Stop wasting tax dollars on sugar industry

Propping up Queensland cane growers will only do more harm than good, warns **Alex Robson**

THE Queensland sugar industry is again pleading for government assistance. Cane farmers claim they need up to $600 million, not only to cope with low world sugar prices and increased competition from countries such as Brazil, but also to compensate for being denied concessional access to the US market under the Australia-US free trade agreement. The federal Government has indicated that farmers will have to settle for less, although the details of its sugar package have yet to be announced.

For nearly 100 years the sugar industry has enjoyed federal and state government assistance in the form of compulsory government acquisition of sugar, single desk (or monopoly) selling arrangements, import embargoes, quotas, tariffs, consumer levies, simple transfers and other direct and indirect packages. Archaic regulatory arrangements have been the driving force behind recent demands for assistance.

More than any other agricultural industry in Australia, sugar production resembles a system of old-style agrarian socialism. Under existing laws, individual farm location, size and sugar output is determined on a collective basis by growers and mills, and until recently even regulated the varieties of cane that could be grown.

These regulations have benefited inefficient sugar producers at the expense of domestic consumers, downstream producers in the food and beverage industries, profitable sugar growers and federal and state taxpayers.

While their overall effect has been to push the industry into a chronic state of financial crisis, the regulations have also allowed participants to strategically expand sugarcane growing in key electoral seats, enabling the tightly organised sugar industry to obtain financial assistance and resist pressures for change.

With the recent re-election of the Beattie government in Queensland, this situation may finally be changing. On March 1, the industry reached an agreement with the Queensland government on some welcome reforms. The proposals now before the Queensland parliament allow for individual and collective contracts and abolish many of the compulsory collective decision-making processes that have seriously hindered growers in the past.

On the other hand, some of the single-desk monopoly selling arrangements are to remain in place, so the reforms do not constitute a complete deregulation of the industry. Because these partial reforms could yield substantial economic benefits for producers and consumers as well as significant political returns in the long run, they considerably diminish the case for further industry compensation.

Recent estimates by the Centre for International Economics in Canberra suggest that deregulation could make industry profits at least $350 million higher than without reforms. Why should taxpayers have to compensate a recalcitrant industry that up until now has refused to change and that will likely make higher profits as a result of the proposed partial reforms?

Sugar industry recipients of government largesse are well organised, highly vocal and are often located in key electoral seats. So the political temptation for one-off assistance packages has been particularly acute in the past.

But if the political goal of sugar assistance is to increase employment in Queensland coastal towns, then the appropriate course of action is to compare the net employment effects of propping up the sugar industry against the employment effects of assistance to other industries such as tourism. Moreover, another one-off assistance package could undo some of the positive effects of the proposed reforms. The problem is that such packages are rarely one-off. They create incentives for new, inefficient producers to enter the industry (in the hope of obtaining future compensation) and for inefficient producers to reject the present offer of compensation and hold out for higher packages. The effect is to create a greater political demand for future assistance packages.

Given that reform already seems to be under way, the best course may be to abandon the notion of a targeted regional assistance package to sugar producers and return funds to where they have their greatest economic value: in the hands of taxpayers.

Alex Robson is a lecturer in economics at the Australian National University. This is based on the report Sweet and Sour Pork Barrelling: The Case of Queensland Sugar, released today by the Centre for Independent Studies.

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