PRODUCTIVITY COMMISSION

Single-Desk Marketing: Assessing the Economic Arguments

Staff Research Paper

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The views expressed in this paper are those of the staff involved and do not necessarily reflect those of the Productivity Commission. Appropriate citation in indicated overleaf.

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Abbreviations

ABARE	Australian Bureau of Agricultural and Research Economics
ABB	Australian Barley Board
ACCC	Australian Competition and Consumer Commission
AFFA	Agriculture, Fisheries and Forestry Australia
AWB	Australian Wheat Board
AWBC	Australian Wine and Brandy Corporation
CIE	Centre for International Economics
COAG	Council of Australian Governments
CPA	Competition Principles Agreement
DAFF	Department of Agriculture, Fisheries and Forestry
DPIE	Department of Primary Industries and Energy
EU	European Union
GATT	General Agreement on Tariffs and Trade
IAC	Industries Assistance Commission
IC	Industry Commission
NCC	National Competition Council
NCP	National Competition Policy
OPEC	Organization of Petroleum Exporting Countries
PC	Productivity Commission
QSC	Queensland Sugar Corporation
SCA	Standing Committee on Agriculture
SMA	Statutory Marketing Authority
STE	State Trading Enterprise
US/USA	United States/United States of America

VERs	Voluntary export restraints
WEA	Wheat Export Authority
WTO	World Trade Organization

Key Messages

- Most of the potential benefits of single-desk arrangements can be achieved without the compulsion of a single desk.
- In export markets where premiums might be obtained (for example, due to quotas imposed by importing nations), targeted export licences can be used to control exports. Monopoly marketing of all exports is not required.
- Economies of scale and scope in marketing can be captured without monopoly selling, while premiums could still be 'earned' for high quality and customised service.
- Activities which deliver industry-wide benefits such as research and development and quality control can be delivered and funded by more targeted mechanisms.
- Whereas the potential benefits of single-desk marketing are likely to be small (or could be achieved in a more competitive marketing framework), the costs of single-desk arrangements have the potential to be large. Because single-desk arrangements inevitably discourage product and marketing innovations, costs may be especially large in markets where product variety and value-adding are essential for success.
- Importantly, statutory marketing authorities can be reconstituted to operate on a commercial basis in a competitive environment, continuing to offer services to producers and providing a vehicle for continued grower ownership of marketing functions. Voluntary producer organisations can continue to give producers a voice.

Overview

Economic arguments for single-desk marketing arrangements are assessed in this paper. The paper does not attempt to quantify the costs and benefits of single-desk arrangements in any particular industry (which currently is the task of various reviews under the National Competition Policy (NCP) legislative review process). Rather, the intention is to identify potential benefits and costs and the strengths and weakness of various arguments in favour of current arrangements.

The economic case for and against single-desk marketing is explored in this report.

Background

Single-desk marketing is a short-hand description for monopoly selling powers held by several statutory marketing authorities (SMAs) in Australia. These powers in some cases extend to both domestic and export sales of a particular commodity (for example, sugar and rice). In others (for example, wheat and barley), the monopoly extends to export sales only.

Single-desk marketing is short-hand for monopoly marketing of commodities by SMAs.

SMAs had their genesis in State and regional grower cooperatives formed voluntarily at the beginning of the 20th century. Government involvement gradually increased, with compulsion introduced in response to marketing crises after both World Wars, and as compensation for tariff protection of the manufacturing sector. These monopoly producer boards, protected by legislation and various import controls, provided the vehicle for an array of home price and stabilisation schemes for many commodities. The ultimate effect, if not the stated objective, of many of the schemes was to raise prices in the domestic market, relative to export prices.

Most SMAs were established early in the 20th century …

… and several remain in place.

Over the 1980s and 1990s, with protection of the manufacturing sector declining and community-wide and efficiency effects of special industry arrangements under scrutiny, restrictive marketing arrangements for many commodities were removed or relaxed. However, single-desk arrangements, especially those pertaining to exports, remain in place for several major commodities. It is these residual arrangements that now are under scrutiny. In part, this is due to NCP scheduled reviews of all domestic legislative arrangements which restrict competition.

Pressure for change on several fronts means that single desks are under scrutiny …

In addition, the Office of the US Trade Representative has expressed concern about single-desk selling of some Australian commodities, while a World Trade Organization Working Party was established in 1995 to review activities of State Trading Enterprises (STEs) in member countries, including Australia.

… perhaps none more important than changes in commodity markets themselves.

Perhaps more importantly, the nature of agricultural production and domestic and international markets has changed and is continuing to change due to technological developments, changes in tastes and changes in trade policies. These developments are placing increased pressure on commodity producers to be flexible and efficient. It is timely to ask whether remaining single-desk arrangements are likely to help or hinder the ability of Australian producers to respond appropriately.

How single-desk marketing works

Producers are constrained to sell through the single desk …

As already noted, single-desk marketing describes monopoly selling powers of various commodity organisations. The powers mean, for example, that an Australian wheat producer must export via the Australian Wheat Board, or with the permission of the Wheat Export Authority. A Queensland sugar producer is restricted to selling sugar destined for either the export or domestic markets through the Queensland Sugar Corporation (QSC).

Such marketing arrangements invariably are associated with equalisation arrangements and/or pooling of grower returns. When a grower sells to the producer organisation, apart from some adjustments for variations in quality, the price received by the producer may reflect an average of all the SMA's sales to a market over a season (pooling), and/or an average of sales to various markets (equalisation), minus costs incurred by the SMA. Profits from the SMA's value-adding activities also typically are bundled in this pooled price, reflecting the cooperative structure of SMAs.

… receiving an average or pooled price in return.

In essence, the single desk aggregates the output of thousands of producers and markets it as a broadly homogeneous commodity, with growers receiving an average (pool) price. This process of aggregation is the source of both the potential benefits and costs of single-desk marketing.

Aggregation is the source of the potential benefits, and costs, of single desks.

Assessing the benefits

Many reasons have been given over the years to justify statutory marketing and single-desk selling, including: promoting income or price stabilisation; extracting premiums in export markets; countering 'corrupt' selling practices of other exporters; countering monopoly power of domestic traders and processors; compensating agricultural producers for the impact of manufacturing tariffs; facilitating government-to-government sales; administering exports where quantitative import restrictions are imposed by foreign buyers; capturing economies of scale in marketing, finance and distribution; facilitating risk management; and providing generic market promotion and quality control.

A range of justifications for single-desk marketing has been suggested …

Some of these reasons are less relevant today. Tariff compensation, for example, is no longer cited as a justification, given estimates that the agricultural sector overall currently receives higher effective protection than the manufacturing sector.

… some of which are less relevant today.

Higher export prices currently are the main rationale for single-desk exporting.

A key justification for single-desk *exporting* arrangements is that monopoly-selling ensures higher export returns (and thus higher national income) than would be obtained from competitive exporting (that is, where producers are able to choose how and to whom they sell their produce). In other words, single-desk exporting is regarded as a means of facilitating the exercise of market power by Australia.

Capturing export premiums

A single export desk does not of itself create market power …

Though exploiting market power in export markets has the *potential* to increase incomes of agricultural producers and Australia's national income, international market power is not created automatically by the establishment of a single desk.

… it provides a mechanism for exploiting market power if such power potentially exists.

Single-desk export selling can control Australian exports, but it cannot control the production or exports of other countries. In other words, the single desk can act as a mechanism for exploiting any market power Australia may possess in international markets for that commodity *but only if such potential power exists.*

Market power implies barriers to international competition.

Put another way, if Australian single-desk sellers are to be able to extract higher prices in some or all foreign markets, natural or regulatory barriers to arbitrage (that is, barriers to competition from other suppliers) must exist in those markets.

Potential barriers to international competition

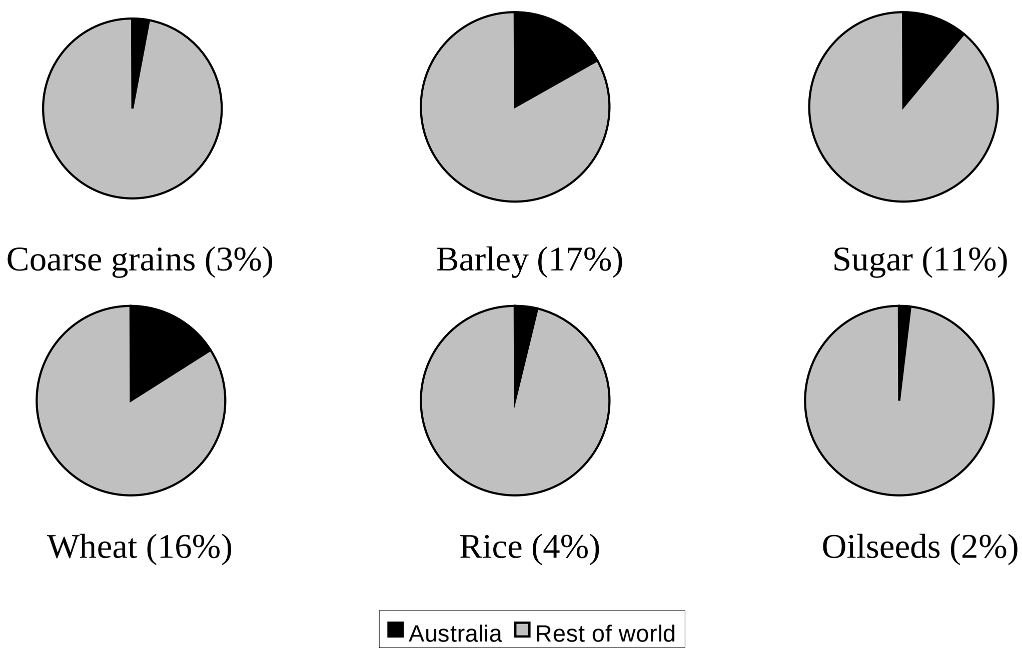
There are a number of potential barriers to international arbitrage that could apply.

Monopoly

Market power can arise from a production monopoly … but this is rare.

If a country is the sole producer of a commodity (for example, due to natural resource advantages) it may be in a position to extract monopoly premiums in global markets. This will depend on the availability of close substitutes. In practice, Australia is not the sole global exporter (or producer) of any agricultural commodity — for most commodities, Australia's exports and production account for a small fraction of global trade and output. The major exception is wool but, even in this case, where Australia dominates the world market, the availability of synthetic substitutes has limited Australia's market power.

Figure 1 **Selected Australian export commodity shares of world trade, 1997-98**



Transport and seasonal advantages

Lower transport and storage costs may give Australian exporters an advantage in some markets …

Rival suppliers may be at a disadvantage in some markets, relative to Australian exporters, due to their location. For example, transport costs from Australia to some Asian markets may be lower than for Northern Hemisphere competitors. Or Australia, as a Southern Hemisphere producer, may have a seasonal advantage over Northern Hemisphere rivals (who must incur storage costs in order to sell in their off-season).

… allowing a price premium to be captured by limiting exports.

In such circumstances, Australian exporters could capture the transport or storage 'premium' by restricting the supply of exports to that market, to a point where the selling price of Australian exports was just below the price of competitors.

However, the advantage may not persist if rival suppliers can reduce their costs, while diversion of Australian exports from the 'premium' market to other markets will tend to depress prices in the latter, offsetting any revenue gains to some extent.

Product differentiation

A differentiated product may deliver some market power in the short term …

By creating a differentiated commodity or product type, Australian producers potentially could dominate that narrowly-defined market. (For instance, Australian exports of japonica rice account for around 40 per cent of world trade in the variety.) This may confer a degree of market power in the short term, but also it is likely that new varieties with similar characteristics will be developed by other producers, or that global production of the variety itself will expand in response to higher prices. In this way, any apparent *monopoly* premiums can be bid away by competitors.

… but higher prices for better quality generally can be earned without monopoly selling.

'Brand' products or certain varieties will attract higher prices if, for example, they offer better quality or other characteristics for which consumers are prepared to pay. However, such premiums generally can be captured without controlled selling — in this sense, the premiums are 'earned' rather than the result of limiting export quantities. In other words, monopoly control of exports is not required to capture these premiums.

Quantitative import restrictions

Quota policies of some importing countries might allow Australia to capture premiums …

Some importing countries are prepared to pay more for imports than the world price, perhaps to protect their producers or to diversify sources of supply. To achieve this they may implicitly or explicitly allocate a share of their market to various exporters via a country-specific quota. (Japan and the United States impose quotas on some Australian exports, including sugar and rice.) In these circumstances, Australian exporters may be able to capture the difference between the domestic (producer) price in the importing country (which is driven up by the import restriction), and the world export price. This premium is referred to as a 'quota rent'.

If such quota rents are to be available to Australian exporters, the quota (that is, the right to export) must be given or sold at less than its full value to Australian exporters — if the quota is given to home country importers or sold at full value, premiums accrue to the importing country. In other words, the mere existence of a quota does not mean that quota rents are available to Australian exporters. Price premiums frequently attributed to an import restriction, in practice, may reflect payment for higher quality exports or additional services, such as supply guarantees.

… but only if the quota is given or sold at less than its full value to Australian exporters.

But, if quotas are allocated to Australian exporters, it makes sense to capture any premiums available. This *may* require some coordination of export sales to ensure that competition among Australian exporters does not bid down the price to the world price, effectively handing quota rents back to the importing country. However, single-desk selling provides only one possible means of capturing these quota rents.

If it is, a single desk provides one means of capturing the premiums.

On the whole, if natural or artificial barriers to arbitrage exist (and persist), there may be a *prima facie* case for controlling the supply of exports to those markets in order to increase the price received by Australian exporters. In practice, situations where these conditions are met are likely to be the exception rather than the rule. Natural advantages can be whittled away by technological change and the emergence of new suppliers. Barriers created by trade policies of foreign governments can change overnight.

Pre-conditions for market power are very stringent and likely to be the exception, not the rule …

This conclusion is not affected by the fact that many countries attempt to alter world commodity prices by various tax and subsidy policies. Such policies might affect international commodity prices but they do not necessarily reduce scope for arbitrage between markets.

… even though world prices are distorted by competitors' trade policies.

Strategic or 'strong' selling

A related set of arguments suggests that single-desk exporting allows premiums to be captured by way of ‘strategic’ selling, in the sense of countering attempts by other countries to affect international prices.

Australia’s competitors pursue policies that can raise or reduce world prices.

Some of Australia’s competitors pursue a range of policies that affect world prices. These policies broadly fall into two groups — those which attempt to increase or stabilise export prices (for example, cartels, single export desks, export controls) and those which depress export prices (for example, export subsidies).

If rivals try to increase prices, Australia could either restrict its exports, or move into gaps in the market …

If rival exporters restrict their exports in certain markets in a bid to raise prices, Australia could behave in a similar fashion, restricting its exports and, in effect, forming a producer cartel with the foreign exporter(s). Or it could ‘free-ride’ on higher prices created by the reduction in supply, and increase exports to that market (eventually driving the price down to equal returns in other markets). Joining a cartel would make sense only if Australia were a large exporter, if cartel members were unlikely to cheat, and if there were no other producers/exporters outside the cartel who could increase their output significantly.

… but restricting exports is likely to be risky. Moving into markets vacated by rivals is a normal market response to higher prices.

Given the number of significant global producers of most commodities, a successful global commodity cartel is unlikely. The best option then for Australia is to respond to higher prices generated by policies of rivals, filling gaps in the market created by the latter’s policies. But this strategy does not require control of exports via single-desk selling (or any other mechanism) — it is the normal competitive market response to higher producer prices.

Some competitors subsidise their exports, which tends to depress the world price of the commodity. By matching these subsidies, it is suggested that Australia might provoke a change in the behaviour, or the elimination, of a rival supplier and thus generate net benefits to Australia.

If rivals subsidise their exports and push down world prices, there is little that a single desk can do to retaliate.

However, to be successful, ‘strategic’ selling requires an exporter to possess sufficient market power to affect the behaviour of foreign producers and/or foreign governments. It is highly unlikely that Australian exporters of any commodity, even operating as a bloc, have the clout to force a change in US or EU policy by discounting Australian exports. At any rate, single-desk export selling, of itself, cannot match across-the-board export subsidies — this requires additional government intervention (for example, in the form of export subsidies).

Nor can a single desk successfully countervail buying power of an importer, unless Australia has market power.

Some foreign buyers of Australian commodities attempt to reduce the price they pay by restricting their imports. If Australia were the dominant supplier to that market and there was little prospect of rival suppliers moving into the market, a single-desk authority could try to counter the importer's buying power by restricting exports. But if suppliers from other countries can move into the market, any attempt to push up the price merely encourages the buyer to switch to these alternative suppliers.

Capturing export premiums — is a single desk required?

As a rule of thumb, Australian commodity exporters can be regarded as price-takers …

On the whole, Australia's market power in international markets is likely to be significantly constrained because Australian exporters generally face intense competition from rival suppliers in export markets. In other words, Australian commodity exporters generally are price-takers.

*… but even where premiums exist, what is needed is a mechanism to control export quantities — monopoly **marketing** of exports is unnecessary …*

But even if Australian exporters possess a degree of market power due to an impediment to arbitrage in a particular market, is single-desk selling the only, or the best, means of exploiting that power? All that is required to exploit market power is some form of control of export quantities — there is no requirement for monopoly *marketing* of exports. Alternatives include various forms of direct export control including quantitative restrictions (export quotas) and export taxes. Other mechanisms operate indirectly by conferring monopoly export powers — including single-desk arrangements and export licences.

*… while control of **all** exports also is unlikely to be required.*

Importantly, though circumstances in some markets may be such as to allow Australian exporters acting as a bloc to extract a price premium or capture rents, it does not follow that single-desk powers are required over *all* exports. Limited export rights to supply markets where premiums are clearly available allow the premium to be captured while allowing competitive selling to all other markets, including the Australian home market. These monopoly export licences could be issued to the existing producer organisation or auctioned, so that the most efficient marketing organisation wins the licence. Several Australian industries, including meat and dairy, have targeted mechanisms designed to extract premiums in quota-restricted export markets.

Other arguments for a single desk?

Other major arguments in favour of single-desk powers (in relation to exports and domestic sales) relate to premiums for marketing and other services, economies of scale, domestic market distortions, and grower control of marketing. These potential benefits derive from compulsory, common marketing — they do not rest on manipulation of sales to exploit market power.

Premium prices for quality and service

Single-desk sellers claim they generate export premiums from specialised marketing …

It has been argued that single-desks can generate higher export returns because of specialised marketing services provided to customers. These services might include flexible and reliable delivery, supply guarantees, quality assurance, meeting product specifications, and financial assistance.

… but such premiums do not rely on a single desk …

While buyers may be willing to pay for additional services provided by the single desk, this does not imply that single-desk selling is required to obtain such premiums, that it is the most efficient means of doing so, or that growers reap the benefits.

… indeed competitive selling is more likely to meet diverse consumer needs.

Indeed, it might be expected that there would be considerably more tailoring of products and provision of ancillary customer services to meet consumers' needs in a competitive selling environment. The single desk precludes direct relationships between customers and producers.

It also is important that the costs of additional services provided by the single desk are taken into account. In the absence of competition, and with profits (and losses) bundled in producer returns, it is difficult to assess whether such additional services are cost effective. If they are not, an apparent premium price for the commodity might be associated with a lower net producer return due to higher operating costs of the SMA.

And without competition, the single desk may not provide services efficiently.

It is possible that some services provided by a single desk may not be provided, or provided to the same extent, in a competitive market. These could include services that are not profitable and services that exhibit so-called public good characteristics. For example, suppliers in a competitive market are unlikely to promote an 'Australian' brand if other suppliers can benefit, free of charge, from their expenditure. However, if it were considered appropriate to promote a national brand or trademark, this could be funded via a targeted industry levy scheme (as occurs in the beef and wool industries). Similarly, any other activities which generated clear industry-wide benefits (such as research and development and quality control) could be funded by direct levies.

Generic services may be under-provided by a competitive market … but can be provided by other more targeted mechanisms.

Lower marketing costs

It is argued that a single desk delivers lower marketing and distribution costs due to economies of scale and scope. However, efficient exploitation of economies of scale and scope generally can be achieved by organisations in a competitive market — indeed, with competition, the incentive to exploit economies to minimise costs arguably is greater. Moreover, some economies of scale captured by compulsory marketing of a commodity may not be efficient if they are achieved at the expense of product variety. In the absence of a single desk, individual growers would be able to buy services provided by specialists (including the current single-desk provider) who can also exploit economies of scale and scope. Because providers would be competing with each other to provide services, cost savings would be passed on to Australian producers.

Economies of scale and scope — balanced by a need to supply variety — can be achieved without single-desk selling.

If the SMA is an efficient service provider, it can perform well in a deregulated market.

If the SMA is the most efficient supplier of some services, it would out-perform competitors in a deregulated environment. Experience of deregulation in other industries and countries suggests that the SMA can become a major corporate player in a deregulated market, providing marketing, risk management and other services to growers, albeit on a purely commercial basis.

Offsetting market power of domestic processors

A compulsory single desk is not necessarily required to balance any buying power of domestic processors …

A major argument in favour of *domestic* single-desk arrangements (that is, a monopoly over the domestic market), is that buyers of the commodity (for example, a few large food processors) have market power and bid down the price to commodity producers. This argument may have some weight if the commodity is not exported. In these circumstances, countervailing power exercised by producers could both raise the price they receive and reduce the price paid by final consumers. However, a *compulsory* domestic single desk may not be necessary to increase the bargaining strength of producers.

… and, at any rate, the export price sets a floor under the domestic price.

Most major agricultural industries are strongly export oriented and producers are unlikely to accept a price on the domestic market below the export price. Thus the export price sets a floor under the price paid by domestic processors. Moreover, there is no national interest justification for a single desk to push the price to Australian consumers *above* the export parity price.

Grower control of marketing

Grower control of marketing is feasible in a competitive framework.

A major objective of single desks has been and continues to be producer control of marketing and, in some cases, processing of the commodity, in order to avoid exploitation by ‘middlemen’ and processors.

However, commodity producers can only be exploited if they do not have a choice of buyer. The compulsory cooperative model supported by many agricultural producers, by restricting competition, may be less efficient and deliver lower returns to growers than competitive arrangements. At any rate, removal of single desks would not necessarily mean an end to producer control — this will depend on producers and whether they consider they can obtain a better return from investment in activities other than producer-owned marketing organisations.

Measuring export premiums

Single desks typically claim quite large export premiums attributable to their monopoly status. These estimates seem difficult to reconcile with the apparent intensity of competitive forces in international commodity markets and limited circumstances for capturing premiums.

Care must be taken when measuring export market premiums attributed to single desks …

Closer inspection of the evidence suggests that the measured premium may not derive from the exercise of market power but instead reflects higher-valued product characteristics, higher quality or better service, or for that matter, a temporary increase in price due to, say, an unexpected increase in demand or reduction in supply by a competitor. For example, the so-called Far-East premium (attributed to a transport advantage) for Australian sugar exports to some Asian markets might have resulted from very strong demand in that region rather than an innate advantage for Australian exporters. In other words, observed higher prices in some markets may be due to factors other than exploitation of market power.

… because higher prices may reflect a range of factors other than market power …

In addition, diversion of exports from ‘premium’ markets to other export markets (to preserve premium prices) may depress prices in the latter markets and reduce the *net* export premium. This price-depressing effect often is also ignored.

… and might be offset by lower prices in other export markets.

Higher producer prices might also reflect higher prices paid by Australian consumers …

Finally, higher returns to producers do not necessarily translate into national gains. Industry estimates of price premiums often include a domestic market premium. For example, the Australian Barley Board's estimate of the premium attributable to its single-desk status appears to have incorporated a premium paid by Australian consumers. While this certainly increased *producer* returns, the 'premium' was achieved at the expense of local users and therefore did not measure a net *national* gain. Indeed, higher domestic prices are likely to *reduce* national income by reducing domestic consumption.

… and last, but certainly not least, the costs of single-desk arrangements must be taken into account.

Moreover, even if correctly measured, estimates of market premiums do not take into account national efficiency costs of single-desk arrangements nor, indeed, any additional costs incurred by single-desk authorities in obtaining those premiums.

Assessing the costs

Single-desk marketing can impose costs on domestic user industries and consumers as well as on producers in the regulated industries themselves.

Implications for domestic users and consumers

In the past, a common feature of statutory marketing has been high domestic prices.

In the past, a common outcome of monopoly statutory marketing powers (over domestic and export sales) was the effective taxation of the domestic market (with proceeds accruing to the boards and producers) and effective subsidisation of exports.

While domestic market powers of many SMAs have been eroded …

Powers of many boards have been (or are being) reduced, but single desk export powers remain for some major agricultural industries, quarantine restrictions remain in place for grains, while other boards (for example, the NSW Rice Board and QSC) retain their monopoly over both domestic and export marketing. These residual arrangements still may provide an opportunity for extraction of higher prices on the domestic market.

Single-desk export selling, in theory, can inflate the domestic price because, with the single export desk, producers receive an *average* price for exports. If these *average* export returns to producers can be raised by capturing 'premiums' in some export markets, this higher average price will tend to be charged to domestic consumers. The problem is that charging this average price on the domestic market is not in the national interest — the domestic price exceeds the prevailing 'world' price. If export premiums are negligible, however, domestic prices will not be distorted.

… export market monopoly powers alone can push up prices on the domestic market …

Export monopoly powers may give a single desk an advantage over rival traders in the domestic market because the latter cannot spread risk and costs over the domestic and export markets. To the extent profits from the SMA's value-adding activities are 'bundled' in the commodity price received by growers-cum-owners, and because growers cannot realise their investments in SMAs, they may also be discouraged from using other traders. Thus, the single export desk, in practice, may retain some domestic market power.

… and possibly place rival domestic marketers at a disadvantage.

Implications for agricultural producers

Compulsory single-desk arrangements can impair industry performance for several reasons:

But perhaps the biggest losers are innovative and efficient producers in regulated industries themselves.

- limited recognition of product quality or other valued product characteristics in pooled producer returns tends to reward lower-valued products at the expense of higher-valued products, discouraging the more efficient and innovative producers. Single desks today may recognise several product grades and varieties but, almost by definition, they cannot emulate a market outcome;
- pooling of transport and distribution costs encourages inefficient distribution and production which incurs relatively high costs;
- the lack of competition and lack of choice of service providers may promote inefficient service provision including scope for over-servicing and cost-padding by the SMA;

- compulsory pooling of returns essentially averages sales risk across all growers. This fails to accommodate different risk preferences of producers; and
- payment of an average price to producers (which also incorporates profits from value-adding activities) is likely to distort production levels (unless the single desk also directly controls production, but this introduces additional distortions).

The single desk also imposes a market structure that divorces producers from consumers …

The single desk also precludes development of alternative market structures — for example, informal and formal integration between growers, marketers and processors and direct relationships with customers. It also may preclude the development, and export, of marketing expertise. It is puzzling why Australia has not spawned multinational agricultural trading corporations — it may be due to a lack of expertise; it may be that the expertise exists but that single-desk arrangements have precluded its export.

… and which tends to protect the status quo.

Overall, single-desk arrangements tend to promote the *status quo* in relation to the product range, production pattern and market structure. Some change can and does occur (for example, pooling of transport costs has been removed in many cases while most SMAs reward producers for product variety and quality to some extent) but, without clear price signalling, or the flexibility to respond to market signals, change is likely to occur at a slower pace than in a more competitive market.

This can lead to lost opportunities, especially when markets are changing rapidly …

While these tensions have always existed within single desks, the opportunity cost of a lack of flexibility and dynamism is likely to be increasing. There have been important changes in the production technology of agricultural products, the relationship between the agricultural sector and the downstream processing sector and in customers' requirements for agricultural products.

… and when overseas competitors are responding to these developments.

Many of these developments accentuate the importance of close relationships between producers and customers and may have added to the costs imposed by restricting producers' options in selling their output. The importance of vertical integration or supply chain relationships in producing food products has increased significantly in the 1990s. Consumers now require more tightly-specified, better quality products. At the same time, overseas competitors that are not hampered by such restrictions may be able to generate cost and product advantages.

Experience of deregulation

Many producers see the potential benefits of change, but a majority appear to support the status quo.

Although pressure for change from innovative producers and marketers is likely to increase as they see better opportunities outside the single desk, it remains the case that a great many agricultural producers continue to support grower control of marketing for a variety of reasons. Yet evidence from Australia and abroad suggests that industries can improve their performance significantly after deregulation.

Yet experience suggests producers can benefit from a less regulated environment.

Deregulation of producer marketing arrangements has occurred in several countries. On the whole, their experience suggests that producers can benefit from the increased range of services provided in a more competitive environment. It also seems that former producer boards can enjoy a new lease of life and flourish in competition with private traders, including multinational traders, to provide domestic producers with the same services as before (such as voluntary pools), or alternative services as the demand for these emerges, but without the compulsion of the single desk.

In South Africa exports increased significantly while producers benefited from an increased range of services.

In South Africa, for example, producer boards have emerged as major private marketing organisations following virtually complete deregulation in that country, while a range of new services, such as new risk management instruments, are being offered to producers. Services considered to have public good attributes, such as research and development, continue to be funded by compulsory levies which are administered by producer organisations. These organisations also provide producers with a political 'voice' on matters of concern to the industry.

The Australian cotton and wine industries are examples of industries that have thrived without compulsory marketing.

The Australian cotton and wine industries provide examples of industries that have succeeded without compulsory marketing (and, in the case of Queensland cotton, thrived since the removal of compulsory marketing). Indeed, the flexibility and responsiveness of comparatively less-regulated industries to marketing opportunities may be the key to their success in a world where market requirements are rapidly changing.

Industry-wide activities can still be provided by producer organisations which also provide political representation.

A common feature of arrangements in these industries is that activities considered to promote industry-wide benefits are funded by grower contributions and administered by producer organisations. For example, Cotton Australia undertakes activities where uncoordinated grower efforts may be ineffective, such as political lobbying and disseminating information.

Conclusion

Many of the claimed benefits of single desks can be achieved with competitive selling and targeted mechanisms …

Analysis and evidence suggests that many of the claimed benefits of single-desk arrangements can be achieved in a competitive environment, in conjunction where appropriate with targeted mechanisms to coordinate industry-wide activities, including targeted export licences, industry levies and quality control mechanisms.

… thus avoiding the costs largely borne by producers themselves.

The advantage of a targeted approach to providing coordinated activities is that the costs inevitably associated with compulsory single-desk arrangements — most importantly their impact on marketing innovation and efficiency — can be significantly reduced.

1 Introduction

This chapter presents some background information and outlines the scope of the study and its objectives.

1.1 What is single-desk marketing?

Single-desk marketing is a short-hand description for the monopoly selling powers held by several statutory marketing authorities (SMAs) in Australia. Single-desk powers may apply to export and/or domestic sales and may be implemented via Commonwealth legislation (exercising the Commonwealth's power over exports) or by giving SMAs compulsory purchasing powers or vesting rights over domestic production. Single-desk arrangements invariably are associated with equalisation arrangements which provide a mechanism for sharing amongst producers any premiums flowing from monopoly selling. Pooling of grower returns also is commonly used as a risk management tool.[1]

As discussed in chapter 2, such arrangements have been in place for several decades, many having their origins in the World Wars or the Great Depression of the 1930s. Numerous reasons have been given over the years to justify statutory marketing and single-desk selling, including: promoting income or price stabilisation; extracting premiums in export markets; countering 'corrupt' selling practices of other exporters; countering monopoly power of domestic traders and processors; compensating agricultural producers for the impact of manufacturing tariffs; facilitating government-to-government sales; administering exports where quantitative import restrictions are imposed by foreign buyers; capturing economies of scale in marketing, finance and distribution; facilitating risk management; and providing generic market promotion and quality control.

Since the mid-1980s, many elements of statutory marketing arrangements have been dismantled and agricultural assistance levels reduced (chapter 2) but single-desk powers over exports and, in some cases, domestic sales, remain in place for some major agricultural commodities.

1 Equalisation usually refers to producers receiving an average of prices received in various markets. Pooling involves averaging prices received in a market over time (usually a season). See Sieper (1982, p. 39).

1.2 Background to the report

Single-desk selling currently is under scrutiny. In part this is due to National Competition Policy (NCP) reviews of all domestic legislative arrangements which restrict competition. In addition, the Office of the US Trade Representative has expressed concern about single-desk selling of some Australian commodities, while a World Trade Organization (WTO) Working Party was established in 1995 to review activities of State Trading Enterprises (STEs) in member countries (including Australian SMAs — see chapter 5).

Perhaps more importantly, the nature of agricultural production and domestic and international markets has changed, and is continuing to change, due to technological developments, changes in tastes and changes in trade policies. These developments are placing increased pressure on producers to be innovative, flexible and efficient. It is timely to ask whether remaining single-desk arrangements are likely to help or hinder the ability of producers to respond appropriately.

There also have been calls for the extension of single-desk selling — for example, coal industry unions have called for regulated exporting of that commodity. An evaluation of the claimed benefits of single-desk selling, as well as an assessment of the potential costs, could contribute to this debate.

1.3 About this paper

Statutory marketing arrangements, including single-desk powers, in various industries have been reviewed on many occasions over the past 25 years by the Industries Assistance Commission (IAC) and Industry Commission (IC) (see section 1.5 below), and currently are being reviewed by various bodies and committees under NCP guidelines. The objectives of the present paper are to:

- evaluate current economic arguments in favour of retention of single-desk powers;
- explore the potential effects of single-desk powers on the domestic economy, on downstream users and on producers in the industries regulated by single-desk arrangements;
- outline the changing institutional environment and markets in which Australian exporters operate; and
- canvass possible alternative arrangements.

The paper does not attempt to quantify costs and benefits of single-desk marketing arrangements in any particular industry (which currently is the task of the NCP review process). Rather it attempts to provide a framework for examining specific arrangements. The paper is structured as follows.

Chapter 2 provides a brief historical review of the development and objectives of marketing boards and selling arrangements. It also reviews deregulation since the 1980s, the current situation and outcomes of the latest reviews.

Chapter 3 re-examines arguments for single-desk powers, especially the claim that single-desk selling promotes exploitation of market power and a defence against ‘unfair’ trading policies of other countries. Potential implications of single-desk arrangements for agricultural producers as well as downstream producers and consumers are discussed in chapter 4.

Pressures for change are discussed in chapter 5. These include:

- institutional pressures, including WTO and NCP reviews;
- the changing nature of world and domestic markets, including the impact of trade liberalisation; and
- the impact of technological change.

Chapter 6 outlines marketing arrangements in largely unregulated domestic industries (for example, cotton) and experience of deregulation in other countries (for example, South Africa).

1.4 Conduct of this study

This is a staff research paper and does not necessarily reflect the views of the Productivity Commission (PC). Nevertheless, the study draws on several previous studies and inquiries conducted by the PC, IC and the IAC (which are included in the references to this paper). To provide background for the paper, Commission staff held some informal discussions with representatives of the sugar and grains industries as well as State and Commonwealth Government departments.

2 Background

This chapter provides some background to current single-desk marketing arrangements, and outlines recent reforms.

2.1 History

Government involvement in the marketing of agricultural production through ‘orderly marketing’ arrangements has a long history in Australia. The following summary draws on the work of Shann, *An Economic History of Australia* (1948); Sieper, *Rationalising Rustic Regulation* (1982); Watson and Parish, ‘Marketing Agricultural Products’ (1982); Lloyd ‘Agricultural Price Policy’ (1982) and IC, *Statutory Marketing Arrangements for Primary Products* (1991). A more complete history of statutory arrangements in Australian agriculture is found in these publications.

Origins of marketing boards

At the turn of the century, agricultural producers in several industries began forming State or regional cooperatives. Cooperatives used supply management, price discrimination (bolstered by import duties which protected the home market) and collective bargaining to increase grower returns. However, being voluntary, the cooperatives were susceptible to ‘free-riding’ — whereby producers outside the cooperatives could benefit from higher producer returns without contributing to the costs of the cooperatives’ operation.

Post-World War I ‘marketing crises’ were the catalyst for initial government intervention — commodity prices and exports reached very high levels immediately after World War I, but the consequent boom in agricultural output resulted in a collapse of prices in the early 1920s. This collapse was exacerbated by increasing production from new farms created under soldier settlement schemes. Agricultural producers also were keenly aware of the potential costs of manufacturing tariffs (introduced to offset the impact of the ‘living wage’) which were proliferating under the administration of the newly-created Tariff Board. The response of the then Country Party was a policy of ‘protection all round’ — that is, an attempt to compensate agricultural producers for the costs of manufacturing protection by allowing them to enter into arrangements that facilitated 'charging a high price in the home market and dumping [the] surplus abroad' (Shann 1948, p. 440). Thus governments in the 1920s introduced statutory marketing arrangements in many industries which made membership of the formerly voluntary cooperatives compulsory.

The first State marketing board, with the distinguishing features of 'producer control' and 'compulsory cooperation', was the Queensland State Wheat Board established in 1920. Other States soon followed Queensland's lead, constituting their own marketing boards during the 1920s (table 2.1).

Table 2.1 **First agricultural SMAs constituted by each Australian State**

State	*Date*	*Industry*
Queensland	1920	Wheat
Western Australia	1922	Dairy
Tasmania	1924	Meat
Victoria	1925	Dried vine fruits
South Australia	1928	Dried vine fruits
New South Wales	1929[a]	Honey

[a] The enabling legislation, The Marketing of Primary Products Act, was proclaimed in 1927.

Source: SCA (1980).

Although the degree of marketing control exercised by these boards varied considerably, some, by virtue of their geographical concentration (for example, sugar) or arrangements which effectively regulated interstate trade (for example, dairy), exercised an effective national or state marketing monopoly. While the Commonwealth's ability to implement national price or production arrangements was limited by the need for agreement by all States, its international trade and quarantine powers were used to control exports and imports of various commodities.

Post-World War II

Fearing a collapse in world prices after World War II, producers in many industries embraced nationally-based statutory price stabilisation and marketing arrangements. These schemes guaranteed average producer returns by underwriting export receipts (where the government made up any shortfall in the stabilisation fund) and setting domestic prices (Lloyd 1982). (For example, see box 2.1 for a discussion of the 1948 wheat industry stabilisation plan).

Box 2.1 **The Australian Wheat Board**

The Australian Wheat Board (AWB) was formed in 1939, under the *National Security Act 1939* regulations, to control wheat marketing during World War II. Its powers included a marketing monopoly for both domestic and export markets. Growers lobbied for the continuation of these 'orderly marketing' arrangements after the war and, in 1948, the AWB became a statutory authority backed by the *Wheat Stabilization Act 1948* and complementary state legislation.

Until the 1970s, the AWB maintained:

- single-desk export marketing and control over domestic marketing and prices, allowing differential pricing across markets;
- a price stabilisation (buffer) fund supported by government subsidies if industry funds were exhausted; and
- pooling of sales revenue and marketing costs on a seasonal and quality basis.

Deregulation

From the late 1970s through the 1980s, the structure of Commonwealth assistance changed and the level of assistance gradually decreased.

The *Wheat Marketing Act 1979*:

- abolished the buffer fund, forcing the AWB to borrow from commercial sources for pool payments (albeit backed by a government guarantee), and replaced it with a price underwriting scheme;
- allowed limited direct negotiation between growers and buyers within the AWB pooling arrangements; and
- related domestic prices more closely to export parity prices.

The *Wheat Marketing Act 1984*:

- allowed a permit system for private wheat trade in the domestic feed market;
- lifted the import embargo (although strict quarantine rules remained); and
- aligned domestic price movements with export prices.

These and other legislative changes allowed the AWB much greater financial flexibility (for example, permitting futures contracts and currency hedging) while increasing the Board's accountability to growers and taxpayers. Price signals to producers also improved.

(Continued next page)

Box 2.1 **(Continued)**

The *Wheat Marketing Act 1989* changed the AWB's focus from stabilising prices to maximising returns. It included provisions that:

- ended government underwriting of prices and deregulated the domestic market;
- allowed the AWB to trade in grain other than wheat and engage in value-adding activities; and
- terminated Government guarantees of AWB liabilities in 1999.

Privatisation

In July 1999 the AWB converted from a statutory authority to a grower-owned company established under the Corporations Law. It is proposed that certain shares will become tradeable and that the company will be listed on the stock exchange, though with protection of grower control.

After July 1999, all legislation specific to wheat marketing ceased apart from the export single desk (which is administered by a new Wheat Export Authority). A review under the NCP was announced in April 2000 for completion by December 2000.

Sources: AWB (1998a, 1998b); DAFF (1999); IAC (1988a); Lloyd (1982).

Through the 1950s and 1960s there were various changes in the operation of the schemes but the principal objective, if not always the effect, was to bolster producer returns.[1] In the 1970s, the negative impact of SMAs on resource allocation and industry efficiency, together with the significant income transfers from taxpayers and consumers to producers, were highlighted by institutions such as the IAC and Bureau of Agricultural Economics. Reviews of statutory marketing arrangements, at both Commonwealth and State levels, resulted in many adjustments to improve price signals to producers and to improve efficiency. Nonetheless, monopoly marketing, or single-desk selling, remained the norm for export-oriented agricultural industries.

1980s deregulation

Although not directly related to the statutory changes made in the 1970s, the level of effective assistance to agriculture declined during that decade, largely reflecting buoyant export prices. In the 1980s, while assistance levels varied between years, low world prices often left the government (and taxpayers) with a large liability (to support guaranteed export prices), or resulted in large transfers to domestic

1 During periods of high export prices, the regulated domestic price often was artificially low, resulting in periods of negative assistance to producers.

producers from domestic consumers. For example, wheat underwriting assistance totalled over $200 million in 1986-87.

Australia's leading role in the Cairns Group's push for reductions in agricultural assistance worldwide also placed domestic arrangements under scrutiny. And just as introduction of manufacturing tariffs had promoted formal agricultural assistance arrangements in the 1920s, general reductions in manufacturing tariffs in the late 1980s increased the impetus for reductions in assistance for agricultural industries. For example, the May 1988 economic statement announced that Commonwealth price support arrangements for butter, sugar, tobacco and some fruits would be phased down (Keating 1988).

Reviews of remaining agricultural marketing arrangements continued in the 1990s — many as part of the implementation of the NCP by the States. In 1995, the Council of Australian Governments (COAG) signed the Competition Principles Agreement (CPA) under the NCP (chapter 3). This agreement committed all governments to review legislation that restricted competition by 31 December 2000.

2.2 Current single-desk arrangements

Domestic deregulation has removed (or is scheduled to remove) almost all outstanding monopoly marketing rights or single-desk powers in domestic markets, major exceptions being the NSW Rice Board, the NSW Grains Board (currently under review) and the Queensland Sugar Corporation (QSC) (table 2.2). Some State SMAs retain monopoly selling powers but do not exercise them.

Single-desk selling for some major agricultural products in export markets has survived this era of reform — notably wheat and sugar. Consideration also is being given to create a single export desk for the rice industry as replacement for the domestic selling monopoly.

Table 2.2 **Statutory Marketing Authorities with single-desk powers**

Statutory Marketing Authority	*Single-desk powers*[a]	*NCP review*	*Outcome*
Commonwealth			
Australian Dairy Corporation	Some dairy product exports to markets with quota restrictions.	1998-99	Powers only exercised with the agreement of the Australian Dairy Industry Council.
Australian Wheat Board	Wheat exports.	2000	Review commenced April; due December 2000.
NSW			
NSW Grains Board	Malting barley in domestic market. Barley, oats, oilseed crops, grain sorghum exports.	1998-99	Review completed. Result pending.
Rice Marketing Board	NSW domestic market and exports.	1995	Retained powers, next scheduled review in 2000, though suggestion to replace domestic monopoly with a national single export desk.
Victoria and South Australia			
Australian Barley Board	Malting barley and oats in domestic market. Barley and oats exports.	1997	Joint review. Deregulated the domestic market for malting barley and oats; removed export powers for oats 1 July 1999. Barley export powers retained until June 2001.
Queensland			
Grainco	Barley exports.	1997	Export powers (barley to Japan) in place until 2002. Repeal of unused statutory powers over domestic market.
Queensland Sugar Corporation	Queensland domestic market and exports of raw sugar.	1996	Retained powers, next scheduled review not before 2005.
Western Australia			
Grain Pool of WA	Barley, canola and lupin exports.	1998-99	Powers retained; subject to public interest test.
WA Meat Marketing Corp.	Lamb exports	1998-99	Not completed.

a Powers currently exercised — excludes powers that are dormant although legislated.

Source: PC (1999).

3 Assessing the benefits

Various arguments to support claims that single-desk marketing generates higher producer returns and lower selling costs than competitive selling arrangements, and is in the interests of the industries concerned and the community overall, have been advanced. These arguments are discussed in this chapter.

3.1 Introduction

As noted in chapter 1, numerous reasons have been given to support monopoly marketing arrangements of agricultural products. Some of the claimed benefits of single-desk selling derive from the exercise of market power (that is, manipulation and control of the quantity sold on export and domestic markets) while others derive from the marketing monopoly itself, especially the potential for achieving economies of scale and scope in marketing activities. As discussed below, the distinction has potentially important policy implications.

3.2 Increasing export returns

In recent years, the principal justification for single-desk exporting arrangements has been that monopoly-selling ensures higher export returns (and thus higher national income) than would be obtained from competitive exporting. Though the industries themselves do not always make the distinction, there appear to be two facets to this argument — first, that single-desk selling fosters exploitation of market power and, second, that single-desk selling generates, or ‘earns’, additional premiums associated with specialised marketing expertise.

This distinction drawn between monopoly and ‘earned’ price premiums is important. As discussed below, higher prices received for higher quality products, or for better service and reliability, or ‘branded’ products, for example, do not necessarily reflect the existence and exercise of market power. Such premiums generally can be achieved with unregulated or competitive selling. Hence, the case for single-desk selling largely rests on the claim that it allows a country to exploit market power.

Market power in exporting

Exploiting market power in export markets has the *potential* to increase Australia's national income. But market power is not created automatically by the establishment of a single desk. Single-desk export selling compels individual growers (of a broadly-defined commodity) within Australia, to export via a single authority. This single desk can, in turn, act as a mechanism for exploiting Australia's market power in international markets for that commodity *only if such power potentially exists*. This is because a single export desk can control the volume and characteristics of Australian exports, but it cannot control foreign supplies of similar or substitute products.

Market power requires that Australian producers, in concert, have the ability to manipulate prices in (some) foreign markets by varying quantities sold into these markets. In other words, market power is measured by the price elasticity of demand for *Australian* exports of a commodity.[1] Australia's market power will be stronger the greater is its market share, the less competitive are rival suppliers, and the more difficult it is for consumers to switch to substitute products.

These are quite stringent criteria in practice. For example, a large share of a particular market will not translate into market power if a competitor simply can switch supplies to that market at the prevailing price. Even if Australia dominated the international market place for a particular commodity, an attempt to exploit market power and raise prices is likely to encourage consumers to switch to substitute products and other suppliers to develop such substitutes over the medium to long term.[2] Thus exploitation of market power may lead to erosion of that power over time.

Nonetheless, circumstances may arise that constrain arbitrage across markets, divorcing prices in some markets from world prices, and giving Australian producers of a commodity some market power. These possibilities are discussed below.

1 Stated formally, market power is a positive function of market share and a negative function of both the price elasticity of demand for the commodity and the supply responsiveness of rival suppliers.

2 See Piggott (1992) for a discussion of estimation of demand elasticities for Australian exports, including long-term responsiveness. For example, Australia dominates the world wool market and, *prima facie*, might seem to have market power. But higher wool prices in the 1980s (underpinned by a minimum price scheme) encouraged other producers to develop and buyers to switch to synthetic yarns. Similarly, higher oil prices in the early 1970s due to the formation of the Organization of Petroleum Exporting Countries (OPEC) encouraged the use and development of non-oil energy sources.

Exploiting market power

Exploitation of market power essentially means raising profits by manipulating supplies in order to increase prices received or, if not to push up prices, to capture monopoly rents from rival suppliers. This section explores circumstances that might give rise to market power and thus provide a rationale for single-desk marketing.

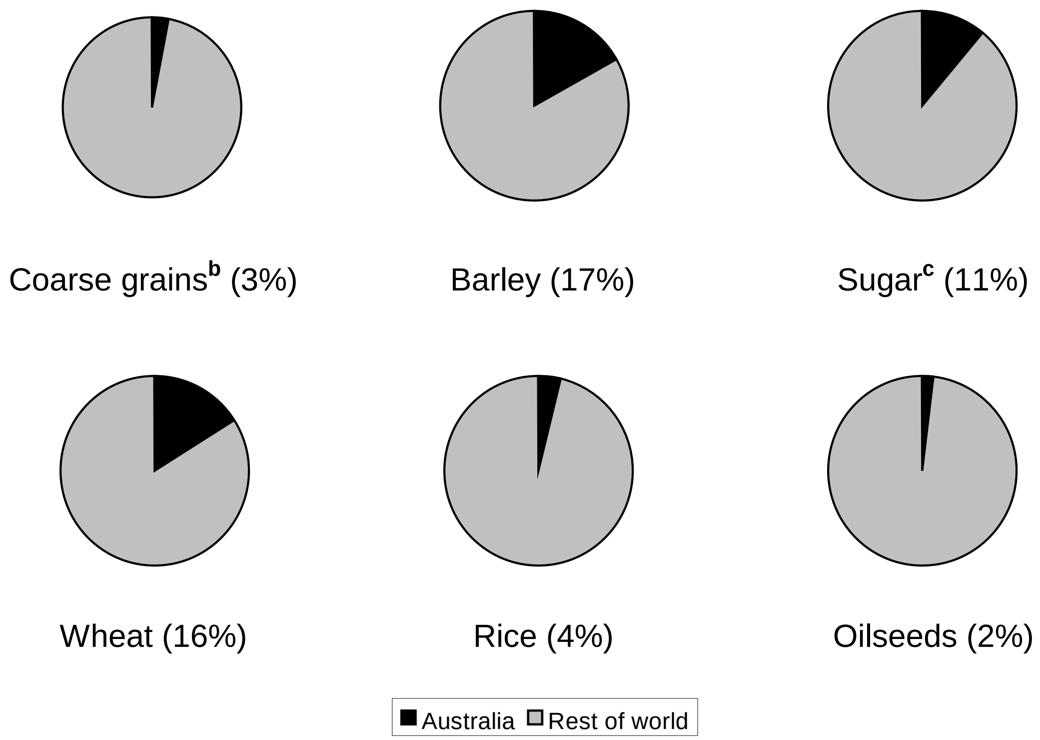
Monopoly exporting

If Australia were the sole exporter (and sole producer) of a commodity, it could increase export revenue and national income by limiting exports of that commodity to the point that the addition to revenue from the last sale (marginal revenue) equalled the cost of producing that last unit (marginal cost). This is standard monopoly profit-maximising behaviour. Though monopoly pricing within the domestic economy will lead to inefficient resource allocation (too little of the good will be produced and consumed in Australia), monopoly pricing in export markets delivers national gains, with the gains to domestic producers accruing at the expense of foreign consumers.

But no Australian industry with single-desk export arrangements has an overall *monopoly* in international trade of a commodity (figure 3.1). Moreover, Australia's share of international *production* is smaller still. In other words, Australia does not control global supplies of these commodities.

Various statements by single-desk sellers suggest that, because their exports and production are relatively small, on the whole they are price takers. For example, the AWB states that it 'prices wheat for export competitively with wheat of similar quality offered by other exporters ' (AWB 1998b, p. 3). QSC notes that for 80 per cent of its sales the price is directly or indirectly determined in the New York futures market (QSC 1997, p. 26). But, as discussed below, those supporting single-desk marketing also argue that characteristics of some markets, products, or the policies of other countries, limit international price arbitrage and thus introduce scope for extraction of market premiums.

Figure 3.1 Selected Australian export commodity shares of world trade[a], 1997-98



[a] Includes intra-EU trade. [b] Includes corn, oats, barley and sorghum. [c] Raw sugar equivalent, September 1997–August 1998.

Data source: ABARE (1998a).

Transport and other advantages: discriminating between export markets

The sugar industry has claimed it can capture a price premium in Asian markets, including Malaysia, Japan and China, due to Australia's different seasonal pattern and advantageous location with respect to these markets. For example, in 1996 it was estimated by the sugar industry that the 'Far-East premium' was of the order of $30–60 million per year (Sugar Industry Review Working Party 1996, p. 128).

In a similar vein, the NSW Rice Marketing Board has claimed an annual premium of $8 million due to transport cost savings *vis-à-vis* US rice exporters (NSW Government Review Group 1995, p. 23). The Australian Wheat Board (AWB) claims that single-desk marketing allows 'allocation of stocks to maximise aggregate returns' (AWB 1998b, p. 2).

In all cases, the implication is that single-desk selling allows price discrimination between export markets. Appendix A illustrates the theory of export price discrimination. In short, where markets can be separated, the objective is to price according to what each market will bear. Thus, in the limit, a price discriminating *monopolist* will switch exports from the relatively inelastic (price *in*sensitive) export markets to other relatively elastic (price sensitive) export markets, to the point that marginal revenues in all markets are equal.[3]

In practice, in the absence of monopoly power, any market power in a particular market is likely to derive from a locational or seasonal advantage, which generates lower transport or storage costs for Australian producers than competitors. In such circumstances, Australian exporters could capture the transport or storage 'premium' by controlling the supply of exports to that market to the point that the selling price of Australian exports was just below the price of competitors. This possibility also is illustrated in appendix A.

Capturing the premium does not necessarily require controlled selling (via a single export desk, for example). A transport or seasonal advantage could be captured with unrestricted selling *provided* total Australian exports of the commodity (or commodity grade) were less than market demand at the competitor's price (IC 1996, pp. 36–7). In such circumstances, Australia effectively would be a price taker in that market. Moreover, any price premium captured in that market may not equal the *net* national benefit if Australian exports are diverted to other markets and push down prices in those markets. The *net* effect on total export revenue measures the national gain.

Nonetheless, in principle, transport and seasonal advantages could be exploited by single-desk selling (or other mechanisms that control export quantities). In practice, it may be difficult to distinguish these premia from higher prices arising for other reasons. For example, a price premium existed in the Asian sugar market in the early 1990s, benefiting incumbent suppliers but also encouraging new entrants.[4] That today the 'premium' has virtually disappeared due to increasing competition from Latin American exports — a point acknowledged by the sugar industry — suggests this premium could have been due to unexpectedly strong regional demand rather than any innate advantage enjoyed by Australia. At the very least, the possibility underscores a risk of monopoly selling. If exports are restricted in the belief that Australia has a permanent advantage in supplying a market when, in fact, the advantage is transitory, limiting exports to the market may encourage competition from rivals which reduces Australia's market share in the longer run.

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3 Marginal revenue is the net change in revenue attributable to the last unit sold. When marginal revenues are equal in each market there is no scope for additional profit by reallocating sales.

4 Demand for raw sugar in the Asian region grew by 24 per cent between 1991-92 and 1996-97, compared with 11 per cent for the rest of the world. By 1996-97, Asia was the destination for 39 per cent of the world's raw sugar exports (QSC 1997).

Product differentiation

The NSW Rice Marketing Board estimates that market power in international rice markets generates a premium of $30 million per year. This market power is said to be the result of Australia's 40 per cent share of the international 'japonica' rice market (NSW Government Review Group 1995, p. 23). In other words, though Australia's share of world trade in rice is very small — 4 per cent — and its share of total production minuscule (0.2 per cent), Australian exports account for a relatively large share of international trade in one variety of rice.

Does this necessarily imply that Australian rice exporters have market power? By creating a differentiated commodity or product type, producers can dominate that particular, albeit narrowly-defined, market. This may confer a degree of market power in the short term, but it also is likely that other varieties will be developed by other producers which will be substitutable in consumption, or that production of the variety itself will expand. In this way, any apparent *monopoly* premiums can be bid away by foreign competitors. If other suppliers can produce substitutes, it is unlikely that a dominant trade share of a variety of rice will deliver persistent market power.

Nonetheless, as discussed below, 'brand' products or certain varieties will attract higher prices if, for example, they offer better quality or other characteristics for which consumers are prepared to pay. However, such premia generally can be captured with competitive selling — in this sense, the premia are 'earned' and do not depend on restriction of supplies to export markets.[5]

Exploiting quantitative trade restrictions

The NSW rice industry estimates that it will obtain a $94 million premium from the quota-restricted Japanese market between 1995-96 and 2000-01 (NSW Government Review Group 1995, p. 24). An independent review of the Australian Barley Board (ABB) suggested a premium from the quota-restricted Japanese market for barley of the order of $5 million per year (CIE 1997). The sugar industry also claims that some countries (Japan, USA) impose quantitative restrictions on Australian and other countries' exports which provide scope for extraction of premiums and thus a role for single-desk marketing (Longmire and Males 1997).

If importing countries restrict imports, pushing up the domestic price of the commodity, and implicitly or explicitly allocate a share of the protected market to

5 It is interesting to note that the NSW Rice Marketing Board argued that higher rice prices in the Australian *domestic* market reflected higher quality and other desirable attributes rather than market power (NSW Government Review Group 1995, p. 28).

Australian exporters, the latter can capture the so-called quota rents, that is, the difference between the domestic (producer) price in the importing country and the world export price.[6] It must be emphasised that the quota must be given or sold at less than its full value to Australian exporters — if it is allocated to home country importers or sold at full value, the rents accrue to the importing country. Indeed, it is puzzling why an importing country knowingly and voluntarily would allow these rents to flow to the exporting country. Where such transfers have occurred, the intention often has been to placate the exporting country for the imposition of import barriers.[7] At the very least, this suggests that care must be taken to ensure that apparent price premiums can be attributed to the import restriction and do not reflect payment for higher quality exports or additional services, such as supply guarantees. In other words, the mere existence of an explicit or implicit import quota does not ensure that rents are available to Australian exporters and is not, of itself, a sufficient justification for controlling Australian exports.

Nonetheless, if quotas are allocated to Australian exporters, it makes sense to capture any quota rents on offer. This may require some coordination of export sales to the market to ensure that competition between Australian exporters does not bid down the price to the world price, effectively handing quota rents back to the importing country.[8] Single-desk selling provides one — but, as discussed below, not the only — mechanism for coordinating sales.

At any rate, such rents will tend to diminish as agricultural trade is liberalised. Under the WTO Agreement on Agriculture, most quantitative restrictions on agricultural imports are to be 'tariffied', that is, converted to non-discriminatory tariff equivalents, with reductions in these tariffs over time. As this conversion occurs (for example, as Japan 'tariffies' its rice quotas), Australian exporters no longer will be guaranteed a share of the market and quota rents will disappear.[9] In this situation, there is no role for export restraint — Australian exporters will need to be as competitive as possible in order to maintain or increase sales.

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6 A tariff preference (where exports of rivals are taxed at a higher rate than Australian exports) also may give rise to rents which can be appropriated by Australian exporters. In effect, a tariff preference can confer a similar advantage to a transport or seasonal advantage. As with a transport or seasonal advantage, restriction of exports will be required to extract rents only where Australian exporters could more than meet market demand at the higher, tariff-inclusive price of rival exporters.

7 For example, voluntary export restraints (VERs) allow the exporter to retain quota rents as a *quid pro quo* for agreeing to restrict exports. VERs were outlawed in GATT 1994 (Agreement on Safeguards).

8 Formal coordination of exports may not be required, however, if export marketing is carried out by a few large firms.

9 Quota rents will convert to tariff revenue which accrues directly to the Japanese Government.

Countering buying power of importers

The AWB cites increased bargaining power as a major benefit of single-desk exporting (AWB 1998) and, in similar vein, the ABB has argued in favour of a single desk in order to counteract the buying power of foreign government agencies (CIE 1997, p. xiv).

In theory, if a large importer restricted its purchases of an Australian export commodity in order to push down the export price (in other words, the importing nation attempted to exploit its market power, for example, via a tariff, a buyer cartel or monopoly STE), Australia could respond by constraining exports in an attempt to raise the selling price. The eventual price (and quantity sold) will be determined by the relative bargaining strengths of the two players.[10]

The critical question is how much bargaining power Australia and, indeed, the importing nation, are likely to have in practice.[11] Importantly, the mere existence of an importing monopoly does not justify countervailing action by Australia. A countervailing strategy can be successful for Australia only where competition (and potential competition) from other suppliers is weak or constrained — in other words, where Australia has some market power and ability to affect prices. If the buyer simply can switch suppliers without incurring higher prices, Australian exporters will have little scope to raise the price they receive by restricting their exports.

Countering the policies and actions of other exporters

Australia's competitors pursue a range of policies which distort world prices. These policies broadly fall into two groups — those which attempt to increase or stabilise export prices (for example, cartels, single export desks, export controls) and those which depress export prices (for example, export subsidies). The issue is whether a single-desk exporter can do anything to counter the effects of these policies.

Foreign trade policies aimed at raising prices

If a rival exporter dominated a particular market and, by restricting its supply, forced up the price in that market, Australian exporters have two options — either to 'free-ride' on this higher price and increase exports to this market (thus tending

[10] For a discussion of bilateral monopoly see IAC (1988b, appendix 9.2).

[11] That an importing country might attempt to reduce the commodity price by limiting imports, of itself, does not indicate market power. The strategy must be successful.

to erode the higher price), or to act in concert with the other supplier, constraining exports in a bid to maintain higher prices.

Competitive exporting by Australian producers (that is, where exports are not channelled through a single desk) could allow them to benefit from higher prices in the short term, though the higher price also would encourage increased exports by Australia and other exporters. Over time, this competitive response would tend to bid away the price premium.

If, on the other hand, there were two fairly evenly matched suppliers, or if all (potential) suppliers could be induced to play the same game, it could be argued that Australia should respond 'strategically', effectively colluding with the other exporter(s). For example, the AWB might 'collude' with the Canadian Wheat Board to control exports. The weight of theory and history suggests, however, either that agreement will not be reached in the first place or that parties to an agreement eventually will 'cheat' — that is, expand sales and undermine the *de facto* cartel. Many global commodity agreements among exporters, tin and sugar for example, ultimately have been unsuccessful in their attempts to control world supplies and prices because of 'cheating' by members, though some (for example, OPEC) may have managed to extract premiums for a time.

However, absent the prospect of successful concerted action, Australia would be better off 'free-riding' on the (transient) higher prices generated by competitors' actions. As this is the automatic response of exporters in a competitive market to higher prices, single-desk exporting is not required to pursue this strategy.

Export subsidies

It is suggested that foreign export subsidies (for example, the US Export Enhancement Program) provide a rationale for monopoly exporting by Australia. For example, the ABB claims that single-desk selling allows Australia to redirect exports to unsubsidised markets and receive higher prices (CIE 1997, p. 81).

It is possible that targeted export subsidies are used to implement price discrimination by the subsidising country.[12] This scenario is similar to that described above. Australian exporters, in response, could divert supplies to the unsubsidised market and receive a higher price for a time. However, provided there were significant exporters (including Australia) other than the US, arbitrage eventually would be expected to drive the price received by Australian producers in

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12 Price discrimination can be implemented by reducing quantities sold in the relatively inelastic export market (for example, by way of an export tax) or by expanding sales (for example, via an export subsidy) in the relatively elastic market (see Abbott *et al* 1987).

this market to the price received in other markets. This diversion of exports by non-US exporters from the subsidised to the unsubsidised market — arbitraging the price differential between markets — would occur with competitive exporting. Single-desk selling is not necessary to achieve such an outcome.

Alternatively, and also as described above, Australia could mimic the policies of the rival exporter, constraining exports to the unsubsidised market. This would mean, in effect, that Australia and the other exporter act in concert as a single monopolist. But such a strategy may not be successful because of the incentives created for other suppliers, and indeed the two protagonists, to expand sales in the high price market. Interestingly, proponents of single-desk selling do not appear to argue for this form of intervention, and yet it is precisely this scenario that requires control over exports.[13]

Export subsidies may be and often are implemented to achieve objectives other than price discrimination in export markets. The US, for example, may have used export subsidies to challenge trade policies of other countries (see Snape *et al* 1998, p. 457). Alternatively, they may provide a form of income support to producers. Whatever the objective, the likely result is lower commodity prices for Australian exporters. Should Australia respond in kind?

Generally speaking, export subsidies will impose economic costs on the subsidising country, with the loss increasing the more export prices fall as a result of the subsidy. However, in limited circumstances export subsidies may increase real national income, for example:

- if the subsidy is an indirect means of extracting higher prices for another export good,[14] or higher prices for the same good in other export markets (the price discrimination case discussed above); or
- if the subsidy provokes a change in the behaviour, or the elimination, of a rival supplier, and where this change subsequently generates net benefits to the subsidising country (so-called strategic trade policy).

Drawing on the latter possibility, it has been suggested that single-desk exporting facilitates 'strategic' or 'strong' selling. However, to be successful, 'strategic' selling requires an exporter to have enough market power to affect the behaviour of foreign producers and/or foreign governments. It is highly unlikely that Australian

13 Paarlberg and Abbott (1986) have suggested that responses by Australian wheat exporters to exogenous changes in world wheat markets have not been 'strategic'. Indeed, for the period analysed, they consider that Australian wheat sellers may have underestimated their market power.

14 For example, subsidising exports of one commodity may reduce the production and export of another commodity. The net result could be an improvement in the terms of trade.

exporters of any commodity, even operating as a bloc, have the clout to force a change in US or EU policy by discounting Australian exports.[15] At any rate, single-desk export selling, by itself, cannot match across-the-board export subsidies — this would require additional government intervention (for example, in the form of explicit export subsidies or a home price scheme which effectively subsidises exports via higher domestic prices).

A single-desk seller may have the capacity to engage in a discount war with a rival in one export market with a view to increasing or maintaining market share. But the conditions necessary for such a policy to generate net benefits are unlikely to be met in fiercely contested agricultural markets. This is because net benefits can accrue only if profits gained subsequent to discounting exceed losses incurred while discounting. But, in practice, with the ever-present threat of competition from other suppliers, it may prove virtually impossible to maintain the gains in market share without continuing to discount prices.

Exploiting market power — is a single desk required?

The above discussion suggests that there are limited circumstances where Australian commodity exporters may have an opportunity to extract higher prices in export markets by controlling supplies to those markets. Such a prospect may result from transport or seasonal advantages while preferences given or quantitative trade restrictions imposed by buying nations in some circumstances also may confer scope to extract rents. On the whole, however, Australia's market power in international markets is likely to be significantly constrained because Australian exporters generally face intense competition from rival suppliers in export markets, and because importing countries usually will attempt to retain any quota rents.

But, even if Australian exporters possess a degree of market power, is single-desk selling the only, or the best, means of exploiting that power? Any mechanism that controls the quantity of Australian exports can achieve the desired result. For example, there are various forms of direct export control including quantitative restrictions (export quotas) and export taxes, none of which involves compulsory marketing arrangements. Other mechanisms operate indirectly by conferring monopoly export powers — including single-desk arrangements and export licences. Each of these mechanisms (discussed below) can capture market premiums, though they may have different effects on national income and its

15 Australian efforts via the Cairns Group in the Uruguay Round of multilateral trade negotiations (which used the combined political influence of several major exporting nations) were influential, however (see Snape *et al* 1998, chapter 9).

distribution. Each method involves costs which must be compared with the premiums obtained.

Export taxes

If Australia has market power, an export tax paid by domestic producers on all exports reduces exports but raises the price to foreign buyers.[16] The domestic price of the commodity typically will fall to equal the net-of-tax marginal export return to producers. Though this outcome may be good from the national perspective — foreigners are taxed but domestic consumers are not — export taxes are not popular with local producers, precisely because the net *producer* price falls and they do not receive the tax revenue.

In theory, export taxes can achieve optimal exploitation of foreign markets, without imposing compulsory monopoly marketing arrangements and their associated efficiency costs (see chapter 4). In practice, export taxes require governments to estimate market power so that they can set the appropriate tax rate. If, for example, international markets became more competitive, failure to reduce export tax rates could prove very costly in terms of export sales forgone. It also would be difficult to practise price discrimination across export markets, with different demand elasticities for Australian exports.

Export licences

An export licence to sell to a specified country or to sell a specified volume can be given away or can be sold to an exporter(s). Thus export licences can control exports by restricting volumes (acting as an export quota), types of export and/or licence holders. By restricting export quantities they, like export taxes, can be used to drive the price higher in export markets where Australia has market power.

In effect, a single desk is created by giving a producer board an implicit or explicit *monopoly* export licence. In this case, the effects of the licence are the same as for single-desk selling. On the other hand, if monopoly export licences were issued to the producer board only for 'premium' export markets (with competitive exporting in all other markets), export premiums could be captured in these markets, while domestic prices would equal the marginal export return (from non-premium markets), as required for national efficiency.

16 However, if Australian exporters are price takers (the world price is given), the tax only reduces the prices received on both the export and domestic markets by Australian producers (by the amount of the tax) and, as a result, reduces the quantity of Australian exports and production. In this case, the export tax unambiguously reduces Australia's national income.

Export licences have one advantage over export taxes in that they do not necessarily require the government to estimate the precise degree of export restraint. For example, if a monopoly licence is auctioned, bidders must assess potential net revenues from the export market (and the risks involved) and tailor their bids accordingly. The government then accepts the highest bid. This process has the added advantage that, compared with an allocation of a licence or a single desk, the most efficient seller(s) are likely to win the export right. Provided bidding is competitive, each bidder will be prepared to pay up to the expected monopoly premium for the export right. Moreover, an auction would reveal the size of the expected monopoly premium and proceeds could be returned to growers in a way that did not distort prices.

Single-desk exporting

Single-desk exporting combines competitive production with monopoly selling. It compulsorily brings together competing individual growers so that they export as a national cartel or monopoly. While this provides a mechanism for exploitation of export markets, as with a private monopoly, a producer organisation with single-desk powers also is likely to raise the domestic price above the export price. This can occur directly via monopoly selling power in the domestic market (buttressed by import restrictions including tariffs or quarantine regulations) or, as discussed in chapter 4, it is feasible that an export monopoly alone can be used to extract a premium on the domestic market. In addition, even if the single desk were constrained to charge a competitive domestic price, single-desk marketing typically imposes other efficiency costs which derive from bundling and averaging of producer returns and its marketing monopoly (chapter 4). If single-desk powers were limited to identified premium markets, these efficiency costs may be reduced, though there would be no guarantee that marketing costs incurred in the premium market were minimised.

In other words, though circumstances in some markets may be such as to allow Australian exporters acting as a bloc to extract a price premium or capture rents, it does not necessarily follow that single-desk arrangements are the most efficient means of extracting those premiums. This is because all that is required to exploit market power is some form of control over export quantities — there is no requirement for monopoly *marketing* of exports, or control over exports to markets where Australia does not have market power.

Thus, auctioning of limited export rights to supply markets where premiums might be available (possibly Japan) would allow the premium to be captured while allowing competitive selling to all other markets, including the Australian domestic market. The premium could be distributed to all producers directly (for example, as an annual cash payment apportioned according to the value of production) or used for activities which potentially benefited all producers (for example, research and development). Limited single-desk export powers (which are equivalent to an issued monopoly export licence) provide another option, though as discussed in chapter 3, the size of the premium is not revealed and the single-desk seller is not subject to competitive pressure to minimise costs. Examples of such targeted systems already operate in Australia. In the beef industry, licences to supply the US import quota (in years when quotas are triggered) are distributed to exporters according to past export performance. These exporters thus directly receive the quota 'rents'.

Moreover, it is not certain that such premiums would be forfeited in the absence of any formal mechanisms — it is feasible that otherwise competing traders may cooperate in such markets and share available rents though, without compulsion, there will be incentives to cheat.

'Earned' premiums

In addition to claims that they increase national income by exploiting Australia's market power, those supporting single-desk marketing argue that they generate higher export returns because of the specialised marketing services provided to customers. Customer services might include flexible and reliable delivery, quality assurance, meeting product specifications, and financial assistance. This, essentially, is an argument for compulsory, collective *marketing* of exports, rather than control over export quantities in order to exploit market power. For example, the sugar industry suggests that:

> Single desk marketing provides the opportunity for the Queensland sugar industry to successfully build relationships with its customers in a way which is not pursued by any other sugar exporter in the world. (Sugar Industry Review Working Party 1996, p. 100);

and the NSW Grains Board:

> Major benefits of single desk arrangements are that Boards identify grain quality for market needs, give the assurance of stable supply to markets … (NSW Grains Board 1997, p. 5)

Though buyers may be willing to pay for additional services provided by the single-desk, this does not imply that single-desk selling — monopoly selling — is required to obtain such premiums, that it is the most efficient means of doing so, or that growers benefit from these premiums.

Indeed, in the absence of the single desk, it might be expected that there would be considerably more tailoring of products and provision of ancillary customer services to meet consumers' needs as producers respond to market signals (see chapter 6 for a discussion of producer responses in deregulated agricultural markets). Though the single desk necessarily will develop relationships with customers, direct relationships (and price signals) between customers and producers are precluded. This is the inevitable consequence of arrangements that compel individual producers to sell as a bloc. If it is the case that the marketing framework embedded in the single-desk model is the most efficient, legislative protection is not required to generate it — it is likely to perform better than alternative arrangements in a competitive environment.

It also is important that the costs of additional services provided by the SMA are taken into account. In the absence of competition, and with no explicit accounting of profits flowing from value-adding activities of the SMA, it is difficult to assess whether these additional services are cost effective. If they are not cost effective, a higher selling price for the commodity might be associated with a lower overall return for producers due to higher operating costs of the SMA.[17]

Some services provided under a single desk may not be provided, or provided to the same extent, in a competitive market. These include services that are not profitable and services that exhibit public good characteristics.

Single-desk sellers may over-service markets, offering services that do not pay their way. This can occur if the interests of growers and the interests of those employed by the single-desk authority do not coincide, and if growers have insufficient information to assess whether services provided by the authority are efficient. For example, in the absence of a profit objective, employees of a single-desk authority may be rewarded on the basis of levels of service provision.[18] Although growers will be cognisant of overall costs of running the authority (which ultimately they pay), they might find it difficult to assess whether particular activities are cost-effective (given bundling of profits, the absence of a clear profit objective for the SMA and no alternative providers) and if, for example, the single-desk seller claims these efforts are required to earn market premiums.

Some services provided by single-desk authorities will exhibit public good characteristics, for example, promotion of an 'Australian' brand with certain quality and other characteristics. Marketers in a competitive market may under-promote products with generic characteristics if competitors can free-ride on their

[17] Poor profitability of the services provided by an SMA can be disguised by bundling profits with payments for production. Producers might receive a higher return than a pure raw material price, but this may represent a poor return for their (compulsory) investment in the SMA.

[18] For example, Carter (1998) suggests that boards will seek to maximise their welfare at the expense of growers by engaging in unnecessary service provision.

expenditure. Nonetheless, voluntary, market mechanisms can address free-rider problems — for example, voluntary producer associations can supply a 'brand' on a commercial basis to producers.[19]

However, even if it were considered appropriate to promote a national brand or trademark, this could be funded via an industry levy scheme — single-desk selling is not required. Similarly, compulsory quality licensing might be considered necessary to prevent 'contamination' of the export trade by inferior exports where consumers are unable to differentiate between Australian exports. This study does not argue in favour of such mechanisms — there are solid arguments against compulsory generic promotion or quality controls, especially if consumers increasingly demand variety and can differentiate between suppliers and products — but the point simply is made that alternative, targeted mechanisms exist, which do not involve single-desk selling.

3.3 Lower costs

The NSW Grains Board argues that 'arrangements which provide the lower cost and greater financial access benefits to individual growers and the community are only available because current legislation gives all the growers the power to be treated as a united force in the industry' (NSW Grains Board, *News Release*, 1 June 1998). Along similar lines, the ABB claims that it earns profits from its risk management activities and that this is directly attributable to its single-desk status (CIE 1997, pp. 88–9).

In essence, single-desk sellers claim that they can provide services or buy inputs at lower cost than alternative marketing arrangements due to economies of scale or scope in storage, transport and handling, finance, risk management, marketing etc. But as with many of the arguments proffered in favour of single-desk selling, though it may be the case that there are economies of scale or scope in these activities, protected monopoly is not generally required to exploit economies of scale and scope appropriately. Indeed, in the absence of competitive pressure, the monopoly seller may be a less efficient provider (or buyer) of services than providers in a competitive market. In addition, some economies of scale generated by compulsory marketing of a generic commodity may not be cost-effective if they are achieved by under-providing variety or product characteristics that consumers value. If this is the case, any lower costs arising from economies of scale achieved through compulsory aggregation of the commodity must be balanced against forfeited price premiums.

19 See ACIL (1992, p. xxi) for a discussion of market solutions to free-rider problems.

In the absence of a single desk, individual growers would not be forced to manage their own risk, raise their own finance or market and transport their own produce. But they will face a wide range of choices, including continued provision of services by the former SMA. For example, they would be able to buy in services provided by specialists who can exploit global economies of scale and scope. With providers competing for their business, cost savings would be passed on to Australian producers.

It may be that the current single-desk provider is the most efficient supplier of some services. If this is the case, that organisation will out-perform competitors in a deregulated environment, dominating provision of that service. Experience of deregulation in other industries and countries (chapter 6) suggests that the incumbent SMA, reconstituted as a private corporation, typically becomes a major player in a deregulated market, providing marketing, risk management and other services to growers, albeit on a purely voluntary and commercial basis.

Single-desk sellers emphasise access to cheap finance as a major advantage of single-desk selling. Finance is raised to meet interim pool payments to growers or to invest in storage and other facilities. It may be the case that explicit or implicit government guarantees underwrite the debt of statutory authorities, or that the protected monopoly status of the single desk itself, reduce financial risk and lead to lower debt costs which can be passed on to growers. But this raises a question why agricultural producers should receive a form of assistance not available to most other Australian producers. Though financiers might consider a business with a regulated monopoly or government guarantee to be a better risk than a business operating in a competitive environment, it does not necessarily follow that the monopoly or guarantee is in the national interest.

Finance costs of SMAs might also be lower because growers are compelled to bear levels of risk which, in a more competitive market, they might prefer to be borne (at a price) by the marketing organisation and its financiers. Thus, while interest rates paid to credit providers might be lower with the single-desk monopoly, producer returns are not guaranteed and will fluctuate with market conditions and the performance of the SMA. Producers may save on finance costs but are compelled to bear a level of risk which may not reflect their risk preferences.

3.4 Other benefits?

Other arguments in single-desk selling include control over domestic market sales and grower ownership and control of marketing. These are briefly considered in this section. SMAs which retain domestic market powers include the sugar industry (albeit with regulation of the domestic price) and the NSW grains industry (where the domestic monopoly is under review).

An 'uncorrupted' domestic price?

According to the NSW Grains Board:

> ... the impact of international market failure on domestic markets is also one of the strongest reasons to retain single desk marketing.
>
> Where NSW has export surpluses of malt, feed barley and canola we import the export market corruption and failure because all domestic customers know they need to better the export price by only $1 to retain grain domestically. This is still up to $70 below an uncorrupted price. (*News Release*, 9 June 1998)

As discussed in chapter 4, single-desk powers can provide a mechanism for charging a price higher on the domestic market than on export markets. This can occur through direct control of domestic supplies (a domestic single desk) or indirect control via single-desk export powers, bolstered by natural or artificial barriers against imports.

Though the world price may be depressed as the result of various foreign government policies[20] this is not an argument for charging a higher price to domestic livestock and processing industries in order to compensate local agricultural producers. If it is considered that some agricultural producers warrant income support, normally it would be more efficient to provide this directly and transparently, spreading the burden over all taxpayers.

The food processing sector, and feedgrain-using industries such as pigs and grain-fed beef, are exposed to international competition and will be hindered if forced to pay higher prices than their international competitors for major agricultural inputs. For example, it has been estimated that every $5 per tonne increase in the domestic feed barley price costs pig farmers and grain-fed beef producers $10 million per year (CIE 1997).

Countering domestic distortions

Another set of arguments in favour of single-desk marketing (specifically a single desk with control over *domestic* sales) relates to market power of downstream domestic users of agricultural commodities. Again, in the words of the NSW Grains Board:

20 It is not impossible, however, that the net effect of policies has been to increase the prices of some commodities — for example, production in some countries may be taxed.

> Examples of market failure include much greater numbers of producers compared to end users for barley, and the excessive market power of end users in the domestic oilseed crushing market. (*News Release*, 9 June 1998)

But a deregulated market does not imply that each grower would negotiate directly with a processor — a variety of arrangements could develop including voluntary groupings of producers who form links with a processor, or selling through private traders who, in turn, deal with processors or, indeed, vertical integration where processors and growers formally merge operations. Indeed, it is feasible that the grower cooperative model, which is embodied in statutory marketing boards, continues, albeit on a voluntary basis. Of itself, removal of compulsion to sell via SMAs will not lead to change — producers must choose change by seeking out alternative marketing arrangements.

At any rate, if the industry is strongly export oriented, there is little scope for exploitation of domestic producers by domestic buyers. Domestic processors inevitably will try to buy their inputs as cheaply as possible and may be able to exercise market power against small, uncoordinated input suppliers if the input is not exported. In this situation, input suppliers could organise to counter the buying power of the processor and obtain higher prices (limited by the availability of imports)[21] Moreover, such bilateral bargaining could be consistent with lower selling prices of the final product to consumers.[22]

However, if domestic processors buy inputs from an export-oriented industry, the cheapest price they can obtain is the producer export price — for a given product, domestic suppliers of the input, whether they combine as a single seller or act as individuals, will not accept a lower price for domestic sales than they receive for exports. The fact that the input is traded and that the price is determined in international markets means that there is little scope for the domestic processor to exercise buying power — the input price is set by global market forces.

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21 The domestic price can only be pushed up to import parity (including the price-raising effect of import restrictions). For some agricultural commodities this price will not be binding because imports effectively are prohibited on quarantine grounds or transport costs are prohibitive — the commodity is non-traded. Where imports are feasible, the domestic price will be set by the import price (inclusive of the effect of any import restrictions) and there is no scope for a domestic single desk to push the domestic price higher than this.

22 This is an example of bilateral monopoly where bargaining between the two parties could lead to an increase in sales of the input (at a higher price to input suppliers) and *lower* prices to final consumers, coupled with higher output of the final good.

Grower control of marketing

As discussed in chapter 2, SMAs had their genesis in voluntary producer cooperatives established early in the 20th century. SMAs essentially are compulsory cooperatives, with the authority's assets owned jointly by producers. A major objective has been and continues to be producer control of marketing and, in some cases, processing of the commodity, in order to avoid exploitation by 'middlemen' and processors. However, (compulsory) grower control has not been costless. In particular, without competition and clear identification of shareholdings and profits, producers cannot assess whether an SMA is performing efficiently or whether its assets are earning an adequate return.[23] In addition, an SMA is reliant on producer equity, which may place it at a disadvantage *vis-à-vis* investor-controlled corporations which can raise funds from the market. As Bates (1998) observed:

> … the cooperative form of ownership is coming under increasing pressure because of the bundling problems associated with increasing diversity of activities of processing firms, increasing capital requirements and risks, increasing difficulty of monitoring performance as firms become larger, and increasing problems arising from the lack of transferability of ownership rights. (p. 47)

If SMAs are reconstituted to promote efficiency and ensure that they have access to an adequate capital base, the greater is the likelihood that they will perform well in a deregulated environment and enhance rather than reduce shareholder value.

Demutualisation of SMAs, where producers are given explicit ownership of the assets of SMAs, and explicit dividend payments, would allow better monitoring of the performance of investments and returns to commodity production. Moreover, by unbundling income streams, producers could compare prices paid by the SMA and those paid by commercial marketers. This would place additional pressure on SMAs to improve efficiency and seek profitable opportunities, in order to bolster producer commodity returns and dissuade producers from seeking alternative marketers.

Demutualisation also is likely to create new and heighten existing internal tensions between producer and producer-cum-shareholder interests. For example, it may be the case that promoting sales of new varieties is a more profitable strategy for a corporatised marketing organisation and shareholders than controlling supplies of an 'Australian' brand to a particular market.[24]

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23 For a discussion of the advantages and disadvantages of cooperative arrangements in the context of the New Zealand dairy industry, see Bates (1998).

24 For example, Bolt (2000) discusses emerging tensions between wheat producers and AWB shareholders.

However, as long as producers effectively are locked into ownership of the marketing organisation, normal market constraints on and signals regarding company performance do not operate. Ultimately, these private companies could be publicly listed, thus providing greater access to equity capital and more competitive pressure to perform, and with growers free to choose how they hold their assets. This would not necessarily mean an end to producer control — this will depend on producers and whether they consider they can obtain a better return from other activities.

3.5 Conclusion

Discussion in this chapter has focused on some major contemporary arguments in favour of single-desk marketing and, in particular, claims that single-desk marketing generates national benefits by exploiting Australia's market power in overseas markets.

Though exploitation of market power in international markets can increase national income, this possibility is not sufficient to justify single-desk exporting:

- while single-desk marketing controls Australian exports it cannot control foreign supplies and therefore it cannot create market power where it does not exist;
- given Australia's inability directly to constrain international price arbitrage in commodity markets, in practice, scope for extracting export market premia is likely to be limited to circumstances where artificial (for example, import quotas allocated to Australia or tariff preferences) or natural (location and seasonal) barriers constrain competition from rival suppliers; and
- even if international arbitrage is constrained in some markets, thus offering scope for market premiums, single-desk powers over *all* exports are unlikely to be required. Targeted instruments which control exports to some markets, but which also promote efficient marketing, are likely to be superior to single-desk marketing.

Other arguments for single-desk exporting appear to carry still less weight:

- higher export returns that reflect premiums for desired product or marketing services generally will be achieved under competitive exporting. If some desired services exhibit clear public good attributes, special targeted arrangements can be made to ensure their provision in an otherwise deregulated market; and
- a regulated marketing monopoly is not generally required to achieve desirable economies of scale or scope in service provision. Indeed, competition in service supply to growers is likely to result in lower costs for growers because they can

access specialist service providers who can capture such economies and who, in turn, are subject to competition. Alternatively, growers themselves could form voluntary organisations/associations in order to capture scale economies (for example, buying groups or voluntary cooperatives).[25]

Arguments in favour of a *domestic* single desk are especially unconvincing. These centre around the notion that domestic processors and consumers should pay more for Australian agricultural commodities than foreign processors and consumers. This reduces economic welfare of Australian consumers and the international competitiveness of Australian exporters of processed products, an approach which could be especially short-sighted when international demand for exports of processed products is increasing.

Various industry estimates of large export market premia attributable solely to market power exercised by single desks do not sit easily with this analysis. If the objective is to quantify the net *national* gains attributable to exploitation of market power via single-desk exporting, it should be borne in mind that:

- the measured premium may not derive from the exercise of market power but may reflect higher-valued product characteristics, higher quality or better service or, for that matter, a temporary increase in price due to, say, an unexpected increase in demand or reduction in supply by a competitor. In other words, observed higher prices may not necessarily be attributable to controlling export quantities and could have been achieved without a single desk;
- diversion of exports from ‘premium’ markets to other export markets (to achieve premium prices) may depress prices in the latter markets reducing the *net* export premium; and
- higher returns to producers do not necessarily translate into national gains. Estimates may include a domestic market premium. While this certainly would raise *producer* returns, this ‘premium’ is achieved at the expense of local users and therefore does not represent a net *national* gain. Indeed, higher domestic prices are likely to *reduce* national income by reducing domestic consumption.

Moreover, even if correctly measured, estimates of market premiums do not take into account efficiency costs of single-desk arrangements including any additional costs incurred by single-desk authorities in obtaining those premiums. In particular, what is the long-term opportunity cost of policies designed to exploit market power? Any gains from exploiting market power may prove uncertain, ephemeral and small. Though alternative marketing arrangements might (though not necessarily) forfeit short-term gains, they might deliver larger and more durable

25 Such arrangements may require authorisation under the *Trade Practices Act 1974*, however.

benefits over the longer term. The potential costs of single-desk marketing are examined further in chapters 4 and 5.

4 Assessing the costs

Single-desk marketing can impose costs on domestic user industries and consumers as well as on producers in the regulated industries themselves.

4.1 Implications for domestic users and consumers

A major focus of past reviews of single-desk arrangements has been their domestic price-raising effects. As discussed below, while domestic price effects remain an issue, reductions in import barriers and deregulation of domestic markets have reduced domestic price distortions. Nonetheless, single-desk exporting continues to provide some scope for raising domestic prices of the commodities regulated by such arrangements.

Single-desk export marketing and domestic prices

In the past, the effect, if not the stated objective, of many agricultural marketing schemes (so-called home-price schemes) often was to raise the domestic price above the world price.[1] This outcome, which meant in effect that domestic sales were taxed and exports were subsidised, was facilitated by the domestic and export monopoly powers of the SMAs, buttressed by various restrictions on imports.

As discussed in chapter 2, the powers of many boards have been (or are being) whittled away (table 2.2). Nonetheless, single-desk export powers remain for some major agricultural industries, quarantine restrictions remain in place for grains, while other boards (for example, the NSW Rice Board and QSC) retain their monopoly over both domestic and export marketing. These residual arrangements still may provide an opportunity for extraction of higher prices on the domestic market. In particular, single-desk export powers (or other instruments which subsidise exports) by themselves can provide a mechanism for extracting higher prices on the domestic market. In other words, removal of single-desk control of the domestic market alone may not be sufficient to deliver competitive domestic prices.

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1 Sometimes, however, the opposite occurred. For example, in the late 1970s, domestic sugar prices, which were regulated by Commonwealth and State agreement, were held below the export price (see Snape *et al* 1998, p. 135).

Box 4.1 illustrates how SMAs with powers to control quantities sold in both the domestic and export markets can exploit the (usual) inelasticity of the domestic market (relative to the world market) by raising the domestic price above the export price. (This, in essence, illustrates a home-price scheme.) If the domestic market is deregulated, or if the domestic price is regulated (as is currently the case with sugar), scope to raise domestic prices may be constrained, though not necessarily eliminated. This possibility also is illustrated in box 4.1.

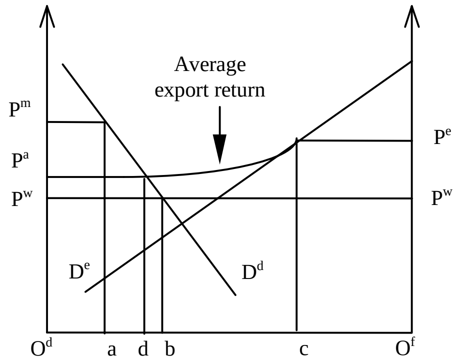
Single-desk export selling can inflate the domestic price if producers receive an *average* price for exports, that is, returns (net of the SMA's costs) from all exports (of a certain product grade) are lumped together, and then divided among producers based on quantities exported. To the extent *average* export returns to producers can be inflated by capturing 'premiums' in some export markets, this average price will tend to be charged to domestic consumers even with competitive domestic selling. This is because producers will not accept a lower return from domestic sales than they can receive from exports.

As can be seen from the figure in box 4.1, if the domestic price exceeds P^w (the 'world' price) domestic sales will be lower, and exports higher, than they would with competitive domestic pricing. Via export price equalisation, single-desk arrangements can 'tax' domestic sales and thus act as an indirect means of *subsidising* exports (that is, generating higher export levels than would occur with competitive exporting). This is counter-intuitive, given the ostensible aim of single-desk arrangements to tax or control exports in order to extract premiums. But the possibility of higher export levels may drive concerns in some international forums and in some countries about the impact of STEs and SMAs.[2] In the domestic economy, diversion of sales from the local to the export market is likely to reduce national welfare due to lower consumption levels and involve income transfers from domestic buyers to agricultural producers.

The upper limit to the producer price for domestic sales will be the import parity price, which will be affected by tariffs, quarantine restrictions, inward transport costs etc. Scope to extract a premium on the domestic market will be reduced as import barriers are eased or removed, though, even without artificial restrictions, the 'natural' protection provided by distance may provide scope for small premiums to be extracted on the domestic market.

2 For example, Paddock (1998, p. 11) notes that the basis for international concern is 'that STEs may provide a channel for explicit or implicit subsidies which could provide an advantage to domestic producers at the expense of foreign competitors'.

Box 4.1 **Single desk exporting and domestic prices**



The above figure shows domestic and export markets for a commodity where D^d (drawn from the left axis) is domestic demand, D^e (drawn from the right axis) is demand for Australian goods in the export market with relatively inelastic demand (compared with other export markets) and, for all other export markets for the commodity, Australia is assumed to be a price taker at the world price, P^w. For simplicity, it is assumed that output and costs are fixed. Demands and therefore prices are net of transport costs. The optimal outcome from Australia's viewpoint is that market power is exploited in export markets appropriately and that the domestic price equals the marginal return from exporting. In the above diagram this would involve restricting exports to the inelastic export market (that is, where Australia has some market power) to O^fc, thus raising the price in that market to P^e. As drawn, marginal revenue from exporting (beyond quantity O^fc) is the world price P^w, and this is the price that should be charged in the domestic market.

With competitive exporting and a competitive domestic market, the world price P^w prevails in all markets. Quantity O^db would be supplied to the domestic market and O^fb exported. In this case, where the marginal export return is set by P^w, competitive exporting ensures the optimal price at home, but fails to capture the export market premium (assuming no voluntary cooperation in exporting to that market).

Where single-desk powers apply to both the export and domestic markets, the single-desk seller will equate marginal revenues in each market. As drawn, quantity O^da is sold domestically at price P^m, quantity O^fc is sold to the 'premium' export market at price P^e and quantity bc is exported at the world price, P^w. Thus an unconstrained single desk will extract the export market premium but also extract a premium on the home market.

Where the marketing board has power over exports only, and the domestic market is competitive, or where the board is constrained to charge the same price in the domestic market as for exports (as in the case of sugar), the board will extract the export premium in the inelastic export market.

(Continued next page)

Box 4.1 **(Continued)**

Higher returns in this market are added to other export returns so that producers receive an ‘average’ export price. Because producers demand the same price in the domestic as the export market (that is, the equalised export price), producers may still be in a position to extract a higher price on the domestic market than P^w (as drawn, P^a). As with monopoly pricing on the domestic market, this higher domestic price generates a deadweight loss (due to the reduction in domestic sales from O^db to O^dd) which must be offset against any additional export receipts when assessing net national benefits. It also is possible that expansion of exports to the residual market will push down the price in these markets (this effect is not shown). Nonetheless, a domestic price closer to P^w will deliver higher national welfare than monopoly pricing on the domestic market.

Source: Sieper (1982, pp. 34–8, 74–8)

Of course, this outcome hangs somewhat precariously on the ability of the single-desk seller to exploit market power successfully. If there are no export premiums available (that is, Australian exporters are price takers), domestic prices will not be distorted. Conversely, if export premiums due to market power are large — as claimed by single-desk sellers — upward pressure on the domestic price is likely to be greater.

For the Queensland sugar industry, domestic selling powers remain in place but the domestic price is regulated to equal the export parity price. While this would appear to ensure a competitive domestic price, some export premiums (for example, higher prices received in quota-controlled markets) are incorporated in the calculated export parity price. The regulated domestic price appears to be based on *average* export returns and thus, as described above, may be higher than the domestic price that would prevail with competitive exporting — that is, the ‘world’ sugar price.

Single-desk exporting and domestic market power

Some domestic users of grains and other commodities suggest that, even with domestic market deregulation, single-desk export power gives the single desk an advantage in the domestic market which allows the latter to drive domestic prices above the export price. To some extent this may merely reflect a reluctance on the part of producers to experiment with alternative traders, a reluctance that will wane over time. However, export monopoly powers may give a single desk a domestic market advantage over rival traders because the latter are prevented from spreading risk and costs over the domestic and export markets. If this occurs, it suggests that large scale rather than export monopoly as such is efficient, and one could expect it to emerge in a competitive market.

Profits from the SMA's value-adding activities may also be 'bundled' in the commodity price received by growers-cum-owners and, indeed, this may be the only way producers can extract a return from their (compulsory) investment in the SMA. They may be reluctant to forfeit these returns by selling through other traders.

In short, to the extent single-desk traders, by virtue of their export monopoly, can offer a better price to local producers than can be offered by other traders, single-desk traders may continue to dominate domestic sales after deregulation of the domestic market. In these circumstances, the domestic price could be driven up by the single-desk exporter, by the amount of its relative cost advantage.

However, driving the domestic price too high will encourage producers to switch sales from the single desk pool and export markets to the higher-priced domestic market, using the services of rival traders. In other words, domestic deregulation introduces scope for arbitrage across export and domestic markets by local producers which is likely to reduce, but not necessarily eliminate, domestic market power of the single desk.

Of course in practice, rival traders may be able to harness other economies and advantages (for example, by trading in several commodities or by developing differentiated products), and may be more efficient and innovative than single desks, which have not been exposed to direct competition. This could more than match any apparent cost advantage flowing to the single desk from its export monopoly. At the very least, however, with domestic market deregulation, the single export desk will be placed under increased pressure to operate efficiently and to pass on cost savings (and profits) to growers in order to maintain a dominant position in the local market.

Implications for final consumers

The implications of single-desk selling for domestic consumer prices will vary according to the nature of the final product and the degree of competition in that market. For example, dairy, beef and pig producers buy grains as feed and with limited scope for importing grains (due to quarantine restrictions), or limited scope for substituting alternative grains, largely must bear any higher prices resulting from single-desk selling. On the other hand, if consumers buy processed wheat or sugar indirectly (incorporated in final products), which are imported at zero or very low rates of duty, the price they pay for these final products will be set by the tariff-inclusive import price. In this case, any higher input costs will tend to be borne by domestic manufacturers of these goods, with local production constrained as a result.

4.2 Implications for agricultural producers

The underlying rationale for single-desk arrangements is to draw individual producers together to act as one seller of the commodity. Therein is the mechanism for exploiting economies of scale and scope in various marketing and distribution activities and for exploiting market power. But treating individual producers as broadly homogeneous necessarily involves some form of ‘averaging’ of returns and costs. Without averaging, the single desk ceases to exist. Thus growers receive an average of prices received in various markets and the same price for a recognised grade of product, regardless of where and when their output is sold. Handling, transport, distribution and marketing costs also may be pooled. The cooperative structure of most boards also means that profits from value-adding activities typically are bundled in the pool price. Such arrangements, when compulsory, can result in inefficiency for several reasons:

- limited recognition of product quality or other valued product characteristics in pooled producer returns tend to reward lower-valued products at the expense of higher-valued products, discouraging the more efficient and innovative producers. Single desks today may recognise several product grades and varieties but, almost by definition, they cannot emulate a dynamic market outcome;
- compulsory pooling of transport, handling and/or distribution costs may encourage inefficient practices;
- lack of competition coupled with compulsory pooling of marketing and other costs of the single-desk seller may make it difficult to identify the profitability and efficiency of various services provided, providing scope for over-servicing and cost-padding by the SMA;
- compulsory pooling of returns essentially averages sales risk across all growers. This fails to accommodate different risk preferences of producers; and
- payment of an average price to producers (which also incorporates profits from value-adding activities of the SMA) is likely to distort production levels (unless the SMA also controls production, though this typically introduces a new set of distortions).

The single desk also precludes development of alternative market structures — for example, informal and formal integration between growers, marketers and processors and direct relationships with customers. It also may inhibit the development, and export, of marketing expertise. It is puzzling why Australia has not spawned multinational agricultural trading corporations. Perhaps this is due to a lack of expertise; it may be that the expertise exists but that single-desk arrangements have precluded its export. In a speech to the Regional Australia Summit in October 1999, Mr Michael Chaney, Managing Director of Wesfarmers Australia Ltd, observed:

> Despite being a leading exporter of agricultural products on world markets and despite being a world leader in some areas of bio-scientific research, Australia has neither a world-scale agribusiness corporation nor a world-scale life-sciences business … I believe that the answer to both questions is related to the way we have managed agricultural marketing and rural research as public activities … The reason is that to prosper in today's world such companies need to become global multi-product businesses. Thus they must be free to merge with each other and to expand their operations in other countries. They will also have to endure the cold winds of competition, if they are to become truly efficient. (Chaney 1999, pp. 5–6)

On the whole, single-desk arrangements have a tendency to promote the *status quo* in relation to the product range, production pattern and market structure. There is little incentive for an individual to innovate because this effort is not adequately rewarded. This tension between the tendency of the single desk to *inhibit* and minimise differences between producers and increasing market demands for product variety and tailored services lies at the heart of arguments in favour of dismantling single-desk arrangements.

Some change can and does occur (for example, pooling of transport costs has been removed in most cases, while most SMAs have introduced mechanisms which attempt to reward producers for product variety and quality) but, without clear price signalling, or the flexibility to respond to market signals, change is likely to occur at a slower pace than in a more competitive market. If markets are changing rapidly — for example, if consumer tastes are diversifying — the opportunity costs of rigid institutional arrangements which inhibit flexibility will only increase. This is explored further in chapter 5.

5 Pressure for change

Single-desk arrangements are coming under increasing scrutiny for several reasons, arguably the most important being developments in commodity markets themselves.

5.1 Introduction

As noted in chapter 2, a range of agricultural products for many years has been marketed under legislated single-desk selling arrangements for both the domestic and export markets. These powers usually have been vested in statutory marketing authorities which also have been given a variety of other legislated powers and objectives. Single-desk selling was just one, albeit critical, element of an extensive framework of measures designed to improve returns in the agricultural sector.

There has been consistent and considerable support for single-desk selling from within the regulated industries, indicating that producers perceive important benefits for them from such restrictions to competition. However, in common with much government industry assistance and regulation, there has been, over the last two decades, an ongoing review of government intervention in agriculture.

Governments increasingly have recognised that market intervention in the interests of one industry or group often imposes significant cost to taxpayers, consumers and user industries. As the agricultural sector has gained from the significant lowering of assistance to other sectors of the economy, it also has experienced some modification and reduction in the benefits it receives from governments.[1] In the May 1988 economic statement (containing reductions in assistance to manufacturing), the then Treasurer observed:

> … it is well known that our primary producers as a group do not receive nearly the same level of assistance as some of our manufacturers, but there are a few exceptions.

1 The effective rate of assistance to the agricultural sector as a whole, while varying between years, has not declined over the last ten years. This partly reflects the impact of lower assistance to the inputs used in agriculture offsetting declines in assistance provided to agriculture. In addition, increased tax concessions to primary producers have underpinned the rate of assistance despite reductions in other forms of assistance (see PC 1998a).

> Existing schemes which artificially prop up the domestic prices of farm products such as butter, sugar, tobacco and some fruit are to be phased down. Consumers stand to benefit by up to $100 million per annum when these changes are fully implemented. (Keating 1988, p. 17)

Initially, the winding back of single-desk selling arrangements moved slowly. In recent years, however, particularly under the auspices of NCP reforms, there has been a more significant removal or erosion of the single-desk powers of many agricultural marketing authorities. The 1995 Competition Policy Agreement between the Commonwealth and State and Territory Governments requires examination by the end of 2000 of any legislation which restricts competition. As a result, a number of reviews have been established into legislated agricultural marketing arrangements. Table 2.2 lists the recent major changes that have occurred in single-desk selling as a result of these reviews.

In addition, the trade policies of Australian and international governments are creating pressure for further liberalisation of agricultural markets which will tend to whittle away any genuine premiums that might have been achievable through monopoly selling of agricultural exports. The international trade liberalisation process also is likely to place greater focus on the role of single-desk selling in reducing competition in trade.

Independently of the impact of the competition and trade policies of Australian and overseas governments, other market-related developments suggest that any benefits to producers of legislated single-desk selling may have diminished and, moreover, are likely to continue to do so. At the same time, their negative impact on the growth potential of regulated industries and on their domestic customers may have increased. Developments in production technologies and consumer tastes are requiring significant changes in production and greater flexibility and diversity in marketing and supply chain relationships. Hence, the opportunity cost of a system that limits producers' options and flexibility to innovate in these areas is potentially large.

Some recent and likely future impacts on single-desk selling of both government policy changes and market developments (technology, production arrangements, consumer demand etc.) are considered below.

5.2 Institutional pressures

Single-desk selling arrangements require the legislative backing of Commonwealth or State Governments. In recent years, these governments have committed to ongoing reform of the Australian economy to improve economic performance and hence living standards.

In addition, many overseas governments are moving towards more liberalised agricultural trade arrangements. Further, under the 1994 WTO agreements, state trading arrangements including SMAs with monopoly marketing powers are under review and may be on the agenda of the next WTO negotiating round.

Australian governments

Recognising the economic benefits of removing unnecessary impediments to competition in markets for goods and services, Australian Governments in 1995 committed themselves to a series of agreements to increase competition in the economy under the NCP (box 5.1). An integral part of this process is the CPA requirement that all governments review legislation restricting competition — including SMAs and single-desk marketing — by end-December 2000. All reviews are undertaken against the criteria that legislation should not restrict competition unless:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can only be achieved by restricting competition (Clause 5(1) of the CPA).

Almost 2000 CPA reviews are expected to be undertaken, with major reviews generally being undertaken by panels consisting largely of industry and government representatives.

Some of the reviews have already been completed and a number of SMAs have had their single-desk legislative powers repealed or reduced (table 2.2). However, some industries — such as Queensland sugar, NSW rice, and Queensland barley — retained some of their single-desk powers as a result of report recommendations or, in the case of rice, Government decisions contrary to review panel recommendations.

Box 5.1 **National Competition Policy**

In 1991 the Council of Australian Governments (COAG) commissioned a National Competition Policy Review — chaired by Professor Fred Hilmer. The review was completed in August 1993 and its recommendations were generally accepted by COAG, leading to the *Competition Policy Reform Act 1995*. Two organisations were established to implement and monitor competition policy rules — the National Competition Council (NCC) and the Australian Competition and Consumer Commission.

The reform legislation was complemented by two inter-governmental agreements — the Conduct Code Agreement and the CPA. The Conduct Code Agreement sets out the basis for extending the coverage of the Commonwealth's *Trade Practices Act 1974* and consultative processes on modifications to competition law. The CPA sets out principles on structural reform of public monopolies, competitive neutrality between public and private sectors, prices oversight of government business enterprises, a regime to provide access to essential facilities, and a review program of legislation restricting competition.

In recognition of the significant reforms to be undertaken by State Governments, the Commonwealth Government made a further commitment to provide payments to the States and Territories, on the basis of satisfactory implementation of competition policy and related reforms. The payments were to compensate the jurisdictions for revenue forgone and to share the revenue benefits of competition reforms. They were payable over a number of years after NCC assessment of progress in each of three two year tranches between 1995 and 2001.

Source: NCC (1997).

The NCC (1997) has raised questions about the basis of the 1996 sugar review's recommendations — accepted by both the Queensland and Commonwealth Governments — to continue with the domestic marketing monopoly and the single-desk marketing of exports without review for a further 10 years. In response, Queensland has agreed to monitor the current arrangements to determine if any changed market conditions might lead it to consider that the revised arrangements may no longer be in the community interest.

In relation to the NSW rice industry, the NCC (1997) expressed concern that anti-competitive arrangements (vesting powers of the NSW Rice Board) were maintained despite the review's recommendation that deregulation of the domestic rice industry would provide a net community benefit. The NCC was not convinced that this outcome fulfilled the NCP obligation of demonstrated net community benefit before retaining restrictions on competition.

The focus of reviews on establishing net community benefit before considering mandating restrictions to competition places the burden of proof on those wishing to maintain existing arrangements.

To this end the NCC has emphasised the importance of ensuring the impartiality of review panels.

> … the Council considers that there should not be industry representation on review panels themselves, and stresses the need for reviews to be objective.
>
> Similarly, while the Council considers that government officials responsible for promulgating and/or administering particular regulations are well placed to have input into reviews of those regulations, it is cautious about situations in which such officials are appointed to review panels, because of the risk of bureaucratic 'capture'. (NCC 1997, p. 73)

Involvement by industry and government representatives with detailed knowledge of particular regulations is important in generating appropriate outcomes from legislative reviews. However, there may be means of achieving this other than by formal appointments to review panels. For example, encouraging public submissions, holding public hearings, publishing expert consultants' reports and issuing draft reports can provide adequate opportunity for expert industry and government input without compromising the independence of review panels. Transparency and independence of the review process are crucial if confidence is to be maintained in its outcomes.

World Trade Organization

As noted above, developments in world trade rules and Australia's desire to promote further significant deregulation in agricultural trade are likely to place ongoing pressure for repeal of remaining single-desk selling powers of Australian SMAs.

Under the WTO 1994 agreements, single-desk marketing of goods for export appear allowable if certain conditions are met and maintained. Single-desk trading is covered in Article XVII of the GATT 1994, relating to STEs. This article defines STEs as enterprises granted formally or informally exclusive or special privileges, marketing boards, enterprises controlled by a member, and import monopolies. The working definition given to an STE in the GATT 1994 also incorporates non-governmental enterprises. Therefore, STEs may be fully privately owned. The main consideration is not ownership but exclusivity (Hoekman and Kostecki 1995).

The basic obligation imposed by the GATT 1994 agreement is that members should ensure that STEs not act in a manner inconsistent with the general principle, in

Article XVII of GATT 1994, of non-discrimination (Article XVII: 1a). Specifically, STEs undertaking single-desk export of goods must undertake sales in accordance with commercial considerations (Article XVII: 1b). However, the supplementary provisions to Article XVII in Annex I of the GATT 1994 agreement state that an STE does not contravene the agreement even if prices charged in different export markets vary — that is, price discrimination in export markets which reflects demand and supply conditions in these markets does not contravene the Article.

In addition to these principles set out in GATT 1994, in the Uruguay Round parties agreed to enhance GATT disciplines and the surveillance of STEs. A Working Party was established in 1995 within the WTO to review all STEs. All member countries must notify the Working Party of their STEs. If one country does not believe another has made a full disclosure the issue can be negotiated bilaterally. If a satisfactory result is not achieved, the dissatisfied member may make a counter-notification to the Working Party for arbitration. (WTO 1997)

Although no official action has been taken, the US Trade Representative has stated that:

> Several national and state commodity boards control the marketing and export of certain Australian agricultural products. Activities for these marketing authorities are financed by producers, but some boards enjoy export monopoly powers conferred by the federal and state government. While some of the boards' domestic activities have been deregulated, the export of wheat and rice remains under the exclusive control of commodity boards. The Australian Government has indicated that the Australian Wheat Board (which strictly regulates wheat marketing abroad) will retain its export monopoly until at least 1999 ... The United States is closely monitoring this new program for compliance with Australia's Uruguay Round commitments. (Office of the US Trade Representative 1998, p. 18)

In addition to the formal requirements of the current WTO agreements, Australian single-desk selling arrangements may also come under scrutiny if Australia continues its strong campaign for freer trade in agriculture during the next round of multilateral trade negotiations. The Commonwealth Government already has expressed concern that protectionist measures for agriculture may disadvantage Australia in world trade negotiation forums. In explaining the Government's position on assistance to the pig industry in 1997, Ministers Anderson and Fischer indicated that:

> The Government did not support requests from the pig meat industry for a tariff quota arrangement because it would undermine Australia's international ability to negotiate improved market access and agricultural trade reform. (Anderson and Fischer, 1997, p. 2)

Continuation of monopoly selling of Australian agricultural exports similarly may be perceived as compromising Australia's free-trade credentials. At the very least, it might be expected that such arrangements will come under closer scrutiny in international forums over the next few years.

5.3 Market-driven pressures

As discussed in chapter 3, participants in markets, which for some reason exhibit limited competition, may be able to take advantage of such situations to make abnormally high returns. World agricultural markets traditionally have been heavily regulated with competition in Europe, North East Asia and North America, being significantly constrained by government intervention such as import restrictions and producer subsidies. In some instances, individual producer countries could obtain higher prices by seizing on certain market impediments (for example, privileged access to particular restricted markets).

A major professed aim of single-desk marketing activities is the realising of opportunities provided by market impediments in some foreign markets. However, as also noted in chapter 3, single-desk selling is neither a necessary nor optimal mechanism for obtaining these returns. In more recent times, impediments in agricultural markets have begun to be reduced both locally and internationally. If these developments continue over the next decade, any genuine national benefits of single-desk activities become even less clear.

Meanwhile, there are several reasons why the costs of restricting competition may be growing. There have been important changes in the production technology of agricultural products, the relationship between the agricultural sector and the downstream processing sector and in customers' requirements for agricultural products. In this increasingly dynamic and innovative production and marketing environment, the opportunity cost of restrictions on competition could increase significantly.

For example, many of these developments accentuate the importance of close relationships between producers and their customers and therefore are likely to have added to the costs imposed by restricting producers' options in selling their output. The importance of vertical integration or supply chain relationships in producing food products has increased significantly in the 1990s.

Because single-desk selling prevents — by definition — direct dealings between producers and users, it places a barrier to effective communication of buyers' preferences to growers. As noted in chapter 4, this can be accentuated by the pooling of industry output into a limited number of grades which further inhibits the signals from buyers to producers and limits the price signals received by individual producers.[2]

When many agricultural products were relatively homogeneous in nature, these issues arguably were of less significance. However, in many areas of agriculture, new production methods and technology have extended the potential variety and quality of output. At the same time, consumers in many countries have been requiring more tightly specified and better quality products. Government buying monopolies are being dismantled. With this diversification of demand, the compulsory interception by a marketing authority in supplier–customer relationships is likely to have increasingly detrimental impacts on market outcomes. Evidence suggests that industries and overseas competitors that are not hampered by such restrictions are able to generate cost and product advantages (chapter 6).

These issues are particularly important as trade in agricultural products is increasingly in processed rather than bulk products. Food processors buying their raw materials in domestic markets often will be seeking direct relationships with farmers to develop particular product types and ensure consistent quality. The (then) Department of Primary Industries and Energy (DPIE) has observed:

> … farmers and intending exporters and retailers need to ensure that they are in touch with market demands. The development of increasingly sophisticated supply chains is going hand in hand with a greater knowledge of market opportunities and trading culture. (DPIE 1998, p. 52)

For entrepreneurial growers, the restrictive nature of single-desk arrangements on opportunities to develop new markets, niches, or reap higher returns may now be more apparent as opportunities for rewards for innovative production and marketing are likely to be greater in a more dynamic market-place. Monopoly marketing arrangements will tend to limit opportunities for more innovative producers. Thus pressure for change increasingly will come from *within* regulated industries themselves.

More dynamic and diverse markets increase the possibility of single-desk activities losing premiums and market share as producers will tend to be slower to adapt to changing market requirements and to embrace technological change. Competition could emanate from other producer countries or substitute products which, because of more direct and competitive relationships between buyers and producers, will tend to recognise and adapt more readily to changing circumstances.

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2 Some SMAs have attempted partially to address the problem of growing product diversity by, for example, increasing the number of quality grades. However, such an approach typically imperfectly mimics the wide variety of product types, qualities and associated services that may be negotiated by individual participants in free markets.

While some product and marketing innovation still occurs under SMAs, the rate of change may be constrained by their interception of direct dealings between producers and customers. This limits information flows and transmission of price signals and rewards for performance by producers. If such SMA involvement were voluntary, competitive pressures would determine whether their cost and marketing performance was satisfactory for producers. Although, in such circumstances, individual producers may still use specialised marketing companies and existing SMAs may well continue as large marketing entities, competition between these companies should generate more efficient marketing and production outcomes.

There are a growing number of examples of various forms of cooperation between farmers in production and marketing. DPIE (1997) observes the initial success of a group of producers in the fledgling persimmon industry, while the Pork Council of Australia (1998) raises the possibility of establishing a pig industry marketing organisation to facilitate exports. The critical difference between these cases and legislated single-desk selling is that there is no restriction on the arrangements that other producers may adopt. Producers are free to develop alternative models of cooperation or to operate individually. Competition in the market place will then determine which are the most effective modes of operation.

With tariffs on processed products generally lowered significantly over the last decade (now 5 per cent or less for most products), any detrimental effects of single-desk activities would now be more likely to affect the competitiveness of downstream users of agricultural products adversely. For example, if single-desk selling is used to extract price premiums from the domestic market, low import tariffs will mean that it is now more difficult for downstream users to pass on these higher input prices. Resulting cost disabilities in international markets would inhibit export performance of these downstream industries.

Underscoring this point, stockfeed millers Ridley AgriProducts have argued:

> As a major stockfeed producer, Ridley's objective today is to be an efficient, low-cost supplier of consistently high quality products which will help our customers to be internationally competitive and successful in their efforts to expand into global markets. However our best efforts will be in vain if we and our customers are handicapped by uncompetitive raw material costs and inflexible supply arrangements.
>
> In recent times, the price of wheat to domestic users has frequently exceeded, and seemingly become disconnected from the export parity world price. The existence of such premiums in the domestic market, a market that is supposedly deregulated, appears to be the direct result of having a single dominant buyer of wheat. (Martin 1998, p. 7)

A recent international benchmarking study of the chicken industry observed:

> It is widely accepted in the domestic feed using industries that the AWB export monopoly has the effect of amplifying domestic price spikes in periods of relative shortage of domestic supply. (Larkin and Heilbron 1997, p. 31)

Similarly, submissions to the Productivity Commission's inquiry into possible safeguard action against imports of frozen pigmeat also highlighted the downstream costs of single-desk selling (PC 1998b). For example, Bunge Meat Industries indicated:

> The Government's continued support of boards such as the AWB inflates the price of grain on the domestic market which discourages diversification of the grain industry and prevents value adding to our grains by Australian livestock industries. (Bunge Meat Industries 1998, p. 49)

Export industries or those facing strong import competition can be seriously disadvantaged by input prices artificially above those obtained on international markets. The share of food exports in processed rather than raw form is continually growing, further adding to the potential harm of inflated domestic input costs.

5.4 Summary

Pressures for removal of remaining single-desk powers over the marketing of certain agricultural products comes from both institutional and market developments. Developments in competition policy have required more rigorous assessment of benefits and costs of single-desk selling. On the international scene, Australia's commitment in GATT/WTO forums to reducing impediments to international trade in agricultural products sits uneasily with continued monopoly selling arrangements. In addition, developments in technology in the production sector and customer demands potentially accentuate the costs of the restrictions imposed by single-desk selling.

6 Deregulation in practice

Many commodity producers oppose removal of single-desk arrangements. Yet experience of deregulation in Australia and abroad suggests that many of their concerns may be unfounded, or can be addressed by alternative mechanisms.

6.1 Deregulation in practice

Discussion in previous chapters suggests that any export premiums attributable to market power and single desks — correctly measured — are likely to be, at best, modest. By the same token, the opportunity cost of single-desk arrangements — a cost likely to be borne by the most efficient and innovative producers — is potentially large and increasing. Though there is some recognition by single-desk authorities of the need for more innovation and product variety, there is an inherent tension between this need and a system designed to exploit alleged market power and economies associated with generic marketing. Moreover, most potential export market premiums could be achieved without monopoly control of all exports and with contestability in marketing.

Although pressure for change from innovative producers and marketers is likely to increase as they see better opportunities outside the single desk, it remains the case that a great many agricultural producers continue to support grower control of marketing (see PC 1999, chapter 7, which canvasses different views of agricultural producers). Opposition to change may, in part, simply reflect an attachment to custom, or a concern amongst producers that they will be compelled to perform unfamiliar marketing functions themselves, or be forced to deal with large commodity traders and processors. Some producers might consider they could be worse off due to reduced prices, and/or removal of the implicit cross subsidisation that typically occurs under current averaging arrangements. As joint owners of the assets of SMAs, growers may also fear a reduction in asset value (and profits) if competition is allowed, as well as loss of grower control over marketing functions. Producers also may fear that their political influence will diminish. Yet experience suggests that deregulation, appropriately managed, can address many of these concerns and provide many producers with more profitable opportunities.

Overseas experience

Deregulation of producer marketing arrangements has occurred in several countries. On the whole, their experience suggests that many producers can benefit from the increased range of services provided in a more competitive environment. It also seems that former producer boards can enjoy a new lease of life and flourish in competition with private traders including multinational traders, to provide domestic producers with the same services as before (including pooling), or alternative services as the demand for these emerges, but without the compulsion of the single desk.

In South Africa, producer boards have emerged as major private marketing organisations following virtually complete deregulation in that country (box 6.1), while a range of new services, such as new risk management instruments, are being offered to producers. Services considered to have public good attributes, such as research and development, continue to be funded by compulsory levies which are administered by producer organisations. These organisations also provide producers with a political 'voice' on matters of concern to the industry.

Most importantly, industry performance improved significantly following deregulation — export growth of fruit jumped to over 20 per cent per year compared with around 8 per cent per year prior to deregulation.

Box 6.1 **Deregulation in South Africa**

Contemporary agricultural policies in South Africa have been based on the 1992 Kassier Report and the 1995 White Paper on Agriculture. The paper outlined the basic philosophy underlining the formulation of later legislation:

> Local and international experience has led to the recognition and protection of individual rights as the cornerstone of a just and stable society. Rights of the individual relate to issues such as equality, freedom of economic activity and the right to associate freely. It also implies an orderly society which is so governed that private initiative is promoted by Government policies and preferably not restricted by regulatory measures or competition from Government enterprises ...
>
> Consistent with these stipulations of the Constitution, the Government accepts that freedom of choice and freedom of association should form the cornerstone of its agricultural marketing policy, while also accepting that this basic right may be curbed where deemed reasonable and justifiable in the public interest ...

(Continued next page)

Box 6.1 **(Continued)**

On this basis the *Agricultural Marketing Act* was passed by the South African Parliament in 1996. Its objectives included:

- increasing market access for all participants;
- promotion of marketing efficiency;
- maximising export earnings for agricultural produce; and
- enhancing the viability of the agricultural sector.

The Act created the National Agricultural Marketing Board to oversee remaining statutory functions in the sector and review and advise on requests for increases or repeal of these powers. Importantly, the make-up of the board required representatives from a wide range of interests, including: commercial production of agricultural goods; agricultural trade and industry; agricultural economics; consumer interests and disadvantaged communities; and small scale agricultural production.

Following deregulation, price controls were removed by the end of 1996 and marketing boards were abolished by the beginning of 1998. Interest rate subsidies for the sector also were removed. No statutory marketing monopolies were retained for either domestic or export markets. The boards' existing assets were transferred to commodity-specific trusts or returned to grower ownership via privatisation.

As part of the adjustment process, grower organisations have been allowed to reorganise themselves and take over some functions of the old boards. In exceptional circumstances, where the legislative objectives have been satisfied, the Government has provided limited statutory backing for these organisations. This has involved the right to collect compulsory levies to fund activities providing promotion, research and development and informational services.

However, most of the organisations are funded by voluntary subscriptions or user charges for their services. Their success or failure is based on the quality and relevance of services they offer to their members. Producer organisations also have continued to provide voluntary pools as a risk management tool, where again participation rates have been based on performance. Nonetheless, increasing numbers of producers are undertaking their own risk management, including on-farm storage facilities.

A futures market (SAFEX), created and operated by the private sector, has added to the ability of producers and user industries to manage risk.

In marketing, new entrants have begun offering specialist marketing, risk management and trading expertise. New markets have been opened by both small niche marketers, large national (often privatised organisations based on the old marketing boards) and international companies. This has included offshore expansion, offering marketing and trading services to foreign agricultural producers.

Sources: South African Ministry for Agriculture and Land Affairs (1998); South Africa Feed and Grain Marketing (1997); New Zealand Ministry of Agriculture and Forestry (1998).

Domestic market deregulation and replacement of single-desk exporting by controlled export licensing has been successful in the Israeli citrus industry (box 6.2), though some concerns remain about the clarity of export licensing guidelines. Nonetheless, deregulation appears to have triggered product and marketing innovations, greater cost efficiency and export growth. Exports grew by about 4 per cent per year following deregulation in 1991, compared with an average annual *decline* in exports of 7 per cent for the seven years preceding deregulation. As in South Africa, producers retain a representative voice via a producer board, which continues to administer levies raised for research and development and generic promotion.

Box 6.2 **Israeli citrus industry**

Before 1991, the Israeli citrus industry was controlled by the Citrus Marketing Board which regulated the domestic market and had single-desk marketing powers for all citrus exports. However, the industry was beset by problems including:

- intense international competition from new foreign producers;
- pooling arrangements which failed to reward quality;
- declining exports and stagnant domestic demand;
- generic export marketing, while competitors were tailoring the product for customers' specific requirements; and
- a general lack of incentives for efficiency.

Change was pushed by growers, particularly innovative growers. Successful deregulation experience in other countries also created political and bureaucratic support. In 1991, the Board's single-desk powers were revoked and the domestic market was fully deregulated. The Board retained some powers over exports through a licensing system. The functions of the Board thus were limited to: export licensing; generic promotion and trademark management; disease control; and research and development. All physical assets were divested and sold, the Board's operations being funded by an export levy.

By 1996, production and handling had been rationalised, creating cost savings from economies of scale. Exports increased (indeed, prior to deregulation exports had been declining) and twelve companies exported to both large and niche markets. Many of these companies were planning involvement in marketing fruit from other countries. New varieties were introduced with emphasis on consumer friendly, high-value fresh product (for example, 'easy peel' varieties), while low-value industrial use (for example, fruit juice concentrate) declined by 37 per cent. Domestic consumption of fresh citrus fruit rose by 14 per cent.

(Continued next page)

Box 6.2 **(Continued)**

In addition:

- export markets were diversified, lessening reliance upon any one market;
- there was a substantial move to direct marketing;
- improved pooling resulting in faster payment and reduced stocks; and
- quality improved.

However, the process of deregulation raised several concerns. In particular, the decision to deregulate occurred without warning and with little industry consultation. There was also a general lack of transparency about the new Board's operations, including:

- no legislated guidelines and aims for the Board;
- no criteria for the new export licences were explicitly stated;
- the number of licences for various markets changed from year to year and future licensing patterns were unpredictable;
- the role for Government was not clear, with producers unsure of what assistance they could receive; and
- other government-controlled barriers to entry remained.

Sources: Citrus Marketing Board of Israel (1998); New Zealand Ministry of Agriculture and Forestry (1998).

Experience in Australia

Boxes 6.3 and 6.4 discuss arrangements in the cotton and wine industries. The Queensland cotton industry was regulated for most of the century, but regulation ceased in 1989 (transitional arrangements continued until 1992), in large part driven by Queensland producers who considered that their unregulated NSW counterparts were earning higher returns. As observed by the Industry Commission at the time:

> The motivations for the changes were the difficulty of the Cotton Marketing Board in raising adequate funds for expanding ginning capacity and for working capital, grower support for a new privately owned gin to be established in central Queensland at no cost to growers, and a perception that returns to cotton growers in unregulated New South Wales were greater than in Queensland. (IC 1991, p. 113)

While wine industry exporters must obtain permits, and all exports must be licensed by the Australian Wine and Brandy Corporation (AWBC), the principal stated objective of the arrangements is quality control rather than statutory, monopoly marketing.[1] Subject to this quality control, winemakers can tailor and market their products how they wish.

A common feature of arrangements in both industries is that, where services are considered to display public good characteristics, these functions are performed via grower contributions and administered by producer organisations. For example, Cotton Australia undertakes activities where uncoordinated grower efforts may be less effective, such as political lobbying and disseminating information. The functions of Cotton Australia resemble those of many other professional business associations and, though membership is not compulsory, over 95 per cent of growers are members (Cotton Australia 1999). The AWBC imposes levies on exports to fund generic promotion and quality control activities.

Box 6.3 **Australian cotton**

An assessment of the Australian cotton industry in 1995 concluded that:

> Cotton's past success has been built around a strong focus on international markets. With small government involvement, the cooperative behaviour and self-regulation which is a significant explanation of past success has evolved from inside the industry and without government controls. (CIE 1995, p. 1)

The role of Cotton Australia, the peak representative body, is to undertake activities with public good attributes. These include:

- environmental (including water) management;
- industry standards;
- occupational health and safety;
- communications and public affairs; and
- the development of educational and promotional campaigns directed at the industry's image (Cotton Australia 1999).

Marketing of cotton is considered a matter of choice for individuals. Cotton growers have a wide range of options for the delivery, processing and sale of their product and can access several sophisticated risk management and price hedging strategies.

(Continued next page)

1 Nonetheless, while permits generally are issued if specified criteria regarding the quality of both exporters and exports are met, the AWBC's monopoly over issuing permits and licences feasibly could be used to control export quantities (see IC 1995). However, to ensure producer support, this presumably would require a mechanism to distribute the net benefits of export control across the industry.

Box 6.3 **(Continued)**

Before these strategies evolved, growers relied on pools administered by their ginner/marketer. Growers still have the option to deliver to seasonal or minimum price pools. Several international cotton merchants operate in the domestic market as well as local producer cooperatives and local companies (for example, Namoi Cotton), generating strong competition among buyers.

Cotton growers pay a levy of about 0.6 per cent, depending on prices (about half is a voluntary contribution to Cotton Australia of $1.75 per bale and half is a compulsory contribution to research and development).

By limiting the role of these organisations to such functions, many of the costs associated with single-desk marketing appear to be avoided. In particular, the flexibility and responsiveness of comparatively less-regulated industries to marketing opportunities may be the key to their success in a world where market requirements are rapidly changing. Though each industry is different and the examples here are not provided as templates for other industries, the experience of these industries suggests that many of the concerns of growers about deregulation — for example, that they will lose representation and that service levels and incomes will decline — do not appear to be borne out in practice.

Box 6.4 **Australian wine industry**

The value of wine exports is forecast to approach $1 billion in 1998-99 after rising by an average of 30 per cent each year over the past three years (ABARE 1998b). Conway (1997) highlights the degree of involvement between wine producers and those further down the processing chain, such as through contracts, which allow all parties to keep in touch with the requirements of the final consumer and changing market conditions. Donges (1998) stresses that the wine industry has marketed ‘knowledge and experience’, and that this principle should be applied across the entire rural sector.

According to Trebeck (1998), the focus on brand development in the wine export industry has involved alliances with international companies which offer experience and large budgets:

> Despite the absence of producer board control and a single export desk, there doesn’t appear to be much evidence here of weak selling or small Australian companies being at the mercy of heartless international giants (p. 70).

6.2 Conclusion

In today's markets, product variety, innovation and flexibility appear to be essential ingredients for export success. As noted by the President of the National Farmers' Federation:

> For many reasons, the focus on our comparative advantages in producing broadacre, bulk commodities will shift towards products which can be differentiated through the addition of marketing services and intellectual property. (Donges 1998, p. 2)

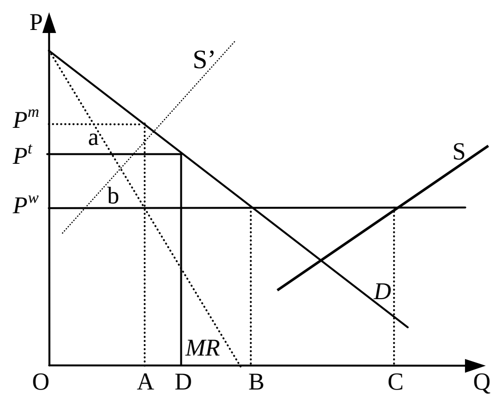
That single-desk marketing may be at odds with today's dynamic markets is underscored by the successful performance of many agricultural industries in Australia and abroad following removal of single-desk marketing, or in the absence of single-desk marketing.

Analysis and evidence presented in this paper suggests that many of the claimed benefits of single desk arrangements can be achieved in a competitive environment, or can be achieved by more targeted mechanisms, including targeted export licences, industry levies and quality control mechanisms. Producer organisations could continue to operate in a less-regulated environment, providing producers with a voice. These organisations also can administer levies which fund any industry-wide activities including, for example, research and development. SMAs, reconstituted as private companies, can continue to offer services to local producers.

A Discrimination in export markets

Figure A.1 shows export markets for a commodity where *D* is demand in a relatively inelastic export market where Australia has a monopoly, while for all other export markets, Australia is assumed to be a price taker at the world price, P^w. (Demands, and therefore prices, are drawn net of transport costs.) With competitive exporting, the world price P^w will prevail in all markets. OB would be supplied to the inelastic export market and BC to the rest of the world. Total exports will be OC.

Figure A.1



If, instead, Australia exercised its market power in the premium export market, limiting the quantity sold to OA where marginal revenue in both export markets is equalised ($MR = P^w$), the price on the premium market would rise to P^m. Provided the net increase in export receipts were not disbursed to producers in a way that distorted domestic consumer prices (see 4.1), it would represent a gain for producers as well as a net national gain. In other words, this outcome would be superior to that achieved under competitive exporting.

If the resultant transfer of some Australian exports to non-premium markets causes a reduction in the price received on these markets (so the price falls below P^w), the resulting reduction in revenue on sales in these markets must be offset against any gain on premium markets.

When, as is more likely, market power derives from a locational or other cost (for example, storage) advantage, the extent to which the export price can be raised will be limited by the transport or storage advantage relative to other suppliers, for example, to P^t.[1] In this case, exports to the premium market should be limited to OD at price P^t, while exports on other markets (where Australia must accept the world price), will be DC.

Note that if the Australian export supply curve were, say S’, price P^t would apply with competitive exporting and control over exports to obtain this higher price would not be required.

1 This price could lie above or below the optimal monopoly (revenue-maximising) price P^m. If it lies above, the single-desk exporter will not push the price higher than P^m.

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