

Mr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Inquiry into Microeconomic Reform in Western Australia  
PO Box 8469  
Perth Business Centre  
PERTH WA 6849

8 May 2014

Dear Mr Rowe,

**Re: ERA Draft Report Findings on the Regulated System**

I am writing in response to the Economic Regulation Authority (ERA) Draft Report dated 11 April 2014, in which the ERA recommended the deregulation of the current regulated market for ware potatoes in Western Australia. The Potato Marketing Corporation of Western Australia (PMC) is disappointed that the ERA has recommended deregulation on the basis of an apparently ideological position, rather than attempting to understand the real world industry situation.

**The ERA Process**

The ERA selected the regulated market for examination based on one short submission to the ERA Issues Paper from the Chamber of Commerce and Industry (CCIWA), a body with which you are particularly familiar. The CCIWA has a known, publically stated and longstanding ideological bias against the existence of the regulated system, but is not in any way directly involved in or connected to the industry. Significantly, the CCI's was the only negative submission regarding the regulated system, and none of the major retailers raised the system as a problem in their submissions.

The ERA then proceeded to issue a Discussion Paper, but failed to notify the PMC that it was a subject of interest. Consequently, the PMC only found out that the regulated market was to be examined after the deadline for submissions had closed. It was only after both the PMC and the Potato Growers Association (PGA) approached the ERA that it was agreed submissions would be accepted despite the public deadline having passed. It would appear that the ERA was quite prepared to issue its draft report without having ever approached the PMC at all.

Of significance is the ERA's own discussion of its Terms of Reference, as stated on p19 of its Discussion Paper:

The Terms of Reference for this Inquiry require the ERA to focus on reforms that contribute to economy-wide productivity. Therefore, the ERA will not examine reforms of Government expenditure that lead to savings but only yield a minimal impact on economy-wide productivity.

As clearly articulated in the ACIL Allen report to the ERA (Regulation and the Potato Industry in WA) and the enclosed ACIL Allen commentary (A Review of the Draft ERA Report on Microeconomic Reform), any impact of abolishing the PMC would have only a trivial impact on economy wide productivity, and on that basis should not even be considered by the ERA. This is

especially the case since Government does not fund the operations of the PMC at all. The operations of the regulated system does not cost WA taxpayers.

This significant failure of due process is particularly concerning when other aspects of the Inquiry and draft report are considered as outlined below.

### **Objectivity and Quality of Analysis**

It is evident from the way the draft report has been written that the ERA's Draft Report represents a justification for a decision already taken prior to any analysis. As the enclosed ACIL Allen analysis makes clear, the report itself embodies selective use of material and a number of significant convolutions to justify deregulation.

The report uses the McKinna Strategic Analysis of the WA Ware Potato Supply Chain of October 2011 as the basis of a number of assertions, but that analysis is now significantly out of date. Since the McKinna Analysis, a range of significant reforms in the industry, PMC operations and the supply chain have been implemented, on which the ERA has been briefed and has chosen to simply gloss over and dismiss.

In addition, the ERA has made use of what appear to be single, unidentified sources in making radical assertions regarding the regulated system and the operations of the PMC, often in the face of clear evidence to the contrary. A classic example is the unsupportable assertion that the existence of the regulated system is preventing the development of a seed export industry in WA. In making this assertion, the ERA has used what appears to be a single, unidentified source and totally ignores the evidence of the WA Seed Potato Producers (WASPP) submission, which not only states that the PMC does not have any negative effects, but also provides a number of positive benefits to the seed industry in WA. These benefits as outlined by WASPP include biosecurity, certainty of payment which means certainty for business decisions and investment, certainty of income for the industry via collection of levies, research and development, and introduction of new varieties. In the enclosed submission, which I understand is being sent directly to the ERA, WASPP has reiterated its position and refuted the ERA's assertions.

The ERA continues to insist on the use of Australian Bureau of Statistics (ABS) data that the ABS itself has clearly and unambiguously stated cannot be used in the way the ERA is seeking to use it. The only conclusion to be drawn is that the ERA is focussed on finding some statistics to prove that the PMC affects the price consumers pay, when all objective evidence is to the contrary, as proven by two independent consulting groups, ACIL Allen and Australian Venture Consultants. The ERA blatantly ignores this evidence as it does not conform to its own bias.

Further, the ERA sets itself above leading industry experts in the provision of Fast Moving Consumer Goods (FMCG) research data, Fresh Logic. The ERA claims that the research data on potato price comparisons provided by Fresh Logic are invalid, yet this company provides such data across the food industry including for the major retailers. Given the difference in the WA and Eastern States markets that the ERA has made no attempt to understand, the Fresh Logic data comparisons are the best possible and are completely valid. Again, this appears to be the ERA ignoring credible data to support its own bias.

As noted by the ACIL Allen commentary, the ERA report itself is full of contradictions, not least is the contradiction between its own criteria for assessing potential reforms. The ERA states (ERA Discussion Paper p13) that if a potential reform is difficult to implement and the benefit is small or unknown then no action should be taken. However, in response to the ACIL Allen finding of exactly that result, the ERA argues (ERA Draft Report, p291) that:

'...excluding an industry because the gains are too small opens up the possibility of regulation of another industry that is 'too small' and so on. Followed enough times, this logic could lead to substantial re-regulation and cost to the economy.'

In other words, the ERA is prepared to argue against its own criteria in order to pursue its agenda of deregulation of the WA ware potato industry.

The ERA has not undertaken any original high level analysis in relation to deregulation. It has relied solely on selectively attacking the submissions made to it, and has not undertaken any of the analytical work one would expect in an Inquiry potentially adversely affecting WA producers and consumers of potatoes. As evidenced by the errors in application of economic theory noted by ACIL Allen, the report suffers from the application of textbook economic analysis without reference to the real world. As also noted by ACIL Allen, the report includes substantial errors of fact; nor does it give sufficient weight to the positive benefits provided by the PMC.

It is also clear that the ERA has only a shallow understanding of the industry, and prefers to accept assertions made by those with a vested interest in the system's disappearance, rather than substantive analytically based evidence. Over the course of the ERA's Inquiry to date, the ERA has had one formal briefing on the status of the McKinna reforms and only one meeting with the CEO of the PMC, despite having been advised that the CEO and PMC Staff would provide whatever was required to ensure the ERA had a good understanding of the industry. Several of the errors in the ERA report could have been avoided if this offer had been taken up. In those limited discussions that did occur it became clear that the ERA focus was on proving, against all evidence, that the PMC did affect consumer prices.

This selective use of material by the ERA is at best misleading; at worst deceptive. It does not provide Government or the people of WA with a true and objective picture of the costs and benefits of the regulated system.

### **Core Areas of Market Failure in the Ware Potato Industry**

The following core areas are those that are addressed by and justify the existence of the PMC on an ongoing basis. As noted by the ERA itself, (Discussion Paper, p 20) the Government may appropriately intervene in private markets for a range of economic, distributional, consumer protection, social and environmental reasons. Such intervention, according to the ERA, should be on the basis of net benefit (however defined). In actuality, the ERA tends to define net benefit only on a formal economic cost benefit analysis, the flaws of which are well documented.

The reality of the potato industry in WA is that the PMC plays and will continue to play a significant value adding role that will make a substantial contribution to the WA industry and the State in three key areas. The first is in marketing, where WA is the only state in Australia that has a category marketing and promotion campaign for fresh potatoes. The importance of this campaign cannot be overestimated, as for the last decade the potato category has suffered a decline in demand. Although only launched in October 2013, as detailed in the enclosure, this campaign has already resulted in more households purchasing potatoes, shoppers purchasing potatoes in greater volume, and shoppers spending more on potatoes on each trip.

It is easy for the ERA to write of 'counterfactuals' where this role is picked up by some other body, but the reality is that it has not been. In WA, the Agricultural Produce Commission (APC) tried to deliver such a program, but was unsuccessful in doing so. In addition, the grower owned company, Western Potatoes, also tried to deliver a value adding marketing program and faced difficulties, such that it fully supported the shift of this responsibility to the PMC. This is further supported by the fact that Horticulture Australia Ltd (HAL) or AUSVEG does not expend any funds whatsoever on marketing fresh potatoes as a category (ACIL Allen HAL Consultation Paper December 2013). Thus, in a deregulated market, such a marketing and promotion program, which is crucial to the industry's future, would not exist and does not exist in the deregulated states.

Beyond pure marketing, the PMC is also working on initiatives in category development that will provide additional value to the industry via, for example, the introduction of new product lines, such as coloured smalls and brands such as Karri Country Potatoes. Potentially this activity will provide significant value add to the industry in the medium term.

The second key area is in R&D/quality improvement. The existence of a fundamental market failure in this area is evidenced by a separate submission to the ERA from Professor Mike Jones, Director of the State Agricultural Biotechnology Centre at Murdoch University (copy enclosed). In his submission, Professor Jones points out the fact that the Department of Agriculture WA (DAFWA) has moved out of potato R&D, and that Horticulture Australia (HAL) has stopped funding any potato breeding in Australia for Australian conditions, and has clearly failed to support any substantial R&D on the potato crop. Professor Jones also clearly articulates the need for such a program due to the unique WA growing environment that includes challenges associated with changing climatic conditions, salinity, water quality and soil degradation in WA. As Professor Jones has outlined, growers need assistance in these areas to increase their yields, quality and profitability. This area is one which the McKinna Analysis clearly identified in 2011 and the PMC has been active in delivering, including via the establishment of Potato Research WA, implementation of a quality improvement plan across the ware industry, and cooperative work with seed growers to improve seed varieties, quality and availability. As Professor Jones has indicated, a key benefit that the PMC brings is that in addition to funding R&D, it provides a unique nexus between growers, researchers and agronomists such that R&D is translated into real world outcomes that benefit the industry and the State as a whole. This analysis is also supported by the enclosed letter from Dr Stephen Milroy, which provides detail on the benefits the PMC brings in relation to freshness, quality, food security and biosecurity. Significantly, as evidenced in the enclosed Colmar Brunton survey, 88 per cent of WA consumers see the provision of fresh potatoes 365 days per year as important.

The third key area in which the PMC adds substantial value to the State is in relation to its overall coordination role. The important aspect of this role is that the PMC has a key function in matching market supply and demand, and achieves this without the major over and undersupply situations characteristic of deregulated markets. This has three key benefits:

- for consumers, it means a stable retail price that has been demonstrated generally to be lower than for deregulated markets in other parts of the country;
- for growers, it means certainty of price and therefore business and investment confidence; and
- for the State it means a stable industry structure that does not cost Government, an important element of food security (given the importance of potatoes to consumers), enhanced biosecurity via the minimisation of imports, and a better environmental outcome via a close matching of inputs to outputs and minimal environmental impacts from overproduction. The latter is very important given the fragile nature of WA's soil and water resources.

The compliance aspects of this role are those that attract uninformed criticism from those who do not support the regulated system, including the ERA (Draft Report, p 265):

The Potato Marketing Corporation has some onerous regulatory powers under the Act, including powers to search premises where potatoes are grown, stop and search vehicles suspected of carrying more than 50 kilograms of potatoes, impound crops for evidence, and prosecute farmers. The Potato Marketing Corporation can and has taken legal action against potato growers that have failed to comply with legislation. The ERA considers it to be unnecessary for a regulator to have such powers in relation to a crop that is not an illegal substance.

The fact that it rarely is called upon to use these archaic powers in the Act is conveniently ignored. Over the last five years the PMC has carried out only one grower prosecution for overplanting. The reality is that this very low prosecution rate illustrates both the fact that the PMC does not have a prosecution focus for its compliance activities, and that there is general acceptance in the industry of the PMC's regulatory role. Should the Government seek to amend the Marketing of Potatoes Act of 1946 to bring it more in line with modern standards, the PMC would fully support such action.

## **Conclusion**

Significantly, the overall conclusion of the ERA completely ignores the real world situation of the industry when it suggests that the Government should deregulate either immediately or with an adjustment period. The reality is that once a decision to deregulate is announced, industry players would commence positioning themselves for the deregulated situation. The PMC would be left in the untenable position of trying to administer an Act that would be impossible to administer.

The reality of the situation is that the choices for decision makers would be to deregulate immediately, or adopt the ACIL Allen suggested course of letting the PMC complete its change program that will deliver substantial benefits and then review the system to gauge its effectiveness. The latter option would also accord with consumer sentiment, which overwhelmingly supports the existence of the PMC and its role in the supply chain. As evidenced in the enclosed Colmar Brunton survey of WA consumers, 81 per cent of West Australians support the PMCs existence and 75 per cent support its management role in the supply chain.

The ERA has produced a very disappointing Draft Report that exhibits what appears to be a biased approach, lacking in understanding of the real world situation in the industry, making selective use of unreferenced sources, lacking in independent substantive analysis, and taking an academic economic approach. Such a report does not serve the interests of decision makers, the industry, consumers or the State. It is to be hoped that the final report will redress these deficiencies.

Yours sincerely,

**Peter Evans**  
**CHIEF EXECUTIVE OFFICER**

Enc.

REPORT TO  
POTATO MARKETING CORPORATION

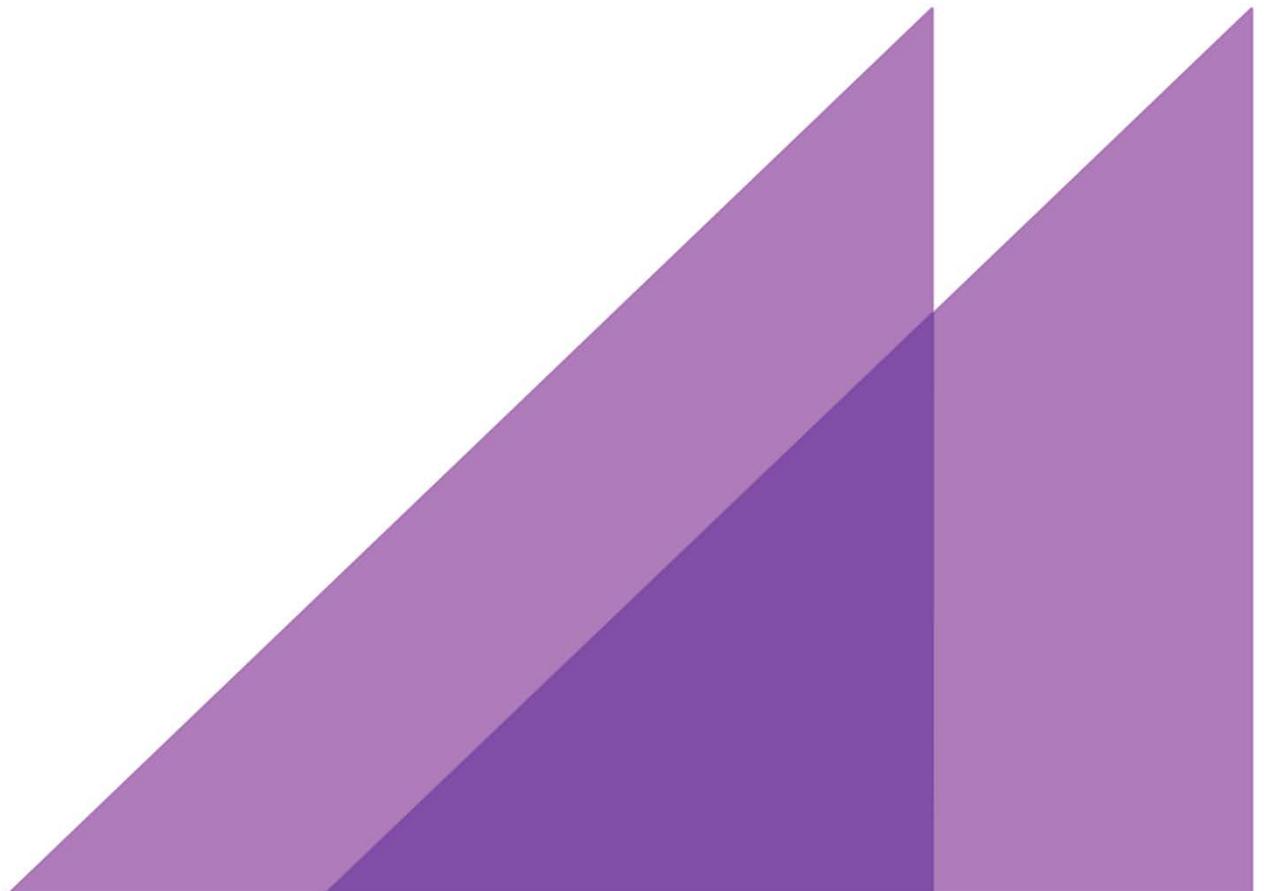
---

MAY 2014

**A REVIEW OF THE DRAFT ERA  
REPORT ON MICROECONOMIC  
REFORM**



THE POTATO MARKETING  
CORPORATION





---

ACIL ALLEN CONSULTING PTY LTD  
ABN 68 102 652 148

LEVEL FIFTEEN  
127 CREEK STREET  
BRISBANE QLD 4000  
AUSTRALIA  
T+61 7 3009 8700  
F+61 7 3009 8799

LEVEL TWO  
33 AINSLIE PLACE  
CANBERRA ACT 2600  
AUSTRALIA  
T+61 2 6103 8200  
F+61 2 6103 8233

LEVEL NINE  
60 COLLINS STREET  
MELBOURNE VIC 3000  
AUSTRALIA  
T+61 3 8650 6000  
F+61 3 9654 6363

LEVEL ONE  
50 PITT STREET  
SYDNEY NSW 2000  
AUSTRALIA  
T+61 2 8272 5100  
F+61 2 9247 2455

SUITE C2 CENTA BUILDING  
118 RAILWAY STREET  
WEST PERTH WA 6005  
AUSTRALIA  
T+61 8 9449 9600  
F+61 8 9322 3955

[ACILALLEN.COM.AU](http://ACILALLEN.COM.AU)

---

A REVIEW OF THE ERA'S DRAFT  
REPORT ON MICRO-ECONOMIC  
REFORM WITH REFERENCE TO THE  
POTATO MARKETING CORPORATION

# 1 Introduction

This document has been prepared by ACIL Allen Consulting at the request of the Potato Marketing Corporation of WA. The request stems from the release by the Economic Regulation Authority (ERA) of WA of its draft report into the potential for micro-economic reform in Western Australia.

One of the recommendations in the draft report was the abolition of the Potato Marketing Corporation. This short document reviews the analysis of the ware potato industry in ERA's draft report.

## 2 Comments on the draft ERA report

### 2.1 General comments

It is notable that at no point does the ERA analysis make any reference to the peer reviewed literature. For example, there is an extensive literature on estimating the supply response in agriculture that is relevant to the matters under consideration. No attempt is made to draw on this literature. Similarly, in the case of pass through rates, there is a significant empirical and theoretical literature. It is reasonable to expect that the ERA would rely on the peer reviewed literature as the basis for concepts used in its analysis.

In overview, the ERA analysis is shallow and flawed. The draft report reflects a philosophical position which is advocated without adequate analysis. The ERA report is emotive, citing unused powers and aged opinions that are not supported by analysis or fact.

For example;

1. The ERA (2014, p. 265) makes reference to historical disputes between Tony Galati and the PMC. The reference reflects a position taken during a previous era of management at the PMC. It should be understood that the dispute was resolved to the satisfaction of all parties, and that the PMC does not have a litigation based approach to regulation.
2. The ERA (p. 268) notes that potatoes have been imported to Western Australia. This is a characteristic of a well-functioning market. The ERA should also note that in 2014 potatoes have been exported from Western Australia to the eastern states. The fact that potatoes are exported from Western Australia is inconsistent with claims that consumers are worse off in Western Australia due to poor product quality, or that WA grown ware potatoes are of an inferior quality.
3. The ERA (p. 269-70) claims the regulated system reduces the incentive to be efficient. The reference to a pool price in the potato market would tend to suggest that all growers receive a pool price so that there is a diminished incentive for efficiency. This may be the reason for the ERA thinking the regulated system dampens the incentive to grow quality potatoes efficiently.

The true position is that the PMC establishes a uniform pool price by grade and colour, but individual growers receive a return which reflects their individual performance. The price incentive for efficiency and quality in production is substantial. As a guide, the price growers receive for second grade potatoes is around 45 percent of the price they receive for top grade potatoes. This is a strong quality incentive. The ERA should clarify why such a significant price incentive for quality is not a sufficient incentive for quality production.

4. The ERA (p. 270) claims the PMC has estimated the price of a permanent transfer of DME. The PMC is not involved in such transfers and has not provided an estimate of the cost of a permanent transfer of DME. Determining a representative value for DME is a difficult task. ACIL Allen attempted to put a value on such transfers and derived a value of between \$150 and \$300 per tonne. The ERA attempted to determine a representative value for DME and arrived at a price approximately double that of ACIL Allen. The point is not that the values are

different: the point is that the estimate of between \$150 and \$300 per tonne is an ACIL Allen estimate and not a PMC estimate. The ERA report should be revised to reflect this.

5. The ERA (p. 276) claims the cost to consumers from the operation of the Act is \$50 per tonne. The ERA presents no credible evidence to support this claim.
6. The ERA claims (p. 272) that a high cost of production is inconsistent with achieving higher yields. It is not clear what is meant by this statement. Production costs measured on a per hectare basis are higher for more intensive higher yielding production practices. Additionally, there is not a single unit price for potatoes, but rather a price grid. Investment in on-farm technology can lead to higher per tonne production costs, yet due to the financial reward for quality this investment is worthwhile. The ERA need to be more specific regarding what is meant by this statement.
7. The ERA (p. 284) claims poor growers are rewarded with additional DME. In fact, this only occurs when there is a general increase in DME to meet community demand. In developing new varieties or expanding key variety production, the PMC issues DME only to growers who are proven performers. Invariably, the poorer performers are smaller growers, therefore their additional DME is only a small proportion of any general increase. The PMC also implements a policy of reducing DME allocated to continuously poor performers.
8. The ERA notes concerns about the on-line price data submitted (p. 273). The ERA cites concern about weather conditions during the sample period. The sample period was dictated by the review period. If the ERA is unhappy with the sample dates the solution is clear. Define a new sample period.
9. The ERA does not respond to the evidence presented that showed one major retailer engages in approximately uniform pricing across capital cities. Such evidence is inconsistent with the characterisation of the market put forward by the ERA.
10. The ERA (p. 280) considers the annual lease cost of DME as preferable to the ACIL Allen measure of opportunity cost. Either measure is reasonable.
11. The ERA (p. 291) double counts benefits from its cost-benefit analysis.
12. At various points throughout the discussion the ERA defaults to anecdote rather than seeking objective data. For example, recalling (p. 277) that an individual wash packer, at some point in the past, said he thought the market was undersupplied by 20 percent is not market data. What is required is information from retailers regarding the state of the market. There are no restrictions on importing potatoes from other States. If there was a genuine large scale undersupply of 20 percent, retailers would be able to respond by importing, which they would do.

This list illustrates the poor quality of the ERA analysis and report. However, other deficiencies and errors have been identified, and are discussed below.

### Role of the PMC

The ERA (p. 268) claim the PMC seeks to set licence volumes such that growers achieve the recommended pool price. This is not correct. The role of the PMC is defined in Section 17A of the Act. In terms of specific functions of the PMC, Section 17A(a) and Section 17A(e) state the PMC is to:

Regulate the production of ware potatoes so as to ensure the supply of the quantities, kinds and qualities preferred by consumers in the State; and

Foster methods of production and adopt methods of marketing that will enable potatoes grown in the State to compete in price and quality against potatoes from alternative sources of supply.

If the PMC was to act in the manner suggested by the ERA, the PMC would be in contravention of the Act. No evidence is presented by the ERA to support the implication that the PMC is acting in contravention of the Act. The ERA should withdraw this statement, or provide detailed evidence to support what is a serious claim.

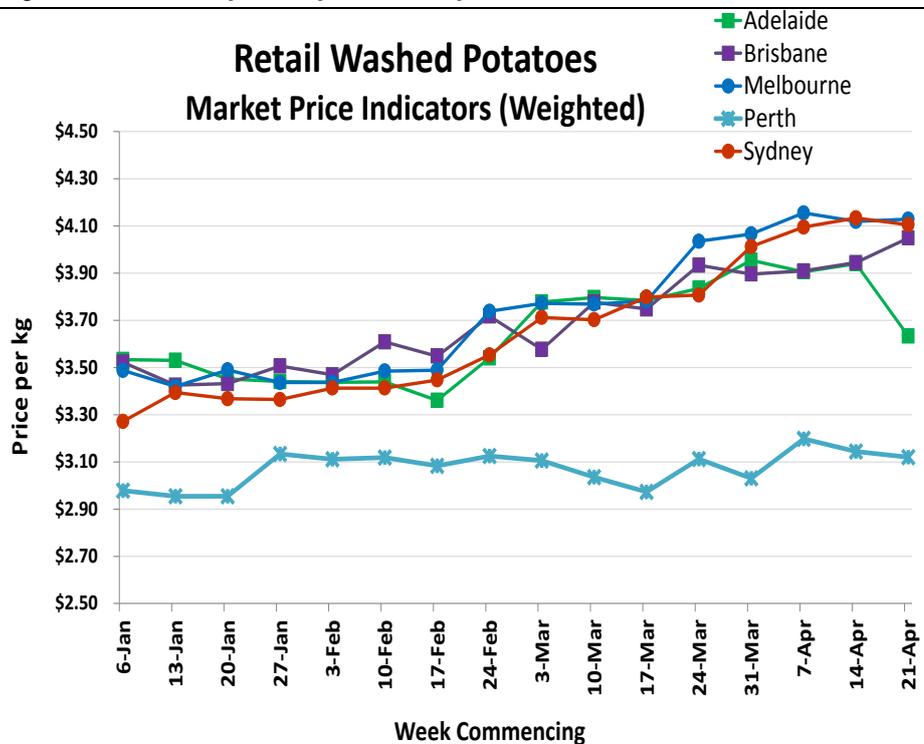
## 2.2 Prices, market structure and transfer

The ERA (p. 273) argues that “an assessment of the structure of the Western Australian value chain is critical for this analysis.” This is correct.

The ERA agrees that no submission to the inquiry presented, or cited data that shows potato prices in Western Australia are higher than in other mainland jurisdictions. Clear documented evidence that prices are not higher in Western Australia was, however, a feature of two submissions. The ERA did not accept the clear, well documented evidence on retail prices submitted which shows consumers in Western Australia are not disadvantaged in terms of price or variety availability.

Additional recent price information is shown in Figure 1. Any reasonable person looking at the data would conclude that the price evidence is inconsistent with import parity pricing. The data is fundamentally inconsistent with the idea that in the regulated market in Western Australia there is a transfer from consumers to growers.

Figure 1 Recent potato prices – capital cities



Source: Fresh Logic via PMC

In the case of market price data, the ERA (p. 272) rejects the information presented in submissions and suggests that the position with regard to relative prices across capital cities is not clear; yet the ERA has not taken steps to collect the relevant price information.

If ERA considers the price information on potatoes provided as part of previous submissions, or the current submission, to be insufficient, or in some way not reflective of the situation, then the appropriate step is to establish a protocol for data collection and to collect sample data for a time period that the ERA considers sufficient to establish reliable price information.

Given the importance of establishing the true impact of regulation on consumers for the cost-benefit analysis, it is unacceptable that the ERA, for its own analysis, proceeds on the basis of a position of no clear understanding of prices. Collecting price data is not onerous. That the ERA has not undertaken this activity, yet rejects the evidence that has been presented, is a difficult position for the ERA to defend. The evidence presented to date is consistent and clear; consumer prices in Western Australia are not inflated by the actions of the PMC.

The ERA contends that the supermarkets do not have market power. Recent ACCC action suggests this is not the case.<sup>1</sup> In the draft report the ERA (p. 275) appears to rely on a single price transmission event to infer the market structure. This then feeds the assertion by the ERA (p. 275) that the impact of regulation involves the transfer of income directly from consumers to farmers.

The conclusion drawn by the ERA is not supported by the evidence the ERA has presented.

As previously reported to the ERA, Coles and Woolworths account for 42 percent of the PMC sales volume. However, Coles and Woolworths dominate the class 1 potatoes market. For retail distribution the two majors account for 84 percent of class 1 sales.<sup>2</sup> In effect, for the leading market segment there is essentially one seller (the PMC via 5 wash packers) and two buyers. It is clear that such a situation does not characterise a competitive market.

The ERA (p. 274) states that if supermarkets have market power the pass through rate will be approximately 50 percent, and cites Nicholson and Synder (2008) to support this position. However, as Nicholson and Synder (2008) make clear, this statement assumes a very specific functional form for consumer demand. Specifically, as shown in Tyagi (1999), the pass through rate for a monopolist is a function of the shape of the market demand curve.

The ERA statement on the pass through rate is true for a linear demand curve; but for a quadratic demand curve the pass through rate will vary from less than 100 percent to greater than 100 percent; and for a double log constant elasticity demand curve -- which remains a popular choice in empirical applications -- the pass through rate will always be greater than 100 percent.

The ERA (p. 276-8) acknowledges that little is known regarding the curvature of the market demand curve for potatoes. Without this information it is not possible to make statements about what any specific pass through rate implies regarding market structure. To assume linearity without evidence is inappropriate. The wide spread use of the double log specification, at a minimum, suggest there is no generally accepted pass through rate for firms with market power.

The link to the reference cited by the ERA regarding potato price elasticity values did not work. However, the reference seems to be to work by Lechence, V "Income and Price

<sup>1</sup> ACCC takes action against Coles for alleged unconscionable conduct towards its suppliers. Available <http://www.accc.gov.au/media-release/accc-takes-action-against-coles-for-alleged-unconscionable-conduct-towards-its-suppliers> [accessed 7 May 2014].

<sup>2</sup> P. Graham Pers Comm. 23 April 2014.

Elasticities of Demand for Foods Consumed in the Home". In this work the central estimate for a potato price elasticity is -0.12. If this is the case it is not clear why the ERA chooses a value of -0.20. Additional information on reasoning is required. It is notable that the -0.12 estimate is also derived using the AIDS (Linear Approximation) model of Deaton and Muellbauer (1980). Such a model does not imply a linear demand function.

In addition to the theoretical evidence that establishes that pass through rates do not provide insights regarding market structure, there is empirical evidence which suggests that there is wide variation in pass through rates in the retail sector. For example, Basanko et al. (2005) estimate pass through rates for over 1,000 product lines and found 70 percent of the pass through rates were less than 100 percent, while 30 percent were greater than 100 percent. The wide variety of results suggests that even if the shape of the demand curve was known, drawing inferences from a single price transmission observation would be a very unreliable approach to gaining information about market structure.

In summary, the evidence that is available does not support the proposition put forward by the ERA that there is an income transfer from consumers to growers.

The evidence in two submissions to the ERA does, however, support the idea that any transfer that does take place is from retailers/ wholesalers to growers. If there was a transfer from consumers to growers it would be visible in terms of retail market data showing evidence of import parity pricing in Western Australia. The price data previously submitted to the ERA shows no evidence of import parity pricing. The most recent data available also shows no evidence of import parity pricing. The ERA presents no data to show that there is import parity pricing in Western Australia.

If the ERA does not accept that the price evidence submitted shows that import parity pricing is not a feature of the WA market, the solution is clear.

The ERA should:

- i) establish a protocol for data collection for a period of time which the ERA thinks is sufficient to resolve the question, and
- ii) collect the data.

Collecting data is not a difficult task. The ABS is not collecting the information because such detailed information is not needed for the activities undertaken by the ABS.

It is unarguably the case that the ERA is drawing conclusions which are not based on evidence. This is a difficult position for the ERA to defend. A reasonable person must reject the ERA's conclusions on the question of income transfer due to lack of evidence.

### ***Implications for the ERA cost-benefit table***

The question of whether there is a transfer from consumers to growers is central to the ERA's cost-benefit assessment. If the transfer is actually from retailers to growers, then considered at the State level, the values do not simply wash out as assumed by the ERA. Western Australia accounts for around 10 to 11 percent of the national population, so a transfer from major retailers falls only partly on Western Australians. On the other hand, 100 percent of the benefit accrues to Western Australian growers.

There is a mix of ownership for other distribution channels. Given the higher value share for the major retailers, on balance it seems reasonable to assume that no more than 50 percent of the transfer from retailers to growers falls on Western Australians. In terms of the ERA cost-benefit summary (p. 281) the transfer cost becomes \$25 per tonne, while the transfer benefit remains \$50.

This change has significant implications for the net benefit calculations presented by the ERA.

## 2.3 Production costs

The ERA takes the view that the ABARES data on production costs is not sufficient to make inferences regarding production costs. This is not an unreasonable position. It is, however, unreasonable for the ERA to proceed without this information. The method of answering the question of production costs identified by the ERA (p. 272) is that a separate study on production costs should be commissioned. It is appropriate for the ERA to undertake this study prior to forming a view on the implications of a regulated market. It is unreasonable to conclude that there is insufficient information on this question and then ignore the issue.

## 2.4 Marketing and development activity

The ERA (p. 280) concluded that the benefit of the marketing and other activities undertaken by the PMC should be excluded from the cost-benefit calculations. Previous comprehensive studies investigating the regulated potato market, such those undertaken by DAFWA have considered it valid to include this activity as a benefit in assessments. The ERA argues this function could be undertaken by some other organisation and so is not a benefit of the regulated system.

In theory, it is possible that a levy structure could be used to achieve a similar outcome to that achieved by the PMC. The real issue is, however, whether or not there is any evidence that current national levies have been used to support extension and category development and whether there is any evidence of category marketing for potatoes in other States.

The agencies that would have responsibility for category marketing are AUSVEG and Horticulture Australia Limited (HAL). The role of HAL is currently under review, but there has been no category marketing for potatoes (ACIL Allen 2013, p.7). There is also no evidence that the South Australian potato industry has been able to co-ordinate application of a levy to support category marketing.

If there is no evidence of category marketing in other jurisdictions, but there is evidence of such activity in the regulated system, it is both fair and reasonable to identify this activity as a benefit of the regulated system that is not a feature of deregulated systems. Category marketing for potatoes has been successful in Western Australia.<sup>3</sup> This value should be included in the benefit-cost assessment. Such an approach would also be consistent with the approach taken in previous investigations.

### *Implications for cost-benefit table*

Including the benefit of the marketing function has a significant impact on the ERA cost-benefit calculation. The ERA uses the ACIL Allen estimate of \$26 per tonne as the net cost of the PMC. This value includes the cost of marketing levies so there is no change to the cost section of the ERA cost-benefit table (p. 281). On the benefits of regulation, the implication is a net gain of \$20 per tonne.

<sup>3</sup> P. Graham Pers Comm. 29 April 2014.

## Supply elasticity considerations

The ERA assumes a supply elasticity of 2.0 with no supporting reference. There is a long history in agricultural economics of estimating supply elasticities, eg Nerlove (1956). A scan of the literature identifies the existence of estimates of supply elasticities for horticulture -- eg Khatri and Thirtle (1996) -- that are substantially less than the value assumed by the ERA. The ERA should select a supply elasticity value with reference to the literature.

### *Implications for cost-benefit table*

The assumption regarding the supply elasticity will not have a significant impact on the cost-benefit calculations.

## 2.5 Seed industry

The ERA (p. 266) makes an unfounded claim that the seed industry is constrained due to an inability to access the local market for the sale of unwanted oversize seed potatoes. It is recommended that the ERA engage further with the peak seed grower body so that it can actually investigate these claims. This claim has no merit, but the ERA needs to do the work to support the claim or withdraw its assertion.

The ERA devotes considerable space in its draft report to a discussion of the seed industry. In terms of the seed industry the ERA position is summarised as follows:

The ERA considers that considerable potential exists for the Western Australian export seed potato industry to grow substantially if growers are able to sell oversized tubers and rejected crops into the domestic market.

Anyone that is familiar with a large seed potato, harvesting processes, and the marketing process will understand that oversize seed potatoes are not well suited for sale in the domestic ware market. The key issue is not whether the PMC will accept them or not, but rather that such potatoes do not meet the quality specifications of the major retailers, who are the key customers for the PMC product.

In general the discussion about the potential development of the seed industry seems out of place. The discussion is neither informed, balanced, nor sensible. Further, the position taken by the ERA directly contradicts the position put by the Western Australian Seed Potato Producers Committee (WASPP). The WASPP has no incentive to claim the PMC provides a benefit if it does not. That the view of those in the seed industry has been completely ignored calls into question the analysis of the ERA more generally.

At a minimum we recommend that the ERA submit its analysis of the seed market in the draft report to an expert agricultural economist for peer review. An alternative solution would be to simply delete this material from the final report; which would be the likely recommendation following peer review.

### *Implications for cost-benefit table*

The seed industry discussion is not well founded. The implication is that the \$5 per tonne value is an invalid estimate that should not appear as a cost.

## 2.6 Summary of results

The core benefits of the reform program are productivity gains. The position regarding previous national competition reforms suggests a ratio of revenue benefits of around 2:1 in favour of the Commonwealth, for example see the discussion in Simms (2013). It is reasonable to expect that a similar situation would apply to reforms undertaken in Western

Australia. Here we let the productivity benefit be characterised as shared equally between consumers and the various levels of government, with the benefit to the government sector accruing in the historical manner. This implies a substantial portion of the productivity gain will be delivered outside Western Australia.

Using the ERA methodology implies considering the cost-benefit position from two perspectives: the State perspective and the National perspective. Using a balanced interpretation of the evidence, and the ERA methodology, suggests a long run per tonne net cost of the regulated system of around \$18 per tonne for the State based assessment and a value of around \$62 for the national level cost-benefit assessment. The details for this assessment are set out in Table 1. The full production efficiency gain would not be achieved for a number of years. The ERA assumes three years before the full production efficiency gain is achieved. The values presented in Table 1 show the benefit at the end of year three, in the transition years the benefit is necessarily lower.

**Table 1 Cost benefit summary: WA and national perspective**

| Costs                     | ERA<br>Year 3 | WA only<br>Year 3 | National<br>Year 3 |
|---------------------------|---------------|-------------------|--------------------|
| Costs                     | \$ per T      | \$ per T          | \$ per T           |
| Transfer (from retailers) | 50            | 25                | 50                 |
| Productivity <sup>1</sup> | 72            | 39                | 58                 |
| Seed losses               | 5             | 0                 | 0                  |
| Economic efficiency       | 1             | 1                 | 1                  |
| PMC cost                  | 26            | 26                | 26                 |
| Grower administration     | 2             | 2                 | 2                  |
| <i>Total costs</i>        | <i>156</i>    | <i>93</i>         | <i>137</i>         |
| <b>Benefits</b>           |               |                   |                    |
| Transfer (to growers)     | 50            | 50                | 50                 |
| Marketing <sup>2</sup>    | 0             | 20                | 20                 |
| Other                     | 5             | 5                 | 5                  |
| <i>Total benefits</i>     | <i>55</i>     | <i>75</i>         | <i>75</i>          |
| <b>Cost per tonne</b>     | <b>101</b>    | <b>18</b>         | <b>62</b>          |

Note: Values may not match exactly due to rounding.

<sup>1</sup> ACIL Allen and ERA used \$72 per tonne. See section 2.9 for further detail.

<sup>2</sup> A direct translation of DAFWA (2002, p. 32) suggests a value of \$36 per tonne for this benefit. There is, however, considerable uncertainty regarding an appropriate value for this activity. Given this uncertainty the value used here is thought reflective of a balanced view of costs and benefits rather than representative of a best possible case scenario.

Source: Base comparison ERA (2014, p. 281) Revised values ACIL Allen

### **Reconciliation between ACIL Allen estimate and ERA estimate.**

The reasons for the difference between the revised ERA estimate and the ACIL Allen estimate is due to assumptions regarding the how the cost of DME is treated, and the transfer between retailers and farmers. The ERA approach allows consideration of within State and out of State benefits, and how these impacts are treated has a material impact on the result. The ERA estimate for the cost of DME is also substantially higher than the value used by ACIL Allen. Productivity costs are discussed in section 2.9.

## 2.7 Compensation

The ERA (p. 289) acknowledges the need to discuss compensation payments. One option for assessing the scale of compensation payments that are likely is to use the replacement of the dairy quota system as a benchmark. As previously documented in submissions to the ERA, the average payment to dairy farmers in Western Australia as part of the dairy structural adjustment program was \$262,000 per dairy. Without considering inflation this suggests total compensation payments for deregulation would be around \$20M. As payments in the dairy industry were made through time, it is not clear exactly how the total adjustment payments should be indexed to bring them up to current values. A conservative uplift in values would be 10 percent.

An alternative approach to assess likely compensation payments would be to consider the value of the property right the Government seeks to remove. The mid-point of the ERA estimate for the value DME is \$450 per tonne, which would imply compensation payments of around \$22M to buy out existing DME.

There would also be additional costs associated with the wind-up of the PMC. Information provided by the PMC suggests that this cost would be \$3.3M.<sup>4</sup>

Total compensation payments by Government are therefore likely to be around \$25M for the wind up of the PMC and the end to the regulated system.

## 2.8 Consequences of deregulation

As the benefits and costs cancel out, the ERA considers transfers between groups to be non-consequential. It is, however, important to be clear regarding where the costs of reform fall, who will pay, and who will benefit.

Such analysis has always been a feature of competition reform. For example, the logic behind reform payments to the States in the 2000s was that while the States were undertaking the reforms, the benefits would accrue to the Commonwealth, so it was logical for the Commonwealth to return some of these benefits.

### *Implications for the State government*

The two competing approaches to determining compensation payments arrived at similar values. The estimated combined compensation plus PMC windup cost was estimated to be around \$25M. This is a direct cost that would fall on the State government in year one of the reform.

A number of interpretations are possible regarding the extent of benefits that would accrue to the State government. A reasonable expectation might be \$12 per tonne.

### *Consumers*

As there is no evidence of import parity pricing in Western Australian there can be no reasonable expectation that potato prices in Western Australia will fall following deregulation. The product mix may, however, change following deregulation. As noted in previous submissions to the ERA, in general the welfare implications of such changes in the product mix are ambiguous.

<sup>4</sup> P. Evans Pers Comm. 29 April 2014.

### *Retailer and wholesalers*

The available evidence suggests that deregulation will benefit the wholesale and retail sectors. The removal of the countervailing influence of the PMC will allow large retailers to grow their margin at the expense of growers. To the extent that the owners of these businesses reside outside Western Australia these benefits leave the State.

### *Growers*

Growers benefit through a transfer payment in year one of the reform process, and then receive lower payments for potatoes in all subsequent years.

### *Seed industry*

The ERA has not presented any evidence to suggest that deregulation will have a positive impact on the seed industry. The WASPP, in contrast, suggest several benefits from the existence of the regulated system. It seems most likely that the seed industry will not be a beneficiary of deregulation.

## **2.9 Productivity improvement**

The PMC plays a role in encouraging the growers of ware potatoes to improve the quality of their product, thereby improving their revenue per tonne, and reducing the proportion of production classified as waste. Some varieties of potatoes are commercially protected, meaning that to grow those varieties involves a licence fee to the holder of the rights to that variety. The PMC is able to coordinate quality improvement of all varieties that are not captured under licences, and some that are, which provides growers with access to constantly improved seed potatoes and other research results.

The current production inefficiency due to scale and scope factors that are embedded in the WA ware potato industry has been estimated by ACIL Allen Consulting at \$72 per tonne. The ERA has adopted this figure in its analysis, as shown in Table 1. However, the figure is not static. The PMC's quality improvement programme has demonstrated results with a subset of growers. In recognition of the presence of this programme, which stemmed from the McKinna report into the industry, we have assumed a 6% annual productivity improvement for the industry over the next 3 years, which results in a reduction in the inefficiency cost at a State level to \$39 per tonne after 3 years, and at a national level to \$58 per tonne after 3 years. We have reflected these changes in Table 1.

### 3 Conclusion

In making its assessment of the market structure, the ERA has been selective in its use of economic theory. This in turn means the cost-benefit analysis presented by the ERA is not well founded. If the analysis is revised to reflect a fair and reasonable interpretation of the available market data, the benefit from deregulation is shown to be much smaller than claimed by the ERA. Further, much of the benefit of reform accrues outside the State.

If the assessment is restricted to within State impacts then the benefits from reform are trivial. If the scope is extended to include national benefits then the benefits increase from trivial to small.

Although the ERA considers transfers to be irrelevant for a cost-benefit analysis, the practical reality is that reform will involve a substantial upfront cost for the State Government.

Any objective ranking of reform options available to the State Government will show that abolishing the PMC is a low gain option. It is very clear that the State Government has much higher priorities, including the much needed reform of the electricity market in Western Australia.

Comparing ware potatoes across Australia requires caution. In the Eastern States, the emphasis is on dry brushed potatoes. In WA, the major product is fresh washed potatoes. Given the proximity of the growing regions to the metropolitan area, WA consumers generally receive fresh potatoes, not potatoes that have been transported long distances by truck or rail, and not product that has been stored in the ground (delayed harvesting) until required. Distance is also the major reason why there is only limited exchange of potatoes between WA and the other States, especially South Australia. Distance has an impact on delivered cost and product quality.

ACIL Allen continues to hold the view that immediate abolition of the PMC is unnecessary, and a significant distraction and cost to Government. In our view, this issue should be reviewed again in say 5 years, which provides sufficient time for the PMC to achieve its planned reforms, and to have its performance fairly evaluated. Such a strategy puts the PMC and its growers on notice, and gives them sufficient time to address any industry issues. It is clear that during this period, consumers in Western Australia will be no worse off than their counterparts in other States.

## References

- ACIL Allen (2013) Consultation Paper: Independent Review of HAL and the Horticulture levy system.
- Besanko, D., Dube, J. and Gupta, S. (2005) "Own-brand and Cross-brand Retail Pass-Through", *Marketing Science*, Vol. 24, No. 1, pp. 123-37.
- Deaton, A. and Muellbauer J. (1980) Deaton, A., & Muellbauer, J. (1980) "An Almost Ideal Demand System" *American Economic Review*, Vol. 70, No. 3, pp. 312-326.
- ERA (2014) Inquiry into Microeconomic Reform in Western Australia Draft Report, Economic Regulations Authority of Western Australia.
- Khatri, Y. and Thirtle C. (1996) "Supply and Demand Functions for UK Agriculture: Bias of Technical Change and the Returns to Public R&D" *Journal of Agricultural Economics*, Vol. 47, No. 3, pp. 338-54.
- Nerlove, M. (1956) "Estimates of the Supply Elasticities of Supply of Selected Agricultural Commodities" *Journal of Farm Economics*, Vol. 38, No. 2, pp. 496-509.
- Nicholson and Synder (2008) *Microeconomic Theory: Basic Principles and Extensions*, 10th Edition, Thompson South-Western
- Simms, R. (2013) Australia's experience driving economic growth through competition policy reforms, speech World Bank Forum - Making markets work for development: a reform agenda on competition, 23 April 2013.
- Tyagi, R.K. (1999) "A Characterization of a Retailer Response to Manufacturer Trade Deals" *Journal of Marketing Research*, Vol. 36, No. 4, pp. 510-16.



State Agricultural  
Biotechnology Centre  
WESTERN AUSTRALIA

Telephone: +61 8 9360 2424 +61 8 9360 6116

Facsimile: +61 8 9360 6303

[www.sabc.murdoch.edu.au](http://www.sabc.murdoch.edu.au)

POSTAL ADDRESS: Loneragan Building, Murdoch University,  
Perth, Western Australia 6150



MURDOCH  
UNIVERSITY  
PERTH, WESTERN AUSTRALIA

The Chairman  
Economic Regulation Authority  
PO Box 8469  
PERTH BC WA 6849

29 April 2014

**To whom it may concern: Potato Marketing Corporation of WA (PMCWA)**

In relation to the current review of the activities of the Potato Marketing Corporation of WA, I would like to make the following submission.

I am the Director of the Western Australian State Agricultural Biotechnology Centre, and Professor of Agricultural Biotechnology at Murdoch University.

The PMCWA recognised that there was a market failure in terms of R&D support for the WA potato industry, and in discussions with Professor David Morrison, DVC (R&D) of Murdoch University and Professor Michael Jones, Director of the WA State Agricultural Biotechnology Centre (SABC) at Murdoch University, the PMCWA and Murdoch University agreed to address this issue by co-funding the formation of Potato Research WA (PRWA), a one stop shop to address and solve issues of the potato industry in WA.

As a result, PRWA was established in 2013, and Dr Stephen Milroy was appointed as Manager of PRWA, based in the SABC. The need for a dedicated R&D organisation in WA was recognised for a number of reasons, including:

- The unique climate and conditions for growing potatoes in WA – potatoes evolved in the high Andes, at equatorial latitudes, ie essentially as temperate crops at constant daylength. WA has a Mediterranean climate and variable daylength, with sandy soils and much higher temperatures than where potatoes originated. All this means that potatoes grown in WA are at the extreme limit of their growth range, and so R&D specific for this environment is of vital importance
- There are special needs for irrigation, fertigation, pest and disease control for improving potato production in WA, to improve quality and yields
- The Department of Agriculture WA (DAFWA) has moved out of potato R&D
- Horticulture Australia (HAL) has stopped funding any potato breeding in Australia for Australian conditions, and has clearly failed to support any substantial R&D on the potato crop

- Given the challenges associated with changing climatic conditions, salinity, water quality and soil degradation in WA, there are a substantial number of growers who are in real need of help to increase their yields, quality and profitability

With these R&D failures and needs in mind, the establishment of Potato Research WA was a much needed and timely initiative, which as a joint venture with PMCWA is really getting into its stride. Research is already in progress on:

- Irrigation regimes
- Nutrient testing as a measure of crop health
- Testing for the presence of virus diseases (via facilities and involvement of Saturn Biotech, a company at the SABC)
- Studying conditions for cool storage of WA potatoes
- Developing agronomic packages to enhance yellow flesh production
- Investigating the potential for introduction of new potato varieties
- Establishing growers groups and sustainable farming projects
- Leveraging research funds (eg from national funding bodies)
- Developing an advisory manual for WA growers

In a de-regulated market there would be complete market failure in R&D support for potato growers – there would be absolutely no industry-wide R&D for the potato industry in WA, a loss of growers in WA, loss of the potential to expand seed potato exports, and increased importation of potatoes into WA. A key benefit that the PMCWA brings is that in addition to funding R&D, it provides a unique nexus between growers, researchers and agronomists such that R&D is translated into real world outcomes that benefit the industry and the State as a whole. In addition, I am also aware that the PMCWA is actively working with seed growers to facilitate the interaction between ware and seed growers and the development of the seed industry in WA.

From an R&D perspective, there is therefore a compelling need to retain the PMCWA, and to ensure the success of PRWA to underpin potato R&D in WA to maintain a productive and profitable potato industry in this State.

I would be happy to expand on these points.

Yours sincerely

Michael Jones

Professor of Agricultural Biotechnology  
Director, WA State Agricultural Biotechnology Centre,  
Murdoch University, Perth WA 6150  
+61 8 9360 2424  
+61 (0) 414239428



<http://profiles.murdoch.edu.au/myprofile/michael-jones/>  
cc Professor David Morrison, DVC(R&D) Murdoch University, Perth.

2 May 2014

Mr Lyndon Rowe  
Chairman  
Economic Regulation Authority  
Inquiry into Microeconomic Reform in Western Australia  
PO Box 8469  
Perth Business Centre  
PERTH WA 6849

Dear Mr Rowe,

Re. Draft ERA report on the review of the Potato Marketing Corporation.

The Western Australian potato industry is currently undergoing a period of dramatic change with a focus on the application of research outcomes and improved technology. The intent is to improve productivity and product quality and to reduce the risk of environmental impact. The Potato Marketing Corporation (PMC) is playing a central role in driving this change.

Agronomic and soil data collected by Potato Research WA over the last year emphasise a number of areas in which improvement is critical:

- Efforts to correct micro-nutrients (including Cobalt, Copper, Magnesium, Manganese and Zinc) will increase plant resistance to disease and physiological disorders; improving both production and quality. Further, because rectifying micronutrient status typically provides benefit for a number of years, it is expected that intervention will also lead to improved productivity of subsequent pastures and enhance the health of grazing stock.
- Developing grower skills to tailor the management of macro-nutrient (such as nitrogen) to the requirement of individual crops will reduce the risk of excessive fertilizer applications. This will have economic benefits for growers but importantly, will also reduce the risk of nitrate leaching into surface and ground water systems with negative environmental consequences. This is particularly important given the close proximity of areas of high tourism value.

- Soil physical quality is being improved by a range of interventions including adjustments to soil chemistry and organic matter levels, improved rotation sequences and rationalized cultivation.

While these issues can be readily addressed, a coordinated and industry wide effort is needed. It is apparent that these interventions will have consequences beyond the potato industry and beyond agriculture more broadly.

Western Australia is a challenging environment for potato production both agronomically and economically. The loss of a centrally coordinated system of production and marketing is likely to result in a significant number of smaller producers leaving the industry and an influx of product into WA from other states. This poses both biosecurity and food security questions.

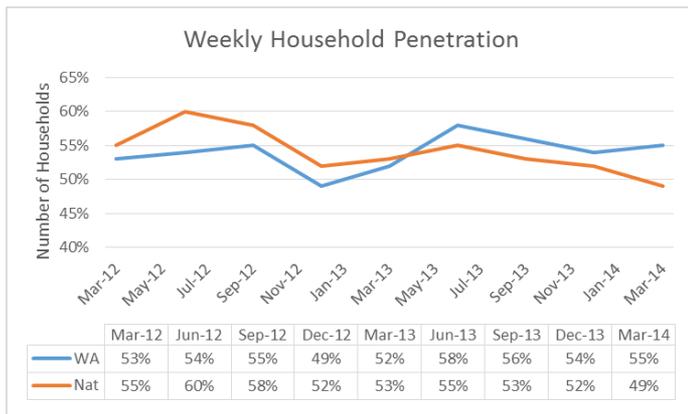
- WA is free from a number of key potato pests and diseases. Without a coordinated production system, the flow of material into WA during low production periods in the state, would increase the risk of introducing these biological threats. Not only would this further disadvantage the remaining WA producers of table and processing potatoes, it would threaten the development of the emerging export seed-potato industry. The high phytosanitary status of WA being an important marketing advantage.
- The movement of higher levels of ware potatoes to Western Australia raises questions of potato freshness and quality for WA consumers. This would not only due to the transport times involved, but also the likelihood of imports having been stored for significant periods prior to shipment and the use of chemical suppressants to prevent sprouting during storage.
- The removal of the coordinated production and marketing system will see an increasing disparity between material produced within closed loop production, processing and sales systems maintained by PBR holders and the rest of the industry. Within these loops, basic variety specific agronomy is supported by PBR holders and their agents. However, varieties and producers not within these systems will not be supported by appropriate agronomic R&D, presenting a risk for both production and the environment.

The PMC plays a key role in encouraging industry specific research and its implementation. It is thus of broad importance in fostering the development of a successful industry based on appropriate science and technology. In this way the organisation is not only working to improve production and quality but also contributing to biosecurity, food security, and the protection of high value environmental and tourism areas. In the absence of the PMC, research and support for the potato industry in WA would decline significantly.

I make these comments as an industry observer and participant. They do not reflect current or potential future research support from the PMC.

Yours,

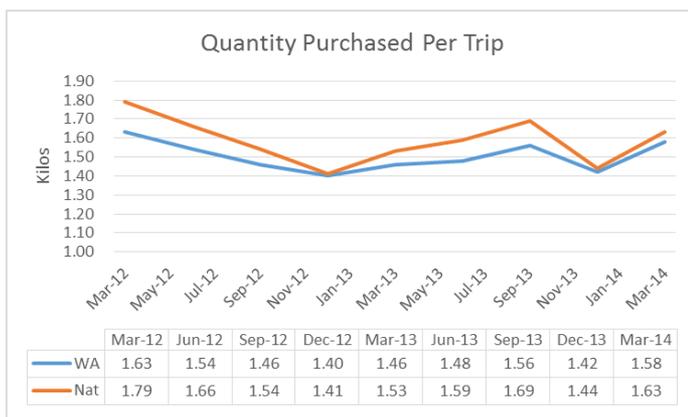
/ Dr Steve Milroy /  
 Research Manager  
 Potato Research WA



The Fresh Potatoes Marketing Campaign commenced on October 1<sup>st</sup> 2013. The March 2014 quarter results now give 6 months of data to evaluate the campaign with. The following results are based on independent research by Fresh Logic, using till receipts to evaluate consumer behaviour.

## 1. MORE HOUSEHOLDS PURCHASING POTATOES

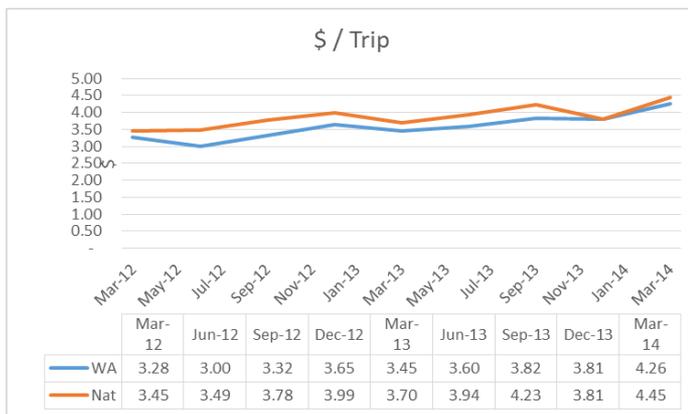
In the 2 quarters of data there has been an increase in households purchasing potatoes per week relative to the same time period 1 year ago. Despite the second hottest summer ever recorded in Perth (hot weather adversely impacts potato consumption), household penetration increased from 52% in March 2013 quarter to 55% in March 2014.



The March 2014 result is particularly impressive as it builds from the preceding quarter – from 54% to 55%, showing the campaign is growing consumer demand each month. Data for National Potato consumption shows that consumption declined in March 2014 quarter, again highlighting the success of the WA campaign

## 2. SHOPPER PURCHASING IN GREATER VOLUME

In WA, whilst shopping more, average purchase volume per trip increased by an extra 100 grams per trip in the March 2014 quarter compared to the March 2013 quarter.



This is a large 10% increase and builds on the positive result from the December quarter. This is driven by a movement by consumers from loose to bagged product.

## 3. EACH SHOPPING TRIP SPENDING MORE MONEY

In WA while shopping more and purchasing more, consumers have also spent more on the purchase. In the March 2014 quarter there was an additional 32 cents per kilo increase in retail price paid.

## Research Objective.

To gauge consumer  
sentiment towards  
the PMC &  
regulation of the WA  
potato industry.

# Sample Structure.

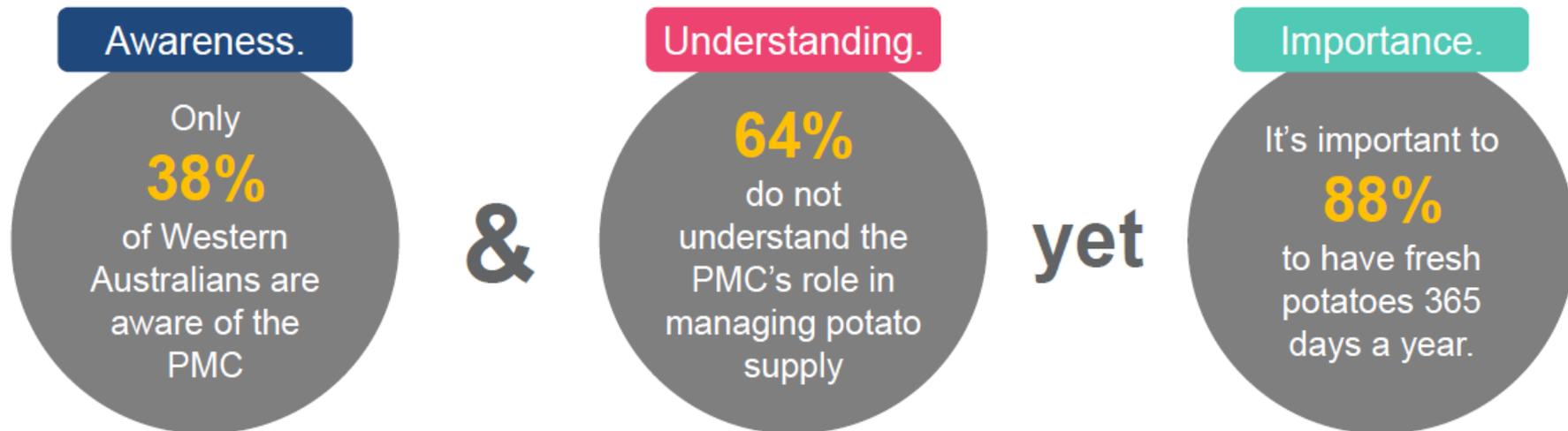
*The following sample was achieved in an online study conducted between 29<sup>th</sup> April – 5<sup>th</sup> May.*

**Recruitment Specifications:**

- N=600 respondents
- Western Australian residents only
- Aged 18-64 years
- Natural fall out of gender
- Natural fall out of monthly potato consumption

|                                     | Proposed | Achieved |
|-------------------------------------|----------|----------|
| Total Respondents                   | N=600    | N=610    |
| Gender                              |          |          |
| Males                               | NFO      | n=260    |
| Females                             | NFO      | n=350    |
| Age                                 |          |          |
| 18-24 years                         | NFO      | n=75     |
| 25-34 years                         | NFO      | n=126    |
| 35-44 years                         | NFO      | n=148    |
| 45-54 years                         | NFO      | n=142    |
| 55-64 years                         | NFO      | n=119    |
| Vegetable Consumption               |          |          |
| Potato Consumer (in the last month) | NFO      | n=519    |
| Not Potato Consumer                 | NFO      | n=50     |

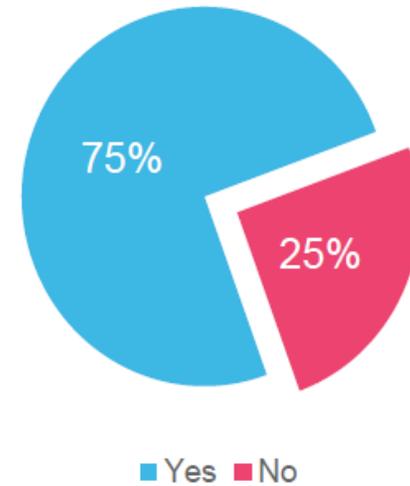
Despite the importance of potatoes to Western Australians, the vast majority are unaware of the PMC & their role in the industry.



*The Potato Marketing Corporation (PMC) manages the supply of Fresh Potatoes in WA to ensure that Fresh Potatoes are available 365 days per year. WA is the only state in Australia producing Fresh Potatoes 365 days a year.*

# 3 out of 4 Western Australians agree that the PMC should manage fresh potato supply.

*Despite being unaware of the PMC, the 18-24 age group unanimously agree that the PMC should manage potato supply. Whilst the majority of males & 55-64 year olds are aware of the PMC and are more divided in their approval for the PMC.*

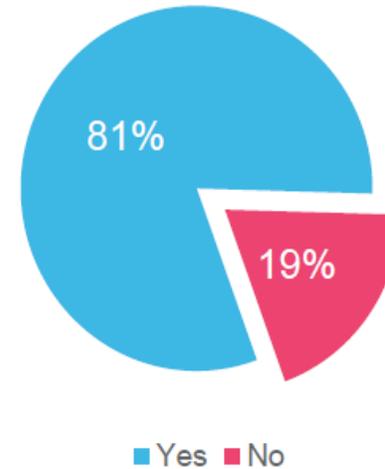


|   | N=  | Total | GENDER |        | AGE   |       |       |       |       | CONSUMPTION             |                     |
|---|-----|-------|--------|--------|-------|-------|-------|-------|-------|-------------------------|---------------------|
|   |     |       | Male   | Female | 18-24 | 25-34 | 35-44 | 45-54 | 55-64 | Regular Potato Consumer | Non Potato Consumer |
|   |     | 610   | 260    | 350    | 75    | 126   | 148   | 142   | 119   | 519                     | 50                  |
| Do you agree that the PMC should manage the supply of fresh potatoes in WA? | Yes | 75%   | 65%    | 83%    | 97%   | 82%   | 81%   | 70%   | 53%   | 76%                     | 72%                 |
|   | No  | 25%   | 35%    | 17%    | 3%    | 18%   | 19%   | 30%   | 47%   | 24%                     | 28%                 |



# Consistently, the majority of Western Australians support the existence of the PMC.

*Despite varying degrees of awareness and agreement with the role of the PMC, all ages and genders were in favour of its existence.*



***The existence of the Potato Marketing Corporation (PMC) guarantees security of fresh potato supply to all Western Australians.***

|   |     | Total | GENDER |        | AGE   |       |       |       |       | CONSUMPTION             |                     |
|---|-----|-------|--------|--------|-------|-------|-------|-------|-------|-------------------------|---------------------|
|   |     |       | Male   | Female | 18-24 | 25-34 | 35-44 | 45-54 | 55-64 | Regular Potato Consumer | Not Potato Consumer |
|   | N=  | 610   | 260    | 350    | 75    | 126   | 148   | 142   | 119   | 519                     | 50                  |
| Do you support the existence of the Potato Marketing Corporation? | Yes | 81%   | 70%    | 89%    | 99%   | 87%   | 86%   | 79%   | 61%   | 82%                     | 76%                 |
|   | No  | 19%   | 30%    | 11%    | 1%    | 13%   | 14%   | 21%   | 39%   | 18%                     | 24%                 |



Regarding The WA Seed Potato Producers submission to the ERA inquiry discussion our paper stated emphatically that the Potato Marketing Corporation has no negative effects on the Western Australia Seed Potato industry. Indeed in our submission we pointed out there were many benefits to the seed industry from the activities of the PMC.

It is therefore unfathomable how the ERA concluded that the activities of the PMC restrict this industry. The ERA draft report claims to base its conclusions on discussions between the ERA and Seed Potato producers that supply the international market (p278). We are at a loss as to which Seed producers were consulted. Certainly this is not the view of WA Seed Potato Producers or its members. In any event the ERA has been misled by any such comments.

The PMC **do not** regulate the production of seed potatoes. Growing of seed potatoes and their export is not subject to any controls by the PMC.

The ERA report claims that restricted access to the DME is the main reason the seed potato industry has not expanded more.

I would challenge ERA draft report author to substantiate this claim.

Many of our members have had DME, and in the past have tried to place out of spec seed potatoes on the domestic market. The end result is that over a 10 year period, up until today, almost all seed growers have relinquished their DME because of the out of spec seed potatoes that may be generated are simply not acceptable quality to place on the local fresh potato market.



Western Australian fresh market is a very sophisticated washed potato market with very high quality standards.

It is interesting to note that a majority of seed exports to South East Asia are for crusting potatoes which are of the Atlantic variety and these are unable to be placed on the ware market as this variety is not suitable for fresh potato use.

THE WASPP reiterates its position that the PMC has no negative effects on the WA Seed Potato Industry and rejects that any substantiated evidence to the contrary has been revealed in the ERA Draft report.

Regards,

Colin Ayres  
President