 1980s.

If (overseas) buyers consider all Australian product as identical, the actions of some producers/exporters could adversely affect others. Conversely, if purchases are based on goodwill generated by brand name, this is unlikely to be a problem. Both scenarios could apply in practice. Certainly, the Commission is aware that some minimally processed agricultural products command a price premium on the basis of brand name. The IAC report on fresh and processed vegetables noted that:

All of the exporters that participated in the inquiry considered their own product received individual recognition in their export markets. They claimed that they make regular telephone contacts with their established overseas agents and regularly visit those markets. They take responsibility for the quality of their exports and are unlikely to be confused with other Australian exporters (IAC 1986, p. 183).

Nevertheless, some minimum standard may assist in this regard, particularly where consumers are unable to determine the source of a particular product (eg vegetable markets). Moreover, selling a sub-standard product (for example, launching a new subtropical fruit which is sold 'green' and sour) could damage the reputation of more responsible producers.

The objective of stimulating demand by establishing grade standards and administering quality control or assurance arrangements which facilitate sale by description and ensure minimum levels of quality may be sound provided it does not deny consumers access to lower quality or unusual grades of produce.

Economies of size and scope

Reducing costs by spreading overheads and negotiating cheaper services for larger quantities of produce and a wider range of products is clearly beneficial. A large body can negotiate more favourable terms for services such as freight, insurance and finance than several smaller uncoordinated individuals or groups.

It is sometimes claimed that the coercive powers of government are necessary to ensure that such economies are captured by producers rather than marketers. There may be some merit to this view in the unlikely circumstance that the scale on which a particular marketing activity is undertaken is such that a single industry organisation could dominate the activity.

However, where producers are compelled to operate through a single trader, economies of size and scope may be dissipated by the cost padding practices which can arise in the absence of competition. Moreover, for an individual SMA there may be internal conflicts in achieving economies of scope particularly if the commodities are close substitutes. For example, the AMLC promotes both beef and lamb which are highly substitutable in consumption. Thus, promotion of one may be at the expense of sales of the other.

While the achievement of economies of size and scope are beneficial, an important corollary is that they be accompanied by choice.

Assessment

Reducing marketing costs and stimulating demand may be sound objectives for statutory marketing arrangements in circumstances where individuals cannot be excluded from benefiting from services provided. For market development, product and market research, and promotion of generic commodities some form of government intervention may be required to overcome free riding. Unless all who market contribute to market development and promotion, less may be spent on these activities than is efficient.

Statutory grade standards and quality assurances may reduce marketing costs of generic commodities by facilitating sale by description and reducing the potential for an individual seller to damage the reputation of others by supplying sub-standard produce. However, the compliance costs of such standards may be high and, if overly restrictive, could stifle innovation and export growth.

While economies of size and scope may reduce marketing costs, there is no general case for using the coercive powers of government to achieve these aims. However, the emergence of a single firm through economies of size might require some form of intervention.

3.5 Providing assistance

Most statutory marketing arrangements are designed to serve the interests of producers, and thus are themselves a form of assistance. However, some have also been used to provide other forms of assistance. Whether the provision of assistance is a sound objective for statutory marketing arrangements raises two issues: first, the rationales underlying the decision to grant assistance to an industry; and second, if a decision to grant assistance has been made, is it efficient to deliver it through the marketing of a primary product?

The rationales for the Commonwealth Government providing explicit assistance other than through the organisation of marketing have generally centred on two arguments -- compensation for the long term disadvantages agriculture faces due to support of other sectors (eg through tariffs) and short term support during periods of sharp market downturn or natural physical disasters.

The 'tariff compensation' argument which was widely advocated in the 1970s stemmed from the fact that assistance to the manufacturing sector impacts adversely on producers who face tariff inflated prices for farm inputs and a higher exchange rate than might otherwise apply. Protection was demonstrated to have a particularly adverse impact on exporters who could pass on these costs on world markets. With the lowering of tariffs in recent years, the compensation argument has shifted more to the need to offset costs imposed by inefficiencies in the provision of services -- particularly transport, the waterfront and electricity.

Although compensation for a domestic distortion might, in principle, lead to an improvement in national wellbeing, a consistent view taken in reports by the IAC/IC has been that these problems are best addressed by the reduction of interventions which are large, rather than by adding further distortions to counter their impact.

Another argument sometimes put forward is that Australian producers need assistance to compensate them for interventions in other countries which have 'corrupted' world markets (such as EC farm subsidies and the Export Enhancement Program practised by the US). But any attempt to match agricultural subsidies by other nations would involve heavily subsidising domestic producers (and hence, overseas consumers) at a prohibitive expense to the nation. Alternatively, attempts to segregate domestic and export markets to achieve higher domestic prices to compensate producers for low returns on 'corrupted' export markets have adverse efficiency implications and penalise domestic consumers. Furthermore, unlike tariff compensation, such measures cannot even in principle lead to an improvement in national wellbeing since other countries' policies are beyond the control of domestic policies in Australia.

Australian Governments have provided short term assistance to rural producers to ameliorate the effects of falls in industry profitability arising from situations which were perceived to be of a temporary nature. The most obvious examples include

taxation and interest rate concessions to overcome the effects of droughts and floods. In the early 1970s woolgrowers also received payments when wool prices were at low levels. Short term assistance has also been built into some longer term assistance arrangements, such as underwriting mechanisms which operated for wheat, dried vine fruits, apples and pears and manufactured dairy products during the 1980s. Short term assistance measures have often been for social reasons (eg regional employment and concern about welfare of farmers).

The IAC, which examined the implications of providing short term assistance to reduce rural income fluctuations, stated:

Like all assistance, short term assistance affects the way resources are used both between and within industries ... If producers expect that assistance will always be available in the bad times, it may reduce their incentives to provide for contingencies, and thus increase calls for short term assistance, which could seem inequitable to producers who have taken reasonable precautions. Nevertheless, if short term assistance were only available selectively, for particular industries, activities, regions etc., it could distort resource use (IAC 1978, p. 30).

However, there are instances where the provision of assistance can improve economic efficiency. For example, the IAC considered assistance for research and development could improve efficiency because some of the benefits of rural research are not restricted to producers but flow over to the community generally. Furthermore, as few rural research findings can be given property rights (eg through patents) there may be less research activity than is socially optimal.

Aside from these restricted examples (free riding and external benefits for the wider community), providing assistance (whether short term or prolonged) can distort resource allocation. Where concerns are raised about undue hardship in rural communities, short term assistance could more appropriately be delivered in the form of adjustment assistance or income support (for example, through the Rural Adjustment Scheme) which does not operate through product prices or commodity markets. However, in terms of adjustment assistance the NSW Government cautioned that:

Distortions in resource allocation are still possible under the RAS which operates in the capital market. Moreover, as a vehicle for welfare support the RAS operates somewhat in isolation of existing welfare arrangements.

While the operations of the RAS lie outside this inquiry's terms of reference the point is understood. Any inefficiencies associated with adjustment assistance would need to be examined if changes to statutory marketing arrangements are likely to force greater reliance on such measures.

Assessment

The rationales for providing assistance need to be assessed publicly on a case-by-case basis. Moreover, in its May 1988 Economic Statement the Commonwealth Government signalled its intention to reduce domestic price support, to restrict price and cost pooling and to phase out its underwriting role in line with general reductions in assistance elsewhere in the economy. Its March 1991 Industry Statement has continued that process.

This leads to the conclusion that provision of assistance is not a sound objective for establishing a statutory marketing arrangement. But where assistance is targeted to a specific sector or region, an existing SMA may be a useful vehicle for its provision. Various types of assistance including underwriting and export subsidies for dairy products, wool promotion, and borrowing guarantees for wheat have operated through marketing arrangements.

Nevertheless, assistance can only be efficiently delivered through an SMA if it is provided for market related objectives or through prices or volumes sold. It would not be delivered efficiently if it was only available by selling through an SMA, but marketing through that SMA was not mandatory. For example, to guarantee the borrowings of an SMA which trades in competition with private firms would bias choice.

3.6 Conclusion

At the outset of this chapter four general categories of objectives for statutory marketing arrangements were identified. To recapitulate, the objectives and the Commission's assessment are:

-
- To increase returns to producers.

If achievable, increasing returns from exports is a sound objective for an SMA from the viewpoints of both producers and the Australian community, provided that the extra revenue obtained exceeds the additional costs of achieving it. However, attempts to increase returns to producers on the domestic market are unsound from the wider community's viewpoint unless it can be demonstrated that the market is not contestable because of size economies, opportunities for international (or inter-regional) trade are limited, and there are few opportunities for product substitution. If middlemen are abusing their market power, then appropriate action would be under trade practices or fair trading laws. The Commission found no general case for providing countervailing power to producers.

- **To stabilise prices and production.**

Producers can benefit from increased price and income stability. SMAs can facilitate efficient price and production stability by their own efficient market operations, but stabilising price and production are not sound objectives for statutory marketing arrangements from either an industry or a wider community viewpoint if they require compulsory participation by all producers. Price stabilisation policies restrict producer choice, and reduce incentives for alternative risk reduction strategies and the development of risk avoidance markets which operate in other countries. Producers should be encouraged to develop their own risk management and income stabilisation policies.

- To reduce marketing costs and stimulate demand.

Reducing marketing costs and stimulating demand can be sound objectives for producers and their marketing organisations. Some form of government intervention supporting information provision, product or market related research, and generic promotion may also be sound from a community wide viewpoint if free riding leads to sub-optimal levels of these activities. Similarly, the development of grade standards and quality assurance schemes may be sound (provided the costs outweigh the benefits). There is no general case for coercing producers to operate through a single trader simply to achieve economies of size.

-
- To provide assistance.

An SMA may be an efficient vehicle for delivery of assistance if it is provided for market related objectives or through prices or volumes sold. However, it is difficult to justify the provision of assistance as a sound objective for statutory marketing arrangements in their own right.

The evaluation process

Objectives cannot be fully evaluated without taking into account the powers given to SMAs and the ways they use them to achieve those objectives. More importantly, no judgments can be made without further analysis as to whether desirable objectives are best achieved by statutory intervention.

Conditions which lend support to an objective being sound in one industry may be absent in another. Also, some measures used may conflict with stated objectives. For example, price stabilisation schemes can mask price signals, yet the same SMA may have as an objective the provision of timely and effective information. Furthermore, some stated objectives may be best achieved indirectly. For example, providing timely and effective information may be an efficient means of achieving a sound stabilisation objective. An in-principle evaluation of the objectives of statutory marketing arrangements cannot adequately address these intricacies.

The evaluation of an objective as sound should therefore not be taken as a blank cheque for using any instrument to achieve that objective. Even in cases of obvious market failure there are no guarantees that government intervention will efficiently overcome the problem. It is likely that, from an efficiency standpoint, there are cases where the community is better off with the existing problem.

Nor should it be assumed that objectives which are not a sound basis for statutory arrangements are not sound for individual producers or their organisations to pursue. Clearly, efficient production and marketing requires producers to seek to increase their returns from domestic sales and take action to stabilise their returns.

Thus evaluating objectives is but an initial screening device in the process of evaluating statutory marketing arrangements. It is vital to ascertain whether the instruments which SMAs use to achieve their objectives are direct and if they have

any adverse effects. Poorly targeted interventions may have spillover effects which may be self-defeating. For example, if a policy objective were to increase farm incomes, a direct measure would involve the use of income supplements. An alternative policy, such as an employment or production subsidy, would achieve the same aim but impose costs by distorting decisions on factor inputs and output levels. Of course, whether the (high) costs of administering income supplements and ensuring that they went only to those they were intended for are less than the inefficiency costs of a subsidy is an issue which may have to be examined on a case-by-case basis.

The next chapters discuss the effects of statutory marketing arrangements and ways of improving the efficiency of marketing.

4 THE EFFECTS OF STATUTORY MARKETING ARRANGEMENTS

Statutory marketing arrangements are put into effect in a variety of ways. Some involve vesting in an SMA or compulsory acquisition by an SMA or its agent. Others set or recommend minimum prices, compulsorily pool returns and certain marketing costs, issue licences or quotas to control production or supplies coming onto certain markets, impose levies to finance marketing services, or exercise controls over product quality. This chapter principally examines the efficiency effects of these types of arrangements on the producers and buyers directly affected. It also examines some of their wider economic, social and environmental effects.

4.1 Efficiency effects on producers and buyers

In Chapter 3 it was shown that in certain circumstances statutory marketing arrangements can enhance the efficiency with which resources of producers and buyers are used. This would occur, for example, if premiums can be obtained at reasonable cost from the exercise of export market power, or if generic promotion displays 'public good' characteristics.

Nevertheless, there is a danger that statutory intervention will lead to inefficiency. This may happen not only if the objectives pursued are unsound, but also if an inappropriate instrument is used to meet a sound objective. In this regard the Australian Federation of Consumer Organisations said that:

Too often, the instruments designed to correct market failure can be expropriated by producer interests to give rise to new economic distortions.

Statutory marketing arrangements significantly raise domestic prices to users of many agricultural products. These price increases are transferred to producers by increasing the prices they receive. Estimates of domestic price distortions, producer transfers and producer price increases (nominal rates of assistance) are given in

Table 4.1. (The estimates for dairy produce and sugar will be assessed further in the Commission's current inquiries into those industries.) In addition, some State statutory arrangements raise prices regionally (eg lamb in Western Australia). The Commission has not made any estimates of the aggregate consequences of these regional arrangements.

Table 4.1: Domestic user price distortions, producer transfers and producer price increases^a

	<i>Domestic price distortions</i>		<i>Producer transfers</i>		<i>Producer price increases^b</i>	
	<i>1988-89</i>	<i>Mid-1990s</i>	<i>1988-89</i>	<i>Mid-1990s</i>	<i>1988-89</i>	<i>Mid-1990s</i>
	%	%	\$'m	\$'m	%	%
Eggs	25c	13	23c	14	10c	6
Manufacturing milk:			138	98	17	11
Cheese	24	18	76	58		
Butter	40	18	36	16		
Skim milk powder	19	17	19	17		
Whole milk powder	17	15	6	6		
Casein	19	17	1	1		
Market milk	30	30	152	152	30	30
Honey	1	1	..	..	3	3
Wheat	3	-	7	-	1	-
Rice	20	20	6	6	5	5
Apples/pears	-	-	-	-	-	-
Sultanas	45	45	13	13	26	25
Bananas	1	1	..	..	-	-
Sugar	38d	33	62	53	9	8
Cotton	27	-	9	-	2	-
Tobacco	43	-	23	-	56	12

- nil. na not available. .. total is less than \$0.5 million.

a Where tariffs form an integral part of statutory marketing arrangements, the resulting domestic price effects are included in these estimates. b From all forms of assistance. c Price distortions and producer transfers for eggs have not been calculated for 1988-89 due to the difficulty in obtaining appropriate data for NSW following the deregulation of the NSW egg market and the sale of the NSW Egg Corporation's assets. Hence 1987-88 estimates are given. d The import embargo on sugar was replaced by a specific tariff rate on sugar imports from 1 July 1989. Preliminary estimates indicate that the price distortion for sugar for 1989-90 was 49 per cent.

Source: Commission estimates -- see Appendix F.

While prices of some agricultural commodities are significantly increased, the aggregate price effects of statutory marketing arrangements are limited. In 1988-89

they raised consumer prices of food, beverages and tobacco by just over 1 per cent, and for goods and services generally by only 0.3 per cent (see Table F3). They raised producer prices by some 3 per cent in the same year (see Table F6).

Through their effects on prices, statutory marketing arrangements alter quantities and qualities of commodities produced and used, and this in turn gives rise to changes in the values of resources and the efficiency of their use. However, the various features of statutory marketing arrangements affect efficiency of resource use in different ways.

Vesting

Vesting compulsorily transfers ownership of a commodity at some designated stage of its production to an SMA (or in some cases a State). Producers are hence compelled to surrender their ownership rights. Unless the commodity is divested back to them after certain conditions have been met, or they are exempted through a permit, producers are prevented from selling, processing, or doing anything else with the commodity, including the negotiation of prices, quantities, or times of delivery with buyers. Appendix E shows that many SMAs have power to vest and/or to compulsorily acquire product.

The compulsion which is inherent in vesting enables an SMA to impose charges on all participants in an industry for services which are deemed to be good for the industry as a whole. Because under the Australian Constitution excise taxing powers are restricted to the Commonwealth Government, State SMAs also often use vesting powers to raise special purpose levies. Vesting may also lead to the requirement that all supplies of a commodity be delivered to and sold through an SMA.

Some participants emphasised the benefits derived from vesting in meeting the objectives of statutory marketing, and drew attention to the producer support which such arrangements enjoy. For example, the Grain Sorghum Marketing Board (NSW) said that:

Since a board cannot be established without a majority vote of growers; and can be abolished by a grower vote, it cannot be said that vesting has been forced upon growers.

However, majority producer support for compulsion does not necessarily mean that it encourages efficient resource use at the farm or industry level, or that it provides wider community benefits which justify statutory backing. The efficiency consequences of compulsion are probably best examined in the context of compulsory acquisition.

Compulsory acquisition

Compulsory acquisition requires the delivery of a commodity to an SMA for sale. It frequently relies on the wider power of vesting (indeed, distinctions can be subtle), though in some cases the SMA may not take legal title of ownership (eg the Australian Barley Board). Also wheat is not vested (except in Queensland) and is not subject to compulsory acquisition, but wheat can only be exported if sold through the Australian Wheat Board.

Compulsory acquisition by an SMA can be used to: countervail any market power held by buyers; exert any potential market power Australia has overseas; and achieve any economies of size or scope in marketing. Some of these outcomes might improve the efficiency of resource use. However, compulsion reduces the incentives of producers, buyers and the SMA to become more efficient. By limiting the ability of producers to dispose of their commodity as they wish, compulsory acquisition restricts innovation. Innovation in an industry starts with individuals and if proven successful it spreads throughout the industry. If a potential innovator is prevented from departing from the standard practice of the industry, then not just that individual but the whole industry, and ultimately the community, is deprived of the benefits of the innovation.

The Commission was given several examples of disincentives to innovation. Lynne and David Johnston claimed that out-of-season lamb marketing activities are constrained by the acquisition powers of the Western Australian Meat Marketing Corporation. They said that:

The efficient farmers capable of supplying when others can't, subsidise the less efficient farmers who can only supply in the peak season.

Davco Farming, one of Queensland's largest cane growers, claimed that it produces sugarcane at a much lower cost than the average producer but is handicapped by the need to 'rent' entitlements for the 'right to grow sugar'. It provided information

about the extraordinary lengths it has to go to in order to circumvent regulation inhibiting the introduction of large-scale sugarcane farming techniques.

Requiring that all purchases be made from an SMA prevents buyers from choosing their least cost sources of supply. It can also deter buyers from investing or broadening the range of their activities.

Control of supplies by an SMA can reduce its incentives to improve quality. In this regard, Castlemaine Perkins Ltd said that:

There is an apparent tendency within the Queensland Barley Board to accommodate the effects of a poor season by upgrading non-malting barley in the knowledge that local maltsters are somewhat a captive market.

Furthermore, if separate SMAs in the various States follow different grading and pricing policies, captive users in some States could be advantaged relative to others, which may result in an inefficient structure of a processing industry. Castlemaine Perkins Ltd further said that it was concerned about:

The differences that exist and the potential for differences to occur between SMAs in respect of pricing policies which could place [it] at a disadvantage with competitors located in other Australian States.

Price setting

If compulsory acquisition allows an SMA to control the flow of supplies onto various markets, it is in a strong position to price discriminately between domestic and export markets (eg sugar and malting barley) or between domestic end uses (milk). Raising domestic prices clearly reduces the competitiveness of domestic processors and can adversely affect the welfare of final consumers.

However, the ability of SMAs to price discriminately, even when they compulsorily acquire the product, can be limited. Most do not have powers to control production, and their ability to control total supplies is usually tempered by a requirement that they receive all produce delivered to them which is of an acceptable standard. Their ability to raise domestic prices, by diverting supplies from domestic markets into lower priced export markets, is also limited by competition from other products or from the same product coming from other interstate or overseas sources. See Box 4.1.

Box 4.1 Price discrimination and New South Wales' grains boards

In its review of the New South Wales coarse grains and oilseeds marketing boards, the review team commented that:

the effectiveness of the boards ... should be evaluated on the basis of whether they have been able to extract any price premium compared with private traders operating at the same time and phase and for the same grain quantities [ie if such private traders had been, in fact, permitted to operate in the markets].

The review team noted that such comparisons are inherently difficult to make.

Nevertheless, it concluded that 'apart from malting barley the boards have not had an impact on price'.

The review team estimated that the \$20 domestic market premium claimed by the NSW Barley Board on sales of malting barley translated to an 'impact on grower pool returns [of] only around \$3.90 per tonne'.

Source: NSW Department of Agriculture and Fisheries 1990, Volume 1, pp. 75 -77.

Not all SMAs control prices using vesting or compulsory acquisition powers. For example, until recently the Australian Wool Corporation used its trading powers to maintain a minimum reserve price. In the case of chicken meat and processing tomatoes, State Governments have established statutory committees which set minimum prices which govern sales contracts (see Box 4.2). Minimum prices are also set by SMAs on a regional basis in the citrus and wine grape industries (see Boxes 2.2 and 3.2).

A number of participants commented on the benefits of minimum pricing arrangements to producers. For example, the Wine Grapes Marketing Board of New South Wales said that minimum prices stabilise grower returns and instil confidence in growers to make investment decisions. The Murray Citrus Growers Co-operative Association, referring to the power of the South Australian Citrus Board to set a minimum juice price, said that without the 'necessary statutory teeth' it doubted that processors would negotiate with producers.

However, some participants referred to adverse effects of minimum pricing arrangements. Edgell-Birds Eye said that minimum pricing prevents excess production being used at a lower price to offset some of the cheaper imports and

that this excess is dumped or ploughed back. The company said that this inability to use excess production at lower prices can inhibit the development of export markets. Furthermore, the company said that producers of vegetables expect that prices should automatically increase when growing costs are shown to increase, and that:

This has led to the industry pricing itself out of many areas of the market. The most obvious area being production of tomato paste where production is being undertaken in New Zealand for the Australian market.

Similar difficulties appear to exist in the chicken meat industry -- see Box 4.2.

Where an SMA is able to set or influence prices, the criteria it uses can affect the efficiency of resource use. As recent events in the wool market have illustrated, considerable dislocations and inefficiencies can result from becoming locked into minimum prices which are set above competitive levels. Setting prices with too much weighting on producers' costs can insulate producers from market requirements, inhibit productivity improvements, and lead to production levels which the market is not willing to absorb. Further, users may purchase less of the locally produced commodity and revert to substitutes or even move into production themselves.

Box 4.2: Countervailing power and the poultry industry

Contract growers for chicken meat processors felt that they were being disadvantaged in their contractual and negotiating position by being tied to particular processors and incurring fluctuations in their returns. State Governments responded to calls for countervailing power by growers through the introduction of Poultry Meat Industry Committees which sets minimum prices for all chickens grown under contract (generally CPI indexed on a six-monthly basis).

However according to the National Poultry Association:

Growers and processors have tended to become polarised blocks on these committees under a government appointed Chairman who must ultimately set the price to processors of the growers fee. The net effect is that 'negotiations' on setting contract prices has become largely an exercise in 'cost-plus' pricing.

In terms of the effect of these arrangements, the Association informed the Commission that the industry is encountering severe price competition between processors in the face of cost plus price increases enforced through the State Committees. Furthermore, several countries are now seeking to export processed chicken to Australia. As a result of these pressures some companies are backward-integrating into the growing phase. The Association stated that there is now ample recourse under trade practices law for any grower to exercise its commercial rights if it found itself subject to unconscionable conduct.

For example, in its report on fresh fruit and fruit products the IAC said that minimum pricing arrangements had reduced efficiency by: raising the expected price to growers and thus encouraging increased production; providing an incentive for processors to grow their own fruit and thus decreasing the demand from existing growers; threatening the competitiveness of processors because prices of material inputs are fixed; and biasing the quality of fruit grown towards the processing market because of higher returns there than would otherwise be the case (IAC 1988b, pp. 3.7 -3.8).

Pooling and equalisation

Pooling involves setting up a fund which receives all revenues from a season's sales to specified markets, and from which certain marketing costs are deducted prior to a uniform price or set of prices being paid to all participating producers. A special case of pooling is equalisation, where returns are pooled from markets in which price discrimination is practised, between either domestic and export or various domestic end-use markets. In the dairy industry, for example, equalisation arrangements apply which can increase the returns from exports by up to 30 per cent by redistributing returns from the higher priced domestic market.

Pooling is common when compulsory acquisition is practised by an SMA, since it is costly to segregate and separately account for individual consignments of largely homogeneous commodities. Furthermore, pooling evens out the impact on producers of short term price changes. Indeed, pooling is used as an instrument of price stabilisation policy in order to share the risks of fluctuating prices. Price stabilisation issues are discussed in Section 3.3, where it is concluded that potential efficiency gains from compulsory price stabilisation policies are small.

Equalisation is an attractive option where the regulatory and administrative costs of keeping domestic and export prices, or prices received from different end uses, separate are high. However, equalisation may lead to several inefficiencies. When prices are equalised, producers receive a higher pooled return for their production than it is worth when sold on the lower priced markets. Resources are thereby drawn inefficiently into production for some sales from which returns do not cover costs.

This masking of price signals may lead not only to inefficient levels of production, but also to inefficient location and timing of production, inefficient farm management practices, and inappropriate varieties or qualities of product. The Pastoralists and Graziers Association of Western Australia cited a report that said that equalisation of lamb prices had led to out-of-season producers of lamb subsidising producers in the flush (Treloar 1984).

Many changes to compulsory pooling have occurred in recent years, with greater disaggregations of marketing costs and time periods within which returns are shared. Differences in qualities are also increasingly being recognised through premiums or discounts. In many cases SMAs also now offer producers options for payment. Nevertheless, there are practical limits to recognising the differences between individuals within pooling arrangements. For example, in relation to wheat the IAC said:

It is not feasible or cost effective to determine and allocate industry-wide promotional expenditure to individual growers on the basis of the characteristics of their wheat and the market(s) into which it is sold (IAC 1988a, p. 107).

Some degree of pooling is inevitable whenever a largely homogeneous commodity is sold through an agency on behalf of producers, but it is difficult to determine an efficient basis over which returns and associated marketing costs should be aggregated. As the IAC said, also in relation to wheat, the decision about the appropriate level of aggregation:

involves consideration of practical matters, such as the extent to which increased segregations are feasible, as well as the administrative and accounting costs associated with a greater dissection of revenues and costs (IAC 1988a, p. 109).

Many producers undoubtedly prefer to share their risks by pooling their returns, but pooling can only improve risk management efficiently within an industry if it is undertaken voluntarily. Indeed, compulsory pooling can reduce incentives to manage risk more efficiently. Efficiency can be improved by pooling, but only provided that this is a matter of choice, within either a statutory arrangement or some other commercial agreement.

Licensing

A number of statutory marketing arrangements involve the licensing of producers, processors, wholesalers or exporters. Licensing powers are used to meet a number

of disparate objectives, such as ensuring quality of product, achieving economies of size, and limiting supplies entering certain markets in order to extract a price premium.

Some participants referred to benefits derived from achieving these and other objectives through licensing. The United Dairy Farmers of Victoria said that the Australian Dairy Corporation's power to issue export licences ensures adherence to the GATT and CER conventions. The Western Australian Government said that the licensing of egg production ensures price stability.

However, licensing can lead to various inefficiencies. It can limit the number of participants in a domestic market, restrict the selling choice of producers, and provide licence holders with the capacity to extract higher prices from certain users. If licences are not transferable (or are transferable only under strict conditions) they can exclude new entrants capable of operating at lower costs and lock in higher cost operators. If they are readily transferable they can acquire a value which raises the costs of entry to a market. If they are only indirectly transferable as part, say, of a farm sale, they may raise farm values with consequent distortions of resource use.

Some of these effects were identified by the IAC in its report on fresh fruit and fruit products. The IAC said that:

The licensing requirement creates a barrier to entry and thus has the potential to reduce the competitiveness of the market system. By raising the cost of entry to fruit and vegetable wholesaling (eg as might be seen in the high prices paid for central market leases), it also adds to wholesalers' overheads and thus possibly reduces returns to growers. In addition, the legislation may have prevented certain private treaty negotiations and has reduced growers' choice of who they might wish to consign their fruit to, and of the service level they require (IAC 1988b, p. 3.6)

Licence conditions can also have adverse effects on the productivity of licensees. The Processed Food Industry Council said that the New South Wales Meat Industry Authority presses for very high standards of hygiene and prefers to license only high technology meat processing operations. It said that 'while modernising the industry, this may be raising meat processing costs'.

Failure to grant licences can also have adverse effects. The Western Australian Government noted that the Grain Pool of Western Australia has refused to grant permits to export lightly processed products made from prescribed grain. It said that this policy could impede the development of an industry exporting value-added grain products from the State.

Finally, the administration of licences (their allocation, monitoring and enforcement) incurs costs.

Quotas

Quotas may be imposed on production or on how much can be sold into various markets. Their effects depend on the type of quotas (eg whether production quotas are input or output based), on the basis on which they are allocated, and on whether they are transferable.

Some participants claimed that production quotas could improve efficiency by stabilising input use, reducing income fluctuations, and guaranteeing supplies to end users. For example the Queensland Egg Industry Council said that:

Controlled production has reduced the excessive levels of overproduction and costly waste of feed and protein resources as well as the inefficient use of labour, packaging and stock, which was the hallmark of the egg industry up until 1974 prior to production controls being introduced.

The Western Australian Egg Marketing Board said that a 'nil surplus' policy avoided excessive income fluctuations. The Poultry Farmers Association of Western Australia said that hen quotas allow producers to meet consumer demands by giving them confidence to produce on a year-round basis.

In spite of these benefits, production quotas can lead to a number of inefficiencies. For example, in its report on the rice industry the IAC, referring to water and land input controls in New South Wales and delivery quotas in Queensland, said:

Production controls inhibit the entry of other farmers into rice growing and can also prevent existing growers from expanding their output. By precluding larger scale operations, the controls may also reduce the incentive for farmers to improve their efficiency. Production controls may at times provide stability to existing growers but they do so at the cost of inhibiting change, which may be to the long term detriment of the industry and the community as a whole (IAC 1987a, p. xix).

Input constraints introduce more sources of inefficiency than output quotas. Both restrict the level of production, but output quotas allow production to occur in the least cost way. The Australian Soft Drink Association, the Confectionery Manufacturers Federation and the Ice-Cream Manufacturers Federation referred to a study by the Australian Bureau of Agricultural and Resource Economics which concluded that one of the effects of land-use constraints on raw sugar production is that growers are encouraged to use expensive non-land inputs, thereby increasing their cost of production (ABARE 1990a). However, input constraints are often preferred by both administrators and producers because they are easier to monitor than output quotas and are not affected by yield fluctuations.

In some cases total production is not restricted but quotas may be imposed on sales to certain markets. This is the case in several States for access to the higher return market milk sector. In these States dairy farmers are free to respond to prices they receive from the more competitively supplied manufacturing milk markets. In recent years market delivery quotas have become more freely negotiable between farmers, so market milk can be supplied from the least cost sources.

Although the soundness of statutory backing for price discrimination on the domestic market can be challenged, in cases where it is practised market delivery quotas are generally more efficient than production quotas, since with the former mechanism producers can respond to price incentives for marginal sales. Whether it is more efficient to introduce market delivery quotas for domestic sales where domestic price discrimination is practised, or to allow producers to respond freely to an equalised return from all sales needs to be assessed in conjunction with the case for price discrimination. In its 1984 report on the dried vine fruits industry the IAC said:

A market entitlement scheme would not address the problem of domestic consumption distortions but has the potential to reduce production distortions ... Transmitting marginal price signals to growers together with negotiability of entitlements would facilitate adjustment within the dvf industry ... (IAC 1984, p. 63).

However, the IAC recommended the continuation of the existing equalisation arrangements on the grounds that the introduction of a market entitlement scheme could disadvantage growers of grapes for other uses, would involve administrative costs, and that priorities lay in reducing the domestic price margin.

Sometimes export quotas are imposed as a result of voluntary export restraint (VER) agreements requested by foreign governments. Other countries may impose limited access to their markets as a way of protecting their own domestic producers. Australian and other foreign suppliers may be able to share in the higher prices offered by those markets, but only if they limit the supplies they place on those markets.

The allocation of access to restricted markets has been a problem for some commodities -- such as meat to North America, to Japan and to the Economic Community -- which are not compulsorily acquired and for which returns are not pooled. The Australian Meat and Live-stock Corporation (AMLC) has allocated export shares into these higher return markets.

The Cattle Council of Australia and the Sheepmeat Council of Australia said that VER agreements (and the export quotas that result) allow the Australian meat industries to achieve greater market access where more restrictive import quotas would otherwise apply, and to retain the additional premiums generated by the imposition of a limit on trade. Concern, however, was expressed about the allocation of the quotas.

For a number of years the AMLC allocated export shares into higher return markets either in proportion to each exporter's sales into less remunerative markets or to their total export sales. This had the effect of encouraging sales into marginal export markets, the returns from which may not have fully covered costs. More recently, in an attempt to encourage greater efficiency, the AMLC has tendered for export quotas into VER markets. However, the Cattlemen's Union said that there is concern among producers that tendering practices by Australian meat exporters do not result in the best possible return.

Levies

A levy is an amount per unit of product, usually determined by producers but authorised by Governments, which is collected through an SMA for specified

purposes. Levies may fund certain marketing services provided for producers, for example promotion, information, and research and development. They may also be used to subsidise exports (eg the All Milk Levy) or support other commercial functions (the Wheat Industry Fund). Levies are to be distinguished from charges and fees imposed directly by an SMA, such as to obtain a licence or permit.

For constitutional reasons, State SMAs have often raised levies through vesting powers. Levies have also been raised in the States by marketing orders, apparently without the risk of breaching constitutional restraints.

Some participants referred to the benefits of imposing compulsory levies to fund services of a 'public good' nature such as generic promotion. They argued that without compulsory levies these services would be underprovided. Research and development, information collection and dissemination, and generic promotion may be more efficiently undertaken collectively than individually. For example, it may be too costly for an individual producer to undertake scientific research. As the Minister for Primary Industries and Energy said:

The compulsory nature of levy contributions, in particular, ensures full participation of producers in funding activities that benefit the industry as a whole (Minister for Primary Industries and Energy 1990, p. 1).

However, there is always the risk with compulsory levies that some people will be coerced into contributing to ventures which they do not consider justified or which reduce their incentives to undertake the activities that the levy is intended to finance. For example, the New South Wales Review Team noted that compulsory levies 'tend to limit growers' selling options, and to discourage them from taking risks and trying new ventures' (NSW Department of Agriculture and Fisheries 1990, Volume 1, p. 78).

Some participants commented on these and other adverse effects of compulsory levies. For example, the Victorian Domestic Meatworks/Wholesalers Council said the mandatory levies imposed to support promotion by the Australian Meat and Live-stock Corporation discourage processors from further spending on marketing and promotion. The Council said that they encourage 'an attitude of generic product selling rather than the proven success of brand oriented niche marketing'. The Australian Council of Livestock Agents said that the Cattle Transaction Levy will inhibit the normal trading activities in cattle.

The Commonwealth Government has accepted the Davis Committee's recommendation that the enabling legislation of Commonwealth SMAs identify the beneficiaries of the SMA and establish a levy base which can reasonably be considered to be borne by those beneficiaries, even if the levy is collected at a subsequent stage to minimise collection and enforcement costs (Minister for Primary Industries and Energy 1990, p. 3).

However, it is often difficult to ascertain the incidence of benefits of activities supported through levies. For example, the All Milk Levy is imposed on all producers of milk and the funds collected are distributed to manufacturers of exported dairy products. Levy payments by producers in Victoria and Tasmania are less than the funds received by exporters from those States. However, this cannot be simply interpreted as a cross-subsidy to those States, as the levy has the effect of increasing domestic prices and the export diversion encouraged by the levy/subsidy mechanism may more than compensate producers in other States.

The All Milk Levy also illustrates the difficulty of assessing where the incidence of a levy falls, which is not necessarily where it is imposed, whether on producers or on some other group. The incidence depends on the responsiveness of buyers and sellers to price changes and, wherever levied, may be shared between producers, processors and end users. The Australian Federation of Consumer Organisations said that:

Even when intervention is limited to collection and disbursement of levies (as in the case of meat), consumers can be disadvantaged to the extent that those levies can be passed through to consumers. Such passing through is possible in strong markets -- when there are few substitutes for the products upon which levies are imposed.

Compulsory levy payments are a guaranteed source of funds for an SMA and may reduce its incentive to be more innovative and to minimise costs. This can be a particular problem if vesting powers are used in order to collect levies but other powers which are not excluded by the enabling legislation are also used. Also, a levy may be used to subsidise an SMA's activities if it receives payments from producers who do not make use of its services.

Compulsory levy payments may also distort the decisions of SMAs about the services they provide. Those payments provide little information to the SMA about how its services are valued by individual producers. When payments are not closely

matched to the provision of a particular service rendered, users have little incentive to curb their demand for the 'free' services available to them through the SMA. Hence, the responses that the SMA receives about its services may be misleading and it may inappropriately expand them.

Levies also impose collection, administrative and enforcement costs. Some participants commented on these costs particularly in relation to levies collected by third parties. The Chamber of Fruit and Vegetable Industries, referring to levies imposed on producers for the Australian Horticultural Corporation, said that:

Market operators are used as unpaid government agents to collect this tax and remit the same to the Department of Primary Industries and Energy with no financial compensation. They are literally in a 'no win' position. They must deduct whatever amounts that are statutory and they leave themselves unendeared to their own clients.

Similarly, the Australian Council of Livestock Agents said in relation to the various meat and livestock levies that 'levy collection functions have been arbitrarily imposed on the agency industry'. The Murray Citrus Growers Co-operative Association said that State SMAs appear to be more efficient and economical in the collection of Australian Horticultural Corporation levies than the Commonwealth Department of Primary Industries and Energy.

Quality controls

Quality controls are a feature of many statutory marketing arrangements. Some quality controls are administered by a Commonwealth or State Government Department; others by an SMA. The objectives of quality control include the protection of health and other consumer interests, the preservation of Australia's reputation as an exporter, the desire to obtain price premiums, and the reduction of marketing costs by facilitating sale by description rather than inspection.

With regard to domestic marketing, the Western Australian Government said that 'grading [of eggs] is an aid to marketing in that it provides information to consumers, as well as providing feedback to producers through payment according to grade'. The Murray Citrus Growers Co-operative Association said that approved

quality assurance ‘has enormous implications for industry training of [citrus] growers, pickers, and pack house staff’. The New South Wales Dried Fruits Board said that its inspections in retail outlets assures consumers that their interests are being protected, identifies problem areas, assists retailer education, and encourages packers and retailers to improve product quality.

Some participants also stressed the importance of quality controls for export performance. Co-operative Bulk Handling Ltd said that consistent quality provided by receival standards is ‘fundamental to establishing and retaining overseas markets’. The Australian Dried Fruits Corporation said that the independent role of government inspectors in quality control has reinforced a high level of trust with overseas buyers.

However, if quality controls are too strict, producers may be impeded from exploiting potentially profitable markets and consumers may be denied the opportunity to purchase lesser quality produce. Edgell-Birds Eye said that uniform standards only limit opportunities, as the standards are meaningless if they are set low enough to cover all segments of the market, while they will limit opportunities for market segmentation if they are set too high.

Quality controls on imports may also act as a protective device. The Consulate General of Turkey said that the move to enforce Australian standards on imports of dried Turkish apricots appears to be ‘irrelevant and inapplicable’ as Turkish and Australian apricots differ in a number of characteristics such as taste, colour and the style of cut. The Food and Beverage Importers Association also said that the quality standards for dried fruits can be used as a protective mechanism against imports. The Association noted that, in contrast to standards set by the Australian Food Standards Committee, importers have no say in setting the standards for dried fruits.

Some participants were concerned about the lack of uniformity between export and import standards. Edgell-Birds Eye said that while complying with the Department of Primary Industries and Energy’s Export Regulations is a major cost to any grower or processor, that same grower or processor is forced to compete on the domestic market with products produced under ‘very primitive’ conditions overseas.

Concern was also expressed that export standards have been applied to production intended for domestic use. The Victorian Domestic Meatworks/Wholesalers Council said that there has been an attempt to transplant export quality controls and product specifications into domestic meat processing establishments. It said that:

While such controls may be appropriate to meet the demands of overseas markets, their application to meet domestic needs is in some cases entirely questionable.

However, the Murray Citrus Growers Co-operative Association noted that sheds packing export citrus fruit are covered by Department of Primary Industries and Energy Export Regulations. It claimed that because their packing sheds handle both domestic and export market fruit they are subject to these regulations, and to allow non-exporting sheds to be absolved of this requirement would place the exporting shed at a cost disadvantage in the domestic market.

The IAC addressed the question of mandatory quality control and inspection requirements in several recent reports. In regard to export controls, in its report on the food processing and beverages industries it concluded that:

The current system of compulsory export quality controls [for processed foods] has impeded innovative exporters and may have unnecessarily restricted the development of alternative markets (IAC 1989b, p. 87)

and proposed that:

Exporters be permitted to assume all the risks of gaining access for highly-differentiated foods to overseas markets and, to achieve this objective, export quality controls be removed from such foods where government certification is not required by the importing country (IAC 1989b, p. 88).

In the case of vegetables and vegetable products it favoured:

no compulsory government inspection. Export or industry organisations may establish voluntary quality assurance schemes whereby industry would be responsible for quality standards ... [possibly] plus government inspection to a standard (eg OECD) upon request, at a cost to the exporter (IAC 1986, pp. 187 -88).

In regard to mandatory domestic food standards, in its report on the food processing and beverages industries, the IAC concluded that:

The efficiency of the food processing industry has been adversely affected by the food laws and that the access of consumers to new food products has been restricted (IAC 1989b, p. 53)

and urged that:

A direct relationship to consumer health and safety should have to be established before any factor is allowed to have a bearing on food standards (IAC 1989b, p. 53).

In the same report the IAC considered that any mandatory national food standards should be applied equally to imported and domestic products, but that Commonwealth import inspection be waived if the importer provides adequate certification that each shipment conforms to the appropriate standard.

4.2 Wider economic effects

As well as affecting the incentives of producers and buyers of agricultural commodities, statutory marketing arrangements may affect the ability of industries that use agricultural commodities as inputs to become efficient and competitive. These consequences work their way through other industries and consumption choices to affect the economy's gross domestic product, aggregate employment and trade. The Northern Territory Government considered that the Territory's economy is disadvantaged by the level of regulation and control exercised by SMAs in other States.

While many participants commented upon the need for statutory marketing arrangements, some claimed adverse effects upon using industries and the economy generally. The Grocery Manufacturers of Australia considered that SMAs can result in lack of attention to the requirements of domestic users, higher costs for domestic processors, reduced exports of processed food products, lower investment in new varieties and new production techniques, and higher prices irrespective of differences in quality or end use of product. It said that even when export rebates are given, inefficiencies in local handling and storage, together with other levies and charges, can impose higher costs on the domestic processor than are incurred by overseas competitors.

The Food Industry Council of Australia considered that the domestic pricing policies of SMAs have often resulted in higher input costs to domestic processors. This can result in a higher level of import of processed foods. Edgell-Birds Eye considered that the recent large increase in the volume of canned tomato products was in part due to production shortfall from Australian processors, but also due to the uncompetitive pricing structure of Australian products.

According to the Processed Food Industry Council:

The current objectives of state statutory marketing arrangements and authorities are inimical to the national objective of encouraging the development of an export oriented, internationally competitive manufacturing sector.

The Council considered that State SMAs relating to rice, sugar, dried fruits, and fresh milk may have the greatest potential effects on downstream input costs.

The IAC examined the effects of statutory agricultural marketing arrangements on food processors in its 1989 report on the food processing and beverages industries (IAC 1989b, pp. 8 -15). In 1982, the latest year for which input -output data were available, inputs from agricultural industries and from outputs of other food processors represented 47 per cent of the value of output of the food processing and beverages industries. But the IAC assessed that, by the early 1990s, the only significant measured imposts by Government on these input costs would come from interventions in the dairy and sugar industries. Some of these would be offset by assistance for the output of some dairy products.

The Processed Food Industry Council presented a study by ACIL Australia Pty Ltd on the effects upon processors of State SMAs. As part of its study, ACIL estimated the economy-wide effects of removing assistance provided through statutory marketing arrangements (including tariffs, where applicable) to sugar, barley and oilseeds. It also modelled the effects of improving productivity in the sugar industry. The Commission has undertaken a similar study for market milk, manufacturing milk, sugar and rice. Details of the estimates and the key assumptions are reported in Appendix G.

Increased domestic prices of agricultural commodities are a direct cost to user industries and consumers of food products. However, they are also an indirect impost on other industries, particularly those which export or face import

competition, as their costs are raised or returns reduced through flow-on effects which give rise to higher wages and a higher exchange rate. Although the consequences of this impost are probably small in relation to gross domestic product and aggregate consumption, they nonetheless could amount to large dollar figures. In 1988-89 the domestic pricing arrangements in the milk, sugar and rice industries are estimated to have reduced GDP by 0.03 per cent or about \$100 million, and aggregate consumption by 0.05 per cent or about \$125 million.

Because some statutory marketing arrangements subsidise exports by equalising returns to producers from export prices and higher domestic prices, their effects are to expand exports. In 1988-89 the domestic pricing arrangements for milk, sugar and rice are estimated to have increased aggregate exports by 0.33 per cent or about \$175 million. However, this net increase would have been at a cost of some \$290 million of forgone exports from the wool, wheat, metal ores and coal industries. Furthermore, the net increase in exports would have had a comparatively small impact on Australia's balance of trade, as increased labour costs and a higher exchange rate would have resulted in aggregate imports being increased by 0.18 per cent or about \$110 million.

The simulated economy-wide effects of taking some measures to improve productivity in sugar production are much larger than those of removing price distortions alone. The possible benefits from improving productivity in the sugar industry will be explored in more detail in the Commission's current inquiry into the sugar industry.

Although the Commission has not undertaken the relevant simulations at this stage, it is likely that the effects of improving the productivity of milk and rice production, by reducing or removing production or market access restraints, would also be much greater than those of removing price distortions alone. In regard to milk production, this will be examined in the Commission's current inquiry into the dairy industry.

4.3 Social and environmental effects

The terms of reference require the Commission to have regard to the established social and environmental objectives of government. Furthermore, the general policy guidelines of the Industry Commission Act require the Commission to consider the social and environmental effects of any recommendations it makes.

Several participants claimed that statutory marketing arrangements have far reaching social benefits through the provision of nutritional information to consumers; secure supplies to final consumers; and improved food quality. These issues have been discussed in earlier sections. The following discussion of the social effects of statutory marketing arrangements is restricted to income redistributions to and between producers, and the structure of rural communities.

Income redistributions

As Table 4.1 shows, significant transfers of income can result from statutory marketing arrangements. In the first instance these are largely transfers to producers at the expense of domestic processors, but the effects also flow through to consumers. The Commission estimates that statutory agricultural marketing arrangements raised food, beverages and tobacco prices to domestic consumers by about 1.2 per cent in 1988-89, and raised overall consumer prices by only 0.3 per cent. These taxing effects are mildly regressive, affecting consumers on lower incomes proportionately more than those on higher incomes (see Figure F2).

Statutory marketing arrangements also redistribute income between producers. Compulsory pooling of returns can redistribute income from producers with marketing skills to those less attuned to market opportunities, and pooling of costs can redistribute income from producers located close to markets or marketing infrastructure to those located further away.

If pooling and levy arrangements are designed to cater for the 'lowest common denominator' producer or buyer, the most innovative and productive producers or processors may be disadvantaged. In this regard, the Pastoralists and Graziers

Association of Western Australia commented on the disincentives to innovation caused by cross-subsidies between lamb producers resulting from equalisation arrangements administered by the Western Australian Meat Marketing Corporation.

Nevertheless, the (Queensland) Council of Agriculture said that:

Growers, in choosing statutory marketing, accept that it imposes a discipline of united commercial behaviour that will not always accord with their individual best interests.

Where transfers are made between pools or producers contribute to funds to help stabilise prices (or funds are borrowed for that purpose), income will also be redistributed over time in ways which may not offset income fluctuations. The incidence of the benefits to producers of those income redistributions through time may not correspond with the incidence of their contributions. Furthermore, any benefits will be shared in proportion to amounts produced and not in proportion to income needs.

Structure of rural communities

Statutory marketing arrangements also inevitably affect the structure of rural communities, through the location and size of producers' farms, the structure of farming (often favouring family farming), and employment on farms. The (Queensland) Council of Agriculture said that statutory marketing arrangements have established and preserved productive rural industries. It said that by reducing uncertainty and risk, statutory marketing arrangements improve structural adjustment in rural industries. However, to the extent that they disguise the real risks and uncertainties in farming, they may retard adjustment.

Many participants claimed that changes to marketing arrangements should not be forced during the current difficult times being experienced in many rural communities. The issue of when to introduce change is discussed in Section 6.1. But statutory marketing arrangements are not targeted towards ameliorating the adverse effects of sudden drops in incomes. Certain provisions of the Rural Adjustment Scheme are more appropriate policy vehicles for addressing problems of this kind.

Environmental effects

Primary production, like all activities, has environmental effects. For example, agriculture can contribute to: the greenhouse gases methane (cattle, sheep, rice paddies), carbon dioxide (deforestation) and nitrous oxide (fertilisers); salinity (irrigation); soil erosion (deforestation); fishery and coral reef degradation (fertiliser and pesticide run-off); and amenity (eg the visual appearance of the countryside). The issue for this inquiry is whether statutory marketing arrangements themselves add to or detract from such environmental effects. Much depends on the effects of statutory marketing arrangements on production decisions and farming practices.

Some argued that statutory marketing arrangements may be beneficial for the environment. The stabilising effects of statutory marketing arrangements on prices, production, and incomes, may reduce cyclical demands on major inputs such as land and water. Higher incomes may provide the means for producers to properly care for their land. Mr K O'Driscoll, a participant from South Australia, said that without statutory marketing arrangements, many producers may opt to increase the rate at which land resources are utilised with consequent adverse effects on the environment if economic pressures become too severe.

In addition, controls on output or inputs (eg land, water), may reduce the detrimental impacts of agriculture on the environment. The Council of Agriculture (Queensland) said that statutory marketing arrangements have aided the pursuit of sustainable agricultural systems. It said that production controls for tobacco, raw sugar, and rice have ensured that 'land used for these crops is suitable in the first place, and that crop rotation is practised'.

Some participants, such as the Western Australian Government, and the Australian Dried Fruits Corporation, held the view that statutory marketing arrangements had no adverse environmental impacts or that, if they occurred, they were insignificant.

On the other hand, some participants claimed that statutory marketing arrangements have adverse effects on the environment. The Australian Federation of Consumer Organisations said that price support schemes produce an incentive to push 'land beyond its productive capacity, through perhaps excess irrigation or application of fertiliser'. It said that statutory marketing arrangements do not make 'for good husbandry of natural resources'.

Where statutory marketing arrangements raise returns to producers and increase land prices, then intensive cultivation (particularly monoculture), the employment of more polluting technologies, the increased use of energy and chemicals, and the use of less productive (or marginal) land may be encouraged (see Winters 1988, p. 16 and pp. 18 -19).

5 INSTITUTIONAL ISSUES

This chapter examines whether institutional inadequacies elsewhere in the economy cause or justify a reliance on statutory marketing arrangements for primary products. It also examines whether statutory marketing arrangements for primary products persist, despite their possibly limited justification, because provisions for revising or removing them are inadequate.

The chapter is necessarily selective and does not canvass all the commercial issues involved. For example, bankruptcy provisions are not covered. Some participants indicated that statutory marketing arrangements give greater protection to them in the case of creditor default, than do bankruptcy laws. However, no specific evidence was given of any provisions in bankruptcy laws which cause undue hardship to primary producers. Neither are general institutional arrangements for dealing with risk discussed, such as futures markets. Indeed, the very existence of statutory marketing arrangements prevents these markets developing their full potential.

5.1 Trade practices issues

The Commonwealth's Trade Practices Act seeks to regulate restrictive trade practices, including those of buyers of primary produce. However, it specifically exempts from its application any activities endorsed by Commonwealth, State or Territory law. In the March 1991 Industry Statement, the Commonwealth Government announced that it was seeking agreement of the States to positively examine ways to widen the scope of the Trade Practices Act. In its submission, the New South Wales Government indicated that it accepts, in principle, that 'its trading activities should face the same laws governing competitive behaviour as private sector traders'.

Although State fair trading acts may also regulate restrictive practices, this section only discusses issues relating to the Trade Practices Act.

Many inquiry participants considered that Commonwealth trade practices legislation does not afford adequate protection to rural producers. For example, Murray Citrus Growers Co-operative Association considered that authorisation of certain marketing arrangements by the Trade Practices Commission (TPC) would not on its own be sufficient to counteract the 'enormous marketing power held by processors of citrus'. The Australian Chicken Growers' Council considered that 'Trade Practices legislation alone is quite inadequate to provide the degree of equity [required by growers]'.

Participants' main concern was the difficulty of obtaining authorisation for the price agreements considered necessary to counter the market power of buyers. The Victorian Farmers Federation commented that:

the [Trade Practices] Commission has stated that it believes price agreements are highly anticompetitive and encourage economic inefficiency and would herald the wholesale departure from [a] basic tenet of the Trade Practices Act.

The importance of the ability to fix price was noted by the Western Australian Government which considered that 'the Trade Practices legislation could be adequate ... only if the Trade Practices Commission were willing to authorise a high level of "price fixing"'.

The Rice Marketing Board for the State of NSW said that:

It is necessary to exempt the commercial agreements of Marketing Boards, from certain provisions of the [Act] ... Current marketing arrangements have enabled the achievement of a significant premium on export markets, aided but not totally dependent on [Ricegrowers' Co-operative Limited's] sole seller status.

The Board further stated that:

Commercial experience suggests strongly that the Trade Practices legislation ... would be inadequate in practice to counteract the market power held by buyers of primary products.

In contrast, some participants considered that statutory marketing arrangements should not be excluded from trade practices legislation. Edgell-Birds Eye stated that:

Marketing orders, by fixing prices and conditions for all purchases across the State, contravene the principles of the Trade Practices Act, and the free enterprise system.

The National Poultry Association said that:

there is now ample recourse in law, under the Trade Practices Act for example, for any grower to exercise its legitimate competitive and commercial rights if it found itself subject to a range of predatory or unconscionable activities which are prohibited by that legislation.

A 'Rural Guideline', published in 1989 by the TPC, sets out the current status of rural industry in relation to the Trade Practices Act. The Guideline concentrates on pricing arrangements. Appendix D of this report describes provisions of the Trade Practices Act relevant to statutory marketing arrangements, together with authorisation and exemption procedures. It considers how trade practices provisions relate to the functions of statutory marketing arrangements. A brief summary is given in Box 5.1.

Some primary industry marketing arrangements have received authorisation by the TPC. For example, Tasmanian poppy growers can negotiate prices and, until recently, Tasmanian vegetable growers had a similar authorisation. The Tasmanian Government commented that 'the indications are that the use of authorisations has worked satisfactorily for all parties'. However, the authorisations do not permit the negotiated prices to bind all parties. Furthermore, authorisations are not permitted under the Act between fewer than 50 parties.

The TPC stated, in a submission in response to the draft report, that:

The Rural Guidelines will be tested in relation to an application for authorisation recently made to the TPC in respect of an indicative or recommended price for wine grapes in the MIA, Sunraysia and Riverland areas. Such matters as countervailing power will be subject to close scrutiny in that context with ramifications for what the TPC says about countervailing power and other public benefit claims in the Guidelines. The TPC will closely weigh these claims against the effect on competition including the efficient operation of the grape market at various levels.

Many statutory marketing arrangements themselves endorse what could be considered to be anticompetitive behaviour -- behaviour that for other sectors is regulated or prohibited by the Trade Practices Act. This raises the following issues:

- the adequacy of the Act on its own to effectively regulate any anticompetitive behaviour by buyers of rural produce: and

-
- whether statutory marketing arrangements should be exempt from the application of the Act.

Box 5.1: Statutory marketing arrangements and the Trade Practices Act

Many statutory marketing arrangements are exempt from the Act by virtue of s.51 of the Act and provisions in State or Territory legislation. Because of 'shield of the Crown', many compulsory powers of statutory marketing arrangements could be exempt from the application of the Trade Practices Act even if s.51 were not to apply.

Arrangements, which would otherwise not be sanctioned by the Act, can be authorised if they are judged by the TPC to be in the public benefit. Assessment is made on a case-by-case basis.

Arrangements cannot be authorised if they are judged to be not in the public benefit or involve horizontal arrangements such as price agreements between producers.

Arrangements directed at forming prices can be authorised (if they involve 50 or more parties) provided they are voluntary and are judged to be in the public benefit.

Compulsory levies to fund activities such as the provision of market information, and market development and promotion, are not likely to breach the Act.

By specific Commonwealth Government regulation, exemptions can be allowed for conduct relating to particular marketing practices which may have been unlawful under the Act.

'Misuse of market power' provisions offer some protection to producers in preserving fair competition in concentrated markets.

Consideration of these issues raises questions about the division of powers between the States/Territories and Commonwealth. The Queensland Government considered that:

The question of the most appropriate future form and structure of statutory marketing arrangements in each particular State should be a matter for determination in that State by the Government of that State in consultation with the producers of each particular commodity with appropriate recognition of the legitimate interests of consumers and other relevant parties.

Other participants also held the view that the question of domestic marketing arrangements was clearly a matter of State Government responsibility. As Appendix D notes, 'shield of the Crown' would probably protect many of the compulsory powers of statutory marketing arrangements from the application of the Trade Practices Act.

Consideration of trade practices issues and, indeed, of issues relating to statutory marketing, turns on the question of what is in the ‘public benefit’. It is readily apparent from examination of the differences in approach to statutory marketing among the several States and Territories, and between them and the Commonwealth, that different answers are given to this question.

In many cases, there is room to suspect that judgments have been and are being made in terms of narrower criteria than public benefit. For example, many of the committees of inquiry into particular statutory marketing arrangements are predominantly constituted by particular interest groups (see Section 2.2).

There is some concern that the criteria used by the TPC to assess public benefit may be rather narrow. The CIE (1990, p. 9) said:

The limitations of the Rural Guideline are: the criteria do not reflect an economy-wide approach; the criteria pay little attention to whether the markets concerned are exposed or could be exposed to international competition and instead focus unduly on domestic competition, particularly on whether there is a need to balance such competition -- the countervailing power issue; the criteria pay little attention to the possible gains from single-desk selling on export markets; the criteria do not spell out the methods for evaluating whether providing such things as research and development, promotion, information and the administration of quality standards, which may require some anticompetitive behaviour, are in the public interest.

However, the TPC indicated that the intention of the Rural Guideline was ‘simply to indicate the sort of claims which had been successful’. It indicated that it ‘has always taken the widest possible view of public benefit’. It further indicated that it can choose from many options when it enforces the Trade Practices Act and:

in doing so it evaluates how the public interest may be served by the choice of action it adopts. Enforcement is not analogous with taking court action.

It further stated that ‘as with its enforcement role, the Commission is flexible in its administration of the authorisation provisions of the Act’.

However, decisions of the TPC can ultimately end up in the courts. The process can be legalistic, time consuming and costly.

Even if the TPC were in a position to authorise a ‘compulsory’ agreement between producers, separate legislation might be needed to enforce that agreement. In the Guideline, in relation to vesting arrangements, the TPC states:

the difficulty of resolving questions such as ... the enforcement of decisions ... militates against this type of [compulsory] agreement working effectively ... In the past such agreements usually have required legislation to continue to function effectively (TPC 1989a, p. 12).

Obviously, a number of authorities currently have a role in assessing ‘public benefit’ in relation to the marketing of rural products. The TPC said it:

sees its own role as complementary to, rather than competing with, that of others. Others which have a concern include of course the Federal Government, State Governments and authorities such as the Industry Commission. The TPC sees itself as having an important role in this area which is assisted by its experience as a competition authority, and in assessing public benefit considerations over a long period of time and over a wide range of industries in Australia. This role is particularly relevant now that rural producers are looking for arrangements which may assist them in mitigating some of the effects of the economic downturn. The TPC will assess such arrangements, where application for authorisation is made, in terms of their net public benefit.

Both the current State-based procedures and the alternative Commonwealth approaches for assessing public benefit in relation to statutory marketing arrangements, and for regulating such arrangements, have apparent deficiencies. States may adopt too narrow an approach. The trade practices route may be legalistic, time consuming and costly, with separate legislation possibly required to enforce a ‘voluntary’ agreement between producers. An Industry Commission inquiry also takes time, is not costless and the outcome is subject to government decision.

The Industry Commission approach does have one particular advantage, however: that is, the consistent application of an economy-wide framework. Marketing arrangements for major commodities have often been reviewed by the Industries Assistance Commission, and further inquiries are currently being undertaken by the Industry Commission.

The Commission considers that, except where significant economy-wide effects occur, the question of marketing arrangements for the domestic market is best left to State/Territory Governments. Where significant economy-wide effects occur,

marketing arrangements should be periodically referred to the Commission for inquiry and report -- its recommendations would be subject to discussion by the Commonwealth, State and Territory Governments. In each case, judgment needs to be made about whether separate provisions are required, or whether general trade practices arrangements are appropriate and sufficient. For example, a State Government could, if it wished, opt to leave the question of marketing of a rural product to the trade practices regime. Judgments about statutory marketing also need to take account of the Commission's conclusions in Chapter 3 about the soundness of objectives of statutory marketing arrangements.

In one particular area, the Commission considers that trade practices provisions should be changed. The Commission sees no justification for the blanket prohibition on authorising voluntary recommended price agreements between fewer than 50 parties. Whether such an agreement is in the public benefit or not does not depend solely on the number of parties to the agreement. Rather, it should be assessed on a case-by-case basis as it depends on the particular circumstances of the commodity in question, its markets, and the degree to which such an agreement would reduce competition. Several participants supported this conclusion.

5.2 Tax issues

Producers might organise themselves for marketing in any of several ways including: SMAs, co-operatives or proprietary companies. Different treatments can apply to each in Commonwealth income and capital gains taxes, and in State taxes such as stamp duty. Such differences could bias the choice of marketing arrangement.

Income tax differences are potentially the most important, as they would affect the day-to-day operations of a marketing entity. It is important to look at the number of times, and the rates, at which income is taxed in each type of marketing arrangement -- see Box 5.2.

In each case, income is taxed at most once. The effective rate may differ according to whether income is distributed to producers (either as dividends or reduced charges) or retained by the marketing entity, and may be affected by timing considerations. The important point, however, is that each type of entity can arrange its affairs, if it so wishes, so that income tax is only paid once and then at each individual producer's marginal rate. Presumably there are offsetting benefits if an entity chooses not to do so.

Box 5.2: Income taxation treatment

Income derived by an SMA is exempt from tax. Thus, any net income (which in reality may take the form of a reduction in the authority's charges) is taxed only in the hands of the producer, if it is distributed.

A co-operative can arrange its affairs so that income tax is not payable -- either by adjusting its charges so that no net income is earned, or by paying out all net income in the form of dividends. In this case income is taxed only in the producer's hands. Retained net income can be subject to tax.

The dividend imputation system ensures that company income is taxed only once. This may be either in the hands of the company or the shareholder. If taxed in company hands, the shareholder is given credit for the amount of tax paid to offset against personal taxation liability.

This suggests that different income tax treatments are not of concern to participants. Indeed, none commented on taxation in this context.

Differences in capital gains tax treatments or State stamp duties (which apply to capital transactions) would not be expected to be important in normal day-to-day operations of the different types of organisations. However, the application of such taxes could make conversion from one type of organisation to another less attractive. In some cases, though, Governments may make special provisions to avoid such problems. For example, in the transformation of the Queensland Cotton Marketing Board to Queensland Cotton Ltd, the Queensland Government forwent stamp duty. Transformation of SMAs into other types of entity is discussed in Section 5.5.

5.3 Co-operative legislation

Some co-operatives are associated closely with SMAs -- this is called the 'in tandem' model of co-operative in the submission of the NSW Registry of Co-operatives. In Queensland, for instance, co-operatives are commonly affiliated with SMAs. The functions and powers of these co-operatives are recognised under the

Primary Producers' Co-operatives Associations Act. In New South Wales, the Rice Marketing Board's main function is to acquire all rice and transfer responsibility for marketing to the Ricegrowers' Co-operative Ltd. In such cases, statutory power is, in effect, transferred to a co-operative.

While there may be good reasons for implementing statutory marketing arrangements through co-operatives, there is also a danger that accountability is lessened. In regard to rice, this problem was discussed in the IAC's 1987 report (p. 44):

Unlike the statutory Rice Marketing Boards which have been granted Parliamentary power to determine prices, the grower co-operatives are not accountable to Parliament for the powers which they exercise in determining prices.

The NSW Rice Marketing Board, however, stated that the two Ministerial nominees on the Board also currently serve as directors of the affiliated co-operative.

The Commission considers that where statutory power is, in effect, transferred to a co-operative, then that co-operative should be just as accountable to Parliament and to producers as an SMA pursuing the same functions would be. This principle operates in Queensland, at least, where 'affiliated bodies' are subject to the accountability provisions that apply to marketing boards.

A second model discussed by the NSW Registry of Co-operatives is the 'replacement/transition' co-operative. An example is in Queensland where a co-operative has been recommended to replace current statutory marketing arrangements for grains, with certain statutory powers to be given for three to five years as a transitional measure.

A third model is the 'open market' co-operative. In several cases, co-operatives operate successfully despite the absence of statutory powers. For example, Namoi Cotton Co-operative Ltd (Namcott) currently gins 40 to 50 per cent of Australia's cotton. It operates in a highly competitive market, facing competition from six other domestic processors and from foreign companies. Co-operatives such as Namcott could do well because of their skills in marketing, the provision of services demanded by producers (including financial and risk management services), good management and support from their producer members.

Some distinguishing features of co-operatives are set out in Box 5.3.

Box 5.3: Distinguishing features of co-operatives

Limited shareholding and voting rights which ensure that control remains widely dispersed in the hands of active members.

Profit distributed to shareholders by the payment of bonuses and rebates in proportion to the member's trading transactions rather than the size of shareholding.

A board of directors (at least the majority) formed from shareholders who are active members.

A member's relationship with the co-operative focused as a supplier or customer, not a shareholder -- the co-operative is an 'off-farm' extension of the producer's own business.

Source: Submission of the Australian Association of Co-operatives Ltd.

A disadvantage of co-operative status (or indeed company status) compared with an SMA is that retained income is subject to tax. This limits access to capital. However, SMAs' borrowings are limited by their external borrowings being subject to Loans Council approval. Further, the clear position about ownership of assets of a co-operative (or, indeed, a company) may assist it or its individual shareholders in raising capital, whereas the ultimate ownership status of an SMA is not always clear.

In regard to the perception that co-operatives have difficulty in capital formation, the NSW Registry of Co-operatives commented that 'over the years a number of solutions have developed including policies of retained earnings, revolving loans and the like'. It indicated that the NSW Review of Co-operative Legislation is addressing this capital issue. The Australian Association of Co-operatives Ltd indicated that it had made a detailed submission to the Federal Treasurer on 'the use of the taxation system to enhance capital availability to co-operatives, thereby reducing government assistance and involvement in the marketing of primary producers'.

A recent (unpublished) Australian study referred to in the submission of the NSW Registry has shown that co-operatives can be more efficient than alternative company structures. The research was based on a comparative investigation of credit union co-operatives, building societies and banks. Efficiency was measured by such criteria as bad debts and expense ratios. The critical factors accounting for the results were very strong member bonding facilitated through effective communication.

The NSW Registry of Co-operatives also said that findings in United States studies show that ‘the notion that co-operatives are somehow inherently inefficient is nonsense, a myth’. It further said that ‘there is much greater potential for co-operatives to contribute to the agricultural sector in concert with statutory marketing arrangements or as an alternative to them’. The view of the Association of Co-operatives is that ‘co-operatives are efficient vehicles for the processing and marketing of primary products and ... in many areas they parallel the various functions of SMAs’.

Other participants commented on the possible lack of market power and on ‘free rider’ problems associated with co-operatives. For instance, the Australian Council of Egg Producers said ‘no non-government body is capable of achieving an appropriate level of countervailing market power’. Mid-Murray Citrus Growers Incorporated commented:

The success of co-operatives in dealing with widespread and/or major commodities would be fraught with grave difficulties. Inevitably there would be some producers who would derive the benefits conferred on them by the co-operatives’ activities but who would not support it with either finance or produce. There have been numerous instances of this happening in the past.

As noted in Chapter 3, there may be a case for providing some statutory power for activities such as promotion. Such power could be provided through a co-operative. A co-operative solution to marketing problems should not be dismissed without proper consideration, especially as it might avoid the need for statutory intervention. There are no apparent legislative impediments (except those arising under statutory marketing arrangements) to producers forming co-operatives to market their produce.

5.4 Company legislation

No evidence was presented to suggest that company legislation has prevented producers forming private or public companies to market their produce. Like co-operatives, companies can be well managed, provide appropriate services, achieve marketing success, and be well supported by their producer/shareholders.

Compared with SMAs and co-operatives, there are fewer restraints on companies raising investment capital. They are not subject to Loans Council limits, and they have access to equity capital. However, income tax payable on retained earnings can put companies at a relative disadvantage to a statutory authority.

Formation of producers into a company might give leverage over price (as might formation into a co-operative) provided that the commitment of producers to the company was strong, and 'free riding' limited. This could be the case where the company provides a necessary value-adding service as an adjunct to the marketing function.

It may be that producers do not group into companies because they are fearful that producer control of marketing may be lost. However, as the deregulation of the Queensland cotton industry shows, this need not be the case (see Box 5.4).

Of course, there is no virtue in control for its own sake. The benefits of control (ensuring that all producers contribute to promotion, for example) have to be set against the costs (for example, possible loss of management initiative due to limitation of competition).

5.5 Deregulating statutory marketing arrangements

Some statutory marketing arrangements need to be modified or terminated. As shown in Chapters 3 and 4, this is particularly the case where the arrangements are based on powers which compel producers to participate, exclude entry to markets, or impose price increases on Australian user industries and consumers. Even if statutory marketing arrangements are retained, there is a case for making them more efficient through at least partial deregulation.

Box 5.4: Deregulation of the Queensland cotton industry

Deregulation involved the privatisation of the cotton ginning and marketing industry in Queensland. The functions of the Cotton Marketing Board (CMB) and the affiliated Co-operative were combined into a private corporate arrangement in late 1989. Some transitional arrangements apply to the end of 1992. The objectives of the arrangement are common with those of private companies, ie the maintenance and creation of wealth for its shareholders.

The motivations for the changes were the difficulty of the CMB in raising adequate funds for expanding ginning capacity and for working capital, grower support for a new privately owned gin to be established in central Queensland at no cost to growers, and a perception that returns to cotton growers in unregulated New South Wales were greater than in Queensland.

A holding company was established, in which only growers can hold shares. The main asset of the holding company is the Corporation, a company which carries out the services previously undertaken by the CMB and the Co-operative. The Corporation is able to raise funds from institutional investors. However, to date all external finance has been obtained by normal commercial loans. At a later date, ordinary shares in the Corporation may be issued and listed on the Australian Stock Exchanges. Irrespective of the issue of ordinary shares, preference shares and convertible notes in the Corporation, majority control will remain with the holding company and, thus, producers.

A number of other elements also help to ensure that control remains with active cotton growers who use the facilities of the Corporation. Dividends of the holding company are based on growers' shareholding in and usage of the Corporation's facilities. Voting rights are dependent upon delivery of cotton to the Corporation. Shares in the holding company are only transferable to registered growers.

Although provision was made for continued grower control of the new entities, they operate on a commercial basis. All growers pay the same charge for ginning, whether shareholders or not. Pooling of returns has ceased. The emphasis in service provision is on competitive performance in a deregulated environment.

After the transitional period, private operators will be able to establish and operate gins in Queensland. However, control of cotton ginning and marketing in Queensland will remain with producers as long as they support the new company.

Source: Based on information provided by Queensland Cotton Ltd.

Change, however, raises a set of problems of its own. Quite clearly, it can have far reaching effects upon producers. They may need to develop new marketing methods, seek alternative sources of finance, and adopt different risk management strategies.

Further, there may be institutional impediments in such areas as ownership of assets of SMAs, and procedures for corporatising and privatising them. Questions of compensation may also arise where values are attached to licences or quotas. This section discusses some of these issues.

Corporatisation

Many SMAs are already effectively corporatised. For example, Commonwealth SMAs have a large degree of independence from Government. This will soon be increased further following implementation by the Commonwealth Government of the recommendations of the Davis report.

The essence of corporatisation is to achieve the benefits of a private enterprise form of management, while 'ownership' remains with government. Private enterprise is commonly considered to face clearer management incentives than public, and thus is potentially more efficient in meeting commercial objectives. Corporatisation can also act as a staging post towards co-operative ownership or privatisation. For instance, grains handling in New South Wales has been corporatised, and it is the Government's intention to move towards full privatisation of that activity.

The Commission endorses the general move towards corporatisation of SMAs. No particular institutional impediments to corporatisation were drawn to the Commission's attention.

Privatisation

Privatisation (to either a co-operative or a company structure) goes further than corporatisation. It can remove an entity (or features of its operations) from government accountability (except for general provisions required under commercial law). It allows freedom to boards and management to operate in a fully commercial manner. As noted earlier, there are potential benefits in raising capital, there need not be an income taxation disadvantage, and privatisation does not necessarily involve producer loss of control of an industry.

Some SMAs have been privatised, cotton and ginger in Queensland for example. It is likely that grains marketing in that State will be privatised into a co-operative structure with, as for cotton, some statutory powers being retained for a transition period. It has been agreed that the Western Australian Honey Pool should be privatised, but disagreement about asset transfer is prolonging negotiations on the appropriate process to achieve this objective.

The Queensland Government commented that it:

acknowledges that the decision to change the business structure of an SMA (to, for example, a co-operative or company) can be a complex, time-consuming and, at times, expensive process. This Government has demonstrated a willingness to assist in this process, notably in regard to the enactment of appropriate restructuring legislation and the waiver of certain restructuring costs (ie, stamp duty).

It indicated that it is:

also proposing further amendments to the [Primary Producers' Organisation and Marketing] Act to assist rationalisation and restructuring of commodity marketing boards, notably to facilitate the conversion of marketing boards to non-statutory corporate entities.

Thus, in some States at least, procedures to facilitate a transformation of an SMA to a co-operative or a company are available. Although, as the Queensland Government noted, the transformation process may appear time consuming and costly, it appears to work.

Even if the continuance of an SMA were considered necessary, for example to oversee a quality assurance program or to generically promote a product, features of its current operations might be more efficiently undertaken if they were removed from government accountability and transferred to commercial accountability.

The Commission considers that Governments should review their procedures for deregulation and privatisation of SMAs (or features of their operations). The reviews should consider ways of streamlining the process and reducing its costs, including the removal of taxes which would otherwise apply.

Ownership issues

Disputes about asset ownership can impede deregulation. In some cases, legal ownership of assets of an SMA clearly belongs to producers. But even where legal ownership clearly rests with the State, producers may feel an entitlement to them. In some cases, Governments may judge that deregulation may be more palatable to producers if governments' claims over assets are forgone.

Once this basic issue of ownership is resolved, procedures for 'paying out' those assets, or for transferring them to a co-operative or company, need to be established. Even where assets are to be transferred, it is desirable to establish what each individual producer's 'entitlement' is. This can benefit producers, for example in securing finance. Consideration also needs to be given to whether, in a deregulated structure, the asset shares of individual producers are saleable. Unrestricted saleability could promote efficiency by ensuring that assets end up where they can be most efficiently managed and their capital worth most efficiently employed.

The Commonwealth Government has accepted the recommendation of the Davis committee that Commonwealth SMAs provide an annual statement to levy payers of equity entitlements in the assets of the SMA, where substantial capital or assets are accumulated through levy. These entitlements are to be tradeable.

The Commission considers that in undertaking the reviews of procedures for deregulation and privatisation, Governments should also clarify the ownership of assets of SMAs.

Compensation issues

Statutory marketing arrangements sometimes act to improve producers' returns by restricting supplies through licences or quotas. The higher returns can become capitalised into the value of a licence or quota, or even into fixed assets such as land. It is often argued that when such statutory marketing arrangements are altered compensation should be paid to producers for the loss of value of licence or quota.

In at least one case, such compensation has been paid. In New South Wales, statutory marketing for eggs was terminated and compensation for the loss of hen quotas paid to egg producers (at a rate of \$15 per bird). Compensation was also paid to carters, under contract to the NSW Egg Corporation, who delivered eggs to retailers.

Various strategies exist for Governments to deregulate a commodity for which quotas exist, for example: compensation payment could be made conditional on specified structural changes within the industry; quota levels could be increased, or commodity prices deregulated over time so quota values fall; and/or an announcement made that after a certain time quotas will be cancelled. Quota values are generally rapidly discounted in the market, so the period of notice could be relatively short.

Alternatively, the effective deregulation of an industry need not be at the specific initiative of a particular Government -- 'deregulation' can come about, partly or wholly, through competition from deregulated interstate industries. In fresh milk, for example, competition from Victorian producers would have lessened quota values in New South Wales (at least in real terms). A similar outcome could be expected with eggs if some New South Wales eggs were to move interstate.

Producers in these circumstances may argue for immediate deregulation, rather than in favour of continuing regulation. They could pressure for compensation before the value of quota erodes. Governments would then have a choice. They could specifically deregulate, bringing earlier benefits to consumers, but possibly involving significant expenditure on quota compensation. Or they could wait for market forces to achieve effective deregulation -- and thus avoid the difficult and costly issue of compensation.

6 IMPROVING THE EFFICIENCY OF MARKETING

Statutory marketing arrangements have been implemented to serve many different objectives. As discussed in Chapter 3, the Commission finds that many of these objectives which are based on powers which compel producers to participate, exclude entry to markets or impose price increases on user industries or consumers, are unsound. Further, as Chapter 4 discusses, the measures used to pursue the objectives of statutory marketing arrangements -- both sound and unsound -- often have adverse side effects.

This chapter commences by addressing areas where the greatest efficiency gains are in prospect from a review of statutory marketing arrangements and where early action is practicable. It also addresses how procedures for reviewing statutory marketing arrangements can be improved. The chapter then goes on to discuss what form statutory marketing arrangements should take, if they are to continue, and how they can be made more efficient. The Commission's comments apply to existing statutory marketing arrangements, as well as to any proposals for new ones.

6.1 Priority areas

The terms of reference for the inquiry request the Commission to give priority to areas where greatest efficiency gains are in prospect and areas where early action is practicable.

Because the Commission is addressing broad principles, and is not attempting case-by-case examinations of particular commodities, these questions are difficult to address comprehensively.

Nevertheless, Commission estimates of price changes suggest that areas where efficiency gains are potentially greatest on a national scale include sugar, dried vine fruit, and milk (see Table 4.1).

The estimates are subject to the caveats set out in Appendix F, and those for dairying and sugar are currently being reviewed during Commission inquiries specifically into those commodities. However, any changes to the precise estimates are not likely to affect the commodities identified by the Commission as areas where greatest efficiency gains are in prospect and areas where early action is practicable.

The estimates in Table 4.1 do not comprehensively measure the price changes and income transfers of all statutory marketing arrangements. Some commodities with important regional consequences may be excluded. The commodities could include lamb in Western Australia, and certain types of grain in various States.

In their draft report submission, the Confectionery Manufacturers of Australia/Australian Soft Drink Association stressed the impost on their activities of statutory arrangements supporting the domestic price of sugar, and requested that progress on the deregulation of those arrangements not be postponed on the pretext of further inquiries. At the time of its Industry Statement of March 1991, the Commonwealth Government acknowledged the cost impost of those arrangements on producers of citric acid by fermentation when it introduced legislation for a bounty for this production process on the grounds that it would help offset domestic price distortions, principally for sugar. On that occasion the Government also announced further phased reductions in the tariff on sugar. (See Industry Statement 1991 and Bounty (Citric Acid) Bill Second Reading Speech 1991).

Apart from estimates of price distortions and producer transfers, the nature of the powers accorded by statutory marketing arrangements also provide an indication of areas where efficiency gains could be greatest. Arrangements which involve compulsory acquisition, production controls, licensing (other than export) or price setting (other than export) could lead to relatively large inefficiencies. As can be seen from Appendix E, there are many SMAs with such powers.

Although wool has not featured highly in the Commission's estimates of past price and income effects of statutory arrangements, recent events have exposed the problems of price and stabilisation in a manner which does not distort market incentives and lead to inefficient resource use. It is most appropriate that it is at present under review given the size of the industry and the compulsory tax which applies to wool sales.

6.2 Review provisions

Most, if not all, of the commodities with large price distortions or income transfers have recently been reviewed or are currently being reviewed. Further, many statutory marketing arrangements are subject to sunset clauses or provisions for continuing review (see Section 2.2).

Participants generally supported periodic reviews. Several participants, as noted in Chapter 4 however, expressed concern that changes to statutory marketing arrangements could be undertaken in difficult times such as those currently being experienced by some primary producers.

The Commission considers that scheduled reviews of statutory marketing arrangements should not be postponed. The individual studies currently being undertaken, and those to take place in future years, will be the appropriate forums in which to assess the nature, extent and timing of change appropriate.

Certainly, some types of change in marketing structures could reduce producers' returns. For example, removal of powers which convey countervailing market power might do so. But other change could improve returns, eg removal of single-desk selling arrangements where it is assessed their costs exceed their benefits. Indeed, in the case of wool, statutory marketing arrangements themselves appear to have largely contributed to producers' current difficulties.

Provision for periodic review of statutory marketing arrangements is wise, not only because their objectives may be unsound and their powers inefficient, but because commodity market conditions can change significantly over time. Unless arrangements are reviewed, they may become outdated, and inappropriate. Without review, costs to the community as a whole and, in many cases, to producers themselves will continue.

The Queensland Egg Industry Council submitted that:

Given the stable nature of most SMAs, the formal review period could be justifiably extended to a ten-year term. With a ten-year review cycle, the consequential saving in both Government and industry resources would be significant and would be consistent with the Government's aim of 'efficient utilisation of resources'.

But in view of the possible costs imposed on the community by inappropriate marketing arrangements, the Commission considers that a period between reviews of 10 years is too long -- a period of no more than five years is more appropriate.

As noted in Section 5.1 on trade practices issues, it is desirable for such reviews to take an economy-wide viewpoint. It is thus important not to restrict members of review teams to representatives of particular vested interests. The reviews should be as transparent as possible, with provision made for submissions from all interested parties.

6.3 Objectives

Some statutory marketing arrangements are meant to serve both producers and consumers. For example, many of the Egg Boards and Milk Marketing Authorities have both producer-related and consumer-related objectives.

According to the South Australian Dairyfarmers' Association Inc:

Statutory Marketing Authorities have the great asset of being neutral in the marketing place. Their objectives are often as clear in the duty to consumers as they are to producers. The benefits of an objective marketing authority are multi-dimensional to society not a means of protecting any particular vested interest.

However, an objective of increasing producer returns, for instance, can conflict with the objective of ensuring adequate supplies are available to consumers. At the very least, such conflicting objectives can create difficulties for the boards and management of SMAs. At worst, inappropriate decisions might be made, and accountability confused.

Efficiency would be improved if each statutory marketing arrangement had a clear objective: to serve the interests of producers, or consumers, but not both.

In some cases, different groups may have common interests. Following the Davis report, the Commonwealth Government has announced that the legislation for Commonwealth SMAs serving the dairy, meat and livestock, pig and honey industries, will specify that the SMAs serve both producers and processors, and that they be funded by, and be accountable to, both sectors.

Further, a short list of clear unambiguous objectives is much better than a long list of vague and possibly conflicting objectives. As the Western Australian Government stated, a desirable attribute of SMAs should be a clear and concise statement of their role and objectives.

6.4 Powers

Generally, an objective requires a particular set of powers if it is to be achieved efficiently. An inappropriate range of powers can jeopardise the objective being achieved in the most efficient way.

Compulsion

Many features of statutory marketing arrangements are compulsory -- indeed, in some States compulsory powers such as acquisition are provided to SMAs as a matter of course. They may be used to prevent individual producers undercutting agreed prices, or taking advantages of services for which they have not shared the cost.

As shown in Chapter 3, giving powers of compulsion to producers to enable them to countervail the market power of purchasers may reduce, rather than improve, efficiency. Generally, an objective of providing countervailing power on the domestic market will not be sound. Even providing powers of compulsion so that an SMA can regulate export sales can be inefficient.

Further, compulsion is sometimes used where it is not necessary. For example, economies of size might be achieved if quantities marketed through or processed by the one organisation can be increased. But, except in the unlikely case where those economies of size were so great that a monopoly could develop, the higher returns paid to producers resulting from those economies should be sufficient to induce them to supply that marketing organisation -- compulsion should not be necessary.

Compulsion might be justified in such areas as promotion and research, where 'free riding' problems can arise, and quality control, where the actions of particular producers could possibly damage the reputations of others.

Policing and enforcement is required with any form of compulsion. Otherwise, 'leakage' of product through private sales and black markets might occur, and the objective for which compulsion is imposed will not be achieved. Depending upon the characteristics of the commodity being controlled, and the degree of cooperation from producers, enforcement costs could be quite high.

Chapter 4 argues that some statutory marketing arrangements can disadvantage particular categories of producer. They have no choice but to comply with the arrangement, because of its compulsory nature. The producers who are disadvantaged are those who could market their products more cheaply or receive higher returns than under the statutory arrangement. These producers therefore are likely to be more innovative and efficient in supplying products of the type, in the form, at the place and time that consumers want them.

In view of the costs imposed by compulsion, adequate consideration needs to be given to whether the objectives of statutory marketing arrangements can, in particular cases, be met without compulsion. Two possibilities, a co-operative or a company arrangement, were discussed in Chapter 5.

Another possible way to encourage efficiency in statutory marketing arrangements would be to allow competition between SMAs (or indeed, between an authority and a few select traders). This would have the advantage of providing at least some choice to producers, who could transfer their custom if they wished. Suggestions that SMAs should compete are not new. Already, there is competition on the domestic market between SMAs in various grains.

Competition from interstate SMAs might not be sufficient. For example, transport costs incurred in bringing a commodity from interstate may allow the homestate SMA to set excessively high prices. There is evidence that prices in Western Australia for eggs and lamb are higher than in the Eastern States, not because production costs are higher in Western Australia, but because competition is limited by SMAs. Competing SMAs, or a licensed private competitor, might need to be permitted within a State to ensure competitive prices.

In conclusion, compulsory powers, such as acquisition, production controls and price setting, are most likely to have adverse efficiency effects. Even where compulsion is justified, for example to ensure all producers share in the costs of generic promotion, vesting and acquisition powers are not always necessary. Alternatives, such as marketing orders, may be more efficient.

Conflicting powers

As discussed in Section 6.3, many statutory marketing arrangements have several objectives and confer a wide range of powers. Some of these powers may conflict: for example, several arrangements confer both price setting and quantity controls (either through quotas or licensing). Exercising both price and quantity controls can compound the inefficiency costs to the community. If such forms of intervention are to be used, it would be inappropriate to control both price and quantity. Which is the most appropriate to control depends upon the objective being pursued, and the supply and demand characteristics of the commodity in question.

Production controls

Inefficiencies must always arise when production is controlled (see Section 4.1). This is so whether inputs or outputs are controlled. The Potato Board of Western Australia, for example, licenses the area of land allowed to be used for potato production. Egg Boards in several States license the number of hens. Input controls such as these inevitably lead to producers making greater use of uncontrolled inputs. But output controls can lead to the destruction or wastage of surplus product. Further, controlling production can incur relatively higher enforcement costs.

If there are to be production licences or quotas, efficiency would be improved if they were transferable, with no limit to an individual's quota holding. This would allow the most efficient producers to purchase quota from the less efficient. Further, efficiency is likely to be improved if licences and quotas were initially sold or auctioned, rather than allocated free of charge.

6.5 Accountability

Accountability has several aspects: accountability to Governments/Parliaments, the extent and use of reserve powers, monitoring performance, accountability to producers, voting arrangements, selection of boards, and accountability of management to those boards.

Accountability of SMAs has been an important policy issue in the last few years. Many changes have been made, largely at producer initiative. Accountability has been discussed in several reports, including the Davis report at the Commonwealth level, and some important changes have been made or announced. The New South Wales Government stated that where a continuing role for the NSW Government in SMAs is confirmed, it would be seen as falling within the ‘microeconomic reform ambit applying to other NSW Government agencies’.

Many participants commented upon aspects of accountability. As the Queensland Council of Agriculture stated ‘accountability is an essential element in maintaining the support of producers’. Some examples of participants’ comments are given in Boxes 6.1 and 6.2.

The Davis report canvassed many of these issues, and the Minister for Primary Industries and Energy has foreshadowed many changes for Commonwealth SMAs arising out of that report. These include giving SMAs greater managerial autonomy; requiring annual general meetings; requiring voting to be in proportion to levy paid; and developing performance indicators.

Box 6.1: Participants' comments about accountability -- I

Both the Western Australian Egg Marketing Board and the Queensland Egg Industry Council considered there was no conflict between the accountability of SMAs to producers and to Governments and Parliaments. In contrast, Hogbin and Wills commented that the interests of the two groups, primary producer levy payers and parliament, may not coincide.

Several participants considered that the powers of Ministers/Governments to interfere in the (commercial) operations of SMAs should be limited. The Cattle and Sheepmeat Councils of Australia, for example, proposed that a Minister's involvement in those operations be confined to 'macro-financial' and regulatory aspects. Hogbin and Wills considered that 'the Minister's power should be limited to the reserve power to dismiss the Boards on the grounds that an SMA has operated outside its legislative charter'.

Objective performance indicators were considered by some participants to have a place in ensuring accountability. Perhaps the most advanced development of such criteria is in the grains area. The Grains Council of Australia has developed, in concert with the Australian Wheat Board, eight key performance indicators against which the Board reports: timing of first advance, return forecasting performance, pricing against independent benchmark, wheat marketing performance, exchange rate performance, total financing costs, interest rates, and market development costs. The indicators are defined so as to be measurable. A sceptical view was expressed by the Pastoralists and Graziers Association of Western Australia (Inc.) 'without the influence of competition, there are few objective measures of performance and so statutory authorities themselves cannot objectively evaluate their own efficiency'.

The Commission sees little merit in considering these issues of accountability in depth in this report. However, there are some basic principles which, if applied both at State/Territory and Commonwealth level, would improve the accountability and performance of SMAs:

- procedures for the accountability of SMAs to Governments/Parliaments and Ministers should be clear and unambiguous;
- the reserve powers of Ministers, and the circumstances in which they are used, should be as clear as possible;
- where possible, objective performance indicators should be developed;
- producers should have opportunity, on a regular basis, to assess the performance of SMAs, and to propose changes they consider to be necessary;
- voting should be in proportion to the volume of each individual's product marketed through the SMA;

Box 6.2: Participants' comments about accountability -- II

Differing views were expressed about the proposition that SMAs report to producers at annual general meetings (AGMs). Such a procedure already exists for the Australian Meat and Live-stock Corporation, and the PPO&M Act in Queensland also requires them. The Cattlemen's Union considered that 'as a vehicle for accountability to a complex, diverse industry the AGM is seen as extremely effective'. But several participants opposed AGMs, including the Wool Council of Australia and the Cattle and Sheepmeat Councils of Australia. The latter two considered that the meat AGM arrangement is 'inappropriate, costly, ineffective and ... potentially disastrous'.

Voting also generated comment. Bunge (Australia) Pty Ltd considered that producers' wishes should be defined in some kind of ballot representing producers in line with their market share. Lynne and David Johnston considered it unsatisfactory that, in many cases, to have an effective say, producers needed to join a farmer's organisation and even then 'producers of 100 prime lambs or 5 bales of wool have as much say in the control of the industry as producers of 1000 or 10 000 prime lambs or bales of wool'.

Hogbin and Wills commented that 'the board of an SMA should comprise skilled and experienced commercial managers'. They considered that 'board members should be elected at Annual General Meetings by vote of levy payers, with votes proportional to levies paid'. The Western Australian Government referred to the need for objective selection procedures for SMAs. Some participants considered that producers should comprise at least the majority of a board, as a board exists primarily to serve the interests of producers.

The importance of efficient management of SMAs, and of management accountability, was explored by some participants. For example, the Queensland Egg Industry Council commented that 'there is no reason why any SMA should be less efficient than a comparable commercial enterprise. The key is the management ability of the operation concerned'. Hogbin and Wills discussed ways of improving management performance of SMAs through, for example threat of dismissal for poor performance; a clear enterprise objective; and insulating management from external intervention in managing the day-to-day affairs of the SMA.

- members of the Boards of SMAs should have qualifications and experience pertinent to their responsibilities; and
- management should be accountable to the Board.

6.6 Assistance

Some SMAs receive explicit government support through access to finance or government guarantees of their borrowings. For example, the borrowings of the

Australian Barley Board are guaranteed by the South Australian Government, and Commonwealth Government guarantees apply to Australian Wool Corporation and Australian Wheat Board borrowings.

Unlike the situation which applies to many Commonwealth business enterprises, no levy is charged to any Commonwealth SMA for a government guarantee of its borrowings. The New South Wales Government stated, however, that guarantee fees would be charged to that State's SMAs which receive lower cost, government-linked borrowings.

Most SMAs do not receive explicit assistance which guarantees their borrowings. Nevertheless, Governments have sometimes provided assistance when SMAs have run into trouble. In effect there has been an implicit government guarantee to many of these authorities, rather than one which is explicit. With an explicit guarantee, the circumstances under which government assistance will be provided are clearly stated. An implicit guarantee generates uncertainty: about whether assistance will be provided, and its nature and extent. An authority could be overly cautious or, alternatively, overly reckless. Either way efficiency would be affected.

Governments should make their attitude to assistance for SMAs explicit -- the conditions, nature and extent of such assistance should be clearly stated. The circumstances in which assistance will not be given should also be clearly stated. In response to the Davis report, the Minister for Primary Industries and Energy (1990) has stated that the Commonwealth is to make legislative amendments:

to make it clear that the Commonwealth is not responsible for SMAs' borrowings, except where Government guarantees have been given. This would introduce a 'right to fail' element into the activities of SMAs and provide closer comparability with the private sector.

However, if assistance is provided through a statutory marketing arrangement (whether explicit or implicit) it should not bias the manner in which individuals choose to market their products. For example, to guarantee the borrowings of an SMA which trades in competition with private firms would bias choice (unless, of course, the Government were to charge the SMA for that guarantee) and not be an efficient way of assisting marketing.

Clarifying assistance arrangements to SMAs does not rule out industry-wide assistance in times of particular social need. But to provide assistance which supports prices during a period of severe market downturn could impede adjustment. It would be preferable to focus any such short term assistance on the cash flow needs of producers, for example, through Part B of the Rural Adjustment Scheme.

6.7 Form of statutory marketing arrangement

Once an objective, or set of objectives, is chosen, and an appropriate range of powers developed, consideration needs to be given to the best institutional way of putting them into effect. The choice can lie between an authority, an advisory committee, a marketing order and so on. Some of these mechanisms will be administratively more expensive than others, some more open and less bureaucratic, and some more accountable.

It is not possible to develop hard and fast rules in advance about the most appropriate type of arrangement -- this will depend upon particular characteristics of a product and its markets, and the powers to be accorded through the arrangement.

However, consideration needs to be given to all the possibilities as the most appropriate arrangement might not be that most immediately apparent. It might be thought, for example, that an authority would be the best form of organisation to provide a range of services to producers. But services might be able to be contracted out at a lower cost than that of an SMA providing them directly. In this case, a coordinating committee may be sufficient and the administrative overheads of an authority would be avoided.

The Commission has argued in Chapter 4 that vesting and acquisition, production control and price setting powers adversely affect the efficiency of resource use. Removing those powers would reduce the need for an SMA, as many of the sound objectives of statutory marketing arrangements could be efficiently met in other ways -- through marketing orders, for example.

APPENDIX A: INQUIRY PROCEDURES

On receipt of the reference the Commission advertised the commencement of the inquiry in the press and dispatched an initial circular to farmer organisations, domestic processors, State and Commonwealth Government bodies, universities and other individuals and organisations considered likely to have an interest in the inquiry. An Issues Paper was subsequently published by the Commission and submissions called for.

The Commission met informally with representatives of the following organisations to seek background information and views about inquiry issues:

- Commonwealth Department of Primary Industries and Energy;
- Australian Bureau of Agricultural and Resource Economics;
- Queensland Department of Primary Industries;
- Trade Practices Commission;
- New South Wales Department of Agriculture and Fisheries;
- New South Wales Farmers Federation;
- Queensland Council of Agriculture;
- Queensland Departments of Premier, Economic and Trade Development; Primary Industries; Manufacturing and Commerce; and Environment and Conservation;
- Australian Dried Fruits Corporation;
- the Secretary of the Victorian Public Bodies Review Committee;
- several representatives of Victorian Statutory Marketing Authorities;
- Victorian Departments of Premier and Cabinet; Agriculture and Rural Affairs; and
- the Western Australian Department of Agriculture.

Meetings were also held with representatives of the Ricegrowers' Co-operative Ltd about the Commission's assistance measurements for the rice growing industry.

Initial public hearings were held in all capital cities, except Darwin, during August 1990.

A draft report was published in December 1990. In February 1991, public hearings were held at Brisbane, Sydney and Melbourne to receive comments on the draft.

A total of 135 submissions was received, 98 of them before the draft report was published.

Inquiry participants are listed in Appendix B.

APPENDIX B: PARTICIPANTS AND SUBMISSIONS

Submission numbers preceded by 'D' were received subsequent to the release of the draft report. Written submissions presented at the public hearings are marked with an asterisk [*]. Participants at the August 1990 hearings who made an oral submission only are indicated with a hatch [#].

Participant	Submission number
Action for Public Transport (NSW)	24
Australian Association of Co-operatives Ltd	90
Australian Bureau of Agricultural and Resource Economics	#
Australian Chamber of Fruit and Vegetable Industries	1*
Australian Chicken Growers' Council	33, D128
Australian Citrus Growers Federation	18*, D108*
Australian Citrus Industry Council	81
Australian Council of Egg Producers and the Australian Egg Marketing Council	61*
Australian Council of Livestock Agents	14*
Australian Dairy Corporation	41, D123
Australian Dairy Farmers' Federation	80
Australian Dairy Industry Conference	49
Australian Dried Fruits Association Inc.	D134
Australian Dried Fruits Corporation	11
Australian Federation of Consumer Organizations	71
Australian Grain Exporters Association	89
Australian Honey Board	5
Australian Joint Citrus Exporters Pty Ltd	D133
Australian Quarantine and Inspection Services	95
Australian Sugar Milling Council	D129
Australian Tobacco Marketing Advisory Committee	17
Australian Wheat Board	68*. D130
Australian Wine and Brandy Corporation	2
Australian Wool Corporation	47*

Participant	Submission number
Bartter Enterprises	74
Bernard Hart Enterprises Pty Ltd	48
Bundaberg Sugar Company Ltd	3
Bunge (Australia) Pty Ltd	66
Castlemaine Perkins Ltd	D102*
Cattle Council of Australia and the Sheepmeat Council of Australia	30*
Cattlemen's Union	21
Confectionery Manufacturers of Australia, the Australian Soft Drink Association and the Ice-Cream Manufacturers Federation	92
Confectionery Manufacturers of Australia and the Australian Soft Drink Association	D117*
Consulate General of Turkey	6*, D111*, D126
Consumers' Association of South Australia Incorporated	37*
Co-operative Bulk Handling Ltd (WA)	9
Council of Agriculture (Qld)	51*, 78, D107*
Mr Lindsay Criddle	52
CSR Limited	42
Davco Farming	D118*
Edgell-Birds Eye	70
Egg Marketing Board (Tas)	45*
Food and Beverage Importers Association	87
Food Industry Council of Australia	88
Goondiwindi Grain Cleaners Pty Ltd	77
Grain Pool of Western Australia (Incorporated)	15
Grain Sorghum Marketing Board (NSW)	4
Grains Council of Australia	60*
Grocery Manufacturers of Australia Ltd	59*
Dr Geoff Hogbin and Dr Ian Wills	46*
Jefferson Holdings Pty Ltd	#
Lynne & David Johnston	12*

Participant	Submission number
Mr Chris Kelly	83
Mr Vincent Kelly	86
Kingfood Australia Pty Ltd	#
Dr David Maccallum	72*, D120*
Malting and Brewing Industry Barley Technical Committee	D103*
Metropolitan Milk Board (SA)	31*
Mid-Murray Citrus Growers Incorporated	28*, D110*
Milk Authority of the Australian Capital Territory	26*
Mr P.A. Mogher	D100
Murray Citrus Growers Co-operative Association (Australia) Ltd	10, D109
Murray Valley Citrus Marketing Board	44*, D101
National Farmers' Federation	63*
National Fishing Industry Council	7
National Poultry Association Ltd	64*, D114, D131
North Queensland Tobacco Growers' Co-operative Association Ltd	19
Northern Territory Government	75, D135
Northern Territory Grain Marketing Board	54
New South Wales Dairy Industry Conference	65
New South Wales Department of Agriculture and Fisheries	#
New South Wales Dried Fruits Board	16, D121*
New South Wales Government	D132
Mr Kevin O'Driscoll	22
Olawa Pty Ltd	82
Pastoralists and Graziers Association of Western Australia (Incorporated)	50
Potato Growers' Association of Western Australia (Incorporated)	35*, D115
Poultry Farmers Association of Western Australia	69
Processed Food Industry Council	84
Queensland Canegrowers Council	97
Queensland Chicken Growers Association (Incorporated)	79
Queensland Dairy Industry Authority	62

Participant	Submission number
Queensland Dairyfarmers' Organisation	57
Queensland Egg Industry Council	43*
Queensland Government	67
Queensland Raw Sugar Industry	D106*
Queensland Sugar Industry	58*
Registry of Co-operatives, New South Wales Business and Consumer Affairs	73*, 93
Rice Marketing Board for the State of NSW, The	98
Ricegrowers' Co-operative Ltd and the Rice Marketing Board D for the State of NSW	116*
Mr G. Schmidt	8
South Australian Dairyfarmers' Association Incorporated	20
South Australian Government	D99
South Australian Government Adviser on Deregulation	39*
Sugar Board, The	94, 96, D104*, D127
Tasmanian Commercial Egg Producers Association	34*
Tasmanian Government	56*, D113
Trade Practices Commission	D125
United Dairyfarmers of Victoria	27*, D119*
United Farmers and Stockowners of South Australia - Grain Section	40*, D124
United Farmers and Stockowners of South Australia Incorporated	38*, D122
United Graziers' Association of Queensland	55*
Victorian Domestic Meatworks/Wholesalers Council	76
Victorian Farmers Federation	32*, 91, D105*
Victorian Rubus Growers Association Incorporated	25*
Western Australian Egg Marketing Board	29*
Western Australian Farmers Federation Incorporated	53*
Western Australian Government	85
Western Australian Meat Marketing Corporation	36*
Wine Grapes Marketing Board	13*
Wool Council of Australia	23*
Dr Vic Wright	D112

APPENDIX C: IAC REPORTS CONSIDERING STATUTORY MARKETING ARRANGEMENTS

Dairy Industry (No. 62: 23 October 1975)

Discussed marketing and pricing arrangements for manufacturing milk and for manufactured dairy products.

Recommended: a levy and refund system be adopted to promote stable marketing of manufactured dairy products; a modified equalisation scheme operating separate pools for each product in the scheme be introduced and administered by the Australian Dairy Corporation; limited Australian Government assistance be given to underwrite an export stabilisation scheme; and access to Australia's fluid milk market be extended to all farmers who can supply milk of specified quality and at the periods required.

Interim Fruitgrowing (No. 63: 30 October 1975)

Examined the Apple and Pear Stabilisation Scheme, the Fruitgrowing Reconstruction Scheme and the Dried Vine Fruits Stabilisation Scheme.

Recommended the Apple and Pear Stabilisation Scheme and the Dried Vine Fruits Stabilisation Scheme be extended to cover the 1976 and 1977 crops, and the Fruitgrowing Reconstruction Scheme be extended until 31 December 1976.

Fruitgrowing Part B: Apples and Pears (No. 77: 16 January 1976)

Examined the Apple and Pear Stabilisation Scheme, and the operations of the Australian Apple and Pear Corporation.

Suggested the Australian Apple and Pear Corporation: liberalise its restrictions on methods of sale in export markets other than Europe and North America; set a maximum exporter's commission in terms of a percentage of the fob value of the

fruit sold; liberalise the requirements for the issue of new export licences; and examine ways to eliminate unnecessary restraints on trade in apples and pears between the States.

Fruitgrowing Part C: Dried Vine Fruit (No. 77: 16 January 1976)

Examined the Dried Vine Fruits Stabilisation Scheme and alternative marketing schemes for dried vine fruits.

Recommended: a two pool entitlement scheme for the marketing of dried vine fruit be introduced to operate with unrestricted negotiability of domestic entitlements; this scheme be supported by legislation to allow the collection of taxes on dried vine fruit sales on the domestic market and the reimbursement of such taxes to participating growers; and the Dried Vine Fruits Stabilisation Scheme be extended until transactions relating to the 1977 crop have been finalised or until the two pool entitlement scheme has been introduced, whichever occurs first.

Financing Promotion of Rural Products (No. 98: 30 August 1976)

Examined the funding arrangements for promoting rural products.

Suggested: the legislation governing the borrowing rights of marketing boards and other collective organisations involved in promoting rural products be amended to allow them to source funds for these activities in competition with other borrowers; and the Government only consider guaranteeing such borrowings when it is clearly appropriate to do so.

Dairy Industry Marketing Arrangements (No. 99: 9 September 1976)

Examined the marketing arrangements for dairy products.

Recommended: negotiations between Commonwealth and State Governments and the dairy industry to change existing marketing arrangements to develop a more efficient structure of marketing and production; a levy be introduced on the production of butter, cheddar cheese, and skim milk powder; the levy on each product be paid into separate pools; funds collected through the levy on production sold domestically be dispersed to processors through an equalisation pool on the basis of their total production of each product; funds collected through the levy on production sold overseas be paid to producers on the basis of their export sales of

each product; all national aspects of the administration of marketing arrangements for the dairy industry be undertaken by the Australian Dairy Corporation (ADC); the ADC advise all farmers on a regular basis of price and market structure of returns for dairy products; levies on the production of fluid milk, to be paid to farmers and processors, be introduced only if a collapse in the orderly marketing of fluid milk is imminent; and States consider introducing negotiable fluid milk quotas, to extend access to the fluid milk market to more farmers.

Rural Income Fluctuations (No. 161: 10 February 1978)

Discussed the use of price stabilisation measures to minimise fluctuations in farmers' incomes.

Concluded the adoption of price stabilisation measures could not be assumed to improve welfare in the rural sector.

The Australian Citrus Industry (No. 171: 2 June 1978)

Examined assistance arrangements and regulations affecting citrus growers and processors.

Recommended the Fruit Industry Sugar Concession Committee (FISCC) which determined domestic minimum prices for sugar, be required to report the reasons, as well as the bases for its price setting decisions to Parliament.

Wheat Stabilisation (No. 175: 30 June 1978)

Examined the stabilisation arrangements and other assistance measures provided to the wheat industry.

Recommended: control over export wheat, flour and sharps be vested in the Australian Wheat Board (AWB); private traders be permitted to purchase and sell wheat on domestic markets; domestic prices for wheat not be administratively determined; restraints currently imposed on the AWB in respect of grading, pricing and segregation of wheat, and of transferring monies between pools be removed; all borrowing restrictions on the AWB be removed; growers be able to trade their shares in any AWB pool, or use them as security; and where practicable, handling, storage and transport costs not be pooled and equalised among growers.

Fisheries and Fish Processing Industry (No. 182: 20 September 1978)

Examined Commonwealth/State regulation of Australian fisheries.

Recommended decisions relating to fisheries management be taken within a framework of published guidelines, and be open to public scrutiny and comment.

Cheese (No. 204: 15 March 1979)

Examined assistance and marketing arrangements for cheese.

Recommended/suggested: the removal of joint-pooling of returns from cheddar and gouda; the removal of 'fancy cheese allowances' on domestic sales and 'manufacturing premiums' on gouda sold to Japan; other allowances applying to the cheese industry be reviewed; and a review of assistance to cheese and other dairy products in 1984.

The Sugar Industry (No. 209: 31 March 1979)

Examined the marketing arrangements for sugar.

Recommended domestic prices for refined sugar and refined sugar products, and new pricing arrangements.

Grapes and Wine (No. 221: 31 July 1979)

Examined marketing and assistance arrangements for grapes and wine, and imbalances between the supply and demand for grapes.

Recommended revised tariffs for grapes and wine, and that no specific measures are needed to overcome foreseen imbalances between supply and demand for grapes.

Apples and Pears (No. 239: 28 March 1980)

Examined the apple and pear growing and marketing industries.

Recommended: the introduction of underwriting of returns for exports of apples and pears; the phased removal of the stabilisation scheme for apples; the termination of the stabilisation scheme for pears; controls over export volumes and destinations

and export licences be removed; minimum pricing provisions be removed; shipping arrangements no longer have to be approved by the Australian Apple and Pear Corporation (AAPC); and other controls on exports administered by the AAPC or enforced under State regulations and the Customs Act be reviewed.

Manufactured Tobacco (No. 256: 23 January 1981)

Examined assistance to facilitate use by Australian manufacturers of Australian grown tobacco. Described the joint Commonwealth/State Stabilisation Plan to direct and control the marketing of Australian tobacco leaf.

Proposed the level of assistance provided to tobacco growing and manufacturing be reviewed by the Commission as soon as possible.

Ginger and Ginger Products (No. 265: 23 January 1981)

Examined production and marketing controls for ginger.

Concluded ginger production quotas should be made transferable.

Fruit and Fruit Products (No 276: 24 August 1981)

Considered minimum pricing arrangements operated by six bodies established under Commonwealth Government legislation and administration.

Concluded that unless market conditions are taken into consideration and there is some degree of flexibility, minimum pricing arrangements could harm both growing and processing sectors of an industry.

Interim Canning Fruit (No. 302: 25 March 1982)

Examined the operations of the Australian Canned Fruit Corporation (ACFC) and the Fruit Industry Sugar Concession Committee (FISCC).

Found: the ACFC had distorted the canners' view of the market through equalising domestic and export returns, exacerbating the industry's problems in the 1982 season; and referred readers to previous reports for a discussion of the impact of the minimum pricing arrangements for sugar operated by the FISCC.

Orange and Tangerine Juices (No. 304: 30 June 1982)

Examined minimum pricing and marketing arrangements operated by the Fruit Industry Sugar Concession Committee.

Recommended the arrangements be discontinued.

Canning Fruit (No. 307: 30 September 1982)

Examined the operations of the Australian Canned Fruits Corporation.

Recommended: statutory controls over the marketing of canned fruit be phased out; and the industry remain exempt from certain provisions of the Trade Practices Act until 1987.

The Australian Tobacco Industry (No. 309: 18 October 1982)

Examined government intervention in supply management, price control and trading arrangements in the tobacco growing and marketing industry.

Recommended the removal before 1 October 1983 of all controls on the growing or sale of tobacco.

The Abattoir and Meat Processing Industry (No. 313: 28 January 1983)

Examined government regulation and involvement in abattoirs and meat processing. Recommended: duplication of meat inspection by Commonwealth, State and local government authorities cease; government controls over industry location and capacity be removed; and franchise arrangements and subsidies for public abattoirs be removed.

The Sugar Industry -- Interim Report (No. 314: 18 February 1983)

Considered short term assistance and domestic pricing arrangements for sugar.

Recommended: no short term assistance be provided; and no change be made to the domestic price of sugar.

The Dairy Industry -- Interim on Extension of Underwriting for 1983-84 Season (No. 319: 11 May 1983)

Examined whether underwriting of dairy products should continue in 1983-84.

Recommended: dairy product groups leviable in 1982-83 continue to be leviable in 1983-84; and returns for leviable dairy products prescribed under the dairy industry stabilisation arrangements be underwritten for the 1983-84 season.

Harvesting and Processing of Fish, Crustacea and Molluscs (No. 328: 29 July 1983)
Reviewed existing government measures affecting fisheries management and adjustment in the fishing industry.

Found there was no specific type of management control which could be adopted to improve efficiency in fisheries management.

The Wheat Industry (No. 329: 29 September 1983)

Examined regulations affecting the wheat industry.

Recommended: the Australian Wheat Board (AWB) be required to maximise returns to growers from the sale of wheat, without taxing domestic consumers, and to pay growers according to the value of their wheat; private traders be permitted to operate freely on the domestic market in competition with the AWB; the price of wheat no longer be administered; and there be separate public accounting for wheat sales on domestic and export markets.

The Sugar Industry (No. 332: 11 November 1983)

Examined domestic marketing arrangements and production marketing controls.

Recommended: all domestic sellers be free to set their own prices and payment terms for sugar; prohibitions on exports be lifted; rebate schemes be terminated; controls on exports be confined to those required under international agreements only; the removal of the land assignment system; farm production and mill production peaks be made transferable; and an underwriting scheme for sugar be introduced for a period of five years from 1 July 1984.

The Dairy Industry (No. 333: 23 November 1983)

Examined assistance to the dairy industry and regulation of the market milk and manufactured milk products sectors.

Recommended: the levy/disbursement system for manufactured dairy products be terminated from 1 July 1984; pooling of export returns continue; and an export subsidy be introduced.

The Dried Vine Fruits Industry -- Short Term Assistance During the 1984 Season (No. 334: 13 December 1983)

Examined marketing arrangements and regulations (including the statutory equalisation scheme) for dried vine fruits.

Recommended no short term assistance.

The Honey Industry (No. 347: 4 May 1984)

Considered a proposal for market stabilisation or 'home-consumption pricing' scheme for the industry.

Recommended no additional assistance for the industry, but suggested the Government could consider increasing its level of research and extension funding to improve the supply of publicly available information on pollination services.

Southern Bluefin Tuna (No. 349: 28 June 1984)

Examined the operation of the Southern Bluefin Tuna fishery.

Recommended an industry funded management program of fishing quotas be introduced for bluefin tuna.

The Dried Vine Fruits Industry (No. 351: 28 September 1984)

Examined pricing and marketing arrangements for dried vine fruits.

Recommended: the equalisation of domestic and export prices, by placing a levy on domestic sales of dried vine fruits continue; the levy on domestic sales be reduced to 15 per cent above average export returns by 1990; the industry receive no

exemption from the provisions of the Trade Practices Act; State Government restrictions on the entry of new packers be removed; and no additional restrictions on imports be introduced.

Apples and Pears -- Interim Report (No. 362: 24 March 1985)

Examined underwriting arrangements for apple and pear exports.

Recommended underwriting arrangements for apple and pear exports be introduced.

Apples and Pears (No. 369: 27 August 1985)

Examined assistance and marketing arrangements for apples and pears.

Recommended: underwriting of apple and pear exports be terminated after three years; the membership of the Australian Apple and Pear Corporation (AAPC) be reduced and its charter be amended to narrow its role in respect of exports; and the AAPC's charter be modified to confine the AAPC to areas where joint grower action is likely to boost grower returns and, at the same time, contribute to national income.

Vegetables and Vegetable Products (No. 384: 29 April 1986)

Examined the fresh vegetables and vegetable products industries. Considered whether a marketing authority for vegetables should be introduced.

Recommended on tariff levels and concessional tariff arrangements; made findings on the prohibitions on imports of potatoes, plants variety rights, research, and export inspection. Found there was no need to establish a Government Vegetable Marketing Authority.

Interim Report on Citrus Fruit (No. 395: 10 October 1986)

Examined whether interim assistance should be provided for citrus fruit.

Recommended no temporary assistance be provided to the growing of citrus fruit, and proposed considering the role of citrus marketing boards and the Citrus Minimum Pricing Committee in the Commission's final report on Fresh Fruit and Fruit Products.

The Rice Industry -- Interim Report (No. 396: 15 October 1986)

Considered underwriting of returns to growers for exports of rice.

Recommended no short term action be taken to assist the rice industry.

Interim on Canned Fruit (Statutory Marketing and Interim Assistance Arrangements) (No. 400: 30 January 1987)

Examined the need for statutory controls and short term assistance for the canned fruit industry.

Recommended statutory controls held by the Australian Canned Fruit Corporation over the marketing of canned deciduous fruit be phased out by 31 December 1988.

The Tobacco Growing and Manufacturing Industries (No. 405: 23 October 1987)

Examined those measures which assist the domestic production of tobacco and tobacco leaf.

Recommended: the tobacco industry stabilisation plan be phased out over a period of five years; the local content requirement, leaf quotas and administered pricing arrangements be continued until the non-concessional tariff is reduced to the concessional tariff level, at which point they should be abolished; all restrictions on quota sales/purchases be abolished; all restrictions on leasing of quotas be abolished; and manufacturers' minimum stockholding restrictions be abolished.

The Rice Industry (No. 407: 23 October 1987)

Examined assistance arrangements for the rice industry.

Recommended measures to improve the domestic environment for rice production and marketing including: improvement of efficiency of water supply and use; removal of production etc. controls; removal of the NSW and Qld Rice Marketing Boards' compulsory acquisition powers; and the modification of the payment system to indicate more clearly to growers the market value of the rice delivered by them, and the costs of milling and marketing their rice under the current arrangements.

Fresh Fruit and Fruit Products (No. 410: 24 February 1988)

Examined State and Commonwealth regulation of marketing, processing and packaging of fruit and fruit products.

Found: there was little evidence to warrant direct government involvement in fruit and vegetable wholesaling; the minimum pricing arrangements for canning fruits, citrus and pome fruit have the capacity to provide considerable assistance and are likely to hinder adjustment; statutory marketing arrangements which aim for stabilisation have the potential to reduce competition and impede adjustment processes, and as such, should be reviewed regularly; the Australian Horticultural Corporation's (AHC) role should be limited to coordinating industry information and statistics, research, education and extension services, minimising any overlap with existing organisations; the AHC should become totally industry-funded, and be required to demonstrate that the benefits of all its interventions clearly exceed its costs; regulations licensing apple and pear exporters and controlling apple and pear exports should be rescinded; and the Commonwealth Government should encourage the adoption of more uniform quarantine restrictions between the States, to minimise distortions to interstate trade in fruit and fruit products.

The Wheat Industry (No. 411: 25 February 1988)

Considered assistance for the wheat industry.

Recommended deregulation of wheat marketing for the domestic market; removal of underwriting arrangements; and changes in arrangements for payments to growers.

The Dried Vine Fruits Industry (No. 420: 1 September 1989)

Examined the dried vine fruits industry.

Recommended: statutory equalisation provisions be withdrawn at the end of the 1994 marketing year; the Australian Dried Fruits Corporation (ADFC) powers to approve agents in export markets be amended to preclude their approving sole agents in some markets; the ADFC operate under the umbrella of the AHC; and underwriting of export returns from sultanas cease.

Food Processing and Beverage Industries (No. 424: 15 December 1989)

Examined the impact of assistance policy and other regulations on the food processing and beverage industries.

Found: extensive Commonwealth and State regulations governing agricultural commodity marketing have increased the food processing industries' input costs, particularly on production for the domestic market; and there is still considerable scope for improvement, particularly in the pricing and marketing of dairy products and sugar.

Apples and Pears (Export Underwriting) (No. 425: 19 January 1990)

Examined the underwriting of returns to growers from exports of fresh apples and pears.

Recommended assistance not continue to be provided to underwrite returns to growers from exports of fresh apples and pears after the 1990 season.

APPENDIX D: STATUTORY MARKETING ARRANGEMENTS AND THE TRADE PRACTICES ACT

As described in Chapter 2 of this report, statutory marketing arrangements for primary products have a long history in Australia. In contrast, the Trade Practices Act (TPA) and, in particular, its restrictive trade practices provisions, are a recent influence on the marketing of rural produce. Probably largely because of this, the relationship between primary product markets and the TPA has received relatively limited attention. By specifically exempting any activities endorsed by Commonwealth, State or Territory law, the TPA provides tacit approval of the statutory marketing arrangement approach. In turn, the potential for anti-competitive behaviour on the part of buyers of primary produce has been minimised.

Yet many statutory marketing arrangements themselves endorse what could be considered to be anti-competitive behaviour -- behaviour that for other sectors is regulated by the TPA. The following questions are raised:

- are the restrictive trade practices provisions of the TPA adequate on their own to effectively regulate any anti-competitive behaviour on the part of buyers of rural produce?
- do those provisions facilitate the sound objectives of statutory marketing arrangements? and
- should statutory marketing arrangements be exempted from the application of the TPA?

This appendix discusses the relevant restrictive trade practices provisions of the TPA and their prima facie application to current statutory marketing arrangements. The various ways in which these activities are currently exempted from the application of the TPA are then described, followed by a discussion of the likely impact of the removal of the general exemption of statutory marketing arrangement activities in s. 51. Finally, the pros and cons of the statutory marketing arrangement

approach to primary product markets vis-a-vis regulation of anti-competitive conduct by, or specific exemption from, the restrictive trade practices provisions of the TPA are examined.

D1 Restrictive trade practices

Part IV of the Trade Practices Act regulates anti-competitive behaviour, with the objective of protecting competition and the market process. That is to say, the Trade Practices Commission (TPC 1987, p. 15) sees the objectives and priorities of Part IV of the TPA, to:

reflect not regulation for the sake of regulation, but pursuit of the benefits of competitive and ethical trading.

Conduct prohibited by the restrictive practices provisions of the TPA include: contracts or agreements which have the purpose or affect of lessening competition; predatory conduct by firms with a substantial degree of market power; exclusive dealing; resale price maintenance; and mergers which allow a firm to control or dominate a market for goods or services. Following is a brief outline of each of these prohibited practices.

Anti-competitive contracts, arrangements, or understandings

Section 45 prohibits horizontal arrangements between competitors which have the affect or purpose of lessening competition. This includes per se prohibition¹ of all price agreements. In addition, purposely hindering supplies to or from a party in order to lessen competition or damage a business (secondary boycotts), and collective refusals to deal with another party (primary boycotts), are prohibited per se under s. 45D and s. 45E, respectively.

Misuse of market power

Section 46 prevents a corporation with a substantial degree of market power, either as a supplier or consumer of a product, from using this power to threaten or damage

¹ Restrictive trade practices are prohibited per se under the TPA when there is no requirement to satisfy the lessening of competition test.

existing or potential competitors in any market. The provision covers predatory conduct designed to eliminate or damage a competitor, prevent entry of a possible competitor, or deter or prevent competitive behaviour.

As a first step toward the harmonisation of competition laws in Australia and New Zealand, s. 46A was added to the TPA this year to extend the operation of s. 46 to cover markets in New Zealand and joint Australia-New Zealand markets. Complementary legislation was enacted in New Zealand.

Anti-competitive exclusive dealing

Section 47 prohibits a supplier or buyer attempting to directly or indirectly interfere with the freedom of its respective buyers or suppliers to deal with whom they choose. Generally, exclusive dealing is only prohibited where such conduct has the purpose or effect of substantially lessening competition; except for third-line forcing which is prohibited per se.²

Resale price maintenance

Section 48 prohibits vertical supply arrangements designed to underpin price levels, except in the case of genuine recommended prices or loss-leader selling. A supplier cannot in any way fix a price for goods below which a reseller may not sell or advertise such products, for example by threatening or actually suspending supplies. This provision does not apply to the supply of services.

Anti-competitive price discrimination

According to section 49, a supplier must not price discriminate (for example, by differential price discounting) between purchasers of like products (that is, those at the same grade or quality), if a substantial lessening of competition is thereby caused, either from the magnitude of the price discrimination or the recurrence of

² Third-line forcing is supplying goods or services on condition that the purchaser will acquire other goods or services from another supplier, even a related company (TPC 1989b, p.5).

such behaviour. For the purposes of this section, the price charged includes consideration of all the terms of the supply agreement, such as the provision of associated services, extended credit, or rebates. This provision, however, recognises some valid reasons for price discrimination, such as discounting for large volumes and, as a result, has largely fallen into disuse.

Mergers

Mergers are prohibited by section 50 where the acquiring corporation would be in a position to dominate a market due to the merger, or where a corporation is already in such a position and an acquisition would substantially strengthen the power of the corporation to advance its domination of the market.

This provision has little application to statutory marketing arrangements although, as discussed below, it may be a significant influence on primary product markets overall.

Definition of a market

The 'lessening of competition' test for some of the above provisions and the mergers section raises the issue of market definition. The narrower this definition in the case of any particular product, the more likely that any restriction in the supply of that product will cause a 'lessening of competition' or place a firm in a position to dominate a market. Thus, the narrower the definition of the relevant market, the more likely that a breach of the TPA will be proved.

Generally, the courts have approached this area by considering, either explicitly or implicitly, cross-elasticities in supply and demand in the short to medium term -- that is, with capital investment assumed to be fixed and long-term shifts in demand in response to price changes ignored. Product and geographic markets are considered separately, with both usually interpreted narrowly from an economic point of view. That is, a high level of substitutability will generally have to be shown before two goods will be considered part of the same product market.

Similarly, a high level of penetration between regions will generally have to be shown before two regions will be considered part of the same geographic market. The functional level of the market (for example, wholesale or retail) is taken into account, as are the income effects of price changes and the relationship between complementary goods.

The impact of this approach on interpretations and applications of the TPA is best illustrated by some examples. Courts, and/or the TPC, have recently considered that separate markets exist in:

- fat cattle processing in northern Queensland; the court considering that competition from outside this geographic area was impractical and that feed-lot cattle and cattle sold for immediate slaughter constituted two separate product markets: 'economics is a study of human behaviour and to determine the boundary of a market, one had to consider what people do and what they are likely to do in the market -- in fact and not merely in economic theory';³
- daily metropolitan newspapers in Perth; in blocking acquisition of Perth's only afternoon daily newspaper, the TPC considered that there were separate product markets for daily newspaper news and daily newspaper advertising, despite the existence of weekend, national daily, and suburban newspapers, the potential for the emergence of specialist publications (such as weekly trader newspapers), and the availability of similar services in other media;⁴ and
- biscuits Australia-wide; this appears to be a more liberal approach to market definition, the Full Federal Court rejecting arguments that there are separate markets in different types of biscuits. This conclusion, however, was not reached by accepting a lower level of cross-elasticity of demand in determining the extent of a discrete market, but by taking into account other factors, such as industry perceptions of 'biscuits' as a class of foods and the presentation of biscuits in supermarkets.⁵

³ *Trade Practices Commission v. Australia Meat Holding Pty Ltd & Ors.*, (1988) ATPR 40-876.

⁴ Application for authorisation of the purchase of the Perth Daily News by West Australian Newspapers, 1990.

⁵ *Trade Practices Commission v. Arnotts Limited & Ors.*, (1990).

Penalties and remedies

Part VI of the TPA contains the sanctions and remedies for a contravention of any of the restrictive trade practices provisions of part IV.

Criminal proceedings cannot be instituted for a breach of part IV, although pecuniary penalties may be imposed. The maximum penalty is \$50 000 in the case of a person not being a body corporate, or \$250 000 in the case of a body corporate. The TPC has indicated that the present pecuniary penalties may be inadequate to deter large corporations from abusing positions of market power. New Zealand has recently increased the maximum penalty for major breaches of its competition law to \$NZ5 million, a sum the TPC considers far more realistic than the present penalties in Australia (TPC 1990a, p. 4).

Other remedies include injunctions, ancillary orders where the affected party suffers loss or damage (such an order may include: the return of property or money, rescission or variation of contracts, and provision of repairs or spare parts) and divestiture orders (divestiture of shares in relation to an unlawful merger).

Individuals and corporations, through private action, can seek a remedy from the Federal Court for a breach of one of part IV's restrictive trade practices. Remedies include damages, injunctive relief, ancillary orders and divestiture orders.

The Trade Practices Commission's 'pro-active' approach

The legal costs of running a court case are high and tie up resources for lengthy periods of time. By adopting a more pro-active role rather than the traditional law enforcement one, the TPC believes it can perform more effectively with industry by preventing breaches of the law rather than litigating after the event. This reduces the number of court proceedings and thereby the cost to taxpayers and businesses.

A pro-active approach involves industry-wide education and guidelines (for example, guidelines of acceptable conduct in relation to sections 46 and 50 of the TPA and a separate rural guideline for rural marketing groups), voluntary codes of conduct and selective litigation where necessary. The limited role of litigation in the interpretation of important provisions does, however, run the risk of a divergence of views between the TPC and the judiciary.

The TPC will also seek leave to intervene in proceedings brought under the TPA by private parties in appropriate circumstances. This is likely to occur in a case where the TPC feels an important legal issue is to be raised and/or the plaintiff has limited resources with which to continue proceedings.

D2 Statutory marketing arrangement exemptions from the Trade Practices Act

There are four categories by which otherwise prohibited restrictive activities currently conducted under statutory marketing arrangements can be either fully or partially exempt from part IV of the TPA. These are:

- through legislation -- conduct specifically endorsed by Commonwealth, State or Territory Acts, or by Regulations under such Acts, are exempt from the operation of part IV (including marketing orders in NSW, Queensland, and Victoria);
- regulation -- partial or complete exemption from some sections of the TPA can be granted through specific regulations under the TPA. The procedure is initiated by the requesting rural organisation for consideration by the Attorney-General before following an administrative path of set procedures and considerations;
- authorisation -- the TPC can grant authorisations to requesting organisations allowing them to engage in certain restrictive practices provided such behaviour is deemed beneficial (that is, the public benefit test is satisfied) prior to the practice being pursued; and
- notification -- exclusive dealing conduct when properly notified to the TPC allows the requesting organisation automatic interim protection from the operations of the general prohibition contained in s. 47. The protection can be revoked by the TPC if it is satisfied such conduct would not be in the public interest.

In addition to the above exemptions, there is a presumption that the Crown is not bound by legislation unless Parliament indicates, by express word or necessary implication, that it is intended to be bound. This immunity is often referred to as the 'shield of the Crown'. The Crown for these purposes includes the Crown in the right of a State or the Commonwealth, ministers of State, government departments in the performance of their public functions and some statutory authorities.

In accordance with a recommendation of the Swanson Committee, s. 2A was inserted by the 1977 TPA Amendment Act. The section subjects the Commonwealth and its agencies to the operation of the TPA in relation to the conduct of business dealings, but exempts the Commonwealth from prosecution under the Act. The Swanson Committee assumed that the Commonwealth could not similarly bind the Crown in right of a State, although this assumption is open to question⁶, as is the issue of whether the TPA would be interpreted as intended to bind the Crown in right of a State in the first instance.

Few primary product statutory marketing arrangements would be constituted, or would carry on 'Crown' activities, in such a way that they would enjoy shield of the Crown immunity. But as discussed below, the 'shield of the Crown' issue is relevant where the anti-competitive activity is effectively imposed by the State rather than the marketing authority, such as in the case of the creation of a statutory monopoly.

Exemption by legislation

Under s. 51(1) of the TPA, activities specifically authorised by Commonwealth, State or Territory legislation are automatically exempt from the restrictive trade practices of part IV. For example, statutory creation of a marketing organisation with specific licensing powers exempts the organisation's licensing activities from the TPA. This exemption was provided because of the range of statutory arrangements that predated the TPA, and to avoid conflict of laws, shield of the Crown and constitutional issues.

Marketing Orders. Marketing orders are legal instruments, usually issued by a minister or another delegated authority to establish and enforce practices or agreements for the marketing of a particular product of a particular region. They are currently used in NSW and Queensland (where they are called directions) and are available in Victoria. As a specific form of State regulation, marketing orders exempt activities authorised by them from the operation of the TPA under s. 51(1).

⁶ *Victoria v. The Commonwealth (Pay-roll Tax Case)*, (1969-70) 122 CLR 353.

Exemption by regulation

The Trade Practices (Primary Products Exemptions) Regulations have been created under section 172(2)(a) of the TPA to exempt certain activities of organisations or bodies which perform functions in relation to the marketing of primary products.

These regulations are available to exempt agreements of non-statutory bodies. Further, they exempt the restrictive activities of some statutory bodies where their enabling legislation does not specifically endorse those activities.

As a matter of policy, exemptions have been limited to anti-competitive agreements (s. 45 and 45B) and some exclusive dealing arrangements (s. 47). Section 172 regulations have a life of up to five years, but can be renewed.

In the past, such exemptions had been applied as a matter of discretion by the Commonwealth Government, usually where the activities significantly contributed to the marketing of primary products. An organisation or body would specifically request the grant of an exemption through the political process.

However, a change to the procedures and guidelines to handle section 172 exemptions was made in 1981. This change occurred as a result of the report prepared by the Trade Practices Consultative Committee (TPCC) in 1979⁷, and now requires applicants to apply to the Attorney-General for such exemptions. The Attorney-General's Department and the Department of Primary Industries and Energy then consider the application and prepare a joint report.

To be approved under the current guidelines, the activity must either promote stability in the production or marketing of primary products or enhance export marketing. The anti-competitive nature of the activity is also taken into account, so that income stability or export advantages are achieved with the least possible reduction in competition. After considering the views of any interested parties and

⁷ Trade Practices Consultative Committee, 1979, *Report to the Minister for Business and Consumer Affairs on the Operation of the Trade Practices Act in relation to Primary Production in Australia*, Canberra.

further examining the applicant, the joint report is then considered by the Attorney-General for approval. Consumer interests are taken into account only indirectly through this procedure; unlike exemptions by authorisation or notification where a public benefit test is applied.

The exemption by regulation procedure has not been used extensively. There have been only 12 such arrangements put in place since implementation of the TPA in 1974. Due to the five-year sunset clause included in the current guidelines for all such regulations, only three remain active, and then only until 1992 at the latest.

Exemption by authorisation

Exemption by authorisation under sections 88 to 91 can be granted by the TPC. The authorisation procedure recognises that some restrictive trade practices can provide net benefits to the community. Thus, to succeed, an authorisation application must satisfy a net public benefit test. Such authorisations can be granted to any industry without the need for a time limit to be set.

The authorisation procedure requires the organisation or body to make a submission to the TPC listing the likely public benefits to be gained from new marketing arrangements and any anti-competitive detriments. Authorisation is then considered through a public process where any interested party likely to be affected can submit information. At the completion of this process, a draft determination is issued. In the case of objections, a conference can be requested by the dissatisfied party to further discuss the issues before the final determination is made. The final determination is reviewable, on appeal, by the Trade Practices Tribunal and ultimately, the courts.

Presently, exemptions by authorisation are limited to: some anti-competitive agreements (s. 45); anti-competitive exclusive dealing arrangements (s. 47, including third-line forcing) and mergers resulting in market dominance (s. 50 and 50A). Authorisation is not granted for misuse of market power (s. 46); resale price

maintenance (s. 48); price discrimination (s. 49); or price agreements (s. 45A, except for genuine recommended price agreements involving no less than 50 parties). Authorisations have no time limit.

Since 1974, there have been 27 recorded applications for authorisation in the primary products sector. Sixteen of these have been successful while two are still under consideration. Some of these successful applications have, however, not been approved in full.

Exemption by Notification

Exclusive dealing conduct, except third-line forcing, may be notified to the TPC and remains protected until such time as the TPC determines whether or not such conduct is in the public interest, using the public benefit test. Since 1974, there have been four notifications in the primary products sector, all of which have been allowed to stand.

D3 Statutory marketing arrangement objectives and the Trade Practices Act

Chapter 2 outlined the more commonly stated objectives of statutory marketing arrangements and the numerous and overlapping measures that are used to achieve them. Many of these measures involve ‘anti-competitive’ practices.

As already outlined in this appendix, such anti-competitive practices authorised by Commonwealth, State and Territory legislation are exempted from the operation of the TPA under s. 51. Where anti-competitive conduct is not exempt through s. 51, specific regulation (s. 172(2)(a)), authorisation (s. 88 to 91) and notification (s. 93) procedures of the TPA can be used to exempt certain activities in order to fulfil an objective.

The following analysis considers how the objectives of statutory marketing arrangements are currently achieved, and the likely impact of removing the s. 51

exemption. That is, it examines the extent to which current statutory marketing arrangement activities prima facie are in breach of the restrictive trade practices provisions of the TPA; and to what extent such anti-competitive conduct can be exempted from the applications of the TPA through criteria allowed under ss. 172(2)(a), 88 to 91 or 93.

The more commonly stated objectives and the associated measures discussed in this section are set out in Box D1.

Box D1: Statutory Marketing Arrangement Objectives and Measures	
<u>Objective</u>	<u>Implementation Measure</u>
countervail market power of buyers	compulsory vesting compulsory acquisition marketing orders licensing, permits and quotas
price, production and income stabilisation	compulsory acquisition compulsory vesting pooling equalisation marketing orders minimum price setting licensing, permits and quotas
maximise returns from exports	compulsory acquisition compulsory vesting equalisation licensing exporters minimum price setting
market information and development	compulsory levies
economies of size	as for countervailing market power
quality controls and descriptive grade standards	compulsory vesting compulsory acquisition compulsory quality controls

The question of whether *vesting or acquisition powers* prima facie breach the TPA in the absence of s. 51 raises some difficult issues. These powers effectively create a

statutory monopoly supplier, at least in terms of the geographic area covered by the arrangements. Since the statutory monopoly is created by the State or Commonwealth Government, rather than the SMA, and since the State in right of the Crown is probably not subject to the TPA (see above), it is unlikely that the creation of such a monopoly could be subject to the anti-monopoly provisions of s. 50 of the TPA. The mere existence of a monopoly is not contrary to the TPA. Nor, generally, is the use of this monopoly power to advantage by the SMA in vertical dealings. As outlined above, the abuse of monopoly power provision (s. 46) regulates how a firm with monopoly power treats actual or potential competitors, rather than whether the monopolist takes advantage of its position in vertical dealings. The fact that the authority uses its monopoly power to drive a hard bargain with buyers would not be in breach of s. 46. Further, the use of vesting and acquisition powers could not be considered a horizontal agreement (under s. 45) since they are imposed compulsorily on producers. Even in the absence of s. 51 of the TPA therefore, if it was considered that statutory vesting and acquisition powers were effectively provided shield of the Crown, the exercise of these powers would be immune from the Act.

However, vesting and acquisition powers are often used to coerce producers to behave in a specified manner without the produce actually being acquired. For example, producers may be required to observe a minimum price with failure to oblige resulting in compulsory acquisition. The use of such powers to enforce other measures may be subject to the TPA, and these are discussed below.

Collusive conduct between primary producers is prohibited under s. 45 of the TPA. Most statutory marketing arrangements currently conduct activities which would, prima facie, breach this provision. Many of these are imposed compulsorily by the marketing authority and so would not fall within the ambit of s. 45 as discussed above. However, any marketing arrangements which involved any form of collusion with or between producers which had the purpose or effect of influencing commodity supplies or prices to the benefit of producers would constitute a contravention of this provision. Collusive minimum price agreements constitute a specific form of collusive conduct.

Non-price conduct can be authorised by the TPC while collusive conduct involving price agreements can be exempted under s. 172(2)(a) of the TPA.

Exclusive *dealing arrangements* imposed by state statute are similar to compulsory vesting and acquisition arrangements in that they require primary producers to sell exclusively to or through the statutory marketing arrangement, effectively creating a monopoly supplier. Again, it appears that such a specific statutory arrangement could not be made subject to the TPA.

On the other hand, exclusive dealing arrangements imposed by a marketing authority on its buyers would be in breach of s. 47, if it had the purpose or effect of substantially lessening competition.

Exclusive dealing activity can be authorised by the TPC. Regulation and notification procedures can also be used for such conduct, except in the case of third-line forcing.

Price discrimination between markets is common in statutory marketing arrangements. It can also occur wholly within Australia where there is geographic separation of markets, such as in the case of milk, or where some end products are less price sensitive than others. More common, however, is discrimination between domestic and overseas markets, such as in price equalisation arrangements.

According to s. 4E, the TPA applies only to practices that have an impact on an Australian market. Arrangements designed to underpin prices or restrict supplies to a foreign market would not, therefore, be in breach of the TPA. In the TPC's view, price discrimination contrary to s. 49 would have to occur between buyers in the same market to cause the required substantial lessening of competition. It might be argued, however, that an arrangement which, for example, subsidises export prices at the expense of domestic prices may involve a substantial reduction in competition in an Australian market, and thus a breach of s. 49.

Coercion applied by producers on buyers designed to maintain a certain price level on resale by the buyer (resale price maintenance) in breach of s. 48 is relatively rare, since primary produce is usually processed by the direct buyers, such as canneries. The provision may, however, have some application to sales of milk, fresh fruit and vegetables.

Except in the case of genuine recommended prices involving 50 or more parties, or loss-leader selling, resale price maintenance cannot be given any exemptions. Price discrimination, such as that occurring between the domestic and export market, cannot be exempted through any TPA provisions.

Licensing, permits and quotas are used by statutory marketing arrangements to control the availability of some primary products to achieve one or more of the objectives listed above. Where such measures are imposed compulsorily, they may breach s. 46 if it could be said that producers and the marketing authority were effectively competitors in any market. Otherwise, to the extent that producers participate willingly, these measures may breach the collusive dealing provision in s. 45. In both cases, whether the measures adopted constitute a breach of the TPA would depend upon whether they had an anti-competitive purpose or effect. This, in turn, would depend upon the aim of the measure. The implementation of quality controls or the raising of levies to fund the statutory marketing arrangement would probably not breach the TPA provisions. However, if the intention is to reduce competition between producers in order to underpin prices, then the measures may breach one or other of the two provisions.

The collection and distribution of market information may, on occasions, be conducted more efficiently by a single entity. In order to provide information to producers as well as eliminating any free rider problem, *compulsory levies* are acquired by the marketing organisation to finance this activity. Arrangements to help the flow of information are procompetitive, rather than anti-competitive, and so could not be said to cause a lessening of competition.

Similarly, market development, promotion and research are generally dependent on the available financial resources of the industry and its representative marketing authority. A common means for a marketing body to acquire financial support from its relevant producers is also through a compulsory levy system.

Such compulsory levies intended to fund statutory marketing arrangement activities have no anti-competitive implications and would probably not breach the TPA.

D4 The Trade Practices Act as an alternative

As discussed in Chapter 2, statutory marketing arrangements are often justified as an essential means of counteracting deficiencies in the markets for primary products. This section considers whether the regulation of restrictive trade practices might provide a more efficient means of resolution than the statutory marketing arrangement approach.

Two aspects of the way restrictive trade practices regulation is, or might be, applied to the rural sector are addressed here. First, on the assumption that the general statutory exemptions of statutory marketing arrangement activities under section 51 of the TPA would no longer apply, is the issue of whether the remaining means of exempting the practices of rural producers and their organisations are sufficient to overcome any peculiar disadvantages in the market-place. If not, are effective amendments available to solve the problems?

Second is the issue whether the TPA, either in its present or in amended form, can be an effective means of regulating one of the commonly alleged market deficiencies: abuses of market power by buyers of rural produce.

Protecting rural producers

The Rural Guideline

The current trend toward deregulation and its possible implications for the rural sector, in conjunction with the expiry of a number of specific rural sector exemptions, led to the 1989 TPC's publication of a 'Rural Guideline' (1989a, pp. 1, 3). The TPC's major concern was that many rural industries would be exposed to the restrictive trade provisions of the TPA for the first time. It was believed there was a need to provide the rural sector with information on the TPA and the opportunities available for reorganising rural marketing arrangements through authorisation provisions to take the place of formal regulation.

In July 1988, the TPC announced the formation of a consultative Rural Guideline Committee⁸ whose task was to provide expert advice to the TPC on any rural issues which should be considered for inclusion in the guideline. Following representations from producer groups and some buyers, a discussion paper was published in April 1989 requesting public comment. These comments were then taken into consideration by the Committee when advising the TPC on the content of the Rural Guideline.

The Guideline is in two parts. Part A is to be used as a guide for rural producers to inform them of the existing provisions of the TPA, and how and for what activities exemption through the authorisation procedure may be available. Examples from the Guideline of activities that could be granted authorisation include:

- an arrangement to allow a producer organisation to collect and disseminate price information on behalf of producers;
- an arrangement to allow a producer organisation to recommend a price for its members' produce -- provided there are 50 or more parties to it; and
- an agreement to allow a producer organisation to act as its members' agent for selling their produce.

Part B discusses proposed changes to the TPA to complement a more deregulated environment.

The TPC's recommended amendments

It has been suggested that the inability of the TPC to authorise activities dealing with price agreements between rural producers limits the usefulness of the authorisation provision. This point was raised by the guideline Committee which recommended an amendment be made to the TPA to allow the TPC to authorise price agreements (TPC 1989a, pp. 21-22). However, the TPC (1989a, p. 21) could not support such a recommendation:

⁸ The committee of seven comprised or representatives of the National farmers Federation , the Tasmania Framers and Graziers Association, the TPA (as co-ordinator), the Department of Primary Industries and Energy, and en economist from the University of Tasmania.

price agreements (including most recommended price agreements) are highly anti-competitive, encourage economic inefficiency and would herald a wholesale departure from the basic tenet of the Trade Practices Act.

The TPC instead recommended the introduction of a formal procedure for exempting primary producer price fixing agreements by a separate procedure. Such a procedure would be based on proving that a net public benefit would result from the anti-competitive behaviour proposed. Where such an application was successful, a licence would be granted to the applicant containing a maximum five-year sunset clause. The TPC is seeking to replace the current procedure under section 172(2)(a) with this procedure.

As outlined above, the general approach of the current law is to prohibit restrictive trade practices and allow exemptions on a net public benefit basis in recognition of the fact that such practices often provide increased efficiency. This raises the question of whether a more liberal restrictive trade practices regime may provide a more efficient alternative to the case-by-case exemption process. Indeed, it has been argued that, overall, the benefits of allowing restrictive trade practices are so high compared to the costs that there should be no across-the-board prohibition. Such arguments suggest, for example, that market power is often a transitory phenomenon which merely provides an appropriately high return to successful innovation and/or risk. According to this view, restricting such returns unduly dampens incentives to undertake innovation and/or risk, leading to an undesirably low level of such activity.⁹

Regulating buyers

Several of the TPA provisions discussed above are also relevant to the conduct of buyers of rural produce. Section 45 regulates collusive dealings between buyers for the purpose of, for example, setting prices or concluding market sharing agreements. Section 46 regulates abuses of market power designed to reduce competition among buyers. Section 47 might also be relevant to the extent that exclusive dealing requirements are currently imposed upon rural producers by downstream users.

⁹ For example: Robert Bork, *The Anti-trust Paradox – A Policy at War with Itself*, Basic Books, 1987; David Haarmeyer, *Submission to the Economic Development Commission to the Department of Trade and Industry on the Review of the Commerce Act*, Wellington, October 1988.

Further, s. 49, which concerns price discrimination, might be extended to cover the prices that buyers offer sellers. There is also a proposal to extend the application of s. 52A of the TPA (relating to unconscionable conduct in contracts with consumers for the supply of goods and services) to provide protection to small business generally, including small farming concerns.

As discussed above, exemption procedures would be available for many such breaches of the TPA. However, buyers of rural produce would generally find it more difficult to satisfy the current public benefit test.

Finally, the discussion in this section concentrates on the role of the TPA in markets typified by a large number of sellers and a small number of buyers. It should be noted, however, that s. 50 has already been applied to prevent the accumulation of market power by mergers in the meat processing industry and so is generally relevant to primary product markets.¹⁰ In that case, the TPC opposed the takeover of Thomas Borthwick & Sons by Elders subsidiary Australian Meat Holdings. The TPC argued that the acquisition would put AMH in a position to dominate the North Queensland fat cattle market. In 1989, the Full Federal Court upheld the TPC view and ordered that AMH either dispose of its shares in Borthwick or dispose of two key Borthwick's abattoirs at Bowen and Mackay.

Section 45 -- collusive dealing

As discussed above, s. 45 regulates contracts, arrangements or understandings between competitors in a market which are designed to reduce competition in that market. This section would provide the primary means under the TPA of combating collusive dealings and cartelisation in the case of markets where there are only a small number of buyers. Any collusion between buyers of primary products which was intended to, or had the effect of, reducing competition between those buyers in dealings with primary producers -- for example, to reduce prices -- would contravene this provision.

¹⁰ *Trade Practices Commission v. Australia Meat Holdings Ltd & Ors*, (1988) ATPR 40-876.

Section 46 -- misuse of market power

The essence of section 46 is to prohibit a corporation with a substantial degree of market power in a market, to take advantage of that power in any market to:

- eliminate or substantially damage a competitor in that or another market;
- prevent the entry of a person into that or another market; or
- deter or prevent competitive behaviour in that or another market.

In order to prove a breach of this section, it is necessary to establish that:

- a buyer has a substantial degree of power in a market; and
- the buyer took advantage of that power for a proscribed purpose

Substantial degree of power in a market. A buyer 'takes advantage' of its market power by acting in a manner not commercially prudent or feasible if it was competitively constrained. That is, taking advantage of market power will be proved if such behaviour is inconsistent with the behaviour that could or would be possible in a competitive market.

Damaging or harsh dealings initiated by a large buyer may not necessarily imply a misuse of its market power. The difficult question for alleged abuse of market power is to distinguish between vigorous competitive conduct and that which has the purpose of damaging a competitor.

Taking advantage of market power for a proscribed purpose. To take advantage of market power for a proscribed purpose implies that a buyer deliberately set out to damage a competitor (not just any business to whom the corporation deals) or to interfere with the competitive process. The relevant question is: would the corporation have behaved differently if it were operating in a competitive market, that is, was its conduct made possible only by the absence of competitive conditions? A proscribed purpose may be inferred in the absence of a sound business justification for the questionable conduct. Further, there is no need to show that the market power was used in some reprehensible way; merely that there was an intention to undermine the competitive process.¹¹

¹¹ *Queensland Wire Industries P/L v BHP Ltd*, 1989 ATPR 40-45.

Difficulty arises in proving the anti-competitive purpose (the proscribed purpose) of the larger firm's behaviour.

Often conduct by large buyers which has resulted in commercial loss or damage to other businesses has been determined as not in breach of the TPA but a reflection of the workings of the competitive process. A recent case¹² defined competition by its very nature as being 'extremely vigorous and ruthless'. Thus harsh and damaging conduct in most instances is typical of the characteristics of the competitive process.

Vertical Relationships. Another problem perceived with the application of section 46 to primary product markets is that its focus is on the relationship between competitors rather than vertical relationships. There is thus only limited scope for action against buyers abusing their monopsony power under section 46.

Agribusiness. One area where section 46 may have particular application to primary product markets is in the case of downstream processors with market power who have vertically integrated into the primary produce sector. Such an organisation using its market power in the processing sector to, for example, engage in predatory conduct against competing primary producers would probably be in breach of section 46. In the Queensland Wire Industries case (QWI), for example, QWI succeeded in an action against BHP for refusal to supply Y-bar for the production of fence posts. BHP wanted to protect the advantage enjoyed by its subsidiary in the supply of that product. The same principle would extend to, for example, a cannery which enjoyed a substantial degree of market power and offered far more favourable terms to an associated primary producing firm in an effort to undermine competition in that primary product sector.

Section 47 -- exclusive dealing

As outlined above, s. 47 prohibits a buyer attempting to directly or indirectly interfere with the freedom of producers to deal with third parties, where this has the purpose or effect of substantially lessening competition. It is, however, uncertain as to the extent to which this is currently common practice in the industry.

¹² op.cit.

Section 49 -- price discrimination

The TPA's prohibition of price discrimination currently applies only to the terms that sellers offer buyers. To the extent to which price discrimination is currently a significant problem in primary product markets, consideration could be given to extending section 49 to prevent buyers from offering substantially lower prices to some producers than others. However, such an amendment may be largely ineffective for the same reasons (discussed above) that section 49 has already largely fallen into disuse.

Unconscionable conduct

Section 52A of Part V of the TPA covers 'unconscionable' conduct by suppliers in their dealings with consumers, particularly the misuse of any significant disparity in bargaining power between them.

Presently, s. 52A only covers consumer transactions. Extension of this provision to cover business transactions has been mooted as a means of 'protection' for small businesses experiencing harsh practices in their dealings with larger corporations which may or may not involve injury to competition.

The Swanson Committee¹³ first recommended an extension to s. 52A of the TPA to cover commercial transactions in 1976 (TPC 1990b, p. 2). Their recommendation was based on the assessment 'that there was a need to give the TPA greater ability to deal with the general disparity of bargaining power between buyers and sellers'.

The same concerns regarding, specifically, the disparity of bargaining power between rural producers and buyers were expressed in the TPC's Rural Guideline. The Consultative Rural Guideline Committee, in their discussion paper, suggested that unfair tactics are often used by buyers, giving producers no choice but to accept unsatisfactory prices or contract terms for the supply of their produce.

Although the TPA does not define 'unconscionable', section 52A(2) does prescribe five criteria which the court may have regard to determine whether certain conduct

¹³ Trade Practices Act Review Committee: *Report to the Minister for business and Consumer Affairs*, August 1976 (AGPs, Canberra).

is considered to be unconscionable. Two of these criteria are relevant to commercial transactions:

- the relative strengths of the bargaining positions of the parties; and
- whether any undue influence or pressure was extended on, or any unfair tactics were used against, one party by the other.

The Committee suggested that where unsatisfactory price or contract terms for supply occurred through unfair tactics (for example, buyers delaying negotiations to take advantage of planting or harvesting times) the above criteria may overcome such problems.

The proposal to extend section 52A to commercial dealings is still alive although there is considerable opposition. While it may solve some failures in the market in relation to small business dealings (especially in the case of family enterprises), it would also probably involve considerable costs for all commercial contracts because of increases in the uncertainty of business dealings.

APPENDIX E: OBJECTIVES AND POWERS OF STATUTORY MARKETING AUTHORITIES

This appendix tabulates information about the objectives and powers of statutory marketing authorities (SMAs). It includes information about Authorities, Corporations, Boards and Committees.

It is based mainly on information provided by Authorities, Governments and inquiry participants. Because there are differing perceptions of what characterises an SMA, the coverage of the table is uneven from State to State.

Where available, the Commission has examined relevant statutes, annual reports and so on, to elucidate the objectives and powers of SMAs. Judgment has been required to fit the specific objectives and powers of individual SMAs into the particular categorisations given in the tables.

Eight objectives are listed in the tables:

- increase/maximise producer returns;
- countervail domestic market power;
- maximise export returns;
- stabilise prices, production or incomes;
- undertake promotion, market research;
- provide information;
- control quality, set standards; and
- other -- this includes consumer oriented objectives, economies of size and scope and undertaking basic research.

Sixteen powers are listed in the tables. An SMA may possess powers which it does not use, so the fact that a power is listed in the table for a particular SMA does not necessarily imply that the authority currently uses that power. The powers listed are:

-
- vest produce;
 - compulsorily acquire produce (for sale);
 - set prices;
 - pool producer returns;
 - equalise producer returns;
 - regulate exports (export licensing, other including single-desk selling);
 - license producers, buyers, sellers, others (distributors, processors, packers);
 - control production levels;
 - implement levies, collect fees;
 - conduct promotion, market research and development;
 - provide market information;
 - provide transport, storage, handling services;
 - set standards, monitor quality;
 - process product;
 - trade product; and
 - other.

The table also indicates whether borrowings are guaranteed by government.

Table E1: Commonwealth

Objectives and Powers	Australian Dairy Corporation	Australian Dried Fruits Corporation* [3]	Australian Honey Board	Australian Horticultural Corporation	Australian Meat and Livestock Corporation	Australian Pork Corporation	Australian Tobacco Marketing Committee	Marketing Advisory [10]*	Australian Wheat Board	Australian Wine and Brandy Corporation	Australian Wool Corporation
COMMODITY GROUP:	Dairy	Horticulture	Other	Horticulture	Meat	Meat	Tobacco		Grains	Wine/brandy	Wool
OBJECTIVES:											
Increase/maximise producer returns	yes	yes	yes	yes	yes	yes			yes		yes
Countervail domestic market power											
Maximise export returns	yes	yes	yes	yes	yes	yes			yes	yes	yes
Stabilise prices, production or Incomes	yes	yes		yes			yes				yes
Undertake promotion, market research	yes	yes	yes	yes	yes	yes			yes	yes	yes
Provide information	yes	yes		yes					yes		yes
Control quality, set standards	yes	yes	yes	yes	yes	yes	yes [11]		yes	yes	yes
Other	[1]	[4]			research, consumer		[12]				research
POWERS TO:											
Vest produce											
Compulsorily acquire produce											
Set prices		yes [5]	yes [5]	yes [5]			[11]				yes [14]
Pool producer returns		yes							yes		
Equalise producer returns		yes									
Regulate exports (export licensing, other)	yes	yes [6]	yes	yes [8]	yes				yes	yes	
License producers, buyers, sellers, others		yes [7]									yes [14]
Control production levels							yes [11]				
Implement levies, collect fees		yes [5]	yes	yes	yes	yes			yes	yes	yes
Conduct promotion, market research, development	yes	yes	yes	yes	yes	yes			yes	yes	yes
Provide market information	yes	yes	yes	yes	yes	yes [9]				yes	yes
Provide transport, storage, handling services	yes										yes
Set standards, monitor quality	yes	yes	yes	yes	yes		yes [11]		[13]	yes	yes
Process product											
Trade product	yes			yes [5]					yes		yes [14]
Other	[2]										[15]
GOVERNMENT GUARANTEE OF BORROWINGS									yes		yes[16]

*authority with major charge pending

Notes to Table E1: Commonwealth

- [1] The Australian Dairy corporation's Market Support Scheme subsidises exports via a levy on domestic production.
- [2] The Australian Dairy Corporation undertakes export sales to certain markets on behalf of Industry (currently cheese to the EC, Japan).
- [3] From 1 July 1991 the Australian dried Fruits Board will replace the Australian Dried Fruits Corporation (continuing the Corporation's activities under the Australian Horticultural Corporation's umbrella).
- [4] Prior to the 1991 season the Australian Dried Fruits Corporation had administered an equalisation and export underwriting scheme. There is not no linkage between domestic and export returns.
- [5] Applicable to exports only.
- [6] The Australian Dried Fruits Corporation determines annual export levels to individual countries.
- [7] According tot he Australian Dried Fruits Corporation, It "...administers the appointment of overseas agents, buyers, representatives".
- [8] The Australian Horticultural Corporation can set restrictions or conditions on export licenses with respect to price, quality, packaging, form of consignment, commissions/fees, carriage or Insurance.
- [9] The Australian Pork Corporation provides Information on International trade to exports.
- [10] The Australian Tobacco Marketing Advisory Committee: formerly the Australian Tobacco Board.
- [11] The Tobacco Marketing Advisory Committee advises on changes to tobacco quota (aggregate and State shares) and the price/grade schedule.
- [12] The Tobacco Marketing Advisory Committee administers an Industry stabilisation scheme. Established by joint State/Federal legislation.
- [13] The Australian Wheat Board sets receival standards for it's own grain exports.
- [14] The Wool Marketing (Temporary Provisions) Amendment Bill 1991 suspends the Wool Corporation's Reserve Price scheme (In particular the power to buy wool) until a date to be proclaimed.
- [15] Section 141 under the Amendment Act provides for the Government, with Ministerial approval, to pay up to an aggregate \$300m into the market support fund for payments to woolgrowers.
- [16] Temporary Provisions under the Amendment Act gives the Minister the power to issue written guidelines governing borrowings.

Table E1: Commonwealth

Objectives and Powers	Banana Industry Committee	Barley Marketing Board [1] *	Central Cost (NSW) Citrus Marketing Board	Chicken Meat Industry Committee	Dairy Corporation of NSW	Dried Fruits Board of NSW	Fish Marketing Authority	Grain Sorghum Marketing Board [1]*
COMMODITY GROUP:	Horticulture	Grains	Horticulture	Broller	Dairy	Horticulture	Fish	Grains
OBJECTIVES:								
Increase/maximise producer returns		yes		yes	yes		yes	yes
Countervail domestic market power								
Maximise export returns		yes						yes
Stabilise prices, production or Incomes	yes	yes		yes	yes		yes	
Undertake promotion, market research		yes	yes			yes	yes	yes
Provide information			yes		yes	yes		
Control quality, set standards	yes	yes			yes	yes		yes
Other	consumer				research, consumer	encourage development	research	
POWERS TO:								
Vest produce		yes	yes [6]		yes			yes
Compulsorily acquire produce		yes [2]						[11]
Set prices			yes [7]	yes	yes			
Pool producer returns		yes [3]						
Equalise producer returns								
Regulate exports (export licensing, other)								
License producers, buyers, sellers, others		yes [4]		yes	yes	yes	yes	yes
Control production levels					yes			
Implement levies, collect fees	yes	yes [5]	yes	yes		yes	yes	yes
Conduct promotion, market research, development		yes	yes		[8]		yes	
Provide market information			yes		yes		yes	yes
Provide transport, storage, handling services	yes	yes					yes	
Set standards, monitor quality		yes			yes	yes		yes
Process product					yes [9]			
Trade product								
Other							[10]	
GOVERNMENT GUARANTEE OF BORROWINGS								
*authority with major charge pending								

Table E2: New South Wales

Objectives and Powers	Kiwi Fruit Marketing Committee	Meat Industry Authority (NSW)	Milk Marketing (NSW) P/L [12]	Murray Valley Citrus Marketing Board (also Vic)	Murrumbidges Irrigation Area Citrus Fruit Marketing Order	Murrumbiges Irrigation Area Citrus Fruit Promotion Marketing Order	NSW Grain Coporation Ltd (Graincorp)
COMMODITY GROUP:	Horticulture	Meat	Dairy	Horticulture	Horticulture	Horticulture	Grains
OBJECTIVES:							
Increase/maximise producer returns				yes			
Countervail domestic market power					yes		
Maximise export returns				yes			
Stabilise prices, production or Incomes					yes		
Undertake promotion, market research	yes	yes	yes	yes		yes	
Provide information				yes		yes	
Control quality, set standards		yes		yes			
Other		research		research			service
POWERS TO:							
Vest produce							
Compulsorily acquire produce							
Set prices				yes [14]			
Pool producer returns							
Equalise producer returns							
Regulate exports (export licensing, other)							
License producers, buyers, sellers, others		yes		yes			
Control production levels							
Implement levies, collect fees	yes	yes		yes		yes	
Conduct promotion, market research, development	yes	yes	yes	yes		yes	
Provide market information		yes	yes	yes [15]			
Provide transport, storage, handling services							yes
Set standards, monitor quality	yes	yes		yes [16]		yes	yes
Process product				yes [17]			
Trade product							
Other	marketing order		[13]		marketing order	marketing order	
GOVERNMENT GUARANTEE OF BORROWINGS							

*authority with major charge pending

Table E2: New South Wales

Objectives and Powers	Oats Marketing Board [1]*	Oilseeds Marketing Board [1]*	Processing Tomato Marketing Committee	Rice Marketing Board	Sydney Market Authority	Tobacco Leaf Marketing Board	Wine Grape Processing Industry Negotiating Committee	Wine Grapes Marketing Board
COMMODITY GROUP:	Grains	Grains	Vegetable	Rice	Other	Tobacco	Wine Grapes	Wine grapes
OBJECTIVES:								
Increase/maximise producer returns			yes	yes		yes	yes	Yes
Countervail domestic market power			yes				yes	Yes
Maximise export returns	yes	yes		yes				
Stabilise prices, production or Incomes		yes	yes			yes	yes	Yes
Undertake promotion, market research				yes	yes [22]			Yes
Provide information								Yes
Control quality, set standards	yes			yes				
Other			negotiation				negotiation	Negotiation
POWERS TO:								
Vest produce	yes	yes		yes		yes		Yes
Compulsorily acquire produce	[11]	[11]		yes [19]		yes		Yes
Set prices		yes	yes	yes		[24]	yes	Yes
Pool producer returns	yes [18]	yes [18]						
Equalise producer returns								Yes [25]
Regulate exports (export licensing, other)						yes		
License producers, buyers, sellers, others	yes	yes		[20]		[24]		
Control production levels								
Implement levies, collect fees	yes	yes		yes	yes			yes
Conduct promotion, market research, development				yes	yes [22]			yes
Provide market information				yes				
Provide transport, storage, handling services				yes [21]	yes	yes		
Set standards, monitor quality	yes			yes		[24]		
Process product				yes				yes
Trade product				yes				
Other			marketing order		[23]		marketing order	
GOVERNMENT GUARANTEE OF BORROWINGS								
*authority with major charge pending								

Notes to Table E2: New South Wales

- [1] It has been proposed that a new NSW Grains Board replace the Barley, Grain Sorghum, Oats and Oilseeds Boards as of 1/7/1991.
- [2] The NSW Barley Marketing Board acquires malting barley.
- [3] Producer can deliver to the NSW Barley Board's pool or sell for cash. Pooling may result in equalisation of export/domestic returns.
- [4] Under the NSW Barley Board's exemption system, producers must sell to licensed buyers.
- [5] Where the NSW Barley Board has allowed maltsters to contract directly with producers, a \$1/ tonne administrative levy has been charged.
- [6] Citrus, except lemons, is vested in the Central Cost (NSW) Citrus Marketing Board (and divested on payment of a levy).
- [7] Although the Central Cost (NSW) Citrus Marketing Board has the power to set minimum prices, this is ineffective. The Board claims to negotiate with processors.
- [8] Market research and promotion is carried out by Milk Marketing (NSW) P/L for the NSW Dairy Corporation.
- [9] While the NSW Dairy Corporation has this power under the Dairy Industry Act 1979, it does not appear to be unused.
- [10] The Fish Marketing Dairy Corporation has a monopoly of fish and crustacea markets for Country of Cumberland (metropolitan Sydney).
- [11] Board divests product on payment of a levy (permit/licensed trade).
- [12] Milk Marketing (NSW) P/L: formerly the Dairy Promotions Council.
- [13] Milk Marketing (NSW) P/L is responsible to the Minister and the NSW Dairy Industry Conference for policy and performance.
- [14] Murray Valley Citrus Marketing Board sets a minimum price for processing and a recommended retail price for wholesale citrus.
- [15] The Murray Valley Citrus Marketing Board recommends a price for fresh fruit (adjusted weekly or as necessary).
- [16] With the approval of both the NSW and Victorian Ministers, the Murray Valley Citrus Marketing board has the power to process citrus.
- [17] According to the Murray Valley Citrus Marketing Board the power to trade is not currently used.
- [18] Producers deliver to the Board's pool or, if exempted, to licensed buyers.
- [19] All rice is delivered to Rice Marketing Board, unless exempted. The Board then divests to the Rice Growers Cooperative.
- [20] The Rice Growers Cooperative is the NSW Rice Marketing Board's sole agent. The Cooperative processes and markets all rice on behalf of the Board.
- [21] The Rice Marketing Board receives all rice at Board owned storage facilities.
- [22] The Sydney Market Authority performs generic promotion for fruit and vegetables.
- [23] The Sydney Market Authority has a monopoly of wholesale public markets in the Country of Cumberland (Sydney metropolitan area).
- [24] Power conferred on the Australian Tobacco Marketing Advisory Committee by the State act (joint Federal/State stabilisation scheme).
- [25] The Wine Grapes Marketing Board has the discretionary power to equalise between grape varieties. The board has not used this power.

Table E3: Victoria

Objectives and Powers	Australian Barley Board (also SA)	Egg Industry Licensing Committee	Egg Marketing Board	Egg Prices Review Panel	Grain Elevators Board	Melbourne Wholesales Fruit and Vegetable Market Trust	Murray Valley Citrus Marketing Board (also NSW)
COMMODITY GROUP:	Grains	Eggs	Eggs	Eggs	Grains	Other	Horticulture
OBJECTIVES:							
Increase/maximise producer returns	yes	yes					yes
Countervail domestic market power							
Maximise export returns							yes
Stabilise prices, production or incomes		yes	yes	yes			
Undertake promotion, market research			yes				yes
Provide information			yes				
Control quality, set standards	yes		yes				yes
Other			research, consumers		services, research	services	research
POWERS TO:							
Vest produce			yes				
Compulsorily acquire produce	yes						
Set prices	yes		yes	yes [12]			yes [5]
Pool producer returns	yes						
Equalise producer returns	yes						
Regulate exports (export licensing, other)	yes						
License producers, buyers, sellers, others		yes	yes				yes
Control production levels		yes	yes				
Implement levies, collect fees		yes	yes			yes	yes
Conduct promotion, market research, development			yes			yes	yes
Provide market information			yes				yes [6]
Provide transport, storage, handling services					yes	yes	yes
Set standards, monitor quality	yes		yes		yes		yes
Process product			yes				yes [7]
Trade product			yes			yes [3]	yes [8]
Other						[4]	
GOVERNMENT GUARANTEE OF BORROWINGS	yes [1]						

*authority with major charge pending

Table E3: Victoria

Objectives and Powers	Tobacco Leaf Marketing Board	Tomato Processing Industry Negotiating Committee	Victorian Broiler Industry Negotiation Committee	Victorian Dairy Industry Authority	Victorian Dried Fruits Board	Western Metropolitan Market Trust [11]*	Wine Grapes Industry Negotiating Committee
COMMODITY GROUP:							
OBJECTIVES:							
Increase/maximise producer returns	yes			yes			
Countervail domestic market power		yes	yes				yes
Maximise export returns							
Stabilise prices, production or Incomes	yes	yes	yes	yes			yes
Undertake promotion, market research				yes			
Provide information							yes
Control quality, set standards				yes	yes		
Other		negotiation	negotiation	research, consumer	dispute	service	negotiation
POWERS TO:							
Vest produce	yes			yes			
Compulsorily acquire produce	yes						
Set prices	[9]	yes	yes	yes			[12]
Pool producer returns				yes			
Equalise producer returns				yes			
Regulate exports (export licensing, other)							
License producers, buyers, sellers, others	yes	yes		yes	yes		
Control production levels	[9]						
Implement levies, collect fees	yes			yes	yes	yes	
Conduct promotion, market research, development				yes			
Provide market information				yes			yes
Provide transport, storage, handling services	yes			yes		yes	
Set standards, monitor quality	[9]			yes	yes		
Process product				yes			
Trade product				yes			
Other							
GOVERNMENT GUARANTEE OF BORROWINGS				yes [10]			

*authority with major charge pending

Notes to Table E3: Victoria

- [1] SA Government guarantees the Australian Barley Board's Borrowings to a maximum of \$220 million.
- [2] The Egg Prices Review Panel arbitrates egg price determinations referred to it by the Egg Board. It may also review egg prices and make independent egg price determinations.
- [3] The Melbourne Wholesale Fruit and Vegetable Market Trust has the power to trade with, or on behalf of, producers but does not currently use this power.
- [4] The Melbourne Wholesale Fruit and Vegetable Market Trust has a monopoly on fresh fruit and vegetable wholesaling within 50k of Melbourne.
- [5] Murray Valley Citrus Marketing Board sets a minimum price for processing and a recommended retail price for wholesale citrus.
- [6] The Murray Valley Citrus Marketing Board recommends a price for fresh fruit (adjusted weekly or as necessary).
- [7] With the approval of both the NSW and Victorian Ministers, the Murray Valley Citrus Marketing board has the power to process citrus.
- [8] According to the Murray Valley Citrus Marketing Board the power to trade is not currently used.
- [9] Power conferred on the Australian Tobacco Marketing Advisory Committee by the State act (joint Federal/State stabilisation scheme).
- [10] Victorian Government guarantees the borrowings of the Dairy Industry Authority [Dairy Industry Act 1984 s20(3)].
- [11] Public Bodies Review Committee recommended that the Western Metropolitan Market Trust be wound up.
- [12] The Wine Grape Industry Negotiating Committee recommends indicator prices but does not have price setting powers. It also fixes terms and conditions of payment.

Table E4: Queensland

Objectives and Powers	Atherton Table and Malze Marketing Board *	Barley Marketing Board (Qld)8	Bread Industry Authority	Brisbane Market Trust	Cannery Board (Golden Circle Cannery)	Central Queensland Egg Marketing Board	Central Qld Grain Sorghum Marketing Board *
COMMODITY GROUP:	Grains	Grains	Other	Horticulture	Horticulture	Eggs	Grains
OBJECTIVES:							
Increase/maximise producer returns	yes	yes			yes	yes	yes
Countervail domestic market power			[1]				
Maximise export returns	yes	yes			yes		yes
Stabilise prices, production or Incomes	yes	yes	yes			yes	yes
Undertake promotion, market research	yes	yes		yes	yes	yes	yes
Provide information							
Control quality, set standards	yes	yes			yes	yes	yes
Other	research	research	negotiation, consumer	services			research
POWERS TO:							
Vest produce		yes					
Compulsorily acquire produce	yes	yes				yes	yes
Set prices		yes	yes [2]			yes	
Pool producer returns	yes	yes			yes		yes
Equalise producer returns	yes	yes				yes	yes
Regulate exports (export licensing, other)							
License producers, buyers, sellers, others				yes		yes [3]	
Control production levels							
Implement levies, collect fees		yes	yes [2]	yes		yes	yes
Conduct promotion, market research, development	yes	yes		yes	yes	yes	yes
Provide market information	yes	yes		yes		yes	yes
Provide transport, storage, handling services	yes	yes		yes	yes	yes	yes
Set standards, monitor quality	yes	yes			yes	yes	yes
Process product	yes				yes	yes	
Trade product					yes		
Other							
GOVERNMENT GUARANTEE OF BORROWINGS							

*authority with major charge pending

Table E4: Queensland

Objectives and Powers	Central Sugar Cane Prices Board [4]	Chicken Meat Industry Committee	Committee of Direction of Fruit Marketing [5]	Council of Agriculture	Egg Marketing Board (Sunny Queen Eggs)	Hen Quota Committee	Livestock and Meat Authority of Queensland*
COMMODITY GROUP:	Sugar	Broiler	Horticulture	Other	Eggs	Eggs	Meat
OBJECTIVES:							
Increase/maximise producer returns	yes		yes		yes	yes	
Countervail domestic market power							
Maximise export returns			yes		yes		
Stabilise prices, production or Incomes	yes	yes	yes		yes	yes	
Undertake promotion, market research			yes		yes		yes
Provide information				yes			yes
Control quality, set standards			yes		yes		yes
Other	negotiation	negotiation	research negotiation, policy	policy, services	research		research, services [10]
POWERS TO:							
Vest produce					yes		
Compulsorily acquire produce			[6]		yes		
Set prices	yes	yes	yes [7]		yes [9]		
Pool producer returns							
Equalise producer returns					yes		
Regulate exports (export licensing, other)							
License producers, buyers, sellers, others	yes				yes	yes	yes
Control production levels	yes					yes	
Implement levies, collect fees	yes	yes	yes		yes	yes	
Conduct promotion, market research, development			yes	yes	yes		yes
Provide market information			yes	yes	yes		yes
Provide transport, storage, handling services			yes		yes		yes
Set standards, monitor quality			yes		yes		yes
Process product					yes		yes
Trade product			yes				yes [12]
Other			[8]				
GOVERNMENT GUARANTEE OF BORROWINGS							

*authority with major charge pending

Table E4: Queensland

Objectives and Powers	Milk Pasteurisation Tribunal	Navy Bean Marketing Board	Peanut Marketing Board (PMB Australia)	Queensland Dairy Industry Authority	Queensland Fish Management Authority	Queensland Grain Handling Authority * (Bulk Grains Qld)	Rice Marketing Board
COMMODITY GROUP:	Dairy	Vegetables	Other	Dairy	Fish	Grains	Rice
OBJECTIVES:							
Increase/maximise producer returns		yes	yes	yes			yes
Countervail domestic market power							
Maximise export returns		yes	yes				yes
Stabilise prices, production or Incomes	yes	yes	yes	yes	yes		yes
Undertake promotion, market research		yes	yes	yes	yes		yes
Provide information							
Control quality, set standards		yes	yes	yes	yes		yes
Other		research	research	consumer	manage resources	services	research
POWERS TO:							
Vest produce			yes [14]				
Compulsorily acquire produce		yes	yes [14]	yes			yes
Set prices				yes			
Pool producer returns		yes	yes				yes
Equalise producer returns		yes	yes				yes [15]
Regulate exports (export licensing, other)							
License producers, buyers, sellers, others	yes			yes	yes		
Control production levels				yes			
Implement levies, collect fees		yes	yes	yes	yes		yes
Conduct promotion, market research, development		yes	yes	yes	yes		yes
Provide market information		yes	yes	yes			yes
Provide transport, storage, handling services		yes	yes			yes	yes [13]
Set standards, monitor quality		yes	yes		yes	yes	yes
Process product		yes [13]	yes [13]				yes [13]
Trade product			yes				
Other							
GOVERNMENT GUARANTEE OF BORROWINGS							
*authority with major charge pending							

Table E4: Queensland

Objectives and Powers	Rice Quota Committee	State Wheat Board* (Qld Grains)	Sugar Board*	Tobacco Leaf Marketing Board	Tobacco Quota Committee	Wheat Varieties Advisory Committee
COMMODITY GROUP:	Rice	Grains	Sugar	Tobacco	Tobacco	Grains
OBJECTIVES:						
Increase/maximise producer returns	yes	yes	yes	yes	yes	
Countervail domestic market power						
Maximise export returns			yes [18]			
Stabilise prices, production or incomes	yes	yes	yes	yes	yes	
Undertake promotion, market research		[16]	yes			
Provide information						yes
Control quality, set standards		yes	yes	yes [20]		yes
Other		research	research			
POWERS TO:						
Vest produce		yes	yes [19]	yes		
Compulsorily acquire produce		yes	yes [19]	yes		
Set prices				[20]		[22]
Pool producer returns			yes			
Equalise producer returns			yes			
Regulate exports (export licensing, other)			[18]			
License producers, buyers, sellers, others	yes	yes	yes		yes	
Control production levels	yes				yes [20], [21]	
Implement levies, collect fees		yes	yes	yes		
Conduct promotion, market research, development		[16]	yes	yes		
Provide market information		yes		yes		yes
Provide transport, storage, handling services		yes	yes	yes		
Set standards, monitor quality		yes	yes	[20]		yes
Process product						
Trade product						
Other		[17]				
GOVERNMENT GUARANTEE OF BORROWINGS						
*authority with major charge pending						

Notes to Table E4: Queensland

- [1] An objective of the Bread Industry Authority is to ensure bread manufacturers receives a 'fair return'.
- [2] The Bread Industry Authority sets a minimum wholesale and maximum retail price.
- [3] The Central Queensland Grain Sorghum Marketing Boards as well as the Central Sugar Cane Prices Board.
- [4] Arrangement includes Local Sugar Cane Price Boards as well as the Central Sugar Cane Prices board.
- [5] Committee of Direction includes Banana, Citrus, Deciduous, Other fruit, Pineapple and Vegetable sectional sub-groups.
- [6] The Committee of Direction issues directions on the handling/marketing of fruit and vegetables. While it can direct fruit and vegetables be sold through COD, this power has not been used.
- [7] The Committee of Direction will appoint a processor as it's agent once a contract has been agreed between the Committee (cor producers) and the processors.
- [8] The Committee of Direction can direct the marketing of all produce marketed in Queensland, as well as Queensland produce sent inter-state.
- [9] South Queensland Egg Marketing Board sets minimum wholesale price on 'exempted' (permit) sales
- [10] The Queensland Livestock and Meat Authority manages public and regional abattoirs in competition with private operators.
- [11] Provision exists for the Queensland Livestock and Meat Authority to establish a stabilisation scheme, however this power has never been used.
- [12] Abattoirs managed by the Queensland Livestock and Meat Authority trade in animal by-products.
- [13] While the board does have this power, the associated co-operative undertakes the processing and marketing.
- [14] Due to uncertainty over the current High Court interpretation of s.92 of the Constitution, the Peanut Marketing Board has not fully tested it's powers of compulsory acquisition.
- [15] The Queensland Rice Marketing board operates two pools each year (Summer and Winter harvests). Both pools include revenue from domestic and export sales.
- [16] All wheat marketing in Queensland is done by the Australian Wheat Board under a joint venture marketing agreement with the State Wheat Board.
- [17] The State Wheat board operates a compulsory hail insurance scheme and a seed wheat scheme.
- [18] Queensland Government has in the past appointed CSR Ltd as the sole export agent for sugar.
- [19] Sugar is vested in, and compulsory acquired by, the Queensland Government.
- [20] This power is conferred on the Australian Tobacco Marketing Advisory Committee by State legislation under the joint Federal/ State Tobacco stabilisation scheme.
- [21] The Queensland Tobacco Quota Committee allocates the state quota to tobacco producers.
- [22] The Wheat varieties Advisory Committee recommends wheat varieties and a price premium or discount to apply to each variety.

Table E5: Western Australia

Objectives and Powers	Grain Pool of WA	Cooperative Bulk Handling Ltd	WS Dairy Industry Authority	Dried Fruits Board of WA	Honey Pool of WA*	Metropolitan Market Trust	Potato Marketing Authority	WA Egg Marketing Board (Golden Egg Farms)	WS Meat Commission	WA Meat Marketing Corporation
COMMODITY GROUP:	Grains	Grains	Dairy	Horticulture	Other	Other	Vegetables	Eggs	Meat	Meat
OBJECTIVES:										
Increase/maximise producer returns	yes		yes	yes	yes	yes	yes			yes
Countervail domestic market power										
Maximise export returns	yes				yes	yes	yes			yes
Stabilise prices, production or Incomes	yes		yes		yes	yes	yes			yes
Undertake promotion, market research	yes		yes	yes	yes	yes	yes			yes
Provide information										
Control quality, set standards	yes		yes	yes		yes	yes			yes
Other	research	services	consumer	negotiation, consumer		services	research	consumer	service	
POWERS TO:										
Vest produce			yes	yes			yes	yes		
Compulsorily acquire produce	yes [1]			yes			yes [10]	yes		yes [13]
Set prices			yes [5]	yes [6]	yes		yes	yes		yes
Pool producer returns	yes [2]			yes	yes [8]		yes			yes
Equalise producer returns	yes				yes		yes			yes
Regulate exports (export licensing, other)										yes
License producers, buyers, sellers, others	yes		yes	yes		yes	yes	yes		yes
Control production levels			yes				yes	yes		[14]
Implement levies, collect fees	yes		yes	yes						yes
Conduct promotion, market research, development	yes		yes		yes		yes	yes		yes
Provide market information	yes				yes	yes	yes			yes
Provide transport, storage, handling services	yes	yes			yes	yes	yes	yes		yes
Set standards, monitor quality	yes	yes	yes	yes			yes	yes		yes [15]
Process product								yes	yes	yes [16]
Trade product	yes [3]			yes [7]	yes [8]		[11]		[12]	yes [17]
Other						[9]				
GOVERNMENT GUARANTEE OF BORROWINGS	Yes [4]									yes

*authority with major charge pending

Notes to table E4: Queensland

- [1] The Grain Pool of WA acquires prescribed grains (barley, narrow leaved lupins, rapeseed, linseed).
- [2] Operates compulsory pools for prescribed grains. For other grains the Grain Pool of WA provides a voluntary pool or cash purchase.
- [3] The Grain Pool of WA trades in 'approved' grains.
- [4] the Grain Pool of WA's has not used its government guarantee of borrowings.
- [5] The WA Dairy Industry Authority sets the farm gate price of milk. It also sets a maximum retail price for while milk and white milk products.
- [6] The WA Dried Fruits Board can set remuneration to dealers for the sale or distribution of dried fruit.
- [7] The WA Dried Fruits Board has the power to trade but does not currently buy or sell.
- [8] The Honey Pool operates voluntary pools (its may be obliged to take any honey delivered to the Pool, but has not refused product) and acts as a trade.
- [9] Metropolitan Market Trust has an unenforced statutory monopoly over fruit and vegetable wholesale marketing within a 70km radius of Perth.
- [10] Potatoes Authority acquires table ('wave') potatoes. Does not acquire processing potatoes or for export purposes.
- [11] The Potato Authority has trading powers with respect to export potatoes.
- [12] The WA Meat Commission trades in animal by-products as part of its abattoir operations.
- [13] The WA Meat Marketing Corporation acquires all lamb south of the 26th parallel.
- [14] The WA Meat Marketing Corporation can limit the number of lambs delivered for slaughter (does not appear to use this to limit supply).
- [15] Applies to lamb only; the WA Meat Marketing Corporation sets a price and grade schedule for lamb acquired.
- [16] The WA Meat Marketing Corporation makes arrangements with abattoirs for the slaughter and processing of stock.
- [17] The WA Meat Marketing Corporation trades in meat and livestock, other than lamb.

Table E6: South Australia

Objectives and Powers	Australian Barely Board (also Victoria)	Citrus Board of South Australia	Metropolitan Milk Board	Poultry Meat Industry Committee	SA Cooperative Bulk Handling	SA Dried Fruit Board	SA Egg Board	SA Meat Corporation
COMMODITY GROUP:	Grains	Horticulture	Dairy	Broiler	Grains	Horticulture	Eggs	Meat
OBJECTIVES:								
Increase/maximise producer returns	yes	yes	yes		yes			
Countervail domestic market power								
Maximise export returns		yes						
Stabilise prices, production or Incomes	yes	yes	yes	yes			yes	
Undertake promotion, market research		yes	yes		yes	yes	yes	
Provide information		yes						
Control quality, set standards		yes	yes		yes	yes	yes	
Other		research	consumer	negotiation	research	research	consumer	services
POWERS TO:								
Vest produce							yes	
Compulsorily acquire produce	yes						yes	
Set prices		yes [4]	yes				yes	
Pool producer returns	yes		yes				yes	
Equalise producer returns			yes [10]					
Regulate exports (export licensing, other)	yes							
License producers, buyers, sellers, others	yes [1]	yes	yes	yes	yes	yes	yes	
Control production levels		[5]					yes	
Implement levies, collect fees		yes	yes		yes	yes	yes	
Conduct promotion, market research, development		yes	yes		yes	yes	yes	
Provide market information		yes	yes		yes			yes
Provide transport, storage, handling services	yes		yes		yes		yes	
Set standards, monitor quality	yes	yes	yes		yes	yes	yes	
Process product							yes	yes
Trade product	yes [2]	yes [6]				[8]		yes
other							[9]	
GOVERNMENT GUARANTEE OF BORROWINGS	yes [3]				yes [7]			

*authority with major charge pending

Notes to table E6: South Australia

- [1] Australian Barley board operates a permit systems for stockfeed in SA (less than 500 tonne per permit).
- [2] The Australian Barley Board trades in oats in SA.
- [3] SA Government guarantees the Australian Barley Board's borrowing to a maximum of \$220 million.
- [4] The SA Citrus Board sets a minimum price for processing fruit. Since 1984 the board has recommended prices for fresh fruit.
- [5] The SA Citrus Board can set producer delivery or sale volumes, or prohibit harvesting.
- [6] While it has the powers to trade, the Citrus Board of SA does not trade.
- [7] According to the SA Grain Elevators Board, it's borrowings have an implicit Government guarantee.
- [8] While the Dried Fruits Board of SA has the power to trade it does not apparently use it.
- [9] The SA Egg Board can require inter-state eggs, even when graded to SA standards, to be regraded.
- [10] Equalisation is between the market and processing milk sectors. The Metropolitan Milk Board administers a zoning/e

Table E6:

Objectives and Powers	Egg Marketing Board of Tasmania	Processed Apple Committee	Tasmanian Dairy Industry Authority	Tasmanian Grain Elevators Board	NT Grain Marketing board	ACT Milk Authority
COMMODITY GROUP:	Eggs	Horticulture	Dairy	Grains	Grains	Dairy
OBJECTIVES:						
Increase/maximise producer returns			yes		yes	
Countervail domestic market power						
Maximise export returns						
Stabilise prices, production or Incomes	yes	yes	yes		yes	yes
Undertake promotion, market research	yes		yes		yes	yes
Provide information	yes				yes	
Control quality, set standards	yes	yes	yes		yes	yes
Other	consumer	negotiation	consumer	consumer	research, economies of size	consumer
POWERS TO:						
Vest produce	yes [1]		yes [6]		yes	
Compulsorily acquire produce	yes [2]				yes	
Set prices	[3]	yes	yes			yes
Pool producer returns					yes	
Equalise producer returns			yes			
Regulate exports (export licensing, other)						
License producers, buyers, sellers, others	yes		yes			yes
Control production levels	yes		yes			
Implement levies, collect fees	yes [4]				yes	
Conduct promotion, market research, development	yes		yes		yes	yes
Provide market information	yes		yes		yes	
Provide transport, storage, handling services				yes	yes	
Set standards, monitor quality	yes		yes		yes	yes
Process product	yes [5]				yes	
Trade product	yes [5]				yes	
Other				service fee [8]		
GOVERNMENT GUARANTEE OF BORROWINGS						

*authority with major charge pending

Notes to Table E7: Tasmania, NT & ACT

- [1] The Egg Marketing Board of Tasmania divests eggs to licensed producers on payment of an exemption fee.
- [2] The Tasmanian Egg Board purchases unsold eggs (ie not sold to retailers or wholesalers from producers under an exemption agreement (from compulsory acquisition)
- [3] The Tasmania Egg Board recommends wholesale prices to producers.
- [4] Levy takes the form of an 'exemption fee' payable to the Tasmanian Egg Board. On payment of the fee a producer can sell direct to buyers.
- [5] The Egg Marketing Board of Tasmania processes and seals egg products.
- [6] The Tasmanian Dairy Industry Authority has not used it's vesting powers.
- [7] An objective of the Tasmanian Grain Elevators Board is to maintain adequate grain reserves.
- [8] The Tasmania Grain Elevators Board administers a Federal government freight assistance programme (but receives no fee for doing so).



APPENDIX F: ASSISTANCE FROM STATUTORY MARKETING ARRANGEMENTS

As outlined in Chapter 3, as a consequence of statutory marketing arrangements, prices paid for some agricultural products will be higher than those which would prevail in a competitive market. The higher domestic prices result in transfers of income from domestic processing industries and consumers to producers of those agricultural commodities -- thus they tax user industries and consumers and assist agricultural production.

The initial effects of statutory marketing arrangements may be indicated by estimating the changes in domestic prices (from a notional competitive market price) and the amount of the income transfers associated with the changed domestic prices. These transfers may be used to indicate the taxing effects of statutory marketing arrangements on user industries and consumers and the assistance provided to agricultural production.

For the analysis reported in this appendix, the assistance provided to producers from statutory marketing arrangements has been taken to include the benefits of underwriting assistance. For activities where statutory marketing arrangements play an integral role in enabling the benefits of tariffs on imports to be obtained, this assistance has also been included.

The Commission's measurement systems used for monitoring the assistance provided to the agricultural and manufacturing sectors provide information about the effects of some statutory marketing arrangements. The information is limited to those arrangements known to have significant national effects, and those for which information is readily available, such as eggs, dairy products, wheat, rice, sultanas and sugar. The measurement systems do not contain information on the effects of many of the statutory marketing arrangements that operate at a regional level, as suitable data to evaluate them on an ongoing basis are difficult to obtain. For example, the marketing arrangements of the Western Australian Meat Marketing Corporation and the various statutory marketing arrangements for barley are not evaluated in the Commission's measurement systems.

The estimates of assistance to dairy produce and sugar will be assessed further in the Commission's current inquiries into the dairy and sugar industries.

F1 Domestic price effects

The initial effect on domestic prices of the various marketing schemes operated under statutory marketing arrangements is evaluated by comparing realised domestic prices with an estimate of the prices that could have been expected to prevail in a competitive market. The percentage by which the domestic price for a product has changed relative to the selected reference price is termed the *price distortion*.

In estimating price distortions, an important consideration is the point in the production and distribution chain at which statutory marketing arrangements influence domestic prices. For example, for dried sultanas the point of incidence is the packed fruit stage while for dairying, the point of incidence for manufacturing milk is at the manufactured product stage for individual dairy products subject to market support payments. Table F1 lists the commodities for which statutory marketing arrangements are currently analysed by the Commission, the point of incidence of the arrangement and the reference price used in determining price distortions.

Table F1: Agricultural commodities subject to statutory marketing arrangements: point of incidence and reference price used in determining price distortion

<i>Commodity</i>	<i>Point of incidence of scheme</i>	<i>Unit reference price for Commission estimates</i>
Wheat	wheat for milling or export	average export price (fob) for ASW
Rice	milled rice for wholesale or export	average ex-mill mill return for exports of medium and long grain rice
Manufacturing milk	manufactured dairy products subject to market	average export price (fob) for individual dairy products
Market milk	at receipt by processor	comparable manufacturing milk price
Honey	honey for wholesale or export	difference between domestic and export levies
Dried vine fruits	wholesale or export	average export price (fob) for sultanas; import parity (ldf) for currants and raisins
Bananas	bananas for wholesale	derived unassisted domestic price from actual market returns
Eggs	eggs or egg products for wholesale or export and egg products	average export price (fob) for shell and egg products
Sugar	raw sugar for domestic sale or export	average export returns to miller for raw sugar
Cotton	raw cotton for domestic sale or export	average export price (fob) for raw cotton
Tobacco	tobacco leaf for manufacturing	average import parity price for non-USA imports (ldf)

The estimation of the domestic (or benchmark) price at which a product would be traded in a competitive market is another important consideration in deriving price distortions. This estimation requires some simplifying assumptions. For an internationally traded product, the benchmark price is taken to be either import

parity or export parity, depending on the likely trading position of the product if the market interventions were removed. For a non-traded product, an appropriate domestic benchmark price is used. The import parity price is taken as the landed-duty-free price of an imported equivalent while the export parity price is, in the absence of more detailed data on the cost of exporting, usually taken as the free-on-board value of the exported equivalent. The assumptions made in using these benchmark prices are:

- there is perfect substitution in use or consumption between the domestically produced and imported product in the case of import-competing commodities; and
- there is perfect substitution between domestic and export usage in the case of export-oriented commodities.

Crucial to determining price effects is the comparison of like with like. For example, to the extent that the chosen import substitute is a less than perfect substitute, the extent of the price distortion may be overestimated.

Where statutory marketing arrangements enable an industry to take advantage of tariff assistance, the resulting domestic price effects are included in these estimates. For example, the statutory marketing arrangements which exist for sugar enable the benefits of tariff assistance to be obtained by the industry. A specific tariff of \$115 per tonne replaced the embargo on sugar imports from 1 July 1989. Without the statutory marketing arrangements, it is unlikely that growers and millers could benefit from that tariff as, in a competitive market, arbitrage opportunities would tend to equate domestic and export returns from raw sugar. On this basis, the preliminary estimates for 1989-90 and the mid-1990s projections reflect the benefit provided by the specific tariff on sugar.

At the draft report hearing the Sugar Board submitted that the Commission's preliminary estimate for the 1989-90 price distortion was overstated as the Board had not been able to take full advantage of the protection provided to domestic sales by the tariff. However, substantial verification of the estimate of 49 per cent derived from the Commission's methodology is provided by domestic and export data for 1989-90 (published by the Australian Bureau of Agricultural and Resource Economics in the Commodity Statistical Bulletin 1990) which indicate a price distortion of 46 per cent. The Commission has recently received a reference on the

sugar industry and will take advantage of that inquiry to review its assistance estimates for sugar.

The estimated price effects of statutory marketing arrangements included in the Commission's measurement systems are provided in Table F2. The price effects of tariff-only assistance have not been included in Table F2. The nil entry in the table for the mid-1990s estimate for tobacco reflects the announced removal of statutory marketing arrangements for tobacco leaf and its replacement by tariff-only assistance -- not the removal of protection for tobacco leaf production.

The table indicates that during the 1980s statutory marketing arrangements resulted in significant domestic price effects for all commodities listed except honey, apples and pears, bananas and wheat. Generally, the trend has been for the price distortions to decline for most commodities, the exception in 1988-89 being tobacco. It should be noted that statutory marketing arrangements often involve maintaining relatively stable domestic prices. Therefore, the price distortions estimated are often highly sensitive to changes in international prices.

Table F2: Price distortions from statutory marketing arrangements
(per cent)

<i>Commodity</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>Mid-90s(a)</i>
Eggs	101	15	39	52	25	na	13
Manufacturing milk							
Cheese	64	49	26	55	33	24	18
Butter	75	98	53	89	67	40	18
Skim milk powder	49	42	4	37	38	19	17
Wholemilk powder	50	41	4	42	25	17	15
Casein	35	57	2	41	33	19	17
Market milk	53	72	75	56	48	30	30
Honey	2	2	1	1	1	1	1
Wheat	2	2	2	1	0	3	-
Rice	52	32	36	44	49	20(b)	20
Apples/pears	1	7	-	-	-	-	-
Sultanas	135	41	42	27	52	45	45
Bananas	9	3	1	na	1	1	1
Sugar	30	71	80	53	57	38(c)	33
Cotton	32	22	10	53	20	27	-
Tobacco	55	47	29	14	34	43	-

na Not available.

- Nil.

(a) Estimates for the mid-90s are based on 1988-89 data. The continuation of existing policies has been assumed.

(b) Estimates have been revised on the basis of more appropriate data provided by the Ricegrowers' Co-operative Ltd.

(c) The import embargo on sugar was replaced by a specific tariff rate on sugar imports from 1 July 1989. Preliminary estimates indicate that the price distortion for sugar for 1989-90 was 49 per cent.

Source: Commission estimates.

F2 The taxing effect of statutory marketing arrangements on consumers

The taxing effect of statutory marketing arrangements on consumers derives from the influence the arrangements have on domestic prices at the retail level. This retail price effect may be measured as a *consumer tax equivalent* -- defined as the value of the transfers from final consumers paying higher prices as a result of such arrangements.

The taxing effects of industry assistance on households was reported in the Commission's 1989-90 Annual Report. The results were derived using data from the Australian Bureau of Statistics 1988-89 Household Expenditure Survey and data from the Commission's assistance measurement systems. Using the methodology

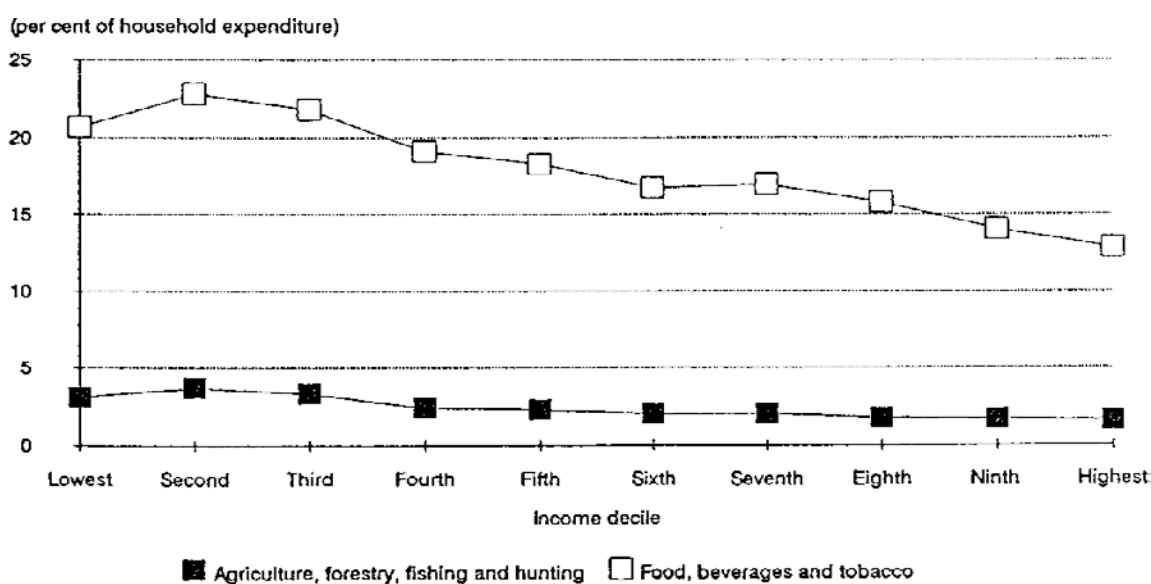
developed for those estimates, the taxing effect on households of statutory marketing arrangements for agricultural products is discussed below for 1988-89. The taxing effects depend on expenditure patterns and the consumer price effects of statutory marketing arrangements.

Expenditure patterns by income group

Lower income groups commit a larger share of household expenditure and income to food purchases than do the higher income groups. Therefore, higher prices resulting from statutory marketing arrangements are likely to have a greater effect on lower income groups.

This relationship is illustrated in Figure F1 where expenditure shares by income group are shown for the products of Australian Standard Industry Classification (ASIC) categories: agriculture, forestry, fishing and hunting and food, beverages and tobacco. The first category includes unprocessed foods sold directly to consumers while the second category covers processed food, beverages and tobacco products. The figure shows that the categories that include food products account for more than 20 per cent of total expenditure for the lower income groups and around 15 per cent of total expenditure for the higher income groups.

Figure F1 Household expenditure shares by broad income category: 1988-89



Consumer price and taxing effects

The consumer price effects of statutory marketing arrangements for which price distortions have been measured in 1988-89 are given in Table F3. They are given individually for each of the two ASIC categories mentioned above, namely agriculture, forestry, fishing and hunting and food, beverages and tobacco and for total consumer purchases of goods and services. For comparison, the consumer price effects of all measured assistance are included for those two ASIC categories. No direct consumer price effects on other categories have been measured.

Table F3: Consumer price effects of assistance: 1988-89
(per cent)

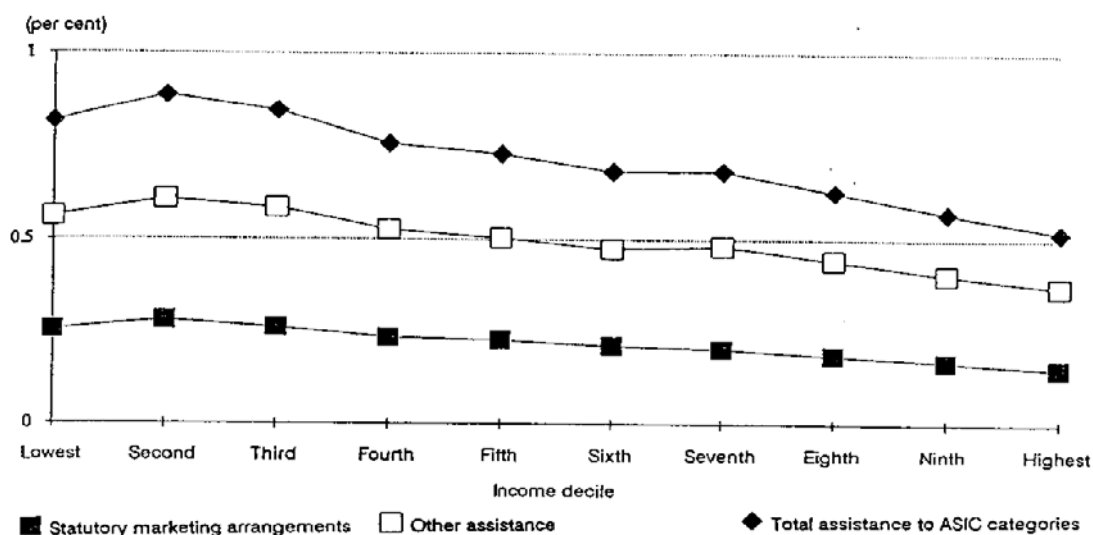
<i>ASIC category</i>	<i>Domestic marketing arrangements</i>	<i>Other assistance</i>	<i>Total</i>
Agriculture, forestry, fishing and hunting	0.26	1.03	1.29
Food, beverages and tobacco	1.16	2.68	3.84
Total goods and services	0.28	0.67	0.95

Source: Commission estimates.

While the price distortions associated with statutory marketing arrangements have been shown to be large for some commodities, their influence on overall consumer prices for goods and services is small, being only about 0.3 per cent in 1988-89. This reflects the small share of items subject to statutory marketing arrangements in total goods and services. The consumer price effect amounts only to a 1.2 per cent increase in total consumer prices for *food, beverages and tobacco*. The consumer price effects of statutory marketing arrangements is less than half of the direct price effect of all other measured assistance (0.7 per cent) for *agriculture, forestry, fishing and hunting and food, beverages and tobacco*.

The taxing effect of statutory marketing arrangements by income group is illustrated in Figure F2. Also shown in Figure F2 is the taxing effect of all other and total measured assistance to the two ASIC categories *agriculture, forestry, fishing and hunting and food, beverages and tobacco*. Details of the estimates are set out in an attachment to the appendix.

Figure F 2 Consumer tax equivalents of assistance to ASIC categories agriculture, forestry, fishing and hunting and processed food, beverages and tobacco as a proportion of household expenditure by income group: 1988-89



The results indicate that:

- statutory marketing arrangements raise costs to all household groups;
- other assistance raised the cost of food products by more than statutory marketing arrangements to all income groups; and
- the tax effect of statutory marketing arrangements and other assistance to the two categories is mildly regressive, with the lower income groups outlaying a higher proportion of their expenditure to pay for that assistance than higher income groups.

The more detailed information on the price and taxing effects of assistance given in the attachment indicates that the 1988-89 consumer price increase from statutory marketing arrangements of 0.3 per cent amounts to a total *consumer tax equivalent* of over \$553 million (1988-89 values) or some \$33 per head per year for the Australian population.

In the Commission's 1989-90 Annual Report, it was reported that assistance to agricultural, mining and manufacturing industries increased consumer prices by around 5.6 per cent in 1988-89 amounting to a *consumer tax equivalent* of over

\$10 800 million (1988-89 values) or some \$650 per head per year for the Australian population. This *consumer tax equivalent* amounted to some 5.0 per cent of recorded household income less income tax and some 3.8 per cent of household expenditure.

The above indicates that statutory marketing arrangements contribute some 30 per cent of the direct cost to consumers of assistance to the categories agriculture, forestry, fishing and hunting and food, beverages and tobacco and some 5 per cent of the total direct cost to consumers of all assistance to agriculture, mining and manufacturing.

In deriving the consumer price and taxing effects of statutory marketing arrangements and other forms of assistance it was necessary to adopt a simplifying assumption regarding the level of the margins between the point of impact of the intervention and the retail level. The conservative assumption adopted was that there was no change in the cost of transport and distribution margins between the point at which the price intervention occurred and the retail level. The only variation to this was in the treatment of commodity taxes (eg wholesale sales taxes) which were indexed to the basic price of the commodities. To the extent that such margins are influenced by increases in prices of goods and services as a result of statutory marketing arrangements and other forms of assistance, the estimated consumer effects will be understated. Similarly, to the extent that the statutory marketing arrangements reduce the competitive pressures to minimise such margins between the point of impact of the intervention and consumers, the estimated effects will also be understated. These considerations would suggest that the consumer price and tax effects are lower bound estimates. The Commission notes that egg industry participants (eg Western Australian Egg Marketing Board) have pointed to instances where the effect of deregulation of egg marketing has not initially resulted in falls in consumer prices for eggs which are commensurate with those experienced by producers.

F3 Assistance to agriculture

Statutory marketing arrangements provide assistance to the production of some agricultural commodities. The transfers from domestic user industries and consumers to producers of agricultural commodities associated with the price distortions are termed the producer transfers. The producer transfers for the

domestic marketing schemes evaluated as part of the Commission's monitoring of assistance to industries are listed in Table F4. The table highlights the statutory marketing arrangements for dairy products as the major source of producer transfers within the agricultural sector.

Table F4: Producer transfers from statutory marketing arrangements (\$m)

<i>Commodity</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>Mid-90s(a)</i>
Eggs	102	25	55	62	23	na	14
Manufacturing milk total	141	122	135	216	190	138	98
Cheese	63	49	63	119	98	76	58
Butter	60	61	64	70	58	36	16
Skim milk powder	13	7	5	18	25	19	17
Wholemilk powder	5	5	3	8	8	6	6
Casein	..	..	..	1	1	1	1
Market milk	172	220	226	205	192	152	152
Honey	..	..	..	..	..	..	..
Wheat	57	43	39	25	4	7	-
Rice	13	8	8	12	14	6(b)	6
Apples/pears	1	4	-	-	-	-	-
Sultanas	16	12	13	9	16	13	13
Bananas	3	1	..	na	1	..	..
Sugar	34	68	73	66	72	62(c)	53
Cotton	11	7	3	16	9	9	-
Tobacco	24	20	15	8	19	23	-

- Nil.

.. The total is less than \$0.5 million.

na Not available.

(a) Estimates for the mid-90s are based on 1988-89 data. The continuation of existing policies has been assumed.

(b) Estimates have been revised on the basis of more appropriate data provided by the Ricegrowers' Co-operative Ltd.

(c) The import embargo on sugar was replaced by a specific tariff rate on sugar imports from 1 July 1989. Preliminary estimates indicate that the producer transfer for sugar for 1989-90 was \$ 98m.

Source: Commission estimates.

To estimate the assistance agricultural producers receive from producer transfers associated with statutory marketing arrangements, it has been assumed that the farm-gate value of the producer transfer is the same as its value at the point in the production and distribution chain where the price distortion has been measured. The

only variation to this was the treatment of raw sugar, where the producer transfer was shared between millers and farmers on the basis of the cane payment formula, and deciduous canning fruits where the producer transfer was shared between canners and farmers on the basis of their respective value added-shares.

To the extent that transport and processing margins are higher as a result of the higher prices received on the domestic market, the farm-gate value of the producer transfer will be less than estimated at the point of the price distortion. The result will be that assistance received by agricultural producers of the commodity will be overstated. Similarly, to the extent that statutory marketing arrangements reduce competitive pressures to minimise transport and processing margins, the farm-gate value of assistance received by agricultural producers will also be overstated. These considerations would suggest that the estimated assistance received by agricultural producers from statutory marketing arrangements are upper bound estimates.

Output assistance to agricultural activities is normally measured by the nominal rate of assistance. The nominal rate of assistance is the percentage by which producers' gross returns per unit of output are changed by assistance relative to the situation of no assistance. Statutory marketing arrangements contribute most of the output assistance provided to agriculture. Tariffs on imports provide the other major form of output assistance. For example, in 1988-89 statutory marketing arrangements provided around 70 per cent of the total output assistance to agricultural production. For some commodities nearly all output assistance is provided by statutory marketing arrangements, eg for dairying it was 99 per cent in 1988-89.

Statutory marketing arrangements have often included provision for the payment of price underwriting assistance to agricultural output. Although the payment of underwriting need not depend on the existence of statutory marketing authorities, these arrangements have facilitated such payments in the past. Underwriting assistance paid in recent years is shown in Table F5.

Table F5: Underwriting assistance to output of agricultural activities (\$m)

<i>Production activity</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Dairying		12.5	2.6			
Wheat				201.0		
Apples/pears					1.8	
Dried vine fruits total	1.3					
Sugar			14.6			
Total agriculture	1.3	12.5	17.2	201.0	1.8	-

Source: Commission estimates.

Apart from the underwriting payments made for the 1986-87 wheat crop, this form of assistance has been small relative to that provided by the price distortions associated with statutory marketing arrangements in recent years.

The influence of statutory marketing arrangements on the nominal rate of assistance to the output of individual commodities depends not only on the price distortion achieved on domestic sales, but also on the proportion of total output sold on the domestic market. For example, although the domestic price distortion for rice in 1988-89 was estimated to be 20 per cent, when account was taken of the proportion of the crop exported, the nominal rate of assistance was estimated to be much lower at 7 per cent.

The estimated nominal rates for those commodities which have been assisted by statutory marketing arrangements and for total agriculture are given in Table F6.

Table F6: Nominal rates of assistance for selected agricultural activities
(per cent)

<i>Production Activity</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>Mid-90s(a)</i>
Eggs	69	12	29	35	10	na	6
Manufacturing milk	28	34	31	46	31	17	11
Market milk	53	75	76	56	49	30	30
Honey	2	2	1	1	3	3	3
Wheat	2	2	2	14	1	1	0
Rice	20	8	11	19	17	5	5
Apples/pears	2	3	1	0	1	0	0
Dried vine fruits	47	21	18	17	25	26	25
Deciduous canning fruits	39	16	23	28	1	1	1
Bananas	5	1	1	0	1	0	0
Sugar	7	15	21	13	13	9	8
Cotton	5	2	1	5	2	2	0
Tobacco	55	47	38	16	37	56	12
Total agriculture	6	5	6	8	4	3	2

na Not available.

(a) Estimates for the mid-90s are based on 1988-89 data.

Source: Commission estimates.

The net assistance provided to the production of agricultural commodities is measured by the *effective rate of assistance*. This is the percentage by which value added in an activity is changed by assistance. It measures the net effect of assistance by taking into account not only assistance provided to outputs (nominal assistance) but also the effects of assistance on the cost of material and capital goods used by producers. It also includes any special assistance given to the use of land, labour or capital in an activity and the benefits of Commonwealth funding of rural research and adjustment assistance, and primary producer income tax concessions. Wide disparities in the levels of effective assistance between commodities indicate the potential for losses in resource use efficiency.

The effective rates of assistance over recent years for those commodities receiving assistance from statutory marketing arrangements are provided in Table F7.

Table F7: Effective rates of assistance for selected agricultural activities
(per cent)

<i>Production activity</i>	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>Mid-90s(a)</i>
Eggs	176	15	51	71	22	na	13
Manufacturing milk	72	91	80	156	85	39	25
Market milk	191	>250	>250	227	173	82	82
Honey	2	2	1	1	7	8	8
Wheat	2	2	4	35	3	1	1
Rice	50	14	26	59	50	11	11
Apples/pears	1	5	-2	1	3	1	1
Dried vine fruits	114	41	33	38	57	57	54
Deciduous canning fruits	106	41	59	77	9	7	7
Bananas	7	1	-1	1	2	1	1
Sugar	10	39	63	33	32	20	16
Cotton	8	3	1	7	6	6	3
Tobacco	99	82	63	24	68	111	22
Total agriculture	12	10	12	18	11	8	7
Contribution of statutory marketing arrangements (percentage points)	10	9	10	14	7	4	4

- Nil.

na Not available.

(a) Estimates for the mid-90s are based on 1988-89 data.

Source: Commission estimates.

An indication of the importance of assistance provided by statutory marketing arrangements to various agricultural activities is shown in Table F8 where, for selected commodities, the 1988-89 estimates of effective rates of assistance with and without assistance from statutory marketing arrangements are provided. Similar information over time for total agricultural production is included in Table F7.

Table F8: Effective rates of assistance (ERA) for selected agricultural activities subject to statutory marketing arrangements : 1988-89 (per cent)

<i>Production Activity</i>	<i>Without arrangement</i>	<i>With arrangement</i>	<i>Increase in ERA with arrangement</i>
	<i>%</i>	<i>%</i>	<i>percentage points</i>
Manufacturing milk	1	39	38
Market milk	1	82	81
Honey	6	8	2
Wheat	0	1	1
Rice	-1	11	12
Dried vine fruits	2	57	55
Bananas	0	1	1
Sugar	-4	20	24
Cotton	3	6	3
Total agriculture	4	9	5

Source: Commission estimates.

The estimates of effective rates given in Table F8 indicate that, in addition to being highly influential in determining the level of assistance for activities such as milk, rice, dried vine fruits and sugar production, statutory marketing arrangements contributed assistance to the agricultural sector equivalent to more than half of the net assistance provided in 1988-89.

Assistance levels provided under domestic pricing arrangements are highly sensitive to variations in production and price changes in international markets. Upward pressure on assistance levels is indicated by the forecast decline in agricultural export prices and the value of agricultural output for 1990-91. Additionally, arrangements for assistance to wool marketing have changed substantially in the past year as the Commonwealth Government has guaranteed borrowings by the Australian Wool Corporation.

Mid-1990s

Estimates of assistance resulting from statutory marketing arrangements have been projected for the mid-1990s. These estimates were based on 1988-89 output and price data and do not account for more recent changes in world prices.

When compared with the estimates for 1988-89, the mid-1990s estimates give an indication of the current policy changes and those scheduled for the intervening period. They do not account for the recent provision of guarantee of borrowings for wool marketing.

The mid-1990s estimates are included in Tables F2, F4, F6 and F7.

The estimates incorporate the following:

- deregulation of the New South Wales egg market in July 1989, but not including any flow-on effects to other States;
- the removal of supplementary market support on 1 July 1989 for manufactured dairy products;
- deregulation of the domestic wheat market on 1 July 1989;
- continuation of the current arrangements for sultanas, but with reductions in tariffs for currants and raisins in line with announced policy changes;
- the removal of the embargo on sugar imports from 1 July 1989 and replacement by a specific tariff which is scheduled to be \$55 per tonne from 1 July 1992. The estimate is based on import parity pricing by the industry and a forecast ad valorem equivalent of the tariff of 15 per cent;
- the ending of the local content scheme for tobacco on 1 October 1995 after which tariff-only assistance will remain; a tariff of 15 per cent is to apply from 1 July 1992;
- the ending of quota arrangements for the marketing of cotton. Although the Trade Practices exemption for these marketing arrangements still applies, the mid-1990s projection is based on there being a competitive market for cotton.

The mid-1990s estimates indicate that without further changes in policy, statutory marketing arrangements will continue to provide substantial assistance to the sector as whole and will be highly influential for some agricultural commodities, eg dairy, rice, sultanas and sugar.

ATTACHMENT TO APPENDIX F

Consumer price and taxing effects of assistance to ASIC-based commodity division agriculture etc and processed food etc by household
Income decile: 1988-89

	Income decile										All (a)	
	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest		
1988-89 Expenditure and population												
Private final consumption expenditure (b)	\$m	8137	10334	12119	14879	17771	19288	21815	24843	29648	35928	194777
Persons (C)	000	813	1153	1425	1573	1714	1854	1938	1972	2055	2195	16697
Consumption per capita	\$	9936	8967	8502	9462	10370	10404	11255	12600	14430	16366	11666
Statutory marketing arrangements												
Consumer price increase (b)	%	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.36	0.3
Consumer tax equivalent	\$m	25	32	38	47	54	59	63	69	76	90	553
Tax equivalent per capita	\$	31	28	27	30	32	32	33	35	37	41	33
Tax as a proportion of HES Income less Income taxation (d)	%	0.8	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3
Tax as a proportion of total household expenditure (e)	%	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2
Other assistance												
Consumer price increase (b)	%	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.7
Consumer tax equivalent	\$m	56	71	85	105	121	132	151	166	184	227	1297
Tax equivalent per capita	\$	69	61	60	67	71	71	78	84	89	103	78
Tax as a proportion of HES Income less Income taxation (d)	%	1.8	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.5	0.4	0.6
Tax as a proportion of total household expenditure (e)	%	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.5
Total assistance												
Consumer price increase (b)	%	1	1	1	1	1	1	1	0.9	0.9	0.9	0.9
Consumer tax equivalent	\$m	82	103	123	152	175	191	214	234	260	317	1850
Tax equivalent per capita	\$	100	89	87	97	102	103	110	119	126	144	111
Tax as a proportion of HES Income less Income taxation (d)	%	2.6	1.3	1.2	1.1	1	1	0.9	0.8	0.7	0.6	0.9
Tax as a proportion of total household expenditure (e)	%	0.8	0.9	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.5	0.7

- a Differences between sum of components and total due to sampling error and rounding.
- b Relates to private final consumption expenditure as defined in the Australian National Accounts. Total private consumption expenditure published in the national accounts has been allocated to household income deciles according to the annualised total expenditure for those categories.
- c Relates to 'mean resident population' for the year ended 30 June 1989.
- d the ABS heavily qualifies its estimates of income as a source of funds that might be used to finance current expenditure. Gross income in the survey covers regular receipts and excludes such things as lump sum payments, gifts, and windfall gains. Income taxation estimates are qualified as they relate to payments in previous years and do not necessarily reflect the current income earning circumstances of households.
- e Household expenditure covers private final consumption of goods and services plus income transfers (such as income taxation, fines, cash gifts and donations, life assurance premia) and capital outlays (such as mortgage repayments, and alterations and additions to dwellings).

Sources: ABS, Australian National Accounts, National income and Expenditure (Cat. No. 5206.0), June Quarter 1990, AGPS, Canberra.

ABS, Australian Demographic Statistics (Cat. No. 3101.0), March Quarter 1990, Canberra.

ABS, Household Expenditure Survey, 1988-89 (Cat. No. 6527.0) AGPS, Canberra.

ABS, Household Expenditure Survey, The Effects of Government Benefits and Taxes on Household income, 1984 (Cat. No. 6537.0), AGPS, Canberra.

Commission estimates.

APPENDIX G: ECONOMY-WIDE EFFECTS OF STATUTORY MARKETING ARRANGEMENTS

G1 Introduction

The reference requests the Commission to report on statutory marketing arrangements which lead to inefficient resource use, giving priority to areas where greatest efficiency gains are in prospect.

The purpose of this appendix is to provide an indication of the economy-wide effects of the statutory marketing arrangements relating to market milk, manufacturing milk, sugar and rice. These categories capture a high proportion of the price distortions arising from the operation of statutory marketing arrangements, with producer transfers estimated to have amounted in 1988-89 to around \$360 million (Table G1). (As noted in Appendix F, the producer transfer and domestic price distortion figures for rice have been significantly revised downwards since the draft report was published.) Similar simulations were reported for sugar, barley and rice in the Processed Food Industry Council's submission.

One way statutory marketing arrangements can influence resource allocation is through their price distorting effects. For example, the marketing arrangements that applied to the dairy, sugar and rice industries in 1988-89 involved obtaining higher prices on the domestic market and returning the proceeds to producers. Measurement of the extent to which prices are raised domestically is difficult, however, because reference prices are not always directly observable and data on price differentials can include the effects of a range of factors, not just statutory marketing arrangements. There is also the question of which reference price is more appropriate: the export parity or import parity price. Since the dairy, sugar and rice industries export a significant proportion of their output, it has been assumed that domestic prices could fall, in a deregulated environment, to export parity prices.

Table G1: Producer transfer and price distortion from statutory marketing arrangements, 1988-89a

	<i>Producer transfer</i>	<i>Domestic price distortion</i>
	\$m	%
Market milk	152	30
Manufacturing milk	138	11
Sugar ^b	62	38
Rice	--6	20
Sultanas	13	45
Cotton	--9	27
Wheat	--7	3
Bananas	0.4	1

a Where tariffs form an integral part of statutory marketing arrangements, the resulting domestic price effects are included in these estimates.

b Since July 1989 the sugar industry has been subjected to new assistance arrangements. Had these new arrangements applied in 1988-89, then the price distortion for sugar would have been 57 per cent (IC 1990, p. 128).

Source: Appendix F.

In the simulations reported below the ORANI model of the Australian economy was used. It was assumed that, if statutory marketing arrangements were removed, the domestic price distortions for market milk, manufacturing milk, sugar and rice would be eliminated.

The model was run in linear mode. This means, for example, that the effects of removing a 10 per cent price distortion will be half of the effect of removing a 20 per cent price distortion.

For illustrative purposes, the price distortions reported for 1988-89 in Appendix F were used as a basis for the simulations. Since in reality only that part of the price distortions which are associated with statutory marketing arrangements would be eliminated, the simulated effects could be overestimates. However, they could equally be underestimates, since statutory marketing arrangements can affect resource allocation in many ways other than through price distortions and, except for sugar, these have not been taken into account.

G2 Background to simulations

The simulations reported in this appendix were performed using a specially constructed version of the ORANI model of the Australian economy. ORANI is a multisectoral model embodying both direct relationships between industries and final users of goods and services, and economy-wide constraints on the availability of resources and on spending and saving by Australian households and governments. In these simulations an extended version of the model was used, called FH-ORANI, which includes a full accounting of government revenue and expenditure, and a stylised accounting of foreign ownership of Australian assets and income payments by Australians to foreigners.

The model is solved in percentage change form. The resulting solution is a linear approximation to the true solution. The linearisation errors arising from this procedure are negligible for simulations involving only small shocks, but can become more serious as the magnitude of the shocks increases. Because the solution procedure is linear, the results from a complex simulation consisting of several components can be expressed as the sum of the results from each component.

The model was run in these simulations in a long-run economic environment, designed to represent the responses of the economy over a period of the order of ten years. The principal features of that environment are as follows:

- sufficient time is assumed to have elapsed for industries' capital stocks to be fully adjusted, so as to maintain a fixed rate of return in each industry;
- occupational rates of employment adjust to maintain constant wage relativities between occupations;
- real aggregate government consumption of goods and services maintains a fixed proportion to real aggregate private consumption;
- benefit rates for transfer payments are fixed in real terms;
- income tax brackets are indexed to the consumer price index;
- direct tax rates on personal and company income vary equiproportionately so as to maintain a fixed real government sector borrowing requirement;

-
- the exchange rate is fixed; and
 - fixed ratios are maintained between private consumption spending and national saving, and between investment and capital usage within each industry. The relation between investment and saving determines the balance on current account which, together with net income payments to foreigners, determines the balance of trade.

In the simulations a special-purpose ORANI database was used -- ORANI-FOOD -- incorporating a more detailed representation of agriculture and food processing than in the standard ORANI database. Agricultural commodities and food processing industries that had the potential to be affected by statutory marketing arrangements were separated out. Comparisons of the commodities covered in standard ORANI and the ORANI-FOOD database (both constructed from 1980-81 input-output statistics) are in Tables G2 and G3.

Table G2: Additional agricultural commodities in ORANI-FOOD

ORANI commodity	ORANI-FOOD commodity
Milk cattle and pigs	Milk for market milk Milk for manufacturing milk Pigs
Agriculture nec, export-oriented	Sugar cane Agriculture nec, export
Other cereal grains	Unprocessed rice Other cereal grains nec Oilseeds

Source: Standard ORANI and ORANI-FOOD databases.

Table G3: Food processing industries included in ORANI-FOOD

ORANI industry	ORANI-FOOD industry	Status of industry
Meat products	Export meat products	Export-oriented
	Other meat products	Import-competing
Milk products	Market milk	Non-traded
	Manufactured milk	Export-oriented
Fruit and vegetables	Preserved fruit and jams	Export-oriented
	Fruit and vegetables	Import-competing
Margarine, oils and fats	Margarines, oils and fats	Import-competing
Flour and cereal products	Rice	Export-oriented
	Flour and cereal products	Import-competing
Bread, cakes and biscuits	Bread, cakes and biscuits	Import-competing
Confectionery and cocoa	Confectionery and cocoa	Export-oriented
Other food products	Raw sugar	Export-oriented
	Processed seafood	Export-oriented
	Refined sugar	Import-competing
	Other food products	Import-competing
Soft drinks and cordials	Soft drinks and cordials	Import-competing
Beer and malt	Beer	Import-competing
	Malt	Export-oriented

Source: Standard ORANI and ORANI-FOOD databases.

Two changes have been made to the database since completion of the draft report. First, the assumption implicit in the earlier analysis that Unprocessed rice, Oilseeds and other cereal grains are produced in constant proportions, has been relaxed. Second, the Flour and cereal products industry, which was earlier specified as export-oriented, has been respecified as import competing. Since ORANI-FOOD's Flour and cereal products industry only exports 8 per cent of the value of its output, specification of the industry as import competing is more consistent with empirical evidence. This change also eliminates some anomalous results obtained in the draft report rice simulation.

G3 Dairy industry

Milk is produced in all States. In 1986-87, the dairy industry exported around 17 per cent of its output in the form of processed products (cheese, butter, milk powder, etc.).

The dairy industry is characterised by complex marketing arrangements with estimated producer transfers of around \$290 million in 1988-89 (Table G1). The arrangements are represented by home price schemes at two levels. At the first level, State and Territory SMAs determine prices for fresh milk, and producers generally receive higher returns as a result. At the second level, a Commonwealth Government levy on all milk produced is imposed to provide revenue to subsidise exports of processed dairy products. This mechanism -- which is administered by the Australian Dairy Corporation but determined separately by Commonwealth legislation -- has the effect of raising domestic prices above export prices. Milk producers receive the weighted average of prices for domestic and export sales.

Some reform of the price support arrangements for the dairy industry was announced in the May 1988 Economic Statement, and as a result supplementary levies for butter and butter oil were terminated on 1 July 1989 (Keating 1988). However, a levy on milk for subsidisation of exported processed dairy products, as well as State and Territory Government determination of prices for fresh liquid milk, continue. Although in recent years assistance to the dairy industry declined (IC 1990, p. 128), this has largely been the result of increases in the international prices of dairy products rather than changes in the assistance mechanism in Australia. The ceiling level of export assistance (should international prices fall) is 30 per cent.

The 1988-89 estimates of domestic price distortions, as reported in Appendix F, have been used as a basis for the dairy simulations.

For market milk these were calculated for each State as the difference between the producer price for market milk and manufacturing milk, based on ABARE data. Underlying these estimates is the assumption that, without the existing scheme,

market milk prices -- which are currently administratively set -- would tend to fall to the level of manufacturing milk prices.¹ In 1988-89, milk prices for market milk use were estimated to have been 30 per cent above prices of milk used for manufacturing, with a producer transfer of \$152 million (Table G1). Removal of this 30 per cent price gap was calculated to lead on average to a decline of 12 per cent in the returns to producers of fluid milk (both market and manufacturing milk).

The statutory marketing arrangements for market milk are complex and varied. In some States production is regulated through farm-specific quotas. In others market incentives operate to achieve all-year-round supply of market milk. For this report, the assumption was made that the arrangements can be approximated by home price schemes. Removal of the arrangements in all States was modelled as a 30 per cent decline in the price of market milk, and a 20 per cent decline in the average returns to producers of manufacturing milk.

For manufacturing milk, the benchmark price -- the fob export price -- was based on data obtained from the Australian Dairy Corporation. The extent to which the domestic price was raised above the export price was then determined by the per unit market support payments made to processors involved with exports.² In 1988-89, prices of products derived from manufacturing milk (butter, cheese, etc.) were estimated to have been on average 11 per cent above export prices, with a producer transfer of \$138 million (Table G1). Removal of this 11 per cent price gap was calculated to lead to a 6 per cent decline on average in returns to producers of manufactured milk products.

¹ The producer transfer was estimated separately for each State. The benchmark price used for market milk was, for Victoria (Vic) the Vic manufacturing milk price; for NSW, Queensland and South Australia the Vic Manufacturing milk price plus transport; for Western Australia (WA) the WA manufacturing milk price; and for Tasmania (Tas) the Tas manufacturing milk price.

² Until July 1989 these comprised the market support payment (MSP) levy; supplementary market support payment levy; and for butter and cheese, a product levy. Since July 1989 only the MSP applies.

G4 Sugar

Virtually all sugar in Australia is grown in Queensland (95 per cent of total production). In 1989-90, the industry exported around 80 per cent of the volume of Queensland's production of raw sugar.

The sugar industry is highly regulated. The regulations control the price paid for cane, the area that can be used for cane growing and the sugar produced from it. There are two key regulatory organisations: the Central Sugar Cane Prices Board -- which has responsibility for determining the effective area on which marketable cane can be grown; and the Sugar Board -- which has sole acquisition and selling rights over the Queensland crop.

A recent review carried out for the Queensland Minister for Primary Industries expressed concerns about these regulations:

A complex set of regulations, most of which were established between 1915 and 1939, control the production and marketing of Queensland's sugar. While these regulations served the industry well in its early years and have helped to establish its reputation as a reliable supplier of top quality sugar, they have reduced the industry's flexibility and responsiveness to changing economic and market conditions (Sugar Industry Working Party 1990, p. i).

The Commonwealth/Queensland Sugar Agreement, which had operated since 1923, terminated on 30 June 1989. Under this agreement the domestic prices of sugar and sugar products were determined by formula and imports were prohibited. The Sugar Board acquired all sugar produced in Queensland and purchased, by agreement, all sugar produced in New South Wales. Under the new arrangements, imports of raw and refined sugar are permitted, subject to a specific tariff rate of \$115 per tonne. This was approximately equal to an ad valorem tariff of 35 per cent on the basis of world prices at June 1989. In the Prime Minister's March 1991 Industry Statement it was announced that the tariff is to be phased to \$76 per tonne on 1 July 1991 and \$55 per tonne on 1 July 1992 -- equivalent at March 1991 world prices and exchange rates to ad valorem tariffs of 28 and 21 per cent respectively.

The Queensland review did not recommend significant changes to the existing arrangements regulating the sugar industry. The review's major recommendation was the replacement of the Sugar Board and Central Cane Sugar Prices Board with

a single organisation, the Queensland Sugar Industry Corporation, with continuing acquisition powers. Other recommendations concern the fine-tuning of existing arrangements, such as: assigned areas not to be defined precisely on a map; assignments to be transferable between mills; assigned areas not to be distributed on a pro-rata basis; and uniform contracts to be established for the harvesting sector.

The Queensland Government accepted most of the recommendations, and the Corporation is expected to commence operations prior to the commencement of the 1991 sugar cane crush.

Price reforms

Commission estimates of the price distortion for 1988-89 were used in the simulations relating to price reforms for sugar. These were based on a comparison of the average export price with the domestic price, using data published in ABARE's Commodity Statistical Bulletin. In 1988-89, the domestic price distortion for raw sugar was estimated at 38 per cent (Table G1). The 38 per cent price distortion was equivalent to producer returns being 5 per cent higher than they would have been at export parity prices, amounting to excess returns worth \$62 million. These were removed in the simulations.

In its submission, the Sugar Board provided the Commission with a critique of the Processed Food Industry Council's interpretation of observed domestic to world price differentials. The Board claimed that 'any domestic premium over export parity which the industry does receive is essentially attributable to tariff arrangements, not to statutory marketing arrangements for sugar'.

However, whether tariffs would have any effect on prices without other statutory backing in a highly export-oriented industry, like raw sugar, is questionable. The Commission's simulations remove the combined price distorting effect of the statutory marketing arrangements for raw sugar, including the tariff.

The Sugar Board was critical that the model assumes that any cost savings available in raw sugar prices are passed on to refinery customers. According to the Board 'this assumption is contradicted by all the available evidence'. However, this assumption has little bearing on the results as the effects of removing price distortions for sugar have been simulated to be small.

In its submission the Sugar Board also said that Australian exporters of processed foods are not disadvantaged by the current raw sugar arrangements because, under the 'export sugar rebate scheme', exporters are offered a full rebate of the component of domestic sugar prices attributable to the sugar tariff. The Board provided data showing that exporters had been fully reimbursed in the past few years. The Commission has accounted for these rebates in its simulations by applying the domestic to export raw sugar price differential to only that part of food processors' output that was sold on the domestic market. Accounting for the rebate scheme concerned the sugar using food processing industries specified as export-oriented in ORANI-FOOD -- Preserved fruit and jams, and Confectionery and cocoa.

The extent to which the rebate affects these industries depends on the raw sugar content of the products produced, and the share of exports in the value of production. Table G4 shows these shares, as specified in the ORANI-FOOD database. Because the raw sugar content of the products of these industries is low (0.6 per cent or less) and exports make up a quarter or less of production, accounting for the rebate in the simulations has altered the results only marginally.

Table G4: Export-oriented processing industries : sugar content and exports as a share of output
(value shares, per cent)

ORANI industry	Refined sugar content of output	Raw sugar content of output	Exports as share of output
Preserved fruits and jams	5.1	0.6	26.1
Confectionery and cocoa	4.0	0.4	3.7

Source: ORANI-FOOD database.

Possible productivity improvements

Regulatory constraints on sugar cane production inhibit flexibility and efficiency in many ways. ABARE, in a submission to the Sugar Industry Working Party (ABARE 1990a), describes some of these as:

Land assignments and farm and mill peaks create production controls that preclude the entry of land and other resources into the industry and impede the mobility of those resources which are already part of the industry. Although eased in recent years, controls on the sale of assignments and entitlements limit the transferability of resources within the industry, locking some into high cost areas of the industry.

Regulations and controls can impose opportunity costs in other ways as well. Individually, producers may be forced to adopt higher cost methods of production. Land assignments, for instance, create an artificial scarcity of land for sugar cane production. To increase production, growers are encouraged to use expensive non-land inputs in place of land, which increases the unit cost of production.

The constraints on sugar cane production have also contributed to over investment in cane harvesting equipment. The production controls prevent growers from fully utilising their labour in growing more cane. As a result the value (or opportunity cost) of growers' own labour is limited and for many growers the next best use of their time and labour is to harvest their own cane. Overall the controls increase the cost of harvesting (p. 5).

ABARE (1990a) provided estimates of several of these costs of regulation. Three were simulated in the Commission's draft report. The first concerned the potential expansion of land for sugar production in the absence of regulations. This was estimated by ABARE to be greater than 30 per cent industry-wide. The second concerned potential savings in the costs of transporting and processing cane. ABARE estimated these cost savings to be around 15 per cent for the Mackay region. It also estimated that, if these savings occurred industry-wide, the net annual economic gains would have been \$130 million (1984-85 prices). The third concerned potential gains arising through rationalisation and increased throughput in harvesting equipment. These were estimated to be cost savings of around \$54 million in 1986-87. As Queensland farmers received \$586 million for their cane that year (see ABARE 1990b, p. 362), the estimated gains were equivalent to about 9 per cent of farm production costs.

In its draft report submission, the Australian Sugar Milling Council drew the Commission's attention to the restructuring and reforms that have already taken place since completion of the ABARE studies. The Council listed these as the

formation of the Mackay Sugar Co-operative Association Ltd; closure of two sugar mills; adoption of continuous crushing in the remaining four mills; rationalisation of transport; and expansion in the assigned area. Other submissions also questioned the magnitude of the productivity improvements simulated.

Advice received from ABARE suggests that around half of the benefits identified earlier have already been obtained. These occurred through the following changes:

- since 1989, land assignments have expanded by 13 per cent. The allocations allowed the entry of around 240 new growers (ABARE 1990c, p. 413);
- since the 1985 season, the number of harvesting machines in use has declined, with approximately half of the benefits identified earlier by ABARE having been achieved; and
- in the Mackay region, around half of the identified savings appear to have been realised by the 1990 season, made up of nearly all of the transport related savings (40 per cent of the estimated total) and around a third of the other savings (60 per cent of the estimated total).

To take account of benefits already achieved, the productivity improvements available for sugar have been reduced compared with the figures presented in the draft report. In this report the available productivity improvements were simulated as:

- a 15 per cent expansion in the availability of land for sugar production. Because land supplies are relatively inelastic and sugar can only be produced efficiently in certain regions, the 15 per cent expansion was coupled in the simulation with an equivalent reduction in land in ORANI's high rainfall zone;
- a 7.5 per cent reduction in off-farm crushing costs in the milling of raw sugar, simulated as productivity gains arising from improvements in the use of both labour and capital; and
- a 4.5 per cent reduction in on-farm costs, simulated as a uniform productivity improvement arising from improved use of all farm inputs.

There are two reasons for believing that the simulations represent a lower limit to the productivity gains expected from further deregulation. First, the original ABARE estimate for potential land expansions for sugar was greater than 30 per cent industry-wide.

Second, if the sugar industry became considerably less regulated, then a whole range of as yet untapped productivity improvements would become possible. For instance, Davco Farming provided evidence on how the efficiency of operations of cane producers, such as itself, were adversely affected. Davco Farming has managed to reap the benefits of scale economies in cane production by making greater use of broadacre techniques. It achieved this despite difficulties in obtaining sufficient quota entitlements and a range of other restrictions.

G5 Rice

Most rice is grown in NSW. The industry competes with imports (with no tariffs) and exports around 85 per cent of its production.

The rice industry is highly regulated. The NSW Rice Marketing Board has the power to acquire the NSW crop and the situation is close to one with 'one miller, one seller'. Queensland, also, heavily regulates the rice industry.

For the simulations, Commission estimates of the price distortion for milled rice in 1988-89 were used. These rely on comparing the domestic price of rice with its export price and thus assume export parity. In 1988-89, the domestic price distortion for rice was estimated at 20 per cent, with a producer transfer of \$6 million (Table G1). The 20 per cent distortion was calculated to have been equivalent to producer returns being 6 per cent higher than they would have been at export parity prices. These excess returns were removed in the simulations.

G6 Results of simulations

Results of the simulations are presented in Tables G5 and G6.

Table G5: Estimated long-run effects of removing selected statutory marketing arrangements in 1988-89
(per cent change)

	<i>Milk</i>		<i>Raw sugar</i>		<i>Rice</i>	<i>Total</i>	
	<i>Market</i>	<i>Manufacturing</i>	<i>Price reforms</i>	<i>Productivity improvements</i>		<i>Price Reforms</i>	<i>All</i>
Economy-wide result							
Real GDP	0.01	0.01	0.01	0.05	0.00	0.03	0.08
Real GNP	0.01	0.02	0.03	0.10	0.01	0.07	0.17
Real consumption	0.01	0.01	0.02	0.08	0.01	0.05	0.13
Aggregate exports	-0.10	-0.12	-0.07	-0.03	-0.02	-0.33	-0.36
Aggregate imports	-0.07	-0.09	-0.01	0.29	-0.01	-0.18	0.11
CPI	-0.18	-0.19	-0.07	0.32	-0.03	-0.47	-0.15
Real investment	0.05	0.05	0.07	0.12	0.01	0.18	0.30
Nominal wage rate	-0.19	-0.17	0.01	0.46	-0.03	-0.38	0.08
Long run capital stock	0.01	0.00	0.03	0.03	0.00	0.04	0.07
Income tax rate	-0.06	0.02	0.03	0.18	-0.03	-0.04	0.14
Sectoral output levels							
Agriculture	-0.34	-0.31	-0.14	0.57	-0.10	-0.89	-0.32
Mining	0.58	0.49	0.05	-1.24	0.10	1.02	-0.22
Manufacturing	-0.08	-0.07	0.02	0.08	0.00	-0.13	-0.05
Services	0.01	0.01	0.02	0.07	0.00	0.04	0.11
Major exports							
Wool	0.24	0.21	0.07	-1.08	-0.13	0.39	-0.69
Wheat	0.49	0.44	0.02	-0.59	-0.09	0.86	0.27
Ferrous metal ores	0.86	0.78	0.07	-1.92	0.14	1.85	-0.07
Black coal	1.41	1.21	0.06	-3.24	0.22	2.90	-0.34
Processed food and beverages							
output	-0.74	-0.67	-0.05	1.01	-0.05	-1.51	-0.50
- market milk	0.18	-0.04	0.01	0.00	0.00	0.15	0.15
- manufacturing milk	-12.71	-10.49	0.43	-0.96	0.07	-22.70	-23.66
- preserved fruits and jams	0.80	0.73	0.10	-1.84	0.13	1.76	-0.08
- rice	0.42	-0.30	0.07	-1.40	-8.33	-8.14	-9.54
- flour, cereal products	-0.10	-0.08	0.05	-0.07	0.01	-0.12	-0.19
- confectionery and cocoa	-0.02	0.29	0.13	-0.27	0.03	0.43	0.16
- raw sugar	0.12	0.11	-3.46	21.75	0.02	-3.21	18.54
- refined sugar	-0.30	-0.26	0.27	-0.07	0.01	-0.28	-0.35
- other	0.08	-0.07	0.23	-0.66	0.01	0.25	-0.41
exports	-2.71	-2.64	-0.67	5.32	-0.26	-6.28	-0.96
- manufacturing milk	-40.65	-39.44	1.50	-3.40	0.23	-78.36	-81.76
- preserved fruits and jams	3.16	2.85	0.29	-7.04	0.47	6.77	-0.27
- rice	0.68	0.61	0.09	-2.20	-13.84	-12.46	-14.66
- confectionery and cocoa	1.85	7.38	1.30	-6.23	0.56	11.09	4.86
- raw sugar	0.21	0.19	-4.35	26.80	0.02	-3.93	22.87
- other	0.70	0.63	0.79	-3.39	0.04	2.16	-1.23

Note: the sum of the columns may differ from the total due to rounding.

Source : ORANI-FOOD simulations.

Table G6: Effects of removing selected statutory marketing arrangements on industries directly affected
(per cent change)

	MILK		SUGAR					RICE	
	market	manufac- turing	sugar cane	raw sugar	refined sugar		milled		
	<i>price reforms</i>	<i>price reforms</i>	<i>price reforms</i>	<i>productivity improve- ments</i>	<i>price reforms</i>	<i>productivity improve- ments</i>	<i>price reforms</i>	<i>price reforms</i>	
Rentals on capital	-0.12	-0.10	-2.69	2.16	-0.02	3.99	-0.02	0.31	-0.03
Rentals on agricultural land	-0.00	na	-45.21	29.57	na	na	na	na	na
Gross investment	0.01	-10.58	0.03	0.17	-3.45	0.92	-0.28	0.23	-8.33
Current capital stock	0.15	-10.55	-4.25	17.74	-3.43	0.74	0.29	0.05	-8.33
Industry activity levels	0.18	-10.49	-3.46	17.23	-3.46	21.75	0.27	-0.07	-8.33
Employment	0.24	-10.46	-4.52	17.91	-3.47	5.25	0.25	-0.14	-8.33

na: not applicable.

Source: ORANI-FOOD simulations.

The simulations suggest that removal of certain statutory marketing arrangements (including tariffs if applicable) would be beneficial to Australians generally. Real GDP would be 0.08 per cent higher than otherwise, worth around \$300 million in 1989-90 prices. The majority of this benefit is achieved through improved productivity within the sugar industry.

The results for the industries directly affected by the reforms simulated highlight again the relative importance of the sugar productivity reforms (Table G6).

Price effects

Although the debate has so far focused on the price distorting effects of statutory marketing arrangements, these were found to be relatively small -- removing them for statutory marketing arrangements operating in the dairy, sugar and rice industries was simulated to lead to an expansion in GDP of only 0.03 per cent (worth around \$110 million in 1989-90 prices).

As domestic prices would be lower and exports would not be subsidised, the output of the industries facing assistance reductions would decline (10, 8 and 3 per cent for manufacturing milk, rice and raw sugar respectively). With lower domestic prices for agricultural products currently regulated by statutory marketing authorities, the CPI would decline by around half a per cent.

Contraction of sugar, rice and dairy exports following lower returns to producers would cause an initial balance of trade deficit. The contraction of these industries leads to resources being released which lower the wages and costs facing other exporting industries, thus making them more competitive. The major exporting industries (black coal, metal ores, wheat and wool) all expand. Overall, aggregate exports fall slightly. Conversely, it is the major exporting activities which bear most of the burden of the price distortions induced by these statutory marketing arrangements.

Exports of processed foods would decline by around 6 per cent. The dairy industry would become a marginal exporter, its exports having been simulated to decline by around 80 per cent. Exports of raw sugar and rice would decline by around 4 and 12 per cent respectively. As seen above, the overall effects of the price reforms would be beneficial economy-wide -- although the benefits would be relatively small (Table G5).

For the industries for which domestic prices were increased by the statutory marketing arrangements, a decline in output and employment is predicted (around 10 per cent for manufacturing milk, 3 per cent for raw sugar and 8 per cent for milled rice -- see Table G6). Reflecting the removal of controls which have led to higher prices for market milk, consumption of market milk would rise, leading to a slight expansion in output and employment. The refined sugar industry, which would obtain its raw sugar inputs at lower prices following the reforms, would also expand slightly (by a quarter of a per cent -- see Table G6).

Productivity improvements – sugar

Effects of removing regulations other than those arising from price distortions have only been simulated for sugar. Removal of land controls, as well as improved on-farm and crushing productivity were simulated to lead to increases in raw sugar output and exports of 22 and 27 per cent respectively. The output of the agricultural sector would expand by around half a per cent as a result, most of the growth being destined to export markets. The rise in agricultural exports would lead to a general rise in nominal wages (by close to half a per cent), making exports in other industries less competitive internationally -- hence the estimated contraction of the mining sector (by around 1 per cent) and of the exporting processed food industries. The economy would expand overall. GDP was estimated to be around 0.05 per cent higher than otherwise (worth around \$180 million in 1989-90 prices). With the expansion of the economy, nominal wages would rise, leading to an increase in the CPI (of around a third of a per cent).

The effects on the sugar industry of the sugar productivity improvements reported in Table G5 are significantly below that reported in the Processed Food Industry Council's submission.

First, in the simulation reported by the Processed Food Industry Council, ORANI's standard substitution elasticity between capital, land and labour was used, set at 1.28. This enabled the sugar industry to expand when its competitiveness increased by substituting substantial amounts of capital for the fixed input, land. In the Commission's analysis the substitution elasticity was set at a much lower value, as scope for the substitution of capital for land in sugar growing was judged to be very limited. Rimmer (1990) estimated an elasticity of substitution between capital and labour of around 0.4 for Australian agriculture. Since for sugar cane the possibilities of this substitution appear to have been mostly exhausted, the substitution elasticity for cane growing was set to 0.1. Thus in the Commission's simulations the improved competitiveness of sugar growing is reflected by much larger rises in sugar land prices rather than output of raw sugar. For purposes of sensitivity analyses, the simulations were repeated using a value of 0.5.

Second, in this report the possible productivity gains identified by the ABARE studies have been halved (see Section G4).

Another reason for the lower estimates in the Commission's simulation is that the decline in crushing costs was applied to costs other than cane, compared with its application to total costs in the Council's simulations. Since cane costs make up around three-quarters of the costs of producing raw sugar, reducing costs other than cane, rather than total costs, results in significantly lower estimates of effects on industry output and GDP. A further difference between the Commission's simulation and that reported by the Processed Food Industry Council arises from the way the on-farm productivity improvement was modelled. In the Commission's analysis a uniform improvement of productivity was simulated arising from better use of all farm inputs. In the Council's work, the gain in productivity was achieved through improved use of capital only.

Table G6 suggests that major gains from productivity improvements would occur in the raw sugar industry. Output would expand by around 22 per cent with relatively little change in inputs (a 1 per cent increase in the use of capital and a 5 per cent rise in employment). Cane growing would also benefit (17 per cent expansion in output and 18 per cent in employment) and, as noted earlier, rentals on sugar land would rise considerably (by 30 per cent). To the extent that these higher rentals would attract land into sugar growing, the Commission's simulations probably underestimate the expansion in sugar output that improved productivity in sugar growing and crushing would bring about.

When the capital/labour/land substitution elasticity was set to 0.5, the estimated increases in raw sugar output and exports were around 60 and 70 per cent higher respectively. The industry-specific results are therefore sensitive to the extent to which capital, labour and land are allowed to substitute for each other in the model. The overall effects of removing the statutory marketing arrangements for sugar -- combining the effects of the price distortions and productivity improvements -- was simulated to lead to an 18 per cent increase in raw sugar production (Table G5). The expansionary effects of the productivity improvements have been offset to some extent by the contractionary effects of the removal of the price distortions. The economy-wide benefits of a more efficient sugar industry following deregulation have been estimated to be relatively large -- worth around \$220 million in 1989-90 prices.

G7 Concluding remarks

The major lessons from these analyses are that:

- statutory marketing arrangements that maintain domestic prices at higher levels than the relevant export or import parity benchmarks reduce the overall performance of the economy as measured by GDP, real consumption and investment; and
- restrictions on production or on access to markets, which support some statutory arrangements, inhibit productivity growth. These effects can be more detrimental to national economic performance than the direct effects of domestic price distortions.

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