DRIED VINE FRUITS EQUALIZATION LEVY AMENDMENT BILL 1985

Date Introduced: 17 April 1985
House: House of Representatives
Presented by: Hon. John Kerin, M.P., Minister for Primary Industry

Short Digest of Bill

Purpose

To amend the Dried Vine Fruits Equalization Act 1978 to change the method and level of assistance provided to the industry.

Background

The proposed changes in assistance follow a report by the Industries Assistance Commission (IAC) on the dried vine fruits (dvf) industry.[1] The Government had requested the IAC to inquire into the assistance needs of the industry because falling world market prices, in response to a surplus of fruit, had reduced returns on export sales and had therefore caused major financial difficulties in the industry. The world surplus is expected to continue because of continuing high production in some major overseas grower countries, especially the United States, due to new plantings in recent years. Consequently, levels of world stocks will remain high.[2]

The dvf industry, which is mainly concentrated in the irrigation areas of Sunraysia in Victoria and New South Wales, is Australia's most export oriented horticultural industry. With about two-thirds of production - mainly sultanas - exported, it is therefore particularly vulnerable to a deterioration in export prices. The recent deterioration was preceded by a five-year period, from 1977 to 1981, of high export prices for dvf. In fact, prices peaked at a record level in the 1980 season.[3] Since then, export returns have declined, leading to a severe fall, in real terms, in average farm income.

This fall has been only partially off-set by the existing equalization arrangements. Presently, returns for each variety of dried vine fruit - sultanas, currants and raisins - are equalized by imposing a levy on domestic sales and distributing the proceeds over all sales. Since the levy reflects the difference between the domestic and
estimated average export return, it has in practice served to defend a particular level of domestic price. Until recently, the levy has been set in such a way that the domestic price has moved roughly in line with movements in the Consumer Price Index (CPI). Consequently, the domestic price has at times moved out of line with returns on the export market. For example, in the 1984 season, the expected domestic return for sultanas is 120 per cent higher than the expected average export return, and the equalized average return at packer level is expected to be 37 per cent higher.

This method of providing assistance has several shortcomings. Levels of assistance fluctuate widely, depending upon changes in world market, and to a lesser extent domestic, prices. For example, the effective rate of assistance to the industry as a whole has varied between 69 per cent in 1975-76, minus 6 per cent in 1979-80, 74 per cent in 1982-83 and projected 147 per cent in 1983-84.[4] Also, the high rates are far in excess of rates for agricultural industries generally; in 1982-83, the average effective rate of assistance for agriculture was just 16 per cent.[5] Furthermore, these arrangements enable the high domestic prices to subsidise sales on the export market, thus disguising the true return from exports and encouraging a greater level of production than is warranted by remunerative market opportunities.

Finally, to the extent that domestic prices exceed world market prices, the pressure for imports increases. In order to minimise imports, a $200 per tonne tariff has been imposed. However, pressure for increased imports has reduced the usefulness of the existing arrangements, by demonstrating that domestic prices cannot continue increasing inexorably to support the local industry irrespective of world market conditions. Hence, because of increasing imports the local industry did not make any price increase for sultanas for the 1984 season.

The industry itself has recognised the need to reduce the level of production to that which can be sold profitably. Therefore, the Australian Dried Fruits Association proposed a market entitlement scheme, involving the allocation of production quotas to individual growers, along with retention of existing arrangements. This proposal was rejected by the Government, especially as it could have meant a transfer of substantial surplus production of multi-purpose grapes from drying into sectors such as wine and table grapes which are already oversupplied.
The alternative proposed by the Government will reduce assistance provided through equalization payments to a level reflecting average export returns, but its provision will be more stable and it will make the industry more responsive to market signals. To achieve this, equalization assistance will, from the commencement of the 1986 season (i.e. 1 January 1986), be reduced at uniform rates for each variety of dried vine fruit so that equalized returns at the ex-packer level in 1990 will be no more than 15 per cent above average export returns. Since domestic prices will therefore be considerably higher than world market prices, the import tariff of $200 per tonne will be kept in place so that the home market will retain substantial protection.

Many producers currently earning very low incomes from their farms have minimal prospects of becoming viable, reflecting inadequate farm area and excessive debts. To help this latter group adjust out of the industry, the Government intends to provide special funding for adjustment assistance. It is proposed that up to $5 million will be provided, on a 2:1 ratio between the Commonwealth and participating States. These funds are intended primarily to facilitate a vine pull program, but could be used for other adjustment purposes. Half of the funds will be provided in 1984-85, and any amounts unspent this year will be available in 1985-86 and 1986-87.

Producers remaining in the industry, including many who have a sound basis for long-term viability but are currently facing a liquidity squeeze because of low returns and high debt repayments, will be on a stronger long-term basis if industry rationalisation occurs.

Main Provisions

Clause 1 provides that the Principal Act referred to is the Dried Vine Fruits Equalization Levy Act 1978.

Clause 2 amends section 6 of the Principal Act, and provides that the Minister, in determining the rate of equalization levy on each variety of dried vine fruit produced after 1 January 1986, shall consult the Australian Dried Fruits Corporation on its estimates of production, exports, local sales and average export return for each variety in each season. The rate of equalization levy will be such that the equalization payment distributing the proceeds of the levy for each variety is unlikely to exceed an amount forming a specified percentage of the average return for exports of that variety in that season.
Sub-clauses 3(2), 3(3) and 3(5) state the specified percentages, for the purposes of sub-clause 2(2), for currants, sultanas and raisins respectively.

For further information, if required, contact:

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References

4. ibid., p.189.
5. ibid.