

# Potatoes in Western Australia

## Introduction

The potato market in Western Australia is regulated by the State Government. There is no regulation of potato markets in other states. WA's potato industry regulations mean potato growers in WA operate under rigid controls. Potatoes can only be sold to the domestic market by licensed growers. The all powerful regulator, Western Potatoes, tells the licensed farmers how many potatoes they can grow (each producer has a quota), how they will sell them (they pay a levy to the Western Marketing Corporation to pay for the marketing) and at what price. So the decision about 'what and how many potatoes' and the right price for potatoes are made by regulators not the market.

## Origins of regulation

Regulation stems from the World War II when the Commonwealth Government subsidized potato production to ensure an adequate supply to the civilian and military population. After the war, WA growers feared losing their market share and lobbied the State for regulation. The Marketing of Potatoes Act 1946 has been in place ever since.

## The case for deregulation

The regulation of the potato industry is controversial. Some potential potato growers want to see the industry deregulated. The Commonwealth Government is also opposed to the scheme, and fines the State Government about \$4m each year for breaking National Competition Corporation rules. Basic economic theory seems to support the case for deregulation, too, and indicate that free markets provide more efficient answers to the big economic questions that regulated markets.

## The case against regulation

However, a research report prepared for the potato growers in Western Australia suggests that there is a clear net benefit to the community as a whole from the regulated market. The State Government has continued with the regulated market system.

So what is the story here?

## Who has a stake in this issue?

Consumers

Producers – with a license

Producers - without a license

Retailers – big supermarkets

Retailers - smaller 'growers markets'

Workers

Rural communities

Commonwealth Government

State Government

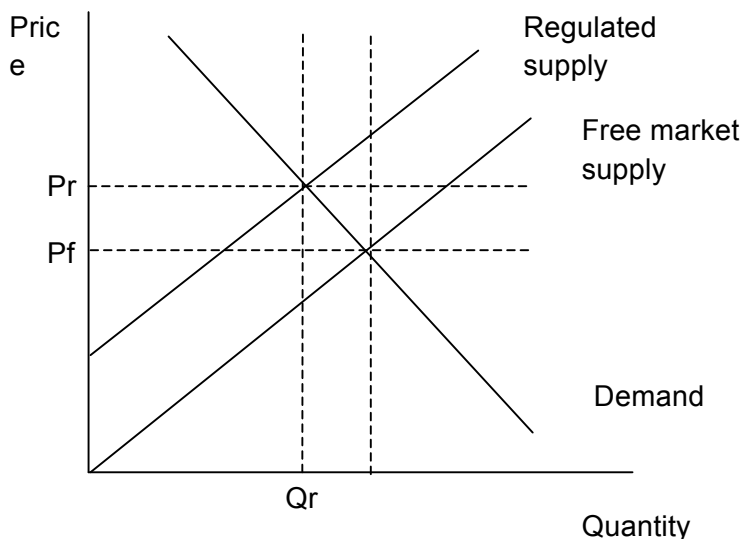
Taxpayers

### Economic theory

Economic theory suggests that there is an overall loss of community welfare when supply is restricted below the level of free market supply. The diagram illustrates a market where supply is restricted by a licensing scheme.

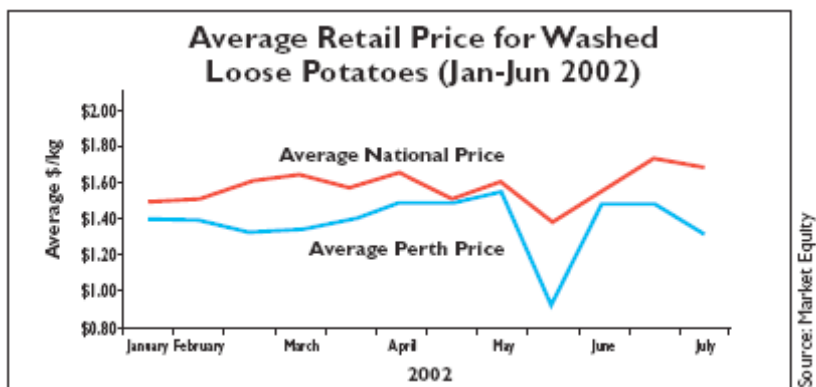
#### True / False

1. This suggests that there are producers who want to enter the market but are prevented from doing so because they can't get a license.
2. The price in the regulated market is higher than the price that would occur if the market was deregulated.
3. The quantity traded in the regulated market is less than the quantity that would be traded in the deregulated market.
4. Regulation creates a deadweight loss, indicating that the market is not working at maximum efficiency.



#### Other 'factlets'

**1. Potato prices** - some data suggests WA has the lowest priced potatoes in Australia.



#### 2. Variety of potatoes

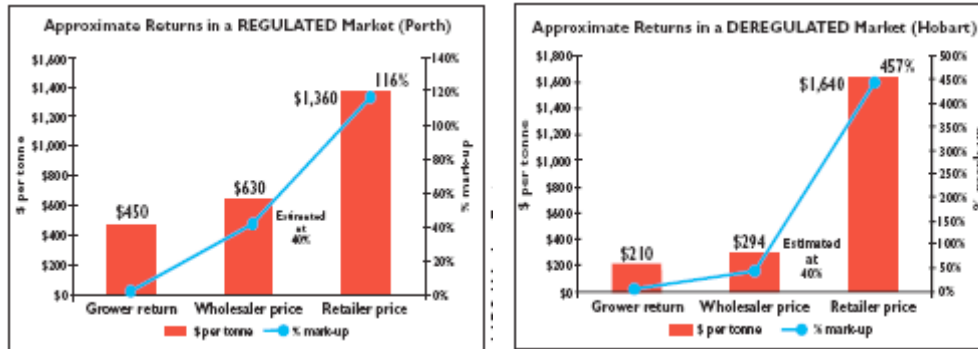
30 varieties are grown in WA, but only 3 or 4 are sold on a regular basis by WA's major supermarkets.

#### 3. Western Australian potato quality

At the moment, approximately 70% of WA potatoes are produced by SafeQuality Food 2000 Standard (SQF 2000CM) certified growers, plus all wholesalers' facilities are certified to that same standard. This is unique in Australia and ensures the quality of potatoes reaching the consumer.

#### 4. Producers

The food retail sector is dominated by the supermarket chains. There is some competition from smaller, independent retailers (e.g. growers markets). The data seems to suggest that the powerful supermarkets exploit the independent suppliers selling in the deregulated Tasmanian market, but find it harder to negotiate with the single desk supplier, Western Potatoes.



### Cost to the taxpayer

\$0 - Western Potatoes costs WA government and taxpayers nothing. The Potato Marketing Corporation's activities are entirely funded by potato growers to the benefit of WA consumers.

### Industry workers

Over 600 workers are directly employed in the potato industry, mainly in regional areas. They receive about \$11 million income annually.

### Licensed potato producers

The current potato producers get payments of approximately \$22 million per year. Producers with a license to produce potatoes get higher returns than those received by deregulated producers in Tasmania (see charts above). It is estimated that 100 or so of the existing producers would find it hard to survive deregulation because of their relative inefficiency. 99% of existing growers are said to support the current regulated system.

### Potential potato producers

Would be growers can't enter the industry without a license, and the Potato Marketing Corporation controls the issue of licenses. There are about 700 vegetable growers in WA at present but only 200 grow potatoes. It seems that some producers, currently not licensed to grow potatoes, would like to enter the market.

### State economy

The potato industry contributes around \$40 million every year to the State's economy. There is a multiplier effect created from the activities of the industry.

### Rural communities

Deregulation of the potato industry would disadvantage regional communities socially and economically through loss of jobs and income.

### Major retailers

Major retailers stand to gain from deregulation. The sale of potatoes is not competitive and Coles and Woolworths would have monopoly power relative to small independent growers. Single desk has monopoly power in the market.

Prepare a 5 minute presentation supporting your interest group's case.