



National Competition Council

# Competition Policy and the farm sector

A presentation by Graeme Samuel,  
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to the South Australian Farmers Federation  
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## INTRODUCTION

Thank you for inviting me to speak to you today about competition policy and farming.

I see this as an important and timely opportunity because the issue of competition policy and its effects on rural communities has received a lot of attention lately and many people now have major concerns about it. These include fears that competition policy will cause a loss of services to the bush, that farmers will not be able to market their produce through cooperatives, that the prices of farm inputs like water will rise, and that any benefits from competition will go mainly to city people and big business.

Concerns about competition policy are not restricted to the bush, and a number of politicians have also been criticising aspects of competition policy lately.

These developments are a result of some genuine concerns among the community. The changes that have taken place in the Australian economy over recent decades have caused much social dislocation. Much of this is due to things governments have no control over.<sup>1</sup> But government policies<sup>2</sup> have added to the changes, and governments have not always dealt adequately with the social effects of change.

Although National Competition Policy is new and differs in important ways from previous approaches to economic reform, implementing it will nevertheless bring further changes to our economy. Add to this the fact that many people speaking in the media have linked it with government policies like cuts to rural subsidies, and it is not surprising that many people have concerns about it.

So if competition policy is going to be fully implemented, people who think it will be good for Australia need to be able to show that:

- competition policy is not the cause of the problems people associate it with; and
- where it does cause change, it will also bring enough benefits to justify going ahead.

Today, I am going to address both these matters in the context of how competition policy affects farming. I will point out that many of the problems that many people in the media have attributed to competition policy actually have very little to do with competition policy. I will also point out several ways in which competition policy can actually enhance services to the bush and improve the prospects of rural Australia.

Firstly though, let me outline what the competition policy package includes and some of the early evidence of benefits flowing from it.

## ABOUT NATIONAL COMPETITION POLICY

The National Competition Policy program contains a range of measures and stretches beyond the year 2000. The aim is to lower business costs, enhance our competitiveness and provide the conditions for more sustainable economic and employment growth.

Let me emphasise that National Competition Policy was not just the whim of the Keating Government adopted by the Howard Government. It is a result of a package of agreements entered into by all State, Territory and Commonwealth Governments and supported by all major political parties in 15 Houses of Parliament.

Competition policy is not about maximising competition alone, but about creating an appropriate blend of economic and social responsibilities – about using competition to improve the community's living standards and employment opportunities. That is why governments are, around the country, pursuing competition policy – not, I can assure you, because they feel obligated to do so.<sup>3</sup>

### Essential service industries

The main batch of measures deals with industries like energy and transport. Recent measures to inject competition into these sectors are showing some significant benefits. Price reductions of more than 20 percent for grain haulage, 25 to 30 percent for electricity in some States, 40 percent for container rail freight, and up to 50 percent for gas, are striking evidence of the benefits available from competition [Slide 1]. But it is important to realise that for these types of effects to spread Australia-wide, reform must continue.

#### Slide 1: Recent price changes in infrastructure service industries

Recent benefits from competition in infrastructure sectors include:

- two recent studies by Delloite Touche Tohmatsu and the Australian Chamber of Manufactures found that electricity bills have fallen by around 25-30 percent on average, and up to 60 percent in some cases, for NSW and Victorian businesses able to select their own supplier under the National Market;
- rail freight rates for grain in Western Australia have fallen by over 20 percent in real terms since deregulation in 1992-93, while freight rates between Melbourne and Perth fell by 40 percent (and transit times and service quality improved) following the introduction of competition on that route in 1995; and
- in Western Australia, gas prices fell 50 percent for certain industrial users after deregulation in the Pilbara in 1995, while gas access tariffs in NSW will fall to about 60 percent below their 1995 levels by the year 2000 under the recent AGL undertaking approved by the NSW regulator.

## Government businesses

As part of competition policy, governments are also making several changes to improve the performance of the businesses they operate, from garbage collection services to electricity businesses.

Notwithstanding problems with some individual government-run businesses, there is evidence of recent improvements overall [see Slide 2]. Lower prices help consumers and business people, and more money in the governments' coffers makes it easier for them to keep taxes down or to fund additional social services if they so chose.

That said, I should emphasise that these reforms do not require privatisation, nor do they require local councils to 'contract out' services to big businesses from elsewhere, and nor do they require cuts in subsidised services. If anyone says governments must do these things because competition policy gives them no choice, they are not giving the true picture.

### Slide 2: Recent performance of Government Trading Enterprises

Based on the performance indicators in the May 1997 report of the Standing Committee on National Performance Monitoring, competition and related reforms — many of which predated the NCP agreements — are showing some positive results. While the outcomes have varied between the enterprises, over the four years to 1995-96 there have been:

- improvements in labour productivity,
- a doubling of total payments by trading enterprises to governments,
- average price reductions of around 15 percent, and
- some limited improvement in service quality.

While some other factors such as technological change may also help explain these improvements, this evidence does suggest that reforms are paying dividends.

## Anti-competitive legislation

The third main area of competition policy addresses laws that prevent business people from competing freely for the consumer dollar.

Governments are reviewing matters as diverse as professionals' monopolies, tariffs on imported machinery, business licensing and food standards.

If a review finds that a law provides an overall community benefit, it can be retained. But if it involves more costs to the community than benefits, it will need reform. This is an important point. Most anti-competitive laws benefit someone. The question is whether the community *as a whole* is better-off.<sup>4</sup>

Reforms to anti-competitive laws have already brought benefits to business and consumers. For example, in NSW:

- lawyers used to have a monopoly on conveyancing, but fees fell by 17 percent after price scheduling was abolished and the market opened up to appropriately qualified non-lawyers during the early 1990s; and
- an examination of 250 business licenses led to 34 licenses being abolished and 44 more being amalgamated into just 3 — fencing, general maintenance and cleaning.

## SPECIFIC RURAL REFORM ISSUES

### Compulsory agricultural cooperatives

Having just talked about the legislation review program in general, let me now turn to the specific issue of reviews of agricultural marketing laws. This is the area of competition policy activity that is perhaps most immediately relevant to rural interests. Governments have already completed reviewing a number of significant compulsory marketing laws, including those for rice, sugar, barley and dairy.

There is a perception amongst some in the community that the sole purpose of these reviews is to destroy compulsory marketing requirements, particularly single export desks, thereby undermining farmers' bargaining power and incomes.

This is not true. Let me make two points that demonstrate why.

First, the task for reviews is to determine whether compulsory marketing arrangements are justified. If it can be demonstrated that that particular marketing arrangements:

- provide an overall community benefit; and
- are the only feasible way to get that benefit;

those compulsory marketing arrangements are to be retained.

Second, several significant reviews of compulsory marketing arrangements have already recommended retaining single export desks where this allows Australian producers to extract higher prices in overseas markets. For example, in line with the recommendations of the NSW rice and Queensland sugar reviews, export monopolies for both those industries have been retained.

At the same time, these reviews have recommended measures that aim to ensure that farmers extract no greater returns from Australian consumers than from foreign consumers.

The Council has endorsed the objectives of maximising farmers' returns on export markets while safeguarding Australian consumers.

In some cases, reviews have concluded that marketing monopolies for domestic sales are not needed to do this, and in fact can be detrimental to both farmers and consumers. On the other hand, in the case of the Queensland sugar industry, the review recommended that the domestic monopoly be retained.

Other reviews have found that compulsory marketing requirements for exports as well as domestic sales impose more costs than benefits and should thus be reformed. The recent review of the Australian Barley Board is a case in point.

I should point out that in those cases where *compulsory* marketing arrangements are removed, if farmers believe they can derive benefits from collective marketing, they can still seek to capture these benefits through *voluntary* arrangements. Indeed, the Trade Practices Act makes explicit provision for voluntary arrangements, and several hundred voluntary export cooperatives are already taking advantage of this.

So it is simply wrong to suggest that competition policy means an end to cooperative marketing.

Notwithstanding this, some people have been making dire predictions about the future of Australian agriculture if compulsory cooperative marketing requirements are reformed.

But I have seen little evidence to back up their predictions and they usually give little attention to the potential benefits and opportunities for the rural sector from examining and, where appropriate, removing anti-competitive marketing arrangements.

There are at least four clear benefits that can flow from reforming compulsory marketing arrangements:

- 1) It gives farmers the freedom to choose how, when, how much and to whom they sell their crops.
- 2) It is likely to reduce the share of a farmers' returns soaked up in administration costs.
- 3) Farmers will have greater control over their production, marketing and risk management decisions.

- 4) It provides greater incentives and opportunities for individual farmers and rural communities to undertake more innovative marketing and to invest in higher-value post-farm products.

Two examples of the rural industries that have thrived without traditional marketing regulation are canola and cotton. Canola in Victoria has emerged as a dynamic industry with a strong export focus, in an environment of little or no regulatory intervention. I do not know of any desire on the part of participants to move to mandatory marketing arrangements. Likewise, prior to 1989, the cotton industry in Queensland was highly regulated, but growers perceived better prices and more selling options for NSW growers, where competition between various private marketing companies existed. Having experienced it, Queensland growers are satisfied with deregulation and again I know of no moves to turn the clock back.<sup>5</sup>

As the recent gains made in these industries and others like wine indicate, the potential for Australian agriculture is enormous. One aim of the legislation review program is to ensure that the environment for farmers and agricultural business is sufficiently dynamic and innovative to allow this potential to be fully realised.

## Country services

Let me next talk briefly about the delivery of services to the bush.

This is another area where competition policy has been held up as a culprit, but again it is important to distinguish the facts from the fiction.

It is true that the nature and viability of rural businesses and services has been changing over recent decades. Reasons include falling world commodity prices, improved transportation, technological change, population shifts and cutbacks to subsidised services.

But these factors have little to do with competition policy.

In fact, under competition policy it is open for governments not only to continue subsidising social services to regional areas but also to increase those services, whilst still providing for the benefits of competition in the delivery of some or all of those services.

For example, although you would not know it from the way the recent debate was conducted, the Council's recent report on Australia Post actually included 12 recommendations to increase services to the bush and strengthen guarantees that those services are maintained [see Slide 3].

### Slide 3: Some of the Council's recommendations for postal services

The Council's recommendations included measures such as:

- retention of Australia Post's obligation under law to deliver letters throughout Australia;
- retention of the uniform rate for postage for household mail;
- better definition of Australia Post's letter delivery obligations above the standard of reasonableness in the legislation;
- measures to better monitor Australia Post's delivery performance standards, particularly in rural and remote areas;
- more options for people to obtain a delivery service to the property in cases where they currently receive a service to the post office in the closest town;
- better reimbursement for people working in more remote locations who deliver post office services through community postal agencies; and
- the abolition of annual fees in relation to private bags and locked bags.

## Water reform

Another plank in the competition policy agenda with implications for the bush is water industry reform.

Over \$90 billion is presently invested in Australia's water infrastructure, but the water industry has significantly under-recovered costs. At the same time, regional variations in water availability, and the environmental problems with Australia's river systems that have emerged in recent years, have focussed attention on issues of sustainability and water use.

In the past, water seemed to be readily available. At the same time, the prices people were charged for water did not cover the costs of providing the resource. As the demand for water increased, governments responded by building more dams and increasing the availability of water. But without sufficient funds, water authorities skimmed on maintenance functions, and excessive use of water caused various environmental problems. Cheap and plentiful water certainly helped some farmers in the short run, but it left a financial and environmental time-bomb for farmers and governments to defuse later on.

South Australia is the driest state, and has seen its main water source — the Murray — degraded and depleted by over-consumption in upstream states. Further, the deprivations suffered by early settlers who pushed too far north of Goyder's Line are part of the history of this state. Hence, you will know better than most how precious water resources are, how past practices are unsustainable, and how usage has to be carefully managed from now on.



With this in mind, competition policy includes a raft of reforms to the water sector.<sup>6</sup>

The rural water reforms are being phased in over a seven year period, to give rural businesses and communities plenty of advance notice and time to plan and adjust. The reform process also requires significant involvement of growers and rural communities.

As part of the reforms, some water charges are being increased. This is to encourage people to economise on their usage and to provide more funds for maintenance. Bulk water prices are increasing the most in states like New South Wales, where prices have traditionally been far lower than in neighbouring states, arguably giving their farmers an unfair competitive advantage. Conversely, recent reforms in Victoria have actually seen prices to consumers fall 18 percent state-wide.

Complimenting these changes, water trading schemes are also being introduced.

These will allow farmers who have water rights to sell them to others, if they have excess water or if they can get a better price for their water than the returns they believe they would get by using the water on their farms.

Conversely, farmers who believe they could make extra profits in their area or industry by buying extra water allocations will be able to do so.

To understand the potential for water trading to improve farm sector profitability, you only need to look at the differences in the returns per megalitre of water between different farm outputs. Work by the Murray Darling Basin Commission for 1993-94 found that average gross margins per megalitre ranged from about \$100 and \$120 for soybeans and lucerne respectively, through \$180 and \$200 for rice and wheat, \$550 for tomatoes and over \$1000 for winegrapes. The top margin was over \$5000.

At present, more than 40 percent of irrigation water currently goes to low value pasture activities. Obviously, transferring water out of these and into, for example, winegrapes is going to boost overall rural profitability. There is not infinite scope for doing this of course. A limit to expansion in wine must be reached at some point, for example. But the substantial increase in wine exports in recent years, up 25 percent in volume terms in the last year alone to a record \$813 million, gives an indication of what can happen.

In the past, water rights were permanently attached to land and thus could not be traded or shifted. This prevented farmers from responding to new market opportunities, impeded productivity, prevented more fertile soils from being brought into production, and worked to lock in rural poverty.<sup>7</sup>

As the competition policy reforms are introduced, these problems can be overcome.

Governments are presently at various stages in introducing intrastate trading regimes. In those States where trading exists, the benefits are significant. In the Victorian horticulture and dairying industries alone, the projected benefits of intrastate water trade are about \$50 million a year in additional agricultural output.

Trading between states is also to be introduced. While early implementation problems are currently being ironed out, this has the potential to provide further significant benefits to the rural economy.<sup>8</sup>

## CONCLUDING REMARKS

At the start of this talk, I mentioned how the way competition policy is being debated in the media is generating many fears in the community.

I also mentioned that, as a consequence, people who believe that implementing competition policy will be good for Australia will need to better make their case.

I hope I have shown that many of the fears are unfounded, and that competition policy in fact has much to offer, to both rural Australia and the broader community. The substantially lower freight rates and energy charges I mentioned, the streamlined business licenses, the lower fees for professional services, the effective boost in consumer spending power, the more cost-effective social services, the improvements to our river systems and environment, and the increase in value-adding opportunities in country areas and the expansion in high return agricultural industries — these are all benefits worth striving for.

## NOTES

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- 1 Examples include the rate of technological change, falling world commodity prices, and the emergence of 'globalisation'.
- 2 Examples include moves to reduce world trade barriers and cuts to subsidised services, such as the closure of rural rail lines. (Note: apart from the case of rail, the examples in this note and note 1 were not included in the original circulation of this speech).
- 3 Note: these two paragraphs were not included in the original circulation of this speech. (All other material is as originally circulated).
- 4 The competition policy agreements explicitly incorporate an array of public interest safeguards that must be taken into account when assessing the case for particular competition reforms. These include employment regional development, business competitiveness, the environment, social justice and community service obligations, and the interests of consumers.
- 5 A study on deregulation of the Queensland cotton industry found that data problems precluded robust price comparisons between NSW and Queensland prices. However, interviews with Queensland growers showed dissatisfaction with both pre-deregulation prices and choice, and subsequent satisfaction with the deregulated environment. See Nolan, D., *An ex-post examination of deregulation in the Queensland cotton industry*, University of Queensland, 1995.
- 6 The Report of the 1994 Working Group that developed the water reforms identified the following problems within the water industry:
  - major needs to refurbish water asset in rural areas for which, in general, adequate financial provision has not been made;
  - impediments to irrigation water being transferred from low value broad-acre agriculture to higher value uses in horticulture, crop production and dairying;
  - service delivery inefficiencies;
  - approaches to charging that often result in commercial and industrial users of water services, in particular, paying more than the costs of service provision;
  - a lack of clear definition concerning the role and responsibilities of a number of government bodies involved in the industry; and
  - under-recovery of costs in pricing resulting in the over-allocation of water, environmental degradation, and misallocation of investment.

The water reforms seek to address both the economic viability and ecological sustainability of water supply. They include reforms to water pricing, allocations and trading of water entitlements, the structure of water supply utilities, and appraisal processes for investment in new or extended rural water schemes.

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7 When water rights are permanently attached to land, as they have been in the past, water cannot be transferred from one area to another. This makes it harder for the farmers to respond to new opportunities, such as higher prices for a particular crop, by switching their production. This is because:

- the land they currently farm may not be suitable for the new crop: for example, present rice land may not be the best land for grape growing;
- any water that a farmer doesn't use remains locked up, when other farmers might have been able to use it profitably; and
- a dry season restricts everyone — production in the most profitable areas is cut back equally with production in the least profitable ones.

Trading will overcome these problems and increase the profitability of the farm sector as a whole, by allowing switching between agricultural products and operations, and by allowing more productive soils to be brought into use.

8 The Murray Darling Basin Commission is presently conducting a trial trading project between NSW, Victoria and South Australia that will be extended to include irrigation districts. That said, these States are presently ironing out some early implementation problems. However, interstate trading could bring substantial benefits, especially in drought years. For example, given that the majority of NSW rivers are over-allocated, it is likely that NSW farmers would be a major beneficiary if, for instance, next season's water allocations were very low on the Murray. Trading with farmers in Victoria or South Australia would allow the highest value crops to be preserved, which would be of national as well as state and regional benefit.