

**New Zealand Wagyu Breeders Association**

**How is Australian Agriculture Faring?**

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## **HOW IS AUSTRALIAN AGRICULTURE FARING?**

Australians have always held a healthy respect for New Zealand agriculture and New Zealand farmers. Admittedly, part of this is envy that New Zealand grass always seems a darker shade of green than ours, and to be green - rather than brown - for a higher proportion of each year.

When, occasionally, a consignment of New Zealand beef hits our restaurants, it is invariably promoted as having been produced on "the lush pastures of the Waikato". New Zealand dairy cows are always pictured grazing contentedly under the cone of Mt Taranaki and many in Australia have admired the success of the Dairy Board, with its global, integrated marketing structure and preferred access to the UK butter market.

We know of New Zealand's strength as an efficient producer and large-scale exporter of lamb, and the productivity of New Zealand's meat plants leaves most of ours in the shade. And what better example than kiwifruit, where New Zealand's very own product once enjoyed a world-wide monopoly, and may for a time have been able to dictate terms and prices to consumers?

Perhaps best known of all to the average Australian are the legendary deeds of New Zealand thoroughbreds in our classic horse races. In 1976, a few minutes after yet another New Zealand thoroughbred had won the Melbourne Cup, one of our more memorable and witty MPs, Bert Kelly, asked in parliament:

... because of the consistently strong competition from New Zealand, will the Minister see what can be done to put a tariff on New Zealand horses in order to prevent them running faster than our home-produced horses?

Hansard records that the minister was so taken aback by the question that the speaker accused him of "weighing in light"! Who was the minister? None other than the present prime minister, Mr John Howard.

While this might have been a piece of tongue-in-cheek slapstick, the trade union movement was quite serious some years later in trying to have the government ban New Zealand shearers from working in our woolsheds. These shearers, mainly Maori, were earning a bad reputation by working hard and productively, rather than taking part in pointless industrial disputes. Fortunately, the attempt was rebuffed.

Of course, there is now much wider recognition that some of the supposed New Zealand agricultural marketing success is built on sand. This region more than most would be aware of the damage caused to the kiwifruit industry in recent years by the misjudgments and incompetence of the Kiwifruit Marketing Board and the problems of an absence of competition in export marketing. Key leaders in the dairy industry are now aware of the unsustainability of present marketing arrangements, because of the combined and cumulative effects of single desk selling and bundling, but so far have shown little capacity to deal with the fundamental causes of the problems. The meat industry is still digesting the massive distortions brought about by extensive government intervention in meat plant ownership, subsidised production and Meat Producers Board meddling. The wool industry has not yet recovered from the calamities associated with the collapse of the minimum price scheme. And so on.

With greater justification, many Australians have admired the success enjoyed by New Zealand on the wider economic reform front. The Reserve Bank of New Zealand Act 1989, the Employment Contracts Act 1991, the Fiscal Responsibility Act 1994, the successful introduction of a GST, the quantum leaps in productivity and efficiency associated with port reform and privatisation of a range of government businesses - all these improvements are widely recognised in Australia. Indeed, they are the cause of considerable jealousy, principally because we continue to talk about such issues while New Zealand acts. For this reason many of us are watching the forthcoming election with trepidation and sincerely hope that you will not be tempted to snatch defeat from the jaws of victory.

The new Australian government has pledged to make many similar reforms. Time will tell how successful it is. However, it should not be forgotten that there are varying policy views within the government and between the coalition parties. There is a hostile upper house in the parliament which appears determined to play the role of spoiler, and much responsibility lies with state governments, whose commitments to reform are of variable robustness.

In this address, I would like to offer some observations on how Australian agriculture is performing. After all, our two sectors compete in many markets and need to be well informed on the activities of each other. Just as on the rugby field, the stronger the competitive rivalry, the better each of us will perform. Along the way, I will draw out some lessons which New Zealand farmers might ponder.

### **Historical Overview**

While New Zealand agriculture has always commanded a higher share of GDP than in Australia, Australian agriculture is much bigger in absolute size. Moreover, in the case of cotton, cereals, oilseeds, pulses, sugar, rice, tropical fruit and dried vine fruit, New Zealand is either a much smaller producer or not a producer at all.

Like New Zealand - and the world at large - agriculture's share of GDP in Australia has been shrinking for many years. It is currently around 3.5 percent. In itself, this should not be of concern because there are well established and logical reasons why agriculture's share declines with economic growth. The services sector now accounts for nearly 70 percent of Australia's GDP.

It has been said that Australia rode on the sheep's back and, in export markets, that was once true. In the early 1950s, wool comprised no less than 40 percent of total Australian exports. In recent years, the minerals sector has exhibited spectacular growth and, in 1996/97, mineral based exports (at well over \$NZ 40 billion) are forecast to be roughly double total agricultural exports. The two sectors were on a par as recently as the early 1980s, indicating the speed of the changes occurring.

All Australian farmers are having to cope with major pressures which are unlikely to go away. These include:

- increasing competition for resources of capital and labour, as the economy grows and diversifies;

- continuing adverse movements in the terms of trade, as falling real commodity prices intersect with static or rising real costs, thus necessitating further, and possibly accelerating, productivity improvements to maintain profitability and competitiveness;
- increasing environmental constraints on traditional farming practices, including measures to combat soil acidity, salinity and erosion, combined with less justified measures being pushed by environmental groups; and
- a trend of falling farm numbers, associated with increasing average farm size, which brings the existing level of rural community services and infrastructure into question.

In the agricultural marketing arena, Australian like New Zealand farmers have long been convinced that the involvement of statutory marketing authorities protected them from the ravages and greed of private sector middlemen, especially multinational companies. The concerns originated with the activities of grain traders during the great depression of the 1930s. The fact that these events occurred more than 60 years ago, and in circumstances quite remote from today, has not dimmed their relevance in the eyes of some.

Nevertheless, Australia has never taken on the religion of single desk selling with quite the fervour of New Zealand. While it dominates discussion of export wheat marketing, some other cereals, sugar, and rice, this is not the case with the wool and meat industries where, for the most part, the greater independence and prosperity of farmers held sway against attempts at socialising the marketing function. Admittedly, when wool prices fell low enough in the early 1970s and sheep were thought to be going the way of silkworms, it did succumb to collectivist notions in the form of the reserve price scheme, but it rejected full blown acquisition which was proposed by the then Australian Wool Corporation.

In the meat industry, there were several proposals in the 1970s - also a time of collapsing prices - for greater intervention in marketing, variously involving floor price schemes, complete acquisition, and single desk arrangements to particular export destinations or more generally. Fortunately, more considered reflection on the practicalities of marketing the products of an industry as geographically and climatically diverse as the Australian beef industry meant that these proposals did not progress far. Even so, statutory intervention has been extensive in regard to exporter and meat plant licensing and regulation, promotion, R&D, regulation of access to particular markets, and shipping arrangements.

The dairy industry was historically the poor relation of Australian agriculture. It principally had a domestic orientation, with residual exports targeted at the premium UK butter market. Farmers were protected by an equalisation scheme, a butter subsidy paid from consolidated revenue, tight restrictions on the production and sale of margarine and effective bans on interstate trade. When the United Kingdom entered the EEC, Australia did not obtain a guaranteed quota like New Zealand, and the industry was forced to reassess its position. An endemic problem of small, uneconomic dairy farms led to a specific farm adjustment assistance programme in the early 1970s.

Since then, the number of dairy farmers has declined by more than two-thirds, but the industry has been transformed from underachiever to star performer. The volume and value of production have increased - despite a one-third fall in dairy cow numbers - and a wide range of higher value domestic and export markets has been developed. Over the past decade, intervention in all Australian rural industries has been reduced significantly. While assistance to the agricultural sector never matched that to the manufacturing sector, the dairy industry and some others were highly subsidised. Farmers were in the vanguard of the debate to liberalise the economy, recognising the burdens they bore from protection elsewhere. As governments responded to this debate, they could not ignore the pockets of protection within the agricultural sector itself. Moreover, as Australia championed the cause of world agricultural trade reform at the Uruguay Round, it needed to be seen to be practising at home what it was preaching abroad.

A further factor was that federal and state governments were embracing, for the first time, a formal and comprehensive pro-competition policy, with which statutory agricultural marketing arrangements were seen to conflict. Finally, more and more people, in farming circles, in government and beyond, were coming to see that statutory marketing regulation did not deliver the promised benefits, whereas they certainly stifled the innovative endeavours of leading farmers and would-be investors beyond the farm gate. The collapse of the wool reserve price scheme provided the most emphatic evidence of regulatory failure.

For all these reasons, agricultural marketing regulations are being progressively, if slowly, unravelled. Individual farmers and groups of farmers voluntarily banding together are now freer to do their own thing.

Against that general background, let me now turn to more specific and contemporary developments within some of the major industries.

### **Dairy Issues**

As I noted earlier, the transformation of the dairy industry has been profound in recent years. While dairy farmers may lack some of the production efficiency and sophistication of their New Zealand counterparts, and while New Zealand may still be a much larger player on the international scene, it would be unwise to underestimate the potential of the Australian dairy industry. In many Asian countries, Australia's market share is growing strongly, whereas New Zealand's is static or falling. In Japan, for example, Australia's share of butter imports is far higher than New Zealand's, in skim milk powder it is nearly double, and in cheese Australia has recently leap-frogged New Zealand to become the largest overseas supplier. So much for the success of the much vaunted New Zealand Dairy Board.

There are two keys to the dairy industry's recent achievements. First, the market potential from burgeoning economic growth in Asia, combined with reductions in border protection associated with the Uruguay Round, has stimulated the industry to look seriously at new markets and new products. Second, the progressive deregulation of the domestic dairy market has stimulated management to seek new efficiencies and discard old approaches.

Deregulation was initiated in Victoria in 1984 when a "milk price arbitration" - conducted at the request of the State government by, of all people, a judge of the arbitration commission - noted that the then regulatory system involved the setting by bureaucrats of no fewer than 1200 prices and margins between farm gate and retail for all milk-based products, every six months. The judge correctly concluded that this was a nonsense and prescribed merely a farm gate price, and a retail price for standard milk. This step encouraged participants in the industry to look for new opportunities, including interstate markets. In turn, these efforts increased the pressure on the previously cosy relationships in those states. All this has taken some time to work through, but the NSW and Queensland liquid milk markets will be completely deregulated in 1998 and 1999 respectively. In Victoria there is now only a farm gate price.

Ironically, pressure is now coming on the liquid milk market (and its so-called price premium) from UHT milk, which is sourced from lower priced "manufacturing" milk. In at least one supermarket, cartoned UHT milk is even placed in the refrigeration cabinet alongside fresh milk!

Farmer cooperatives currently receive about three quarters of all milk. Substantial quantities are then sold to corporate entities involved in the manufacturing sector. The cooperative sector has embarked on a series of mergers, resulting in three large cooperatives - Bonlac, Murray Goulburn (both Victorian based) and the recent NSW-Queensland merger ACF-QUD, plus some smaller ones. In addition, the publicly listed National Foods is involved in the liquid milk market via its National Dairies subsidiary. QUF Industries is another publicly listed dairy-based corporate.

The cooperatives have also been active in developing export markets, where they also compete with proprietary groups such as Kraft and Nestlé. Nestlé recently acquired Pacific Dunlop's dairy assets, adding to its product range. I have always been puzzled as to why these companies are not represented in New Zealand. I would have thought that the greater the presence of such players, with their brands, technology, international linkages and alternative sources of capital - not to mention the overall advantage of greater competition - the better.

Prior to the mid 1970s, there was little branding of dairy export products; indeed pooling of all export returns removed any incentive to do otherwise. Most lines exported were bulk commodities - butter, cheddar cheese, skim milk powder or casein. This situation has changed dramatically and branded, higher value added products are now common. As a result, extensive new investment is occurring throughout the industry. Kraft has just constructed a new \$NZ 100 million cheese plant, its biggest investment in 65 years of operations in Australia. This forms part of a \$NZ 250 million five-year investment programme which will be targeted at markets in Japan, Asia and the Middle East. Murray Goulburn's \$NZ 600 million of exports are being channelled through a new \$NZ 25 million distribution centre in Melbourne. Bonlac is planning a new \$NZ 200 million greenfields plant in Gippsland, Victoria. National Foods plans a \$NZ 40 million upgrade for its yoghurt plant, having recently acquired the Yoplait licence from Pacific Dunlop. And, of course, Nestlé outlayed \$NZ 600 million for Pacific Dunlop's dairy business - about the same size as Heinz's investment in New Zealand - and it plans further expansions.

Another feature of the industry in recent years is the increasing participation of major Japanese processors, usually in the form of joint ventures. Thus Meiji and Mitsubishi have embarked on a \$NZ 45 million greenfields plant with Murray Goulburn for the production of infant formula, not just for Japan but throughout Asia. Snowbrand has a specialised cheese joint venture with the small Victorian cooperative Tatura, and Yakult has constructed a \$NZ 25 million fermented milk products plant, initially for the domestic market.

Meanwhile, the Victorian Dairy Industry Authority, previously the industry regulator in that state, has been broken up into an industry service operation (still called VDIA) and Australian Milk Marketing Ltd, a company owned by the processors' and farmers' organisations, which owns the brands developed by the VDIA.

At the federal level, the Australian Dairy Corporation exerts considerably less influence on the industry than the New Zealand Dairy Board, portraying itself as complementary to the activities of exporters. It provides agency services, some of which involve a single desk, including cheddar cheese and other products in Japan, and certain cheeses in Europe. The ADC also has a number of joint ventures which, like most of its agency activities, are undertaken through a subsidiary, Ausdairy Limited (ADL). Some ADC personnel would like to "grow the business", particularly in terms of a "more united front" in emerging markets, such as Vietnam, China and South Korea. However, processors and farmers are not so sure now they are starting to experience the successes that flow from doing it on their own.

The ADC role will be reviewed in the near future in the context of competition policy generally. The pros and cons of the single desk will form part of that review and the generally optimistic market outlook will serve to weaken traditional support. There is a proposal to privatise ADL and transfer ownership to individual farmers via a share allocation, although this has not yet been accepted.

The main commercial issues which are exercising minds in the New Zealand dairy industry are also alive and well in Australia. Value adding and branding are seen as important to the industry's future growth and success in export markets. However, while there is still some sloppy thinking on the capacity of value adding to enhance the profitability of milking cows, there appears to be a good appreciation in the industry of the need to treat on-farm and off-farm investments on their separate merits. Thus, the principal policy advisory agency to the government - the Australian Bureau of Agricultural and Resource Economics - said earlier this year:

... the trend towards value adding may not always benefit Australian farmers. Australian processors would pay only competitive prices which would often be no higher than those for other domestic or export sales.

Similarly, while the former chief executive of Pacific Dunlop's food division recently warned the dairy industry it would miss out on Asia's food growth if it failed to add value, a representative of one of the smaller Victorian cooperatives saw it differently. He said:

... value adding often comes at the peril of farm gate returns. We have been dealing in Asia for almost 30 years and know our place in a market dominated by huge multi-nationals. We don't believe in total integration - we will find

out what their (the multi-national companies') niche market and needs are, make a product and allow them to refine and market the product. We can't be one of the high fliers of the world and we must accept that. The Nestlé's and Kraft's are good at value adding and we are good at what we do.

The distortions arising from bundling the farm returns for milk with the returns on off-farm investments are not as acute in Australia as they are in New Zealand, because the role of corporates in the processing and marketing sectors is larger. But they exist nevertheless and are recognised by most industry leaders - a result in part of the research conducted by ACIL for the New Zealand Business Roundtable. For example, the chairman of one of the largest Australian dairy cooperatives has stated that:

... cooperatives historically haven't expected to earn a return on the accumulated reserves or the capital of their members. And the members in the main have been happy if they get paid as much as the nearest competing proprietary company. The nearest company has always been able to match the cooperatives and still make enough profit to pay a dividend to shareholders. Members of cooperatives should demand two distinct returns: a competitive price for the produce they supply and a dividend as the owner of the business. I always emphasise this point when talking to meetings of members.

A recent publication on cooperatives in the Australian dairy industry, funded by the Dairy Research and Development Corporation, discussed the bundling issue quite openly. It described the problem of bundling and the alternatives of doing nothing, treating its symptoms (such as introducing production restraints or making separate payments to farmers in recognition of their "supplier member" role versus their "investor member" role), or unbundling properly by issuing conventional shares. The purpose of the paper was not to make recommendations but to encourage discussion within the industry. It will be interesting to see what the response is.

Drawing comparisons with New Zealand, I would make the following summary observations:

- the Australian dairy industry's involvement in export markets is less, but is growing rapidly and, for the most part, being driven by normal commercial incentives and industry competition;
- new investment in the dairy processing sector is substantial, especially by corporate entities, mainly international, and the Australian Dairy Corporation exerts a less intrusive role;
- domestic regulation of the industry is being unwound, but at a pace which is enabling adjustment without extensive dislocation; and
- bundling problems are less acute than in New Zealand and may well be dealt with effectively before they get out of hand.

For these reasons, the Australian dairy industry seems to be soundly placed to compete with New Zealand in the years ahead, especially when - not if - the unsustainability of New Zealand's present structures results in far-reaching changes along the lines advocated in the ACIL report.



## **Meat Developments**

The Australian meat processing industry has always been overwhelmingly owned by corporations, both public and private, rather than cooperatives. The extent of foreign ownership has grown in recent years and there has also been the withdrawal of some earlier UK owners and the emergence of US and Japanese firms. There are a couple of cooperative processors, one (in northern NSW) a consistent performer which has "stuck to its knitting" and achieved strong revenue from by-product recoveries which are high by industry standards. State and local government owned abattoirs are a declining feature of the industry and few have been consistently profitable in recent years. The ownership structure of the industry is thus quite different to that in New Zealand. New Zealand has not been able to attract significant new foreign investment in recent years, and the extensive regulatory environment and the dominance of farmer cooperatives are undoubtedly the major explanations.

The Australian industry's profitability record in recent years has, with one or two exceptions, been quite dismal. Processors have periodically been squeezed between reduced supplies, possibly for seasonal reasons, and tight overseas market conditions. For example, the high point of the US beef cycle has led to falling prices for exports to the United States and greater US competition in third markets, such as Japan. Both have put pressure on processors and, in turn, livestock prices have plummeted.

The other contributor to poor processor performance has been the industrial relations environment, involving a militant trade union, limited workforce cooperation in the introduction of new, productivity-enhancing technology, and an award structure which has effectively thwarted productivity incentives. These problems have been compounded by weak company management which has allowed poor work practices to continue. Significantly, the most successful operator in the industry has been a comparatively recent entrant, on a greenfields site, who was able to recruit a workforce carrying no baggage from the past, and where the owner/manager has been able to get the best out of both capital and labour.

Recent efforts to reform work practices have proved difficult, although some gains have been made. It remains to be seen whether the government's new workplace agreements legislation will have the desired effect.

Meanwhile, there has been further rationalisation in the industry with the withdrawal of previously significant players and the closure of several plants. A survey conducted each year to determine the 25 largest processors by throughput volume indicates that seven of the firms represented in the 1991 list are absent from the 1995 list. The number four firm in 1995 has since left the industry and its plants have been sold or closed, and another has just been purchased from receivership by Anzco, a company formerly owned by the New Zealand Meat Producers Board. Some investors have lost money as rationalisation occurs; however, unlike New Zealand, little of the loss has been borne by farmers (c.f. AFFCO and Alliance).

Elsewhere in the industry, change has been just as rapid. The liberalisation of the Japanese market in 1991 provided the stimulus for rapid feedlot development. The numbers of cattle on feed jumped by over 80 percent (to nearly 0.5 million) between 1990 and February 1994, at which point the effects of first drought and then high grain prices took a toll. For the first time, there was an incentive for Australian exporters to

move up the quality/value adding ladder with greater confidence that the benefits could be captured in Australia rather than by Japanese distributors and retailers. Several large corporate players have entered the beef cattle production side of the industry in recent years, including pastoral houses, superannuation funds and media owner, Mr Kerry Packer. The live cattle export industry from northern Australia to Asia markets, has boomed in recent years - although part of this is an indictment on meatworks' productivity.

On export markets, especially in Asia, there is renewed interest in meat grading - an issue of particular interest to Wagyu breeders. Australian exporters are endeavouring to develop company brands, often in concert (and possibly conflict) with the Australian Meat and Livestock Corporation (AMLC) funded generic promotion (such as the Aussie Beef programme), but there is concern that the Australian product is suffering by comparison with US exports where the USDA grading system is seen as pre-eminent. The debate about the pros and cons of a (mandatory) grading scheme, applied to both domestic and export beef, has a lengthy and checkered history and it is doubtful whether such a scheme will ever prove practical or cost effective. The Meat Research Corporation is funding considerable research into the feasibility of an industry-wide but voluntary scheme, but my hunch remains that some companies will be more effective in developing their brands, and will benefit in the marketplace accordingly, while others won't.

On the domestic market, supermarkets have seen their share of retail meat sales grow considerably in recent years. The most prominent player has been the national supermarket chain, Woolworths. Its focus is on the purchase of yearling beef to tight specifications, including a minimum 70 day period of grain feeding and various other carcass attributes. Importantly, it is leading the way in providing clear, meaningful feedback to producers, on an individual carcass basis, because it believes in establishing long-term relationships with suppliers.

At the institutional level, the role of the AMLC has been diminishing for several years. The Corporation's involvement in shipping negotiations, once crucial, has been terminated in a series of stages commencing in the mid 1980s. Following a major review by the Industry Commission, the Meat and Livestock Industry Act 1995 was introduced. In his second reading speech, the then minister outlined the government's intentions as follows:

The new arrangements provide industry with much greater responsibility for its own affairs, move it towards a less government regulated environment and with statutory structures that are appropriate to the future commercial and consumer challenges ... . The principle behind the reforms is to phase the government out of the statutory arrangements, through a staged approach of transferring greater responsibility for industry decision making to the industry itself, and eventually moving to a non-statutory environment ... . The legislation provides a sunset to the statutory structures at 30 June 1998. It is also the government's intention that there be a review by government and industry to commence no later than 1 July 1997 ... to allow a staged management of the evolution of the arrangements ... and to provide some certainty of movement towards the desired end-point.

Overseeing the AMLC and the Meat Research Corporation, a new and widely representative Meat Industry Council was established by the legislation. As expected

by several commentators at the outset, this structure has had its tensions and the new government has brought forward the foreshadowed 1997 review. It is likely that the outcome will be further reductions in the roles of the statutory authorities consistent with the goal enunciated above.

From this discussion it is clear that our two meat industries are moving in the same deregulatory direction, with a good understanding in some but not all quarters about the need for greater private sector responsibility and less statutory intervention. The sunset provisions in the Australian legislation will ensure that all minds remain focused, whereas legislation in New Zealand is still to see the light of day. The dominance of corporations in the Australian meat processing industry suggests that they will be more effective in brand development once the regulatory straitjacket is removed. Conversely, New Zealand processors have been greatly assisted in recent years by the productivity-enhancing opportunities of the Employment Contracts Act 1991. Australian firms are hopefully about to catch up on this lost time.

### **Wool - and Cotton**

While the New Zealand Wool Board has now disposed of its wool stockpile, Wool International in Australia has just reached the half-way point. There are 2.3 million bales to go, and these are being reduced at the rate of 182,000 bales per quarter. Obviously with the stockpile continuing to overhang the market, conditions have not been conducive to the rapid emergence of new approaches to marketing. Nevertheless, there is considerable evidence of positive thinking among innovators within the industry.

Some growers are banding together, usually on a bloodline basis, to promote the quality and consistency of their wool, or to aggregate larger quantities which can be sold jointly. Others have investigated consigning their wool to overseas locations, arranging for it to be combed on commission and then sold as tops. Such trials do not always produce the large price premiums expected, suggesting that the early stage distribution and processing sector is fairly competitive. Commission combing on growers' account is also available at several mills in Australia. Another variant is the development of strategic alliances between individual woolgrowers and overseas mills. Moreover, the Japanese firm, Fuji, which usually pays the top prices for superfine wool sold in Launceston each February, has just bought its own SNZ 4 million wool growing property in Tasmania.

The development of effective risk management instruments is widely seen as the key to growers insulating themselves against undue price volatility in an unregulated market. A wool futures market has existed in Sydney since the early 1960s and was extensively used in its early years as a hedging mechanism by buyers and exporters. However, it never gained widespread grower support, in part because growers' main advisers, the brokers, themselves generally had a poor understanding of its role. The futures market was neglected during the period of the reserve price scheme because the Wool Corporation (and hence growers generally) had assumed the price risks on behalf of all parties. It is gradually picking up momentum again, but low prices and a subdued outlook are inhibiting factors at present.

The spot auction system remains the principal method of price discovery although various forward selling instruments - for periods up to about 18 months - are being

trialled. Recently, one of the more innovative banks has launched a wool price protection scheme, a form of insurance against price falls beyond a certain point. The grower still benefits if the value of wool rises above the point at which the contract is taken out.

In these respects, the wool industry is starting belatedly to emulate one of Australia's most successful agricultural industries, cotton. The cotton industry was started by a small group of American farmers in the late 1950s and, apart from an initial bounty paid by the government (which the growers later requested be removed), the industry has developed in a deregulated environment. The value of cotton production is now \$NZ 1 billion and the industry comprises both large corporate growers and traditional family farmers. In terms of marketing, the cotton industry has never relied on a spot auction market. Prices are set by a range of forward markets and marketing mechanisms. Specialist cotton merchants have emerged, not so much geared to the technical appraisal of fibre processing characteristics but as specialists in utilising these marketing alternatives and derivatives.

Meanwhile, the future for Wool International beyond July 1997 is yet to be determined. By this time, the stockpile will be down to 1.5 million bales, the government debt will be repaid and growers will have recovered some equity in the \$NZ 4 billion they committed to the market support fund under the reserve price scheme. Some want Wool International to continue to develop as a grower-owned innovator and marketer. Others want it disbanded as quickly as possible and the proceeds returned to growers in full. As long as there is choice for individual growers to decide what to do with their individual shares in Wool International, the outcome will be acceptable.

Amazingly, the insight that the wool industry comprises a series of individual independent businesses, not a collective, has not yet sunk in to all participants. At a recent grower meeting, the chairman of Wool International, a retired chief executive of DuPont in Australia, strongly criticised growers who had spoken out against Wool International's future stated intentions. In a most revealing comment, he was quoted as saying:

... I beg you to act as a (company) board would because otherwise I am going to go round and round in circles answering these same questions day in and day out.

It's a pity he feels frustrated, but the fact remains that woolgrowers are not board members or employees of a large company, able to be dragooned into uniform behaviour and acquiescence. They are, and I hope they will remain, autonomous business entities, and failure to appreciate this point will doom future industry grand strategies to the same scrapheap of failure as their predecessors. It is for this reason that it is imperative growers be given the opportunity to take all their capital out of Wool International when the time comes. If they are, I predict that the majority will do so, and the industry can finally put the past 25 years of stifled innovation behind it.

### **Other Industries**

In other industries, the story of gradually dismantling regulation is much the same. Several years ago the wheat industry absorbed the opening of the domestic market to private sector competition without the collapse of civilisation predicted by many. The

Australian Wheat Board's (AWB's) single desk status on the export market has been extended for five years by the new government. However, according to the minister, this is in the context of "an accelerated process of change towards a more commercial focus".

The pressure is now on the wheat industry to accelerate the commercialisation of many of its activities - including the clear separation of commercial from statutory functions and the development of a genuinely commercial and arm's length approach for domestic trading - if it is to achieve a positive credit rating prior to taking over responsibility for underwriting the advance payment system to growers from 1999 onwards.

The Australian sugar industry is one of the world's most efficient and a substantial export earner. Despite this, it 'enjoyed' an import prohibition until this was converted to a (reducing) tariff regime several years ago. Greater competition has been spurred by the entry of several new corporate investors into milling and refining activities. Previously, the industry was dominated by a state-based acquisition scheme for all Queensland cane, grower cooperative millers and some proprietary millers (mainly CSR). CSR was also virtually the sole domestic refiner and acted as the export agent for the industry. The new corporates comprise both Australian and international firms; in two cases they have formed joint ventures with cooperatives. This new competition has already been the catalyst for the rationalisation of CSR's refinery operations. It has revolutionised relationships between refiners and major domestic users, such as beverage and confectionary manufacturers. All parties now routinely manage price risks using conventional financial instruments, whereas previously prices were administratively determined.

There is still considerable deregulation yet to be achieved, particularly involving the Queensland government, but the direction is now clear. Because of the intrinsic competitive advantages of the industry, it has little to fear and much to gain from the changes.

In the horticultural area, there is a mixture between traditional cooperative and statutory authorities on the one hand, and normal commercial/corporate operators on the other. The experience seems to be that, whether cause-and-effect related or not, growth prospects are brightest where corporate involvement is strongest. The wine industry, as in New Zealand, is perhaps the clearest indication of this.

Another example is the case of J R Simplot, the Idaho potato processor which purchased the balance of Pacific Dunlop's food business. Simplot is the world's largest supplier of French fries to McDonalds, which is not a bad recommendation for starters. The company has said it intends investing a further \$NZ 250 million over five years, making Australia the centre for its Asian operations, and extending its focus beyond potatoes and other vegetables to include beef, feed and fertiliser.

Some cooperatives are realising that traditional structures and arrangements will not suffice for the rapidly changing environment of the 1990s. For example, the managing director of SPC Ltd, a Shepparton-based fruit processing cooperative which achieved prominence some years ago with a novel productivity-oriented industrial agreement, said recently:

... partnerships and strategic alliances are increasingly being used to help companies maintain growth levels without the whole capital cost that would be involved if a company tried to do everything itself. Things are moving so fast and capital is so expensive that you can't physically own all the assets and resources necessary to bring products to market in a timely manner.

Some years ago this would have been heresy to farmer suppliers who were convinced that unless their cooperatives did everything, they would be ripped off.

### **Implications for New Zealand**

This review of agricultural developments in Australia carries some important messages for New Zealand farmers. In the first place, agricultural marketing structures are being progressively deregulated - if at times disappointingly slowly - as the major industries seek to exploit expanding market opportunities overseas. Rigidities and inefficiencies of past arrangements must be removed if you want to cut the mustard in today's fast moving global environment.

While the same trends are evident in New Zealand, the understanding of the need for reform, and hence the pressure for it to occur, seem more broadly based in Australia. A crucial driving force has been, and increasingly will be, the general principles of competition policy which have been endorsed by the Commonwealth and all State and Territory governments. A central tenet of the report which led to the current competition policy (the Hilmer report) was that of onus of proof. The Hilmer report said that the benefits of competition everywhere were so demonstrable that those wishing to oppose its extension should bear the responsibility of proving why this was in the national interest. As statutory authorities are reviewed in the years ahead, these competition policy principles will play a central part. However the 'politics' of agriculture, especially the entrenched views in some National Party circles that somehow agriculture is 'different' and producer boards are 'special', has meant that so far this sector of the economy has been able to keep the general policy framework at bay.

Secondly, the benefits of competitive structures in agricultural marketing are becoming more widely appreciated, not just in the agribusiness sector but among forward thinking farmers. Whether in the development of brands, or the introduction of new technology, or the strengthening of international networks or the provision of new capital - all of which are integral to future marketing success - statutory marketing authorities or traditional producer cooperatives will struggle. In this sense, Australian farmers seem to have fewer hang-ups about the involvement of conventional corporate players than their New Zealand counterparts, even though there is a strong history of statutory marketing in some industries. There is now quite a contrast between our two countries in terms of the level of corporate involvement in agricultural processing and marketing. Australian farmers seem to have a better appreciation that they 'buy' marketing services and competition is as important here as anywhere else.

To go further, it is my view that Australia is well placed to compete with New Zealand and to make further gains while New Zealand remains preoccupied with unravelling the past. Recent New Zealand agricultural success owes a great deal to the benefits of wider economic reform, whereas Australia has been shackled by reform paralysis.

That is hopefully about to change. Richard Prebble recently calculated that one benefit of port reform was to add \$NZ 1 billion to the value of New Zealand forests, so you can see that big numbers are involved.

Producer cooperatives feature in some Australian rural industries but nowhere to the same extent as in New Zealand. The romantic attachment to the principle of cooperation has long since been mugged by the reality of competitive life - just watch any farmer at work at a neighbour's clearing sale. There's not much compassion on display. For the same reason rural cooperatives have had great difficulty in maintaining member loyalty when better priced alternatives have been on offer, even for short periods.

Indeed, the success of cooperatives is often gauged by the extent to which they have simulated corporate structures - that is, departed from the original cooperative model. Wesfarmers is the best known example in the Australian context. Others are looking at making similar changes, but few have yet done so. At another level, there is anecdotal evidence that the banking system treads warily in lending to cooperatives, in view of their indifferent past performance. Given the needs for new capital investment, and the difficulty and cost of obtaining it, that experience should sound warning bells to farmers.

Another advantage enjoyed by Australia relates to the bundling issue. With cooperatives less important overall, the distortions associated with bundling are correspondingly smaller. There also seems less reluctance than in New Zealand to debate the issue openly and seek durable solutions. That could well be decisive in the coming two to three years, particularly in our respective dairy industries.

Finally, the current review of the Australian meat industry highlights the value of having a sunset provision in legislation. Not only does it discipline policymakers, it is also more likely to result in a review starting from first principles. In this context, and as more layers are peeled from the statutory marketing onion, attention needs to be given to what happens when only residual functions remain. Human nature being what it is, creative thought tends to be directed at finding new things to do and new justifications for existence. There are several examples in Australia at present.

We should be quite prepared to turn out the light and close - and bolt - the door on these organisations if that is the sensible thing to do. Indeed, many need to be consigned to the museum - an entity designed specifically to ensure that we do not forget the icons that have no further contemporary relevance.