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FUTURE OF AGRICULTURAL STATUTORY MARKETING ARRANGEMENTS IN AUSTRALIA

Paper presented by

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Most of the material in this paper is drawn from the Industry Commission's report on *Statutory Marketing Arrangements for Primary Products* of 26 March 1991 and some of the wording is taken from that report with the minimum of change. Acknowledgement is made of the help of James Roberts of the Commission for help in assembling the material.

Introduction

When we have developed perfect man let us implement our perfect free market. Until then it may be best to have some socially responsible system such as statutory marketing arrangements.

If it ain't broke, don't mess with it.

Changes to agricultural statutory marketing arrangements at both State and Commonwealth levels have, in many respects, led the way in the micro-economic reform in Australia. Nevertheless, as the above quotes from two participants in recent Commission inquiries into statutory marketing arrangements illustrate, old attitudes die hard and much remains to be done. In some respects agricultural marketing reform now lags behind micro-reform in the manufacturing and services sectors.

Reform of statutory marketing arrangements must be seen as part of an agenda of broadly based micro-economic reform in the economy generally. Micro-economic reform seeks to ensure that our industries perform to their best potential. Among other things, it involves the removal of those things which governments do which impede efficiency. Although in the past governments may have intervened in the affairs of industries with the best of intentions, nowadays there is a growing recognition of the adverse economy-wide effects which government interventions in the affairs of industries can have.

Agriculture has been rife with interventions which regulate the marketing of particular products or groups of products. Sometimes, statutory marketing authorities (SMAs) have been established which make use of powers not available under more general legislation. In most cases they are exempt from the general trade practices legislation of the Commonwealth or the fair trading legislation of the States. Some statutory arrangements have been designed to overcome perceived market failures, but others are designed specifically to advantage the industries to which they are directed.

Recent changes

Before I discuss reform issues and statutory marketing in more depth, let me illustrate some of the changes (hopefully reforms) which have already been made. These have occurred on various fronts:

- Accountability Following the 1990 Davis review of Commonwealth authorities, many significant changes are in train. These include greater accountability to levy payers (the 'shareholders'), for example through annual general meetings, and

through establishing voting rights in proportion to levy paid. The Davis report followed a 1986 White Paper which introduced significant changes to the qualifications and responsibilities required of members of the Boards of SMAs: for example, requiring board members to be selected on the basis of their expertise rather than as representatives of particular interests.

Similar changes to improve accountability have been made in some of the States.

- Efficiency Reforms aimed at improving efficiency have also been made. For example, the Australian Horticultural Corporation has been formed at least partly to reduce the overheads involved of a number of separate bodies conducting their own marketing of horticultural goods. Similarly, grains boards in NSW have amalgamated, as have those in Queensland. As well as administrative savings, the amalgamations attempt to achieve economies of size and scope.

There is also a move away from departmental control and statutory authority operation to corporatisation or privatisation of operation. This is particularly the case in Queensland (the home of statutory marketing) where the marketing of grains is to be undertaken by a co-operative. Queensland Cotton, a private company, has been formed to take over the operations of the former statutory Queensland Cotton Marketing Board and its affiliated co-operative. Similar changes have occurred with ginger and peanuts.

- External reviews In Victoria, parliamentary inquiries commencing in 1984 and continuing until 1990 have reviewed all agricultural marketing bodies. South Australia and Western Australia now have regular schedules of reviews. New South Wales has recently reviewed the nine SMAs established under its Marketing of Primary Products Act.

As a result of these reviews there has been a considerable redefinition of objectives, functions and powers of some of the SMAs which can add to their efficiency as marketing instrumentalities. However, the terms of reference for these State reviews have rarely focused on economy-wide criteria.

Terms of reference for some of the special Federal inquiries, such as the Vines inquiry into the wool difficulties in 1990-91, have also focused more on the internal problems of the industries themselves than on what is in the overall national interest. But national reviews such as the Royal Commission into Grain Storage, Handling and Transport have understandably focused more on national interest than State inquiries. This, of course, is also the thrust of continuing Industry Commission inquiries.

Many significant changes have been made, and are continuing to be made, and it would be wrong to minimise their value in adding to national income and growth.

More reform needed

Nevertheless, there is still a long way to go. Some agricultural industries continue to receive high assistance on the domestic market, production restrictions on some commodities continue, and export controls remain — often with little demonstrable benefit. Some examples are:

- at a national level, the obvious examples are dairy, sugar and rice, though most of the interventions depend on State legislation;
- at a State level, Western Australia continues in some commodities to take advantage of its isolation from the East to gain higher prices for its producers. Further, some of its Authorities appear to represent the interests of minority production.

Obviously, despite considerable change, statutory marketing is far from dead. Two central issues need to be addressed whenever agricultural marketing arrangements are reviewed. They are the objectives and powers underlying the arrangements and the ownership and organisation of the marketing body.

Objectives and powers

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. They include:

- countervailing the market power of merchants, processors and other intermediate buyers;
- stabilising prices, production and/or producer incomes;
- maximising returns from exports;
- providing market information;
- developing markets and undertaking market research;
- obtaining economies of size and scope in marketing;
- establishing grade standards and quality control; and
- providing industry assistance.

A number of powers are used to pursue these objectives. They include:

- vesting and/or compulsory acquisition;
- setting or negotiating prices;
- imposing compulsory levies on producers;
- licensing producers and/or exporters;

- trading in commodities;
- operating pooling and equalisation arrangements;
- providing market information;
- carrying out market development and research;
- establishing quality standards and grades; and
- undertaking promotion.

How can we evaluate this long list of objectives and powers? Obviously they were considered worth while by a majority of producers at the time the relevant arrangements were established, and there was a political willingness to act in the interest of producers. But nowadays, with a far more diverse economy and political structure, and a more powerful economic calculus, we tend to take a wider view, considering what is in the best interests of the community as a whole. Indeed, the Industry Commission is directed in its charter to take such an economy-wide approach.

In its recent report into Statutory Marketing Arrangements, the Commission considered these objectives under four broad categories:

- increasing returns to producers;
- stabilising prices, production and incomes;
- reducing marketing costs and stimulating demand; and
- providing and/or delivering assistance.

The Commission concluded that many objectives of statutory marketing arrangements are sound from the viewpoints of both producers and the wider community. However, in evaluating objectives, it is impossible to overlook the powers with which they are pursued. With some exceptions, the Commission also concluded that 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 obviously a sound objective 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 therefore be warranted. Controlling supplies entering export markets may be also be warranted if the extra revenue obtained exceeds the costs of achieving it. But it is difficult to demonstrate that Australia, acting alone, 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. In today's environment it is likely to over-compensate for any 'market failure' caused by the market power of 'middlemen'. However, the Commission's analyses showed that it is not so much the domestic price increases which lead to overall economic inefficiencies (they mostly result in income transfers) but rather it is the production controls and other restraints, which are often necessary to make those price increases stick, which lead to community costs.
- Many producers may benefit from increased price stability. However, imposing reductions in price instability, 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.
- Finally, a statutory marketing arrangement may be an efficient 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.

Obviously, detailed study is needed to apply these findings to specific commodity arrangements. But they suggest that the number of situations in which statutory marketing would be considered in the best interests of both producers and the wider community is few.

Institutional arrangements

The second central issue concerns the institutional forms under which agricultural marketing arrangements, either statutory or non-statutory, are pursued. Even if some

statutory support is considered justified, this does not necessarily mean that an SMA should provide it.

The range of possibilities extends beyond SMAs to private companies or co-operatives, advisory committees, marketing orders, contracting out, and so on. It is not always possible in advance to nominate which institutional form would be best in each particular circumstance. But some general conclusions are possible.

Where statutory powers are not to be provided, the decision about institutional form should be left to producers themselves, consistent with any generally applicable legislation, such as the Trade Practices Act. (Though whether this Act needs reform to deal adequately with agriculture is another issue.) Producers presumably would choose that form of organisation which best advantages their interests.

It is a telling comment on the changing financial and marketing environment that for some commodities the majority of producers are themselves discovering that it is in their interest to shed the statutory shield and organise their own co-operative or private company. The Queensland examples I have already mentioned are cases in point. Under these new structures:

- management faces clearer incentives greater profits;
- there is freedom to operate in a fully commercial manner;
- capital raising should be easier;
- ownership of assets should be clearer; and
- the necessity to account to government (often a non-productive activity) is removed.

How should reform be pursued?

No doubt ad hoc inquiries will continue to be held following calls for intervention when marketing crises arise in particular industries, and other inquiries will continue on a regular basis. Industry Commission inquiries usually result in change which opens marketing arrangements to greater competition and commercial disciplines. Progress would be greater, and change more worthwhile, if all reviews of statutory marketing arrangements, both State and Federal, adopted the economy-wide approach I have mentioned earlier, with review committees constituted accordingly.

Pressure for change will also come from at least three other avenues:

- First, changes in one particular State may counteract or nullify marketing arrangements in others. For example, 'de-eggulation' in NSW has affected egg marketing in Queensland and Victoria.

- Second, growing import competition might have an effect. This is likely with milk products from New Zealand, for instance.
- Third, there will be pressure from producers in some in some industries for reform in others — for example, recent complaints by lot feeders about the Australian Barley Board taking advantage of shortages to push prices up.

But the most potent force for change is the growing realisation by many primary producers that, no matter how good the performance of any particular SMA, in today's economic environment they require more flexible options than can be offered by a single marketing organisation. In many respects, the statutory enforcement of what is undertaken by our SMAs has outlived any usefulness it may have had. But that does not imply that many of the existing statutory bodies may not be transformed into something more useful.

The Future

In a recent address, Geoff Miller outlined a vision for reform of Australian agriculture which foreshadowed major changes to the industry's structure.* His preferred scenario for Australian agriculture in the year 2000 included:

- further phasing out of the major role played by statutory marketing authorities in Australian agriculture;
- marketing systems dominated by big, vertically integrated agribusiness companies, with farmer shareholders;
- an end to the Australian Wheat Board's export monopoly;
- an end to the dominance of the wool auction system; and
- much more processing of rural commodities in Australia.

Dabbling in futurology is a hazardous business, but I agree with Geoff that the signs of the times point to a significantly reduced role for statutory marketing by the year 2000.

- Pressure will be continued to reduce domestic market assistance, through reform of pricing and production controls. The Commonwealth has already announced this in March 1991, together with reductions in manufacturing tariffs as part of a more broadly based micro-economic reform agenda. The challenge is to get the States to follow.

*Geoff Miller, *Transforming Comparative Advantage in Agriculture into Comparative Advantage in Food and Fibre Production*, opening address to the Seminar on Food and Fibre Marketing: Facing Reality, organised by the School of Marketing, David Syme Faculty of Business, Monash University, Melbourne, October 31, 1991.

- As Geoff Miller foreshadowed, there will be continuing examination of the rationale for statutory involvement in export marketing. The benefit of single desk export selling has never been satisfactorily demonstrated.
- In contrast, there will be continuing statutory involvement in quality control, particularly on export market to meet the requirements of overseas governments. Some compulsory levies may be needed to continue to fund this.
- There will be a continuing questioning of the role for statutory intervention in promotion and market development as greater differentiation of commodities occurs. However, a case remains for the continuation of compulsory contributions for the generic promotion of undifferentiated commodities.

These are some of the issues which the Industry Commission is addressing in its current inquiry into the Australian horticultural industries and the role of the Australian Horticultural Corporation in their development.

Conclusion

In conclusion, I consider that the future points to a diminishing role for statutory interventions in marketing arrangements, because:

- many of the traditional justifications for intervention, such as to countervail the market power of merchants and processors, have been overtaken by change in the structure of the economy generally, for example the development of trade practises legislation;
- reviews of marketing arrangements are increasingly being undertaken in a broad economy-wide perspective;
- industry participants are becoming better informed and are unlikely to endorse arrangements which stifle innovation and restrict their freedom; and
- reforms in some States, and the effects of the CER agreement with New Zealand, will inevitably undermine the ability of other States to maintain their statutory interventions.

The future role of statutory marketing arrangements will be much more focused, concentrating on areas where a positive benefit, both for producers and the community generally, can be shown.