



Trade &  
Investment

# COMPETITION ISSUES IN AGRICULTURAL SUPPLY CHAINS

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## Presentation Structure

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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.

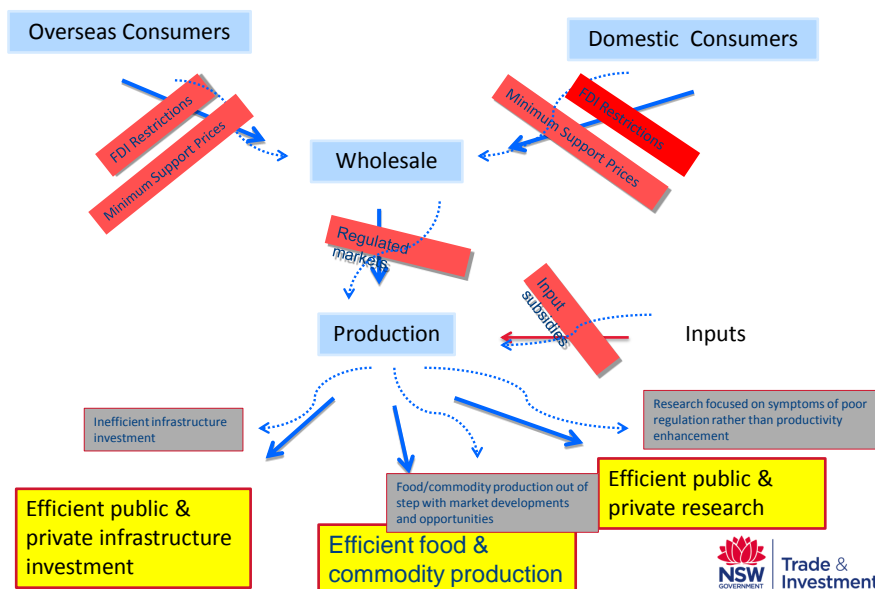


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# 1. Efficient supply chain price transmission drives productivity growth & employment.

- 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

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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- Do we recognise that both need to be progressed in concert to achieve an orderly transition from outdated industry policy to the wider reliance on completion law?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

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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.