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MARKETING AND TRADE POLICY

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In Chapters 6 and 7 the Group dealt with marketing and trade policy, respectively. In Chapter 6 stress was laid on the potential consequences of various forms of intervention in the processes of price formation and resource allocation, but in Chapter 7 the Group took as given the substantial and continuing intervention of governments in international trade policy. The Group dealt with marketing arrangements principally through the role of co-operatives, statutory authorities and the performance of these authorities. Material in this chapter overlapped to a significant extent with Chapter 5 on such matters as price support, underwriting schemes and the promotion of rural products.

The Group concluded, and illustrated by examples, that maximum reliance should be placed on the performance of marketing functions by the private sector in a competitive market. They recognised that producers with legislative support have established collective marketing schemes to correct perceived deficiencies in private sector trading. The functions of statutory authorities were outlined but their performance was not assessed critically. In reply to claims that statutory authorities had not achieved their aims, the Group took the view that current marketing arrangements are the *status quo* and, from this base, adopted the approach of suggesting measures which could enable the market to operate with greater efficiency consistent with the objectives that intervention be minimised, exposure to market forces be maximised and policy measures be consistent with achieving equity between industries and sectors. Statutory authorities, it was argued, were unlikely to be a satisfactory alternative unless they were given more flexibility and behaved in ways complementary to the activities of firms in the private sector.

The Group made a comprehensive and balanced statement on the difficult issue of accountability of statutory authorities. The achievement of a fine balance between responsibility to Parliament and to the industries that fund the authorities is complex but, as a principle, the degree of accountability to Parliament should be directly proportional to the reliance of statutory authorities on legislative and financial support from Parliaments.

The Group found considerable merit in voluntary incorporation of marketing functions of large groups of producers under the Companies Act. A company was considered to be a more stable legal framework than a co-operative and had more flexibility in commercial operations than most statutory authorities. The Queensland Grain Growers' Association (QGGA) was seen to be a successful example of this form of collective marketing but whether the recent difficulties of the QGGA are the result of any unforeseen, yet fundamental, deficiency of this type of structure is yet to be assessed.

The pragmatic approach by the Group to the examination of marketing policy contrasts with the alternative approach, typically taken by policy analysts, of identifying policy optima and contrasting actual positions with these optima. The Group's approach of identifying arguably desirable, and potentially attainable, shifts from sub-optimal policy positions will be highly suspect to economic theorists.

The Group drew a distinction between price and regulatory intervention in markets where the degree of protection is 'high' compared with when it is 'low' (paras 6.49 and 6.50). This criterion for justifying the distortion of resource allocative signals seems to be an inadequate discriminant of the *n*th best variety. The obvious question is: why is it justifiable to intervene in a market which is presently judged to be performing 'efficiently', as measured by low effective rates of protection? The Group's argument could reduce distortions *within* the agricultural sector but not necessarily the distortions between agriculture and the rest of the economy. While this approach has attractions, informational requirements of such a policy discriminant seem to be enormous and the conclusions may be incompatible with the goal of exposing market participants to prevailing market forces. In this respect the ambition of the Group (para. 6.51) '. . . to set out (sic) the principles which should be applied to collective marketing in the ensuing decade' seems not to have been achieved and remains a challenge for the future.

The pragmatic approach of the Group to marketing policy showed through when the collective marketing arrangements for the major commodities were examined separately. The Group supported, for example, the current domestic price for wheat for human consumption being set up to 20 per cent above the export price. For sugar, the Group advocated a policy where domestic price conformed with the long-term trend in export returns but provided no guide as to the desirable differential between the domestic price and export returns. Further, the Group (para. 6.67) '. . . favours legislative changes empowering the AMLC to act as a single seller to single buying markets, to avoid undercutting by individual exporters', yet for statutory authorities which currently have monopoly trading powers (e.g. the Australian Wheat Board) the Group advocated increased use of private traders to perform marketing functions to test their comparative marketing efficiency (paras 6.99 and 6.102). This last apparent inconsistency reflects the dearth of objective analysis of the influence on export prices that single seller authorities have achieved or could potentially achieve in international markets. The Group's proposal for further research into the consequences of the Australian Wool Corporation holding buffer stocks of wool, and the alternative policy of maintaining the reserve price by direct deficiency payments, deserves strong support.

The contribution of agricultural economists to marketing debate appears to us to continue to be hampered by a failure to define and analyse marketing issues empirically. This may be reflected in the value judgments which appear necessary in this chapter once specific examples are considered. For example, the issue of risk and instability attributable to demand fluctuations received little attention except in relation to pooling (para. 6.45) and price stabilisation (paras 6.65 and 6.70). Agricultural economists could contribute substantially in this respect through empirical analysis, as they have on risk and instablity in production and supply.

The reader is left with the impression of a fairly weak link between the analysis of marketing arrangements undertaken by economists and the policy framework for the future outlined by the Group in relation to 'marketing'. A stronger distinction could have been drawn between export marketing arrangements, which are the subject of Chapter 7, and domestic marketing policies. Where the latter are designed to deal with price and non-price aspects of the marketing mix of private firms, Australian agricultural economists appear, hitherto, to have made little contribution. The issue of promotion of rural products discussed briefly in Chapter 5 (paras 5.220 through 5.225) and in para. 6.32 in terms of export markets, was ignored in relation to domestic markets. Producer organisations within Australia are devoting more resources to promotion for such products as meat, milk, butter and eggs. In future, perhaps there should be more effort devoted by economists to the analysis of such domestic marketing strategies. The paucity of such work may reflect the fact that the agribusiness sector in Australia is largely supplanted by statutory authorities and other producer organisations, relative to the U.S.A. for example, and the predominant position of export markets for products with relatively few value-adding transformations prior to export.

Chapter 7 on trade policy makes for pessimistic reading both in terms of the prospects for the development and growth of international trade in agricultural products, and in terms of the scope for rational economic debate on international trade policy. The capacity of Australia's agricultural sector to adjust to shifts in international commodity markets contrasts with the resistance to international market forces of the agricultural sectors of most industrialised nations. These nations, with their direct government intervention in agricultural production and trade, have been largely responsible for generating the shifts in trade patterns in agricultural commodities. The heavy protection shielding agricultural sectors from the pressures to adjust to international market forces, most often justified as achieving greater degrees of self-sufficiency in food production, has diminished the traditional markets of exporting countries. Where protection has been so heavy, and the supply response of the agricultural sectors so positive that self-sufficiency has been exceeded, subsidised exports have followed to the further disdvantage of traditional exporters of agricultural products.

These features of Australia's agricultural trade with international markets were described by the Group. They believe that the interests and policies for protection are so entrenched as to nearly preclude any prospects for an improved international order for agricultural trade. Continued efforts through international forums such as GATT are judged worthwhile but greater recourse to bilateral negotiations and barter deals was considered likely and desirable.

These recommendations for essentially similar policies to those of the past, such as support for GATT and more emphasis on bilateralism, seem destined to continue to produce limited opportunities for growth of freer world trade in agricultural commodities. Perhaps the greatest opportunity is for closer economic relations, in terms of trade policy, with Asian and centrally-planned economies exhibiting some growth potential. The Group did not, however, note the need for reciprocity on Australia's part in opening up to such countries our domestic markets for manufactured products.

The issue of closer economic relations (CER) with New Zealand (paras 7.30 through 7.33) received scant treatment. A significant issue which received only indirect mention via the question of export incentives, is the need for harmonisation of rural policies. This seems surprising given the significance of intervention in New Zealand (see paras 7.27 through 7.29) for major commodities such as wool and sheep meat. A case could be made that the cost in terms of trade distortions and income transfers between Australian and New Zealand farmers implicit in differential intervention policies for wool and meat could be substantial relative to the value of bilateral trade in fruit, vegetables and dairy products which CER impacts upon.

For wool, research should be undertaken on the effect of price subsidies by the New Zealand Government in increasing wool output. This, combined with lower intervention prices for stabilisation purposes in New Zealand than in Australia, has probably distorted resource allocation with associated costs.

The Group noted that efforts at trade liberalisation through GATT, for example, the Kennedy and Tokyo Rounds of multilateral trade negotiations, have assisted freer trade in industrial products, that little has been achieved for agricultural products and that GATT rules are less vigorously applied for agricultural products. There is a temptation to disagree with the Group's conclusion (para. 7.54) that Australia should persist with reliance on GATT. More aggressive alternatives of the 'resource diplomacy' variety may not be less productive to combat the EEC in 'third markets' for such products as sugar, wheat and beef. Such a variant on international commodity arrangements (paras 7.57 through 7.59), in which multilateral approaches were made jointly with other exporters for selected commodities and markets, could pose additional strategic options in trade policy.

The Group's recommendation for greater effort in bilateral approaches to freer trade and recognition of the growth of barter trade in agricultural markets both have their origins in the increasingly restricted and administered state of international trade in farm products, but both serve to further weaken the multilateral processes of GATT. Furthermore, the Group's view that Australia should continue to adhere to the 'most favoured nation' principle of GATT and extend concessions to all GATT members, may not be reasonable where concessions are negotiated through bilateral processes. The recommendation by the Group for the simultaneous pursuit of trade policies which may not be easily compatible clearly stems from the fairly pessimistic prospects for achieving more 'freely-flowing' world trade in farm products by either approach.

The Group concluded that barter arrangements may become a more significant aspect of trade and that Australia was presently ill-equipped. Aside from the expected arguments about the inadequacy of barter as a basis for exchange, the Group did not acknowledge that such barter arrangements may be partly a device for obscuring the price, inclusive of exchange rates, at which trade takes place. In this context barter may involve hidden subsidies rather than offering an opportunity for expanding trade in line with comparative advantage.

No doubts were expressed about Australia's capacity to supply competitively as long as access could be gained to new markets. That is, Australia's comparative advantage in agricultural production was presumed to continue. The view, widely held in the late 1970s and into the 1980s, that Australia's comparative advantage in agricultural commodities was declining in the face of increasing mineral and energy resource exports, was not discussed.

The Group emphasised the quest for stability of access to export markets but little attention was paid to the impact that increased intervention in agricultural commodity markets has on the *stability* of prices. Wide differences exist among commodities but the generally increasing tendency for importing countries to impose quantitative restrictions on access increases price variability for traded farm products subject to fluctuating production levels. Differences among commodities, such as between wool and meat, in the extent to which trade is left to free market forces by importing countries create differences in the source of variability of commodity prices in international trade. The effect on enterprise mixes on Australian farms is undoubtedly substantial.