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DRIED SULTANA PRODUCTION UNDERWRITING 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 Sultana Production Underwriting Act 1982 to effect a change in the basis of underwriting.

Background

The proposed changes to underwriting arrangements for sultanas are part of a package of assistance to the dried vine fruits industry which follows a report on the industry by the Industries Assistance Commission.[1] Background to the report, and changes to the equalization levy arrangements, which is the major mechanism for assistance to the industry, are outlined in Bills Digest No. 85/46.

The existing underwriting arrangements, which apply for the 1982 to 1986 seasons, were introduced against the background of industry and Government concern that the income position of Australian producers was vulnerable to a deterioration in world market conditions. The Government guarantees for each season a minimum equalized return rate per tonne at the packer level. For the 1982, 1983 and 1984 seasons the guaranteed return was 90 per cent of the estimated average of equalized returns for the current and two preceding seasons. For the 1985 and 1986 seasons the percentage was to be 95 per cent. The lower percentage was chosen to offset the expected effect of atypical high export prices in 1980 and 1981.[2] This Bill will continue the existing arrangements up to and including the 1985 season only.

The expressed purpose of the scheme is to support returns to producers and to provide them a measure of security against sudden large falls in world prices, without insulating producers from market price signals. Underwriting assistance also appears to facilitate access to finance for growers and packers, according to the IAC,
although this is not one of the stated aims of the arrangements.

The IAC concluded that the present underwriting scheme is largely ineffective in achieving its stated objectives, for two major reasons. The first reason relates to the contribution of underwriting payouts relative to the contribution of the equalization levy arrangements, which provide the main avenue of income support to sultana producers and buffer the industry from sharp falls in export returns. For instance, in the 1982 season a transfer of about $15m from consumers to producers was made. Underwriting, in comparison, currently provides only negligible income support and is subject to considerable delays. The 1982 season's underwriting payment, paid in 1984, was about $1.3m. Any indirect benefits of underwriting are also significantly reduced because of the delay in announcing the underwritten level of return.

The second reason relates to the basis for determining underwriting payments. Presently the scheme is based on equalized returns rather than export returns. Since a change in the proportion of sales going to exports may cause the equalized return for a season to move in the opposite direction to export returns, the present underwriting scheme provides no unequivocal security against sudden large downturns in world prices. For example, in a year in which export prices drop there may be no underwriting payment if production is low, since the equalized return may remain high, whereas if production is high and exports increase there may be a considerable payment since the equalized return may drop sharply. Yet the income position of the industry may be better in the latter situation than in the former.

Since the adoption of proposed changes to the equalization levy arrangements will significantly reduce the level of assistance to the industry, especially in years in which export prices declined significantly, the IAC considered that maintenance of an underwriting scheme was still warranted, but that such a scheme should be revised so that it more clearly meets its stated objective. In particular, underwriting should be based upon export returns.

In line with these general recommendations, the government will underwrite returns on the overall production of each season between 1986 and 1990 to the extent of 80 per cent of the average export return at the free on board (F.O.B.) level for the preceding three seasons. If the average export return for the particular season is less than that guaranteed minimum, an underwriting payment is payable
over all sales at the amount per tonne by which that average export return falls short of that guaranteed minimum.

These new arrangements are designed to provide approximately the same amount of assistance as existing arrangements. More importantly, they will be more effective in providing producers with security against sharp falls in world prices, for three reasons. Firstly, and most importantly, the scheme is based not on returns from all sales but on returns from exports only. Secondly, the new arrangements make it possible to determine the guaranteed minimum return for underwriting much earlier than under existing arrangements. Information on sale prices and tonnes sold must be obtained before a guaranteed minimum price can be determined. However, such information in respect of a season may not be available until a considerable time after that season's production has been delivered to packers, for several reasons. In particular, produce from a season is not always sold in that season, and this has delayed finalising the equalization pool. Administrative delays in information processing also contribute to delays. Furthermore, market uncertainties preclude utilisation of the provision within the Act that allows the Minister to use estimates of returns. Consequently, underwriting payments under present arrangements can be delayed for more than a year after the start of the following season, and in this situation payment will not be made when the income support is actually required. This problem will be largely overcome by the new arrangements since the guaranteed minimum price will be based upon returns for the preceding three seasons, rather than returns for the current and two preceding seasons as presently applies. The third reason why the new arrangements will be more sensitive to any deterioration in world prices is that the scheme is based upon F.O.B., rather than cost including freight (C.I.F.). The former price removes freight and insurance costs, which are not specific to the dried vine fruits industry.

Average export returns are likely to be more variable than the equalized returns which form the basis of the present scheme. Consequently, under the proposed arrangements, the export price is likely to drop below the guaranteed minimum price more frequently than the equalised price would fall below the guaranteed minimum price under current arrangements. It is for this reason that the underwritten percentage will be reduced from 95 per cent to 80 per cent.
Main Provisions

Sub-clause 1(2) specifies the Principal Act as the Dried Sultana Production Underwriting Act 1982.

Clause 3 amends section 3 of the Principal Act such that underwriting for the 1982 to 1985 seasons, which will be referred to as Prescribed Seasons, is based on present arrangements; that is, based on average, equalized, ex-packer returns. Further, under the amended Principal Act, underwriting for the 1986 to 1990 seasons, which will be referred to as Prescribed Later Seasons, shall be based on average export returns.

Clause 4 retains sections 4 to 9 of the Principal Act, since they relate to existing arrangements that shall apply to underwriting in prescribed seasons.

Clause 5 amends sections 9A to 9H of the Principal Act, which are concerned with the basis of underwriting for prescribed later seasons.

For further information, if required, contact:

10 May 1985

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References

2. Ibid., p.74.
3. Ibid., p.23.