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## Forum

# Commodity Marketing Board Modernisation: The Queensland Experience

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This paper describes and explains the recent very rapid reduction in the number of commodity marketing boards (CMBs) in Queensland. The major causes included changed macro and micro economic policies, changes to national marketing arrangements, reduced producer support for compulsory delivery, producer interest in individual ownership of CMB assets, and producer demands for more flexible marketing systems. The key role of the Queensland Government in encouraging reviews of the CMBs, providing innovative and flexible legislative changes, and providing information and other assistance, is emphasised. Research on the effects of the changes in the commodity marketing arrangements is suggested.

## 1. Introduction

Commodity marketing boards (CMBs) with extensive legal powers of compulsion over the marketing of particular commodities have been responsible for the marketing of numerous agricultural commodities (especially field crops) in Queensland, for many years. These CMBs, established at the request of producers and controlled by them, were set up mainly during the 1920s and 30s. Collectively, their operations have often been referred to as the "orderly marketing system". Similar systems, also usually involving producer controlled CMBs, were also established in other states and nationally for many commodities, at the request of producers. The reasons for the establishment, and the operations, of CMBs and other regulated marketing arrangements for agricultural commodities in Australia have been reviewed by Lewis and Seiper.

After a long period of stability, Queensland's "orderly marketing system" has changed dramatically since 1989. Most of the CMBs have been wound up and replaced by organisations without any legal powers of compulsion or with such powers only for a defined transitional period. Winding up reflected the wishes of producers expressed at polls initiated by the producers or at producer meetings.

The main purposes of this paper are to describe and to explain the changes which have occurred recently to the so-called "orderly marketing system".

For simplicity, the paper deals only with CMBs established under the central piece of CMB legislation in Queensland, the Primary Producers' Organisation and Marketing (PPO&M) Act and a similar Act relating to wheat. Marketing arrangements involving compulsory acquisition/delivery and/or pricing for sugar, fish, milk and horticulture established under other commodity-specific legislation, which differs from the PPO&M Act model, are not considered in detail.

## 2. Establishment and Features of CMBs

Queensland's State Wheat Board, established in 1920 under the Wheat Pool Act, was arguably the world's first producer-controlled CMB. The establishment of the Board followed the pooled marketing arrangements for export and domestic sales adopted in most of Australia during WWI and the subsequent period of unstable international and domestic wheat markets.

The Board's main objectives were to provide producers with control of the industry's production in order to try to increase and stabilise market prices and minimise marketing costs; to treat producers equally by pooling returns over time and paying producers average pool returns for product of similar quality; and to facilitate the further development of the industry on an orderly basis.

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To achieve these objectives the Act required producers to deliver to the Board all the wheat they produced and for it to be sold by the Board; required the Board to pool the revenues and pay producers the average price received by the pool for specified qualities, less marketing and other costs; and empowered the Board to impose levies on producers to fund its operations (Marriott and McLean).

In 1926, producers of other commodities were provided with the opportunity to establish a CMB, if they so wished, by the enactment of the PPO&M Act. The main provisions of the Act were very similar to those of the Wheat Pool Act and were:

- each CMB had a finite life which could be extended at the request of producers;
- the CMB could be established or disbanded only at the request of producers;
- the CMB could market only the commodity for which it was constituted;
- producers were required to deliver the commodity to the CMB for sale by the CMB;
- the CMB was required to pool revenues and pay producers average returns for specified qualities; and
- all the CMB's directors, except for a Government representative, had to be elected by producers (and hence such directors tended to be producers).

The operations and performance of the CMBs were also influenced significantly by other State legislation, e.g. that which allowed the Government to act as guarantor for borrowings by CMBs. Also, federal legislation has greatly influenced the operation and performance of State organisations. The CMBs have been largely, and beneficially, influenced by the exemptions provided from the provisions of the Federal Trade Practices Act, which prohibit collusion and price fixing between sellers, and from the payment of federal income tax.

Between 1923 and 1983, 24 separate CMBs were established under the PPO&M Act or its predecessor acts for commodities such as butter, cheese, barley, cotton, tobacco leaf, peanuts, eggs, ginger, navy beans, rice, maize, grain sorghum, potatoes, onions,

arrowroot, broom millet, pigs, etc. Most of the CMBs were established during the 1920s and 1930s but several were established after WWII, the latest being for rice in 1971. Most CMBs were set up for the whole State but several were established only for part of the State. Their objectives were usually identical, or very similar, to those of the Wheat Board. Generally, no minimum price or price stabilisation schemes existed for the commodities involved. The main exceptions were wheat, tobacco, butter and cheese for which federal schemes operated at some time during the life of the CMB. Eleven CMBs were wound up between 1923 and 1983. Winding up was necessary mainly because of lack of producer support; inability to enforce compulsory delivery requirements; and changing demand patterns which led to the demise of industries.

In addition to the CMBs established under the PPO&M, and the Wheat Board under the Wheat Pool Act, CMBs with broadly similar powers and functions were also established under separate legislation for sugar and fish. The marketing of milk and horticultural products (especially pineapples and processing vegetables) was also highly regulated by separate legislation.

### **3. Changes to CMB Legislation and Attitudes towards CMBs: 1926 to 1983**

The PPO&M and the Wheat Pool Acts were amended extensively between 1926 and 1983 in response to a variety of influences. However, the changes to the legislation were more evolutionary than revolutionary during this period and the fundamental objectives and powers were not changed. The changes reflected mainly the need to adjust to changing commercial practices and modernise administration procedures (Vinning 1979, 1980a and 1980b).

In general, the Federal and Queensland Governments worked closely together to provide legislation needed to achieve similar national and State marketing objectives. For example, after WWII the Australian Wheat Board (AWB) was established to market the entire Australian wheat crop domestically and overseas using compulsory delivery and pooling powers. These powers were provided by Federal and complementary State legislation. There was also close Federal and State co-operation in the provision of legislation for statutory marketing arrangements for tobacco, eggs, butter and cheese.

Usually, both the Federal and Queensland Governments took greatest account of the benefits likely to accrue to producers from the maintenance and modification of the legislation. In general, producers accepted the restrictions on their freedom of marketing choice in return for the expected benefits such as increased returns, greater price stability, reduced marketing costs etc.

Some Queensland CMBs sought to be allowed to market other commodities or provide non-marketing services to producers. However, for a variety of reasons, the restrictions on these activities in the Acts were not removed. Consequently, some CMBs established associated co-operatives to undertake these activities. For some commodities, e.g. ginger, navy beans, peanuts and rice, the CMB also appointed an associated co-operative as its receipt and handling agent and in two of these cases (ginger and rice) the co-operative also was allowed to make the major marketing decisions.

Nationally, and in Queensland, community and producer views on CMBs started to change substantially during the 1970s. The work of the federal Industries Assistance Commission (IAC) greatly increased the awareness, and interest, of politicians, government officials and consumers in the effects on economic efficiency, equity and growth of the CMBs. In Queensland, there were also regular attempts by some producers to circumvent the compulsory delivery requirements by selling some commodities interstate under the protection of the "free trade" provisions of the Australian Constitution. Also, in some industries producers were becoming concerned about the high cost of providing capital for infrastructure growth etc. via pool deductions and levies (non refundable and refundable) on all producers; their lack of clear realisable ownership of, and equity in, the CMBs assets if they left the industry or the CMB was wound up; and increasing accountability provisions in the legislation. Nevertheless, during this period the Queensland CMBs were well supported by the great majority of their producers and the Government was prepared to continue to provide the legislative backing for the powers of compulsion required for the continued operation of the "orderly marketing system".

#### **4. The Years of Reform: 1983 to 1994**

This was a period of radical and rapid change for the CMBs and their legislation, especially after 1989. In

June 1983 there were still 13 CMBs operating under the PPO&M Act, plus the Wheat Board. But by the end of 1994, only one active CMB was still operational under the PPO&M Act and four were in the process of being wound up as a result of restructuring exercises, and the Wheat Board no longer existed. Negotiations are underway with the remaining CMB operating under the PPO&M Act (for tobacco leaf) regarding a suitable restructuring arrangement. During this period the Sugar Board, established under separate legislation, was also superseded by a new statutory corporation, the Queensland Sugar Corporation, operating under completely revised legislation. Also, in the fruit and vegetable industry statutory marketing arrangements had been removed or rendered effectively dormant except for "code of conduct", quality standards and licensing requirements.

This rapid change was caused by many diverse influences. The macro and micro economic policies of the new federal Labor Government from 1983 were undoubtedly major early influences. These included the floating of the Australian dollar, the deregulation of the banking sector and a general emphasis on economic efficiency and reduced regulation. Sector specific influences included the effective deregulation of the domestic wheat market which also put other regulated domestic grain marketing arrangements under pressure; the reduction, then removal, of price underwriting arrangements for several commodities; the restructuring of federal commodity marketing authorities (Davies *et al.*,) and changes to the national statutory marketing arrangements for meat/livestock, dairy products etc. These federal policies helped to create a deregulatory climate throughout the country from which Queensland was not isolated. The work of the IAC was also important during this period in highlighting the range of alternatives that needed to be considered in a number of key rural industries (Industries Assistance Commission 1983a, b, c, 1987, 1988 and 1989). The IAC's successor, the Industry Commission, continued this work and published a comprehensive report on the subject (IC 1991).

From late 1989, the rate of change accelerated very rapidly. Indeed, most of the changes to the CMBs occurred after 1989 with 10 CMBs being wound up at the request of producers between late 1989 and the end of 1993. The new Labor Government encouraged industries with CMBs to closely examine their operations; the need for their regulations; and the alternatives available. This process was responsible for most of the decisions to terminate CMBs. A key part of the

new Government's approach to restructuring commodity marketing arrangements was its preparedness to facilitate restructuring arrangements by special industry-specific legislation outside of the PPO&M Act and to remove disincentives to restructuring, notably by providing a rebate of stamp duty on transfer of assets from a CMB to a replacement non-statutory corporate entity where this was not already adequately covered by the PPO&M Act itself.

The winding up of CMBs and the adoption of other organisational arrangements was greatly facilitated by changes to the PPO&M Act made in 1987 by the previous State Government regarding winding up arrangements. A major change was that, following a vote of its producers, a CMB could be wound up with assets and liabilities to transfer, free of stamp duty, to a co-operative representative of producers in the same industry. Previously, the PPO&M Act did not allow any such asset transfer to a non-statutory organisation but provided, in effect, for any residual net assets of a CMB in a winding up to revert to the control of the Government. The process was also facilitated by many CMBs already operating associated cooperatives or being familiar with cooperative concepts and structures. Information and advice from Government and the private sector on the merits of alternative business structures, e.g. Biggs *et al.*, also greatly facilitated the process. Other changes were made to the Act in 1987 to help CMBs operate more commercially and flexibly. CMBs were allowed to provide alternative payment systems to the pool. This facility was used by the CMBs for cotton and some cereal grains. CMBs were also allowed to appoint non-elected (ie. non-producer) directors with specialist qualifications. However, somewhat surprisingly, this opportunity was not taken up by any CMB.

CMB changes and moves to alternative business structures were also facilitated by the deregulation of the cotton industry and the consequent abolition of the Cotton Marketing Board in 1989. This deregulation exercise was producer-initiated and producer-driven. It occurred largely as a result of producer dissatisfaction with the marketing performance of the Board in comparison to the non-statutory marketing bodies (notably a producer co-operative) in the neighbouring State of New South Wales; demands for more involvement of individual producers in marketing decisions (e.g. the use of commodity and foreign currency hedging tools such as futures contracts and options); producers wishing to establish a clear producer claim to legal ownership of the assets of the Board (paid for by producers by levies and pool deductions); and the

wish to develop a corporate structure which, in time, might allow for external (ie. non-producer) equity participation. The perceived success of the cotton deregulation exercise, involving the transfer of the assets and liabilities of the Board into a co-operative, which subsequently converted into a producer controlled unlisted, and then a publicly listed, company structure undoubtedly provided a model for subsequent deregulation exercises by the CMBs for navy beans, peanuts, ginger, butter and in the grain industry.

The cotton exercise also introduced the concept of facilitating legislation to expedite the agreed restructuring arrangements and to continue any statutory powers, and any related statutory duties and responsibilities, for a defined transitional period of time. This approach was subsequently adopted for some other CMBs e.g. various cereal grains and eggs.

Other factors which have contributed, to varying degrees depending on the particular commodity, to the rapid change in the Queensland CMBs since 1989 include:

- increasing difficulty in enforcing compulsory delivery arrangements and securing producer acceptance of the need for enforcement arrangements;
- market instability due to competition from interstate sources and leakage of product out of the State which undermined the traditional pooling concept;
- the "demonstration effect" of non-statutory marketing arrangements operating for certain commodities within Queensland (e.g. grain sorghum in south Queensland) and interstate (cotton in New South Wales);
- changing attitudes on the part of some producers who were more willing to explore different marketing arrangements and who were also less fearful about the possible adverse effects on producers of an unregulated marketing system;
- producer concern about increasing Government intrusion into the affairs of CMBs, particularly in the area of accountability and the imposition of public sector standards (e.g. in areas such as employee superannuation, directors' remuneration, capital works funding and the appointment conditions for senior executives);

- constraints and rigidities in the CMB legislation which, over time, came to present a greater impediment to CMBs adopting a totally commercial marketing approach;
- removal of some benefits of being a CMB, notably the termination of State Government guarantees for crop finance borrowings and the disinclination by Government to continue to provide a safety net to assist CMBs in the event of financial failure; and
- an emerging community, and hence Government, perception of CMBs as perhaps being incompatible with the general trend towards a more competitive and responsive economy.

The actual corporate structure used to replace each CMB was dependent on industry circumstances and producer objectives. For example, the ginger restructuring led to the emergence of a publicly listed company, mainly due to the need to access external equity capital for expansion of infrastructure. However, the need to access external capital was not an issue in the navy bean industry where an existing producer co-operative was used to replace the CMB. For eggs, the driving force for a producer controlled unlisted company structure was producer rejection of the cooperative principle of one producer one vote independent of size.

Of the eleven CMBs replaced by alternative corporate structures, six were replaced by producer cooperatives, three by producer controlled unlisted companies and two by publicly listed companies. In each case, the decision to change the structure was made by producers either via a producer initiated poll or by open voting at producer meetings. The removal, or the transfer to another body, of the compulsory powers was done also at the request of producers expressed via polls or at producer meetings.

The new corporate structure adopted by each CMB since 1989, and the main catalysts for the changes (as assessed by the authors), are shown in Table 1.

## 5. Discussion

The voluntary winding up of most of Queensland's CMBs and the actual, or proposed, removal of powers of compulsion regarding the marketing of the commodities have occurred very rapidly since 1989.

The reasons for the rapid rate of change are numerous and are identified in the paper. However, the Queensland Government undoubtedly played a crucial role by stimulating and facilitating this rapid process of change. Clearly, the inclusion in 1987 of winding-up procedures in the Act to allow the transfer of a CMBs assets and liabilities to a co-operative, greatly assisted the rate of change. It removed a major disincentive to winding up. However, several other Government activities also had a major effect on the process. Firstly, the encouragement of CMBs to look closely at their operations and alternative structures often acted as the initial catalyst for change. Secondly, Government adopted an innovative and flexible approach to the process by providing specific facilitating legislation where needed and being prepared to allow transitional arrangements which in some cases involved the provision of statutory powers for non statutory bodies for a defined period. Thirdly, Government was prepared to remove financial impediments to restructuring. Fourthly, Government provided considerable information and advice to the CMBs about alternative business structures etc. As a result of these and other actions, the process of reform generally has gone both quickly and smoothly.

*Ex post* evaluation of regulatory reform is often difficult due to the many potential effects and causal factors and often to a lack of reliable data on the situation prior to the introduction of the reforms. However, useful *ex post* evaluation work has been undertaken in New Zealand on the deregulation of some statutory marketing arrangements (town milk, wheat, eggs etc) which occurred in the 1980s (Gibson, Moffitt and Sheppard, Sandrey and Reynolds, Commerce Commission, and Pickford).

Surprisingly, few detailed *ex post* evaluations appear to have been undertaken yet for changes in CMBs in Australia at national or state level even though this could be an important and productive research area. In Queensland, many of the changes to CMBs have been in place for only 2 to 3 years. Consequently it is probably too early to be able to fully measure the economic and other effects of all of the CMB changes described in the paper. However, *ex post* evaluation appears to be possible and warranted for cotton, butter, peanuts, navy beans and the domestic marketing of wheat, barley and sorghum.

Table 1: Queensland CMB Reform: 1989 to 1994 - New Corporate Structures and Major Catalysts									
CMB Commodity	Corporate Structure at 1 July 1994 (year of initial change)	Demands for Individual Producer Ownership of CMB Assets	Need for External Equity Capital for Expansion	Industry Desire to Improve Marketing Performance/Flexibility	Demonstration Effect of other CMB Restructures	Industry Concerns Over Commercial Constraints of Legislation	Review as Part of Overall Government Reform Agenda	Rapidly Changing Market Conditions	
Cotton	Listed public company (originally coop then unlisted) (1989)	✓	✓	✓	✓	✓			
Peanuts	Unlisted producer-owned company (1992)	✓	✓ (Limited)	✓ (Limited)	✓	✓			
Navy Beans	Co-operative (1993)				✓	✓	✓		
Ginger	Listed public company (1990)		✓			✓			
Barley ) Sorghum (Central) ) Wheat ) (See Note 1)	Co-operative (1991)	✓			✓	✓	✓	✓	
Eggs (South) ) (Central) ) (See Note 2)	Unlisted producer-owned company (1993)	✓			✓	✓	✓	✓	
Rice	In process of winding-up (1994)			✓	✓	✓	✓	✓	
Butter	Co-operative (1990)	✓		✓		✓			
Tobacco (See Note 3)	Still a CMB			✓ (Regional)	✓		✓	✓	
Maize (North)	Co-operative (1994)	✓		✓ (Limited)	✓	✓ (Limited)	✓	✓	

Notes: 1 All part of the same restructuring exercise. Compulsion powers transferred to coop for specific period.  
2 Both part of the same restructuring exercise. Compulsion powers transferred to producer company for specific period.  
3 Consideration of restructuring options (especially to a co-operative) underway at time of writing.

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