Date Introduced: 24 May 1983
House: House of Representatives
Presented by: Hon. J. Kerin, M.P., Minister for Primary Industry

Short Digest of Bill

Purpose

To amend the Wheat Marketing Act 1979 in order to terminate the interest rate subsidy and to allow the Australian Wheat Board to borrow overseas.

Background

The Australian Wheat Board (AWB) is a statutory authority responsible for the marketing of the Australian wheat crop. Under the Seventh Wheat Plan, enacted by the Wheat Marketing Act 1979, the Commonwealth guarantees a minimum return for a particular wheat pool 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. In the past, the AWB financed the first advance 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.

In a submission by the Australian Wheatgrowers' Federation to the Industries Assistance Commission (IAC) inquiry into wheat marketing pricing arrangements, the removal of the interest rate subsidy was recommended in order to give the AWB full commercial flexibility in the sourcing of its finance. Furthermore, the submission recommended that the "Australian Wheat Board have the same financial flexibility that is available to other entities with which it is competing in the market place and, with the aim of reducing growers' costs, have access to finance from the best possible sources - domestic and overseas - to finance payments to growers, without being impeded by legislative or other constraints." A similar recommendation for overseas borrowing and operating on currency and interest rate futures markets, was made in the AWB's submission to the IAC inquiry.

Outline

As a result of the Government's Expenditure Review, the Bill amends the Wheat Marketing Act 1979 to terminate, from 1 July 1983, the subsidy on the interest rate differential, and to allow the AWB to issue securities and to borrow both domestically and overseas. According to the Minister's Second Reading Speech, Loan Council approval will be sought to permit the AWB to borrow overseas in 1983/84 and subsequent years subject to certain conditions. "The Board would be free to borrow 50 per cent of its prospective net borrowing requirements overseas but would require the agreement of the Treasurer and (the Minister for Primary Industry) to borrow more than 50 per cent from overseas sources".2

Main Provisions

Clause 3 amends section 44 of the Principal Act to allow the AWB to issue securities and to borrow, both within and outside Australia. Clause 4 amends section 46 of the Principal Act to terminate, after 30 June 1983, payments for the subsidy on the interest rate differential between the RCD rate and the commercial rate.

Remarks

1. The AWB will be permitted to take advantage of the cheaper interest rates offered by the international
commercial markets, and will be able to hedge against currency fluctuations by borrowing in the same currencies in which it makes sales.

2. "The Treasury is believed to have opposed the granting of offshore borrowing powers to the AWB on the grounds that it could lead to a loss of exchange rate controls, fuel inflation and possibly lead to some damage to Australia's credit rating."  

3. As a result of the Government's Expenditure Review, the interest rate subsidy is to be removed to increase Government savings. However, the Government will allow the AWB to borrow cheaper funds overseas and, in the Government's opinion, this measure negates the need for the subsidy. Irregardless of the motivation of the proposals, both measures should improve the commercial flexibility of the AWB.

For further information, if required, contact:

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References
