



MANAGING CHANGE

How to introduce change is an important factor when considering reform. It is necessary to understand what impacts would occur in the transition to new arrangements. In particular, it is important to consider whether some producers may experience difficulties as they adjust, even though there may be benefits to the whole community.

In this situation it is entirely appropriate for governments to consider how best to help those affected over any initial hardship. This could include a range of assistance options such as:

- consulting with affected communities about how best to implement reform
- the appropriate phasing of reform
- information and education strategies
- programs to help producers who wish to leave the industry
- direct financial assistance to producers
- programs which provide support to affected communities and to help them diversify into new industries

For example, when the Victorian and South Australian Governments decided to reform barley marketing arrangements they assisted producers in making the transition by progressively introducing competition into the domestic market. This is to be followed by the export market. By comparison, national dairy industry reform is being assisted with financial adjustment assistance and business planning for producers staying in the industry, an exit program for those wanting to leave, as well as programs to assist communities affected by the reform.

Reviews seek to determine whether mandatory arrangements are the best way of achieving benefits for agricultural producers and the community.

OTHER ISSUES FOR CONSIDERATION

Assessing the relative size of the costs and benefits of the current compulsory arrangements is difficult, and needs to be considered on a product by product basis. For example, the benefits of a compulsory arrangements for wool may be quite different from sugar.

The nature of the product and the relative importance of Australia as a producer are important factors which must be carefully considered. For example, where export price premiums or advantages are evident, these may not necessarily be due to market power attributable to the compulsory SMA, but to effective marketing strategies, economies of scale in transport and handling or the buying policies of other nations.

For instance, Australia's monopoly wheat exporter, the AWB Ltd, recently acknowledged that it could not extract premiums through the exercise of market power. It said that "with only 20% of the world trade in wheat, [Australia] had no choice but to be a price taker rather than a price setter in international markets" (The Land, 3 March 2000).

It is sometimes suggested that the reviews of SMAs are about whether collective arrangements for the marketing of agricultural products should continue. This is not so. Rather, the reviews seek to determine whether *mandatory* arrangements are the best way of achieving benefits for agricultural producers and the community. For example, if collective export arrangements deliver benefits, one could expect that producers would choose to participate rather than needing to be compelled.

If a review recommends that compulsory agricultural arrangements be removed, farmers may still develop voluntary arrangements for collective marketing. There are no barriers to collective

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For more information please contact the
National Competition Council
Level 12 2 Lonsdale Street
Melbourne Vic 3000
P: [03] 9285 7474
F: [03] 9285 7477
E: info@ncc.gov.au
W: <http://www.ncc.gov.au>

marketing on export markets. Australia's Trade Practices Act does apply to domestic sales, however, primary producers can apply to the Australian Competition and Consumer Commission (ACCC) for approval of voluntary collective marketing arrangements. Examples of this are the collective negotiating arrangements which the ACCC has approved for the poultry meat industries in several States.

In the event of changes to compulsory arrangements, it may be that some functions traditionally performed by agricultural organisations should continue. For example, an organisation may be charged with collecting and administering funding of research and development for an industry. Where the results of research funded in this way benefit all producers in an industry it may be appropriate for an organisation to continue to perform this function.

CONCLUSION

As with all Australian businesses, agriculture will continue to face changing circumstances. The challenge for producers, governments and the nation as a whole, is to ensure that our agricultural industries are in the best position possible to respond to those changes and to exploit new opportunities as they arise.

The National Competition Policy reviews of compulsory agricultural marketing arrangements are assisting governments and industry to ensure that current arrangements are appropriate and create an environment that encourages a forward looking, innovative and responsive agricultural sector.



SECURING THE FUTURE OF AUSTRALIAN AGRICULTURE AN OVERVIEW

National Competition Council
Community Information
2000



SETTING THE SCENE

Since the 1920s compulsory marketing arrangements have been a prominent feature for many of Australia's most important agricultural products.

For example, it has been compulsory for the marketing of sugar, barley, wheat and rice to be undertaken by "statutory marketing authorities" (SMAs). SMAs are typically grower controlled and co-ordinated organisations whose powers are underpinned by Government legislation.

SMAs often have the legal power to compulsorily buy entire crops from growers, determine crop varieties, quality grades and prices. As a result the SMAs are the sole seller of an agricultural product for both the Australian and overseas markets. This sole right to buy and sell is often referred to as a "Single Desk". SMAs also determine and deduct their operational costs, such as advertising and research, from growers' payments.

As business environments continue to evolve it is appropriate for businesses and governments to review and re-evaluate long standing practices such as compulsory marketing arrangements.

WHY CONSIDER CHANGE?

As local and international business environments continue to evolve it is appropriate for businesses and governments to review and re-evaluate long standing practices, to ensure that they are still assisting Australians to compete and prosper in today's environment.

To this end, in 1995 all Australian governments agreed to work together in a coordinated manner towards introducing greater competition to our economy where it benefited the community by stimulating sustainable economic and employment growth. This agreement is called National Competition Policy.

Specifically, governments agreed to focus on reviewing laws and regulations to ensure that they don't unduly restrict markets and are still serving the interests of the Australian community and businesses.

Thus, all governments have reviewed, or are in the process of reviewing, legislation governing compulsory agricultural marketing arrangements. This is to ensure that preventing competition by compelling growers to sell their product to a specific SMA is in the community's interest.

To date, significant changes have been brought about where governments have concluded that the public interest is best served by altering the current arrangements.

This paper discusses the arguments for and against change as well as some of the issues that frequently arise when considering future options for the marketing of Australia's agricultural products.

COMPULSORY STATUTORY MARKETING AUTHORITIES (SMAs)

The Case For....

Supporters of compulsory SMAs argue that mandatory collective arrangements result in the largest possible number of growers pooling their produce. This then enables the SMAs to achieve reduced costs for growers through economies of scale as well as the best possible prices, particularly in overseas markets.

They argue that compulsory SMAs:

- maximise grower income
- ensure stable product prices, production levels and grower incomes
- achieve price advantages or premiums based on market power, particularly in export markets
- achieve economies of scale in the marketing of Australia's agricultural products, particularly in export markets
- assist in countering the market power of perceived corrupt buyers and sellers, particularly heavily government subsidised international competitors

Many supporters of compulsory arrangements are also concerned with the disruption to growers that change may cause. In particular they believe that some farm operations will not be able to cope in a less structured environment where individual growers will have greater control over the product post harvest.

They also believe that supermarkets, multinational organisations, food processing companies and consumers will derive all the benefits from any change to the current compulsory arrangements.

The Case Against...

Supporters of change argue that growers should not be compelled to sell to a single organisation. Instead they argue that growers should be able to choose their sale and marketing methods. Conversely, produce customers should be able to choose from whom they buy.

They argue that as the markets for agricultural products become more sophisticated, product specialisation and niche marketing requires different commercial relationships, information, and marketing strategies. As such, it becomes increasingly unlikely that any one person or body can effectively intermediate on behalf of all producers in all circumstances.

Supporters of change are opposed to the perceived 'one size fits all' approach of compulsory SMAs and argue that greater choice would offer significant benefits to both rural and urban communities, including:

- freedom for growers to choose how, when, and to whom, they sell their products, and the freedom to negotiate sale prices
- greater control by growers over their business decisions including production, marketing and risk management
- freedom for growers to specialise in high quality crops and get prices that reflect this higher quality
- reducing the share of a grower's returns taken up by administration costs
- greater incentives and opportunities for individual farmers and rural communities to undertake more innovative marketing and to invest in higher-value and/or niche post-farm production
- greater variety of products and increased surety of supply leading to growth in industries which are major consumers of agricultural products such as food processors. Food processing industries are often based in rural areas employing local labour.
- benefits to consumers through wider choice of products available

It is also argued that many of Australia's agricultural industries have developed and prospered without mandatory marketing arrangements. For example, Australian red meats, cotton, wine and Victorian canola are freely grown, marketed and traded.

By contrast, they claim that, the difficulties experienced in the wool industry over the past 10 - 15 years demonstrate that even where an industry is a large player on the world market, a mandatory marketing arrangement will not effectively protect producers from fluctuations in demand and world prices.



RECENT CHANGES IN AGRICULTURAL MARKETING ARRANGEMENTS

Over recent years competition has been introduced into a range of agricultural industries where compulsory SMAs have previously been responsible for all processes between the farm and international markets.

The Queensland Cotton Board was deregulated in 1989, with the support of the Queensland growers, who perceived that NSW growers operating in a free market were achieving better returns. Today, all Australian raw cotton is marketed under a competitive system and the industry has prospered with average higher returns than most other agricultural industries over the past decade. It has achieved this by embracing advanced production technologies, capturing economies of scale and developing sophisticated risk management and marketing strategies.

Since 1997 competition has gradually been introduced into the domestic barley markets in South Australia and Victoria. Private traders now operate freely alongside the former monopoly marketing board, competing for growers to supply their crops. Anecdotal evidence suggests that this has led to greater price competition between marketers as they compete for barley supplies. Prices received by growers are up by an average of \$10 - \$20 per tonne as compared to those achieved pre-competition.



Since state-based milk marketing regulations were removed in mid-2000, dairy farmers are being presented with a range of opportunities which previously did not exist. In particular, some farmers are exploring niche marketing opportunities for high quality and/or organic milk by setting up locally based processing ventures. Instead of selling their milk to one of the major processing companies, groups of farmers in southern Queensland and in northern Victoria/southern New South Wales, are taking control over the production, processing and marketing of their milk and in doing so are investing locally and creating local jobs. These opportunities indicate that reform can benefit smaller producers.

SOME AUSTRALIAN PRODUCTS THAT HAVE
COMPULSORY MARKETING ARRANGEMENTS

BARLEY (NSW & WA FOR DOMESTIC AND EXPORT MARKETS;
QLD FOR EXPORTS; VIC & SA FOR EXPORTS UNTIL MID 2001)

POTATOES (WA)

POULTRY MEAT (NSW, VIC & WA)

RICE (NSW)

SUGAR (QLD)

WHEAT

SOME AUSTRALIAN PRODUCTS THAT DO NOT HAVE
COMPULSORY MARKETING ARRANGEMENTS

BARLEY (VIC, SA & QLD FOR DOMESTIC MARKET)

CANOLA (VIC)

COTTON

DAIRY

POULTRY MEAT (SA & QLD)

WINE/WINEGRAPES

WOOL