



Trade &
Investment

COMPETITION ISSUES IN AGRICULTURAL SUPPLY CHAINS

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Presentation Structure

1. Supply chains and the role of efficient price transmission.
- 2a. Reforming Regulation: Competition law and removing regulatory restrictions on competition.
- 2b. Reforming Regulation: Reform principles.
3. A better understanding of productivity 'drivers' will compliment pricing reform.

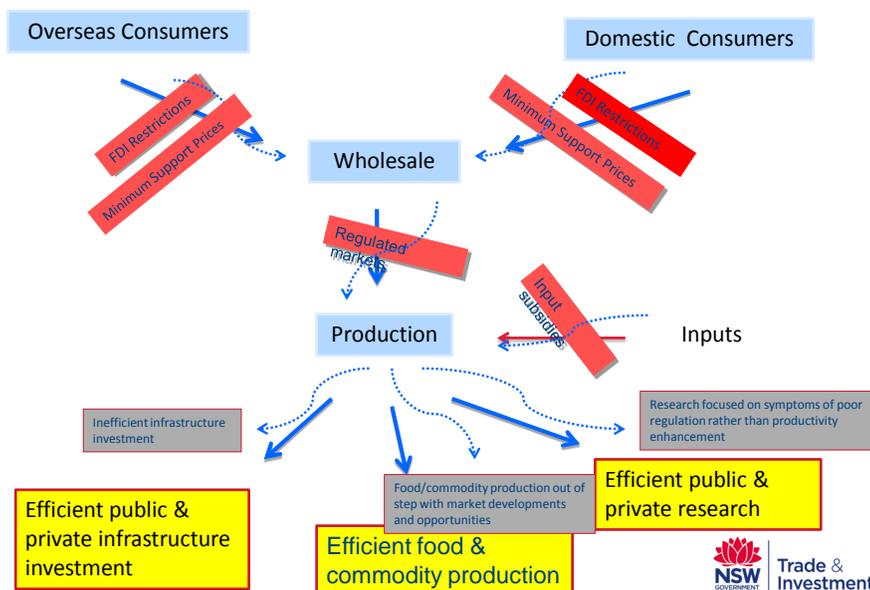


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1. Efficient supply chain price transmission drives productivity growth & employment.

- A key causal factor of commodity price volatility is agricultural supply chains and prices being poorly integrated with domestic and international markets due to excessive supply chain regulation.
- The result is:
 - under-developed and unsophisticated agricultural sectors, incapable of effectively responding to contemporary market demands and growth opportunities; and
 - inefficient public and private investment, limited sectoral adjustment, innovation and productivity.

Agricultural Supply Chains, Regulatory Restrictions on Competition and Price Transmission



2a. Reforming Regulation

Are we exploiting complementarities between competition law and regulatory reform?

- Competition Law: Regulating private business behaviour.
- Regulatory Reform: removing regulatory impediments to competition which advantage certain sectors in their 'bidding' for labour and capital resources.

some questions.....

- Are we as a group of competition practitioners fully aware of the complementarities between law and reform?
- Do we take into consideration that regulatory reform and the market outcomes so achieved, will often be more effective in promoting competition than competition law?
- Do we recognise that both need to be progressed in concert to achieve an orderly transition from outdated industry policy to the wider reliance on completion law?

2b. Reforming Regulation

‘Role of government’ principles are required, independent institutions and expertise

Accepted forms of market failure:

- Information deficiencies
- Anti competitive behaviour
- Externalities
- Public (and industry) goods
- Social equity and welfare

Key questions

- Are regulatory objectives clearly linked to accepted forms of market failure?
- Is the proposed intervention that which addresses the objectives whilst imposing the least restricting competition?
- Do the benefits of regulatory intervention exceed the costs?

Regulation: the ‘good the ‘bad’ and the...

BAD restrictions on competition

Government ‘running’ the business

- Regulated commodity prices
- Input subsidies
- Regulated markets
- Regulated marketing
- Investment controls
- Ownership controls
- Export controls

GOOD restrictions on competition

Government ‘shaping’ the operating environment

- Education & training
- Information programs
- Competition law
- Regulating externalities
- Provision of public/industry goods (i.e. infrastructure)

Note: Progress with farm family welfare policy is important.

3. We Need to Better Understand Productivity ‘Drivers’

A better understanding of productivity ‘drivers’ and ‘enablers’ will compliment regulatory reform effort.

- ‘Drivers’ – price pressures & opportunities i.e. changes in Terms of Trade, pressure on profit margins.
- ‘Enablers’ – new technology, the ability to apply technology, RD&E.

Some observations...

- Technical ‘enabler’ solutions remain common and politically popular.
- Lack of appreciation of (or disinterest in) the dynamic capacity of pricing reform to drive and determine efficient levels of productive activity and investment.
- Enabler solutions will often simply load up the input side of the agricultural productivity equation resulting in declining sectoral productivity.
- Research and infrastructure investments focussed on the symptoms of poor regulation can act to insulate farmers and government from market reform pressures.
- ‘Agricultural Policies’ based on growth targets are an indicator of government rather than market based agricultural policies.

Conclusions

Against a backdrop of declining agricultural productivity, reforming regulatory impediments to competition in agricultural supply chains offers perhaps the greatest gains in addressing price volatility and international food security.

- The fundamental role prices play in 'directing' efficient agricultural production & associated public and private investment continues to be under-emphasised relative to technical solutions.

- As a result:

- we are not building capacity in understanding microeconomic reform principles and regulation review
- regulatory reform frameworks/institutions are not being developed
- competition efforts limited to competition law
- key transition issues, such as welfare policy, may not be receiving the attention they deserve
- public policy research institutions are not adequately considering the benefits and the opportunity costs of inefficient regulatory settings i.e. forgone sectoral productivity, growth and employment.