

A cure worse than the disease^[1]

Paul Kerin

Melbourne Business School, The University of Melbourne

There is no point sticking to the single-desk notion.

Prime Minister John Howard met farm lobbies last Friday, seeking feedback on his rudimentary wheat export-marketing plan. It pleased no one, as it won't solve the fundamental problem – and could make things worse. In the 80 minute meeting, Howard enunciated what he believes is the cause of the problem – that the single-desk holder (AWBI) had held veto power over bulk wheat exports – and vowed that it would never do so again. He proposed keeping the single desk, but tendering it out, and provided almost no other specifics. Apparently, the government would seek tenders to operate the single desk for a multi-year term. Only one criterion for choosing the successful tenderer was mentioned: grower ownership/control.

Economists distinguish between competition in the market and competition for the market. Tenders fall in the latter category. Economists generally favour in-market competition, as constant competitive pressures drive efficient outcomes. In-market competition may sometimes be impossible or detrimental, say when natural monopoly conditions or risks of over-exhausting depletable resources exist.

This is not so for wheat. Stacks of independent evidence show that in-market competition would not reduce export prices. So too does common sense: Australian wheat represents only 16 per cent of world exports and competes against close substitutes offered by 100-plus sellers internationally. While our single desk faces plenty of sell-side competition, it faces zero competition, both for and in the market, for procuring/marketing export wheat.

The net result: growers don't get better prices, but bear substantial costs. Independent parties like Allen Consulting Group have estimated annual grower gains of up to \$360 million through in-market competition. Rather than tendering a single desk that makes growers worse off, Howard should abolish it and allow in-market competition. Imagine Agriculture Minister Peter McGauran had not rejected 72 export licence applications since mid-December! Licensees would be falling over themselves to procure wheat, and growers would reap the benefit. Howard's plan could make things worse. The ridiculous grower ownership/control criterion caps the number of tenderers at five (AWBI, three bulk handlers and Wheat Australia, the three handlers' cartel), breaking the cardinal rule of tendering: maximise competition. If a handler wins the tender, it would reap a wheat procurement/export monopoly on top of its existing state-based handling monopoly. Other handlers would be at its mercy and any hopes of serious competition between handlers would evaporate. Handlers would rather co-operatively tender as Wheat Australia – leaving only two tenderers! And if Wheat Australia wins, growers would be at the mercy of a cartel holding nationwide monopoly power throughout the entire domestic value chain. A non-incumbent tender winner would face a massive task: ramping from zero market share to a 100 per cent share within months.

In contrast, under in-market competition multiple rivals would gain experience, the better ones gaining share in manageable increments. Howard mentioned no other tender decision criteria. Do we really want government deciding them? in-market competition, individual growers would use

criteria that best suit them to choose their own provider(s). Nor did he define the single desk that would be tendered. Most people think of it as a monopoly over wheat exports, although the Grains Council has cited the Wheat Marketing Act's definition: the freedom to export wheat without having to seek permission from the Wheat Export Authority. But there is no point preserving a single desk if its only benefit is less paperwork. The single desk's power hinges on the veto, in particular on who exercises it and the criteria used for veto decisions. Yet Howard was silent on these.

Meeting participants were divided. Some wanted competitive licensing. Others wanted the government to hand back AWBI's veto and let it demerge from AWB. No one wanted tendering.

Since Howard said that the coming harvest won't be in the tender, the only hope for competition this harvest is in-market. But the veto-holder controls that, and Howard didn't rule AWBI out as this year's holder. But he would have difficulty squaring that with his vow that AWBI will never again hold the veto and his December 5 statement that: "You couldn't get a proper outcome while the veto lay with AWBI because AWBI was not only a player, but also the holder of the veto."

Howard should introduce some in-market competition this year.

Politics aside, this can be readily implemented by abolishing the veto altogether (ideally) or by vesting it with an independent party (not AWBI or a politician) empowered to make transparent licensing decisions on genuine public-interest grounds.

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