



Facsimile

**TO: ALAN JOHNSTON
PRODUCTIVITY COMMISSION**

**THE WESTERN AUSTRALIAN
FARMERS FEDERATION (INC)**

**FROM: JO O'CONNELL
COMMUNICATIONS DIRECTOR**

DATE: 7 DECEMBER 1998

RE: FEDERATION'S SUBMISSION ON NATIONAL COMPETITION POLICY

Alan,

As discussed with Vin Kain, please find following our submission to the Productivity Commission's review into the impact of National Competition Policy on Rural and Regional Australia.

Also attached is an article prepared by the Federation discussing the importance of statutory marketing to the rural sector, titled "In Defence Of Orderly Marketing - An Alternative View from the West." We have had excellent feedback from this article, including support from both individuals and organisations across Australia.

Kind regards


Jo O'Connell

21 pages

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SUBMISSION TO THE PRODUCTIVITY COMMISSION REVIEWING THE IMPACT OF NATIONAL COMPETITION POLICY ON RURAL AND REGIONAL AUSTRALIA

NOVEMBER 1998

The Western Australian Farmers Federation welcomes the opportunity to present our views on the impact of National Competition Policy (NCP) on rural and regional Australia.

The Western Australian Farmers Federation is the State's largest rural lobby organisation and represents nearly 6,000 individual farmers - including wool producers, grain growers, meat producers, horticulturalists, dairy farmers, beekeepers and members from other areas of primary industry. Affiliate membership also covers a range of diverse agricultural industries such as poultry farmers, pig producers, cashmere growers and potato growers.

The organisation seeks to protect the interests and gain benefits for its members, with policies across general and commodity areas being determined by our members.

The Federation believes that the implementation of NCP is detrimental to the Western Australian agricultural industry in these ways:

- It is reducing farmer income by redistributing income away from the producer to other sectors of Australian business and society;
- It is taking away a large degree of grower control as prices become ordained by large retailers;
- It is destroying the structure of highly successful export industries;
- It is placing pressure on the health and safety of rural Australians;
- It is placing pressure on the environment.

BACKGROUND

The National Competition Policy consists of three agreements signed by all Australian Governments in 1995.

- The *Conduct Code Agreement* extends the *Trade Practices Act 1974* (TPA) to cover all government businesses and unincorporated business enterprises.

- The *Competition Principles Agreement* is basically designed to prepare these enterprises for the expansion of the TPA.
- The *National Competition and Related Reforms Agreement* establishes the payment of competition grants to the states for compliance with the Competition Principles Agreement.

The implications of the State's obligations under the Competition Principles Agreement are as follows:

- All legislation must be reviewed according to the review timetable and in a manner acceptable to the National Competition Council (NCC). The NCC makes recommendations to the Federal Government on the payments of competition grants to the States.
- The Minister is responsible for legislation reviews and then presents recommendations to the Cabinet Government Management Standing Committee for endorsement. These recommendations include State Treasury analysis and comments.
- For a restriction to be retained in legislation, the benefits of the restriction to the community as a whole must outweigh the costs. A less restrictive alternative to obtaining a similar benefit must not exist.
- Restrictions that breach the TPA require an exemption granted by the State under Section 51 of the TPA. The State legislation must specifically outline any Section 51 exemption. The Commonwealth may override a Section 51 exemption within four months by regulation or by the application of a public interest test after four months. Alternatively, the legislation may be removed and interested parties may apply to the Australian Competition and Consumer Commission (ACCC) for authorisation to exempt anti-competitive behaviour from the TPA.
- The Crown Solicitor's office has advised that the regulatory functions of bodies that emanate from the Crown are unlikely to be subject to the TPA. However, the TPA will apply to the business activities of these bodies.

INTRODUCTION

The Western Australian Farmers Federation supports the principle of competition. The direction of resources to their most efficient end use is central to the way farmers do business.

The Federation acknowledges that the NCP's objective is to increase the public benefit, and competition is only the tool by which public benefit is increased, as confirmed by Professor Hilmer when he said;

"competition policy is about when, where, how and to what extent competition will be used as a constructive force that benefits society as a whole"¹

The Federation uses this premise as the foundation of our submission.

In preparing this submission, it has been difficult to find empirical evidence to prove that NCP is benefiting "society as a whole."

The Australian Bureau of Statistics no longer carries out a full farm census, so access to definitive figures on farm income were difficult to locate.

The fact that Australia is not very far along the deregulation road, has also posed problems in collecting statistical evidence of the difficulties encountered by the rural sector in this new environment.

The obvious exception is the NSW Egg Industry. The circumstances surrounding its deregulation and its detrimental impact on the public benefit will be discussed in some detail later in this submission.

The Federation and related industry groups have, for some time, undertaken private research and modelling on the effects of the NCP on the WA agricultural industry. This submission relies on that research to a large degree.

Most economists will argue that natural competition produces social benefits, but history shows this is not always the case. Social benefits are usually overlooked in the deregulation process and are inconsistent with the drive for competition and efficiency.

Government services to rural Australia have often been cross subsidised by consumers in metropolitan areas. It is widely accepted that cross subsidisation is not possible in a truly competitive environment. Subsidies, if they were to continue, would need to be found somewhere in the State's consolidated revenue fund. The Federation believes that this eventuality is unlikely in both political and economic terms.

The Federation is aware that many policy makers are becoming concerned with the effects of NCP. Comments denouncing the NCP's reach are commonplace in meetings with government and opposition representatives. The Deputy Prime Minister, Tim Fischer MP, was recently quoted as saying that the government "had

¹ Professor Fred Hilmer, notes for a speech to the National Press Club, May 1996

made some mistakes" in implementing competition policy. He went on to say that a comprehensive review of NCP with a consideration of the human dimension was needed. ²While this is a welcome admission of the failures of implementation, it is of little comfort to those industries currently caught in the mire of legislative reviews.

We also note with wry satisfaction that the Commonwealth is facing its own problems in complying with competition policy benchmarks in the areas of tariffs, Medicare, health insurance community rating and in reviewing its anti-competitive laws.³

The statement by the federal Health Minister's spokesman in which he confirmed the government's commitment to community rating in health as "*..a victory for commonsense over purist academic theory*"⁴ confirms the Federation's view that this process needs to be reined in before causing irreparable damage, not only to the agricultural industry, but the nation.

Another problem that the Federation encounters is the continual misrepresentation of NCP by States. State governments undertake privatisation or contracting out of essential services under the guise of NCP. This is not only a misrepresentation of the NCP, but a politically motivated act designed to deflect criticism away from the States. It has been very difficult for Western Australians to identify which actions are part of NCP, and which are purely politically or economically driven. For example, the Federation accepts that NCP calls for third party track access on government owned railways. Whether it then follows that it is also necessary to privatise the government run rail system, Westrail, is open to conjecture. It is certainly not a requirement under NCP.

Also, a number of reviews in Western Australia of State government entities have been carried out without public participation or scrutiny.

Another example of the State confusing NCP with corporatisation is Main Roads Western Australia which has commenced a process of tendering out road works in regional WA as part of its new competitive policy. In reality, the tendering out is not a response to NCP, it is a consequence of a government agency rationalising its workforce and aiming for profit margins not available in its current corporate structure.

This process has resulted in poor quality work at a higher cost as evidenced by a 20km stretch of work on the Nullarbor's Eyre Highway across Frazer Range which was completed several months behind schedule.

² *Australian Financial Review*, 19-20 September 1998, pg 4

³ *Australian Financial Review* 26 August 1998; pg 3

⁴ *ibid* pg 3

Our members report this section of highway is already beginning to break up only 12 months after completion. Clearly, if the work cannot be adequately done by a private contractor at a lower cost, then the Federation would question both the social and economic benefit of the scheme.

Additionally, a little recognised loss for the community has occurred in that Main Roads WA plant was frequently made available to local communities, particularly in remote areas, when fighting bush fires. Private road building contractors who use hire equipment as well as their own do not indulge in this practice.

News reports have indicated that work contracted out by Main Roads WA to private operators has exceeded the original price by about \$40 million. The State government was obliged to make up the shortfall.

THE TRADE PRACTICES ACT

As stated earlier, as part of the NCP package the spread of the Trade Practices Act (TPA) was increased to include government entities. The objectives of the Trade Practices Act are as follows:

- to prevent anti-competitive conduct, thereby encouraging competition and efficiency in business, and resulting in a greater choice for consumers in price, quality and service; and
- to safeguard the position of consumers in their dealings with producers and sellers.

The TPA applies to all persons or bodies engaged in business. Therefore, under competition policy statutory bodies will be subject to the competitive conduct rules of the TPA.

STATUTORY BODIES

In 1996 the WA State government released its policy on competitive neutrality and included an implementation timetable. Included on this list were the Perth Market Authority, Cooperative Bulk Handling, Dairy Industry Authority of WA, the WA Egg Marketing Board, Meat Marketing Corporation, Potato Marketing Authority and the Grain Pool of WA.

Competitive neutrality requires that statutory marketing bodies are not able to engage in activities which distort resource allocations arising from the lack of a level playing field with the private sector.

It is important to note that competitive neutrality is only to be applied to Statutory Marketing Authorities to the extent that benefits of implementation outweigh the costs.

The Federation maintains that statutory bodies have played a central role in the provision of stability and certainty to the agricultural industry while keeping prices to consumers low.

Despite the current lip service paid to an internationally liberalised trade market, most policy makers accept that the reality is something quite different. The increasing use of non-tariff barriers will continue to artificially depress world prices for Australian products.

The single export desk for wheat, currently held by the Australian Wheat Board (AWB) is the only hope for producers to maintain market share and maximise returns. This is particularly so in Western Australia where more than 90% of our wheat production is exported.

It is recognised that Australia is a small player on the world market. In most commodity sectors Australia is a price taker and therefore has no direct influence on world prices. The comparative advantage of some Statutory Marketing Authorities is that they give Australia greater selling power on world markets thus being able to penetrate more markets with bulk produce.

The Federation strongly supports and actively lobbies for real international trade reform. A truly free international market would, we believe, see an increasing demand for Australian goods. It has to be accepted, however, that this is not the world in which we currently operate nor are we likely to operate in such a world in the foreseeable future.

The United States government's decision to provide \$5 billion in subsidies to grain farmers and the continuing difficulties in achieving any progress in the European market, reinforce the need to retain the single desk for wheat.

Therefore, the attitude of people like the National Competition Council's Graeme Samuel when referring to the review of agricultural statutory marketing bodies as moving to "*focus on privileged groups in the community that have been protected from competition*"⁵ shows an ignorance of, or hostility toward, the reforms already made in the agricultural sector.

Statutory bodies and single desk sellers have ensured stability in price and supply of agricultural produce, while pursuing an aggressive export agenda. The importance

⁵ *The Australian Financial Review*, 8 July 1998, pg 14

of statutory bodies seems to be overlooked in an environment of deregulation for the sake of philosophical purity.

One of the roles of statutory authorities is to manage and distribute the monies collected in the form of producer levies. This money is levied under Commonwealth and State legislation and then allocated by the statutory authorities into programs of research, development and promotional and other activities.

It is widely accepted that well funded research and development programs are critical to the continuing quality and export potential of primary products. In the event that statutory bodies disappear, who has the authority to manage levies?

The recent deregulation of the dairy industry in the United Kingdom exposed a weakness in the drive for the abolition of statutory bodies for this reason. Levies could not be collected as the legislation governing the existence and the rate of the levy had been part of the statutory authority's enabling legislation. Not surprisingly, a new levy and a new statutory authority had to be created to replace the old statutory authority in order to continue research and development programs.

The impact of NCP on agricultural industries has seen a shift in the balance of power away from the producer and consumer and toward the retailer who is making more money at the margin than is commonly accepted. This has left producers' incomes to be dictated by retailers. The retailers' focus on investment returns means the prices paid for agricultural produce are falling.

The domestic grocery market is currently dominated by three companies with an 80 per cent combined share of the retail grocery market. While the three big companies control the market there is no competition for suppliers.

This was summed up by Senator Ron Boswell when he said in Parliament, "*[t]he sellers are economic captives of the near monopoly powers of the three large retailers.*"⁶

The Federation believes that this change in the balance of power, a result of the National Competition Policy, has been disregarded by policy makers.

CASE STUDY NO. 1 - THE WESTERN AUSTRALIAN DAIRY INDUSTRY

The value of the statutory marketing body and the gains made by agricultural industries are well demonstrated by the WA dairy industry.

⁶ *Senate Hansard*, 13 May 1998, pg 2661-2

The Western Australian dairy industry provided its position on the review of the *Dairy Industry Act 1973* to the State government review committee in March 1998.

The dairy industry in Western Australia has already undergone significant structural reform. At both the farm and factory level, considerable changes have resulted in improvements in the efficiency of milk production, processing and manufacture. The long term strategy is to have in place a framework that will enable the industry to enjoy the benefits of a free world market if and when that eventuates.

The results of these reforms have already seen:

- falling farmer numbers
- consolidated farms and larger herd sizes
- increasing pasture and farm unit productivity
- increasing herd productivity

The Western Australian Farmers Federation has examined the consequences of total deregulation on the local dairy industry and foresees the following adverse consequences.

The WA processing industry is dominated by two major companies with roughly equal market share, but different long term business strategies. Both have significant investments in other regions in dairy product processing and manufacturing. A deregulated market will result in processors abusing the weaker position of the dairy farmer in order to keep prices low as they fight for retail market share. This will drive down the farm gate price of dairy products making the industry unviable.

The 'public benefit' will probably not be met as evidence suggests that savings caused by the low price to producers are not passed on to consumers. It is assumed processors and retailers would adjust margins on milk products over time.

The Federation believes that a deregulated dairy industry would result in a fall of the average farm gate price in Western Australia. Survey data and economic modelling research shows that the loss in farm production and incomes to the Western Australian industry would be in the range of \$15 - 40 million per annum. The intensity of competition will push the loss to the top end of this range.

Since the deregulation of the WA dairy industry post farm gate on 1 January 1990, the deregulated retail price has risen from 92 cents per litre to 135 cents per litre, a rise of 43 cents per litre. Meanwhile, the regulated farm gate price has risen from 37.57 cents per litre to an average 49.23 cents per litre, or by 11.66 cents per litre.

Deregulation will also see the abolition of quotas, which have to date served to underpin the debt of many WA dairy farmers. Banks have very willingly lent money

to farmers using their quota allocation as collateral. The abolition of quota enabling legislation will remove that asset leaving many farmers with little option but to sell out to repay the debt. Others will have to put on hold any plans of expansion or capital expenditure ultimately reducing their ability to remain viable in a market which will be production driven.

The Federation estimates that the removal of legislative support to the industry will result in the loss of about 20% of dairy farmers. This will have a detrimental flow-on effect on regions centred around Harvey and Vasse where there is a heavy investment in the dairy industry. Employment in the processing and manufacturing sector would also be impacted by any fall in the farm gate price. Regional processing plants may be forced to close and other existing manufacturing capacity may be lost to other states and countries.

The power of the stronger groups in the supply chain, like large supermarket retailers, will force farmers to compete with each other and take whatever price they can get from available markets. In a climate of deteriorating terms of trade for farmers, this is the worst outcome for an industry that is demonstrating growth and efficiency, well equipped to capitalise on the benefits of an open world trade market.

It is also extremely doubtful that Australian society would be prepared to see NCP effectively creating a 'peasant farmer' class in this country.

A reduction in farm income will undermine any future efficiency gains and could cause a contraction in farmer numbers. There would be no incentive for continued investment in capital and technology, and the level of ongoing investment in this area would also fall.

This loss of supply would undermine factory efficiencies achieved through recent rationalisation of the processing and manufacturing sector. The per unit costs would rise for some regional manufacturers due to declining throughput.

The uncertainty created in the dairy industry over the last two years by NCP and threatened deregulation has seen most farmers reluctant to further invest in their farms and has already seen some leave the industry. The lack of expansion has seen the industry stagnate at the expense of potential export markets and processors invest into other States as well as New Zealand.

CASE STUDY NO.2 - THE WESTERN AUSTRALIAN GRAINS INDUSTRY

The Grain Pool (WA) is a single desk seller for barley, lupins and canola in Western Australia. The role of the Grain Pool is to provide opportunities for growers through the development and maintenance of a viable local industry.

The Grain Pool is active in many areas of grain exporting including product marketing, market development, the provision of stability and confidence to growers and promotion and research.

In 1996, the competition review of the Grain Pool deregulated the domestic lupin, canola, linseed and barley markets.

The single desk in WA gives local growers a marketing edge in competing in the international environment. As stated earlier in this submission, the international market is full of tariff and non-tariff barriers to exports. WA producers, through the single desk, have an effective counter mechanism with which to compete in this environment in the following ways:

- Price

Subsidies and protectionist policies in international markets result in inexorable barriers to export. WA barley and lupin growers have to compete directly with a subsidised product from international competitors. The Grain Pool cites an example of WA malting barley growers competing for Chinese market share in 1994 against US malting barley with a \$40 a tonne Export Enhancement Program subsidy applied.⁷ Not surprisingly, the US eventually gained that market. The Grain Pool further estimates that in 1997, 300,000 tonnes of European malting barley sold to China was subject to restitution of over \$124 a tonne.⁸

The single desk has other advantages that give WA producers the opportunity to compete in this inequitable market. The Grain Pool uses the advantages of market diversification, quality control, reliability of supply and its network of close customer relationships to overcome the obstacles to free trade.

- Market Diversification and Development

The size and sophistication of the Grain Pool gives it the ability to develop marketing strategies that individual farmers would find too costly and intensive. The ability to differentially price gives the WA industry a means of access to markets not normally available.

As a single desk seller the Grain Pool has sufficient market flexibility to target the premium markets for the season. It also provides the stability to manage any negative impacts in any market.

The benefit to WA growers is the ability to share in price averaging and not having to compete against their neighbours to access what limited lucrative markets are

⁷ Ministerial Report, Grain Pool WA, 1997

⁸ *ibid*

available. By reducing price uncertainty, more grain is produced than would otherwise be the case. This generates substantial additional upstream and downstream economic activity, including greater exports.

In addition the stability the Grain Pool offers means that it can invest in long term market development which through marketing campaigns and technical assistance can build market demand.

- **Quality**

The Grain Pool controls the quality standard of grains delivered by the farmer in Western Australia. Quality control procedures are put in place to ensure that market expectations are met.

- **Supply**

The guaranteed supply that a single desk can provide is an important advantage in international market. Not only does it instil customer confidence through a consistent quality and supply, but it provides a great advantage in the sourcing of new markets.

In addition, the Grain Pool has a demonstrated ability to finance the growth of the coarse grains industry in Western Australia without the need for the compulsory levies prevalent in other commodity sectors.

Single desk sellers and statutory marketing bodies provide an environment of stability to both the producer and the consumer. It is in the public interest to maintain stability in quality and quantity of supply.

DEFINITION OF PUBLIC INTEREST

As set down in clause 5 of the Competition Principles Agreement, the following key points must be kept in mind when undertaking industry reviews in order to assess the appropriateness of the restrictions to competition:

- the benefits of the restriction are greater than the costs;
- the objectives of the legislation can only be achieved by restricting competition;
- and
- other important factors as outlined in the terms of reference below.

The legislative review will:

1. clarify the objectives of the legislation;
2. identify the nature of the restriction upon competition;
3. analyse the likely effect of the restriction on competition and on the economy generally;
4. assess and balance the costs and benefits of the restriction; and

5. consider the alternative means for achieving the same result including non-legislative means.

In assessing the costs and benefits of particular legislation, the following matters, where relevant, will be taken into account:

- government legislation and policies relating to ecologically sustainable development;
- social welfare and equity considerations, including community service obligations;
- government legislation and policies relating to matters such as occupational health and safety, industrial relations and access and equity;
- economic and regional development, including employment and investment growth;
- the interest of consumers generally, or a class of consumers;
- the competitiveness of Australian business; and
- the efficient allocation of resources.

Public benefit is not defined in the Trade Practices Act, but its meaning has been interpreted and formed to a degree through legal cases and public perception.

Professor Allan Fels, the Chairman of the ACCC, has asserted that the definition of public benefit is left to the discretion of the Commission. Some outcomes that have been recognised as public benefits by the ACCC in the past include:

- fostering of business efficiency,
- industry rationalisation,
- expansion of employment,
- promotion of industry cost savings,
- promotion of competition in industry,
- promotion of equitable dealings in the market,
- development of import replacements,
- growth in export markets and
- arrangements which facilitate the smooth transition to deregulation.⁹

Public benefit has been interpreted by the courts at different times as including:

- a consideration of an action's effects on economic development,
- business efficiency,
- employment,
- export growth,
- environmental protection and
- safety issues.

⁹ *Speech to the Grains Council of Australia, Professor Allan Fels, 31 March 1998, Adelaide.*

The Federation would argue that a definition of public interest would be a broad amalgam of the outcomes stated above with an additional reference to the protection of incomes.

Public benefit is usually thought of in terms of the consumer's benefit and one of the main aims of competition is to provide lower prices to the consumer. For example, a recent press release by the Treasurer, Hon Peter Costello MP, stated that competition policy commitments would "make it easier to do business and provide lower prices to consumers..."¹⁰

The Treasurer's assertion that deregulation would make it easier to do business is disputed by the Federation. Certainly, the larger public entities may have the capacity to undertake more aggressive marketing without the constraints of parliamentary and public accountability, but for the rural sector the reality is quite different.

The uncertain and unstable prices caused by deregulation would threaten the ability of farmers to expand their businesses. Finance would be more difficult to obtain, property values would fall and the agricultural industry would become less viable.

As the price of the inputs used in the production of agricultural produce would remain the same, the loser in the deregulated market is the farmer.

It is not only the costs of the long term effects of NCP itself, but of compliance with the review process that is a serious financial burden on industry.

The Competition Policy Unit (CPU) in the State Treasury is responsible for coordinating the legislation review in Western Australia and for ensuring that reviews:

- conform to the principles specified in the Competition Principles Agreement;
- are of acceptable quality to comply with WA's obligations; and
- are completed according to schedule.

The format required by the CPU for submissions is clearly outlined in its guidelines. A brief example of what industry must comply with is as follows:

1.0 Clarify the Objectives of the Legislation

This section aims to determine the purpose of the legislation. Information sources would include the legislation itself, second reading speeches and interviews with key players to gather the history surrounding the legislation's objectives.

¹⁰ *Competition Payments to States and Territories*, Press Release (No. 082), Hon Peter Costello MP, 21 August 1998

2.0 Identify the Nature of the Restrictions on Competition

This section requires all restrictions on competition to be identified and categorised. At this stage the level of analysis to be applied to individual restrictions is determined, based on the importance of the restriction's impact on the economy.

3.0 Economic Analysis of the Likely Effect of Restrictions on Competition on the Economy Generally

The effect of each restriction identified in Section 2.0 has to be assessed in terms of its impact on the economy, and any 'other matters' (as given in the Terms of Reference) which are relevant to the restriction. Estimation of the effects is also required, where possible, either by monetary estimation or more qualitative measures.

4.0 Assess and Balance the Costs and Benefits of the Restrictions

This section weighs the overall benefits of restrictions against their costs. Effects must be quantified where possible. All conclusions should:

- *follow logically from the analysis and information presented; and
- *state explicitly any value judgments that are made.

5.0 Consider Alternative Means for Achieving the Same Result

This section considers alternative, less restrictive means of achieving benefits associated with the restrictions, including the appropriateness of deregulation, of less regulation and of transition periods.

6.0 Overall Conclusion

This section draws together conclusions of sections 4.0 and 5.0 and accounts of any interdependency in the effects of the restrictions. This section should state how the legislation may be modified and specify any planned transition periods.

The Western Australian Farmers Federation has spent upwards of \$50,000 in preparing its submission along these guidelines for the legislative review process of the dairy sector. If this is to be a recurrent cost to every other commodity sector represented by the Federation then such a situation would be untenable.

The Federation also disputes the benefits to consumers. One example can be found in the dairy industry. In Western Australia there is a quota system in place which ensures a consistent supply of milk for 365 days a year. It is assumed that in a deregulated market, the quota system would be abolished.

Figures quoted in recent years have shown that the price of a litre of milk to the consumer has risen in the deregulated states at a faster rate than other states. In

the deregulated states the average increase in price was 15.25 cents per litre while in the other states the increase was an average of 6 cents per litre.¹¹

CASE STUDY NO. 3 - THE NSW EGG INDUSTRY

The NSW egg industry provides a good example of the negative effects of market deregulation on both the producer and the 'public benefit'.

The statutory egg marketing boards in the Eastern States have, in the main, been replaced by cooperatives or corporations formed by the major egg producers.

It is well documented that the quality and supply of eggs in the East has decreased, with the shortfall being imported from Western Australia where eggs are vested in the WA Egg Marketing Board.

In New South Wales, the retail price for eggs has risen and the retail margins for shell eggs has increased to around 90% - 100%. This shift in power to large retailers, has been to the detriment of both the industry and the consumer

The vesting of eggs in the WA Egg Marketing Board has resulted in consistent supply and price for WA consumers. The price in WA has been maintained at less than inflation and the retail wholesale margin has remained relatively stable.

Reviews of the WA Egg Marketing Board found that the system is operating effectively to satisfy the requirements of consumers, retailers, manufacturers and producers.

The WA Egg Marketing Board, trading as Golden Egg Farms, is a leader in Australian industry. It has consistently provided consumers with quality graded eggs at competitive prices and has undertaken successful product marketing. Golden Egg Farms does not require any Government sourced cash inputs nor does it require or have any Government guarantees.

The deregulation in the Eastern States has resulted in instability in the industry and while there is evidence to show that the price to the producer has fallen, there is no evidence that deregulation has resulted in cheaper eggs for the consumer.

NCP - THE COST TO THE COMMUNITY

¹¹ 7:30 Report, ABC Television, 11 June 1997

The cost of the National Competition Policy is not confined to the economic impacts and the erosion of farmer incomes.

The Federation believes that the stress inflicted on farm communities by falling prices and the uncertain economic environment has impacted on the health of rural Western Australia.

The pressure to work harder and longer to achieve incremental returns has resulted in lower health levels for rural Western Australia. As farms become less viable, people leave the land, towns contract and services decline. It is well known that towns in rural Australia have enormous difficulty in retaining doctors and general health professionals. For example, there are very few grief or trauma counselling services available between Armadale and Esperance.

The combination of harder working conditions and decreasing professional care has resulted in some startling health figures for regional Australia.

The deaths from all causes for people living in rural and remote Australia are higher than for people living in capital cities. In 1995 the death rates for women living in remote areas were 32% higher (22% higher for men) than for their counterparts living in capital cities. In large regional centres the death rates were 8% higher for men and 6% higher for women, compared with metropolitan Australia.

In large regional centres the death rate from coronary heart disease was 14% higher for men and 15% higher for women. In remote areas, the increase for women was 29%.

Death rates from injury for males in large regional centres were 22% higher while in remote areas the rates were 69% higher for men and 43% higher for women.

Deaths of men from road accidents were over 100% higher in remote areas.

For both men and women, the rates of death from asthma were 25% higher in rural areas and 50% in remote areas.

Perhaps the most disturbing figure is that of the high level of suicides in regional Australia. Suicides of rural males are generally around 20% higher than for males in capital cities. In the 15 - 24 age group the rate of suicides among remote area males is more than double that of their metropolitan counterparts.

While it is not claimed that NCP is the cause of these figures, the Federation is of the view that as livelihoods are threatened by the uncertain environment created by NCP, the health of regional Australia will continue to decline.

NCP - THE COST TO THE ENVIRONMENT

Intensive and broadacre agriculture is under pressure from the community to safeguard the environment from the potential for damage from farming. At the same time the community enjoys abundant supplies of quality food at prices cheap by any standard.

The Australian community cannot have it both ways.

The Federation believes that dismantling orderly marketing arrangements will adversely affect the farm gate income for farmers and impact negatively on the environment. Farmers would be forced to exploit soil and animals more intensively for incremental advances. This would result in increasing pressure on the environment. With lower cash margins in agriculture, levels of environmental protection would receive a lower priority in the running of the farm.

CONCLUSION

The Federation's submission has presented adverse consequences both social and economic of the National Competition Policy.

In economic terms, the NCP is making agriculture, as a whole, a less viable industry. Incomes are falling and exports are threatened. The so-called monopoly of the single desk is being replaced by an oligopoly formed by large retail chains. In addition, the high cost of submissions to the legislative review process are a financial burden on industry.

In social terms, the increased pressure of complying with the standards required by the consumer while facing a falling farm gate price is causing a large amount of stress in the rural community. As farming becomes less viable, people are leaving the land and towns are dying. Vital services like banks, schools and hospitals are pulling out of rural Western Australia leaving those families remaining in agriculture under enormous pressure.

The Federation concludes that while competition has its merits, it has failed in its most important requirement, to benefit society as a whole.

RECOMMENDATIONS

1. The Federation believes that balance needs to be restored in the bargaining power between producer, processor, retailer and consumer.
2. Statutory marketing bodies must be retained to provide a buffer for Western Australian producers from the effects of inefficient and corrupt world markets.

3. Provision by statutory bodies and single desk sellers of the necessary stability and certainty of production must continue to ensure growth in the State's exports.
4. The current marketing arrangements must be retained as they encourage the industry to expand by attracting sufficient investment which in turn sustains continued growth.

*Western Australian Farmers Federation
November 1998*

IN DEFENCE OF ORDERLY MARKETING

An "Alternative" View From The West

The Western Australian Farmers Federation's (WAFF) confidence in Statutory Marketing Authorities (SMA's) is now considered, in some quarters, to be an 'alternative' policy view. As Australia's legislators and self-appointed intellectual guardians increasingly bed down with the deregulators, WAFF is left standing almost alone in defence of Australian farming interests.

WAFF represents nearly 6,000 farmers in Western Australia. Our role is to protect our member's interests and safeguard their right to produce and trade as they wish.

WAFF's members live and operate in the real world of commerce and production. Many stridently believe in competition and would relish the opportunity to compete in a truly free international market where demand for our produce would be substantial.

After all, every working day, farmers in Western Australia and elsewhere engage in competitive practice. The direction of resources to their most effective end use is central to the way farmers all over Australia do business.

However, comments by Roger Kerr, the Executive Director of the New Zealand Roundtable, in the last edition of *Reform* give cause for substantial concern in Western Australia.

By accusing farmer groups of defending a mere "mantra" of "farmer control" he is himself engaging in sloganeering, the only difference being that his is mantra based on abstractions rather than the brutal commercial realities facing farm businesses.

These commercial realities are significant when dealing with industries worth over \$5 billion to Western Australia's economy.

Western Australian farmers are well aware that they do not compete in a competitive market but rather one that is corrupt and highly distorted. We didn't create this situation and we certainly don't like it, but for now it is the reality we face.

For those unaware of the problems, a striking, but simple example of the barriers faced by farm exports is best demonstrated by the Grain Pool of Western Australia. In 1994 Western Australian malting barley exporters were competing for Chinese market share. WA exports faced an American product subsidised by their government to the effect of \$40 a tonne. European malting barley sold in the same market relied on restitution estimated at over \$124 a tonne. This is certainly not an isolated incident, yet this is the "level playing field" Mr Kerr would have us believe existed globally.

At the same time, Australian products are effectively isolated from the European market through extensive tariff and non-tariff barriers. The Grain Pool of Western Australia recently estimated the duty on Western Australian malting barley supplied to Europe would be approximately \$117 a tonne.

In this atmosphere of tariff and non-tariff barriers to trade, those who would suggest that farmers should abandon reliable marketing arrangements and go it alone to compete for market share as individuals are clearly ignorant of the difficulties facing what are already efficient businesses.

Australia continually gets caught in the cross fire of the US and European subsidy war.

The United States recently decided to subsidise 30,000 tonnes of barley to the nations of Algeria, Cyprus and Norway through the notorious Export Enhancement Program (EEP). This decision is part of a direct tit-for-tat campaign against the European Union.

Australian policy makers have decided, and rightly so, not to engage in similar tactics of tariff and non-tariff barriers, for we simply cannot afford to go head to head with the US or Europe. Rather, our competitive edge lies in our quality produce and our competitive marketing bodies.

The single desk operating in WA gives local growers a marketing edge when competing in the international environment. WA producers, through the single desk, have an effective mechanism with which to counter barriers to trade and compete in this environment while generating a fair and reasonable income for farming families.

The single desk's objectives are first and foremost to maximise net returns to growers, develop export markets, reduce price volatility over a particular season, conduct market development, participate in research activities, manage risk on behalf of growers and set and maintain quality standards.

To achieve these objectives, SMA's utilise the advantages of market diversification, quality control, reliability of supply and international networks with close customer relationships thereby overcoming the obstacles to trade.

The size and sophistication of statutory bodies gives them the ability to develop marketing strategies that individual farmers would find too costly and intensive. The ability to differentially price also gives the Western Australian industry a means of access to markets that would not otherwise be available.

Furthermore, single desk sellers have sufficient market flexibility to target the premium markets for the season and provide the stability to manage any problems that might arise in any market.

The direct benefit for Western Australian growers is the ability to share in price averaging without having to compete with their neighbours to access what limited (and lucrative) markets are available. By reducing price uncertainty, more grain is produced than would otherwise be the case - thereby generating substantial additional upstream and downstream economic activity, including greater exports.

In addition the stability SMAs offer means that they can invest in long term market development which, through marketing campaigns and technical assistance, can build market demand strategically.

Most statutory marketing bodies have in place quality controls that maintain a standard of produce delivered by the farmer in Western Australia, therefore ensuring that market expectations are continually met and not endangered by the unscrupulous.

The guaranteed supply that a single desk can provide is an important advantage in international marketing. Not only does it instil customer confidence through consistent quality and supply, but it provides a great advantage in the establishment of new markets.

The single desk seller provides the access to international markets which would be out of reach of an individual farmer for the single desk has the ability to better assess the appropriate time to enter and leave a market.

Some will claim that SMA's place an unfair and arbitrary price for Australian produce exported overseas. WAFF believes that if anything distorts the world price of agricultural produce, it is the export subsidies washing through global markets, not Australia's statutory marketing bodies.

I suspect that I am not revealing anything new to the majority of readers. I am sure that farmers all over the country could come up with specific examples of the benefits of SMA's to their industry and the inherent dangers of anarchy in agricultural production - for these are lessons well learnt from Australia's past.

WAFF makes no apologies for wishing to retain single desk sellers. Experience overseas has been a good indicator of what we can expect in Australia if we go down the path of deregulation.

Who can deny that in a deregulated environment, it is the individual farmer and his family who suffer? The retail giants continue to make profits at the margin while farmgate prices continually fall. The monopoly position of buyers guarantees that any fragmentation of a united grower front will condemn the family farm to history.

The experience of deregulation in the dairy industry in the United Kingdom is a classic example of commercial disaster. In November 1994 the UK deregulated the dairy industry, thereby directly affecting the livelihoods of 40,000 farmers. Cooperatives were formed to replace the abolished SMA's and have increasingly become subject to outside shareholders. They are driven by the profits of professional investors rather than farmers and product is sourced at its cheapest possible price to ensure the required returns for outside investors.

Shortly after deregulation dairy farmers in the UK received 26 pence per litre for milk as processors tried to secure supply. But now under this system, dairy farmers in the UK now receive around 17 pence per litre for milk. It is estimated that 2,000 farmers will leave the industry every five years in the wake of these price falls. Some may say this is a fair and overdue rationalisation of the industry and the results would be milk at lower prices. After all, this is the public benefit we are told must prevail. Yet, not surprisingly the price of milk has not decreased to the consumer. The average retail price before deregulation was 42 pence, it has since risen to an average of 50 pence. The supermarkets simply take 50% of the profit on a litre of milk, leaving processors 40% and farmers a miserly 10%. Only two years after deregulation, the whole industry is now subject to an inquiry by the Monopolies and Mergers Commission and the Office of Fair Trading. Are there any lessons here for Australia?

In the last edition of *Reform*, Roger Kerr lamented the fact that the Federated Farmers of New Zealand would not, or could not focus on the big picture. He argued that farmers needed to accept that benefits to the nation were more important than farm families incomes and livelihoods.

In 1987 the New Zealand dairy industry was deregulated. Yet, between 1987 and 1989, New Zealand consumers faced a rise of almost 30% in the real price of milk.

Overall, farm gate prices in New Zealand have been held to their earlier levels, and processing margins have been significantly squeezed. Again, the profits from milk are being transferred from local farmers to multinational supermarkets under the guise of consumer sovereignty.

Indeed those like Mr Kerr who take fright at a New South Wales farmer holding a placard saying "Don't deregulate Milk!" must not live in NSW where it has been revealed that the deregulated retail price for milk has risen by up to 3 cents per litre. Meanwhile the farm gate price to producers has fallen by an average of 3.3 cents per litre!

The stark reality is that if we do not heed the message from those countries that have experimented with agricultural deregulation, we stand to destroy effective and efficient industries, while delivering no benefit to consumers, simply to justify ideological standpoints.

Who exactly has benefited from deregulated agricultural markets? The supermarkets are making greater profits than ever before, consumers are paying more and farm families are earning less.

The Western Australian Farmers Federation wears the criticism of ideologues as a badge of honour, for it is chartered by its members to behave pragmatically in defence of their interests. That charter would seem to accord well with the Australian way - the way that sees practical outcomes as superior to the abstractions of ideology. New Zealand's farmers appear to have paid the price for their policy makers succumbing to abstraction before experience. Western Australia's farmers, mindful of the experience of exploitation and division felt in the darker moments of the past, will continue to eschew the adoption of market deregulation in agriculture and fight hard against its imposition from above.