
B A brief history of statutory marketing in Australian agriculture

The evolution of statutory marketing boards in Australia was comprehensively reviewed by Watson and Parish (1982) and Lloyd (1982), and later by the Industry Commission (IC 1991) and the Productivity Commission (2000). The first statutory marketing arrangements were imposed on sugar in 1902 and dried fruit in 1904 to compensate for the mandated use of costly European labour. Most statutory marketing boards in Australia evolved following World War I to raise and stabilise prices and farm incomes, protect producers from the market power of traders and compensate farmers for tariffs on inputs (Lloyd 1982; Watson and Parish 1982). Legislation enabling statutory marketing boards was first passed in Queensland in 1922, New South Wales in 1927, Victoria in 1935 and Tasmania in 1945, with the other states legislating on a commodity-by-commodity basis.

By 1939, most agricultural industries in Australia were protected by some form of statutory marketing (Lloyd 1982). In 1982 Australia had 11 marketing boards operating under Commonwealth legislation and more than 50 operating under state legislation (Watson and Parish 1982) (table B.1).

Statutory marketing is a package of inter-related regulations that compel farmers to sell to a single marketing agent, protect industries from international competition, and set domestic prices above export parity (Watson and Parish 1982). A degree of complexity made them costly to administer with the burden of these administrative costs being met by taxpayers and consumers. A raft of supporting legislation was required to establish and maintain statutory marketing boards including:

- procedures for setting up marketing boards
- tariffs, quotas and other restrictions on trade to protect marketing boards from international competition
- legislation to protect marketing boards from legal challenges
- exemptions for marketing boards from trade practices and consumer protection legislation
- subsidised finance for marketing boards (Watson and Parish 1982).

Statutory marketing boards were usually established after a referendum of producers, and performed the basic processing and trading functions of cooperatives (Watson and Parish 1982). These included consolidating production from multiple farms throughout the year into supply chains providing consistent quantities and quality to realise economies of

scale in processing. Pooling production also enabled statutory marketing boards to average prices and stabilise farm incomes.

Stabilising prices and incomes were key objectives of statutory marketing boards partly as a result of production risk arising from Australia's variable climate, and partly as a response to the volatility of export markets. The volatility of export markets was exacerbated by the then fixed exchange rate policies (Atkin et al. 2014; IC 1991). A supply response to booming agricultural prices towards the end of World War I led to dramatic falls in export prices in the mid-1920s. Concerns that this experience would be repeated following World War II formed the basis of arguments put forward to expand statutory marketing (Lloyd 1982). These concerns were realised during the Korean War when a surge in demand for wool in the United States coincided with a drought-induced drop in sheep numbers (Atkin et al. 2014) and the selling off of a wool stockpile that had accumulated during World War II (Richardson 2001). The consequent spike in wool prices and a fixed exchange rate sent Australia's terms of trade to their highest level to date, with significant impacts throughout the economy (Atkin et al. 2014).

Statutory marketing boards were originally seen as providing a public good service to remote and isolated agricultural producers. Remoteness, isolation and lack of marketing expertise were seen as placing farmers at a significant disadvantage in negotiating sales (Sapiro 1923). Large numbers of diverse and widely distributed producers tended to work against the voluntary formation of marketing cooperatives in many of Australia's agricultural industries (Lewis 1961). This was addressed by compelling producer participation in these cooperatives by law, such that they became known as 'compulsory cooperatives' (Watson and Parish 1982).

A feature of Australia's statutory marketing boards was that their activities went beyond the basic functions of cooperative marketing. In industries where conditions were conducive, tariff protection and import controls were used to divide domestic and international markets, and raise prices in domestic markets where demand was less responsive to price (Watson and Parish 1982). These measures added the protective effect of raising prices to the insurance effect of income pooling and the equalisation effect of average pricing. Internationally, this overall package of statutory marketing activities became known as 'orderly' marketing (Sapiro 1923). The Tariff Board was set up to advise the government on the level of assistance that should be provided to industry (Emmery 1999). The Tariff Board later became the Industry Assistance Commission (1974), the Industry Commission (1989) and the Productivity Commission (1998).

Later schemes including those for wheat and wool used government funds to guarantee a minimum export price. An argument used to sustain statutory marketing boards for these and other commodities was an ability to generate price premia by acting as monopolies in international markets (PC 2000). Such arguments had little merit, as Australia was rarely a price maker in international markets.

Table B.1 Statutory marketing authorities by commodity and state
1980

	<i>Cwlth</i>	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>
Wool	•						
Meat/lamb	•					•	
Fish		•		•			
Dairy/milk	•	•	•	•	•	•	•
Butter				•			
Cheese				•			
Eggs	•	•	•	•	•	•	•
Honey	•						
Wheat/grains	•			•		•	
Barley		•	•	•	•		
Oats		•					
Maize		•		•			
Sorghum		•		•			
Rice		•		•			
Sugar				•			
Tobacco	•	•	•	•			
Cotton				•			
Peanuts				•			
Oilseeds		•					
Potatoes					•	•	•
Navy beans				•			
Ginger				•			
Canned/soft fruit	•						•
Fresh fruit				•			
Apples and pears	•						•
Bananas		•					
Citrus		•	•		•		
Lemons		•					
Wine/grapes	•	•					
Dried fruit	•	•	•		•	•	
Ryegrass							•

Source: Vinning (1980).

Economic impacts of statutory marketing

The distortionary effects of statutory marketing by misallocating resources have long been recognised. According to Lewis (1967, p. 313) ‘price support and stabilisation policies have consistently tended to transfer resources to industries in which Australia’s

competitive position is weakest'. To meet rural development goals such as increasing employment, statutory marketing tended to favour intensive dairy and cropping industries rather than the extensive industries for which Australia's land resources provided a natural comparative advantage.

Rates of assistance varied considerably from little or no assistance for most broadacre crops (excluding wheat) to substantial assistance for tobacco, milk production, eggs, citrus, wine grapes and dried vine fruits (Gray, Oss-Emer and Sheng 2014; Lewis 1967). This encouraged resources to move from lightly assisted and more efficient industries to supported industries based on the returns that could be earned from assistance schemes rather than price signals in world markets (Gray, Oss-Emer and Sheng 2014; Wonder, Beynon and Hunt 1995).

The attraction to growers of stable prices and incomes was offset by a loss of autonomy over marketing and disincentives for innovation and entrepreneurship (Lewis 1961; Watson and Parish 1982). Compulsory statutory marketing provided a disincentive for farmers to seek new markets that would yield more than average returns (PC 2000). Averaging meant that the price received by farmers did not reflect their individual managerial skill or effort (Watson and Parish 1982), creating a disincentive to innovate (PC 2000). Averaging and price support also undermined incentives for farmers to find better ways of managing production and price risk (Gray, Oss-Emer and Sheng 2014).

Attempts to stabilise commodity prices (and farm incomes) resulted in some perverse effects with irreversible consequences for Australia's agricultural industries. A floor price scheme for wool introduced in 1973 initially appeared to help stabilise prices and incomes (Richardson 2001). However, during the 1980s the scheme shifted from a conservative floor price to a reserve price scheme. Purchases by the Australian Wool Corporation to maintain the reserve price and a significant decline in the global consumption of wool led to the rapid accumulation of 4.7 million bales by the early 1990s, which were not sold off until 2001 (ABS 2003). The subsequent collapse of world wool prices reduced the profitability of wool farming, and resulted in Australian sheep numbers falling from 177 million in 1989 to less than 70 million in the early 2000s, fundamentally altering Australia's agricultural landscape (Nelson and Lawrance 2004).

The ability of marketing boards to raise domestic prices was limited by their control over production which, for example, could require marketing boards in several states to agree on production quotas (Lewis 1967; Watson and Parish 1982). In industries that were geographically concentrated, marketing boards could operate effectively as monopolies. In more diffuse industries there was a degree of competition between boards in different states. As early as 1961, Lewis (1961) observed that: 'because of the large number of widely dispersed producers, voluntary organisation in the form of cooperative societies has failed to achieve the necessary conditions for effective implementation of two-price schemes' (p. 2). Discriminatory pricing also meant that farmers received an average price that was higher than export prices, but lower than domestic prices. This created an incentive for individual growers to sell directly to domestic consumers at the higher

domestic price, a strategy that inevitably drove domestic prices down towards export parity (Lewis 1961; Watson and Parish 1982).

Raising domestic prices to subsidise production increased the cost of food to consumers and created inequity between consumers and producers. The Industry Commission (1991) estimated that in 1988-89 statutory marketing arrangements for milk, sugar and rice raised consumer prices by 0.3 per cent, and taxed user industries and consumers of food by about \$550 million. This inequity could persist partly because the voice of consumers was diffuse and less well organised than the concentrated and well organised voice of statutory marketing boards (Watson and Parish 1982). Statutory marketing was also established in an era when there was ‘widespread acceptance of restrictionist economic philosophy and distrust of free markets ... ’ (Watson and Parish 1982, p. 328).

A more modern argument for maintaining statutory marketing boards as ‘single-desk’ exporters was the potential for monopoly selling to achieve higher export prices. However, the Commission (2000) found that maintaining a single desk exporter is not sufficient to guarantee monopoly power in export markets, due to competition from other exporters and an ability of consumers to substitute to other products. Higher export returns from the provision of specialised marketing services do not require monopoly power to realise.

There were also always questions about whether statutory marketing boards could perform the storage and marketing functions as efficiently as private businesses (Watson and Parish 1982). Pooling of transport and distribution costs encourages inefficient distribution and production which incurs relatively high costs. A lack of competition and choice of marketer can promote inefficient practices such as over-servicing and cost-padding by statutory marketing boards (PC 2000).

Statutory marketing had a range of significant negative impacts on agricultural productivity, including on:

- innovation — average pricing undermines incentives for farmers to seek new and higher value markets
- risk management — income pooling and price support undermines incentives to manage risk
- resource allocation — resources flowed from less protected to heavily protected industries.
- effectiveness — statutory marketing boards had a limited ability to raise prices
- cost of administration — statutory marketing boards were administratively complex to establish and maintain
- consumers — raising prices increases the cost of food to consumers
- inefficient marketing — statutory power undermines incentives for innovative and efficient marketing (Gray, Oss-Emer and Sheng 2014; PC 2000).

Deregulation of Australian agriculture

Over time changes in production, technology and patterns of demand can significantly alter the structure of markets and reduce the need for regulation (Weimer and Vining 2015).

The economic and policy environment within which farm businesses operate has changed dramatically over the last 30 years (Gray, Oss-Emer and Sheng 2014). The Australian economy has been transformed by a series of economic reforms that exposed Australian industries to greater international and domestic competition. These reforms have increased the flexibility and productivity of the economy by enabling resources to flow to their highest value uses, resulting in significant improvements in agricultural productivity.

From the 1970s onwards, economic conditions began to change significantly from those in which statutory marketing arrangements were conceived. Examples of some of the economic changes that affected agricultural marketing included:

- deregulation and international linking of financial markets which lowered the cost of capital
- floating exchange rates which reduced price volatility
- lower levels of protection in general and on farm inputs
- improvements in the strength and coverage of trade practices legislation
- increased review and accountability of statutory business enterprises
- expansion of the agribusiness sector to fulfil roles previously performed by statutory authorities
- increased education and skill in the rural sector
- development of communication technologies and networks (IC 1991; PC 2000).

From the 1990s onwards, multiple government reviews analysed the continued appropriateness, effectiveness and efficiency of statutory marketing arrangement (table B.2). This led to questions about whether the objectives of statutory marketing arrangements in terms of overcoming market failures remained valid, and whether other policy options could achieve residual objectives at lower cost.

- It was increasingly recognised that insulation of agricultural markets via trade protection increases price volatility on world markets (Anderson 2014). Reductions in trade protection and industry assistance enabled farmers to respond more quickly to changing market signals, enabling supply to respond to demand and greatly reducing this source of price volatility. This was assisted by floating exchange rates that reduced the impact of price changes in other sectors of the economy on agricultural prices. Advances in transport and communication facilitated trade, enabling substitution between sources that reduced price volatility.

- The use of market power to raise domestic and export prices was increasingly ineffective as improvements in transport and communication increased competition in domestic and global markets.
- The consolidation of farms into larger commercial businesses and vertical integration of agricultural markets led to more direct marketing channels in domestic markets between farmers and retailers.
- The development of communication technologies combined with increasing skills levels and business orientation of commercial farms reduced the need for third party knowledge brokers.
- General reductions in tariffs and industry assistance removed the need for countervailing protection, underpinned by improvements in antidumping legislation.
- The use of market power to raise export prices was increasingly at odds with global negotiations under the World Trade Organization to reduce tariff and non-tariff barriers to trade.

Table B.2 Notable reviews of statutory marketing in Australia

<i>Year</i>	<i>Author</i>	<i>Title</i>
1990	Davis, L. (Chair) Department of Primary Industries and Energy	Review of the commonwealth primary industry statutory marketing authorities: Report to the Minister for Primary Industries and Energy
1991	Industry Commission	Statutory marketing arrangements for primary products
1998	Industry Commission	Microeconomic reforms in Australia: A compendium from the 1970s to 1997
1999	Productivity Commission	Impact of competition policy reforms on rural and regional Australia
2000	Productivity Commission	Single-desk marketing: Assessing the economic arguments
2005	Productivity Commission	Review of national competition policy reforms
2007	Productivity Commission	Annual review of regulatory burdens on business: Primary sector
2010	Productivity Commission	Wheat export marketing arrangements
2013	ABARES	Review of selected regulatory burdens on agriculture and forestry businesses
2014	ABARES	Australian agricultural productivity growth: Past reforms and future opportunities
2015	OECD	Innovation, agricultural, productivity and sustainability in Australia

Sources: Updated from IC (1991) and PC (2000, 2010).

The recent history of agricultural marketing reforms was summarised by Gray et al. (2014) (updated in table B.3). Gray et al. (2014) estimated that regulation-induced misallocation of resources reduced productivity growth in Australia's broadacre agricultural industries by 4.1 per cent per year between 1977–78 and 1989–90. Subsequent market reforms generated efficiency gains from the reallocation of resources that accounted for over a third (34.5 per cent per year) of productivity growth between 1989–90 and 1999–2000, and two-thirds (66.7 per cent per year) between 1999–2000 and 2009–10.

Table B.3 A summary of agricultural policy reform

<i>Decade</i>	<i>Commodity</i>	<i>Policy change</i>
1970s	Wheat	Move from guaranteed to stabilised prices; provision for 'grower to buyer' sales outside the pooling arrangements; home consumption price limited to wheat for human consumption and determined by a formula to take account of export prices
1980s	Dried vine fruits	End of price stabilisation arrangements in 1980
	Citrus	Decade-long phase down of tariffs from 30 to 5 per cent, beginning in 1986; state marketing boards amalgamated, reducing geographical barriers to competition
	Eggs	State-based production and pricing controls progressively withdrawn from 1989
	Sugar	Domestic administered price arrangements and export controls terminated by the Commonwealth in the late 1980s
	Wheat	Domestic market deregulated in 1989; grower levy fund introduced to replace the Commonwealth guarantee of Australian Wheat Board borrowing
1990s	Barley	Competition gradually introduced into domestic feed and malting barley marketing in South Australia and Victoria from 1998
	Dairy	Phased reductions in market support payments on export of dairy products
	Dried vine fruits	Commonwealth price equalisation levy and statutory equalisation of domestic sales removed in the early 1990s, as was the industry's exemption from section 45 of the Trade Practices Act 1974 (Cwlth) (which reduced the scope for collusive price discrimination)
	Horticulture	Underwriting scheme for apples and pears terminated in 1990
	Tobacco	Local Leaf Content Scheme and the Tobacco Industry Stabilisation plan ceased in 1995; withdrawal of vesting powers in 1995
	Sugar	Import tariffs and domestic price supports removed in mid 1997
	Wheat	Australian Wheat Board converted from statutory authority to a grower-owned company in 1999
	Wool	Reserve Price Scheme ceased in 1991

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Table B.3 (continued)

<i>Decade</i>	<i>Commodity</i>	<i>Policy change</i>
2000s	Dairy	State-based controls over sourcing and pricing of market milk ceased in 2000; 9-year Dairy Industry Adjustment Package (DIAP) concluded in 2009
	Barley	South Australian single-desk arrangements terminated in 2007; Western Australian market deregulated in 2009 (allowing any number of licensed entities to export barley)
	Canola	Exports of canola and lupins deregulated in Western Australia in 2009 (traders no longer required to apply for licenses to export)
	Sugar	Queensland Sugar Limited lost its compulsory acquisition powers in 2006 and lost exemption from the Trade Practices Act in 2009
	Wheat	Bulk exports deregulated in 2008, meaning proposals to export bulk wheat no longer needed approval from the single-desk seller (Australian Wheat Board)
2010s	Rice	NSW Rice Marketing Board retains powers to vest, process and market all rice produced in NSW (about 99 per cent of Australian rice is produced in NSW)
	Potatoes	Western Australian Potato Marketing Corporation controls the supply of fresh table potatoes in that state
	Wheat	From 1 October 2014, port access for the bulk wheat export industry was regulated by a mandatory code of conduct administered by the Australian Competition and Consumer Commission
	Sugar	Queensland Parliament passes the <i>Sugar Industry (Real Choice in Marketing) Amendment Bill 2015</i> which has potential to regulate the options that sugar millers have for marketing sugar internationally

Source: Updated from Gray et al. (2014).