



Productivity Commission  
Supplementary Submission  
to the  
National Competition  
Policy Review of the  
*Wheat Marketing Act 1989*

*November 2000*

Level 28, 35 Collins Street  
Melbourne VIC 3000  
Locked Bag 2 Collins Street East  
Melbourne VIC 8003  
Telephone 03 9653 2100  
Facsimile 03 9653 2199  
*Canberra Office*  
Telephone 02 6240 3200  
Facsimile 02 6240 3300



*From the Chairman's Office*

10 November 2000

Mr M Irving AM  
Chairman  
NCP Review of WMA Secretariat  
GPO Box 858  
CANBERRA ACT 2601

Dear Mr Irving

The Productivity Commission welcomes the release of the Review Committee's Draft Report on the Wheat Marketing Act. The Committee has produced a balanced analysis of the issues involved in assessing the anti-competitive restrictions in the WMA. The Commission considers that the proposals to relax some of these restrictions would improve returns to wheat growers, who would only use such alternatives to the AWB if they were of benefit to them.

The attached submission provides some comments on the Committee's preliminary views. In particular, the Commission believes that in view of the Committee's initial assessment that it has not been demonstrated that the benefits of the single desk arrangements outweigh the costs, a recommendation for removal (immediate or phased) of the single desk for wheat exports should be given serious consideration.

As with the Commission's initial submission, the supplementary submission will be placed on the Commission's website one week after the due date for submissions.

Thank you for the opportunity to comment on the draft and I look forward to the release of the Committee's Final Report.

Yours faithfully

A handwritten signature in black ink, appearing to read "Gary Banks".

Gary Banks

---

# Supplementary submission to the Review of the Wheat Marketing Act 1989

## 1 Introduction

The Productivity Commission appreciates the opportunity to comment on the draft report of the Independent Review Committee for the NCP Review of the Wheat Marketing Act (WMA) 1989. The current review provides the chance to continue the improvements in the performance of the wheat handling and marketing industry that have accompanied the gradual loosening of regulation and increase in commercial incentives over the last decade.

The Commission considers that the Review Committee has produced a well-balanced analysis of the issues under review. In particular, the Committee has focussed on implementing the principles established for NCP reviews, for example, by requiring those making claims of significant benefits of the single desk to demonstrate clearly that such benefits exist. The Commission concurs with the Review Committee's preliminary view that it has not been demonstrated that any price premiums that might be generated by the single desk provisions of the WMA exceed the costs of inhibited market development and higher costs of grain handling created by restricting competition.

It is not intended to traverse the ground covered by the Commission's original submission to the review or the Staff Research Paper accompanying it. Rather, this submission comments on the Review Committee's preliminary views and on some of the arguments underlying these. In addition, brief comments are made on some of the main reasons offered by participants for retention of the single desk.

In making its comments, the Commission is mindful of the principles of the NCP review process, highlighted by the Committee in its Draft Report (p. 14). Of particular importance is that the onus of proof for retaining anti-competitive legislation is placed on those in favour of the legislation — it must be demonstrated that the benefits of the restriction are greater than the costs if retention is to be recommended. This approach recognises the significant advantages provided by

---

competitive markets and hence requires clear proof that regulatory restrictions on competition generate sufficient benefits to compensate for the loss of these advantages.

## 2 Benefits and costs of the single desk

The Draft Report indicates that participants have not been able to demonstrate to the Review Committee any significant benefits of the single desk.

With regard to price premiums, application of the NCP guiding principle requires that proponents of anti-competitive legislation must demonstrate that any premiums reflect the impact of restrictions on exporting wheat. Importantly, in this regard, the Review Committee (p. 15) has carefully defined the terminology it uses when referring to different sources of price premiums. The term ‘single desk price premium’ is used only to refer to price differences attributable to the control of supply to particular markets, which is the distinguishing function of the single desk.

Accordingly the Committee observes that it is not enough simply to attribute any unexplained price variations to the influence of the single desk. This is not purely an econometric issue, but is also a matter of being able to demonstrate which markets could in principle offer single desk price premiums. In this regard, the Commission’s earlier papers suggest that any genuine price premiums, if they exist, are likely to be confined to a limited number of markets and probably be quite small. The evidence presented by the Committee appears to bear this out — while, on average, Australian wheat exports tend to attract relatively high prices, it appears that these are largely explained by factors independent of the single desk, such as quality and additional services provided to buyers.

Furthermore, even if some markets were to be identified as providing longer-term premiums from single desk selling, those premiums would not require the blanket restrictions on exports imposed by the WMA. This has been recognised by the Committee, which has suggested the possibility of freeing up bulk exports to some markets.

Other claimed benefits include economies of scale and marketing advantages. The Committee observes that economies of scale are unlikely to be so great as to justify a monopoly — in other words, it is unlikely that the Australian Wheat Board’s (AWB) current scale of operations is optimal. The Commission would add that, even if the AWB’s operations did represent the optimal scale of marketing operation, a legislated monopoly is not required to achieve or protect it. Exposure to competition should not undermine *efficient* exploitation of economies of scale. Indeed, if the AWB is efficiently exploiting economies of scale and passing on cost

---

savings to growers (in a way that reflects varying costs of individual growers), it will have a market advantage over potential rivals.

As observed in the Commission's original submission, other possible benefits provided by the AWB, such as quality assurance of Australian grain and development of an Australian brand image, could be achieved more directly and efficiently, and with less restriction on competition, through means other than a legislated single desk.

While clear evidence of benefits of the single desk has been elusive, the Committee has noted that several participants have provided evidence regarding costs imposed by the single desk. This confirms the Commission's expectations that an organisation largely protected from competition for a long period is likely to respond slowly to changing market conditions. It is likely that the dynamic benefits of introducing a free market in grain handling and marketing would highlight further costs of the single desk.

The Commission considers that the Review Committee in its preliminary assessment has correctly identified the absence of demonstrated net benefits of the single desk restrictions in the WMA. In such circumstances, NCP review guidelines suggest that a recommendation for repeal of the legislation is warranted. Instead, the Committee has recommended retention of the single desk, albeit with some diminution in the extent of the monopoly. Whilst the Commission supports the Committee's suggestions to increase scope for competition, as discussed in section 3 below, the proposals effectively turn back the onus of proof on those arguing the case for increased competition. This appears to be contrary to NCP principles.

The Commission recognises that the regulatory environment confronting the Review Committee may seem to constrain the options available to it — in particular, the legislative requirement for a limited review of the operation of the WMA by the end of 2004. However, NCP reviews are independent examinations of legislation and it would be quite appropriate for the current review to pre-empt the proposed 2004 inquiry. This possibility was made clear in the second reading speech for the *Wheat Marketing Legislation Amendment Bill 1998*, by the then Minister for Primary Industries and Energy (Mr Anderson).

The government is committed to the principles of national competition policy. Continuation of these arrangements for the export monopoly for the full five-year period will be subject to the outcome of a comprehensive and independent national competition review in 1999-2000. (*Commonwealth Parliamentary Debates, (House of Representatives)*, 14 May 1998, p. 3332)

---

Moreover, although current arrangements have only been in place for a short period, they continue a long history of single desk selling for wheat, during which the AWB had even greater control of wheat marketing than at present. This experience should have provided adequate evidence of any price or cost benefits of the single desk. Hence the Committee's concerns (p. 18) that the current system has been operating for too brief a period to demonstrate its full potential should not inhibit a recommendation to remove single desk restrictions. The main potential that the current system might be expected to demonstrate over time is some improvement in efficiency in wheat marketing due to the somewhat greater commercial pressure it places on AWB.<sup>1</sup> However, this does not justify retention of the existing restrictions as even greater improvements might be expected if anti-competitive impediments were removed.

### **3 Proposals to reduce existing restrictions on exporting**

Rather than recommend removal of the single desk, the Review Committee has presented for discussion preliminary views on a number of possible relaxations of current restrictions on exporting wheat.

The Committee's preliminary proposals are targeted to provide greater competition either where the single desk is unlikely to produce any benefits or where it appears to have resulted in higher costs to wheat growers. It is important to recognise that it is wheat growers who will be the beneficiaries of such changes through higher farm-gate prices for their wheat.

The Commission welcomes such changes as important steps to introducing greater competition into wheat handling and marketing and to further improve the sector's performance, with associated benefits to wheat growers. However, the Commission considers that it would be preferable to put these arrangements in place subject to future review, rather than for a finite, trial period which may conclude before a scheduled review.

#### **Export of wheat in containers and bags**

The Review suggests a trial period during which, for export of wheat in containers and bags, the requirement for the Wheat Export Authority (WEA) to consult with

---

<sup>1</sup> Even the potential for such improvements is not unambiguous as indicated by the Western Australian Noodle-wheat Growers' Association submission that the new regulatory arrangements have stifled the previously growing trade in exporting wheat in containers.

---

AWB be removed, and that the WEA issue approved exporters with annual licences rather than require sale-by-sale approval of exports. The Commission considers that this proposal has considerable merit. The existing restrictions are ponderous and costly for exporters and their customers and the associated uncertainty makes any market development unnecessarily difficult and expensive.

The current requirement that AWB be consulted on applications for non-bulk exports creates tensions between the needs of AWB to be profitable and the apparent intent (p. 14 of the Committee's Draft Report) of the WMA to maximise returns to growers from export sales. This tension can only increase if AWB pursues its stated strategy eventually to list on the stock exchange. The AWB is being asked to provide advice on sales licences which, if granted, would reduce its market share and profitability. These requirements also result in AWB having access to information about sales of its rivals.

For any freeing up of export controls to work well it is important that the WEA approval process is independent, transparent and contains adequate appeal mechanisms for exporters.

### **Bulk export of durum wheat**

The Commission also supports the proposal to relax restrictions on the bulk export of durum wheat. A lack of competitive pressure due to the single desk is likely to be particularly costly for new or specialised varieties — as indicated by the submission of the Western Australian Noodle-wheat Growers' Association. That submission highlights the inefficiencies created by an absence of competition in marketing wheat for export. The proposed requirement for WEA approval for durum wheat exporters would provide an appropriate check for those concerned that single desk price premiums might be eroded.

The performance of those exporting durum wheat would also provide an interesting benchmark with which to compare the performance of AWB.

### **Retention of the single desk for a limited range of markets**

The Review Committee (p. 10) has invited comment on the suggestion that there be qualified removal of the single desk for designated export markets satisfying a number of conditions. The Commission considers that moves to focus more tightly single desk restrictions to those markets where some benefits might exist, is highly desirable and reflects NCP review principles.

---

However, the NCP criteria indicate that a relaxation of export restrictions should occur where it cannot be demonstrated that the benefits of restrictions exceed the costs. By contrast, the Committee has developed a list of criteria that those proposing an easing of anti-competitive restrictions must meet. In other words, the burden of proof is reversed.

In setting criteria consistent with NCP guidelines, for determining access to bulk export markets, only the first part of the Committee's first criterion on p. 115 seems necessary. That is:

There is no demonstrated capacity to capture a single desk premium.

The Review Committee's other criteria for which markets might be opened up to export competition could be used as guides to the analysis of whether particular markets should be subject to single desk restrictions. While some of these criteria relate to reasons given for the possible existence of single desk premiums (for example, a government monopsony or quotas), their mere existence is not sufficient evidence of such benefits.

The proposed restriction of such bulk export licences to only a limited number of exporters also appears unnecessarily restrictive and may lessen the potential benefits to growers.

## **Improvements in the operation of the WEA**

The WEA needs to be able to operate as an effective, independent authority with the objective of maximising any benefits and minimising any costs of the single desk restrictions. Hence it should not be *required* to obtain advice (and, in the case of bulk exports, approval) from AWB before approving applications for export.

The Western Australian Noodle-wheat Grower's Association (2000) has suggested that the new legislative framework actually has made it more difficult for those wishing to export wheat in containers independently of AWB.

To perform its role successfully, the WEA needs to be independent of the AWB and to be adequately resourced. In particular, legislative provisions requiring the WEA to consult with AWB before issuing export licences create several difficulties. First, AWB, as a private company, cannot be seen as an independent arbiter on requests for exports that may reduce its market share and profitability. Second, this process provides AWB with commercial information about its competitors.



---

## **4 Scheduled 2004 review by the WEA**

The Review Committee's preliminary view is that the review of the WMA by the WEA, scheduled before the end of 2004, should be broadened to consider whether to discontinue the single desk. As noted above, the Productivity Commission, based on its understanding of the published evidence before the Committee, considers that a recommendation for removal of the AWB's single desk is appropriate, except where it can clearly be demonstrated that a compulsory, collective approach to export sales (for example, to export markets restricted by country-specific quotas) would yield net benefits to growers.

However, if it is decided to recommend a broadening of the scheduled 2004 review, the Commission considers it appropriate that an independent review committee be established for this purpose, rather than relying on the planned WEA review. The WEA is one of the key players in the current regulatory framework and its continued role is largely dependent on the continuation of the single desk. While the WEA has been established independently of AWB, the two organisations inevitably will develop a close working relationship. In addition, the WMA requires that two WEA Board members be nominated by the Grains Council, a body that has expressed strong support for the continuation of the single desk. Also, reflecting the legislation under which it operates, the WEA is likely to have a strong wheat industry focus. This is in contrast to the economy-wide perspective required under NCP guidelines.

Hence, while the WEA may be an appropriate body to conduct the more narrowly focussed review currently outlined in the WMA, the expanded review proposed by the Committee would be more appropriately handled by an independent panel.

## **5 Other points**

The Commission concurs with a number of other points made by the Review Committee which provide important insights into the impacts (or lack thereof) of the WMA. In particular, the Committee has identified some of the fallacies surrounding arguments often put in favour of retaining the wheat single desk. The Commission believes the following points deserve emphasis:

- the single desk cannot counter agricultural trade distortions such as trade barriers and subsidies by major grain producers. While the existence of such distortions is to be condemned, the best that Australia can do is to work in world trading forums for their removal. If anything, this situation reinforces the need for Australia to have a competitive, efficient and flexible grain handling and marketing sector;

- 
- the suggestion that large numbers of jobs would be lost and that there would be significant regional or social impacts of removing the single desk lacks foundation. Those proposing that large impacts would occur seem to be assuming that there are substantial single desk pricing premiums which would be lost, hence leading to a large loss of income and employment. Both analytical and applied studies have demonstrated that any genuine premiums are small at most and can be best achieved by less intrusive mechanisms than single desk selling. The main potential for job losses would seem to be via improvements in efficiency in grain handling. It is difficult to see how improvements in the transport/storage/selling function that could be expected to follow from increased competition would lead to reductions in revenue or employment in wheat farming;
  - AWB's marketing skills and economies of scale would not be forfeited in a competitive selling environment. Moreover, with greater competitive pressure, the benefits of any marketing or cost advantages would have to be passed on to growers rather than possibly being lost due to other inefficiencies of a monopolist; and
  - removal of the single desk would not prevent some or all Australian wheat growers from marketing collectively through AWB or some other entity of their choice. The AWB currently contracts out the sale of some grain in some markets to independent grain traders, indicating the availability of efficient alternative wheat marketers. If there are substantial internal cross subsidies in AWB pool prices then the introduction of competition may lead to a lowering of prices received by some growers, compensated by higher prices for others. Though affecting the distribution of income amongst growers, any such changes would, by more accurately reflecting costs of providing marketing services, result in a more efficient pricing structure and improved efficiency within the industry itself.

## 6 Concluding remarks

The Productivity Commission supports the Committee's proposals to narrow the extent of the AWB's export monopoly. However, given the weight of evidence that the benefits of the export monopoly at best are very small and do not appear to outweigh the costs, the Commission considers that, consistent with NCP criteria, the Committee should recommend removal of the current single desk arrangements. Competitive marketing of wheat for export should be introduced *except* in those markets where it can be demonstrated that compulsory selling arrangements are likely to generate net benefits.