

# The Power of None

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**A**USTRALIA being a highly urban society with relatively few people involved in agriculture, it could not be expected that many Australians would know that grain farmers in this country labour under a form of economic dictatorship known as statutory marketing.

The essence of statutory marketing schemes involves the government, State or Federal, directing farmers to surrender their grain to the authorities for 'marketing'. For more than 60 years it has been assumed that the authorities have superior capacities than those possessed by individual farmers and, therefore, that decisions concerning grain marketing should be the exclusive province of government or its appointees.

It was inconceivable that State authorities blessed with such power, foresight and knowledge could make mistakes or be in error. This view suffered a mortal blow when the Reserve Price Scheme for Wool collapsed, decimating the once great wool industry. Wool producers today are still paying for errors made by the authorities over ten years ago.

Fortunately, the grain industry has not reached such a state of decline, but it has been clear since the McColl Royal Commission into grain storage and handling of the late 1980s that development and innovation have been suppressed and better and cheaper ways of doing business have never seen the light of day.

These deficiencies are widely recognized even from within the industry itself but they blame each other. AWB CEO Mr Lindburg said recently that, 'industry must look at the infrastructure costs associated with getting the grain from paddock to port. Over the past forty years, growers have achieved

a 4 per cent annual productivity increase but the storage, handling and transport sectors have not reflected a similar productivity increase'. On the other hand Grainco, the former Queensland statutory handler and marketer, estimates that \$120 million to \$360 million a year in costs could be eliminated if AWB did not exert such control over the system. Imposing minimum standards on each delivery, restrictions on deferred deliveries to ports, discouraging the warehousing of grain, arbitrarily closing different ports, setting minimum volumes on pools, disabling handlers from swapping stocks across the network: all impede efficient grain movement.

Both parties are probably right because it is the system that is the problem—but the system is sustained by politics and political intervention. What we have is political grain marketing which was confirmed by an industrial chemist recently who analysed some Australian wheat and found it to be 10 per cent grain and 90 per cent politics.

Politicians sustain this system and they fear losing votes if they dare to recommend change.

At the time of writing, the New South Wales Grains Board has a deficiency of assets over liabilities of an estimated \$90 million. NSW farmers have commenced harvest and by law they must deliver their produce to the NSW Grains Board; yet it is uncertain what impact this unsatisfactory situation will have on their financial returns. Incredibly, the NSW Government has just extended the Grains Board's monopoly for another five years. Maybe a \$200 million loss would have been rewarded with a ten-year extension of the monopoly.

AWB Ltd and State monopoly marketers claim that their privileges

which effectively shield them from the law (for example, the *Trade Practices Act*), are to the advantage of Australians because they give these bodies 'market power'. That is, by commandeering supplies they can cause customers to pay more than they otherwise would by withholding their inventory. What happens to the withheld supply is not a subject deemed suitable for investigation by ordinary folk.

These claims of mystical powers have come under increasing scrutiny over the years, not the least by Alistair Watson, an agricultural economist who has stated that 'for claims about the single desk to be true, that is, price premiums are achieved through market power not differences in quality or service, customers would have to be ill-informed, passive or lacking in commercial acumen (or all three). This does not accord with most people's experience in international trade'.

The supreme irony is that for 60 years farmers have been deceived into believing that the so-called single desk makes us monopoly sellers of grain when, in fact, the institution established is that of monopoly buying.

For those farmers who would like the responsibility of making the decisions that directly affect their business, for those who would like to pursue opportunities not sanctioned by the authorities and for those simply looking for less costly ways of doing business, help may be in the offing.

Under the National Competition Policy Agreement, signed by the Federal and all State and Territory governments in 1995, any anti-competitive item of legislation must be reviewed and subject to the public interest test for a net public benefit. If there is no net public benefit, an au-

automatic recommendation to repeal the offending legislation must be made. The National Competition Council was constituted to oversee the process and provide advice to the Federal Treasurer and State and Territory governments on the process.

Earlier this year the much-delayed review of AWB Ltd's powers and privileges was initiated. A three-person independent panel was appointed by Minister Truss to conduct the review. It has been widely publicized and evidence, both written and oral, has been submitted. It is a unique review. Never have the AWB's powers and performance been scrutinized in such an open and transparent fashion. Previously, such reviews have been 'Claytons' reviews where a closed circle of cronies from agri-politics and the National Party have cut deals and traded favours behind closed doors and then had the result made binding by government.

AWB Ltd resents this new era of accountability, which is foreign to its culture. After all, it sources its supplies by government decree, it is guaranteed full cost recovery before it makes any payment to producers and even when it came to raising capital it did so by compulsory levy, which has consumed \$600 million of producers' disposable surplus over the last ten years. Above all, it has nothing to fear from competitors with a lower cost base winning business away.

AWB Ltd has used its privileged access to growers' funds to unleash a blitzkrieg of propaganda, platitudes and rhetoric on its farming constituents, even to the extent of raising a campaign glorying in the virtues of the Power of One. It has painted a picture of a desolate countryside and deserted towns, wholesale unemployment and depression if its powers and privilege are in any way curtailed.

AWB Ltd's efforts have been directed towards creating an environment where an independent assessment of the facts could not take place. It then hoped to have accepted as fact a long list of shallow claims and distortions.

Yet all this subterfuge has been to no avail. The independent review panel has dismissed the overblown rhetoric, one-liners and populist cant of the supporters of single-desk marketing. The review panel has issued a draft report with preliminary views rather than final recommendations. These views, however, suggest that major reforms for wheat export arrangements are on the way. The bulk export of the specialist pasta wheat known as durum would be deregulated for a three-year trial period. There would also be a trial period of less regulation surrounding the export of

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wheat in containers. This trade has grown considerably in recent years, seeking out niche markets at premiums to bulk exports.

The Federal statutory agency known as the Wheat Export Authority (WEA), which has a statutory function controlling wheat exports, would also be reformed and its charter changed. Currently the legislation gives AWB Ltd and the Grains Council of Australia considerable sway over the WEA. The review panel has also invited comment on a trial of deregulating the export of bulk wheat, other than durum wheat, to destinations where AWB Ltd cannot prove that it generates a premium from its legislated privilege.

The Competition Policy Review Panel ideas, if implemented, will loosen AWB's iron grip on the wheat industry. They will introduce some points of comparison so that farmers can assess for themselves the merits of AWB's performance and they will have the added advantage of encouraging competition in the supply chain. These reforms are set to revitalise a significant part of rural Australia by allowing the application of individual initiative and energy to one of Australia's major resources.

When the independent panel delivers its final recommendations, it will then be up to the politicians to implement them. We hope that Mr Howard is guided by the principles espoused in his 1995 lecture series—'The role of government, the modern liberal approach'—which we have 'adapted' and paraphrased here:

The essence of the coalition's grain marketing policy is an unswerving belief that individuals should have the right to decide. They should be free to sell their wheat to the AWB or any other agent. They should be free to choose their own marketing arrangements. They should be free to conduct negotiations on their produce themselves or have someone do it on their behalf.<sup>1</sup>

#### **NOTE**

- 1 The actual text of Mr Howard's speech reads as follows: 'The essence of the coalition's industrial relations policy is an unswerving belief that individuals should have the right to decide. They should be free to join or not to join a union. They should be free to choose their own workplace arrangements. They should be free to conduct any negotiations on workplace arrangements themselves or to have someone do it on their behalf.' John Howard, 'The Role of Government, the Modern Liberal Approach', Menzies Research Centre, 1995, page 17.

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