Wool Industry Amendment Bill 1978

Date Introduced: 4 May 1978
House: House of Representatives
Presented by: Rt. Hon. Ian Sinclair, M.P., Minister for Primary Industry

Purpose

To extend the accounting provisions of the reserve price scheme for wool for one year, to cover purchases of wool by the Australian Wool Corporation (AWC) during the 1978-79 selling season.

Background

Comments in the 'Background' of the Digest (No. 77/44) to the Wool Industry Amendment Bill 1977 are relevant to this Digest.

The AWC operates the Minimum and Flexible Reserve Price Schemes for wool, which are financed partly by loans (government and private) and partly by a levy on woolgrowers of 5% of their gross returns from all shorn wool sold. Growers agreed to this levy as a condition for the Government's setting up of the scheme. Although the levy is collected on all shorn wool, the reserve price schemes cover only wool sold by auction and sale-by-tender and exclude wool sold by private treaty (currently about 22% of the clip). The levies are paid into a Market Support Fund (MSF).

Credits to the MSF from 2 September 1974 (when the Minimum Reserve Price Scheme commenced) to 30 June 1977 have been $146.4m ($56.1m in 1976-77) from the 5% levy on growers, $12.0m ($6.6m in 1976-77) from interest and $40.7m ($24.4m in 1976-77) from gross profits of wool trading by the Corporation. Over the same period, debits from the MSF amounted to $90.1m ($33.1m in 1976-77) for the payment of interest on funds borrowed for trading activities and $31.0m ($11.6m in 1976-77) to cover storage, handling, selling and administration costs. The balance in the MSF at 30 June 1977 was $78.0m. The major debit item from the MSF is interest which decreased from $40.0m in 1975-76 to $33.1m in 1976-77.

The stockpile of wool by the AWC was 1.3m bales at 30 June 1976 and 1.1m bales at 30 June 1977. It is currently about 1.0m bales, some 280,000 of which are stored overseas. At 30 June 1977, the
inventory, valued (at cost) at $286.9m, was financed by loans from the Commonwealth (Wool Marketing Loan of $100m and Working Capital Trust Fund of $13.0m) and from private sources ($70.4m), wool trading operations reserve ($25.5m) and the balance in the MSF ($78.0m).

To finance the reserve price operations of the AWC, the Commonwealth made a total of $356m available to the Corporation at commercial interest rates ($350m in late 1974 and a further $6m in the August 1975 Budget). By 30 June 1975, $276m had actually been borrowed and in November 1975 borrowing peaked at $281.5m. Repayments had reduced the loan to $245m by 30 June 1976 and to $100m by 30 June 1977. This was further reduced to $50m on 1 July 1977. The Government announced on 16 October 1977 that the Corporation would be allowed to borrow overseas against the value of its overseas stocks, to finance its overseas inventory. This option was taken up recently by the AWC when it announced on 16 March 1978 that it had concluded agreements to borrow, in $US, up to the equivalent of $100m Aust. ($40m from Chase Manhattan Bank and $60m from a consortium of Australian trading banks). The value of Corporation stocks currently held overseas is some $83m and the AWC has now borrowed overseas to this limit, for refinancing loans. Accordingly, the Commonwealth has been repaid the $50m outstanding to it, with the remaining $33m being used to repay other onshore loans.

The floor price (ie. Minimum Reserve Price) was initially set at 250 c/kg clean for '21 micron' wool, to operate from 2 September 1974 to 30 June 1975. This price was continued, with the extension of the scheme, to cover the 1975-76 season. The floor was raised to 234 c/kg clean on a 'whole clip' average basis (275 c/kg clean for 21 micron wool) to cover the period 1 July 1976 to 29 November 1976. After the devaluation, the floor was raised again to 284 cents (a rise of 21.21%), on 30 November 1976. This level was maintained for the remainder of the 1976-77 season. It has also prevailed since the start of the 1977-78 season and will continue to 30 June 1978. The floor for 1978-79 will be announced at the end of the current season and will be no less than the current level.

Provisions

Clause 3 alters the date in paragraph (a) of the definition of 'termination date' in sub-section 28A(18) of the Wool Industry Act 1972, from 1 July 1978 to 1 July 1979. This will effectively extend by 1 year to 30 June 1979, the MSF operations of the AWC and its reserve price schemes.