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Forum

Wheat Marketing Symposium 1984

An Introduction

J. H. Johnston*

To the satisfaction of some people and the annoyance of others, much of the legislation defining the regulation of Australian wheat marketing terminates about every five years.^{1,2,3} Seven separate plans with their accompanying legislation have operated since 1948 (Longworth and Knopke 1982; Myers 1982). Public debate has always preceded the introduction of each new plan but since 1977 the debate has been intensified and crystallized by Industries Assistance Commission (IAC) public inquiries and reports (IAC 1978, 1983).⁴ Public discussion amongst all those affected by wheat marketing policy seems to have been more lively, more informed and less constrained in recent years.

Agricultural economists have been strongly involved in nurturing and contributing to this debate. Symposia were held at the February 1977 and 1984 Annual Conferences of the Australian Agricultural Economics Society (AAES) in Brisbane and Sydney. The following two papers by Dr Alistair Watson of the University of Melbourne and Dr Tim Ryan of the Australian Wheat Board (AWB) were presented at the recent Sydney conference. Alistair Watson was an Associate Commissioner on the 1982-83 IAC inquiry into wheat marketing, while Tim Ryan helped write and present the AWB's submission to that inquiry. Tim has also contributed to the subsequent development of the new marketing legislation. Mr Ian Wearing, Executive Director of the Australian Wheatgrowers' Federation (AWF) opened the discussion on these papers.

Watson's and Ryan's papers have only been lightly edited to improve their clarity. For readers of these papers who are not familiar with policy making for Australian wheat marketing regulation, some additional notes may be helpful. In the following sections I outline the policy process involved, summarize the issues identified by the IAC and others more recently and, lastly, provide some reading hints.

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¹ This is the Commonwealth Wheat Marketing Act and the equivalent, complementary State legislation. Prior to 1979 the legislation was known as the Wheat Stabilization Act.

² Legislation affecting marketing of the wheat crop which does not terminate includes State legislation establishing statutory bulk grain handling authorities (BHA's), or giving them and State co-operative BHA's monopoly powers, or giving State rail authorities (SRA's) monopoly powers to transport wheat and excluding road transport firms from doing so.

³ This contrasts strongly with marketing legislation for some other Australian rural industries.

⁴ As a body responsible for reviewing assistance to industries at the instigation of the Federal Government, the IAC cannot examine and report on the impact of State legislation affecting an industry unless the Federal Government also has an interest in providing assistance to that industry and, accordingly, instigates an IAC Inquiry.

The papers are followed by an epilogue in which I summarize developments since the February conference and identify some important issues not addressed by the authors.

The Policy Making Process

The two IAC inquiries on wheat marketing have followed the same pattern as other major inquiries in recent years—public hearings to take submissions, a draft report on which public hearings are also held and then presentation of a final report to the Federal Government.

As a result of the past history of wheat marketing legislation, a period of negotiation between the Federal Government and grower representatives (the AWF) has been relatively formalized. In addition, the necessity for complementary State legislation to ensure the constitutional validity and effectiveness of the arrangements has meant that States have been drawn into the development of new arrangements at an early stage.

Events prior to the introduction of the 1979 and 1984 legislation have proceeded as follows. The IAC reports have been published immediately on their submission to the Federal Government without any prior decision by it. Standing Committee on Agriculture (SCA), consisting of the permanent heads of Federal and State agricultural departments, formed a Working Group on each occasion to examine the IAC's recommendations, together with the views and recommendations of all industry groups and Australian governments. The purposes of the Working Groups were firstly, to make recommendations to SCA on a set of efficient and politically acceptable marketing arrangements to be included in new legislation and, secondly, to make clear to SCA their reasons for selecting this set as opposed to some other. In economic terms, Therefore, their purpose has been to find the policy which was likely to be the most favourable second-best one, or, at least, an ordered array of such policies if political acceptability was hard to predict. SCA then modified this and put it forward for consideration by the Australian Agricultural Council (AAC) consisting of the Ministers responsible for agriculture in each State and the Commonwealth Government. AAC then made immediate, but tentative, decisions on some elements of the new arrangements and left others undecided. Then followed discussions with industry groups—principally the AWF—decisions by the Commonwealth in areas over which it has sole jurisdiction; a final flurry of negotiations between the States, accompanied by sometimes intense industry lobbying; and, eventually, the passing of all the necessary legislation in each of the Parliaments.

The Issues in the Current Debate

Watson's and Ryan's papers both discuss the relative importance of a number of issues in the current debate, as appropriate at such a symposium. They both argue that some issues have been wrongly analyzed or inflated in importance while others have received too little attention. The background range of issues may not be clear to readers, however, and the following resumé may help.

Marketing of Australian wheat, both domestically and internationally, is controlled by a Federal Government created monopoly and its domestic handling, storage and transport is largely undertaken by State Government monopolies. Farmers are paid a pool return for each of a small number of grades, less costs consisting of marketing costs, which are pooled nationally across all grades, handling and storage charges which are largely pooled on a State basis, and rail costs charged on a distance-related basis in each State. A high first advance is paid to growers immediately after harvest and well before most wheat is sold and shipped. It is a high proportion of their total returns and its method of calculation is specified in the legislation. Government assistance is currently provided by way of underwriting of farmer returns, support for research and, recently, assistance with repayment guarantees on some export credit sales.

Under the 1979 legislation to be replaced in October 1984 an administratively determined price for human consumption wheat is set according to a stabilizing formula which results in transfers between growers and wheat users compared with export parity. The formula was intended to generate a net transfer to growers in the long run. On the other hand, Tasmanian consumers of all wheat types are assisted via complete subsidization of sea freight, which is paid for by a levy on human consumption wheat. Such a simplistic description of the market system is rightly criticised by Ryan (p. 118-9) but it is a useful starting point.

The IAC made recommendations or strong comments in the following five broad areas:

- (i) Deregulation of the domestic market including removal of import restrictions (apart from reasonable quarantine requirements);
- (ii) Better information to allow assessment of the AWB's performance in export marketing via publication of separate export and domestic accounts and regular sales by open destination tender;
- (iii) More efficient price signals and incentives to growers by a reduction in cost-pooling by the AWB and BHA, changes in calculation of the first advance, creation of a market in negotiable scrip for the growers' remaining equity in each pool, and publication of information on AWB costs of financing the first advance;
- (iv) Removal or limitation of some of the powers already granted to the AWB such as that to trade in futures, establish reserves, etc., and explicit specification of the objectives of the AWB in the legislation including maximization of returns to growers without taxing domestic consumers; and
- (v) Limitation of any continued Tasmanian Freight Subsidy to the cost of transport from Geelong and its financing from general government revenue.

The IAC inquiry and the subsequent debate on wheat marketing have been conducted against a backdrop of broad-based debate on costs of regulation, together with related debates in rural circles about the need for "greater commercial flexibility for the AWB" and the escalation of off-farm

costs such as wheat handling, storage and transportation. While each of these issues and arguments has been well put in professional papers (Tullock *et al.* 1983; AWF 1981; Miller 1984), they have also received extensive press coverage. So have arguments about losses from limited grading and other aspects of pooling (Brennan 1982; Johnston, *et al.* 1983).

As Watson notes (p. 109) significant changes for the better, in terms of economic efficiency, have taken place in recent years, both in wheat marketing legislation itself and in popular debate concerning such changes. The major issues confronting governments and industry groups are whether this evolutionary process should continue and, if so, how rapidly and whether by frequent marginal adjustment or less frequent major restructuring. All groups obviously recognize that the changes will have an impact on the distribution of incomes and rents, but for many it is unclear whether they are likely to win or lose since it will depend upon whether efficiency gains will be large enough to outweigh distributive losses.

A Hint for the Reader

Watson's paper has been placed first since it reviews many of the arguments considered by the IAC and the reasons for their recommendations. Many of Ryan's comments are made in response to the IAC's report and the attendant debate. However, those readers not familiar with the Australian wheat marketing arrangements may like to read the first two sections of Ryan's paper first.

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