CANNED FRUITS MARKETING AMENDMENT BILL 1984

Date Introduced: 13 September 1984
House: House of Representatives
Presented by: Hon. J.C. Kerin, M.P., Minister for Primary Industry

Short Digest of Bill

Purpose

To extend the marketing provisions of the Principal Act for a further 3 years; to improve the operational performance of the corporation; and to provide the corporation with greater commercial flexibility in the discharge of its borrowing, insuring and hedging functions.

Background

The marketing of Australian canned peaches, pears and apricots is controlled by the Australian Canned Fruits Corporation (ACFC), a body established by the Canned Fruits Marketing Act 1979. Through the exercise of its powers the ACFC also has a significant influence on production, although it has no direct control over this aspect of the industry.

The ACFC replaced an earlier body, the Australian Canned Fruits Board which was established in 1926. The Board set minimum prices for sales to export markets and was involved in arrangements for product promotion, shipping and other aspects of selling.

In addition to its statutory functions, the board acted informally as a forum for the major canners to set prices and marketing policy for the Australian market. In 1975 the industry was exempted from the provisions of section 45 of the Trade Practices Act. Even with this exemption, about 1976-77 there was considerable competition on the domestic market as the canners each sought a larger share of the more profitable domestic sales. In July 1978, the industry agreed that canners and marketers should formulate a plan which had as its objectives:
higher selling prices
production guidelines
equalization of sales returns and cash flows to canners
improved liquidity for growers, and
increased returns to both canners and growers.

The plan formulated by growers and canners required complementary Commonwealth-State legislation and agreements were subsequently reached between the Commonwealth, South Australian, Victorian and New South Wales Governments. Pending the introduction of a statutory scheme, canners and marketers signed a series of formal agreements to implement the scheme voluntarily in 1979. The ACFC commenced operations in 1 January 1980.

Under existing ACFC arrangements, markets are divided into two categories - equalization and non-equalization. For sales in equalization markets, returns are pooled and each canner receives the same return for a particular line of canned fruit. Each canner is also guaranteed a share of the total sales in the equalization markets. As the fruit is produced each canner is entitled to advances of up to 70 per cent of the expected value of its canned fruit. Thus canners are relieved of much of the problem of providing working capital to finance stocks of canned fruits. The cash flow from sales in the equalization markets is returned to canners in proportion to their entitlements to sales in these markets. As a result of these various arrangements competition between canners for sales in equalization markets is strictly limited.

Future prospects for industry are not good as sales to overseas markets are forecast to continue to decline and there is a downward trend in domestic consumption of canned fruit. Accordingly, it is anticipated that capacity will have to be reduced from existing levels.

Main Provisions

Subclause 3(f) provides for the extension of the marketing provisions of the Principal Act for a further three years starting from the 1 January 1985.

Clause 5 provides that the corporation may insure against the risk of loss or deterioration of, or damage to its stocks of canned fruit. To the extent that the
corporation does not fully insure its stocks, sufficient money should be placed in an 'insurance account' to provide against relevant risks.

Clause 7 provides that canners and marketing agents may retain premiums realised above the corporation's minimum prices unless the corporation directs otherwise.

Clause 8 provides for the development of 3 year corporate plans and annual operational plans and is self-explanatory.

Subclause 9(i) provides for an additional 2 members experienced in commerce, finance or economics to be added to the corporation.

Clause 15 widens the borrowing powers of the corporation so that - with the permission of the Minister instead of the Treasurer as under existing legislation - contemporary financial instruments such as the discounting of commercial bills and the issue of promissory notes are added to traditional sources of finance.

Clause 16 provides that the corporation may operate a futures markets for hedging purposes subject to any guidelines approved by the Minister.

Clause 17 provides that funds not immediately required and those in the insurance account may be invested as outlined.

The Bill also provides for the elimination of sex-specific terms that litter the existing legislation.

Remarks

The principal effect of the bill is the extension of the statutory marketing arrangements for a further three years. For the stability of the industry, orderly marketing in the forthcoming period of anticipated declining demand has been deemed necessary to avoid 'undue disruption'.

However, the present marketing arrangements provide incentives for inefficient resource use so their continuation may not facilitate a proper response to the adjustment difficulties facing the industry. In particular, the equalization of returns provides an incentive to increase sales volume by selling at a loss in some export markets, as canners are paid for those sales at an equalized price. The industry as a whole is thus encouraged to use the higher returns from the domestic market to subsidise - or 'dump' - exports, to the point where the equalised return equals the cost of canning extra fruits.
For further information, if required, contact:

Economics and Commerce Group
LEGISLATIVE RESEARCH SERVICE

2 October 1984

Reference