WHEAT MARKETING BILL 1984

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

Short Digest of Bill

Purpose

To implement the new wheat marketing arrangements for the 5 years commencing 1 October 1984.

Background

The Australian Wheat Board (AWB) is a statutory authority responsible for the marketing of the Australian wheat crop. It was established under the Wheat Industry (Wartime Control) Act 1939, replacing all wheat marketing bodies in existence in Australia at that time. The Board was constituted in September 1939 to purchase, sell or dispose of wheat or wheat products and continued to operate by successive Wheat Industry Stabilization Acts. Each of these Acts provided for a five-year period and the first of these Acts was enacted in 1946. However, it was not until 1948 that the first post-war wheat industry stabilization program was negotiated between the Commonwealth and State Governments and the Australian Wheatgrowers Federation.

The AWB administered the stabilization scheme and as a result of the Stabilization Acts and complementary State legislation, all wheat was required to be marketed, domestically, by the AWB. In addition, the Board was the sole seller of wheat and wheat products for the export market. The Wheat Industry Stabilization Acts also provided for deliveries of wheat to the AWB, price guarantees for export sales, home consumption prices for domestic sales and equalised prices to growers.

The Commonwealth Wheat Export Charge Acts provided for the collection of an export charge on wheat in seasons of high export prices. These charges contributed to a Wheat Prices Stabilization Fund. Withdrawals were made from the Fund to increase grower returns when the guaranteed price exceeded the average of the export and domestic prices. The Commonwealth made contributions when the Fund was insufficient to provide for the guaranteed price to growers.
These wheat marketing and policy arrangements remained more-or-less unaltered until 1979, the beginning of the current Seventh Wheat Plan, enacted by the Wheat Marketing Act 1979. As a result of the Industries Assistance Commission's inquiry into the wheat industry in June 1978, the Commonwealth Government decided to make some new arrangements for the five crop seasons 1979-80 to 1983-84 beginning 1 October 1979. Under the current Plan, the AWB continues to be the sole authority responsible for exporting wheat, flour and certain wheaten products as well as being the main seller on the domestic market. However, growers are allowed to undertake direct delivery of wheat from their property to a buyer, subject to the AWB's approval.

The stabilized price scheme was abolished in favour of a flexible guaranteed price. Wheat delivered to and accepted by, the AWB is pooled by season. Under the Seventh Wheat Plan, the Commonwealth guarantees a minimum return for a particular wheat pool which is equal to 95 per cent of the average of the estimated net returns from the pool in question and those of the previous two pools. On delivery of their wheat to the AWB, growers receive an advance payment equal to the Guaranteed Minimum Price less deductions for freight, handling, storage, wheat tax and wheat levies, and dockages (wheat delivered which is below Australian Standard White specifications). When all the wheat in respect of the season has been sold and proceeds collected, the AWB makes a final payment to the growers in realisation of the pool.

Wheat for stockfeed and for industrial purposes is priced by the AWB according to its commercial judgement. The home consumption price of wheat for human consumption is determined by a formula designed to adjust the price in line with movements in export prices and domestic costs.

In the past, the AWB financed the first advance to growers from its borrowings from the Reserve Bank's Rural Credits Department (RCD) which was created, in 1925, to provide short-term loans to agricultural co-operatives and marketing boards handling seasonally produced products. Such loans would facilitate the financing of marketing and processing of rural products prior to sale. The RCD interest rate has, over time, fallen below commercial rates.

In 1978, the Commonwealth Government announced that the AWB must raise a proportion of its requirements from the higher cost domestic money market. Such a move was precipitated by the large financial requirements for the 1978-79 bumper crop. The Government claimed that if the RCD had met all of the AWB's requirements, the money supply
would have increased greatly, possibly adding to inflation, at a time when monetary policy called for a cut in the money supply. The Government would pay the difference between the commercial cost of borrowing and the cost that would have been incurred by borrowing through RCD. The interest rate subsidy was reduced by 1 per cent as a result of a Razor Gang decision in 1981. From 1981-82 onwards, the advances have been fully funded by loans raised by the AWB on the domestic capital market. However, as a result of the Government's Expenditure Review, the subsidy on the interest rate differential was terminated as from 1 July 1983, and the AWB was permitted to issue securities and to borrow both domestically and overseas. The change gave the AWB more commercial flexibility in the sourcing of its finance, as well as the opportunity of taking advantage of the cheaper interest rates offered by the international commercial markets. The AWB will also be able to hedge against currency fluctuations by borrowing in the same currencies in which it makes sales. The AWB has also been empowered, by the Wheat Marketing Amendment Act 1982, to hedge on wheat futures and financial futures markets.

The Wheat Finance Fund, established under the Seventh Wheat Plan, is financed by a levy of $2.50 per tonne payable by growers on deliveries to the Board. The Fund is being maintained at $100 million and excess levy receipts and interest earnings are refunded to growers on a first-in-first out basis. Monies retained in the Fund are available to refinance AWB's debt with the Reserve Bank. In addition to the levy, wheatgrowers pay a wheat tax of 30 cents per tonne on wheat delivered to the AWB to fund research on behalf of the industry.

Outline

In a Press Release, dated 4 July 1984, the Minister for Primary Industry announced details of the new wheat marketing arrangements to apply when the current plan expires on 30 September 1984. The new arrangements are the result of extensive negotiations by the Commonwealth Government with the States, the Australian Wheatgrowers' Federation (AWF) and various wheat industry user groups, following the review undertaken by the Industries Assistance Commission (IAC).[1] Overall, the Government has accepted the recommendations of the AWF rather than those of the IAC.

current plan will be continued. The Government will continue to underwrite wheat returns on a net basis calculated at 95 per cent of a moving average of estimated returns. Changes to the underwriting arrangements include the removal of the high year from the underwriting formula, and a split first advance payment system whereby growers receive 90 per cent of the then estimated GMP at the time of delivery and the remainder early in the season. Furthermore, once the GMP is established for Australian Standard White (ASW) Wheat, Government guaranteed differentials will apply to other specified grades based on the expected market value of those grades relative to ASW. The wheat season will cover the period, 1 July to 30 June.

The Bill proposes to restructure the membership of the AWB in order to increase the Board's financial and marketing expertise. The Wheat Finance Fund will be wound up and growers will be refunded.

Other important changes will require complementary State legislation. A permit system for direct grower to user sales of domestic stockfeed wheat outside the normal pooling arrangements, and a new method of calculating the domestic price of human consumption wheat, are to be introduced.

Main Provisions

The Bill will come into operation on the day of Royal Assent (clause 2).

By clause 4, the Australian Wheat Board will continue in existence as a legal entity. The objects, functions and powers of the Board are outlined in clause 5. The Board's objectives are to secure, develop and maintain markets for wheat and to maximize the return to growers from the marketing of wheat. The Board's current powers are to continue. Its contractual expenditure limit without Ministerial approval will be increased from $100,000 to $500,000 (clause 5) and its operation on the futures markets is to include corn futures markets as well as currency, financial and wheat futures markets (clause 6).

Under clause 13, the AWB will have to consult with the Australian Wheatgrowers' Federation.

Part III of the Bill deals with the marketing of wheat. The Minister will be required, by clause 15, to determine by 1 March each year, GMPs for wheat of different categories. The GMP for ASW wheat will be calculated on a net basis at 95 per cent of the average of estimated returns for the subject season and the lowest two of the preceding
three seasons, less AWB pool costs for the subject season. The GMPs for non-ASW category wheat are to be calculated by determining a differential for the particular wheat category based on expected market returns for that wheat relative to ASW and then adjusting the ASW GMP by that differential. Under clause 16, the net pool return for wheat of the season is determined by the Minister. It is based on the deduction of AWB pool costs from the sum of gross returns for ASW wheat and notional gross returns for non-ASW wheat. The net pool return rate for a season, which is to be published in the Gazette, is determined by dividing the net pool return for wheat of that season by the number of tonnes of that wheat acquired by the AWB (clause 17).

By clause 18, wheat in a Territory is required to be delivered to the AWB. Complementary State legislation will have a similar provision for wheat delivery within the State. Certain wheat, however, will be exempted from the compulsory delivery provisions. Such wheat will include wheat for farm use by the grower; wheat traded under the stockfeed wheat permit system and wheat sold by the AWB. Delivery of wheat must be to an authorized receiver (clause 19).

Clause 21 authorises the AWB to issue permits for the movement of wheat off-farm for gristing provided the produce of gristing is returned to the farm; for use on an associated farm provided that such movement is considered not to affect the orderly marketing of wheat; for the purpose of feeding stock owned by the grower and, which are agisted on another farm.

Clause 22 provides for permits for the purchase of wheat for stockfeed use outside the normal pooling arrangements. This clause should be read in conjunction with the 1984 Wheat Tax (Permit) Bills.

By clause 23, the AWB can allow direct grower to buyer delivery arrangements, apart from the stockfeed wheat permit system. Transactions under this clause will still form part of the normal pooling arrangements in that the price agreed by the grower and buyer is paid to the AWB.

Exports of stockfeed permit wheat is prohibited under clause 25 as well as non-permit wheat without AWB consent.

Clause 26 provides for interim and final advance payments by the AWB to growers for the five seasons commencing 1 October 1984. The interim advance payment will be based on 90 per cent of preliminary GMP figures estimated by the Minister. The final advance payment for all wheat
will be calculated at the ASW GMP as adjusted for provisional allowances for quality and also other allowances. The AWB may make advance payments as a lump sum or as split deferred payments.

Clause 27 deals with the final payment for wheat where a Government underwriting payout is not required. Basically, the grower would receive the net pool return rate less the amount of the final advance payment under clause 26.

Clause 32 sets out the domestic pricing arrangements for wheat sold by the AWB in a Territory. Pricing arrangements in the States will be determined by complementary State legislation. There will be an administered domestic price for human consumption wheat determined quarterly on the basis of an averaging of the AWB's quoted forward ASW export prices for the forward and past quarters, plus a margin set by the Minister after consultation with the AWB. A loading will be in the domestic price of all wheat sold by the AWB to cover the cost of shipment of wheat to Tasmania.

Part IV of the Bill deals with the membership and organization of the AWB. The Board will be reconstituted by clause 34. It will consist of a full-time grower Chairperson, one grower member from each mainland State, one government member, between 3 and 9 extra members who will be appointed for their experience or qualifications in wheatgrowing, finance, commerce, marketing and other areas. Clauses 35-45 cover various administrative matters relating to the Board.

Part V of the Bill deals with AWB financial operations. Clause 46 enables the AWB, subject to Ministerial approval, to borrow on financial markets both within and outside Australia.

Under clause 49, the Government payout is determined where the underwriting liability comes into effect. For ASW wheat, the payout per tonne is the amount by which the GMP exceeds the net pool return rate. For wheat of other categories, the payout per tonne is calculated by taking into account the guaranteed differential.

Clause 50 enables the Board to receive payments of the fees collected in relation to the issue of domestic stockfeed wheat permits.

Clause 54 continues provisions in the existing legislation relating to the Board's liability to taxation.
Under clause 58, the Board will also be bound by the State Acts, and will be subject to State price fixing laws for wheat, except export wheat.

Clause 63 requires the Board to submit an annual report together with financial statements to the Minister as soon as practicable after 30 September each year.

Clause 65 repeals Acts which will be made redundant with the new wheat marketing arrangements.

For further information, if required, contact:

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References
