

18th July, 2004

Productivity Commissioner
NCP Inquiry
PO Box 80
BELCONNEN ACT 2616
Email: ncp@pc.gov.au

Dear Commissioner,

It has recently been brought to our attention that an inquiry is underway through the productivity commission on National Competition Policy introduced in 1995 and implemented by State and Territory Governments.

In perusing the terms of reference, it is stated that significant benefits have been delivered to Australia through reform in electricity, gas, road transport and water. It further states in the issues paper (Box 2) that higher taxation revenue through increased economic activity, has resulted for the Commonwealth. We disagree with these statements and submit that the terms of reference are flawed before any assessment is concluded.

Our particular focus is with regard to the detrimental effect National Competition Policy has caused rural industries and regional areas, particularly the sugar industry. In 1996, as the commission is no doubt aware, this industry underwent significant changes under National Competition reforms after the Sugar Industry Review Working Party (SIRWP). The industry had already undergone partial deregulation in 1989 by removal of the embargo on imports, replaced by a tariff of \$112 a tonne of sugar. This tariff was gradually reduced by successive Governments to \$55 a tonne from 1996.

Following the SIRWP review recommendations, the tariff was totally removed in return for the retention of single desk selling and a ministerial directive was put into effect which compelled canefarmers to accept the corrupt world price for their product on the domestic market. Removal of tariffs alone, has reduced our domestic income base by approximately \$50 for every tonne of sugar sold since that date, a significant reduction in relation to the corrupted world price to which our total crop is exposed. It can be arguably said to have contributed to the failures of many canefarming entities and associated businesses.

The suggestion that single desk selling is anti-competitive bears no merit, as an embargo is non existent and no tariff is applicable on imports. Manufacturing industries are free to import under present circumstances at will.

In order to reflect any economic credibility, the price for our domestic requirement must be based on Australian economic standards and input costs, not on a fictitious and corrupted world price, which is not adhered to by each of the other sugar producing nations. Australian primary producers are expected to meet all import costs, including wages/salary and government fees under Australian regulatory structures and standards, not those of the third world or other nations, where the prices are heavily subsidised in most cases or may allow for unacceptable conditions to be perpetrated on industry workers. The imposition of specific Australian input costs and standards must be reflected in the economic returns to the canefarming

sector and other primary producers, especially if their return is to be dictated by government directive rather than an industry nominated price.

In previous correspondence to Kalamia Cane Growers Organisation Ltd query on mandatory export parity pricing and competition policy by Graeme Samuels (former president of National Competition Council), I quote, "The working party considered that Australia's overall economic welfare would improve if domestic raw sugar was priced at export parity. Experience from other industries suggest this improvement may be realised through higher returns for Australian exporters of refined sugar and sugar rich food and beverages, a more productive allocation of valuable regional resources between sugar production and other uses."

A statement from Tony Gentile, (Chief Executive of the Australian Soft Drink Manufacturers Association and a member of the SIRWP review) was quoted in "Canegrowers" Magazine, 15th December, 1997, following the conclusion of the review. "The removal of the tariff would save the soft drink industry \$7 million a year and would mean a fourfold saving to the food processing sector." In fact, following implementation of SIRWP and contrary to claims of consumer protection, retail prices rose by more than 26%, while at the same time, prices to growers fell by over 25%, with further reductions to the farming sector since that time.

The "increased economic activity" referred to in this issues paper cannot be backed up by the statistical evidence on bankruptcies in Australia pre and post competition policy. In 1972 they totalled 2061, in late 80's, 4,664, with the latest yearly figures totalling 21426. While these figures indicate the contrary argument already, one must ask if economic activity had indeed increased as a result of competition policy, why then are 37% of working age males under the age of 35 not in full time employment? Why also is the resultant reduction in marriages and birth rates so pronounced in rural and regional areas, where the loss of full-time employment has been the most severe?

What NCP has 'achieved' is reflected by fact that 77% of the national market retail share is effectively in the hands of the big two supermarket retailers. It allows pumpkins to retail for \$1.67 a kilo while the farmer is offered 22 cents a kilo. It allows canefarmers to be paid less than 13cents per kg of sugar while the retailers can sell sachets of Raw or Refined white sugar for \$6.38 per kg.

While National Competition Policy, on the one hand, calls for deregulation of the Australian Sugar Industry, the Queensland Government has implemented a Ministerial Directive which imposes government regulatory demands that favour and further empower the refiners, manufacturers and retailers at growers expense and against the expressed intent of National Competition Policy. The policy of the National Competition Council espouses and demands deregulation/removal of proven industry regulations, on the one hand, while allowing the imposition of further **regulation**, (through the State government's Ministerial Directive), to control prices at the farm gate. This **regulated** price is currently **paying canefarmers less than half of the average world COST of production**, while refiners, manufacturers and retailers nominate their own sell price and the consumer continues to pay an inflated price which has yet to reflect the massive drop to the farmer since 1996. A clear indication of the failure of NCP to ensure equity in the value chain, rather a shift in market power from the canefarmer to the millers, refiners, manufacturers and retailers.

In summary, we ask for the removal ("deregulation") of the 1996 Ministerial Directive on sugar, with retention of single desk marketing and regulations on CPA's and

statutory bargaining, as was the recommendation and agreement after the SIRWP enquiry (these regulatory structures were stated to underpin the past success of the industry), for the reasons stated.

If the Federal Government wants to undertake a credible review, it should be done by a Federal Parliamentary Committee, with a cross section of economists to examine NCP's impact on both regional and the National economy. Where detrimental effects of National Competition Policy can be demonstrated in any industry, that industry can be exempted. It is noteworthy that in other countries where NCP exists, primary industries are exempted from it. Following the devastating effects of NCP to date, this would be our considered recommendation for Primary and Manufacturing Industries in this country also. The dramatic rise in bankruptcies, farm foreclosures, population transfer to cities, job shortages, compounded by the failure of revised quarantine and other government policy ideologies, significant rural health decline and increase in rural suicides all demonstrate the failure of the NCP agenda in this country.

Premier Beattie stated recently "It does not follow that all competition will boost living standards or protect the community. The NCC is all about driving competition for its own sake, it does this through the threat of reducing national competition payments." This carrot and stick approach has not fostered good policy, nor good outcomes.

The Sugar Industry Reform Committee calls for a Federal Parliamentary Review Committee to be established and pending the outcomes, for a halt to be imposed on further implementation of National Competition Policy in any industry.

Yours faithfully

Margaret Menzel
Coordinator
Sugar Industry Reform Committee