DAIRY LEGISLATION AMENDMENT BILL 1985

Date Introduced: 7 May 1985
House: House of Representatives
Presented by: Hon. John Kerin, M.P., Minister for Primary Industry

Purpose

This Bill amends the Dairy Produce Act 1924 (the Principal Act) and the Dairy Produce Sales Promotion Act 1958, in order to discontinue pooling of export returns of manufactured dairy products, to abolish the present system of allowances paid to manufacturers of dairy products, and to increase the commercial and operational flexibility of the Australian Dairy Corporation (ADC).

Background

These changes are part of a wide-ranging reform of the regulations covering marketing arrangements for the dairy industry (see Bills Digest 85/59 in particular, and also Bills Digest 85/60 and 85/61). The most significant change proposed in this Bill is the abolition of export pooling, which is a crucial part of the existing equalisation arrangements. Under the pooling arrangements, losses and profits made on export sales are shared by the whole industry. The termination of export pooling is in line with the logic of the Government's proposed marketing plan for the dairy industry, which involves the exposure of producers to price signals from the market in order to discourage production for unremunerative export markets. Without pooling of export returns, individual marketers will be encouraged to seek out the most profitable export markets and to adjust both their production level and their product mix according to market demands, since the individual will capture all benefits and incur all losses on their export sales.

But at the same time, the abolition of export pooling will introduce a number of problems. The Industries Assistance Commission discussed these problems, and found that abolition of export pooling may have an adverse effect on export revenue, would reduce the stability of domestic
prices and producer returns (although such instability would be no greater than for other agricultural commodities), and would complicate the industry's underwriting and financing arrangements.[1] In regard to the last point, export pools provide an ideal basis for underwriting, although they are not irreplaceable for this purpose. Perhaps most significant is the effect on financing arrangements, since the ADC will have a less sound basis for determining its loans to manufacturers, and this will in turn affect the size of first advance payments to farmers.

A second major change proposed in the Bill is abolition of the system of allowances, which are payments from the ADC to factories for certain costs incurred in operating equalisation pools. Existing allowances are paid in respect of insurance, export sales, storage, incentive and quality premiums, freight, interest and adjustments to the incidence of the levy. Of these, the largest payments are for the last two, which together accounted for nearly 80 per cent of all allowance payments. Over the six years to 1983-84, total payments for allowances averaged almost $8.2 million per year.[2] This system is to be terminated so that individual manufacturers will carry the full costs and benefits of the decisions they make.

A number of amendments to the Principal Act are designed to enhance the commercial and operational flexibility of the ADC, especially in regard to its finances. The Bill expands the ADC's borrowing powers, so that it will be able to utilise contemporary financial instruments, such as commercial bills and promissory notes. Subject to certain conditions and with ministerial approval, it will be able to borrow from internal sources rather than externally in the commercial market. For example, a temporary shortfall in a particular ADC Fund could be met through borrowing from another Fund which was in surplus. The ADC will be able to operate on futures markets for the purpose of hedging, subject to any Ministerial guidelines. Also, the ADC will acquire the power to invest surplus funds in the short-term money market at its own discretion.

The ADC will acquire the specific function of making loans to manufacturers of dairy produce (clause 7), and consequently it will cease to rely on regulations passed under the Principal Act that currently enable it to perform this function. This Bill specifically provides that the ADC may only lend money to manufacturers of dairy produce who have prescribed dairy produce in store, restricts the amount that may be loaned, and specifies the basis for making and securing loans (clause 12). The ADC will also acquire the
generally function of selling dairy produce on the domestic market, albeit with Ministerial approval (clause 7). Once again, this means the ADC will cease to rely on regulations passed under the Principal Act. The ADC will be specifically empowered to purchase dairy produce (with Ministerial approval) and to sell such produce on either the domestic market (with Ministerial approval) or on the export market (without Ministerial approval) (clause 11). Previously, the ADC's power to deal in dairy produce was subject to the general power of direction of the Minister. Further, the ADC will be empowered to act as an agent for manufacturers in respect of overseas sales (clause 8).

A number of regulations that are currently unnecessary or will become unnecessary will be repealed, including the power of the ADC to control the volume of exports (clause 9). It had been envisaged that this power may need to be exercised in order to ensure adequate domestic supplies, but such a power is no longer considered appropriate. The requirement for exporters of dairy produce to be licenced will be removed (clause 10) although exporters will still need to obtain an export permit. The ADC's power to establish conditions relating to contracts for shipment of dairy produce will be repealed (clause 13); this power has not been exercised in recent years and is considered unnecessary.

Main Provisions

Clause 2 provides that the legislation will come into effect on 1 July 1985.

Clause 7 grants the ADC the specific function of making loans to manufacturers of dairy products and the general function of selling dairy produce on the domestic market.

Clause 11 relates to the ADC's power to purchase and sell dairy produce.

Clause 12 relates to the ADC's function of making loans to manufacturers of dairy products.

Clause 13 repeals those sections of the Principal Act dealing with export pooling.

Clauses 14 and 15 relate to the expansion of the ADC's commercial powers and flexibility.

Clause 16 requires the ADC to credit (debit) any surplus (debit) stemming from sales it makes in its own
right following termination of export pooling to the Market Support Fund.

For further information, if required, contact:

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References