SUGAR AGREEMENT BILL 1985

Date Introduced: 22 February 1985
House: Senate
Presented by: Senator the Hon. Peter Walsh,
Minister Representing the Minister for Primary Industry

Short Digest of Bill

Purpose

To continue the prohibition on the import of sugar and certain sugar products, with some exceptions, by ratifying the agreement reached between the Federal and Queensland Governments.

Background

Under successive Commonwealth-Queensland Sugar Agreements since 1923, the Queensland Government has acquired all sugar produced in Queensland and purchased all sugar produced in New South Wales. It has made sugar available for domestic use at an administered price. This domestic pricing arrangement is underpinned by an embargo on imports of sugar, golden syrup and treacle, and the imposition of customs duties on alternative sweeteners and controls over exports.

The new domestic Sugar Agreement between the Federal and Queensland Governments was negotiated against the background of the Industries Assistance Commission (IAC) Final Report on the Sugar Industry. That report called for widespread deregulation of the industry, including immediate abolition of the import embargo on sugar and ending the administered domestic price arrangements, leaving prices to be set by the market.

The terms of the new Agreement are similar to the terms of the previous Agreement which operated from 1 October 1979 until 30 June 1984. The key features are new arrangements for fixing the domestic sugar price and for the administration of some exceptions to the import embargo. The decision to not proceed with deregulation was influenced by the establishment of a review, to be conducted by the sugar industry, of its production, marketing and payment arrangements, with a view to making appropriate changes by the beginning of the 1987 season. The Minister for Primary
Industry, Mr Kerin, said establishment of the review indicated that the industry recognised the need for changes in its regulatory structure, and therefore the Federal Government would wait to see if the review process produced a result. Hence, the administered domestic price and the import embargo will be retained, although with minor modifications.

The import embargo will be relaxed to facilitate the importation of specialty sugars not produced in Australia. Under the previous Agreement, approval of the Minister for Primary Industry or an authorised officer had to be obtained for such imports. Under the new Agreement, sugar may be imported in packs of up to five kilograms in consignments of up to one tonne without approval.

The price of different grades of sugar and certain sugar products are determined administratively on the basis of the stipulated maximum price for manufacturing grade bulk refined sugar. The maximum price for such sugar will be adjusted according to an objective formula which takes into account, on an equal weighting, movements in the Consumer Price Index (CPI) and the world market price for sugar. The formula applied under the previous Agreement, which took into account changes in the CPI, the proportion of average export returns to total returns over the previous year, and the ratio of cash costs to total industry costs, was less responsive to changes in market prices. The price will now be adjusted every six months rather than every twelve months, and the maximum price change between any two six-monthly periods will be limited to the movement in the CPI. The price of other grades of sugar, and golden syrup and treacle, is to be expressed as a proportion of the stipulated price for manufacturing grade sugar.

The previous Sugar Agreement provided for the payment of domestic and export sugar rebates to manufacturers of approved products containing sugar. The cost of these rebates (including associated administrative expenses) form part of the expenses of the Sugar Board. Payment of the domestic sugar rebate has been discontinued following a review of the arrangement by the Federal and Queensland Governments. Its aim was to assist growers of soft fruits (principally fruit for processing). The scheme was expected to enable fruit manufacturers to reduce the selling prices of their processed fruit products and thereby increase sales. In turn, this was expected to enable them to pay higher prices to fruit growers. A further anticipated effect of the scheme was to increase sugar purchases by the fruit processing industry. The rebate represented subsidisation of the inputs of fruit manufacturers by the sugar industry, at a cost of some $1
million per annum.[2] Furthermore, according to the Federal Department of Primary Industry, "it is clear that the subsidy arrangement has been unsuccessful in increasing either the usage of sugar by the fruit processing industry or the uptake of fruit by processors".[3]

A slightly amended export sugar rebate system will continue under the new Agreement. This rebate is intended to prevent sugar-using export activities being placed at a competitive disadvantage in overseas markets as a result of higher sugar prices arising from the administered domestic sugar pricing arrangements. The rebate is based on import prices, with the rate declared on a monthly basis. Exporters could elect to accept the rate of rebate payable in any month for up to twelve months ahead. The length of this forward buying option was considered excessively generous to exporters, and therefore the maximum allowable option period has been reduced to six months, as from 1 July 1984.

Provisions

Clause 2 provides that the Act shall come into operation on the date it receives the Royal Assent.

Under Clause 3 the Sugar Agreement Act 1979 is repealed.

Clause 4 approves the Agreement (set out in the Schedule) between the Federal and Queensland Governments which commenced on 1 July 1984 and continues until 30 June 1989. Sub-clause 4(3) extends the import embargo beyond 30 June 1989, i.e. beyond the term of the Agreement.

For further information, if required, contact:

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References